0. **Summary**

My hypothesis is that the increasing difficulties found by LA&C governments to promote growth enhancing policies via foreign trade during the first half of the twentieth century changed completely their system of incentives. Until quite late –for the smallest countries until the late 1940s- they hoped for the return of the old free trade order. The agreements reached at Bretton Woods –with a strong Latin American presence- were highly promising for all of them. The disappointment for the failure to launch the Organization of International Trade was enormous –epochal. It is worth to remember that the clash between expectations and realities happened in Havana, the capital city of a country among those suffering the most from the closing of the markets of the advanced and democratic countries. While in the aftermath of the Second World War the Western European countries were able to expand their markets, to build the full employment consensus and to keep under control the challenge of the communist parties and the popular attraction of the Soviet Union, the Latin American and

---

1 This research has been funded by Spanish Education and Science Ministry grants: SEC2003-00190 on “Imports and Economic Modernization in Latin American and the Caribbean, 1870-1960”, and SEJ2007-60445 on “Energía y economía en América Latina y el Caribe desde mediados del siglo XIX a finales del siglo XX”. A first version was presented at the “Tercer Congreso Internacional de la Asociación Mexicana de Historia Económica”. I thank Antonio Ibarra for the opportunity to present the paper to a wide audience and the comments provided by the discussants (Salomon Kalmanowitz and Luis Bértola) and by the public. The paper is still work in progress.

2 Electronic addresses: albert.carreras@upf.edu
Caribbean countries had to assist to the shrinking of their markets without any clear explanation for it. The only reason was the opportunistic behavior of the developed countries, taking advantage of the Cold War series of exceptions to the Bretton Woods agreements. I use the European southern peripheral countries as a counterexample.

If everybody in the literature accepts the importance of the “carrot” for post Second World War Western Europe, what could be the importance of the “stick” for LA? In my view, the diminished expectations that were increasingly built from the 1920s to the 1940s fuelled the decline of Latin American institutions. How can we expect the governments to behave if what they discover is that there is no room for good policies? I interpret LA&C failure from 1945 onwards as the other side of Western European success.

1. **Looking for the origins of Latin American and Caribbean backwardness**

Latin American and Caribbean economies have felt short of any expectation. There is a widespread consensus on this basic fact. The shortcomings appear when comparing LA&C economies with North America, with Western Europe, or with East Asia. Only Africa is providing a case of worse performance than LA&C. Has this always been the case? According to many scholars, from the Steins (1970) to Landes (1998) and to Acemoglu et al. (2001 & 2002) yes, indeed, at least since the colonial era and because of it. There is a widespread shared belief in the colonial origins of LA&C underdevelopment. The encounter of the old world and the new world produced a distorted economy, polity and society. There were ethnic exclusions and segmented labour markets. This experience could have also happened to the United States had the slavery remained in force and had the Confederate States survived as an independent entity. It happened to Brazil and a number of Caribbean colonies and countries. It also happened to all those countries with a large proportion of native Indian population. Only the Southern temperate and mostly native Indian free countries –Argentina, Chile.

---

3 See Roger Ransom’s book (2005) on the Confederate States of America for a full fledged and careful exploration of the counterfactual hypothesis of the US Civil War not finishing in the North victory but in an agreement providing the North with full territorial expansion rights and the South with political independence.
and Uruguay- started almost free of this distortion and were able to develop without major political and social exclusions.

Authors like Engerman and Sokoloff have argued about the long-term consequences of the ethnic exclusions and of the concentration of political power in very few hands. The lack of promotion of universal education, so harmful for long-term economic development, is rooted in the unwillingness of the elites to diffuse the franchise and to allow the whole citizenship to share the fruits of prosperity. Engerman and Sokoloff reasons are the more telling as they are based in a permanent comparison between Latin America and the United States. The roots of the divergence between the most Northern part of America and the rest of the continent would be located in the US industrialization period, from mid eighteenth century to the late nineteenth century. Even recognizing all the virtues of this argument, Prados de la Escosura (2004) has found evidence that the divergence, if we can rely on the data available, occurs much later, mainly in the second half of the twentieth century, although starting perhaps in the mid 1930s.

There is ongoing research aiming at testing the “colonial origins” hypothesis for LA&C. Both a classical essay by the Steins (1970) and a still recent volume edited by Bordo and Cortés-Conde (2001) are framed within the same hypothesis. The authors arguing against it underscore the dynamism and progressiveness of Spanish colonies. It seems odd to suggest “progressiveness”, but this is exactly what comes out of a lot of cultural, economic and political research on eighteenth century Spanish America. The political and social stability based on a number of checks and balances within the colonies, the native Indians and entitlements and the expanding economy of the eighteenth century, mainly of its last third, are presented as evidence to support a positive view on the colonial era achievements. Those that point at the positive side of this epoch, insist in how destructive the independence and post-independence wars were. They elaborate on the negative economic impact of breaking the Spanish empire state into many pieces, most of them well below the optimal size. They also underline the loss of welfare that came out of introducing many different currencies, a number of different fiscal systems,

---

and the multiplication of State military expenditure.\(^6\) We still lack any proper quantitative estimate of the cost of Independence and it could well be that all the current figures underestimate its real impact.\(^7\) Historiography insists in the slowness of reaching a political equilibrium –half a century at the very least, if not sixty or seventy years- and in the economic costs of such a delay. But nobody has measured it for good. We only have a rough idea about it.\(^8\) Those pointing at the most negative legacies of the Spanish imperial rule focus on its absolutist character and to the lack of any previous experience of representative government.\(^9\) This is a crucial issue highlighted at least since Adam Smith’s *The Wealth of Nations*.

