HAS LATIN AMERICA CHANGED TRACKS? CATCHING UP: NOW AND THEN. AN ESSAY

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The paper is intended to provide, firstly, a presentation of the long term development of Latin America in a comparative perspective, trying to identify general features as well as national and regional differences. Secondly, to introduce what I believe are the decisive long-term determinants of Latin American performance. Thirdly, it intends to discuss the current expansive cycle. The article concludes with some prospects for future development. The main argument is that Latin America has not yet been able to transform its structural features that explain its long-run divergent trend with the leaders of the world economy. While achievements in the consolidation of democratic institutions and the reduction of poverty and inequality may be a basis on which these transformations can be set in motion, there still exists a risk that with changing external conditions, these achievements could be reverted, or even contribute to a transition to a new phase of slow growth and relative backwardness.

Keywords: Latin America, convergence, structural change, welfare states, cycles, income distribution

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1 This is a draft of an article that has been accepted for publication by Oxford University Press in the forthcoming book *Can poor countries catch up?* edited by Anderson, M. and T. Axelsson, due for publication in 2016.
1. Introduction

Latin America has been performing rather well during the last decade: high per capita GDP growth, diminishing poverty and inequality, and a rather stable democratic climate. This combination of good news, in a context of a world economy facing deep economic crisis and many regions dealing with hot political and ethnic conflicts, is challenging the credulity of observers and it raises many different questions.

What is happening in Latin America? Is this performance sustainable? How endogenous are these trends and how much do they depend on external factors? How stable is the external environment?

While I am writing this paper, historical time seems to have accelerated and the OECD and ECLAC reported that on average, Latin America grew less than the average of the OECD countries in 2014 (OCDE/United Nations/CAF 2014). Is this just an accident or the end of a relatively short process of convergence? Prospects for the next five years are very cautious at the moment, with estimated growth rates below 2% per year.

This article is intended to provide, firstly, a presentation of the long term development of Latin America in a comparative perspective, trying to identify general features as well as national and regional differences. Secondly, to introduce what I believe are the decisive long-term determinants of Latin American performance. Thirdly, to discuss the current expansive cycle. The article concludes with some prospects for future development.

The main argument is that Latin America has not yet been able to transform its structural features that explain its long-run divergent trend with the leaders of the world economy. While achievements in the consolidation of democratic institutions and the reduction of poverty and inequality may be a basis on which these transformations can be set in motion, there still exists a risk that with changing external conditions, these achievements could be reverted, or even contribute to a transition to a new phase of slow growth and relative backwardness.

2. Development without convergence: is that possible? A long-run view of Latin America’s convergence and divergence trends since Independence

The main stylized facts about Latin American long-run development are rather well-known by now, in spite of the relatively low quality of quantitative sources. For the purposes of this essay, we are limiting our study to the period since Independence, around 200 years ago. However, this does not mean that colonial times, or even pre-conquest development, do not play any important role in this development.

We will also make a distinction between absolute and relative performance, since the difference is quite important. Absolute performance is what really matters, because it reflects the concrete improvements in income, education, life expectancy, rights, or whatever we want to use as a measure of well-being. Nevertheless, relative performance is crucial in many ways. Firstly, because development and performance are historical concepts: a particular growth rate may be high in some contexts but low others. Absolute performance is good or bad in relation

If no other reference is mentioned, the data referred to in what follows is taken from Bértola and Ocampo (2012).
to a particular state of the art, to particular scientific, technological, institutional and organizational environment. Therefore, even if we could agree that more is better than less, the question here is how the rest is performing, which are the potentials of a particular time. Development is not just a stage or a level, it is circumstantial and it is about being able to use and reproduce the best practices (scientific, technological, social, institutional and organizational) of a time. Moreover, the reproduction of best practices always implies innovation and social transformation. Therefore, performance is a relative concept.

Secondly, we are dealing with economies and societies that are increasingly interrelated. No matter how asymmetric the relationships between different countries and regions may be, we are dealing with a world economy with increasing interaction through migration, trade, capital movements, information, technology transfer, war, culture, and so on. At the core of this volume, and of this article in particular, are the concerns about how these interactions impact on relative performance.

*Development*

In absolute terms, population growth in Latin America was spectacular. This is important, because Latin America has been able to feed a population that, in general terms, increased from 22 to almost 600 million between 1820 and 2010. During a similar period, GDP increased about 300 times, and per capita GDP increased tenfold. In case we are skeptical about per capita GDP as a measure of development, we could also add that life expectancy at birth in Latin America was of 29 years old in 1900, and of 75 by 2010. Similarly, by 1900 Latin Americans had on average one and a half year of education, while by 2010 they had more than eight years of education.

In terms of democratic development, progress has been remarkable. From being a region ruled almost exclusively by authoritarian and oligarchic regimes still at the beginning of the 20th century, almost all Latin American countries are now enjoying rather stable democratic regimes, with important levels of political participation. While democracy did not become the dominant political regime in Western Europe until the post WWII period, Latin America lagged behind in terms of the development of democratic institutions. Until the 1980s there was a prevalence of pre-democratic dictatorships (of the kind of the banana republics, tightly controlled by powerful economic elites, as in the case of Paraguay and Central America) and post-democratic dictatorships, as those of Argentina, Brazil, Chile and Uruguay (where democratic regimes collapsed after a process of strong social transformation and the accumulation of conflicts that were finally administrated under authoritarian rule with a strong involvement of the United States government).

