REFLECTIONS ON LATIN AMERICAN UNDERDEVELOPMENT

ALONSO AGUILAR M.

Latin American underdevelopment is not of recent vintage. It is an old problem with a history going back several centuries; a phenomenon which took on its characteristic outlines at the time the present leaders of the capitalist world began their transformation into strong industrial nations. What is new, in any case, is the sharpening awareness of this backwardness and its grave implications, as well as the conviction that progress in the poor countries is neither impossible nor utopian.

I

Until the decade following World War I, the low level of development of our economies was considered organic, inherent. From Mexico and Cuba to Argentina and Chile, the Latin American economy moved mechanically at the pace set by the big industrial countries of the West. Even in the more propitious moments of what was later given to be called the stage of "outward growth," Latin America continued to lag behind the handful of privileged nations whose levels of income rose rapidly as a consequence of industrialization and the international exchange of goods and capital favorable, in the long run, to their interests.

The inconsistency of the traditional idea that Latin America would prosper within the old pattern of the international division of labor (selling raw materials and purchasing manufactures under a system of supposed comparative advantages) was exposed at one blow under the devastating impact of the 1929 crash and the subsequent depression. At the same time, the inescapable need for liberation from the fluctuations of foreign trade and international capital transactions became manifest. Even the most orthodox free trade advocates began to accept national industrialization as the only way, and greater headway was constantly being made by the policy of imports substitution, tariff protection, subsidies and, in general, government support for diversification of the economy and for raising the incomes and living standards of the broad masses. The governments were not slow in recognizing that economic development was a political banner, too, which could be flourished with great success. As for the people, when they became convinced that economic backwardness was neither inevitable nor fatal but a transient condition which could be changed and even definitively overcome through determined and sustained collective effort, development became a demand closely tied to their desire for better living conditions.

Since that time, development has become a hackneyed theme. It is brought up at international meetings, mentioned in official pronouncements, raised by opposition parties, and discussed by labor unions and at the universities. In particular, it is frequently pointed out that Latin America is achieving extraordinary economic advances and leaving underdevelopment behind. The actual situation, however, is that although changes of unquestionable importance have been wrought in the Latin American economy in recent decades, its progress has continued to be slow, unsteady, and fundamentally unsatisfactory as well as deceptive in many aspects. Although it is true that population and total income have risen, that main urban centers (São Paulo and Río, Mexico City, Caracas, Bogotá, Buenos Aires, and Lima) have grown spectacularly in a certain sense, that highway and air line networks have expanded greatly, that some important agricultural zones have been modernized, and that financial services, new industries, and, above all, commercial establishments have proliferated, there is nevertheless a plethora of data to demonstrate that our countries remain poor. The actual picture is one of low total and per capita income, great dependence upon primary activities as sources of employment and production, insufficient and, at the same time, inefficient installations, predominance of low capital intensity techniques which are in many cases veritably anachronistic, unsatisfactory diet and housing, and deplorable living conditions for the majority of the population. Gross per capita product in most of the subcontinent fluctuates between a minimum of US$ 100 and 350; in Chile, Panama, and Mexico it ranges from US$400 to 450; while in Uruguay, Argentina, and Venezuela it reaches as much as US$540, 650, and 780, respectively, these countries are still not basically free of economic backwardness. However, if the relative importance of the low-income countries is considered against the total population of Latin America (particularly Brazil, but also Colombia, Peru, and others), as well as the unequal distribution of income in practically all of them, it may then be sustained that probably two-thirds or more of the inhabitants of Latin America receive incomes of no more than between US$80 and 150.[1] This means that their income level is similar to that of the *average* in countries of Asia and Africa, such as Nigeria, the UAR, Congo, Morocco, South Korea, India, the Philippines, and Ceylon.[2]

The conclusion might be drawn that, although present income levels for most of Latin America are still unsatisfactory, things have begun to change in recent years as economic development exercises greater influence, making

1 Gross per capita product in most of Latin America is less than US$270 and in Brazil, the country with the largest population, it is only US$220. In countries like Chile and Mexico whose income may be considered median and even in Argentina there is undoubtedly a considerable portion of the population whose gross product is not more than US$150. See, *World Bank Atlas of Per Capita Product and Population,* Washington, 1966.

2 *Ibid.* ECLA estimates that "approximately 70 million rural inhabitants have incomes not exceeding US$60 or 70 per capita per year." Cited by Eduardo Frei in his speech before the Fifth Meeting of the Inter-American Economic and Social Council. *Excelsior,* Mexico, July 2, 1967.

it possible for economically backward countries to gradually draw up to the industrial nations. However, available figures show the opposite to be true. Although there has been a certain increase in per capita income in Latin America in absolute terms, the gap separating the poor nations from the rich ones is not only far from closing but is actually getting wider all the time. The following table demonstrates this clearly.

Table 1. Per Capita Product Increment between 1950 and 1963

Country	Dollars
Ecuador	47
Argentina	52
Venezuela	54
Colombia	106
Brazil	120
Mexico	194
Italy	463
Great Britain	653
France	750
West Germany	884
United States	1,219

Source: *Sobrepoblación y Desarrollo Económico,* Ifigenia M. de Navarette, Mexico, 1967.

