

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER I

INTRODUCTION

This course is focused on the study of the development of Latin American Societies. It seems very important to consider from the beginning the conceptual content of the word development. In this context *development* essentially means *human* development. Human beings are considered here departing from their more essential and universal characteristics: gregarious rational animals. The fact that we are rational animals implies that we are not only gregarious, as many other species, but also social and political animals in the sense given by Aristotle¹ to these words. We do not act simply in response to our instincts as biological species. We can make history and build different types of social orders. Our rationality also implies that we may choose the ends that orient our lives, not only individually but also socially. In this context *human development means the actualization of our potentials as human beings*².

We pursue the fulfillment of our universal (we may say also our “trans-historical”) needs and ends as biological, rational, moral and social entities by the exercise of our capabilities. But we live in *concrete* historical societies, so we need to use *specific* cognitive and communicative capabilities, we need to associate ourselves in order to produce *specific* types of instruments, and we need to act accordingly to *specific* sets of societal rules. We are interested in contemporary western societies. The contemporary era began at the end of the eighteenth century with the British Industrial Revolution, and the American Political Revolution followed shortly afterwards by the Political French Revolution. We are going to study societies that culturally belong to the western civilization, economically operate under the working rules of capitalist systems, and politically operate under the working rules of democratic representative systems.

We can ask about the causes that conducted United States of America (USA) to such a stable and successful development not only measured through the increase of the material wealth but also, and principally, by the expansion of the human capabilities and liberties of persons to fulfill their own needs and ends. The growth of material wealth is instrumental to the achievement of those needs and ends, is a necessary but not sufficient condition to the achievement of human development. This successful achievement can be linked to the long term historical feedback among the institutions of capitalism and democracy. But in the order of social values democracy comes first, because the rights and duties of persons and citizens are ends in themselves. The patrimonial rights and duties connected with the ownership of wealth are only means to pursue those ends.

¹ Aristotle, Politics, Book I, sections 1 and 2. The basic works of Aristotle, edited by Richard McKeon, Introduction by C.D.C. Reeve. The Modern Library New York, paperback edition, 2001.

² See Armando Di Filippo, Enfoques y teorías del Desarrollo. Apuntes de Clase. In www.difilippo.cl

I. EPISTEMOLOGICAL BACKGROUND:

This is not a course of history but of political economy. Since the times of Adam Smith, the studies of Political Economy were deeply rooted in the “raw materials” provided by History³. Political Economy is conceived in an ample sense that gives place to political and social considerations affecting the development of Latin American Societies. Although the main interest of this course is the contemporary situation of Latin American Societies, it includes a review of the colonial heritage and of the economic formation along the XIX century because, during this period, we can find the lasting foundations of the economic and social Latin American structures.

In the first place the course proposes a methodological approach that combines the contributions of two schools of thought: the “old” and “new” North American institutional economics (especially in the version of Douglass North) and the “old” and “new” Latin American structural economics (especially in the vision of Raul Prebisch).

The founding fathers of North American institutional economics are Thorstein Veblen and John Commons. Both outlined a deep critic to neoclassical economics theoretical assumptions. In spite of the variety of emphasis among its different authors, all coincided in rejecting the simplistic and mechanic version of the neoclassical theory of value, which is founded in the abstract, static assumptions, under conditions of perfect competition, of the neoclassical general equilibrium model.

An important difference between the old and the new American Institutional Economics is that the latter does not ignore neoclassical assumptions but take them as a point of departure, as a meaningful list of the issues that are ignored by the neoclassical school and must be considered in the conceptual framework of New Institutional Economics.

This point was addressed by Douglass North in the following terms: “From the view point of economic historians this neoclassical formulation appears to beg all of the interesting questions. The world with which it is concerned is a frictionless one in which institutions do not exist and all change occur through perfectly operating markets. In short the costs of acquiring information, uncertainty, and transaction costs do no exist. But precisely because of this nonexistence, the neoclassical formula does lay bare the underlying assumptions that must be explored in order to develop a useful body of theory of structure and change”.⁴

Douglass North is a well known contemporary contributor to the new institutional economics ideas, and particularly important are his theses on the role of institutions in the historical interpretations of economic and political development. His ideas throw light on the different economic, political and cultural aspects that it is possible to compare between the development of USA and that of LAC societies. The contributions of North

³ Adam Smith starts defining Political Economy at the beginning of Book IV of the *Wealth of Nations* which is devoted completely to the study, rooted on historical considerations, of systems of Political Economy: “Political Economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both, the people and the sovereign”. Adam Smith, *The Wealth of Nations*, Bantam Classic Edition, New York 2003.

⁴ Douglass North, *Structure and Change in Economic History*, Norton Company New York-London 1981, Chapter I, page 5.

are especially relevant for the understanding of the colonial heritage that so much gravitated on the later economic and social development of Latin America.

Parallel to this vision, we will also take into account the interpretations of the Latin American structural economics, which, we suggest, are fully compatible with the epistemological foundations of North American Institutionalism. The contributions of the Argentine economist Raul Prebisch are fundamental to understand the position occupied by Latin American societies, starting from the British Industrial Revolution, about the development of the capitalist economy at a world level.

Both authors (North and Prebisch) are, of course, economists, but they express in their personal works, much wider visions for the understanding of the development process from a historical and institutional viewpoint. Both of them concede an important role to the historical perspectives and the social structures for the explanation of development.

Basically, both visions highlight in their analysis the impact of technology, institutions and organizations on development. Both visions, also, take as reference point the neoclassical economic theory, not to accept it but to subject it to critic. Both of them highlight the differences among that academic vision and the historical and structural focus that they adopt.

These lessons combine three focal points for the analysis of Latin American Development: the i) institutional and ii) organizational change, - outstanding specially for American institutional economics - with the external impact of iii) technological change -emphasized by the Latin American School of Development, to explain the different phases of LAC development.

The last part of the course concentrates on the revolution caused by the information technologies in the process of globalization of the world economy, and its impacts on the contemporary development of Latin America.

DOUGLASS NORTH:

The starting point of Douglass North (Nobel Prize on Economics of 1993) approach to economic development is the institutional change. In an analogical and simplified way North characterizes institutions as the rules that regulate a competitive game played by teams. Following the same analogy, the organizations are the teams that compete in the game. The analogy can easily be extended to technological aspects, taking into account the collective and individual know how of the players, and the material equipment they need to perform the game.

Institutions and organizations, are essential in the structuring of human behavior, and, in this sense, one can say that the analysis of North is structural. Interactions between change of institutions and that of organizations, models, accordingly with North, the historical processes.

North interrogates himself about the causes of the divergence among the historical evolution of two types of societies; on one hand, those that demonstrate an efficient performance, translated into fast rhythms of economic growth, and on the other hand, those that stagnate and generate highly inefficient economic processes. The efficiency of the institutions it is measured taking into account their capabilities to generate economic growth. The efficiency of the organizations is measured by the capacity of its strategies to

obtain the results that they pursue. The efficiency of the markets is in inverse relationship with the transaction costs implied in its operation.

To illustrate its viewpoints, North takes, as historical reference, the contrast between the development of the USA and that of LAC nations. This approach, explain and justify the particular attention that we have devoted to his ideas, and its applicability for the objectives of this course.

More rigorously, North defines the institutions as "...the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change" (...) "The primary object of the study is to achieve an understanding of the differential performance of economies through time"⁵. Institutions can be formal or informal. An essential part of its operation is the cost implied in knowing the violations and applying the punishment.

Organizations are human associations deliberately created for specific ends in the framework of the existent institutional or physical (natural resources, climate, geography, population dynamics, etc) limitations. In the struggle to impose their objectives the organizations are a main source of institutional change.

North takes as reference point the neoclassical model of perfect competition market. This model assumes that the economic processes respond to human choices immediately and without frictions. In particular the transaction costs are null in a market of perfect competition. In the same way, it is supposed that the direct participants of the different markets of goods and productive factors have full knowledge of all the economic processes and construct real images of these processes.

Under the previous theoretical conditions, the transaction costs are not only null, but also the historical evolution of institutions is unimportant. In the concrete historical processes, nevertheless, those costs are not null and they express the degree of efficiency of institutions to promote economic growth.

The transaction costs have been characterized in different ways by different thinkers of institutional and neo-institutional school⁶. We offer one characterization that includes the costs: i) of been informed regarding the existence and characteristics of potential contractual counterparts and of contacting them; ii) of agreeing commitments among parts that negotiate based on the measurement of valuable attributes of the goods, iii) of subscribing contracts, complying with all the legal and formal conditions; iv) of measuring and watching over the results of the agreement, and v) of punishing the non fulfillments, even appealing to the judicial power and the public force that supports it.

⁵ Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, London-New York, 1990, page 3.

⁶ About the origin of the concept see Ronald Coase: "To express the same idea in my article on "The problem of social cost", I used the phrase the cost of market transactions" These have been come to be known in the economic literature as "transaction costs". I have described what I had in mynd in the following terms: "In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to be sure that the terms of the contract are being observe, and so on". Dahlmann crystallized the concept of transaction costs by describing them as "search and information costs, bargaining and decision costs, policing and enforcement costs". Ronald Coase, *The Firm, the Market, and the Law*, The University of Chicago Press 1990, page 6.

The condition number iii) not always needs to be fulfilled, and commitments that are negotiated can, or not, be formalized under the terms of legal contracts. In general the formal economic rules and norms are components of legal systems and they presuppose: i) political and judicial codes; ii) economic codes; iii) Contracts.

In accordance with North, the political transactions can be seen through three models especially applicable to the history of western developed societies that may, also, be considered as three successive steps of the same process: i) The ruler offers protection and order, in exchange for taxes; ii) The ruler accepts a representative organism of the interests of his counterparts; the one that, as it is developed, demands bureaucratic organisms; iii) The government is legitimated through a system of representative democracy, generating correspondence between groups of interest and voters' groups. The representatives of the groups of interest don't have, generally, own majority for the multiplicity of different groups with different types of interests. The legislators that assume the representation of the interests of each group have to negotiate among them. He has also developed more profoundly a neoclassical theory of the State, that we do not intend to follow in this course⁷.

The main concern of North vision is about institutions (and especially property rights) able to allow the expansion of economic wealth. His point of view, nevertheless, is wide enough to admit the consideration of informal institutions that include different cultural codes of conduct. Precisely as we will soon see, his contribution to the understanding of Latin American Development lies in the observed conflict between formal and informal rules, in the historical development of Latin American Societies.

In North words: "Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions.⁸". In the following paragraph North makes an effort to synthesize the relationship that exists among the dynamic behavior of the institutions, of the organizations and of people that act in them:

"The resultant path of institutional change is shaped by (i) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions and (ii) the feedback process by which human beings perceive and react to changes in the opportunity set⁹"

Immediately North deepens in the role of the human perceptions including two central points: first, the degree of effective or trustworthy information with which the actors count, and, second, the cultural frameworks in which that information is interpreted.

North deepens in the second of the said points: "Incremental change comes from the perceptions of the entrepreneurs in the existing institutional framework at some margin. But the perceptions crucially depend on both the information that the entrepreneurs receive and the way they process that information. If political and economic markets were efficient (i.e., there were zero transaction costs) then the choices made would

⁷ Douglas North, *Structure and Change in Economic History*, Norton, New York, 1981, Chapter 3.

⁸ Douglass C. North, *Institutions*, page 7

⁹ Douglass North, *Institutions...*, page 7.

always be efficient. That is, the actors would always possess true models or if they initially possessed incorrect models the information feedback would correct them”.¹⁰ .

But North rejects this theoretical option, because the actors work according to incomplete information, and they process that incomplete information with forms of rationality that can prolong that inefficiency, maintaining high transaction costs in the political and economic markets.

North develops another important hypothesis: when the bases of a certain technology or a certain group of institutions settle down, the subsequent historical processes spread to ratify and consolidate them independently of the degree of efficiency that they evidence. Let us remember that North measures the efficiency of technologies or of institutions, by the degree of economic growth that they facilitate.

North says: (...) “one technology will win out and maintain a monopolistic position, even though it’s successful innovation may turn out, downstream, to be inferior (or a blind alley) compared to the abandoned alternative technology”. Here North quotes another author: “Arthur has in mind four self reinforcing mechanisms: (i) large setup or fixed costs, which give the advantage of falling unit costs as output increases; (ii) learning effects, which improve products or lower their costs as their prevalence increases; (iii) coordination effects, which confer advantages to cooperation with other economic agents taking similar action; and (iv) adaptive expectations, where increased prevalence on the market enhances beliefs of further prevalence”.

“The consequence of these self reinforcing mechanisms is, in Arthur’s terms, characterized by four properties: (i) multiple equilibrium –a number of solutions are possible and the outcome is indeterminate; (ii) possible inefficiencies –a technology that is inherently better than another loses out because of bad luck in gaining adherence; (iii) lock-in, once reached a solution is difficult to exit from; (iv) path dependence- the consequence of small events and chance circumstances can determine solutions that, once they prevail, lead one to a particular path¹¹”

North tries to apply these lines of reasoning, (that Arthur had suggested for the technological change) to the institutional change. But before following his argument it suits to clarify the concept of increasing returns or increasing results. They can be preached regarding organizations, taken individually or conforming specific sectors.

The neoclassical theory of perfect competition markets assumes the existence of constant returns to scale. So, if the size of the companies or of the economic sectors is expanded, the unitary cost of the generated product stays constant. This is called constant returns at scale. For opposition, the idea of the growing returns means that unitary costs decrease with the expansion of the new technology or of the new institutions. Accordingly with North, growing institutional yields or returns are compatible with inefficient markets (positive transaction costs) and with inefficient institutions (tiny growth).

On these bases North outlines: “Two forces conform the road of the institutional change: the growing yields and the imperfect markets characterized by high negotiation costs. (...).

Regarding the growing returns North reexamines the four reinforcing mechanisms which he considered already in the case of the technology, but now applying them to the institutional change. First he observes that: “there are large initial set up costs (costs of

¹⁰ Douglass North, Institutions..., page 8.

¹¹ Douglass North, Institutions..., page 94

organization) when the institutions are created de novo as was the US constitution of 1787.” (...). How important this point is, will also be seen in the case of the sixteen century conquest of the LAC societies and the installation of the colonial order.

Secondly, North continues: “There are significant learning effects for organizations that arise in consequence of the opportunity set provided by the institutional framework (...). The resultant organizations will evolve to take advantage of the opportunities defined by that framework, but as in the case of technology, there is no implication that the skills acquired will result in increased social efficiency.” Again, the colonial Latin American organizations (country properties, “haciendas”, plantations, etc.) can provide unbeatable examples of this effect. The property, labor and exchange relationships settled down by these organizations, express a sharp social “inefficiency”.

Third, “(...) There will be coordination effects directly via contracts with other organizations and indirectly by induced investment through the polity in complementary activities.” These coordination effects are obvious in the colonial history of Latin America in such different aspects, as the slavery exploitation, the regimentation of the indigenous manpower for the mining activities or the construction of cities, etc. Even more, these coordination effects reached a strong structuring impact as the country properties and colonial plantations, together with the activities of the gold and silver mining, generated a vast colonial system of international trade of slaves.

And fourthly: “Even more important, the formal rules will result in the creation of a variety of informal constraints that modify the formal rules and extend them to a variety of specific applications. Adaptive expectations occur because increased prevalence of contracting based on a specific institution will reduce uncertainties about the permanence of that rule.” In the LAC case the adaptive expectations had been basically related with the dominance relationships that settle down between the colonial powers and the subdued population. Taking into account the four effects, North concludes: “In short, the interdependent web of an institutional matrix produces massive increasing returns”¹².

After four centuries of colonialism, in Latin America the colonial heritage was so well established that the process of political independence didn't reverse it. And the formal institutions of liberal democracy and capitalist markets could not penetrate to the depth of the social structure. That is why the informal institutions of the colonial inheritance stayed largely. Comparing the situations of United States and Latin America summarizes North: “In the case of the United States the Constitution embodied the ongoing heritage of first British and then colonial economic and political policies complemented by a consistent ideological modeling of the issues. In the case of Latin America, an alien set of rules was imposed on a long heritage of centralized bureaucratic controls and accompanying ideological perceptions of the issues. In consequence, Latin American federal schemes and efforts at decentralization did not work after the first few years on independence. The gradual reversion, country by country, to bureaucratic centralized control characterized Latin America in the nineteenth and the twentieth centuries. The persistence of the institutional patterns that had been imposed by Spain and Portugal continued to play a fundamental role in the evolution of Latin American policies and perceptions and to distinguish that continent history, despite the imposition after independence of a set of rules similar to the British institutional tradition that shaped the

¹² Douglas North, *Institutions...* page 95

path of North America”¹³. In other words North tells us that the formal institutions of democracy and of capitalism were, in the case of USA, coherent with the inherited informal rules of the colonial stage, but, in the case of ALC were artificially “imposed on a long heritage of centralized bureaucratic controls and accompanying ideological perceptions of the issues”.

LATIN AMERICAN STRUCTURALIST POLITICAL ECONOMY

RAUL PREBISCH'S VISION:

The Economic Study of Latin America of the year 1949 published by the Economic Commission for Latin America of the United Nations was elaborated under the orientation of the Argentinean economist Raúl Prebisch, and it expresses the foundations of that vision. The study produced an extraordinary impact on the ideas and ideologies linked to the topics of development and underdevelopment, not only in Latin America, but also at a world scale. The study adopts, firstly, a global starting point, in order to historically locate Latin America in the process of economic development and, secondly, emphasizes the strategic role fulfilled by the propagation of technical progress in the planetary expansion of industrial capitalism.

The Study develops this vision in a few constituent paragraphs of its first section. It departs from the universal propagation of technical progress derived from the British Industrial Revolution. The terminology “center and periphery” is introduced. The “primary products exporter” technologically subordinated position of the peripheries in the world productive specialization is defined. The historical dynamism of technical progress and the insufficient assimilation of their fruits on the part of most of the world population are emphasized. The essential features of the industrialization process by substitution of imports, and the later strategy that denominates “development from inside” are also emphasized, including their beneficial effects on the conditions of life. The idea that the stages of Latin American development may be completed in a sequence that is similar to the development of the centers is discarded. The territorially and socially slanted character of the process of outward (export oriented) economic development is also stressed. A basic typology is schematically sketched that differentiates among the pre capitalist or semi capitalist regions emerged from the colonial heritage on one hand, and the new territories whose geographical occupation was induced by the capitalist development of the centers, on the other hand. The reduction of agricultural employment of labor force as technical progress is introduced, and its enormous impact over the Latin American economy are also considered. Lastly, this introductory chapter of the Study insists in the necessary evolution “of certain pre capitalists or semi capitalists ways of production” to which a fraction of rural population is still linked, but it prevents against unjustified simplistic generalizations.

In these initial paragraphs are previewed or, at least, insinuated, most of the topics and problems that, in subsequent years would give life to the studies and debates of the so called Latin American school of development. Their essential feature is the wide historical and social vision that will not only be fit to the topics of the economic development but also to those of the social development. During the subsequent fifty

¹³ Douglass North, *Institutions...* page 103

years both sets of topics could be studied by the Latin American school of development, under the historical parameters suggested by this introduction.

The “social” (distributive) implications of the ideas expressed on the Study, are not vague or indirect, but rather they make to the essence of the message. The exclusion from the fruits of technical progress on the part of big masses of outlying population takes place, firstly because of the asymmetric logic of capitalist development that reduces labor force occupation in agriculture and redistributes it toward the industry and the services that are precarious or nonexistent activities in vast Latin American areas; and, secondly, because exclusion is already a historical inheritance of the colonial past in “lands of secular cultivation, in which old populations are sustained.” This asymmetry in the penetration of the capitalist technique is not only conditioned by the aptitude of the natural resources to satisfy the demand of the centers but also by the survival of “certain pre capitalist or semi capitalist ways of production, according to which a fraction of rural population is still working”. The importance of “social” issues on the study’s approach is, then, twofold. First, the advance of the capitalist ways of production expels workers toward the industry and the services. Second these capitalist ways of production have not penetrated (pre capitalism) or have done it in precarious or hybrid form (semi capitalism) in vast territories of Latin America. The fact that this penetration has not taken place is, in itself a social problems, but as that penetration takes place new transitional problem arise, inherent to the structural dynamics of capitalism in peripheral regions, related with new and different underemployment and unemployment forms of labor force.

This first chapter of the Study constitutes the starting point of the contributions, debates, and interpretations of the Latin American School of Development that arose around the activity of the Economic Commission for Latin America of the United Nations, during the second half of the XX century.

This vision of the international system, has remained equally applicable to different historical phases in which the system has acquired a different concretion. Therefore, the vision being in itself “trans-historical” specifies in different ways for different defined historical periods accordingly with the big technological revolutions of worldwide impact: First Industrial Revolution (British on eighteen century), Second Industrial Revolution (American on nineteen century), and current Revolution on Information Technologies (mainly American on twenty one century).

For each historical phase the characterization of the corresponding center periphery system requires an examination of: a) The concrete operational form of the international economic system; b) The distribution of technical progress and of its fruits derived from the system; c) The institutions (rules of the game) prevailing at the world economy; d) The internal structuring of the peripheral economies; and e) The institutions (rules of the game) of peripheral economies.

THE PREBISCH SYNTHESIS:

Raul Prebisch, as we have already seen, takes as a starting point the technological change generated in the centers and their impact on the forms of peripheral development. The center-periphery vision presented by Prebisch at the end of the years forty of twentieth century, is extremely useful to historically determine the position of L.A.C societies in the world economy. Later on, Prebisch completed that center-periphery vision

with his ideas about the peripheral capitalism, and deepened into the social and economic structure of Latin American societies. At the end of the seventies, Prebisch made a recapitulation that doesn't only summarize their own contributions, but also that of several generations of social scientists linked to ECLAC (Economic Commission for Latin America and the Caribbean, of the United Nations). In 1980 he gathered all his reflections and published his posthumous book¹⁴, of which the following paragraphs are extracted:

“Above all, the production techniques. Thanks to the increasing capital accumulation, in physical goods and in human formation, the penetration of that techniques completes its primordial role of increasing the employment of the work force with growing productivity.”

The productivity gains are distributed among the different social groups on a very unequal way. And this influences the composition of demand and their changes in the course of the development process. “In this sharing and in the changing conformation of the social strata, the mutations that happen in the structure of power have considerable importance. And in the interplay of the power relationships, to the dominant power of the superior strata, which absorbs great part of that fruit, is opposed the power of the intermediate strata that are formed and grow with the penetration of the production technique. And in this process the inferior strata tends to be excluded, and send to the bottom of the social structure.”

“Such they are (...) the structural mutations that accompany the technique of production of the centers and their continuous innovations.”

“The periphery is passive: it takes advantage of those innovations, but doesn't carry out them except in smaller quantity. However, the mutations of the social structure and the big disparities in the income distribution influence the techniques that are chosen, favoring the adoption of certain techniques of incessant diversification of goods and services that weaken the labor absorbent role of the capital accumulation.”

“In all these have great influence the communication techniques and massive diffusion of information that spread the forms of consumption of the centers.”

“Finally the penetration of techniques that prolong the human life is related to the heterogeneity of the social structure in whose inferior strata demographic growth is usually higher, increasing the consequences of the insufficient accumulation.”

“The institutions of the centers and the ideas and ideologies that accompany them penetrate also, closely connected with the social structure and their mutations, impelled by those communication and diffusion techniques. The institutions that allow the appropriation of the fruit of the technical progress as well as those that favor their redistribution have great significance.”

“And as the process of democratization advances in the course of the structural mutations, incompatibility is manifested among such institutions. Such is the background of the crisis that spreads over the system in the advanced phases of their evolution.”

Prebisch exposes a causal sequence that goes from the techniques diffused from the centers, toward the specific forms in which those techniques are absorbed in the peripheral societies. *These forms affect the peripheral socioeconomic structure modifying*

¹⁴ Raúl Prebisch, *Capitalismo Periferico, Crisis y Transformación*, Editorial Fondo de Cultura Económica, México, 1981.

the positions of power of the groups with greater influence in the institutional change. To those powers, others are opposed that derive from the process of democratization.

In consequence adopting the language of North related with institutions and institutional change, we may say that a contradiction of powers is expressed in the development of Latin American peripheral societies. On one hand, the productive techniques of the centers (developed hegemonic countries), are introduced in the Latin American periphery generating unequal effects in the employment opportunities and in the income distribution, and strengthening the positions of economic and social power of certain groups. On the other hand, the process of democratization of LAC societies, exercises a counterbalance through the institutions that regulate the forms of political power. For a better understanding of this contradiction we can examine the forms of power that Prebisch mentions:

“The economic power concentrates on the superior strata and it is manifested also in the intermediate ones, although with less dynamic significance. The holding of the productive means descends along these strata until it becomes relatively insignificant in the inferior strata.”

The social power is expressed not only in the qualifications of growing technical complexity accordingly with the rise in the scale of capacities in its widest meaning, but also in the conventional qualifications. It is the work force favored by the laws of the market, although with different intensity among their members.”

In any way, this work force, due to their favorable positioning in the process of absorption, can improve their remunerations spontaneously with the growth of the productivity and the demand of their services. It doesn't need to be able to union for it, although it has diverse forms of limiting the competition.”

On the other hand, the union power is imposed in the intermediate strata when the work force lacks spontaneous aptitude to improve its remunerations correlatively with the growing productivity, and when the qualifications are rudimentary or simply they don't exist.

The rest of the work force is in the inferior strata with scarce productivity and very low revenues; its union power arrives late and it is generally very weak.”

“The interplay of power relationships in the income distribution is manifested not only in the orbit of the market but also in that of the State. In the first one, those who have economic and social power move under the empire of the laws of the market, as long as the union power is used to counteract the action of those laws.”

CONNECTIONS BETWEEN NORTH AND PREBISCH IDEAS

Departing from the characterization of the State elaborated by Prebisch it is possible to establish the conceptual links among the change in the structure of power that emphasizes Prebisch, and the institutional change that is elaborated by North.

We can accept, for that purpose a definition of power, as the position occupied by natural or juridical persons in the working rules of the institutional structure. The expression “working rules” is here used in the sense proposed by Commons: “The characteristic of all working rules is that they actually do regulate behavior in those dimensions which can, when individual interests come to be asserted in the latter development of the race, be given the names of rights, liberties and so on. But primarily, both in history and in causal sequence, the working rules simply say what individuals must, must not, may, can

and cannot do, if the authoritative agency that decides disputes bring the collective power of the community to bear upon the said individuals”.¹⁵

On the one hand this idea of *working rules* is a theoretical antecedent of North idea of *institutions* understood as rules of the game. On the other hand this characterization can be linked to Prebisch ideas when he says: “The relationships under which those different forms of power are expressed are unwrapped also in the orbit of the State. From the point of view of the sharing of the fruit of the growing productivity, the State is in fact an expression of those relationships of power where is manifested more and more the gravitation of the political power of the work force, as it is unwrapped without obstacles the process of democratization in the intermediate strata and it also arrives to the inferior ones. And this political power is opposed to the power of the superior strata.”¹⁶. In the precedent paragraph the expression *relationships* used by Prebisch can be understood as *working rules* in the sense of Commons or, alternatively as *institutions* in the sense of North.

The confrontation of these positions of power, doesn't respond to any tendency that leads to any type of stable balance and, in particular, it lacks any regulator principle guided toward social equity:

“In fact, everything integrates a single system: the system of the relationships of power. It is a serious incongruence to reject the union power of the masses alleging that it violates economic laws, because the economic and social power to which the union power is opposed is not a consequence of those economic laws but of the social structure. If, in the course of time that confrontation of powers takes to conflicting situations and the crisis of the system, it obeys to the system in itself, since the development of the relationships of power doesn't respond to any regulator principle based on considerations of social equity”

However, in the opinion of Prebisch, the advance of the process of democratization is the key to combat the inequity of the system:

“Notice that there is also in all this a propagation phenomenon originated in the centers. Its ideas and democratic institutions acquire effective validity in the periphery in the advanced course of the structural mutations. In that succession of phases that we have just mentioned concisely, are changing the composition of the services of the State and the form to cover their cost.”

This way it is clear that, in the vision of Prebisch, the institutions of the democratic State (the same ones that reign in the developed democracies of occident), are those that can gradually introduce a principle of social equity in order to regulate the dynamics of power relationships.

“In this way phenomena of the biggest importance can happen. In the first phases of development, when it dominates the economic and social power of the superior strata and it is expressed in their political power, the services of the State largely respond to the interests and aspirations of them. But with the growing political power of the intermediates (and possibly that of the inferior) strata those services are delivered also to

¹⁵ John R. Commons, *Legal Foundations of capitalism*, Transaction Publishers, New Jersey 1995, page 138. The first edition of this book was published in 1924.

¹⁶ Raul Prebisch, *Capitalismo Periférico: Crisis y transformación*, Fondo de Cultura Económica, México 1981, páginas 75 y 76.

favor them. This way, the State acts to compensate the redistributive weakness of the work force in the spontaneous game of the market.”

The State, is considered then with enough autonomy to counteract helped by public policies, the most extreme degrees in inequity, as the process of democratization progresses, or, if one prefers, as the development of the political system is deepened.

“While in the orbit of the market the demand of goods and services is exercised by means of personal income expenses anyway these have been distributed, in the orbit of the State the linking between revenues and services is different. Indeed, except for some cases, the services that lend the state, are covered with fiscal resources which are not necessarily extracted from the contributions of those who receive the services but of other social groups. This way, some of those groups can obtain an important quota of services that are paid by other social groups.” This is, in the opinion of Prebisch, the redistributive action that derives from the institutional change associated to the advance of the democratization process.

“Both cases reflect the composition of political power and the changes that it experiences with the structural mutations. Therefore, the dominant power of the superior strata faces that of the intermediate strata as long as the process of democratization advances.” When one speaks here of composition of the political power, reference it is made to the position occupied in the economic and social structure by those which are capable of impacting in the concrete policies of public authorities.

To conclude this fragmentary review it is convenient to quote a paragraph of the introduction that is self explanatory regarding the ideological position of Prebisch: “distributive justice, vigor of the development and new institutional forms of a democracy genuinely participative. Such they are the big objectives that have guided me in the theory of the transformation.”

The main existent similarities between the ideas of North and those of Prebisch are: a) Both can be framed in the general categories of technological change, institutional change and organizational change; b) Both allow to look at history as a process that shape the social structure so that the present depends on the past (dependence path) and it affects the efficiency and the potential for institutional change; c) Both visions allow, also, to look at history as an strategic game of power that it is expressed through the actions of the holders of the different power instruments; c) Both approaches discard the vision of the perfect market, and even that of the autonomously efficient market, capable of self-generating positions of stable equilibrium; d) Both recognize that the efficiency of the market depends on the ways that institutions and organizations operate; and, e) Both confer a decisive role to the exercise of political power through the apparatus of the State, as a mediator among the remaining forms of power (economic, social, unionized).

The main differences that exist among both visions are: a) The starting point of Raul Prebisch is the international order at a World scale expressed through its vision of Center-Periphery relationships; on the other hand North tends to examine the endogenous changes of developed societies in general, and, of United States in particular; b) the decisive role that Prebisch grants, in the causal sequence of the historical processes, to the technological change generated in central societies, is not shared by North who, in developed societies as United States, gives for discounted the endogenous character of technological change and privileges the interaction between the institutional change and

the endogenous organizational change; c) In the case of Prebisch's approach, the dynamics of the market is judged from the point of view of the social equity, taking special account of the distributive conflict; while North examines the market rather from the angle of its efficiency to generate growth and it measures this efficiency by the level of the transaction costs; d) The main objective of North seems to be to generate efficient property rights that favor the growth of the material wealth; while the objective of Prebisch is to promote the development with justness; and e) In the reasoning of Prebisch the key of economic development depends on the process of accumulation (productive investment) and, starting from this process, on the way that, incorporated technical progress and its fruits are distributed among the different groups of society. On the other hand, the emphasis of North is in the transactions, in its costs as a measure of the efficiency of the markets, and in the degree of institutional efficiency that derives of a given system of property rights.

In the thesis of North about the backwardness of Latin America, prevails an exam of the inherited institutional and organizational roots of the colonial phase, and it emphasizes what he calls a dependence path, that is to say, the difficulty of reverting certain inefficient basic institutions that influenced previous historical development. On the other hand, in the thesis of Prebisch prevail the impact of technical progress derived from the successive industrial revolutions gestated in the central countries and, mainly, the impact of the international distribution of that technical progress and of its fruits in the Latin American development.

APPLICATION OF THESE IDEAS TO LAC DEVELOPMENT

The concept of social structure is essential to the approach we are going to pursue. The social structure can be understood as the whole set of social relations that form a concrete historical society. Social relations can be characterized as interactions between persons that are based on reciprocal expectations of behavior. These social relations are structured if they appear as regular patterns of daily social behavior.

In a narrow and strict sense social relations are (potential or actual) interactions among natural, physical or real persons, but more widely we can talk of social relations among juridical persons that are associations or organizations deliberately created for certain (economic, political, or cultural) purposes.

These natural or juridical persons are the actors or performers of social relations, and their regular patterns of interaction determine the structure of each society. In the language of North those are the players of the societal game. Institutions lay behind or underneath social relations. They are social working rules of economic, political and cultural nature. In the language of Douglass North they are the rules of the game.

In a wide sense it can be said that technology is also a set of rules of instrumental character, and then we may speak about technological institutions, but this language can be a little bit confusing. So in the following pages we are going to distinguish among institutions and technology, giving to the first word the meaning of social rules and to the second the meaning of technical rules. To interact among them, juridical and natural persons must understand the functioning of those rules.

Power positions, that are emphasized in Prebisch theoretical vision, can also be understood either as social or technological positions that determine the probability of attaining certain ends or goals in the course of social relationships. Economic power relates with the direct or indirect control of economic means of production, exchange, and consumption, and it includes of course the control of social and technological processes linked to the use of those means. The institution of Property is essential to the existence and efficiency of economic power. Political power relates to the making and application of societal rules and to the enforcement of those rules even with the menace or effective application of coercion and violence. Cultural power relates to the direct or indirect control of means of information, communication and knowledge. The ultimate philosophical and moral foundations of every society reside in their cultural system and its cultural power structure.

We may think also, at least in connection with democratic political systems, on a countervailing political power characterized by the organized or unionized citizenship directed to change the working rules. Of course these political countervailing powers are exercised through political organizations as labor unions, political parties and so on.

The Latin American Structural Political Economy has emphasized the power relations that emerge from the social structure and has developed the notion of structural heterogeneity as the defining characteristic of peripheral societies. Structural heterogeneity can be defined as the coexistence of different social structures that interact in concrete historical societies which are politically unified as nation states. Structural heterogeneity can only be understood taking into account the existence of informal organizations and institutions that coexist with formal legally constituted organizations and institutions.

We can distinguish among economic, political and cultural dimensions of structural heterogeneity. Economic dimensions relate to the technological and social structural positions of persons and organizations on the production, exchange and consumption national systems. Political dimensions relate with the different structural positions of citizens in connection with the ruling system, and their capabilities to influence over the formal and informal institutions that, concretely rule their lives. Cultural dimensions relate with the different structural positions of certain persons in the informational, communicational, and knowledge systems of natural persons.

Of course structural heterogeneity can be observed on every, developed or underdeveloped, societies. For example during centuries structural heterogeneity was a clear situation that emerged through the comparison of social structures in northern and southern states of USA, in connection with living conditions of African American populations. But the distinguishing features of structural heterogeneity in LAC societies are, firstly their extraordinary persistence during long term historical periods, and secondly the huge proportion of total population engaged in the lower strata of income distribution, and occupational stratification.

