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Edited by Victor Bulmer-Thomas , John Coatsworth , Roberto Cortes-Conde
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INTRODUCTION

In the past two decades, new research has transformed the economic history of Latin America. The pioneering work of the structuralist and dependency school historians, often collaborating with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC),[1] produced a huge outpouring of new economic data in the 1950s and the 1960s, including the first historical (and in some cases current) estimates of Gross Domestic Product (GDP) for a number of countries. Statistical agencies and central banks, often founded and staffed by ECLAC graduates, undertook further work. The search for economic historical data was also stimulated by historians trained in the Anglo-American empirical tradition and in the methods of the French *Annales* School, and by heterodox development economists schooled in England and the United States. In the 1970s, these currents were joined by historians and economists trained mainly in the United States and often associated with the New Economic History. The ensuing debates over approaches and paradigms were fueled by the shifting fortunes of competing economic strategies – socialism, import substitution, freer trade – and by the rise of repressive military regimes throughout much of Latin America.

Latin America's economic history took a decisive turn with the 1982 financial and economic crisis and the ensuing transition to democracy throughout the region. Theoretical debates over competing economic strategies diminished in intensity. As democracies consolidated and the Cold War ended, ideological conflicts subsided or became muted. Economic history,

[1] ECLAC was known as ECLA (or CEPAL in Spanish) until the Caribbean was added to its name in 1973.

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like the social sciences in general, professionalized in an environment that demanded better data and more sophisticated and coherent arguments. The impact of these changes in the Latin American intellectual landscape included notable advances in the study of the economic past marked by a series of general works and anthologies as well as an outpouring of original and often path-breaking monographic research.

The goal of these two volumes is to provide access to the current state of expert knowledge about the history of economic development in Latin America, here taken to include all of the western hemisphere from the "southern cone" of South America to the southern border of the United States. At the outset of the project, the three editors made two decisions that to some readers will inevitably appear at least arbitrary and possibly reckless. The first was to put aside the national and regional boundaries that have traditionally defined the scope of historical scholarship in order to commission chapters that address comparative topics with data and analysis on the entire region. The essays in these volumes focus on major trends and developments and confirm the utility of comparative work in economic history. The trade-off, of course, is that idiosyncratic experiences and smaller economies do not appear as often as they would in geographically delimited case studies.

The second decision was to break the two volumes at roughly 1850, a division that defies conventional periodizations. The logic of this division is economic and institutional rather than political. The transition from colonialism to independence in the 1820s coincided with economic fragmentation, but the economic and institutional legacy of the colonial economy continued to weigh heavily on the new countries. Not until the economic globalization of Latin America that commenced with massive inflows of capital and immigrants after 1850 did the region achieve sustained economic growth for the first time in history. The institutional modernization needed to sustain modern economic growth also took shape in the mid- to late nineteenth century. Finally, the onset of growth also coincided with the increases in the inequality of incomes and fortunes that were to characterize the region throughout the twentieth century.

THE LONG TWENTIETH CENTURY

In the last three decades of the nineteenth century, exports of commodities increased significantly in Latin America, laying the foundation for modern

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economic growth. Colonial exports had been limited to a small number of readily accessible natural resources. As these traditional exports recovered after the independence wars, a few new exports joined the list of colonial products, notably copper in Chile and guano in Peru. However, the commodity export boom of the last decades of the nineteenth century was both larger and deeper. The integration of the Latin American economies into the world economy between 1850 and World War I was unprecedented in scale and complexity.

The fall in transportation costs attributable to technological innovations was the key factor in Latin American exports reaching the European and North American markets. The Latin American countries did not trade much with each other, either because of scarce population and low income, or because their natural resource–based economies could not supply the manufactured goods that their neighbors sought to import. Instead, they sought access to markets outside the region.

This became possible through the dramatic fall in ocean freight rates (Chapter 1) and in land transportation costs from the interior to the ports made possible by the construction of a very wide railway network (Chapter 8). Capital flows from more developed countries to Latin America beginning in the last decades of the nineteenth century played a key role both in railroad construction and in exploiting newly accessible land and mineral resources (Chapter 2).

