Introduction

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This volume brings together a set of papers selected among the over 150 presented at the UNAM-ESHET Conference in November 2011 on a theme that was also chosen as title for this book. The main issue addressed by this set of papers is the evolving role of the so-called ‘peripheral’ countries such as Latin America within the context of today’s globalization.

During the economic crisis currently sweeping across North America, Japan and especially Europe, it seems that Latin America has been relatively sheltered from the financial and real turbulences characterizing the so-called ‘developed’ world. At the outbreak of the global financial meltdown of 2008-2009 not a single bank or financial institution collapsed in Latin America, which led commentators to claim that ‘the generalised assessment about Latin America’s management of the crisis was quite positive’ (Rojas-Suarez 2010: 4), ‘the region has been able to cope with the recessionary, sudden-stop global environment of 2008-2009, managing to ward off the currency, sovereign debt, and banking crises – and thus deep recessions – typical of the past’ (Porzecanski 2009: 4).

While output growth in Latin America was expected to fall to 3.2 per cent in 2012, from 4.5 per cent in 2011, reflecting the impact of earlier policy tightening and ebbing external demand, it is expected to expand by around 4 per cent in 2013 (IMF 2012), in contrast with the gloomy outlook of the European countries.

Thus the dependency of the periphery from the core countries from colonial times through the first and second globalization seems to have taken a new turn in the present context of world economic crisis. Although interdependency is the hallmark of globalization, individual countries and regions such as Latin America nevertheless maintain peculiarities of their own.

This uniqueness is particularly worth noting, given the extremely troubled period we are currently going through in the Western capitalist economies, with persistent turbulence in the financial markets, high and growing levels of unemployment, loss of purchasing power and disturbance in public finance systems, with social and political consequences that cannot be fully foreseen. The angles from which the chapters in this volume address the question of the specificity of Latin America correspond to the perspectives suggested by the economic history of the region and the history of economic thought approaches to the issues of
trade and foreign investment, as well as the world market for domestic production and consumption, capital flows, social transformation and institutional changes. Ideas and conceptions have been shaped over time by the economic and political circumstances, but also by the internal evolution of economic theories. This is, therefore, an excellent opportunity to show that we can learn from historical examples how relentless economic and financial crises call for appropriate analytical interpretations and sustainable policy measures.

Today, as in the times of Adam Smith, Jeremy Bentham, James and John Stuart Mill, the relation between the colonies ('periphery') and the mother countries ('core') was central to economic debate, with a variety of positions ranging from Smith's attack on colonial trade restrictions and the costly trappings of Empire to Wakefield's schemes for 'systematic colonization' (Winch 1965).

During the first globalization (c. 1870–1913), the changed historical circumstances and paradigm shift in economics brought about by neoclassical theory implied that the road map for the periphery to pursue prosperity lay along guidelines departing far from those envisaged by the classical economists. Primary production was predominant during the period, the main difference between the 'core' and the 'periphery' being the importance of agriculture and the scant share of manufacturing.

A new concern with economic development and growth issues emerged immediately after the Second World War. One of its main features was the attention paid to the backwardness of some economies, namely those of both the Latin-American periphery and the European semi-periphery. That new concern was at the very origin of the definition of long term economic policies, which were in part theoretically supported by development economists.

One of the pioneering approaches was put forward by Paul Rosenstein-Rodan (1943), who started presenting the idea that the process of economic modernization would require a 'big push' in order to solve the vicious circle of economic backwardness. Such a process implied the creation of large scale and coordinated industrialization programmes fostered by the state, which could only be feasible by means of public investment and foreign aid. Planning and investment were the keywords of this approach to economic development issues, taking into account the situation in Eastern and South Eastern European countries, where the effectiveness of market mechanisms was at stake during that period.

However, it was in a different geographical setting that economic development literature would soon grow up, in the context of the United Nations' general concern with the increasing differences between developed, developing and under-developed countries. The awareness of the causes of and solutions for economic backwardness was clearly revealed by Raúl Prebisch (1949) and Hans Singer (1950), both being unanimously considered as the founding fathers of the structuralist doctrine of development associated to the work and mission undertaken by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC, or CEPAL in Spanish). Many economists from Argentina, Brazil and other Latin American countries joined the efforts of ECLAC, which was to become a fundamental institution dealing with the implementation of economic policy measures designed to overcome economic underdevelopment.

