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# Latin America

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Economic History &  
Current Developments

## Friends from Peace Corps days in Dom Republic



- Travels, research or work in: Mexico, Costa Rica, Haiti, El Salvador, Peru, Ecuador, Chile, Paraguay, Bolivia, Colombia

- Market in Colombia





LAND REFORM  
IN LATIN AMERICA

The Dominican Case

CARRIE A. MEYER

**THE  
ECONOMICS  
AND  
POLITICS  
OF  
NGOs  
IN  
LATIN  
AMERICA**

**Carrie A. Meyer**

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# Latin America's Economic History

- Colonial Beginnings
  - The Golden Age of Trade
  - Protectionism & ISI
  - Latin America's history of inflation
  - The 1980s – The Lost Decade
  - The 1990s – Free Market Reforms
  - Latin America in the Modern Global Economy
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# Latin America as a region of the world

- Culturally similar countries with similar economic history
  - Richer than most of the developing world – Mostly in upper-middle income countries
  - Only 1/10 th the population of developing world overall – but 30% of the land area
  - Rich in land and natural resources
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## Other things that characterize Latin America

- Inequality -- income distribution and distribution of land is very skewed – much more so than in Asia
  - Inflation had a very long history in Latin America -- brought down with the reforms of the 1990s.
  - Exporter of primary products
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# Latin America's mineral wealth

- gold, silver -- Mexico
  - Copper - Chile (major producer in the world 1990), Peru
  - Iron Ore -- Brazil
  - Tin -- Brazil and Bolivia
  - Lead and Zinc -- Mexico and Peru
  - Oil Exporters -- Venezuela, Ecuador (OPEC Members) Mexico (Non OPEC)
  - Oil resources: Columbia, Bolivia, Peru, Brazil, Argentina
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# Cropland

- Pastures for beef – Argentina, Uruguay, Brazil
  - Rich volcanic soils in Central Am, Caribbean, Colombia, Ecuador
  - "Banana Republics" -- Costa Rica, Panama -- Central America
  - Coffee -- Brazil, Colombia, Costa Rica
  - Cacao – Brazil, Colombia and many others
  - Sugar Cane -- Cuba, Brazil, DR
  - Modern crops: Soybeans, Ethanol -- Brazil, Fruit -- Chile and others, Vegetables -- Mexico
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If Latin America is so rich in natural resources why the trouble developing?

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# Resources can be problematic

- Problematic Geography – mountains & waterfalls, the Amazon is not the Mississippi, Rainforests are Jungles! Earthquakes & Hurricanes
  - Dutch Disease – the problems of a single large export
  - Price Volatility
  - Resting on riches
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# Historical Overview / Timeline

- Columbus landed 1492
  - 300 years of colonial rule --
    - Colonial plunder and mineral extraction -- 1500-1700
    - Hacienda production -- 1700-1810
  - Wars for Independence -- 1810-24
  - Entry into world economy -- 1825-1870
  - Golden Age of international trade -- 1870-1914
  - WWI -- stalled trade
  - 1930s -- Great Depression
  - WWII -- stalled trade
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# Historical Overview / Timeline

- Post WWII World Bank, UN, ECLA created
  - 1950s-1960s -- Dependency theory, ISI, Protected Markets, but economic growth
    - Jan 1959 Fidel Castro took over Cuba
    - April 1959 IDB established
    - 1961 Alliance for Progress under Kennedy Adm
  - 1970s -- Growth by borrowing
  - 1980s -- Debt Crisis
  - 1990s -- Openness, Trade, Democracy, Environmental concerns
  - 2000s -- Reassessment
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# Colonial Latin America, 1500-1800

Compared to the U.S.

