

This is adapted from John W. Sherman, *Latin America in Crisis*, Westview Press, 2000. I have inserted some comments and questions in blue text.

Chapter 1 Introduction: Why Is Latin America Poor?

Latin Americans on the whole are poor [this actually is not true if by “poor” you mean falling below the poverty line as defined by the countries’ official statistics or by the UN], although the region also is home to some of the wealthiest individuals in the world. Mexico, for example, had twenty-four billionaires in 1994, prior to its 1995 economic melt down—more than Britain, France, and Italy combined. But comparatively speaking, Latin America is an economically disadvantaged land. [If compared to Africa, however, it is advantaged. There is also great variation within Latin America. Brazil is at a “middle” level of development when compared to nations worldwide, Argentina is higher, Bolivia and Haiti are quite low. The contrast between Nicaragua and Costa Rica is striking...] If you were randomly born into a family in the United States or western Europe, the odds are overwhelming that you would not go hungry or lack a solid roof over your head. If you had been born into a Latin American family, however, odds are about 50—50 that you would suffer malnutrition and poor health due to insufficient and unsanitary living conditions. ‘Why is this so? Why is there such inequity among the different areas of the globe?’

Social scientists have long acknowledged the economic disparities between large sections of our world. After all, such differences are conspicuous. In the early stages of the Cold War—that is, the arms race and political rivalry between the East (led by the Soviet Union) and the West (led by the United States)—people labeled regions according to their economic strength and political orientations. The industrialized and wealthy countries of the West were known as the First World, which was joined eventually by rebuilt, postwar Japan. The Soviet Union and its eastern European satellites were termed the Second World, even though their economic muscle lagged badly behind that of the West. Most of the remainder of the globe was designated the Third World—a term that survived the end of the Cold War in 1991 and is still commonly used today. Such labels have proven remarkably long-lived, although they are not particularly apt: Fat World and Thin World would be far more creative—and more meaningful—descriptions of these highly unequal regions. [Or should we say “successful” vs. “unsuccessful”? Or do we need three categories of nations: “successful, struggling and failed” for perhaps? Note the moralistic tone of the author – the assumption that “fat” are living off the work of the “thin”]

The Third World consists of nations that lack economic vitality financial independence, and broadly shared prosperity. When the term was first coined, many also demarcated the region by its lack of industry. Today, as we shall see, some pockets of the Third World are heavily industrialized, yet still not prosperous. ‘The Third World includes China, parts of southeast Asia, southern Asia, sections of the Middle East (e.g., Jordan and Turkey), all of Africa, and all of Latin America. Since the demise of the Soviet Union, most of the Eastern bloc has joined its ranks. Four-fifths of humanity lives in the Third World, which geographically dominates southern portions of the globe, prompting some to speak of a rich North and a poor South. Third World nations also, for the most part, are located on the outskirts of the historical core of Western civilization (Europe), and thus

constitute what some refer to as a periphery. [\[Although Australia and New Zealand are geographically peripheral but not part of the Third World.\]](#)

By the late 1950s people had begun to use another term to identify the Third World: They called it the developing world. This description is still widely used by the media and even by many academics. In the 1980s and 1990s, a number of business interests, including major banks and investment firms, supplemented this designation with a new phrase: emerging markets. Both terms, with the adjectives developing and emerging, implicitly reflect a popular interpretation of why Latin America and other parts of the Third World are poor. That is, many (especially in the First World) believe they are poor simply because they are behind on the road of time. These regions are in the process of rising to First World status: They are just now emerging and developing. Someday they will be wealthy and comfortable like us.

But is that idea, which has endured in various forms for nearly two generations, well-grounded in fact? Pondering questions of poverty and calculating future global trends are formidable tasks. Yet such activities are essential to any realistic understanding of our world, since, after all, most of humanity is still poor [\[again, this depends on how you draw the line\]](#). By identifying the origins of the notion that the Third World is developing, and by observing some basic economic evidence, we can draw a few rational conclusions. Those conclusions, in turn, will set us on our way to discovering why Latin America is poor.

