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AN ECONOMIC HISTORY OF LATIN AMERICAN DEVELOPMENTAL APPROACHES: THE POLITICAL ECONOMY OF WORLD TRADE

By

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Abstract

This thesis examines theories, policies and practices of economic development in Latin America over the past seven decades. For conducting my research, I will focus primarily on a review and analysis of previously complied and published works on the history of Latin America. My goal with this thesis was to prove a deeper understanding of the different economic policies of Latin America so I would be better prepared to teach alternatives to the classical free trade policies that have become dominant during the past thirty years. These failed policies have expanded poverty and inequality not only in Latin America but also across the world. The belief that free trade is the only way to economic prosperity discourages any alternatives. However there has to be a better way and the first step is to understand what has worked and what has not.

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An Economic History of Latin American Developmental Approaches: The Political Economy of World Trade

INTRODUCTION

Discussions of economic and social policies in the developing world make wide use of terms like neoliberalism, globalization, the free market, and government intervention without making it clear how these terms have evolved and influenced the economic policies of Latin America. Previous economic policies have discounted the importance of how social and political ideas influence the economic history and development. Any study of modern economic theory which excludes the ways in which the political and social ideas contribute to economic conditions and development, provides an incomplete measurement of the most efficient ways to organize an economy. This thesis is an historical comparative analysis that examines the broad relationship between the different economic policies and the economic, social and political development of Latin America over the past seven decades. This study brings together and presents contributions made to the discussion by exploring the connections and interactions between political and social institutions and development, human development, income level disparities, and financial policies in Latin America. A central part of this thesis is consideration of how economic theories become developmental ideologies and policies in Latin America. I will evaluate the historical successes and weaknesses of these economic theories, considering how despite, or maybe because of, these policies Latin America has remained underdeveloped. Although the region enjoys an abundance of natural resources, land, and labor, none of the thirty-three republics of Latin America can be classified as fully developed, and some remain extremely poor. While pockets of wealth exist in all republics, these cannot conceal the

deprivation and hardship suffered by the region's poorest inhabitants. By analyzing the economic models adopted by governments in Latin America through the lens of poverty, inequality and development, I hope to look creatively at the basic questions of why some countries are rich and others are poor, why some countries have developed industrial economies while others have not been able to create sustainable long-term economic growth. Relatedly, I will consider how these countries have historically addressed poverty and inequality. My main goal then, is to explore what has hindered these countries from developing an economic approach that could lift them out of poverty.

The interconnected nature of the global economy created through the rapid spread of globalization has transformed the worldwide economy and the way the different countries of the world interact. New technologies have increased the rate in which people are able to produce and share ideas and goods. Developing alongside these new technologies, neoliberal free trade policies created an economic environment, which has expanded the wealth and power of a few corporations and countries, while the human dilemma caused by poverty and inequality has expanded in all countries. I focus on the Latin American region because a wide range of economic developmental theories and the extent to which western nation states have influenced the social, political, and economic development of Latin America. I am interested in looking at the bigger picture in economic development, to understand how policies evolve from theory, how they change through the process of implementation, how politics influence this process, and how economic policies contributed to the development of new social movements.

To understand the current political, social and economic situation in Latin American, we must first have a clear understanding of what constitutes Latin America. The term Latin America is an ingenious attempt to link together an area in the western hemisphere south of the

United States. Geographically it covers an area that runs from 32.5 degrees north latitude to 55 degrees south latitude, with a total area of twenty million square kilometers (eight million square miles), making it one of the largest regions in the world. The region is home to more than six hundred million people (ten percent of the world's population). Latin America is rich in cultural and racial diversity; its people include Amerindians from pre-Colombian civilizations, such as the Incas, Aztecs, and Maya; Europeans primarily from Spain and Portugal (but also England, France Holland, Italy, Poland and Germany); west Africans from areas such as what is now Nigeria, The Congo, and Angola; Jewish people from around the world; Arabs and Turks from countries such as Lebanon, Syria, Egypt, and Turkey; Japanese; Chinese; and people from the Indian subcontinent.[1]

The diverse social factors of the region make it hard to define, and deciding which countries constitute Latin America can be a challenging issue. Since there is no single definition for Latin America, for the purpose of this study the term Latin America will be used as a generic term and refer to Mexico, all countries of the Caribbean, Central America and South America. All of these countries share a similar historical development, but more importantly, are considered part of the global south, or the developing world. Even this group is not monolithic, and the diversity in terms of race, ethnicity, religion, language, climate and geography make discussing them in a single context difficult. Despite their differences, the countries of Latin America are linked through common economic challenges. At a time marked by the sweeping globalization of economic, political and social relations, the challenges that Latin America must overcome in order to achieve greater internal cohesiveness and to position itself in the international economy more successfully are more important than ever.

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[1] Gary Wynia. *The Politics of Latin American Development*. (New York: Cambridge University Press, 1990), 2.

Poverty Inequality and Foreign Control

Latin America has traveled a difficult road since the end of the colonial era; the region's history is one of instability, inequality, and poverty, brought on by volatility of external financial flows, declining international terms of trade, international political influence and by the resulting boom/bust business cycles. Despite these challenges, Latin American countries have grown rapidly at some junctures in their history but have not been able to sustain strong growth rates. The influence of external actors to shape the situation in Latin America has been powerful. Foreign governments, international financial institutions and multinational corporations exerted their controls into governmental budgets, industrial regulation, agricultural pricing, labor market regulation, privatization, central bank independence investment and consumption patterns, the accumulation of debt, and the transfer of technology into Latin America.[2] In his book *Open Veins of Latin America*, Eduárdo Galeano presents his idea of how foreign influence has historically shaped Latin America:

> Latin America was born as a single territory in the imagination of Simon Bolivar, Jose Artigas and Jose de San Martin, but was broken in advance by the basic deformations of the colonial system. The oligarchies of the free trade ports consolidated this structure of fragmentation, which was their source of profit.[3]

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[2] Victor Bulmer-Thomas. *The Economic History of Latin America since Independence*. (Cambridge: Cambridge University Press, 1994), 410.
[3] Eduárdo, Galeano. *Open Veins of Latin America: Five Centuries of Pillage of a Continent.* (New York: Monthly Review Press, 1997), 259.

Throughout the post-independence period, in Latin America there have been a number of common factors found in all of the different economic models of development, which either preserved the existing level of inequality or actually served to exacerbate it. The region's social structures, the distribution of power and wealth, the role of its elites, and the complex, often painful process of state building (which in many cases created weak nation-states), are legacies of the colonial period. These early economic policies protected a small number of domestic and foreign elites who controlled a majority of the land, production, capital and wealth within the colonies, which created a sharply divided economic and political environment across Latin America. The unequal nature of landownership across Latin America created a small group of elite landowners who controlled a disproportionate amount of the regions wealth.

Unable to escape this pattern of inequality, a majority of the people of Latin America continue to live in poverty. The people of Latin America live in two separate worlds; one is a world that has benefited from economic growth, and the social policies and institutions common in many modern industrialized capitalist industrial economies. The other is a world of poverty, fear and uncertainty, extreme volatility and inequality, which have been deeply entrenched in the history of Latin America. Inequality can be quantified by more than just economic terms; a millions of people in Latin America lack access to basic services (water, electricity, education, etc…) all forms of inequality limits human capital and development. Despite the periods of economic growth millions in Latin America have been excluded from the benefits of economic progress. These separate worlds have developed over decades of inequality reinforced by the goals of developed nations. The two worlds that exist in Latin America highlight how capitalist societies are dependent on the cheap labor of impoverished people to maintain the lifestyles of

the upper and middle classes.[4] According to Galeano, these developed nations have kept the countries of Latin America underdeveloped as means of furthering their success, "industrialization was the privilege of the metropolis; in the poor countries, it was incompatible with the rich countries' system of domination."[5]

Industry elites exploit the lower classes' labor while politicians, the law, and the justice system violate their rights. Those living impoverished lives have limited or no access to healthcare and education. Hunger, poverty, illiteracy, and lower levels of education all contribute to a person's ability to contribute fully to the countries' development. The lack of access to resources and opportunity has created a socio-economic environment where the citizens of Latin America have ceded the political and economic control of their countries to foreign control.[6]

Over the last twenty-five years, neoliberal economic policies in Latin America have contributed to economic conditions that exacerbated the existing problems of poverty and inequality. From 1960 to 1980, the region's real per capita income grew by 82 percent; from 1980 to 2000, it grew by only 9 percent; and in the last five years, it grew by just 4 percent. This economic hardship continues despite the adoption of the United Nations Millennium Development goals, agreed upon by all 189 Member-States in 2000. The Millennium Development Goals (MDGs) are eight international development goals that were established proposed at the Millennium Summit of the United Nations in 2000, and formalized with the

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[4] Peter Kingstone. The Political Economy of Latin America: Reflections on Neoliberalism and Development. (New York: Routledge, 2011), 37.
[5] Galeano, *Open Veins of Latin America,* 226
[6] Jose Ball Lara and Delia Luisa Lopez, "The Harvest of Neoliberalism in Latin America." In *Imperialism, Neoliberalism and Social Struggles in Latin America.* Edited by Richard Alan Dello Buono, and José Bell Lara. 23.

adoption of the United Nations Millennium Declaration, adopted to reduce poverty by 2015.[7] Neoliberal policies have failed to properly address the economic hardships impoverished people face.[8] Since 2005, the World Bank defined the number of people living in extreme poverty as those earning less than $1.25 a day, and those living in moderate poverty as those earning between $1.25 and $2.50 per day.[9] By this measure more than 1.4 billion people globally currently live in extreme poverty. In addition, more than three billion people, half of the world's population live on less than $2.50 USD per day and at least eighty percent on less than $10 USD per day.[10]

Poverty continues to be at the root of many social and economic problems in Latin America, many discussions on how to address crime, drug usage, violence and disease often overlook poverty as the contributing factor to these problems. Poverty is a major cause of social tensions and causes and effects of poverty are most often interrelated so that one social problem will hardly ever occur alone. Poverty leads to wasted lives, bringing down levels of human capital (education, professional experience, training, and health) and keeping people from reaching their full potential. The desperation of impoverished people can led to unethical or even illegal means to make a living, such as drug use, crime, and even terrorism.[11] In a world that has become increasingly interconnected, the poverty and inequality of one nation will have a

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[7] The eight goals are; eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve health, combat HIV/AIDS malaria and Other Diseases, Ensure Environmental sustainability, and global partnership and development. This information comes from the website of the United Nations, Accessed March 24, 2015. http://www.undp.org/content/undp/en/home/mdgoverview.html

[8] Mark Weisbrot. "Letter to the Editor: Left Hook." *Foreign Affairs* (July/August 2006).https://www.foreignaffairs.com/articles/americas/2006-07-01/left-hook

[9] The World Bank. "World Bank Updates Poverty Estimates for the Developing World." August 26, 2008. Retrieved March 17, 2015 from.

[10] Amupo Shah. "Poverty Around the World," globalissues.org, last modified November 12, 2001. Accessed March 1 2015.

[11] Ha-Joon Chang. *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism.* (New York: Bloomsbury Press), 2008, 195.

direct political, economic, and social effect on other nations. Helping people anywhere escape from poverty helps all peoples in the rest of the world.

Economic growth allows societies new opportunities for development. However, economic growth, by itself, could not settle all of the social problems facing the people of Latin America. Growth is only effective when it can be successfully reinvested back into society. Investments in healthcare and education have the potential to create the human capital needed to improve productivity and create long-term growth.[12] Gains in Gross Domestic Product (G.D.P.) are indicators of growth; however, the distribution of these gains is also very important. While past economic models have produced short-term gains in G.D.P. for many countries of Latin America, too often the capital is captured by domestic and international elites who do not reinvest in the development new industries and economic opportunities.

Latin America has long been the region in the world with the highest levels of income inequality. However, poverty and inequality are not unique to Latin America, and the income gap between developed countries and developing countries has actually rapidly grown since World War II. In 1950, the average per capita income of low-income countries was $164 USD, where as the per capita income of the industrialized countries averaged $3,841. Between 1950 and 2011, the income gap between developed and less developed countries widened by sixty percent. In 2011, the average income of the low-income countries was $571 per capita, compared to an average of $41,274 for the advanced industrial countries.

Additionally, the gap between living standards in Latin America and those of developed countries has steadily widened since the early nineteenth century. In Latin America the top ten percent of the population receives nearly half (forty-eight percent) of total income, whereas the

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[12] Bértola, Luis & José Antonio Ocampo. *The Economic Development of Latin America Since Independence.* (Oxford: Oxford University Press), 2012,33.

richest ten percent in developed countries receives 29.1 percent of income. The expansion of poverty in Latin America accelerated between the 1980s to the early 2000s. The percentage of the population that is poor increased from 40.5 percent to 44 percent between 1980 and 2002. The number of people living in poverty increased by 84 million, from 165 million in 1980 to 220 million in 2002, which amounts to an increase of 61.8 percent. By 2001, the gap was wider than ever, according to the World Bank. That year, gross national income averaged $430 USD per year, low-income countries globally, whereas the high-income countries averaged $26,710 USD per year.

The History of Developmental Theory

To understand the current political, social and economic situation in Latin America, we must first have a clear understanding of the general characteristics of the history of economic development and the choices that contributed to this state of affairs. The history of how the region became such an unequal one is complex and diverse and does not follow a single region-wide narrative. Though cultural patterns and national histories clearly differ they still tend to follow similar general political and economic trends. These common factors include colonial legacies, periods of military intervention, periods of authoritarian rule, repeated turns towards populism, and more recently, an electoral resurgence of the political left.

Latin American economic development can be divided into four partially overlapping periods. During each of these periods, a dominant set of policies sought to address separate but related developmental issues. Because of the diverse nature of Latin America, these phases did not start or end at the same time in every country, and the exact divisions between these periods

did not start or end at the same time in every country. The first period is the era 1870 to1930, the time of Latin America's integration into the world economy development. This period was defined by export-led growth of primary products with only limited industrialization, and would continue until the worldwide economic collapse and the onset of the great depression in 1929.

After World War II a period of inward-looking development, or Import Substitution Industrialization (ISI), developed in response to the flat economic growth of the Great Depression and to address the domestic needs for industrial goods, which previously had been produced by foreign firms. Most of the countries in Latin America followed some type of import substitution industrialization program, following World War II. These policies lasted until the early 1980s. Following Mexico's declaration of its inability to service its debt in 1982, other countries in Latin America began defaulting on their loans, which triggered severe economic contraction, widespread hyperinflation, and in response, the neoliberal restructuring of the ensuring decade. A worldwide economic recession and widespread monetary inflation left many countries in Latin America unable to repay the foreign debt accumulated during the ISI period. These debt payments took away the ability of countries of Latin America to continue to these policies of economic protection and industrial investment. In 1990, Brazil devoted seventy-seven percent of its annual budget to the repayment of debts. ISI was a great success; Latin America proved to the world that it was poised to grow. Nevertheless, ISI has many critics who see the postwar years in the developing economics as a time of economic disastrous nationalistic policies. Claims from those critical of ISI believed that during the 1960 and 1970s countries following ISI were pursuing the "wrong" policies of protectionism and state intervention. Despite these criticisms, per capita income in Latin America grew at 3.1% per year, slightly

faster than the average of other developing countries.[13] This distortion of the historical record was peddled by supporters of free trade who were critical of the role of the state in ISI polices and used the false claims as justification for the neoliberal policies of the next period.[14]

Those critical of ISI blamed the slow growth of the period on, the perceived failures of ISI and these perceived failures were used to justify the, neoliberal economic policies based on orthodox economic policies of free trade. The free market inputs lasted until the turn of the twenty-first century. The 1980s and 1990s represented a profound shift in Latin American development ideologies and resulted in the creation of a new type of state: the Latin American neoliberal state.

Neoliberal economic development policies in Latin America over the past thirty years have hindered poverty reduction and expanded inequality. Neoliberalism championed free market economic policies and promised to bring growth and economic stability, reverse debt, control inflation and end the economic stagnation that, free market supporters said, had been created by the policies of Import Substitution Industrialization. However, what neoliberalism actually created was rising inequality and poverty, sluggish overall growth, and political, economic and social instability. Free market theories of economic development held that countries with the highest levels of integration into the world economy would achieve the highest rates of economic growth.

