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**HISTORICAL PERSPECTIVES AND CONTEMPORARY DEVELOPMENT
THINKING: A LATIN AMERICAN REFLECTION**

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**Historical Perspectives and Contemporary Development Thinking:
a Latin American Reflection**

Rosemary Thorp¹

This paper will first reflect briefly on 'the state of the art' in the use of history in contemporary development among economists today. We focus on three current debates, on openness, on growth and distribution, and on natural resources and growth potential. Having concluded somewhat negatively that recent development thinking has tended not to draw as richly as it might from history, the second and longer section will review the insights which recent Latin American economic history work appears to proffer to the economic development profession. The third and final section returns to the three development debates, to suggest how history contributes to these current areas of controversy.

1. Contemporary Economists and History.

As the economics profession has grown in greater methodological and quantitative sophistication, so with this has grown the difficulty of genuinely using 'real' history – scholarly in-depth understanding of the time path of particular countries, in a holistic inter-disciplinary fashion. Quantitative techniques require many observations, and given data limitations and increasingly sophisticated methods for ascribing causality, the temptation grows to resort to cross-section analysis, or at best, to panel data with a limited timespan. None of this is bad, though it may be badly done² – but it marginalises the use by economists of traditional historical work, given natural limitations of time and energy, and the demands of specialisation.

Thus, many of today's development theorists use cross-section evidence to draw out historical truths. Notable examples are to be found in the debates mentioned, on the relationship between growth and distribution, openness and growth, and the growth potential of natural resource abundance. But with few exceptions,³ the evidence being cited comes from cross-section work or from data bases that encompass quite narrow spans of time, and while increasingly efforts are made to find proxies for qualitative and non-economic factors, the demands of the methodology

¹ This paper draws extensively and in part verbatim from Thorp, 1998, especially chapters 1-3, 6 and 9. I thank the Inter-American Development Bank for permission to so draw: the IDB financed both the original text and the research, which was the basis for the volumes mentioned in footnote 8 as well as for the book distributed by Johns Hopkins University Press: Progress, Poverty and Exclusion: An Economic History of Latin America in the XXth Century. Johns Hopkins University Press and Inter-American Development Bank, 1998. (Also published in Spanish, Portuguese and French.)

I also thank yet again the many friends who collaborated in the project reported on in this paper. Too many to name here, their input is fully recognised in the various published volumes. Emma Samman provided excellent research assistance for this paper.

² Ranis' phrase is 'cross country econometric fishing expeditions' (1995, p. 54).

³ For example Robert Bates, Richard Auty, Albert Fishlow, James Robinson, authors who all work on Latin America with detailed historical material as well as in the latter three cases, large cross-national data sets.

still adapt badly to the real world of subtle and delicate interplay of complex relations over time. Thus it is not surprising that many findings, when exposed to sensitivity analysis, turn out to lack robustness.⁴ While this type of research is valuable and suggestive, and is evolving all the time in power as techniques and data improve, it needs to be constantly complemented and challenged by detailed historical case studies, which alone can do justice to country specificity and to the interplay between economics, politics, social factors and long run structural characteristics.

Such a distinctive trend is clearly alive in Latin American scholarship and scholarship drawing its inspiration from the Latin American context even today. First, in the post-war period, historically informed economic development thinking was particularly strong. In this I identify several main strands. The first is one it gives me great pleasure to dwell on, given the purpose of this seminar, since it owes much to the inspiration of CEPAL and the leadership of Raul Prebisch within CEPAL. The classic structuralist studies that came out of CEPAL in the 1950s and 1960s were based in rich country development histories, and the authors went on to develop most of the classics of Latin American economic history.⁵ Second, and inspired by this group, scholars outside Latin America, and particularly in the US, were working in this tradition. Diaz Alejandro and Albert Fishlow were the leading figures of the 1960s, and their students and others went on to build a rich literature. Third, also the inspiration of many in the two previous groups but defying classification as other than uniquely himself, we have the figure of Albert Hirschman, whose work has always been deeply sensitive to history and whose early work in particular often comprised detailed Latin American case studies (Journeys towards Progress being the outstanding example).

Somehow, however, less work in this vein was produced in the crisis years of the 1980s and early 90s. Numerous authors were simply drawn into the urgency of contemporary problems and left their historical curiosity a little to one side.⁶ The unhappy intellectual history of dependency may have played its part too. The use of history by the influential early dependentista, Andre Gundar Frank, was so crude and misdirected as to provide easy ammunition for those who wished to argue against world views of this kind. The resonance of the concept of 'underdevelopment' was such that dependentista ideas acquired a following beyond that justified in hard

⁴ For the openness and growth literature, Edwards (1998) attempts to deal with the problems of robustness widely acknowledged to be present in the first round of the literature. Rodrik and Rodriguez (1999) demonstrate that he fails. They also criticize the two much-cited classics of the literature, Dollar (1992) and Sachs and Warner (1995). Levine and Renelt (1992) provide a general review and sensitivity analysis of various popular hypotheses. On growth and distribution, most recent literature has shown that the earlier claim of a negative correlation between growth and equity does not stand up to improved data sets and methodology (e.g. Fishlow 1995, Bourguignon 1995, Bruno, Ravallion and Squire 1998, Deininger and Squire 1998, Stewart 2000). The new findings of a positive association are interesting but still fragile. We return to this in the concluding section.

⁵ Among the early notable books (listed in alphabetical order) are: Cardoso and Faletto 1971; Cortes Conde and Hunt 1985 (and their contributors); Prebisch 1950; Ferrer 1963; Furtado 1970; Pinto 1964; Solis 1963; Cariola and Sunkel 1982; Sunkel and Paz 1970; Urquidí 1964.

⁶ An outstanding exception – but demonstrating some kind of rule – is the present Director of CEPAL. Ocampo during two periods as Minister in Colombia somehow kept his historical work ticking over, with the aid of some exceptional assistants.

historical research.⁷ At the same time, advances in econometrics led to greater interest in quantitative work.