Thinking About Latin America

Beyond the realm of hard economic data and fact-based argumentation lies theory. Theories are broad models, or constructs, that attempt to explain the macroeconomic and political realities of our world. Academics use theories in order to answer the “big questions,” such as why there are such enormous inequities in global resource allocation and consumption. Although they are built upon arguments and facts, theories are by nature abstract, and they are usually engaged at such a level of intellectual sophistication (and verbalized by means of such unique vocabularies) as to remove them from the realm of popular discussion. They are one reason why.— some might argue—academics are marginal players in public policy debates. [\[this is less true in Latin America than in the US, and even in the US conservative intellectuals have been quite influential in recent years. Fernando Henrique Cardoso is exceptionally important both as a theorist and as a policy maker\]](#) Yet because Latin America has been an important case study for theoreticians, a very rudimentary understanding of some theory, even for the introductory student, is helpful. It enables one to discern the intellectual orientation of professors and books, and explains the motivation behind much scholarship.

Social scientists and just about everyone else who wrestles with the question of Third World poverty can be grossly divided into two camps: Some believe that poverty is destined to disappear over time, and others do not. Some think that in the future, Latin Americans can live just as well as those of us in the First World; some think they cannot. The first of these two viewpoints is frequently presented in the mainstream media. Political commentators like Irving Kristol, for example, have long prophesied that American-style capitalism will solve all of the world’s major problems. [\[perhaps this is](#)

[less a prophecy than a prescription](#)] This interpretation had its beginnings, however, in the early years of the Cold War.

Before the ascent of the United States to superpower status following World War II, Americans—even intellectuals—were relatively unconcerned about questions of poverty in the rest of the world. In the 1950s, notions concerning development arose in the context of the new U.S. rivalry with Soviet Russia. With funding from government agencies, academics began to examine the economic and political realities of Latin America. Both the level of interest and that of financial support rose meteorically in the early 1960s, when it seemed that the region might succumb to communism and threaten the security of the United States. Although such studies were interdisciplinary in nature—involving a range of political, social, and economic issues—sociologists and political scientists dominated the nascent fields of theoretical inquiry.

These thinkers saw in Latin America a plethora of “backward” qualities that, they assumed, needed to change. First, the region relied heavily on agriculture and had experienced little in the way of industrialization. Second, the nature of the rural sector bothered them: It was traditional, subsistence-oriented agriculture, based on a peasant culture that had relatively few built-in market incentives. Third, those peasants lived in a hierarchical world, where status and deference were accorded to the elite owners of large estates—a society almost feudal in its demeanor, with patron-client relations instead of competitive and individualistic egalitarianism. This feudal order was reflected also in archaic political institutions: strong executive branches; little in the way of functioning legislative democracy; and loyalties that rested more on personalism, or political connections and allegiances, than on parties and ideas. These and other social features contrasted markedly with conditions in the United States. One of the presumptions of early theoreticians was that Latin America had to undergo a transformation in its political culture—or values arid ideas as they relate to politics—in order to join the modern world.

A second, important assumption was that this evolutionary process was unavoidable. In the 1950s and early 1960s, the debate over whether or not the Third World was developing was, in fact, not much of a debate. Nearly everyone agreed that the whole world was moving forward (with the possible exception of the Soviets) and that the future for all humanity was bright. At the core of this general assessment emerged a school—a group of scholars united around a central idea. And this school, in turn, articulated modernization theory. Although modernization theory featured various facets and twists of meaning, at its most rudimentary level it simply held that the Third World was already on the road to modernity. Time alone assured the development of tradition-laden, simple societies. The process was unavoidable, argued scholars like Walt Rostow, who compared the process to a train rolling down a track.

Modernization theorists linked economic evolution to political change. If economic problems and political instability went hand in hand, then the opposite proposition must be true: Economic growth and well-being would fuel tolerance and a healthy exchange of ideas. In this evolution, John Johnson of Stanford University among other academics, emphasized the role of what he termed the “middle sectors.” He foresaw that prosperity would fuel the rise of an urban middle class comprised of small businessmen, bankers, professionals, lawyers, and salesmen. Entrepreneurial and profit-oriented, these citizens, in turn, would embrace First World political values, insisting on rights similar to those

found in the U.S. Constitution. The long pattern of authoritarian and often arbitrary government in Latin America would end as political institutions matured in harmony with economic and social advances.

The element of harmony was also important. Modernizationists drew on long-standing anthropological notions about society, including what is known as functionalism. Adherents of this notion believed that complex social structures, like interlocking gears, moved together in natural unison. Change in one area made change probable—even certain—in others. Thus, not surprisingly, theorists also linked economic and political transformation with culture. Indeed, they believed that much of the backwardness of the Third World was cultural. They held that modern man, in contrast to his intellectual and social predecessor (and Third World counterpart), was individualistic, efficient, resourceful, confident, and achievement-oriented. Traditional man, in contrast, was a slave to superstition, hierarchy, obedience, and fate. Latin Americans were destined to become sophisticated, modern people.