Nowadays we are experiencing what can be labeled as a new wave of democratic expansion, à la Huntington, and, apparently, neither we can see clouds in the political horizon, nor armed international conflicts under way. Quite on the contrary, the more long-lasting armed political conflict of the continent, the Colombian guerilla war, is coming to an end, as well as the United States’ blockade of Cuba, were, paradoxically enough, the Colombian negotiations are taking place.

Achievements in terms of the reduction of inequality are ambiguous. Inequality in Latin America has been structurally high, but subject to significant fluctuations, depending on the
level of economic activity and the different political economy environments around periods of expansion and crisis. Changes in distribution and on the level of activity and employment have had important impacts on poverty, as a large share of the population lives below or slightly above the poverty line. While the recent per capita income growth resulted in a reduction in poverty, changes in distribution and fluctuations in economic activity provokes that poverty remains as a hot topic. According to ECLAC (2014), 20% of the Latin American population (127 million people) still lives in poverty. And many of those who escaped poverty are still in vulnerable situations, exposed to the possibility of reverting back to poverty in the future if some critical situations turn negative.

In spite of some common features, differences among the Latin American countries are strong and have shown to be long-lasting. Still today, no matter which variable we choose, we will find significant variation.

The continent, running mainly from North to South, and being segmented by huge geographical accidents, such as forests, mountains, and desserts, exhibit huge climatic and environmental variation. Ethnic diversity also changes among countries and was reinforced by strong migration movements from Africa, Asia and Europe.

Inequality between the Latin American regions was already present at the eve of the fight for Independence, and increased during the first decades after that. Unequal development deepened during the so called first globalization period, until WWI, or maybe until the crisis of 1929. During the so-called State Led Industrialization the relatively poorer Latin American countries grew more than the richer ones, so differences became smaller. Since the 1980s, a new trend has emerged, in which the medium and large Latin American countries, as well as the richer ones (Argentina, Chile and Uruguay), tend to grow more than the small countries of South America (Ecuador, Bolivia, Paraguay) and Central America.

In short, while significant progress took place everywhere, the levels of development among the Latin American countries remained unequal. Even if the differences tended to be somewhat reduced, hardly any change in the Latin American ranking could be noticed along these two centuries of economic life.

**Convergence and divergence trends**

Four main stylized facts can be found in terms of the convergence-divergence trends of Latin America in relation to other regions.

i. In the long run, Latin America has diverged from world leaders

In the very long-run, Latin American per capita GDP has been growing at the world average. However, during the last two centuries a huge divergence emerged and widened in per capita GDP among world regions. The Latin American experience is thus difficult to interpret. It has performed better than Africa and some parts of Asia, but it has diverged in relation to world leaders and could not replicate the miracles experienced by South Korea, Finland, Singapore and other previously peripheral regions. No single Latin American country has joined the club of the world leaders. In other words, Latin America has been able to grow and take advantage of the international development, but at a much slower pace than the world leaders.
ii. Three main periods can be found during the first decades of independent life in most countries: one of divergence; between 1870 and 1980, one with similar growth rates to those of the leaders, and since the 1980s, (the recent decade is discussed later on) one of clear divergence.

There is an ongoing debate on how Latin America performed during the decades after Independence. A traditional view states that the decades after independence were a long delay, in which the advantages of independence and free trade could not yield good economic results, due to the institutional chaos and the lack of economic integration. A revisionist point of view (Gelman 2012, for instance) states that economic performance was varied and that it was mainly determined by geographical factors, rather than institutional. For example, the coastal regions of what was becoming the Argentine Republic had a very good performance, while the interior showed a very bad performance. These features were present almost all over the continent. Recently, Bértola and Ocampo (2012) supported the original point of view, in an attempt to weight the contribution to growth of the different regions. All in all, while different performances could be noticed, the most populated areas were those that grew the less (Brazil, Perú, Mexico), while the dynamic ones were very small in terms of population (Argentina, Chile, and Uruguay).

The whole period of 1870-1980 was of rapid growth, but not one of convergence. It took place under two very different patterns of development: export-led growth from 1913 to 1929, and State-led growth during the 1930s and through the 1970s. Export-led growth was driven by a demand and price boom, which started to revert at the beginning of the 20th century. A shorter boom could be noticed in the aftermath of the WWII. The first half of this period was marked by the exploitation of natural resources, a very active role of international trade and capital flows, and important inflows of labor from different regions. During the second half, the State took an active role in redirecting investment towards the manufacturing industry and services. While import substitution was a source of economic growth in some countries and periods, as well as external demand, the main source of growth was, by far, the expansion of domestic demand.

Since the 1970s and until the shift of the century, the combination of foreign forces (like the changes in international capital flows), and domestic ones (like the exhaustion of the expansion of domestic demand and the limits imposed by poor innovative activity), generated a process of deep divergence with world leaders. During this time, on the contrary, other peripheral regions started powerful catching-up processes. While Latin America opened up its economy and exports grew very fast, the domestic sector showed a disappointing performance. At the same time, the destruction of many productive capabilities and the dismantling of many social policies went hand in hand with increasing volatility, poverty and inequality.

iii. These trends are blurred by profound cyclical movements

A structural feature of the Latin American economies has been the high volatility of the pattern of growth and the strong cyclic pattern. The Latin American economies are not stagnating ones, they are not societies that rest on traditional structures that do not show important movement. Quite on the contrary, the story of Latin America is one of changing dynamics, of ups and downs, of social and political conflicts following periods of fast growth,
that most of the time end in deep crisis. The Latin American countries showed periods of fast economic growth, during which they seemed to join the club of the developed countries. However, sooner or later, the growth trend was transformed into deeply divergent periods. During these periods of fast growth and catching-up, very optimistic views tend to develop, hindering the perception of the cyclical character of these economies. Empirical analysis shows that this pattern of high volatility and cyclical fluctuations is highly correlated with the strong concentration of Latin American exports in a very few raw materials, whose demand and prices are very volatile.

iv. There are important differences among the Latin American countries: different groups showed different trends

Diversity is huge among the Latin American countries, notwithstanding the common features. There are many ways to approach these differences. A powerful typology takes into consideration the different ethnic compositions. This is not because of ethnicity itself, but because different ethnic groups are associated with different cultures and economic and social backgrounds.

