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**Part I**  
**Understanding Latin  
American politics**

# 1. The Latin American predicament

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Dissatisfaction runs deep in Latin America. But that is hardly surprising since what Latin Americans desire – be it justice, wealth, security, or liberty – is often denied them. Most North Americans do not share their distress or frustration. Though vulnerable to petroleum shortages, trade deficits, and an occasional stock market “crash,” most people in the United States and Canada still feel quite secure. In contrast, many Latin Americans are guaranteed much less in life, and suffer from considerably more discord.

Politically, North Americans confine their feuds primarily to selecting officials and debating public policies, but in Latin America feuds are more fundamental. Unlike their neighbors to the north who read Plato, Machiavelli, Locke, and Marx to understand their intellectual heritage, Latin Americans consult them to find solutions to political problems as yet unsolved. Among them today you will find democrats, authoritarians, and communists who all insist that they know what is best for themselves and their neighbors.

To understand how this all came about and why it persists we need to look into the past as well as the present. In this chapter a fictional president will help us do just that. He does not represent all Latin American presidents; no one could. While these nations share many things, they also differ in important ways, and no single narrative can include everything. Here we will learn how one person understands the Latin American condition and determines what he will do about it. As you read his account, you should judge for yourself his chances for success.

## Problems and progress: a presidential assessment

A brief description of my country is presented in Table 1.1. We have approximately 25 million persons, the majority being mestizos (a mixture of Hispanic and Indian); 20 percent of them European, Arab, and Jewish; 10 percent Indian; and 5 percent black or mulatto. If you

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Table 1.1. *Country profile*

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<i>Population:</i> 25 million	
<i>Size:</i> 500,000 square miles	
<i>Literacy:</i> 70%	
<i>Gross domestic product per capita</i> (1988): \$2,000 (US)	
<i>Ethnic composition:</i>	
Mestizo: 65%	
European, Asian: 20%	
Indian: 10%	
Mulatto: 5%	
<i>Class structure</i>	<i>Land tenure</i>
Upper stratum: 5%	Richest 5% owns 50% of arable land
Upper middle stratum: 15%	Middle 20% owns 30% of arable land
Lower middle stratum: 30%	Poorest 75% owns 20% of arable land
Lowest stratum: 50%	
<i>Distribution of gross national product</i>	
Agriculture: 25%	
Industry: 30%	
Mining: 10%	
Services: 35%	
<i>Trade</i>	
<i>Exports to:</i>	<i>Imports from:</i>
United States: 40%	United States: 45%
West Germany: 20%	Japan: 20%
Japan: 10%	West Germany: 10%
Great Britain: 10%	Great Britain: 10%
Latin America: 8%	Latin America: 5%
Others: 12%	Others: 10%

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divide our national product by the number of inhabitants, it is \$2,000 per capita, which was just below the Latin American average in 1988.

Agriculture has always been important to us and still generates nearly half of our exports. It would be even more prominent had we not developed a mining industry and substantial manufacturing during the past fifty years. We export coffee, cotton, sugar, iron ore, and textiles, we do our own food processing, and make many consumer goods. Our public utilities and railways are government owned, as are our airline and our petroleum company, having been nationalized some years ago. Foreign investors are prominent in our economy, producing chemicals, pharmaceuticals, appliances, and automobiles in plants

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built during the 1960s and 1970s. They also operate our two largest banks, our iron mines, and an oil company that distributes as much gasoline as our government corporation does.

We rely heavily on foreigners not only for markets and sophisticated technology, but also for the capital we need to finance more growth. Some years ago we benefited from grants and loans from the United States government, but today its aid goes almost exclusively to countries that are poorer than we are, and to countries like El Salvador where the United States has strategic interests. We still benefit from World Bank and Inter-American Development Bank help with financing the construction of hydroelectric dams, highways, and hospitals. In the past fifteen years private foreign banks have also loaned us substantial capital, eager as they were to invest the “petrodollars” that were deposited with them by the OPEC nations who had acquired sudden wealth after raising oil prices in the 1970s. This grand opportunity to borrow and invest in our own development has brought new problems with it, as I shall explain later in this report.

