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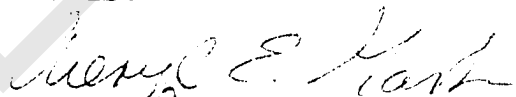
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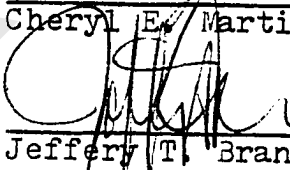
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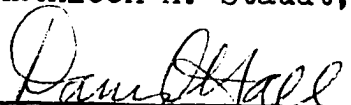
THEMES OF ECONOMIC DEVELOPMENT
IN LATIN AMERICA


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THEMES OF ECONOMIC DEVELOPMENT
IN LATIN AMERICA

by

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PREFACE

Today, Latin America is categorized as one of the underdeveloped regions of the world. Compared to its neighbors to the north, the United States and Canada, the region is unquestionably less modern, less progressive and less industrialized. Its lack of development is further characterized by an explosive population growth, high unemployment and underemployment, a large subsistent and stagnant agricultural sector and massive migratory movements towards the urban centers of the continent. Therefore, to understand the Latin America of the 1980s, it is important to comprehend the factors which have contributed to the region's lack of positive growth and change - in essence, the reasons why it is underdeveloped.

In the works which follow, varying themes of economic development are presented which offer insight into the nature of the area's underdevelopment. The principal topics featured are land reform and the Indian as an historically exploited, underdeveloped human resource. Although both works highlight the experience of Peru, considerable reference is made to Latin America in general.

The factors which have affected Latin America's underdevelopment are numerous and range from unfavorable geographic barriers, as the Andes mountains, to the imperialistic, hegemonic designs of foreign nations. Yet,

perhaps more than any other factor, one must look to the region's colonial heritage to find the origins and principal causes of its underdevelopment. Hence, before proceeding to the specific topics in the works which follow, a brief analysis of institutions and traditions perpetrated by Spain in her colonies, and the legacies which have resulted from them, is appropriate.

Pre-Independence

Even before Columbus' discovery of America, events in Europe were shaping Latin America's future. In 1492, the final phase of the Reconquest (Spain's struggle to expel the Moors) ended. The seven centuries of the Moslem occupation and the ensuing struggle for independence greatly influenced the development of Spain and thus the development of the Spanish colonies.

In the vanguard of the Spanish Kingdoms' attempts to take control of their land and destiny was a military-religious coalition. The struggle of Reconquest, culminating in the eleven year battle for Granada, availed to the Crown a group of adventuresome men skilled in conquest and eager for material gain, the rewards of military success. The Catholic Church - in the eyes of the Spaniards, the only true Church - abhorred the Moslems' unorthodox traditions. Together this coalition secured Spanish independence, while the leadership of Ferdinand and

Isabella forged a highly centralized military-religious state. In the same year of Granada's capitulation, Columbus discovered America and the attitudes and practices of Reconquest were transplanted to the New World.

Ironcially, but fortunately for the conquerors, the indigenous populations of Latin America were particularly amenable to Spanish establishments. At the time of Conquest, major Amerindian civilizations existed with large populations accustomed to highly religious-military governments. They were already a subjugated mass of peoples accustomed to the payment of tribute to support an elite.* For the Spaniards, the similarity of institutions facilitated conquest and eventual colonization. The gold and glory to be gained (the spoils of conquest) and the souls to be saved led finally to the Spanish/Portuguese domination of the continent.

In the early stages of conquest, in reward for the dangers of military service, the Crown granted to the conquerors rights over certain Indian villages called encomiendas.** In exchange for protecting and christianizing the Indian subjects, the grantee received the right to extract tributes in the forms of labor and products. As

*Additional reference to Indian tribute payment prior to conquest may be found in "The Peruvian Indians/Shadows of Men".

**Additional reference to the encomienda and similar colonial institutions (i.e., mita, repartimiento) may be found in "Peruvian Land Reform" and "The Peruvian Indians/Shadows of Men".

the institution quickly proved to be abusive, the Crown began to phase it out; yet, the conquest mentality, in which Indians were regarded as inferior, became a marked characteristic of Latin society. From this early period, the control of land and the Indians living on it became one basis of social domination of the masses by a small ethnically and culturally differentiated minority. By 1700, the hacienda had developed, supplying the mining economy and permitting the Spanish entrepreneurs of conquest to recreate in America the status symbol of southern Spain, the landed estate with a largely immobile labor force. To this day in many countries, this trend prevails, and perhaps more than any other characteristic, it exemplifies Latin American underdevelopment.

Although Spain has been called the world's first "world power", its reign was short lived. Clinging to its medieval economic infrastructure, the country failed to transform the riches of conquest into a foundation of long-term domestic growth and development. Before 1492, Spain had an export-oriented economy which was dependent upon the other major European powers. In exchange for wine, wool, iron ore and other primary products, Spain imported manufactured goods.

After 1492, despite the new abundance of monetary resources available to finance a different pattern of growth, the focus remained the same. The wealth of the

New World enabled Spain to buy, rather than make, what it needed. This reality, combined with inflation and the expulsion of the Jews and Moors, resulted in Spain's failure to create an indigenous commercial bourgeoisie. Unlike the modernizing powers of Europe (France, Holland and England), where the bourgeoisie and capitalism triumphed over stratified medieval societies with feudal modes of production, Spanish society failed to adjust to the innovative trends of the day. As characteristic of the type of society which the Mother country would pass to her colonies, Spain remained a land in which only the few received the fruits of production.