The most populated areas since colonial times, and up to the first decades of the 20th century, were the so-called Indo-American societies (Peru, Bolivia, Paraguay, Ecuador, Colombia, Mexico, El Salvador, Guatemala, Honduras and Nicaragua). Dominated by natives, and mainly in the high lands of South and Central America, these cultures had developed complex and hierarchical social structures, and economic systems which covered very large territories and ecological environments. These structures interacted with economic, social and political institutions brought by the colonial powers, creating a new mix of extraction of natural resources and native work by mainly coercive institutions. These were the countries with the lowest per capita income throughout Latin American independent history. They were the most developed regions in pre-Columbian times, with high density and an advanced division of labor. These were the richest regions during the colonial times, due to the existence of mainly gold and silver, as well as the existence of a large labor force to be exploited. However, measured by modern standards, and after the exhaustion of the large reserves of gold and silver, these countries were featured by a large amount of poor peasant population. These societies also remained socially fragmented: therefore, ethnical differences are a very good proxy for economic inequality.

This group of countries, the core of the colonial economy, suffered the most from the Independence wars, as the royalist forces there were very strong. They also suffered the most from the collapse of the colonial economy. The fragmentation of the economic space into small national unities, not very well defined in geographical and political terms, contributed to the destruction of colonial economic systems. These countries benefitted from the great expansion of trade during the export-led period, but they were not able to shorten the distance with world leaders. Most of these countries are small and, due to their size and the limited transformation of their economies during the export-led period, they were not able to apply any countercyclical policy during the 1930s and 1940s. Only the medium-size and large countries, like Peru, Colombia and Mexico, were able to set in motion industrial policies with at least some results. The size of the countries became an important explanatory factor when the pattern of growth was more oriented towards the expansion of domestic demand in the
middle decades of the 20th century. In different ways, they benefitted from the price boom of the post-WWII period, and of the continued expansion of world trade up to the 1970s. As most countries, they suffered the collapse of capital flows in the 1970s, which was followed by radical changes in the pattern of growth. While exports boomed in most of the countries, their domestic economy contracted significantly.

The Afro-American economies (Brazil, Venezuela, Cuba, for instance) evolved with the help of a massive introduction of slaves from Africa dedicated to the production of tropical agricultural commodities (cacao, sugar, coffee, and more). They had, on average, similar low levels of per capita income than those of the Indo-American group. However, they did not suffer the collapse of their economies after Independence, as the majority of the countries from the previous group did. They showed similar trends during the independent period, excepting for the post-WWII period. This group of countries benefitted from the expansion of the industrialized world’s demand for tropical products they could not produce. A gap emerged between the Indo-Americans and the Afro-Americans, which is still present now. This gap reduced during the last decades of the 20th century, when the Afro-American group joined the continent’s divergent trend. This is a group that shows high inequality levels, as a result of the long-lasting effects of the slave economy, and the powerful expansion of some dynamic sectors.

The third group is the Euro-American one, composed mainly by Argentina, Uruguay, and with less clear similarities, Chile. This is the group of countries that enjoyed the highest per capita income throughout the whole period under study. Some regions of other countries share these features, as Antioquia in Colombia, and Southern Brazil. These were less populated areas during the colonial times, and they lacked mineral products of high value. They were marginal regions of the colonial economy, and their role was mainly determined by their location for trade, or by military considerations. This is the case of the harbor cities of Buenos Aires, Montevideo, Valparaíso and even Porto Alegre. These regions with temperate climates could produce agricultural goods similar to those produced in Europe, which is why their production was only attractive for domestic consumption. They also produced jerked beef for the slave population of the Afro-American countries. Their marginal role in the colonial economy made it easier for the independency forces to succeed, which explains why the domestic economy suffered these fights the least. Furthermore, due to their location, they could easily take advantage of trade liberalization after independence. Nevertheless, and in spite of an important growth of exports, the domestic economy could not stabilize due to steady and sometimes long-lasting military national and international conflicts and a painful process of state building. During the so-called first globalization boom, a combination of very favorable external conditions (expansion of demand and prices for foodstuffs and raw materials, and the availability of foreign capital willing to invest in infrastructure, trade and industries), made it possible for these regions to achieve very high growth rates and levels of income. Argentina and Uruguay had, by the shift of the 19th to the 20th century, similar levels of per capita income to the leading European countries. Chile, due to its superior military forces and State consolidation, incorporated large amounts of natural resources (mainly nitrates in the North and land in the South) after its successful war against Bolivia and Peru, and against the native Mapuche population in the South. The gap between this group and the two others increased during the whole 19th century.
When export-led growth collapsed during the 1930s, these countries had rather developed and diversified domestic economies, as well as significant State capabilities. They were thus able to apply defensive economic measures to promote the growth of industries and services, making use of the resources left idle by the world crisis. Later on, these defensive policies were transformed into more systematic industrial and welfare policies. While the economy was diversified, the social policy developed and inequality reduced significantly, these economies had huge problems to sustain high growth rates. Volatility reduced somewhat, but the economy grew less than in other Latin American countries, and much less than in the leading world economies, that were going through the Golden Age up to the 1970s. Changing trends in the terms of trade, the difficulties to access the European market (more and more protectionist of its own agrarian production), and the exhaustion of the expansion of domestic demand for a too much inward-looking industrial production, led to a crisis of the pattern of development, which, differently from other regions, preceded the debt crisis of the 1980s. Post-democratic dictatorships prevailed in the region, in an attempt to dismantle industrial and welfare policies, to open up the economies and produce a significant shift in the distribution of income in favor of financial capital and different economic sectors linked to the exploitation of natural resources and infrastructure. Volatility increased once again and the process of divergence deepened, in spite of the existence of short growth periods during which the illusion of convergence was fueled.