Supporters of neoliberalism like to present these policies and globalization as an inevitable result of relentless developments in the technologies of communication and transportation-globalization. However, the ideas of neoliberalism are driven more by ideology then technology. Technology only shapes the outer boundaries of what is possible. Exactly

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[13] Chang, *Bad Samaritans,* 28.
[14] Chang, *Bad Samaritans,* 31.

what shape globalization takes is controlled by national and international agreements. Free trade economists are wrong, and neoliberal reforms have failed to live up to the economic expectations of their creators and followers.[15]

The final part of period will examine the rise of new policies that have developed with the rise of New Leftist governments in Latin America in response to neoliberalism. During the current period of development, beginning at the turn of the twenty-first century, there has been an observable change in levels of poverty and inequality in Latin America, primarily as the result of improvements in the social safety net. These economic gains have come despite the main aspects of the neoliberal model (privatization, trade and financial liberalizations) that remain relatively unchanged in many countries of Latin America. New Left governments have generally pursued agendas of equality, social justice and popular participation. While these new governments in Latin America have neither completely replaced the neoliberal model nor produced a comprehensive alternative to neoliberalism. Cash transfer programs proved people have begun to raise millions of people out of poverty, and provided new opportunities for the people of Latin America to begin to move beyond an economic model dominated by free trade toward a more social democratic variant of capitalism. While many of these programs are, only a short-term solution and many have only begun to address the underlying causes of poverty in the region. New social welfare programs are an important step in addressing the causes of poverty and have the potential to raise efficiency and accelerate productivity growth, reduce social tensions and engage the legitimacy of the political system, thus providing a more stable environment for long-term investments and industrial development. To keep these programs

[15] Chang, *Bad Samaritans,* 64.

viable countries across the region must continue to reinvest economic gains in domestic industries and the human capital of the region.[16]

While conditional cash transfers have raised the economic conditions for millions across the region, development is much more than just economics. Cash transfers are a short term solution designed to provide immediate relief to those living in poverty. Addressing the causes of poverty and inequality must go beyond monetary policy and explore and address the ways in which inequality has been engrained in the culture of the region. The diverse nature of the international trade and economic development incorporates ideas from many disciplines of the social sciences. The history of development, the sociology of development, and the political history of development, all contribute to the understanding of how the economic, political and social actors interact and influence one another. This type interdisciplinary analysis incorporates a range of methods and methodologies far wider than, and generally in opposition to, those offered by mainstream economics. Economic policy does not develop independently of the political and social history of a country, and the factors contributing to the poverty and income inequality are more than economic.

Historical shifts in economic policy in Latin America have a tendency to swing sharply between market-led and state-led policies, and then back again. In Latin America the ever-changing levels of economic performance has led to the tendency to dismiss, during economic downturns, all previous models. The development of new economic ideas during down periods come typically in direct responses to the failures or perceived failures of the previous models. The tendency has been to group various types of reforms within a particular time frame, and treat them as one unified package. Too often analysis of development models based on an ideal type

[16] Ha-Joon, Chang. *Kicking Away the Ladder: Development Strategy in Historical Perspective.* (New York: Anthem Press, 2002), 102.

of model, and these pure forms often do not account for the political, social factors of individual countries. Supporters of neoliberalism present free trade to be the most efficient economic policy and are often presented to developing countries as a one size fits all idea. This is problematic because these generalizations do not account for the unique social and economic conditions of a particular country, nor does free trade account for the different ways policies are implemented as a result of these unique factors. Latin American nation-states faced different sets of developmental problems and politically, each had differing sets of societal actors and constituencies to consider. The consequences of this approach is that these policies become generalized concepts, which do not separate-out various types of reforms within a particular period. Critics and supporters create idealized concepts of previous development models which have not accounted for how, when, and by whom the policies were conceived and similarly ignores where, when, and how the policies were implemented. This type of analysis leads to the application of a blanket set of economic corrections, a reductionist approach that ignores the social differences of the region and any success or failures of previous models.

The unique political and cultural history of Latin America has contributed to the current economic state of Latin America. Economic development has been a central problem in Latin America for a majority of its modern history. In some periods, markets have dominated economic policies, while in others the state has been the primary guiding force. Development requires a mix of economic growth, quality of life and effective governmental institutions and policies. The proper balance between the state and markets has eluded governments in Latin America. Past development, policies were broad ideas, which did not sufficiently account for the historical cultural and social nature of a particular country or industry, and did not address the central ways that government and civil society influence the economy. An example of this was

Brazil's attempts to create a personal computer industry during the 1980s. Laws passed by the Brazilian congress created heavy tariffs against foreign computers, as a result of these high tariffs Brazilian companies were not able to acquire the advanced technologies which foreign firms possessed and while the demand for computers were growing in Brazil, these tariffs did not allow Brazilian companies to modernize and fill this demand. These laws were designed to protect the small number of domestic producers of computers, however the tariffs were too high to allow for the domestic computer companies to gain any advantage and grow. The failure of previous development polices in Latin America to address land distribution, the social policies of education, health care, and other basic social needs of the people of Latin America. The legacy of these economic policies have contributed to the deeply entrenched inequality and the economic and political difficulties, common to all periods of economic development in Latin America.

The success or failure of economic policies quantified by economic growth, and current economic models emphasize the importance of monetary expansion. The most common measurement of economic development is gross domestic product (GDP) and gross national product (GNP) per person. However, these figures are one-dimensional measurements that omit fundamental factors that affect living standards, and are an insufficient evaluation of how a country is progressing toward social development. Economist Amartya Sen defined development as "the expansion of human capabilities that is the enlargement of citizens' abilities to live the lives they choose to live, rather than the expansion on incomes."[17] His work was important in developing the United Nations Human Development Index (HDI), and the measure of human development. The HDI factors access to healthcare, education and basic services like access to potable water to measure the quality of life in a particular country. Like other

[17] Kingstone. *The Political Economy of Latin America,* 20.

economic measures, the HDI is not a perfect measure of development, but it captures important non-monetary factors which shape the daily lives of people in the developing world and provide opportunities for them to reach their potential. Recent gains in access to health care, and improvements in life expectancy and infant mortality have increased the HDI for many Latin American countries; however, they still are far behind many other countries in the developing world including the Middle East, North Africa, and Eastern Europe.[18]

A small number of developed industrial countries determines much of what happens in the world economy. These countries account for eighty percent of world output, seventy percent of international trade and make nearly ninety percent of all foreign direct investments.[19] However in recent years, the influence of the United States has towards Latin America has changed, new governments in Latin America have begun to peruse polices and create organizations which focus on regional cooperation and weaken the influence the United States has upon the region. This is a period of turbulence and transition in the world at large. The old order is breaking down with the decline of the United States as the planet's hegemonic power. Under neoliberalism, the development of the countries of Latin America favored the interests of multinational organizations and transnational corporations. New ideas have begun to develop which challenge the neoliberal model. Neoliberalism failed because "it is the product of a system of ethnic, cultural, and political domination, impregnated with racism.[20] Opposition to neoliberalism has expanded out of Latin America into North America and Western Europe; and anti-neoliberal discourse has begun to influence economic policies alternatives across the world.

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[18] Ibid.
[19] Chang, *Bad Samaritans*, 31.
[20] The post neoliberal challenge, 34.

History

The end of the Colonial Era until the Great Depression

On October 12, 1492, America discovered capitalism… - Eduárdo Galeano

In this chapter, I will review the performance of the Latin American economies in the decades following independence. The period began in the early-nineteenth century when the new republics of Latin America integrated into the world economy; the economic model based on the export of primary goods reached its apex in the first decade of the twentieth century and faded away in the wake of the Great Depression. This is considered Latin America's first period of globalization due to the expansion of global trade. The historical legacy of colonialism influenced the economic, political, and social destines of the new republics (and still influences these eras into the current day). The colonial legacies of unequal distribution of wealth, land, and the small consumer class inherited from the colonial period defined the socioeconomic issues of the nineteenth century and relegated the new republics of Latin America to an economically inferior position internationally. The land tenure system, inherited from the Iberian Peninsula has been a barrier to development, and the legal and administrative systems established during the colonial period a barrier to private entrepreneurship. As a result of these conditions inherited from the colonial era manufacturing during this time remained a limited activity and state involvement in the economy continued to be restricted to the most basic functions, such as issuing currency or coercively maintaining control over labor.[21]

Even after the collapse of Spanish, Portuguese, French and British political rule in Latin America by the 1820s, many of the economic restrictions imposed by the former ruling countries

[21] Political Economcy, 22.

continued in most of the region. These restrictions and controls imposed upon the region, not by military dominance but through international capitalist economic policies. When the former colonial powers disappeared, and along with them, the power of the commercial elites linked to them, new economic agents took their place with ties to the new centers of economic power. Though independent politically, Latin America remained under the economic control of European powers and later the United States. Unable to break the control of these advanced capitalist countries, Latin America economics remained in a pattern of resource exploitation, unfair trade conditions, and the accumulation of foreign debt.[22] According to Galeano "Latin America is the region of open veins. Everything from the discovery until our times, has always been transmuted into European or later Untied States capital, and as such has accumulated in distant centers of power."[23]

Each country achieved independence in different means, many through violent resistance against the ruling European colonial power. These struggles for independence spanned a period of about sixteen years from 1808 until the Battle of Ayacucho in 1824. The most well-known of these movements is the one led by Simón Bolívar, who helped establish the independent countries of Venezuela, Ecuador, Bolivia, Peru and Colombia. The wars for independence in Spanish America— both the initial civil wars and the wars raged by the liberation armies against the forces sent by Spain to reconquer the region— took a huge toll in terms of human and material resources. These wars left in their wake just under eight hundred thousand casualties, out of a population of less than twenty million.[24]

In addition to the internal independence movements, the influence of international events played an important role in shaping the political social and economic conditions in Latin

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[22] Wynia, *The Politics of Latin American Development*, v.
[23] Galeano, *Open Veins of Latin America,* 2.
[24] Bertola & Ocampo. *The Economic Development of Latin America Since Independence*, 53.

American leading up to the wars for independence and then the early years of independence. European wars during this period created an environment for independence and economic opportunities for former European colonies in both North and South America. The American war for independence in North America helped spread ideas of liberty across the region. Additionally the 1791 slave revolt in Haiti, and subsequent wars fought by the British and French governments to recapture the country would led to the country's independence in 1804, was another pivotal event. Finally, Napoleon's invasion of the Iberian Peninsula and Spain and Portugal's defeat created a power vacuum in Latin America, supplying another influential event in the creation of the independent Latin American republics. While former European colonies in across the Americas were able to achieve independence during this period, the higher cost of independence in Latin America, both in human lives and in economic terms put the new republics of Latin American at an economic disadvantage compared to their North American counterparts. In the period immediately following independence, these economic policies of each half of the Americas would set the tone for future policies and further contribute to the economic disadvantages of Latin America. Throughout the nineteenth century and up to the 1920s the US economy was the fastest growing economy in the world, despite being the most protectionist during almost all of this period.[25]

The limited industrial capabilities of the new republics created a competitive advantage for European products. The European powers continued to use their economic power to extract natural resources and wealth from the new republics but offered little of lasting developmental value in exchange. Latin America's trade deficits were paid for by transfers of extracted goods, primarily precious metals subject to the sharp fluctuations in global prices. This transfer of

[25] Chang, *Kicking Away the Ladder*, 32.

wealth expanded the riches of the European powers and removed from the new republics the capabilities of investing into and expanding their long-term economic capabilities.

Historically, the economies in Latin American countries have relied primarily on natural resources extraction or on dependence on a single agricultural commodity, with limited levels of industrial production. Dependency theory became the principal economic policy controlling Latin American development and the regions relations with the outside world. Latin American was to fit into the international system as a producer of primary (unfinished) goods. The export of a limited number of commodities such as sugar, coffee, or latter bananas, and the low prices that they brought made it more difficult for these economies to adapt to changing circumstances. According to traditional capitalist theories of free trade economics, such trade was to be equally advantageous to peripheral areas of Latin America as it was to developed countries. However, actual results of free trade create an economic advantage for the more developed countries. By limiting the level of industrial development in Latin America and controlling the distribution of land, domestic and foreign elites kept the new republics of Latin America in a state of economic dependence.[26]

During this period, ideas of free trade had begun to become the dominant policies of international trade. The British having been at the forefront of the industrial revolution had come to dominate international trade. There was fierce competition not only goods but also the technology necessary to produce these goods. British industrialists fought to protect both from foreign competition. It is with in this context of rapid industrialization and growing world trade during the late 1700s did Adam Smith's writing of classical free market economic theory. The central idea of classical economics is that unlimited competition in the free market was the best way to organize an economy, because it forces everyone to perform with maximum efficiency

[26] Wynia, *The politics of Latin American Development*, xvii.

and that government intervention was harmful because it reduces competitors. Britain adopted free market and free trade policies in the 18th century, well ahead of other countries. The belief that by emulating the British ideas based on laissez-faire industrial policies at home, low barriers to the international goods, capital and labor, and macroeconomic stability, both nationally and internationally, guaranteed by the principles of sound money (low inflation) and balanced budgets other countries could achieve the same economic prosperity and rapid industrialization as the British.[27]

The social and political conditions in Britain during the eighteenth century influenced Adam Smith's writings. Interpretations of Smith often do not explore these factors and misinterpret the importance of the competitive advantage.[28] Free trade economists often promote competitive advantage as a positive for all participants' trade. International trade allows countries specialize in the goods which they can produce most efficiently. The British promoted free trade only when it was in their best interest and protected the completive advantage of British goods. Free trade demands that poor countries complete immediately with more advanced foreign producers, leading to the demise of firms before they can acquire new capabilities. Free trade policies allows superior foreign firms to sell their goods at a lower price in developing countries. This will in the long run restrict the range of capabilities accumulated in local firms, whether independent or owned by foreign companies.[29]

The British continued to promote these ideas of free trade because it helped protect their competitive advantage and limit competition from developing. In 1841 German economist, Friedrich List criticized British free trade policies, holding that Britain pressed these policies on

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[27] Chang, *Kicking Away,* 25.
[28] A competitive advantage is an advantage gained over competitors by offering goods of a greater value, either through lower prices or by providing additional benefits and service to justify the price of a particular good.
[29] Bad Samaritans, 212.

other countries, after itself having achieved its economic supremacy through high tariffs and extensive subsidies. List argued that free trade is beneficial among countries with similar levels of industrial development but not between those at different levels of development. When countries are at different levels of development, the state with the more advanced technology and market development will benefit at the expense of the less developed state. Under the Tudor monarchs who ruled from 1485 until 1603, particularly Henry VII and Elizabeth I, England used protectionism, subsidies, distribution of monopoly rights, government-sponsored industrial espionage and other means of government intervention to develop British woolen manufacturing industry.[30]

Through his many works, Cambridge Professor of Economics Ha-Joon Chang has continued the ideas List's ideas and Chang argued that throughout history, virtually all economically successful countries used some measure of protection, subsidies and regulation in order to develop their economies. Once a country develops ahead of other countries, it has a natural incentive to use its economic and political powers to pull ahead even further. Britain's policies of free trade, especially those of the eighteenth and nineteenth centuries, have become the basis classical economic thought where rich countries preached free market and free trade to the poor countries in order to capture larger shares of the latters market and to preempt the emergence of possible competitors. Throughout history, the more developed countries used their economic and political power to impose economic controls on developing countries to protect their competitive advantage by limiting the accumulation of technology by Latin America and other developing countries. By keeping developing countries from acquiring new methods of production and limited competition and the economic capabilities of the countries in Latin

[30] Chang, *Bad Samaritans*, 13.

America. Chang proposes that these policies have continued to influence economic, political and social policies of developed countries in relation to their developing counterparts.[31]

Chang's belief that industrial advanced countries preach free market and free trade policies to the less developed countries in order to capture larger shares of the latter's market and to preempt the emergence of possible competitors, these "do as we say, not as we did" policies states act as "bad Samaritans," and take advantage of countries who are unable to compete economically. Chang believes, while "taking advantage of others who are in trouble, many bad Samaritans do not realize that they are hurting the developing countries with their policies."[32] The free trade polices promoted by these bad Samaritans are not always the best trade policy because they disproportionately benefit the more technologically advanced countries. In the short run, free trade creates economic growth and an increase in the country's consumption. Nevertheless, free trade is not the best way to develop an economy, because the importation of cheap goods from industrially developed countries exports capital from the developing countries. In the long run, free trade is a policy that leaved developing countries to specialize in industrial sectors that offer low productivity growth resulting in unbalanced trade between Latin America and Europe, which left limited capital for local governments to invest in industrial and social development.

The historical legacy of these early policies have continued to shape the current economic environment in Latin America. Just as the imbalance in trade and ownership of local resources provided little incentive for investment during the colonial period, investments in the development of new industries, social programs, and infrastructure in Latin America during the post-colonial period were limited. The Catholic Church and other religious organizations often

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[31] Chang, *Kicking Away the Ladder*, 51.
[32] Chang, *Bad Samaritans*, 16.

provided any social services or education in the region during this period. Unfortunately, limited education available was usually affordable only by the wealthy classes. Additionally the lack of investment in infrastructure made for an exceedingly slow pace of progress in development.

The industrial revolution was the driving factor of economic development and the rapid worldwide expansion of world trade. The industrial revolution, one of the high water marks of history, involved a radical transformation in the economic operation of capitalist countries. The major technological developments of the time greatly reduced the "economic distance" between one region and another. The industrial revolution and the invention of the steam engine, reduced the time involved in transporting goods, people, or even services and knowledge, from one place to another. Railroads forever changed the way people lived, however the expansion of the railroad in Latin America lagged far behind those seen in the industrialized world of the time, especially the United States. In England, the first commercial railroad, the Liverpool-Manchester line, opened in 1830, and this technology then spread out through Europe and the United States. By 1850, some 23,000 miles of track had been laid, in Europe and the United States. By 1870, the number had risen to 115,000 miles, almost half of that located in the United States, while less than eight hundred miles of track existed in Latin America by the end of the nineteenth century.[33] The few railroads that existed in Latin America benefited the foreign industries. The tracks did not connect internal areas of a county together often built at the expense of the country along established trade routes which connected production centers with ports.[34]

Until the mid-nineteenth century, the primary means of technological transfer was the movement of skilled workers. Immigrants already had the experience of living in an industrial

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[33] Chang, *Bad Samaritans*, 76.
[34] Galeano, *Open Veins of Latin America*, 200.

civilization; they brought with them knowledge, practical experience, and entrepreneurial and technical culture, work ethic, knowledge of new forms of commercial organization, and direct experience with major export and import markets.[35]

By the middle of the 19th century, manufacturing machines and process had become so complex that the importing of skilled workers was not enough to develop command over a technology. Transfers of technological knowledge through the licensing of patents emerged as a method for developed countries to limit the transfer of technology to the developing countries of Latin America. For technologically superior countries, the protection of intellectual property rights (IPR) became a new means to protect their competitive advantages. Because of these protections, railroads, steel reinforced ships, and the engineering expertise required to build tunnels, roadways and canals the usage and benefits of these technologies did not became widespread in Latin America until the last decade of the nineteenth century.