These notions of intellectual and social evolution were drawn from earlier, nineteenth-century ideologies, including positivism and social Darwinism. **Positivism was especially influential in Brazil and Mexico in the 19th century and is summarized by the positivist motto on the Brazilian flag “order and progress.”** Positivism exuded great confidence in the rationality of humankind and in its ability to scientifically solve social ills. Social Darwinism adopted Charles Darwin’s evolutionary theory (survival of the fittest) to humans and civilizations. Both positivism and social Darwinism had influenced the works of Max Weber, which in turn inspired the modernizationists. Weber had argued, at the turn of the twentieth century, that Western progress was attributable to a collection of traits embedded in the “Protestant work ethic.” Liberated from irrationality and fatalism (such as that supposedly found in Catholicism and Eastern religions), Western man had obtained the correct mind-set for advancement. Weber-influenced books, such as Edward C. Banfield’s *The Moral Basis of a Backward Society* (1958), paved the way to modernization theory. Building on Weber’s faith in Western man’s rationality, American scholars anticipated the rise of new cultural values in underdeveloped lands.

One modernizationist especially indebted to Weber and Banfield was Walt Rostow, who published *The Stages of Economic Growth* in 1960. Rostow argued that societies passed through five distinct periods on the road from backwardness to full modernity. After an era of tradition, a critical second stage followed, in which “preconditions” for modernity emerged, often taking centuries to come to completion. Then, at some point in time, a “leading (economic) sector” would grip a land and launch the third stage, a period of “takeoff”—when a nation rushed forward into modern maturity, and eventually, mass consumption.

Rostow and the modernizationists were optimistic. One reason for their confidence about the inevitability of Third World development was their faith in previous First World experience. Had not England once been primitive? Had not France and Germany, and even Soviet Russia, modernized? Rostow argued that England’s textiles were its “leading sector,” catapulting it into wealth and power. Railroads, he said, did the same for the United States, and military hardware was sparking the Soviet economic engine.

Modernization theorists, then, assumed that the poorer, “backward” regions of the globe were on a trajectory to prosperity and stability. They believed that the world was changing, prospects were bright, and the future favorable for all. If you venture into used bookstores, you can still find old atlases and travel guides that echo the refrains of modernization. Tides speak of progress and advancement. Photographs show new highways and factories, neatly dressed businessmen and modern office towers—images long associated with the First World but used to demonstrate that the Third World was coming of age. Modernization theory’s assessments and verbiage filtered into the standard high school and college texts of the 1950s and 1960s, as well—such as in the classic *Latin America: The Development of Its Civilization* (1968), by Helen M. Bailey and Abraham Nasatir. The dicta of modernization also found expression in popular culture. For example, in the early 1960s, as television sets appeared in American and European homes, the Summer Olympic Games became a major international sporting event, linking all of humanity in a supposed community of equal nations. That idea of global community was reflected in 1964, when the Tokyo Games ended with a salute to the spectacle’s next host: Mexico City. Yet, since 1968, neither the Summer nor the Winter Olympics have returned to the so-called developing world; poor countries simply do not have the economic resources with which to outbid rich nations that covet the prestigious and lucrative games.

Of course, television not only covered the Olympics; it also beamed images of American wealth into the living quarters of Third World residents. Whether they watched *Leave it to Beaver* in the 1950s or *The Simpsons* in the 1990s, viewers could not help but note that nearly all Americans seemed to own cars and live in spacious, two-story suburban houses. Television has largely instilled in Latin Americans the myth that all North Americans are rich. It has revealed some of the stark realities of global economics, if only by default. Shortly after television arrived in the Third World, popular impatience with such inequities began to grow. In the 1960s Cuba—a Latin American nation plagued by stark rural poverty (and significantly, possessing one of the continent’s most sophisticated television industries)—exploded in revolution. By 1958, rebel forces led by Fidel Castro had toppled the U.S.-supported dictatorship, startling policymakers and modernization theorists alike.

Modernization theory resonated with U.S. government officials in the early 1960s, and some of its proponents helped design a response to the Cuban revolution: the Alliance for Progress. Many believed that although modernization was inevitable, it could be accelerated by technical assistance and aid packages. Rostow’s proverbial train was on the rails to prosperity, but the United States could increase its momentum by granting loans and launching nation-building programs through new organizations such as the Peace Corps. The motive for doing so, of course, was to undercut unrest and prevent more revolutions. John F. Kennedy’s administration initiated the Alliance for Progress, but also accompanied it with increased military aid. Fearing the expansion of Cuban communism (Castro turned to the Soviet Union for aid within a couple of years after acquiring power), the United States initiated counterinsurgency training programs and military collaborations with other Latin American nations.