With a growth of only slightly under US$4 a year, per capita gross income in Ecuador, Argentina, Chile, and Venezuela has been practically stagnant in recent years. The figure for Brazil and Colombia reached about US$8, while that of Mexico, with its more favorable situation, was more worthy of consideration at US$15. However, if, for purposes of comparison, we were to take the figure of US$10 as a point of reference with regard to annual growth of per capita product for the above-mentioned Latin American countries, we would find that the increment in Japan was US$30, in Italy US$35, in France US$58, in West Germany US$68, and the United States close to $100. This means that per capita income in Latin America is declining all the time not only in comparison to the United States but to Germany, France, England, Netherlands, Italy, Japan, and all the industrialized nations in general. In the United States, specifically, while per capita income in 1950 was from US$750 to 1,200 greater than that of the other principal countries, in 1963 the difference had already climbed to a figure of from US$1,900 to 2,200, and in 1966, probably to over US$2,400. Many more similar comparisons could be cited: gross national product of four of the main Latin American countries (Brazil, Argentina, Mexico, and Venezuela) in 1950 represented about 10% of that of four large industrial nations (United States, France, West Germany, and Italy) while in 1963, this proportion was reduced to 8%, that is, by one-fifth. This shows that the Latin American share in the trade, industry, and, in general, in the income and wealth of the world continues to be small and in many instances, declining. Since 1961, the year of the euphoric launching of the Alliance for Progress program, it has been impossible to achieve even the minimum increment provided for of 2.5% of per capita income; actually, it was 1.5%. In 1966, in particular, total Latin American product increased only 3.7%, or practically at the same pace as the population.

II

What accounts for this state of affairs? Why has Latin America been unable to grow rapidly and in moderately stable form as the now industrialized countries did in a past phase? What is responsible for the underdevelopment that exists from Chile and Bolivia all the way to Guatemala and Mexico? Actually, the theoretical formulations most current in Latin America today and the frequent pronouncements on economic policy made in national plans and at international level, are aimed at replying to these and other analogous questions. Although it is impossible to refer even in passing to the most common explanations, it may be of interest, particularly to readers outside Latin America, to very briefly outline a few of the formulations now in vogue.[3]

Geographical, racial, demographic, psychological, and extra-economic factors in general are often pointed to as being responsible for Latin America's underdevelopment. In the absence of an objective study of the social context in which backwardness flourishes, such explanations are resorted to as the excessive heat and dampness of intertropical zones, the supposedly low quality of *mestizaje* (racial mixture) and the no less dubious inferiority of the Indian in comparison to the white man, or the uncontrollable population explosion. The extreme has even been reached on attributing special psychological characteristics to the Latin Americans which allegedly act as a serious hindrance to development. A professor from the University of Florida recently arrived at the conclusion that in contradistinction to the characteristically phlegmatic Anglo-Saxon, the Latin Americans are "impulsive and emotional." They prefer the "short cut," being impatient, and unable to wait. They are enthusiastic at being against but not in favor of things; they are extremists... and egocentrics.[4]

In the same vein, Robert Garner, former officer of the International Bank for Reconstruction and Development, states, "Mental habits and behavior are the most stubborn obstacles to development."[5] And, Professor Hagen, convinced that "... personality changes seem empirically to be most important as decisive factors for initiating the transformation..." has established conformity, innovation, ritualism, retirement, and rebelliousness as typical patterns of conduct.[6]

3 An extensive study of this topic is made by the author of this article in his book, *Teoría y Política de Desarrollo Latinoamericano,* published in 1967 by the National University of Mexico from which some of the opinions presented are taken.

4 See Harry Stark, *Modern Latin America,* Coral Gables, 1957, pp. 62–71.

5 Cited by Eugene Staley, *The Future of Underdeveloped Countries,* New York, Harper, 1954, p. 204.

6 Everett E. Hagen, *On the Theory of Social Change,* Homewood, Illinois, Dorsey Press, 1962, pp. 194 and 240.

In other terms, there is an evident absence in Latin America of what McClelland calls "the need for achievement" because of predominance there of "particularism", a "diffuse" kind of achievement, maintenance of status conferred not for *what is done* but for *what one is,* emotional reactions, irrational use of resources, skepticism regarding the possibility of change, etc.[7]

There are other types of explanations which vary from the foregoing in that they place the major stress on economic factors. These constantly reiterate that economic underdevelopment is the product of insufficiency and sometimes poor quality of productive resources, lack of modern technology, and, particularly scarcity of capital and savings. For example, Professor Galbraith wrote, "This seems self-evident. Low income allows of no saving. Without saving, there is nothing to invest. Without investment, there can be no economic advance...."[8]

The phenomenon of scarcity of capital and savings is frequently put forward as a link in a chain or a point in a vicious circle which is extremely difficult to break in the economically backward Latin American countries. "On the supply side," Professor Nurkse tells us, "there is the small capacity to save, resulting from the low level of real income. This low real income is a reflection of low productivity, which in its turn is due largely to the lack of capital. The lack of capital is a result of the small capacity to save, and so the circle is complete." He goes on to explain, "On the demand side, the inducement to invest may be low because of the small buying power of the people," which, in the final analysis, "is due to low productivity. The low level of productivity, however, is a result of the small amount of capital used in production, which in its turn may be caused at least partly by the small inducement to invest."[9]

In large measure following J. H. Boeke (*Economics and Economic Policy of Dual Societies*), it has become fashionable in recent years to speak of the main hindrance to development as lying in the dual or plural nature of the social structure of the economically backward countries in which it is frequently assumed that a precapitalistic socioeconomic structure predominates or, at least, coexists with an incipient and weak capitalism.[10]

Some authors stress the point that Latin America has not yet succeeded

7 David McClelland, *The Achieving Society,* Princeton, 1961, pp. 173–174.

8 J. K. Galbraith, *Economic Development,* Cambridge, Mass., Harvard University Press, 1964, p. 17.

9 Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries,* Oxford, Basil Blackwell, 1953, p. 5.