### *Social conditions*

Our society has changed considerably since 1900, becoming more urban, literate, and diverse in its composition. Industrialization, new state enterprises, and more education created a larger middle class and a dynamic working class. Nevertheless, wealth remains heavily concentrated. In contrast to the more industrialized Western European and North American nations whose richest 20 percent hold 40 percent of their national income, our wealthiest 20 percent control nearly 65 percent. At the bottom, widespread poverty persists, the poorest 30 percent earning just enough for minimal subsistence. Moreover, our population has nearly doubled during the past 30 years, leaving us with much larger cities and even more poor persons in the countryside.

It is impossible to describe our class structure in any detail since our census is never very accurate, but its primary features are conspicuous nevertheless. At the top sits a very wealthy 5 percent, the owners of large rural properties, industries, banks, and investments all over the world. Just below them is another 15 percent who manage domestic and foreign firms, operate their own enterprises, own large coffee or cotton farms, or are successful physicians, lawyers, and engineers. Next comes the 30 percent who compose something that

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resembles a middle class, among them military officers, government civil servants, school teachers, office staffs and modest farmers. Just beneath them is everyone else, including an industrial working class, followed by the urban and rural poor, themselves a disparate collection of farm workers, subsistence farmers, menial laborers, street vendors, and domestic servants.

Obviously the lower class has benefited the least from our economic development in recent times. No matter how we promote economic growth in the future, we cannot afford to ignore their plight if we are to develop our entire nation. Currently the lower class neither contributes much to our national economic and political life nor takes much from it. They are preoccupied with local matters, more involved in assuring their own subsistence than in attending party conventions. One marvels at their passivity amidst such deep deprivation, but that does not prevent their mobilization against the system by agitators who wish to destroy it. It is to avert their violent rebellion as well as to improve their conditions that we reformers dedicate ourselves.

But we need first to study our situation and its causes more thoroughly. Looking to the past is always hazardous since it invites blaming our Iberian and pre-Columbian cultures for our predicament even when we know that such conclusions are unwarranted. We are products of our past, but we also have the power to change what we have inherited from it. New ideas, ingenuity, and enterprise can make a difference as we have already seen in countries like Brazil and Venezuela where substantial progress has been made. To assume that we are condemned by history to impotence is to deny our capacity to change.

It all began with the Iberian conquest of the New World five centuries ago. The first conquistadors transmitted social values to the New World that they had acquired when they expelled the Islamic Moors from the Iberian peninsula just before they crossed the Atlantic. By fragmenting the Iberian peninsula into a score of principalities, starting in the tenth century, the Moors had cursed Spanish life with regional economic separatism and local submission. Gradually, over nearly three centuries, however, the Spaniards and the Portuguese pushed the Moors southward, the last battle coming in 1492, the year Columbus reached an island in the Caribbean on his search for a western route to the Orient.

The reconquest of Spain required daring and determination. A pre-

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mium was placed on military skills, and the heroic military leader established the standard against which all leadership was judged. For their victories the victors were rewarded with land and authority over the peasants who occupied it. For future generations lessons from the reconquest were clear: The quickest route to fame and fortune was through heroic deeds on behalf of the king and queen.

Opportunities to replicate the reconquest were opened by the discovery of the New World at the end of the fifteenth century. Thirty years after Columbus reached the Caribbean islands, ambitious persons like Hernán Cortés and Francisco Pizarro left Cuba for the mainland “to serve God and the king, and to get rich,” Cortés by conquering the Aztecs in Mexico in 1519 and Pizarro the Incas far to the south in Peru in 1531. Most of the conquistadors came from Spain’s Castilian gentry, themselves modest in wealth, tough and ambitious. Monarchs sent them to find gold for the royal treasury, promising them a place in the New World nobility if they succeeded. They were valiant, cruel, sentimental, aggressive, selfish, and occasionally altruistic, always convinced that they would secure fame and fortune if they succeeded, and salvation from God if they did not.