Based on a profound process of liberalization and backed by a steadily high copper price, Chile was the most successful and stable economy. However, the catching-up process ended far from the levels of the developed countries (50%), and inequality remained as a strong structural feature of its economy and society.

**Size matters** when we consider long-run development. Given the limited success of the different processes of integration in Latin America, the size of the countries became an important factor explaining performance. However, this does not mean that size *per se* is a limit on growth. Some of the countries with higher levels of development are small ones, such as Uruguay, Costa Rica, or even Chile. Nevertheless, the size of the country was particularly important during State-led industrialization. Large and medium size countries, like Brazil, México, Colombia, Peru and Venezuela, shared many structural problems with small countries like Paraguay, Bolivia, Ecuador, and the Central American ones. Nevertheless, it seems that size was important in order to diversify the economies and achieve higher levels of per capita income. The gap between the small countries, on one side, and the rest of the countries remained high in favor of the latter, and divergence between them increased again in the late 20th century.

3. The underlying forces

The way in which we interpret long-run Latin American development is crucial to understanding what happened during the last decade and to look into the future.

The main question to be answered is why Latin America as a whole, or any single Latin American country, has not been able to join the group of the core countries in the world economy. Besides Africa, Latin America is the only world region that has failed as a whole, so far. A following question is whether it will be possible for any Latin American country or group of countries to do it in the future.
In the remainder of this article, an attempt is made to concisely present the main explanations for that. The starting point is a skeptical view about models that try to find out a single explanation; either it is institutions, geography, culture or any other single factor. On the contrary, complex systems evolve as the result of many inter- and counteracting forces, that overlap from one period to another, in a sometimes confusing sequence of continuity and change. This combination of continuity and change is what often makes it difficult to analyze recent historical periods and to detect the persistent factors and the seeds for change. Therefore, if the reader is expecting a simple explanation, I am afraid I will disappoint them.

**Pre-Columbian development**

Diamond’s (2005) illustrative description of the level of development of two different civilizations in the context of the conquest saves us a thousand words. In spite of the existence of empires that were able to organize strong States covering large territories and achieving certain degrees of technical development, there was a huge technological and institutional advantage in favor of the European colonizers. In terms of per capita level of income, Maddison guessed it was 2 to 1. In terms of military outcomes, the distance was wider by far. Latin America has always had to fight this original relative backwardness. The devastating effects of conquest, due to military destruction, resource plundering, social exploitation, cultural domination and germs dissemination, produced a reaction in favor of the rights of the indigenous population which is completely legitimated. Nevertheless, a naïve view about the prospects for development of the pre-Columbian societies is not sustainable in terms of modern outcomes. The idea that today’s backwardness is simply explained by the relationships of dependency started by the European colonization is clearly misleading. Similarly, the idea that the conquerors only brought progress with them is nothing but wishful thinking. If we were able to construct a Human Development Index for the two centuries after the conquest, introducing various variables like education, life-expectancy at birth, and income, the result would be catastrophic, even if we make the optimistic assumption that the surviving population achieved higher per capita income levels. In short, pre-Columbian civilizations were not composed by neutral “endowments”: they were economies with values, culture and hierarchies, far distant from European standards, and many of their features in terms of what we now can call low productivity, were to remain present during centuries, until the present.

This relative backwardness cannot be linked to the disposal of force animals, like cows and horses, as even the availability of these and other more advanced technologies, have not led to significant increases in productivity in vast areas of the agrarian Latin American economy. A more detailed analysis of the reasons of this “Pre-Columbian backwardness” is out of the reach of this article.

**The Colonial Heritage**

This is an ambiguous concept. Without a doubt, the colonizers brought with them new technologies and institutions that, in the very long-run, were able to put the Latin American countries in a superior growth trend than could be expected had the colonizers not arrived. However, the societies that arose after the first period of collapse and plundering were very complex and diverse.
While many authors, with some reason, stress that the different societies’ endowment of resources were decisive for the pattern of social and economic organization that was established (Engerman and Robinson in de Ferranti et al. 2004, chapter 4), the type of colonial power is not to be neglected. While many British colonies did not develop as the USA, Canada, Australia and New Zealand did, it is very difficult to expect that colonial Latin America could experience an agrarian revolution when Spain and Portugal did not, and we could not expect a process industrialization to take place in Latin America when the Iberian Peninsula did not take part of the European industrial revolution.

Even worse, the Iberian colonial powers exerted a monopoly in trade and supply of manufactured goods, which weakened the development of such industries and capabilities in the continent. The so-called Pombaline and Bourbon reforms of the late 18th century, rather than changing the pattern of colonial production, rationalized and deepened the main features of the traditional pattern. The sources and geographic spread of revenues were diversified, without changing its nature. One outcome of the colonial heritage was the weakness of the local elite, in relation to the crown and the peninsular traders established in the colonies.