## ■ **U.S.**

- Sparcely populated
- No gold found
- Extensive river system for transport
- Good farm land
- Local autonomy

## ■ **Latin America**

- Large population & highly developed empires
  - Abundant gold & silver
  - Difficult geography
  - Farmland of less interest
  - Spanish bureaucratic control
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# Colonial Latin America, 1500-1800

## Part I and Part II

- 1500-1700 Exploitation of precious metals
    - “Growth poles” around the mining towns
    - Most of the Indians died in poor conditions
  - 1700-1800 Rise of the agricultural estate
    - Latifundio-Minifundio landholding
    - Commodity booms to respond to European demands— sugar, cocoa, tobacco, guano
    - Healthier lifestyle
  - Two phases were mostly reversed in Brazil
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# The Early 19th Century

- The role of Great Britain and the Industrial Revolution
  - While Spain exploited its colonies for gold and silver, Britain developed new technology -- especially in textiles
  - Wars for independence 1810-1824
  - the slow building of nation states
  - the beginnings of free trade and the entry into the world economy 1825-1870
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# Golden Age of Trade (1870-1914)

- Technological change in the mid-19<sup>th</sup> Century
    - Railroads --1838 first railway in Cuba open for sugar production
    - Telegraph for communication
    - improved tech for shipping and mining
  - England dismantling protection and opening doors to raw materials from abroad –
  - Industrialization and growth in U.S. led to increases in demand for tropical Latin American goods
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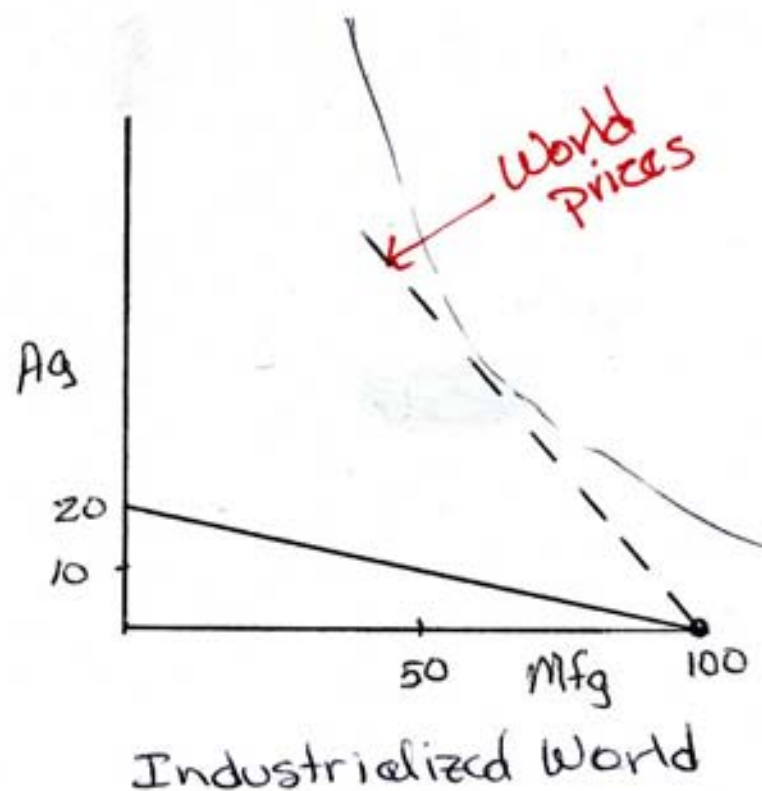
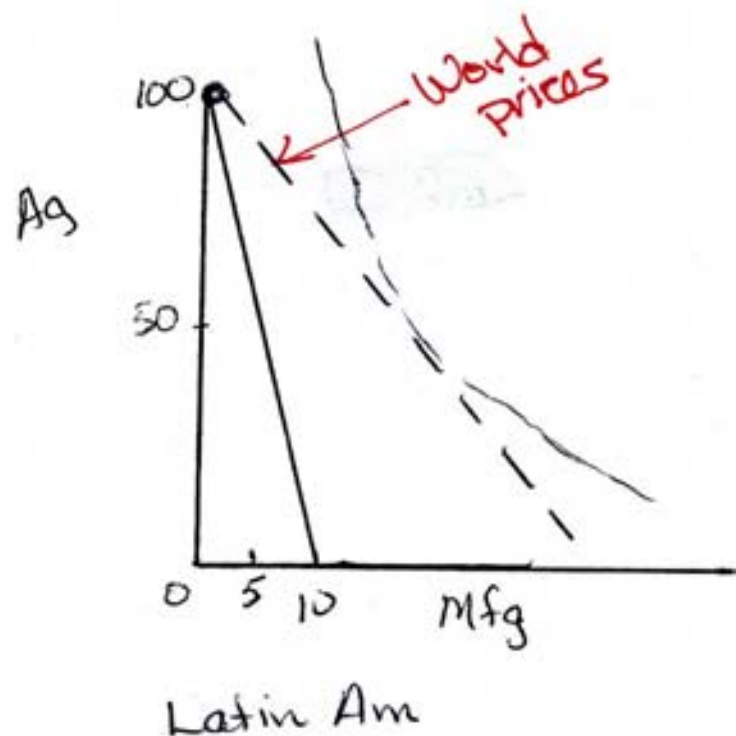
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## Latin America's role as exporter of raw materials (as described by Celso Furtado)