The wave of foreign investments that started around 1870 and – after a break in the 1890s – continued until the 1930s was the result of the higher profitability of investments in countries in need of capital. It was also attributable to the oversupply of capital, especially in Great Britain, the leader in international capital exports. However, capital was not the only scarce factor of production. In several sparsely populated countries of the South American temperate zones, labor was also needed. The latter came from across the Atlantic thanks to the income differentials between Latin America and Southern and Eastern Europe. Immigration was, in some cases, encouraged by official policies, as in Brazil, or occurred spontaneously, as in Argentina and Uruguay (Chapter 10).

The nature of the resources and geography determined the type of productive activity each country would undertake. In most cases, concentration on one or two activities was very marked, although in other cases (e.g., Argentina) exports were more diversified. In the Southern Andes, mining predominated (copper and nitrates in Chile, tin in Bolivia, guano and oil in Peru). Along the Atlantic coast and in the Caribbean, two types of

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agriculture were prevalent. Tropical production, usually organized in plantations, included coffee in Brazil, Colombia, and Costa Rica; sugar in Brazil and Cuba; and bananas in Central America, Colombia, and Ecuador. Temperate-zone agriculture in the south of the continent (Argentina, Chile, and Uruguay) specialized in grain and cattle production, which was more intensive in land use and less intensive in capital and labor (Chapter 9). These differences in production technology affected each country's subsequent development (Chapter 1). Growth was not limited to the export enclaves, but extended to other sectors. Industrial growth was significant although uneven and mainly centered on industries related to the processing of natural resources (Chapter 7).

Globalization, that is to say, the integration with international markets because of falling transportation costs, rising capital flows, and increased labor mobility, was a necessary condition for the exploitation of natural resources. Another necessary condition for growth was the establishment of relatively stable institutions and governments capable of inspiring the confidence of local capitalists as well as foreign investors. Political stability and institutional reform were, in turn, strengthened by economic expansion. The consolidation of national governments under constitutional regimes, with authority over the whole territory and respect for property rights, became widespread (Chapter 5). The possibility of receiving capital and labor for the exploitation of vast natural resources was an important incentive to the development of political consensus, leading (though not always) to the end of constant wars and conflicts.

Thus, the growth in foreign trade brought about an increase in tax revenues, which became the basis for the consolidation of increasingly powerful central governments. In the larger countries with federalist constitutions (Argentina, Brazil, and Mexico), subnational entities (states and provinces) continued to receive a major part of these revenues (Chapter 6). These same countries adopted the gold standard at the end of the century, and this not only allowed a more fluid trade thanks to the multilateral payments system, but also guaranteed foreign investors (those whose profits were generated in local currency) that they would have a stable currency at the moment they remitted their profits (Chapters 6 and 7).

World War I interrupted these globalization processes both in Latin America and elsewhere (Chapter 1). Inflationary financing during the war caused imbalances that prevented a successful return to the gold standard in the 1920s. Protectionist policies in North America and most of Europe, which caught up with Latin America's traditionally high tariffs, thwarted

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fluid trade. While the capital streams continued to flow into Latin America – no longer so much from Great Britain, but mainly from the United States (Chapter 2) – to finance balance of payments deficits of those countries trading with the capital-exporting countries, the protection of agricultural activities and the accumulation of inventories contributed to a significant fall in agricultural and raw material prices that, in indebted countries, meant a higher exposure to the catastrophic decrease in demand and prices caused by the Great Depression.

At the end of the 1920s, Latin American countries had all re-established the primacy of the export sector after the disruptions of World War I and the brief 1920–1 depression. Most republics had also opted for orthodox monetary and fiscal policies based, in many cases, on the gold standard. Mexico was still suffering from the upheavals associated with the Revolution, although political stability at least had begun to improve after the rise to power of General Alvaro Obregón (1920–4), and Brazil was not afraid to intervene in the defense of the all-important coffee sector. However, this was probably the moment that Latin America came closest to the liberal ideal of free markets, minimal state interference, and orthodox macroeconomic policies. Paradoxically, this was not inconsistent with high tariffs designed primarily for revenue purposes that provided a strong stimulus to manufacturing in those countries with a large domestic market. Industry flourished alongside the export sector in a number of countries and no criticism was raised outside the region against policies that – in the case of tariffs – were also being pursued by the United States, the dominions of the Commonwealth, and many European countries.

The Great Depression hit Latin America hard, but belief in the export sector did not waver. However, heterodox policies were needed to protect the export sector, and such policies performed well after 1932 (Chapter 3). They included multiple exchange rates and nontariff barriers, which provided a further stimulus to manufacturing. Industry ended the decade in a much stronger position in many countries. When imports were closed off after the outbreak of World War II, manufacturing in these same countries was well poised to take advantage. By the end of the war, the industrial lobby in the larger countries had become powerful enough to challenge traditional export interests, and government policy began for the first time to give priority to the needs of secondary over primary products.