Among the many heritages of the colonial rule that were to hinder development, we can highlight the spread of slavery in the tropical regions, the persistence of a huge variety of dependent labor relations, particularly in the Indo-American region, and the lack of a real land market, due to the large extensions of land owned by the church as well as by the legal system, ruling land used by the indigenous population. The latter had the right to use the land, but not to own, buy or sell it. The liberal reforms were did not occur until well advanced the 19th century.

**Independence and State building**

The nature of the national State in Latin America has been a subject of hot debate. As almost everywhere else, the limits of the States that emerged after independence were not clear, with some exemptions. The process of State building lasted for at least about half a century, during which an important amount of civil and international wars were fought. The war of independence and the collapse of the colonial economy led to the disintegration of productive spaces developed during the colonial times, which did not fit the limits of the new republics. The weakness of the domestic elites was another side of this same situation: no clear hegemonic forces could lead the construction of the national State. At the time, the military forces were a way for upward mobility and one of the most important power factors. They were badly prepared for war, and even less for government. The fiscal basis for the construction of the new States was very weak and governments relied to a high extent on a similar tax structure as during colonial times, with the “tithe” still playing an important role. Most national States were finally consolidated during the export-led boom, thanks to the strengthened economic position of the elites, the access to new military technology and infrastructure (including the telegraph, the railways), and the support given by foreign capital and foreign nations to institutional stability. The State, led by powerful and enriched elites, promoted a radical redistribution and concentration of wealth and income, basically derived from natural resources. Given the lack of State capabilities and the mentioned weaknesses of State bureaucracy, the States became an easy catch for the elites. This was a feature that remained as a structural one, even during the central decades of the 20th century, when the
States developed important capabilities and promoted radical changes of the productive structure, the distribution of power and income. Export-led growth had created some diversification of the productive and social structure. The new sectors were marginalized from the power circles. This is why populist movements arose from time to time, with varied authoritarian features, which expressed the need to meet the demands of these groups. The new alliances, however, rarely implied radical changes and the traditional elites kept important spheres of power, now shared with other organized groups, like peasants, unions and populist parties.

As State-led growth weakened, either because of domestic or external forces, the wave of structural reforms of neoliberal inspiration prevailed during the last decades of the 20th century, and produced a significant reduction of the spheres in which the State was expected to be active, which consequently reduced its capabilities. However, at the beginning of the 21st century with the last wave of economic growth, together with a predominant shift to the left of the region’s governments, the State recovered the initiative in fields as an active macroeconomic management, industrial policy and social policy.

In any case, the long-run feature of a weak State is far from being overcome. And this is paradoxical, as one of the most important interpretations of Latin American backwardness, the one that lied behind the neo-liberal structural reforms, was that the Latin American States were too strong and inhibited private initiative in many ways. However, not even during the periods of most aggressive State-led industrialization was private entrepreneurship denied the hegemonic role in economic activity. Latin American industrialization was clearly market oriented.

The pattern of specialization

The importance of the pattern of specialization of Latin America has been intensively debated. Latin America was always integrated into the world economy through exports of primary goods. Plundered first, produced later on, the productive system was about controlling the land and the mines and mobilizing labor to produce these goods although in different forms and with different intensity. Much has been discussed about whether the resources were a blessing or a curse. There is no clear-cut answer to that, and the resources themselves can hardly been responsible for success or failure. There always are different social and institutional possible outcomes for each technological and natural environment. Those who succeed or perform well are the societies; they are responsible for what is achieved with help of natural resources.

Natural resources may be a good and inevitable point of departure. However, economic development is about adding value to resources, it is about diversification and about the development of new technologies, products, processes and forms of social organization.

Many countries succeeded in transforming their economies departing from an important specialization in natural resources. However, all developed economies have succeeded with a process of development that has implied different levels of transformation of the productive structure.

Latin America has only been partially successful in that aspect. Still today, a very large part of Latin American exports is concentrated on very few families of products, most of them being
natural resources. Whenever industrialization made huge progress, it was mainly orientated towards the domestic market and with significantly lower productivity levels than those of its competitors of the developed countries. It could be said that the more the natural basis was industrialized, the less competitive the process was. Industrial growth had important deficits, both because of the sluggish process of innovation behind them in terms of R&D activities, and because the induced dynamics of exports was lost in inward looking production. Latin America developed economic structures that were labelled as heterogeneous, contrary to the relative homogeneity of the productive structure in developed countries. Thus, a few high-tech/high productivity sectors, often linked to the exploitation of natural resources, were to be found lost in an ocean of low productivity activities. When manufacturing activities succeeded to go global, more often than not they were maquila industries, where cheap labor assembles high-tech products, whose design and technology-intensive activities were performed somewhere else.

The reasons why Latin America has not been able to break with this long term feature are many and complex. They are related to the different aspects discussed so far: weakness of the State, power of the elites, backward social environment, huge technological gaps with world leaders, ethnical diversity as a basis for social marginalization and very low human capital formation. In spite of all of that, and thanks to the existence of natural resources, Latin American countries have been able to achieve much higher levels of per capita income, than the one that should be achieved with the given levels of human capital formation.

These features were counteracted, although not always successfully, during State-led growth period. The neo-liberal reforms implied a step backwards in that direction. While exports grew very much during the last decades of the 20th century, the domestic market failed to keep pace with that growth, overall performance was bad, and divergence in relation to the world leaders deepened.