10 "...the countries of Latin America give the strong impression that neither political nor economic liberalism, nor any similar revolutionary movement, has yet swept away the feudal values and the feudal organization of society inherited from the colonial era...; to be a 'gentleman' and to lead a 'gentleman's' life is still an objective widely esteemed and widely pursued." (Norman S. Buchanan & Howard S. Ellis, *Approaches to Economic Development,* New York, Twentieth Century Fund, 1955, p. 79) See also J. H. Boeke, *Economics and Economic Policy of Dual Societies as Exemplified by Indonesia,* New York, Institute of Pacific Relations, 1953, p. 3.

in establishing the conditions conductive to the "take-off" (W. W. Rostow), the "big push" (P. Rosenstein-Rodan et al.), or the "critical minimum effort" (H. Leibenstein and H. Myint).[11] The greatest weight is often placed on so-called "market imperfections" while other economists (T. Balogh, E. Myrdal, R. Prebisch, etc.) allude specially to "the unfavorable impact of international trade and other external factors" upon present underdeveloped countries.

Concretely, the "institutionalist" and "structuralist" positions have been gaining ground in Latin America in recent years, first in the diagnosis of inflation and, later on, in the study of broader questions. It is frequently repeated (in the Alliance for Progress program, for instance) that the only way of overcoming Latin American underdevelopment is through certain institutional reforms; in circles closest to ECLA and, of course, to the politically more advanced groups and currents, it is pointed out that the obstacles to economic progress are of a structural character rather than merely institutional.

Dr. Prebisch writes: "The ills plaguing the Latin American economy are not the product of circumstantial or incidental factors. They are the expression of the crisis in the prevailing order and of the limited aptitude of the economic system (because of structural flaws which we have been unaware of or unable to correct) to achieve and maintain a satisfactory... rate of development. The existing structure... constitutes a serious obstacle because... it interferes with social mobility, determines an unsatisfactory distribution of wealth and income, and unfavorably conditions capital accumulation..."[12]

Basically, it is difficult to disagree with such an opinion. Nevertheless, in Prebisch as well as other writers, the express recognition that development problems are intrinsic and not merely formal and that the main obstacles to progress are linked to the socioeconomic structure itself is accompanied by another attitude. This reveals, on the one hand, that in situating these problems there is a tendency not to penetrate into strictly structural levels but rather to reach "infrastructural" planes, in the best of cases, and most usually "superstructural" ones. On the other hand, when they consider how obstacles to development should be met and by whom, instead of objectively examining the role of the dominant social groups in the preservation of the status quo, after declaring that "...it would be naive to think that [socioeconomic reforms] can be achieved on our continent without arousing the resistance customarily forthcoming...from the affected sectors...." they say with more optimism than justification that "fortunately, important groups of businessmen and molders of opinion have appeared in many of our countries who

11 W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto,* Cambridge, Cambridge University Press, 1960; P. N. Rosenstein-Rodan, "Notes on the Theory of the 'Big Push'," in H. S. Ellis ed., *Economic Development for Latin America,* London, Macmillan, 1961, pp. 57–73; H. Myint, *The Economics of the Developing Countries,* London, Hutchinson, 1964; and Harvey Leibenstein, *Economic Backwardness and Economic Growth; Studies in the Theory of Economic Development,* New York, J. Wiley, 1957.

12 Raúl Prebisch, *Hacia una Dinâmica del Desarrollo Latinoamericano,* Mexico, 1963, pp. 3–4.

have understood and encouraged the structural changes called for by economic development and social improvement."[13]

III

We might summarize and examine other theoretical positions on Latin American underdevelopment and offer the reader a different type of explanation capable, in our opinion, of exposing in larger measure the real causes of that condition and even of contributing certain guidelines for a more effective development strategy. But, in order to do this effectively and on a more solid basis, it would be useful beforehand to think of the framework in which the process of capital accumulation takes place in Latin America. Although it is quite common for a diversity of opinion to arise around the factors determining the level and modalities of that process, there is wide agreement that the amount of capital and investment and the way these are both utilized has a decisive influence on development and underdevelopment.

In order to examine the accumulation process in Latin America in its hemispheric context, certain generalizations are, of course, necessary, and incurring in a schematic approach is inevitable. At the time, national differences must be ignored which, while essential for a comparative study, are of much less significance in an over-all picture. One thing which seems unchallengeable, however, is that the underdevelopment of Latin America is closely linked to and even the direct fruit of a capital accumulation process which takes place under unfavorable conditions, as will be seen below. While admitting at the outset the impossibility of substantiating in detail each of the assertions to be made, this process has the following features in Latin America:

(1) National capital is small and, of course, inadequate. In practically no country are precise and systematic estimates of wealth and existing capital prepared. However, the conclusion may be reached from scattered references to the subject that the condition of productive constructions and installations is generally poor in agriculture as well as industry, transportation, and other services. The mere fact that the capital-output ratio frequently fluctuates between 2 and 2.5 in some Latin American countries demonstrates the correctness of the foregoing. If it is granted that per capital product is low and that the same is true of the capital coefficient, this means that the stock of per capita means of production is likewise very small. Present average gross product of US$350, for example, would imply an estimated capital of US$700 to 900 per capita which is unquestionably far below that in the industrialized countries.

