

# Latin America's Economic Development: Contemporary and Historical

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April 30, 2023

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## **The object of study**

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## What's in a name?

- Latium: area between the river Tiber and Mount Circeo, which includes Rome.
- Inhabitants: an Indo-European tribe called Latins.
- Etymology: likely from *Latus* (a plain). Thus, Latins were the people of the plain, and Latin was the language spoken by the people from the plain.
- Latin: highly-inflected language closely related to Sanskrit, Celtic, and Germanic (among others).
- Then, how did we end up calling Latin America “Latin”?





## A 19th century creation

- Name “Latin America” is a recent invention.
- First recorded use: Félix Belly (1816-1886), “Du conflit anglo-américain et de l’équilibre du nouveau-monde,” *Revue contemporaine* 26 (June 15, 1856): 121-155.
- Probably created by Belly (a French) to avoid using words like “Spain” or “Iberian” and help French imperial ambitions in the region (and his economic interests as a promoter of a Nicaraguan trans-isthmian canal).
- Popularized by Francisco Bilbao (1823-1865) in a speech given in Paris on June 22, 1856, to South Americans to protest U.S. recognition of Walker’s regime in Nicaragua.
- Bilbao’s definition excluded Brazil, Mexico, and Paraguay.
- Also, during the first decades, it applied to people of Spanish, Portuguese, Italian, or French descent (“Latin race”), not to indigenous people or descendants of Africans.



## A modern definition...

- 20 republics plus a commonwealth: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, and Venezuela.
- What about French territories (French Guiana, Guadeloupe, Martinique, Saint Barthélemy, and Saint Martin)? Small population  $\approx$  one mil.
- Notice: it excludes territories south of Rio Grande (e.g., English- and Dutch-speaking Caribbean, Belize) and French-speaking North America (e.g., Quebec, Saint-Pierre-et-Miquelon).



- Modern definition (and name!) is not without its discontents:
  1. Some scholars deny the existence of “Latin America” (e.g., Walter Mignolo).
  2. Or claim the label is becoming increasingly obsolete.
- Nonetheless, joint study as a common area is more than justified:
  1. Strong interactions between all the member countries: a sense of collective identity.
  2. Events and institutions are often highly synchronized across the region.





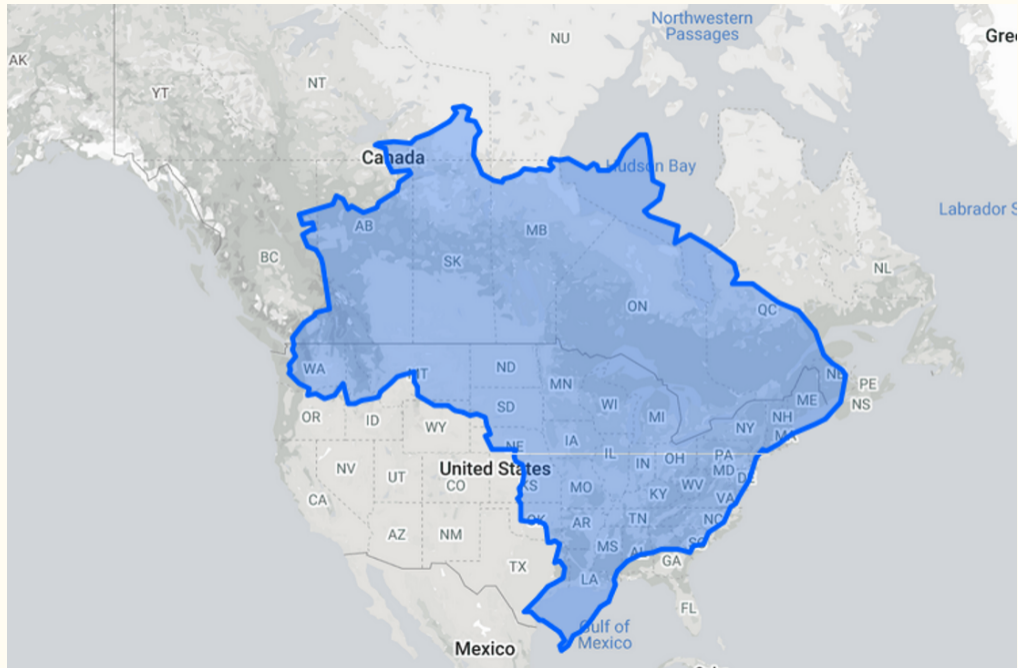
## **The patterns of Latin America's economies**

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# Main geographical patterns, I

- Large region: 20.1 million *km<sup>2</sup>*.
- North-south orientation.
- Distant from the “cores” of Eurasia and North Atlantic.
- Before the railroad and Panama canal, it was hard to travel East-West: landlocked interior.







## Main geographical patterns, II

- American Cordillera: Sierra Madre Occidental, Sierra Madre Oriental, and the Andes: two distinct sides of the continent.
- Three great river systems flow from the Andes to the Atlantic: Amazon, Paraná, and Orinoco (Latin America has 30% of world freshwater).
- Enormous climatic variation.
- Enormous biodiversity: from deserts to rain forests.
- Enormous mineral resources.



## Climate Zones of Latin America



## Vegetation Zones of Latin America





# Main demographic patterns

- Around 648 million inhabitants (2021):
  1. Brazil: 213 million.
  2. Mexico: 126 million.
  3. Colombia: 51 million.
  4. Argentina: 45 million.
- Highly urbanized: 82.7% (Sao Paulo, Mexico, Buenos Aires) and concentrated by the coast.
- Experimenting a swift demographic transition:
  1. Fertility rate: 1.86 in 2021 (5.9 in 1960).
  2. Population will start decreasing around 2040 (Cuba and Uruguay are already losing population).
- Strong migration flows.

## Population Density of Latin America



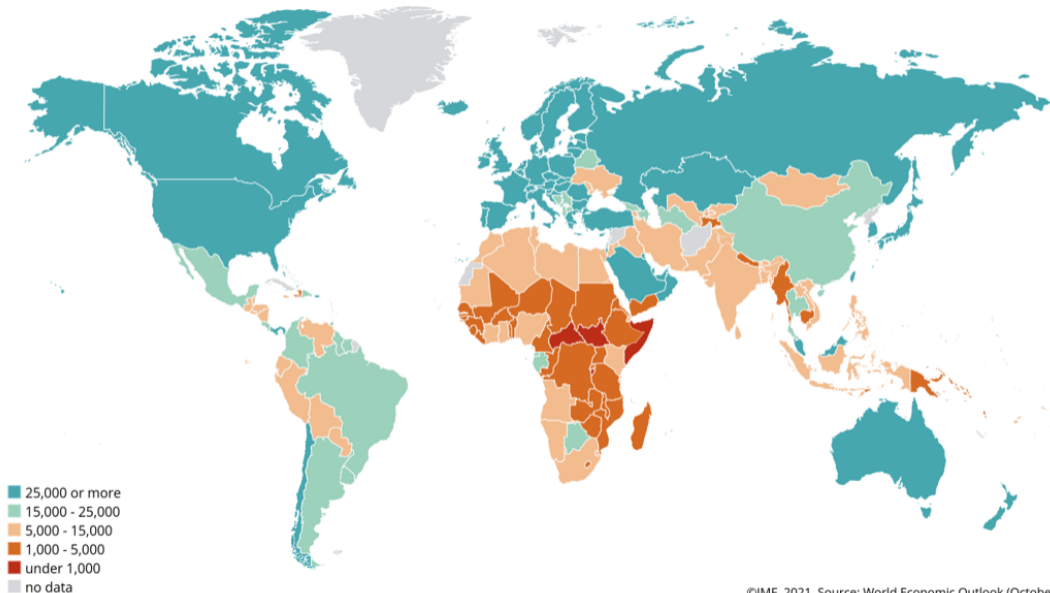
# Main social patterns

- Linguistically quite homogenous:
  1. Spanish: native language of around 62% of population.
  2. Portuguese: native language of around 32% of population.
  3. Indigenous languages: native language of around 4% of population. Guaraní (around 6.5 million native speakers), Southern Quechua (around 6 million native speakers), Náhuatl (around 2.7 million native speakers). Very few monolinguals left (3 million?).
  4. French/Haitian Creole: native language of around 2% of the population.
- Yet, politically, ethnically, and culturally, quite heterogenous:
  1. Between countries: Uruguay vs. Guatemala.
  2. Within countries: Rio Grande do Sul vs. Bahia.