The link between the productive structure and volatility

As mentioned, high volatility is an outstanding characteristic of Latin American economies. There are no signs that volatility has been reduced through time. However, a slight reduction could be noticed in the central decades of the 20th century, which has increased later on. Latin American volatility has not to do with the level of per capita income, or the speed of economic growth. The main explanation for volatility seems to be the high concentration of exports on a reduced amount of goods, which are also themselves subject to strong fluctuations in supply, demand and prices. The impact of such shifts in the purchasing power of exports is very high. This has been clearly shown as a long-term structural feature by Williamson (2012), among others.

There is a well-known pattern in Latin America, which works in the following way. An export boom occurs when demand for certain commodities expands, and there is an increase in prices. This boom permeates to different sectors of the domestic economy: state revenues and expenditures, related infrastructural investment, logistics, banking, insurances, trade and more. More often than not, export booms attract foreign capital, and the wealth of the economy allows governments to receive financial credits for different activities. With some lag, imports start to grow. As the domestic productive structure is competitive in a limited amount of sectors, the growth of consumption and investment induce a high income elasticity
of demand for imports of goods and services. This process is also fueled by the strengthening of the domestic currency. The cycle starts to change when demand and/or prices diminish, or start to grow more slowly or when the current account starts to show serious imbalances. This process may take many different forms, depending on the macroeconomic policy environment, the international factors affecting financial capital flows, and even the domestic social and political environment. A very common way out from the imbalances is a radical reduction in the level of activity, the devaluation of the domestic currency and a drastic reduction in imports. During the crisis, obviously, capital starts to flow out of the country, mainly in the form of service of external debt. This really bold description of the pattern has been present in Latin America since the late 19th century and until very recently and has been summarized with the words: “goodbye Dutch disease, hello balance of payments constraint”. The question is whether it has been possible to tame the cycle more recently.

In short, the concentration of exports in a few families of products subject to strong price and demand fluctuations, the high and related propensity to import as income grows, and the co-evolution of exports and capital inflows constitute an explosive environment with high propensity to high volatility, unless macroeconomic policy devotes important efforts to counteract this pattern. However, while macroeconomic policy may counteract high volatility, industrial policy promoting structural change is the only way out in order to sustainably change the growth trend.

The link between the productive structure and inequality

The reason why Latin America is the continent with the highest inequality, closely followed in recent times by Sub-Saharan Africa, has been a topic of much debate.

The principal pattern followed by Latin America was the combination of the access to natural resources with different forms of “non-economic” mechanisms to subordinate the labor force. With the exception of low density regions to which free labor was attracted, both slave labor and different forms of coercion were applied in the Indo-American regions. The labor market of both kinds of regions tended to converge as the liberal reforms advanced, creating a market for land and spreading wage labor. Nevertheless, the pattern of development remained to be one of employment of unskilled labor with very low wages in most parts of the region.

Besides these forms of inequality in what we can define as the more formal export-oriented sector, another source of inequality is the persistence of a wide sector of subsistence agriculture and traditional low productivity services. The transition towards wage labor was completed during the last decades of the 19th century, during which an increase in inequality has been documented in these three different ways: within the export-led sector, between the export-led sector and others, and between different regions and countries.

There are different theories about inequality during State-led industrialization. The evidence suggests that inequality was significantly reduced in the Euro-American countries. There, free labor and strong union activities introduced mainly by immigrants were combined with a more aggressive industrial and social policy. During the first stage, after WWI, inequality was reduced due to the drop of export prices, which affected the high income sector more. Later on, institutional factors played the decisive role. Even during periods in which export prices rocketed, the equilibrium of forces led to a significant redistribution of incomes.
Different situations can be noticed in the large countries, such as México and Brazil. In spite of going through important social and structural transformations, the process there can be better approached in the terms of the classical Lewis model of economic growth with unlimited supply of labor. Industrialization there produced an important concentration of income, and even within wage earners, inequality could have increased due to the relative power of skilled workers and the elite of the unionized labor movement in the large manufacturing industries. In these countries, the outcome of social and structural change may have been that of a dynamic stability of high inequality levels.

During the period of the so-called “structural reforms”, in the last decades of the 20th century, inequality increased significantly, due to the reversion of social policy and to the dismounting of industrial policy. In the countries where social transformation had advanced more, military dictatorships were the main instrument to introduce the structural reforms and generate a profound process of regressive redistribution of income.

*The link between the productive structure and the Welfare State*

The development of the Welfare State (WS) in advanced countries went hand in hand with the changes of the productive structure, with urbanization, with the appearance of new social risks, as well as with the political changes associated with that. Strengthened unions, labor parties, democracy, were the socio-political companions of structural change. The way in which the WS developed in these countries showed many variations, depending on a large amount of differentiating features. The Latin American WS has been an incomplete one, partly because of the limited process of structural change underlying it. The Latin American WS, in the best of the cases, was similar to the corporative model according to the well-known typology proposed by Esping-Andersen. Nonetheless, the coverage of these WS was much more limited than in advanced countries and the differences of the quality and extent of the coverage was subject to very radical differences among the Latin American countries. While the Euro-American countries were those who came closer to the corporative model, in most Afro- and Indo-American countries the welfare policies reached a very little share of the population. The important advance of the informal sector during the last decades of the 20th century, together with the structural reforms, exerted a huge press on social policy, similar as the one exerted by globalization in developed countries, but with a much more dramatic impact, as large shares of the population were very close to the poverty line.

*The link between the productive structure and regional integration*

Two important counterfactuals to Latin American development may be considered in this respect: the USA and the European Union.

