

Patterns of Development in Latin America

**POVERTY, REPRESSION,
AND ECONOMIC
STRATEGY**

JOHN SHEAHAN

JOHN SHEAHAN

PATTERNS OF DEVELOPMENT
IN LATIN AMERICA

Poverty, Repression, and
Economic Strategy

PRINCETON
UNIVERSITY
PRESS

Copyright © 1987 by Princeton University Press
Published by Princeton University Press, 41 William Street,
Princeton, New Jersey, 08540
In the United Kingdom: Princeton University Press,
Chichester, West Sussex

All Rights Reserved

LIBRARY OF CONGRESS CATALOGING-IN-PUBLICATION DATA

Sheahan, John, 1923–
Patterns of development in Latin America.

Bibliography: p. Includes index.

1. Latin America—Economic conditions—1945–
2. Latin America—Politics and government—1948–
3. Poor—Latin America. 4. Political rights—
Latin America. 5. Foreign economic relations—
Latin America. I. Title.

HC125.S498 1987 338.98 87-2853

ISBN 0-691-07735-5 (alk. paper)

ISBN 0-691-2264-X (pbk.)

This book has been composed in Linotron Baskerville

Princeton University Press books are printed on acid-free paper
and meet the guidelines for permanence and durability
of the Committee on Production Guidelines for Book Longevity
of the Council on Library Resources

Printed in the United States of America by Princeton Academic Press

5 7 9 8 6

PATTERNS OF DEVELOPMENT
IN LATIN AMERICA

PREFACE

In the highly charged Latin American context issues of economic strategy can seem at times of distinctly secondary importance, and at other times as matters of life and death. Conflicts over trade restrictions and government deficits in Brazil in the early 1960s, or over the money supply and wage policy in Chile in 1971 and 1972, rather pale in comparison to the gathering storms that were about to impose murderous authoritarian regimes in both of these countries. Still, the pressures that create such storms are sometimes built up, or could conceivably be moderated, by the quality of national economic strategies. It is possible in at least some cases that more coherent economic policies, adopted in time, could make such outcomes less likely. And, apart from dramatic breakdowns, differences in economic strategies have had a great deal to do with sustained contrasts such as the ability of Colombia to raise income per capita four times faster than Argentina in the last quarter century, or the anomaly of Brazil, with an income level almost identical to that of Costa Rica in the early 1970s, having a child mortality rate three times higher.

It is the differences among Latin American countries that grow most striking as one follows them over the years. More accurately, it is the interaction between common strands—common cultural and historical patterns and common pressures from the outside world—with different national responses and different kinds of change in consequence. Drastically negative results are all too common; imperfect but improving alternatives are possible too.

For particularly helpful discussions of these issues, or reading and criticizing parts of the manuscript, or for bursts of indignation at strategic points, I would like to express appreciation to Bruce Bagley, Albert Berry, Jorge Domínguez, David Fairris, Brígida García, Stephany Griffith-Jones, Jonathan Hartlyn, Brooke Larson, Nathaniel Leff, Cynthia McClintock, Michael McPherson, Oscar Muñoz, and Richard Sabot. More than twenty years ago, Colombian colleagues in the Departamento Nacional de Planeación—along with a fellow adviser, Richard Bird—helped greatly to give some of these questions initial meaning. A first-rate group of graduate students at El Colegio de México in 1970, amazingly friendly and pa-

tient, stuck to their guns in driving home concerns that never occurred to me in graduate school, but should have. In a too-brief period of research in and on Peru, Javier Iguíñiz, Jürgen Schuldt, and Raúl Torres were especially helpful. Back at home, independent-minded Williams students and an economics department remarkable for both forbearance and good ideas all contributed to raise better questions and to reduce confusion.

My wife, Denise, helped with research on issues connected with education and, by her careful reading of much of the manuscript and her unfailing sense of what matters most, did more than anyone else to direct attention to essentials. Amy Glass and Ann Montgomery cheerfully dug out problems with data and in one instance designed a statistical test that forced me to give up a cherished hypothesis. Anita O'Brien, at once eagle-eyed and understanding, did wonders to clean up the text and references. Sandy Thatcher, editor-in-chief of Princeton University Press, backed up initial encouragement for this book with just the right mixture of patience and specific advice at critical points.

A research grant from the Joint Committee on Latin American Studies of the American Council of Learned Societies and the Social Science Research Council permitted me to spend the first year of writing with the Institute of Development Studies at the University of Sussex, creating the opportunity to meet exceptionally diverse people working on issues of development in many fields, and to have a last chance to talk about these questions with that marvelously independent spirit, Dudley Seers.