# Main economic patterns

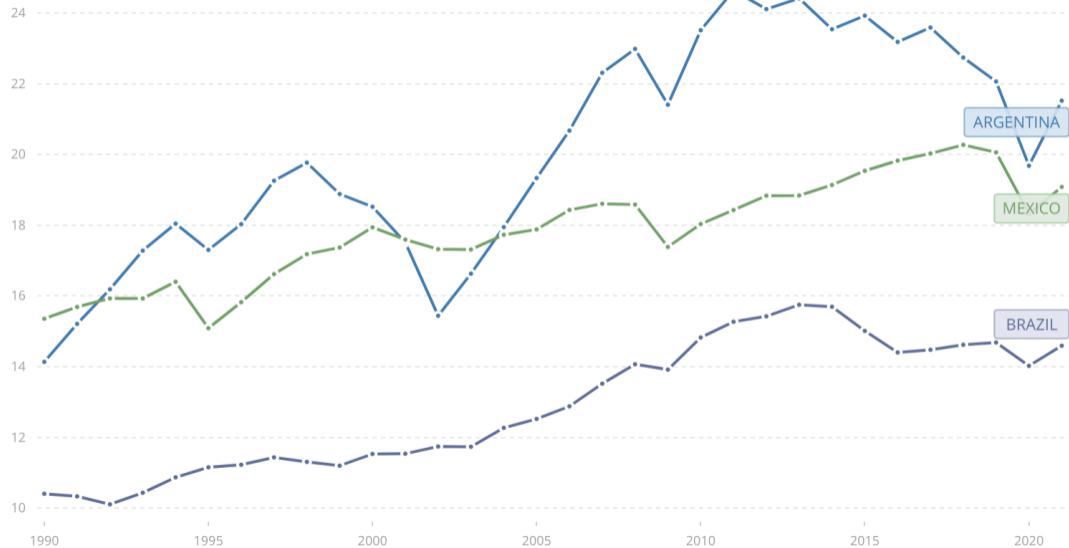
- Latin America has a similar set of endowments as North America or Australia: high land/labor ratio and abundance of natural resources.
- But it has experienced a different a growth path:
  1. Mid-income per capita, with long periods of stagnation (as the current one since c. 2008).
  2. High inequality.
  3. Extreme dependence on commodities (and their price fluctuations).
  4. It missed the great boom of globalization.
- Why?

# IMF DataMapper GDP per capita, current prices (Purchasing power parity; international dollars per capita, 2021)



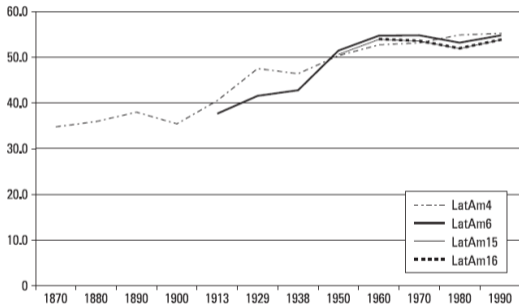
Thousand

✓ LABEL

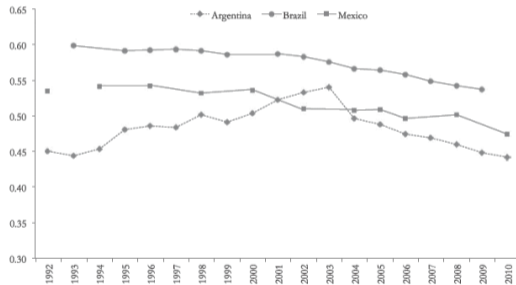




## Secular increase during the XXth C.



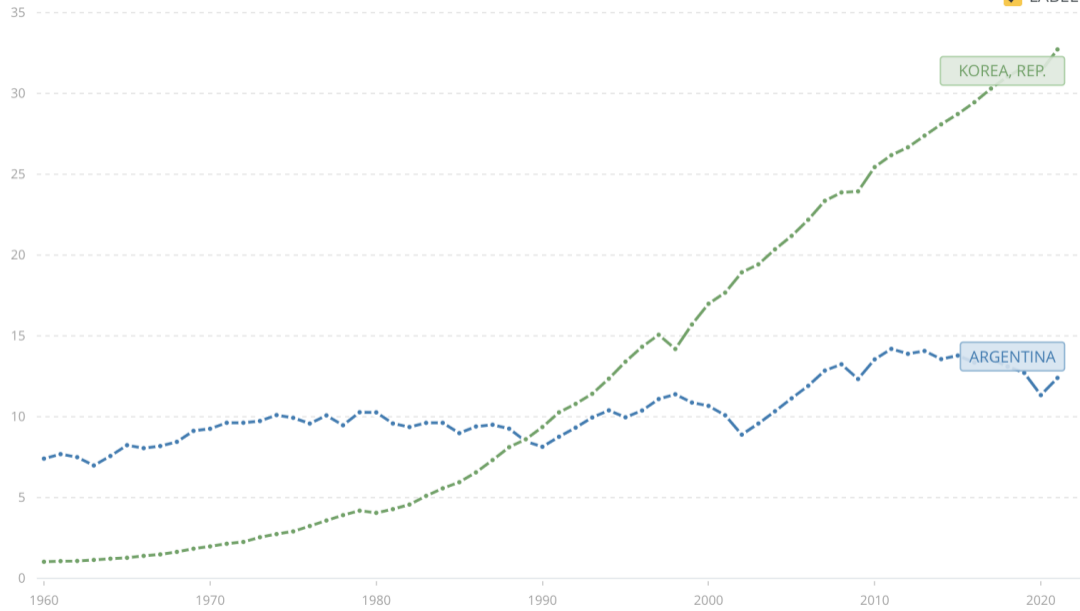
## Decline during the 2000s



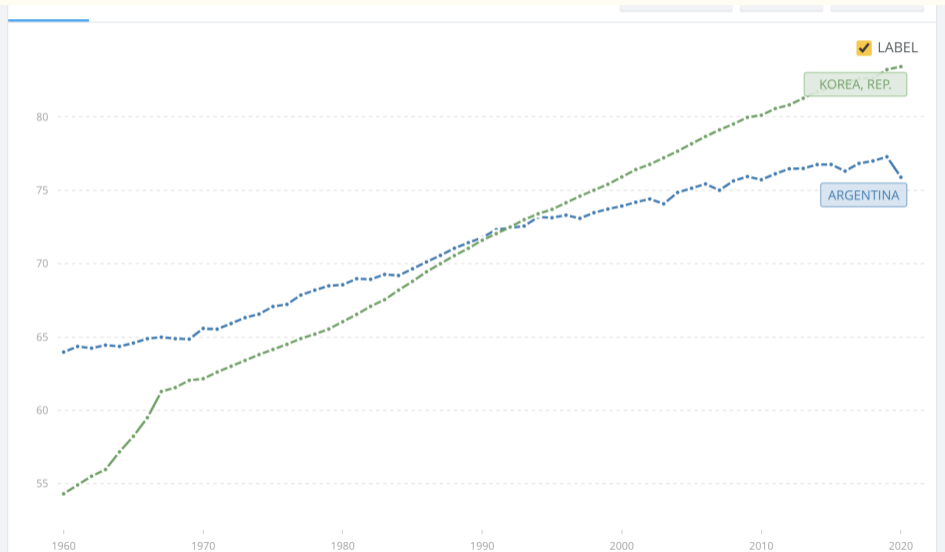


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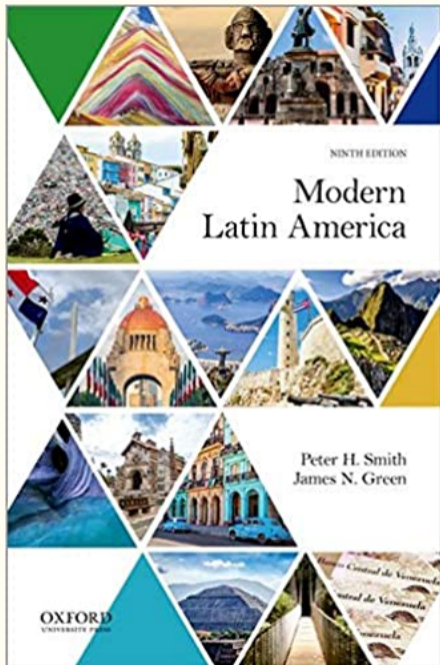


