Latin America and De-Growth: A Chance to Finally Overcome Underdevelopment.

Abstract

For most of the past century, Latin American countries have been persuaded to follow an outward-oriented model of development based on free trade and the exportation of primary commodities. The trade restrictions during the 1930s depression, however, naturally favored domestic industrialization from within. With the end of World War II, industrialization policy received theoretical support: stage-growth theorists, Latin American structuralists, and *dependentistas* all advocated historically oriented approaches to development policy.

During the forty years between the 1930s and 1970s, Latin American countries experienced rapid growth, especially in the post-WWII period when some countries were praised as being "economic miracles." According to Jan Kregel, "[f]rom 1950 to 1970, the eight major Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela) grew at an annual average rate in excess of 5.25 percent with per capita income growing at over 2.36 percent" (Kregel 2008, 542). With the breakdown of the Bretton Woods system and the liberalization of international capital markets, increasing reliance on private foreign finance meant that Latin American economies accumulated large amounts of debt (Kregel 2008, 547). Growth patterns were often maintained by deficits in the balance of payments financed through loans issued in foreign currency and/or monetary expansion (Franko 2007, 71). The results were inflationary pressures and large deficits in the balance of payments due to debt services. This unstable process was eventually exacerbated by the oil crises and the high interest

rates implemented by Paul Volcker in the 1970s. The outcome was the so-called “lost decade” in Latin America, when the region experienced both a debt crisis and hyperinflation. In the years between 1983 and 1989, the region’s total debt over GNP ratio was consistently more than fifty percent, while inflation exceeded 2,000 percent per year in Argentina, Brazil, Nicaragua, and Peru (Franko 2007, 88; 108).

The general debt crisis that hit Latin America emboldened advocates of liberal policies in the region. In fact, even before Ronald Reagan and Margaret Thatcher exalted the Chicago Boys to new heights, Latin America had being experimenting with neoliberalism: first with Augusto Pinochet’s “shock therapy” in Chile and then in Bolivia. Finally in the 1980s traditionally nationalist forces adopted neoliberal policies in Argentina, Mexico, Chile, Venezuela, and Brazil. This political shift revived the development strategy that predominated in the nineteenth century, based on liberalization of trade and specialization in agricultural commodities for exportation (Sader 2005, 59). For advanced countries, neoliberal policies of structural adjustment provided the solution for the crisis, recommending measures to attract sufficient private capital from international markets to repay their outstanding debt (Kregel 2008, 542). During this period the virtues of free markets were widely accepted due to the fact that they provided an optimistic, confident vision regarding economic prosperity — much like the promises of modernization itself (Latham 2011, 158). In fact, just like modernization theory, neoliberalism claimed that development could be achieved quickly and cheaply, driving the world down a common, historical path toward a universal end point (Latham 2011, 158).

Latin America has now experienced with neoliberalism for approximately thirty years. But the revival of export-led development strategies has not provided growth rates similar to those in the postwar period, when policies of industrialization from within were implemented. Deregulation designed to promote the free flow of capital meant resources were channeled not into production but into finance, where capital could obtain higher returns, greater liquidity, and often tax-exemptions (Sader 2011, 21). One of the outcomes was an increase in the rate of unemployment, supporting John Maynard Keynes's claim that "[u]nemployment develops … because people want the moon; — men cannot be employed when the object of desire (i.e. money) is something which cannot be produced and the demand for which cannot be readily choked off." Between 1990 and 2000, according to CEPAL data, official unemployment rates for Latin America as a whole almost doubled from 5.8 percent to 10.4 percent. The record scarcely improved in the new century: the average for the region remained above 10 percent until 2005 (Wood 2009, 142). Unemployment, however, was not the only result of the rapid liberalization of the economies. Latin America also experienced a loss of worker rights, de-industrialization of much of the region, and an intense concentration of income (Sader 2011, 21). Moreover, similar to what happened in the nineteenth century, many economies in the region became highly vulnerable to financial crises (Kregel 2008). It did not take long until the neoliberal program showed its fragility with the three largest Latin American economies performing the most dramatic crises: Mexico in 1994, Brazil in 1999, and Argentina in 2002 (Sader 2011, 22).

The consensus that both outward-oriented and industrialization-from-within models failed to achieve a sustainable development in Latin America opened up space for

rethinking development theory and policy in the beginning of the 21st century. This paper analyzes two issues to support the view that development economics should rid itself of a linear view of progress and in so doing rid itself of the typical parameters used to measure development, viz. growth, productivity, and market efficiency. The two issues analyzed are the political shift taken in Latin America over the past decade and the current theoretical discourse in development economics. A non-linear view of history allows economists to grapple with some of the policies pursued by Latin American leaders, such as Evo Morales's focus on the universalization of rights and de-commodification of social relations, so that the "development" project is not reduced to a special case of the North American-Western European model.

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