Finally, three other economists who have disagreed with each other on practically everything except their deep concern for Latin America—Lauchlin Currie, Carlos Díaz Alejandro until his death in 1985, and Albert Hirschman—have been wonderfully stimulating through both their writing and many years of friendship. I would like to dedicate this book to the memories of Carlos Díaz and of Dudley Seers, to the happily very much alive and creative Lauchlin Currie and Albert Hirschman, and to Denise.

CONTENTS

TABLES AND FIGURES	vii
PREFACE	ix

PART I: PERSISTENT ISSUES

1. Ways of Looking	3
2. Poverty	23
3. Employment and Earnings	49
4. External Trade, Industrialization, and Economic Growth	74
5. Inflation, External Deficits, and IMF Stabilization Programs	99
6. Ownership I: Land	130
7. Ownership II: Multinationals, Public Enterprise, and Dependency	155

PART II: NATIONAL PATTERNS OF RESPONSE

8. Early Industrialization and Violent Reaction: Argentina and Brazil	179
9. Reformism, Marxism, and Militant Monetarism: Chile	204
10. Two Kinds of Revolutionary Alternative: Cuba, and Peru under Velasco	237
11. Middle-Road Market Economies: Colombia, Costa Rica, and Mexico	271

PART III: POSSIBILITIES AND QUESTIONS

12. Economic Strategies, Social Strains, and Political Repression	313
---	-----

13. Is It Possible for the United States to Play a Constructive Role?	328
14. From Conclusions to Ongoing Questions	355
REFERENCES	363
INDEX	395

TABLES AND FIGURES

TABLES

1.1	Five regime-groups in postwar Latin America, with examples of countries and periods used in discussion	8
2.1	Infant and child mortality, 1960 and 1984, with alternative measures of income per capita	26
2.2	Percentage shares of household income by quintiles for eight Latin American countries, late 1960s or early 1970s	28
2.3	Changes in shares of income and levels of real income of the lowest 60 percent of income receivers for five Latin American countries	29
2.4	Estimates of poverty and destitution in Latin America in years around 1970, using ECLA measures	34
2.5	Percentages of the active labor force with either no completed years of schooling or no more than three years of schooling, in or close to 1970	36
2.6	Regional comparisons of adult literacy rates and school enrollment ratios, 1960-1981	37
2.7	School enrollment rates for children between six and eleven years old, 1960, 1975, and 1980	38
3.1	Percentage shares and total number of labor force remaining in agriculture, 1960-1984	56
3.2	Changes in real wages compared to changes in gross domestic product per capita, 1956-1972 and 1970-1980	69
4.1	Manufacturing production in Latin America compared to other regions: Growth rates and shares of manufacturing in gross domestic product, 1950-1981	85
4.2	Comparisons of tariff rates and real interest rates for six countries at the end of the 1950s	87
4.3	Manufactured goods as shares of total commodity exports for Latin American countries and East Asia, 1962 and 1980	90
4.4	Comparative shares of manufactured products in exports and in domestic production for seven countries, 1960 and 1980	91

4.5	Growth rates of gross domestic product per capita, 1950–1984	95
5.1	Annual rates of inflation by country, 1960–1985	102
8.1	Indicators of the comparative positions of Argentina and Brazil	181
9.1	Chile: Rate of inflation, industrial production, foreign trade, and exchange rate in real terms, 1970–1984	223
9.2	Chile: Investment, unemployment, and real interest rates, 1970–1984	229
9.3	Two estimates of real wages in Chile, 1970–1984	230
10.1	Indexes of Cuban agricultural and industrial production and of domestic supplies of food, clothing, and housing, 1958–1978	246
11.1	Colombia, Costa Rica, and Mexico: Indicators of per capita product and growth, manufacturing production and exports, poverty and inequality, and child mortality	273

FIGURES

2.1	Infant and child mortality rates in Latin America compared to the industrialized countries, 1960–1981	25
5.1	Alternative versions of aggregate demand and supply relationships	106

PART I

PERSISTENT ISSUES

ONE

WAYS OF LOOKING

In a world full of conflict and confusion, Latin American countries stand out for dramatic degrees of both. Blocked lives for many in contexts of increasing national and world income make for explosions or for repression more often than negotiation and widely acceptable kinds of change. Strains in basic social and economic relationships—among classes and interest groups, between objectives of economic efficiency and of social justice, and between countries and the external world—take on extraordinary intensity. This book is about reasons why poverty is so persistent and the collisions so violent, how Latin American societies are changing, and what might be done to make the changes more positive.