A second line of criticism to the colonial origins interpretation of LA&C underdevelopment is by pointing at its institutional failures during the first globalization era as the major explanation of current LA&C weaknesses. Coatsworth, in a number of essays has made a case of the importance of the long nineteenth-century as the origin of Latin American misfunctioning institutions.\(^10\) Dye (2006) has elaborated on the same direction. Countering this kind of approach it is worth reminding of De Long’s (1988) criticism of Baumol’s (1986) convergence hypothesis. De Long insisted in Argentina and the Southern cone Latin American countries being very rich by 1870 and by 1913, and their subsequent failure being very much a surprise if assessed from that moment in time. If countries like those in the Southern Cone became so rich and prosperous, this implies that the issue on LA&C could be more on the tropical side –temperate regions are more likely to be successful than tropical (Gallup, Sachs and Mellinger, 1999)- or on the economic policy side –you can destroy your growth potential by continued economic policy mismanagement (Díaz-Alejandro, 1970).

We thus turn to a third line of criticism. If the culprit of LA&C backwardness is economic policy mismanagement, Argentina, Chile and Uruguay become important case studies as they provide a natural experiment to test this hypothesis. Assessing their performance against Canada, Australia and New Zealand has been the task of various generations of economic historians looking for the recipe of good economic policy

---

\(^7\) But see the essays gathered in Prados de la Escosura and Amaral, eds. (1993).
\(^8\) Coatsworth (1993), Prados de la Escosura (2006).
management. But even in these cases, where much more and better information is available, we still miss a clear cut answer.\textsuperscript{11} The reasons of Latin American economic failure are pretty complex to disentangle, and this is a powerful factor behind the multiplication of recent research oriented towards testing various hypotheses on this matter.\textsuperscript{12} All these authors tend to suggest that the major failures are a matter of the twentieth century. Some go as early as the turn of century (Sanz-Villarroya, 2005). Others focus on 1914 and the outbreak of World War I (Taylor, 1994; Cortés-Conde, 1997). There are also those who see the Great Depression as the most decisive watershed (Gerchunoff & Fajgelbaum, 2006). The suggestion made by Prados de la Escosura (2004) on the relative lateness of Latin America backwardness is consistent with the previously mentioned. In this paper I will insist along this line, exploring some further foundations and some possible causes and consequences.

2. Evidence from historical national accounts

An important reason behind the unsatisfaction with these stories lies in the lack of proper data to test the hypothesis. Proper national accounting started, as elsewhere in the world, in the 1940s. LA&C countries were among the first to share the Bretton Woods and United Nations efforts to build a system of national accounts that could be applied to every single country in the world.\textsuperscript{13} But the efforts devoted to build a system of historical national accounts have been far from comparable to those experienced by the OECD countries.\textsuperscript{14} Even the Southern Cone countries are still confronted with big uncertainties. We know that they were rich by early twentieth century –even very rich-. This was clear since the very early Mulhall income estimates of the late nineteenth century.\textsuperscript{15} Of course, this is not the case for the rest –but we really don’t know for sure. Our uncertainties on, say, Cuban or Peruvian or Venezuelan GDP per capita are enormous for any period before 1945 or even a bit later.

\textsuperscript{12} For instance, Prados de la Escosura and Sanz (2006).
\textsuperscript{13} Domínguez (1945 and 1947).
\textsuperscript{14} The 16 in Maddison (1982).
\textsuperscript{15} Mulhall (1896).
Since the very first founding essay of Domínguez (1945) LA&C countries have been assigned disappointing low incomes per capita. Domínguez (1947: 241) puts it candidly when presenting the first results on per capital national income, in comparable purchasing power units: “The relative smallness of the national income of Latin American countries is the most striking feature of [the] table.” Indeed, the highest LA&C country in per capita purchasing power adjusted income for 1940 is Argentina, at the 56.7 per cent of the United States. Is it worth reminding that Prados de la Escosura (2000), in an exercise that estimates current per capita purchasing power adjusted income for a number of years, assesses Argentina’s in 1938 as being 58.8 per cent of the United States. A very close fit! Prados de la Escosura (2000: 27-28) assesses the exchange rate based Argentinian income per capita for the same year as being the 29.6 per cent of the US, while Maddison’s (1995) estimate is 85.2 per cent. Domínguez’s purchasing power parities calculation were based on a basket of twelve food items, not including any manufactured good nor any service. How much distortion can this introduce we don’t know, but it is worth investigating. Food items may not be representative of the whole basket of goods and services of an average individual. The year 1940 could also be a very dubious foundation for such a calculation if it was to be carried over many years. The international economy was particularly close and domestic food prices could reflect a set of quasi autarchic economic situations. Nevertheless, the United Nations and ECLAC calculations had to start from this point when figuring out the income per capita levels of Latin American countries after Second World War.

Stating early twentieth-century LA&C comparative high per capita levels is not straightforward. Astorga, Berges & Fitzgerald (2005: 765) begin their paper asserting that “the leading Latin American economies started the twentieth century with living standards comparable to those of Southern Europe”. But some direct measures and international comparisons of the time, and the direction and intensity of the migration flows suggest strongly that their income per capita had to be quite closer to the richest European countries than to the emigration countries of Southern Europe. It is unlikely that the widespread Italian, Spanish and Portuguese emigration to the Southern Cone and to Brazil, contemporary with Italian migration flows to the United States, did not reflect quite higher per capita income levels in the receiving countries or regions. The international comparisons of real wages are compelling evidence in support of Southern
Cone economic superiority relative to Southern Europe. But this simple statement implies a significant change in our assessment of Southern America relative performance.

With the creation in 1948 of an specialized UN agency for the region –the Economic Commission for Latin America and the Caribbean (ECLAC)\(^{17}\) - a lot was improved. We can safely rely on estimates after Second World War.\(^{18}\) But the size of our ignorance is huge before that period. ECLAC made an initial effort to assess per capita GDP growth since circa 1925 for the largest economies of the region: Argentina, Brazil, Chile, and a few more during the 1950s.\(^{19}\) The effort, started in 1948 and extended until 1956, produced high quality monographs on a number of Latin American countries, but not all the reported countries –as it happened with Mexico-accepted the resulting estimates and to publish them under the ECLAC official seal. Even ECLAC was uncertain about publishing GDP estimates labelled as “official” as they were highly politically sensitive.

