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LATIN AMERICA'S DECLINE:
A LONG HISTORICAL VIEW

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ABSTRACT

In this paper I analyze Latin America's very long term economic performance (since the early 18th century), and I compare it with that of the United States, Australia, New Zealand and the countries of Western Europe. I begin with an analysis of long term data and an attempt at determining when the region's decline really began. The next section deals with the relation between the strength of institutions since colonial rule and the region's economic performance. Next I move to an analysis of Latin America's long history with instability, crises and debt defaults. I show that currency collapses have been a staple of the region's economic history. In the Section that follows I analyze the long term evolution of social conditions, including poverty and income inequality. This analysis shows that a high degree of income disparity and poverty have a long history in the region. The paper ends with an analysis of the way in which Latin American intellectuals and scholars have seen the increasing economic and income gap with the United States and Canada.

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I. Introduction

Henry Kissinger once dismissed Latin America's importance in world affairs by referring to Chile, which at the time was flirting seriously with the Soviet camp, as a minor irritant; he then memorably added that Chile was "a dagger pointed to the heart of Antarctica."[1] This quip reflects quite accurately Latin America's historical position in global geopolitics: neither too powerful to be a political or diplomatic force, nor too rich to represent an economic challenge. Throughout the years, not even Brazil or Mexico, the two larger countries in the region, have been considered major international players. To be sure, many multinational companies and banks have done business in the region, but in modern times the Latin American countries have not captured the imagination of investors, international analysts, or politicians, in the way other nations, including the Asian Tigers, China and India, have done it. Indeed, for decades the Latin American nations have been known for their economic and political travails, and a long history of authoritarian politicians and tyrants, successive coup d'etats, galloping inflation, financial crises, entrenched poverty and unequal distribution of income. It is not an exaggeration to say that Latin America's modern economic history has been one of modest growth, crises, inequality, and poverty.[2]

In this paper I analyze Latin America's very long term economic performance (since the early 18th century), and I compare it with that of the United States, Australia, New Zealand and the countries of Western Europe. This discussion provides information that helps better understand the historical genesis of the market-oriented reforms of the 1990s, as well as the populist backlash that they generated since the early 2000s. The paper begins with an analysis of long term data and an attempt at determining when the region's decline really began. The next section deals with the relation between the strength of institutions since colonial rule and the region's economic performance. Next I move to an analysis of Latin America's long history with instability, crises and debt defaults. I first analyze the early independence years, and I show that currency collapses have been a staple of the region's economic history. In the Section that follows I analyze the long term evolution of social conditions, including poverty and income inequality. This analysis shows that a high degree of income disparity and poverty have a long

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[1] See Hanhimaki (2004), p. 92.

[2] See, for example, the essays in Edwards et al. (2007), especially Prados de la Escosura (2007). See, also, World Bank (2003), and Cardoso and Helwege (1991). For a recent, and highly readable, history of Latin America's political and economic challenges, see Reid (2007).

history in the region. The paper ends with an analysis of the way in which Latin American intellectuals and scholars have seen the increasing economic and income gap with the United States and Canada.

II. A Gradual and Persistent Decline

One of the deepest questions in Latin American history is: why has a region so rich in natural resources done so poorly over the years? Another way of putting it is why have countries with vast endowments of land and minerals, and an extensive seacoast have uniformly underperformed what we call today the "advanced world"? According to data assembled by Angus Maddison, in 1492, when Europeans arrived in the Americas, the indigenous communities that lived in what today we call Bolivia and Peru had a higher standard of living than those in North America. Maddison also estimates that in 1700 the average income per capita in Latin America was roughly the same as in North America. Since then, however, the nations of Latin America have consistently lagged behind the advanced countries, including the United States and Canada. In the year 2000 average income per capita in Latin America was roughly 20 percent that of the United States.[3]

For a long time the generally accepted view among historians was that Latin America's relative economic stagnation had its origins in the period going from 1820, when many colonies obtained independence from Spain, and 1870. According to Maddison's data, in 1820 income per capita in Latin America was almost 60 percent that of the United States; by 1870 it had declined to only 31 percent. Historian John Coatsworth has said that Latin America lived through a "catastrophic second quarter of the nineteenth century," and political scientist Adam Przeworski has said that "the period 1820-1870 was disastrous for Latin America."[4]

Economic decline during these five decades was mostly the result of political instability, successive civil wars, and power struggles. In 1878, H. W. Bates, an early observer of South America, wrote: "With but few exceptions the history of these lands, from the time of their severance from the mother country, has been an unbroken succession of intestine wars and lawlessness, attended by every conceivable horror and atrocity."[5]

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[3] See Maddison (2005). Also, see Fukuyama (2008) and the essays collected there.

[4] See Coatsworth (2004) and Przeworski (2008). See also Bulmer-Thomas (1994).

[5] See Bates (1878), p. 83.

Adam Przeworski has estimated that the combined costs of political turmoil and delayed independence explain between one third and three fourths of the income gap in the year 2000. For example, if Brazil had become independent the same year as the United States (1782) and had had the same degree of political stability, in the year 2000 its income gap relative to the United States would have been 10 thousand dollars, instead of 22 thousand dollars. Przeworski offers two conjectures on why delaying independence may have retarded growth in the former Spanish colonies: first, it is possible that by restricting trade with other powers – England, France and the Netherlands –, the Spanish stifled innovation; second, an early independence allowed the Thirteen Colonies to take full advantage of the technological advances that were unleashed in England with the Industrial Revolution. The delay of independence may, in fact, explain why in 1820 Latin America's income was only 56 percent that of the United States, after having been almost at the same level in the early 1700's. Of course, and as will be seen below, other explanations have been offered, including some based on culture and religion, and some that rely on Spain's zeal for centralized decision making.

Around 1870, and after almost half a century of civil conflict, the institutions of the new Latin American national states were consolidated, and political instability declined significantly. With peace came investment, productivity improvements, an expansion of international trade, and a substantial acceleration of economic growth. From 1870 through 1890, for example, Latin America's six largest countries grew, in per capita terms, at almost 2 percent per year.[6] During the first decade and a half of the 20th century Latin America continued to grow rapidly – income per person expanded at an average annual rate between 2.6 and 3.1 percent –, indeed significantly faster than the United States. From the Great War and until the eruption of the Great Depression in 1929, most of Latin America sill performed relatively well – the exceptions were Cuba and the nations of Central America –, and grew, on average, as fast as the advanced nations.[7]

Until recently most economic historians argued that growth continued to be quite fast, in comparative terms, during the period 1940-1980, an era characterized by protectionism and government-led development policies aimed at rapidly industrializing the region. According to this view the income gap with the United States remained relatively stable throughout these

[6] See Prados de la Escosura (2007).

[7] See Prados de la Escosura (2007) and Maddison (2007).

years. Economic historians Pablo Astorga, Ame R. Berges and Valpy Fitzgerald have said that "the four decades in the middle of the century [1940-1980] stand out for the outstanding progress made by nearly every country in the region (…) It is difficult to avoid the conclusion that greater reliance in the domestic market was a major source of growth during the so-called 'import substitution' phase of state led industrialization." And, according to English economist Rosemary Thorp, "Latin American economic performance during the three decades that followed the Second World War was outstanding."[8]

In an important 2007 study, economic historian Leandro Prados de la Escosura challenged the mainstream interpretation on the timing Latin America's economic decline. According to him:[9]

> "[T]he empirical findings presented here seriously challenge conventional assessments that locate Latin American economic retardation in the early nineteenth century and link it to geography, initial inequality of wealth and power, colonial heritage and post-independence political instability and turmoil. They all certainly hindered long-run growth and a counterfactual scenario with law and order, lower inequality, and British-like institutions would have cast a higher growth rate in Latin America. However, blaming Latin America's long-term backwardness on the post-colonial epoch seems far fetched. Contrary to a widely held view, Latin America's retardation appears to be a late-twentieth century phenomenon that should be explored if we want to understand why Latin America remains a backward region in a global world."

According to Prados de la Escosura there are two fundamental problems with the conventional view. First, in analyzing Latin America's comparative performance it is misleading to use the United States as the sole comparator. A more useful and illuminating exercise would consider a broad group of "advanced" countries as the relevant benchmark. Second, by arbitrarily using 1990 as a base year, Maddison's data produced biased estimates of the historical evolution of per capita income in different countries. In an effort to remedy these problems

[8] See Astorga, Berges and Fitzgerald (2005), p. 784, and Thorp (1998), p. 159.