The basic intuition of these economists working under the auspices of ECLAC was to note an unequal and asymmetrical relationship between the industrialized core and the periphery supplying raw materials, a relationship that is, in every respect, identical to the typical form of relationship between the old imperial metropoles and their colonies. The importance accorded to the historical colonial legacy is precisely one of the key, structural features that makes the distinction of ECLAC's structuralism in explaining the basic determinants of economic backwardness. By considering the economic structures as historically determined, Raúl Prebisch, Celso Furtado and other ECLAC economists were also claiming that the road to development would necessarily imply a substantial change in the prevailing organization of economic sectors.

According to this analysis, the spread of technical progress from the core to the periphery took place at an excessively slow pace and, in order to break the prevailing relationship of inequality, it was essential to initiate an industrialization process in the peripheral countries by importing substitution of products that could be manufactured internally without worsening the relationship of technological dependence. In this process, it fell to the state to play an essential role in the creation of a protective environment that would make use of the customary instruments of economic policy (infant industry and protective rights) needed to encourage the take-off and consolidation of the industrial sector. The Latin American structuralist school did not invent such instruments, but contemplated the opportunity of their being used in order to lessen the inequalities in the levels and rhythms of development between the countries at the core and those on the periphery.

Contradicting the presuppositions and developments of the Ricardian theory of comparative advantage, Prebisch and his followers tried to show that the constant and progressive deterioration of the terms of trade in the peripheral countries made it impossible to maintain the illusion that all countries could simultaneously benefit from the expansion of trade at an international level. This is also a very peculiar, distinctive feature of Latin American structuralism, when compared to other forms of structuralism, namely the analysis put forward by Albert Hirschman (1958) for whom there was no need to fight against the arguments of classical and neoclassical theory of international trade and specialization. According to Prebisch, the assumptions of both the perfect mobility of the factors of production and the advantages of free trade were not confirmed. The international environment was therefore one further structural determinant of the difficult situation experienced by Latin American economies, which should be faced with different theoretical means and policy instruments. The central message was that international trade and specialization could no longer be only for the benefits of industrialized, developed countries.

Regardless of the empirical evidence and conceptual realism of this view, the importance of its doctrinal component created conditions that favoured the acceptance of guidelines for economic policy capable of diminishing the
differences between the core and the periphery. Such receptiveness was certainly due to the institutional acceptance afforded by ECLAC; but it was also due to the persuasive care and attention given to the language and rhetorical instruments that were used. Without being openly hostile to the mainstream economic theory, such rhetoric clearly put across the essential political message regarding the responsibility of the countries at the core for maintaining the factors of underdevelopment that affected the countries on the periphery (see Bianchi and Salviano 1999). The impact of the theses of the Latin American development school spread far beyond their natural geographical area. In fact, various economies situated in other parts of the world, namely in the north of the Mediterranean basin, also experienced the problems of economic backwardness and felt the need to define policies that might help to overcome this backwardness, so that they remained alert to the contributions put forward by Prebisch and other economists who remained loyal to the ideas of ECLAC.

Certain particular conditions of these societies, namely their semi-peripheral nature, the existence of enduring right-wing dictatorships and the preferential relationship that they enjoyed with the centres of production of economic ideas situated in Europe, gave a rather peculiar tinge to the structuralist vision that was then being imported in countries such as Portugal, Spain, Greece and Romania (Love 2004). The influence of the Latin American school was visible in aspects ranging from the simple manifestation of a similar type of general and basic concern with the problems of growth, clearly understood as being problems of a structural nature, to the greater attention given to certain specific problems, such as income distribution, or even to the adoption of the same type of planning techniques and analytical tools, such as, for example, input–output table, income elasticity of demand, structural bottleneck or sectoral capital–output ratio.

However, it was clear that apart from these remote influences in policymaking in a few Southern European countries, development economics of the ECLAC’s inspiration remained confined, after the mid-1960s, to its Latin-American birthplace.

Why did it vanish so quickly, and why did it not find conditions to mature and stabilize outside Latin America?