About structural heterogeneity of LAC societies we may ask two main questions: firstly about the historical roots of these social structures that coexist and interact in a given society, and, secondly, about the causes that, during long historical periods, have prolonged the existence of these specific forms of structural heterogeneity. The rest of this course will be devoted to explore some possible answers to these questions, and to determine the present conditions of LAC social structures at the beginning of the XXI century.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER TWO: COLONIAL PHASE

COLONIAL INHERITANCE: THREE BASIC SITUATIONS

First Situation: Corresponds to the highlands of the Andean area of South America, Central America, and the central plateau of Mexico, that were inhabited by the main pre-Columbian cultures. Those were densely populated territories with important urban settlements and complex social structuring. Among other developed pre-Hispanic cultures, it is necessary to remember the Aztec in Mexico, the Maya in Guatemala, the Inca in Peru and the Aymara in Bolivia.

Second Situation: Corresponds to the tropical areas of Latin America and particularly to the coastal areas of South America, Central America and the Caribbean, inhabited by pre-Hispanic societies of smaller cultural and economic development. However in some cases there also were, in the interior of tropical lands, pre-Hispanic cultures, sedentary and agricultural, as the Guaraníes in the current area of Paraguay that played an important role during the colonization process in setting the national foundations of that country and in preserving the culture and pre-Hispanic language.

Third Situation: Plains and temperate valleys of South America scarcely populated by aborigines of very low development degree. Such is the case of the Charrúas who were located in the current territory of Uruguay. The same can be said about the so called Pampas and Patagonians tribes in the current Argentinean territory, etc. However also in these territories, with scarce pre-Hispanic population, there were some cultures of intermediate development that survived the conquest and colonization and, also nowadays, continue generating important cultural, and social impacts; such is the case of the Mapuches (Araucanians) located in the territories of southern Chile.

INSTITUTIONS AND ORGANIZATIONS OF COLONIAL TIMES

First (rural) colonial Situation: Institutions that were needed to install the colonial order, in the period of the conquest. These institutions consolidated themselves in the colonial haciendas, generating authoritarian and compulsive working rules of property, labor and exchange for the subordinated population belonging to the great pre-Hispanic cultures. The “country property” (“hacienda señorial”) became the fundamental cell of the political, social, economic and cultural order of rural areas.

The historical forces that consolidated this first colonial situation can be easily exemplified taking into account two conceptual tools: the increasing returns (decreasing unitary costs stimulating profits) of the organizations involved in the process on one

hand, and the uneven distribution of transaction costs after the consolidation of the main working rules and going concerns, on the other hand. This process can be exemplified with the most important and successful silver mines of the Spaniard Empire located at Potosi. The increasing returns of Potosi mines responded to four different effects. Firstly the economies of scale derived from the growing scope and intensity of the exploitation of that “silver mountain”. There were high fixed costs in terms of military and political resources invested in the conquest and, also, on the technological procedures to exploit the mines¹⁷, which, after been consolidated conducted to the reduction of unitary average costs of production, as the exploitation was increasing. In the field of labor regimes the same can be said about the, so called, “mita”¹⁸ system of recruiting labor force. Secondly

¹⁷ “Just as Toledo was to reorganize the rural structure of Upper Peruvian Society, he also was able to reorder dramatically its mining economy. From 1545 until the early 1560s, Potosí had produced an ever larger quantity of silver, quickly becoming the single richest source of this mineral in the world. But this growth was based on extraction of surface deposits that had extremely high ore contents and were easily refined through traditional pre-Columbian smelting processes. But as the surface deposits gave out and shaft mining developed, the purity of the ore declined, the costs of smelting rose, and productivity fell. Thus when Toledo arrived on the altiplano in the 1570s, the industry was in full crisis, with production declining and the crown desperately concerned to preserve this enormous resource.

Toledo attacked the Potosí problem on several fronts. First of all, in 1572 he introduced the amalgam process, whereby the silver ore was extracted from the other metals by amalgamation with mercury. This enabled the miners to extract silver from minerals with ever lower content of silver ore. This change led to the Indian control over refining to be broken, and the more than six thousand Indian open-hart smelters were replaced by a few hundred large refining workshops controlled by Spaniards and driven by water power. To guarantee the mercury supply needed to the Potosí miners, Toledo also organized the royal mercury mine at Huancavelica in Lower Peru, which thenceforth became the exclusive supplier of mercury to the highland mines. Herbert S. Klein, *A concise history of Bolivia*, Cambridge University Press, New York 2003.

¹⁸ “Finally and most important of all, Toledo resolved the labor question for the miners. Shaft mining was an extremely expensive enterprise, with labor being the highest cost item in the entire process. To construct and maintain a proper shaft cost as much as it did to build a cathedral. Moreover, the enormous quantities of water needed to drive the grindstones in the smelting process eventually required the construction of a complex series of dams and some twenty artificial lakes, the total cost of which was estimated at the extraordinary sum of over two million pesos. At the wages paid for free labor in the mines in the 1570s it was evident that there was simply not enough capital available to continue the massive mining output that the crown wished to maintain. Since he was already reorganizing the rural communities and standardizing their tax structure. Toledo went one step further and decided to use a pre-Columbian corvee labor system, the so called *mita*, to extract forced labor for the mines at Potosí.”

Some sixteen districts stretching from Potosí to Cuzco in the highland area were designated as mita supply areas. Here, one-seventh of the adult males were to be subjected to a year's service at the mines, serving no more than once in six years. This provided an annual labor force of some 13,500 men, which was in turn divide into three groups of over four thousand each. These latter groups worked on a rotating basis of three weeks on and three weeks off, thus maintaining a continuous labor supply and yet providing rest periods for the workers. While the miners were obliged to pay the *mitayos* (as they were called) a small wage, this was not even a subsistence amount. In fact, the mitayo communities were required to provide the food for their workers as well as maintain the families of their absent mitayos and to pay for their transportation to the mines. Most of the food and coca consumed at the mines were in turn paid for the workers themselves. Thus at one stroke, a good half to two thirds of the mine labor force was now provided to the mine owners by the Crown at extremely low cost, which greatly stimulated production. Although the mita system was used to extract mercury at the Huancavelica mine, such a forced draft labor system was never applied elsewhere by the Crown. The mines of Mexico were all worked with free wage labor, and even when the Oruro silver mines north of Potosí came on line a century later, miners were only allowed to use free wage labor. Even at Potosí a major part of the miners were free wage laborers. But there is little question that the mita and the mercury amalgamation process gave Potosí another century of

there were learning effects connected with the technical know how of the owners for the regimentation of the labor force and the minimal expertise of Indian workers required to exploit the mines under new technological conditions completely independent of the previously used by the pre-Colombian societies. Thirdly there were adaptive expectations effects about the continuity of the institutions established for the exploitation of the silver mines. These adaptive expectations that, of course included the subordinated behavior of Indian people to the new authoritarian rules, were essential for the transactions established in the institutional and organizational system and for the social distribution of their costs. Fourthly, there were coordination effects between the organizational and institutional system of Potosi economy, and the peripheral economic system of supplies: dry salted meat for the labor force, and working animals for the transport system, coming from the southern regions located in the present territories of Chile and Argentine. Obviously from the external demand side, all the coordinated systems of the mercantilist colonial empire to appropriated the wealth and transfer it to the imperial centers were in operation.

The transaction costs, as we may recall, are information, bargaining, legalizing, monitoring, and enforcing costs among the parties that are transacting. In the Potosí productive mining system the contractual relations were reserved only to the spaniard miners with ownership rights, but the Indian labor force was excluded of any contractual free transaction. They were forced to accept compulsory rules that, once consolidated, determined their productive qualifications and adaptive expectations. We may say the transaction costs were infinite for them because their opportunity costs¹⁹ were null: they were deprived of any autonomous options in order to get additional information about alternative opportunities, to strengthen bargaining power, to change the formal rules of the game. The resource to violent procedures to obtain respect for their rights was a last and desperate resort to which they, from time to time, tried to exercise²⁰.

profitable exploitation. With the Toledo reforms production once again soared by the late 1570s, and silver production now reached extraordinary levels between the 1570s and the 1650s. Herbert S. Klein (2003), pages 39 and 40.

¹⁹ The opportunity cost is the amount of other goods and services which could have been obtained instead of any good. If it had not been produced, the resources used in making it could have been used to produce other goods and services instead. Under the institutional authoritarian systems that ruled the Indian population, they could not exercise any other choices, so the opportunity costs within the system were null.

²⁰ Referring to the Andean Rural Population of Bolivia, says Klein: “The rural areas contained over 90 per cent of the population, all but 10 percent of whom were monolingual-speaking Indian Peasants. For these, the Spaniards devised a complex system of indirect rule. Toledo in his reforms had guaranteed local autonomy to the new “congregated” or “reduced” towns, and a complex government of elders of the community began to develop on the local level. Formally elected by the “originarios”, or original members of the community, these local administration consisted of representatives from all the local ayllus, which went to make up the community, and had charge of local land division and distribution, local justice, and the collection of all taxes, often in association with local caciques or indian nobles. This same government also maintained the local community church and sponsored local community patron saint festivals.. The community governments, although supposedly elected in the Spanish style, most probably continued pre-Conquest practices by selecting the most experienced and the most successful older men to represent them. Such men tended to be extremely conservative, being the eldest and most responsible members of the community, and the royal officials made them responsible for everything from the maintenance of local peace to the vital role of providing taxes and mita labour. So long as the exactions on the community were considered reasonable by the members of the community, such a government of principal elders (or

In general terms, it can be said that, inside the Hispanic Colonies, the more lasting effects on Latin American Societies, through long run historical periods, derived from the social and economic organization of rural Haciendas, especially in the highlands of North and South America where pre Hispanic civilizations were previously settled. As ninety per cent of total population (including small indigenous villages) was living in rural areas, it was in the Haciendas social order where the lasting long term effects of colonial heritage were clearly felt. The Haciendas in Hispanic America were founded over internal pre-capitalist institutions that ruled their property and labor relations. The Land Lord was endowed with all the power in the labor transactions with the Indians located inside his property. But the external exchange relations of the Hacienda, regarding their supply of commodities to domestic or external demand were completely modern in their mercantile conception. So the information, bargaining, legalization, monitoring, and enforcement costs of internal labor relations were very low for the “Hacendado” and were completely supported by the Indian mediators (for example the Jilakatas) or by the whole Indian population.

Second (rural) colonial situation: slaves for the colonial plantations. With working rules of property and labor that were obviously pre-capitalist and, more specifically pro-slavery for the African population that was captured with violence in their places of origin and traded like commodities by dealers of slaves. The difference with the first colonial situation was that tropical agricultural products were the main exporting wealth of these tropical coastal areas. This situation was, typically, the dominant one in the Portuguese Colonies located in the present territory of Brazil. The plantations considered as going concerns, evidenced increasing returns as a consequence of the scale, learning, adaptive, and coordination effects that arose after the conquering period. The scale effects derived from the expansion of the plantations all along the northeast coast of Brazil devoted to the production of sugar cane, using the same organizational forms of production and the same type of property, labor, and exchange relations (institutions or rules). That implied a huge reduction of average unitary costs as the plantations multiplied. The learning effect, again, can be examined in connections with the owner of the plantations (fazendas) or the slaves committed to this new forced labor: the African-American population revealed itself much more adaptable to the hard working conditions of the plantations²¹. The

jilakata) prove to be a bulwark of conservative stability. But once such leaders were convinced that the exactions of their surplus were beyond acceptable limits, these same elders proved the most dangerous of enemies, since they were able to call out the entire community in their support. The innumerable Indian rebellions in the period after Toledo, which lasted well into the middle of the twentieth century, were never disorganized individual affairs but were always movements of united communities led by their principal elders. This explains the often strange phenomenon of rebellions confined to a few clearly defined local communities, without affecting their neighbours”. Klein (2003), pages 41, 42.

²¹ Brazil was the first American colony to introduce sugar agriculture on a large scale. The planters of the northeast coastal zone initially relied on force Indian labor, but a succession of devastating epidemics beginning in 1562 pushed them toward black slavery as an alternative labor source, and by the 1620s they relied on it entirely. Because Portuguese traders dominated the African slave trade to Europe, they could respond quickly to the growing Brazilian market. Also the proximity of Africa reduced transportation costs and the number of slave deaths in transit”. Burkholder and Johnson, *Colonial America*, Oxford University Press, New York, 2001, page 128.

adapting effects, concern essentially to the acceptance and massive adoption of the institutional system, and specially the property and labor relations of the plantations.

The coordination effects derived from the settlement of tropical plantations deserve a special paragraph especially in connection with the African slave trade. Spain was not directly engaged in slave trading and had surrendered its rights on that field by the Treaty of Alcacovas in 1479. The Spanish demand for slaves was satisfied by a system of monopoly contracts, signed with foreign merchants (mainly Portuguese but also French and Dutch) to supply the Hispanic American Colonies with slaves. But by large the greatest demand of African American Slaves originated in the Portuguese Colonies itself²².

Of course, also in the tropical areas of LAC and North America plantations flourished and multiplied. That implied that slavery also involved those territories with lasting consequences on social inequality in the specific areas where plantations were settled²³.

In these first two basic colonial situations the imperial order created informal institutions that, later on, prevailed over the formal institutions of the political independence. Most of the rural Latin American population at that time was included and incorporated to one of these two situations previously described.

The third (rural) colonial situation evidenced scarce initial economic importance due to: i) low level of territorial settlement, ii) low level of development of the resident pre-Hispanic cultures, iii) shortage of exploitable resources for export to Europe under the available pre-industrial technological platform. In rural areas was established, the so called, “*estancia colonial*”, a country property dedicated to produce cattle, grains, and meat for local needs, but also working animals, salad dried meat (tasajo), and other kinds of food for the indigenous population that worked in the mining. Paradoxically, in this third colonial situation, the shortage of pre-Hispanic societies of major development and demographic size, and the scarcity of natural resources profitable during the colonial phase, redounded in better development possibilities after the political independence in the XIX century. Such it was, in general, the case in the Southern Cone of South

²² “During the seventeenth century, almost as many slaves entered Brazil alone as entered Spanish America and the French and British sugar colonies combined. Even in the eighteenth century, when the Caribbean sugar production grew most rapidly, the Portuguese colony continued its dominance in the Atlantic Slave Trade. Although the total imports of the French and British Caribbean colonies were greater, no other nation’s colonies imported as many slaves as did Brazil. By 1810 more than 2.5 million slaves had entered Brazilian ports”. Burkholder and Johnson, (2001), page 128.

²³ Between the early sixteenth century and 1810, Spanish America received nearly 1 million African slaves. The following table reveals that the late eighteenth century –a time of dramatic expansion in sugar and other tropical products- was also the time of greatest volume in the slave trade. The booming sugar plantations of Cuba absorbed more than half of the slaves entering Spanish America after 1770, although Venezuela and the Rio de la Plata Region also increased imports. Overall, however, the Spanish colonies received only about 13 per cent of all the slaves imported into the Western Hemisphere before 1820. Brazil and the Caribbean sugar colonies of France and Great Britain were the preeminent destinations. British North America, in comparison, imported slightly fewer than 350.000 slaves, or one third the number that entered Spanish America”. Burkholder and Johnson (2001), page 127.

America. The informal institutions of the colonial inheritance had not rooted in these regions with the same force, population involvement and territorial extension as in those corresponding to the first and second colonial situations. Therefore the dependence path was less deep and ingrained and, more easily reversible in the nineteenth century.

URBAN SETTLEMENTS AT THE COLONIAL PERIOD

The cities that were founded or expanded during the colonial phase, fulfilled three main combined functions: centers of political power (including their military and bureaucratic aspects); centers of cultural power expressed mainly in the prevalence of a single (roman catholic) religion in control of the civil and religious social life and the educational system; and centers of economic power not only in the sphere of the colonial production, but also in the trade and transport activities for export. In the long run, the foundations of the main political cities during the xvi century defined the present urban profile of Latin American Countries, at least in what concerns with the main metropolitan centers.

First (urban) Colonial Situation: i) Conquering and new foundation of ancient pre-Hispanic cities that were occupied militarily and restructured for the political, cultural and economic purposes of the colonial power. Mexico city was founded where Tenochtitlan was previously settled; Cuzco and Quito continued under hispanic hands with their pre-Hispanic names); ii) installation and expansion of mining cities in locations well-known for the natives (for example the “silver hill” of Potosí in the current Bolivia, and many mining cities in Mexico). It is convenient to observe that some main colonial cities became centers of demand for commodities originated on other internal territories. Certainly, such was the case of main colonial centers like Mexico or Lima. The case of Potosí, as was already seen, also stimulated the production and supply of salted meat (charque o tasajo) to feed the labor force of the silver mines, of labor animals and means of transport from other urban centers of the Southern Cone. That was especially the case with Santiago in Chile, or Buenos Aires, Córdoba, and Tucumán in Argentina.

Second (urban) Colonial Situation: Many “harbor cities” settled down in territories of the second colonial situation. So, in the Hispanic Empire we can name Lima with their harbor of El Callao in the current territory of Perú, Havana in the current territory of Cuba, Cartagena in the current territory of Colombia, etc). To the ports of these cities converged the exportable mining wealth, transported to Spain by means of the fleet Hispanic system. Also, harbor-cities of smaller size and economic importance multiplied at the exporting regions of the Portuguese empire. They were, also, founded in the XVI century, as Salvador, Recife, in the northeast of Brazil, or Río de Janeiro in the east-center of this country.

Third (urban) colonial situation: The foundation of new Cities was of scarce strategic importance for the colonial order due to the lack of abundant population potentially exploitable under compulsive labor relations, and the shortage of natural wealth usable with the technologies of the time. In the Southern Cone of America, there were cities like Buenos Aires which was founded in the current Argentinean territory, or Santiago, Concepción, and La Serena, in the Chilean territory. Asunción emerged in the Jesuits colonization of Guaranies.

IMPORTANCE OF COLONIAL INHERITANCE FOR ALC DEVELOPMENT

The visions of North and of Prebisch throw light on the influence of this period in the later development of Latin America. We can now summarize in few words what has been already said:

As we have seen, in the first and second colonial situations it is applicable the idea of “the dependence path” in the sense suggested by North. This is so because the high costs of installation of the colony during the period of the conquest produced growing results (decreasing average unit costs) for the organizations that were created taking advantages of different interconnected processes that feed back reciprocally. These results or effects were: i) scale impacts, which allowed to recover (by the conquerors) the high economic and human cost of the initial military conquest, ii) learning impacts, which allowed, at a high human and demographic cost (by the conquered), the restructuring of the labor qualifications of native Indian serfs and African slaves, iii) coordination impacts, which allowed to articulate the trade and transport systems of products exchanged with Europe with the “imports” of slaves coming from África and, later on, from some areas of Asia; and iv) adaptive expectations impacts, which allowed to internalize in the Latin American culture the colonial social relationships, among so much in the subordinated groups as in the dominant ones. These are some factors, initially suggested by North, and applicable to the Latin American colonial situations that reinforced the recently created formal and informal institutions of the colonial society.

We can find also “the dependence path” effects in the applied technologies of the colonial period, because they lasted (by virtue of the same effects) in the colonial inheritance already commented, being constitutive part of the operation of the rural and urban organizations at the colonial phase. This point emphasized by Latin American Structuralism can be illustrated by the technological patterns that were installed in the Potosi exploitation of silver mines at the beginning of seventeenth century.

Although Prebisch never examined in detail the colonial situations that we have described, he had them in consideration to elaborate its theory on the forms of propagation of the technical progress for Latin America. He also departed from this situations to explain the reasons why Latin America was harmed economically in its terms of trade of primary products exported toward the developed centers, in exchange for industrial products. Nevertheless, in Prebisch’ vision the deterioration of terms of trade of primary products exported, was never conceived as a main cause of underdevelopment in LAC. It was rather a symptom of backwardness and underdevelopment. The labor force that was engaged in primary production activities worked under pre-capitalist or semi-capitalist conditions or, even under contractual labor relations. In any case, they lacked enough unionized power to elevate their salaries at the same rate as labor productivities were increasing. Consequently almost all the productivity gains were transferred to profits and prices reductions in exports with small or nil increase in salaries. It is important to notice that the main stream of Latin American School of development never defended the idea that unequal international exchange was the main cause of underdevelopment in LAC countries. Unequal exchange was a consequence of the peculiar and specific trends assumed by the changing technologies, organizations, and institutions that shaped LAC development. But, in the approach of the

Latin American Structural Political Economy it was not the amount of wealth that was transferred to the metropolis the main cause of the backwardness and underdevelopment of Latin American Societies, but rather the structural formation (deformation) of the economic systems derived from these processes.

DIFFERENT COLONIAL HERITAGES FOR DIFFERENT WORLDS

It is interesting to quote here, two long paragraphs of Douglas North that summarize its interpretation of the different colonial heritages of USA and LAC societies:

“In the case of the Spanish Indies, conquest came at the precise time that the influence of the Castilian Cortes was declining, the conquerors imposed a uniform religion and a uniform bureaucratic administration on an already existing agricultural society (particularly in the highlands of México and Alto Perú, where agricultural societies were well developed), the bureaucracy detailed every aspect of political and economic policy (again much more stringently and effectively applied in the populated and valued regions than in the nomadic and empty areas), and there were recurrent crises over the problems of agency and control of the bureaucratic machinery. Although efforts at reversing the centralized bureaucratic policy occurred under the Bourbons and even to some extent led to the liberalization of trade within the empire, the reversal was partial and quickly negated. The control of agents was a persistent problem compounded by the effort of the creoles to take over the bureaucracy to pursue their own interests. Although the wars of independence turned out to be a struggle for control of the bureaucracy and consequent polity and economy between local colonial control and imperial control, nevertheless the struggle was imbued with the ideological overtones that stemmed from the US and French Revolutions. As a consequence, independence brought U.S- inspired constitutions, but the results were radically different”.

“In the case of the United States, the constitutions embodied the ongoing heritage of first British and then colonial economic and political policies complemented by a consistent ideological modeling of the issues. In the case of Latin America, an alien set of rules was imposed on a long heritage of centralized bureaucratic controls and accompanying ideological perceptions of the issues. In consequence, Latin American federal schemes and efforts at decentralization did not work after the first few years of independence. The gradual reversion, country by country, to bureaucratic centralized control characterized Latin America in the nineteenth and twentieth centuries. The persistence of an institutional pattern that had been imposed by Spain and Portugal continued to play a fundamental role in the evolution of Latin American policies and perceptions and to distinguish that continent’s history, despite the imposition, after independence of a set of rules similar to British institutional tradition that shaped the path of North America”²⁴.

In this historical and institutional approach provided by Douglass North we can distinguish two aspects that contribute to explain the differences among the development of US and LAC societies.

²⁴ North Douglass, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, New York, 1990. Chapter 11, pages 102 and 103

Firstly, there is a historical verification of the existence of densely populated pre-Hispanic civilizations at a (high) agricultural level of development. That, of course, has immediate economic, political and cultural implications. From an economic point of view the relative endowment of productive factors was different on these densely populated societies and, of course the previous ongoing economic systems were also different. So, economically speaking the conquerors wanted to profit immediately from the wealth of the colonies, (silver and gold on the pre-Hispanic cultures, and tropical products on the coastal areas). From a political point of view, consequently, the land not only had to be discovered but also militarily conquered under the imperial rules traditionally imposed to every colony since ancient times in world history. From a cultural point of view occurred a clash that lasted many centuries, during which the language and religion of the conquerors was imposed over the indigenous preexistent population and over the slaves that came from Africa to work on the plantations.

Secondly, the colonial heritage derived from the Spanish and Portuguese empires in Iberian America was pre-modern in its economic, political and cultural institutions. From an economic point of view the Portuguese and Hispanic nobility always considered personal work in industrial and commercial activities to be an inferior task reserved only to lower classes of society, so they were ready to exploit the abundant labor force of the colonies. Free trade was not a central issue at domestic or international levels, and the centralized and monopolistic institutions of mercantilist political economy were strongly applied in the colonies. From a political point of view the gold and silver that was coming from the colonies contributed to the unification of national markets and, hence, of Nation States in Western Europe. The “short term” prosperity of Spain during the sixteenth and seventeenth centuries was in the long term a stepping stone of its subsequent political and economic decadence after the British Industrial Revolution. From a cultural point of view, the Roman Catholic Church was engaged in a hard struggle with the protestant movements that arose after the Religious Reform and the Conquer of LAC countries was an opportunity to consolidate its authority in religious and ethical issues. The positivist and pragmatist philosophers that promoted the Industrial Revolution and the founding fathers of economic and political liberalism were excluded during all the colonial period in Iberian America. So, Douglass North rightly emphasizes the importance of these pre-modern institutions that prevailed before the formal settlement of capitalism and democracy into LAC societies after political independence.

On the other hand, as we have already emphasized, the Latin American Structural Political Economy defines a global framework of international economy called the center-periphery system and focus especially on the impact of capitalist technological progress over peripheral regions of the world. Raul Prebisch developed that theoretical framework, but he did not deepened on its long run implications over the pre-capitalist structures of certain peripheral regions. The other founding father of Latin American Structural Political Economy is Celso Furtado. His contribution to the historical and institutional understanding of *long term Latin American Development* was even of greater importance than that of Raul Prebisch. His influence over the historical studies on Latin American Development, extender over other latin American structuralist authors as Aldo Ferrer in Argentina, and Anibal Pinto or Osvaldo Sunkel in Chile. The center periphery

vision previously developed by Prebisch, was worked under the long term historical perspective of Celso Furtado, creating a whole school of historical and structural interpretations of Latin American Development. Referring to the dichotomy between development and underdevelopment Furtado wrote:

“The advent of an industrial nucleus in eighteenth century Europe generated a brake in the world economy of that period and regulated the subsequent economic development in almost all regions of the world. The action of that powerful dynamic nucleus was exerted into three different directions. The first one marks the development line inside Western Europe itself, in the framework of political divisions that were developed in the previous mercantilist stage. (...) The second line of development of European industrial economy can be considered as the expansion of their own frontier, towards any unoccupied territories with characteristics similar to those prevailing in Europe itself. Various factors explain that expansion. In the case of Australia and the North American West, gold played a basic role. The revolution of maritime transports, permitting the access of cereals from long distances to compete in the European market, was decisive in other cases. But, that movement of the frontier was no different basically from the development of Europe itself but an integral part of it. Australian, Canadian and U.S. economies, during that phase were simple extensions of the European Industrial Economy. The population that emigrate towards those new territories was carrying the techniques and consumption habits of Europe, and when they found abundant natural resources, their productivity reached in a short time very high levels. Taking into account that those “colonies” only settled where economic conditions were exceptionally favorable, it is understandable that their populations had reached, from the beginning, high living standards, in comparison with European countries.

The third line of expansion of European industrial economy was directed towards the already occupied regions, some of them densely populated, with their secular economic systems of different types, but all of them of pre-capitalist nature. The contact among the vigorous capitalist economies with those regions of ancient colonization did not happen in a uniform way. In some cases the interest was limited to the opening of new lines of commerce. In others, existed from the beginning the desire of promoting the production of raw materials increasingly demanded from the industrial centers. The effect of capitalist expansion over the archaic structures varied from region to region, accordingly with local circumstances, with the type of capitalist penetration and with its intensity. Any way, the result was almost always the creation of hybrid structures, part of them tended to behave as capitalist systems, and the other part to remain under the preceding structure. This type of dualistic economy constitutes specifically, the phenomenon of contemporary underdevelopment²⁵.

This generalization of Furtado emphasizes the technological significance of the industrial nucleus created and partially disseminated by western countries after the British Industrial Revolution. The approach of Furtado is a techno-economic one, and can be accepted in its own terms. But the specific characteristic of Latin America within the

²⁵ Celso Furtado, *Desenvolvimento e subdesenvolvimento*, Rio de Janeiro, Editora Fundo de Cultura, 1961, Chapter IV.

underdeveloped world was the early adoption of western institutions not only in the economic aspects, but also in the political and cultural ones. It has to be noticed that during colonial times LAC societies absorbed the pre-modern western heritage transferred from the Iberian Empires, and later, after the independence process Latin American countries adopted formally main institutions of contemporary western societies: capitalism and democracy. This is a kind of phenomenon that did not happen in the main Asiatic countries colonized by Europe: China, India, etc. In the case of African colonization the conquerors left their language and sometimes their religion but without deepening in the ethnical hybridization of the whole society in the same measure as it occurred in LAC history.

Taking into account this specific historical picture, Latin American became integral and permanent part of western world, not only geographically but also from an economic, political and cultural viewpoint. The western roots of Latin America were essentially pre-modern, and the adoption of modern western institution was predominantly formal. Only now, at the beginning of twenty one century Latin American societies seem to be ready to assume the institutions of capitalism and democracy not only in a formal way but incorporating them integrally into their social structures.

THE MEANING OF THE WORD “COLONIES” IN U.S. HISTORY

In the following paragraphs we are going to outline in few words some of the main characteristics of the colonial heritage of United States of America.

Firstly, the territories covered by North American Colonies, were inhabited by scarcely populated pre-conquest indigenous societies with relatively low levels of development. At the arrival of the colonizers, they were nomadic hunters that had not reached the sedentary agricultural stage of development. These territories were, from a physical point of view, enormous extensions of almost empty plains and valleys with predominantly temperate or cold climates, with the exception of tropical southern territories bordering the Caribbean Sea.

Secondly, the colonizers that emigrated from England were carrying with them the cultural, political, and economic institutions that emerged in that country during the modern era. Culturally speaking they imposed from the beginning the English language, and the religious freedom derived from the Religious Reform that emerged after the spread of Lutheranism in Germany, Calvinism in Switzerland, Anglicanism in England, etc. They were also carrying with them the values of austerity and hard work jointly connected with the acceptance of trade and industry as the founding living styles to be adopted in order to search for economic progress. So economically speaking they were carrying with them the institutional seeds of capitalism. From a political point of view they were trained in the struggle for civil rights that conducted England to the so called Glorious British Revolution of 1689 and were ready to promote the settlement of common law as the main juridical tradition adopted by the colonies. In other words they were also carrying with them the seeds of modern democracy.

Thirdly, the words “colonies” and “colonization have a very different meaning when they are applied to North American History, as Adam Smith soon noticed at the end of eighteenth century when he wrote his classic: *The Wealth of Nations*: “The colony of a civilized nation which takes possession either of a waste country, or of one so thinly inhabited, that the natives easily give place to the new settlers, advances more rapidly to wealth and greatness than any other human society”.

“The colonists carry out with them a knowledge of agriculture and of other useful arts, superior to what can grow up of its own accord in the course of many centuries among savage and barbarous nations. They carry out with them too the habit of subordination, some notion of the regular government which takes place in their own country, of the systems of laws which supports it, and of a regular administration of justice; and they naturally establish something of the same kind on the new settlement. But among savage and barbarous nations, the natural progress of law and government is still lower than the natural progress of arts, after law and government has been so far established, as is necessary for their protection. Every colonist gets more land than he can possibly cultivate. He has no rent, and scarce any taxes to pay. No landlord shares with him in its produce, and the share of the sovereign is commonly but a trifle. He has every motive to render as great as possible a produce, which is thus to be almost entirely his own. But his land is commonly so extensive, that with all his own industry, and with all the industry of other people whom he can get to employ, he can seldom make it produce the tenth part of what it is capable of producing. He is eager, therefore, to collect laborers from all quarters, and to reward them with the most liberal wages. But those liberal wages, joined to the plenty and cheapness of land, soon make those laborers leave him, in order to become landlords themselves, and to reward, with equal liberality, other laborers, who soon leave them for the same reason that they left their first master. The liberal reward of labor encourages marriage. The children, during the tender years of infancy, are well fed and properly taken care of, and when they are grown up, the value of their labor greatly overpays their maintenance. When arrived at maturity, the high price of labor, and the low price of land, enable them to establish themselves in the same manner as their fathers did before them”.

“In other countries, rent and profit eat up wages, and the two superior orders of people oppress the inferior one. But in new colonies, the interest of the two superior orders obliges them to treat the inferior one with more generosity and humanity; at least, were that inferior one is not in a state of slavery. Waste lands of the greatest natural fertility, are to be had for a trifle. The increase of revenue which the proprietor, who is always the undertaker, expects from their improvement constitutes his profit; which in these circumstances is commonly very great. But this great profit cannot be made without employing the labor of other people in clearing and cultivating the land; and the disproportion between the great extend of the land and the small number of the people, which commonly takes place in new colonies, makes it difficult for him to get this labor. He does not, therefore, dispute about wages, but is willing to employ labor at any price. The high wages of labor encourage population. The cheapness and plenty of good land encourage improvement, and enable the proprietor to pay those high wages. In those wages consists almost the whole price of the land, and though they are high, considered as the wages of labor, they are low, considered as the price of what is so very valuable.

What encourages the progress of population and improvement, encourages that of real wealth and greatness”²⁶.

In these very simple but talented and profound lines, Adam Smith summarizes the technological (arts), institutional (uses and laws) and organizational (colonist undertaking) foundations of North American Colonies. He also departs from the extreme abundance of land relatively to labor, but these quantitative proportions get historical significance in view of the human qualifications of the migrants and their internalization of the need of cultural, political, and economic institutions that must order their lives.

In *The peopling of British North America*, Bernard Bailyn draws four main propositions: a) “The peopling of British North America was an extension outward and an expansion in scale of domestic mobility in the lands of the immigrants’ origin, and the transatlantic flow must be understood within the context of these domestic mobility patterns. Ultimately, however, its development introduced a new and dynamic force in European population history, which permanently altered the traditional configuration”; b) “Examination of the settlements and development patterns for the whole of British North America reveals not uniformity, but highly differentiated processes, which form the context of the immigrants’ arrival. The fortunes of the arriving newcomers must be seen against this varied and shifting background; c) After the initial phase of colonization, the major stimuli to population recruitment and settlement were, first, the continuing need for labor, and, second, land speculation. There were, as a result, two overlapping but yet distinctly different migration processes in motion throughout these years. Both linked America to Europe and Africa in a highly dynamic relationship and together account for much of the influx of people. But they drew on different socioeconomic groups and involved different modes of integration into the society. And land speculation shaped a relationship between the owners and the workers of the land different from that which prevailed in Europe; d) American culture in this early period becomes most fully comprehensible when seen as the exotic far western periphery, a marchland, of the metropolitan European culture system”²⁷.

This generalization of Bailyn, emphasizes of course the European origin of the first migrants to North America because this was the defining aspect of the future social structure of the United States but he also mentions the African origin of an increasing part of the migrants in the southern colonies, and the role fulfilled by pre-conquest indigenous populations in the cultural formation of the country: “As late as 1680 less than 8 per cent of the Chesapeake population had been black slaves; by 1690 the figure was 15% percent; by 1717 it was 25 per cent. And the percentage was continuing to rise, not because planters preferred blacks to whites, and not because they feared open revolt by a rural proletariat of freed white servants, but because the available sources of British indentured servants were disappearing. In the late seventeenth century the supply of indentured servants dropped by 3 per cent a year while the demand for labor grew at

²⁶ Adam Smith, *The Wealth of Nations*, Bantam Classics, New York 2003, Book Four, Chapter VII, pages 715, 716.

²⁷ Bernard Bailyn, *The Peopling of British North America*, The Curti Lectures, the University of Wisconsin, 1985.

about the same rate. To fill the growing gap in field labor the planters turned increasingly to slaves, whose availability soared after 1697, when the monopoly of the Royal African Company was broken and the African slave trade was open to all comers". As a result of this shift there was under way in 1700 –our legates would have observed- a massive transformation. A slave labor force that could be recruited at will by those with capital to invest was creating a growing disparity in the size of the producing units, and at the same time generating a self-intensifying tendency towards oligarchy. More and more of the productive land was devolving into the hands of a few large-scale operators, while more and more of the white population owned less and less of the best agricultural lands, were in a weak competitive situation, and were into tenancy and moving off to more easily accessible frontier lands"²⁸.