The economic system established by the colonial periods remained in place during the post-independence period, and would influence later development. European control and dominance over land ownership and production continued receive a disproportional economic advantage as Latin America integrated into the world economy. During the 19th century Latin American, elites had little incentive to develop manufacturing and little incentives to expand the state's role in the economy beyond its minimal functions. The actions of the British and later the Americans blocked Latin America from reaching its full development potential. The new republics of Latin America had vast natural resources, which left it with the potential for economic growth and development. Independence had brought the ideas of progress and republicanism and opportunities for economic development in Latin America.[36] However,

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[35] Bértola & Ocampo, *The Economic Development of Latin America Since,* 135.
[36] Chang, *Bad Samaritans*, 55.

because of the land tenure system and other legacies of colonial social inequality, kept markets in Latin America from growing and domestic savings remained inadequate to finance investment. . Landowners making handsome returns on the export of their agricultural good and as a result of inadequate tax policies and collection procedures the majority of income remained in the hands of the elite class. As the gap between richer and poorer countries widened, inequalities within countries also increased considerably, they used their wealth to manipulate political policies and continue the liberal trading regimes.[37] The inefficient regulation and distribution of property rights, the heavy tax burden and the shortage of public and private investment were all contributing factors to both the early nineteenth century difficulties of economic development, as well as contributed to future difficulties faced by the young republics of Latin America.

The end of the dominance of free trade in international trade ended with onset of the Great Depression and the worldwide economic shifts triggered by the Second World War. However, instead of a swift transition to a new development model countries sought to cope with a series of enormous macroeconomic shocks as best they could. Governments in Latin America began to experiment with playing a role in protecting infant industries in the manufacturing sector, in promoting the development of national banking systems, and in the construction of infrastructure, all of which laid the groundwork for the establishment of state owned enterprises. Governments also became involved in the distribution and utilization of rents from natural resources based activities in developing linkages between exports and the development of domestic industrial sector. The age of state-led growth had arrived.[38]

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[37] Bulmer-Thomas. *The Economic History of Latin America since Independence*. 424.
[38] Bértola & Ocampo, *The Economic Development of Latin America Since,* 137.

Import Substitution Industrialization

Industrialization was expected to change the social order and all it did was to supply manufactures.[39]

From the end of World War II and lasting until the international debt crisis in the early 1980s, countries of Latin America followed economic policies commonly known as Import Substitution Industrialization (ISI). Under these policies, government took the lead role in fostering industrialization to fulfill the needs of the developing domestic markets. Postwar development policies used state intervention to stabilize economies and redistribute income through welfare programs, unemployment compensation, and the subsidization of education and the free provision of social services. Import substitution tried to address three broad economic policy issues: how to provide the protection for domestic industries, how to grow the country's economy by increasing saving and investment, and how to develop an economic plan that would maximize a country's economic production. The commodity export economies that had existed since the end of the colonial period no longer met the social and political needs of the economic needs of Latin America.[40]

The previous period of economic development ended following the economic shocks of Great Depression and the Second World War, a developmental ideology emerged, influenced by the thinking of John Maynard Keynes. Until the late 1960s, the ISI strategy worked well for Latin America generally, contributing to the rapid economic growth of Latin America in this. ISI policies focused on the development of new industrial manufacturing sector, through government

[39] Bértola & Ocampo, *The Economic Development of Latin America Since,* 199.
[40] Peet. *Unholy Trinity,* 7.

direct investment ad accompanied by the temporary creation of high tariff walls to discourage the importation of manufactured from foreign firms.

When the stock market crashed in 1929, the demand for commodities declined as consumption and investment in the developed world declined, resulting in falling prices for the goods exported from Latin America. This decline in prices led and decline in revenues and profits from elites undermined the export based liberal trading model and the economic control which they imposed over economies in Latin America. Throughout Latin America, the middle and working classes saw an opportunity to reshape the economic policy.[41]

In Latin America, development of the economic model of Keynesianism are associated with Raúl Prebisch, an Argentine economist affiliated with the United Nations' Economic Commission on Latin America (ECLA), later Economic Commission on Latin America and the Caribbean (ECLAC). Prebisch's group was sensitive to the particular impact of the colonial and post-colonial history of Latin America and argued that the main impediments to development in the region were based on structural problems like the composition of trade and land distribution problems, which were themselves rooted in historical processes. In Latin America, the ISI model of development was an attempt to shift from the export of natural resources and unfinished goods to the United States and European countries to exporting manufactured goods themselves. Prebisch and ECLA hoped to reform the dependent economic relationship with the developed world and the unequal terms of trade and economic policies, that had limited Latin Americas economic development potential. For this reason, ECLA argued that development required structural changes to the economic system that would stimulate demand and simultaneously foster industrial development to meet that demand.[42]

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[41] Political economy, 27.
[42] Peet and Hartwick 2009: 64-68.

The problem Prebisch and ECLA faced was that the lack of industrial production in Latin America kept wages low regardless of the growth agricultural exports. Just as during the previous period, the land owning elite used this system to maintain their individual wealth, lacked incentive to invest in the development of the local economy, which perpetuated the system of poverty and inequality. These economic conditions in Latin America of low wages and inadequate employment translated into inadequate domestic savings to finance investment and no real internal market to generate incentives to invest in production for the local market. ISI polices hoped to break the cycle of poverty by using the power of the state to develop domestic industry. Just as the developed countries had earlier in their histories.[43]

The period of state-led industrialization was defined by three major characteristics; a focus on industrialization as a mainstay of development, a considerable expansion of the scope of state action in economic and social affairs, and the shift towards Inward looking development a focus on the domestic market. This period spans two very different stages. The first stage occurred during the great depression and the Second World War and was a transitional phase marked by slow economic growth (a regional annual rate of 2.6 percent or a per capita rate of just 0.6 percent). Following the Second World War and lasting until the end of the 1980s, the second period achieved an annual GDP growth rate of 5.5 percent and a per capita growth rate of 2.7 percent. Increases in capital accumulation combined with population growth and rapid urbanization fueled industrial growth. The population of the region grew from one hundred million in 1929, to one hundred and fifty million in 1950, and to three hundred and forty nine million in 1980, an average annual rate of growth of 2.7. The urban population jumped from thirty two percent of the total population in 1930 to forty two percent in 1950 and sixty five percent in 1980.

[43] Political economy, 32.

The decline in international trade and investment forced Latin America counties to look inward for sources of economic growth. To meet domestic demand governments began to subsidize local production of those goods that had been previously import. The central goal was for governments to identify items that consumers were importing and stimulate that creation of local domestic manufacturing to supply these goods. The disruption in the international economy opened a window of opportunity for investment in manufacturing. However, years of focusing on the extraction and trade of natural resources and limited investment in domestic production left local manufactures unable to meet the demand.[44] Unfortunately, Latin America was unable to overcome these issues and by the time Latin America was able to begin industrial production, European countries and the United States was able to return to prewar production levels and Latin America missed the brief window of advantage available.

The ISI period was a period of rapid economic growth and the development of new industries and capacity to produce goods to meet the changing consumer needs of the new internal markets of Latin America. By 1955, the contribution of manufacturing to real GDP had overtaken agriculture, and by 1990, its contribution had reached 24.5 percent, compared with 10.3 for agriculture and four percent for mining.[45] The bulk of the reduction in poverty in Latin America achieved in the twentieth century occurred between 1950 and 1980. Between 1970 and 1982 the poverty rate in Latin America fell from 43.6 percent to 23.7 percent, and a decrease in extreme poverty from 19.2 percent to 10.2 percent during the same period.[46] Despite this success in poverty reduction ISI, policies were only short term efforts to reduce the effects of poverty not the root causes. Agrarian reform remained an unfulfilled promise, land distribution continued to benefit the small elite class.

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[44] Political economy, 27.
[45] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 9.
[46] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 193.

The most visible negative side effect of ISI was the growth of urban poverty. Spurred by the rapid urbanization of the period further widened the inequality gap as tens of millions of urban poor worked under condition of informality, frequently residing in shantytown slums that sprung up as entire rural communities migrated to cites, forced off the land and into urban squalor. During this period all countries of Latin America experienced rapid urbanization and Latin America is now predominantly urban, with more than seventy percent of its inhabitants living in towns and cities, and includes some of the largest urban areas in the world such as Mexico City (eighteen million residents) and Sao Paulo Brazil (sixteen million residents). Rapid urbanization was just one way the ISI policies would influence a profound transformation of the economic, political, and social structure of Latin America. The emphasis of ISI on urban industrialization weaken agricultural production and triggered a large-scale migration of workers into the cities in search of employment, beginning in the 1950s and continuing into the 1980s. The ISI model could not generate enough jobs to satisfy the rapidly growing demand.[47] Neither the informal economy nor the state were able to keep pace with the demands and needs of their societies. Despite the investments in infrastructure, the rapid growth of urban populations left Latin American cities were unable to meet the basic needs such as electricity, water, sanitation, health care, and schooling were unequally distributed. The profound social injustice revealed in the cities by urban poverty and informal employment highlighted the limitations and weakness of the Latin American state.[48]

Under ISI policies, the state steadily increased its participation in economic development, taking over control of public utilities, railway and natural resources previously controlled by foreign firms. Yet these changes failed to reverse the sharp inequality in income distribution

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[47] Eric Hershberg and Fred Rosen, eds. "Turing the Tide?" In *Latin America after Neoliberalism*, 5.
[48] Kingstone. *The Political Economy of Latin America*, 37.

found in most Latin American republics, which remained from the colonial period, was reinforced by industrial and financial concentration and control by foreign firms during the twentieth century. The situation created one of the largest income distribution gaps in the world. By the end of the twentieth century in most Latin American countries, the top twenty percent of households were receiving more than fifty percent of the total income, while the bottom twenty percent received less than three percent of income.[49]

The middle class, primarily employed by the government and large and medium-sized private companies, was one the primary beneficiaries of the growing role of the state in development policies. For the rising urban middle class, the state's investment in and promotion of industry helped to produce new classes of industrialists out of the urban middle classes. Additionally the industrial growth increased the opportunities for doctors, lawyers, teachers, professors, or journalists to urban businesses such as banking, insurance, or commerce (such as shop owners).[50] Unfortunately, the positives of the ISI model were offset by some important limitations. First, the model was too exclusionary. In many Latin American countries, the benefits of ISI were limited to a minority of the population. ISI polices protected a narrow group of highly privileged industrialists, created a limited middle class, and a labor class protected by unions which limited membership and that earned wages and benefits disproportionate to non-organized workers. ISI polices subsidized union workers paid above average wages and forced firms to hire more workers than were necessary. While these policies were beneficial to unionized workers, this was a small portion of workers, contributed to an overall decrease in productivity, and contributed to the unsustainability of this program.[51]

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[49] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 11.
[50] Kingstone. *The Political Economy of Latin America*, 19.
[51] Kingstone. *The Political Economy of Latin America*, 20.

An additional flaw of ISI polices is that it was not financially self-sustaining. To finance the investments and the governments of Latin America turned to borrowing from external financial organizations. Increasing debt would create a situation where a large portion of government budgets were devoted to servicing the debt, further limiting the government's ability to continue these polices of investment. Tariff protection is not the only, nor even necessarily, the most important policy tool these countries in promoting infant industries. There were many other tools, such as export subsidies, tariff rebates on inputs used for exports, conferring of monopoly rights, cartel arrangements, directed credits, investment planning, manpower planning, R&D supports and the promotion of institutions that allow public-private cooperation.[52] For countries in Latin America these polices of protection and investment often went on longer then was necessary. Corporations became dependent on the subsidies and protections, and an unintended consequence of these protectionist policies was industries because dependent on these programs, and governments were unable to expand and diversify the corporations who would benefit from these investments. Protectionism should be a temporary measure to foster new industries protection should then fall as firms become capable of investing in competitive improvements. Tariffs also must adjust to the changing socioeconomic conditions of international trade. Tariffs, which are too high, are ineffective because they lead to an increase in smuggling and the growth of black markets. Additionally tariffs, which are too low, will not provide protection to foster growth of domestic industries.

The problem with the implementation of ISI polices occurred because of the nature of political power. Critics of ISI often attribute the appointment of political allies, family members and friends to positions of power within state run industries as a failure of the ISI model. Political corruption during this period was rampant across all governments of Latin America,

[52] Chang, Kicking, 65

most leaders were authoritarian in nature, and were often political repressive these appointments are an unintended consequence of the nature of the political process and not failure of ISI. The politics of the period often exacerbated the model's limitations and prevented the changes necessary to make ISI sustainable. However, these political problems are not unique to the ISI period; political patronage existed before ISI, recurred during the neoliberal, and continues to pose a problem current the current period of Latin America History.

Dependence on single commodity exports continued to limit economic development during the ISI period. Despite the new economic focus, ISI did not address the issue that in all Latin American countries the central economic activity remained dependent on single commodity natural resource extraction and agriculture production. Unprocessed natural resources are subject to low-income elasticity and price competition from synthetic products. Dependency theory argued that accepting a production position of agricultural and resource based specializations transferred income to the already rich countries at the centers of power. Most dependency theorists called, instead for greater national economic autonomy, import substitution industrialization, and various levels of state ownership of key economic activities to create economic growth and development.[53] Author Eduárdo Galeano saw the control of developed countries over Latin America as a new form of colonialism, and technology was just the latest means of exerting this control:

> Today's imperialism radiates technology and progress however, this new model does not make its colonies more prosperous, although it enriches their poles of development; it does not ease social and regional tensions, but aggravates them; it spreads poverty even more widely and concentrates wealth even more narrowly; it pays wages twenty times lower than in Detroit and

[53] Peet, *Unholy trinity*, 2.

> charges prices three times higher than New York; it takes over the internal market and the mainsprings of the productive apparatus; it assumes proprietary rights to chart the course and fix the frontiers of progress; it controls national credit and orients external trade at its whim; it denationalizes not only industries but the profits earned by industry; it fosters the waste of resources by diverting large part of the economic surplus abroad; it does not bring in capital for development but takes it out.[54]

For members of the growing middle class in Latin America the commodity export-based economy did not provide adequate opportunities for employment and investment. While a majority of Brazilian people suffered from malnutrition, Brazil had become one of the world's leading exporters of food.[55] Inadequate fascial resources and antiquated tax also contributed to the inability of Latin American governments to make the capital investments, which were required to grow and diversify their economies. The inadequacies of domestic markets opened the countries to foreign capital, and when foreign borrowing was restricted inflation and stagnation of the economy further hindered economic expansion. If the public sector was at first unable to provide adequate infrastructure, credit or basic inputs, it could still offer land, labor legislation and tariff concessions. Many countries did not open to foreign monetary investment until the 1960s, when cash-strapped countries accepted foreign loans in hopes of creating infrastructure that would foster the development of new industry. Initially, this influx of foreign capital allowed new industry to develop and through state controlled economic policies, Latin American governments were able maintain low inflation and exchange rate stability. It was not until the 1980s under the weight of growing debt payments that nearly all countries in Latin

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[54] Galeano, *Open Veins of Latin America*, 207.
[55] Chasteen, Born in Blood & Fire, 292.

America contributed to the growing rates of inflation, which began to slow down economic growth. [56]

Debt and the End of ISI

Beginning in the 1960s, a confluence of events led to an inability to reconcile the contractions in ISI economic growth. During the "development decade" of the 1960s, Latin American countries were encouraged to borrow heavily to finance large, long-term infrastructural projects. These countries were borrowing to support various social policies designed to increase domestic consumption. Latin American governments were living well beyond their means; states had been trying to finance an economic program and a stand of living in excess of wealth of their economy.[57] The oil price shocks of the 1970s created economic conditions of stagflation, a unique economic situation in which the inflation rate is high, the economic growth rate slows down, and unemployment remains high. These conditions contributed to the international debt crisis of the 1980s, which caused a worldwide recession. With the system in crisis, counter-hegemonic discourses of development began to compete for dominance in both academia and in the policy-making spheres of governments and transnational institutions in the capitalist world-system. The foremost counterhegemonic discourse, centered on the Chicago School of Economics and several Washington-based think tanks, came commonly to be referred as neoliberalism.

At the root of the failures of ISI was the slow growth of the internal market and industry. As the engine of growth within the ISI model, new industries needed to grow rapidly to raise

[56] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 423.
[57] Kingstone. *The Political Economy of Latin America,* 50.

average living standards throughout the region. Yet the foreign control of mineral exports sent the economic gains from the extraction of these commodities out of Latin America. Limiting reinvestment into Latin American economies, the region was unable to create enough new economic opportunities. The countries of Latin America remained dependent on imports of food and other essential items; the prices for these imports generally induced heavy borrowing and debt, further widening their international trade deficits.[58] Ironically, import substitution industrialization seemed to make Latin America more dependent on industrial imports.

