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0521825679 - The Economic History of Latin America since Independence, Second Edition

Victor Bulmer-Thomas

Frontmatter

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SINCE INDEPENDENCE

SECOND EDITION

*The Economic History of Latin America since Independence* tells the story of promise unfulfilled. Despite the region's abundance of natural resources and a favorable ratio of land to labor, not a single republic of Latin America has achieved the status of a developed country after nearly two centuries free of colonial rule. If anything, the gap between living standards in Latin America and those of developed countries has steadily widened since the early nineteenth century. Burdened with the legacy of colonialism and its unequal distribution of resources, Latin America is still a peripheral region in which external influences remain preeminent.

Beginning with the integration of Latin America into the world trading system centered on Europe and North America during the century before 1930, this book explores the successes and failures of export-led growth. Using new data on exports and a simple model to explore the relationship between exports and growth, the author pays particular attention to the question that has most concerned policymakers in Latin America: how to transfer growth in the export sector to the rest of the economy, raising living standards and real income per head.

After the Depression of 1929, a number of countries – mainly the larger republics – withdrew from the world trading system into a model of inward-looking development based on import-substituting industrialization. Although the benefits of import substitution first appeared substantial, the costs of the inward-looking model eventually proved to be excessive. Under the weight of the tariff wall, competition from imports – and with it the pressure to improve quality and design – vanished. Competition from domestic producers might have rescued the situation, but oligopoly was much more common, with barriers to entry provided by high initial capital costs. Professor Bulmer-Thomas argues that a major problem with import substitution was simple timing: The opportunity cost of the inward-looking model became increasingly high after the Second World War, as world trade started to expand rapidly. The advantages to be reaped from international specialization, following the Ricardian ideology of comparative advantage, were abandoned in favor of growing protection.

The debt crisis of the 1980s effectively ended the inward-looking phase – no amount of import compression could release the resources needed to service debts and expand production. The author examines the routes through which Latin American republics extricated themselves from the debt problem in pursuit of a new version of export-led growth. Taking its narrative from the end of the colonial epoch to the present, this book provides a comprehensive balanced portrait of the factors affecting economic development in Latin America.

Victor Bulmer-Thomas is the Director of the Royal Institute of International Affairs and Professor Emeritus at the University of London. He is the editor of *Regional Integration in Latin America and the Caribbean: The Political Economy of Open Regionalism* (2001) and the co-editor of *The United States and Latin America: The New Agenda* (1999).

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THE ECONOMIC HISTORY OF LATIN AMERICA  
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Map 1. Leading resources and products of Central and South America, circa 1930.  
Adapted from Horn and Bice (1949).

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VICTOR BULMER-THOMAS

*Royal Institute of International Affairs  
London*



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UNIVERSITY PRESS

Cambridge University Press

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[More information](#)

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS  
The Edinburgh Building, Cambridge CB2 2RU, UK  
40 West 20th Street, New York, NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa  
<http://www.cambridge.org>

First edition © Cambridge University Press 1995  
© Cambridge University Press 2003

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First published 2003

Printed in the United States of America

Typeface Garamond 3 11/12 pt.      System  $\text{\TeX}$  2 $\epsilon$  [TB]

*A catalog record for this book is available from the British Library.*

*Library of Congress Cataloging in Publication Data*

Bulmer-Thomas, V.

The economic history of Latin America since independence /  
Victor Bulmer-Thomas. – 2nd ed.

p.    cm. – (Cambridge Latin American studies ; 77)

Includes bibliographical references and index.

ISBN 0-521-82567-9 – ISBN 0-521-53274-4 (pb.)

1. Latin America – Economic conditions.    2. Latin America – Economic policy.  
I. Title.    II. Series.

HC123 .B85    2003

330.98'003 – dc21    2002041243

ISBN 0 521 82567 9 hardback

ISBN 0 521 53274 4 paperback

Cambridge University Press

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For the 30 percent who receive 5 percent – a ray of hope;  
for the 5 percent who receive 30 percent – a warning.

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Since the first edition of this book was published in 1994, the new paradigm based on market-friendly policies and export-led growth has been consolidated in Latin America. At the time of the first edition, it was too early to evaluate the impact of this New Economic Model on long-run economic performance and difficult to make comparisons with the previous paradigms. It is now clear, however, that the outcome of the new paradigm is unlikely to differ substantially from its predecessors. A few countries have been able to lift their long-run growth rates significantly, but most have not and several have performed much worse than during the inward-looking phase of development. Thus, the prospect of Latin America achieving a high standard of living in the near future is still remote and the gap between income per head in Latin America and that in developed countries, notably the United States, is as wide as ever.

