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Political economy and economic development in Latin America in the second half of the 20th century

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Abstract

The paper analyzes and compares stages and strategies of economic development in Latin America, focusing on the past fifty years. It contrasts the economic rationales and political economy bases of iport substitution with those of the economic reforms implemented in the last two decades of the 20th century. It concludes that while economically weak and practically faulty, the import substitution strategy had a solid political economy behind it, which made it last. Market reforms, on the contrary, while having a sound economic justification, had weak political economy support. This has led to their limited success and increasing unpopularity in the region in a short period of time. Reforms need a viable political economy leg to rest on. Without it, they are destined to be abandoned.

Keywords: Economic growth; Latin America; Import substitution; Economic reforms

1. Main features and phases of Latin America's economic growth since 1870

Extensive growth came to most of Latin America several decades after it attained political independence. Traditionally, the years between 1840 and 1880 are considered the beginning of this phase (Reynolds, 1983). By then, post-independence politics had sufficiently stabilized and domestic institutions consolidated in much of the region that knowledge and capital (domestic and foreign) were being attracted and accumulated on a scale sufficient to underwrite rapid expansion of domestic output. To put things in some perspective, it is

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worth recalling that most of Latin America reached independence and statehood between 1810 and 1820, about 50 years before Italy and Germany, and started growing intensively (i.e. in terms of per capita income) slightly earlier or at about the same time as these second generation growers in Europe.[1]

From 1870 to 1913, Latin America aggregate (real) output grew at about 3% a year, faster than in continental Europe, and not far from the pace at which it expanded in the United States and Australia.[2] The areas of new European settlement in both the Southern and the Northern Hemisphere were catching up fast in terms of total output growth with the growth leader until then—the United Kingdom. Only a substantially higher rate of expansion of the resident population, caused by exceptionally large immigration from Europe was preventing South America from catching up also in terms of per capita output, as North America was already doing. Between 1851 and 1880, 1 million people immigrated to Argentina and Brazil alone, which had by then a total population of about 8 million. From 1881 to 1915, another 7.1 million people immigrated to these two nations.

Within Latin America, economic performance in this early period was somewhat dichotomous, with Argentina outpacing all other nations of the region in total and per capita growth (5.4 and 2.0% a year, respectively), but still rather widespread. The expansion of per capita income was in fact significantly positive in Mexico and Venezuela at more than 1% a year on average between 1870 and 1915. The main exception was apparently Brazil, where overall output growth (as far as it can be ascertained) remained on the whole quite anemic until the beginning of the 20th century, reaching on average 2.4% a year, and being only barely sufficient to compensate for the strong increase in population (Table 1). The export sector of Brazil, given its size, was unable to carry the rest of the economy, or to do it as much as in Argentina, despite the buoyant performance of coffee and cotton (Furtado, 1959).

Success in economic growth was reflected in higher per capita incomes (at or near European levels in countries such as Argentina, Chile and Uruguay) and in improving social indicators. In the second half of the 19th century, literacy, for example, increased significantly and so did life expectancy at birth. In Latin America as a whole, literacy had reached 40% of the adult population by 1910. It was over 60% in Argentina and Uruguay. Life expectancy was 44 years in Argentina and between 31 and 33 years in Chile, Colombia and Brazil. The corresponding life expectancy in the United States was 51 years. Latin America was well above Asia in growth performance and social development during this period. It was sharing, in many respects, the same growth phase and benefits of other extra-European settlements.

Growth was based on a strong integration of much of this region's population with its continent of origin, on the widespread diffusion of agricultural production technology (largely carried by people that were moving into it), and on investment capital (largely for agriculture, infrastructure and mining) also coming mostly from Europe.

[1] "First generation growers" had been the United Kingdom, plus some of the small countries in continental Europe, closely followed by the Western European appendices in North America and Australia-Oceania.

[2] All regional averages cited in the paper are weighted averages of country data, unless otherwise specified. Latin American GDP and trade averages are based on a sample of seven countries (accounting together in 1950 for 78% of the population and 81% of regional output) for which data on macroeconomic, trade and social conditions are available starting in the 19th century. They are Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.