As a result, the Golden Age of import-substituting industrialization (ISI) began in the 1950s. The work of the ECLAC, based on the assumption of a secular decline in the external terms of trade for primary products, provided

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the theoretical justification for the policies Latin American governments had already begun to adopt. Tariffs were raised to unheard of levels, this time for protective rather than revenue reasons, and nontariff barriers multiplied. Most countries did not join the General Agreement on Tariffs and Trade (GATT) and even the few that did were not unduly constrained by GATT restrictions on quotas. The industrial lobbies became very forceful (Chapter 13) and were, in large part, responsible for the form that regional integration took in Latin America from 1960 onward. These schemes largely excluded agriculture and services, providing instead reciprocal markets for manufactured goods with very high tariffs against third countries.

The available literature on this period has generated a lively debate over the consequences of the export boom for the growth of the economy. Although there were always concerns about excessive specialization in the export of primary products, after the 1930s crisis, and especially after World War II, criticism became more widespread. On the one hand, there was the problem of single crop production, leading to monoculture that could have catastrophic consequences if market conditions changed. On the other hand, there was the rentier nature of dependence on natural resources, which did not foster investment and capital accumulation. The concentration of activities in big mining companies, large plantations, and vast cattle ranches produced a very uneven income distribution – an obstacle for the creation of an enlarged domestic market. Criticism was also centered on the volatility of the export economies because of shifting demand conditions in foreign markets, the vulnerability of supply to weather conditions, or the rigidity of the gold standard and its negative effect as a conveyor of external shocks.

In time, ISI itself inspired two different reactions. On the left (and sometimes the right as well) nationalism – often combined with macroeconomic populism – resisted the growing weight of foreign capital and the perceived rise in inequality in the ISI model. Instead, nationalists argued for state-owned enterprises, price controls, and a redistribution of resources through social spending rather than progressive taxation. On the right, neoliberals argued for an end to state intervention and an opening of both the trade and capital accounts in the balance of payments. Neither approach was notably successful, as is borne out by the example of Chile, which experimented unsuccessfully with both models in the 1970s. The debt crisis at the beginning of the 1980s marked the final collapse of the ISI model, although it was some years before the new market-friendly export-oriented policies triumphed.

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That they did so was attributable not only to the need to extricate the region from the debt crisis through policies that found favor with creditor governments, private foreign banks, and international financial institutions, but also to the rise of globalization. By the end of the 1980s, it was clear that the world economy was undergoing a paradigm shift based on trade liberalization, international capital flows (Chapter 4), and greater integration of the main economies. Countries such as those in Southeast Asia and China, which had adapted their policies to take advantage of the new market opportunities, appeared to flourish. Those that failed to adapt, as in the Middle East or sub-Saharan Africa, appeared to stagnate. This rather simplistic reading of the global policy debate encouraged Latin American governments to jettison the policies that had underpinned ISI and economic nationalism and to fashion a new paradigm that came to be known as the New Economic Model. All of the Latin American republics joined the World Trade Organization (successor to GATT), and liberalization was extended to the financial sector and the capital account of the balance of payments.

The New Economic Model has been no more successful than its predecessor in insulating Latin America against negative external shocks. Although the net barter terms of trade is less of an issue, the volatility of capital flows has become of paramount importance (Chapter 2). Some countries have suffered falls in GDP as sharp as those in the Great Depression as a result of large, unpredictable movements of capital. Long-run growth performance has been much less satisfactory than during the thirty years of ISI, from 1950 to 1980, and income distribution – already the most unequal in the world – has failed to improve (Chapter 14).

Long-run trends are a crucial part of economic history and the editors have devoted several chapters in this volume to their analysis. Agriculture for most of the long twentieth century has been the major source of output and employment in Latin America, as well as the main contributor to foreign exchange (Chapter 12). Education is now recognized as a field in which most Latin American governments have failed to prepare their populations adequately for the rigors of a globalized market place (Chapter 11). Last, but not least, the editors have included a chapter on the environment by Otto Solbrig (Chapter 9), which emphasizes the complexity and fragility of Latin America's ecosystems and the vulnerability of the environment to modern economic growth.

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