It is certainly not the case that these societies are frozen into a fixed pattern. Most of them have been going through extraordinarily rapid changes. Yesterday's careful explanations of why things work out the way they do, and why particular kinds of change are impossible in Latin American conditions, constantly need to be revised as counterforces break down the patterns considered to be permanent. Much of the intensity of social conflict has come from the dislocations involved in rapid change: from basically rural societies dominated by landowners toward urban dominance and high degrees of industrialization; from near-total dependence on primary exports subject to unstable world market forces toward industrial exports more sensitive to domestic costs and incentives; from earlier demographic stability first into conditions of exceptionally fast growth of population and labor force and then, beginning in the 1960s, to dramatically falling fertility and birth rates; from a mixture of personalized dictatorships and moderately open political systems under the leadership of old elites, able in most respect to keep the majority of the population out of the decision process, to a spectrum of populist, radical, ultrareactionary, and fairly open democratic societies.

Too much is going on at once to capture more than a few strands in any one search. This attempt is centered on three particular sets of issues. The first is the persistence of greater degrees of inequality

than in other regions, both richer and poorer than Latin America. The second is the nature of the economic relationships between these countries and the outside world: issues of dependence, the impact of foreign trade and investment, and the evolving mixture of external help and damage. The third is the close association since the early 1960s between (a) changes toward more market-oriented economic systems with greater stress on efficiency, and (b) accompanying changes toward extreme political repression. These issues interact continuously with each other, sometimes in ways that illuminate the depth of resistance to fundamental change and sometimes, on the contrary, in ways that help bring out possibilities of doing better.

1. DIVERSITY AND CHOICE

Latin American studies are rich in explanations of deadlocks imposed by conflicting social forces and by dependent relationships to the outside world, demonstrating that significant change is either impossible or can only become possible by violent overturn.¹ This way of looking is so entrenched because there is a lot of truth in it. The frequency with which the promise of positive change has been aborted is discouraging. The resistances are deep. But not equally so among all countries, in all periods, and in all the dimensions that matter. Differences among the countries of the region have become increasingly pronounced since the beginning of the 1930s. They do not mean that unified explanation of persisting obstacles has lost its value, but they require greater attention to the factors explaining alternative paths. Increasing diversity underlines the possibility that the more specific details of economic and social policy choice are taking on increased importance in shaping the course of events. Positive change is not the common result, but the failure to get it may as often be due to inconsistent or misdirected policies as it is to the dominance of profound forces resistant to change.

Some of the most influential interpretations of postwar Latin America—particularly those of Fernando Henrique Cardoso and Guillermo O'Donnell—emphasize direct causal connections among the three sets of issues central to this discussion: external dependence shapes internal forces in ways adverse for equality and for

¹ For a particularly effective statement of this view see Richard A. Fagen, "Equity in the South in the Context of North-South Relations," in Albert Fishlow et al., eds., *Rich and Poor Nations in the World Economy* (New York: McGraw-Hill, 1978), pp. 163–214.

open political systems.² Both Cardoso and O'Donnell reach toward differences in national experiences to clarify a common process, leaving open questions of possible variations on this process. Others have taken this line of analysis to strong conclusions: "It has become increasingly clear that transforming a society's structure and reducing its external dependence can only come about by conscious disengagement from the world capitalist economy."³

In Cardoso's own interpretation pressures from the outside world do not imply any predetermined common outcome: they take on varied forms in different national contexts and provoke counterpressures that differ among countries and periods. That flexibility has been criticized as a rejection of the search for a definitive governing theory, a refusal "to place theoretical limits on capitalist development at the periphery . . . a retreat from theory . . . which leaves enormous problems for those who want to go beyond *post hoc* description."⁴ Exactly so. That tension between a wish to formulate universally valid principles and a wish to bring out the great variety of actual possibilities runs through all studies in the social sciences. It creates enormous problems of links between the specific and the general. But it cannot be wished away. Intellectual inquiry would be much the poorer if not inspired in some degree by the vision of a comprehensive theory that places conclusive limits on possible results, and it would also be much the poorer if any such vision were allowed to close off attention to the amazing twists and turns of reality.