The Alliance for Progress, established to pacify Latin America, had many mixed and unforeseen results. Stipulations required that most of the loans be spent on goods

produced in the United States; heavier debt and some inflationary pressures ensued. Increased direct U.S. involvement, through a range of developmental programs from agriculture to health care and education, disrupted social relations and traditional practices, creating instability. The so-called Green Revolution, for example, begun years earlier in Mexico, accelerated crop yields (through fertilizers and chemicals), but undercut many small farmers, driving them out of business. Middle-class demands for political reform, sometimes sanctioned or encouraged by the United States, sparked fears among elites, who were ready to use their newly improved militaries to suppress any early signs of “communism.”

Despite (in part, because of) U.S. policies, there were more revolutions in Latin America in the 1960s, but none of the kind experienced in Cuba. On April 1, 1964, a momentous day for both Latin Americans and modernization theorists alike, the military in Brazil ousted the elected president from office and took control of the government. For observers the coup was not the only surprise: The new regime largely enjoyed the support of the emerging middle class! This was the very opposite of what most had predicted. Brazil’s generals dubbed their takeover a “revolution,” but there was nothing revolutionary about it. [this, obviously, is a matter of opinion...] They strengthened economic policies that favored the rich and suppressed politically active, poorer Brazilians. The United States, which previously had established close ties to the military, supported the new regime. But modernization theorists in U.S. universities were puzzled. Latin America was supposed to be headed toward democracy; Brazil’s coup unexpectedly reversed a trend so many had thought they could see.

In the short term, most academics, though disturbed, concluded that Brazil was an isolated case—only a temporary setback in modernization’s progress. Many predicted that the military would restore civilian rule by the end of 1964; to their surprise, Brazil’s generals stayed in power for a quarter century. Even more shocking was that Brazil’s situation was but a harbinger of similar events elsewhere: In 1966, Argentina underwent yet another in a series of coups. In 1973, Chile, a nation with a history of relative political openness, experienced a violent takeover. By the mid-1970s, almost all of Latin America was under military rule, and the very middle classes that had been expected to promote U.S.-style democracy were, for the most part, supportive of the coups.

These unexpected developments spawned academic debate. Modernization theorists stuck to the most obvious lines of intellectual defense: Despite the militarization of Latin American regimes, they clung to their earlier predictions and downplayed evidence suggesting fundamental flaws in their theories. Some even became apologists for the new regimes. Text book authors Bailey and Nasatir advised American college students that “undemocratic and high-handed procedures were perhaps not all bad.” Yet as military governments multiplied and human rights conditions worsened, intellectual evasion became all the more obvious, in the general failure to explain stark reality.

Nor was the collapse of democratic openings the only embarrassment for modernizationists. By the mid-1970s it was increasingly clear that the economic prosperity so long forecast was also not forthcoming. [this may have been a cyclical downturn rather than a lasting change] Real wages under military governments declined as inflation took hold and independent labor unions were dismantled by security forces. Living standards, as measured by malnutrition, child mortality rates, life expectancy, and

illiteracy, flattened out and in many cases began to slide in the other direction. Something was horribly wrong with the prognosis for the Third World. Why was it not developing?

Political scientists and others began to provide a whole range of new and adjusted theses. Some examined Latin American society, and argued that resistance to modern capitalism and pluralistic democracy was ingrained due to the medieval Hispanic heritage. Spain, so the argument went, had nurtured authoritarianism and military order for centuries after the conquest. Fatalism, violence, and subservience to hierarchy were inbred cultural traits from which the region could never escape. This argument, supported by some historians, was exceedingly static—that is, it did not account for change over time. Furthermore, when the maternal country (Spain) itself replaced a conservative dictatorship with modern political institutions in the late 1970s, these events did much to undercut the currency of this explanation.