Some individual scholars have made their best to cope with the non existence of proper historical national accounts.\(^{20}\) They have relied on many other individual scholars who, on the wake of ECLAC attempts, published detailed estimates, mainly for the large regional economies. Unfortunately, we are still far from full coverage and far from full consensus. The poorest countries do not have any data at all. Some have scanty data, and they have transformed them into a GDP estimate, but with a very fragile foundation. Even the population data is under suspicion. Now, in the early twenty-first century, when most of the developed and developing world is well documented with GDP per capita historical estimates, LA&C countries are still uncertain about their own.

The picture that we obtain from the available data provides room for various interpretations. As Prados de la Escoura (2004) suggests, focusing on the three largest economies (Argentina, Brazil and Mexico) leads to a more pessimistic assessment of


\(^{17}\) Better known as CEPAL according to its Spanish name –“Comisión Económica para América Latina”.

\(^{18}\) ECLAC (1978).

\(^{19}\) ECLA (1951) and a number of highly valuable detailed country monographs prepared during the 1950s under the general title \textit{Análisis y proyecciones del desarrollo económico}: Guatemala, 1951; Ecuador, 1953; Brasil, 1956; Colombia, 1956; Argentina, 1959; El Salvador, 1959; Panamá, 1959; Perú, 1959 and Honduras, 1960. A review of them is available in Tafunell and Yáñez (2004).

their long-nineteenth century (1850-1913) economic performance, while a broader view gathering data on as many economies as possible leads to a much more positive assessment with relative real GDP per capita growing at the same rate that what he names “the Anglo New World” until as late as his 1938 benchmark. This makes sense: the size of all the LA/C countries was not big enough to trigger significant scale economies. Prados de la Escosura (2004) does not displays LA&C countries as growing at the same rate as the rest of the world during the twentieth century –Astorga, Berges and Fitzgerald’s (2005) view. He stresses the importance of the fall from 1938 to 1950 and from 1980 to 1990.

I present some graphs comparing Latin American economic performance, as measured by Angus Maddison (2009) to the rest of the world and to some world regions. The data that he was able to gather allows for a comprehensive twentieth century coverage in the case of eight countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela. Unfortunately there is no data on Cuba –a medium size well off economy, for Latin American standards, during most of the twentieth century. If we want to cover the whole region, we have to restrict ourselves to the post 1950 period. Indeed, this is my first approach. The first graph allows for both comparisons: the whole of LA and LA-8 on the world total.
What we can see is a stable proportion from 1950 to 1980 and a declining trend afterwards. To be fair, the stable trend is made of two opposing trends: declining from 1950 to the late 1960s and growing from then to 1980. The Golden Age was underperforming for LA. The world downturn of the 1970s was comparatively much better for LA. After the debt crisis LA has been unable to reach a growth performance at the world average. It has lost its traditional situation above the world average to move to a below the average during the last decade. I want to stress that the two periods that use to be considered as the best in overall performance –the Golden Age and the 2000s- are precisely those of worse comparative performance.

If we limit our comparison to the world leader –the United States- we obtain some features common to the previous graph: stability from 1950 to 1980 and decline afterwards. We can add that the comparative performance was quite similar since, at least, 1900, with the ups and downs of the Great Depression and the Second World War, but LA-8 remained around the 30 per cent of US per capita GDP.

The outcome is completely different if we compare with Western Europe. There is stability in comparative performance from 1900 to 1940, but not after the Second World War. The post 1945 trend is declining. The decline is very intense from 1945 to the late sixties as well as after 1980.
If we focus our attention to the Southern European periphery (Greece, Italy, Portugal and Spain) we can obtain some interesting nuances. These countries are closer to Latin American from various points of view. Italy, Portugal and Spain have provided most of their immigrants. Their levels of income are closer. In fact the relative income is quite similar for long periods of time. Italy behaves closer to Western Europe, both in levels and in timing. The other three have used to be poorer, and they were so, statistically speaking for significant parts of the twentieth century. Greece catches up and forges ahead after 1945. But Portugal and Spain take a longer time to catch up with the largest Latin American republics. They only make decisive movements to improve their relative performance after 1958 (for Portugal) and 1960 (for Spain).
It occurs to me that these dates are very telling. They coincide with major policy changes in the two Iberian countries. Both Portugal and Spain made important steps to liberalize their economies in order to take more advantage of Western European high growth rates. Portugal and Spain dictatorships decided to change their economic policies as they felt very threatened by the European integration processes. They felt unable to keep completely aside what was an obvious economic success. This economic turn changed them from a Latin American destiny to a Western European future.

3. The breakdown of LA&C expectations in the aftermath of Second World War

My hypothesis is that the increasing difficulties found by LA&C governments to promote growth enhancing policies via foreign trade, changed completely their system of incentives. Even if they institutions were fragile, the experience of their distant and recent past pushed them to fully comply with international requirements. Gaining the international “seal of approval” was their priority. Until quite late –for the smallest countries until the late 1940s- they hope for the return of the old free trade order. The agreements reached at Bretton Woods –with a strong Latin American presence as the major group of independent countries in the world- were highly promising for all of
them.\textsuperscript{21} The disappointment of the failure of the launching of the International Trade Organization was enormous—epochal. It is worth to remember that all of this happened in Havana, the capital city of the country—Cuba—that we have estimated to have been among those suffering the most from the closing of the markets of the economically advanced and politically democratic countries. While the Western European countries were able to expand their markets, to build the full employment consensus and to keep under control the challenge of the Communist parties and the popular attraction of the Soviet Union, the Latin American and Caribbean countries had to assist to the shrinking of their markets without any clear reason for it—or, to be more precise, without any mistake of their own. Only the opportunistic behaviour of the developed countries, taking advantage of the Cold War series of exceptions to the Bretton Woods agreements, delivered.