(2) The composition of capital has interesting features. Even though most of the economically active population of practically the entire region, except for Argentina, Uruguay, and Chile, are engaged in primary activities, the value of agricultural installations, machinery and equipment is quite small because of the predominance of low capital intensity techniques. On the

13 ECLA, *Estudio Económico de América Latina,* 1963, pp. 20 and 21.

other hand, it is not difficult to see that the bulk of the capital is concentrated in urban construction, in a few branches of industry, business, transportation, and various services like banking, insurance, real estate operations, movies, radio, etc. In other words, it appears that, in general, a greater share of capital goes into only slightly productive or nonproductive activities than into those directly producing national wealth.

(3) Another significant feature is the extreme, sometimes almost unbelievable, geographical, economic, and social concentration. In Argentina, the greater Buenos Aires and a few cities in the interior absorb most of the existing capital. In Brazil, the same is true of the coastal zone and, particularly, the area between Rio de Janeiro and the south of São Paulo. In Peru, the wealth is concentrated in Lima and Callao and in the narrow agricultural belt. In Mexico, the bulk of public and private capital is taken up by Mexico City and no more than six of the 31 entities of the country.

The economic concentration is no lower. Most of the agricultural machinery, equipment, and tools are to be found on the large and most modern farms and cattle ranches while thousands of acres of poorer lands could be combed without finding a single tractor. In industry, producers of consumer goods (textiles, clothing, food and beverages, furniture and homefurnishings, etc.) tend to absorb the larger capital, although in recent years the chemical and mechanical branches have been taking on importance, particularly in Argentina, Brazil, Mexico and to a lesser degree in Venezuela, Chile, and Colombia.

But the concentration of wealth is possibly most evident on the social level. With inevitable exceptions, the Latin American social pyramid has a great mass of peasants, workers, artisans, and impoverished small producers at the base and a small powerful minority at the peak in whose hands a large part of the national wealth is concentrated. Even after the 1952 revolution in Bolivia, not an insignificant portion of the mining, commercial, and banking wealth of the country was possessed by the Patiño family, while in Central America a substantial part of the private capital is monopolized by the United Fruit Company and probably no more than 300 families. The most important sectors of Brazilian industry is held by branches and subsidiaries of the great international trusts[14] and an oligarchy made up of the old landowners and the businessmen and industrialists strengthened by the 1930 revolution who, after inevitable frictions, have finally come to an understanding. In Chile, it is estimated that most of the economic activity and social wealth is controlled by no more than three or four financial groups.[15] In Mexico, in spite of the profound transformation the country has undergone in the last 50 years, it may still be estimated that between one-half and two-thirds of the national capital which is theoretically divided among 43 million inhabitants is actually in the hands of 1,500 to 2,000 families among whom,

14 Caio Prado Jr., *Historia Económica de Brazil,* Buenos Aires, Editorial Futuro, 1960, p. 313. See also, Aldo E. Solari, *Estudios sobre la Sociedad Uruguaya,* Montevideo, 1964.

15 Lagos E. Ricardo, *La Concentración del Poder Económico,* Santiago de Chile, 1962.

in turn, about 100 multimillionaire families are outstanding.[16]

(4) Independently of all the foregoing, the utilization of existing capital is very deficient. It has become commonplace to hear that underdeveloped countries lack or suffer from an acute insufficiency of skilled labor, certain natural resources, modern technology, and internal savings, but there is often hesitation in observing that the utilization of the scanty capital available is frankly irrational, as well. In practically every Latin American country there is an abundance of infrastructural installations, industrial plants, means of transportation, constructions and even machinery and equipment of the most varied nature which are not properly utilized. And, even though a situation of scarcity amidst plenty has not been reached, it is true that there is an incredible and uneconomic waste of existing capital and a chronic under-utilization of it or, at least inadequate and even sporadic employment of certain installations which, naturally, plays a primary role in the process of accumulation and development.

(5) The first thing revealed by an over-all study of investment is that it is at a relatively low level. Available figures show that the gross investment coefficient has changed little over the last 15 years, with fluctuations averaging from 15 to 17%.[17] There are considerable differences, however, between one country and another. Since 1950, the rate of gross accumulation varied (with occasional exceptions) between 17 and 23% in Argentina, Colombia, Costa Rica, Peru, and Venezuela, which may, therefore, be considered "high investment" countries, while in some, like Mexico, Brazil, and Bolivia, it was of the order of 13 to 17%, or intermediate, and in others (Chile, Guatemala, Ecuador) from 9 to 13%. In the last five-year period, in particular, the mean investment rate for all of Latin America has been estimated at 16.2% with the leaders being Peru (23.2%), Argentina (21.9%), and Costa Rica (18.1 %), and the remaining countries fluctuating between 9 and 16%.

Study of what has taken place in most of the countries shows that the gross investment rate varies from 12 to 16%. This means that net capital formation is probably no more than from 7 to 10% of national income, a much lower figure than that of present industrialized countries in their stages of the most rapid growth as well as by the nations which are overcoming economic backwardness within the framework of planned economies.

(6) The problem of investment in Latin America is not only its low level, but also that it is relatively stationary for the region as a whole and frequently unstable for individual countries. Between 1960 and 1965, the over-all fixed investment coefficient, far from even increasing at the rate of growth of national product, declined from 16.8 to 15.5% and in a good number of countries, as well, showed fluctuations of as much as over 40 to 50%.