Some important contributors to the field have tried to provide answers and add context to the crisis of development economics, either with a pessimistic outlook (Hirschman 1981), or in a rather realistic stance, focusing on the development problems that remained to be solved at both the political and theoretical levels (Sen 1983 and Lewis 1984). Another converging and straightforward analysis was offered by Paul Krugman (1994) who brilliantly explained how and why high development theorists – namely Paul Rosenstein-Rodan, Gunmar Myrdal and Albert Hirschman – were losing their ground by the end of the 1950s. According to Krugman, there could be no follow up to the golden 15 years of development economics, from Rosenstein-Rodan (1943) to Hirschman (1958), because the changes that were occurring in mainstream neoclassical economic theory could accommodate neither the assumptions of increasing returns to scale and imperfect competition markets, nor a methodological approach based on discursive reasoning and explicitly denying the validity of formalized mathematical models. It is also worth stressing that the big push ideas – the coordinated large scale investment programme – contained in Rosenstein-Rodan’s policy recommendations were conceived as part of a broader view of the development process as a virtuous circle driven by external economies. According to this view, modernization is a consequence of modernization and therefore some countries remain underdeveloped because they were not able to get into the virtuous circle. In order to allow this circular causation process to originate its benefits, government intervention may prove to be not only necessary but a sine qua non condition. Hence, the big push thesis, or even Hirschman’s moderate preference for a selective promotion of economic sectors with strong forward linkages, could not be easily received by the dominant doctrinal approach in economic theory. Development theory was therefore condemned to fade out and to be expelled from mainstream economics.

In fact, the history of economic ideas was taking a different route. Already in the 1960s economic growth was modelled in accordance with an aggregated production function, whereby technical progress was seen as an exogenous force (Solow 1956), and the role of specialization in primary commodities was downplayed. The New Theory of Economic Growth led further to the conclusion that since primary activities by their very nature do not form endogenous cores of innovation and technical progress, they cannot form the basis of growth. Within this framework, economic dependence on natural resources was seen as leading not to productive dynamism, but rather to the ‘Dutch disease’ syndrome (Corden 1984). Countries with abundant natural resources undergo booms and busts at irregular intervals because of price variations and because new resources are discovered. This evolution creates sudden changes in export earnings and in real currency exchange rates, and affects the performance of foreign direct investment and productive activities, especially in tradable industries.

However, outside the mainstream an alternative framework derived from Schumpeterian analysis of economic growth and innovation (Dosi et al. 1990) pointed to the notion of the technological gap. Since it takes time for innovation to spread in the periphery, the technologically advanced countries enjoy an initial advantage and can expand their share in the world market to the detriment of the less advanced countries (Willebeek 2011).

From the 1980s onwards, even in Latin America, many economists voiced the failure of the big push approach and import substitution model, because domestic demand was not enough to foster the market for manufactured goods, because the import of intermediate goods to allow for capital accumulation could not be avoided, and also because local governments have created an immense debt to finance the industrialization process. Thus, it was more than natural that there was a considerable shift in dominant economic doctrine in Latin America throughout the 1980s, bringing to the forefront of the debate both the denial of government-led-industrialization policies and state provision of public goods and the welcome of a new wave of free market doctrines, financial openness and
deregulation, which are at the origin of the Washington Consensus (Fitzgerald and Thorp 2005).

The established beliefs have also been considerably challenged by another shift concerning the authority of the United Nations paradigm regarding aid programmes and the millennium development goals associated to eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating malaria, HIV/AIDS and other contagious diseases, and ensuring environmental sustainability. In all these issues, the traditional vision on the merits of grand scale aid spending proposed, among others, by Jeff Sachs (2005), has received a strong opposition by authors like William Easterly (2006), who believes that aid is an instrument of local government corruption and ultimately is an attack on individual freedom. A different macro-oriented approach to explain why certain aid and development programmes may not succeed in certain regions is put forward by Acemoglu and Robinson (2012), who trust the role of inclusive institutions as the major driving force explaining the capacities of nations to succeed.

The circular nature of debates on the engines of development brings us again to a new challenge of the trustworthiness of the functioning of globalized financial markets that have seriously confronted the macroeconomic stability of Latin America and Third World countries in the course of the current financial crisis. Therefore, it is not a surprise to claim that one of the reasons that explain why Latin America has not suffered the negative consequences felt in Western countries, especially in Europe, is the state regulation and supervision of domestic economic and financial systems.

The recent UN report (2013) on the Human Development Index is precisely devoted to the topic of the rise of the South. The main drivers of development that may help to explain the rate of economic growth in countries such as Brazil, China and India is not only the opening and enlargement of global markets, but rather the proactive attitude of governmental, state-led policies aiming at the improvement of social welfare, health and education systems (Calvert 2005).

This re-emergence of development goals promoted by public policies leads us to the point of departure of this digression and elucidates the relevance of revisiting development theories as those associated to ECLAC and dependency schools. Ultimately, we understand the relevance of the history of development ideas to grasp the problems of the contemporary economic world.

This volume looks at several aspects of the story we have sketched out here and offers detailed analysis of some of its features.