An economic history project in which a number of us here participated did, however, try to change this situation at the end of the '90s, and it seems an opportune moment to try to extract the insights from the project for current development thinking.⁸

2. An Essay in Latin American Twentieth Century Economic History

In the main section of this paper, I would like to review what emerged from this project. The interpretation, and particularly the insights for contemporary development thinking, are highly personal and I trust that the seminar debate will amplify and enrich the interpretation. I will first explain the project and its overall findings, then review the century as a whole and three subperiods: the export economy period ending in 1929, the major period of inward-looking industrialisation ending in the 1970s, and the period of the debt crisis and the shift in paradigm.

The project and its findings.

The project sought contributions from over 30 researchers working in aspects of Latin American economic history (several of the most eminent being present today). It comprised at its heart two new collaborative research efforts, one centred on a fresh understanding of the principal export economy period, from the late nineteenth century to 1929, and a second focused on the post-war period of state-led industrialisation. This seminar will hopefully allow us to extend these conclusions and implications. The project also included the development of a data set for the twentieth century, done by Pablo Astorga and Valpy Fitzgerald, with a section on welfare done by Shane and Barbara Hunt.⁹

Out of a large list of findings from the project, several conclusions hopefully helpful for our seminar's topic may be identified. First, a review of the last century's

⁷ Gootenberg (2001) reflects nicely on how this may explain why the Latin American left 'bought' these ideas rather than the seemingly rather appropriate ideas deriving from Gerschenkron, who had few followers in Latin America.

⁸ The project was suggested and sponsored by Enrique Iglesias. The outputs are published as a mini-series of three volumes, and an overview volume containing also the data base. The mini-series is published in English as:

An Economic History of Twentieth Century Latin America; Palgrave Press and St. Martins, 2000.

Volume one: The Export Age: The Latin American Economies in the Late Nineteenth and Early Twentieth Centuries, editors Enrique Cárdenas, José Antonio Ocampo and Rosemary Thorp, 2000a.

Volume two: Latin America in the 1930s: the Role of the Periphery in World Crisis, editor Rosemary Thorp, second edition, 2000b.

Volume three: Industrialisation and the State in Latin America: the Postwar Years, editors Enrique Cárdenas, José Antonio Ocampo and Rosemary Thorp, 2000c.

They will be published in Spanish by Fondo de Cultura.

The overview volume is Thorp (1998).

⁹ This part of the project benefited from the collaboration of Andre Hofman and the incorporation of his data reconstructions, now published as Hofman (2000).

events suggests that it is the interaction of politics and economics which ultimately shapes outcomes in relation to growth, more than, say, resource endowment or geography. The closer determinants of growth – investment, savings, technical progress – are themselves the product of political economy relations, and the extremely diverse fortunes of Latin American countries over the century are at bottom shaped by political and economic interactions more than by the gifts of God or the devil, though ‘gifts’ are relevant in complex ways.

Second, and closely related to the first point, the capacity of policy makers in the specific circumstances of their country to make something – or little – of the opportunities of a particular model, often matters as much if not more than the model itself.

Third, and most fundamental, for all the variation in political economy and in growth, the distributional outcome is remarkably similar – with the single major exception of Cuba and minor ones of Costa Rica and Uruguay. A historical analysis of Latin America shows how deeply embedded in this continent market segmentation and exclusion are – so much so that inequality shapes each model in turn.

The export economy period demonstrates all three arguments, as we will try to show in the brief summary below. The emphasis of the project was to trace out the long-run significance of the specific political economy of these years, with consequences extending through the century. Analysis of the period of state-led industrialisation confirmed and strengthened these conclusions. The traditional uniform picture of inappropriate and incompetent state intervention has to give way to one of highly varied outcomes, where the variations relate in significant ways to the political economy of the preceding period. The latter helps to explain the varying degrees of policy incompetence and institutional weakness or inappropriateness. Income inequality shaped the ISI model and was itself reinforced by it. But a further conclusion is also that this period brought far more benefits than it is usually credited with, in at least some countries. Again, the relative success and failure can be analysed in historical terms.

The more recent period was given relatively little attention in the project, but we hope to show below the consistency in outcomes with the historical analysis and the implications of this consistency.

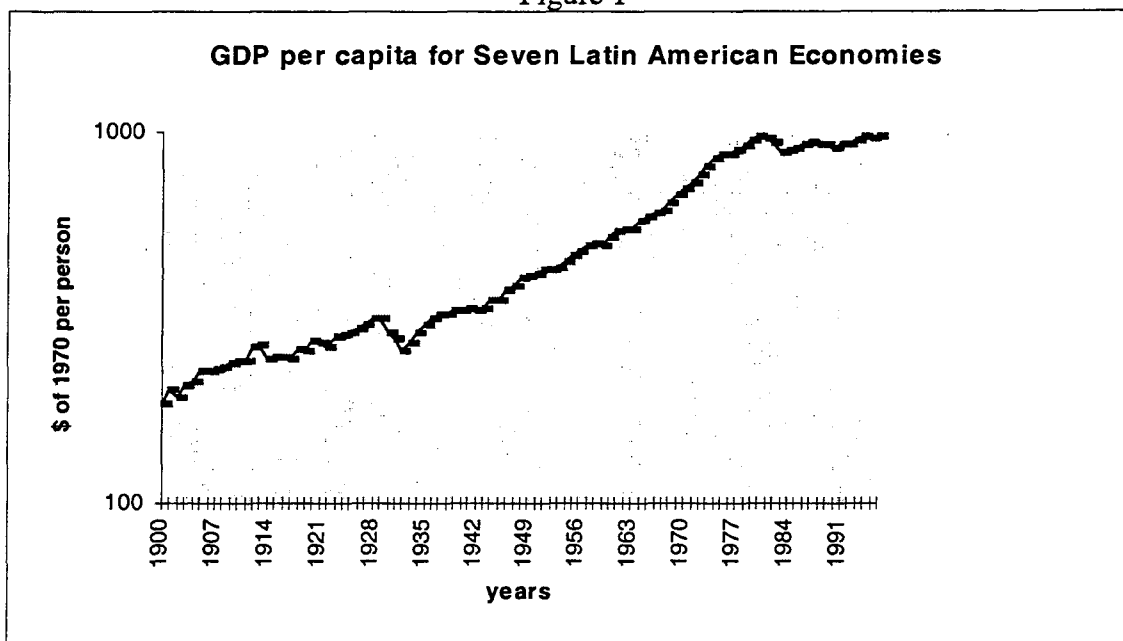
An overview of the century.