[9] See Prados de la Escosura (2007), p. 44-45.

Prados de la Escosura constructed new series of income per capita for several countries going back to 1820. Armed with this new data set, Prados de la Escosura proceeded to analyze the long term evolution of Latin America's income per capita, and compared it with a group of what today we call advanced countries.

One of Prados de la Escosura's many comparisons centered on the average income per person in Latin America's five richest countries in the mid and late 19th century – Argentina, Brazil, Chile, Mexico, and Uruguay – and a group of seven nations that currently belong to the Organization of Economic Cooperation and Development (OECD), including the United States.[10] According to this analysis, in 1820 average income per capita in these five Latin American countries was approximately 40 percent that of the advanced nations. By 1870, and as a consequence of the disastrous post independence years, the ratio of Latin America's and the advanced countries' income per capita had declined to 27 percent. In 1929, this ratio was still 27 percent, and in 1933, at the end of the Great Depression, it continued to be 27 percent, as it was in 1938. By 1960 the ratio had declined to 22 percent; by 1970 it was even lower, at 21 percent, and by 1990 it was only 17 percent of the advanced countries income per capita. A comparison using Latin America's seven richer countries – this adds Cuba and Venezuela to the previous group – and fourteen advanced nations produces a similar result. In this case the ratio of Latin American to rich nations' income per capita goes from 30 percent in 1929, to 20 percent in 1960, to 19 percent in 1990. Moreover, when Prados de la Escosura's data are used, the stability of the income gap between the United States and Latin America for the post 1938 period disappears: according to Prados de la Escosura's most recent estimates this income ratio was 25 percent in 1938, 19 percent in 1960, 21 percent in 1980, and 16 percent in 1990. Latin America's relative income decline in the 1980s is universally recognized as corresponding to one of the region's darkest times, an era appropriately called the "lost decade." Table 1 contains data on Prados de la Escosura's historical income per capita comparisons between Latin America and selected groups of OECD countries. Table 2, on the other hand, presents his comparisons with the United States.

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[10] The 6 OECD countries are Australia, Denmark, France, the Netherlands, Sweden, the United Kingdom, and the United States. Strictly speaking these comparisons are for gross domestic product per capita. All averages are weighted by the countries' population. I chose to concentrate on this particular comparison because it is the one that goes further into the past – all the way to 1820. However, other comparisons presented by Prados de la Escosura provide an almost identical picture of Latin America's relative economic performance over the very long run.

The discussion presented above deals with regional averages. But, what about individual countries? Which nations performed better over the long term, and which ones had a weaker record? According to Prados de la Escosura, in the 1938-1980 period almost every country in the region grew at a slower pace than either the OECD seven richest or the OECD fourteen richest countries. This was the case of Argentina, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Peru, Uruguay and Venezuela. During this period only Brazil outperformed the OECD nations; Mexico grew almost at the same pace as these rich countries.

Although Prados de la Escosura new data still capture a major growth disruption in the 50 years following independence from Spain (1820-1870), they show that the conventional wisdom regarding the post 1938 period had missed many of the complexities of this period -- see Tables 1 and 2 of this paper. Independently of the groupings of Latin American and advanced countries used in the exercise, the conclusion is the same: after 1938 the average income gap between the advanced and the Latin America nations widened. The only exception to this occurred during the decade of the 1970s, when average income per capita in Latin America was 3 percent, higher than the comparator groups. This, however, was mostly the result of Brazil's splendid performance during this period – almost 6 percent, on average, in per capita terms –, and did not represent a generalized regional trend. As it turned out, however, Brazil's rapid economic expansion during the years of its so-called "miracle" was not sustainable. During the next two decades its income per capita barely grew, and its income gap with the advanced nations, once again, widened significantly.

These results strongly suggest that the causes for the region's poor long term performance go beyond delayed independence and heightened political instability in 1820-1870; indeed, what these data suggest is that policies undertaken in the aftermath of the Great Depression – including the protectionist-based push toward industrialization – have played an important role in Latin America's underdevelopment. The fact that Latin America's decline has been persistent over three centuries also suggests that long term institutional features of the region – including a weak protection of property rights, excess bureaucracy, centralized decision making (even in countries organized federally), a low regard for the rule of law, an inefficient and ineffective judiciary system, and high levels of corruption, among others – played a role in the region's relative decline. An explanation of Latin America's poor performance that relies on a combination of poor policies and weak institutions is compelling and persuasive, and provides important clues for understanding the launching of the reforms of the 1990s, as well as the direction that policy should take in the years to come.

III. The Poverty of Institutions and Long Term Mediocrity

There is broad agreement among scholars that institutional weakness has contributed significantly to Latin America's mediocre long term performance. For example, Francis Fukuyama has said that "one of the most critical sources of the development gap lies in weak Latin American institutions."[11] Political scientist James A. Robinson has said, that "the best explanation for Latin America's economic trajectory is its institutions."[12] Other authors that support this institutional-based explanation include economic historians Keneth Sokoloff and Stanley Engerman, Daron Acemoglu,Simon Johnson, and Dani Rodrik. I have made similar points in several of my works, including in the 2006 Figuerola Lecture, which I delivered at the Universidad Carlos III in Madrid. A crucial question, then, is why have institutions in Latin America been, historically, so weak? Why have they failed to provide law and order, and protect property rights? Why has the rule of law been so poor in Latin America? Why has corruption been so much higher in the Latin American nations than in the Asian Tigers and Southern European countries? And, why have the vast majority of the Latin American countries been unable to reform and strengthen their institutions during the last 20 or 30 years?

A number of alternative and competing answers have been offered to these questions. Some authors have argued that institutional quality responds to religion and culture, while others have concentrated on the role of ideology; some have emphasized the importance of history, and yet others have argued that, in the final analysis, it all reverts to politics and to struggles over power, and income and wealth distribution.

In an essay published in 1840, Lord Macaulay was an early proponent of the idea that culture and religion were key determinants of the vast differences in economic conditions between the two Americas: [13]

[11] See Fukuyama (2008), p. 284. The systematic interest in institutions among economists was pioneered by Nobel Laureate Douglass North. See North (1990, 1993).

[12] See Robinson's (2008) article in the Fukuyama's volume.

[13] Cited by Véliz (1994), p. 3.

> "The colonies planted by England in America have immeasurably outgrown in power those planted by Spain. Yet we have no reason to believe that, at the beginning of the sixteenth century, the Castilian was in any respect inferior to the Englishman. Our firm belief is that, the North American owes its great civilization and prosperity chiefly to the moral effect of the Protestant Reformation, and that the decay of the southern countries of Europe is to be mainly ascribed to the great Catholic revival."

This religion-based argument became increasingly accepted in the 20th century, as a result of the popularity of Max Weber's analysis of protestant ethics and the development of capitalism.[14] Those that believe in culture's centrality have often quoted David Hume, who in his essay "Of National Characters" wrote that "the same set of manners will follow a nation, and adhere to them over the whole globe (…) The Spanish, English, French and Dutch colonies, are all distinguishable even between the tropics."[15] Writing in 1878, H. W. Bates, then the Assistant Secretary of the Royal Geographical Society, argued that Mexico's instability and backwardness were the result of the attempt to impose an alien political culture, in the form of Constitution tailored after that of the United States. According to Bates the people of Mexico were culturally unprepared for this political experiment:[16]

> "[T]he introduction of a constitution modeled on such a prototype, involved a complete rupture with the past. The men that had been kept in the apron-strings of political pupilage to Spain, who had been drilled after a strict and uniform fashion, and governed with irresponsible despotic power by the mother country, were suddenly called upon to play the part of free citizens, to conform to the principles of self-government, voluntarily to submit to the necessary restrains thereby entailed (…) It needs no great knowledge of human nature to see that such an experiment must invariably lead to the most disastrous results."

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[14] See Weber (1958).

[15] See Hume (1882, p. 210). With time, Max Weber's analysis of the success of protestant countries became one of the better known culture-based explanations for differences in institutions and performance. Weber (1958).

[16] See Bates (1878), p. 82-83.