In Part I, 'Insights from the history of economic thought', the first chapter discusses how in the midst of the current crisis the very notion of development is being questioned. After a general overview of how capitalism has evolved and how it was understood by the leading economists of the past, Cosimo Perrotta argues that at present in the developed economies many processes are growing, which in fact are typical of the less developed economies (disguised unemployment, parasitic rents and huge luxury consumption; precarious jobs and illegal labour; widespread poverty; great inequalities both in incomes and in workers' rights). We have witnessed a growing direction of wealth to socially unproductive investments, while the way out of the crisis would require increasing expenditure in infrastructure, green economy, research and education, and fighting poverty at the core and the periphery. In conclusion, the new kind of development should avoid supporting the production of redundant goods and rather promote the creation of new goods and new needs.

The next two chapters look respectively at two important figures in the landscape of nineteenth-century economic thought, who presented opposite views on whether colonies promoted prosperity and progress both at the core and at periphery. Annie Cot introduces us to the anti-colonialist position of Bentham and his involvement in the creation of new institutions and organizations in Latin America, based on utilitarian principles. Bentham's anticolonialist position was based on two arguments: it required a great army and it drained national resources. Moreover since by its very nature colonization was oppressive, he concluded that sooner or later it would lead to civil war and social unrest.

The active role of the state in pursuit of economic development in F. List's work is seen by Juan Palacio as more important than his defence of mercantilism, which for the French economist was to be implemented only in a very specific phase of development. Unlike Bentham, he was in favour of the European nations acquiring colonies, thereby extending their territories, creating new sources of supply and enlarging the market for their exports. List also shared the common ideology of his time that colonialism was positive for colonies in political and economic terms.

The last two chapters in Part I examine the contributions by Myrdal and Kalecki, who offer innovative and illuminating insights into the working of the economic system both of developed and less developed economies. Adrián de León-Arias argues that Myrdal's analysis of monetary rules based on interest rates has relevant lessons to teach, since he reviewed the efficiency of these rules in a non-equilibrium dynamic perspective with unlimited uncertainty, and located monetary rules in a broader institutional context. Myrdal's approach appears useful in understanding the unconventional monetary policy that was followed by most Latin American countries during the crisis, — a more flexible and accommodating version of the inflation targeting praised by the orthodoxy — which should be given some credit in weathering the crisis (Velasco 2013).

Julio López evaluates Kalecki's methodology of analysing the impact of government expenditure on effective demand, taking into account how expenditure is financed, in addressing the present conditions of the world economy. Kalecki argued that even financing government expenditure with taxes on profits would have an expansionary effect. So, contrary to the widespread mainstream view, government expenditure never crowds out private expenditure. The chapter's conclusion is that fiscal policy in Latin America played a key role in avoiding a deeper crisis, proving Kalecki's point against the austerity paradigm.

Part II, titled 'Latin American development theory and experience revisited', features eight contributions. Claudia Sunna addresses a relevant subject for the study of Latin-American economic thought, focusing on the work of Raúl
Prebisch, who served as executive secretary of ECLAC between 1950 and 1962. Given the relevance of this institution for the design and implementation of economic policies in the region, it is indeed quite important to understand the reasoning of one of its main mentors. This contribution discusses in particular the relationship between the type of economic analysis undertaken by Prebisch and Keynes’s economic theory. The author claims that while during the 1930s Keynesian ideas were the main source of inspiration for Prebisch, from 1940 onwards there has been a gradual dismissal of this influence. Therefore it was not a surprise when Prebisch declared in 1948 that Keynesian theory was not applicable to the analysis of development processes in Latin America. Claudia Sunna sustains that Prebisch’s breaking away from Keynes’s ideas was mainly due to the dissatisfaction vis-à-vis the weakness of the business cycle theory as developed in Keynesian approaches.

The development problems in Latin America have also been at the centre of debates among economists from this region. Mauro Boianovsky offers a historical analysis of the investment criteria put forward by ECLAC economists in their analysis of import substitution industrialization in the region between the late 1950s and the early 1960s. Two main approaches are taken into account: on the one hand, the investment criterion based on the concept of ‘social marginal productivity’ of capital; on the other hand, the notion of growth acceleration through an increasing participation of heavy industries in total investment. The authors offer a critical discussion of these different approaches and their implications for growth planning. Particular attention is given to a topic that is still of the utmost relevance for the current debates on development issues, namely the apparent conflict between social marginal productivity criterion and import-substitution policies.

The status of ECLAC development theory is still the main focus of attention in the chapter by Davide Gualerzi and Alan Cibils. The authors argue that Latin American structuralist doctrines had a strong impact at both the theoretical and political levels, not only in Latin American countries, but also in other regions of the world. Through a similar use of notions concerning the basic mechanisms of development, or the interaction between economies of scale and market size, Latin American structuralist economic ideas were able to produce an appropriate framework for the study of structural change in developed and developing economies, with particular emphasis on the phenomena of migration, urbanization and industrialization.