- **Temperate Agricultural commodities** -- grains and beef from Argentina, Uruguay, Chile (wheat) seemed to produce the most growth
  - **Tropical Agricultural Products** -- sugar, tobacco, coffee, cocoa, bananas -- did not require complex infrastructure, and competed with other colonial regimes where prices and wages were low. Little development of new technology, little increase in human capital.
  - **Mineral products** -- industrial metals – became capital intensive enclave economies – provided minimal stimulus to the overall economy
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# Classical Trade Theory

## Ricardo's Comparative Advantage





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# Neo-Classical Trade Theory

- Considers 2 factors of production
  - Specialization is not complete because the PPC is bowed out in each country
  - Factor prices will be equalized with International trade – wages rise in labor abundant country
  - As factor prices equalizes, trade promotes increasing equality between countries
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## Raul Prebisch & Dependency theory of trade

- Argentine economist associated with ECLAC (CEPAL)
  - Published his critique of trade theory in 1950 – especially irritated by factor price equalization theorem
  - Prebisch saw a tendency for international trade to further inequality among nations
  - Observed the results of the Great Depression and World War II
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## Falling terms of trade $P_x/P_m$

- Engel's Law: As income increases, % spent on food declines
- Technological change in mfg reduced waste of raw materials and found synthetics
- Markets for mfg were monopolistic and oligopolistic – prices were kept high
- Markets for raw materials were very competitive and resulted in low prices.
- More and more trade was between industrialized countries
- Latin America must industrialize

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# Import Substitution Industrialization

- Began in some countries when trade collapsed during the Great Depression also in WWII
  - Turned into a development strategies in the 1950s-60s
  - Protective tariffs
  - Import quotas & licensing
  - Overvalued exchange rates & exchange controls
  - Tax incentives, low interest rates, & direct subsidies to industrialists & exporters
  - Resulted in high rates of growth & industrialization
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# Costs of the Strategy

- Overvalued exchange rates hurt traditional exports
  - Encouraged inputs from abroad rather than backward linkages to domestic economy
  - Low interest rates encouraged capital intensive industry – low employment
  - High cost of consumer goods
  - Excessive tariffs, quotas, subsidies, encouraged rent seeking and favored elites – little reduction in inequality
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# Anti-agriculture aspects of ISI

- Overvalued exchange rates hurt ag exports, encouraged food imports
- Subsidized food prices for urban workers, hurt domestic agriculture
- Terms of trade turned against agriculture

$P \text{ of Ag} / (P \text{ of mfg \& inputs to Ag})$

- Resulted in
    - Low incentive to invest
    - Food shortages & rural-urban migration
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## Contrast to the industrialization experience in the U.S. Midwest

- Explosive growth of Chicago in mid 1800s based on wholesale markets for commercial agriculture
  - Prosperous 19<sup>th</sup> farming
  - The Midwest industrialized in the 19<sup>th</sup> century
  - Reapers, steam engines, and other farm machinery
  - 20<sup>th</sup> century brought gasoline engines, automobiles, and finally tractors
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D A Y S