In discussing the long-term institutional differences between South and North America, it is important to recognize that the Spanish and English colonization efforts were separated by almost a hundred years. Hernán Cortés expeditionary force sailed from Cuba towards Mexico in early 1519, while Christopher Newport led his three ships out of London, and sailed towards what today we know as New England, in late 1609. The fact that such a long time separated both colonial enterprises is important in at least two respects: first, during those nine decades there were remarkable political and religious changes in Europe, including the Reformation; second, and as historian John H. Elliott has pointed out, by being followers, the English were able to learn from the Spanish tribulations and mistakes.

Some of the most serious mistakes made by the Iberian colonizers included the imposition of strict trade restrictions – the colonies were forbidden to trade with other European powers –, the reliance on an inefficient bureaucracy, and a highly centralized political system. When the Bourbons tried to reform and decentralize the colonial system in the 18th century, it was too late, as bureaucracy and red tape were already ingrained and had become a fundamental part of life and culture in the colonies. The Catholic Church also contributed to creating a culture of centralization and dirigisme. For example, "non believers" were forced to convert, and Native Americans were not allowed to join the priesthood.[17] The English, of course, became aware of the problems and setbacks faced by the Spanish, and made an effort to avoid a heavy bureaucracy and religious intolerance, at the same time as developing a community-based, decentralized political system. This "proved to be a successful formula for unlocking the door to economic growth."[18]

Some authors – most notably historians Ronald Syme and James Lang – have argued that the contrasts between North and South American institutions stemmed from the different objectives of the Spanish and English colonial projects. While Spain's was an "empire of conquest," England's was an "empire of commerce." Under this interpretation, institutions in the respective colonies evolved in a way that was useful for fulfilling these different goals: centralization, protectionism and bureaucracy served well Spain's conquest objective, while a

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[17] See Fernandez-Armesto (2003), and Elliott (2006).

[18] See Elliott (2006, p. 407).

lean, decentralized, and tolerant system based on the rule of law helped England encourage its commercial enterprise.[19] This view has been disputed by James A. Robinson, who has made the important point that the colonies of North America developed differently than those in South America, not because the English had a different motive than the Spanish colonizers, but because neither geography nor demography – including population density – allowed the English to replicate the Spanish colonial model. According to him, "a colonial model involving the exploitation of indigenous labor and tribute systems was simply unfeasible in these places [the North American colonies] because of the lack of a large indigenous population and the absence of complex societies."[20]

There is little doubt that culture was important in the development of Latin America's institutions. The question is, how important? Sociologist and historian Claudio Véliz resorts to a metaphor due to philosopher Isaiah Berlin to explain the divergent paths followed by North and South America since the 17th century.[21] According to Véliz the Spanish were like Berlin's hedgehog, in that they knew (or were obsessed with) only one big thing; the English, on the other hand, were like Sir Isaiah's fox, in the sense that they were open minded, versatile, flexible, and, especially, good at many things.[22] Véliz is so committed to this metaphor that in an early book he wrote that "Latin America is a hedgehog that since the middle nineteenth century has been desperately trying to be a fox."[23]

For Véliz, the Spanish hedgehog's one big obsession was shaped by the Counter Reformation, and consisted of defending and furthering the Catholic faith. In order to accomplish this goal the Crown developed a system of highly centralized and bureaucratic 'councils' that dictated, in great detail, what was to be done under almost every possible circumstance. Both the Inquisition and the Jesuits, two highly centralized and hierarchical institutions, contributed to the enterprise pushed with great fervor by Philip II – who Véliz calls "the arch-bureaucratic Prudent King" – and his descendents to the throne, the two Philips, III and

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[19] See Syme (1958), Lang (1975); see also Fernández-Armesto (2003).

[20] See Robinson (2008), p. 180.

[21] See Véliz (1994).

[22] Berlin's (1953) famous line is, "The fox knows many things, but the hedgehog knows one big thing." As Berlin points out, the first author to make this comparison between the hedgehog and the fox was Greek poet Archilocus.

[23] See Véliz (1980). Véliz, as a number of authors before him (including Mexican poet Octavio Paz), identifies Spanish-American culture and institutions with the baroque. In his 1994 book Véliz expands this metaphor and associates the English fox with the gothic style.

IV. According to Véliz, the historical event that best reflects the fox-like culture of the English is the Industrial Revolution. This remarkable historical period, Véliz tells us, originated in England precisely because the English were tolerant, flexible, loved change, and, more important, were good at many things. These qualities of the English were passed on to their colonies in North America.

In spite of their appeal, explanations based on culture suffer from limitations that call into question David Landes' assertion that "culture makes almost all the difference."[24] In particular, Véliz's theory, with all its elegance and erudition, faces two challenges. First, there is a significant chronological gap between the Counter Reformation and the Industrial Revolution, the historical events that, according to him, best exemplify the hedgehog and fox character of the two colonial powers. Although it is not easy to date precisely major historical events, several decades, at the very least, separate the beginnings of the Industrial Revolution from the end of the Thirty Years' War. Second, any explanation based mostly on culture needs to address what we may call "the Caribbean riddle." The countries of the Caribbean were colonized by the same "foxes" that colonized North America, and inherited the same institutions than the thirteen original colonies. And yet, their economic performance resembles much closer that of the South American nations than that of the United States or Canada. This, of course, does not mean that cultural explanations are not important. All it means is that other factors have also played an important role in shaping the Americas' institutions; indeed, in some cases, factors other then culture may have even played the most important role in shaping a country's economic path.

As already noted, and as geographer H.W. Bates argued in 1878, the citizens of the newly independent Spanish colonies were unprepared for self rule. For over two centuries they had lived in a highly centralized world, where almost every decision was made in the mother country by a strict and inflexible bureaucracy. In the Spanish colonies the *cabildo* was the basic local government institution. *Cabildos*, however, were hardly democratic and did not constitute an experience in self government. Already in the 16th century there was a controversy on how the *cabildo* members were to be appointed. In 1556 it was decided in Santo Domingo that outgoing members would name their replacements, and in 1595 some positions in Mexico's City *cabildo* were sold to the highest bidder. With time this practice became quite common, and there is evidence of positions having been sold in Puebla, Veracruz and Merida, as well as in Cordoba

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[24] See Landes (2000, p.2)

and Buenos Aires in the Viceroyalty of Rio de la Plata. By the late 18th and early 19th centuries the *cabildos* were discredited throughout South America.[25] The situation, of course, was very different in the North American colonies, where from early on the population participated actively in the election of local government bodies. As Alexis de Tocqueville wrote:[26]

> "In America (…) the township was organized before the county, the county before the State, the State before the Union. In New England townships were completely and definitively constituted as early as 1650. The independence of the township was the nucleus around which the local interests, passions, rights and duties collected and clung. It gave scope to the activity of a real political life most thoroughly democratic and republican (…) The towns named their own magistrates of every kind, rated themselves and levied their own taxes."

Historical and economic analyses based on struggles over income distribution have a long tradition, including that of Marxist thinkers. Recently, Daron Acemoglu, Simon Johnson and James A. Robinson have argued that social conflict is at the root of historical differences in institutions across countries. Generally speaking, those with power are interested in developing institutions that protect and perpetuate their supremacy and their share of national income. According to Acemoglu and his coauthors, social conflict often leads to institutions that are not optimal from society's point of view; this may happen even if those with political and economic power recognize that the existing institutional arrangements leave much to be desired, and would prefer different ones. The problem is that the elites cannot credibly convince the rest of society that they will keep any promises of change reform. One way of dealing with this is to have an "impartial enforcer." This, however, is easier said than done; in reality, it is very difficult to find an independent "third party that can be trusted to enforce contracts."[27] At the end of the road, most societies will have imperfect institutions that will reflect the structure of power and income distribution.

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[25] See the discussion in García Hamilton (2002).

[26] See page 46 of the Signet 2001 edition of Democracy in America.

[27] See Acemoglu et al (2005, p. 429).