"Borrow in order to develop" was the mantra once recited during the ISI era. The World Bank and the IMF, in a concerted campaign labeled by some as "loan pushing," deliberately forced Latin America into debt in order to promote U.S commercial interests and ensure loyalty of indebted governments to the "benefactor." These loans were just one of the political tools the united states used as a cold war tool, which the United States used to influence political leaders and combat communism in Latin America. Between 1970-1982 external debts for the region climbed from US $16,000 to US $178,000 million.[59] According to ECLAC, in 2005 Latin America was indebted in the amount of $656 billion USD.[60] In 1980, the Ecuadorian government spent three percent of its revenue on education, ten percent on health care, and fifteen percent on debt service payments. By 2005, the situation had deteriorated sharply, with forty percent of public revenues headed to servicing debt and only twelve on education and seven percent on health care.[61]

Economic policies of the 1970s put more money and credit not into the hands of the poor who most needed it, but in the hands of the middle class who were more likely to purchase cars,

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[58] Bulmer-Thomas. *The Economic History of Latin America since Independence,* 414.
[59] World Bank. 2006. *Global Development Finance*. 2006. Washington,, DC: World Bank Publications.
[60] Ximena de la Barra and Richard A. Dello Buono. *Latin America After the Neoliberal Debacle*. Lanham, Maryland: Rowman & Littlefield, 2009, 162.
[61] Barra and Buono, A*fter the Neoliberal Debate,* 166.

electronics and domestic appliances. Encouraging this type of spending was beneficial for the international corporations who sent out of country. Domestic spending was often used to create environmentally devastating hydroelectric dams, highways bridges and airports.[62] However, as past investments in infrastructure industrialists were the primary benefactor of these new infrastructures projects. Once again, investment did not address the causes of poverty, increased spending and production on consumer goods created provide short-term increases in GDP. Increased spending and production on consumer goods, were unable to create long term sustainable because the majority of these goods were produced outside of Latin America and domestic investments did not expand domestic industries.

Under the ISI model, new levels of domestic industrial production required an increased consumption of natural resources. Many of the basic inputs required for industrial production were beyond the capacity of domestic producers and required exchange rate manipulation, printing of money and borrowing from international banks. Increased borrowing from private banks and the IFIs created debt and inflation, which left the countries of Latin America frequently unable to repay the borrowed money. Collectively Latin America accumulated U.S. $351 billion in foreign debt while the rest of the developing world owed U.S. $383 billion. Simply more capital was not sufficient for sustained growth. The productivity of resources had to be increased if growth was to be maintained.[63]

Despite the flaws of ISI, the economic growth created by ISI led to a profound transformation in the economy, politics, and social structure of Latin America. GDP growth rates set historic highs under ISI policies. In the years 1870 to 1913, the GDP of Latin American countries rose at a rate of 3.3 percent per year; from 1913 to 1950, GDP rose 3.4 percent per

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[62] Chasteen, *Born in Blood & Fire*, 293.
[63] Henry J. Bruton. "A Reconsideration of import Substitution." Journal of Economic Literature. Vol. XXXVI (June 1998):920.

year. Between 1950 and 1980 under ISI policies, the average GDP in Latin America increased at 5.5 percent per year. The growth rates exceed not just the global average, but also exceeded the GDP growth rates under the subsequent neoliberal policies. During the 1990s under neoliberal policies, the average annual GDP per capita growth was 1.1 percent.[64]

While industrial growth occurred rapidly during the twentieth century, it was not highly beneficial to the countries of Latin America. An unintended consequence of protective tariffs was the manner in which foreign governments exploited these policies for their own benefit. Shielded by tariffs and other barriers to import, international industrial firms built production facilities with local control in Latin America, exploiting market policies using public money to increase their profits to give them an advantage within domestic markets. Despite these protectionist trade policies foreign industries flooded Latin American markets with high-priced low-quality goods.[65] ISI originally tried to keep foreign money, firms, and influence out of Latin America, however foreign firms found was to gain access to industry in Latin America. Galeano, points out that once this happened foreign firms were able to benefit from the very polices which were designed to protect domestic industries from foreign firms, "in return for, insignificant investments, the affiliates of giant corporations jump over customs barriers erected paradoxically against foreign competition and take over the internal industrializing procedures."[66]

Multinational corporations make direct use of the state to accumulate, multiply, and concentrate capital to deepen the technological revolution, to militarize the economy, and by

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[64] Ron Pineo. "The Free Market Experiment in Latin America: Assessing Past Policies and the Search for a Pathway Forward." *Council on Hemispheric Affairs*, Issue 35.03 (March 29, 2013): 4. http://www.coha.org/the-free-market-experiment-in-latin-america-assessing-past-policies-and-the-search-for-a-pathway-forward-the-first-of-a-three-part-series/

[65] Ibid.

[66] Galeano. *Open Veins of Latin America,* 228.

various means to assure success in the crusade to control the capitalist world."[67] International corporations were able to use their wealth to purchase interests in local corporations and bribed local officials to gain access to local protections and industries. Between 1964 and 1968, fifteen international car companies swallowed up local parts factories. Competitive advantage allowed, transnational corporations the ability to lower prices and survive the lost profits as they waited for the local company to surrender. The capitalist then bought the local company and takes over it or dismantled it taking the most valuable parts for itself and exporting them back to the host county. Once the foreign firm removed local competition, prices rise to compensate for the losses the foreign industries. [68] Foreign firms increased their economic advantage including greater access to technology, better production techniques, and greater economies of scale by exploiting the ISI model. A study conducted by the Brazilian government in 1968 found that foreign capital controlled 40 percent of the capital market in Brazil, 62 of external trade, 67 of external air transport, 100 percent of motor vehicle production, 100 percent of tire manufacturing, more than 80 percent of the pharmaceutical industry, about 50 percent of the chemical industry.[69]

Propelled by the demands of ISI policies expanded state expenditure became a mounting fiscal burden. The consequence of the extraordinary debt burden was deep recession and a debilitation economic stagnation. Because of these growing fiscal burdens, and through pressure from international financial organizations, government officials in Latin America began to cut spending on state employment, infrastructure investment and social programs in order to make their interest payments. Debt payments wrecked the capacity of Latin American states to growth their economies. This debt crisis created by international speculation was used to denounce the policies of ISI and push for these developing countries to open their economies to

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[67] Galeano, *Open Veins of Latin America*, 245.
[68] Galeano, *Open Veins of Latin America*, 237.
[69] Galeano, Open Veins of Latin America, 217.

free trade and international financial control. Mexico fell apart first, and its declaration of its inability to service its debt in 1982 triggered severe economic contraction, and widespread hyperinflation.[70]

It is unlikely however, that if the debt crisis had not occurred ISI polices would have collapsed under the weight of these inefficiencies. During the 1960s, the Latin American countries were moving toward a development model more along the lines of the East Asian model, which was also state-led and somewhat protectionist, but which placed more emphasis on building a solid export base and in most cases showed a clear preference for national over foreign investment. While the East Asian countries were able to succeed in economic growth the countries of Latin America were not able to despite using similar policies of state-led industrialization and protective tariffs. The differences between Latin America and the East Asian countries is that during the Second World Was despite being under Japanese military control these East Asian countries built modern manufacturing facilities. Many of these countries produced goods vital to the Japanese war effort, and investments by the Japanese left these countries after the war with the infrastructure necessary to grow industrially. Additionally the East Asian countries did not have the massive inequalities, which hampered development in Latin America. Another difference was the level of foreign debt Latin American countries acquired. Foreign money flowed into Latin America in the form of loans unregulated, private banks flush with money from oil revenues were all too eager to loan money to Latin America governments. However, the collapse of international lending kept Latin America from continuing with or modestly modifying the ISI model.

While the development model of ISI may have been flawed, it is not as dysfunctional as the critics present it to be. Under ISI policies, Latin America proved to the world that it was

[70] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 24.

poised to grow. Its collective determination for social equality and economic reform promised many viable alternatives to alignment with Washington. However, the rise of influence of international finance, Non-Governmental Organizations (NGOs) like the World Bank, and the IMF, and transnational corporations promoted theoretical developmental ideas, which are most beneficial to themselves, ended the ISI model. The period of state-led industrialization that has been propagated by the orthodox school of economic thought is founded more upon ideology than on an examination of the economic and social outcomes of the ISI model of economic development.[71]

According to the view of the IMF at the time, the balance of payments crisis was primarily a trade problem. Specifically, countries were not exporting enough to keep up with foreign debt. In order to correct the trade monetary imbalances, it was necessary (according to the IMF) to decrease internal demand by initiating a recession. A contracting of the economy would drive down the value of the currency and make a country's products more desirable to other countries. From this perspective, the ISI period had artificially inflated the domestic currency and simultaneously inflated domestic demand, both of which resulted in decreased terms of trade that could only be solved by decreasing domestic buying power, thus decreasing domestic demand.[72] The lack of macroeconomic discipline was less widespread than it is often portrayed. It was primarily a problem of Brazil and the Southern Cone, rather than the rest of the region. Growing inflation and currency devaluation has often been presented as a failure of the ISI period; however, this was more a consequence of the growing rates of inflation caused by the growing loan balances not by inefficient economic management. Additionally many loans were tied to U.S. dollar, and as the dollar inflated, it became harder for the countries of Latin America

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[71] Bértola, & Ocampo. *The Economic Development of Latin Americas*, 264.
[72] Duncan Green. *Silent Revolution: The Rise and Crisis of Market Economics in Latin America*. New York: Monthly Review Press, 2003, 46-52.

to repay these loans. Macroeconomic policies in the United States had more of a negative effect on the world economy than those in Latin America. However, inflation in the United States was seen as a positive because it made these loans more valuable. As money inflates even though it becomes less valuable, the amount of the loan does not change.

Despite the flaws in design and implementation of ISI policies in Latin America, ISI policies had the potential to correct the historical inequality which has kept Latin America underdeveloped and at the mercy of foreign governments. By the 1960s and 1970s, decades of development efforts had failed to increase the standards of living for the majority of Latin Americans, and the need to address structural inequalities though agrarian reform and the redistribution of national resources took on a new urgency. However, the influence developed countries had over Latin America prevented new policies from having lasting long-term economic benefits. Industrialization based on cheap labor and the importation of cheap goods destroyed rural production and produced a new class of urban poor.

Even though ISI failed to bring about lasting changes to economic flaws of development policy in Latin America, these policies did contribute to a period of growth, industrialization, and economic development. Macroeconomic instability is often portrayed as the primary reason ISI failed as an economic model and justified the macroeconomic controls and stability that became core concepts of neoliberalism. Heavy debts, negative trade in international produces for raw materials and a heavily stacked system of trade and financing made Latin America ripe for creditors to unilaterally impose the Washington Consensus to reestablish the economic control of foreign governments and industries over the economic policies within Latin America.

Neoliberalism

The combination of corporate globalization and electoral democracy is separating leaders and governments from society and people…Globalization has pushed representative democracy to its final test. –Vandand Shiva

During the 1970s, economic instability of the world economy created conditions which began to break down the nationalistic state-led policies of ISI based on Keynesian economics in Latin America, by the 1980s, ISI policies confronted two key economic problems. The first problem was stagnant export trade, partly linked to the overvalued exchange rates. Secondly, the inward oriented model combined with a decline in the prices of primary goods, particularly petroleum, created a legacy of very high inflation in many countries. The resulting trade deficits and growing debt created a cycle of debt where countries in Latin America were continuing to borrow in order to service their debt obligations. This economic instability was not unique to Latin America the sharp decline in oil prices contributed to the debt crisis and the recession and high interest rates in the United States all had adverse effects on the worldwide economy. This decline in the worldwide price of oil created high rates of inflation joined with high rates of unemployment, a situation known as "stagflation." In Latin America, this global economic slowdown was blamed on "failed state intervention," corruption, and government overspending. Critics of ISI believed that the inward-oriented model was effectively cutting Latin American economies off from the advantages (and problems) of being more fully inserted into a globalizing world economy. However, the economic conditions in Latin America were merely a byproduct of speculative lending policies of Western banks. International financers provided cheap credit to developing countries which were looking to develop their infrastructure and industries. This debt crisis created by international speculation was used to denounce the

policies of ISI and push for these developing countries to open their economies to free trade and international financial control.

Most countries in Latin America engaged in some form of market liberalization in hopes of correcting the region's economic shortcomings. The reforms redistributed income upward, lowered living standards, and shredded whatever was left of the social compact between the people and the governments of Latin America. Soon, the region had the most extensive experience with neoliberal development policies in the developing world.[73] In this chapter, I discuss the ways in which neoliberal economic development policies developed, and why neoliberalism became the dominant economic policy in Latin America despite poor economic performance.

The term neoliberalism is commonly used to denote a series of economic and social policies, which constitute an extreme version of orthodox capitalist economic theory. Based on a return to some of the basic principles of eighteenth century economic liberalism, the neoclassical/neoliberal mainstream of economics was based on the premises of market-oriented policies designed to control macroeconomic imbalances such as inflation, debt and deficits. Neoliberal policies influenced seven major areas of reforms that constitute the Latin American neoliberal state; government austerity, privatization, trade liberalization, financial liberalization (both domestic and foreign direct investment), cutting social reforms (in education, healthcare, poverty relief, and pensions), regressive tax reform, and labor market deregulation. Neoliberalism is more than a set of macroeconomic policies, it is a philosophy and a political agenda, which implies deep structural and social transformations in which the state is a key agent.

[73] Peet, *Unholy trinity*, 250.

The neoliberal polices of this period are based on the ideas of classical economic liberalism and the ideas presented in Adam *Smith's Wealth of Nations*, first published in 1776, laid out an economic development model characterized by competition, specialization and trade. For Smith, capitalism left free of government intervention had its own rationality, which transformed private interest into public virtue. Free market policies touted by classical economics imply that markets are the most important part of an economic system. The ideas of free trade are dependent on the assumption that all actors are rational self-maximizers, and markets are rational, this argument has persisted in various forms but some argue that it is a fundamental misreading of Smith's *Wealth of Nations*, taken out of context—both of his writings more generally and of the time in which he was writing.

Supporters of free market economics have used Smith's ideas to create economic policies where the markets should be free to respond to market signals without government interference. To these supporters, an economy burdened with excessive government controls and intervention will suffer from waste, inefficiency and corruption. To them government is inherently inefficient in creating economic development policies because politicians and government bureaucrats are concerned with maximizing their own power and often do not act in the national interest. Government actions distort the price mechanism, which is the market's means of signaling imbalances. When price signals are distorted, the market cannot move towards equilibrium. Unlimited competition in the free market, they believe, is the best way to organize not just the economy but also social policies and services, since markets force everyone to perform with maximum efficiency. In the real empirical world, all market economies actually are involved. Trade helps economic development only when the country employs a wide range of economic ideas, which employ a mixture of protection and open trade, constantly adjusting it

according to its changing needs and capabilities. The challenge is to find a balance between markets and state controls.

Neoliberal policies were supposed to provide the framework for Latin American economies to increase international trade and increase inward investment and capital inflows from firms and banks in those regions. Though not all Latin American countries carried out the entire list of neoliberal reforms, most of these countries carried out (or attempted to carry out) most of these reforms. The adoption of neoliberal policies involved a wide reaching reconstruction of the institutional basis of society in an attempt to fashion a depoliticized individualistic and market driven society that according to the predictions of neoclassical theory would be rational, harmonious, and ultimately ensure shared prosperity.[74] Free trade economics, pushed by Washington and International Financial Institutions (IFIs) such as the World Bank and the International Monetary Fund imposed an ideal type of neoliberalism that never really existed in anything approaching a pure form in Latin America.

Following the Third World Debt crisis of 1982, the roles of both the IMF and World Bank changed dramatically. Well-intended politicians and policy makers' embraced neoliberalism for its potential to spur growth. When crises hit, the IMF prescribed outmoded, inappropriate, if "standard" solutions, without considering the effects these policies would have on the people in the countries told to follow these policies. Joseph Stiglitz in his book *Globalization and its disconnects* said:

> Rarely did forecasts contribute ideas on how the policies would address poverty. Rarely did thoughtful discussions and analyses address alternative policies. There was a single prescription. Alternative opinions were not

[74] Macdonald, Laura and Arne Ruckert. *Post-Neoliberalism in the Americas.* (New York: Pelgrave Macmillan, 2009), 22.