Let’s briefly review one of these episodes. By June 1944, both the US and the UK leaderships shared a view on the post war order. It had to be built on such foundations that any temptation of “beggar-your-neighbour” policies could be avoided. Trade was recognised as the major single promoter of growth and welfare. The return to a world trade order based on free trade was fundamental.\textsuperscript{22} It is necessary to explain that free trade was not identified as an international trade without tariffs. This high ideal of free trade was too far away at that stage. It was initially designed to be a world of international trade without non tariff barriers. Tariff barriers are much less inimical to growth than non tariff barriers. The nineteen-thirties assisted at the multiplication of all kinds of non tariff barriers: quotas, state managed trade, bilateral clearing mechanisms, trade permits, foreign exchange intervention, and so on. Trade became a “state” issue to be managed by state officials. The outcome was the steep reduction of trade and the imposing of distorted, unnatural, antieconomical, trade patterns.

At Bretton Woods, and in a number of other grand occasions as the signing of the Atlantic Charter and of the lend-lease agreements, the commitment to a full return to free trade was settled, to be started with the dismantlement of non tariff barriers.\textsuperscript{23} Because of the war reconstruction needs a transitory adaptation period of two years for

\begin{footnotes}
\item[21] Scammel (1980).
\item[22] Feinstein, Temin and Toniolo (1997).
\item[23] Wilcox (1949).
\end{footnotes}
international monetary adjustments was given to be counted since the end of the war.\textsuperscript{24} Plans to launch a new international trade organization started immediately. Indeed, an international conference to discuss the draft of the new organization (International Trade Organization -ITO) was called. It would meet in Havana starting November 21\textsuperscript{st}. The “Chart of World Trade” was completed by March 24\textsuperscript{th}, 1948. The parliamentary ratifications started subsequently.\textsuperscript{25} Expert discussions took a lot of time and called for a range of high level officers. The tensions between Western and Eastern powers (US vs. USSR) were tough and resounded in the specialized journals. Highly politically influential journals as *Foreign Affairs* devoted important articles to push forward the US proposal.\textsuperscript{26} Feis (1947), writing at the latest in January 1947, was mainly worried about the attitude of the Soviet Union. Six months later, once it was clear that the USSR was not going to participate, Viner (1947) was much more worried on the attitude of the Western countries. His final statement is a good summary of what was at stake: “If it is rejected [the ITO Charter], whether by us or by other important countries, the consequences are clearly indicated: a return to the systematic economic warfare which prevailed in the 1930’s, with its political tensions, its economic wastefulness, and its favourable setting for the launching by desperate leaders, on behalf of despairing peoples, of ventures fatal to the world at large as well as to themselves. The International Trade Organization Charter is the only available safeguard against such a development. There are no alternatives”.\textsuperscript{27} This was published in July 1947, in the same issue where “X” (George Kennan) published the famous article on “the sources of Soviet conduct” that meant the start of the “containment” doctrine that was to last during the Cold War.

Once the Chart was completed, the political discussion became more intense within the United States, as the political mood had changed and new concerns appeared. Criticisms were raised from various sides.\textsuperscript{28} Some criticized that the ITO Chart was close to socialism and to economic planning. Other criticized that it would trigger massive imports from all over the world as it was too much free trade oriented. Other

\textsuperscript{24} I.e., time to prepare for switching into full currency convertibility.
\textsuperscript{25} Clair Wilcox (1949) and William Adams Brown (1950) are extremely detailed in explaining the remote and immediate origins of the Havana Charter, as well as the major criticisms that appeared after its initial approval, in the road to national parliamentary ratifications.
\textsuperscript{26} Feis (1947) and Viner (1947).
\textsuperscript{27} Viner (1947: 638).
\textsuperscript{28} Wilcox (1949), Brown (1950)
complained about the loss of national sovereignty. All these criticisms could have been resisted without the outbreak of the Cold War. The Western European pressure to assure electoral success for the pro-Western camp went in the same direction of the US domestic fears about freer trade. The commitment to free trade vanished out from the political environment and cold war politics took comfortably the lead.

Indeed, what happened after the end of the war was much more complex than expected. The competition between the Soviet Union block and the United States allies became much tougher and demanding than expected. The reconstruction and the post war business cycle were also more difficult to manage than planned. The combination of fear to economic crisis in the United States with the fear of communism expansion in Western Europe and the difficulties of the United Kingdom to adjust to the new peace economy and polity changed the US priorities. Both the US and the Western European governments, especially the UK and France, preferred to postpone the entrance into the Bretton Woods next stage –currency convertibility and trade liberalization- and decided to approve an exception. We know this exception as the European Recovery Program –ERP, the Marshall Plan-, so successful for Western European economic growth and for the US economic transition to a new peace economy. But the ERP meant that the Latin American and Caribbean countries had to wait many long years to come back to a freer international trade system (to be fair, they have never returned to such a system). In the meanwhile, the West European farmers, as well as the US and the Japanese, succeeded to retain the exceptional protection they obtained during the war years. Not only the protection was kept, but it was strongly increased because of the food scarcities that appeared during 1946 and 1947. No government was willing to cope with short term food scarcities, and even less with a free trade solution to them. If food was missing, the political correct argument was to provide stronger incentives to domestic peasants: higher domestic prices. They were obtained through tariff protection and through tough control of State trade policies. No wonder that they resisted the Havana agreement to create an Organization of International Trade with the goal of liberalizing trade in goods. Agricultural goods were immediately considered as exceptions. When the United States Congress refused to ratify the ITO chart, Western European governments were relieved. They could keep on protecting their farmers, still crucial in any general election, and strongly motivated in their voting behaviour by purely economic factors.
The agricultural inefficiencies in Western Europe brought about an important political outcome: the persistence of Western oriented, democratic, pro-market and pro-capitalist economies and polities. The political weight of farmers could never more be challenged again. Furthermore, in a very short period of time, from 1948 to 1952, an alternative growth engine was discovered. Indeed, the reconstruction of the German manufacturing capacity—especially important for the engineering sector—and the increasing trade development among the ERP (Marshall Plan) countries produced an economic miracle. Manufacturing trade increased at an astonishing rapid pace, and so did GDP, too. West Europeans enjoyed a number of exceptions to their Bretton Woods commitments. By 1947 they obtained the Marshall Plan. By 1949, the devaluation, against the commitments accepted previously not to do so. Further to this, the creation of the European Payments Union (EPU) with extra ERP funding. In the meanwhile, the failure of the OIT was partly corrected by the creation of the GATT—another exception device against Bretton Woods agreements.29

