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978-1-107-02690-2 - The Economic History of Latin America since Independence: Third Edition

Victor Bulmer-Thomas

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The Economic History of Latin America since Independence

Third 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 two centuries free of colonial rule.

And yet much has been achieved in Latin America. A small number of countries succeeded in growing fast in the century before the First World War and attracted high levels of immigration. Others did well during the long period of inward-looking development when modern industry was established. More recently many countries have benefited from the rise of China and have made a serious effort to tackle the extreme income inequality and high levels of poverty for which the region was noted in the past. The gap in living standards with the United States has started to narrow. It is a complex picture in which sweeping generalizations are of little utility.

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 starts by exploring the successes and failures of export-led growth. Using new data on exports and GDP 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. Victor Bulmer-Thomas argues that a major problem with import substitution was simply timing. The opportunity cost of the inward-looking model became increasingly high after the Second World War, when world trade started to expand rapidly. The advantages to be reaped from international specialization, following the Ricardian theory 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 Honorary Professor, Institute of the Americas, University College London, and Emeritus Professor of Economics at the University of London. He is the author of *The Economic History of the Caribbean since the Napoleonic Wars* (2012) and many other books on Latin America.

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MAP 1. Leading resources and products of Central America and South America, circa 1930. Adapted from Horn and Bice (1949).

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Institute of the Americas, University College London



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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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Preface to the Third Edition

Since the first edition of this book was published in 1995, there have been major advances in our knowledge of the economic history of Latin America as a result of new data series. This has made it possible in this edition to estimate foreign trade, fiscal accounts, and even gross domestic product (GDP) per head for all the main Latin American countries back to the time of independence 200 years ago. As a result, we can compare with much more confidence the region's long-run economic performance not only among the Latin American republics themselves, but also against other countries.

It has long been recognized that Latin America had “fallen behind” the United States, at least as measured by GDP per head, even before independence. New empirical research for this edition, however, suggests that the gap was much bigger than previously thought. Thus, Latin America had fallen well behind the United States even before it became “Latin America.” Indeed, the gap was almost certainly substantial even before the United States became the “United States.” Thus, two-thirds of the gap in current living standards had emerged two centuries ago, and only one-third can be attributed to the independence period.

Although the gap did widen over the course of the two centuries after independence for the region as a whole, it did not do so for all countries all of the time. What we now know confirms the tentative conclusions of the previous two editions of this book: that a small number of countries performed well in the century before the First World War, even if they did not succeed in reaching the standard of living in the United States; that other countries made substantial progress during the long period of inward-looking development in the twentieth century; and that for the

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first time we can see that the rise of China is creating unprecedented opportunities for Latin American countries to close the gap on US living standards and tackle the accumulated problems of income inequality and poverty.

All this suggests great caution when seeking to explain the relative backwardness of Latin American countries today. Not only are the differences among the republics enormous, but there have also been many role reversals, with countries performing well subsequently performing poorly and vice versa. Sweeping generalizations designed to explain Latin America's performance in terms of inherited colonial institutions or factor endowments are simply incapable of capturing this complexity. The reader will therefore find little in the third edition of this book to support the neo-institutionalist ideas that have become fashionable in recent years.

The influence of the international context has always been of great importance for Latin America. Indeed, the "commodity lottery" remains very important in understanding the evolution of each country. However, the new wave of globalization – leading to the integration of product and factor markets around the world – has increased even further the impact of the external environment on the region and reversed the decline in the importance of primary products that took place during the inward-looking phase. Latin America is still struggling to find a way to maximize the benefits of globalization while minimizing the impact of negative external shocks. Much progress has been made, especially in terms of improving equity, but much remains to be done.

Preface to the First Edition

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 sub-regional 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 *The Cambridge History of Latin America*. The late Carlos Díaz-Alejandro, who almost certainly would have written this book had

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Preface to the First Edition

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
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CAT	<i>certificado de abono tributario</i>
CBI	Caribbean Basin Initiative
CBR	crude birth rate
CDR	crude death rate
CEPAL	Comisión Económica para América Latina (y el Caribe)
CET	common external tariff
cif	cost, insurance, freight
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
GK\$	Geary-Khamis dollars
GNI	gross national income
GNP	gross national product
GRECO	Grupo de Estudios del Crecimiento Económico
GSP	generalized system of preferences
IACC	Inter-American Coffee Convention
IADC	Inter-American Development Commission
IBGE	Instituto Brasileiro de Geografia e Estatística
ICA	International Coffee Agreement
IDB	Inter-American Development Bank
IFI	international financial institution
IMF	International Monetary Fund
IMR	infant mortality rate
INDEC	Instituto Nacional de Estadística y Censos
INEGI	Instituto Nacional de Estadística Geografía e Informática
ISA	import-substituting agriculture
ISI	import-substituting industrialization
ISS	import-substituting services
ITO	International Trade Organization
ITT	income terms of trade
LA6	Latin America Six (Argentina, Brazil, Chile, Colombia, Mexico, Uruguay)
LA8	Latin America Eight (Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Venezuela)
LA9	Latin American Eight plus Uruguay
LA14	Latin America Fourteen (all republics other than the LA6)
LAFTA	Latin American Free Trade Association
LCU	Local Currency Unit
LDC	less-developed country
Lp	Peruvian pound
MDG	Millennium Development Goal
MERCOSUR	Mercado Común del Sur
MFN	most-favored nation
MNC	multinational corporation

Abbreviations

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MoXLAD	Montevideo-Oxford Latin American Economic Database
NAFTA	North American Free Trade Agreement
NBTT	net barter terms of trade
NEM	New Economic Model
NIC	newly industrialized country
NTB	nontariff barriers
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
PRI	Partido Revolucionario Institucional
PTA	Preferential Trade Agreement
REER	real effective exchange rate
RERD	real effective exchange-rate depreciation
RI	regional integration
SOE	state-owned enterprise
TC	trade creation
TD	trade diversion
UFCO	United Fruit Company
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environmental Programme
USAID	US Agency for International Development
VAT	value-added tax
VER	voluntary export restraints
WC	Washington Consensus
WDI	World Development Indicators of the World Bank
WTO	World Trade Organization