The fact that the rate of investment is relatively high in some countries does not necessarily mean, however, that the same may not be true of the

16 Alonso Aguilar, *El Proceso de Acumulación de Capital en México: Riqueza y Miseria,* Mexico, 1967.

17 See: ECLA, *Estudio Económico de América Latina,* 1963 and 1965.

Table 2. Fixed Investment Coefficients in Selected Countries (1960–65)
(Percentage of Gross Internal Product)

Country	Minimum	Maximum	% of Variation*
Argentina	20.1	24.2	20.4
Bolivia	11.8	17.7	50.0
Brazil	11.6	14.8	27.6
Chile	10.3	13.4	30.1
Peru	18.5	25.9	40.0
Uruguay	10.9	17.0	56.0

Note: *With respect to the minimum amount of investment.
Source: ECLA, *Estudio Económico de América Latina,* 1965, p. 7.

Table. 3 Marginal Capital-Output Ratio (Annual Averages, 1960–65)

Country or Region	Rate of Investment (1)	Rate of Growth of G. I. P. (2)	Ratio (1)/(2)
Latin America	16.2	4.6	3.5
Peru	23.2	6.3	3.7
Mexico	15.0	6.0	2.5
Venezuela	16.7	5.4	3.1
Brazil	13.4	4.9	2.7
Colombia	17.3	4.5	3.8
Argentina	21.9	2.8	7.8

Source: Prepared from ECLA, *Estudio Económico de América Latina,* 1965, pp. 7, 20, 21.

increment in product. As may be seen in the Table 3, the level of the marginal capital-output ratio is usually as important or more so than that of the investment coefficient in determining the rate of growth. While it is true that this ratio is in part influenced by the low capital intensity, it also, as a rule, reflects unfavorable situations connected with the deficient distribution of investment and the over-all inefficiency of the economy.

It should, perhaps, be recalled at this point that a substantial part of public and private investment in Latin America each year goes into such activities as real estate speculation, unnecessary infrastructural works, superfluous industrial or commercial installations, expansion of armed services, luxury buildings and residences, etc. All of this reacts unfavorably upon the accumulation and development process. Furthermore, this process is also directly or indirectly subject to the fluctuations of the external sector in which exports meet all sorts of obstacles and terms of trade show chronic decline.

(7) With regard to the composition of investment, a marked predominance of private investment may be observed throughout almost the entire region which frequently absorbs between 60 and 80% of the total. Public investment in recent years has counted specially only in Bolivia and Chile and to a lesser degree in Mexico, the Dominican Republic, and Ecuador. This is to be explained by the fact that, generally, it is considered that private enterprise should be the prime mover in development with the state, and, hence

public investment, playing a complementary role which is frequently that of the mere creator of external economies for private capital. This policy is also responsible for the great importance of foreign investment which in Venezuela, for example, absorbs about 45% of total capital. Even in countries where its relative significance is not as great, it is not unusual for it to represent over 30% and even as much as 40% in key sectors such as manufacturing which, naturally, does not interfere with the control of certain basic industries being almost entirely in foreign hands. This dominance may extend from the production of electrical energy to that of sulphuric acid, chlorine and caustic soda, synthetic fibers, automobiles and trucks.

The characteristics of the accumulation process so far described do not only affect the rate, efficiency, and scope of the investment or utilization of available capital but cause economic growth in general to be slow and uneven. It has been shown that income levels in Latin America are still very low and lagging further and further behind those of the industrialized countries. However, in order to better appreciate the profound instability of the growth process, it would be useful to examine some additional figures from one or more years of the decade 1955–65.

In spite of the fact that the period covered is so short, it may be seen that in some countries the fluctuations of the product are quite violent. This emphasizes the point that instead of a situation of sustained growth in which income expands with certain uniformity, a condition exists characterized by such sharp breaks that the profits of one year are frequently lost the next year.

It may be asserted in summary that capital accumulation is decisive in Latin American underdevelopment and in the complex of interdependent forces underlying economic backwardness. Of course, this does not imply that there is a direct, linear, mechanical relationship between slow income growth and the coefficient of investment or the capital output ratio. Except for real or supposedly exogenous factors, and aside from the fact that the level of the rate of investment coincides with a low rate of economic growth in certain countries, particularly at certain times, it is the over-all context in which the capital formation process takes place that influences most strongly in underdevelopment. That is, among the other factors present are limited

Table 4. Rates of Growth of Gross Internal Product

Country	Minimum	Maximum
Argentina	2.7	8.6
Bolivia	0.3	5.5
Brazil	3.1	7.3
Costa Rica	1.1	7.5
El Salvador	4.3	9.5
Honduras	4.7	10.6
Mexico	5.2	10.1
Nicaragua	2.3	10.7
Paraguay	2.2	6.6

Source: ECLA, *Estudio Económico de América Latina,* 1965.

stock of available capital goods, the special, extreme and frequently uneconomic concentration and make-up or structure of that capital, and the unsatisfactory degree or form in which it is utilized. Also present and at the same time inseparably and dynamically related to the foregoing is the low level of employment and productivity of labor[18] as well as the inadequate investment level (particularly of direct productive investment), its improper distribution, the unsatisfactory technical forms it assumes and, as a consequence, the low efficiency of both public and private investment. All of this leads to failure to take advantage of the economic surplus and its ill utilization, and in the final analysis, to slow and uneven growth of the economy, and to an inadequate level of income, the distribution of which and, hence of the wealth, is socially, economically, and politically unfair and inacceptable.