A second, more plausible answer came in the scholarship of Samuel Huntington. The Alliance for Progress had rested on the premise that poverty bred political instability; but Huntington, by comparing poor countries, argued that the premise was not necessarily true. His influential *Political Order in Changing Societies* (1968) contended that the poorest of the world's peoples were actually politically docile. Those experiencing change and entering the political arena for the first time were more prone to generate social conflict. If a modernizing state lacked adequate civic structures (such as political parties), unchanneled political energy could bubble up into revolution. Under Huntington's rationale, U.S. policies under the Alliance had raised expectations and aroused political forces rather than taming them. Increased instability, and consequent military intervention, was thus the order of the day. [\[Today, this argument is advanced primarily by China, which argues that democracy should wait until the country has modernized economically under the guidance of an authoritarian government.\]](#)

Critics Respond:

Notions of Dependency

Many scholars found Huntington's argument no more convincing than those made under the rubric of modernization theory—a paradigm increasingly in disrepute, having itself been subjected to critique. Several Latin American academics posited a counterargument for why the region was not becoming like the First World. They contended that the economic playing field between disparate regions was not level: Latin America could not develop because of certain structural disadvantages that created what they called dependency.

Dependency theory, a critical response to modernizationists, seemed new and exciting when it first appeared in the late 1960s. Its antecedents, however, were many. An Argentine economist named Raúl Prebisch had long argued that neoclassical economics, with its emphasis on trade as the means of development, was insufficient for understanding the complexities of global wealth. As the director of Argentina's Central Bank in the 1930s, he had urged his nation to industrialize. After World War II, Prebisch headed up the United Nations Economic Commission for Latin America (ECLA), where he and others again pushed for deeper structural change. These men distinguished between economic growth and "development." They held that the latter necessitates technology and economic diversity, only then assuring a nation of self-sustaining growth.

Like a child that matures physically but is mentally impaired, they saw Latin America as a region with rising economic output but fundamental incongruities.

Two of Prebisch's postwar colleagues at ECLA, Brazilians Enzo Faletto and Fernando Henrique Cardoso, later published *Dependency and Development in Latin America* (1969). A rebuttal of modernization theory, the book offered an explanation of why developmentalist models were not working. It posited that underdevelopment was not a product of backwardness but a consequence of commercial capitalism. After all, as Cardoso and Faletto noted, Latin America was hardly an isolated region. It had gained independence from colonial rule in the early nineteenth century and had traded with advanced nations ever since. But it could never catch up with the First World because of the unequal nature of its partnership in finance and trade. [\[This is not really a good summary of Cardoso and Faletto's book, although it is a common perception. This is discussed at length in my book.. Cardoso and Faletto thought that development could be coupled with dependency, especially as corporations were becoming more multinational and willing to invest in the third world. \]](#)

Others followed Cardoso and Faletto's lead. Although few dependency thinkers were historians, almost all attempted to use history to excoriate modernization theory. Development, they argued, has not taken place because the First World enjoys a historically favorable position with regard to industrialization, capital, and commerce. Because Europe and the United States industrialized first, Latin American nations emerged just as they began to produce nearly all the manufactured goods the world needed. Industrial powers shipped their goods (almost always on their own ships) into the colonized Third World, thus undercutting the process of industrialization and producing a lopsided balance of trade. Latin American countries soon found themselves exporting raw materials, such as wool and cotton, and importing finished products, such as cloth.

Not only was there an immediate trade imbalance, but the emerging First World soon accumulated a disproportionate amount of capital, since importing nations had to pay the difference between the value of raw materials and manufactured goods. Ironically, much of the gold and silver that backed various currencies had originally come from the mines of Spanish-exploited Latin America. After Independence, in a quest to modernize, Latin American states borrowed money from European and U.S. banks at high rates of interest. Many slid into debt and were unable to foster their own diversified economies in order to compete with the nations that had gotten the jump on them in the critical process of industrialization. By the twentieth century, all they could hope for were enclaves of industry and development—not vibrant domestic production and markets. Rather than a “natural” process of modernization, Britain and other First World countries had experienced unique historical evolutions that could not be repeated.

One of the apparent loopholes [\[flaws would be a better term\]](#) in this line of argumentation was the obvious fact that much of Latin America was heavily industrialized by the early 1970s (due in part to the economic policies of the military regimes). Yet dependency theorists provided answers to this problem by pointing out differences between the First and Third Worlds' industrial growth. André Gunder Frank, for example, referred to the “development of underdevelopment”; by examining pockets of industry; he analyzed their ties to the First World via multinational corporations. Unlike those in Europe and the United States, where unions helped unskilled workers organize, Third World regimes

cooperated with corporations in keeping wages low. Ownership stayed in foreign hands, and profits were remitted to stockholders instead of being invested in Latin America.