The conquistadors cleared the way for the Iberian patrimonial monarchy that ruled over its conquests from across the Atlantic. It was unabashedly centralized and authoritarian, reliant on a hierarchy through which the governors dominated the governed. Authority moved in only one direction, from the monarchy in Spain through its viceroys in colonial capitals down to their subjects. Individual citizens were not free agents who could pursue any ends they wished within the new political order; with few exceptions, they had to live within the rank into which they were born and accept the authority of those above them.

According to the Iberian tradition, authority was not granted by citizens to government; it already resided in government and membership within its realm required that citizens relinquish any thought of popular control over authorities. This approach to politics differed fundamentally from the liberal democratic political philosophy that arose in Great Britain and flourished in its North American colonies, where citizens came to believe that political authorities were their creation (i.e., delegates, authorized to make decisions that required periodic public approval). Such ideas were incomprehensible to sixteenth-century Iberians in the New and Old Worlds. The monarch

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was sovereign, the ultimate earthly authority who defined the rules and enforced them, assisted by a royal bureaucracy; conversely, its subjects were left no choice but to obey their rulers. Only the administration of laws written in Spain and Portugal was subject to appeal, but even that had to be done through courts controlled by the Crown.

The New World was fertile ground for transplanted Iberian values and institutions. Military victories over the Aztecs, Incas, and other indigenous peoples were swift; precious metals were found and shared with the Crown; and thousands were converted to Catholicism. Agriculture became another source of new wealth, nourished by the *encomienda*, a right granted by the Crown to landowners and miners, which allowed them to extract labor from the indigenous people within their domains. Soon a new nobility was built on an economy of mines and large landed estates that generated wealth, social status, and power for their owners.

The landed estates, termed *latifundios*, were unlike the family farms built in North America outside the Deep South. In Latin America land was distributed by the Crown immediately after the conquest. Even though many areas were left unoccupied until this century, the most fertile pieces had been allocated by royal grants by 1600. Labor was even more important than property, for it was by exploiting indigenous labor that the *latifundio* prospered. In North America, in contrast, farmland was distributed gradually, moving from east to west, usually in small parcels to immigrant farmers after indigenous populations had been liquidated or expelled. The notable exception was in the South where plantation agriculture developed using slave labor. But most North Americans earned only a modest income from the land they cultivated; for Latin Americans, in contrast, land was not only a means of production for domestic and foreign markets but also a foundation for social control by a privileged class that believed from the beginning that they deserved a disproportionate share of economic power in colonial society. That is how we Latin Americans inherited a rural society divided between oligarchs and peasants while North Americans escaped both.

Our society was not only more rigidly structured than the North American one, it was also more racially mixed. Throughout colonial times Native American women bore the children of Spaniards, creating the mestizo majority of our population. In addition, slaves were brought from Africa to work in sugar plantations along our coasts,

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much as they were all over the Caribbean and in northeast Brazil. Some mixed with mestizos, creating our mulatto community. While persons from any race can be in any social class, colonial society left us with racial prejudices at the top that have kept most persons of mixed race outside our upper class which still prides itself on its European ancestry.

The colonial institutions, values, and social structures that were three hundred years old and deeply entrenched by our independence in 1820 have been assailed by new ideas and institutions ever since. Trade in coffee and cotton grew in the late nineteenth century, followed by iron ore a little later, together bringing substantial economic growth to the country. Soon farmers became more productive, cities larger and better equipped, inducing enterprising foreigners to seek their fortunes among us. Simultaneously, a new class of professionals, merchants, bureaucrats, and crafts-workers asserted themselves politically and forced the traditional ruling class to share government with them. The result is a more complex society today, one with remnants from the nineteenth-century economy that coexist with more modern institutions. A few *latifundios* and plantations remain, but they are dwarfed economically by several hundred large- and medium-size coffee and cotton farms and cattle ranches. Most people who live in rural villages or on farms are poor by even the most generous standards, among them tenant farmers, small ranchers, and the landless. Our cities contain substantial variety, including modern, well-educated people living alongside merchants, industrialists, and the descendants of our nineteenth-century oligarchs. At the other extreme are the thousands who occupy our slums and squatter settlements, surviving precariously on their unskilled labor and petty commerce and services. It is a society in which the old tolerates the new and the modern coexists with the traditional. We like to think that we are swiftly moving from our burdensome past to a more productive future, leaving our traditional ways far behind, but that may be wishful thinking. Today we are stuck, unable to achieve elementary social reforms and unsure about how many we really need.