IV

No sooner are such questions brought out than it becomes easier to understand that Latin American economic backwardness is not to be explained in terms of laziness or a population lacking in the "need for achievement," or even as a consequence of limited markets, inelastic external demand for raw materials, or unfavorable terms of trade. It is also just as true that the market and, in particular, internal purchasing power are inadequate and that national income and the rate of savings are low. However, the real problem does not lie in the reiteration of these questions but in finding out relationship to the phenomenon of underdevelopment and of situating them not in speculative static models but within the framework of dynamic realities and on an objective plane. Only in this way is it possible to distinguish fundamental facts from their causes and causes from symptoms and consequences.

To claim that underdevelopment is the direct resultant of low income and limited savings capacity and that, inversely, such inadequacy of savings capacity is responsible for the low income level or to relate the two questions in what Professor Myrdal calls the "vague notion" of the vicious circle of underdevelopment, is not, to be sure, a big advance nor a solid basis for even a satisfactory theoretical explanation. To our way of thinking, the fundamental problems upon which a theory of underdevelopment must center its attention are: for example, to explain (and not through mere truisms) why income and savings are low; why a substantial part of the productive potential is chronically underutilized or allowed to go to waste; why the capital accumulation process has the characteristics it does; why the poor countries get the worst of it in international economic relations; and, up to what point the

18 With regard to the possibility of raising the level of employment to the point where the human potential is adequately utilized, it is frequently pointed out that "...surplus labor may well be increasing instead of being absorbed," and the conclusion is reached that "...Latin American development policy has been very deficient as far as the creation of opportunities for employment is concerned..." Osvaldo Sunkel, "El Trasfondo Estructural de los Problemas de Desarrollo Latinoamericano," *El Trimestre Económico,* Núm. 133 (Enero-Marzo de 1967) 11–58.

determining factors of underdevelopment are accidental, transitory, formal in nature or at most institutional, or if they are actually phenomena which reflect, on the one hand, the interaction of the productive forces and the social framework in which the human potential, technology, and material resources are utilized and, on the other hand, the historical conditions that have shaped the structure of underdevelopment.

It is no accident that the Latin American economy of today is what it is. However, the explanation is not to be found in the present or even in the limited perspective of the events of recent decades. In order to understand its deep-rooted causes and to be able to overcome the most stubborn obstacles to development, it is necessary to dig about in the past and try to reconstruct the historical process which over the last four centuries determined that, while some countries were becoming industrialized, many others should have lagged behind and even become victims of the development process.

The reconstruction of that process is not simply a matter of recalling, that a given problem or isolated aspect of the Latin American economy (*latifundismo,* the opening of the railroads, the localization of certain industries, or the type of mining operations) is the product of historical factors which exercised a decisive influence at a particular moment. This approach can be clarifying and useful but, at the same time, it may tend to err and lead to a superficial historicism through which in piecemeal and fundamentally capricious fashion some particular facet of the phenomenon of underdevelopment is emphasized instead of its over-all nature and the interaction of its various components. Falling into such historicism can amount to retreating into a "structuralism" which never manages to penetrate to the deeper tissues of the social system.

What is of fundamental concern is the understanding of the over-all operation, the macrodynamics, of the Latin American economy as a changing entity whose development, or rather underdevelopment, takes place within the framework of a particular socioeconomic formation and not, of course, in a no-man's-land or on the blurry borderlines of social dualism.

Is capitalist development not a recent phenomenon in the Latin American economy which not only cannot be held responsible for its backwardness but has been and is a decisive factor in progress as it was in the now industrialized nations of the West?

Contrary to what some historians and economists often assume, capitalism has been behind the scenes throughout the entire modern history of Latin America. Its origins go back to Columbus' discovery and the conquest by Cortez and Pizarro at the end of the 15th and the beginning of the 16th centuries. In frequently embryonic and typically mercantile form, capitalism is associated with the insatiable appetite for gold and silver, spices and new markets, with the cruel and bloody plundering of the Indian population, the exploitation of the wage laborer in the colonial city and countryside, the struggle against the craft guilds, the opening of the first mines and industrial works, and the almost always illegal incursions of British and Dutch ships which kept arriving at American ports with increasing frequency laden with the coveted manufactures of rising European industry despite the strict prohibitions characteristic of a trade monopoly system. Capitalism is part and parcel of the violence which accompanied the development of the productive forces over the centuries and the uninterrupted shipments of precious metals. The latter is of such great importance in itself that Sombart went as far as to say that "...the modern state was born in the silver mines of Mexico and Peru and in the placer gold of Brazil."[19]

Capitalism, thus, was introduced into Latin America under the colonial regime. It is precisely for this reason that it has features different from the typical ones of European mercantile capitalism and, beginning with the 18th century, of industrial capitalism in expansion. Latin American capitalism originated as an imported product. It was not the result of previous gradual transformation of the relations of production or the productive resources but of that strange, violent, and unexpected laceration which was the Conquest and of foreign domination and exploitation over three centuries.

Nevertheless, the colonialism that Latin America underwent did not mean stagnation. Significant and sometimes profound changes came about under Hispano-Portuguese control; productive forces grew, and slowly and with many difficulties a new system of production was instituted. At the same time, it was also the system which arrested and distorted Latin American development through its *economiendas* and apportionment of Indians, its stagnations and prohibitions, irrational exploitation of mines and woods, its onerous and unjust tribute of gold and silver, its fanaticism and traumatizing use of the sword in combination with the cross to prostrate a once free people and reduce them to serfdom.