El 3 o 4 por ciento de la población (corona alta nobleza y clero) poseía el 90 por ciento de la tierra, que era todavía la riqueza fundamental. El mismo estrecho círculo social, recibe la totalidad del metal precioso americano, que en buena parte va a las áreas de los banqueros acreedores de países rivales, y en otra se destina a la compra de productos manufacturados que la primera potencia mundial no puede producir por su atraso social y político.¹

By 1630, when silver shipments from America began to decline, this social and political deformity undermined any substantial industrial growth, and Spain's power steadily declined.

This pattern of economic underdevelopment (the export of primary products and the failure to promote domestic industrial infrastructure) developed in Spain's

¹ J. Vicens Vives, Historia Social y Economica de España y America, in Miquel de Cervantes, Don Quijote de la Mancha (Mexico, 1983), p. 8.

colonies. In exchange for gold and silver, the colonies received manufactured products from the leading European manufacturers via Spain and the black market. According to Stanley and Barbara Stein, "a colonial system embodies in exaggerated form the virtues and the vices of the metropolitan power."² On a vast scale, the Spaniards reproduced in their colonies the structural defects of the metropolitan economy and society.

Trade in the colonies was also organized to assure a monopoly of benefits for the Crown. Due to harassment and competition from other European powers, Spain closely regulated colonial trade. For nearly the entire colonial period, only three colonial trading powers existed. Moreover, colonists were forbidden to trade with other countries, and their trade with each other was strictly regulated. Spain's firm control over trade and the colonists' desire for imported foodstuffs and manufactures led to a flourishing trade in contraband with the United States and England. Gradually, however, the European powers forced concessions from Spain, thereby liberalizing trading patterns and, in effect, expanding the colonies' economic dependence on western Europe, and after 1800, on England.

² Stanley J. and Barbara H. Stein, The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective (New York, 1970), p. 84.

As trade, political administration throughout the colonial period was closely monitored, and except on local levels, the privilege and benefits of office for the most part accrued to the native-born peninsulares. As the Crown was consistently in need of funds, offices were frequently sold or granted to elites as special favors for services rendered the Crown. Due principally to the increasing sale of office in Spain and in the empire, the quality of office-holders probably declined. Corruption and venality became generalized, institutionalized, and legitimized, as employment in the colonial bureaucracy became a major source of status and income for the Spanish aristocracy and gentry, together with their extended circles of relatives, clients and dependents.³

It is impossible to understand colonial economy and society without taking into account the Catholic Church, whose power in Latin America was immense. This ubiquitous institution permeated society at all levels. With objectives and ambitions clearly exceeding the spiritual realm, the Church became the leading landholding and banking institution in all of Latin America. Perhaps contributing to the region's underdevelopment, the Church frequently failed to utilize its resources in the best interest of economic growth. As a latifundista, the Church behaved in the same manner as private holders whose lands were often inefficiently

³ Ibid., p. 74.

utilized. As a banking institution, the Church frequently disregarded sound economic criteria in formulating its lending policies.

In examining the formation of underdevelopment during the colonial period, one cannot underestimate the significance of racial stratification and class structures. By 1700, racial heterogeneity was already a component of Latin America's colonial heritage. Despite the somewhat rigid two-class structure - an elite at the apex and a mass of poverty-stricken subordinates at the bottom of the pyramid - society's racial makeup was far more complex. By 1700, a distinct cultural pattern had evolved in which status, income and power were concentrated among the minority of those judged white and diluted as one moved down the scale to Amerind and Negro. As the small white minority dominated economic resources, most nations were unable to achieve integrated, prosperous societies.

The totality of the institutions and factors discussed in this section - in particular, Spain's own social, political and economic deformity - greatly affected Latin America's pattern of growth. Within the three hundred years of Spain's colonial domination, one unquestionably finds the roots of the region's underdevelopment: the pattern of land tenure, the drain of natural resources, the curtailment of intra-regional trade, the relative lack of entrepreneurship, infrastructure and capital, a primary

product export-oriented economy, a massive poor class and an elite accustomed to political gain and social privilege. These features were the residua of Spanish rule in Latin America.

Post-Independence

Following Independence, the political, social and economic structures, which were nurtured by Spain in her colonies, changed little. Most criollos - those directing the independence movement - were only interested in replacing Iberian dominance with their own, while preserving all the advantages which formerly accrued to the peninsulares.

The struggles to fill the political vacuum left by Spain - the long established mode of achieving social prestige and economic wellbeing - resulted in nearly fifty years of relative chaos in which Latin America was carved into numerous separate states. Spain's colonial restrictions on intra-regional trade and the post-independence tendency toward regional economic autonomy destroyed Simon Bolívar's dream of a united Latin America.

Attempts by the newly formed nations to forgo economic dependence on exports and induce domestic industrial output were hampered by colonial residue and foreign competition. Plagued by low levels of capital accumulation and no established banking institution, the economies lacked domestic funds to foster growth. The little development which did occur among local artisans -

based upon primitive technology - was almost totally devastated by the importation of cheap manufactures from Europe and North America. Hence, utilizing the cheapest available factors of production, the land and a dependent labor force, Latin America resumed its traditional pattern of export activity.

From the second half of the nineteenth century until World War I, few in Latin America would have argued against the export orientation. Within the world economic system, Latin America became an important part of an international division of labor. With a comparative advantage in primary products, regional exports augmented. Foreign investment flowed into the region via Britain, France and the United States and economic development proceeded at an unprecedented rate, characterized by innovative growth in railroads, ports, utilities and mining facilities. The tremendous advances justified and perpetuated the export orientation and few concerned themselves with other sectors of area economies.

The fidelity to the export pattern was short-lived, however. During the Great Depression, the international demand for primary products lost its dynamism, and the economic impact this had on the region was tremendous. Although the Great Depression blatantly demonstrated the inherent inadequacies of a primary product export-oriented economy, other factors reduced the benefits which may have