What troubles me is not our inadequate economic growth and modernization, for we have actually grown considerably during the past half century, but the way new wealth is denied nearly half our population. Until greater efforts are made to address this condition, they will stay poor. They are trapped within a vicious cycle of poverty:



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Most are unproductive because they have so little capital and so few skills that their low production earns them scanty income, which in turn denies them what they need to become more productive. Until we liberate them from such conditions they will contribute very little to the nation's development or to their own welfare.

*Economic underdevelopment and its causes*

After colonial times our economy remained agrarian, devoted to producing commodities for both export and domestic consumption. Originally we concentrated on the cultivation of indigo, sugar, cacao, and cattle raising as well as the extraction of gold and silver. When Independence freed us from Spain we merely changed trading partners, looking to England and continental Europe for merchants who were eager to feed their growing populations with our produce. When the nineteenth century ended we had added several new cash crops to our list, starting with coffee in midcentury and cotton a few decades later. As income from our exports increased, we built new ports, modernized our capital city, and, with investments from foreigners, we built railways to transport crops to cities and harbors. Our leaders were proud of their achievements, certain that they had found a lucrative place for us in the world economy. It did not bother them that what we earned from trade reached only a minority of our people, and that most who lived in the countryside remained poor, dependent on cultivating little pieces of land and selling their labor cheaply during coffee, cotton, and sugar harvests. Nor did they feel any guilt for having confiscated native and peasant lands to expand their coffee and cotton farms.

Iron ore was found in 1915, our first mineral discovery since colonial times. Foreign companies developed the mines, sharing 10 percent of their profits with our government and employing several thousand persons. Commerce within the country also increased and some cottage industries emerged, making food products and clothing that were sold in local markets. But it was not until the 1930s that things really began to change.

Until the Great Depression struck in 1929 we had taken it for granted that our export economy would sustain us. Trade had been slowed occasionally by recessions in Europe or droughts at home, but we had always rebounded a few years later. That is why the world

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depression came as such a shock to us. Suddenly we had lost our markets abroad and had little prospect of getting them back any time soon. Almost overnight doubts about the export economy spread, though initially we did not know what to do about it. It was inevitable, however, that we would turn to industry to save us, if only because we needed goods for local consumption that the depressed European and North American economies could no longer supply.

Industrialization was a difficult and controversial choice since our farmers and exporters feared that supplying our markets with goods produced at home might antagonize the foreigners who had previously supplied them. But we really had little choice because it had become obvious that we could no longer rely on world trade to sustain us in so volatile an international economy. It helped that some of our entrepreneurs were eager to become manufacturers, and that our government was willing to erect tariff barriers to protect them against cheaper foreign imports. After 1935 our industries grew rapidly, supplying more than half of our consumer goods by the end of World War II.

After the war, we were influenced by the United Nations Economic Commission on Latin America which pointed out how we suffered from adverse terms of trade with the industrial nations, a situation that made imports more expensive to us than before (e.g., it took more bags of coffee to purchase an imported item than it had previously). The prices of imported manufactured goods rose, due to higher labor and technology costs abroad, while the prices paid for our commodity exports remained nearly constant or fell when other Third World countries began producing similar commodities. If there had been any doubts about our need to promote more industrialization, they were gone by 1960.

Nevertheless, we lacked the financial capital to build as much industry as we needed because our domestic savings were so low. National savings come primarily from individual savings accounts in banks and other financial institutions and from government taxation. Private accounts are relatively scarce because nearly half of our population is too poor to save. And those who can – property owners, merchants, professionals, and skilled laborers – do so at a lower rate than their counterparts in industrial nations because of well-founded fears that the inflation we occasionally suffer will reduce the value of their savings. Instead, they prefer to consume as fast as possible or