O'Donnell's analytical framework postulates a common historical process in which individual societies are seen as differing mainly according to their present stage on the same path. It centers on the interactions of political and economic factors as industrialization gets under way, begins to open up new interests and bring new groups into social decisions, reaches a crucial middle stage of in-

² Fernando Henrique Cardoso and Enzo Faletto, *Dependencia y desarrollo en América Latina* (Mexico: Siglo Veintiuno, 1969), revised English version, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979); Cardoso, "Associated-Dependent Development," in Alfred Stepan, ed., *Authoritarian Brazil* (New Haven: Yale University Press, 1973); Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: University of California, Institute of International Studies, 1973).

³ José Villamil, ed., *Transnational Capitalism and National Development* (Brighton: Harvester Press for the Institute of International Studies, University of Sussex, 1979), p. 11.

⁴ Martin Godfrey, "Is Dependency Dead?" Institute of Development Studies, University of Sussex, *Bulletin* 12, 1 (1980), p. 4.

creasing strains, and then provokes authoritarian reaction. O'Donnell's analysis has been effectively criticized from many angles, but it remains highly suggestive as an attempt to clarify the origins and nature of a new kind of authoritarianism in modern Latin America, combining political repression with a stress on free markets and economic efficiency.

The particular kind of industrialization analyzed by O'Donnell is based on protection and import substitution, exemplified to an extreme degree by the countries with which he is most closely concerned, Argentina and Brazil. His research from the perspective of political science thus comes into close contact with a massive literature in economics concerning styles of development, the distortions created by import substitution, and the costs and gains of international trade. The two perspectives sometimes reinforce and sometimes collide with each other. Many of the economic studies of separate policy issues can be seen in a new and enlightening way by use of O'Donnell's analytical process, but at the same time many of them would call for recognition of development paths systematically outside his model. They do not in any sense disprove it, but they suggest the need to open it up to more alternatives.

This book attempts to construct bridges between the world of generalized interpretive models like those of Cardoso and O'Donnell and that of specific policy-oriented studies of economic development in different national contexts: on causes of inflation in Argentina, how monetary policies affect employment in Chile, how Colombian exports respond to changes in exchange rates, how changes in the structure of expenditures on education in Brazil affected income distribution in the 1960s, and so on through an ever-growing field of empirical research on detailed cause-and-effect relationships. Many such studies complement each other to build up a coherent general picture, but then many others contradict each other. Almost all are incomplete and raise new questions that need further research, and even the best of them are always being superseded by new kinds of behavior and new studies of its causes. But that is the way it should be: we need the generalizations and we also need to keep asking new questions to keep them open to a reality that does not stand still.

Latin American countries are not standing still. They are all changing, and one of the most striking aspects of change in the last forty years is how differently they have been moving. Colombia and Mexico differ in vital ways between themselves, and at the same time they differ systematically as a pair from the early postwar leaders of

change, Argentina, Brazil, and Chile. All five differ in fundamental respects from Central America, and within Central America the differences between Costa Rica and El Salvador are like day and night. The causes of these differences are fascinating to explore, whether focused more on historical conditions or more on the specific policy alternatives adopted by these countries in the postwar period. Differences in behavior, and in such relatively objective measures as growth of income and changing degrees of external debt and dependence, inequality, and child mortality, add up to a strong case for the possibility of altering the course of events, even within given external world conditions, by different choices of national economic strategy. Beyond such quantitative measures, clarification of these differences may help us to understand why four of the leading Latin American countries turned into some of the most inhumanely efficient police states of the modern world while others have, so far, been able to keep evolving without that enormous cost.

2. A REFERENCE BASE OF DIFFERENT REGIME TYPES

The orientation in this discussion toward multiplicity of cases and results is to some extent moderated by use of a reference base of five different categories, listed in table 1.1 with examples of particular countries and periods. It is not that a country belongs by its nature to a particular category, or that all of them can be expected to march up from group 5 to the ultimate fate of group 1. Rather, particular kinds of regimes persist as possibilities, and countries either adopt, get pushed into, or escape from them as the pressures bearing on each country and its own responses evolve.

It would be splendid to be able to fill in examples for another category described in some such terms as "fully democratic, egalitarian, self-determined, dynamic, and peaceful." We can all dream. No actual country is a strong candidate, but some such category should be present as a conception, as a reminder not to mistake the merely bearable as a sufficient goal. If social scientists have any function it should be to point out ways to do better. But it does not help understanding to lump together all unsatisfactory conditions, countries, or even people, as more or less equivalent failures. Differences in degrees and kinds of imperfection can matter greatly.

Group 1 refers to modern kinds of authoritarian regimes based on force and oriented toward emphasis on economic efficiency: those O'Donnell termed "bureaucratic-authoritarian." That term was appropriate for the first two cases central to his analysis, Brazil