The influence of the international context has always been of great importance for Latin America. However, the new wave of globalization – leading to the integration of product and factor markets around the world – has increased the impact of the external environment on the region despite the reduced importance of primary products. Latin America is still struggling to find a way to maximize the benefits of globalization while minimizing the impact of negative external shocks. This dilemma has been made harder by the decline in importance of an independent Latin American school of economic thinking. Most new ideas on economic policy now emanate outside the region and are adopted with only minor adaptations.

The global interest in the impact of the new paradigm on income distribution and poverty has been reflected in recent research on Latin America. This is one of the main advances since the first edition of this book was published. There has also been a revival of interest in regional integration and this now extends to the whole hemisphere as a result of the change of policy by the United States toward regionalism. Debt problems and capital flows have continued to attract a great deal of attention.

Research on the economic history of Latin America has been made easier in recent years by several publications devoted to long-run time series.

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*Preface to the second edition*

Some of these even go back to the independence period at the start of the nineteenth century, although most confine themselves to the twentieth century. This will increase the professionalism of economic history research on Latin America over the next generation and make possible comparisons with many other regions and countries. In the process, many of the ideas presented in this book will be subject to serious examination. I look forward to reading the results of such research and finding out which ideas have stood the test of time.



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## Preface

Any author whose work covers the whole of Latin America faces a series of problems. These problems are compounded when the period covers nearly two centuries. It is no surprise, therefore, that relatively few studies purport to survey the economic history of Latin America since independence, despite the rapidly expanding literature on the progress of individual countries and provinces. It is, however, the advance at the subregional level that makes necessary and feasible a new economic history for the whole region. From Chile to Mexico, a new generation of scholars has used advanced techniques to mine the primary sources and advance our knowledge across a broad range of issues.

Any economic history of Latin America involves a multidisciplinary approach, which runs the risk of offending the sensibilities of those scholars who prefer to work within a single disciplinary boundary. As a representative of the last generation to be encouraged to stray across disciplines, I have enjoyed the opportunity to draw on a huge literature covering economics, economic history, history, politics, sociology, anthropology, and international relations. As an editor of the multidisciplinary *Journal of Latin American Studies* since 1986, I have been uniquely privileged to gain access to new research in this area before it becomes widely disseminated.

A book such as this one cannot be written without accumulating many debts. Only a few can be mentioned here. Rosemary Thorp and Laurence Whitehead taught me the limitations of a narrow focus on economics. Leslie Bethell gave me the opportunity to work with historians on the monumental *Cambridge History of Latin America*. The late Carlos Díaz-Alejandro, who almost certainly would have written this book had he not died prematurely, and José Antonio Ocampo demonstrated to me how professional economists could provide insights into the economies of nineteenth-century Latin America. Last but not least, I owe a special debt to all those students who have attended my lectures and classes on the economic history of Latin America. Their reaction was often the litmus test of what was, or was not, an acceptable way of presenting new ideas and of making them comprehensible to those groups that are likely to comprise the majority of readers of this book.

*Abbreviations*

ADRs	American Depository Receipts
ALPRO	Alliance for Progress
AP	Andean Pact
CACM	Central American Common Market
CARICOM	Caribbean Community
CAT	<i>Certificado de abono tributario</i>
CBR	crude birth rate
CDR	crude death rate
CEPAL	Comisión Económica para América Latina (y el Caribe)
CET	common external tariff
DC	developed countries
DFI	direct foreign investment
DUA	domestic-use agriculture
EC	European Community
ECLA	Economic Commission for Latin America
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EP	export promotion
EPZ	export-processing zone
ERP	effective rate of protection
ES	export substitution
EU	European Union
EXA	export agriculture
FTA	free-trade agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
GSP	generalized system of preferences
ICA	International Coffee Agreement
IDB	Inter-American Development Bank

IFI	international financial institution
IMF	International Monetary Fund
IMR	infant mortality rate
ISA	import-substituting agriculture
ISI	import-substituting industrialization
ISS	import-substituting services
ITT	income terms of trade
LA6	Latin America Six (Argentina, Brazil, Chile, Colombia, Mexico, Uruguay)
LA14	Latin America Fourteen (all republics other than the LA6)
LAFTA	Latin American Free Trade Association
LDC	less developed country
MERCOSUR	Mercado Común del Sur
MFN	most-favored nation
MNC	multinational corporation
NAFTA	North American Free Trade Agreement
NBTT	net barter terms of trade
NIC	newly industrialized country
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PEA	population economically active
PED	primary-export development
PPE	purchasing power of exports
PPP	purchasing power parity
PREALC	Programa Regional del Empleo para América Latina y el Caribe
REER	real effective exchange rate
RERD	real effective exchange-rate depreciation
RI	regional integration
SOE	state-owned enterprise
TC	trade creation
TD	trade diversion
UNCTAD	U.N. Conference on Trade and Development
USAID	U.S. Agency for International Development
VAT	value-added tax
VER	voluntary export restraints
WC	Washington Consensus
WTO	World Trade Organisation