# Life expectancy



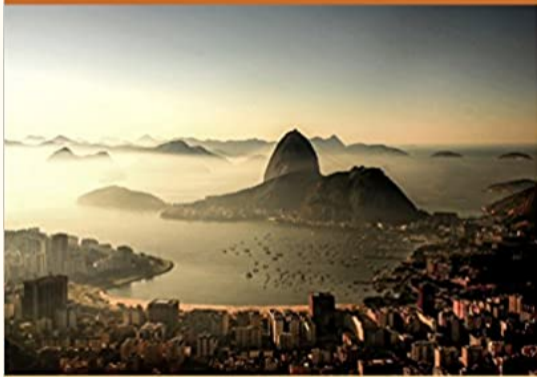
## **The trajectories of Latin America's economies**

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# The ECONOMIC HISTORY of LATIN AMERICA SINCE INDEPENDENCE

VICTOR BULMER-THOMAS

THIRD EDITION



CAMBRIDGE

LUIS BÉRTOLA  
JOSÉ ANTONIO OCAMPO

# EL DESARROLLO ECONÓMICO DE AMÉRICA LATINA DESDE LA INDEPENDENCIA



# The Pre-Columbian era, I

- Different levels of state formation.
- More complex:
  1. The Maya civilization (Mexico and Central America).
  2. Triple Alliance: Mexico-Tenochtitlan, Tetzcoco, and Tlacopan (Mexico).
  3. The Inca Empire (Ecuador-Peru-Bolivia).
- Less complex: Guaraní, Mapuche, ...
- Plenty of intermediate cases: we are learning more and more about the rich complexity of the Americas before the European arrival.







## The Pre-Columbian era, II

- In 1492, around half of Americans live in complex state formations, and around 3/4 have gone through the Neolithic Revolution.
- Fast transformation: the Americas would have looked very different in 1592 without the European arrivals than it did in 1492.
- Associated with these different levels of state formation: diverse economic structures.
- Some economic structures are highly hierarchical and unequal. Some are flatter and more equal.
- No sense of common “identity” beyond one’s particular group.

# The colonial period (1492-1810), I

- European exploration: voyages of Columbus (1492-1504).
- Rapid conquest: Cortés and Pizarro.
- However, the conquest is followed by a period of accommodation with indigenous elites, which helped the Spanish and Portuguese control their vast territories.
- Tremendous demographic transformation: a catastrophic drop of the indigenous population (75%?), the arrival of enslaved Africans, and, in much smaller quantity, Europeans (around 1,500 Spanish and Portuguese per year).
- Kaleidoscopic mixing of populations and cultural fusion.
- Urban-centered colonization. Universities in Santo Domingo (1538), Mexico City (1551), Lima (1551), ...

## The colonial period (1492-1810), II

- The Spanish empire in America: 4 Viceroyalties plus several captaincies.
  - New Spain (Mexico).
  - Peru.
  - New Granada (Colombia).
  - Rio de la Plata (Argentina).
- The Portuguese Empire: Brazil.
- Silver, gold, and sugar production.
- Creation of an integrated world economy.



**GEOGRAPHY SKILLBUILDER: Interpreting Maps**

1. **Region** What two European countries held the largest colonial empires in Latin America in 1800?
2. **Region** Comparing the two maps, which independent countries had emerged by 1830 from Spanish territory in the Americas?

## The colonial period (1492-1810), III

- Complex political structures related to the import of the “municipios” and local adaptation.
- Iberian monarchies always searching (and often failing) for ways to assert their power: local elites design nuanced strategies to reassert their powers and autonomy from Madrid and Lisbon.
- Tensions between *peninsulares* and *criollos* aggravated by the Bourbon reforms (after the shock of the capture of Havana by the British in 1762 during the Seven Years' War).
  - *Corregidores* substituted by *intendentes*.
- Tensions within ethnic groups: the Túpac Amaru rebellion (1780-1783).

# An independent Latin America 1810-1914, I

- Population around 25 m.: 15 m. indigenous, 3 m. European descent, 2 m. enslaved of African descent, and 5 m. mixed heritage.
- Unusually high level of urbanization.
- U.S. Revolution (1765) and Haitian Revolution (1791).
- Independence wars (1808-1826): triggered by the Napoleonic invasion of Spain and Portugal.
- Largest exceptions: Cuba and Puerto Rico, Spanish possessions until 1898.
- Extreme variety of circumstances (e.g., Hidalgo in Mexico vs. San Martín in Argentina).
- Portuguese America unity vs. Spanish America fragmentation.
- Brazilian experiment with monarchy.

## An independent Latin America 1810-1914, I

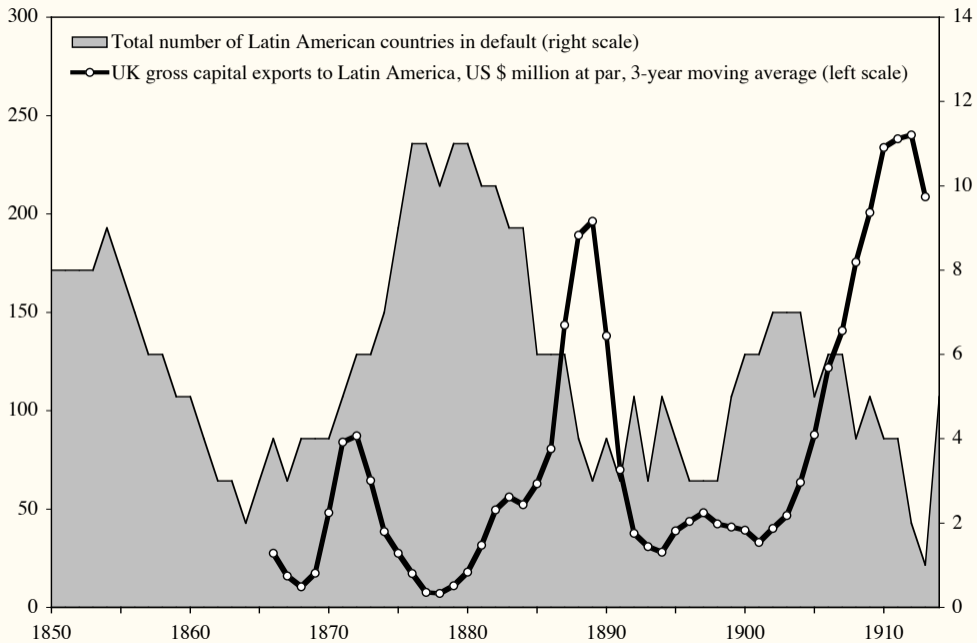
- Early 19th century: civil wars and state building.
- Deep constitutional differences: Centralism/federalism, Church-State relations.
- Break from traditional trade linkages and market fragmentation.
- End of fiscal and monetary unions.
- Widespread sovereign defaults.
- Unfavorable economic conditions lead to political uncertainty.