We can easily see here, the roots of the politically compulsory, socially unjust, and economically inefficient societies that emerged in the southern territories of U.S. as a consequence of the settlement of slavery institutions on the plantations. This is a clear historical proof of the dependence path and its lasting consequences. But in the case of the United States we can observe the overwhelmingly predominant effect originated in the institutional foundations of the new society (capitalist and democratic) that was created with the expansion of the western frontier.

INSTITUTIONAL FOUNDATIONS OF US: THE ROLE OF THE FRONTIER

By the mid seventeenth century, the three main colonial situations that can be found in North American territories and the development potential of the western border are well summarized in the following paragraphs. "By 1750 the thirteen colonies had taken firm root and contained almost 1.500.000 people. They run the whole length of the coast from the spruce of the Androscoggin Valley to the palmettos of the St. Johns. Each had characteristics of its own, while they fell into four well defined sections. One section was New England²⁹ a country of small, rocky, well-tilled farms, of lumbering and of a wide variety of maritime employments: construction of the kind Longfellow described in *The Building of the Ship*, Codfishing like that described by Kipling in *Captains Courageous*, whaling as pictured in Melville's *Moby Dick* and overseas trade similar to that described by R. H. Dana in *Two Years Before the Mast*. Another section was the middle colonies³⁰, made up partly of small farms and partly of great estates, with a good deal of small scale manufacturing, and with lively shipping interest in New York and Philadelphia. A third was composed of the southern colonies³¹, where large plantations worked by gangs of black slaves, producing indigo, rice and tobacco, were the most prominent, though by no means the most common, feature. Finally there was the most American section of all: the great border strip or back country, stretching from Maine to Georgia, where pioneer hunters, hardy log-cabin settlers, and a sprinkling of more solid farmers pushed toward the interior. This border country was much the same north and south. In western Massachusetts, western Pennsylvania, and western Carolina alike it

²⁸ Bernard Bailyn (1985) page 102.

²⁹ New Hampshire, Massachusetts, Rhode Island, Connecticut.

³⁰ New York, Pennsylvania, New Jersey, Delaware, Maryland.

³¹ Virginia, North Carolina, South Carolina, Georgia.

produced hard-hitting, resourceful men, indifferent to book learning, impatient of restraint, and invincibly optimistic”³².

U.S. HISTORY: GEOGRAPHICAL AND INSTITUTIONAL OPPORTUNITIES

Here we may return to Douglass North interpretation about the influence of founding institutions on development: “We can expand on this characterization of institutional change by contrasting a successful path with one of persistent failure. The first is a familiar story in U.S. economic history – the growth of the economy in the nineteenth century. The basic institutional framework that had evolved by the beginning of that century (the Constitution and the North West Ordinance, as well as norms of behavior rewarding hard work) broadly induced the development of economic and political organizations (Congress, local political bodies, family farms, merchant houses, and shopping firms), whose maximizing activities resulted in increased productivity and economic growth both directly and indirectly by an induced demand for educational investment. The educational investment resulted not only in the free public educational system, but in agricultural experiment stations to improve agricultural productivity; the Morrill Act created the land grant public universities.

As economic organizations evolved to take advantage of these opportunities, they not only became more efficient (see Chandler 1977), but also gradually altered the institutional framework. Not only was the political and judicial framework altered (the Fourteenth Amendment, *Munn v. Illinois*) and the structure of property rights modified (the Sherman Act) by the end of the nineteenth century, but so too were many norms of behavior and other informal constraints (reflected in changing attitudes – and norms of behavior towards slavery, the role of women, and temperance, for example). Both the political and the economic transaction costs and the subjective perceptions of the actors resulted in choices that were certainly not always optimal or unidirectional toward increased productivity or improved economic welfare (however defined). The profitable opportunities were sometimes from tariff creation, the exploitation of slaves, or the formation of a trust. Sometimes, indeed frequently, policies had unintended consequences. In consequence, institutions were -and are- always a mix bag of those that induce productivity increase and those that reduce productivity. Institutional change, like wise, almost always creates opportunities for both types of activity. But on balance nineteenth-century U.S. economic history is a story of economic growth because the underlying institutional framework persistently reinforced incentives for organizations to engage in productive activity however admixed with some adverse consequences”.

“Now if I describe an institutional framework with a reverse set of incentives to those described in the above paragraph, I will approximate the conditions in many third world countries today as well as those that have characterized mucho of the world’s economic history. The opportunities for the political and economic entrepreneurs are still a mixed bag, but they overwhelmingly favor activities that promote redistributive rather than productive activity, that creates monopolies rather than competitive conditions, and that restrict opportunities rather than expand them. They seldom induce investment in education that increases productivity. The organizations that develop in this institutional framework will become more efficient – but more efficient at making the society even

³² Nevins and Steele Commager, *A pocket history of the United States*, Simon & Schuster, New York, 1992, page 29.

more unproductive and the basic institutional structure even less conducive to productive activity. Such a path can persist because the transaction costs of the political and economic markets of those economies together with the subjective models of the actors do not lead them to move incrementally toward more efficient outcomes”³³.

THE “CENTER-PERIPHERY”, LATIN AMERICAN INTERPRETATION

In the next chapter we are going to study Latin American societies as an example of the “reverse set of incentives” that conduced to the survival and consolidation of inefficient economic systems, oppressive political systems and unjust socio-cultural systems. But we shall also take into account the main difference between the different set of institutions installed in each case: the seeds of capitalism and democracy inherited from the British Modernizations process on one hand, and the continuity of pre-modern political, economic, and cultural institutions of the Iberian colonial heritage on the other hand.

The Latin American Structural Political Economy analyzed those processes including the nature of political and economic relations between the developed (capitalist and democratic) **Centers** of the Western World on one hand, and the underdeveloped (semi-capitalist, and pre-democratic) Latin American **Periphery**, on the other hand . Two main aspects are going to be emphasized in this alternative interpretation: the specific pre-modern western legacy inherited from the Iberian motherlands and the external impact of technical progress derived from the subsequent technological revolutions: British in the eighteen century, North American in the nineteenth and twentieth century, and the present [also mainly North American] Revolution of Information Technologies at the beginning of the present century).

³³ Douglass North (2004), Institutions,... pages 8 and 9.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER III: POLITICAL INDEPENDENCE AND PERIPHERAL POSITIONS

THE ADVENT OF THE CONTEMPORARY ERA

We may distinguish three systems that interact in western societies: The economic, the political and the cultural system. All of them have experienced huge transformations at the end of eighteenth century.

Western economic systems have transformed themselves with the advent of capitalism: the most complete and developed form of market economies. Under capitalism not only the products become commodities but also the main factors of production (labor, natural resources, industrial equipment, technology, and entrepreneurial capabilities) are combined for productive purposes through the market mechanism. The British Industrial Revolution provided the technological basement of capitalist systems and began the most dynamic and lasting process of steady increase in labor productivity. This is the nucleus of the process of economic development that seems inherent to the dynamic nature of capitalism.

Western political systems have also transformed themselves with the advent of modern representative democracy characterized by the acceptance and gradual enforcement of human rights and liberties for free citizens that are considered equal under the law. The democratic political constitutions spread to the rest of the western world after American and French political revolutions.

Democracy and Capitalism seem to be two systems that interact and feedback reciprocally. Capitalism implies the existence of free workers that, under contractual mechanisms accept (without moral, political or physical coercion) to work for a salary and this social class becomes predominant under the working rules of democracy. It also implies, of course, the institution of private capitalist property that includes the transferability through market operations of the factor of productions or, alternatively of their services. From a political viewpoint nobody can be deprived of his own property and every one can be the owner of wealth, without distinctions of gender, race or religion. Slavery and serfdom can be compatible with certain forms of restricted democracy like the political systems of ancient Greece, and also with certain pre-capitalist or semi-capitalist forms of market economies. But capitalism in its complete and developed form includes the uninterrupted unfolding of technologies that are permanently transforming the productive structures. Neither serfdom nor slavery seemed to be labor regimes compatible with the permanent reallocation of productive factors and the continuous

technological change that seems inherent to capitalist development. This genuine type of capitalism has unfolded in those societies that under the language of structural Latin American economics are called *centers*.

These developed capitalist democratic centers are backed by cultural systems that are the fundamental explanation of their existence. Western values of freedom, equality and fraternity, have evolved from their ancient sources (Grecian and Judaic cultures) through Catholicism under the medieval age and Protestantism in modern times, to create the modern values of democracy. But western cultural systems also included the development of science from Grecian times and it has fructified through the advances of empiricist, positivist and pragmatist approaches unfolded in Western Europe and North America. Modern science is the key to understand the existence of modern capitalism, and modern western values are the key to understand the existence of modern democracies.

But, the international impact of these developments on societies with different economic, political, and cultural systems, created asymmetric power relationships that interfered and changed the historical course of those societies. These are the so called peripheral societies, included Latin America that was the object of study of Structural Latin American Political Economy.

Now, returning to our epistemological approach, the interactions between technological, institutional, and organizational change are very different among central and peripheral societies. Especially in peripheral Latin American societies, economic and political institutions of modernity were formally and partially introduced after political independence. That marks an essential difference among the development of these two different types of societies.

On the one hand developed capitalist democratic centers created their own institutional setting (as England did) or, alternatively absorbed and incorporated it not only in a formal but also in a substantive way (as U.S. did). The unfolding of democracy and capitalism including its technical and practical procedures comes from within these societies as a natural outcome of their own evolution.

On the other hand underdeveloped Latin American Peripheries received the external impact of those institutions and technologies and adopted it formally but not substantially. More precisely the absorbing of those institutions and technologies gave place to the emergence of new types of organizations that were hybrids maintaining certain characteristics of previous periods and combining them with the new institutions and technologies coming from abroad. These combinations of technologies belonging to different historical stages gave birth to dualistic or heterogeneous social structures that are a defining characteristic of underdeveloped societies.

ECONOMIC DEVELOPMENT: THE LATIN AMERICAN SCHOOL APPROACH

Celso Furtado, one of the two founding fathers of Latin American Structural Economics (the other is Raul Prebisch), explained clearly the fundamental connection between institutions, and surplus which is essential to understand economic development and underdevelopment from a historical point of view:

“Capital accumulation originates in the current fact that every community, even those at the lower levels of labor division, is capable of creating a surplus, that is, of producing beyond what is needed for the survival of its members” (...).

“In an economy that has reached certain degree of development, production reveals such a structure that accumulation becomes a process almost automatic. Nevertheless, the right functioning of the productive apparatus requires a certain composition of demand. Now, demand composition is determined by income distribution, that is, by the ways through which, different social groups appropriate the social product. Consequently, it is possible to conclude that the productive structure, the division of product between consumption and accumulation, and the income distribution, have fundamentally the same causes. These are based on the institutional system, articulated around the process of surplus appropriation” (...).

“Contrarily of what happens in a slavery appropriation regime, the beginning of a flow of trade produces a productivity increase. The fruit of this productivity expansion reverts, totally or partially to the benefit of the merchant. Consequently, in this case the appropriation is not a simple phenomenon of unilateral transference of incomes; it coexists with an increase of productivity and, consequently with the creation of new income”.

Tracing the difference between an industrial economy and a commercial one Furtado observes: “In the latter, incomes of great merchants can be retained, partly in a liquid way, and be treasured indefinitely. Been formed outside the economic system – constituted by the urban community- those incomes do not represent any counterpart of goods produced under the system. In the industrial economy, the entrepreneur’s income as much as that of the salaried worker or any other income has to be reintroduced into the economic circuit in order not to interrupt it. If an entrepreneur keeps its incomes in a liquid form, then other entrepreneurs will not be able to completely sell their products. For this reason, in an industrial system, production is organized accordingly with the way in which the income is going to be utilized taking into account the possibilities of external exchange”.

After deepening in the analysis of industrial economies, Furtado concludes his analysis establishing a link between these autonomous forms of economic development and the specific forms assumed by the transplant of these processes to other societies. He emphasizes “the strong interdependence between the evolution of technology at industrialized countries and the historical conditions of their development. That technology, in the form that appears presently embodied in industrial equipment, is the result of a slow decantation process, fundamentally influenced by the specific conditions of some nations, especially England and United States, which from certain viewpoint constituted a single economic system during great part of XIX century. In such a way, the orientation of technological progress, the design of global demand and the preferences of

the different groups of consumers, in the presently industrialized countries under free enterprise, are a result of specific historical processes. The transplant of these elements to different historical frameworks generates a new set of problems that will differ depending if the transplant is done under a centralized decision model, or under the institutional framework of free enterprise. The underdevelopment theory pays attention principally to the problems derived from the second form of propagation of modern technology”³⁴.

In another chapter of the same book, Furtado recognizes the contribution of Raul Prebisch to the study of development and underdevelopment processes: “To Raul Prebisch can be attributed the formulation of another important, historically based, design that tries to explain the development of the modern economies. The double foundations of his formulation are the analysis of modern technologies’ propagation, and of the distribution of the fruits of technical progress. In accordance with this conception, the creation of the first industrial nucleus in England unfolded a propagation process of modern technology to the rest of the world. The first century of the Industrial Revolution saw the substantial expansion of the original nucleus, and its irradiation to various countries; presently, on the contrary, the most important characteristic of contemporary economies is the coexistence of a *center* that produces technological development, with a vast and heterogeneous *periphery*. The center, also, is not homogeneous, been formed by subsets of unequal importance, but in spite of that, one economy exists that plays a principal role. Until the first world war England was that main center, since then the place was taken by U.S. The greater instability of the world economy in this (twentieth) century, under the hegemony of U.S., is caused accordingly with Prebisch to the fact that external trade has a secondary importance for American economy. On the other hand, the types of relationships between center and periphery contribute to the aggravation of the income concentration phenomenon at a world scale, principally due to the persistent deterioration on the terms of trade of peripheral countries that favored the centers. The analysis of contemporary economies, under a dynamic viewpoint, indicates that do not exist and automatic ascent from an inferior phase of development to a superior one. On the contrary, the only tendency at sight is that the underdeveloped countries will continue in the same condition”³⁵.

Furtado tries no to mix his own interpretation of the underdevelopment process with that of Prebisch, and on another chapter of the same book he provides an important clue to understand the nature of the dualistic and heterogeneous economic structures of underdeveloped countries: “The dynamism of the capitalist economy results, in last analysis, from the role performed by the entrepreneurial class, that utilizes in a reproductive way a substantial part of the income permanently renewed and incremented. It has already been noticed, that consumption of capitalists is determined by institutional factors and, practically, do not depend on short term fluctuations of global income. On the other hand, consumption of wage earners is determined by the global employment level, with a secondary role on the development process. It results, then, that what determines dynamism of capital economies is the way in which is utilized the amount of

³⁴ Celso Furtado, *Teoría y Política del Desarrollo Económico*, Siglo XXI Editores S.A., México 1968, Capítulo 11, Las Formas Históricas del Desarrollo, páginas 145 y siguientes.

³⁵ Furtado (1968), pages 141 and 142.

incomes that returns to the entrepreneurs and the fraction that they save. Now, that is a part not linked with the territory where the enterprise or firm is located; its utilization depends, almost exclusively, on the conditions prevailing in the economy that is exporting capital”.

This conceptual approach provided by Furtado is essential to understand why the settlement process of capitalist technologies and institutions has been so biased in Latin American History and has promoted varied forms of structural heterogeneity.

LATIN AMERICA: TRANSFORMATION OF BASIC COLONIAL SITUATIONS

The transition from the mercantilist colonial period to the liberal capitalist order implied the decadence of the colonial powers: Spain and Portugal. England emerged as the great center of the world economy. The British Industrial Revolution of the eighteenth century developed the technological and institutional foundations of capitalism. Its political system, after the so called the “Glorious Revolution” of the seventeenth century, generated advances towards the institutions of democracy. Both tendencies fructified, spectacularly, in the British colonies of North America, giving place to the American Revolution (been in fact founded in the ideology of the English and European liberalisms and been expressed through the foundation of institutions that linked capitalism and democracy under the same Constitutional framework).

At this historical time, the vision of the Latin American School of Development acquires relevance and, without denying the American Institutional and neo institutional political economy’s interpretation, supplements and enriches it. The reason is obvious, the phenomenon of the technical progress acquires, starting from the British Industrial Revolution, an unusual and growing importance in the explanation of the economic development. In certain sense it could be said that the Latin American School of Development, keeps correspondence in its epistemological foundations, with the Institutional American School of political economy, but it emphasizes the exogenous impact of technical progress derived from the successive industrial revolutions of the contemporary era, over the economic formation of LAC societies. The Latin American approach departs from the fact that technological and organizational change comes first from abroad and afterwards the internal preexisting institutional setting has to be adapted to the functioning of these new technologies and organizations.

Particularly the dichotomy *capitalism-democracy*, used by Prebisch to examine Latin American societies, starts to have explanatory meaning. In the conceptual crossroad among the *rural-urban* dichotomy, on one hand, and the *capitalism-democracy* dichotomy on the other, an interesting line of research opens up regarding the development of LAC societies.

In rural areas of Latin America, capitalism penetrated precariously under the form of hybrid (pre capitalist or semi capitalist) organizations: the *country properties called “Haciendas Señoriales”* and the *plantations*. Although the slavery is abolished formally in all the Latin American countries during the phase of the independence (XIX century)

the rural labor relationships continue being predominantly pre-capitalists. This affected the introduction of technical progress in agricultural activities.

Of course, under these pre-capitalist or semi-capitalist organizations, the introduction of democratic institutions is purely formal in rural areas, even in the cases of more developed rural capitalism at the southern cone of Latin America.

In urban areas of Latin America, capitalism penetrated with greater strength in the labor relationships, but the development of industry, (central foundation of the capitalist development in the centers), was weak and precarious in Latin America, and affecting the modalities of peripheral capitalism, especially in its macroeconomic expressions.

Also, peripheral democracy in urban areas was characterized by strong forms of the so called: “clientelismo”. “Clientelismo” in urban areas because the supply of public employment in highly bureaucratized societies was used as a form of capturing the political will of the beneficiaries in the public administration, and on rural areas because the expression of the popular will was contaminated with an economic form (quid pro quo) of implicit bribe or direct blackmail exerted over the peasants that destroyed any possibility of a genuine democratic expression of the rural population.

NEW PRODUCTIVE CONDITIONS ON LAC EXPORTING ECONOMIES

The decisive influence of technological progress over economic development, consolidated with the Second Industrial Revolution (that was taken place at U.S. in the same period). Departing from the exam of economic and social conditions prevailing in colonial situations, the established types of organizations and institutions were modified accordingly with the productive transformations and the degree style of economic growth induced in Latin America by the central (developed) societies of United States and Western Europe. Let us present a quick exam of some of those changes.

Returning to the XIX Century, the first colonial situation (mining of precious metals and semi-capitalist relations for Indian population in traditional haciendas) experienced a relative stagnation as a consequence of the lasting influence, and later decadence, of the inherited institutions and organizations. The first colonial situation after the exhaustion of the mines of gold and silver, remained much more “frozen” and shifted toward the mining and extractive activities with industrial destination: Tin in Bolivia, copper and “salitre” in Chile, multiple mining activities in Mexico, etc. But with the exception of the Mexican Agrarian Revolution at the beginning of the twentieth century, the Hacienda Señorial continued to be the main organizational form of political, economic, and cultural life of rural areas.

The same thing happened, although in smaller degree, with the second colonial situation (plantations operated under slavery labor regimes). Anyway some important

changes took place in relatively empty and undeveloped territories. That was the case with the area of Sao Paulo, dedicated since the end of nineteenth and beginning of the twentieth century to the production of coffee with the employment of free manpower coming from Europe. This shift toward free labor relations was facilitated by the simultaneous (European) colonization of the temperate areas of Rio Grande Do Sul that provided cheap supply of food to the area of Sao Paulo. The expansion of the city of Sao Paulo under this economic system created one of the two more important development poles of South America during the end of nineteenth and the beginning of twenty century.

Also in Costa Rica, coffee began to be cultivated under familiar size farms of migrants coming from Europe. In other countries of Central America and the Caribbean densely populated with Indian and Afro American peasants (Cuba, Guatemala, Dominican Republic, etc), the economic presence of big corporations of United States (for example United Fruit Company), fomented the introduction of new products like bananas or other tropical fruits taking advantages of the low levels of wages and good physical conditions.

The third colonial situation experienced the most remarkable transformation in view of its weaker engagement with the past and the existence of vast natural resources potentially wealthy but only profitable with the derived technology of the Industrial Revolution. The introduction of a new “technological platform” (railways, ports, etc) facilitated the exploitation of agricultural activities of temperate climate. The railroads, the steam ships, and the refrigeration techniques for the maritime transport, determined the possibility of exploiting the humid pampas and other tempered climate valleys (Argentina, Uruguay, Chile, Brazil) or cold plain fields (argentine and Chilean Patagonia)³⁶.

In this colonial situation, the abundant migrations of Southern European population (ends of XIX and beginning of XX century) provided the labor force for new settlements located in the so called Southern Cone of South America. Notice that these immigrants, generally poor but legally free, brought with them subjective perceptions oriented to their personal progress not only in the economic areas (participating in the created wealth), buy also in political (defense of rights and freedoms) and cultural (autonomous influence of their own customs and traditions) ones. They were carrying the informal institutions of more equitable societies than those of LAC. They could preserve until certain point its cultural heritage because they built new settlements on empty, or scarcely populated, territories. With more of less one century of delay, these new settlements present a resemblance with some of the first rural colonies of North America. But the previous monopolization of the land by national pre existent elites, and the minor scale of the migration stream, marks a decisive difference with the situation developed in

³⁶ Armando Di Filippo, *Desarrollo y Desigualdad Social en América Latina*, Fondo de Cultura Económica, México 1981, Segunda Parte, Capítulos 5, y 6.

the colonies founded on the United States, and even more after the nineteenth century conquest of the west.

MAIN LATIN AMERICAN TRANSFORMATIONS (XIX CENTURY)

In summary, under the British hegemony Latin America became producer and exporter of primary products to the centers and importer of manufactured products from the centers. Great Britain in nineteenth century and U.S. in twentieth century provided the financial capital and the derived productive equipment of the (first and second) Industrial Revolutions creating the infrastructures (railways, roads, ports, energy, etc.). These investments took place only in the Latin American regions and sectors involved on the production of food and industrial inputs, increasing decisively the British influence in the south of Latin America.

Summarizing what has been said in the last section, it is possible to make a distinction among three types of primary products exported (in this new historical scenario) from each one of the past colonial situations: extractive and mining (Chile, Peru, Bolivia, Venezuela, Mexico, etc), agriculture of tropical climate (Brazil, Colombia, Venezuela, Central America, etc.), and agriculture of temperate climate (Argentina, Uruguay, Paraguay, Chile, etc).

In the first colonial situation (high-lands occupied by pre-Hispanic societies), the industrial mining characterized by scarce repercussions in three main aspects: i) The productive input-output structure (lack of backward and forward linkages); ii) The territorial expansion; iii) The labor implications (tiny direct absorption of work force).

In this situation, although institutionally the work force was formally free (abolition of serfdom and slavery), many regions of the Andean mountain still evidenced the menial and pro-slavery relationships of the colonial phase. However the historical situations where varied: in Mexico the Agrarian Revolution changes the rural society but without modernizing its rural labor relations, in Bolivia and Peru the rural colonial social relationships freeze until half of the XX century, in Chile the extensive extractive activities of the *salitre* (natural agricultural fertilizer) and intensive mining of copper, produces important social transformations, etc. From a structural perspective the mining activities don't produce big economic transformations on the productive system, do not generate great quantity of direct employments, and do not stimulate the industry with forward and backward productive linkages (for example producing articles using as inputs the minerals exploited, or producing machinery and equipment required for the mining exploitation). Also the territorial diffusion of the mining activity is scarce, because the exploitations in general are located in a point of the territory. Therefore the direct impact of the mining activity on the global economic expansion is very scarce. The case of the salitre in Chile was an exception to those tendencies, in view of its great social and territorial indirect impact.

In the second colonial situation (mainly pro-slavery tropical plantations), continued developing new productive organizations of the same type, with territorial and social repercussions of certain importance, but with small backward and forward productive impacts at national level. However no generalizations are possible starting only from the technological and economic conditions in strict sense, but rather important institutional and cultural factors (subject to the influence of path dependence effects) also intervene. In this second situation it is necessary to distinguish two different processes. In the territories densely populated and economically exploited from the colonial phase (Central America, the Caribbean, Northeast of Brazil, etc); the liberation process (recognition of the rights and freedoms) of rural work force subject to servitude or slavery relationships was very slow and in many cases took the whole XIX century and even the first half of the XX one.

In the territories scarcely peopled during the colonial phase, arose (in what we have denominated “second situation”) new managerial and labor relationships, quite nearer to the institutions of democracy and capitalism: free mercantile recruiting under conditions of freedom and contractual relationships as in Sao Paulo or in Costa Rica.

Finally, the so called “third colonial situation” (plains and valleys of temperate climate located at the southern cone) shows a historical case of maximum development corresponding to the economy and the society of Argentina. In this area, their relatively empty spaces were occupied with technically modern infrastructures, and inhabited with Europeans that arrive under conditions of full political freedom but with scarce economic resources. Certainly, the characterization of “European” is not important in this context from a racial point of view, but for their cultural implications compared with the individual perceptions and technical capabilities of the population engaged in the colonial labor rural relations. It was in these situations that new societies were founded where the institutions of capitalism and democracy rooted with more initial strength.

In this third situation the exploitation of temperate climate products (meats, wool, cereals, etc.) reached great impact with important repercussions, over the productive, spatial and social structures. But also other traditional crops such as coffee were modified on the technological, institutional and organizational forms of their production.

These processes strengthen the undeniable connection that exists among the technological and institutional change. But this technological and institutional change was embodied and personalized in the Europeans migrants that settled into the “pampas” of Buenos Aires Province, the plains of Uruguay, the Central Valley of Chile, the Patagonian territories, etc. The same can be said about the relatively unoccupied territories of Sao Paulo (“second situation”) or at Rio Grande Do Sul (area “gaúcha” with natural wealth comparable to those of Argentine Pampas or Uruguayan valleys), similar modalities of commercial agriculture were developed under contractual basis and free

institutions. However the salary relationships were not totally capitalist and they were subject to situations of exploitation..

In all the cases quoted in this paragraph the power structure applied in labor relations, relied in the property rural relations under the so called latifundio-minifundio system (a lot of rural workers owning too little land, and a lot of land owned by very few landlords). This previous appropriation of the land by a ruling class of landlords was an essential mechanism of the productive structures even in the more advanced and capitalist style agricultural Latin American modes of production.

Regarding the Argentine case, where huge amounts of idle land were available we may read: "Frontier movement was accompanied by profound shifts in the pattern of land ownership and use. While inheritance laws –all heirs shared equally in the distribution of assets –encouraged land subdivision, the early phases of new commodity production were the principal mechanism "democratizing" access to land. The "wool cycle" was associated with land subdivision and increased settlement density, especially in northern districts (partidos) of the province of Buenos Aires before the 1860's. This was partly due to the availability of new land on the frontier, following the indian campaigns of Rosas [argentine ruler of this historical period] in the 1830's. Drought and rising prices of wool resulted in the restocking of established areas with sheep as creole cattle were "expelled" to the frontier. The greater carrying capacity of the land, coupled with the scarcity of skilled labor, ensured that Basque, Scots and Irish shepherds working in shares were able to accumulate and acquire land. Later, after the 1860's, agricultural colonization and cereal cultivation in Santa Fé and Entre Ríos had a not dissimilar impact as pastoralists subdivided *estancias* and realized a substantial premium by promoting immigration or selling to colonization companies. (...)

(...) "Nevertheless, while the wool and early wheat cycles of the middle third of the twentieth century fostered a slow "democratization" of land ownership, the opening up of the southern pampas during the 1880's provoked a re-concentration of ownership. Following the Roca [argentine ruler of the period] campaigns of 1878-79, huge estates were carved out of newly conquered territories. By the 1880's, railway construction was already valorizing land in the central pampas as estates were brought into direct contact with national and international markets. Well connected politicians and their associates acquired title to vast areas by buying up land certificates issued to finance the war and presented in part payments to officers and soldiers who had participated in the indian campaigns. In the 1880's land speculation and rising commodity prices conspired to check the modest growth in homesteading observed during the immediately preceding period. Potential small farmers were squeezed out of the market or came to rely on official colonization in relatively marginal areas –the national territories- to obtain land. Despite a continuing pro colonization stance in official rhetoric, market and non market forces conspired to limit access to land. Mass immigration reduced the scarcity value of

skilled rural workers just as the politics of regime consolidation and export opportunities raised both the political and economic value of land”³⁷.

It can be noticed in this historical example, that the triggering factor of the economic expansion at the pampas was the setting of railways connecting the region with international markets. Only after this main technological event, labor and property institutions were rebuilt creating an unequal socio-economic environment in rural pampas. In other words technological change came first (and from abroad), inducing subsequent changes in institutions and organizations. The Argentine case is, in other aspects very similar to the American conquest of the frontier: huge empty territories and European colonizers ready to settle down. But the differences were that, in Argentine case the construction of the railways was undertaken by British companies and the railway network was designed to export the primary products needed by the British economy. In Argentina, the appropriation of a great part of the new land was a previous political event undertaken by the government and achieved through military campaigns to the Indians territories. We shall return to this fundamental comparison.

THE URBAN CONFIGURATION IN LATIN AMERICA SOCIETIES

The Latin American urbanization process was intensified in the areas of late population settlement (end of the XIX century and beginning of the XX century) giving place to a great expansion of main cities as Sao Paulo, or Buenos Aires, and creating in the countries of the southern cone (Chile, Uruguay, Argentina, and Southeast of Brazil) an important growth of urban population's proportion. This areas as we shall see, were the place of the most important development poles of South America during the first part of twentieth century.

From a wider perspective, and taking into consideration the whole urban evolution of Latin America two main features are perceived. First the notable differences of living conditions between rural and urban areas; and secondly the great concentration of urban population in main cities (what, in demographic terminology is denominated high primacy of the urban system). The two mentioned features respond to the colonial inheritance of our economic and social structures, because the main cities were centers of political, bureaucratic, religious, and military power during the colonial dominance.

In connection with these urban processes is possible to consider them as a good example of dependency path in the technological and institutional sense. These cities implied falling costs (growing economic results) of learning, of scale, of coordination and of adaptation. The result has been the centralization of political power in the main city, the persistence of highly bureaucratized public organizations, the central position of these cities in economic and cultural matters, and the cultural and political dependence of the rest of the cities and rural areas to its dominance.

³⁷ Colin Lewis, *Argentina: a short history*, Oneworld publications, Oxford, England, 2002, pages 109 and 110

Usually these cities were the political capitals of each nation and directly communicated with the main overseas port. These ports evidence scale advantages on the processing of ultramarine trade. These urban conditions can easily be seen in Buenos Aires, Santiago, Montevideo, Sao Paulo, Lima, Caracas, La Havana, etc. Other cities like Bogota or Mexico D.F., were distant for the main port, but well connected to it. From the colonial time developed this urban concentration that responded to the high degree of territorial centralization of the main centers of power, with a global urban design in which “all the roads led to the main urban center.” This determines coordination advantages in those economic activities. So the organizations institutions continued adapting to that centralist design.

As will be seen in the next chapter, this high primacy and concentration of economic power affected, later on, the localization and modalities of the industrialization process in Latin America. Consequently the institutional rules of the colonial phase ended up influencing the productive and industrial processes of Latin American Societies in the XX century.

The dependency path derived from urban primacy and centralized power system, can also be examined starting from the emphases of Prebisch in technological external influence. We may say that a city can be seen as a technological device created by human beings to capture multiple agglomeration and scale effects through the interaction of different physical structures belonging to different types of economic, political and cultural organizations. But the internal design and geographical location of the main Latin American cities was decided by the Spaniard and Portuguese Empires during the early colonial times.

Indeed the impact of the technology was a decisive factor in the economic structuring of the most dynamic regions during the XIX century and beginnings of the XX century. In fact the four types of advantages mentioned above (of scale, of learning, of adaptation and of coordination) have a more technological than institutional content, or, rather, it was the technological change that precipitated the changes in the internal rules of the game (institutions) and in the strategies and practices of the new economic players (organizations).

NORTH AMERICA INWARD ORIENTED DEVELOPMENT (XIX CENTURY)

In the case of U.S. the colonizers had much wider access to technical progress. At the middle of the nineteenth century U.S. was industrializing at very high speed³⁸. The

³⁸ The end of the war saw no let up in industrial activity. In the five years after Appomattox almost every industrial record was shattered. More coal and iron ore, silver and copper, were mined, more steel forged, more rails be laid, more lumber was sawed, and more houses were built, more cotton cloth was woven,

farmers also got access to property, and the distributional struggle was not to get the land but to achieve a fair distribution of gains between the farmers, on one hand, and the banking and railway companies, on the other hand. Referring to this matter we can read that, after the civil war: “The farmers, too, got something from the war and the post war boom, though less than they thought. The Republican Party had rallied support with the cry “vote your self a farm” and promptly after it took over the government. It reenacted the Homestead Law that a democratic president had earlier vetoed. By the terms of this act anyone might have 160 acres of public land by agreeing to cultivate it for five years. The enlightened legislation did enable several hundred thousand farmers to locate on the virgin soil of the West, and it thereby advance economic democracy. Yet at the same time, larger areas were given to the railroads and other corporations or sold to land companies and speculators. Most of this, in turn went eventually to farmers –but at a price. Congress passed the Morrill Act at the same time, granting several million acres of the public domain for the endowment and maintenance of agricultural and industrial colleges in all the states. Great state universities, like Iowa, Michigan, Minnesota, are monuments to the wisdom of the Act”³⁹.

The foundation and growth of the main cities in U.S. was not (as in Latin America) a political decision of the conquerors, but a natural consequence of the territorial occupation by the colonizers, first at a local level, and after with the industrialization, in an interconnected net of regional productive specialization. The civil war, the railways expansion and the growing demand of agricultural tools by the farmers gave enormous impulse to the metallic industries expanding the industrial settlements of certain cities, and gradually the urban growth itself promote a feed back between industrialization and urbanization that diversified the structure of industrial production: “Under a series of railroad laws Congress subsidized the construction of transcontinental roads with loans of over sixty million dollars and outright gifts of over one hundred million acres of public lands –grants lavishly supplemented by states and local committees”.

“Favored by these auspices and stimulated by the insatiable needs of war and the equally insatiable needs of an expanding population, business and industry flourished as never before. (...) Industry responded enthusiastically to the myriad needs of the armed forces and to an even greater demand of a war economy. Twenty thousand miles of track were laid in a decade, most of it in the West, and transcontinental were pushed across the plains and the mountains with dizzy speed. Telegraph lines were strung from city to city and soon crossed the continent; cables were laid across the Atlantic; and within fifteen years the telephone added a new means of lightning quick communication. The McCormick harvesters works at Chicago could not keep up with the greedy demand for harvesting machines coming from the prairie lands of the Middle West: factories at Akron and Canton Ohio, turned out tenth of thousands of mowers; by the mid seventies

more flour milled, more oil refined, than in any previous five years on hour history. In the decade from 1860 to 1870, the total number of manufacturing establishments increased by eighty per cent and the value of manufactured products by one hundred per cent. The industrial revolutions was an accomplished fact”.