Dependency theorists not only addressed trade and industry; they also pointed to critical patterns in agriculture. They noted with chagrin that many Latin American nations engaged in monoculture—the growing of a single crop for export, on which economic growth heavily depended. Whether coffee in El Salvador or bananas in Honduras, these commodities went abroad and tied local economies to First World markets. One of the drawbacks of such a link has been the fact that any sudden drop in prices spells disaster for the exporting nation. When coffee prices sank precipitously during the 1930s, for example, El Salvador's economy collapsed and hunger swept the countryside.

Dependency certainly made more sense [\[or perhaps it fit in better with the zeitgeist of the sixties and seventies, when American and European intellectuals were highly critical of Western capitalism\]](#), in attempting to explain conditions in the 1960s and 1970s, than did modernization theory. But like their intellectual opponents, dependency theorists were all over the place. They were never able to systematically unite their ideas into a cogent, complete explanation. In fact, there were profound divisions. Orthodox dependency theorists, such as Frank, questioned the ultimate efficacy of capitalism. Other, more unorthodox dependency thinkers, including Cardoso, believed in the fundamental structures of Western-style capitalism but thought development in the periphery had been distorted. The different sub-schools were reflected in politics: Frank fled Chile in the wake of its military coup, had difficulty reentering the United States (although he was a citizen), and settled into an academic career in Western Europe. Cardoso, in 1994, became president of Brazil. [\[people who follow Frank's Trotskyist political ideology are still active in Brazil and Latin America, but they are a small minority. How Cardoso became president is the story of my book.\]](#)

Both currents of dependency theory had garnered the allegiance of many Third World scholars by the early 1970s, when dependency theory entered its heyday. It was not as well received in the United States, for obvious reasons. At its heart was criticism of the First World—as partly responsible for Third World troubles, rather than a benign agent of modernization seeking to advance humankind. A number of U.S. scholars began to vigorously critique dependency theory, and by the 1980s, a flood of books had largely discredited it. There was a political dimension to the process:

Well-funded anti-dependency theory scholars resided in the First World, whereas the theory's die-hard protagonists labored abroad. [\[this is not really true, there are lots of dependency theorists in the US and Europe and lots of modernizationists in Latin America\]](#) The rejection of dependency theory coincided with a revived U.S. patriotism under President Ronald Reagan but also reflected the fundamental repugnance of a theory tying Third World woes to First World policies. [\[Actually, the remarkable economic growth of South Korea and a number of other Third World countries was the main reason people started to doubt dependency arguments – these countries were highly dependent on the developed world and grew phenomenally well.\]](#)

On the front lines of the intellectual assault were a number of historians who, until the late 1970s, had largely remained on the sidelines of theoretical debate. Even in its most sophisticated expressions, dependency theory was disappointingly simple. Few of its

early proponents were historians themselves, and they often made sweeping generalizations about the breadth of Latin American experience. Critics pointed out that contrary to conventional wisdom, some nations had once accumulated great wealth: [\[This point was made by Cardoso and Faletto also, but people didn't pick up on it.\]](#)

Argentina, for example, at the outset of the twentieth century, had a per capita income comparable to that of the United States. A historian of Brazil, Warren Dean, showed that an export economy based on a single commodity could fuel broad growth and diversification (a rebuttal of dependency theory that was dubbed staple growth theory). Others noted the role of corruption in sidetracking advancement: Subject to very little public account ability, military and nonmilitary governments alike have often squandered Latin America's wealth. In sum, dependency theory was attacked for failing to address a wide range of cultural and political questions—even though its creators were essentially concerned with economics. [\[this is not true of Cardoso or even of Frank, they were fundamentally concerned with politics and class conflict, but they were heavily influenced by Marxist theory which said that economics drove class conflict and politics\].](#)

The tendency to simplify centuries of complex history continued in an offshoot of the dependency school, called world systems analysis. U.S. sociologist Immanuel Wallerstein launched world systems theory with the publication of his multivolume *The Modern World-System* (1974-1976). Arguing that Europe generated a capitalist world economy around the beginning of the sixteenth century, Wallerstein and subsequent authors posited that core nations structurally dominate peripheral states through economic dynamics. Noting the pervasiveness of slavery and other forms of coercive labor in the periphery, they contended that labor relations and even many social conditions stem from an entrenched and systematized global economic order.

The idea of an overarching, global economic structure might have merit in today's world, but its projection over the distant past is a serious blunder. Historians have had a field day critiquing the world systems approach. Evidence demonstrates that labor conditions and social relations in Latin America have not been determined by the consequences of commercial capital, and instead of consistent patterns of coercion we find that Indians and other subservient groups often helped define the parameters of commercial exchange and even sometimes enjoyed its benefits (although, admittedly, conditions immediately after the Conquest were harsh).