TABLE 2

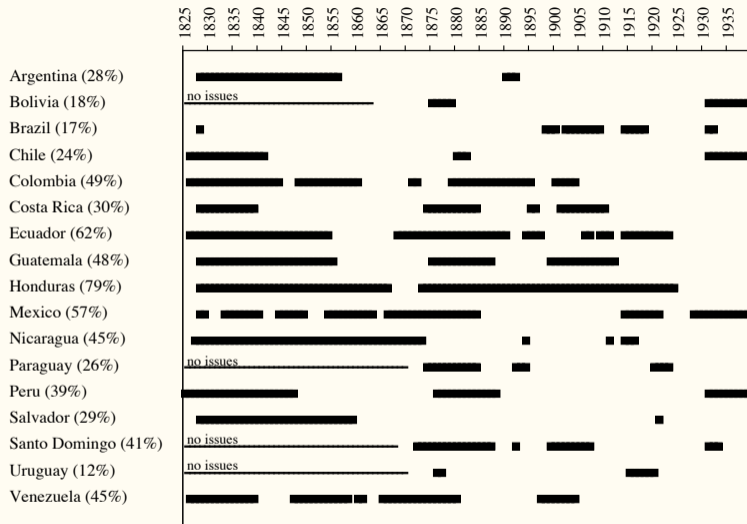
## COMBINED MILITARY AND FINANCIAL EXPENDITURES AS PERCENTAGE OF BUDGET

	Argentina	Brazil	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
1820 .....						81			
1821 .....									
1822 .....		92			96	80			
1823 .....		93				85			
1824 .....		85			81				
1825 .....					95	84			
1826 .....		98			66		84		
1827 .....					91				
1828 .....			90		92				
1829 .....		90	88		94	89			
1830 .....		85	85	74	93				
1831 .....		100	82		92	86	70		83
1832 .....		74	62	57	91	87			79
1833 .....		78	88	57	81	85			84
1834 .....		78	86	58	70	76			80
1835 .....			86	60	90	85			83
1836 .....			85	56	80				41
1837 .....			86	51	93	92			65
1838 .....			87	48		94			73
1839 .....			88	47	58	86	89		68
1840 .....		98	84	41		88	89		53
1841 .....		96	86	34		85			64
1842 .....		100	83	83		95			72
1843 .....		100	82	83		94			57
1844 .....		98	81	73		93	43		73
1845 .....		98	79	72		98			69
1846 .....		93	78	70	77	93	81	51	63
1847 .....		94	78	72			58		66
1848 .....		95	79	71		89	66		84
1849 .....		93	77	71		90	74		72
1850 .....		95	78	70		40	75		76
1851 .....			81	77		55	76		83
1852 .....			77	73	74	86	82		83
1853 .....			76	66	60	85	56	83	82
1854 .....			74	60	62	73		85	35
1855 .....			72	53	61	84		86	32
1856 .....			74	55	62		27	87	
1857 .....			74	57	60			88	
1858 .....			70	44			40	84	83
1859 .....			70	68				79	
1860 .....			68	67		57	32	77	74
1861 .....			71	66	80	75		74	
1862 .....			72	64	62			80	
1863 .....			72	67	69			73	
1864 .....		80	73	70	62			72	
1865 .....		88	84	71	57			71	94





## Default, 1825–1940



Notes: Fraction of years in default shown in parentheses. Poyais is omitted.

Source: Taylor (2003). Default data from Tomz (2001), issue dates from Marichal (1989).

**Table 1. Default History of Latin American Government Bonds Issued in the 1820s**

Country	Principal owed	Resolution, if any
Brazil	£21,129,000	Arrears on interest paid and service resumed in 1829.
Mexico	6,400,000	Refinancing in 1831 to cover principal and arrears on interest. Quickly defaulted on. New refinancing in 1837. More defaults and refunding. Resolved 1864.
Costa Rica	13,608	Inherited share of Central American confederation debt. Principal paid off in 1840, but not arrears on interest.
Chile	1,000,000	Arrears on interest paid and service resumed in 1842.
Peru	1,816,000	Arrears on interest paid and service resumed in 1849. Default in 1876.
Colombia (New Granada)	3,375,000	Inherited 50% share of Gran Colombia debt. Principal and arrears paid off by new loan in 1845. Default in 1850. Principal and arrears paid off by new loan in 1861.
Venezuela	1,923,750	Inherited 28.5% share of Gran Colombia debt. Principal and arrears paid off by new loan in 1841. Default in 1847. New arrangements and further defaults then follow.
Ecuador	1,451,259	Inherited 21.5% share of Gran Colombia debt. Principal paid off by new loan in 1855. Arrears cancelled in exchange for land warrants and Peruvian bonds. Default in 1868.
Guatemala	68,741	Inherited share of Central American confederation debt. Principal and arrears paid off by new loan in 1856.
Buenos Aires	1,000,000	Resumed service in 1857.
El Salvador	27,217	Inherited share of Central American confederation debt. Paid off 90% of debt in 1860, but balance not until 1877.
Honduras	27,217	Inherited share of Central American confederation debt. Principal and arrears paid off by new loan in 1867.
Nicaragua	27,717	Inherited share of Central American confederation debt. Paid off 85% of debt face value in 1874.

Source: Rippey (1959, 26–28). Note: Poyais is omitted.

## An independent Latin America 1810-1914, II

- Late 19th century: the economic take-off (export-led growth).
- Large exporter of oil, sugar, coffee, wheat, wool, bananas, copper, beef, rubber, nitrates, tin, and silver.
  - Good terms of trade.
- Large destination of FDI (mainly, but not only, UK and US). Much linked to railroads and mines.
- Scattered abolition of slavery (Cuba in 1886 and Brazil 1889).
- Often overlooked tradition of democracy and constitutionalism.
  - *Caudillos* disappear.
  - Even authoritarian regimes “pretend” to be democratic.

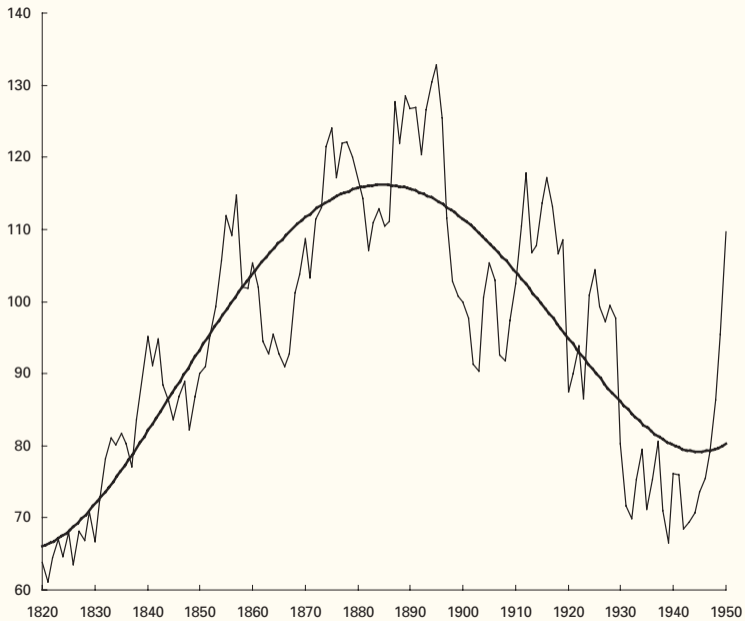


Fig. 6. *Latin America's Terms of Trade 1820-1950.*

**Table 2. British Investments in Latin America at the End of 1880**

Country	Total	Private enterprise	Government bonds	Government bonds in default (year)
Argentina	£20,338,709	9,105,009	11,233,700	—
Bolivia	1,654,000	—	1,654,000	1,654,000 (1875)
Brazil	38,869,067	15,808,905	23,060,102	—
Chile	8,466,521	701,417	7,765,104	—
Costa Rica	3,304,000	—	3,304,000	3,304,000 (1874)
Cuba	1,231,600	1,231,600	n.a.	n.a.
Dominican Republic	714,300	—	714,300	714,300 (1872)
Ecuador	1,959,380	135,380	1,724,000	1,824,000 (1868)
Guatemala	544,200	—	544,200	544,200 (1876)
Honduras	3,222,000	—	3,222,000	3,222,000 (1872)
Mexico	32,740,916	9,200,116	23,540,800	23,540,800 (1866)
Nicaragua	206,570	23,540,800	—	—
Paraguay	1,505,400	—	1,505,400	1,505,400 (1874)
Peru	36,177,070	3,488,750	32,688,320	32,688,320 (1876)
Uruguay	7,644,105	4,124,885	3,519,220	—
Venezuela	7,564,390	1,161,590	6,402,800	—
General	10,274,660	10,274,660	n.a.	n.a.
<b>Total</b>	<b>£179,490,261</b>	<b>56,412,255</b>	<b>123,078,006</b>	<b>71,097,020</b>

Source: Rippy (1959, 25, 32).