The way in which the banking system developed in Mexico and the United States provides an illustration of the social conflict theory of institutions. During the first decade of the 20th century the United States had approximately 20,000 banks that competed actively – and some times ferociously – among themselves to provide credit to the nascent industrial sector. In contrast, in 1910 there were only 42 banks in Mexico, each of them with monopolistic power, huge profits, and a limited supply of credit. According to historian Stephen Haber, these differences in the banking industry were the result of the way in which political power was distributed; in the United States by the 1850s the suffrage had been broaden significantly, and the people demanded that existing restrictions to the creation of new banks were lifted. In contrast, in Mexico there was manifest political instability and limited democratic rule, a situation that eventually led to the three decades of Porfirio Diaz's dictatorship in 1884. Power in Mexico rested with few industrial and financial groups that protected their own monopoly power, and restricted the entry of new banks into a lucrative industry. In the late 19th and early 20th centuries, the expansion of the banking sector in the United Sates was followed by the creation of stock exchanges and by legislation that encouraged limited liability and joint-stock companies and by laws and regulations that promoted competition and protected the rights of minority investors.[28]

One of the key tenets of economic theory is that the way in which wealth – including land, skills, and capital – is initially distributed across individuals is important for economic outcomes, including for the type of institutions that develop and eventually prevail. Economic historians Stanley L. Engerman and Kenneth L Sokoloff have relied on this principle to develop a compelling theory of institutions to explain the differences between North and South America. They argue that societies that during colonial times had a more unequal distribution of wealth developed an institutional setting that favored the elites, and helped them preserve their power. They write:[29]

> "[T]he colonies that came to make up the United States and Canada were quite unusual in the New World, because their factor endowments (including climates, soils, and the density of the native populations) predisposed them toward paths of

[28] See Haber (2001), Maurer and Haber (2007), Engerman and Sokoloff (2002).

[29] See Engerman and Sokoloff (2002, p. 11).

> development with relatively equal distributions of wealth and human capital and a greater homogeneity as compared with the great majority of their hemispheric neighbors."

According to Engerman and Sokoloff it is useful to distinguish between three types of colonies in the Americas: those whose climate and soil were apt for producing sugar and other crops that required very large scales of operations, and the use of slaves; those with rich mineral resources that required significant capital and a large labor force, made up mostly of indigenous people, for their extraction; and those colonies whose climate and land quality was best suited for crops that did not require an extensive use of labor. It was precisely in this last type of colonies where "owing to the abundant land and low capital requirements, the great majority of adult men were able to operate as independent proprietors."[30] These colonies, which were established mostly in the Northern United States and Canada, developed more egalitarian institutions, including an educational system that catered to the population at large. According to Engerman and Sokoloff:

> "[I]n societies that began with extreme inequality, the elites were both inclined and able to establish a basic legal framework that ensured them a disproportionate share of political power and to use laws and other government policies that gave them greater access to economic opportunities than the rest of the population (…)"

The distribution of land in the late 19th and early 20th centuries provides support to the Engerman and Sokoloff theory. In 1910 only 2.4 percent of heads of households in rural Mexicans owned land; approximately 19 percent of Argentinean rural households owned land in 1895. In contrast, in 1900 almost 75 percent of rural heads of household in the United States owned land. Of course, not everyone in the Northern colonies had access to land, and not everyone that did could afford or finance equally large holdings. However, evidence from a number of historical sources, including from political scientist Tatu Vanhanen who collected

[30] See Engerman and Sokoloff (2002, p. 14).

data on the percentage of family-owned farms since the 1850s, show that access to land was significantly more generalized in the Northern than in the Southern colonies.[31]

One of the attractions of the Engerman and Sokoloff approach is that it successfully deals with what I have called the Caribbean riddle. Although the European settlers in the Caribbean isles shared the culture of North America's colonizers, they were endowed with very different national resources. The climate and quality of soil in the Caribbean was suitable for the cultivation of sugar, which requires large land holdings and the use of a very significant labor force. In that regard, the Caribbean had more similarities with the South American nations than with the colonies north of the Chesapeake.

Daron Acemglu, Simon Johnson and James A. Robinson have argued the institutional setting is persistent trough time. That is, deep features of institutions developed a long ago – in the colonial times, say – tend to persist through time. This is the case even if, on the surface, it appears that countries have gone through important milestones in their institutional development, such as independence, the expansion of voting rights, the expansion of labor unions and the labor movement, the creation of independent courts, and so on. This institutional persistence is the result of political forces that, while evolving with the times, strive to maintain the balance of power and the existing distribution of income and wealth. A vivid historical example of the persistence of institution is the fact that after loosing the Civil War in 1865, the southern states in the Union managed to maintain an economic system that, in spite of not relying on slavery, was not that different from that of the antebellum period. Similarly, after the 1952 Bolivian revolution, which resulted in the nationalization of the large tin mines and in a deep agrarian reform, Bolivia returned to a system with weak institutions and arbitrary policies that protected certain interest groups and maintained the country's unequal income distribution and level of poverty. A similar story can be told about the Mexican Revolution of 1910, and the nationalization of oil in 1938 by President Lázaro Cárdenas.

The existence of institutional persistence, or intuitional inertia, begs the question on whether societies can truly break from the grips of history. That is, is it possible to radically change the institutional base, in way that creates a "new beginning"? Are there historical events

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[31] See Appendix 5 in Vanhanen (1997. Robinson (2008), has pointed out that slaves, and the indigenous populations did not benefit directly from the land holding system in North America, The proportion of slaves in North America's southern colonies was small (approximately 20 percent of the population). It was much higher in Brazil or the Caribbean colonies. .

that allow countries to move from one set of institutions to a different set of very different institutions that, presumably, will exhibit their own degree of persistency? To the extent that institutions reflect the balance of power and existing income distribution, a way of achieving major and sustainable change is, precisely, through political developments that alter significantly this balance of power. But, as the examples on the U.S. Civil War, and the Mexican and Bolivian Revolutions suggest, not all major political events result in deep institutional transformations. Sometimes they do, sometimes they don't. Some of the historical examples where major political events have led to very significant institutional transformations include Japan after Commodore Perry's expedition and again after World War II, Spain after 1959, South Korea after the Korean War, and China after the rejection of the Cultural Revolution. After the Pinochet coup d'etat, and the diaspora of the left in the 1970s and 1980s, Chile has been able to make major institutional changes that have allowed it to become Latin America's undisputable super star.

IV. Currency Crises, Instability and Inflation

Modest growth and weak institutions are not the only long term features of economic development in Latin America. From early on – indeed soon after obtaining independence from Spain – many countries in the region experienced recurrent currency crises and rapid inflation. Throughout the years, large devaluations, debt moratoria, and runaway inflation seemed to be the norm rather than the exception. With time the Latin American countries were considered such unreliable debtors that in Oscar Wilde's play *An Ideal Husband*, when referring to suspicious investment, one of the characters says, "This Argentine scheme is a commonplace swindle."[32]

In the 1820s more than a dozen foreign loans to the Latin American nations were defaulted on, including loans to Mexico and Peru. In 1826 Colombia defaulted on fifty percent of its international debt; Ecuador defaulted on twenty two percent of its debt, and Venezuela on almost one third. The smaller countries of Central America – Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador – defaulted on their foreign debts in February 1828. Sporadic defaults continued during the 19th century. For example, in 1873 more than fifteen loans entered into moratorium, including loans to Bolivia, Paraguay and Uruguay.[33]

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[32] See Wilde (1899).

[33] See Marichal (1989).

After each default, long and protracted negotiations ensued. In most cases settlements that implied significant losses to investors were reached after years of haggling and give and take. In 1875, for example, the Government of Bolivia defaulted on its 1872 loan for 1.7 million pounds sterling; eight years later, in 1880, bondholders received a payment for less than one half of the original debt – 793 thousand pounds. As defaults mounted, negotiators used new and creative mechanisms in the restructuring process. In 1837, for example, Mexico's Congress offered to exchange land in a number of states, including Texas and California, for defaulted bonds. The exchange price was 4 pounds per acre. There were few takers, however, as British investors thought that holding on to the defaulted securities was a better risk than taking over distant and unknown pieces of land. In 1885 holders of defaulted Paraguayan bonds with a face value of 1.5 million pounds received new bonds for 800,000 pounds, plus 2 million hectares in land. And in 1890, British holders of defaulted Peruvian bonds for 33 million pounds received stock in the Peruvian Corporation, a company that owned railways, lands and mining concessions.[34]

Argentina provides the clearest historical example of the extent of instability in Latin America. In the 1820s, barely a decade after declaring independence, Argentina faced its first currency crisis: the *peso papel* began to lose value rapidly with respect to the so-called *peso-fuerte*, a unit of account linked to the price of gold. In 1827 the *peso papel* was devalued by 33 percent; it was devalued again by 68 percent in 1829. In 1838 there was a new currency crisis, and the *peso papel* was devalued by 34 percent; a new crisis occurred in 1839 when the *peso papel* lost 66 percent of its value. It was again devalued by 95 percent in 1845, and suffered a 40 percent devaluation in 1851. Between 1868 and 1876, and in an effort to put an end to macroeconomic instability, Argentina implemented a currency board system, which restricted the monetary authorities to issue paper currency only if it was fully backed by gold or convertible foreign currency.[35] In 1876, however, and largely as a result of fiscal profligacy, the currency board was abandoned; between 1875 and 1878 the peso was devalued by almost 30 percent with respect to the dollar. In 1885 there was a new crisis when the peso was devalued with respect to

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[34] See Marichal (1989). On Argentina and Colombia's external debt in the 19th century see Della Paollera and Taylor (2001) and Junguito Bonet (1995).