In 2000, continental per capita income was five times higher than in 1900 (see Figure 1). But the average per capita income of the larger economies was 14 per cent that of the United States in 1900 and 13 per cent in the 1990s. Income relative to Northern Europe rose by mid-century only to decline again.¹⁰ Industry grew from five to twenty per cent of GDP – but the continent’s share of world trade fell from

¹⁰ Using Maddison’s data, the relation with the average of France, Germany and Britain was around 16 per cent at the turn of the century and rose to 23 per cent by mid-century. Latin American GDP was about 30 per cent of that of Spain and Italy by 1900, and Latin America grew more rapidly in the first half of the century, reaching 40 per cent by 1950. Positions were reversed in the second half. The calculations are subject to a wide margin of error. They are in 1970 prices and based on data for Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

seven to three per cent, and at the end of the century over half of exports were still primary products such as coffee, oil, sugar, iron ore and copper. Financial dependence had grown as foreign debt increased and Latin America remained vulnerable to external shocks.

Figure 1



Data for Argentina, Brazil, Mexico, Chile, Colombia, Ecuador, Peru and Venezuela.
Source: Thorp, 1998: statistical appendix.

Implicit in this is a story of institutional transformation. By institutions we mean both the usual organisations, such as the judiciary, central banks, planning ministries and firms, and also the rules of the game such as property rights, and even social customs, all of which are important in conditioning behaviour and response. The 1920s were a decade of substantial institutional innovation, with central banks becoming almost universal for the first time, and customs and tax-collecting agencies taking new shape. From the 1940s to the 1960s, the principal institutional growth was in public enterprises, development banks, industrial development institutes of various kinds, and agricultural development agencies promoting technology and credit. With the shift in model in the 1970s and 1980s, away from state intervention and towards free markets, Latin America entered a phase when many organisations were abolished, downgraded or privatised, while the construction of other types of institutions, such as stable rules of the game and regulatory bodies, assumed pivotal importance.

Education and health indicators reveal significant improvement. During the twentieth century, the illiteracy rate declined significantly, from 71 per cent in 1900,

to 46 per cent in 1950 and to 10 per cent in 1995.¹¹ This substantial decline in illiteracy rates nearly closed the gap in literacy between Latin America and the developed countries. Taking the United States as a representative developed country, this gap stood at 60 percentage points in 1900 and was narrowed to 10 points by 1995. Nearly all this closure was accomplished after 1930.

Life expectancy also changed dramatically in Latin America during the twentieth century. According to the best estimates available, average life expectancy was 29 years in 1900, 47 years in 1950 and 68 years in 1990. In the span of 90 years, the average length of life more than doubled. This accomplishment was made possible by having started from such a low level of life expectancy, not uncommon in the world of 1900 but, except for in a few unfortunate countries devastated by war, unknown in the world today.

Income distribution, however, almost certainly worsened: it was probably the worst in the world by the 1960s, and became still worse as the continent plunged into the debt and adjustment crises of the last twenty years. Since documentation of these patterns via household surveys is impossible for the whole century – and indeed such evidence is still fragile and difficult to handle in more recent years – we sought to assess the detailed historical paths of different economies, trying to understand how the institutional evolution of factor markets and market structures shaped and embedded the distribution of income. To summarise the results of this exercise, as well as other aspects, we now turn to our analysis of the waves of expansion and subsequent slowdown.

Export-led growth and the entrenching of inequity.

In the first period of expansion, the distributional result was strongly influenced by the interaction of the type of export product with prior conditions in the economy and society. Where the nature of the product made land and labour important resources, and where indigenous populations controlled both, then resources tended to be forcibly taken from them, sometimes with repercussions that might not appear for years (such as eventual revolution in the most notable instance).¹² Non-Indians also lost their land, but the thirst for land and labour, coupled with state-building and continued conquest, meant that Indian peasants suffered a double exploitation, reinforced both by racial attitudes inherited from the Colonial period and by pseudo-scientific Darwinian ideas from Europe. In Guatemala, Mexico and through much of the Andes, exploitation could take extreme forms. While such efforts were sometimes successfully resisted by their targets, resistance tended to retard, rather than reverse, the processes of capitalist penetration and state-building.

Where the nature of the exporting sector and its insertion in the domestic economy were such that external shocks were accommodated by the squeezing of

¹¹ These figures apply to adults age 15 and over. The regional total is the median of the figures for individual countries. The median is preferred to the simple average because in recent years, as many countries have achieved very low illiteracy rates, the average is greatly influenced by a few outliers such as Guatemala and Haiti. An average weighted by population gives very similar results: 68.2 per cent in 1900, 42.1 per cent in 1950 and 13.5 per cent in 1995.

¹² This section draws on a consultancy paper written for the project by Alan Knight.

wages, then labour organisation, strikes and associated violence and repression were frequent (oil, bananas, mines). Where pushing back the geographical frontier was the focus of expansion, as in some coffee cases and in temperate zones, then violence of a frontier type, related to land acquisition and lack of the rule of law, was typical. More generally, weak institutions tended to mean that, especially in remote areas, labour discipline would be summary and without appeal.