> sought. Open, frank discussion was discouraged-there was no room for it. Ideology, guided policy prescription and countries were expected to follow the IMF guidelines, without debate.[75]

The story of the failure of ISI is as much political as much as it is economic. The period between the 1960s and 1980s saw the most brutal dictatorships in the region's history, including Argentina, Brazil, Chile, Peru and Uruguay among others. The majority of Latin American people have had to endure either overt U.S interventionism or military dictatorship or, both, at some point during the latter half of the twentieth century. Critics of neoliberalism note that many neoliberal policies were enacted in undemocratic ways influenced by the IMF, the World Bank and Washington, exploiting markets to serve the interests of firms and financiers from developed countries, rewarding the wealthy at the expense of the poor people of Latin America and other developing countries in the global South. Imposed on the region, first by military dictatorships and later by IFIs and regional elites, once Latin American countries became deeply indebted, neoliberal policies became the means the United States used to impose its political and social controls upon controls upon Latin American countries.[76]

Neoliberal policies were exported to Latin America through implementation of structural adjustment programs (SAPs) directly overseen by the United States, the World Bank, and the International Monetary Fund. During the 1960s and 1970s, many countries in Latin America borrowed from these organizations heavily to finance big, sometimes wasteful development projects. Signing an agreement with the IMF is dependent on the country accepting conditions on a wide range of economic policies. The IFIs attached a series of macroeconomic conditions that the borrowing governments had to agree to in order to get a loan. The IFIs imposed their will

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[75] Joseph Stiglitz. *Globalization and its Discontents*. (New York: W. W. Norton & Company, 2003), xiv.
[76] de la Barra and Buono *Latin America After the Neoliberal Debacle,* 162.

to influence governmental budgets, steering policy on industrial regulation, agricultural pricing, labor market regulation, trade liberalization, the adoption of new company law, and privatization. Macroeconomic policies imposed by the IMF changed the behavior of the whole economy.[77]

Following the Third World Debt crisis of 1982, the roles of both the IMF and World Bank changed dramatically. They started to exert a much stronger policy influence on developing countries through their joint operation of so-called structural adjustment programs (SAPs). By basing the distribution of these loans in installments based on scheduled quantitative targets to ensure the compliance of borrowing government in meeting the governance conditionality of their loans. These involved intervention, like democracy, government decentralization, central bank independence, strong copyright laws, and corporate governance. Neoliberalists believe that these institutions as necessary for economic development and were imposed upon developing counties without regard for the existing were actually in large part the outcome rather than the cause, of economic development in the now developed countries.[78] Today the dominant view is that democracy, universal suffrage, and a clean bureaucracy helps economic development and therefore a precondition for development. While most developed countries did not themselves achieve these goals until the 1960s, the World Bank and the international monetary fund forced neoliberalism upon the counties of Latin America often in undemocratic matters. Neoliberal polices became the latest tool used by the united states in Latin America of subverting democratic governments, supporting dictatorships, and financing violent insurgencies or counter insurgencies.[79]

The conditionality of these loans oversaw a period of profound restructuring of the political economy of the Americas. Free trade economic theories influenced new political and

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[77] Chang, *Bad Samaritans*, 32.
[78] Chang, *Kicking Away*, 11.
[79] Kingstone, *The Political Economy of Latin America, 3.*

social policies that sought to remove national states from essential decision making, placing it in the hands of non-democratic, supranational institutions such as the IFIs, and transitional enterprises, outside the reach of national accountability. The neoliberal system of governance has been far more interventionist than the notions of laissez-faire might suggest. The IMF has promoted the autonomy of national Central Banks under the argument that this protects national finances from reckless mismanagement in the hands of irresponsible governments or legislators. This policy has in turn placed monetary policy in the hands of technocrats, the local oligarchy, foreign banks including the World Bank and the IMF itself, thereby undermining national sovereignty.[80] Policy practices in the United States has not always conformed to neoliberalism which the United States has promoted so vigorously elsewhere in the hemisphere.[81]

Under neoliberalism, the market became indifferent to the social distribution of wealth, continuing the historical pattern of economic, political and social dominance exerted by Western capitalist countries over developing countries of the global South.[82] The accelerating process of global capitalist expansion increasingly led the United States to look to Latin America for new markets in preserving the region's historic role as provider of essential raw materials. Neoliberalism ensured the developed countries, easy access to cheap natural resources and raw materials from the region, with an emphasis on energy. Capitalizing its domination of technology and information, the global North deepened its political, social and economic hegemony over the Latin American economies.[83]

The precipitating event that initiated the regional shift toward neoliberalism the debt crisis of the late 1970s – early 1980s. However, the process began in 1973, when Augusto

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[80] de la Barra and Buono, *Latin America After*, 177.
[81] Macdonald and Ruckert, Post-Neoliberalism in the Americas, 9.
[82] Ximena de la Barra and Richard A. Dello Buono. *Latin America After the Neoliberal Debacle*. Lanham, Maryland: Rowman & Littlefield, 2009, 9.
[83] de la Barra and Buono *Latin America After the Neoliberal Debacle*, 9.

Pinochet seized control of the Chilean government and implemented Latin America's first neoliberal "shock treatment." Pinochet's violent and authoritarian project in Chile was part of a wider wave of authoritarian take-overs throughout the region in the 1960s and 1970s. As the "third wave of democratization" spread through the region beginning in 1978, the neoliberal project quickly spread throughout the rest of the continent. By the early 1990s, most governments in the region had shifted to the neoliberal economic model.

Neoliberalism was supposed to bring about growth and economic stability. However, what it actually brought was increasing inequality and poverty, sluggish overall growth, and instability. Neoliberal policies included sharp cuts in taxes on the wealthiest in society, and the heavily conditioned nature of financial assistance kept it from reaching its intended targets and often caused more harm than good. In 1980, the Ecuadorian government spent three percent of its revenue on education, ten percent on health care, and fifteen percent on debt service payments. By 2005, the situation had deteriorated sharply, with forty-seven percent of public revenues headed to servicing debt and only twelve percent on education and seven percent on health care.[84] Neoliberal polices managed to stop hyperinflation but at tremendous cost. For a decade or more, neoliberalism paralyzed economic development, the concentration of wealth grew greater than ever before, public deficits spiraled and the mass of the population had their rights expropriated. On top of this, national debt expanded exponentially and regional economies became highly vulnerable, helplessly exposed to attack from speculators. The main financial transfers, rather than coming towards the developing countries, are those flowing to the developed world though debt servicing to foreign banks, corporations, and governments. As in

[84] de la Barra and Buono, *Latin America After*, 166.

much of the world, free-market growth seemed to make the rich richer, the middle class more middle class and the poor comparatively poorer. [85]

During the 1970, the percentage of people living in poverty fell by forty percent. However, during the 1980s the percentage began to rise, reaching 48.3 percent in 1990 according to ECLAC. By the turn of the century, Latin America displayed a poverty rate of 43.8 percent of people in poverty, with 18.5 percent living in absolute poverty. During this period more than two hundred and twenty four million Latin Americans who join the ranks of the poor, with ninety eight million living in extreme poverty.[86] From 1980 until 1990, under neoliberal policies, overall GDP in Latin America grew by only six percent, compared to the seventy-five percent growth rate during the period from 1960 until 1980, under the now discredited model of import substitution industrialization.[87]

Although neoliberal reform helps to connect countries with each other by increasing the rate at which they import and export culture, knowledge, goods and services, these resources are very unevenly distributed across the population of Latin America, creating a sense of relative disparity both on a national and international level, especially in urban areas. Consumers enjoy greater access to cheaper and better goods, but most of the population cannot take advantage of this advance given the decline in available income. Furthermore, a flood of cheap consumer goods and agricultural products disproportionally benefited international corporations and further drove down prices for local goods, limited industrial growth, and drove down wages which contributed to growing rates of unemployment income inequality and poverty.[88] Replacement of labor-intensive jobs by capital-intensive technologies, lay-off facilitating policies, and an

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[85] John Charles Chasteen. *Born in Blood & Fire: A Concise History of Latin America.* New York: W. W. Norton & Company, 2011, 324.
[86] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 26.
[87] Macdonald and Ruckert, *Post-Neoliberalism in the Americas,* 4.
[88] de la Barra and Buono, *Latin America After the Neoliberal Debacle*, 127.

increase in labor all have fueled the process. Over the 1990-2004 period, unemployment rose from 6.9 percent to ten percent, and seven out of every ten new jobs was created in the informal sector. Most working in this informal sector are paid wages below national averages, with no benefits or job security.[89]

The policies of Neoliberalism pushes a relatively small set of policies, rejects cultural and historical differences, and attempts to apply a blanket set of economic rules. Rich governments push their neo-liberal economic agendas in conjunction with the "unholy trinity" of international economic organizations (World Bank, WTO and IMF). The rich governments use their "aid" budgets and access to their home markets to induce the developing countries to adopt neoliberal politics. Both the supporters and the critics of neoliberalism often use the term as if it were a generalized (and hence vague) concept and does not present the particular experience of every single country in the region. Presenting neoliberalism in these terms produces a generalized model, which distorts the actual performance of the model. Investigated on a case-by-case basis, it becomes apparent that the countries of the region varied widely in both the breadth and the depth of neoliberal reforms.

Supporters of neoliberalism have written the history of capitalism to justify the success of these policies, and ignores the historical double standards involved in recommending free trade and free market to developing economies.[90] Supporters of neoliberal economic models are unwilling to acknowledge the weaknesses and failures of these policies and are unwilling adapt them to fit the needs of different countries and to discuss alternatives to this neoliberalism. Mainstream economic discipline is single-minded in its focus and ideological in its indoctrination of practitioners, that it is immune to all internal criticisms. All complaints are

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[89]de la Barra and Buono, *Latin America After the Neoliberal Debacle,* 28.
[90] Chang, *Bad Samaritans*, 16.

pushed to the disciplinary margins; leave the orthodox view immune to all external criticisms. One of the most strongly held assumptions of the proponents of neoliberal development is the idea that a "free" or "deregulated" market is the optimally efficient and only means through which to increase a society's wealth. Free trade creates a global space within which benefits accumulate to a few people and organizations (industrial capitalists, multinational corporations, finance capital) in a few dominant countries (Britain, USA, Japan and now China), and this does not benefit humanity as a whole but renders it into unequal parts, the rich and the poor.[91]

The ideas which make up the neoliberal state are the product of the school of thought that has its origins in the Austrian School, The London School of Economics, and the Chicago School of Economics. The theories of Austrian Friedrich Von Hayek and University of Chicago's Milton Friedman formed the basis for the economic policies of neoliberalism. In collusion with transnational capital, the United States has implemented neoliberal policies to protect the interests of the corporate class. These policies increased unemployment, underemployment and invariably impoverished large sections of the population, including a significant portion of the middle class.[92] In addition to their scholarly work, both Hayek and Friedman engaged in political policy debates by writing non-academic books for mass audiences designed to sway popular opinion away from support for government intervention in markets, regulation, and social protections administered by the state. As scholars Mirowski, Van Horn and Stapleford point out, "the leaders of the postwar Chicago School were not cloistered academics, but empire builders who set up or forged influential relationships with well-funded institutional

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[91] Peet, *Unholy trinity*, 241.

[92] Richard A Buono, & José Bell Lara, eds. *Imperialism, Neoliberalism and Social Struggle in Latin America.* Chicago, Studies in Critical Social Science, 2009, 3.

organizations in order to provide vital support structures for the creation, incubation, and propagation of their ideas."[93]

The International Monetary Fund, the World Bank, and many important U.S. agencies adopted the neoliberal economic development model commonly known as the "Washington Consensus". The "consensus" took its name after its association with international financial organizations located in the U.S. capitol. The imposition of the consensus was effectively contingent upon cementing several basic components; deregulation of the economy to permit privatization, strict control over wages, opening up the economy to foreign interests, liberalization of the flows of commodities and foreign capital (but not labor), and prioritization of the interests of international capital.[94]

The consensus followed the theories known as the "the ten neoliberal commandments" of fiscal discipline: reorientation of public expenditures, tax reform, financial liberalization, unified and competitive exchange rates, trade liberalization, openness to foreign direct investment (FDI), privatization, deregulation and secure property rights. Neoliberal policies were implemented in Latin America through the structural adjustment programs (SAPs) imposed and directly overseen by the World Bank and the International Monetary Fund. The reforms were introduced in the belief that fiscal discipline would build confidence among the private investors both foreign and domestic whose self-interested financial activates were seen as necessary to drive the recovery and growth of those collapsed economies.[95]

Neoliberalism is more than a set of macroeconomic policies: these new policies brought a profound restructuring of the political economy of Latin America. The institutions and functions

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[93] Mirowski, Van Horn and Stapleford point out

[94] Jose Ball Lara and Delia Luisa Lopez, "The Harvest of Neoliberalism in Latin America." In *Imperialism, Neoliberalism and Social Struggles in Latin America*, 21.

[95] Chan, *Bad Samaritans,* 32.

of the nation-state changed a great deal in Latin America during the neoliberal period. Some social scientists argue that the changes imposed during the neoliberal period are deep and possibly irreversible. External control has affected monetary, taxation and subsidy policies as well as social spending on health, education, social security, and in general, the overall prioritization of government spending. Neoliberalism has led to stagnation and marginalization, with declining health and education levels of children across Latin America. Each year in Argentina, an estimated 15,000 children die from curable sicknesses due to cutbacks in the national health budget.[96]

Neoliberalism in Latin America has been vilified by its critics, who see it as either an elite-class driven attempt to remake society in their own best interests or as a misguided set of economic policies that fail to properly acknowledge local context and cause more damage than benefit. Even the most ardent supporters of neoliberal have begun to concede that growth has been below expectations in many parts of the developing world. A study of recent scholarship on the neoliberal period will reveal that there are very few who have written about neoliberalism from a sympathetic or even neutral point of view. Practically everyone who writes about neoliberalism does so as part of a critique of neoliberal ideology. Most reflections on the evolution of development economics have originated from those who regret the direction neoliberalism has taken and who wish to restore the methods, substance and preoccupations of previous development models. Cambridge economist Ha Joon Chang also comments on neoliberal policies in Latin America:

> Over the last three decades, economists…provided…theoretical justifications for financial deregulation and the unrestrained pursuit of short term profits…

[96] Lara and Lopez, "The Harvest of Neoliberalism in Latin America," 22.

> Economics has been worse than irrelevant. Economics, as it has been practiced in the last three decades, has been positively harmful.[97]

David Harvey has been a very outspoken critic of neoliberalism;

> A theory of political economic practices that presupposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.[98]

The dismal economic performance of much of the developing world under neoliberalism, the negative social consequences and sever distributional implications in both the North and the South of the hemisphere are key factors responsible for the decline of neoliberalism. These neoliberal policies have been an abysmal failure as an economic doctrine, and many emerging leftist governments in Latin America have risen to power by exposing the weakness in these policies and promising to change them.

One of the key tenants of neoliberalism has privatization of state assets. All enterprises should be subject to the discipline of competition. Supporters of neoliberalism encouraged privatizing state enterprises because the private industry are more efficient, and deregulating state controls over private industry would eliminate the corruption and inefficiency which plagued the ISI era. Under neoliberal privatization schemes, state assets in the late twentieth century were transferred overwhelmingly to the domestic and international elites, often sold at prices that did not reflect true market value. Pushed as a means of making these industries more efficient, the realities of privatization created new means for the elite landowners to further

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[97] Chang, *Kicking Away the Ladder,* 35.
[98] Harvey, *A Brief History of Neoliberalism,* 2005, 2.

concentrate their wealth and widen income inequality.[99] State-owned Enterprises (SOEs) are properties collectively owned by all the citizens, who hire professional managers on fixed salaries to run them. Privatization of SOEs has been a centerpiece of neoliberal policies. It is important to privatize only when the stock market conditions are good. It is bad to set a rigid deadline for privatization, the IMF often insists upon a deadline for these sales. This is advantageous for the punchers since the sales often come at time so of economic downturns when currency values are low and the strict timelines force the selling country to sell before they are able to maximize their value. Such a deadline will force the government to privatize regardless of market conditions.[100] An example of the unfair nature of privatization of state owned organizations is the undervaluation of Bolivia's state owned oil and gas company, Yacimientos Pertrolíferos Fiscales Bolivianos (YPFB). At the time YPFB, was the most profitable state owned enterprise in Bolivia. Based on the substantial proven reserves, of natural gas and the high probably of new discoveries and secure the price which the Bolivian government sold the company to Sold for $834,944,022 USD was vastly undervalued, Brokered by the U.S. corporation Enron the terms of the sale reduced royalties paid to the Brazilian government to less than ten percent. The privatization YPFE shows how neoliberal policies transferred considerable power to transnational petroleum companies, at the expense of the majority of the Bolivian population.[101] Privatization continued to be a contended issue in Bolivia, and reached a peak in in 2000 when the privatization of the water supply in the city of Cochabamba, resulted in a rate increase of around 30% equivalent to $20 USD per month. These protests contributed to the Evo Morales election to the presidency in 2005. Since his

[99] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 425.
[100] Chang, *Bad Samaritans*, 117.
[101] Macdonald and Ruckert, Post-Neoliberalism in the Americas, 118.

election Morales has renationalized the many industries created new economic conditions that challenge neoliberalism in Bolivia.[102]

States that have adopted neoliberal policies are no longer able to reintroduce nation-state level control over their economies because they are now too deeply intertwined with the global economy to do so without facing capital flight and other forms of market sanctions. Privatization allowed foreign firms to exploit raw materials and preyed on the agricultural sector. American multinationals soon dominated the scene. Railroads, energy companies, ports, mines and oil fell to foreign interests. Legal changes and modified trade dynamics funneled corporate expansion into the region as never before.

The privatization of these corporations has contributed to the overall problem of job shortages and remains an underlying cause of poverty and disparities. Privatization contributed to a reduction of the industrial working class, an extraordinary growth of the informal sector, downward social mobility resulting from the impoverishment of broad sectors of the middle class, the decline of the public sector and state employment and the substantial loss of purchasing power on the part of wageworkers. In the first half of the 1980s, informal employment grew at a rate of 8.5% per year, while during the same period industrial employment contracted by 2%. Between 1980 and 1990, the ranks of the informal sector expanded by 75%. In 1990, 80% of all new employment in Latin America was informal in nature. An important part of neoliberal policy involved the opening of the region's economies to foreign commerce. The deindustrialization of the labor force further exacerbated the employment problems in Latin America and expanded the informal sector of many economies in Latin America. This is not only a problem of monetary income. Employment or the prospects of gaining employment are an important element of the overall quality of life. The failure to obtain work results in

[102] Burbach, Fox and Fuentes. *Latin America's Turbulent Transitions*, 30.

frustration, insecurity and psychological harm.[103] These economic conditions have contributed to reshaping families across the region. The lack of meaningful opportunities and acceptable standards of living has played an important role in driving Latin Americas to look for work in the United States. Facing difficult and dangerous conditions, these people risk their lives for the possibility of better living conditions in the United States.