Nevins and Commager (1992) pages 247, 248.

³⁹ Nevins and Commager (1992), page 249.

factories along the middle border were sending out barbed-wire to the farms of the high plains. The MacKay boot and shoe industry, the great packing plants of Chicago and Cincinnati, the flower mills of the twin cities, the breweries of Milwaukee and Saint Louis, the iron and steel mills of the Pittsburgh region, the old refineries of Ohio and Pennsylvania, and a hundred others worked day and night to meet the orders that poured in on them”⁴⁰.

The expansion of urban and industrial life was at its most dynamic point at the same time that the closing of the frontier put an end to the long conquest of the West. The consolidation of central, executive, government began precisely at the same when frontier was closing.

As Douglass North pointed out: “The shift in rule-making power from the legislative to the executive branch was implemented by a set of court decisions between 1892 and 1911 which acknowledged the power of the legislative branch to grant discretionary power to the executive branch. These decisions recognized the power of executive agencies to make rules within the broad policy objectives set out by Congress. In *United States versus Grimaud* (1911)”.

“The development of “commission government” has in recent years been assigned a major role in the structural change of the American economy. The substitution of a small number of commissions in place of the cumbersome Madisonian machinery of government immensely reduced the costs of utilizing the political process to alter property rights”⁴¹.

The increasing interference and control over the competitive market from big corporations has also been noticed by Douglas North: “The history of business enterprise during this era has been characterized on the one hand as a story of Robber Barons and on the other hand as the development of the “Visible Hand”. Both approaches do in fact mirror elements of the organizational consequences of the Second Economic Revolution. In the previous chapter I briefly described the managerial revolution so eloquently detailed by Chandler. But equally a part of the story are the events detailed in the muck-racking literature; the manipulation of rail road finance by Drew, Fisk, Gould and others; the control of the New York State Legislature by the life insurance companies; Rockefeller’s rebating agreement with the Pennsylvania Railroad; Morgan ubiquitous efforts to consolidate industries; and a thousand and one other occurrences of this gaudy era of business activity. They all reflect the immense gains from opportunism and from limiting competition that accompanied the Second Economic Revolution. They also reflect the instability of voluntaristic solutions because the gains from cheating on “gentlemen’s agreements” were simply too tempting to produce lasting stability. Only the trust was an effective response to opportunism, and the Sherman Antitrust Act⁴² of 1890

⁴⁰ Nevins and Commager (1992) page247/

⁴¹ Douglass North, *Structure and Change in Economic History*, Norton Company, New York, 1981, page 195.

⁴² The Sherman Antitrust Act prohibited “all contracts combinations and conspiracies in restraint of trade” and monopoly on interstate and foreign trade. The Sherman Act Required subsequent amendment, including the Clayton Act of 1914. This American use of the word trust has changed its original meaning that, I

was at least partly designed to close that door. The use of the machinery of government was a natural step. Life insurance companies had utilized the machinery of state government to reduce competition and prevent discontented policy holders for demanding an accounting of poor dividend showings by major companies; other business and financial interest groups found that they could more effectively curb competition through departments and commissions at a federal level”⁴³.

The American farmers had a hard struggle against the interests of the great companies, especially the Banks and railroads: “Fundamentally, declining farm prices and income were due to a vastly increased competition of farm products on the world market and to the overexpansion of agriculture that had taken place during the Civil war. In assaying his plight, however, the farmer almost invariably attributed hard times to an inadequate money supply and to the immediate, tangible abuses he suffered at the hands of his economic masters, the railroads and the banks. Against the railroads his grievances were real enough. The carriers not only charged the farmers exorbitant rates that frequently took the value of one bushel of wheat or corn to pay the freight on another, but through rebates and other secret agreements they viciously discriminated against him in favor of larger and wealthier shippers. The bankers too, as money became scarcer, as interest rates on loans and mortgages soared, and as foreclosures multiplied, seemed the farmer’s mortal enemies. As one Nebraska farm editor lamented, “We have three crops – corn, freight rates, and interest. The farmers farm the land, and the businessmen farm the farmers”⁴⁴.

Summarizing, it can be said that in the case of American Economy the industrial revolution was firmly settled in the second half of nineteenth century. The farmers, descendants of the pioneers, were established in great numbers as small and medium landowners coexisting with some big landlords, and their agricultural output was directed to the growing domestic demand of a unified enormous national market. There was an early feedback between industrial and agricultural development which gave continuity and autonomy to the process. We may perhaps say that this historical process had a correct “timing”: firstly the conquest of the West created a formidable agricultural productive power and a competitive but equalitarian environment of what we may call competitive agrarian capitalism; secondly the foundation of cities and the settlement of railways consolidated the national market; thirdly the industrious spirit and the pragmatic philosophy, typically American, stimulated the autonomous technical progress and the industrial growth on a decentralized urban net; finally after the civil war the emergence of

believe, North is alluding in the paragraph here quoted: “An arrangement through which one set of people, the trustees, are the legal owners of property which is administered in the interests of another set, the beneficiaries. Trusts may be set up to provide support for individuals or families, to provide pensions, to run charities, to liquidate the property of bankrupts for the benefit of their creditors, or for the safe keeping of the securities bought by “unit trusts with their investor money”. The assets which trust may hold are regulated by law. This must be administered in the interest of the beneficiaries and not for the profit of the trustees”. See, John Black Oxford Dictionary of Economics, Oxford University Press, Great Britain 2002, pages 427 and 478.

⁴³ Douglas North, (1981), page 197.

⁴⁴ Richard Heffner, A Documentary History of the United States, New American Library, New York 2002, page 232.

big business enterprises collected agricultural surplus to develop the essential characteristics of American Capitalism.

In the case of American Capitalism the founding fathers of Institutional Political Economy (Veblen and Commons) emphasized the distinction between the engineering economy and the business economy in economic American history, the distinction between the productive power of the former and the purchasing power of the latter. Corporate capitalism is an economic system that subordinates the productive power of industry to the purchasing power of business. The evolution of American Capitalism had two different stages, firstly the expansion of the agrarian frontier and with a certain superposition on time, the expansion of small and medium industry in the cities; and secondly, after the civil war, the consolidation of central government and the control of the whole process by the big business.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER IV. DEMOCRACY, URBANIZATION AND INDUSTRIALIZATION

CAPITALISM AND DEMOCRACY AT THE END OF NINETEENTH CENTURY

The issue of peripheral forms of democracy has not been tackled until this moment in these notes. Contemporary democratic ideas, derived from the American and French Revolution were “imported” to Latin American societies through two main ways. As Peter Bakewell suggests: “After independence, it was generally more extreme conservatives’ preferences who were drawn to monarchy. The moderate conservative’s preference was for a firmly centralized republican government; and this they could achieve by backing able national *caudillos*, who in return would supply a variety of political and financial favors. “Conservatism”, in the post independence context, meant the preservation, as far as possible, of the social and political conditions of late colonial times (“political” in the sense that power should remain the exclusive possession of the traditional upper reaches of society). Conservatism was not so much a political creed as a form of political inertia, a quite expectable and natural clustering together of many of the rich and eminent who suddenly found themselves deprived of the props that the Spanish presence had provided. Externally, their new countries stood exposed, largely defenseless, to the forces of international politics and economics. Inside the countries, the rich and notable now lacked the assuring reinforcement of social hierarchy that the presence of orderly Spanish administrative and legal structures had implied. If conservatives had any ideology, it was in a shared belief in the central role of the Catholic Church in their societies. For the church was, for them, not just the source of spiritual certainty and help, but also the bearer of a long social and cultural tradition; and beyond that, a force that could and should bind society together. Any attack on the church, whether on its spirituality or on its material possessions, was likely to inspire conservatives to furious response”.

“And attacked the church certainly was. Its assailants were the numerous adherents of liberalism to be found in the newly independent Spanish America. Unlike conservatism, liberalism was clearly an ideology; and moreover, one alien to the Spanish World. Its origins were in north-western Europe in the eighteenth century, and particularly in the rationality of human beings emphasized by the Enlightenment. The eighteenth century’s confidence in the power of human reason to solve problems made liberalism inherently a doctrine of change. Its confidence that reason resided in every human being made liberalism naturally a doctrine of individualism and, by derivation, one of individual liberty and equality also. All this – the emphasis on interlinked individuality, liberty and equality – was contradictory to the body of social and political

beliefs that passed to independent Spanish America from the colonial period. Those beliefs were, in essence, an extension of medieval view that society properly consisted, not of separate individuals, but of estates and corporations, in which people occupied fixed and largely unchangeably positions, forming a firm and strong hierarchy. In colonial times this model of society had, as suggested earlier, lost some of its rigidity in Spanish America. But it was still the underlying pattern, and one to which conservatives reverted, especially in times of uncertainty or disorder”.

“Liberalism came to Spanish America by two routes. One was creoles’ reading of political and philosophical writings from Europe and North America, together with the direct experience that a rather small number of them had, as travelers, of political life in those two regions in the late eighteenth and early nineteenth centuries. The other, and more important, means of transmission was the Cortes of Cadiz, and above all the constitution produced by that parliament in 1812. The fact that the constitution was the product of a modernizing Spanish body, in which creoles had had at least some participation, made it especially appealing to reform-minded men in the colonies around the time of independence”⁴⁵.

Two conclusions can be derived from these episodes. Firstly that the word conservatism meant the cultural, political, and economic positions of power built up during colonial times. And, secondly, that the word liberalism meant, neither working rules, nor social practices, but only an ideology without sufficient roots on concrete Latin American societies. That is to say that, formal rules of democracy and capitalism were confronted with ancient informal rules of colonial societies.

The historical episode of the Cortes of Cadiz included in our last quotation is a good example of the difference, emphasized by North, between formal and informal rules, not only in Latin American Colonies but also in their motherlands. We can add some quotations to make this point clearer: “Starting with the creation of the first juntas in 1808, the successive governments of resistance sought to retain the empire and to receive financial assistance from it. In their efforts to do so, the Central Junta, the regency, and the Cortes of Cadiz contributed to the politicization of colonial population. The initial message was clear: An unprecedented equality between Americans and Spaniards was forthcoming. As early as October 1808, the Central Junta decided that it should have American representatives. Accordingly, on January 22, 1809, it issued a decree that the four viceroalties and six captaincies-general should each elect one representative to serve on the Central Junta. Received warmly by creoles, this decree signaled the beginning of what promised to be a new era in the relationship between the colonies and Spain. Never before had Americans been summoned to Spain to participate in governance”.

“The regency also encouraged the belief that a new equality was at hand, in a decree of February 14, 1810, that called for the election of deputies to the *cortes*. The decree’s explicit admission that Americans had been oppressed in the past but now were

⁴⁵ Bakewell Peter, A History of Latin America, Blackwell Publishing Australia 2004, pages 428 and 429.

“free men” and thus equal to Spaniards both raised colonial expectations and reinforced the sense of grievance that was so common among creoles. The assertion that the past oppression had ended could be interpreted by Americans only as a promise that political and economic changes were near. Elections were held, and there was public discussion of the grievances as colonial city councils prepared instructions for the deputies. By the time the *cortes* opened in Cádiz on September 24, 1810, a newly formed junta in Caracas had already refused to acquiescence to the regency’s authority. This first open challenge to continued Spanish rule in the New World demonstrated that retaining the empire would not be easy”.

“The most important issue that the *cortes* had to resolve was the extent of American Representation. Most of the thirty American deputies sought equal representation with the peninsulars, initially seventy-five in number. With American expectations of justice in this matter raised by earlier declaration of equality, a successful resolution was imperative. Spanish Americans also pressured their peninsular counterparts on free trade and an end to restrictions on agriculture and manufacturing in the colonies. Other reforms they sought included an end to monopolies, a guaranteed percentage of bureaucratic appointments going to native sons, and the restoration of the Society of Jesus”.

“By 1814 perceptive Americans recognized that the touted equality between the New and Old World provinces of ‘the Spains’ was just rhetoric. The Peruvian bureaucrat and intellectual José Baquíjano y Carrillo, for example, noted that the *cortes* had failed to fulfill the promises made in 1810. By refusing to establish equal representation and free trade, its ‘antipolitical conduct has been the true origin of the desperation of the American people; [the Cortes] never wanted to hear their complaints, nor to listen to their propositions’. Broken declarations of equality had revealed that regardless of the terminology employed, the American colonies remained colonies”.

“Parts of the constitution and some specific laws passed by the *cortes* galled numerous Americans. Colonial officials, especially the viceroys of New Spain and Peru, exacerbated these political problems by refusing to accept the results of elections mandated by the constitutions and to allow freedom of the press as decreed in 1810. Their selective enforcement of legislation undercut the legitimacy of the Spanish government. Nonetheless, there remained in 1814 a willingness on the part of the elites in Mexico and Peru to remain loyal to Spain, despite their dashed hopes”⁴⁶.

It is very interesting to notice that the influences of both American and French Revolution in Latin American Independence were of different nature. In the case of the American Revolution and its British liberal cultural legacy, its influence was, initially, only ideological and, later on, manifested itself in concrete economic links between Great Britain and the recently liberated colonies. In the case of the French Revolution, the subsequent historical events linked to Napoleonic wars in Spain, led to a new situation that ended up in the independence process in nineteenth century’s Latin America.

⁴⁶ Burkholder and Johnson, *Colonial Latin America*, Oxford University Press, New York. Pages 310 and 311.

The next point to consider is the evolution of the democratization process along the nineteenth century in Latin America. The point that links capitalist and democratic development can be seen focusing on the power relations that unfold around the distribution of social surplus. We may recall here a fundamental conceptual proposal of Celso Furtado already quoted in the last chapter: “In an economy that has reached certain degree of development, production reveals such a structure that accumulation becomes a process almost automatic. Nevertheless, the right functioning of the productive apparatus requires a certain composition of demand. Now, demand composition is determined by income distribution, that is, by the ways through which, different social groups appropriate the social product. Consequently, it is possible to conclude that the productive structure, the division of product between consumption and accumulation, and the income distribution, have fundamentally the same causes. These are based on the institutional system, articulated around the process of surplus appropriation”⁴⁷.

This point, related with the distribution of global surplus, is developed by Prebisch, connecting the different power positions that arose in the different stages of peripheral capitalism with the role of the State accordingly with the different composition of political power. His viewpoint is a distributive one, and more specifically, relates with the modes of distribution of the economic surplus, or, using, his own terminology, of the fruits of the increased productivity: “The State, as a political organ of the system -and, consequently, subject to changes in the power structure-, has considerable importance in the distribution of the fruits of increased productivity through the services it provides, the creation of employment, the generation of incomes and the taxes that finance all the process. Those services have different degree of influence on the productivity of the system”.

“From a distributive point of view, the State is an expression of the operating power relations”.

“While in the orbit of the market the demand for goods and services is exerted through the spending of personal income, whatever be the ways it has been distributed, in the orbit of the State the link between incomes and services is different. With few exceptions, the services provided by the State are covered with fiscal resources not necessarily obtained from the incomes of those that are benefited with those services, but from other social groups”.

“Both situations reflect the composition of political power and the changes it experiments under social structural mutations. So, the dominant power of superior strata is confronted by that of intermediate strata while the democratization process advances, and finally is also confronted with the power of lower strata. It is possible to distinguish, in this process, different power combinations, or, rather, different phases, but it is convenient to take some precautions in order to avoid the risk of an excessive simplification of the democratization process.”

⁴⁷ See previous chapter of these class notes, page 3.

“The first phase relates with the outward oriented development process, before the start of industrialization. The political power belonged, then, fundamentally, to the superior strata –landowners, bankers, and great merchants- power that was shared, in small proportion, by those benefited by the social power⁴⁸ in its most conventional forms. These latter forms were predominant especially in the intermediate strata, constituted mostly by traditional middle classes. External demand influenced considerably the generation of production surplus on primary goods. The share that foreign enterprises left inside Latin America was distributed accordingly with the laws of the market, without been perturbed at all by intermediate strata which lacked unionized power. Inferior strata had no access to political power, in spite of been a major fraction of the labor force, mainly dispersed through rural areas”.

“On a second phase, industrialization begins and, in general, also the propagation of technical progress outside the exporting orbit. So, the surplus of primary production is engrossed by that of these new activities. This way, new components are added to the superior strata whose political power continues to be considerable compared with the weakness of intermediate strata that begin to growth in response to technical penetration. The laws of the market continue to rule the distribution process, as a consequence of the said weakness and the use of repressive potential resources from the State, always ready to be applied in front of any attempt of redistributive perturbation”.

“On a third phase, the expansion of intermediate social strata and the phenomenon of urban concentration derived from industrialization and, in general, the propagation of new massive communication techniques, opens the door to the democratization movement. Nevertheless, the superior social strata can mitigate and, even prevent, the incipient unionized and political power of the less favored social strata. In order to do so they use different tools: manipulation and mobilization of masses and “clienteles” directed from the top of the system; the cooptation of political and unions leaders through their insertion on the system with a certain participation in its privileges. The democratization is, anyway, mostly formal, and not substantive, and the unionized economic and political power unfolds within narrow limits.”

“The fourth phase derives logically from the third. It is characterized by the emergence of a better understanding from the middle strata of their own interests, as a consequence of its increased size, with the growth of industrialization and other jobs-creating activities. In the exercise of unionized and political power the previous subordination relationships began to dissolve, and the leaders [of intermediate social strata] acquire new negotiation and compromise capabilities, not only over the redistribution of incomes and jobs but also on other goals that transcend the economic field.”

“On this fourth phase the unionized and political movement acquires great impulse. New leaders emerge whose activity unfolds more and more through the struggle for greater distributive income shares without fears about increasing social tensions. The redistributive demands begin to spread to the inferior social strata, pushing the system through a critical limit beyond which its regular unfolding is subject to a serious risk”.

⁴⁸ See chapter I page 11 of these class notes.

“It must be noticed, by the way, that at the same time, is also occurring a propagation and irradiation phenomenon from the centers. Their democratic ideas and institutions acquire greater influence over peripheral societies in this advanced stage of structural mutations”⁴⁹.

In this characterization, Prebisch links some key conceptual tools: technological change, productivity increases, struggles for the appropriation of the surplus derived from productivity gains. And the explaining categories that he privileges are the different power forms that emerge from the structure of society.

To connect the concepts of power (introduced by Prebisch) and of institutions (privileged by North), it is possible to define power (following Max Weber) as the capability to impose our own will in a certain social relation. Now, we may characterize social relations (following Max Weber again) as interactions based upon reciprocal expectations of behavior between the parts that are engaged (actors, persons). Those reciprocal expectations of behavior derive from our knowledge of the working rules (political, social and cultural institutions) that effectively operate on each social structure. The position occupied by each part that is socially interacting, if it is known and accepted by the other part, determines the power positions (political, social and cultural) that shape the social structure. So we may say, briefly, that power is the position occupied by each person in the (political, economic, and cultural) institutions (working rules) of the society.

Now, on the other hand we can characterize capitalism, democracy and modernism as institutional systems integrated by an interdependent set of (economic, political, and cultural) institutions that determine the power structure of each concrete society. Under this terms, the social structure is defined by the power structure of each concrete society.

On the whole, the analysis of Prebisch reciprocally connects two crucial global categories: capitalism and democracy; but he redefines those concepts departing from his center-periphery approach. And the essential explaining theory that presides all his analysis emphasizes the international spread of technical progress derived from the successive different technological revolutions occurred from the eighteenth century till nowadays. The first phase is connected with the impact of the First (British) Industrial Revolution, the second phase is a delayed outcome derived from the Second (American) Industrial Revolution, and has evolved in the framework of technological, organizational and institutional conditions previously settled; the fourth phase is an internal consequence of the interplay between industrialization and urbanizations processes and its impact of the enlargement of middle social strata.

⁴⁹ Raul Prebisch (1981), *Capitalismo Periférico, Crisis y Transformación*, pages 81, 82, and 83.

So, in Prebischian theoretical explanation about the sources of historical change, technology comes first and from the centers; it arrives incorporated to the know how of economic infrastructures and organizations (ports, energy, railways, mining, plantations, industrial enterprises, etc.), or embodied in instrumental equipment (machinery, motor cars, etc.) imported from the same origins. So, the point of departure of Prebisch's theory and, more generally, of Structural Latin American School of Political Economy to explain Latin American Development is the social impact that derives from the transplant of organizations and technologies originally created in the course of the economic development of the centers. This transplant has a great impact not only in overall institutions of peripheral societies, but especially in the previous economic structure of these societies.

Prebisch points out the impact of this technological and organizational new forms over the previous societal power positions, distinguishing among social (cultural), economic, and political power positions, including the transforming consequences of the used of unionized power from medium and low social strata as the democratization process goes along. The concept of power is insinuated (but not fully adopted) by North, when he speaks about the bargaining power of the parts that participate in economic and political transactions. As we have just said, it seems possible to connect the concept of power to the ideas of North, defining it as the position occupied by the different players in the political, economic, and social (cultural) institutions. This positions shape the behavior of those actors in the political, economic, and cultural transactions that take place in peripheral societies.

THE INDUSTRIALIZATION PROCESS, DIFFERENCES WITH THE CENTERS

In Latin America the industrialization process was not a consequence of the development of its internal institutions. Neither capitalism nor democracy, had matured enough during ends of the XIX and beginnings of the XX centuries, as to induce the necessary cultural, social, economic and political transformations for the integral industrial development, similar to which took place in United States and Western Europe. In Latin America the industrialization was induced by serious and exceptional international situations that, during the first half of the XX century, interrupted the supplies of industrial products coming from the central countries.

The Latin American industrialization did not give place to a radical change of its international economic position. Latin America during its industrial expansion continued being exporter of primary products and importer, not only of consumption manufactured goods but also of industrial inputs, machineries and equipments for its nascent industry.

The Latin American industrialization was technologically subordinated to the one that was developed in the centers and adopted the productive procedures and machineries coming from the centers. This Latin American industrialization was bounded to the main urban centers, which were endowed with supply and demand conditions in factor of

production that were necessary for industrial expansion. Industrialization didn't embrace rural areas or agricultural activities, which continued tied to the economic institutions and organizations of the past.

So, Latin American industrialization, was subject, on one hand, to the path dependence in the sense of North, and, on the other hand, to the strong influence of international events in the (center periphery) sense emphasized by Prebisch.

In the centers the industrialization process, implied important historical changes verified on the institutions and on the economic and social organizations that preceded the technical changes in industry. It could be said that the emergence central industrial societies was the result of the interaction among the emerging institutions of democracy and of capitalism in the cultural framework of modern western scientific progress. This seems to be certain not only regarding the First Industrial Revolution (Great Britain, since half of the XVIII century) but also for the Second Industrial Revolution (United States, since ends of the XIX century).

The British First Industrial Revolution was a consequence of those deep social changes. The industrialization process in Western Europe, also embraced all the sectors and regions of each country (France, Germany, Netherlands, etc) that was entering in it. With the disappearance of the rural feudal institutions and organizations, also European agriculture “industrialized” itself from a technological point of view, contributing to the demand of agricultural machinery and instruments of industrial origin.

Also U.S.A, with its own industrial revolution at the end of nineteenth century, had cultural features that promoted the quick adoption of capitalist institutions. Additionally, American society incorporated to the industrialization process in a period when technology was not, yet, so complex as to establish impassable barriers to catch up the development stage of the most advanced industrial societies.

In a first phase, at the beginning of the XX century, the technologies of the second industrial revolution were used by central countries in war activities: the internal combustion engine mobilized airplanes and many land equipments, the petrochemical technology also contributed to provide new materials with warlike ends, electronics devices speeded up communications in battle fields, etc.

At the same time, the productive techniques of Henry Ford, immortalized by Chaplin in its famous film “Modern Times”, combined with the disciplines of Taylor and Fayol in the field of scientific organization of work, favored the massive serial production processes that contributed to the victory of allied forces in the Second World War.

Certainly, non democratic regimes (communism and fascism) also built powerful industrial societies, but only on politically unviable and historically transitory bases. However it is not the object of these classes to examine the authoritarian slope of industrialism. It only intends to examine the origins of the industrialization process in Latin America, and to compare them with the previous industrialization processes, that took place on the capitalist and democratic societies of occident.

In Latin America the industrialization process, after the IWW was fundamentally influenced by the modalities of the North American industrialization, derived from the application of the Second Industrial Revolution technologies, and associated with the mass consumption societies and the construction of a Welfare State, under Keynesian macroeconomic rules. Nevertheless, before this more advanced stage, the industrial potential of Latin American economies was influenced by the historical legacy of its economic formation during the nineteenth century.

INTERNAL CONDITIONS OF LATIN AMERICAN INDUSTRIALIZATION

Internal conditions of Latin American industrialization refer to the objective conditions that favored the development of industry inside each concrete country. Those conditions were different, accordingly to the different types of colonial heritage and economic formation on XIX century. Fundamentally the technological, institutional and organizational inheritance of each Latin American nation, jointly with their internal supply and demand potential, facilitated the growth of industrial activity. It is useful to examine those conditions distinguishing among urban and rural areas.

As a consequence of urban centralization typically derived from the colonial phase, regionally concentrated Latin American industrialization emerged in the main cities of each country. In turn, urban centralization was an economic consequence of the centralized political, economical and cultural institutions located in the main cities during colonial phase. They expressed the political absolutism, the economic monopoly, and the cultural authoritarianism of colonial order. As it was already said these cities were pre-Hispanic or were founded in sixteen century by the Spanish and Portuguese conquerors, responding to the logic of the colonization already analyzed. All these cities concentrated the central government's bureaucracy and were well communicated with an overseas Spanish or Portuguese imperial port. This physical nexus with the exterior was, already from the colonial phase, indispensable for the exports of Latin American primary products and for the imports of manufactures originated in the Iberian Empires.

Also in certain South American countries, cities of medium size emerged during ends of nineteen and beginnings of twenty centuries, with local territorial influence (as Córdoba and Rosario in Argentina, Sao Paulo y Rio Grande do Sul in Brasil, etc.). These cities were ports and constituted the base of exporting activities. Of course, they were well communicated with the main city and overseas ports. Additionally, in the supply side Latin American big cities, (almost all political capitals), possessed the best national

railway, energy, and physical infrastructures (inherited from the technological international propagation of the First Industrial Revolution) for technically supporting the industrial development. In these capitals handicraft activities developed very early, especially undertaken by European immigrants facilitating the initial “know how” for more developed local industries.

On the demand side, these big cities concentrated the main consumption markets of manufactures, taking into account the numeric base of the consumers and their per capita purchasing power. Therefore, these cities were the main stimuli of the industrial activity, from both sides: supply and demand.

Clearly, the type of exportable production that unfolded in each country or sub-national region during previous exporting activities influenced the nature of prevailing physical infrastructures and the capacity to produce industrial inputs. Let us examine then, briefly, the different conditions that, in each case, emerge in rural areas, either to favor or to block the industrial development potential of each country.

In the, so called, first colonial situation, (corresponding to abundant pre-Hispanic population's settled on colonial country properties and working on gold and silver mines), during the XIX and first half of the XX centuries, the rural social conditions (with the exception of Mexico after its agrarian revolution) were “frozen” as they were in the colonial past. These types of rural societies didn't generate favorable conditions to promote industrial activity, neither as markets of consumption manufactures (given the character of subsistence and self-consumption of the peasant), nor as markets of agricultural machinery (given the low productivity and the deep backwardness of the prevailing rural technologies). The geographical immobility of rural population was a consequence of technological and organizational backwardness and subordination to coercive or semi coercive rural labor institutions. This was the main cause for the very slow pace of urbanization process. As a result, industrialization process that could have born in the cities, didn't find stimuli on the demand side, neither in the rules of the rural population's consumption nor under the productive requirements of agriculture.

In the, so called, second colonial situation, (tropical and coastal areas of plantations worked by African American Slaves), the conditions were in general quite similar to those of the first situation, especially in the poorest regions of North Eastern Brazil, Central America and the Caribbean. However, after the end of the slavery regime, bigger social dynamism in the plantations was introduced, either by the presence of American corporations (for example United Fruit) and the introduction of new products, or by new farming productive processes. The most dramatic changes, inside this “second colonial situation”, took place in Brazil, especially in the area of Sao Paulo, where coffee plantations began to produce under new technological, organizational and institutional bases. A strong migratory current coming from Italy, Spain and other poor regions of Europe found working opportunities, based on contractual relationships in these

plantations. High productivity standards based on new land-intensive production technologies were reached, and allowed the workers to earn relatively high levels of wages.

The expansion of the City and of the State of Sao Paulo based on overseas migrations linked to the coffee plantations stimulated fast industrial growth on similar bases to those prevailing in industrial activities at Buenos Aires city, in Argentina. As in Buenos Aires, vegetative and handmade activities (alimentary, textile, lumbermen, etc.) developed in Sao Paulo taking advantage of the alimentary supplies coming from the area of Río Grande Do Sul (area “gaúcha” with similar geographical physical conditions to those of the neighboring territories of Uruguay and Argentina).

The main reasons why Brazilian regions achieved so quick development are not related with the type of exportable product. Coffee was cultivated in Central American countries as Guatemala, under semi-capitalist labor regimes characteristic of the colonial country property. On the other hand, also in Central America, coffee production in Costa Rica achieved bigger prosperity organized under the form of agrarian capitalism based on family agricultural units. In sum, the development of Sao Paulo and (although in much smaller degree) Costa Rican coffee areas, gave place to the foundation of new societies, in almost empty territories, populated fundamentally with poor but free migrants coming from the south of Western Europe. The industrial development of Sao Paulo never ceased and today is the most important industrial area in Latin America.

As we have said, the more typical case of early industrial development, corresponded to Buenos Aires city, which exhibited the best conditions for that expansion: a) territorial unification of vast surfaces due to the railroads that converged to the port of Buenos Aires; b) very high natural productivity of agricultural and cattle activities of temperate climate; c) production of urban subsistence goods at a very low price; d) abundant migration of European population to the humid pampas; e) abundant migrations toward Buenos Aires city of Europeans that wanted to reside directly there, and others that having produced some saving from their agricultural wages, also became residents of the city; and f) fast expansion of small and medium cities along the whole rail net of the humid pampas; g) creation of an agrarian capitalism with powerful landowners of enormous properties that operated with European labor force recruited under contractual terms.

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humid pampas; g) creation of an agrarian capitalism with powerful landowners of enormous properties that operated with European labor force recruited under contractual terms. At the beginning of twentieth century this process was already working: “Between 1900 and 1914, aggregate industrial output grew at rates similar to the economy as a whole and the production of chemicals, textiles and foodstuffs was somewhat above the sectoral average. In 1887 the Union Industrial Argentina (UIA) was established with the re-fusion of two contending organizations, the Club Industrial Argentino, founded in 1875, and the breakaway Centro Industrial Argentino with had separated from the Club in 1878. From the 1880s until the 1940s, the UIA was the sole organization that represented exclusively manufacturing establishments, notably firms producing beverages, textiles and foodstuffs for the home market. During this period there was little evidence of a surge in industrial production; rather it was a rising output that displayed much the same rates of growth –and volatility- as the economy as a whole. Firms tended to be small, much smaller than those engaged in export production, such as the large (and by the early 1910s the increasingly foreign owned) meat packing houses. There were some exceptions, for example brewing, where large capital intensive companies employing advance technology emerged by the first world war”⁵⁰.

Since the Latin American industrialization was technologically dependent of the centers, as the industry shifted from its handmade bases toward the new techniques, it began to import industrial inputs and machineries required to manufacture the consumption goods that were previously imported. Under those conditions, the localization of industries near to the ports reduced the transportation costs of imported industrial inputs. This reinforced the tendency of industrial activities to be located in cities with ports or, in other cities that, from the colonial phase were very well communicated with overseas ports.

The second reason that explains the location of industrial activities in the main city of each country, relates with the gradually protected character of that industrial development accentuated in the second half of the XX century: industrial managers lobbied at governmental offices to obtain tributary benefits, and subsidies to protect its industries from foreign competition. At each Latin American country, the main city, that already was the center of national political and economic power, simultaneously concentrated most of the industrial activity of the country.

Since industrial supply was oriented to the urban population of each country, unique with enough purchasing power to acquire manufactured goods of certain unitary value, the population size and overall purchasing power were additional reasons for the location of industrial activity in the main city. This location of industrial activities in Latin America reinforced the previous tendencies to urban concentration. The localization of

⁵⁰ Colin Lewis (2002) pages 125 and 126.

the industry in the main city favored the access of industrial supply to the rest of the intermediate and small cities that also had certain assignable purchasing power to the acquisition of manufactures.

EXTERNAL STIMULUS TO INDUSTRIALIZATION

The exam of this topic provides more arguments in favor of the thesis that Latin American development cannot be explained without understanding the international position of the region in every historical period. At the end of the XIX century the peripheral position of Latin America not only expressed itself through exports of primary products but also through imports of consumption manufactures from the industrial centers.

In the first half of twentieth century, three world events interrupted or perturbed Latin American industrial imports from the developed centers: the First World War, the Economic Crisis of the thirties, and the Second World War. The shortage of imported consumption goods stimulated the internal production of most of them. This process was denominated industrialization under imports substitution IIS. The first phase that we are examining here corresponded to an “easy” technological and organizational substitution: French brandy or scotch for local liquor, fine glassware for glasses or local ceramics, furniture “of style” for products of local carpentry, silver European hand made for autochthonous metallic crafts, etc.

In their first phase the process of IIS involved many urban crafts that expanded its scale, gradually modernized its techniques and became industrial companies. In the southern cone, small managers were immigrants of Italian and Spanish origin. As the process consolidated, the IIS created managerial and workers interests that impeded its disappearance when the international conditions of normality were reestablished in the international relationships after the end of the Second World War.

We can summarize some essential features of the industrialization process, appealing to our basic interpretive categories. The informal institutions of the colonial inheritance refused to die and the same happened with the dominance relationships structured during that long period. In consequence, the formal norms of liberal economic institutions were superimposed over those ancient ones especially in rural areas, where the holders of the political, social, and economic power, achieved increased returns (falling unitary costs) combining the inherited dominance relationships of the colonial phase, with the capitalist rationality of the economic liberalism.

In Latin America, during the XX century coexisted and interacted institutions and organizations of a “hybrid” type, whose reason of being can only be explained examining the convergence of two parallel processes: the use of the informal institutions of the colonial inheritance and the incorporation of Latin America to the new world order

derived from the industrial revolution. Many archaic institutions and organizations became “functional” in terms of profitability. That was the case with pre-capitalist labor relationships and, also with big country-property systems inherited from colonial times and combined with a typically capitalist rationality of the farmers (proprietors) involved. This rationality was oriented to the export of primary products toward the world markets.

Through this processes, the rural backwardness was instrumented for the reduction of labor costs, and the increase of competitiveness on export markets. This was particularly clear in what we have denominated first and second colonial situations. But still in the third colonial situation, where very early agrarian capitalism was gestated, the workers organizational capabilities for the defense of economic interests were growing slowly in the context of a liberal formal legislation, and pre-capitalist informal institutions manipulated by dominant groups not inclined to recognize rights and social guarantees.

The Economic Commission for Latin America of the United Nations (ECLAC) emphasized this negotiating inferiority of Latin America in their trade with the developed centers. This same effect could be expressed in the language of North saying that the high transaction costs were paid especially by the handicapped Latin American workers unable to collect the fruits of the capitalist technology that, in a biased way, was introduced in exporting sectors. This process was early conceptualized by ECLAC as the tendency to the deterioration of the terms of exchange of exported primary products traded for the manufactures that the region imported from the centers. In other words, the fabrication and transaction costs between exporters and importers remained low, because one of the parts involved in the contracts (the Latin American workers) could not claim their rights.