The problems of poverty and marginality (life in slums) are an essential part of the debates concerning development in Latin America, especially during the last decades of the twentieth century. The chapter by Verónica Villarespe and Hilda Caballero gives a central place to the concept of marginality, which is theoretically and historically relevant when applied to the study of a part of the population that is not integrated in the formal structures of the labour market. The authors describe the experience of these groups living in poverty conditions and explain how the problem of marginality still remains and is sometimes worsening, notwithstanding the implementation of new economic programmes to solve it. In the early stages of its existence, marginality was conceived as a passing, temporary problem. However, its enduring permanence has contributed to consider it as a new category for sociological and economic analysis. Given its extension, the authors claim that the problem of marginality needs to be considered as an issue calling for wider political solutions.

A different approach to development is provided by dependency theory. In his chapter, Erasmo Sáenz Carrete presents a brief and critical survey of this school of thought and considers that one of its chief merits is the multidisciplinary nature of the global approach to the problems of (under)development in Latin America. The author shows how the influences received from both Marxism and structuralism were merged in order to produce, throughout the 1960s, an alternative conceptual framework and an innovative approach to explain the historical features associated to underdevelopment and dependency. The author also stresses that the impact of this approach went far beyond the region where it has emerged.

Pedro Cesar Dutra Fonseca and Maria Heloisa Lenz analyse the development experiences in two Latin American countries, Brazil and Argentina, during a comparable period and sharing a similar historical juncture, under the leadership of Juscelino Kubitschek (Brazil, 1956–1961) and Arturo Frondizi (Argentina, 1958–1962). This comparative analysis allows for a better understanding of the differences and common features related to the implementation of short-term public policies. The point of departure presented by the authors of this chapter is the notion of ‘economic populism’, which has been largely used in the 1990s. According to this approach, economic policies implemented during that period are considered to be responsible for the high inflation rates, the low rate of growth and the increasing public deficits that occurred in both countries. All these unexpected outcomes would later be considered as evidence of what went wrong and hence as a motivation to foster a different agenda, this time based on the opening of the economy to market oriented policies with a reduced place granted to the State.

Parallel to what happened in many Latin American countries, foreign public debt in Mexico had a negative impact and represented a serious obstacle to sustainable development in a long-term perspective. This is an issue of a great relevance for current debates on Mexican contemporary economic history. Juan Carlos Téllez Mosquera offers an attractive and challenging approach to the study of the evolution of Mexico’s foreign debt in five different stages, from 1820 to 2010. The author gives special attention to the most recent phase (1982–2010), presenting sound arguments based on detailed and relevant quantitative data.

In the last chapter, Noemi Brenta examines the six major balance of payments crises in peripheral countries, between 1994 and 2002: Mexico 1994, Southeast Asia 1997, Russia 1998, Brazil 1999, Turkey 2001 and Argentina 2001–2002. There were some common features such as strong current account deficits, diminishing competitiveness of national production, increasing public and private debt issued in foreign currency, capital drain and monetary devaluations. The author claims that these crises occurred as a consequence of the adoption of
liberal economic policies grounded on neoclassical principles. The conclusion drawn is that the behaviour of these economies proved to be at variance with the policies and predictions of the mainstream theory.

The contributions gathered in this volume show that, from the colonial era to today's globalization, Latin America emerges as a region with distinct features and peculiarities shaped over the decades. The lesson from the economic history and the history of economic thought is that several elements that were seen as backwardness have turned out to be an advantage, and this may explain why Latin America is withstanding the crisis much better than Europe, Japan and the United States.

Notes

1 This conference, held at Universidad Nacional Autónoma de México (UNAM), is part of the activities undertaken by the European Society for the History of Economic Thought (EESHT) to reach out to communities of historians of economic thought, economic historians and political economists around the world. For the volumes from the two previously held conferences (Albacete, Spain) and Wuhan (China), see Dejuan et al. (2011) and Ying and Trautwein (2013).

2 On the differences between European and Latin American structuralist ideas on development see Sanchez-Ancochea (2007).

3 In fact, development theory and policies only survived in Latin America during the 1960s and the 1970s, where and when their message was still effective.

4 For a good summary of this debate and presentation of an alternative intermediate approach based on the application of a step by step experimental method based on randomized controlled trials, see Banerjee and Duflo (2011).

References