The GATT and the successor organization in charge of ERP funding coordination—OEEC—discussed extensively about trade liberalization. The solution was to forget about agricultural goods trade liberalization—and they were to remain excluded from any multilateral agreement until the creation of WTO in 1995—and to focus on manufacturing goods liberalization. Agricultural trade proved to be too difficult to liberalize because of the political levy of peasant interests in Western Europe and all over the industrial advanced democracies. Even manufacturing goods were very difficult to liberalize. A number of West European countries resisted fiercely to liberalization—starting with France—and liberalization had to be negotiated step by step. First came, for a decade—the nineteen fifties—the first round of liberalizations: the elimination of non trade barriers. Once these were significantly reduced came, in the early 1960s, the Kennedy round that consisted, finally, in reducing the tariffs.30 The impact of the tariff reductions agreed in the nineteen fifties and sixties fuelled Western European economic growth in the nineteen sixties and early seventies. Some of the poorest countries in the world—mainly in East Asia—took advantage of the exporting manufacturing possibilities opened by GATT agreements. But the relatively medium and high income LA&C countries could not enjoy them. They had too much expensive

30 A good summary is available in Eichengreen (1996).
labour to become competitive in world manufacturing markets. GATT was never useful for them. The more the West and North developed, the more they were confronted with the real fact that they would never regain access to West European agricultural markets. West European citizens could ignore this and criticize the abnormal weight that the United States had in LA&C life. But this over importance of US markets was severely exaggerated by the complete closure of the West European – mainly EEC- markets. Even those freer markets of the EFTA countries were well opened to Commonwealth countries, but not to the independent, non recent colonial, Latin Americans. The more the Europeans increased their agricultural protection, the more the United States felt free to do the same with their own agriculture.

The absolute Europeanness of the political experiment of European integration meant very bad news for overseas countries. They knew that they could never enjoy an open access to Western Europe. They would be always considered as foreigners. On the contrary, those Western European peripheral countries like Greece, Portugal or Spain fully realized that they were going to have a sit at the European table. Their pure locational advantage was enough to dissolve any major criticism once the dictatorships were to disappear and once they were willing to pay a price for the economic integration. This “carrot” –the possibility to enter into the EEC as a way to impose self discipline of the European peripherals- worked extremely well for all the peripheral countries with income per capita below the EEC average. Not for those that were richer (Norway ands Switzerland) –but they did not care about becoming European Union member states.

4. Spain and Western Europe as counter examples

Let’s consider for a while the contrasting set of incentives of, say, Spain and Cuba. Spain decided to be neutral during the First World War, and enjoyed very much being

---

31 It is worth reminding that countries that by 2001 had quite similar per capita GDP as Thailand, Malaysia, Argentina, Mexico and Uruguay (6383, 7756, 8137, 7089 and 7557 US international Geary-Khamis dollars, respectively, were much more diverse by 1950: 817, 1559, 4987, 2365 and 4659, respectively. Maddison (2003).
32 I.e., Europe was only for the Europeans.
33 Neal and Barbezat (1998).
34 And also of Franco and Castro!
The twenties were a very good expansion period. The Great Depression did not hurt in a significant way the Spanish economy. The foreign trade depression worsened the trade expectations, but Spain did not suffer from financial contagion. The only major economic problem in early nineteen thirties Spain was political uncertainty. Domestic problems were much more influential in explaining Spain’s poor economic performance during those years. The Civil War was a real disaster in economic terms. So much so that Spain could not enjoy the new neutrality opportunities of the Second World War. Franco’s Spain was heavily indebted with Hitler’s Germany and with Mussolini’s Italy. As long as the World War lasted, Spanish exports were completely oriented towards Germany to repay war debts. Once the war was over, a long period of economic stagnation started, that was interrupted by the changes in world geopolitics. Did Spain suffer from European exclusion? Against what was used to be written and said, not really. The Cold War and the Korean War made Spain much more attractive to the United States and to Western military defence. The increasing economic openness of Spain starting in 1959 allowed for fifteen years of Spanish full exploitation of Western European growth opportunities. When the oil crisis came in 1973, Franco’s regime was at its very end. Indeed, Franco died in 1975. For a few years –1977 to 1982- it was unclear if Western European countries were to quickly accept Spanish new democratic regime. But even in the worse moments, the general feeling among Spaniards was that European doors were opened in principle, and it was only matter of doing our own homework to have them fully opened. In some sense, it was exactly so. The “carrot” motivated Spanish citizens and Spanish political leaders to behave properly as all of them realized how much they could benefit from becoming members of the EEC and how much they could loose by not joining it. As a Foreign Minister of these days (Francisco Fernández Ordóñez) put it bluntly responding to left-wingers criticisms to Spanish application to EEC membership: “it is true there are many problems in becoming part of the EEC, but it is much colder outside”. Latin America had to remain outside, and it was much colder, indeed.