Eduárdo Galeano summarized the situation in a single sentence: "going for a walk in large Latin American cities has been transformed into a high risk activity."[104] One of the greatest problems associated with social decline following the application of neoliberal policies across the continent has been the extraordinary growth of criminality and violence. Latin America has an annual rate of 30.7 homicides per 100,000 inhabitants, six times greater than the world average. The increase in social inequality, chaotic rapid urbanization, increased consumption of alcohol and drugs, widespread circulation of firearms, corruption, pervasive impunity and police abuse contribute to this rise in violence. This increase in violence also has economic concerns. The World Bank estimates that Latin American countries have sustained losses of more than two hundred billion USD, over the last fifteen years.

Neoliberalism has been an "occupying force in Latin America" for over three decades, and the underlying objective of neoliberalism has always been to create better conditions for capitalist accumulation. In the developing world, dependency theory argued that accepting a production position allocated by the existing global division of labor meant accepting agricultural and resource based specializations that transferred income to the rich countries. Global capitalism interlinked financial, resource and environmental crises originating in

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[103] Lara and Lopez, "The Harvest of Neoliberalism in Latin America." 28.
[104] Buono and Lara, eds. *Imperialism, Neoliberalism and Social Struggle in Latin America*, 31-32.

unregulated, pro-financier, neoliberal economic policies.[105] Eduárdo Galeano ideas of neoliberal policies highlight ways in which developed countries use their influence over social, economic and political policies in Latin America.

> From the start foreign industries used their influence to negotiate favorable economic sanctions with Latin American governments, allowing these new industries to grow behind measures to restrict and control imports, fix special exchange rates, avoid taxation, but or finance production surpluses, use government funds to build roads for the transport of raw materials and merchandise, and create or expanded sources of energy. These foreign industries use their influence and capital to create favorable protectionist policies for themselves, while their home countries use their influence and promises of economic aid to impose free trade policies that deny these protections to local industries. These free trade policies further exacerbate poverty in these developing countries when local industry fails and are purchased, absorbed and dismantled by foreign industries.[106]

Neoliberalism oversold itself; the economic results of neoliberalism show the power of markets produce short-term economic benefits. However, markets have been unable to overcome the deep-seated socio-economic challenges facing the region and have reinforced the entrenched economic policies. Neoliberalism failed to bring about the promised growth and economic stability. Initially, the region experienced consistently high growth rates and gradual reductions in the rate of poverty, though most states in the region continued to have high levels of inequality, relatively underdeveloped institutions, and frequent bouts of authoritarianism. In

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[105] Peet, *Unholy trinity*, 7.
[106] Galeano, *Open Veins of Latin America*, 210.

2005, approximately 150 million of the regions' 550 million residences earned less than $2.50 USD per day and slightly less than half of those earned less than $1.25 USD.[107]

Neoliberal theory holds that a market-led economy is necessarily better than a government-led economy in terms of development in general and poverty alleviation in particular, but the concept is both incomplete and partially flawed. Neoliberal globalization has failed to deliver on all fronts of economic life growth, equality and stability. During the last decade, the international development policy established has come to recognize the limitation of its former emphasis on 'getting prices' right though 'good policies'. These alleged 'good policies' have not been able to generate the promised growth.[108] The world, especially the developing world, has seen more frequent and larger scale financial crises since the 1980s.[109] Although neoliberal reform has helped to reduce national debt, it has also increased the debt of individual citizens by helping to create a culture of consumerism and cutting social services. Although neoliberal reform helps connect countries with each other by increasing the rate at which they import and export culture, knowledge, goods and services, these resources are very unevenly distributed across the population, creating a sense of relative disparity both on a national and international level, especially in urban areas. The social, economic and political experiences of Latin America matters now more than ever because of the interconnected nature of the global economy. The negative connotations of neoliberalism are not unique to Latin America, and because of the interconnected nature, of the new global economy the transformation of the region has begun to transform all aspects of world trade.

The general economic picture of neoliberalism is one of decline and stagnation at the bottom, moderate growth and relative loss in the middle class and big growth among the

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[107] Kingstone. *The Political Economy of Latin America*, 11.
[108] Chang, *Kicking Away the Ladder*, 70.
[109] Chang, *Bad Samaritans*, 28.

wealthiest class. A study carried out by Pablo Gonzalez Cassanove showed that neoliberal policies have contributed to increasing transfers of surplus from the periphery to the center, thanks to interest rates and debt payments, the declining terms of exchange and the high level of profits remitted back to foreign capital investors. The application of neoliberal policies involves social class redistribution, redirecting wealth from workers to owners as well as between sectors within the ruling class, resulting in a decline in the earnings of workers' by twenty-five percent, where investor profits increased more than fifteen percent during the same period.[110]

The growth of poverty and inequality in Latin America has created economic hardships with the United States, and the effects of neoliberal policies have begun to have a negative impact outside of the Latin America. The difference is the level of income inequality, while the United States has high levels of poverty and inequality compared with other developed countries. Nevertheless, the poor do not constitute nearly as large a portion of the population as in Latin America, and the physical separation of middle-class America and the poor is greater than in Latin America. The recent economic crisis left millions of Americans unemployed, nearly ten percent of the working population, and millions more underemployed. To counter this, the United States government has spent more than a trillion dollars bailing out banks and industries it deemed "too big to fail." Nevertheless, little has done to address the hunger and poverty that many Americans face every day. Just as in Latin America, the U.S. government faced the same conflicts that have defined economic development in Latin America: markets versus government control; private property rights versus community needs; efficiency versus social justice; centralized technical decision making versus democratic accountability.[111] The struggle against neoliberalism has taken on an inter-American character.

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[110] Lara and Lopez, "The Harvest of Neoliberalism in Latin America." 21.
[111] Kingstone. *The Political Economy of Latin America*, 11.

The economic hardships and lack of opportunity in Latin America influence the immigration policies in the United States. Negative economic growth and the promise of opportunity abroad influenced a large-scale migration of people leaving Latin America looking for new opportunities. More than twenty-five million Latin Americans now live outside of the region, a majority of them in the United States. Fourteen percent of the U.S. population is Latino, and Latinos constitute the fastest growing minority in the United States. Immigration is a concern within European countries also. Workers from underdeveloped countries deprived of opportunities to make a living at home "flood" into countries like the United States, The Netherlands, France and the United Kingdom. The socially insecure native workers from developed countries see the immigrant workers as the source of their domestic economic problems. Immigration has become a highly debate and polarizing issue in American politics for decades. Immigrants have been scapegoats for political, cultural, and economic issues in the United States for hundreds of years, and immigration reform has become a top priority for state, local and the federal government. However, the debate often does not address how the economic policies of the United States towards Latin America are directly responsible for the immigration "problem." People come to the United Sates seeking new opportunities after neoliberal free trade policies have destroyed their ability earn decent wages, exacerbated issues of unequal land distribution and created an economic environment which allows capitalists to exploit their labor. These are hardworking people, who have been vilified by politicians and the media of the United States who capitalize on their despair to their political advantage. These people risk their lives for new opportunities however, what they find is just another system in which industry elites exploit the lower classes' labor while politicians, the law, and the justice system violate their rights. "Immigration reform" will continue to fail until we address the causes of it.

The North American Free Trade Agreement (NAFTA), promised to create new economic opportunities for the people of The United States, Canada and Mexico, however the reality has been an unfair trade agreement. While NATFA increased access to the U.S. market for Mexican fruits and vegetables, this came at the heavier cost of the country losing its national markets, as farmers in Mexico unable to compete against the cheap subsidized crops from the United States, and forced millions off their land and into the urban squalor. Only a small number of farmers have benefited from the export of fruit and vegetables and grain imports have devastated thousands more throughout the country. While neoliberal polices force developing countries to remove subsidies, the United States continues to use farm subsidies to give their goods an economic advantage on the world market. Seventy percent of farm subsidies in the United States go to ten percent of the producers, many of which are agribusinesses; recipients of federal agricultural support include media billionaire, Ted Turner, and David Rockefeller. The European Union gives subsidies of $50 billion per year under the Common Agricultural policy. Half of this aid goes to one percent of the producers, including the richest man in the United Kingdom the Duke of Westminster (who owns 55,000 hectares of farm estates) received a subsidy of $480,000 as direct payments in 2003 from the British government.[112] In Mexico, nearly two million farmers have left the land since the start of NAFTA, but few have found other quality employment. Worldwide, subsides lead to the dumping of "cheap" agricultural products on developing countries. This threatens the food security of developing countries, the effectiveness of poverty reduction programs and benefits a handful of large, corporate transnational corporate farms, a majority based in the United States and Europe.[113] Cheap imports, replacement of labor-intensive jobs by capital-intensive technologies, lay-off facilitating

[112] Peet, *Unholy Trinity*, 229.
[113] Peet, *Unholy Trinity,* 229.

policies, and an increase in labor all have fueled the process. Between 1990-2004, unemployment across Latin America rose from 6.9 percent to ten percent, and seven out of every ten new jobs was created in the informal sector. [114]

While free trade has dominated economic theory for nearly three decades, free trade, neoliberal policies are not the best path to economic development for the countries of Latin America. "Free trade" policies often disproportionately benefit multinational corporations based out of developed countries. Income inequality has continued to expand despite Latin America's abundance of natural resources, plenty of land, and a large labor force. These policies extract wealth from developing countries through unfair trade deals, keeping these countries from reinvesting into developing new industries and expanding existing industries. A balance of state control is required to help guide that economy in the direction that will allow maximizing economic growth. During the reign of neoliberalism from 1980 until 1990, overall GDP in Latin America grew by only six percent, compared to the seventy-five percent growth rate during the period 1960 until 1980, under the now desecrated model of import substitution industrialization.[115]

While neoliberalism, free trade, and globalization may have failed to bring about changes in the way that wealth is distributed, it has reshaped the way that people interact with one another and exchange goods. Neoliberalism creates conditions for a growing tendency towards political, economic and social exclusion for the majority of the world's population. There have to be better methods of distributing wealth and capital. While many leaders of the New Left governments in Latin America have risen to power on platforms of rejecting and changing neoliberalism, many of these countries have not developed alternative theories of development.

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[114] Barra and Buono, A*fter the Neoliberal Debate,* 100.
[115] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 4.

Despite this, a new model of modified neoliberalism is emerging in Latin America, although many leaders from the New Left rose to power by speaking out against neoliberalism. Still none have fully moved away from these policies and practice capitalism and participate in the world economic markets. These new economic models balance markets and the state in a way that offers promise for the future, what economist Javier Santiso has labeled and "Latin Americas political economy of possible."[116]

Despite the failures of neoliberalism, developed countries continue to act as "bad Samaritans," preaching free market and free trade to the poor countries in order to capture larger shares of the latter's market and to preempt the emergence of possible competitors. The developed countries maintain protective barriers and invest in subsidizing their own producers. The US gives $4 billion dollars to 25,000 American peanut farmers. While most domestic subsidies are discouraged through neoliberal policies, developed countries use them to create an advantage. In the name of leveling the playing field, the bad Samaritan countries have created a new international trading system rigged in their favor. [117] Free trade policies exacerbate an economic situation that has existed since colonial times, which keeps Latin America in a position of economic dependence. The United States, through the IMF, promotes and forces free trade policies on developing countries operates an enormous protectionist system of tariffs, quotas, internal subsidies, which give its own companies an unfair advantage over developing industries.[118] Cambridge Professor of Economics Ha-Joon Chang's idea in which the developed countries have acted in a means that exploits their political, social and economic positions to create conditions favorable to their economic goals:

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[116] Bulmer-Thomas. *The Economic History of Latin America since Independence*, 101.
[117] Chang, *Bad Samaritans*, 77.
[118] Macdonald, Rucket, *Post neoliberalism in the Americas,* 9.

> Kicks away the ladder by which he has climbed up, in order to deprive other of the means of climbing up after him. In this lies the secret of cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations. Any nation with by means of protective duties and restrictions on navigation has raise their manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other countries the benefits of free trade and to declare penitent tones that has hither to wandered in the pats of error, and has now for the first time succeeded in discovering the truth.[119]

Many leaders of the New Leftist governments in Latin America have risen to power on platforms of rejecting and changing neoliberalism. A new model of moderate neoliberalism is emerging in Latin America. Social reforms adopted by many governments appear to be fiscally and political sustainable and have begun to raise millions of people in Latin America out of poverty through new economic models that balance markets and the state in a way that offers promise for the future.

While many leaders from the New Left rose to power by speaking out against neoliberalism, many have not created radical economic change nor have they fully moved away from these policies. Nevertheless, significant and diverse reforms in both the political, social, and economic policies towards a new model of development address the issues of poverty and inequality while creating opportunities for long-term growth and new opportunities for the

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[119] Chang, *Kicking Away the Ladder*, 4-5.

people of Latin America. Economic growth and development requires liberal institutions that foster individualism, fair trade, and capital freedom.

Countries throughout Latin America have rejected neoliberalism to some degree, and many are now looking to the European Union as an economic guide. With the exception of some ideas, the leftist governments of Latin America resemble the social democratic governments of Europe. European social democracy is associated with a variety of capitalism that differs dramatically from the liberal self-regulating market economy of the United States. While the initial steps for these countries have been modest however, European Social democracy itself did not develop overnight, European left parties moved gradually over the course of several decades to develop and refine the universal social programs that today define social democracy.

Post-Neoliberalism

Supporters of free trade believe that only in societies where markets are free of state interference can competitive entrepreneurs maximize economic growth. In Latin America, neoliberal economic policies have dominated development discourse for the past quarter century. The Neoliberal period ushered in deregulation, privatization, and deep cuts in social spending for education, healthcare, public services and social security. Poverty elimination was not an explicit concern. Rather, economic growth would eventually filter down to the poor. During the neoliberal period, market economic reforms took the sate out of policymaking. Markets, not local politicians and the state, allocated most goods and services.[120] Water supplies and other public utilities and services came under the control of multinational corporations. Free market policies

[120] Silva, Eduardo. *Challenging Neoliberalism in Latin America.* Cambridge: (Cambridge University Press, 2009), 8.

allowed international corporations to profit from the most fundamental human need—access to clean water.[121]

Confronted with the failures of the failures of neoliberal economics to bring about the economic growth which free trade economists promised, the end of the neoliberal era began at the turn of the twenty first century and the rise of New Leftist governments in Latin America have brought new economic policies which address the failures of Neoliberalism. Financial policies of neoliberalism have created an environment of more volatile business cycles and unsatisfactory growth patterns. Old problems like the dynamics of productivity, economic heterogeneity and the creation and dissemination of technological capabilities still persist and underlie some of the structural constraints affecting the region.[122] Economic desperation leads people to explore new political and social pathways. In Latin America, in response to the decades of economic inequality and slow domestic production, people have continued to push their governments to address the growing gaps between rich and poor as well as the threats to the environment, which the previous economic development policies have created. The mobilized masses are battling for the hearts and minds of Latin Americans pushing for new social policies, which will address and correct the economic inequalities, which have prevented Latin America from escaping poverty. Many governments in Latin America have increased their role in the in the investment in human and social capital and the subsidization of consumption by the poor. Governments across Latin America have brought new ideas and policies designed to stimulate the economy and correct widespread market failures; to substantially deepen democracy by engaging citizens more directly; to use state institutions to reduce social inequalities through

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[121] Roger Burbach, Michael Fox and Ferderico Fuentes. *Latin America's Turbulent Transitions: The Future of Twenty-First Century Socialism*. (New York: Zed Books), 2013, 16.
[122] Bárcena, Alicia. "Structural Constrains on Development in Latin America and the Caribbean: A Post-Crisis Reflection." *CEPAL Review* no 100 (2010), 9.

redistributive measures and to renationalize some parts of the economy, especially in the energy and mineral sector. [123]

Despite the failures of neoliberalism, currently it is unclear whether these unfolding post-neoliberal practices represent a genuine break with the neoliberal policies or merely amount to a reconstitution and rearticulating of neoliberal policy in a somewhat gentler and kinder form.[124] Chávez in Venezuela, Morales in Bolivia and Correa in Ecuador have introduced significant reforms and employed radical policies that have reshaped the economics of their countries and throughout the region. Governments in Latin America continue to adhere to the macroeconomic core of neoliberal prescriptions, such as moderate inflation rates, balanced budgets and trade liberalization. Lula da Silvi in Brazil, Tabaré Vázquez in Uruguay and Michelle Bachelet in Chile are all president elected on leftist and center-left tickets who have been systematically accused of holding on the orthodox or neoliberal economic policies by domestic and foreign critics[125]

However, these policies have begun to create new opportunities for the people of Latin America. In Argentina, the current president Cristina Elisabet Fernandez de Kirchner have contributed to continual decrease in rates of both poverty and extreme poverty. As recently as 2011, the poverty rate in Argentina has dropped to 2.4 percent of the population and extreme poverty to 0.6 percent. This a dramatic decrease from, former President Carlos Saul Menem's last year in office in 1999, when 2.7 percent of the Argentine population lived below the poverty line and 2.7 percent was in extreme poverty.[126]

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[123] Macdonald, Ruckert, *Post neoliberalism in the Americas,* 9.
[124] Macdonald, Ruckert, *Post neoliberalism in the Americas,* 20.
[125] Macdonald, Ruckert, *Post neoliberalism in the Americas,* 7.
[126] ECLAC. 2013. "Statistics and Indicators." United Nations Economic Commission for Latin America and the Caribbean. Santiago, Chile. http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i.