F R O M   T H E   G O L D E N   A G E

O N   T H E

T H R O U G H   T H E

F A M I L Y

G R E A T   D E P R E S S I O N

F A R M



CARRIE A. MEYER

# Threshing with steam engine -- ca 1903

Courtesy of the Boone County Historical Museum





# International Harvester Gas Engine (1905)

Courtesy of the Wisconsin Historical Society Image # 41501



	Autos on farms	tractors on farms	trucks on farms	stationary gas engines on farms	# farms
1900	--	--	--	--	
<b>1910</b>	<b>50</b>	1	--	600	<b>6,366</b>
1911	100	4		2 Rumeley	6,425
1912	175	8		5	6,430
1913	258	14		10	6,437
<b>1914</b>	<b>343</b>	17		15 1000	<b>6,447</b>
1915	472	25		25 Rose	6,458
1916	687	37		40	6,463
1917	966	51		60	6,478
1918	1502	85		89	6,488
<b>1919</b>	1760	158		111	6,506
1920	2146	246		139	<b>6,454</b>
1921	2382	343		207	6,511
1922	2425	372		263	6,500
1923	2618	428		316	6,492
1924	3004	496		363 2500	6,480
1925	3283	549		459 Kinsman	6,372

\*in thousands

Series are from Historical Statistics of the U.S.

# Latin America's history of inflation

**Table 6.1**

Inflation rates, Latin American countries, 1960–1989  
(percentage per year)

C & H

	1960–1969	1970–1979	1980–1985	1986–1989
High inflation countries				
Argentina	22.9	132.8	335.5	1,392.1
Bolivia	6.3	15.9	2,251.5	28.7
Brazil	45.8	30.5	142.0	795.6
Chile	25.1	174.0	23.8	18.3
Peru	9.8	26.5	97.3	1,169.2
Uruguay	50.1	59.3	48.9	73.0
Weighted average <sup>a</sup>	36.6	53.7	224.0	844.8



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# The International Debt Crisis of the 1980s

- Official beginning in mid-August 1982 when Mexico informed U.S. treasury that they couldn't pay interest.
  - Not unique to Latin America, but Latin America held most of the international debt
  - Annual per capita economic growth in Latin America:
    - 1970-80 -- 3.3%
    - 1980-90 -- (-.4%)
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## Roots of the debt crisis:

### Explosion of lending in 1974-79

- Instead of loaning for mortgages, banks were lending to developing countries at variable rates
  - Citicorp Chair: "Countries never go bankrupt"
  - Banks heavy exposure to Latin America
  - When the loans were made it was clear that further lending would be required to pay them off.
  - But low interest rates, exports doing well -- growing faster than the debt, plenty of export earnings to service the debt
  - total external debt of LDCs increased from \$180B in 1975 to \$406B in 1979 – mostly on non-concessional terms with commercial banks
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## Roots of the debt crisis:

### Tight monetary policies in US & UK

- Sharp rise in interest rates (loans were at variable rates) and the dollar rose at the same time
  - With fear of default by debtors in 1983-84, speculators drove the \$ still higher.
  - Recession in the industrial world as growth choked off with tight money; fall in export commodity prices, terms of trade worsened in Latin America
  - debt service/export ratios -- critical for determining the capacity to service the debt, soared
  - no new lending after 1982
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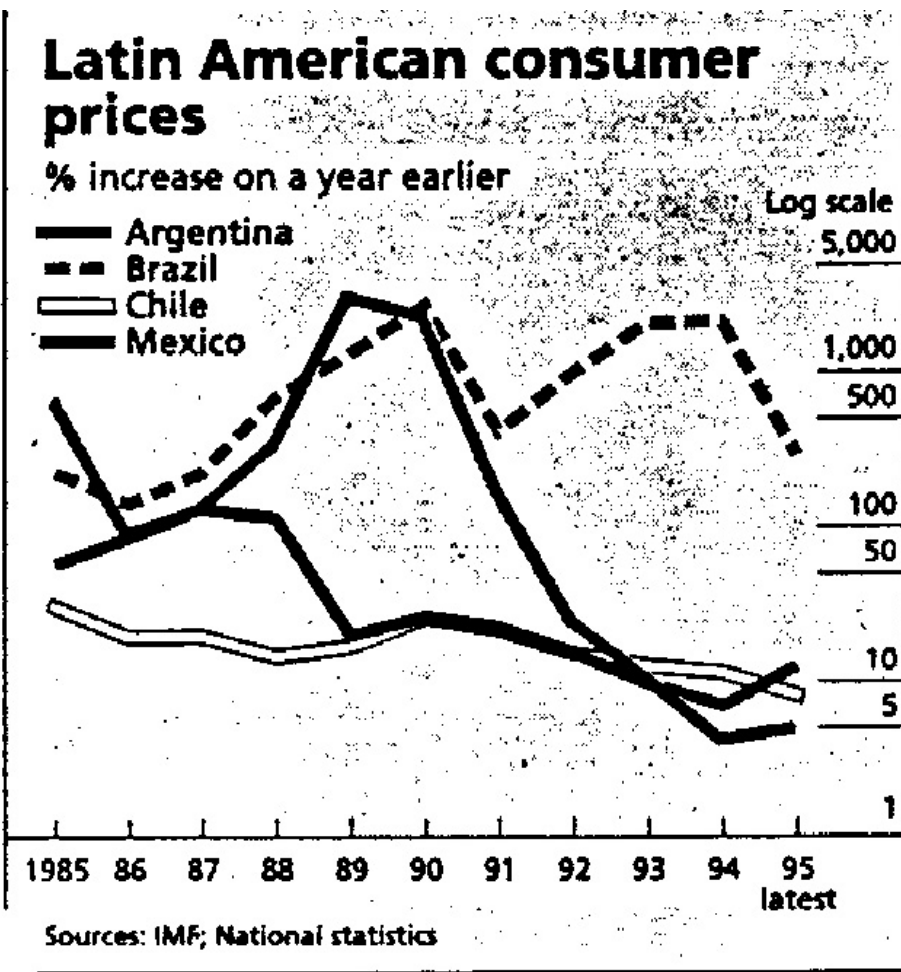
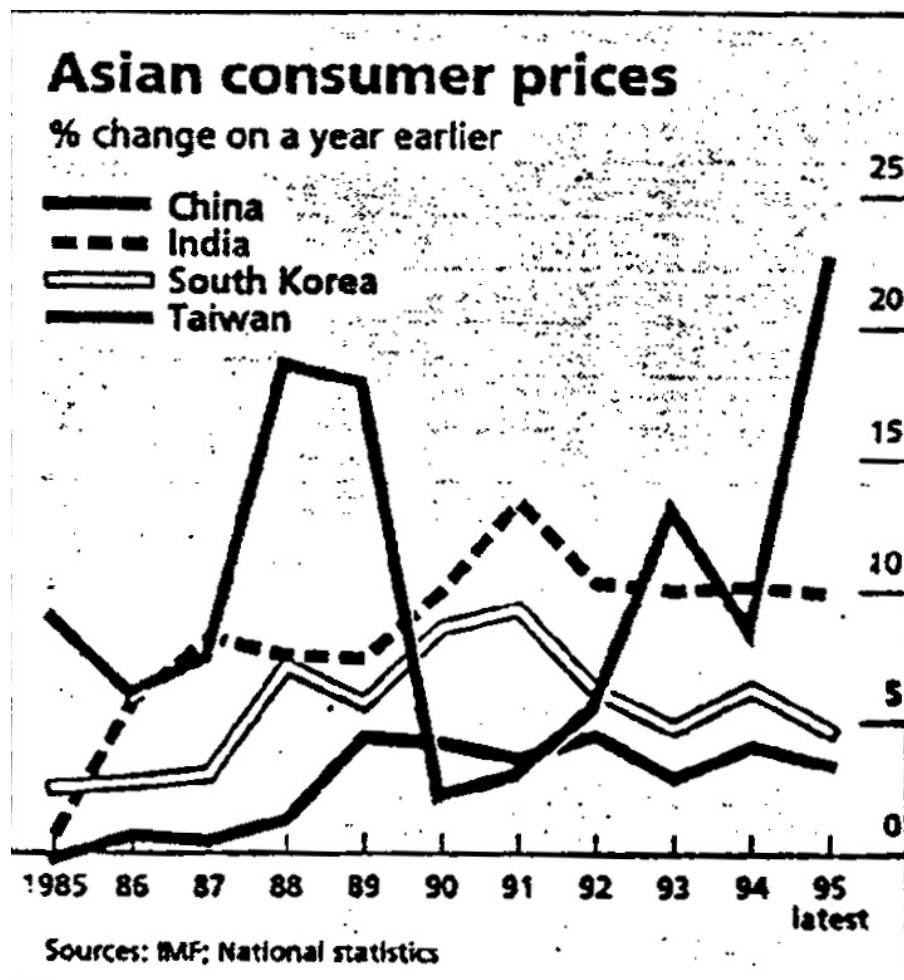
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# Roots of the Debt Crisis