[35] A currency board is defined as a monetary arrangement characterized by three main features: (a) a fixed exchange rate that serves as a macroeconomic "anchor"; (b) the "monetary base" is fully backed by international reserves; (c) the central bank (or monetary authority) is forbade from financing the government.

the U.S. dollar by 43 percent. Four years later it was devalued again by 64 percent, and in 1890 it was devalued by 32.6 percent during the "*Barings Crisis.*"[36]

In 1891, the Argentine Congress approved the *Conversion Office Law*, and Argentina once more implemented a currency board. Once again, however, the experiment collapsed due to a lack of fiscal restraint. The currency board was suspended in 1914 when World War I erupted; it was reinstated in 1927, and abandoned in 1929. The peso was devalued by 26 percent in 1920 and by 29 percent in 1931. New currency crises occurred in 1938, 1948, and 1949. Macroeconomic instability continued through the 1950s and 1960s; there were currency crises in 1951, 1954, 1955, 1958, 1962, 1964 and 1967. In 1971 there was a new crisis when the peso was devalued by 117 percent. Between 1974 and 1979 Argentina entered a period of even greater instability. Inflation rose to 444 percent in 1976. This recurrence of crises and currency devaluations had a negative impact on growth: per capita income contracted at an annual rate of 1.7 percent between 1975 and 1985. By 1985 inflation was 672 percent, and between 1981 and 1991, the rate of devaluation of the peso averaged a staggering 1,346 percent per year.[37]

Throughout its history Argentina restructured its national, provincial and municipal external debt several times, imposing severe losses on international investors. An early massive episode of external debt restructuring took place in the 1890s during the *Barings Crisis*. National government bonds were renegotiated in 1891, and again in 1893. In 1896, international railroad guarantees were restructured, and in 1896-99 foreign bondholders incurred losses of £ 6,000,000, when a series of provincial bonds were restructured. In 1897, the Municipality of Buenos Aires restructured its bonds, in 1899 the Municipality of Cordoba followed suit; in 1900 it was the Municipality of Rosario's turn, and in 1905 Santa Fe bonds were restructured. In 1906, foreign investors lost approximately one third of their original investment when the *Cédulas Hipotecarias* of the Province of Buenos Aires were restructured.[38]

Of course, currency instability and inflation were not unique to Argentina. Chile, its neighbor to the west, had one of the highest average rates of inflation in the world during the hundred years spanning from 1878 to 1978. Inflationary pressures were first unleashed in 1878-

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[36] See Della Paollera and Taylor (2001, 2003)

[37] See Dornbusch and de Pablo (1989).

[38] See Marichal (1989).

79, when the peso was devalued by 25 percent, and convertibility to gold was abandoned.[39] The peso was further devalued by twenty percent between 1879 and 1888, and by 1898 it had lost another thirty-three percent of its value. Between 1898 and 1907 the peso was devalued an additional forty percent. According to Princeton economist Frank W. Fetter, who was writing in the early 1930s, Chile's inflationary experience during the first decade of the 20th century was unique, as the government issued increasing amounts of paper money without having any need for doing so. According to Fetter this deliberate inflationary policy was the result of Chile's ruling class pressure for obtaining abundant and cheap credit. What made Chile's case particularly anomalous was that the massive printing of paper money was supported by conservative politicians, and not by liberals or radicals, as in the rest of the world.[40] During the Great War, international prices of Chile's exports increased considerably, and the peso experienced a gradual strengthening. This situation, however, was short lived, and in 1921 the peso was depreciated by more than fifty percent. By 1925 the currency had lost sixty percent with respect to its value in 1918. During the next 60 years Chile experienced a chronically high rate of inflation, and different attempts at stabilizing the economy failed time and again.[41]

The message from the analysis presented above is unmistakable, and is aptly summarized by what English historian John H. Elliott wrote in 1994: "Judged by the standards set by North America, South America was a failure."[42]

V. Inequality and Poverty

In 1961 anthropologist Oscar Lewis' published "The Children of Sánchez," a book that shocked the world by its vivid portrait of poverty in Latin America. In the introduction Lewis wrote, "This book is about a poor family in Mexico City, Jesús Sánchez, the father, and his four children: Manuel, age thirty-two; Roberto, twenty-nine; Consuelo, twenty-seven; and Marta, twenty-five. My purpose is to give the reader an inside view of family life and what it means to grow up in a one room in a slum tenement in the heart of a great Latin American city which is

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[39] Chile briefly suspended conversion to gold during its war with Spain in 1865-66. Between 1879 and 1881 Chile was at war with Peru and Bolivia; this was the so-called War of the Pacific. In 1891 there was a short Civil War. See Fetter (1931) for a detailed analysis of Chile's monetary developments during this period. For a detailed discussion on Chile's economic developments in the 19th century see Molina (1898).

[40] See the discussion in Chapter 7 of Fetter's 1931 book on Chile's inflationary process.

[41] See Edwards and Edwards (1991).

[42] See Elliott (1994). p. 35.

undergoing a process of rapid social and economic change."[43] In more than 500 pages Lewis presented the sorrows and frustration, the destitution and the lack of hope of the Sánchez, as told in the family members' own words. The book documented the recurrent violence of the poor on the poor, and the utter failure of the institutions of the state to provide minimum public services. The story moved readers to the core, and deeply embarrassed the leadership of successive Mexican governments led by the Partido Revolucionario Institucional (PRI). It was, however, an accurate depiction of the region's social conditions.

Latin America's degree of inequality is indeed legendary, and has been at the heart of many of the region's political and social problems since the colonial years. Historical evidence on the distribution of land shows that in the mid 19th century 60 percent of North American farmers owned land; in Latin America, in contrast, only 5 percent of farmers owned land. In 1850 land ownership by farmers was lowest in Chile (1 percent) and highest in Costa Rica, where approximately 25 percent of farmers owned their plots. In the early 20th century land ownership by farmers had increased slightly in Latin America, but still lagged significantly behind the United States and Canada. In 1900 family farm ownership in Latin America was as follows: Argentina, 7 percent; Bolivia, 2 percent; Brazil 4, percent; Chile, 2 percent; Colombia, 5 percent; Costa Rica, 15 percent, down from 25 percent 50 years earlier; Mexico, 1 percent; and Peru, 2 percent.[44]

Economists use a number of tools to measure the extent of income disparity. The most popular is the *Gini coefficient*, a statistical index that goes for zero to one, with higher values denoting a greater degree of inequality. Under the hypothetical case of absolute inequality, the index takes a value of one; if, on the other hand, income is distributed in an exactly even way the Gini coefficient is equal to zero.[45] In the advanced western democracies the Gini coefficient has tended to vary between 0.30, in more egalitarian societies such as the Scandinavian nations, and 0.45 in the United States. Gini coefficients have been much higher in the Latin American countries.[46]

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[43] See Lewis (1961), p. xi.

[44] These data are from Appendix 5 of Vanhanen (1997).

[45] On the Gini coefficient, see Atkinson (1970).

[46] The Gini coefficient in the United Sates has increased from 0.39 in the late 1960s to 0.47 in the mid-2000s.

In 1938 Colombia was the first Latin American country to undertake a systematic study on income distribution. Its Gini coefficient was 0.45, one of the highest values recorded in the world until that time. In the years to come it became evident that Colombia's unequal income distribution was not an aberration; it was the norm for the region. In the early 1950s and 1960s a series of studies showed extremely high Gini coefficients for most countries: 0.57 in Brazil, 0.46 in Chile and 0.59 in Mexico. Only Argentina appeared to have an income distribution that was not remarkably eschewed; its Gini coefficient was 0.37 in the 1950s and 0.41 throughout the 1960s, a level that was not very different from that attained by the advances Western Democracies.