- Building of national states between 1914 and 1970.
- The interwar period: the shock of the Great Depression.
  1. De-globalization.
- Import substitution industrialization and inward development.
- Although recall: Latin America was *already* the most protectionist region in the world by the late 19th century.
  - Interesting observation: countries with the highest tariff within the region underperformed the regional average.

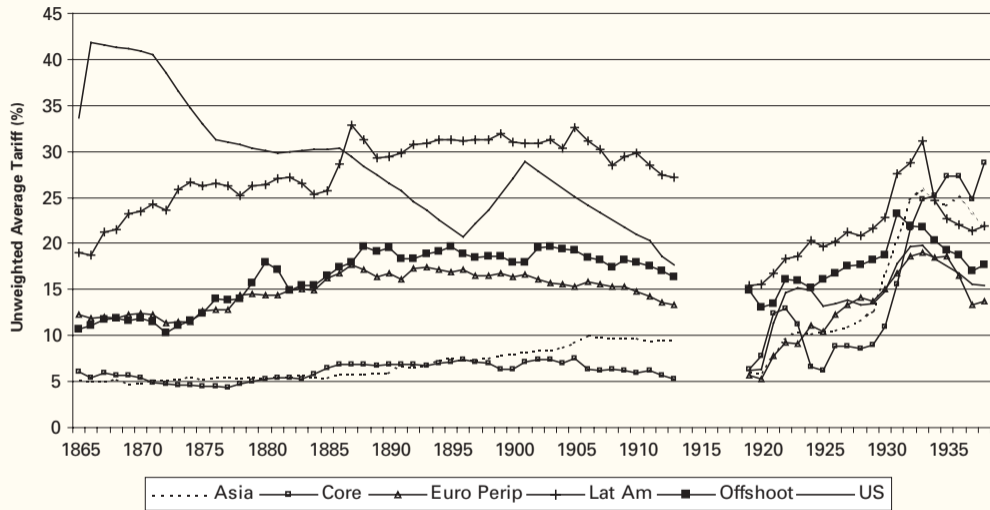


Fig. 2. *Unweighted Average of Regional Tariffs Before World War II.*



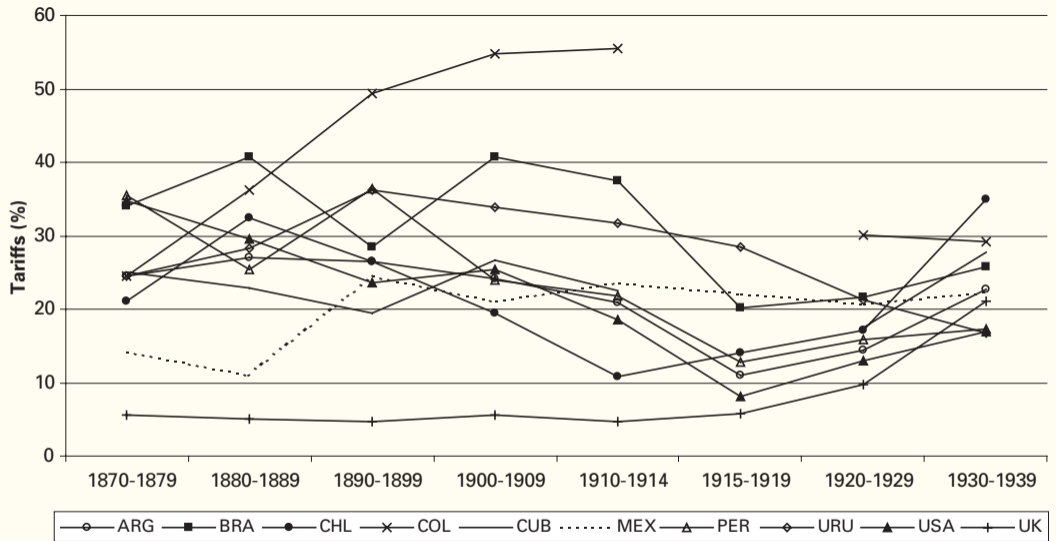


Fig. 4. *Own Tariffs in Latin America Before World War II.*

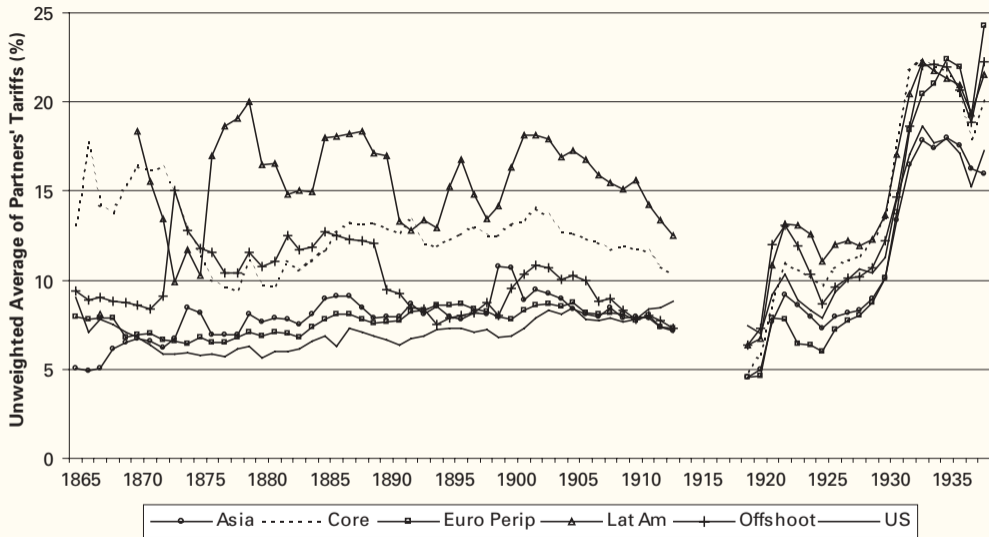


Fig. 5. *Unweighted Regional Average of Principal Trading Partners' Tariffs.*

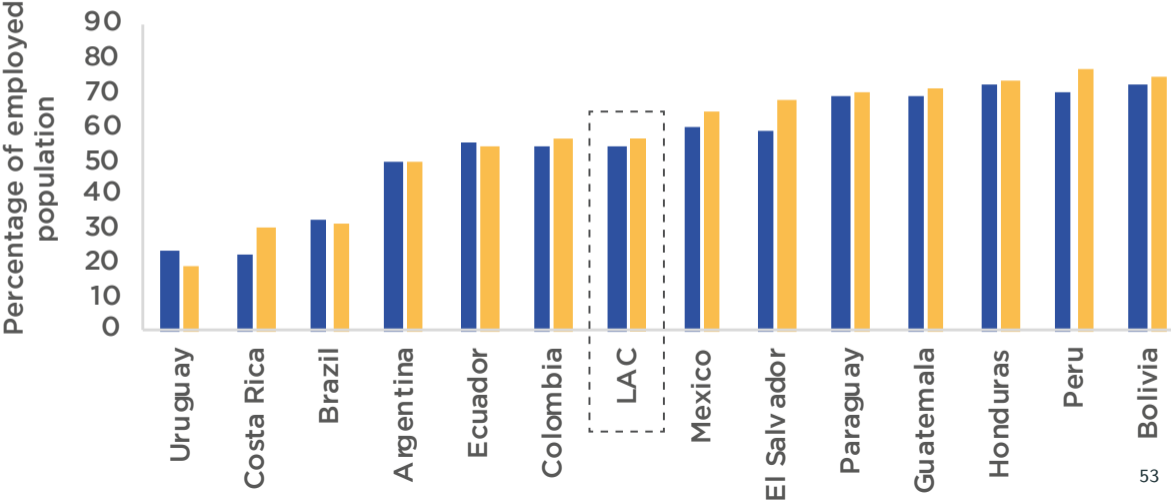
## Modern Latin America 1914-2023, II

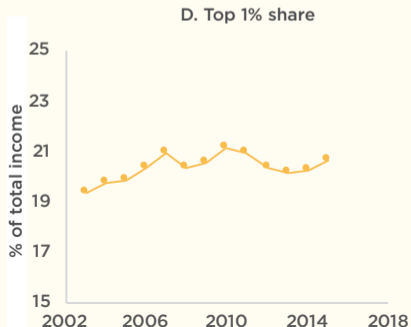
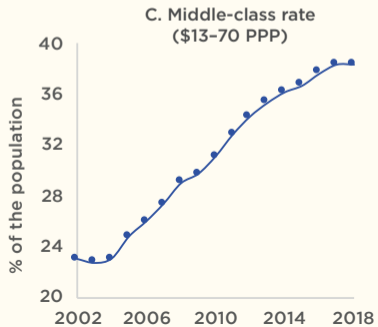
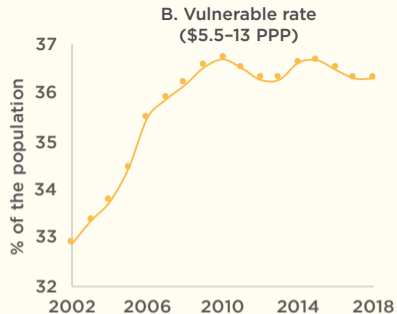
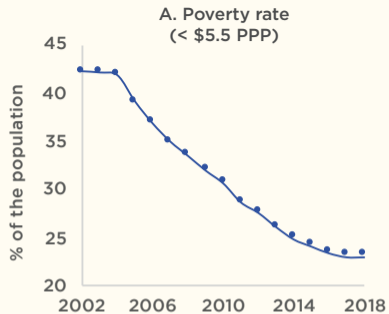
- Cold war: populism, revolution, and military authoritarianism.
  - *La violencia* in Colombia, *Casto* in Cuba, *Junta* in Argentina.
- Return to democracy in the 1980s:
  1. In 1978, only three countries were democracies (Costa Rica, Colombia, and Venezuela). Mexico was an intermediate case.
  2. By 1994, only Cuba is not a democracy.
  3. No military officer on active duty has served as president in Latin America since 1990.
- Debt crisis in 1980s and partial economic liberalization in the 1990s.
- The commodities boom.

## Troubles ahead, I

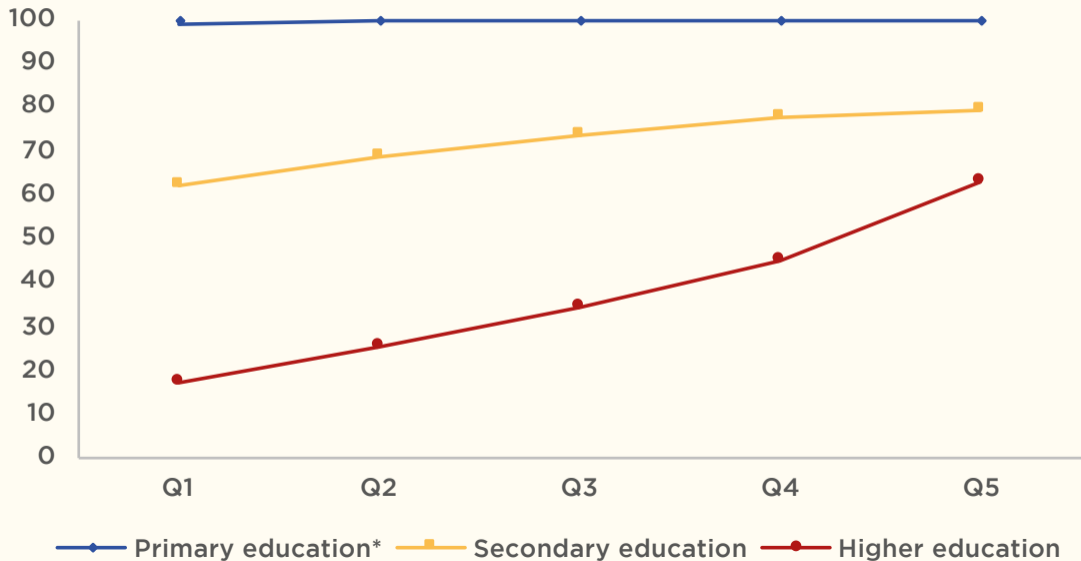
1. Low productivity (e.g., few multinationals, very little technological innovation).
2. Informality.
3. Persistent high inequality (income, wealth, and education) and low social mobility (although poverty rate is improving).
4. Large regional and ethnic disparities.

**FIGURE 5.1** Informal Workers as a Percentage of the Employed Population, by Gender



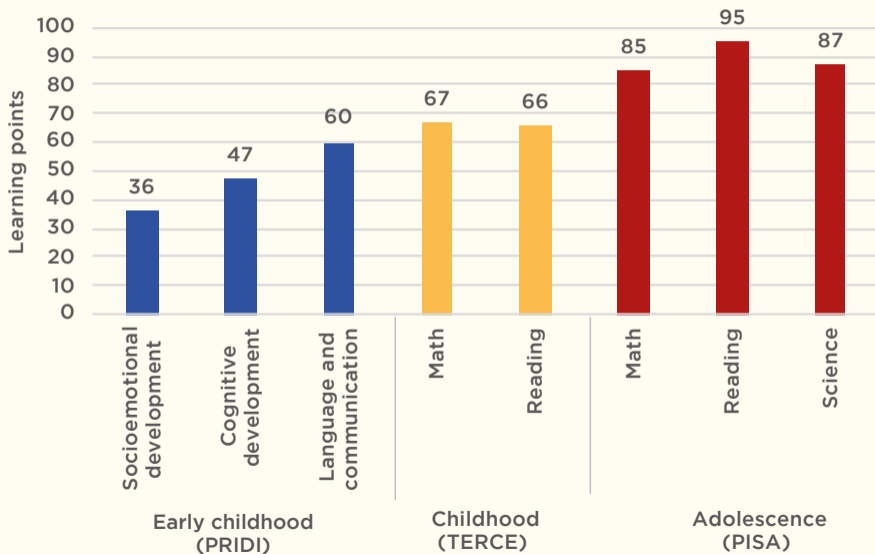


**FIGURE 7.1** Enrollment Rates by Socioeconomic Status



## FIGURE 7.2 Learning Gaps by Socioeconomic Status

Difference in “learning points” of top and bottom quintiles over the life cycle





**FIGURE 4.1** Subnational Disparities in Income and Wages in Latin America, circa 2018

Panel A. Household income per capita (constant US\$ 2011 PPP)