More damning is the fact that much of the historical record refutes the notion of long-term economic integration. In the nineteenth century, for example, large portions of Latin America fell into isolation—the exact opposite of what should have happened in an emerging system. Silver mines closed down, the money supply shrank, deflation took hold in some areas, and trade declined. With the exceptions of Brazil and parts of the Caribbean, which continued to import African slaves, the commercial economy of the entire area was in profound regress. For decades, from roughly the 1810s through the 1850s, there was no serious foreign capital investment in the whole of formerly Spanish America. The walls of a supposedly rising global structure simply did not exist. [\[this is a good historical point\]](#)

Marxists and other theoreticians have attacked the world systems approach on the basis of methodology—how data are collected and analyzed. One of their primary complaints

is that a focus on nation-states is oversimple. World systems theorists use nation-states as their units of analysis, classifying states as core, semiperipheral, or peripheral. This classification is inadequate because it fails to account for the complexity of factors at work in societies. Marxists, in particular, dislike it because it neglects the orthodox analytical tool of class. World systems theorists, largely spawned within the ranks of dependency theorists, were trying to gain acceptance for their ideas at the very moment when much of the academic world was starting to move in the other direction. World systems theory came into vogue among some sociologists but failed to transcend disciplinary lines. [the reality is that different states do very differently under similar conditions, state policies make a big difference].

After Dependency:

History and Theory

For all their skill at debunking other people's theories, historians have been slow to offer alternative constructs for explaining the economic disparities in the modern world. Why is Latin America poor? Exploring that question and concomitant political issues from a historical angle into the present is the primary purpose of this book.

Yet unfortunately, a theoretical framework for our economic and political introduction to the region is lacking. The last decade has seen theoretical debates in Third World studies splinter and disintegrate. Many political scientists now dabble in statistical analysis, fusing their discipline with economics, while parting company with sociologists and historians. Anthropology entered the twenty-first century in a state of flux. Scholars in various fields continue to espouse variations of world systems and dependency theories, while others search for new alternatives.

The past twenty years have brought a revival of modernization thought. Many academics re-embraced some of its tenets, believing that with the advent of new democratic regimes and more transparent free-market economics, Latin America had finally turned the corner. This neomodernizationism was aided by the fact that many earlier proponents had become senior professors with status and influence (there is no penalty, in academe, for promoting dumb theories). The inbred optimism of modernization surged on good news: After a dreadful era of economic and social decay, in the late 1980s and early 1990s, prospects for Latin America did, briefly, appear to be looking up. [the record has been much better in some countries than in others, and those that have done better have been the ones following market-oriented, modernizationist strategies].

Yet the weight of statistical evidence continues to belie optimistic predictions at the outset of the new century. No matter what one thinks of the theoretical paradigms of debate, there is no denying that—for the world's poor—conditions have steadily worsened. [This is not actually true, although it was not so clear in 2000 when this chapter was written as it is now. India and China have both done very well in the last five years, and they account for a very large part of the world's population. Africa has a lot of countries, almost all of which are doing very poorly, but they do not add up to nearly as large a percentage of the world's population. Viewed in terms of people instead of countries, poverty and inequality are decreasing.] Today, nearly a quarter of the globe's burgeoning population of 6 billion lives in extreme poverty: 1.4 billion people struggle to survive on the equivalent of less than US\$1 a day (and contrary to myth, a dollar in the

Third World does not buy much). Half of the world's population suffers at least some degree of malnourishment. And perhaps more significantly, key macroeconomic trends are headed downward: Both in real numbers and in percentiles, malnutrition and related preventable diseases have increased over the past two decades and now account for an average of 40,000 (mostly child) deaths per day. Real wages in the Third World are, almost without exception, in decline[not true in China or India today, or in Brazil...]. The world's literacy rate is numerically stagnant and proportionally shrinking; two-thirds of humanity cannot read at an adult level. Third World life expectancies have, depending on the region, remained steady or modestly declined. Poor nations are proportionately much poorer now than they were just a generation ago. The fifty poorest states—most of which are in Africa—have just over 1 percent of the world's total income but nearly 20 percent of its population. [it is true that Africa is doing badly, but this is not generally true for Latin America, where the different countries' records are quite different]. The richest fifth of the world's populace had thirty times the average income of the poorest fifth in 1960, sixty times by 1990, and seventy-five times more income by 1998. In comparison with the rest of the Third World, Latin America is relatively well-off. With a per capita income six times higher than that of Africa, Latin America has only about one-half the population Africa has (240 million people) who are living in severe indigence, on less than US\$2 a day. Per capita Gross Domestic Product declined From US\$2,850 in 1980 to US\$2,700 in 1992, leveled off through the mid-1990s, and more recently resumed its decline. The entire region's GDP is much smaller than the U.S. government's budget. Cholera, a poverty-related disease once largely eradicated, has reappeared in many countries of the Third World, including several in Latin America.