In political terms, export expansion usually strengthened rather than undermined the position of land-based elites. The single exception, by an indirect route, was Mexico. Initially, as elsewhere, during the Porfiriato (1876-1911), the landed elite was greatly fortified. The strength of this process generated the special coalition of interests and extremity of social pressure that produced the Mexican Revolution. Generally, peasant protest was repressed, helped by ethnic and other divisions among peasant communities themselves, and the fact that peasants must go home for the harvest.¹³ Foreign investors did not attempt to disrupt the land monopoly of local elites. Though direct foreign investment went heavily into land-based export economies, it rarely went into land (Cuba was an exception). When it did, it was sometimes as a result of bad debts and the companies concerned were usually extremely unhappy, as was Duncan Fox in Peru. Land in the public domain was sold to foreigners, but this rarely resulted in direct production by them, and in any case was no challenge to the elite's position. The reasons for the foreign investors' disinclination to invest in land were first, that there was an existing system of land rights and existing claims; second, that they did not like becoming involved with complex labour systems fraught with ethnic aspects (Duncan Fox in Peru expressed this clearly); and third, if they could buy from small producers this was a thoroughly desirable situation in terms of being able to pass on the burden of bad times.

Where this entrenching of the landed elite was strong, then a further shaping of institutions took place, with consequences for the longer run. Growth usually disrupts non-modernising forces and rewards enterprise. This it did in many instances, notably in mining, in technical progress in the sugar sector and in early industrialisation. But where it instead led to a strengthening of traditional elites and a confirming of certain kinds of institutions, then it did not. The need to construct institutional arrangements to secure a labour supply further embedded many export enterprises in systems where profits turned on securing a cheap and docile labour force by whatever means, principally repression and political access, rather than receptivity to innovation.¹⁴ These systems were sustained by ethnic prejudice that legitimated the mechanisms of extraction used. Inequality was internalised at a deep level; see for example the attitudes expressed by María Jerónimo in Box 1 below. The more institutions evolved to sustain these micro systems, the more change required a radical stimulus, since inequality was functional, increasing growth, and consolidated in complex institutional arrangements. The stimulus arrived in the case of mining and *enganche*¹⁵ was abandoned, but not in the agrarian economies.

As land holding became more solidly entrenched as a source of wealth, political power, and access to other inputs such as credit and water, the peculiarity of

¹³ Knight, in Cárdenas, Ocampo and Thorp, 2000a. This is the reason given for the failure of Yucatan's Mayan rebels when they seemed to have the state in their grasp during the 1840s Caste War.

¹⁴ Bulmer-Thomas, 1994, develops this theme in his account of this period.

¹⁵ A traditional semi-feudal form of labour relations common in Andean countries.

land as an asset became increasingly important. While held and used by many dynamic business people in Latin America, land also yielded profits just by being held – if inflation or an urbanisation boom, frequent by the 1920s, happened to benefit its holder. This characteristic furthered another kind of ‘institution’: the custom of holding land for other than directly productive reasons, a habit with clear implications for agricultural productivity.

Thus, in the period of export-led expansion up to 1929, growth varied principally according to the commodity lottery and a number of pre-conditions. Political stability in a basic sense was important: countries still torn by internal strife by the end of the nineteenth century, whatever their resource endowment, did not appear attractive to the foreign capital that was the motor of development in this early period. In addition to growth, the degree of diversification was important, as a precondition for later expansion. The extent of diversification into non-export activities varied with the nature of the commodity as well as with the size of the internal market. Given a certain minimum market size, coffee appeared to be an export commodity particularly conducive to diversification: it spread over large areas, tended to be nationally controlled and its investment needs were low, meaning that there was surplus in local hands available for investment elsewhere in the economy.

The degree of social tension and repression also varied with the commodity and with prior conditions, with consequences for the future. A sure recipe for social tension and severe inequality, we argued above, was an export crop with large labour needs combined with a substantial pre-existing indigenous population whom newcomers considered they had to control or displace to secure access to land and labour. These structural conditions had many diverse consequences for institutions and for the political economy of policy management. For example, tension and continuing political instability required expenditure and effort on the military and police, not on the institutional development needed to take forward accumulation and human development. A unique path was Mexico’s, where extreme tensions produced the catharsis and terrible cost of the 1910 Revolution, but then a subsequent surge in institution building. Another unusual path was followed by Costa Rica, where particularly egalitarian conditions in regard to land holding and social structure led to a distinctive political economy which, from an early date was conducive to the building up of human development. It was also promising for the long run in the way it built collaboration and consensus into policymaking. But a push to early egalitarianism did not necessarily imply a successful political economy in all senses. Uruguay was another unusual case, but one where the egalitarian push came principally from above, from a remarkable political leader. While the policies followed were excellent for human development, policy making failed to address effectively some underlying economic problems, leading to slow growth of investment and lack of advance in agricultural productivity.

Policy competence and a developing institutional base also seemed to be particularly favoured if the export expansion was less based on foreign capital, with the striking exception of Chile. Where important, foreign capital would then play many of the roles which government might otherwise be pushed to perform, so weakening the effect of necessity in stimulating beneficial effects in learning, and developing skills and institutions. The experiences of Peru and Colombia provide an illuminating contrast. In Peru, a strong presence of foreign capital and its symbiotic

relation with local business groups facilitated a laissez-faire tradition in government, since foreign capital could be depended upon to perform many basic tasks such as building infrastructure, and domestic capital had ample opportunities in the export sector. Colombia had substantial quantities of foreign capital only in isolated pockets, and much need of domestic government and institutions at all levels to take forward the incipient coffee economy. This encouraged and supported a domestic institutional response, principally in the form of the Coffee Federation. Policy competence, developing skills in governance and cooperative relations between elites and the public sector also seemed to be favoured by diverse regional elites that needed to learn to trade with each other in political terms. Colombia, and Brazil also, benefited from such diverse regional elites.

In Chile, however, the story of the role of foreign capital took a different turn, illuminating yet again the subtlety and complexity of the interplay of political economy with national and international economic and social structure. In Chile, the exclusion of national business groups from the export sector led them to pressure for and support measures to diversify the economy, to provide opportunities elsewhere. We return to the implications of this below.