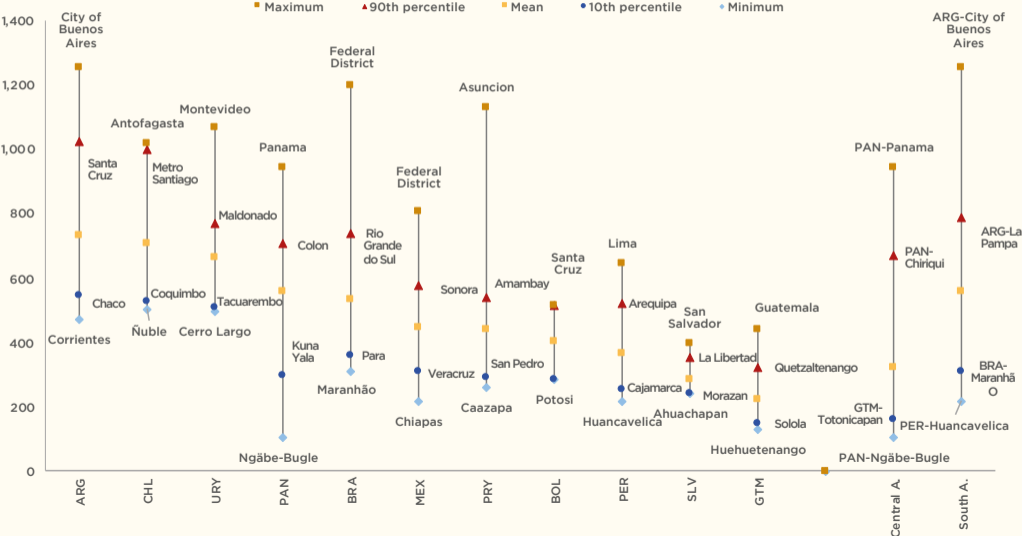
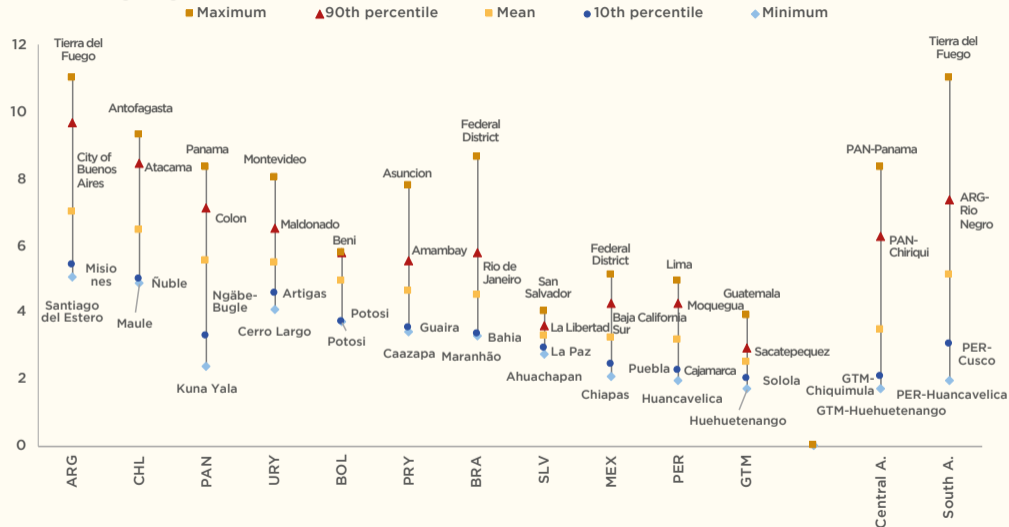
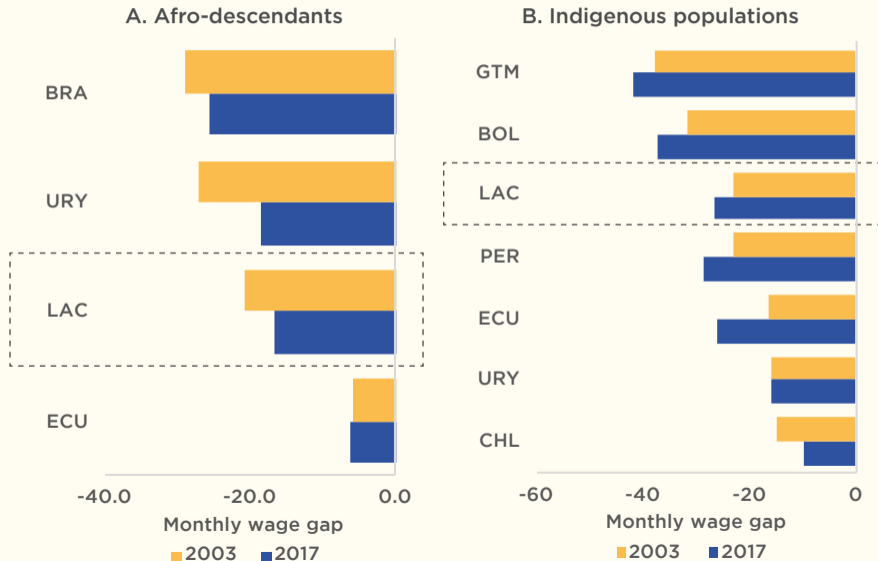


FIGURE 4.1 Subnational Disparities in Income and Wages in Latin America, circa 2018 (continued)

Panel B. Average wages (constant US\$ 2011 PPP)

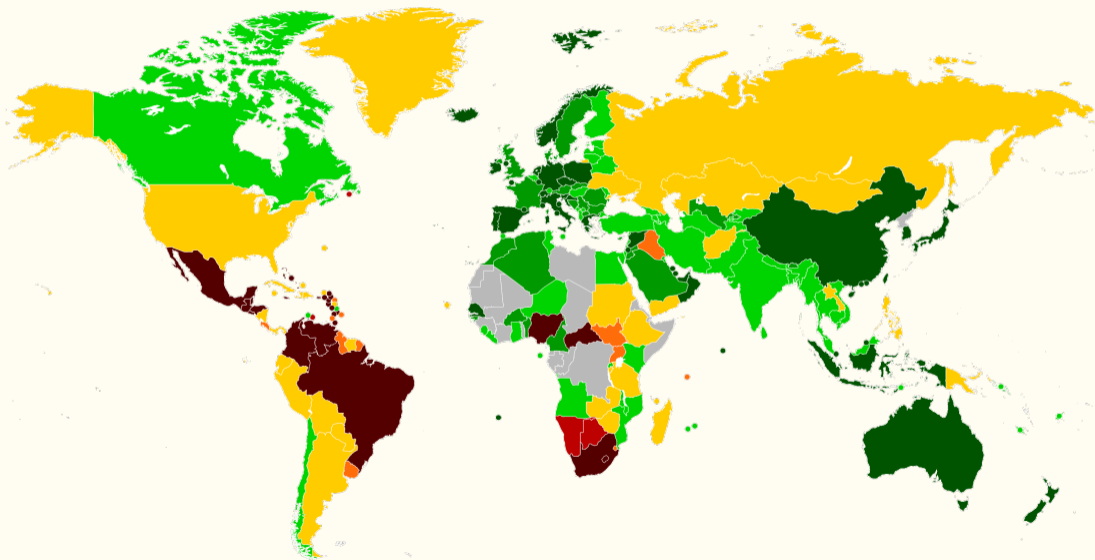


**Figure 5.5** Monthly Wage Gaps among Afro-Descendants and Indigenous Populations



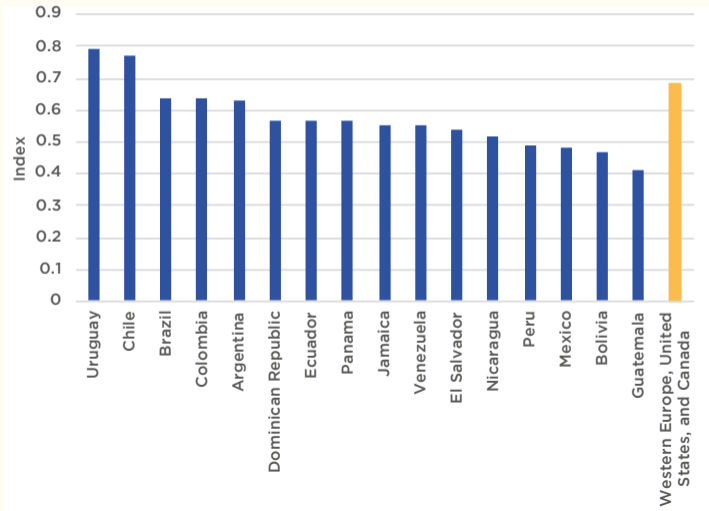
5. Aging population.
6. Challenge of energy transition (both as users and exporters of energy).
7. High crime and slow and unreliable judicial system.
8. More in general, low state capability.
9. Growing (?) erosion of democratic institutions.