35 For the paragraph “in toto”, Carreras and Tafunell (2003).
38 The argument was made both by scholars and by contemporary observers. An approach taking into full account the importance of expectations in the consolidation of Spanish transition to democracy can be found in Weingast (2004).
Think now for a moment of the different opportunities available for Latin American countries during the same period. Just as Spain, most of them were not directly involved in the wars –even if some were formally aligned with the Allies. But they did not obtain any major long term advantage of their support. They were put aside in the Marshall Plan and their commercial expectations were completely frustrated. As I was mentioning, Cuba’s case could be a good illustration. Cuba, since the independence war against Spain, became heavily under United States influence. The economic appeal of the US was, undoubtedly, its huge market.39 The major setbacks in Cuba’s economic life were the closings of the US market. First and foremost the Smoot-Hawley Tariff, passed “in extremis” thanks to the highly successful sugar lobby.40 The US bad news came in more occasions, especially after the Second World War when Cuba was dreaming of coming back to a freer trade era, and found herself abandoned and betrayed by the US Congress. No wonder if the Cuban educated youth of the 1950s was so bitter about the United States. The comparison with Spain is increasingly tough. The more Spain could rely on Western European markets to alleviate the toughness of Franco’s dictatorship, the less Cuba was able to obtain any “carrot” to sweeten Castro’s political hardship. The political equivalent was even tougher. While Spaniards were very confident of their entitlement to become members of the EEC once they would establish a democratic regime, the Cubans might be very sceptical of the United States stance to Cuba in the post-Castro world.

A number of books and articles have been praising and measuring the quicker Western European growth of the golden years. There is widespread agreement that total factor productivity was a huge part of economic growth in Western Europe during those years.41 All of them show that increasing foreign trade was an engine of growth by means of increasing the size of the market and allowing for increased productivity thanks to specialization. The major research projects conducted by Crafts, Toniolo and van Ark located the major forces of the extraordinary Western European productivity growth in the combination of expanding trade opportunities and expanding investment opportunities.42 The domestic social agreements that cemented social cohesion and

39 Roger Ransom (2005) plays with the counterfactual that an independent Confederate States of America would have conquered or bought Cuba and made it a full member of the CSA.
40 Dye (2005).
wage moderation were crucial to boom profits and to have them reinvested. The international agreements consisting in the network of European institutions and of world-wide manufacturing trade liberalization allowed for ever-increasing markets. What could have happened without the benefits of trade integration among the major industrial powers of Western Europe? The stagnating growth performance of the interwar years provides an obvious answer. Another answer is suggested by the Western European growth performance compared to the rest of the world. Following Maddison’s estimates summarized in table 1, the major Western European economies enjoyed, not only an extraordinary high growth rate, but an extraordinarily high proportion of this growth rate coming from total factor productivity –between 60 and 70 per cent-. Growth miracles were rooted in the improvement and expansion of better allocation mechanisms, mainly through expanded trade. The importance of total factor productivity is even larger when considering that the calculation is made out of total GDP growth rates. Had we estimated TFP on per capita GDP, its importance would be increased.


<table>
<thead>
<tr>
<th>Country or region</th>
<th>GDP growth rate</th>
<th>Factor contribution</th>
<th>TFP contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>land</td>
<td>labor</td>
</tr>
<tr>
<td>Latin Am.</td>
<td>5,2</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>OECD</td>
<td>5,4</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>3,7</td>
<td>0</td>
<td>31</td>
</tr>
<tr>
<td>U.K.</td>
<td>3,0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>German F.R.</td>
<td>5,9</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>France</td>
<td>3,1</td>
<td>0</td>
<td>7</td>
</tr>
</tbody>
</table>

OECD: Organization for Economic Cooperation and Development. By then it gathered all the most developed market economies, including all the Western Europeans, the United States and Canada, Australia, New Zealand and Japan.

The table also provides data on other major economic regions. The United States –the economic leader at that time with a huge advance on the follower economies- was not able to exploit any of the catching up devices so useful for the Western European

---

economies. Its performance is still good. Latin America is as good performer as the US, but this is highly disappointing as its average income per capita is much lower. Here we have an underperformance to be explained. The Soviet Union is the region with the poorest total factor productivity growth rate –almost nil. No wonder about this. All what we know concur in explaining that the Soviet economic model was based on the growth of inputs and not on the improved efficiency in their use. The Asian region (but Japan) had a similar performance than Latin America –also a very disappointing record for a part of the world that came out of the Second World War very much destroyed and with many catching up opportunities. As a region these opportunities were missed until the 1970s. Only very few economies –South Korea, Taiwan, Singapore and Hong Kong- were able to benefit from them.

Even if a number of authors that look at LA&C performance over the twentieth century stress that the region’s performance was quite normal, the fact is that the region was a clear underperformer since the Great Depression. Total factor productivity was much more reduced in LA&C, while the contribution of labour and land, far more significant. Both LA&C and Western European experiences suggest that the Western European success could be measured as some 1.5 yearly extra growth percentage points. This is what results of comparing OECD and Latin America TFPs. But if the comparison is focused on the more EEC related Western European countries, such as France or Germany (Federal Republic), the range goes from 1.5 to 2.5 yearly percentage points.

The importance of trade expansion can also be assessed measuring trade openness. Astorga, Berges and Filtzgerald (2005: 785) provide an aggregate picture for the largest six LA&C economies all along the twentieth century. Openness recovered from the lowest 20th century levels attained by the mid 1940s, but contrary to what happened in Western Europe, recovery was very limited. It failed, by much, to come back to second and to first pre-war levels. And it lasted only ten years. After the mid 1950s LA trade openness start to drop very quickly. It reached a new minimum (a secular minimum!) during the 1960s. All the decade was a stagnating period in openness. Just

46 Hofman (2000) obtains slightly more optimistic results on the role of TFP, but his various estimating procedures suggest that the range of uncertainty is still very high.
when Western Europe was reaching its maximum levels, LA was confined to its lowest. The contrast in experiences is dramatic.