## Role of Debtor Country Policies

- When loans dried up, central banks turned back to inflationary financing
  - Resulted in Capital Flight -- the private sector essentially moving their money out of the country to invest elsewhere
  - As the money leaves the country, the domestic currency devalues further, inflation-capital flight spiral
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# Inflation's special connection to Latin America



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## Other factors in the high inflation of the 1980s & 1990s

- We've mentioned capital flight and currency devaluation – selling pesos for dollars
  - Seigniorage – govt ability to buy goods by printing money, no inflation if economy is growing, but not to finance fiscal deficit
  - BOP crises – if imports > exports and investments & loans stop coming, extreme pressure to devalue –
  - Capacity constraints & supply shocks – poor harvests, oil prices, earthquakes
  - Indexation
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# Plans to resolve the crisis

## Baker & Brady

- 1985 James Baker – U.S. Treasury Sec under Reagan – plan to encourage the banks to lend more if countries reform policies
  - The development of secondary markets for the debt
  - 1989 Treasury Sec under Bush senior – Brady plan renegotiated the debt – asked banks to forgive part of loan in exchange for limited guarantees of repayment & market reforms, “buybacks” & debt swaps
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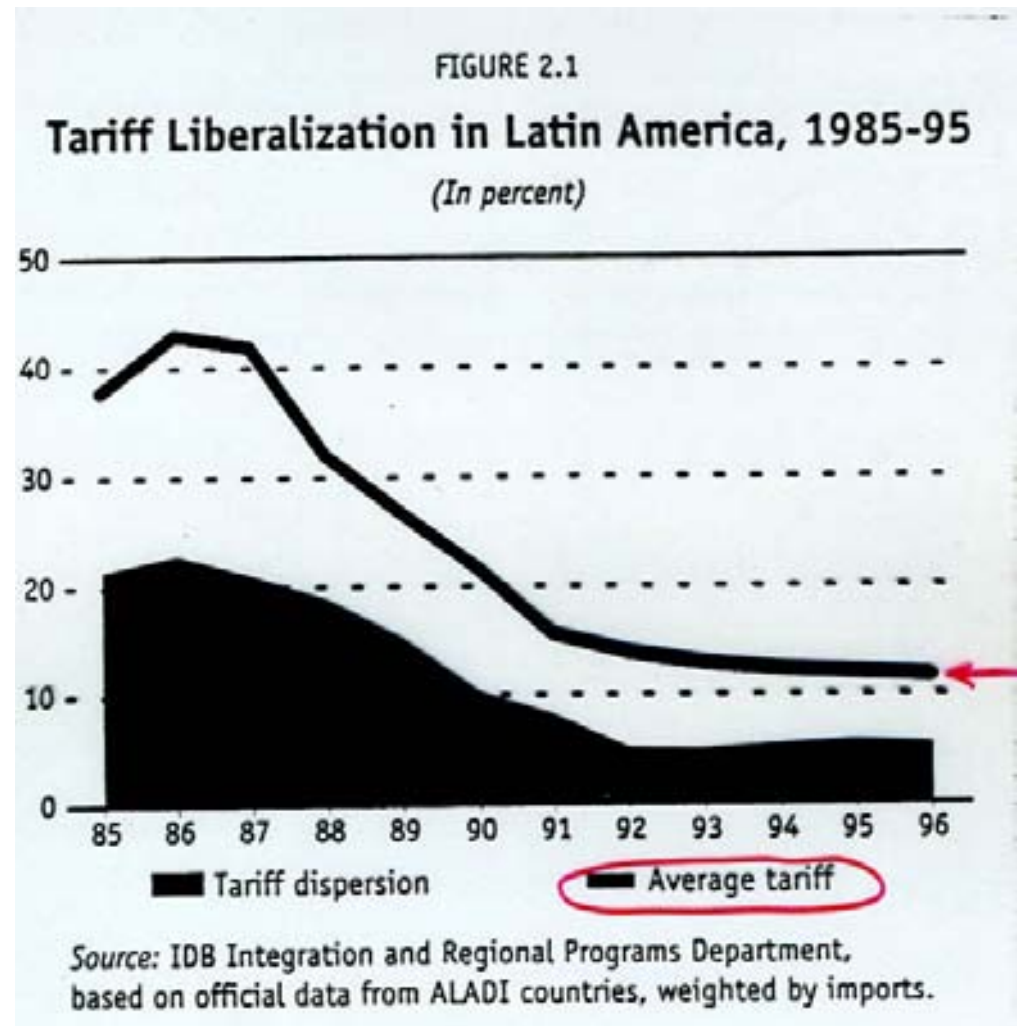
## Latin America did reform in the 1990s