Responding to the 1929 Shock: the Move to Inward-looking Industrialisation

After the 1929 depression hit, recovery was remarkably rapid. Most countries participated, growing either through the expansion of industry on the basis of import substitution, or through the growth of agriculture for the domestic market. But certain countries stood out for their skilful use of policy to take forward the recovery, notably Brazil and Colombia. Both countries recovered early and saw rapid growth on the basis of precocious Keynesianism and well-managed controls. Growth in the previous period is a poor predictor of relative success in the 1930s, and indeed thereafter. Argentina and Cuba, two countries that had grown particularly rapidly under export-led growth, now grew relatively slowly, constrained by the very factors that had led to previous success: their prominent position in “informal empires”.¹⁶ A semi-colonial relationship that had once been the basis of privileged access to markets, capital and entrepreneurship now constrained growth by making it difficult to diversify away from the commodities at the heart of the (informal but real) colonial relationship.

The rapid recovery from the 1929 shock was further aided by the second World War, which provided commodity booms as well as US public and private interest in Latin America as a source of strategic raw materials. The post-war period saw the entrenchment of inward-looking industrialisation in all the larger countries, but with great differences again in how countries took advantage of the opportunities.

We can organise this disparate experience in four groups. First, there were countries that industrialised strongly on an inward-looking pattern, some of which moved in a significant way to modify that pattern by the 1960s, though in most cases there were serious incipient problems nevertheless. This group includes Argentina, Brazil, Chile, Colombia, Mexico and Uruguay. Secondly, there were countries which either because of small size or their particular fortune in the commodity lottery,

¹⁶ Diaz Alejandro in Thorp, 2000.

remained with the primary product exporting sector as the leading force, but nevertheless attempted inward-looking policies, particularly by the 1960s. These were Bolivia, Ecuador, Paraguay, Peru, Venezuela and the countries of Central America. Third, Cuba has to be considered separately, as the only case of a fully centrally planned economy.¹⁷

The separate country experiences are documented in the volumes mentioned in footnote eight above, in particular in volume three. The main point we need to draw out here is, again, the variability of the country experiences and the way they were influenced by what had gone before. If we limit ourselves to just one example, Chile makes an interesting choice. Chile was unusually advanced in its level of industrialisation. We have argued that the dominance of copper in Chilean exports, and of foreign capital in copper, to the exclusion of local groups, forced local elite groups to look elsewhere and in particular to industry for profit opportunities at a relatively early date. The effect of buoyant copper revenues on the exchange rate was such that other tradeables could survive only by means of fairly strong state action. Chile had developed mechanisms of intervention that favoured industry in the 1920s and 1930s to a degree unusual for a country of its size,¹⁸ culminating in the creation of CORFO (Corporación de Fomento de la Producción), the Industrial Development Bank. As French-Davis et al make clear,¹⁹ the post-war period saw considerable industrial growth, productivity increases and sustained institutional development. Although the degree of inwardness was exaggerated, and the distortions were large, this did not prevent industry growing at 6 per cent a year over three decades. The cumulative benefits for the long run were substantial, as would be demonstrated in the 1980s and 1990s.

However, although the economy grew, Chilean investment and savings were low, and overall GDP growth was 25 per cent below the regional average. The reasons appear to lie deeper than the distortions of inward-looking development itself, and are to be found in the political and social structure.²⁰ In Chile, the willingness to invest was lacking, given the inability of successive political leaders to overcome business distrust of the left-wing tendencies already evident in some governments of the 1920s and 1930s – for all that these governments initiated significant institutional development that helped build the productive sector. Overlaid on these elements of mistrust came the distortions of post-war policies, conflict with the mining companies over tax shares,²¹ and inflation, a product of limited growth and distribution battles²² that resulted in further disincentives to invest productively.

This was the all-too-pertinent context of the significant reform efforts and partial reforms of the 1960s. Chile was the first to introduce a crawling peg exchange rate in 1965, followed by an extensive set of policies including tax rebates, tariff reductions and rationalisation of the tariff structure. CORFO was active in these years, with programmes that laid the basis for subsequent fishery and forestry exports. But

¹⁷ This section draws extensively from the case studies published as Cárdenas, E., J. A. Ocampo and R. Thorp 2000b and the associated workshop debates summarised in the introduction to that volume. Norman Girvan provided a consultancy paper and biography on the Caribbean.

¹⁸ Muñoz, 1986, p.101; Ortega 1989, p. 33-64.

¹⁹ Cárdenas, Ocampo and Thorp 2000b.

²⁰ See Hirschman, 1968, for the way social discord translated into inflation.

²¹ See Reynolds & Mamalakis, 1976.

²² For the classic analysis in these terms, see Hirschman, 1968.

the political context did not allow a coherent set of policies to develop to avoid the 'dead end' of production for a small internal market.

Thus, despite having many of the elements in place for a well-functioning political economy and rapid growth – a well-developed state capacity, prior high levels of industrial development and institutional development dating back to the 1920s – Chile lacked a degree of political coherence. Business groups' apprehensions of socialist tendencies weakened the investor confidence that is at the heart of a well-functioning political economy in any mixed economic system.

Where there were elements of continuity in competent policy-making, supported by the nature of relations with the private sector, then more positive cumulative processes were observable. In Brazil, where in the 1950s and 1960s Kubitschek could build on the policies of Vargas from the 1930s, a tradition of coherent and constructive public sector initiatives built well-functioning relations with the private sector and elements of trust which then survived some stormy seas. In Colombia, the special political economy provided by coffee allowed the moderation of protectionist policies to promote both agriculture and industry. The political stability achieved by the Frente Nacional allowed the accumulation of experience and trust in its oligarchic and closed but efficient system. Only Colombia had the internal coherence and prudence to resist the temptations of the 1970s, when suddenly an easy solution was available for the growing fiscal constraint being faced everywhere.

Countries with lesser capacities at that point in policy-making and in institutions were often smaller countries seduced into rash protectionist policies which went beyond the reasonable possibilities of the local market. This situation tended to be unproductive, building up uneconomic structures and some of the less efficient types of rent-seeking behaviour. The countries which, despite growth, progressed least in terms of building up the institutions, attitudes and political structures that would prepare them for the longer run were probably the "business dictatorships" of some Caribbean and Central American countries, and Paraguay. In such cases, external support for these regimes was important in cementing regressive structures and practices.