Even while granting the pernicious effects of colonialism, it may be thought of as a remote historical phenomenon, now obsolete, whose effect has not been felt for a hundred or a hundred and fifty years. Although this is true, colonialism is not an isolated fact but a phase in the process of underdevelopment, and one which determined, as well, many of the typical features of the phase to follow. When the colonial epoch came to an end, a semicolonial era opened for Latin America which is not yet over. Today, it is independent politically, but, economically, it remains subordinate to countries like England and later France, Holland, Germany, and the United States who became industrialized rapidly and sell their manufactures dear in exchange for cheap raw materials. Free trade promotes the development of a few more or less privileged countries and accentuates the backwardness of many others, including those of Latin America. And, when the system leaves the competitive phase behind because the very regime of free competition gives rise to monopoly and does away with freedom in the end, Latin American industrialization is frustrated and one country after another is transformed into supplier, market, and sphere of influence of imperialism.

19 Cited by V. Teitelboim in *El Amanecer del Capitalismo y la Conquista de América,* Havana, 1965.

Colonialism, free trade, and imperialism are merely three successive stages of the process which fundamentally determines the backwardness and dependent nature of the underdeveloped Latin American economies. The first lasted from the 16th century to the beginning of the 19th century for most of those nations, the second dominated economic theory and policy throughout the time of the former, and imperialism took root and developed in the last eighty years.

This is the historical framework in which Latin American capitalism developed and underdevelopment was forged. But, it is important to stress that it is not the latter which hampers capitalistic development but rather the special brand of Latin American capitalism which makes real development impossible. This is quite understandable because Latin American capitalism has little or nothing to do with the classical model or even with the neo-classical one which arose with German industrialization and the Meiji restoration in Japan.

Among others of its differences, the capitalistic process in Latin America is much more unstable and violent than in the now industrialized countries. And, while in the latter this meant:

> "... greater independence, rapid national integration, accelerated industrial development, and the appearance of a new and enterprising bourgeoisie, in Latin America a different model took form whose characteristic features were to be dependence, profound inequality in national development, regional disintegration, industrial stagnation, and the presence of a ruled-ruling class.
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> "In other words, because it was at a time when capitalism had undergone profound changes and already passed into the monopoly phase and, historically speaking, its decomposition had begun that the Latin American variety began to get under way, the picture is completely different from the other and much less favorable...; instead of 'invisible hands' and automatic regulating mechanisms, Latin America has excise taxes and monopolies; instead of a protective state... there are authoritarian and dictatorial governments...; instead of provident and creative entrepreneurs, there come to the fore idle rentiers, inefficient bureaucrats, military castes, conservative landowners, and voracious middlemen, who, as a group, absorb and squander a substantial part of the economic surplus. In short, instead of the emergence of an energetic, combative working class, the masses of the people remain scattered, heterogeneous and alienated and instead of vigorous national capitalism which brings about profound structural changes and rapid capital accumulation, there appears a weak incipient, alienated, unstable, and profoundly contradictory capitalism incapable of multiplying productive forces in a reasonable short lapse of time and which, contrary to what might have been expected since the European development of the 18th and 19th centuries, is far from being a symbol of the rational utilization of productive resources."[20]

Inherent in this capitalism (which we have called the "capitalism of underdevelopment" to distinguish it from both traditional capitalism and the precapitalism which certain authors consider to be still dominant in economically backward countries) are structural dependence, slow and deeply uneven development, concentration of wealth and income, chronic underutilization

20 Alonso Aguilar, *op. cit.*, pp. 101–102.

of productive factors, the enrichment of a few vis-à-vis the poverty of the masses and, as a consequence, and in a certain sense the cause of it all, the unfavorable features of the capital accumulation process.

Latin American dependence is not merely commercial or financial, or simply economic. It is a multiple, intertwined, deep, truly *structural* dependence. The role played by imperialism is not just that of an unfavorable "external" factor, nor even that of an "internal" enclave, as pointed out by Singer. It is much more than either, being the framework in which the Latin American countries live and the foundation upon which the economic and political power of the oligarchies which govern them rests. For this reason the dependence is structural; because the socioeconomic system of the Latin Amercan countries is dependent as a whole and because the resultant underdevelopment is, at the same time, an organic element, an integral part of the world capitalist structure.

Another cause of backwardness worthy of mention is the unevenness of the development process. At the international level, this is manifest in the sharp and dramatic contrast between the rich and poor capitalist countries, between those who have everything and those who have nothing. And at the internal level it is expressed in constant fluctuations, extreme forms of concentration, and in an almost endless series of disparities and profound imbalances; between a scandalously wealthy minority and a miserably poor majority, between the city and the country, between the various urban centers, between foreign and national capital, between exports and imports of goods and services, agriculture and industry, modern and traditional industries, some regions and others, and so forth. Much more so than in the industrialized countries, development in Latin America is subject to continual and sudden ups and downs which affect the level of over-all demand, accentuate instability, often give rise to artificial growth of productive capacity and, in the final analysis, bring about chronic and at the same time cyclical underutilization of human and material resources. In much greater measure, also, the distribution of wealth and income in Latin America is polarized and the exploitation of the labor of the wage worker and small producer is intensified.

However, the fact that the masses contribute to increasing the saving potential through their low levels of income and consumption or, that they produce much more than they consume, does not mean that the real investment rate is at a satisfactory level. The low income level and standard of living of the masses of the population is not counterbalanced by rapid capital accumulation but rather by an enormous internal waste of the saving potential as a consequence of the heavy tribute paid by Latin America to the great capitalist powers.