I have come back to OXLAD data base (the one created and used by Astorga, Berges and Fitzgerald) to check this picture. With the data provided by OXLAD it is possible to assess openness as it provide current data on imports and exports in US dollars, data on GDP at local currency and data on exchange rates to the US dollars (GDP at US current dollars is derived from there). Therefore openness is assessed at US dollars at current exchange rate. No PPP correction is introduced. These estimates are possible for the three largest Latin American economies since 1900 to 2000. But it is not possible to repeat the estimate for such a long period for all the other countries. Indeed, the twenty republics can only be covered since 1960. As this year could be too late to grasp the major changes that occurred after Second World War, I have made my best to take full advantage of the available information to expand the time coverage of the openness index. Before 1960, and as we go back in time, there are fewer and fewer countries with adequate data. I have estimated the overall Latin American openness ratio out of the available data and adjusting it as we go back in time.

This is what I have estimated in the next graph. I compare the openness degree for the three largest Latin American economies (Argentina, Brazil and Mexico) with the whole of the region. The other countries enter at various moments: Peru in 1900, Cuba in 1903 (I interpolated GDP data between 1958 and 1962), Venezuela in 1920, Guatemala and Honduras in 1925, Chile, Colombia and Ecuador in 1940, Costa Rica, Dominican Republic, El Salvador, Panama and Paraguay in 1950, and Bolivia, Haiti, Nicaragua and Uruguay in 1960.
The contrast of the three largest economies to the whole of the region is interesting. As it could be suspected, the large economies were less open than the medium and small economies. The import substitution turn was more intense in the large economies. The difference between these and the whole was maximum in the sixties and seventies. The liberalization of the 1990s brought openness differentials back to normal. These considerations make sense to hammer the point that there were many commonalities in the openness experience of Latin American economies, but that the large economies went through it in a more extreme way.

The Latin American openness ratio can be compared with Western Europe. Both have been estimated in a similar way, out of current export, import and GDP values. This is what is displayed in the next graph:

---

Up to the 1950s Latin America and Western Europe had quite similar openness degrees. Much can be said about their differences, but the overall picture is of fluctuations around a similar level. The impact of the wars and of the Great Depression is felt in both regions. Postwar recovery is also common. The differences explode by the end of the fifties. To be precise, it is in 1959 that the two ratios start to diverge consistently. By 1960 the difference amounted to nine percentage points. By 1970 it jumped to eighteen and by 1973 to twenty three. The next graph displays just the relative openness of the two regions:
Since the relative low of 1958 to the high of 1973 we have fifteen years of systematic increase in the openness differential. After 1973 the differential has been partly reduced, but it remained very significant (a fifty per cent above the secular trend) by 2000.

The timing of openness differences is highly suggestive of the growth experiences of Portugal and Spain. It was exactly during these years that the two Iberian countries switched from a close economic regime to a more open (“cautiously open” in Donges words) one.

5. **Institutional consequences of diminished expectations**

The huge European “carrot” was a powerful engine in improving Spanish institutions and collective behaviour. It has been the same for Portugal, for Eastern European countries, and now it is the same for the new European enlargements. LA&C countries felt nothing else but a “stick”: reduced growth opportunities. The reason was as discretionary as “bad luck” or “bad location”. What could be the institutional effects of such a set of incentives? They could only be deleterious. No country can cope with
pressing economic declining trends. There is no room for redistributive policies. The rise of the welfare state in Western Europe was deeply rooted in continuing productivity growth arising from market expansion and scale economies was impossible to establish in LA&C. There was no room for promoting savings. There was no room for promoting investment. There was no confidence in the future. Expectations were negative. Real wages decline, and real profits, too. Economic distribution became tighter. Each monetary unit to be gained became contentious. The gains for some were the losses for the others. Economic affairs became, at best, a zero sum game; at worst, and more usually, a negative sum game. The incentives to cooperate disappeared. No wonder if opportunistic behaviour became widespread and corruption, usual. No wonder if political power was the major engine of economic redistribution and of monetary gains.

I am positing that this scenario is the consequence of negative growth prospects. Let me be more nuanced: it is not necessary to have negative growth prospects for such a disaster. It is enough to have growth prospects well below your neighbours—or the rest of the world if you are pretty close to the centre of the world. Growth prospects are comparative by its very definition. In a similar way as we have recently see how low growth prospects in the core large European countries are dissolving the scope for social cooperation to implement economic reforms, the LA&C countries found themselves in a situation where nobody accepted to renounce to their rights—and to their expectations.49 The rich countries like Uruguay, entered into a long decline punctuated by important steps down in occasion of major shocks (world economic commercial and/or financial crisis).50

What can we expect from political leaders in such a scenario? Complete opportunism. Even the best intentioned of the political leaders, the most committed to his/her land and to its promotion would finish by discovering that the leaders of the Western world were completely uninterested with the destiny of LA&C. The LA&C countries did not trigger any positive cooperative game. All US and Western European policy makers were never interested in sacrificing the short term interests of their agricultural producers in exchange for better economic prospects in LA&C and, eventually, in their

own countries. Only in cases of dramatic challenging of their own economic and political interests, Western leaders (mainly the US) would react. This happened in a number of occasions, especially since Castro’s revolution in Cuba. But whenever the LA&C leaders pressed their Northern counterparts with the usual demands about the development of Bretton Woods agreements, and about the liberalization of agricultural trade, the answers obtained were so sharply negative, that ignoring its consequences would be foolish for LA&C country leaders.