As neoliberalism has retreated new policies have emerged, in which a wide range of policy experiments have begun to address the problems to address the longstanding inequality and poverty throughout Latin America. Dubbed by many scholars as neostructuralism, the current period of development can be seen as an attempt to forge a post-neoliberal paradigm, based the ideas of thinkers at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC or CEPAL in Spanish). ECLAC has argued in recent years that the State needs to play a renewed part in guiding development strategies in the region's countries. ECLAC has called for redefining the role of the state and the way it operates, with a view to achieving a balanced interaction between the market, institutions and citizens in the development process. Building "long-term" development strategies will require a greater capacity to devise and implement public policy measures that can reconcile what is enduringly important with the needs of the moment.[127] Neostructuralists have argued that leaving the market alone to determine economic policy will result in oligopolistic competition and static comparative advantage.[128]

Neostructural ideas can be traced back to the 1990 ECLAC document *Changing Production Patterns with Social Equity.* Since then, these ideas have risen to prominence as a viable alternative to the market orthodoxy of neoliberalism. Following the adoption of the United Nations Millennium Development Goals, the international aid has been structured by some rather different principles. Rather than diminishing the role of states in development, current aid policies have focused on poverty elimination, and local states should 'own' their own development strategies.

Future social scientists may look back at the current periods of governance in Latin America as a major turning port in the social and economic history of the Americas. While the

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[127] Básrcena, "Structural constraints," 8.

[128] Warwick E. Murray, John D. Overton. "Neoliberalism is dead, long live neoliberalism? Neostructuralism and the international aid regime of the 2000s." *Progress in Development Studies* 11, 4 (2011), 311.

continent still displays the highest levels of inequality in the world, and an income gap aggravated by the neoliberal decade, social movements and development politics in Latin America have begun the process of addressing these long-standing problems of poverty, inequality, social exclusion, racism, and sexism. By 2008, many Latin American countries had elected left-of-center presidents, which accounted for sixty five percent of the region's 350 million people. The neoliberal period exacerbated the entrenched the historical inequalities of western economic domination which has made such a rapid turn to the left quite unexpected. Despite the limitations, neoliberalism imposed upon Latin America, redistribution of wealth thorough progressive taxation, structural reforms (such as agrarian reform), the expansion of welfare services, the protection and expansion of workers' rights and strong political participation have begun a new period of economic growth and created new political and social opportunities for economic independence and growth, in both hemispheres of the Americas.[129]

So, what is the New Left in Latin America? A definition provided by Levitsky and Robert; the left refers to political actors who seek, as a central programmatic objective, to reduce social and economic inequalities. New Leftist parties seek to use public authority to redistribute wealth and/or income to lower-income groups, erode social hierarchies, and strengthen the voice of disadvantaged groups in the political process.[130] In the socioeconomic arena, policies of the political left aim to combat inequalities rooted in market competition and concentrated property ownership, enhance opportunities for the poor, and provide social protection against market insecurities. Although the contemporary Left does not necessarily oppose private property or market competition, it rejects the idea that unregulated market forces can be relied on to meet social needs. In the political realm, the Left seeks to enhance the incorporation of

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[129] Macdonald, Ruckert, *Post neoliberalism in the Americas,* 38.
[130] Levitsky, Steven & Kenneth M. Roberts eds. *The Resurgence of the Latin American Left.(* Baltimore: Johns Hopkins University Press, 2011), 5.

underprivileged groups and erode hierarchical forms of domination that marginalize popular sectors.[131] Emir Sader in his 2011 book *The New Mole* describes the New Left in Latin America as consciously 'seeking to create an anti-liberal and anti-capitalist alternative," and "their aim is to overcome neoliberalism and develop processes of regional integration that strengthen the resistance to imperial hegemony, so as to develop post-neoliberal models." For the purpose of this study, the New Left refers to political actors in Latin America who follow these ideas and have begun to develop economic policies, which seek to reduce social and economic inequalities. Left parties use public policies and institutions to redistribute wealth and/or income to lower-income groups, erode social hierarchies, and strengthen the voice of disadvantaged groups in the political process.

While the majority of these New Leftist governments have committed to new economic growth models, some have been more willing to break away from neoliberal orthodoxy by using state power to regulate markets, alter property relations, redistribute income, a moratorium on privatizations, stricter regulation of private monopolies and a halt to further unilateral trade liberalization.[132] The rise of leftist parties in Latin America was far from a uniform experience; leftist alternatives emerged or strengthened during the 2000s across the region especially in Venezuela, Bolivia and Ecuador. Characterized by a search for progressive policy alternatives, the post-neoliberal era arose out of the failure of neoliberalism. Despite these changes, according to some scholars the new era of development is nothing more than neoliberalism dressed up in a manner that is more acceptable to the electorate, and for them, neostructuralism has become a new form of Latin American populism.[133]

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[131] Levitsky and Roberts, *The Resurgence of the Latin American Left,* 5.
[132] Macdonald, Ruckert, Post neoliberalism in the Americas, 39.
[133] Warwick, Overton. "Neoliberalism is dead, long live neoliberalism?," 312.

Neostructuralism is also altering the political environment of Latin America. In conjunction with creating new economic opportunities, these states are trying to move their countries towards a democratic participatory society, where popularly elected governments have a role not only in actively intervening to create competitive advantage, but also as a body that facilitates participation for all citizens. Economic development is about more than the economy, leaders of the New Left are trying to create a shared identity for all citizens of Latin America based on equality and freedom it is about institutions, the government and civil society, as well as the market. In this sense, neostructuralism seeks to restore balance between society and the state. Under neostructuralism, the state intervenes to ensure that economies move beyond resource-dependent development and create industries, which add value to their products.[134]

The New Left governments seek to redress social imbalances within Latin America. The beginning of the New Left shift came with the election of Hugo Chávez in Venezuela in 1998. Chávez began a grassroots campaign across the country believing that the only way the people of Venezuela could eradicate poverty was to give economic and social power back to the people. Focused on three key issues national sovereignty, poverty eradication, and participatory democracy, all three issues would remain the key concerns of the Chávez government over the next decade. In 2003, Chávez began to renationalize Petróleos de Venezuela (PDSV), during the Chávez presidency, Venezuela's oil wealth has used to finance social programs to address poverty and inequality and provide the people of Venezuela with new economic, political, and social opportunities. Chávez used the wealth of Venezuela's oil reserves would the challenge to U.S. hegemony in the region.[135]

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[134] Warwick, Overton. "Neoliberalism is dead, long live neoliberalism?," 310.
[135] Burbach, Fox & Fuentes, *Latin America's Turbulent Transitions,* 52.

Chile was the next country to elect a leftist president with Lagos of the Chilean socialist party assuming the presidency in 2000. In 2002, Brazil elected "Lula" da Silva. In 1980, Lula and his fellow workers founded the Workers Party (PT) in Sao Paulo. The PT manifesto, approved on 10 February 1980 said, "the PT proposes to be a true political expression of all of those exploited by the capitalist system." The PT was born by the exploited to fight against an economic and political system, which only exists to benefit a privileged minority.[136] Since taking office Lula has promoted fiscal conscious policies, which now provides minimum income levels to some forty-four million people or twenty-five percent of the population through the *Bolsa Familia* program, a conditional cash transfer program (CCT) which provides up to $116 USD to nearly 12.7 million families. *Bolsa Familia* policies have risen twenty-eight million families out of poverty, while extreme poverty in Brazil decreased from twelve percent in 2003 to 4.8 percent in 2008.[137]

Despite these gains economic gains, Brazil has not broken itself from the constraints of international finance. In Brazil, new programs have neither completely replaced the neoliberal model nor produced a comprehensive alternative to neoliberalism, through modest economic growth and poverty reduction suggests that the future can be different and create a better form of globalization. Brazil' policies are presented within the context of a leftist agenda, however, economic policies which continued to disproportionally benefit the richest segments of society, where income grew more proportionately than the improvement of the lower class. During their time in power the mission of the PT shifted from their founding ideas of protecting the rights of

[136] Burbach, Fox & Fuentes, *Latin America's Turbulent Transitions,* 119.
[137] Macdonald, Ruckert, Post neoliberalism in the Americas, 45.

workers as Lula and the party become more concerned with winning and holding on to political office than bringing meaningful socioeconomic changes.[138]

Unlike other leftist countries, the money for Brazil's poverty reduction programs does not come from income redistributed through the nationalization of industries but from the loans from the World Bank. Brazil received loans of $572 million in 2004 and $200 million in 2000. While these programs have helped lift millions of Brazilian people out of poverty, these programs are just a stopgap measure, and the sustainability measures of these programs have come under question. Lula's government has followed a leftist agenda to address social concerns his economic policies continue neoliberal policies, which have contributed to increasing debt, which now consumes over eight percent of GDP and twenty percent of total fiscal expenditures.[139] To sustain that he has increased the size of state expenditures to over forty percent of GDP, though without investing much in public infrastructure or in production friendly measures, such as softer credit terms.

Despite all the shortcomings of Lula's policies, there have been some positives. These measures have reduced the number of children from dropping out of school; they do not address the lack of schools and teachers, nor invest in increasing the number of teachers and classrooms available to the people of Brazil or increasing the quality of existing schools.[140] The economy of Brazil has grown on 2.3 percent per year during the Lula admiration. However, this is barely expands at the rate of population growth and cannot generate enough jobs for its new workers. Despite their shortcomings Lula's social programs have led to a decrease in inequality, the GINI

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[138] Macdonald, Ruckert, Post neoliberalism in the Americas, 46.
[139] Macdonald, Ruckert, Post neoliberalism in the Americas, 470.
[140] Burbach, Fox & Fuentes, *Latin America's Turbulent Transitions,* 128.

coefficient (the international standard for measuring inequality) reached an all-time low of 0.53 percent in 2010 down from 0.6 in 2003.[141]

Chávez and Lula have been the most outspoken and public leaders of the New Left and their leadership has encouraged to expand ideas which challenge neoliberalism across Latin America during the first years of the twenty-first century. However, it was the reelection of Hugo Chávez in 2006, which began a more dramatic shift to the left and away from neoliberalism. Chávez's outspoken nature in opposition to the control of the United States has contributed to the resurgence of the region's popular forces and the leadership of their political parties and social movements continued to gain strength across the region. Often referred to as twenty-first century socialism or Bolivarianism, Chávez championed a sociopolitical movement within Latin America which strives to construct democratic societies, which rejects neoliberalism and the domination of the United States. While the Bolivarian revolution incorporates social ownership of land and natural resources and incorporates income redistribution policies, it is not the historical socialism based on the works of Karl Marx or Soviet-style centralized bureaucratic planning. Instead, Bolivarianism promotes the expansion of democracy and national sovereignty in hopes of fulfilling the South America liberator Simon Bolivar's dream of a unified Latin America, the expansion of democracy and national sovereignty without necessarily going beyond capitalism. Venezuela and other leftist governments in Latin America are still reliant on the global capitalist market, however, new political opportunities where the people of Latin America are allowed to vote every few years for candidates that question the capitalist order and the centrality of the marketplace have the potential to reverse the shortcomings of pervious economic models.[142]

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[141] Burbach, Fox & Fuentes, *Latin America's Turbulent Transitions,* 129.
[142] Burbach, Fox & Fuentes, Latin America's Turbulent Transitions, 4.

In Bolivia growing organization and activism by indigenous and peasant groups in linked their ethnically articulated demands for territory and recognition to the social consequences of neoliberal policies helped Evo Morales, leader of the *Movimiento al Socialismo* (Movement toward Socialism, MAS), became president of Bolivia on January 22 2006, following five years of massive protests. President Morales became the first person elected in Bolivia to come from an indigenous population. His administration would create new opportunities for the indigenous people of Bolivia and sought to address the environmental destruction, and nationalization of natural resources. By renationalizing the hydrocarbon industries of Bolivia, President Morales involved a dramatic transfer of power and profit to transnational petroleum corporations. Despite the higher levels of royalties and taxes, these reforms created for the Bolivian state, foreign petroleum companies retain ultimate control over the industry.[143]

New social investments are aimed at making it easier for citizens to be included in and benefit from capitalist market transactions. Governments have recently begun to invest in the generation of human capital. In contrast to the Keynesian welfare era, these post-neoliberal interventions attempt to produce "active" (labor market participation) rather than "passive" welfare programs within the boundaries of the market model and which allow people new opportunities.[144] In the last ten years, conditional cash transfers (CCT) have blossomed here and there, bringing new victories in the fight against poverty in Latin America. These programs offer social safety nets and poverty reduction effects at the same time. CCTs in Brazil have paid families for children to attend school. This investment in education has risen the school attendance. In the early 1980s, some twenty percent of children of school age in Brazil were not

[143] Burbach, Fox & Fuentes, Latin America's Turbulent Transitions, 118.
[144] Macdonald and Ruckert, *Post-Neoliberalismn in the Americas*, 8.

attending school; by 2000, the figure was down to three percent.[145] Investments in public infrastructure have accompanied increases of private investment in manufacturing and services, eventually reducing unemployment from 20.4 percent in 2003 to 8.9 percent in 2007. [146]

The reduction in poverty created by these new social policies in Latin America have also contributed to improve the lives of people across Latin America and other social indicators have continued to improve. Life expectancy across Latin America has increased by almost eight years since 1980-1985, and infant mortality has fallen by more than fifty percent. Illiteracy has been halved and is down to less than thirteen percent while school enrolments are up at all levels of education, and very significantly so at the secondary and tertiary levels (primary school enrolments were already very high at the beginning of the period). Income concentration increased in five countries, especially Paraguay, Costa Rica and Ecuador, and declined in seven, especially Honduras, Uruguay and Mexico.[147]

In Venezuela during the Chávez presidency, for the first time in history Venezuela's oil wealth was under the control of a government intent on using the money to address social inequality and transform the economy. Revenue from the state controlled oil industry, PDSVA itself began to directly fund the *Misiones Sociales* programs aimed at expanding access to education and healthcare. Between 1999 and 2006, government spending as a percentage of GDP increased from 9.4 percent to 13.6 percent.[148] The first social mission created in 2003 to combat illiteracy and deliver free health care and affordable food. Within three years had rapidly expanded in number to twenty-one individual missions by 2006, allocating over twenty percent of the government's annual budget to social programs. One of the earliest and well known of

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[145] Berry Albert, Ed. *Poverty, Economic Reform, and Income Distribution in Latin America.* (London: Lynne Reinner, 1998),36
[146] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 45.
[147] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 45.
[148] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 90.

these is the *Misión Barrio Adento* health initiative set up to provide free health care and medication, and it has brought more than 20,000 Cuban physicians and health care workers to Venezuela in exchange for oil. *Misión Barrio Adento* reformed the publicly funded health care system in Venezuela, which had eroded under neoliberal structural adjustment policies. Health reforms in the 1990s restructured health care in favor of private financing and decentralization. Early analyses indicate that *Misión Barrio Adento* has succeeded in extending access to health care access to the citizens of Venezuela particularly for the poor. Other social missions have also played a key role in distributing subsidized food (*Misión Mercal*) and leading campaigns to expand literacy (*Misión Robinson*). *Misión Mercal* created in 2003, subsidizes food through price controls, reducing the cost of basic goods by as much as twenty-five percent and constitutes one of the largest government holdings, receiving close to twenty five million in monthly subsidies; in 2006 and more than forty percent of the population bought subsidized food.[149] Between 1999 and 2006, government spending as a percentage of GDP increased from 9.4 percent to 13.6 percent. Misión Zamora, the governments' land reform program has led to modest gains in unemployment, land distribution equality and food production. The program redistributed large idle landholdings to peasant farmers, while providing technical and financial support and promoting collective organization and labor. Land redistribution programs has resulted in two million hectares of state owned land was redistributed by the end of 2004.[150]

Combined with minimum wage increases and price controls on essential food items, the social impact brought about by the redistribution of oil revenue via social spending in Venezuela has transformed the lives of millions of people across the country. Poverty levels dropped by 24.5 percent between 2003 and 2006, and the number of households in extreme poverty fell by

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[149] Macdonald and Ruckert, *Post-Neoliberalism in the Americas*, 97.
[150] Burbach, Fox, and Fuentes. *Latin America's Turbulent Transitions,* 59-61.

sixteen percent during the same period. A report by the Venezuelan American Chamber of Commerce and Industry revealed that between 2004 and 2006, the real income of the poorest fifty-eight percent of the population increased by one hundred thirty percent.[151]

While the nonstructural period has begun to bring changes in Latin America, the economic problems brought about by neoliberalism are not unique to Latin America; the United States also faces the same economic challenges. Neoliberal economic policies and globalization have transformed the world economy. The removal of barriers to free trade and the closer integration of national economies, over the past two decades have further integrated the United States and Latin America socially, demographically and economically. As a result of the interconnected nature of the new world economy, economic issues that limit economic opportunity in Latin America have begun to influence the economies of the United States and other advanced democratic capitalist countries. During the twentieth century, the United States was the dominant political and economic power. As the economic conditions have improved over the past decade, new governments and organizations within Latin America have challenged U.S. domination and spread these new economic ideas.