- Trade reform – first Chile & Mexico, but by 1989 all of Latin America was involved in trade liberalization
  - Free-trade agreements: NAFTA, Mercosur, many others
  - Privatization of state owned enterprises
  - Welcomed foreign investment
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# Elements of trade reform

- Reduction of the average tariff level
- Reduction of tariff dispersion



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## **Privatization Revenue by Sector in Latin America 1990-9:**

Telecommunications	24.8%
Energy (electricity & gas)	13.6%
Other infrastructure (esp. airlines)	5.0%
Financial services (esp banking)	23.4%
Petroleum	11.0%
Mining	3.9%
Agriculture	1.4%
Steel	10.8%
Other industry	4.9%

Source: IDB, 1996 Report.

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# The pace varied

Mexico began slowly in mid-1980s, Brazil got started later and sold Telebras  
In 1998 for a record \$19.2 billion

**Table 6.3. Privatization Revenues in Latin America and the Caribbean, 1990–1999 (mil**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Argentina	7,532	2,841	5,741	4,670	894	1,208	642	4,366	510	16,157
Bolivia	NA	NA	9	13	NA	789	34	40	10	151
Brazil	44	1,633	2,401	2,621	2,104	992	5,770	18,737	32,427	4,400
Chile	98	364	8	106	128	13	187	NA	181	1,053
Colombia	NA	168	5	391	170	NA	2,075	2,876	518	NA
Mexico	3,160	11,289	6,924	2,131	766	167	1,526	4,496	999	291
Peru	NA	3	212	127	2,840	1,276	1,751	1,268	480	286
Venezuela	10	2,278	140	36	8	39	2,017	1,387	112	46
Other	71	147	120	393	1,289	132	140	726	2,447	1,231
Total	10,915	18,723	15,560	10,488	8,199	4,616	14,142	33,897	37,685	23,614

Source: World Bank, *Global Development Finance 2001*, 186.

\*% total 1991–1999.

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# Subsequent Currency Crises

- Tequila Crisis – Mexico 1994
  - East Asian Currency Crisis of 1997, subsequent Russian Ruble devaluation
  - Followed by devaluation of the Brazilian currency mid-1998
  - Eventual collapse of Argentine fixed exchange rate, 2002
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# Lessons of the Debt Crisis

- Growth has disappointed
    - 1990s – approximately 1.5% growth
  - Strong fundamentals matter
  - Price stability
  - Responsible fiscal policy
  - The importance of maintaining confidence
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# Spillover of the Subprime Crisis in Latin America

- Varies by country
    - Mexico is suffering – oil prices down, tourism down, exports to U.S. down
    - Brazil is doing OK – food prices are still relatively high, macro policy is sound
    - Colombia, Peru are doing OK
    - Venezuela is floundering
  - Currency challenges
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