In Latin America, labor productivity increased on activities linked to exports of primary products, but without a correlative increase of the real wages, instead, the productivity gains translated to the diminishing of export prices. This way, Latin America transferred to the developed countries part of the fruits of the technical progress (earnings of productivity) derived of its export activities. In the same way, the agricultural activities dedicated to the supply of urban subsistence basket inside Latin American countries, also transfer to lower prices the increments of their productivity. Consequently the same unfair mechanisms took place inside Latin American societies: the industrial cities became centers of internal agricultural peripheries where the rural workers, subsidized with their low wages, to those industrial urban workers and managers.

The representatives of the Marxist root of the, so called, “dependentism” in Latin America associated these findings with the theories of imperialism, or with hypotheses about unequal exchange, emphasizing the phenomenon of exploitation. Although ECLAC’s researchers were able to quantify Latin America transferences through the deterioration of the terms of exchange, the effects for the societies and economies of Latin Americas were not measured through that deterioration. The main impact of Latin

American peripheral position was of a structural nature and manifested internally in connection with the style and potential of peripheral capitalist development. We shall return to this central point in the next chapter of this course.

THE STRATEGY OF PROTECTED DEVELOPMENT

At the end of the Second World War, and in fact, by the middle of the decade of the fifties and beginnings of the sixties, a strategy of protected industrial growth, also called inward development strategy consolidated in Latin America. This process evidenced clear differences with the previously described industrialization process. Especially in United States (and, after the postwar reconstruction, also in Western Europe and Japan) a strong industry of durable massive consumption goods (appliances, electronics, cars, etc.) emerged taking advantage (with peaceful ends) of the technologies already gestated during the mentioned Second (American) Industrial Revolution.

These technological applications were parallel to other important institutional and organizational transformations. The Welfare State responded to the emergence of organized movements during the postwar period, that were interested in promoting a social democracy based on legislation aimed to protect basic labor and personal rights. On the other hand, Keynesian strategies to stimulate effective demand to countervail the excessive savings that depressed the activity levels also were applied. In the labor relations, new rules of the game determined that productivity gains were to be automatically transferred to parallel increases in real wages. This facilitated a sustained expansion of the demand of consumption goods that strengthened the markets and promoted the consolidation of mass consumption era.

These processes can also be seen as a sustained economic democratization of those societies, with a massive and more equitable participation in consumptions of durable goods derived from the Second Industrial Revolution. Indeed, among the main organizational modifications introduced in this period, it is necessary to mention the emergence of industrial companies associated to the production of durable goods of massive consumption.

Latin American industrialization began to incorporate these new consumption goods. However the growing technological complexity, the great scale of the involved industrial processes, inefficiencies of local producers under highly protectionist policies, gave place to important organizational changes. At the end of the fifties and beginnings of the sixties, transnational companies began to establish in Latin America and to fabricate those products internally for the consumers of high income.

High income consumers could acquire automobiles, appliances, electronics, plastics, etc., already elaborated by those subsidiaries of big transnational companies that settled in the Latin American countries; although they manufactured relatively obsolete versions

of consumption goods dedicated exclusively to the Latin American market, its quality and price were far better than those offered by the companies of Latin American capital in those same activities. The Latin American pattern of protected development that settled at the end of the fifties was founded categorically in an industrialist ideology. Therefore at an institutional level, the protectionism of industrial activities was consolidated, and new rules and policies (commercial, fiscal, exchange, etc.) emerged, creating a protected market for the industrial production developed inside each Latin American country.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER V. A BALANCE AT THE 60'S: STRUCTURAL HETEROGENEITY

STRUCTURAL HETEROGENITY, POVERTY AND INCOME DISTRIBUTION

As will be argued later, the subject of structural heterogeneity has a meaningful diagnostic power in peripheral societies because it includes the existence of poverty as the structural condition of a huge proportion of the population. So, structural heterogeneity can also exist, and in fact it exists also in developed societies, but the specific difference of structural heterogeneity in peripheral societies is the peculiar structural position of the lowest strata of population, and the high percentage of total population under this condition.

Both differences must be considered jointly to see the specific nature of structural heterogeneity in Latin American Countries, because it is possible to find structural positions of poverty in certain isolated areas of developed central countries but covering small amounts of total population both at local and national levels.

The main historical reason of structural heterogeneity in Latin American Societies, such as this social phenomenon evidenced itself at the end of the 50's and beginnings of the 60's, was the survival of pre-modern or traditional technologies, organizations and institutions in rural areas that delayed and obstructed the unfolding of capitalism and democracy at national levels. The social inequalities implied in this structural picture increasingly evidenced themselves in this historical period because of the increasing flows of rural-urban internal migrations particularly oriented to the main city of each Latin American country.

Instead of dualism, structural heterogeneity is a much more complex phenomenon due to: a) The different rural social heritage of the three colonial situations that we have already examined; b) The different historical paces of urbanization and industrialization that took place in each country accordingly with the structural conditions inherited not

only from the colonial period but also from the export oriented economic formations of nineteenth century; c) The fact that in some countries, unified from a political point of view, coexisted and interacted different colonial situations combined with different paces of economic transformation during the nineteenth century. The most striking example is, of course, Brazilian economy and society, with its different social structures in the northeastern areas linked to colonial slavery sugar plantations, and southwestern areas linked to the modern exploitation of coffee under contractual labor relations.

In general dualistic models only emphasize two polar (economic, political or cultural) situations of modernity and backwardness that coexist in a certain moment or period of time. In general it is supposed that the expansions of modern areas absorb gradually the traditional situations which are considered as residual declining conditions of the previous historical periods. But structural heterogeneity approach also emphasizes the hybrid nature of certain technologies, organizations and (informal) institutions that combine “modernity” and “tradition” in a profitable way for the Latin American elites that have controlled them.

Summarizing, we may say that structural heterogeneity assumed specific historical characteristics on Latin American Countries and exhibited differentiate features and aspects, compared with other, perhaps simpler, forms of dualism studied in other underdeveloped societies of Asia and Africa. We may also say that power positions occupied by those individuals better located in social structures defined specific sets of political, economic, and cultural interests that tended to preserve and consolidate different hybrid organizational forms to take advantage simultaneously both of the pre-modern (pre-democratic and pre-capitalist) institutions on one hand, and of the modern (capitalist and democratic) institutions on the other hand.

STRUCTURAL HETEROGENEITY: A DESCRIPTIVE APPROACH

In Latin America, during the XX century coexisted and interacted institutions and organizations of a “hybrid” type. Their origin can be explained examining the convergence of two parallel processes: the survival of informal institutions originated in the colonial inheritance and the incorporation of Latin America to the new world order derived from the industrial revolution.

The bases of a peripheral capitalism (to use the expression of Prebisch) were built in a way that favored the unequal distribution of technical progress and their fruits (productivity gains), not only among centers (England, United States) and peripheries (Latin American countries), but also within peripheral societies.

The central focus of the Latin American School of Development (so called “Latin American structuralism”) was the exam of: i) the international distribution of technical progress; ii) the distribution of technical progress inside Latin America; iii) the genesis of

the main managerial organizations; iv) the genesis of the main economic institutions coherent with the other processes. This exam was made to discover the causes that facilitated the international transference of productivity earnings and the installation of economically unequal societies in the region.

The structural heterogeneity of the Latin American societies was understood as a specific feature of peripheral capitalism. It was characterized as a crystallization of productive forms (technologies and organizations), and of related social dominance mechanisms (informal ancient institutions), corresponding to different phases and modalities of the peripheral development. However, these forms coexisted and became interdependent in their dynamics inside politically unified national societies during the first three quarters of the XX century.

Using the pedagogical example of Douglas North⁵¹, the “teams” (organizations or legal persons) that “played” in the Latin American economic fields evidenced different strategies and different power positions. They also expressed themselves through specific features, of organizational, technological and institutional nature. These features allowed them to compete in markets that, of course, operated under historical conditions very different from those considered in the perfect competition model of stable general equilibrium. The game rules that were expressed in these concrete markets included different types of transaction costs, accordingly with the position occupied by natural persons on overall national institutions, and with the internal rules that governed concrete organizations. This picture implies different positions of power that facilitated different dominance mechanisms in the economic, cultural and political systems.

It is possible to discern three main societal dimensions in the diagnosis of the structural heterogeneity: Firstly internal (technological and managing) rules of economic organizations measured through the labor productivity levels; secondly socio-economic institutions and the resultant distribution of transactions costs among the organizational and individual players; and thirdly political and cultural institutions and organizations that determined the overall power structures of each society.

Structural Heterogeneity on Urban Areas

The first dimension expresses technological heterogeneity in the productive forms of managerial organizations not only on rural but also on urban areas. Modern companies of great scale and labor productivity equivalent to the average of the developed countries, coexisted with: i) medium and small sub-national or local companies with much lower labor productivity levels, that use an industrial technology already antiquated or obsolete in the centers; ii) micro-productive units of familiar or individual size, with subsistence

⁵¹ Douglass North. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990, Chapter I.

labor productivity levels (that is labor productivity levels that only allow to economic values equal or below the subsistence levels of the worker and his family).

The second dimension refers to the socioeconomic urban institutions. In other words it refers to the dominant social relationships of property, work and exchange that corresponded to each one of the productivity strata of economic organizations. Firstly, the biggest and “modern” urban organizations were structured under capitalist relationships, similar to those of developed countries, with: i) clear and collective rules of labor unions, ii) modern juridical forms of capital property characterized by corporations that trade on the stock exchange, iii) oligopoly or monopoly positions in the national Latin American markets. Secondly, the medium and small urban organizations, usually structured capitalist relationships of competitive type among them, but could only occupy the market spaces left by the oligopolistic sectors. As a consequence of their low productivity they were not able to satisfy all the rights and guarantees demanded by their workers; the organizational forms were frequently of family style and size, with smaller access to the main international currents of financial credit. Their supply in the market didn't reach national scales and was unwrapped at local levels with scarce participation in the national and international market. Lastly there were individuals (natural persons) or societies (juridical persons) that could be considered “micro-organizations” of great demographic importance where poverty was concentrated: i) non qualified “independent” workers of urban areas coming from rural areas seeking to find a place in big cities (street salesmen, suppliers of several personal services); and ii) women occupied on domestic services. This last category did not *constitute, of course, capitalist enterprises but rather an underemployed active population (in terms of labor productivity or, alternatively, of working days) operating under informal rules and lacking almost all of the social guarantees offered to the other strata.*

The third dimension was also organizational and institutional in wide terms, and it referred to the sociopolitical and cultural power positions of the previous structural picture. Firstly, in the organizations of greater scale and technological modernity, groups of higher personal income and bigger educational level operated, with full civic participation in the political field and maximal enjoyment of the cultural goods. It implied the existence of social and cultural organizations (schools, universities, health centers, social clubs, etc) where people, linked to modern strata, usually gathered and interacted. It also included elements of socio-ecological discrimination among neighborhoods. These social and cultural organizations implied the proliferation of middle class professionals or technicians providing exclusive and expensive first quality services to the owners and high executives of the modern entrepreneurial strata and also to the land lords of the latifundia-minifundia systems that permanently resided in the cities. Secondly, in the small and medium urban-industrial firms the labor productivity and rent levels were clearly lower and workers and owners had a more limited access to organizational and unionized forms of defense, and to educational and cultural facilities. The much lower purchasing power of these entrepreneurial groups implied access to a less sophisticated and diversified set of education, health, housing, and cultural opportunities, and their employees located themselves much closer to the poverty line. Thirdly, the less

influential place in political and cultural matters was occupied, in urban areas, by the “marginal” or “informal”, workers whose only clear right as citizens was, in principle, the vote.

The right to vote of these lowest strata, was exercised, however, with all the limitations as regards information and knowledge derived from their respective social positions on educational and cultural levels. Even so, in spite of all the limitations of the representative peripheral democracy, the right to vote was the most important conquest to improve social positions on the power structure (objective positions occupied in the institutional structure) and it increasingly challenged the structural social inequality. These political social pressures, coming from the lower strata, often derived in populist solutions of short reach. Consequently the political uncertainty increased and, finally, ended in more and more frequent presence of authoritarian governments during the seventies.

Structural Heterogeneity in Rural Areas

As we have said many times, the structural heterogeneity in rural areas expressed the survival of ancient colonial institutions of labor and property that implied very different power positions for the landlords on one hand and the peasants on the other hand. These institutions were interlinked in the latifundium-minifundium systems that operated with both, internal and external logics, oriented to maximize the economics returns of the landlords. Land ownership relations ensured an unfair distribution with a lot of land for a few landlords and small amounts of land for a lot of peasants. The property system in many areas operated only for the landlords. The land ownership of peasants was usually invalid or precarious from a legal viewpoint. The peasants used their scarce land resources as subsistence means incapable of efficiently absorbing their own labor force. The remaining labor capabilities of peasants were seasonally utilized in the land of the owners, working on crops oriented to the national or international markets. The technology utilized on the commercial agricultural activities was compatible with the limited education and scarce autonomy of rural laborers, but the labor cost of the latifundium-minifundium system was very low for the landlord in view of the subsistence production of minifundium that ensure minimum levels of consumption for the peasants. This system, of course, implied that labor and property rural relations were interrelated in such a way that each one implied logically the other. On these, and similar cases, the link between modern and traditional institutions created symbiotic organizational forms that were a hybrid combination of modernity and backwardness: modernity in the relations of the landlords and miners with the international market; and backwardness in their “indoors relations” with their employees⁵².

⁵²On the other hand mining activities can be considered as industrial urban exploitations generally subject to higher productivity technologies. Nevertheless, some times, as in the case of Bolivian tin mining, its location in the rural “altiplano” implied, for the mining entrepreneurs, an easy access to an unlimited supply of labor force coming from the rural surrounding areas. So the real wages of the mining employees were not connected with labor productivity in mining but with the living social conditions, institutionally determined of the said rural areas.

Cultural and sociopolitical positions and relations among landowners were, of course, of an urban character and completely assimilated to the power positions of urban upper classes already examined in the previous section. On the other hand, peasants and rural workers had their own rules of the game with limited or nil access to political and cultural rights. So, we may say that traditional rural areas were the last bastion of backwardness in Latin America and the worst expression of structural heterogeneity rooted on ancient colonial institutions. This situation began to change at the end of the 50's and during the 60's as a consequence of internal and external sociopolitical conditions that are going to be examined in the next chapter.

At this moment (beginnings of the XXI century) the previously described situation of structural heterogeneity continues subsisting in many Latin American societies, but under different structural conditions and subject to the new rules of an economic system open to the global market. It will be useful to make a new modernized description of the economic and social structure of our societies in this new historical stage characterized by the emergence of the information technologies, by the globalization process and by the institutions (economic, social, and cultural) that regulate this new development modality.

STRUCTURAL HETEROGENEITY: AN INSTITUTIONAL APPROACH

A framework of reference

In Latin American Structural Political Economy studies around the 70s (when research activities about structural heterogeneity were especially frequent), the empirical characterizations of structural heterogeneity were built departing from the different strata of labor productivity⁵³. They were purely empirical statistical techniques accordingly with which all organizations with similar levels of labor productivity were grouped on the same strata regardless their sectoral or regional position in the economic structures and without distinguishing their different roles in the national economic systems. Through this rather rough procedure it was possible to quantify the proportion of enterprises enrolled in each stratum, and through similar approximate calculus, to determine the percentage of total labor force engaged in each labor productivity strata. At this empirical level of analysis it was possible to determine a certain correlation among the high poverty percentages of population and the high percentage of enterprises in the lower levels of labor productivity. Hence it was possible to provide certain degree of plausibility to the idea that the unequal distribution of technical progress on Latin American societies led to high levels, in relative and absolute terms, of poverty. It also allowed researchers to sustain the hypothesis that these types of situations were the specific characteristic of underdeveloped societies.

⁵³ See Anibal Pinto and Armando Di Filippo, Notes on income distribution and redistribution Strategy in Latin America, on Alejandro Foxley (Ed), Income Distribution in Latin America, Cambridge University Press 1975, pages 91-106.

Now, an explanation is required about the reasons of the persistence of these two characteristics: very low levels of labor productivity at the bottom of the economic structure, and very high percentage of total population engaged in those productivity levels and living in absolute poverty. Part of that explanation was already provided in previous sections, but now we can put them in terms of the path dependency already examined in previous sections. The two main causes of structural heterogeneity were the closeness of the development model installed in the postwar period, and the power structure of rural areas. The closeness of the economic model allowed to the internal reproduction of the center periphery logic at national Latin American levels under the centralized and monopolistic economic rules of the colonial heritage. The power structures of social areas expressed the coercive nature of the political colonial systems frozen and preserved through the unfair property and rural relations of the Latifundium-Minifundium Manorial type.

The closeness of the development economic model

The closeness of the development economic model of Latin American Societies implied that competitive conditions and efficient economic performances were severely reduced both by governmental protectionism and inefficient public enterprises on one side, and by transnational industrial corporations on the other side. These positions and tendencies were the result of four reinforcing effects.

Firstly, there were scale effects due to the small size of the Latin American markets caused by the relatively scarce urban population purchasing power to manufactures of consumption. These small markets, allowed a few big (national and transnational) enterprises strongly protected from international competition to control under monopoly and-or oligopoly positions the great part of industrial local markets. Scale effects operated also under obsolete technological options, creating increasing returns (or at least acceptable levels of constant returns at scale) to the state owned enterprises on one side and to the transnational corporations that began to be installed along the 60's on the other side.

Secondly, there were learning effects connected with the said relatively obsolete and inefficient technologies internalized by the workers, and the lack of interest, on the side of the employers, in investing on new technologies under the closeness of the markets.

Thirdly, there were adaptive expectations effects about the continuity of the protectionist rules linked to the Import Substitution Industrialization model.

And, lastly there were external and internal coordination effects. The external coordination effects were built through two main modes. The first mode was the type of relationships between the state and local exporters on one hand and the external market on the other. The second mode was the type of relationships between the local subsidiaries of transnational corporations on one hand and their home land matrix houses on the other hand. The internal (national) coordination effects were built through the center periphery relations between the main city of each country operating like a center to

the internal economic system and the rest of the sub-national regions or provinces operating like peripheral units. Those peripheral units were characterized by their technological subordination and their “export” led economies. We use here the term export in a wide sense, including the sells of the peripheral provinces to the main urban areas.

The power structure of rural areas

The power structure of rural areas was the most important basement of the undemocratic and pre-capitalist political and economic systems in Latin America. We also can notice here the self reinforcing effects that tended to maintain in an unmodified way these historical conditions.

Firstly, the learning effect over rural Latifundium-Minifundium organizational forms reinforced obsolete and inefficient technologies without dynamic links with the national industrial system.

Secondly, the adaptive expectations about the prevailing social structure in rural areas implied a complete lack of entrepreneurial spirit on the side of the landowners and, also, scarce efforts to improve their economic, social, and political positions on the side of the peasants.

Thirdly, the scale effects already obtained determined that the initial total fixed costs of installing the Latifundium-Minifundium rural systems were sufficiently rewarding for the landlords, under the institutionally established real wages of the peasants. Precisely the high scale of Latifundium warranted enough and sustained returns for the owners, and the small scale of minifundium warranted minimal subsistence conditions for the peasants. Any change from within the system implied opening a “Pandora Box” for the Landlords that they were not at all interested in exploring.

Fourthly, the coordination effects were established between rural and urban areas, where the latter provided the cities with the supply of primary products needed to feed the urban population and to sustain the industrial activities with part of locally produced industrial inputs. Rural areas were peripheries that absorbed part of the urban wage-costs for industrial undertakers, through unfair terms of exchange between the agricultural production and the industrial internal production. In the last analysis the transactions costs were biased against the peasants that created the agricultural and exports surplus without participating on its fruits.

Consequently the two limiting factors that were perpetuating the underdevelopment conditions of Latin American Countries were the unfair social relations of rural areas, and the closeness of the economic model of protected industrialization.

THE LATIN AMERICAN STRUCTURAL APPROACH TO THE STRUCTURAL HETEROGENEITY ISSUE

Accordingly with the Latin American School of Development the economic development process depends on the systematic and periodic increases in the labor productivity. The interdependence of the productive system implies that the relative growth of labor productivity levels in the different economic branches is not arbitrary but subject to certain general laws. These general laws have been studied by researchers of the developed world as Simon Kuznets, Wassily Leontieff, Colin Clark, etc. The sectoral division of the productive structure usually considers three main sectors: primary (extraction of natural resources), secondary (industrialization of primary products), and tertiary (production of all kind of services). In developed countries the growth tendencies on output and employment on the productive structure have determined two main tendencies: an increasing variety in the composition of the product and a sustained shift of employment from primary and secondary, to tertiary productive branches.

As Prebisch pointed out in the 50's, the explanation of these tendencies can not be properly attempted without considering the international economic system and the interdependence among developed central economies on one hand and underdeveloped peripheral economies on the other hand. The shift of employment from primary, to secondary and tertiary sectors of developed countries is a consequence of the natural tendencies of the development process to increase more than proportionally the share of manufactures and services in the total national product. This can be explained attending to the inevitable diversification in the consumption structure as the personal income increases, and the parallel diversification in the productive structure as technical progress is introduced.

The reduction of employment on primary activities is accelerated in central developed economies as a consequence of the international productive specialization inherent to the central-peripheral system. The comparative advantages of centers, as technology advances, induce them to specialize on the production and exports of manufactures and, more recently, also on services internationally traded. This process, of course, accelerates the shifting pace of employment from primary to secondary and tertiary economic activities on the centers.

The structuralist Latin American economists, very soon noticed that the peripheral specialization on primary products was not feasible on the long run, because the inevitable expulsion of workers from primary activities to secondary and tertiary activities would create a lack of employment opportunities if industrialization could not unfold within the peripheral economies. The redundant labor force expelled from primary activities would create a huge employment problem as a consequence of the insufficient parallel development of industrial and services economic branches inside the peripheral economies. The only alternative choice left to the unemployed or underemployed workers expelled from primary activities was international migration to the centers. If this alternative was also close, then peripheral underemployment will growth as a

consequence of the growing proportion of population marginalized from the primary activities and unable to find enough jobs on secondary and tertiary activities.

So, the existence of a huge proportion of population engaged in very low productivity economic activities was an inevitable outcome of peripheral positions on the international economic world. This interpretation based on the center periphery approach, provided the conceptual basis for the industrialist (and protectionist) position of Latin American economists during the 50's and the 60's. This is also the main explanation provided by Latin American Structural Political Economy for the existence of a high proportion of total population engaged on activities of very low labor productivity levels and, consequently, living under conditions of severe poverty.

This conceptual approach provides only part of the explanation of structural heterogeneity as it was described in previous sections. The other part of the explanation of peripheral structural heterogeneity does not deal with the structural dynamics of capitalist industrial economies. It is a consequence of the path dependency effect of colonial heritage, and, consequently, is rooted on historical considerations.

*If we combine the two explanations suggested on previous paragraphs it is possible to find two main causes of the existence of huge amounts of population living in the lowest strata of labor productivity and under conditions of extreme poverty. The first cause is historical, relates with the path dependence effects and can be called **secular inherited poverty** derived from previous colonial conditions on rural areas. And the second cause is connected with the ways through which industrial capitalism affected peripheral economic systems and can be called **emergent poverty** derived from the lack of employment opportunities open to the rural urban-migrants arriving from the traditional rural areas.*

The Latin American School of Development answer to these combined challenges was the promotion of economic development through the industrialist strategy. The industrialization process was conceived as the main political option to assimilate and internalize technical progress on Latin American productive structures and, consequently, to confer autonomy to the Latin American Economic Development process.

Accordingly with the vision of Latin American School of Development, the virtuous cycle of economic development includes: a) the productive use of the macroeconomic surplus, b) the introduction of technical progress through the accumulation (investment) process, c) the subsequent expansion of average social labor productivity and, consequently d) the correlative increase of the overall social surplus. At this point the cycle can be recommenced but at a higher level of economic development. The dynamic autonomy of the whole process depends critically on the internalization of technological innovation through an autonomous industrialization process similar to those occurred on central developed economies.

It is not convenient to engage in the very different definitions of surplus in economic, social, and anthropological literature. Looking for a conceptualization of

global surplus capable of being “friendly” with macroeconomic established national accounts, we shall understand that the global surplus is the part of the gross domestic product (GDP) that remains after remunerating directly the labor force that is working in the private sector. This implies that we are making a rough distinction between wages on the private sector and the rest of the income components on the economic system (rents paid to the landowners, profits obtained by the entrepreneurs, interests earned by the financial agents, and net taxes collected by the government). This is a static measure of global economic surplus that can be called distribution (or distributed) surplus. But the dynamic strategic component of the global surplus is the periodical increase in labor productivity derived from the accumulation process under conditions of technical progress. The part of that increase that remains in the entrepreneurial system under the form of a net macroeconomic profit is, precisely the dynamic surplus accordingly with Prebisch terminology.

So, we can speak of a distribution (or distributed) surplus to describe the incomes appropriated by the private owners of wealth and by the state. This distribution (or distributed) surplus is increased by the periodical additions coming from the growth in the overall productivity levels of the working force of the private sector and, on the other hand, is diminished by the increase in the real wages of that working force. These increases are called surplus by Prebisch. *Then, we may say that the global surplus at the end of a certain period of time is the sum of the distribution surplus (or distributed surplus) at the beginning of the same period (rents, interests, and net taxes) plus the surplus of the period (net entrepreneurial profits).* We can also call it the entrepreneurial surplus (equivalent to net private macroeconomic profits) because it remains as a residual magnitude under the control of private entrepreneurs after paying rents, salaries, interests and net taxes.

The important point raised by Prebisch dealt with the different options of using this dynamic surplus or net profits that remained in private enterprises. Prebisch was not directly questioning the established ways of using the distributed surplus among the entrepreneurs and the state in central economies. He restricted his explanation to peripheral economies, and only raised questions about the use of the profits earned by capitalist enterprises (surplus in Prebisch sense) in peripheral capitalist systems. His political proposals about the social use of the surplus were “radical” in the sense that this periodical surplus was conceived as a public (or social good) that should be submitted to social control under the rules of democratic governments. But he did not recommended the authoritarian appropriation of the global surplus by the State (i.e. the expropriation of private enterprises and private owners in order to create state owned enterprises) but the dictation of social rules regarding the reinvestment of that dynamic surplus.

The structural reforms that Prebisch promoted (through successive ECLAC’s reports and also through personal books written by him) were not intended to reduce the scope of private sectors on peripheral capitalist systems but to enlarge them under the rules of the games of representative democracies. He intended to promote this global strategy through certain structural economic reforms such as the expansion of global internal effective demand (incorporating peasants and marginal urban worker to the

market circuits and promoting progressive tax reforms), the widening of the capitalist entrepreneurial class (through agrarian reforms), and the enhancing of the international competitiveness of peripheral capitalist systems (through export promotion and regional integration policies).

These economic reforms recommended by Prebisch where, also, in the line of promoting an “austere capitalism”: “As was already explained, the social efficacy of development fundamentally depends on the intensity by which the higher productivity technical strata absorb labor force coming from the inferior technical strata. If this process were satisfactorily fulfilled, those lower technical strata should be gradually disappearing, and been replaced by the upper ones”.

“Until what point could this phenomenon be continued? It is convenient to clarify this aspect in order to better understand the nature of peripheral capitalism. If the surplus were devoted exclusively to the reproductive accumulation, this capitalism would be of an austere type where the owners of productive means, surmounting the temptations coming from the centers, would fully utilize the accumulation potential at hand”⁵⁴.

But the cultural influence of the consumption privileged society unfolding on central economies, and transferred to peripheral economies, makes this option illusory. This is reflected through the insufficient percentage of total product devoted to investment and, also, through the non reproductive nature of a high amount of capital formation. Regarding this last distinction the, so called, reproductive capital accumulation is aimed to increase the labor productivity of the system, and the, so called, non reproductive accumulation is devoted to improve the quality and the variety of consumption goods. Of course this kind of options depends heavily on the cultural behavior of the elites located in the upper strata of income distribution. As it was written on another essay closely linked with these ideas: “Like the Janus of mythology, income from ownership has two faces. One of them looks towards final consumer goods. The other, more austere and enterprising, looks towards production equipment, inputs and potential labor. The recipients of income from ownership have the alternative of assuming either of the two countenances and, from their choice emerges two extreme scenarios which, in simplified form, could be summarized as follows:

Let us first imagine, as an ideal or pure type, a society of austere and enterprising owners, capable of pursuing their bent for accumulation to the uttermost. A large proportion of income from ownership is translated into demand for new capital goods and hiring of manpower. This steady and intensive demand for new capital goods is reflected in a high investment-output coefficient and in a rapid rate of creation of new jobs. The introduction of technical progress makes itself felt in an increase in labor productivity. In this case, part of the productivity increments will go to raise real wages, because given the high rate of accumulation, entrepreneurs compete for labor. Another share of the labor productivity increments goes to augment income from ownership. But our owners – let us remember- are austere and enterprising and there propensity to accumulation continues to amply outweigh their propensity to consumption. Consequently, their income increments are once again reflected in further demand for investment goods and

⁵⁴ Raul Prebisch (1981), *Capitalismo Periférico, Crisis y Transformación*, page 61. See in the same chapter the appendix devoted to the austerity of Japanese Capitalism.

for manpower. In short, the personal distribution of consumer income is relatively egalitarian because wages tend to increase *pari passu* with the increase in productivity – or even at still higher rate- and owners display an extremely frugal and responsible attitude in the sphere of consumption together with an aggressive investment policy. They regard themselves as the depositories of the production capacity of society and manage it soberly, setting an example of frugality and detachment”⁵⁵.

If we remember the concrete socioeconomic conditions of Latin American Societies at the end of the 50’s and beginnings of the 60’s we find at least three good reasons to promote this type of austerity on the Latin American entrepreneurial elite: a) the inevitable historical dissolution of unequal and unfair social conditions on rural areas and the acceleration of rural urban migration pace in almost all Latin American societies; b) the acceleration of the Latin American population growth rate, as a consequence of a fast decrease in mortality rates during the 50’s and the 60’s; c) the distorted and unfinished nature of the industrialization process on Latin American countries under the patterns of the import substitution model and its dynamic insufficiency in terms of labor force absorption.

This cultural ideal type of austerity is a necessary but no sufficient condition to accelerate the pace of reproductive accumulation needed to spread the fruits of technical progress to all the sectors and strata of the productive system. Another important condition is the national control of the surplus or, alternatively, a strong propensity of transnational corporations to reinvest their profits locally earned in new internal activities of a reproductive nature.

To finish this chapter it is convenient to underline a central point of the center periphery approach to the subject of underdevelopment: the external (central) control of technical progress and, hence, of the increments in labor productivity within the global economic system of peripheral societies. This internationally dominant position of the centers in technological development is a constant structural tendency, historically testable, that has prevailed since the British Industrial Revolution until present days. Consequently two key issues to understand the prospects of autonomous Latin American development continue to be essential explanatory tools: firstly, the control of a fraction of global economic surplus by transnational economic organizations, and, secondly, the control of the new sources of technical progress by those same transnational economic organizations. We shall return to these issues in the last chapters of this course.

⁵⁵ Di Filippo, Armando, Social Use of the Surplus, accumulation, distribution and employment, on CEPAL REVIEW, Number 24, December 1964 pages 127 and 128.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER VI. CHANGES IN HEMISPHERIC AND REGIONAL SCENARIOS

INTRODUCTION:

The 60's were the culmination of the international economic system settled at the end of II World War. At the beginning of that decade the economic system of western developed societies was functioning quite well under the patterns of Keynesian economics, enjoying the fruits of the mass consumption and welfare societies emerged during this period. In developed western societies there were operating social pacts that led to a stable distribution of productivity gains among workers, entrepreneurs and national governments. The French Institutional School of Economics (so called, "Regulationism") identified this distributional system with the name of "Fordism"; accordingly with this approach, the productivity gains were distributed in such a way to maintain the previous income distribution structure between workers and entrepreneurs in the private sector. The Welfare States seemed to be well established in western developed centers, especially in Europe after the postwar reconstruction (with the decisive help of the Marshall Plan) of their previously devastated economies.

The cold war was at its peak and the competence between western democratic capitalist systems and eastern authoritarian planned systems was at its higher and hard stage. The competence was also political and military including that for the control of nuclear weapons of mass destruction. This peculiar international environment influenced negatively on the relations between U.S.A and Latin American Societies because during that period any social struggle made its leaders to be suspicious of been working for favoring international communist purposes. Any social struggle of the period, not only in Latin American Societies but in any part of the western world was contaminated with this geopolitical ingredient fuelled by the strategic antagonism of the two main political and military players: U.S.A. and Soviet Union.

The 60's were also times of turbulence and turmoil in the Western Hemisphere, both in U.S.A and in Latin American Societies. The struggle for civil rights and social

equality emerged with unexpected strength in U.S.A and it was focused on the secular segregation suffered by African American population. The social and political system of U.S.A was subject to enormous pressures and experienced real and lasting changes. On the other hand, also in Latin American Societies the 60's were times of hard social struggles oriented to surmount the social rural inequalities linked to the organizational and institutional forms inherited from colonial times and from peripheral positioning of Latin American Economies during the nineteenth century. As a result of these changes new types of international relations began to unfold between U.S.A and Latin American Societies.

We may say, hypothetically, that the combination of the cold war with the emergence of social struggles on Latin America toward equality was an explosive mix that was going to convulsion the relations with U.S.A. At the same time, U.S. society was going to be confronted with internal social struggles related to internal inequalities that also responded to the logic, already analyzed, of the path dependency effects that, in the long run, reinforced ancient "sins" of the colonial heritage.

SOCIAL INSURGENCE IN LATIN AMERICA AND THE ALLIANCE FOR PROGRESS

The combination of the cold war with legitimate social struggles toward equality in rural areas of Latin America was explosive and aggravated the sociopolitical transition that, inevitably was unfolding in the southern part of the western hemisphere.

The Alliance for Progress was an admission that social inequalities were a deeper explanation of the social and political turbulence in Latin American Societies, and the necessity of structural reforms was urgent. This initiative arrived during the democrat government of John Fitzgerald Kennedy:

"If American policy toward Europe in the postwar years had been a conspicuous success, and toward Asia a disappointing balance between success and failure, it could be said that the most conspicuous thing about relations with Latin America was the absence of any policy. Franklin Roosevelt, to be sure, had launched a "Good neighbor" policy, but being a good neighbor was, it seemed, a negative rather than a positive affair, a matter of keeping hands off the internal concerns of the Latin American countries and of making the Monroe Doctrine, in form at least, multilateral. All through the postwar years the states of Latin America –Mexico and Chile were partial exceptions- were in the throes of major economic and social crisis. Population was growing faster than in any other part of the globe, without a comparable increase in wealth or productivity; the gap between the poor and the rich was widening; and as the rich and powerful turned to the military for the preservation of order and privilege, the poor turned to revolution. Deeply involved in other quarters of the globe, the United States paid little attention to the fortunes or misfortunes of her neighbors to the south, and when she did intervene it appeared to be on the side of order and the *status quo* rather than on the side of reform. So frightened

was the United States of Communism in Latin America that it preferred military dictatorship to reformers who might drift too far to the left, and sustained a Batista in Cuba, a Trujillo in the Dominican Republic, a Peron in Argentina and a Gimenez in Venezuela”.