The process of independence in the USA created a large market which was undoubtedly one of the preconditions for the American large-scale industrialization. Contrary to that, Latin American Independence adopted the form of a large amount of relatively small republics. The reasons for that are many: geographic obstacles; the limited exchange between regions due to trade controls; the limited diversification of the productive structure, even if, at that time, the diversity in natural resources was very important; the role played by the European nations, blocking regional hegemonic powers; the already mentioned weakness of the national states and of the local elites; the lack of adequate technology that could create more incentives for
unification, and the strong divide between Portuguese and Hispanic Latin America. Regardless of how we weight these factors and how we explain their interrelation, the fact is that Latin America failed to integrate its large domestic market, and it was even more so as the patterns of specialization became more and more oriented towards a few export products.

One of the most frustrating aspects of this story is probably related to the process of State-led growth. Obviously, industrialization could have benefitted from economic integration and the exploitation of economies of scale and different complementarities. However, the defensive way in which industrial policy started worked against integration. When the pragmatic first stage of industrialization gave place to a more planned and conceptualized industrialization strategy, the first voices against inward-looking growth were raised. ECLA, the most important think tank promoting industrialization, warned at early stages about the limits of inward-looking growth and strongly advocated for different initiatives for regional integration, which also should have had in mind competition in world markets. This was a quite different strategy to the dominant caricature about industrialization ideas in Latin America.

In spite of that, and in spite of some progress made since the 1960s in the promotion of regional trade and integration, results so far have been really disappointing. The process of European integration, which led to the creation of the European Union, started more or less simultaneously to the Latin American efforts. The results do not resist any comparison. We have to acknowledge that, in spite of much progress, results are really disappointing and during the last decade of fast growth, the general belief is that integration has been a failure.

This process may be tackled from many different approaches, but the one I want to stress is related to the productive structure. In Europe, structural change preceded integration, it was a pre-condition. A way to avoid war was to find ways in which the European nations could cooperate through the division of labor, rather than compete for markets and natural resources. The strong growth of intra-industrial trade was the result of industrialization. On the contrary, industrialization in Latin America was a defensive reaction to the collapse of world trade for commodities. While regional integration was a wise recommendation by technicians, the political economy of industrialization in which national states were easily captured by corporate elites, led to the refuge within the walls of the domestic market.

While during the process of structural reforms and trade liberalization regional trade made important progress, still the share of regional trade in Latin American exports is really low, as compared to other world regions. In times of commodity booms, when the market is in Asia, the incentives for industrial production are low and the competition of Chinese manufactures tough, regional integration does not have the best environment to make progress, given the lack of leadership within the national States.

4. The recent expansive cycle

During the last decade Latin America has experienced very high growth rates that, once again, seemed to be promising in the sense that Latin America could finally break with history and set in motion a process of continuous growth and convergence. Moreover, fast growth was combined with other positive and reinforcing phenomena: macroeconomic stability expressed in the reduction of inflation and clear progress in the monitoring of the economic cycle, a new democratic wave that now covered almost all the continent, an important reduction of
inequality, a likewise very important reduction of poverty and, finally, some progress in the construction of supranational institutions, like UNASUR. Some particular countries achieved important international recognition, expressed, for example, in Chile and Mexico joining the OECD, and Brazil playing a global role as a member of the BRICS countries.

As many times before, during the expansive phases of these economic cycles that Latin America has gone through, some kind of euphoria emerged. Governments, and the social groups linked to the successful sprint, tend to construct discourses about how we have finally broken with historical trends and how we have finally found the road to development. The last time we saw something similar was when, during the 1990s, Argentina discovered stability thanks to the 1=1 exchange rate, privatized a large part of its service sector and opened up the economy. The end of this story was a very deep economic, social and political crisis, whose sequels still fill the front pages of the newspapers in relation to the Argentine debt management. In the small neighboring country of Uruguay, that was growing more modestly but fast, the liberal president liked to congratulate himself and his citizens for being so outstanding. Two years later, Uruguay also fell into a deep crisis, and its citizens voted for a leftist government for the first time in the history of the country.

The question is whether we are in a different position right now, and if, contrary to previous experiences, the lessons have been learned and we really could lay the basis for sustainable and stable growth and catching-up.

Undoubtedly, many lessons have been learned. In terms of industrial policy, the dark 1980s and 1990s are behind. Almost every country has tried to reconstruct capabilities; the systemic approach to innovation has been more widely adopted (leaving behind both the linear model that assumed that everything started with science and ended in innovation, as well as the demand driven model without sectorial selectivity).

The results of these policies cannot be analyzed in the short run. Precisely as we are now seeing how many industries created during the period of State-led growth are successful enterprises that have been transformed into multinational enterprises (the so-called multilatinas), entrepreneurial capabilities that were fostered during this recent period may flourish in the years to come.

Notwithstanding that, I will concentrate on a few indicators that show a less optimistic view of recent achievements.

An important debate has been rising during the last decades, on whether the commodity prices had gone into a new historical phase featured by strong constrains on the availability of raw materials and foodstuffs, due to the exhaustion of oil, its substitution by renewable sources of energy linked to the agrarian production and the increase in the living standards of large shares of world population, particularly in Asia. The skeptical views about this new price trend emphasized that there were many speculative forces behind the later price rice. Besides, it is argued that, if demand is expanding, some low elasticity of supply may give place to a price rise in the short run, but if prices remain high, technological change, the exploitation of new reserves and the expansion of the frontier should give place to a downward adjustment of prices in the medium and long run. This has been the story of capitalism so far, and nothing is telling us that the rate of technical change will diminish. Quite on the contrary, the limits to
output growth tend to be more institutional than technological, and with high prices, incentives to change are likely to prevail.

According to many observers, the wave of rising prices is gone. The last year has shown a sudden shift in the trend and a sharp decline in prices. Of course, a new change in the trend does not have to be discarded. In any case, what is once again clearly shown is that commodity prices are really volatile, and it is not recommended to rely on the price levels during the booms to plan the future.