Equity under state-led industrialisation

We have described the export economy model as characterised by inequality, particularly wherever labour scarcity was the constraint on growth. This was perverse since relative scarcity would suggest that relative returns to that factor would rise. Instead institutions were developed to expand access to cheap labour, to keep labour cheap and to exert non-market control over labour. Once labour became abundant, as it was by the post-World War Two period, these institutions were in existence and the inequity of asset holding was entrenched, especially in relation to land and water. The power of rural elites was thoroughly consolidated, especially as they were developing urban bases as well. It would have required strong forces indeed to change such institutions. In fact, far from challenging the structure of demand, inward-looking industrialisation simply responded to the structure of demand emanating from such a social system, supplying urban demand for consumer durables and other goods, and producing with relative capital intensity that reinforced inequality.

A graphic illustration of this institutional “embeddedness” is given in Box 1. María understood all too well the core of the inequity she faced in Brazil: access to land. Her phrases reflect the tough resistance of the system to change: ‘When you are poor it is difficult to become rich ... we are like stray dogs.’ ‘Working one does not become rich.’

Box 1 María Jerónimo

María is a middle-aged black woman from Jaguariúna, near Campinas in Brazil. A former sharecropper, she became a coffee worker and part of a labour gang once the colonato, or sharecropping system, ended. At the time she told her story, in the early 1970s, she was living with her family in a comparatively well-equipped house of four rooms and a kitchen, which they owned, though still very poor. She had bought a fridge on hire purchase but usually kept only water in it. María was illiterate but particularly articulate, and feared by the labour contractors for her militant defence of her rights. She felt that her neighbours were envious of her relative well-being and relationships were often tense. This material comes from conversations over six years in the early seventies.

'I was born on the fazenda Estiva; my parents were colonos.....when it was time to get married I bought my trousseau myself - a poor thing, my father. I worked three days and traded three days, bought old iron, chickens, sold them and bought my trousseau with what I earned. We were nine at home and the income was just not enough. I would knit, make little woollen shoes and sell them for 200 mil reis depending on the price of the wool. To the poorest I would sell cheaper, to those who I felt could afford it I would sell dearer. Once I married we stayed on the fazenda Santa Cruz in Amparo; we were colonos for four years. Thereafter we moved to the fazenda Estiva as colonos for another six years.....We have been living in the Roseira for seven years now. We were colonos for 22 years; we would move from one fazenda to another to improve our living conditions, but then the patrao would sell the fazenda.....here the wages are better than in Amparo.....Little by little we saved some money and bought this little house.....We the people of the gang trucks are like stray dogs(but even so) before things were quite a bit worse; now we have a wage, everybody works....In the old days everybody had a plot of land; now, the fazendeiros don't allow the use of a plot.....it is difficult because prices are not fixed; before, they were fixed.'

As another member of the gang (María R.), a woman of Italian origin, says: 'This business of rich and poor began a long time ago when the land was not sold. The ladinos [the shrewd ones] fenced in the land and the others were left with their mouths open and worked for the others. In those days the most cunning appropriated everything. The others were fools. Now this is no longer possible; when you are poor it is difficult to become rich. Working one does not become rich.'

Source: Stolcke, 1988, and material supplied by the author.

In some countries, efforts at change achieved some redistribution of land in the 1960s and early 1970s, though notably not in Brazil. But even where there was redistribution of land, the benefits for income distribution and poverty were not great.²³ With the exception of the Mexican and, to some extent, the Bolivian agrarian reforms, which did redistribute land to indigenous communities, the poorest were typically left out of the reach of the reform. While standards of living generally improved for the direct beneficiaries of agrarian reform, these were not usually the poorest members of rural society. The beneficiaries of agrarian reforms, with the exception of Cuba, did not include the minifundistas, seasonal wage labourers, and comuneros or members from the indigenous communities who account for the largest share of the rural poor and particularly of the rural destitute. In Peru, for instance, it is estimated that Velasco's agrarian reform redistributed only 1-2 per cent of national income through land transfers to about a third of peasant families.²⁴ Sugar workers on the coast, already the best paid rural workers, benefited most whilst comuneros, the largest and poorest group amongst the peasantry, benefited least.²⁵

²³ These next two paragraphs are drawn from Kay, 1997.

²⁴ Figueroa, 1977: 60.

²⁵ Kay, 1983: 231-32

Women were ignored in land reform legislation, which failed to include them explicitly as beneficiaries, to give them land titles, or to incorporate them into key administrative and decision-making processes in the cooperatives, state farms and other organizations emanating from the reform process. Even in Cuba, women made up only one-quarter of production cooperative members and were even fewer on state farms.²⁶ In Mexico, women comprised 15 per cent of *ejido* members, while in Nicaragua and Peru, they made up only 6 and 5 per cent of cooperative members respectively. Women were excluded as beneficiaries due to legal, structural and ideological factors. The stipulation that only one household member could become an official beneficiary, i.e. a member of the cooperative or recipient of a land title, tended to discriminate against women given the assumption that men were household heads.²⁷ In Chile too, agrarian reform reinforced the role of men as main breadwinners and gave only limited opportunities for women to participate in the running of the reformed sector, despite some legislation to the contrary as during the Allende government.²⁸

In urban areas, women's participation in the labour force increased with urbanisation and industrialisation, but within certain job categories only. This was the joint result of job stereotyping, the fact that only certain jobs could be combined with family care, and relative lack of education. Women earned less than men within given occupations and their employment tended to be in less well-remunerated occupations. This evolving structure became increasingly important as the share of female-headed households rose. These tended to be poorer than male-headed households and more of their family members worked. These particularly vulnerable households would suffer disproportionately in the next period as recession hit.

Inequality was compounded, not surprisingly, by the nature of public policy. This had various aspects. First, those who initiated the admirable early investments of the 1920s and 1930s in social security in some 'pioneer' countries (Argentina, Brazil, Chile, Cuba and Uruguay), which was followed in this period by most others, could never have anticipated this dramatic evolution of the informal sector. By the 1960s coverage of the informal sector was extremely limited,²⁹ and as informality grew, this became more serious. Secondly, health and education spending, though generally rising, was heavily biased towards urban provision. The urban/rural gap in illiteracy was typically 40 percentage points or more in 1950. The bias in health care was aggravated by its curative character. The early public health interventions of the 1920s and 1930s, vaccination campaigns designed to control epidemics, by their very nature needed to reach the whole population to be effective. The next stage, unfortunately for equity, had no such logic, and facilities were biased towards the better off and the urban population. Money was spent on large hospitals in major urban centres, rather than on primary health schemes. Only Cuba went a different route and saw marked benefits in health indicators.