“In his last two years president Eisenhower had tried to mend his Latin American fences. Though rejecting a Brazilian proposal of a Marshall Plan for Latin America, he did take the initiative in setting up an Inter-American Development Bank with a capital of one billion dollars, almost half of it supplied by the United States. Other government investments in Latin America run to some four billion dollars, while private investment exceeded nine billion. Yet though to most Americans all this seemed a form of economic aid, many Latin Americans regarded it as economic imperialism. In September 1960, came a co-operative plan that could not be regarded as other than enlightened: the Act of Bogota, which authorized a grant of half a billion dollars to subsidize not only economic but social and educational progress in Latin America. “We are not saints” said President Eisenhower when he visited Santiago de Chile. “We know we make mistakes. But our hart is in the right place”.

“But was it? President Kennedy was confronted by the same dilemma that had perplexed his predecessors. Clearly it was essential to provide large scale aid to the countries south of the Rio Grande, but should this aid go to bolster up established regimes and thus help maintain the *status quo*, or should it be used to speed up social reform, even at the risk of revolution? As early as 1958 the then Senator Kennedy had asserted that “the objective of our aid program to Latin America should not be to purchase allies, but to consolidate a free and democratic Western Hemisphere alleviating those conditions which might foster opportunities for communistic infiltration and uniting our peoples on the basis of ... constantly increasing living standards”. This conviction that raising the standards of living was the best method of checking Communism now inspired President Kennedy’s bold proposal for the creation of the Alliance for Progress- a ten-years plan designed to do for Latin America what the Marshall Plan had done for Western Europe. It was to be “a peaceful revolution on a hemispheric scale... a vast co-operative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American People for homes, work, and land, health and schools”. To achieve this the United States pledged an initial grant of one billion dollars, with the promise of additional billions for the future”⁵⁶.

During the 50’s important social convulsions unfolded in different parts of Latin American societies. We can exemplify them with three different processes, belonging respectively, to the so called (in these notes) first, second and third “colonial situations”.

“First Colonial Situation” Transformations: The Bolivian Revolution

⁵⁶ Nevins and Commager, *A Pocket History of the United States*, Simon and Schuster, 1992, page 556.

One of the most extreme examples of backwardness connected with the survival of unfair rural social systems on Latin American Societies can be found in the history of Bolivia at the beginning of the fifties. The process is very well described by Herbert Klein in his: *A concise History of Bolivia*⁵⁷. I will quote a few selected paragraphs of the chapter where he summarizes those processes.

“Of all economically active persons registered in the census of 1950, fully 72 percent were engaged in agriculture and allied industries. Yet this workforce only produced some 33 percent of the gross national product, a discrepancy that clearly indicates the serious economic retardation of this sector”. (...) “Largely rural and agricultural, Bolivia could not even feed its national population by the middle of the twentieth century. Through the constant expansion of the hacienda system, land distribution had become one of the most unjust in Latin America. The 6 percent of the landowners who owned one thousand hectares or more of land controlled fully 92 percent of all cultivated land in the republic. Moreover, these large estates themselves were underutilized with the average estate of one thousand or more hectares cultivating but 1.5 percent of its lands. At the opposite extreme were the 60 percent of landowners who owned five hectares or less, true minifundias, which accounted for just 0,2 percent of all the land and were forced on average to put 54 percent of their lands into cultivation. The extreme inequality in the division of lands was essential in the control of rural labor. Controlling access to the best lands in all the zones of the republic, the hacendados obtained their labor force by offering usufruct estate lands in exchange for labor.” (...) “The one thing universally hated by all Indian peasants was the *pongo* service. It required attendance on the hacendado family even in a distant urban residence and took up large amounts of time and effort, all at the peasant’s cost”. (...) “This system did not involve debt peonage or other means of force, and Indians tended to move in and out of the latifundia with no restrictions, but the increasing pressures on land in the free community area, especially after the last great age of hacienda expansion, compelled the peasants to adapt themselves to the system”. (...) The result of this system was the use of rudimentary technology and poor quality seed with extremely low yields of foodstuffs. The agricultural sector was so backward that it was unable to meet the needs of the expanding population in the urban centers and of the nation as a whole. Whereas the 10 percent of the imports in 1920s was food, the figure was 19 percent in the 1950-2 period, and a good proportion of the imported food was traditional Andean root crops that were produced only in Bolivia and Peru. Inefficient, unproductive, and unjust, the Bolivian agricultural system also kept a large percentage of the national workforce out of the market by holding down their income in exploitive work and service obligation. This in turn restricted the market for manufactures to the small urban minority and the relatively few active agricultural centers such as the Cochabamba Valley”. (...) Given the limited nature of this internal market, it is not surprising that Bolivia had a small industrial sector, which in 1950 accounted for but 4 percent of the economically active population”. (...) “From the late 1930s onward there was apparently little new investment in the mining sector, just when most of the mines began to run out of richer veins. Thus aging plants and declining quality of minerals inexorably forced the costs of mining up to levels that were becoming uneconomic and non competitive except in periods of wartime

⁵⁷ Herbert Klein, *A Concise History of Bolivia*, Cambridge University Press, USA, 2003, Chapter 8.

shortage on the world markets. By 1950 Bolivia was the world's highest-cost producer of tin, and in some years the industry was barely covering its costs. The margins of profit were thin, making the industry even more sensitive to minor fluctuations in world prices. More over, even when prices took a sudden upturn, the low quality of ore available and the low productivity of the mines meant that Bolivia found it extremely difficult to increase production. By 1952 it was still the case that the best year of tin output was 1929, when the nation has exported forty-seven thousand tons of tin. In fact that figure remains a record until the present day". (...). Given the relative stagnation and backwardness of the national economy, the MNR would find it relatively easy to carry out profound changes. The haciendas, owned as they were by a largely absentee class, and with little capital invested, could be seized without major opposition. Given peasant mobilization after April 1952, they could not be held without full support from the police powers of the State. The takeover of the aging mining sector by the state also would not be vigorously opposed by the tin barons so long as adequate compensation could be provided. In short, the strength of the economic elite was relatively drained at the time of the revolution, much as their political power had been weakened"⁵⁸.

Second Colonial Situation Transformation: The Cuban Revolution

The most extreme example that the combination of the cold war with the emergence of social struggles on Latin America toward equality was an explosive mix that was going to convulsion the relations with U.S.A. was provided by the Cuban Revolution. We shall include some quotations extracted from Skidmore and Smith's: *Modern Latin America*:

"By the early twentieth century... Cuba was producing several million tons of sugar per year –nearly one quarter of the world supply around World War I, about 10 percent of the total during the depression years, close to 20 percent just after World War II. Throughout this entire period sugar exports earned approximately 80 percent of the island's foreign exchange. Such dependence on a single product obviously placed the Cuban economy in an extremely vulnerable position. If the harvest was poor or demand was low or prices were down, the Cuban economy would suffer. The variations in production from 1920 to 1959, and even later, illustrate some of the dangers of this situation." (...) Another feature of the sugar boom was concentration of ownership, especially in the hands of American Investors. After the 1870s, the new technology, particularly railways, stimulated a rapid reduction in the number of sugar mills (from 1190 in 1877 to only 207 in 1899). The independent growers, whose small-and medium sized farms had produced most of the cane before the 1870s, now sold out in growing numbers to the big sugar companies. By 1912 the latter controlled more than 10 percent of all land in Cuba. By 1925 the number of sugar mills had dropped to only 184, and they controlled 17.7 percent of Cuban Land".

"This concentration of mill and land ownership was a natural result of the manner in which the sugar boom had proceeded. Under the shield of the protectorate, U.S. investors poured capital into the building of modern mills (centrales) and the consolidation of cane-growing lands. American owned mills produced only 15 percent of Cuba's sugar in 1906, but by 1928 their share reached about 75 percent, thanks to loan defaults by Cuban owners; the figure then slacked off, and by 1950 it stood at 47 percent.

⁵⁸ Klein Herbert (2003) pages 209-212

“The technology of sugar production affected labor as well as ownership and management. Cultivation came to require a large-scale work force. Cane needs to be replanted only periodically, at intervals of five to twenty five years. Therefore the principal need for labor is for the harvest, or *zafra*, mostly spent on the arduous cutting of cane with machetes. The rest of the year was known in Cuba as the “dead season” of widespread unemployment and underemployment”.

“But workers had nowhere to go. Because of the enormous plantations they could not lease or purchase small-scale plots of land for their own use. Managers wanted to keep them near the mills, available for work, and for this they devised several tactics. One was to raise cane on land owned by the *centrales* themselves, usually about 10 percent of the total, thus maintaining the presence of independent growers nearby who would share the problems of labor with them. Another was to let workers go into debt, so they would remain under obligation to the ownership. A third was to encourage the formation of modest urban settlements, called *bateyes*, that would create working class communities”

“As a result Cuba witnessed the appearance of a rural proletariat, a social group that differed greatly from a classic peasantry. Workers in the sugar mills and in the *zafra* were laborers not farmers. They were concerned more about wages and working conditions than the acquisition of land”.

“More over, the rural laborers had intimate contact with the working class in the cities. They often migrated to urban areas, living in the kind of slum that has come to characterize many of Latin America’s largest metropolises: known as *colonias populares* in Mexico and *favelas* in Brazil, they acquired in Cuba the suitable name of *llega y pon* (“come and settle”). And their residents were blighted by poverty and deprivation. Only 40 of urban lower-class dwellings had inside toilets, only 40 percent had refrigeration of any kind, and as many as a dozen people lived in a singly room”.

Contact and communication between urban and rural elements of the Cuban working class would eventually have a decisive effect on the course of the country’s history, because it permitted the sort of unified, classwide social movement that has been found so rarely in Latin America. It is worth noting, too, that the church played only a minor role in Cuban society, and trade unions had a sporadic and precarious existence. In other words, the outlook and behavior of the Cuban laboring classes were not conditioned or controlled by existing institutions. Workers would, in time, be available for mobilization”.

(...)”In sum, the reliance on sugar produced mixed blessings for Cuba’s economy and society. It brought considerable prosperity to the island, especially in good *zafra* years, but it also created a volatile social structure, one in which rural and urban elements of a long deprived working class maintained communication with each other. The top of the social pyramid was occupied not by resident landlords, as in classic haciendas, but by foreign entrepreneurs or native owners who often lived in Havana: the upper class was absentee. There was a sizable middle class, at least by Latin American standards, but it was an amorphous stratum that lacked cohesion and selfconsciousness.”

(...) “In reality, Cuban politics saw little change between 1934 and 1959. The futility of the electoral system was repeatedly demonstrated, as the perennial strong man (yesterday Machado, today Batista) worked his will. The honest opposition scrapped and struggled

in vain. What had happen to the revolutionary fervor of 1933? Where was the coalition that had so frightened Washington? It had gone the way of all Cuban nationalist movements- rendered impotent by the unbeatable alliance of the Cuban elites, their political and military handmaidens, and Uncle Sam”.

(...) “By the 1950s, a North American-Style consumer culture had taken hold in Havana and the larger provincial cities. Cuban elites bought U.S. automobiles and went on lavish shopping trips to Miami and New York, bringing the latest fashions and consumer durables. While their social betters lived in the style of the North American rich, middle income Cubans struggled within a dependent economy to obtain the U.S. consumer goods demanded by their precarious social position”.

“The failure to obtain enough of these goods, together with the worst abuses of tourist industry combined to create principled outrage among some Cuban professionals and other middle sectors. Intellectuals decried the U.S presence, epitomized by gangsters, rowdy sailors, and tactless tourists, and ridiculed the Cuban elite’s imitation of North American fashions. Consistent U.S government support for Batista further identified the United States with Cuban corruption”.

“Working class Cubans also held higher expectations than their Latin American neighbors, measuring their standard of living against North American Workers. These unfulfilled expectations further contributed to a sense of decline and disenchantment by the late 1950’s. This dilemma was compounded for Cubans employed at a U.S. firm: these Cubans were paid better than their countrymen, but worse than their North American coworkers. Men and women of color were forced to endure the brutal racism of the period as well”.

(...) “Euphoria is the only word to describe Havana’s mood in the early days of 1959. Fidel had achieved genuine heroic status. The question now occupying the minds of the Cuban middle class, workers, peasants, foreign investors, the U.S. embassy, and other observers was, What kind of revolution would it be?.

(...) “The swing to the Soviet Bloc was neither a cause nor an effect of the clash with the United States, it was part and parcel of the same process. Initially it was a question of how far the Soviets might be willing to commit themselves in Cuba. The Russians proved bolder than almost anyone expected. In February 1960, well before the full economic break with the United States, the Soviets signed a trade agreement with Cuba, granting \$100 million credit to buy equipment and promising to purchase 4 million tons of sugar in each of the coming four years. Fidel was now developing an alternative source of technology and equipment, and the Soviets were getting ready to integrate Cuba as a “socialist” ally in the Third World”.

(...) “The failed invasion [Bay of Pigs, 1961] marked a watershed in U.S.-Cuban relations. Washington’s most obvious strategy had failed. Cuba would not be the Guatemala of the Caribbean⁵⁹. What options were left for the United States? Precious

⁵⁹ The quotation here refers to the early 50s when the leftist Government of Jacobo Arbenz was overthrown by North American intervention and replaced with a conservative government.

few Now the issue shifted to the level of the superpowers. In July 1960 Nikita Khrushchev had rattled Soviet missiles in defense of Cuban socialism”.

“The Soviets decided they must back up their threat by putting missiles in Cuba itself. The decision took almost every one by surprise. Yet the Soviets went ahead, and by October 1962 they were installing intermediate range rocket bases in Cuba. This was an unprecedented challenge to the balance of military power. The United States demanded that the Soviet Withdraw their missiles from Cuba, under sanction of a naval quarantine on all Soviet military shipments to Cuba. The world seemed to balance on the edge of nuclear war. After a fateful interval, Khrushchev complied. The missiles were withdrawn”.

“The superpower confrontation in the Caribbean had fateful implications for Cuba. First, Fidel himself was not consulted at any stage. The result was to make Cuba, in Latin American eyes, into a Soviet satellite in essential security matters. Second, the Soviets withdrew their missiles only because Washington (secretly) promised it would not invade Cuba. The Soviets had forced the United States to allow the socialist experiment in Cuba to proceed”.

“When Fidel declared himself a Marxist-Leninist, in December 1961, the statement came as an anticlimax. Whatever his ideological confessions, Fidel continued to be the overwhelmingly dominant personality in the Revolution.”⁶⁰

Third Colonial Situation Transformation: The Argentinian Case

As we have seen in previous chapters, the influence of the colonial heritage on social rural inequalities was especially strong in the development of the first and second colonial situations, and, consequently the transformation of that legacy should had a strong impact in social and political relations, on the second half of twentieth century. We may recall here what was already said in previous chapters, about the differences between the analytical approaches (focal points, conceptual tools, etc.) of North American Institutional Political Economy and Latin American Structural Political Economy. The periods in which the latter ideas apply more fully are those that begin during the nineteenth century peripheral positioning of Latin American Societies. That was, precisely the case of Argentina.

As we have seen in previous chapters, the economic formation of modern Argentina is linked to the political independence from Spaniard power and its association with Britain under the new industrial capitalist rules that settled the international technological, institutional and organizational basements of the so called center-periphery system of international economic relations.

Argentina developed a new economy and a new society in the almost empty territories of the humid “pampa” and consequently the modernization of this area was built, apparently at least, without the limitations of the colonial inheritance that we have seen on the other two colonial situations. Taking into account these important differences, and the admiration felt by many founding fathers of this nation for the development process that was taking place in the United States, the prospects for a successful

⁶⁰ Skidmore and Smith, *Modern Latin America*, Oxford University Press 2001, Chapter Eight, different paragraphs of pages from 261 to 278.

development seemed to be very promising. Nevertheless, Argentine followed a pace of development during the nineteenth century that was only superficially comparable with the one that took place in United States of America. The similar conditions were: a) An enormous territorial frontier unexploited during the colonial period; b) A large flow of European migrants that arrived and peopled those territories creating conditions for extensive exploitation of the large and wealthy agricultural potential; c) The agricultural surplus that allowed to the parallel fast development of urban life and manufacturing activities.

The differences with the North American experience were unfortunately very deep and decisive. Among them we can mention: a) The property of frontier lands were previously distributed among the landlords that monopolized it, without allowing the migrants to fully participate in the appropriation of the best land in the new territories; b) The migrants, with certain exceptions, concentrated in the main cities of the humid pampas, especially in Buenos Aires, taking advantage of the enormous agricultural surplus derived from the exporting activities that lowered the prices of the subsistence urban commodities; c) The industrial activities that, very early in the twentieth century, began to unfold in Buenos Aires city lacked from the beginning, of the stimulating impulse of a national effective demand coming from rural areas, due both to the insufficiently peopled territories on humid pampas and the southern Patagonia, and to the backwardness of northern Argentine provinces, that were peopled under the colonial period and were subject to traditional semi-colonial labor relations for the indigenous population.

The per capita incomes of Argentina and of United States were not very different at the beginning of twentieth century, but in the first case it was only a consequence of the high natural productivity of the pampas, exploited extensively under conditions of monopoly of the best land available in the country, and could not be compared with the huge distribution of land that took place during the American conquest of the west during the nineteenth century. The development of United States of America was inward oriented from the beginning, and a virtuous circle unfolded between the industrial growth in the cities and the agricultural growth providing food and raw material for industry and demanding, from the beginning, the manufacturing equipments needed to agricultural development. The most eloquent example of these differences can be found in the geographical design and settlements of railways. In the Argentine case the railways were planned and built to transport the agricultural wealth of the pampas to the port of Buenos Aires city, and some other cities of the hinterland as Rosario. Those railways were built by British companies using the productive power of Great Britain industries. On the other hand the railways in United States of America were planned and built by American industries that, very soon, replaced and surpassed the technical capabilities of the British ones in this area.

At the beginning of the XX century Argentina was a country highly disintegrated from a social and cultural point of view, and this characteristic was going to emerge during the second half of the twentieth century when the different segments of Argentine society began to clash. Particularly, there was a disconnection between urban middle

classes integrated by European migrants that developed industrial basements during the 40's and 50's and the powerful landlords that controlled strategically the international economic position of Argentina through their exports of temperate climate agricultural products. The origins of Argentine's lack of social internal integration to be accounted for were: a) During the first half of the twentieth century the foreign migrant population was larger than the indigenous population in the pampas region, and this difference was even greater in the case of Buenos Aires city; b) the population that remained in rural areas, with some important exceptions, was socially and culturally disconnected from the urban migrants that integrated the middle classes of Argentina. That was the case with the "gauchos" (south-American-style cowboys) specialized in cattle management at the big estancias of the Buenos Aires province, and, even more importantly, with the population located in the northern part of the country, ethnically, culturally, and economically marginalized from the development boom of the pampas.

Two processes were superposed in a relatively short period of time. The first one was the structuring of a middle urban class during the twenties and thirties that implied the cultural assimilation and integration of European migrants to the overall political system. The second process began after the II World War with the massive rural urban migration from the periphery of the nation and, also, from neighboring poorer countries. These migration flows were integrated by peasants exiting from the traditional colonial patterns of their places of origin. This second process implied the transition from a spontaneous industrialization (under the artisan organizational patterns brought by European migrants on the "easy" period substitutive process) to an industrialist strategy that began to operate under the populist political movement called peronismo or justicialismo.

During this period, the strategy of delivered industrialization led to the reproduction of a center periphery system within argentine economy. The economic, political and social integration of these rural urban internal migrants of much lower cultural and economic condition was made through the expansion of industrial urban activities, and their social and political organization was reached through the creation of powerful centralized labor unions under the control of the populist ideologically contradictory government of Juan Domingo Perón. During this period an increasing part of the commercial surplus generated by exporting activities was appropriated by the state and devoted both to promote industrialization incentives for the local entrepreneurs on one hand, and to create an institutional welfare state through the protection of labor rights. During this period of the 50's the rural landlords were compelled to provide the financial backing for this reform through a commercial state owned system that controlled and taxed heavily the export incomes, inducing the internal deterioration of the terms of trade of exports against manufactures. Nevertheless, at the end of the 50's, after the fall of Peron, the essential structural features derived from the historical economic formation of the country were still prevailing:

"The outcome of Argentina's economic failure was a heavily unbalanced society that made ill-use of its potential resources. In 1959 experts from the United Nations Economic Commission for Latin America concluded that 70 percent of the nation's land area –some 193 million hectares of a total of 280 million- was usable for stockraising,

agriculture, or forestry. But only a quarter of the usable land was actually in use, scarcely one sixth of the total area. Aridity afflicted 45 percent of the land, yet less than 1 percent was under irrigation, scarcely an advance on 1930. The 1960's and 1970's brought little change: the pampas remained the source of 60 percent of cereals, 55 per cent of forage crops, and, discounting Patagonia, an even larger proportion of livestock”.

“Meanwhile, Argentina became still more heavily urbanized, such that by 1970 79 per cent of the population lived in urban areas, a proportion matched by few other countries in the world. The rural population had peaked in 1949 at 5.9 million; by 1970 it had fallen to 4.9 million. This growing urbanization and centralization aggravated historic interregional disparities. In the 1960s and 1970s four fifths of internal commerce was conducted within the littoral triangle between the cities of Buenos Aires, Santa Fe, and Cordoba. Although the growth of the oil industry and the development of temperate-fruit production effected migration toward the south, especially to Rio Negro and Neuquen, Patagonia at large remained a near empty wilderness. Demographic decline was marked in the northerne regions: in the 1960s an estimated 164.000 people left Tucuman, some 140.000 left Chaco province, 100.000 left Santiago del Estero, and from Corrientes another 100.000 migrated. Some three quarters of a million migrants settled in Greater Buenos Aires in the 1960s”.

“Argentina had always subsisted in the shadow of Buenos Aires, and in the twentieth century its structural lopsidedness remained as acute and extreme as ever. In 1930 24,7 percent of the nation's 9 million people dwelt within or close by the capital; by 1980 the proportion was 34.3 percent -9.2 million of a total 27.2 million. Greater Buenos Aires was now the fourth larges conurbation of Latin America, stretching far into the western plains; its northern limits extended to Tigre, at the mouth of the Parana delta, and its southern boundery was close to La Plata, thirty miles from the city center. The city's population density also increased, as its earlier single-floor dwellings were replaced by high rise apartments. Here was half the country's manufacturing industry, employing one million persons in 1980; here too, among the shantytowns, in what euphemistically termed *villas de emergencia*, was its growing army of indigent poor, estimated at around 1,5 million in 1970. A survey of one shantytown settlement in 1971 reported that 70 per cent of the population had not completed primary school; though the country had almost as many cattle as people, 16 percent had never drunk milk. The only appreciable countervailing force against Buenos Aires was Cordoba, which from the late 1950s grew swiftly as an automobile manufacturing center. Between 1947 and 1970, Cordoba's population rose from 383.000 to almos 800.000.⁶¹”

The demagogic populist sociopolitical system, unfolded under Peron's presidency, created a deep division between higher and middle classes (particularly white-collar urban workers) on one hand, and rural and urban manual workers on the other. The higher conservative classes (especially landlords of Buenos Aires) were fiercely opposed to the system. The illustrated middle urban classes linked to the former European migrations of the 20's and 30's were opposed to the demagogic politically

⁶¹ David Rock Argentina 1516-1987, University of California Press, Berkeley, Los Angeles, 1987,page 330.

centralized methods of populism and, partly, expressed and intellectualized pro-European leftist view rooted in social democratic and Marxist influences of the labor movements in Europe. After the Soviet Revolution the communist party unfolded in Argentine, but its influence was completely countervailed by the populist movement of peronism. So the socialist and communist parties were completely disconnected with the labor class that was massively populist. Those Marxian leftist parties were promoted by the leftist urban middle class. On the other hand, industrial undertakers that were favored by the industrialization process participated on the populist (peronist) movement but for interested motives.

The political situation got even more divided when the Catholic Church promoted the creation of a Christian Democratic Party that was rejected by Peron creating violent confrontations. In sum all the other democratic options, different from the populism of Peron ended up gathered against his political regime, but the working class on rural and urban areas was completely faithful and grateful to him. It was an ironic situation of a “democratic dictator” that was loved by the 50% poorer strata of population, and, consequently, was able to win any political election against all the remaining political forces.

The upper officers of argentine army (and especially of the navy), deeply connected with the agrarian oligarchy, took advantage of this isolated political position of Peron, and, with the support of almost all the parties, and the reject of the majority of the peasants and blue collar working classes, performed a political coup and sent Peron to exile. But the legacy of his presidential period continued marking political life of Argentina:

“Socially and politically, Argentina represented a case of arrested transition. The legacy of the 1940s endured in the new migrant urban population, in the labor movement, which was the largest and strongest in Latin America, and in the survival of peronista populism. But the elites still largely dominated the land, and in the 1960’ and 1970s they also recovered many of their traditional leadership roles in commerce and finance, reviving their political influence through power groups like the Army. The elites now entered manufacturing, less as entrepreneurs than as brokers and agents for the multinationals thereby resuming their historical roles as collaborators and agents of foreign investors.”

“Argentina’s middle class survived in number and strength, although embourgeoisement became increasingly difficult. Throughout the period the number of professionals, white collar workers, and state administrators –the type of middle class that appeared before 1930- continued to proliferate, and they were joined by the new petty capitalists spawned by import substitution. The middle class also grew as more women entered the labor market. Until 1960 women composed a roughly constant 20 percent of the workforce, with most employed as domestic or in manufacturing. By 1970 women represented 25 percent of the workforce, the increase due almost entirely to women’s penetration of middle-class service occupations- banking, insurance, commerce, public administration, and the vocational professions.”

During the 60's and beginnings of the 70s, the problems of Argentina were not only economic but also, and especially political: the democratic system could not work with a majority of the electorate demanding the return of Peron, and the armed forces rejecting absolutely this political option. The political situation was complicated even more with the emergence of several guerrilla movements of different political sign. The Cuban revolution exerted a powerful impact on the radicalized leftist middle classes on urban areas. The participation of Che Guevara in the Cuban Revolution, and the continuation of his subversive activities in Bolivia influence heavily the radical positions of young activists:

“In this period the major social groups, classes, parties, corporate institutions – each highly organized in a multitude of special interest associations- were locked in almost perpetual conflict, often within and among themselves. No one sector was able to establish stable, durable alliances or an institutionalized system of dominance. Politics increasingly focused on competing sectoral claims to national income, state subsidies, and support an acute polarization developed between civil society and the armed forces”.

The period between Peron's fall and the Falklands (Malvinas) war divides into three phases, which span sixteen changes of government. From 1955 until 1966 came a series of failed efforts to destroy Peronism and to erect a civilian alternative that could command majority support. Both military and non-Peronist civilian governments seized power but could not retain it; the Peronists were able to topple governments but unable to take power. Between 1966 and 1976 the struggle between the military and the Peronists intensified. In 1966 the Army established authoritarian rule and initiated a stabilization program to expunge inflation and restore economic growth. Violence and revolt forced the program to collapse in 1969, and serious political unrest persisted over the next seven years, despite the return of the Peronists in 1973. The third phase began in 1976, under a second group of military authoritarians whose regime was harsher and more resistant to compromise than any of its predecessors. The regime survived first an armed rebellion, then a steep and prolonged recession, throughout resisting pressures for a return to civilian rule. But having failed to resolve the chronic problems of stagnation and maldistribution, it too underwent spectacular and ignominious decline”⁶².

THE IMPACT OF THESE PROCESSES ON LATIN AMERICAN SOCIAL SCIENCES: STRUCTURALISTS VERSUS DEPENDISTS IN THE 70s.

During the 60s and the 70s the ideological climate in political and intellectual circles began to polarize intellectual positions in Latin America. The extreme positions implied a growing disregard for the values and institutions of representative democracy. Representative democracy values were attacked from the leftist strategists of the guerrilla movements. Representative democratic institutions were also weakened by military interventions of United States government on Latin American nations and by its reliance on authoritarian governments willing to defend North American interests on political (connected with the east-west cold war) and on economic (defense of American corporation foreign investments) issues.

⁶² David Rock (1987), pages 332 and 333.

The lack of trust on representative democracy values and institutions, coming both from the left and the right, concentrated the political debate between two extreme positions: fascist and ultra nationalist repressive authoritarian movements on the extreme conservative pole, and violent subversive strategies ideologically connected with different branches of the Marxist-Leninist ideology in the leftist pole.

During the 60s and 70s, the philosophical and social debate in Europe was also centered on approaches that disregarded completely the role of representative democracy in the evolution of contemporary western societies. The intellectual fashion of the period privileged the ideas of philosophers and anthropologists such as Jean Paul Sartre, Simon de Bouvair, Claude Levy Strauss, Roger Garaudi, etc. The highly intellectualized and sophisticated debates that took place in France dealt with holistic abstract comprehensive visions of society such as Marxism, Structuralism (the French methodological meaning of the term, originated on Levy Strauss), and many other “isms” that took the podium during this period. Also in economics and political economy, polarization between neoclassic and Marxist visions was acute not only in Europe but also in the United States where the Marxian economics were studied and promoted through well known scholars as Paul Sweezy, Paul Baran and others. During this period, representative democracy was considered only under the label of “bourgeois democracy” and the political option at stake was not between democracy and totalitarianism, but between capitalism and socialism. In short, the debate became unilateral and the discussion unfolded within the Marxian categories of “modes of production”, “social formations”, “capitalism” and “class struggles”. The links between the values and institutions of capitalism on one hand and of representative democracy on the other hand were completely disregarded.

Latin American social sciences reflected heavily this polarization. Moderate thinkers as Gino Germany or Medina Echavarria that were concerned with the values and institutions of representative democracy, began to be surpassed by the dependentists. The dependentist “comprehensive” socio-political movement approach was almost exclusively formulated in terms of the *class struggles* under the historical latin American *modes of production* and *social formations*. The last quoted expressions were the Marxist reference framework that preside the majority of political and intellectual debates in Latin America.

The dependency movement was the direct outcome of these ideological influences. The most legitimate and sound expression of genuine Latin American studies on dependency theory was developed by Cardoso and Faletto as a leftist derivation of the structuralist ideas previously asserted by Raul Prebisch, Celso Furtado, and others Latin American economists around the influent forum of the Economic Commission for Latin America known as CEPAL. In the case of Cardoso and Faletto the dependency theory was not openly opposed to the structuralist economists ideas. Cardoso and Faletto partially adopted the language of Structuralist CEPAL economists such as *Center-Periphery*, *export led growth*, *substitutive industrialization*, *inward oriented development*, etc. In other cases, dependentist approaches attacked CEPAL original ideas, but in any

case, the point of departure of their works was always, explicitly or implicitly the center-periphery vision developed by Prebisch at CEPAL.

If we take the ideas of Cardoso and Faletto to examine the crucial differences between dependists and structuralists, we run the risk of submerging ourselves in deep and subtle conceptual considerations that are not useful for the purpose of this chapter. But the main obvious difference between these two schools of thought was the theoretical and political disregard by dependency theory about the role of democratic ideas, and more precisely of the representative democracy values and institutions. This lack of attention to the western legacy of political democracy was perhaps partially justifiable on the structural economists of CEPAL, because they were focused mainly in economic systems, but was not acceptable in the case of dependentist sociologists. More precisely, the dependtists disregarded the point of view of democracy and, more generally, of liberal modern western tradition, because their analysis were relying on Historic Materialism as a philosophy of history rooted in Marxian dialectics. Hence it was no place left to the study of values and institutions of representative democracy. In words of Cardoso and Faletto themselves:

“Outside Latin America, the academic community in the United States elaborated scientific explanatory models of the different sociocultural dimensions of society. Examples can be found in the structural-functionalist paradigms proposed by Merton or Parsons, in theories of political behavior (as in Easton’s systemic analysis and in Laswell’s efforts to characterize dimensions of power and influence), and even in several theories of modernization and political development. The influence of this explanatory models started to increase in Latin America in the fifties and achieved “scientific respectability” in the sixties. These paradigms inspired several theories on Latin American development processes”.

“At the same time, economists at ECLA were proposing a critical view of development. They criticized conservative economists who believed that the present division of labor in the world market was inevitable because it was based on “comparative advantages”: some countries would be better endowed to produce raw materials, whereas other would have advantages in producing industrial goods. In spite of their critical nature, ECLA economic theories and critiques were not based on an analysis of social process, did not call attention to imperialist relationships among countries, and did not take into account the asymmetric relations between classes.”

“Consequently a counter-critique which cited the narrowness of the ECLA approach also spread through Latin America. It arose, at times implicitly, within ECLA itself, in studies dealing with the concentration of benefits from technological progress, as well as in essays on the social conditions of development by Medina Echavarría. It is also implicit in the work of intellectuals in the universities and political movements (in Sao Paulo, Mexico, Buenos Aires, or Caracas) who emphasized the inequalities of wealth and opportunity inherent in a development that derives from capitalist expansion and the strengthening of imperialism”.

“Our essay belongs to that more radically critical Latin American heritage. We attempt to reestablish the intellectual tradition based on a comprehensive social science. We seek a global and dynamic understanding of social structures instead of looking only at specific dimensions of the social process. We oppose the academic tradition which

conceived of domination and socio-cultural relations as “dimensions” analytically independent of one another, and together independent of the economy, as if each one of these dimensions corresponded to separate spheres of reality. In that sense, we stress the sociopolitical nature of the economic relations of production, thus following the nineteenth century tradition of treating economy as political economy. This methodological approach, which found its highest expression in Marx, assumes that the hierarchy that exists in society is the result of established ways of organizing the production of material and spiritual life. This hierarchy also serves to assure the unequal appropriation of nature and of the results of human work by social classes and groups. So we attempt to analyze domination in its connection with economic expansion”.

“There is a difference of a methodological nature between the approach followed by us in this essay and the others mentioned above. We use a dialectical approach to study society, its structures and processes of change⁶³.”

The epistemological approach of dependentism left behind the place of representative democracy as one of the two main institutional systems that shaped contemporary western societies, and focused solely on capitalism and its internal dynamics both at national and international levels. The sociopolitical analysis that resulted from this unilateral approach was, at the end of the day, only based in the struggle among social classes that were defined accordingly with their position on the property structures of the economic systems. The features of the cultural system and its autonomous long term influence especially channeled through the values and institutions of representative democracy are completely absent of this approach. That explains why concepts such as *civil rights*, *individual liberties* and, of course, *democracy* itself were never even mentioned in the theoretical approach. Then dependentists strategies faced the authoritarian violence emerging from the historical path of Latin American Societies, proposing another sort of authoritarian alternative that ideologically could legitimate the violent popular movements that emerged during the 50s and the 60s on Latin American societies. Ironically enough, Cardoso forgot his revolutionary ideas and resorted to the representative democratic system to reach the presidency of Brazil 20 years after the publishing of that book.

Many scholars and social scientists of the developed world have been very sensitive to this reluctant or elusive position of Latin American social scientists, and especially dependentist theorizers, about the role and importance of democracy in western societies. On this particular point we can read: “The present analysis suggests two sets of hypothesis. On the one hand, if intellectuals, whose influence in Latin American politics is greater than that of their U.S. counterparts on American politics, refer to elections, political parties, and legislatures as mere “formalisms” that are irrelevant or even damaging to “substantive democracy,” then those institutions are diminished as mechanisms for dealing with the problems of Latin American societies. If any capitalist state, even a formally democratic one, is disparaged as merely a device by which elites dominate and exploit popular classes, then the new democratic regimes will

⁶³ Cardoso and Faletto, *Dependency and Development in Latin America*, University of California Press 1979. Preface to the English edition, pages viii and ix. This is an expanded and amended version of *Dependencia y Desarrollo en America Latina*, Siglo XXI Editores, SA, 1971.

have even greater problems of legitimacy than they already have. If any group, individual, or class fractions that has ties with capitalism can at any time be arbitrarily called an internal “expression” of external (capitalist) interests, or stigmatized as the “anti-nation inside the nation”, then it will be impossible to recognize the legitimacy of divergent, conflicting interests or of bargaining about, negotiating, and reconciling them in a democratic fashion”.