Political leaders as well as social and business leaders became, accordingly, increasingly opportunistic. Even the whole population of the LA&C countries became opportunistic. What we name “populism” is about widespread opportunism—the other side of economic and political opportunism in the Northern developed countries. Corruption is the other side of the same coin. When policy design is not sustained by the economic fundamentals, any agent—all the agents, eventually—might decide to take care of their own private interests and to forget about cooperation. Cooperation stimuli disappear. Institutions decline and, eventually, collapse. The complex and disappointing political life of so many LA&C republics can not be understood properly outside this framework. The increasing tightness of distributional conflicts was built in the diminished economic expectations.

I should underscore that my argument goes from external expectations and constraints to domestic institution building. This is the reverse of what is usually told in the current literature. I also stress the fact that import-substituting policies were mainly reacting to external opportunities, and not framing them. In this I depart from a trend, rightly criticized by Haber (2003), of blaming “Prebish” or “CEPAL” because they defended what was no more than a “pis aller” policy.51

It is easy to be proud, as many Europeans are, of your own institutions when you have enjoyed the progressive wind of history. LA&C countries had the wind of history blowing clearly against them. No wonder if institutions’ quality declined. If my

51 Bethell and Roxborough (1992: Conclusion) go into this direction when they suggest that Prebish new paradigm was the unifying theme behind the changes in Latin America during the critical 1944-1948 years. Prebisch and CEPAL were still to come, and they were nothing more than a reaction. It is true that the new ideas can become the future vested interests, and they became so, indeed. Haber’s title: “It wasn’t all Prebisch’s fault” suggests a new look at Prebisch and his historical environment.
hypothesis is correct, the origins of LA&C backwardness need not be rooted in a distant past, but in the twentieth century, mainly in its second half. The institutional weaknesses of LA&C are a consequence of the diminishing expectations politically built by decisions taken by all the advanced Western countries –the OECD world- to build their own domestic consensus. In the same way that we can speak of segmented labour markets within a country, we have also had segmented world markets. Those that were not targeted by the protective rules of the special international trade had to suffer a lot. The road down to impoverishment is not a good one to build a cooperative society, governed under the rule of law and with stable and democratic institutions. Such a hypothesis also suggests that the current LA&C bonanza based on the world booming demand is as fragile as usual since mid-twentieth century. Only substantial changes in expected access to the world wealthiest markets could provide the lever to change the mind and, hence, the institutions of Latin America and the Caribbean. Indeed, we are seeing this mechanism at work in some countries.

The recent ambitious essay by North, Wallis and Weingast (2006) reminds us how difficult it is to switch from a limited access social order –what they named “natural state”- to an open access social order, and easy it could be to fall back from the natural state to chaos. They underscore the very few countries that have been able to make this transition after Second World War; according to them, only a handful of European peripheral countries and a handful of Eastern Asian countries. Both groups were blessed by the second post-war arrangements or were indirectly benefited by them. Not a single one LA&C country was in the same lucky position, and they have paid a very high price for not being in the right place in the right moment.

Concluding remarks

I put forward an explanation of the poor economic performance of LA&C region during a good portion of the twentieth century. There is wide consensus on the positive relevance of economic growth during the first economic globalization. Institution building would have been significant, allowing for a continuing diffusion of good practices, governance styles, well-rooted stability and commitment to property rights protection. The First World War shattered all these progresses, but it was considered as
nothing more than a forced pause. The return to normality in the 1920s was sustained on very weak foundations. The great depression changed completely the state of world affairs, and the changes were to remain much longer than expected. The LA&C countries feared to lose forever their buoyant North Atlantic markets. The Second World War and, especially, its final steps brought new hopes that a new international economic order would bring to the good old pre-1914 era. Indeed, the Bretton Woods agreements went into this direction. Once the war was over, and after two years full of promise, the Bretton Woods commitments to liberalize world trade became more difficult to keep and, eventually, volatized. Latin American and Caribbean leadership were shocked by this new turn that came to remain. Latin American institutions worsened as the hopes of good economic and political behaviour being compensated disappeared. As the leaders got a complete overview of the world, they realized that there was no room for cooperative behaviour. Only opportunistic behaviour would pay. Institutions suffered because of lack of positive incentives.

This negative picture has been mirrored with a counter example: the economic success of post-war Western Europe. There all the incentives played positively. International and domestic cooperation provided good outcomes. Policy makers as well as normal citizens became more law abiding. The former were more oriented towards cooperation and problem solving. The latter obtained trust in their politicians and in their institutions. Even the cases, as Spain, that were the most delayed in enjoying the benefits of the new environment, strengthen our argument. What was a stake were the huge profits derived from the spectacular gains of productivity –of total factor productivity- attributable to intra European and international economic cooperation, resulting in constant market expansion. The estimates of Western European TFP compared to those of Latin America and the Caribbean are a rough measure of the costs of the lack of intraregional trade integration and international trade openness in the region.
BIBLIOGRAPHY


Bértola, Luis (2005), A los cincuenta años de la curva de Kuznets: crecimiento económico y distribución del ingreso en Uruguay y otros países de nuevo asentamiento desde 1870, Instituto Laureano Figuerola, dif 0504, Universidad Carlos III.


Carreras, Albert and Xavier Tafunell (2003), Historia económica de la España contemporánea, Crítica, Barcelona.


Feinstein, Charles; Peter Temin and Gianni Toniolo (1997), The European economy between the wars, Oxford, Oxford University Press.


Haber, Stephen (2003), It Wasn’t All Prebisch’s Fault: The Political Economy of Latin American Industrialization, mimeo, Stanford University.


Santamaría, Antonio (2001), La industria azucarera y la economía cubana (1919-1939), Sevilla, Consejo Superior de Investigaciones Científicas, Universidad de Sevilla y Diputación de Sevilla.


Vernon, Raymond (1954), America’s Foreign Policy and the GATT, Essays in International finance, 21, October 1954, Princeton University