Expenditure on the social sector also suffered various forms of pressure or crowding out. One was from the multilateral agencies. The World Bank in particular took a decision to fund preferentially 'productive' investment, principally in physical

²⁶ Deere, 1987: 171

²⁷ Deere, 1985.

²⁸ Tinsman, 1996.

²⁹ Mesa-Lago, 1994: 20.

infrastructure, a decision only modified in the 1970s.³⁰ Another was from competing needs such as defence. Costa Rica, having abolished its army in 1948, was able to spend 'disproportionately' on the social sector.

The neo-liberal period.

Moving into the final decades of the century, we are all familiar with the dismal record both of growth and distribution. Again, however, the variety of the growth experience and the uniformity of the distributional experience are both impressive. The extreme variations in growth go from Chile at over 3 per cent per capita per annum between 1980 and 2000, to Haiti at -3 per cent. The data on distribution are familiar: a clear preponderance of negative shifts,³¹ with Costa Rica's distribution probably staying constant. In the light of history, neither the variation in growth nor the uniformity of worsening equity are a surprise. The neo-liberal reforms were carried out in the context of inequity, and contain a number of elements which tend to provoke a worsening, without strong preventative measures, unlikely in the historical context and still more in today's crisis situation.³² In terms of growth, different countries were able to do very different things with the opportunities and threats of crisis, and the proposed reforms. At one end of the spectrum were countries who sought to use the paradigm shift to achieve not just the usually expected goals of the reforms (principally greater productivity) but also a goal or goals at some other 'meta' level (eg consolidating the rules of the game, or resolving a lack of consensus). Where that 'meta' goal coincided with a long-running need of the society or economy, and where the shift in paradigm was particularly apt to help resolve the issue, then the country in question was able to achieve results in growth over and above any specific consequences of the reform. This was outstandingly true of Chile, as we now explain.

Chile is a clear case where, eventually, the democratically elected government of President Aylwyn was able to use the new paradigm to achieve results over and above those which followed from the individual reforms. This achievement built on the specific trajectory of the Chilean economy, as well as on the exceptional preconditions that we have followed over time, where the development role of the state was unusually large and promotion of investment and of an investment-export nexus made headway in the 1960s in a quite untypical manner. The trajectory is well-known. The military government which took power in 1973 took advantage of the general reaction to the difficulties of the socialist experiment to impose its rules with the backing of extreme force. There followed a lengthy learning process in terms of economic policy. The military regime committed serious errors, combining financial with trade liberalisation in a way which produced a private sector crisis and consumption boom, then implementing an extreme monetarist model which produced a serious over-valuation. With declining terms of trade in the early 1980s and capital withdrawal in 1982, the ensuing crisis led to serious rethinking. For the remaining years of military rule, maintaining the exchange rate needed for long run competitiveness took precedence over 'the market', and an undue faith in the law of

³⁰ Webb, in Cárdenas, Ocampo and Thorp, 2000b.

³¹ Bery 1997. There has been controversy over Colombia. Uruguay worsened but subsequently improved.

³² For example, increased reliance on market incentives in a context where initial asset distribution is very unequal, reduced power of unions and increased globalisation

one price. Some restriction of capital movements and modest agricultural protection discreetly became part of Chilean policy.³³ Privatisation practice improved, and priority was given to fiscal reform and the development of a pensions scheme that was to have powerful effects on the capital market, and possibly on savings.³⁴

As recovery occurred in the course of the 1980s the “new-style” natural-resource-based exports³⁵ that led the improvement were able to do so because of investments in research and institutional support for forestry, fishing and other natural resource based activities that began under the Frei government in the 1960s. Responses to market forces certainly did not emerge from a vacuum.

A further factor which helped consolidation of a new growth phase for Chile was the timing of the transition to democracy.³⁶ In the 1988 plebiscite the Chilean people repudiated Pinochet and in 1990 the democratically elected government of President Aylwyn took power. The years since the crisis of 1982 had allowed a consolidation of the model which was now perceived as successful in enthroning stable rules of the game – exactly what historically had been missing, as we described above. Furthermore, by 1990 the Berlin Wall had collapsed and several Latin American governments of whom there had been expectations had failed, notably that of President Alfonsín in Argentina. Given the weakness of any alternative, democratic governments were more disposed to build selectively on foundations laid by military governments.³⁷ Thus, when the Aylwyn government took office in 1990, it openly endorsed elements of the military project, especially a new commitment to the rules of the free market game. This was extraordinarily important in the maintenance of investors’ confidence throughout the transition.

The Chilean case thus underlines the central importance of defining the rules of the game - the heart of evolving institutionality - but it also makes clear that this evolution of a clear cut set of rules and their observance did not spring out of nowhere but arose from a very particular set of circumstances: the military taking advantage of the reaction to the chaos of the socialist experiment, and imposing new rules, then a conscious and bold decision by the incoming democratic government not to reject all that the military had put in place.

All these quite subtle aspects of the new policies and approach to policy making were possible because the Chilean project was rooted in historically stronger institutions than elsewhere in Latin America, and embodied deeper understanding of the need to build political consensus behind the economic model. Nevertheless there are question marks around the Chilean experience. The strength of the experience has also been its limit: it is highly centralised and still highly elitist despite some progress in democracy. The continuing importance of natural resources and the persistence of inequity are other recurring questions.

³³ Scott, 1996.

³⁴ Agosin, Crespi & Letelier, 1996, argue that any increase in the savings rate was in fact cancelled out by the fiscal cost of the change.

³⁵ These were based in manufacturing activity with a high primary product content, such as shrimp or salmon farming, and their processing and marketing

³⁶ Andrés Bianchi made this point in interview, Santiago, April 1997.