“If, on the other hand, the intellectuals use different kinds of discourse, such as the ones that have become prominent recently, then the prospects for the new civilian regimes are improved. Recently some Marxists who were used to seeing the capitalist state and its bourgeois accoutrements of elections as merely the instruments of class oppression have come to see them as means of pursuing the goals of justice and human dignity. As a result they have been able to work intellectually and politically within the electoral and legislative frameworks. The writing of political liberals, and of many of the new academic social scientists of greatly varied ideological and theoretical hues, also reinforced the new tendencies in the political system to legitimate electoral and other democratic political mechanisms, respect minority rights, honor divergent interests, and maintain civility and mutual tolerance in political interactions”.

“The awesome economic, social, political, and international problems that Latin American countries face put enormous strains on the new democracies. It seems likely that some of them will falter. How many will be able to hold? No one can say. What is suggested is that the way people think, talk, and write about politics will be one factor affecting the fate of democracies, and that intellectuals will continue to play an important role in shaping that factor. In recent years they have been a positive factor. This trend is surely not decisive in its consequences, but it seems to be significant”⁶⁴.

We may suggest here that the approach of Prebisch in his last book was very clearly concerned about the interdependent dynamic relations between peripheral capitalism and peripheral democracy. This book was published five years after the writing of the “dependentist” preface quoted in previous paragraphs and it reflects the enormous influence that the ideas of the Spanish sociologist Medina Echavarría exerted over the formulation of the final approach of Prebisch to the subject of peripheral societies. Let us capture a paragraph where the concerns of Prebisch about the role of democracy in Latin American societies are especially clear:

“Development can not be intellectually captured within the narrow limits of an economic theory. If methodological reasons have conducted theorists to examine separately the different elements by understandable desires of scientific specialization, the time has come to embrace all of them in their complexity and to analyze all their mutual interrelations. It must be done for a better approach to the reality that has to be transformed. To think about economic solutions on peripheral development, without considering the other components, is a tragic mistake in which many of us can fall in present times. Some theorists insist: “eliminate the economic and political obstacles that perturb the free movement of economic forces and the system will get full efficacy!” But in order to reach the flourishing of economic liberalism it will be necessary to sacrifice

⁶⁴ Robert A Packenham, *The Dependence Movement*, Harvard University Press Cambridge Massachussets, 1998, pages 236 and 237.

democratic liberalism with everything that it means to individual freedom and human rights”⁶⁵.

So we may say that the last message of Prebisch, was the exam of the interactions between peripheral democracy and peripheral capitalism, in order to overcome its essential contradictions as a necessary condition to open the doors at Latin American Development. It is also clear that the goals of liberty and democracy were essential elements of Prebisch vision on peripheral development. In the last section of his last book Prebisch wrote:

“After a long and troubled historical experience, it has been understood the existence of political rationality and it has been established an institutional regime able to ensure fundamental rights of individuals; their essential liberty with no other limitations than the respect to the liberties of the others.”

“Under the light of this historical experience the acceptance and strengthening of those rights, require to avoid the concentration of political power”.

“But concentration of economic power in peripheral capitalism, due to persisting accumulation of surplus, conspires against this great ethical objective. And the democratization process and their inherent human values end up crashing against that economic power. Neither is this process compatible with the property and management of productive means by the State”.

“The transformation of the system has to ensure the convergence of ethical objectives of freedom and equity. This convergence is possible, in spite of the powerful obstacles to be overcome. That is the profound conviction that supports these pages”⁶⁶.

LINKS BETWEEN CONCEPTUAL AND HISTORICAL BACKGROUNDS

We can make a recapitulation of the main links between the theoretical background that we have been using and the historical processes that unfolded during the period 1950-1980.

Departing from our three focal points (technology, organizations and institutions) we have developed the embracing concept of structural heterogeneity taken as a main empirical indicator of the different strata of labor productivity. Labor productivity is a measure of levels of technical progress and is an empirical expression of the irregular sectoral and unequal social distribution of technical progress in Latin America. These different technological strata can be linked to different types of organizations that occupy

⁶⁵ The Spanish version of this paragraphs spells: “Y mal podría encerrarse el desarrollo en el estrecho cercado de una teoría económica. Si razones metodológicas han llevado a los teóricos a examinar por separado los distintos elementos, animados a veces por un prurito explicable de especialización, se impone ahora abarcarlos en su intrincada complejidad y dilucidar sus mutuas relaciones. Y hay que hacerlo para aproximarse más a la realidad que se pretende transformar. Discurrir acerca de soluciones económicas en el desarrollo periférico, con prescindencia de esos otros componentes, es un trágico desatino del cual, por cierto, no estamos exentos en los tiempos que corren. Elimínense los obstáculos políticos y sociales que trastornan el libre juego de las fuerzas económicas –vuelve a insistirse- y el sistema llegará a adquirir plena eficacia! Sólo que para lograr la plenitud del liberalismo económico debe sacrificarse el liberalismo democrático con todo lo que entraña para la libertad individual y la vigencia de los derechos humanos”.

Raul Prebisch (1981).

⁶⁶ Raul Prebisch (1981) page 336.

those strata and to different set of rules that operate inside each one of those organizations. At an overall level it is supposed that the main economic, political, and cultural rules are the same for all the social actors of national societies. Nevertheless, the informal rules of the game can be, and effectively were, very different to the formal ones in rural backward areas of Latin America.

As we have said, structural heterogeneity is a socially relevant concept in Latin American societies because the lower strata of productivity labor include a huge percentage of total labor force at levels that necessarily imply poverty for the workers (and their families) engaged in these productive structures. That is the main difference, compared with other developed societies where you can find of course similar conditions of structural heterogeneity but a very small amount of total labor force engaged on the lower positions. Latin American societies have been during the last half century the most unfair societies of the whole world from the view point of wealth and income distribution. There is a correspondence between these distributions and the distribution of technical progress measured through the stratification of labor productivities. By introducing the distribution of technical progress it is possible to establish conceptual and practical links between labor productivity, poverty, employment stratification, and wages distribution.

But our strategic link from a conceptual point of view between structural heterogeneity and societal structures is *poverty*, and not necessarily *wealth* or *income* distribution. The concept of poverty can be understood in a general common sense as the lack of purchasing power or insufficient real personal income to satisfy basic needs. Another way of putting the same idea is to define poverty as an economic impotence to satisfy basic needs suffered by a significant amount of population in a given society.

But poverty can be conceptualized in a much deeper theoretical sense as a lack of economic, political and cultural power that impedes to fully participate in the economic, political and cultural goods of society. If we conceptually link the concepts of poverty and power in this multidimensional way, we may distinguish between institutionalized and non institutionalized poverty (and power positions).

The difference between institutionalized and non institutionalized power (and poverty) positions can be explained departing from the concept of social relationships. Institutionalized social relationships imply reciprocal expectations of behavior from the people that is engaging in the social relation (including of course all types of market transactions). Institutionalized social relationships imply the acceptance and internalization of the rules of the societal game in all kinds of usual day to day life activities by those that are actively engaged in those social relations. The web of those institutionalized social relations constitutes the structure of society and determines the power (and poverty) positions of different social actors in the economic, political and cultural dimensions of the societal structure. The idea of societal relations certainly includes the concept of transaction costs that are not evenly distributed between the parts that participate in market economic relations. Not only on the economy but also in political and cultural terms the cost of acquiring information, of bargaining, of legally

enforcing, of monitoring and of litigating on judicial terms, are, in general, unevenly distributed between the parts that participate in these different types of social relations. The unequal distribution of wealth and income implies, of course, the unequal distribution of transaction costs among the parties engaged in market social relations.

Now we can briefly refer to another subject that is implicitly included in the conceptualization of institutions (rules of the game): the subject of (economic, civil, political, social, and cultural) rights. As we know the liberal political philosophy emphasizes the “rights aspects” of the rules, but other political philosophers closely link to the communitarianist approach (and also to the Roman Catholic social position) emphasize even more the “duties or obligation aspects” of the rules of the game. The idea of human rights is merely rhetorical if duties and obligations that are correlative to those rights are not internalized in social actors and lack effective enforcement in every day usual human activities. This is especially important in connection with human rights, but is also true in political and economic rights. In fact it might be possible to “rephrase” completely the ONU Declaration of Human Rights using an “obligation code” to emphasize the necessary commitment of citizens with those formally proclaimed rights.

This is the rough theoretical structure that we have been using. Now, if we apply these conceptual tools to the Latin American historical period that we are considering we may say that the thirty years between the beginnings of the 50s till the end of the 80s were a period of relevant structural societal change in Latin American societies.

Let us begin with economic institutions: the property rules of the game are applied to the patrimonial rights and obligations especially in the sphere of those wealth and income property rules that are specific of capitalist economic institutions. As we know, for example the rules of land ownership are very different in capitalist and medieval European societies. But in the case of European societies the unfolding of capitalist property rules extinguished the formal and informal rules of medieval land ownership. In the case of United States history, those ancient medieval property rules never really existed. But as we know, the Latin American colonial heritage was manifested especially by the survival of the hybrid ownership rules of the Latifundium-Minifundium systems in rural areas inherited from colonial times. Those hybrid rules were generally informal, and sometimes completely ignored by the fundamental national codes beginning with the political constitutions themselves.

These rural ownership rules in Latin American Societies were of course both inefficient and unfair, and clearly opposed to the institutional foundations of capitalism and democracy, but they were strongly institutionalized. They survived in Latin American Societies as rural social relations internalized by both parts of economic patrimonial transactions: landlords and peasants. In the 50s rural revolutionary movements began to unfold firstly in Bolivia with Paz Estenssoro, secondly in Guatemala with Jacobo Arbens, thirdly in Cuba with Fidel Castro, and these events become a clear sign that the frozen institutions of rural Latin American societies were warming up very fast. As we have seen the usual response of United States to those challenges was the backing of strong dictators like Trujillo, Batista, etc. But especially the Cuban Revolution

was an alert signal that the problem of rural social unrest in Latin American societies could not be labeled as mere episodes of communist subversion. There was a substratum of real unfair institutions that should be removed and replaced with new rules coherent with the formal existing capitalist and democratic institutions. This political dilemma was faced by a new attitude of United States government that began by the foundation of the Inter-American Development Bank under Eisenhower administration very shortly after the triumph of Cuban Revolution, and by the Alliance for Progress promoted by president John F. Kennedy after the consolidation of Cuban Revolution.

The Alliance for Progress legitimized agrarian and tax reforms and promoted the settlement of planning offices in all Latin American countries as a prerequisite to apply for the benefits of the Alliance and the Loans of the IADB. The most successful outcome linked with these forms of international aid developed by U.S was, perhaps the so called “Revolution en Libertad” unfolded during the Christian Democratic administration of Eduardo Frei Montalva in Chile. The Chilean agrarian reform of Christian Democrats in Chile was enforced under peaceful, democratic, legitimate terms, and began a complex process that became uncontrollable under the subsequent Marxist administration of Salvador Allende. After the assassination of President Kennedy and his brother Bob (who was running as presidential candidate on the subsequent elections) the arrival of Nixon Republican Government faced the ugly reality that the apparently most successful model of democratic reforms in Latin American Societies degenerated in an uncontrollable violation of both capitalist and democratic rules of the game. The last scene of Chilean drama was, as is well known, the military coup that began the authoritarian political cycle of the 70s propagated to all Latin American Societies.

We can turn now to the political institutions and return to our theoretical framework. Political power is institutionalized when political rules of the game are effectively internalized and respected by citizens. But the 1950s and 1960s were times of open challenge to political institutions not only to the unfair ones prevailing in rural areas but also to the formal democratic overall national institutions. The pendulum, at the beginning of the 70s shifted to the extreme right and implied the settlement in almost all Latin American societies of authoritarian military governments firmly devoted to annihilate the leftist subversive violence.

During this period the formal rules of the democratic political game were ignored through two different types of violent strategies: the revolutionary leftist movements and the repressive response from the extreme right. But democracy was not lost for Latin American Societies, and at the beginnings of the 1980s a new democratic political cycle resumed in Latin America. At the beginning there were little hopes that this democratic cycle was going to last in the long run. But it did. And during the next twenty years of Latin American history democracy unfolded without been interrupted by new military coups. This implies that democratic rules of the game seem to be rooting in the behavior of main political players, and this internalization of democratic rules of the game appears as an unprecedented unanimous phenomenon that is strongly penetrating in XXI century.

We have said that the rules of a society are the framework that channels the power positions in economic, political and cultural social relations. We have also said that structural poverty in Latin American Societies express institutionalized forms of economic, political and cultural impotence (partial of total lack of power) for the majority of Latin American citizens. During the 50s and the 60s social rural relations experienced irreversible institutional changes especially in the economic and political rules. In the next chapter we are going to explore the new political rules and also the main changes that are taking place in the main cultural rules of the game.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER VII: INFORMATION TECHNOLOGIES AND CENTER PERIPHERY TODAY

A REFERENCE FRAMEWORK

Departing from the structural-institutional point of view sustained in this course we begin examining the specific features that characterize and define each technological revolution. We have characterized technical progress as embodied in productive instruments and personalized in human skills. These material instruments that enhanced productive power of human beings have been, until now, of three different and complementary types, automated machinery, new sources of energy, and new types of material inputs⁶⁷.

These three elements characterize, accordingly with Douglas North, the three ways through which the Second Economic Revolution unfolded during the last two hundred years⁶⁸. In the language adopted in these lessons the First and Second Industrial Revolutions of the last two centuries are components of North's notion of Second Economic Revolution. Nevertheless, North seems to include the present Information technologies as components (or a new stage) of the Second Economic Revolution. We shall argue that the essential features of the information technologies imply the unfolding of a Third Economic Revolution. North's position is understandable taking into account the date of publication of the book we are quoting⁶⁹, but the last 20 years have fully

⁶⁷ See Douglass North (1981), *Structure and Change in Economic History*, W.W. Norton and Company Inc, Chapter 13.

⁶⁸ "The term economic revolution is intended to convey two distinct changes in an economic system: a fundamental change in the productive potential of society as a consequence of a basic change in the stock of knowledge, and a consequent, equally basic, change in organization to realize that productive potential. Both economic revolutions deserve that title because they altered the slope of the long run supply curve of output so as to permit continuing population growth without the dismal consequences of the classic economic model. The First Economic Revolution created agriculture and "civilization"; the second created an elastic supply curve of new knowledge which built economic growth into the system. Both entailed substantial institutional reorganization. The organizational crisis of the modern world can only be understood as a part of the Second Economic Revolution". North (1981), page 171.

⁶⁹ The first of these developments (of automated machinery) is a continuation from the Industrial Revolution and is in part a simple result of increasing specialization and division of labor, which make the objective of devising a machine to replace a simple task easier for the inventors. Eli Whitney's celebrated demonstration of interchangeable parts in the manufacture of muskets and Henry Ford's equally celebrated assembly line for the manufacture of Model T (car) were classic examples. The high speed computer is the most revolutionary modern example. Its most striking characteristic is continuous high-speed throughput,

unfolded the potential of the information, communication and knowledge technologies. And the social effect of the new technologies goes far beyond the impact that can derive from the use of automated machinery.

To emphasize this difference, from now on we shall use the expression “knowledge technologies” as a synthetic way of alluding to the global “information, communication, and knowledge technologies” that depend on the expansion of the so called “information super-highway” (global information and communication network, including internet and other networks and switching systems such as telephone and cable television networks). The term “information technologies”, has been widely used, but “knowledge technologies”, perhaps, describes better the potential to reach the stage of “knowledge societies”. That is, societies where the information and communication capabilities are devoted to develop knowledge.

The point to emphasize here is that knowledge technologies are potentially technical weapons that allow for the first time in human history to promote both the productive power of labor and the human capabilities for all mankind.

The presently unfolding knowledge technologies allow people to increase its levels of information, communication and knowledge in a way and magnitude never seen before in human history. This is a difference with previous technology revolutions that were defined in terms of automated machinery, energy sources, and transformation of matter. The present technological revolution transcends largely the economic aspects of productive power of labor and of consumption diversification.

The direct impact of the present technological revolution is, as well as the previous ones of an economic and political⁷⁰ nature, but additionally, is also cultural. As such, in the long term it can change the distribution of cultural power on society.

We have characterized power as the position occupied by persons in the institutional system. That means that we are interested in the institutionalized (structured) forms of power. The societal institutional system, can be defined as the set of working rules of the game that are internalized in day to day economic, political and cultural actions of persons in society. The present technologies are specifically changing the rules that determine the distribution of information, communication and knowledge technologies. That is, are changing the institutional foundations of culture itself.

The democratization of knowledge technologies allows everybody, at least potentially, to join the cultural game. The concrete existence of these technologies is an insufficient but necessary condition that has been fulfilled for the first time in human

to use Alfred Chandler (1977) favorite term. It is a response to large scale markets that induce high volume output”. North (1981), page 174.

⁷⁰ After the First Industrial Revolution the international and political relations depended in high degree of the military power of the different nations, and that military power depended in turn of the degree of productive power and industrial development of each nation.

history; is insufficient because organizational and institutional transformations are also required for the democratization of access to culture.

The main point to be emphasized is that these technologies promote human development defined as the actualization of our potential as human beings by the exercise of our own rational capabilities.

Cultural power relates with the direct or indirect control of the means of information, communication, and knowledge. Now, if we accept that the ultimate philosophical and moral foundations of every society reside in their cultural system and its cultural power structure, these technologies have the potential to increase cultural mobility at both an individual and structural level.

But let us return to the issue of human development. The specific difference of human beings, considered as biological entities, is their rationality. Rationality is an intellectual capability, so human development implies above all the expansion of our rational capabilities. Rational human action implies the coherence between means and ends. As long as human action unfolds in a social environment, social relations explicitly or implicitly are about people that interact searching different ends and using different means.

The definition of social relations that we adopt in this lesson is directly connected with the concept of institutions; it assumes that the parties that interact in any social relation have reciprocal expectations of behavior not in terms of specific ends (that depend exclusively on their free will) but in terms of generic rules that define what each party can, cannot, must or must not, and may do in each specific field of societal action.

The power position of the parties on any social relation, express the position they occupy in those generic rules. Human development approach assumes that economic and political rules are instrumental and deal with social means used by persons to attain certain ultimate goals that are, precisely, the expansion of human capabilities to its plenitude. These ultimate goals and values are the field of moral and ethics, and belong to the cultural sphere.

Three cultural conditions for a rational (or a reasonable) social action of any kind should be fulfilled: the adequate social access to information, communication, and knowledge. And this is precisely what the present digital technologies are about. The cultural impact is potentially immense but the feasibility of attaining that impact depends crucially on the organizations that operate those technologies and the institutions that regulate them.

The present technological revolution can be compared in a certain sense with other main cultural events that took place at the beginning of the modern era in the western world. At the end of the fifteenth century world population was, in a very high proportion, illiterate, and hence they had no access to the written sources of culture. Additionally the majority of population spoke common languages (English, French,

Spanish, Italian, etc) but the cultivated language was Latin, and the majority of the population could not understand Latin language. This situation changed with the advent of two interrelated events that mark the initiation of modern times: the invention of the printing machine (Guttenberg) and the Religious Reform (Lutero, Calvino, etc).

Guttenberg printed the first version of the bible translated to German language by Lutero. The hard religious struggle between Catholics and Protestants induced the latter to teach people how to read in order to get them directly informed of the content of the New Testament. Those events implied an enormous jump in the information, communication and knowledge possibilities of humanity. During a long period, religiously Protestant societies acquired higher levels of literacy than Catholic societies and ended up developing new options and capabilities that induced the advent of contemporary democratic capitalist societies.

Of course the technological jump linked to the invention of the printing machine was a necessary but insufficient condition to promote literacy in Protestant Europe. The institution also changed under the impulse of the Religious Reform. Today, at the beginning of the XXI century, the invention of the personal computer linked to the “information highways” is a cultural instrument even more powerful than the books printed in massive editions at the beginning of the modern era. A personal computer, connected to the global net, implies, potentially at least, the access to all the written information that was published from the beginning of human history, including the electronic version of the last morning newspaper. But it is also a mean of interaction with the rest of the world for cultural, political, or economic purposes.

The access to information and communication global nets is of paramount importance for economic and political purposes, but, also is a necessary condition to the access to knowledge and, of course, knowledge is a cultural feature. *The essential nature of technology is cultural, because in the deepest sense of the word technology is knowledge.* Technology is a stock of knowledge that personalizes in human skills and embodies in material instruments. The democratized access to technology implies three steps: information, communication, and knowledge. The technological concrete means needed to get that access already exist. So a virtuous circle can be created: knowledge technologies allow us to produce knowledge in a massive way. But let us say it once more: the fulfillment of technological conditions for the massive spread of knowledge is a necessary but insufficient condition; it must be complemented with other organizational and institutional transformations that are, by far, still insufficiently achieved in present societies. The, so called, “digital divide” is a new and even more dangerous way of societal stratification and discrimination. The educational system becomes today more important than ever for the social spread of these immense technological possibilities.

THE ECONOMIC IMPACT OF KNOWLEDGE TECHNOLOGIES

The new society of knowledge can produce amazing increases in productive power of labor. We can talk, perhaps of an information effect, a communication effect,

and a knowledge effect over the average productive power of labor. Let us examine them one by one.

Firstly, the information effect of knowledge technologies over productive power of labor generates reductions on *fabrication costs*. Those reductions derive essentially from the increasing spread of automation and robotics in the production of goods and services. The repetitive jobs that require very few skills are increasingly being replaced by robots or re-programmed in a way that implies the replacement of many unqualified workers by a few highly skilled workers.

Regarding the robotics issue, we are using here the word “information” as a form of energy able to transform the behavior not only of human beings but also of machines. “Information” stored in program computers can be transformed in instructions capable to induce and control the work of machines. Robots are an outcome of the recent development of robotic sciences. And its immediate effect is to replace human beings by robots in an increasing number of economic productive activities of goods and services.

Regarding genetics engineering (and genetic codes) also the idea of “information” has its own technical meaning and is not restricted only to the data captured and utilized by human minds. We may say, in a certain sense that life itself, as we know it in earth, can be understood as matter organized by a certain type of genetic information that is stored in genetic codes. When genetic engineering transforms those codes the biological outcome will be a modified form of life. Of course these are new different meanings of the word “information” in robotics and genetics that only analogically can be assimilated to the usual meaning of the word.

Secondly, the combined communication and information effects of knowledge technologies exert an especially great impact over internal *coordination costs* of economic organizations. Air lines, and transport enterprises in general can reduce the time required to coordinate the selling of tickets without creating overbooking problems. Transnational manufacturing corporations can split the productive chain of a certain good without losing time or efficiency in the coordination of the overall productive process. The bar codes combined with the just in time storage mechanisms and the electronic data interchange (EDI) are other methods of combining electronic data information and communications procedures at a managerial level. Corporations operating at a national and international level, using these and other similar methods are reducing dramatically the coordination costs of their internal value chains. In the financial and banking field, the scope of long distance coordination possibilities and the reduction of coordination costs can also be illustrated with the spread of debit and credit cards of a worldwide validity.

Thirdly the combined communication and information effects of knowledge technologies also have impacted the field of *transaction costs*. As we know the concept of transaction costs includes information, bargaining, legalization, monitoring, and enforcing costs. Of course information and communication technologies are extremely useful at least in connection with the first four components of the transactions costs

already mentioned especially in the case of international transactions. A good example can be found in the procedures required for the purchasing of a book through Internet. After going to a research site (Google, Yahoo, etc), you can easily find the book you search on a virtual bookstore (small information costs), purchase it (small bargaining costs), sign the contract and pay the bill with your credit card (small legalizing costs). Nevertheless the costs of monitoring and enforcing can be very high if the operation fails.

Fourthly, the combined communication, information, and knowledge effects of knowledge technologies have impacted the fields of scientific and technological activities itself as powerful tools to develop new knowledge. This new knowledge, in turn, is impacting new economic fields like the prime materials used in many productive branches: transgenic products in agriculture, ceramics in industry, and so on. We have already noticed the interaction between genetic technologies and information technologies that can be included in the generic notion of knowledge technologies. That is so because, the unfolding of genetic engineering, needs, as a necessary condition, to have enough computing potential to discover, work, and modify genetic codes.

In connection with research and development activities, transnational enterprises can reduce the time-lag between the moment in which a product is designed as a prototype and the moment in which it begins to be produced and sold.

GLOBALIZATION, OUTSOURCING AND EMPLOYMENT

From a socioeconomic viewpoint, the main impact of these knowledge technologies has occurred in the field of employment opportunities and occupational stratification. The shifts in labor demand are damaging especially the job opportunities of non-qualified or low-qualified workers that are being replaced by machines or by new procedures more intensive in the use of highly qualified labor. The occupational stratification can be studied taking into account the role fulfilled by information technologies in the different economic activities. Firstly there are non qualified or low qualified jobs of a repetitive nature in manufacturing and services activities that do not use (yet) knowledge technologies. Secondly there are low-qualified workers that use knowledge technologies for routine or repetitive tasks in supermarkets, travel agencies, etc. And thirdly there are highly qualified workers that use knowledge technologies to produce new knowledge in the field of hard sciences, of arts, of stocks, financial and banking business, of advertising designs, of law, of academic tasks etc.

There has been an increasing shift in the production and employment composition by great economic sectors. The employment of labor force on primary activities (like agriculture or mining) is reducing its relative and absolute numbers, and the economically active population located there is a very low percentage of total labor force on developed countries. Also the industrial manufacturing sectors are reducing its absolute and (in some cases) relative size in developed countries. The only sector that is steadily increasing its absolute and relative size is the services sector accordingly with the occupational stratification already examined in the previous paragraph.

An important employment problem for *developed societies* derives from the new competitive strategies of corporative firms that operated at a multinational level. Transnational corporations (TC) follow three different competitive strategies that are reducing their employment requirements in the developed countries. They are searching for localization, internalization, and technological advantages and accordingly they are developing new strategies in these three fields. It seems that the three types of strategies imply a negative impact for the creation of non-qualified or semi-qualified jobs in developed countries.

Firstly, the search for localization advantages on manufactures relates with the relocation of different linkages of the productive chain on underdeveloped countries with lower labor, energy or environmental costs. They can do so because the knowledge technologies allow them to work under very low and decreasing coordination costs. These outsourcing activities (called *maquila* in Mexico, Central American and Caribbean areas) are damaging the employment opportunities of semi-qualified laborers of developed countries. They, additionally, have created for the first time in history the existence of global manufactures containing parts and components coming from many different regions and countries of the world.

Secondly, the internalization strategies (acquisitions, mergers, etc) are aimed to reducing transaction costs, increasing market control, protecting technological property, and last but not least, reducing the overall employment requirements. Especially in financial, banking, telecommunications and other services, acquisitions and merger have spread a fast pace in the last decade. The net effect has been, so far, negative in terms of new job opportunities creation.

Thirdly, technological advantages (derived from technological property rights) are been pursued by very intensive use of knowledge technologies aimed to obtain monopoly rents derived from the ownership of technological innovations. The most obvious example is, perhaps, the Windows software that, periodically is produced by Microsoft. The main mechanism is the attainment of very high dynamic scale economies: very high research and development costs that are recuperated with very large scale of productive operations and sales at a worldwide level. The employment impact of this strategy is not obvious, but in certain circumstances foreign qualified workers in the technological corresponding field, take the place of other scientists and engineers of the developed world. It is a kind of outsourcing strategies at a highly sophisticated technological level.

GLOBALIZATION AND EMPLOYMENT: IT'S IMPACT ON PERIPHERIES

The beginning of the 80s can be considered a turning point in the rules of the game of capitalist developed societies. The so called Reaganomics in America and Thatchernomics in Britain, implied the triumph of the so called Conservative Revolution in political economy. Keynesian strategies based on intensive use of fiscal policies and the expansion of welfare societies, linked with huge public spending were replaced by monetarist strategies mainly based in the use of restrictive monetary policies and the reduction on tax burdens, accompanied by increasing budget and commercial deficits.

The result of these measures was disastrous for Latin American economies. The “easy” or “sweet” money period of the 70s ceased abruptly with the enormous increase in real interest rates that followed the new economic policies in the centers. The debt service increased dramatically and simultaneously the recession in the central economies during the first years of the 80s reduced abruptly the prices and volumes of primary exports conducting Latin American economies to the worst recession of the last 50 years.

The rescheduling of the payments agenda and the restructuring of the overall national debts was necessary in view of the potential insolvency of the majority of Latin American countries during the period. The inter-governmental credit agencies, like the International Monetary Fund IMF, or the World Bank WB monitored the economic policies promoting a set of reforms that concluded with the rules of the game that governed Latin American Economic Development during the postwar period.

It is not possible to elaborate here in a detailed way the main features of the new model, but the impact in the employment structure of Latin American economies was very important.

Privatization reforms implied transferring the resource-allocation decisions to private enterprises and market mechanisms, and selling the public, state owned enterprises, to the private sector. The reduction of the size of the state was a goal oriented to reduce fiscal deficit and its inflationary effect.

Opening up of the economy and stabilization reforms (aimed to control price levels), implied that imported goods began to compete in local Latin American markets, and that transnational enterprises began to locate in many (primary, manufacturing and services) sectors by means of the acquisition of the said public enterprises that were transferred to the private (transnational) sector.

Deregulation reforms not only contributed to reduce drastically the size of the state, and stopped the governmental interference on capital, money, factor and product markets; they also promote new “flexible” labor rules of the game. Some of those rules were legitimately aimed to improve the efficiency and dynamism of markets by means of a reduction in its transaction costs. But some other measures implied a weakening of labor rules, pensions, and social security rights of laborers.

The combined impact of the reduction on government size and of the bureaucratic apparatus, the privatization of public enterprises, the mergers and acquisitions in public services reduced the role of government on the creation of new jobs. The new flexible rules in labor markets contributed to a weakening of unionized power positions of labor. Additionally the recession derived from the global slowdown and the drastic drop in exports values and volumes, joined with the competitive presence of imported manufactured products on local markets, provoked generalized bankruptcies in some countries (Argentina, Chile, Uruguay). As a consequence of all these combined effects,

unemployment reached high levels, especially in the more developed Latin American countries.

These dramatic changes in the economic rules of the game were parallel to others in the technological field. The knowledge technologies imported from the centers began to spread at a very high speed in Latin American societies. That was due, especially, to the massive presence of Transnational Corporations TC in the sectors that were privatized and the new activities in telecommunications (cell phones, cable TV, etc) that were been introduced. The introduction of these technologies was paralleled with the mergers and acquisitions that were inherent to the transnational strategies at a worldly level. The consequence of all these events was, during the 80s and 90s, an important increase of global levels of unemployment and underemployment. In many small countries rural-urban migrations contributed to the unemployment and underemployment pressures in urban areas.

CENTER PERIPHERY SYSTEM ON XXI CENTURY

The new economic rules of the game settled on the 90s in Latin American societies (macroeconomic stabilization, institutional deregulation, privatization, reduction of the size of the government, and opening up of the economies) were the counterpart of the globalization process that took place at a worldly level as a consequence of the economic reforms of the eighties in central economies and the spread of knowledge technologies at a very fast pace.

The essence of the center periphery approach has to do with the study of the distribution of technical progress and productivity gains at international and intra-peripheral levels. This is the trans-historical permanent focal point of the structural center- periphery approach. But the ways and means of these unfair distribution mechanisms have changed historically. In the previous British and American Industrial revolutions, the main impact of center-peripheral relations was the constitution of export oriented primary producing economic activities that created a kind of outward deformed, non industrialized, economic structures, unable to create enough jobs of acceptable productivity levels. Additionally, the transference of productivity gains to the centers was specially accomplished by trade mechanisms. That was the so called deterioration of the terms of trade of peripheral primary exports, in the exchange for manufactures imported from the centers.

The terms of exchange of peripheral export products were deteriorated because Latin American laborers in mining and agricultural export activities had not enough unionized power to increase real wages at the same pace of the increase in their labor productivities. The opposite was occurring in developed centers were powerful labor unions ensured the increase of real manufacturing wages at the same pace of the increase in their labor productivities. On the international demand side the income elasticity of manufactured products was higher enough to ensure an increasing international effective demand of those manufactures.

The “dependentist” stream of Latin American thought emphasized this unequal exchange effect as an exploitation impact that was under-developing Latin American economies. But structuralists were more worried about the structural impact of export activities over all economic structures of Latin American Societies. The outward export oriented model of Latin American economies continued for primary products, but also inward oriented import substitution industries developed during the first part of XX century. As we know, those impacts were studied, by CEPAL researchers under the label of Structural Heterogeneity. For the structural economists the important issue was the economic use of the overall productivity gains (dynamic surplus) at a global level. The aid and cooperation programs developed by international agencies were returning a fraction of the surplus obtained by trade relations under the form of cooperation for development. And on the other hand the controversy about the empirical proofs on the existence of deteriorating terms of trade never stopped.

For structural Latin American economists, the main issues were not the terms of trade and the unequal exchange, but the said structural deformation of the economy, and the dynamic insufficiency of the economic system (insufficient percentage of the Gross Domestic Product GDP reinvested in peripheral countries). The main concern was the social use of the dynamic surplus derived from entrepreneurial profits of national and multinational corporations linked to the export and import substitution activities.

During the 90s, the change of the economic model was completed and the inflationary, protected, regulated, state interventionist model was replaced by the new stabilized, open, deregulated, privatized model that is already operating in Latin American countries. The most important modification of the center periphery relations was the massive arrival of multinational corporations under the conditions already explained in previous paragraphs. Latin American countries not only received foreign direct investment in primary activities export oriented (mining, tropical and temperate agriculture, etc) and in industrial activities oriented to the small national markets (petrochemical, metal-mechanics, etc). Additionally, a huge stream of investment in new tradable services activities arrived, linked to the privatization process in all kind of public services. Also the new presence of telecommunication industries, new banking and financial activities began to spread.

Trying to sketch a simplified caricature of the new economic structure that began to emerge at the beginning of the 90s in Latin American countries it is possible to suggest that a new form of dualism began to take place: a transnational modern sector with high productivity levels linked to the open export oriented model of development generated a huge proportion of the total product in the tradable goods and services but a very low proportion of total employment of high productivity levels and salaries. On the other hand the sector of small and medium enterprises with low productivity levels oriented to local markets generated a small proportion of total domestic product and an even lower proportion of the tradable goods, but a very high proportion of total employment of low productivity levels and salaries. As in previous historical periods, the employment problem did not take the form of open unemployment but rather assumed different modalities of underemployment (low labor productivity levels).

During the 90s the most striking issue on direct external investment was the increasing presence of transnational corporations on urban services sectors: malls, supermarkets, multi-cinemas, fast food, banking, security, insurances, etc. This type of external direct investment has changed the urban look of the big and intermediate cities of Latin American societies but its impact on the field of employment is still unclear. The creation of new employment has been important but also the destruction of obsolete small and medium sized enterprises located in the same sectors has been very high. The net outcome still has to be properly measured, and the results will be very important in order to determine if the globalization process is compatible with the improvement of the employment, and income conditions of Latin American societies.