The downward trend in commodity prices does not necessarily have to be expressed in worsened terms of trade. In the cases of commodity exporters that are not oil producers, the terms of trade may not change that much with varying commodity prices, but the export sector will suffer the price fall, because their demand for oil is not necessarily high.

It is very difficult to have an idea about the future development of prices, but it is difficult to believe that commodity prices will show the same trend in the future as in the last decade.

Commodity prices really are an important force behind the last decades’ growth. These prices created rents clearly above productivity growth. It is possible to say that Latin America experienced some kind of price-driven growth, rather than a productivity driven growth.

According to many different measures, productivity growth in Latin America was quite modest in the last decade. According to these measures, Latin America not only did not catch-up, but continued to fall behind the USA, while other countries, like China and Korea (although from very different levels) reduced the productivity gap with the USA.

Another important aspect is whether Latin America was able to go through a process of structural change that could be a proof that a new basis for future development was laid.

The well-known typology of Lall (2000) has been object of many criticisms, because it assumes that the agricultural sector is a low technology one. Obviously, this is not always true. In order to study structural change, other measures have been developed. Departing from the idea that you become what you export and that rich countries export products that only rich countries export, and that poor countries specializes in products that only poor countries export, an index is produced to check whether there has been some change in the index and in the ranking (Hausmann, Hwang y Rodrik, 2005; Hausmann y Klinger, 2006). Using data provided by Bértola, Isabella and Saavedra (2014), between 1997-1999 and 2009-2011, the Latin American countries fell on average from the place 57 to the place 59. That means that the position is still an unfavorable one, and that no catching up was made in spite of fast growth.

Another way to approach the problem is using the Reflex Method (Hausmann e Hidalgo, 2009), which measures how diverse is the export basket of each country, and how exclusive is this country in exporting this product. The index also takes into consideration if exports are directed to countries which also rank high in these to respects. Again, with data provided by Bértola, Isabella and Saavedra (2014), we concluded that, on average Latin American countries fell from place 61 to place 64, among 98 countries.
Finally, the method called as successive steps (Isabella 2012) was used, combining the space product approach and a sophistication of exports index. Using data from the same source as previously, we can say that the average fall was from place 66 to place 68.

A special case is that of Mexico. This is the country that ranks best in all these indexes, due to the import role of its manufacturing industry and the much less important role played by the exports of commodities. Nevertheless, it is often noticed that the maquila industry is specialized in high-tech products, but the activities developed in Mexico are not the ones that add more value into the productive process. The Global Value Chains approach is powerful in order to detect these problems. In any case, Mexico does not escape the general trends, and its position was worsened or remained stable during this period. Mexico’s comparative advantage has been the access to cheap labor, rather than its good performance in developing competitive advantage.

5. Conclusions: how does the future look like?

Finding a path to development and convergence is not a matter of luck or something that happens within a short period of time. The several and complex forces that had inhibited Latin America, all of its countries, to join the club of developed countries, will not be overcome suddenly.

The comparatively limited development of Latin America has many overlapping and interacting explanatory factors. The relative development of pre-Colombian societies; the pattern of development established by colonial powers that were marginal in the profound transformation, that led to the Industrial Revolution and the Great Divergence; the very heterogeneous ethnic composition of the Latin American society, which was a vehicle for segregation, exploitation and inequality; the weakness of the local elites and of the national states, together with very low capital formation; the scarcely diversified economic structure, which left Latin America exposed to over-average shifts in demand and prices whose impact was particularly important because of the very concentrated structures of exports in a few products and a few markets. In spite of strengthened states, institutional learning, human capital accumulation, capital inflows, technology transfers, opportunities for trade and many other positive forces for development, the outcome has been disappointing and Latin America, as a whole, has not been able to catch up with world leaders.

During the last decade different factors were combined to give, as a result, a process of relatively fast growth and relative convergence. Nevertheless, the gap between Latin America and the world leaders, both in terms of per capita income and productivity, is still too large.

Some of the factors that contributed to this catching-up were the result of a process of learning and accumulation of capabilities: improved human development, recovery of some State capabilities, more mature and stable political systems, a better institutional environment for investment, macroeconomic stability, stronger interaction with foreign investment, and a better understanding of the role played by technical change, innovation and investment in research and development. In some sectors, new entrepreneurship has been quite successful, giving place to Latin American multinational enterprises.

However, the good outcomes were also the result of particularly favorable external conditions, such as increasing commodity prices and strong capital inflows, an important
share of which adopted the form of Foreign Direct Investment, especially for the exploitation of natural resources and the sectors of infra-structure and services linked to them. The important rents the natural resources created by the high international prices, stimulated new investment and an important productivity growth in some sectors.

The prospects for the future are not as bright as they have been during the last decade. Commodity prices are receding, the growth of demand has been slowing down, the Latin American countries have not been through any significant change of its productive structure, and no catching-up in productivity has been achieved in spite of the favorable conditions. While the links between Latin America and commodity importers were significantly strengthened, regional integration progressed even less. The Latin American market may still play an important role in terms of demand for a more diversified production, if commodity exports show low dynamics, but progress in regional integration was far more limited than progress made, for instance, by the European Union.

The most likely development for Latin America in the next decade is not that of a deep crisis as the ones experienced before. What we can expect instead is a transition to a slow growth trend which will not make it possible to converge, not even conditionally, to the levels of the world leaders.

References


ECLAC (2014), Social Panorama of Latin America, Santiago de Chile.