By the early 1970s, a decade after the launching of the Alliance for Progress, a vast social program sponsored by the United States whose aim was to improve social conditions in Latin America, income had not become more evenly distributed. On the contrary, in many nations inequality had increased. The Gini coefficient was 0.63 in Brazil – up from 0.57 a decade earlier –; it was 0.47 in Chile, 0.52 in Colombia, 0.44 in Costa Rica, and 0.49 in Venezuela. Only in Argentina and Uruguay income continued to be more equally distributed, with Ginis of 0.42 and 0.33 respectively.

Ten years later things had not improved, and in the early 1990s, at the end of the so-called "lost decade," and after years of military dictatorships, inequality had reached staggering levels in most countries. In Argentina the Gini coefficient increased from 0.37 to 0.52 in a 40 years period (1950 through 1990); in Brazil it went from 0.57 to 0.65, in Chile from 0.44 to 0.54, and in Uruguay from 0.33 to 0.41. Mexico was the only country that experienced a decline in inequality between the 1950s and 1990s. In spite of this achievement, in the early 1990s Mexico's Gini coefficient was still 0.52, one of the highest in all of Latin America.

Many economists – and in particular those of a more conservative persuasion – have argued that it is misleading to focus the attention on inequality. What matters, they argue, is *poverty*. It is perfectly possible for income to be evenly distributed and for the vast majority of the population to live in abject poverty, as is the case in Democratic People's Republic of Korea (North Korea). Likewise, it is possible for income to be unevenly distributed, while everyone enjoys a (very) comfortable standard of living. The debate between income distribution and poverty has sometimes reached ideological undertones, obscuring the fact that both of these concepts are relevant and play a role in the evaluation of a country's economic and social performance. What is important for our particular analysis is that when poverty measures – as opposed to inequality indexes – are used, the story of Latin America's social conditions appears to be equally discouraging. In 1970 almost one in two Brazilians lived below the poverty line. This was also the case in Colombia and Peru. The incidence of poverty was an incredible 65 percent of population in Honduras, 39 percent in Panama, 34 percent in Mexico, 25 percent in Venezuela, 24 percent in Costa Rica, and 17 percent in Chile. At 8 percent of population, Argentina was the only country in the region with a single digit level of poverty incidence.

A decade later, in the early 1980s, things had barely improved. Poverty exceeded 40 percent of the population in Brazil, Colombia, Honduras and Peru. The incidence of poverty differed widely across geographical areas within particular countries. The indigenous areas of Peru, Colombia and Ecuador were particularly poor, as were the states of Oaxaca, Guerrero and Chiapas in Mexico, and Brazil's northeast.[47]

Other social indicators – including literacy, life expectancy, health provision, and the coverage of education – improved somewhat during the 1950s and 1970s. They did so slowly, however, and Latin America's social gap with other nations continued to be extremely large, noticeable and substantial.[48]

VI. So far from God, and so close to the United States

Since the early 19th century South American thinkers have discussed – sometimes obsessively – the differences between their region and the former colonies of North America. One of the most influential early contributors to this debate was Argentine intellectual, politician and educator, Domingo Faustino Sarmiento. In his 1845 book "*Facundo: Civilization and Barbarism*" Sarmiento argued that the young nations of Latin America had to decide whether to remain backward, remote and undemocratic, as they had been during the colonial period and the early years of independence, or to do what the United States had done, embracing the ideas and institutions of the enlightenment and the French Revolution. According to him, immediately after independence "barbarism" prevailed throughout most of Latin America, in the form of despotic rule wielded through brute force by local and provincial strongmen, warlords and

[47] See Perry et al, (1997); see also World Bank (2008).

[48] See Thorp (1998). See, also, Astorga, Berges and Fitzgerald (2005).

caudillos.[49] The title of the first English translation of Facundo, published in 1868, captured the thrust of the argument vividly: “Life in the Argentine Republic in the Age of the Tyrants.” In contrast to Latin America, Sarmiento argued, the United States had opted, from the early years of the Republic, for “civilization” and had strived to build the political institutions required to promote this goal.

In a second book published in 1849 – “*Travels in Europe, Africa and the United States*” – Sarmiento furthered these ideas and argued that it was in the United States, and not in Europe, where the true civilized ideas of liberty, equality, fraternity had taken hold.[50] He saw political decentralization as one of the United States greatest strengths, allowing its citizens to have control over the educational system, banking and other public services. But Sarmiento was not content with offering broad descriptions of the United States during its early years as a nation, or with comparing its institutions with those of Latin America; he wanted his country, Argentina, to emulate the United Sates, to rid itself of despotism and fully embrace civilization. Sarmiento’s admiration for the United Sates is captured with clarity in the following lines from his book “Travels”: “This inconceivable extravaganza [the United States] is grand and noble, occasionally sublime, and always follows its genius.”[51]

Through the years many Latin American intellectual disagreed with Sarmiento’s views and with his admiration for the United States and its way of life. José Enrique Rodó, an intellectual and writer from Uruguay, published in 1900 what is, perhaps, the most compelling criticism of the United States values and culture ever written by a Latin American.[52] In this short essay titled “*Ariel,*” Rodó argues that by embracing utilitarism the United States had turned its back to spiritual pursuits, beauty, and nature.[53] He contrasts the crudeness of the United Sates, where everything – even the arts and the sciences – had to have a practical application, with the values of ancient Greece, and the Athenians’ quest for harmony and high culture. He goeson to argue that a mechanical application of democratic principles – which he associated with

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[49] See Sarmiento (1845). According to Yale’s Roberto González Echeverría the term caudillo comes from the Latin *capitellum*, a diminutive of *caput*, which means head or chief or commander.

[50] See Sarmiento (1849).

[51] See Holden and Zolov (2000), p. 29.

[52] See Rodó (1900).

[53] “Ariel” is written as a letter addressed to “America’s Youth.” The title of the essay, as well as the references to Prospero and the monster Caliban come from Shakespeare’s “The Tempest.”

Benjamin Franklin –, resulted in crass massification and in the encouragement of a mediocre and low brow culture.

Of course, his was not a blind criticism of the United States; Rodó was too clever and cultured for that. He recognized many positive traits, including a “sleepless and insatiable instinct of curiosity, an impatient eagerness for the light; and carrying a fondness for public education almost to the point of monomania.” He praised the United States’ goal of educating the masses. And yet, for Rodó this was not enough: inventiveness and prosperity were vulgar and ultimately failed to generate an enlightened people and a harmonious society. He said: “Their culture, while far from being spiritual or refined, has an admirable efficiency so far as it is directed to practical ends and their immediate realizations. And while they have not added to the acquisition of science a single general law, one new principle, they have done wonders in its application (…)”

Rodó deplored the attempts by North Americans of spreading their ways of life to the rest of humanity. According to him, most United Sates citizens believed that their way of life was “predestined to all humanity.” This, said Rodó, South Americans had to resist; they had to stand up to Caliban and the glorification of material prosperity; South America’s youth had to pursue the higher aspirations of the spirit, nature, culture and Western civilization. South Americans could do it, because they, as their European forefathers, carried on the traditions and teachings of Athens.

In a remarkable act of dialectical rhetoric, and to the delight of the Latin American elites, Rodó put Sarmiento on his head. It was not North America that represented “civilization” and the South “barbarism”; Sarmiento got it all wrong; it was exactly the opposite. The United States, with its unrelentless pursuit of material progress was, in the final analysis, the country of crudeness, frivolity, and – why not say it? – barbarism. Maybe, the nations of the South were backward and lacked the curiosity, dynamism and the energy of the North, but their people still cultivated the spirit; they practiced the almost lost art of conversation, admired nature, and pursued beauty for its own sake. This was precisely their strength, and it could not be lost. This was what, according to Rodó, made them the representatives of “civilization” in the vast mass of land called the Americas. He told his young audience not to fall for the glitter that came from the North, he told them to resist the siren songs. He wrote: “I see no good in denaturalizing the character of a people – its personal genius – to impose on it identity with a foreign model to which they will sacrifice the originality of their genius (…) In societies, as in art and literature, blind imitation gives us but an inferior copy of the model."

And although Rodó's book was almost completely ignored in the United Sates – it was only translated and published in 1922, after Rodó's death –, it quickly impacted Latin American intellectual circles. Some have argued that the times influenced Rodó's views and those of his followers. After all, the United States had just defeated Spain in the Spanish-American War, and Cuba, the Philippines and Puerto Rico had become under its tutelage. All of the sudden the United States appeared to be a menacing imperial force, flexing its muscle in the neighborhood, ready to impose its will and gain economic advantage; maybe even ready to gobble new territories.