From a technological view point the presence of transnational corporations implies a substantial inflow of new technologies in the services sectors. If the employment opportunities increase steadily, is possible that the present dualistic conditions in the area of labor productivity levels may diminish. If that is so, the opportunities of consolidation for the new model of development will be greater, as long as the global investment rates could promote relatively high rates of growth. As we shall see in the next chapter the social conditions in Latin American societies have evolved towards a reduction of overall poverty levels, under the dualistic conditions of employment already considered in previous paragraphs, but maintaining the very unfair income distribution that continues to be the worst of the world.

The main concern about the new center periphery system that is unfolding at a global scale relates with the investment policies of TC and modern local corporations partially trans-nationalized. Those policies don't seem to be responding to the social needs and tendencies of (central or peripheral) societies but are only oriented by the transnational strategic planning at a worldly level. A president of the United States declared once that "what is good for General Motors is also good for the United States". This no longer seems to be truth. The TC's are increasingly practicing outsourcing strategies that diminish the labor opportunities of American Workers. This implies that the present trans-nationalization of labor surplus, jointly with the new global planning strategies of TCs, are creating new situations in terms of the technical progress distribution and productivity gains.

We can, perhaps, still apply Prebisch ideas about productive and non reproductive forms of capital accumulation, and about demonstration effects (the caricature of the massive consumption society) that are still prevailing under the unequal distribution of wealth (including land) and its impact on income distribution. Income distribution is not improving at all in Latin American Societies, hence the market resource allocation is directed much more to supply non reproductive consumptive purposes than to produce essential private and public goods aimed at increasing productivity gains to be reinvested under reproductive accumulation conditions.

The new technological conditions are demanding new forms of human capital with enough skills in the field of knowledge technologies. One of the main problems of

Latin American contemporary societies are the public budget constraints that affect public spending in education, health, nutrition, and other social purposes. *Without huge increases in the quantity and quality of educational services the massive incorporation of Latin American population to knowledge technologies will not be enough and new forms of dynamic insufficiency will arise.* At a social level, today, is not enough to reach the “literacy point”, to overcome the digital divide. The insufficient or nil capabilities to use the knowledge technologies are a new form of “analphabetism” as pernicious as the classical one.

Another part of the public surplus collected under fiscal procedures, should be, perhaps reoriented towards financial and technical assistance to the median, small, and micro enterprises that are creating the majority of new jobs. New strategies are unfolding as, for example, like the so called Banking for the Poor devoted to fund the activities for the micro entrepreneurs located at the bottom of the labor productivity stratification, under the conditions already examined of the structural heterogeneity approach. The new inequality rural conditions are less dependent of pre or semi capitalist property and labor relations, and more linked to the unfair distribution of land, technical equipment, skills, financing and market opportunities. The need to help the poorer and smaller undertakers is no only a matter of justice but also a way to promote the economic sectors that are creating jobs in Latin American societies.

LATIN AMERICAN DEVELOPMENT (History, Structures and Institutions)

CHAPTER VIII: STRUCTURAL BALANCE OF PRESENT LA SOCIETIES

We have said in chapter V that: *“If we combine the two explanations suggested on previous paragraphs it is possible to find two main causes of the existence of huge amounts of population living in the lowest strata of labor productivity and under conditions of extreme poverty. The first cause is historical, relates with the path dependence effects and can be called **secular inherited poverty** derived from previous colonial conditions on rural areas. And the second cause is connected with the ways through which industrial capitalism affected peripheral economic systems and can be called **emergent poverty** derived from the lack of employment opportunities open to the rural urban-migrants arriving from the traditional rural areas”*.

“The Latin American School of Development answer to these combined challenges was the promotion of economic development through the industrialist strategy. The industrialization process was conceived as the main political option to assimilate and internalize technical progress on Latin American productive structures and, consequently, to confer autonomy to the Latin American Economic Development process”.

“Accordingly with the vision of Latin American [Structuralist] School of Development, the virtuous cycle of economic development includes: a) the productive use of the macroeconomic surplus, b) the introduction of technical progress through the accumulation (investment) process, c) the subsequent expansion of average social labor productivity and, consequently d) the correlative increase of the overall social surplus. At this point the cycle can be recommenced but at a higher level of economic development. The dynamic autonomy of the whole process depends critically on the internalization of technological innovation through an autonomous industrialization process similar to those occurred on central developed economies”⁷¹.

In the paragraphs previously quoted two fundamental goals are spelled: firstly to increase average levels of labor productivity, and secondly, as a consequence of that increase, to reduce the population proportion that is immersed in extreme poverty. Economic Development can, at least theoretically, overcome this situation by the virtuous cycle, describe in the preceding paragraph as connecting: increased surplus-technical progress included in capital accumulation (productive investment)-average labor

⁷¹ See Chapter V of these class notes, pages 9 and 10.

productivity increases and distribution of productivity gains-expanded surplus-technical progress included in capital accumulation, etc. Let us examine the new structural conditions that are governing the dynamic sequence of this virtuous cycle.

SECULAR INHERITED POVERTY: RURAL SOCIAL STRUCTURES

During these last 30 years the social rural relations have been changing but the property structure of land has remained still highly concentrated. So the pre-capitalist labor relations are much weakened as a result of a great spread of educational services, reduced illiteracy, and greater rural-urban migrations. Nevertheless the economic unfairness and inefficiency of the concentrated labor distribution still prevails and affects in a negative way the productivity levels and the growth possibilities.

The concentrated distribution of land has two impacts on Latin American social inequality. On the one hand, it contributes to the maintenance of rural poverty derived from the null or insufficient access to productive land, on the other aggravates the urban poverty and marginality problems derived from the rural-urban migrations that are even now very important in Latin American Societies.

In connection with this issues we can read: “In 2000 Latin America was still one of the regions with the highest concentration of land ownership. Three groups of countries may be distinguished in this regard. The countries in the first group (Chile, Mexico, and Paraguay) have Gini indices of over 0.90; those in the second (Argentina, Brasil, Colombia, Costa Rica, El Salvador, Panama and Venezuela) have Gini indices of between 0.79 and 0.85; and those in the third (Dominican Republic, Hondura, Jamaica, Puerto Rico and Uruguay) have indices of about 0.75⁷².

Among the countries for which information is available, only Hondura (in the third group) had an even lower Gini index, which in the mid-1990s dropped from 0.71 to close to 0.65.

These levels of concentration in combination with other factors, explain the many conflicts that arose in the 1990s over land ownership. In Brazil, for example, the number of families involved in land occupations rose from 8000 in 1990 to 63.000 in 1997. In the Dominican Republic, between 15% and 17% of the land, wheter private or State owned, is occupied on a de facto basis by poor campesinos. In Chile indigenous communities have made increasing claims on the land”.

A foot note included in the previous paragraph adds: “In Paraguay, for example, there were over 200 land occupations between 1989 and 1996, involving more than 600.000 hectares and almost 40.000 campesino families. Between 1989 and 1991 over

⁷² The Gini indices are statistical measures of inequality. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (were everyone has the same share) and 1 corresponds with perfect inequality (where one person has all the wealth or income and every one else has none. The Gini index is the Gini coefficient expressed in percentage form, and is equal to Gini coefficient multiplied by 100.

3000 arrests were made in relation to land occupation and armed groups were set up to dissuade the campesinos involved”

“Over time, governments have taken a variety of measures to deal with the land distribution problem. In the 1960s and 1970s there were a number of attempts at agrarian reform, but these policies later gave way to other distribution arrangements. In the 1990s efforts to formalize rural land ownership through land title and registration programs began to figure more prominently on the political agenda”.

Recent studies show that transactions on the agricultural land market tend to take place within the same stratum of producers, and therefore do not modify the unequal structure of land ownership. Also the most dynamic markets are located close to cities and in newly settled areas –not, in other words, where the poorest campesino usually live. Changes in the structure of land ownership have therefore been limited and have not benefited the most marginalized households”.

“Moreover, it is acknowledged that credit markets have certain shortcomings and that the poorest campesinos lack the resources to buy land. This has led to the creation of special credit access programs which are up to 75% subsidized in some cases. However in Latin America the formal land market exists alongside another market in which informal title is the prevalent form of ownership. This limits access to credit for working and investment capital”.

“As a fixed asset and a factor of production, land has particular features –as a geographically dispersed immovable asset whose financial value is heavily dependent on weather conditions, location, access to water and other factors- that make markets for agricultural land significantly different from markets for mass produced goods. By their very nature, land markets are extremely imperfect and segmented, and involve high and largely fixed transaction costs”.

“In addition, most of the region’s countries lack one of the most important tools for the development of a rural land market: an efficient reliable and workable registry system that gives users the legal and financial information they need to participate in the market. All this has helped to perpetuate the high concentration of land markets and shortcomings of credit markets, which impact negatively on small-scale producers and campesino families”⁷³.

As it is evident the path dependence effect is still working in connection with rural property institutions in Latin American Rural Areas. Also the differentiated position of rural peasants and land owners reflect themselves in the area of transaction costs. Lastly the uncertainty in the field of rural property rights is also an index of the existence of ancient informal institutions (working rules, rules of the game) that still prevail over formal modern capitalist property rights.

⁷³ ECLAC (CEPAL), A Decade of Social Development in Latin America: 1990-1999, Libros de la CEPAL, number 77. Pages 63-65, Santiago, april 2004.

Evidently the rural situation on Latin American Societies is still an unsolved problem, but its relative importance has diminished as a consequence of the massive migrations flows to the urban areas of Latin America. During the period 1990-1999 the employment in rural Areas of Latin American Societies dropped from 23.3% to 20.5% of total national employment.

EMERGENT POVERTY: GLOBAL SURPLUS ON LATIN AMERICA

We have defined global (national) surplus as the part of Gross Domestic Product that remains after paying subsistence wages and salaries to the employees working at the private sector⁷⁴. Of course many of the qualified workers earn salaries higher than subsistence levels capturing a part of the global national surplus. So defined, the global (national) surplus include the difference between those levels of salaries and the subsistence levels. It also includes rents captured by proprietors of land and of other natural resources, financial returns captured by financial and banking organizations, net income taxes collected by the government, and net profits obtained by private entrepreneurs. The global (national) surplus can be divided on distributed surplus (total wages and salaries (less subsistence levels), total rents, total financial returns, and net income taxes) collected *during* each economic period considered, and dynamic surplus appropriated by private entrepreneurs under the form of net profits that remain under the control of the entrepreneurs *at the end* of the same period.

⁷⁴The global total national surplus (E) is the sum of the entrepreneur's surplus (or simply "surplus" in Prebisch terminology) (E1) and the distributed surplus (E2). These two flows integrate the global national income (Y) generated within each productive period. The entrepreneur's surplus (E1) is the difference between the total (national) global income (Y) and the total (national) global final product (P) under the same period. It expresses the incomes that have paid to produce intermediate goods and inputs, not yet incorporated to the global final product of the period under consideration. These productive process of yet unfinished goods, on the one hand is absorbing new technical progress and, on the other hand, is incorporating new additional productive factors under the previous technological conditions. This magnitude (Y-P) is highly influenced by business cycles inherent to long term capitalist development. On the other hand the distributed surplus (E2) equals the total global income (Y) minus: subsistence wages and salaries paid by private sector (S), net income transfers to government (T), and entrepreneurial (residual) surplus (E1). Another way of expressing E2 is subtracting from the global final product (P) the (subsistence) wages and salaries paid on private sector (S), and the net transfers to government (T). E2 expresses the long term accumulative appropriation made by private owners of wealth, of the of the successive labor productivity increases, originated in many previous periods, that were not shared by non qualified laborers (increasing the subsistence overall levels) or the state. Consequently, the global surplus (E) equals the global total income (y) generated in the same period minus: the (subsistence) salaries (S) paid in private sector, and, minus net transfers to government (T):

- 1) $E = E1 + E2$
 - 2) $E1 = Y - P$
 $E2 = Y - S - T - E1$ substituting E1:
 $E2 = Y - S - T - (Y - P)$
 - 3) $E2 = P - S - T$
- from 1), 2), and 3) results:
 $E = Y - S - T$

Global total surplus (E) is owned by those economic "players" (natural and juridical persons) who control economic power through their position on the property institutional system (owners of enterprises and productive factors). The magnitude of (E) fluctuates accordingly with the sharing power of salaries and wage earners on one hand, and of the government (through net taxes) on the other hand.

The main philosophical idea underlying the notion of surplus relates with the conceptual difference between essential universal human needs (supplied by different sets of goods in each concrete society), on one hand, and individual consumption preferences, on the other hand. The estimation of those needs is the basis of notions such as subsistence wage levels, or poverty lines⁷⁵. In general, individualistic utilitarian economic philosophy and neoclassical school of economics reject the notion of minimum wages or essential needs, and consequently also reject the idea of global surplus. If we accept the notion of essential needs and the possibility of calculating minimum subsistence wages, then it is possible to determine the dimension of the global surplus as a measure of the maximum potential resources that society can devote to investment purposes or, alternatively, to (public or private) consumption purposes⁷⁶.

Being the entrepreneurs the coordinators of productive factors and the implementers of technical progress, the supply of intermediate and final goods depend essentially on their activities. They demand the other factors of production and they produce the intermediate and final supply. They appropriate, doing so, the entrepreneur's surplus that derives from the expansion of productive capacity under unmodified technical conditions and includes, also, the expansion of production under increased levels of labor productivity. Both of these two options materialize through the productive investment process, but the first entails unmodified technological conditions, instead, the second implies an expansion on labor productivity. These labor productivity gains are, precisely, what Prebisch denominated surplus, as a magnitude different from total global national surplus, and also different from the distributed surplus.

The components of the distributed surplus can be connected with the strategies of the main players (organizations) that collect these incomes. Now, as we have said in the previous chapter the distribution and utilization of global national surplus in all Latin American countries has been profoundly modified by the new deregulated, privatized, open model of development installed in the 90s in Latin America. The main modification

⁷⁵ "A review of the link between income distribution and the general structure of occupations, in terms of remuneration and the capacity to provide well-being, shows that approximately 75% of employed persons from the 40% of households with the lowest incomes are factory hands laborers, security staff, waiters or domestic employees, receiving an average monthly income equivalent to 2.1 poverty lines. In the 10% of households with the highest incomes, around half of those employed are professionals, technicians or hold upper management posts and receive a monthly income of around 17 poverty lines". ECLAC (2004), *A Decade of Social Development in Latin America 1990-1999*, page 201.

⁷⁶ Celso Furtado has said: "The life levels of manual workers – economically active population less benefited from capital accumulation on human productive factor-, can be considered as representative of the basic reproduction cost of the whole population. That is, if all population were subject to a level of life equivalent to that corresponding to less qualified manual workers, the consumption forms linked to social stratification would tend to disappear. We are not considering here the feasibility of that equalization, neither its social cost, nor the period of time required. The point is not to discuss here the viability of an equalitarian society. It is simply the verification that any society establishes basic consumption patterns to ensure the survival and reproduction of its members. Those patterns are not independent of the previous accumulation levels, neither of the capabilities of these laborers to valorize their own work". (...) The surplus calculus is based on a comparison between that parameter that measures the cost of reproduction of the whole population and the social labor productivity". Celso Furtado (1976), *Prefacio a Nova Economia Politica*, Editora PAZ E TERRA, Rio de Janeiro, pages 19 and 20.

has been the increased presence of Multinational (or Transnational) corporations in all the main productive sectors of each Latin American Country, and the parallel reduction of economic activity of the State in productive sectors under the privatization of public enterprises. This has implied an important shift of the distributive surplus from the public sector to the private and transnational sector. Many Latin American Countries (with the relevant exception of Brazil) have diminished or stopped their industrial activities and returned to the export oriented expansion of primary activities. And all of them have developed new and important services activities under multinational or transnational forms of organization. The new open rules of the game have created a new global transnational environment that implies a new global form of appropriating the distributed surplus among the main economic players.

The State has lost many of the functions that used to accomplish in global national *production* and *investment* (by the selling of public enterprises) economic activities. Also the *distributive* functions fulfilled by the State have dramatically changed, affecting, of course, the ways of using the distributive surplus: the need to stabilize the public budget implied the partial privatization of social services in the field of education, health, and social security. The spending in these services has not necessarily diminished as a percentage of total public expenses, but an important private sector has grown in many countries, controlling the retirement and pension funds of middle and upper classes, and using this savings as parts of the distributive surplus invested in private and transnational sectors. The *regulatory* functions of the State changed there nature, switching from an interventionist style to a pro-market regulation. The regulatory style not only changed in commercial, financial and monetary activities, but also in the field of labor relations: presently the labor codes have been modifying the collective and contractual conditions that regulated labor benefits (minimum salary, labor stability, etc) for new rules that are much more flexible and aimed to reduce the high transactions costs linked to the labor contracts. This has implied in many countries a reduction of the proportion of private wages and salaries on the overall national income. As a whole, then, the fraction of the distributive surplus directly or indirectly controlled by the state has diminished significantly.

As we have said, the surplus able to be invested in productive activities has shifted, firstly from the public to the private sector, and within the private sector from national to transnational enterprises. That implies that the investment decisions connected with the development process are, increasingly under the control of private (national and transnational) corporation that, evaluate their options taking into account the global market. This control of increasing amounts of the distributive surplus by the private sector, also is affecting the dynamic surplus in Prebisch's sense. That is, the surplus that derives from productivity gains as a consequence of the introduction of technical progress. This dynamic surplus when added to the distributive surplus equals what we are calling here the global national surplus (dynamic surplus + distributive surplus=global national surplus). The main conclusion of these transformations is that the generation,

appropriation, and economic use of the global surplus depend in higher degrees than ever on the global planning of transnational corporations⁷⁷.

TECHNICAL PROGRESS INCLUDED IN CAPITAL ACCUMULATION

The tendencies signaled in previous paragraphs concerning the control of both the global and the dynamic national surplus imply a growing role of private national and transnational corporations (economic players) over the investment decisions that affect the economic development of Latin American Countries.

From the point of view that guides this section, the distribution of technical progress and of the productivity gains of national economies at a whole, are relevant to determine the tendencies in the structural heterogeneity measured by the labor productivity levels. Having into account that the most important part of the global national⁷⁸ surplus is controlled by big private national and transnational players, the new form of structural heterogeneity in Latin American Societies, can perhaps be seen as a dualistic one: on the one hand, big private national and transnational corporations produce a high percentage of total output, and total exports, control a high percentage of global (total) surplus, and especially of productivity gains (dynamic surplus) derived from technical progress. This surplus is mainly invested in tradable goods and services mainly oriented to the global market and of domestic (financial, commercial, etc) services needed to make viable the said transactions. On the other hand, medium, small, and micro-enterprises (minor national and local players) produce a very small percentage of total output, and even smaller percentage of total exports and total surplus, with almost null control of productivity gains, derived from the introduction of technical progress. The levels of investment are very low, lacking sufficient support of the financial and banking system.

GROWTH AND DISTRIBUTION OF LABOR PRODUCTIVITY GAINS

From the structural heterogeneity point of view the modern, highly productive, large scale sector oriented to the global economy produces a small amount (no more than 20%) of the new jobs. The workers of this sector are endowed with high real wages and productivity levels derived from the dynamic introduction of technical progress, and capture an amount of the productivity gains that derive from that progress. They represent and elite of the labor force, well educated and trained, enjoying labor contracts of high quality, good pensions and social security levels.

⁷⁷ We are using here the word “global” in two completely different senses. On the one hand *global national surplus* can be understood as *total surplus* generated inside a certain national economic system, that is, as the sum of entrepreneurial surplus (profits deriving from productivity gains) plus the distributive surplus. This wording (global surplus) has been used in some other articles linked with the subject. But in this context perhaps it is better to speak about *total surplus* as a synonymous of *global surplus*. The second, and much proper sense, in which we are using the word “global” is to designate the worldly scope of the planning of transnational corporations.

⁷⁸ We are using “national surplus” or “national global surplus” in the sense of geographical surplus, that is, a surplus was generated inside the borders of a certain nation irrespectively of the national or transnational nature of the property rights over it.

The opposite occurs in the case of the relative obsolete, poorly productive, small scale enterprises oriented to the national and local markets that produce around 80% of the new jobs. The workers of this sector suffer from low real wages derived from insufficient productivity levels under conditions of scarce technical progress, and are capturing almost nothing of the productivity gains of the national economies. They represent the majority of the labor force with low levels of education and professional training, subject to unstable and precarious contractual forms.

Under these conditions the relative disconnection of both sectors is substantial, and the distance between levels of productivity among them seem to be increasing. The profitability of the exporting-transnational sector derives from its higher and ever increasing productivity levels, that lead to even greater opportunities of investment in these modern sector *not necessarily located in the territories or countries that were the previous sources of those profits*. On the other hand the profitability of the inward market oriented medium-small-micro enterprises is very low as a consequence of their low labor productivity level and, consequently, depends heavily on the *low* wages and salaries of their labor force.

This type of dual accumulation can be reproductive (on Prebisch sense of the term) if a great amount of the profits coming from the modern sector were reinvested in the same countries where it was earned, creating high levels of development. The dynamic insufficiency of the economy (to use this term coined by Prebisch in the sixties) expresses itself in the growing proportion of new jobs created at the lower levels of labor productivity. But the quota of the global national surplus controlled by transnational corporations (and even the share that goes to the bigger national corporations) can be invested anywhere else, accordingly with the signals coming from the global market.

THE IMPACT ON EMPLOYMENT AND OCCUPATIONAL STRATIFICATION

The same source previously quoted asserts: “In conclusion, of the 33.8 million new jobs created during the decade, agriculture accounted for 7%; industry, 6.5%; construction, 8,3%; transport and communications, 8%; commerce 27,2%, and services 42,9%. (...) Thus, more than 78% of the new jobs created in the 1990s were in the tertiary sector, with the result that this sector came to represent an even bigger proportion of the employment structure”.

(...) “It is particularly interesting to review employment trends in sectors that produce tradable and non tradable goods and services. In most Latin American countries employment expanded faster in sectors that produce non-tradable goods and services than in tradable goods-producing sectors, except in Brazil and Peru, where the two sectors grew at similar rates, and in Costa Rica, Ecuador, Mexico, Nicaragua and Venezuela, where employment in tradable sectors grew faster. In addition, the two sectors’ respective capacities to increase productivity and generate employment tend to evolve separately. In general, the tradable sector absorbs little labor but achieves productivity gains. By contrast, the non tradable sector usually has a greater capacity to generate employment, but at the cost of nil or negative rates of productivity growth”.

“(…)Another key feature of the transformation of the employment structure in the 1990s was the growing contrast between the few branches and sectors in which productivity grew strongly and the other branches and sectors –the majority- in which productivity increased only slightly or not at all. In other words, the modernization of certain occupations took place alongside an increasingly marked informalization of the work force.

(…) “Much debate has surrounded the question of whether or not the tertiarization of the employment structure is conducive to modernization. The answer to this depends on whether the tertiarization derives from economic growth or, on the contrary, from a lack of momentum in the economy, which drives workers to seek employment in commerce and services. The two processes exist side by side in Latin America, but informalization prevails over modernization.

“In effect, the 1990s were a time of intensive tertiarization, when 66% of all new jobs in urban areas were generated in the informal sector. The proportion of unskilled own account workers in commerce and services displayed the largest increase (24,2%), followed by increases in the shares of workers (employers and employees) in microenterprises (18,2%), domestic workers (9,4%), and unskilled own account workers in industry and construction (8,1%) and in primary occupations (6%). The foot note that accompanies this paragraph adds: “In the formal sector, which generated 34,1% of all new jobs, the biggest increases in employment were for wage or salary earning professional and technicians (20.1%), entrepreneurs and independent professionals and technicians (6,5%), wage or salary earners other than professionals and technicians (5.4%) and public sector employees (2.1%).”⁷⁹

Looking at the future, we may say that the only area where the foreign direct investment is creating an important amount of new jobs is the area of services. Some of those services are efficient and productive measured at local standards, and part are, only a refuge of underemployed people expelled from the formal labor force, or impeded to get into. Another part of those services is created under the form of complementary activities linked to the expansion of internationally tradable goods in the modern sector of the economy. Another part goes to services that take advantage of the local urban markets of Latin American Countries like malls and shopping centers, fast food, security, insurances, banking, cinemas on “American style”. In countries well endowed for tourism activities (like the Caribbean areas) many resorts and tourist complexes are emerging. Many of these new economic activities are competing against older obsolete enterprises in the same sectors, but others like tourism can be complementary with the small and micro-enterprises. The net outcome of all these processes is uncertain, but it will depend heavily on the distribution and social use of the wealth (specially the access to land), on the distribution and social use of public goods and social services provided by the state, and on the distribution and social use of the different forms of national surplus controlled by private national and transnational enterprises.

CONCLUDING REMARKS: THE CONCEPT OF HUMAN DEVELOPMENT

⁷⁹ ECLAC (CEPAL), 2004, A Decade of... pages 122 to 126

The idea of human development refers to the full expansion of human capabilities. Human beings are social animals endowed with rationality. Because they are gregarious animals (primates) human individuals can only be fully understood as components of their respective communities. Because they are rational, they can create history and are not subjected to the repetition of identical cycles of life, as other gregarious or “social” beings (bees, ants, etc.).

The full expansion of human individual social capabilities takes place inside social systems that have a historical nature. There are, nevertheless, certain basic features in human nature that are trans-historical and give continuity to the presence of humanity in this earth. These are the features that define human beings as animals that are social and rational.

Human beings living in societal systems can be examined taking into account four main dimensions: biological, cultural, political, and economical. What unifies and creates interdependence between those systems are concrete human beings that participate actively in some or all those dimensions. These dimensions express social subsystems that have their own rules, and institutions. These subsystems are not intellectual constructions but have their own objective reality expressed through concrete material processes. So, they can be measured or tested through different methodologies that are developed by different social sciences. For example demographic, and environmental sciences study human beings mainly (but not exclusively) on their biological behavior as member of the human race. Cultural sciences study human beings mainly as rational social beings that exchange information, communicate reciprocally and share a common heritage of knowledge and values. Political sciences study the process of formation and enforcement of societal rules (including the centralized use of force) that allow the prolongation of societies through time. Economic sciences study the production, distribution (including exchange), and consumption of human instruments.

The central focus of each one of these societal dimensions is the concept of social relation. A social relation is an interaction between human beings that share reciprocal expectations of behavior. The specific type of those social relations can be biological (as in reproductive sexual relations), or economical (as in exchange or market relations), or political (as in the exercise of legislative, judiciary, or executive authority backed by the monopoly of violence), or cultural (as in educational, artistic, scientific, or linguistic, relations that imply the exchange of information, knowledge, or values).

The distinguishing issue of every social relation is that it always entails reciprocal expectations of behavior. And this is a cultural factor that allows the performing of the relation itself. This cultural factor implies the internalization of the rules that govern biological, economic, political and cultural systems. These rules are of technological and ethical nature, and are learned through cultural processes of primary and secondary socialization. So, the first condition to perform regular social relations is to share a culture. The power structure of each social system is embedded in its cultural subsystem. Let us look at some examples.

Firstly, in the biological field, during slavery and serfdom regimes, both slaves and serfs were submitted to coercive sexual abuses that were internalized by them and accepted as part of their subordinated condition. Particularly, the sexual reproduction of slaves was considered as a part of the production function of this commodity. With the successful struggles for the expansion of human rights those practices were repudiated and abolished.

Secondly, in the political field during a long period of time it was accepted that analphabets (and women) could not participate in political elections. And as long as this rule was socially accepted and internalized, the reciprocal expectations of behavior determined that no analphabet (or woman) would dare to attempt to vote against the rules, and she/he refrained spontaneously, without any need of coercive enforcement.

Thirdly, in the economic field different types of market transactions are highly regulated and it is supposed that every participant on those transactions knows and accept those rules. This acceptance can imply a very unfair distribution of transaction costs among the parts that are transacting, and it always implies different power positions (that are also accepted) in the structure of property.

Fourthly, in the cultural field, the different access to information, communication and knowledge is the deepest and more lasting form of social inequalities and, consequently, of human underdevelopment. The educational regimes are the hart of the cultural systems, and determine the social stratification structure in two different senses that are emphasized by Douglas North:

“The costs of maintenance of an existing order are inversely related to the perceived legitimacy of the existing system. To the extent that the participants believe the system fair, the costs of enforcing the rules and property rights are enormously reduced by the simple fact that the individuals will not disobey the rules or violate property rights even when a private cost/benefit calculus would make such action worthwhile. If everyone beliefs in the “sanctity” of a person’s home, houses will remain unlocked while vacant without fear of vandalism or burglary. If a beautiful countryside is considered a public “good”, individuals will not litter. If individuals believe in the values of political democracy they will vote as a matter of civic obligation. Labor will be hard working, and management, diligent in caring for the interest of the owners; contracts will be honored in the spirit as well as the letter of the law. To put the issue precisely, the premium necessary to induce the people to become free riders⁸⁰ is positively correlated with the perceived legitimacy of the existing institutions. The educational system in a society is simply not explicable in narrow neoclassical terms, since much of it is obviously directed to at inculcating a set of values rather than investing in human capital.”

⁸⁰ Free rider is “a person or organization who benefits from a public good, but neither provides it, nor contributes to the cost of collective provision. They thus free ride on the effort of others. The free rider problem means that many public goods are under provided, or have to be provided by governments which can collect taxes to pay for them. The same problem occurs internationally when governments prefer to leave others to bear the costs of international institutions to maintain world security, and the expensive measures needed to restrain global warming or destruction of the ozone layer”. John Black, Oxford Dictionary of Economics, Oxford University Press, 2002, page 187.

(...)”If the dominant ideology is designed to get people to conceive of justice as coextensive with the existing rules and, accordingly to obey them out of a sense of morality, the objective of a successful counter ideology is to convince people not only that the observed injustices are an inherent part of the existent system but also that a just system can come about only by active participation of individuals to alter the system”⁸¹.

Here we can emphasize a distinction that seems to be not very clear in the approach of Douglass North between ideological and ethical values⁸². We can say that ideology is a *historically determined* set of values that fit the (economic or political) interests and preferences of the groups that sustain that ideology in a certain society politically unified. But ethical or moral values are *trans-historical* and deal with what is truly good or bad for all human beings, that is, for the human nature.

We can say that every ideology is expressed through a set of values but not every set of values constitutes an ideology. Ideology always depends on the specific set of interests and preferences of a person or a group, but ethics is conceived to be shared by every human being for the mere fact of being a human being. The Universal Declaration of Human Rights expresses permanent human values and we may say that these set of values are the ethical foundations of contemporary democracy. So, trans-historical human values are not ideological but ethical. But ethics is rooted in human needs and not in human desires.

The ethical issue is a philosophical one and this is not the place to solve it. But it is important to provoke the intellectual interest that the subject deserves. Liberalism as it was developed in the modern era of western civilization is an ethical approach that gives the supreme place to the value of liberty. But there are other approaches (for example the Aristotelian approach to moral values) that concede the supreme importance to the value of virtue achieved through the true knowledge of human nature. The true knowledge of human nature, leads to the knowledge of essential human needs, and the satisfaction of those essential needs is the true road to the liberation of human mankind and the achievement of human development.

The liberal meaning of liberty links the term with the notions of individual preferences or desires, but the Aristotelian meaning of liberty links the term with the notions of social needs or necessities. For the liberals, and specially the neoclassical school of economics, liberty or freedom is achieved by rational choices aimed at the

⁸¹ Douglass North (1981), pages 53 and 54.

⁸² “The choice theoretic approach to economics assumes that in making choices values exist but are fixed, and people are acting rationally in the sense of making efficient use of information. This second assumption is a neoclassical entering wedge since at least part of the explanation for the persistence of conflicting theories is information costs. Given any cost/benefit calculus of voting, it is simply not worthwhile for voters to acquire the information necessary to test competing explanations so that they can link the choice with the desired results. Moreover, even with the information available to professional social scientists there still exist competing theories. There simply is not the evidence available to perform the definitive tests that would eliminate competing explanations. Clearly ideology is ubiquitous, not confined to any class, and “false consciousness” is beside the point since it implies some “true consciousness” which no one possesses”. North (1981) page 49.

fulfillment or satisfaction of individual preferences or desires, irrespective of the nature of those desires; but for the Aristotelians, liberty is a social condition to be fulfilled to reach human development.

Liberty, for Aristotelians is a human need in itself, derived from the fact that human beings are “political animals” and cannot live out of social systems. Liberty is a social need of every human being, and a social outcome derived from the practice of social life.

We may say that ideology is a matter of interests, preferences and desires; on the other hand ethics is a matter of needs or necessities. A typical Latin American landlord is interested in preserving rules of the game that exclude the peasants from the property rules of rural land, but the peasants need to survive and cannot do that without access to the land. The difference between needs or necessities (ethically founded) on one hand, and of preferences or interests (ideologically founded) on the other hand, is essential to correctly define the concept of liberty or freedom. For example a narcotics-addict prefers greater doses of the drug but needs a medical treatment to be liberated from the drug. A child, perhaps, prefers greater quantities of candies and chocolate but she needs nutritious and balanced rations of food.

Now we arrive to the last point of this course. Human development is the fulfillment or actualization of human potentials. To achieve this goal a social effort must be done to study concrete human beings, and to know the truth about human nature and concrete existent human beings. This search can help human beings with the instruments provided by human knowledge. That cannot be decided or achieved under individual basis without the help of social institutions and organizations. A person that searches his/her human development needs to be protected by human institutions and organizations designed to preserve his liberty. Human development implies the actualization of human potentials (capabilities, vocations, skills, etc.) and not necessarily the satisfaction of individual desires. That is why, for example, the Food and Drug Administration has the power to authorize or ban the social use of drugs; that is why the use of cigarettes is forbidden in an increasing number of public places. That is why sexual education is needed to prevent the spread of aids. That is why primary education is obligatory to all children and cannot be considered a matter of preferences of the fathers or their sons. That is why the pollution of the air must be controlled, etc.

Human development has to do with the quality of life and not with the general increase of per capita income irrespective of its composition and distribution. Human preferences and desires growth in direct relation with the economic power and economic liberty of individuals; but human development expands in direct relation with the satisfaction of human needs and vocations through the expansion of proper social means.

After the first economic revolution the economic power was linked essentially to the control of land; after the second economic revolution the economic power was linked to the control of technology mainly embodied in material equipments and personalized in specific skills; after the present spread of knowledge technologies economic power will

be linked to the control of information, communication and knowledge. That implies that for the first time in human history the democratization of economic systems can be achieved through the educational system, transmitting not only skills and knowledge but also ethical values oriented to reach human development.

Consequently the concept of human development defended in this course is achieved through the following conceptual sequence: human nature – human essential needs – human essential rights – human responsibilities and obligations – institutions – social relations – democratization in the distribution of power positions.

It is interesting to notice that the Declaration of Human Rights can be expressed also as the Declaration of Human Duties because human rights express essentially human (individual and social) needs. *The only lasting way of alleviating or fully satisfying those needs and, consequently, protecting those rights is developing, through the educational system, the adequate sense of social responsibility and commitment on the part of the powerful members of society to overcome utilitarian ethics based on the maximization of economic wealth and the optimization of individual desires.*

That means that the democratization of capitalist institutions in Latin American societies is not only a matter of formal rules, but entail the internalization and social acceptance of those rules especially by the most privileged members of society. Let us recall again the last paragraph of the previous quotation of North: "If the dominant ideology is designed to get people to conceive of justice as coextensive with the existing rules and, accordingly to obey them out of a sense of morality, the objective of a successful counter ideology is to convince people not only that the observed injustices are an inherent part of the existent system but also that a just system can come about only by active participation of individuals to alter the system".

The pacific and legitimate transformation of Latin American Societies through democratic procedures needs the active participation of individuals to alter the system. That participation cannot be achieved overnight, but it will be the outcome of an educational system using knowledge technologies to transform the cultural foundations of Latin American societies.