The post-neoliberal era has coincided with the decline of the historic hegemony the United States has exerted over the southern part of the hemisphere. The protests at the World Trade Organization (WTO) meeting in Seattle in 1999 initiated a series of protests against neoliberal globalization and in favor of social justice in the global economy. The decline in U.S power in the region has created a geopolitical environment in which new economic development policies have begun to create new opportunities for the people of Latin America. The shifting of economic power within Latin America has begun to undermine the economic influence of the United States. Historically, Latin America has been one the largest trading partners of the

[151] Ibid.

United States. However, recent economic growth in China and Russia has shifted the economic role of the United States in Latin America; U.S. exports to Latin America have dropped from fifty-five percent of the region's total in 2000 to thirty percent in 2009. China sends manufactured goods to Latin America in exchange for commodities such as, soybeans, petroleum, copper iron ore, and timber. China's demand for raw materials has led it to replace the United States as the dominant trading partner of many countries in Latin America. Chinese trade with Latin America as a whole stood at $180 billion in 2010, an eighteen-fold increase since 2000.[152] The two global economic engines, the United States and China, both have been behaving like Keynesian states in a world supposedly governed by neoliberal rules.

The decline in U.S power in the region has created a geopolitical environment in which policy diversity has flourished. These new economic opportunities have shifted U.S. economic domination in Latin America. Inequality, state level corruption and subordination to the United States motivated countless popular movements throughout the twentieth century. Some reformist, other revolutionary, some urban and some rural the eruption of anti-neoliberal social movements and the rise of the New Left governments has created a sociopolitical environment where the growing integration of the region on its own terms have created a space for new social and economic opportunities for after the dramatic setbacks of the last century. Perhaps one of the most well-known attempts of neoliberal control by the United States over Latin America is that of the North American Free Trade Agreement (NAFTA) in 1993. Despite the promises of economic growth, NAFTA has been an economic failure. The economic conditions created by NAFTA have eroded living standards, undermined workers' rights, devastated family farms, and empowered corporations to restrict the ability of federal, state, and local governments throughout Latin America to regulate both public and private services or to provide essential public services.

[152] Burbach, Fox, and Fuentes. *Latin America's Turbulent Transitions, 54.*

The new opportunities brought about by the rise of anti-neoliberal social movements have contributed to the weakening of the U.S. economic domination. In conjunction with, the rise of the New Left governments and the growing integration of the region on its own terms have created new organizations within Latin America to further challenge U.S. dominance. Growing out of the failures of NAFTA, opposition to the Free Trade Area of the Americas (FTAA), and the *Alianza Bolivariana para los Pueblos de Nuestra* América (Bolivarian Alliance for the Peoples of Our America ALBA), directly challenges the neoliberal U.S. project of constructing a hemisphere wide free trade zone and embodies a deeply anti-neoliberal logic. Founded by Venezuela and Cuba in 2004, ALBA encourages 'fair-trade' not free trade and promotes integration through solidarity. In 2007, the economic ministers of Argentina, Venezuela, Bolivia, Ecuador, Paraguay and Brazil launched a Latin American development bank, *El Banco del Sur*, (Bank of the South). The Bank of the South maintains equal voting rights for each of its member states and provides an alternative to the World Bank and the IMF. It has helped to free financially dependent countries in the hemisphere from the shackles of the international financial intuitions (IFIs). *El Union de Naciones Suramericanas* (UNASUR, Union of South American Nations) launched in May 2008 is a trade and policy organization modeled on the European Common Market. *Mercado Comun del Sur* (MERCOSUR, Common Market of the South) is a regional trading bloc comprising of Argentina, Brazil, Paraguay, Uruguay and Venezuela. MERCOSUR promotes fair trade policies in Latin America by promoting the fluid movement of goods, people, and currency. Both MERCOSUR and UNASUR have presented a challenge to the economic dominance of the United States by forming governments and political coalitions to dismantle neoliberalism, even if that means accepting the broader capitalist system for the time being.[153] While the new governments and organizations of Latin America challenge the

[153] Burbach, Fox, and Fuentes. *Latin America's Turbulent Transitions, 7-10.*

dominance of the United States economically and politically, the United States is unwilling to abandon its interventionist policies has expanded its military presence in Latin America. [154]

Individuals, movements and governments are now visualizing a democracy that is participatory, starting at the local level. New social movements emerged during the neoliberal era indigenous, environmental and gender; traditional and new labor movements, self-help, and civic associations (urban services, human rights democratization). Communal self-rule is assuming ever-greater importance in Latin America, beginning with the *Zapatistas (*Zapatista Army of National Liberation *(Ejército Zapatista de Liberación Nacional, EZLN*) in Mexico, and extending from Venezuela's communal councils to Bolivia with its indigenous communities, and elsewhere across the region. In Venezuela, Bolivia, and Ecuador, constituent assemblies have drafted new constitutions that allow for greater popular participation and full citizenship for all the ethnic groups that have been excluded and exploited since colonial times.

The economic and social development of not just Latin America and the Caribbean but the world is still a work in progress. Over the past fifteen years, new ideas, which challenge the established economic order, have translated into an improved fiscal situation, and lower levels of external debt for the countries of Latin America. Globalization has created a new world economy, which binds together all countries into one world economy, international trade and the interconnected nature of the world economy now more than ever has the potential to mutually benefit all countries involved. Previous trade policies have separated the world into two competing factions. By separating the world in to concepts like 'north' and south, 'developed' and 'developing' 'rich' and 'poor' have historically been beneficial for one over the other. Policies of farer trade remove barriers of development and allow all countries to develop an economic advantage.

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[154] Burbach, Fox, and Fuentes. *Latin America's Turbulent Transitions,* 155.

While, neoliberalism retains a hold over many countries, new ideas continue to promote new opportunities for economic growth and have challenged the core fundamentals of neoliberalism. If the current economic growth in Latin America is to continue, policies must continue to be fluid and seek alternatives neoliberal programs. The leftist governments in Latin America need to unite, to stand together in opposition of those who continue to protect the foreign dominance by foreign influence those economic elites.[155] Even though the New Leftist governments in Latin America have not, presented a coherent alternative to neoliberalism, and their continuation of market policies, these new governments have brought new opportunities to the people of Latin America, which have begun to reduce social inequalities through redistributive measures. In the years since the economic financial crisis of 2008 Latin America has better able to adapt fiscal policies to adapt to the changing nature of the global economic and financial situation.[156]

While the governments of Latin America will not necessarily benefit from a return to the ideas of import substitution industrialization or the populist public spending experiments that characterized previous generations of the political left in the region, the new ideas have begun to transform the region. These policies are not perfect these programs are the beginning of a new movement that has the potential to address the long standing problems of inequality and poverty which have prevented the countries of Latin America from developing into a region where all people have the same opportunities to peruse the lives they choice. Through a greater commitment to local community control of the production process, new industrial opportunities that are able to add value to natural and agricultural resources and more emphasis upon fairer trade policies, the people of Latin America can continue the new economic opportunities which

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[155] Burbach, Fox, and Fuentes. *Latin America's Turbulent Transitions,* 157.
[156] Básrcena, "Structural constraints," 8.

of the first decade of the twenty-first century and achieve Simon Bolivar's dream of a unified Latin America free of off the control of the United States and Europe.

Towards a Conclusion

"*The world is being shaken by many crises: of finance, energy, climate, food and institutions. But all of these crises are part of one big crisis experienced by the capitalist system. If we, the people of the world are not able to bury capitalism, then capitalism will bury our planet…This crisis presents us with a great opportunity to build a different world, as long as we are willing to empty an alternative model."*
-Evo Morales[157]

The economic history of Latin America has created winners and losers within each country, a minority of the population comprising the economic and social elite, has disproportionately benefited from the economic policies of Latin America. Some critics make the mistake of proclaiming that development has failed. It has not. The history of developmental policies in Latin America have been a huge success for the economic elite in Latin America. Economic policies have integrated the upper echelons, of Latin America's population into the international economy. Even after the collapse of European rule in Latin America ended many of the economic restrictions colonial policies imposed by the ruling countries, Latin America continued to operate under the rules imposed not by military dominance but through capitalist economic policies. Unable to break the control of these advanced capitalist countries, Latin America remained in a pattern of resource exploitation, unfair trade conditions, and the accumulation of foreign debt. The shared colonial experience shaped the economic and political destines of the new republics following independence and continue to shape the economic, political and social institutions of Latin America to this day.

[157] Burbach, Fox and Fuentes. *Latin America's Turbulent Transitions*, 39.

Because these institutions protect the investments and property rights of multinationals and financiers and protect the financial interests of western countries, economic policies have had devastating consequences for the people of Latin America.

Burdened with the legacy of colonialism and its unequal distribution of resource, the extreme economic volatility and inequality are deeply entrenched in the history of Latin America. Shifting patterns of economic development policies reinforced this shared history of income inequality and poverty. The story of economic development in Latin America is a promise of unfulfilled economic development. Despite the regions abundance of natural resources and a favorable ratio of land to labor, not a single republic in Latin American has achieved the economic status of a developed country, created sustainable long-term economic growth, and the gap in living standards has expanded. Latin American countries have relied primarily on their natural resources as a means of positioning themselves in the global economy. The supply and demand for these resources have been subject to fixations in price have been extremely vulnerable to changes which has made it more difficult for these economies to adapt to changing circumstances. Despite these historical economic and structural limitations, Latin America has traveled a long road since the end of the colonial era to achieve notable economic, social and political changes that have placed it on a development path which enables it as a whole and in some countries, to attain middle-income status on a global scale.

At a time marked by the sweeping globalization of economic, political and social relations, the challenges that Latin America must overcome in order to achieve economic development policies to position itself in the international economy are more important than ever. Historically, Latin America has been a laboratory of competing economic policy strategies for promoting growth and development through the proper balance of markets, and governmental

leadership. Although occurring somewhat more slowly, improvements have occurred. Some Latin American countries have grown very rapidly at some junctures in their history, and have attained high levels of per capita income, but so far have not been able to sustain those growth rates. Despite the historical legacy, new Economic ideas have begun to spread out of Latin America, starting to influence changes in the developed world as well. Inspire of the historical legacies, Latin American economics have been able to create modern institutions. Mexico is producing more and more automobiles and automobile parts; Brazil is selling its passenger planes, jet trainers and modern fighter aircraft on the global market, while contributing to developing a common market in the Southern cone of South America (Mercosur); new clothing assembly plants are moving into Nicaragua and Guatemala; and Costa Rica is manufacturing Intel computer chips and exporting new software for hospital administration.[158]

It is important to understand the history of Latin America because the political, economic and social ideas have developed because of the unique history of Latin America. Latin America is a dynamic, complex and rapidly changing reality. It ranges from small pastoral villages to large urban areas including two of the largest urban megalopolises on earth. These urban areas are expanding at rates faster than other regions on Earth and rates of poverty and income inequality higher than any other region in on the planet.[159] Latin America is in a unique situation, the shared historical experience has created an environment where the countries of Latin America is very different from any other geographical region, and there is a potential for a general economic theory of development to emerge that embraces this unique relationship. Its size and diversity puts it in a unique economic situation that could allow them to break free of the domination from developed capitalist western countries. The social, economic and political

[158] Wynia, *The politics of Latin American Development,* 2.
[159] Wynia, *The politics of Latin American Development,* xv.

experiences of Latin America, the failures as well as the success must be applied to the future evaluation of economic development policies if the countries of Latin America hope to compete in the new global market and create long-term sustainable economic growth to raise the standard of living for the people living in the region.

Contrary to the claims of the IMF and the World Bank, there is more than one best way to develop a country, yet no single formula can ever guarantee a favorable outcome for all members. Many of the institutions that are regarded as necessary for economic development contributed to the outcome rather than the cause of economic development in currently developed countries. Most of the institutions that are currently recommended by developing countries as parts of the good governance package were in fact the results rather than the causes of economic development in developed countries.[160] While the countries of Latin America have had experiences with many different models of development, there have been few attempts to apply lessons learned from the historical experiences to problems of contemporary development. The few times experiences of developed countries are used, tend to be myths based on an ideal type of economic development models used to reinforce versions of economic history, which allow developed countries to promote, policies which unfairly benefit themselves. These pure forms of economic development ideas often do not account for the political, social factors of individual countries.

The importance of international trade cannot be overemphasized. However, free trade is not the best path to economic development. Trade helps economic development only when the country employs a mixture of protection and open trade, constantly adjusting it according to its changing needs and capabilities.[161] International trade policies are no longer solely concerned

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[160] Chang, *Kicking Away the Ladder,* 11.
[161] Chang, *Bad Samaritans*, 83.

with trade, but about exchanging concessions in areas such as investors' rights, intellectual property rights and government procurement. The free market dictates that countries produce the goods in which they already have a competitive advantage, not what is best for the country. "No one plays baseball in Haiti, but Haiti is the world's chief producer of baseballs."[162] Adam Smith's ideas of market forces have in practice become an "invisible fist," inflicting terrible damage on the poor. Just as during the industrial revolution which spawned the classical school of economies, the unregulated play of market forces has favored the rich and squeezed the poor, sweeping away many of the limited gains of job security and a threadbare welfare state.[163] The vicious circle of foreign debt and foreign investment oblige developing countries in Latin America to multiply exports that are consumed by developed countries. The persistence of poverty and inequality have stopped the region from growing, from raising its population's living standards or from improving its level of human development.[164]

The history of Latin America has been one of exploitation disguised as development. Centuries ago, European countries cleared the lands in Latin America to plan crops for export and annihilated the indigenous populations in the mines to satisfy the demand abroad for silver and gold. Slave ships no longer ply the ocean, but now the slavers operate through economic policies. The historical legacy of Latin America has created systems organized upside down; when the economy grows, social injustice grows. For Latin America, underdevelopment is not a stage of development, but its consequence.[165]

While Latin America displays the highest levels of inequality in the world, an income gap aggravated by the neoliberal decade. The external financial debt remains pronounced,

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[162] Galeano, *Open Veins of Latin America*, 277.
[163] Green *Silent Revolution,* 224.
[164] Galeano, *Open Veins of Latin America*, 277.
[165] Galeano, Open Veins of Latin America, 277.

environmental degradation has vastly intensified and the level of social disparities throughout the region remains the highest in the world.[166] In recent years, new leaders of the political left have emerged and successful collaborative ventures among Latin American countries have created new of social, political, and economic possibility, economic opportunities for the people Latin America. The people of Latin America continue to push their governments to address the longstanding issues of poverty and inequity between rich and poor, which are legacies of the colonial era and exacerbated by free trade neoliberal policies. This deteriorating quality of life has harvested a wave of social protests that has overrun the traditional scheme of politics, fueling social movements, protagonists which are those largely excluded and most damaged by neoliberal policies (unemployed, retired, young people, indigenous peoples and sectors of the middle class) who have been forced into the ranks of the "new poor."[167]

While, no single formula can have been able to create a favorable outcome for all of Latin America, new ideas of economic development defined by commitments to equality; social justice and popular participation have produced an economic, political and social transformation in Latin America, which, have begun to raise millions of people out of poverty, as governments across Latin America have begun to move beyond neoliberal free market economics toward a more social democratic variant of capitalism.

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[166] de la Barra and Buono, *Latin America After the Neoliberal Debacle,* 274.

[167] Richard A. Dello Buono and José Bell Lara. "Neoliberalism and Resistance in Latin America," in *Imperialism. Neoliberalism and Social Struggles,* ed by Richard A. Dello Buono & José Bell Lara. (The Netherlands: Koninklijke Brill NV, 2007), 4.

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Robert Andrew. Zimmerman

[redacted]

PROFESSIONAL PROFILE

- Demonstrated excellence in teamwork and customer service, and to acquire technical knowledge and skills rapidly.
- Problem solver, able to see the business and technical sides of a problem.

PROFESSIONAL EXPERIENCE

Harford County Public Library

November 2006-Present

Library Associate II -Adult Services librarian Bel Air Branch

- Provided reference, readers' advisory, technical, and circulation assistance to children, young adults, and adults
- Engaged in library marketing activities
- Experienced in planning and delivering trainings for library staff and volunteers – including Book-talking Training, Story Time Training, and Summer Reading Volunteer Training.
- Passport Acceptance Agent

Best Buy Mobile
March 2003- Present
Bel Air MD
(410) 893-6101

- Non commission mobile phone sales and customer service
- Department Supervisor. Responsible for the hiring, training, scheduling and supervising of the mobile phone department

Education

Towson University
Towson, Maryland

Bachelors of Science Degree in History. December, 2006

Masters of Science, Social Science Summer 2015.

- Spring 2010, Delegate Washington Model Organization of American States
- Spring 2010, Transfer Student Mentor
- 2011-2012 Contributor, Towson Journal Of Historical Studies, *The Haitian Revolution: Yellow Fever and the Defeat of the French*
- 2015 Presenter University of Rhode Island Graduate Student Conference and Towson University Undergraduate and Graduate Research and Performance Expo; *Neoliberalism in Latin America: The Political Economy of Poverty.*
- Thesis, *An Economic History of Latin American Developmental Approaches: The Political Economy of World Trade*