All of this has occurred in the context of rapid industrialization—the panacea of modernizationists, which was supposed to answer many of the Third World's most persistent economic problems. In fact, Mexico and Brazil are nearly as industrialized now as the United States (combined, they account for 75 percent of the region's manufactures). A large chunk of the First World's auto industry, for example, is now south of the U.S. border. Mexico is one of the world's largest producers of 4-cylinder engines, and its car production has soared from 18,000 vehicles in 1980 to more than 500,000 today. But—as was not supposed to happen—almost all of Latin America's industrial products are exported to the First World. Ninety percent of Mexican-made cars end up in America, since the vast majority of Mexicans cannot afford them.

How can modernization theory remain a viable explanation in the face of so much contradictory evidence? [because the evidence is not consistently bad, and several modernizing countries are doing pretty well, including China and India and Brazil.] One line of defense is the theory's "escape clause" of cultural factors, which persists largely through the writings of Lawrence IL Harrison. Harrison, who worked for twenty years in the U.S. Agency for International Development (USAID, the main organ for distribution of U.S. foreign aid), continues to argue that cultural factors account for poverty, and that if Latin Americans and others can just be taught modern Western values, then their living conditions will rapidly improve. [the main value being stressed is transparency, honest government] Many of Latin America's elite are receptive to this message. For example, Peruvian novelist—turned—political aspirant Mario Vargas Llosa anticipates new growth any day now, as the twin features of democratic stability and market economics kick in and begin to solve all the problems of underdevelopment.

Yet if one refuses to rest the basis of one's case on the unknowable future, modernization no longer provides a viable alternative for understanding the global realities of our world. The Third World is not developing. Things are not getting better. Why aren't they?

In January 1995 an internal memorandum produced by Chase Manhattan Bank, which has close financial ties to the Mexican government, argued that a group of Indian rebels along the Guatemalan border should be "eliminated." When Mexico's army went into the region with U.S.-supplied helicopters and weaponry the following month, a Mexican television actress of native descent stood before 150,000 protesters in Mexico City and chided North Americans. "Tell them," Ofelia Medina said, "that their consumer lifestyles come at the expense of Mexican Indian blood." This is a potentially disturbing message to those of us who live the "good life" in the First World. Could it be true?

Theoretical constructs for explaining Third World poverty are necessarily complex, and readers should not be troubled if some nuances slip past them. This introductory chapter, too, is reductionist and simple—intended only to provide a necessary shell for the remainder of the book. Suffice it to say, there is a long-standing scholarly debate about the nature of Latin America, its poverty, its political structures, and how and why (or whether) things can change. The debate itself, however, is significant. It directly speaks to what professors teach in the classroom. Theory-influenced ideas filter into the media, politics, diplomacy, and even religion. An understanding of the lines of debate, even at a rudimentary level, will help us perceive reality and think clearly about our world.

One of the fundamental problems for scholars, which is certainly evident in this overview, is the gap between disciplines. Sociologists, political scientists, and others have long dabbled in history-based explanations without much help from historians. Similarly, because of the traditional academic divisions, few books have attempted to breach the gap between the past and the present. But if modernization and dependency theories have left many of us intellectually dissatisfied, what—in the context of such a broad sweep—might constitute an alternative reply? How deep are the historical reasons for Latin America's persistent poverty? What is history's relationship to today's world, and what are realistic prognoses for the future? This book addresses these questions.

The following is from the "epilogue" to the book:

That the rich of this world live at the expense of the poor should not surprise us. Yet for some readers, the role of the United States in undercutting democracy, facilitating human rights abuses, and altering economic structures so as to assure its disproportionate share of the world's resources may come as a shock. Americans seem to be inoculated with notions of their own moral goodness... one should not expect the rich, in a world of haves and have-nots, to be imparting benefits and wisdom to the poor... [American foreign aid] is the generosity of a master who feeds his slave... it is true that Bill Gates – whose net worth is more than the entire GDP of Central America – gave \$100 million to immunization programs in 1999. But his wealth, like that of America, is now largely gleaned from the sweat of the poor....