Independently of whether the Spanish American War affected his rhetoric, Rodó's book was extremely influential, and his views became part of Latin America's ethos. Generation after generation of South Americans were brought up with the idea that North Americans were crass and uncultured, lacking in manners and sophistication, poorly read, overly materialistic, and naïve. This was contrasted with Europeans, who were seen as sophisticated and refined, and the true heirs of classical culture.[54] As a result, the South American elites gravitated, for a long time, towards Europe, and not towards the United States. Until quite recently South America's rich were educated in Europe and traveled often there. It was in Europe – Paris, Rome, Madrid, Cannes, Monte Carlo – where they played and vacationed. And often, if they were on the wrong side of political developments, it was to Europe where they went into exile. More importantly perhaps, Rodó provided a highly convenient "yes, but" argument to the South America elites. They could now say: yes, our countries are less productive and materially advanced than the United Sates, but we have avoided their tackiness and vulgarity; instead of being concerned with productivity and material achievements, we care about the developments of the spirit. This argument, of course, was deeply flawed, and with time became untenable, as it became increasingly apparent that most countries of South America lacked the most basic institutions required to further culture and the cultivation of the spirit. The educational system was mediocre at best, universities lagged behind, and museums were half-empty buildings without curators or

[54] Some, however, believed that Rodó was an elitist and a racist. The image, values and ideal of Ariel represented those of European white, and completely ignored those of South America's indigenous population. One of his most important critics was José Carlos Mariátegui, a Peruvian intellectual. On Mariategui's views on the "Indian Problem," see Alonso (2009).

collections or public. A succession of coups d'état and dictatorships was hardly what the cultivation of the spirit needed, and the income gap between the North and the South became too large to be ignored or to be justified by some type of ethereal argument based on the beauty of Athenian ideals.

The ambivalent – and some times openly hostile – views of Latin Americans towards the United States were in part the result of diplomatic blunders by different United Sates governments. Examples abound, including, Woodrow Wilson's support of the conspiracy that resulted in the assassination of Mexican president Francisco Madero in 1913. Through time, different United States administrations supported a succession of despots, including Anastasio Somoza in Nicaragua, Marcos Pérez Jiménez in Venezuela, Leónidas Trujillo in the Dominican Republic, and a long list of generals in Argentina and Brazil. It was president Franklin Delano Roosevelt who, referring to Somoza in 1939, supposedly said: "He may be a son of a bitch, but he is our son of a bitch." At a different level, for a long time South American's have resented – as they continue to these days – the United States' appropriation of the terms "America" and "American." We are all "Americans," they repeat again and again south of the Rio Grande; those from the South, and the Center, and the isles, as well as those from the North. Certainly, that is what Rodó had in mind when he dedicated "*Ariel*" to "America's Youth" in 1900. Latin American's also rejected – maybe because they didn't quite understand it – the Monroe Doctrine. Did "America for the Americans" mean that the entire continent, North and South, was to be dominated by the United States? If so, this was rampant imperialism; it was the monster Caliban at its worse. And although it was formulated by President James Monroe in 1823, decades before the publication of either "*Facundo*" or "*Ariel*", the Doctrine – and the specific policies that have stemmed from it – continues to be seen as a clear confirmation that Sarmiento got it all wrong: it is the North Americans, and not their neighbors to the South, that are the barbarians.

"To Roosevelt," a poem by Nicaragua's Rubén Darío, captures vividly the way many South American intellectuals felt about their neighbor to the North at the turn of the 20th century.[55] This work was published in 1905, only five years after Rodó's "*Ariel*" and two years after President Theodore Roosevelt had taken hold of what was to become the Canal Zone. In the poem Dario provides a vivid contrast between the admiration that he feels for what the United States stands for – or, at least, for what it had stood for until then –, and the outrage that

[55] See, for example, Antología Poética de Rubén Darío, published in 2005.

he feels for the annexation of Latin American land. He also expresses fear that this will only be the beginning of successive attempts to dominate – either directly or indirectly –, the countries of the South. The poem opens as follows:[56]

It is with the voice of the Bible, or Walt Whitman's verse
that I should reach you, Hunter,
primitive and modern, simple and complex,
with something of Washington, and four parts of Nimrod.
You are the United Sates,
the future invader
of that naïve America with Indian blood
that still prays to Jesus Christ and still speaks Spanish.

Darío ends with a warning: It will not be so easy to dominate this region; there will be strong opposition, and short of the invader being God, it just would not happen: "Be careful, Spanish America lives! There are thousand cubs of the Spanish Lion wandering and free." Mexican historian Enrique Krauze has said that Sandino, Che Guevara and Fidel Castro are the cubs that Darío alluded to.[57] But why stop there? New cubs named Hugo Chávez, Evo Morales, Fernando Lugo, and Daniel Ortega are now roaming the Americas.

But it is Chile's Pablo Neruda who, in his monumental *Canto General* published in 1950, best captures the complex relationship that South America has had with the United States.[58] The Canto has 340 poems that sing to the Americas and its people, to its heroes and villains, to its happiness and sorrows. Canto IX is titled "Let the Woodcutter Awaken" and begins with a celebration of the United Sates, its citizens and its prowess. Neruda sings to "the machine that spins, the iron spoon that eats earth," and to the "farmer's little house" in the plains. He says, "You are beautiful and wide North America. You come from a humble cradle like the white woman that washes clothes by your rivers." And then he says:

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[56] There are several translations of this poem. This translation is my own.

[57] See Krauze (2008).

[58] See Neruda (1950). There are many translations of the Canto General. The translations that follow are my own.

"We love your man with red hands
of Oregon's clay, your black child
that brought you music born
in ivory places: we love
your city, your substance,
your light, your mechanisms, the energy
of the West, the pacific
honey, from beehives and villages (…)"

But not everything is celebration. Neruda also writes about an ugly side; about racism, poverty, and destitution; he writes about political persecution and Lincoln's assassination. And then, with fury, he turns to the United Sates' support for Latin American tyrants and despots, to its support for the Trujillos and the Somozas and the González Videlas. As Rubén Darío before him, Neruda warns the giant of the North: "[I]f you arm your hordes, North America, to destroy these pure borders (…) to govern the music and the order that we love, we will emerge from the air and the stones to bite you; we will get out through the last window to throw fire at you; we will emerge from the deepest waves (…)" And then, quite suddenly, he mellows, evokes Abraham Lincoln's spirit, and hopes that "nothing of the sort happens." The woodcutter, he says, should awaken, "Abraham should come, with his wooden plate and eat with the farmers." Lincoln should come back from the "golden and green land of Illinois, and raise his ax against the new slave traffickers." The Canto closes with: "I don't come to solve anything. I come to sing, and for you to sing with me."

Neruda also writes about the economic relation between the United States and South America, and he deplores the fact that the multinationals take the region's natural resources, impoverishing it, leaving its earth barren. Canto V, "The Sand Betrayed," the angriest of the nine cantos, includes three long poems on the Standard Oil Company, the Anaconda Copper Mining Company, and the United Fruit. The Standard Oil, Neruda writes, "buys countries, towns, seas, policemen, congressional delegations, faraway places where the poor hold on to their maize as tycoons hold on to their gold." But it is perhaps his poem on the United Fruit Company that best encapsulates what several generations of Latin Americans have felt about what they perceive as the United States economic incursions in the region:

> “When the trumpet sounded, everything
> was ready on earth,
> and Jehovah distributed the world
> to Coca Cola Inc., Anaconda,
> Ford Motors and other entities:
> United Fruit Inc.
> reserved for itself the juiciest part,
> the central coast of my land,
> the sweet waist of America.
> And it rebaptized its lands
> “Banana Republics” (…)”

One of those strongly influenced by “Ariel” and by Rodó’s views was Mexico’s José de Vasconcelos, who as Secretary of Education during the second half of the 1920s helped define the official version the Mexican Revolution. One of Vasconcelos’ greatest legacies is having commissioned many of the murals by Diego Rivera, David Alfaro Siqueiros, and José Clemente Orozco that adorn numerous public buildings. Vasconcelos thought that Latin America’s confluence of races positioned it for achieving – sooner rather than later – Rodós’ dream of a cultured, harmonious, and spiritually advanced collection of countries. This dream, of course, was not too different from that of Simón Bolivar, a figure revered by most South Americans. But as times passed, it became increasingly clear that Bolivar’s dream was nothing more than that, a dream. But not just any dream; it is a dream that refuses to die, that reemerges with force from time to time, and whose most recent proponent is the president of Venezuela, Hugo Chávez.