The few studies on the subject that have appeared so far show that the investment potential of the main Latin American countries is much greater than the current rate of capital formation. A substantial part of the economic surplus is earmarked for unproductive and economically unnecessary activities, such as the upkeep of expensive armies and police forces, publicity and propaganda, augmenting of the bureaucracy, nonessential public works and installations and private construction, and a hypertrophied business network. And, even after all this, there still remains a margin which permits a truly privileged minority to receive exaggeratedly high incomes and to possess additional squandering capacity in residences, amusement centers, luxurious cars, expensive jewels, extravagant parties, superfluous imports and frequent trips abroad in which the scanty foreign exchange available is dissipated which should be used for the purchase of essential consumer and capital goods needed for rapid development.

The so-called "national bourgeoisie" is not extraneous to these patterns of spending and behavior. It certainly behaved with greater discretion in the long past epoch in which it fought for power against an idle and spendthrift landowning pseudoaristocracy. Now, nouveaux riches abound who far outstrip their forerunners in the capacity for ostentation and squandering. The Mexican bourgeoisie is a good example of this. After having unfurled the regenerating banners of the revolution initiated in 1910, in the last quarter of a century it has become the arch defender of the status quo and one of the main factors responsible for the anarchy and waste which bedevil the economic development of Mexico.

The internal socioeconomic structure of every Latin American country contributes decisively to impeding development and making it more unstable. Actually, it is the source of the unjust and uneconomic distribution of wealth and income as well as of the factors which unfavorably influence supply and demand, capital accumulation, and even the relation of dominant political forces. But, the internal factor does not develop independently, but as part of the structure of unfavorable external conditions. Rather, these elements interact, even though in the final analysis the weight of dependence is usually determinant.

The still rather widespread idea that Latin America has succeeded in complementing its scanty internal savings with external financial resources obtained through various channels, does not conform to the facts. Strictly speaking, few things are as unfavorable as the pattern of Latin American foreign trade. Our countries have had to accept a kind of international division of labor which is eminently unfair and which has unquestionably held back industrial development and whose benefits have almost always remained in the hands of the wealthy nations. The Alliance for Progress Committee has estimated that Latin America lost US$1.5 billion per year between 1952 and 1958 on the deterioration of the terms of trade alone; and, things have not improved since then.

As for international capital movements, it is equally true that it is not the investor countries which really transfer part of their surpluses to the poor nations, but paradoxically, it is these which pay financial tribute to them year after year (in the case of Latin America, about US$600 million annually, in recent years) because the drain of funds in dividends and royalties is appreciably greater than the inflow of capital. The harmful repercussions of foreign investment are not confined only to the negative effect on the balance of payments and the drain of surplus. Its deleterious effect is much broader in scope: it encourages monopoly, blocks and diverts the diversification process, sharpens economic, and inevitably, political dependence, affects the distribution of wealth and income, and in large measure determines capital formation not only as far as volume of investment is concerned but with regard to its channels as well, the productive techniques in which it is manifested, and the degree to which existing productive capacity is used.

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It has come to be accepted in recent years even in government and business circles of Latin America that the present situation is far from satisfactory. The need for a change is talked of everywhere. Some of the factors contributing to this have been the growing dissatisfaction of broad sectors of the population with inflation and low living standards, the violent contrast between wealth and poverty, the frequent coups in which, ironically, the fate of "representative democracy" is debated, the victory of the Cuban Revolution and its economic and cultural advances, and finally, the outbreaks of rebellion and the guerrilla movements in Colombia, Venezuela, Guatemala, Bolivia, and Peru.

The ruling groups have carried out a program, the Alliance for Progress, during the years from the first Punta del Este meeting in August, 1961 to the last one held in the same place in April, 1967, which they claim provides the answer to the serious problems besetting Latin America. Under this program, much has been said about the need for promoting structural and institutional reforms, of planning development, and speeding up the economic integration process. However, nobody has any illusions regarding the real scope of the reforms postulated. While the structural nature of the obstacles to development are referred to repeatedly in the speeches, it is obvious that the reforms and, in general, the measures suggested for coping with those obstacles are in no way structural. The advisability of revising the tax system, agrarian policy, education organization, and administrative operations is accepted, but what is actually done in practice is very meager and not even the most daring official formulations provide for changes in class relations, distribution of wealth, the property system, or relations with imperialism. Everything is left in terms of trying to obtain better prices for raw materials, making some Latin American manufactures and semi-finished goods more readily available in the industrialized countries, and asking foreign investors to accept the treatment which they are now receiving and that these investors, incidentally, welcome what is evidently favorable to them anyway.

In view of the hostility and fear aroused by even modest land reform and the slightest attempt at moderately serious economic planning, the idea has recently been given up of mobilizing savings potential and of overcoming the limitations of internal demand through a more or less profound socio-economic transformation; hence, the centering of action around Latin American regional integration. To the extent in which this ceases being a defensive measure against the United States, the Department of State takes it up as one of its new arms, in the conviction that such integration is already acting as an important stimulus for the rapid proliferation of big United States companies from Mexico and Guatemala to Chile and Uruguay.

Naturally, simultaneously with the tactic of accepting superficial and trifling changes here and there as a condition for leaving things basically as they are, a different strategy is gradually beginning to take shape, a new strategy which does seek structural change, which arises from the conviction that the ills of Latin America are deep-rooted and that solutions, therefore, must also be radical. The idea is beginning to spread in a vast sector of the population from university students and professors to lower echelon labor leaders and poor peasants without land or means of working it, that another internal alignment of social and political forces is necessary and that the way to accelerate Latin American development cannot be through alliance with imperialism but through victorious struggle against it.