³⁷ This is the analysis of Andrés Bianchi, who recalls the effect on President Aylwyn of going to the installation of president Menem in Argentina. Interview: Santiago, March 1997.

Other cases, of course, are equally fascinating, and each in turn reveals a consistency with the past. Argentina equally sought to use the paradigm shift to achieve something historically necessary and in her case seemingly historically impossible: consensus on a non-explosive macro economic strategy. Opting for the Convertibility Plan was a conscious adoption of a highly dangerous route in the clear acceptance there was no other, gambling on the logic and/or drawing power of the paradigm to see the country through.³⁸ Brazil came to reform deliberately late and consciously using the shift to draw in FDI, in order to free up public funds for social investment – only to run up against the difficulties of public sector reform. Mexico used the paradigm shift to propel globalisation and NAFTA, but lacked the solid internal institutional and policy making base of either Chile or Brazil. Many countries with even weaker institutions and political economies floundered, jumping rashly on the bandwagon of privatisation (Ecuador, Venezuela, most of Central America). The worst placed, it seems, were those where resource bonanzas pushed already weak political economies disastrously in the wrong direction (Venezuela, Ecuador and Paraguay).

3. Coming to Conclusions

We have summarised the historical record. Now we need to return to the development debates we signalled at the start and reflect on how we would wish them to be influenced by these findings.

The conclusion of many analysts on the value of openness in promoting growth is clearly challenged. As Rodrik (2001) points out forcibly, the exclusive focus on trade policies *per se* is misguided, and obviously so as we review the experiences recounted here. For a start, the years of so-called ISI were the best years for growth over the whole century. But there are various reasons for that, and it is not the main point: the most important conclusion is that it is not protectionism or liberalisation *per se* that counts, but how policy makers manage those policies, in what context and combined with what other measures. Thus, it is more relevant to observe how in the 1940s and 1950s Colombia's special political economy led to policies fostering the complementarity of industry and agriculture, while Argentina's did aggressively the reverse, than to observe that both were within the prevalent protectionist mode. Brazil, with a powerful political leadership driving a fruitful relationship with business groups and a strong development policy, could experience fast industrial growth with protection, producing a healthy industrial sector, while Chile's growth hung back and business groups lacked confidence in similar protectionist conditions. When policies swung to the neo-liberal model, again trade policy was not the crucial element. Chile could use trade liberalisation as one among many elements of a broad signal about new rules of the game, and inspire confidence in her business groups; regimes seeking to liberalise (principally) to get external finance and doing little or nothing to support fragile industrial sectors through the transition, reaped little benefit.

³⁸ The theory was that exposure to competition would force the transition to a substantially higher rate of productivity increase which would make possible the adherence to the dollar. The practice was sustained by the inflow of funds as much as by productivity increases, and the latter only in part reflected the depth of shift in culture needed for the long run.

The growth/distribution debate is of longer duration, has reached a considerably greater degree of maturity, and gives considerable weight to the insights of history. Our case studies confirm and strengthen those insights. In particular, we confirm Fishlow's instinct that Latin America should be isolated in cross-country work.³⁹ The inequality of Latin America is indeed exceptionally high and deeply rooted. Its origins are in the structure of assets, both physical and human, and in the early period that inequality is functional to the model. 'Functional' is not the same as inevitable: these were policy choices (if only by omission) and the path could have been different.

Latin American economic history thus says to the recent literature associating improved equity and faster growth:⁴⁰ maybe, but getting there is the problem. Some of today's recommended policies for equity-friendly growth have been tried in Latin America, and even sometimes in good faith – e.g. land reform, tax reform and certainly education – but owing to the nature of political realities and the form and weakness of institutions reforms have had virtually no effect. We have shown how this was particularly true of land reform,⁴¹ again with the exception of Cuba. In other words, strong political commitment and healthy political institutions to insist on and monitor reforms, and to supply supportive services, as well as a model capable of yielding growth in the current context, are essential. The hard micro work of really effective and sustained institutional reform cannot be avoided, nor can the building of effective structures of political mobilisation and participation.

The debate on the significance of natural resources, be it their relative abundance or simply their nature, is also illuminated by our case study material. Recent literature based on cross section work (e.g. IADB 1998) tends to suggest a negative relationship between abundance and growth, as well as a geographical factor: proximity to the equator. From our case studies we see again the crucial importance of political economy. The relationship goes both ways, for the nature, geography and ownership structure of natural resources have a strong effect on the evolving political economy, which then feeds back on the growth potential of the natural resource (and also on equity outcomes). Oil and minerals, and especially sudden bonanzas, do seem to be a particularly perverse gift of the devil – but even this relationship can be modified, as with Chile over the long run. Coffee in Colombia and Central America produces quite different political economies, with major long run consequences for economic management, growth and stability.

³⁹ Fishlow, 1995. Inserting a dummy for Latin America makes the findings of the studies he reviews non-significant – presumably by removing from the pool a body of instances of high inequality and low growth through the '80s and '90s.

⁴⁰ There is a large amount of literature on this theme; see, for instance, Adelman and Morris (1973), Alesina and Perotti (1993), Persson and Tabellini (1994), Alesina and Rodrik (1994), Birdsall, Ross and Sabot (1995), Bourguignon (1995), Deininger and Squire (1996), Sarel (1997), Larraín and Vergara (1997).

⁴¹ Hirschman (1968) remains the classic historical analysis of this.

All these points really lead in a single direction in terms of practical consequences for development thinking and practice: history suggest that development thinking and practice must integrate more fully the political economy of how policy gets made and how policies interact with their context, and must stress the centrality of institutional and political reform needed in development policies. By its nature, econometric analysis is ill-equipped to deal with such factors. Moreover this implies that different countries need to find their own routes through to such reforms.⁴² It may well be a wild goose chase to look for the policy levers and thus recommendations that would facilitate the lives of external funders.

⁴² Rodrik (2001) puts this eloquently in arguing that policy space and autonomy may be what countries most need- exactly what international institutions by their nature least promote.

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