Of course, Mexico’s antagonistic views of its neighbor to the North were not born with the Mexican Revolution. They have always been there; since the colonial times and the days of the early independence; since the Mexican-American War of 1846, the Treaty of Guadalupe Hidalgo, and the loss of Texas, New Mexico and Alta California. Remember Porfirio Diaz’s quip: “Poor Mexico, so far from God and so close to the United States.” It is important to recognize that this came from Mexico’s self-defined “modernizer”; from a man who admired the order and organizational power of the United States. It didn't come from a bandito turned revolutionary. But as historian Enrique Krauze has noted, during the second half of the 20th century this anti-United States sentiment has been mostly confined to Mexico's middle class and intellectuals. The vast majority of the population, and in particular the poor, look towards the north with admiration; for them the United Sates is not seen as an enemy; it is seen as an opportunity. And many of them risk their lives by crossing the Rio Grande in search of better standards of living for themselves and for their families.[59]

The grievances, of course, are real. It is true that for some time the United States embarked in a land-grab strategy – Cuba, Puerto Rico and the Philippines after the Spanish-American War of 1898, and the Canal Zone in 1903 –, and that through the years it supported a succession of despots that enriched themselves and violated human rights as a matter of course. And then, there were the decades of political and diplomatic neglect, with barely a nod to the impoverished neighbors to the South; neglect that was broken only rarely, and for very short periods of time – some may think of the Alliance for Progress in the early 1960s.

Enrique Krauze has argued that this neglect was compounded by a profound lack of interest, and even disdain, for Latin American culture.[60] I am not so sure, however. Clearly, there has been limited political and diplomatic interest, but culture is a different story. After all, Diego Rivera found powerful patrons in the United States – although, as the destruction of his mural in the Rockefeller Center shows, they didn't always understand his work –, and his wife Frida Kahlo still has a cult-following. Works by writers Gabriel García Márquez, Mario Vargas Llosa, Carlos Fuentes, and Isabel Allende have been extremely well received by North American readers and reviewers. More recently, in 2008, the New York Times named "2666," Roberto Bolaño's monumental and critically acclaimed novel, as one of its five Books of the Year. For a long time poet Octavio Paz has had an important place in literature curricula in U.S. colleges, and Pablo Neruda, a fierce critic of United States' policies towards Latin America – in 1973 he published a book titled "*Incitación al Nixonicidio*" – has been a perennial bestselling author.[61]

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[59] See Krauze (2008).

[60] See Krauze (2008).

[61] See Neruda (1973).

But that is not all: almost every major university in the United States has a Latin American Center or Program, where men and women research different aspects of the region's history, arts or culture. And then, of course, are all the works on Latin America by North American authors. Although not all of them are equally illuminating, they do reflect the interest that the region exerts among large groups of intellectuals. I can think of Oscar Lewis, Albert O. Hirschman, Herbert L. Matthews, Francis Fukuyama, and Alan Riding, to name just a few.

At the end of the road, however, what really matters is that the grievances have been there for decades, and that they are justified – and if not fully justified, at least partially so. But the fact that the complaints about neglect and lack of interest may have (some) validity, does not mean that South America's underdevelopment has been caused by the North, nor does it mean that being "so close to the United States" is a curse. The idea that Latin America's long term decline is the result of a vast Northern, capitalistic, and Anglo Saxon conspiracy, simply, doesn't hold any water. The causes of the region's mediocre economic performance have to be looked inside of Latin America.

Table 1 Relative Per Capita GDP in Latin America (OECD = 1)

	RLA5	RLA6	RLA7	RLA10	RLA15	RLA20
1820	*0.40*					
1830		*0.36*				
1840		*0.34*				
1850	0.32	0.34	0.34			
1860	0.27	0.32	0.29			
1870	0.27	0.31	0.29			
1880	0.26	0.31	0.29			
1890	0.29	0.31	0.32			
1900	0.25	0.26	0.27	0.28		
1913	0.29	0.32	0.31	0.32	0.31	
1925	0.28	0.31	0.31	0.32	0.32	
1929	0.27	0.31	0.30	0.32	0.31	
1933	0.28	0.32	0.31	0.32	0.32	
1938	0.27	0.30	0.30	0.31	0.31	
1950	0.22	0.25	0.26	0.30	0.29	0.28
1955	0.21	0.23	0.24	0.27	0.26	0.26
1960	0.21	0.22	0.24	0.26	0.25	0.24
1965	0.20	0.21	0.23	0.24	0.23	0.22
1970	0.21	0.21	0.23	0.23	0.22	0.21
1975	0.23	0.23	0.25	0.24	0.23	0.23
1980	0.24	0.23	0.25	0.24	0.23	0.22
1985	0.20	0.19	0.21	0.20	0.19	0.19
1990	0.18	0.17	0.19	0.17	0.17	0.16
1995	0.19	0.18	0.19	0.18	0.17	0.17
2000	0.18	0.17	0.18	0.17	0.16	0.16

Sources: Prados de la Escosura (2007), Table 5a

Definitions:
RLA5= LA5: OECD7
RLA6= LA6: OECD10
RLA7= LA7: OECD14
RLA10= LA10: OECD20
RLA15= LA15: OECD21
RLA20= LA20: OECD21

See Table 3 for details on the definitions

Table 2. Relative Per Capita GDP in Latin America (USA = 1)

	RLA5	RLA6	RLA7	RLA10	RLA15	RLA20
1820	*0.53*					
1830		*0.41*				
1840		*0.37*				
1850	0.37	0.37	0.36			
1860	0.30	0.33	0.30			
1870	0.28	0.29	0.27			
1880	0.25	0.27	0.24			
1890	0.29	0.28	0.28			
1900	0.24	0.23	0.24	0.22		
1913	0.26	0.27	0.26	0.24	0.23	
1925	0.25	0.25	0.25	0.23	0.23	
1929	0.24	0.25	0.24	0.23	0.22	
1933	0.28	0.29	0.28	0.27	0.26	
1938	0.25	0.26	0.25	0.24	0.23	
1950	0.18	0.18	0.18	0.17	0.17	0.17
1955	0.17	0.17	0.18	0.17	0.17	0.16
1960	0.18	0.18	0.19	0.18	0.17	0.17
1965	0.18	0.17	0.18	0.17	0.17	0.16
1970	0.19	0.18	0.19	0.18	0.17	0.17
1975	0.21	0.20	0.21	0.19	0.19	0.18
1980	0.21	0.20	0.21	0.19	0.19	0.18
1985	0.18	0.17	0.17	0.16	0.16	0.15
1990	0.16	0.15	0.16	0.15	0.14	0.14
1995	0.17	0.16	0.16	0.15	0.15	0.14
2000	0.16	0.14	0.15	0.14	0.14	0.13

Sources: Prados de la Escosura (2007), Table 5b

Definitions:
RLA5= LA5: USA
RLA6= LA6: USA
RLA7= LA7: USA
RLA10= LA10: USA
RLA15= LA15: USA
RLA20= LA20: USA

See Table 3 for details on the definitions

Table 3: Definitions used in Tables 1 and 2

LA5: Argentina, Brazil, Chile, Mexico, and Uruguay

LA6: Argentina, Brazil, Chile, Cuba, Uruguay, and Venezuela

LA7: Argentina, Brazil, Chile, Cuba, Mexico, Uruguay, and Venezuela

LA10: LA7 plus Colombia, Ecuador and Peru

LA15*:* LA10 plus Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua

LA20: All Latin America

OECD7: Australia, Denmark, France, Netherlands, Sweden, U.K., and U.S.A.

OECD10: Austria, Belgium, Denmark, France, Germany, Netherlands, Norway, Sweden, U.K., and U.S.A.

OECD14: Australia, Austria, Belgium, Canada, Denmark, France, Germany, the Netherlands, Norway, Portugal, Spain, Sweden, the U.K., and the U.S.

OECD20: OECD14 plus Finland, Greece, Italy, Japan, New Zealand, and Switzerland

OECD21: OECD20 plus Ireland

Sources: Prados de la Escosura (2007), Table 5a

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