## Countries by intentional homicide rate (2006-2018)

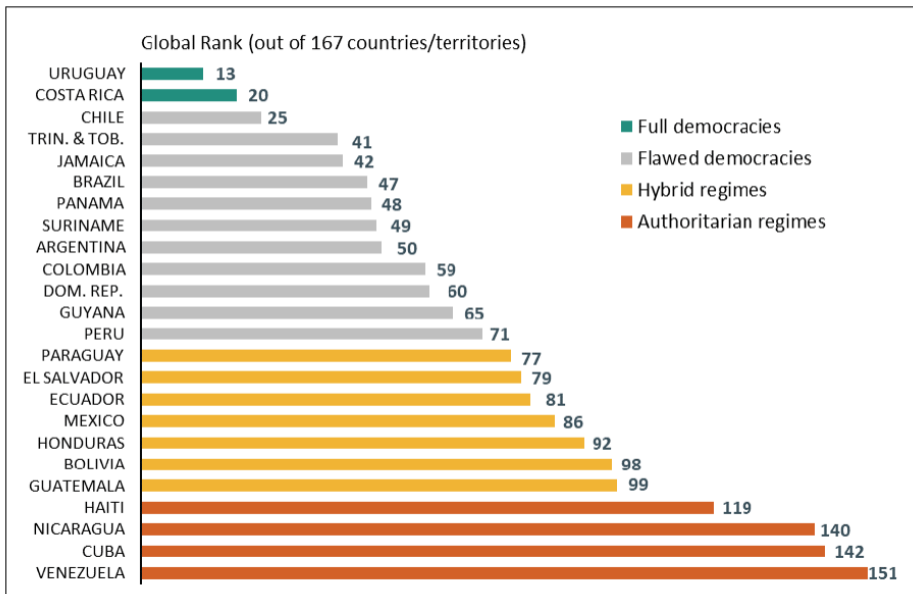


**FIGURE 9.5** Access to Civil Justice

Index of accessibility and affordability of civil courts in countries of the region compared with average for selection of European countries, Canada, and United States



**Figure 2. EIU Democracy Index 2021 Global Ranking for Latin American and Caribbean Countries**

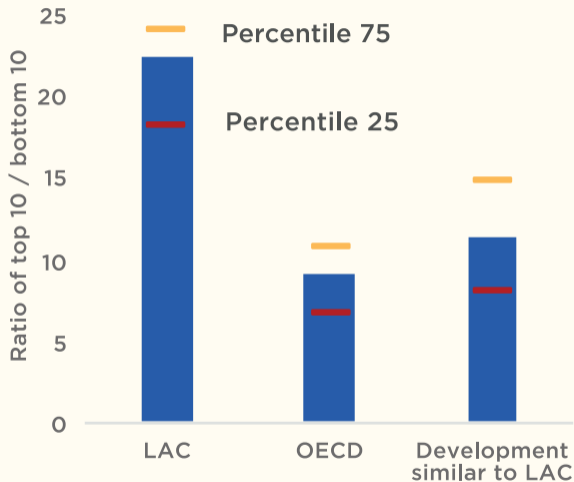


## Poverty and inequality

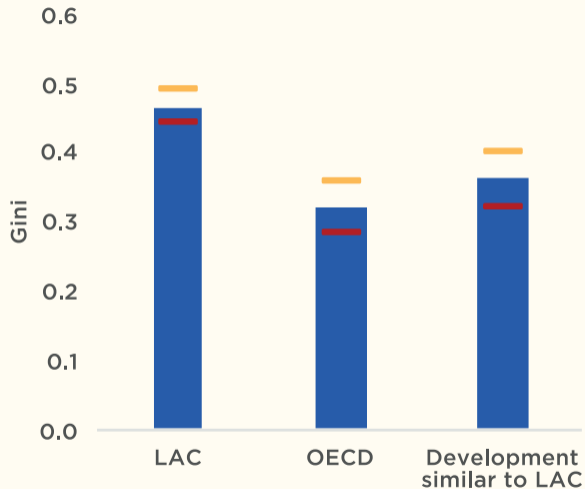
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Average ratio of income accrued by top 10% / bottom 10% of population

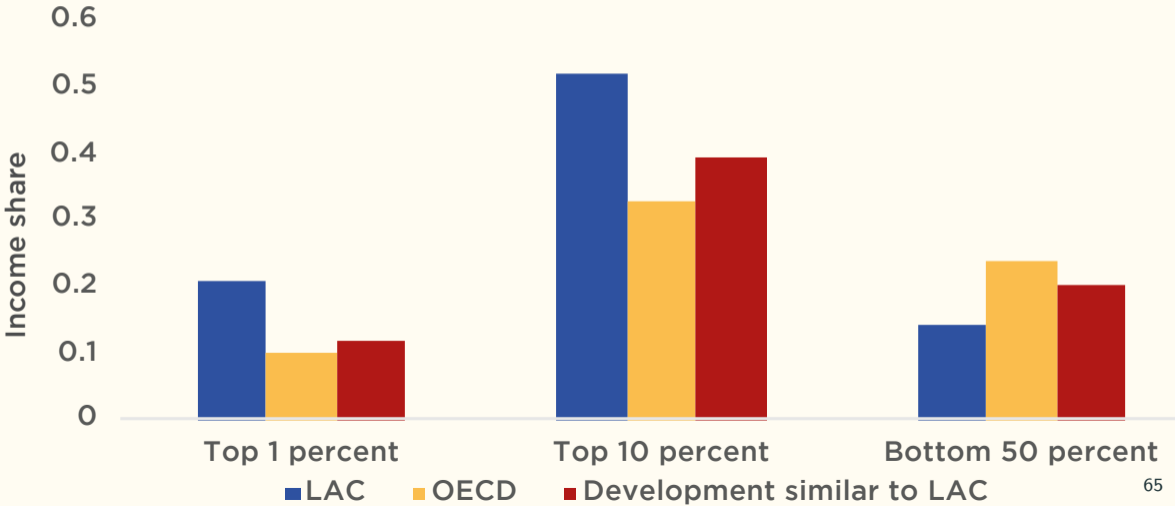


Average Gini coefficient

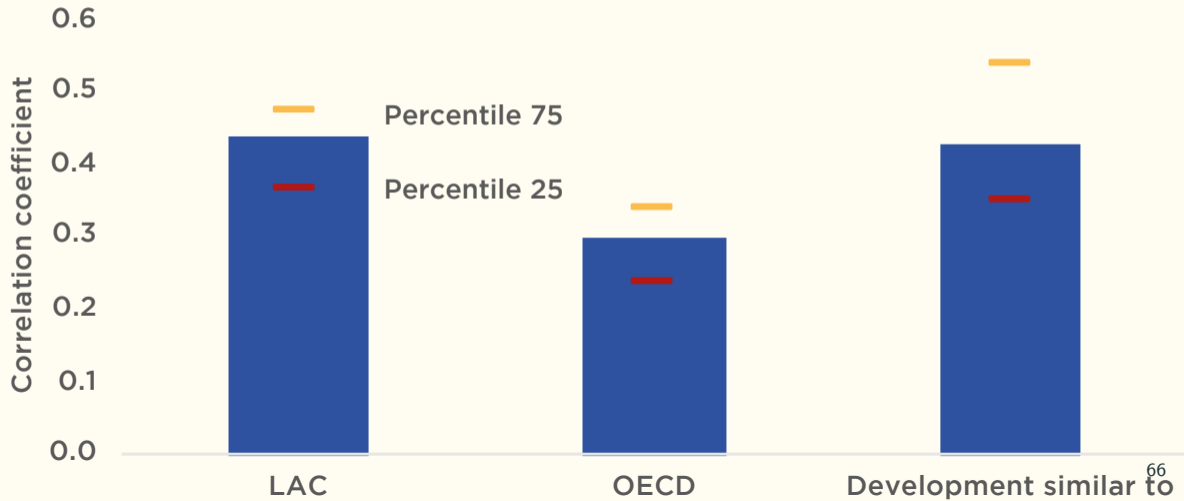


# FIGURE 2.2 Pre-Tax Income Shares

Average across countries

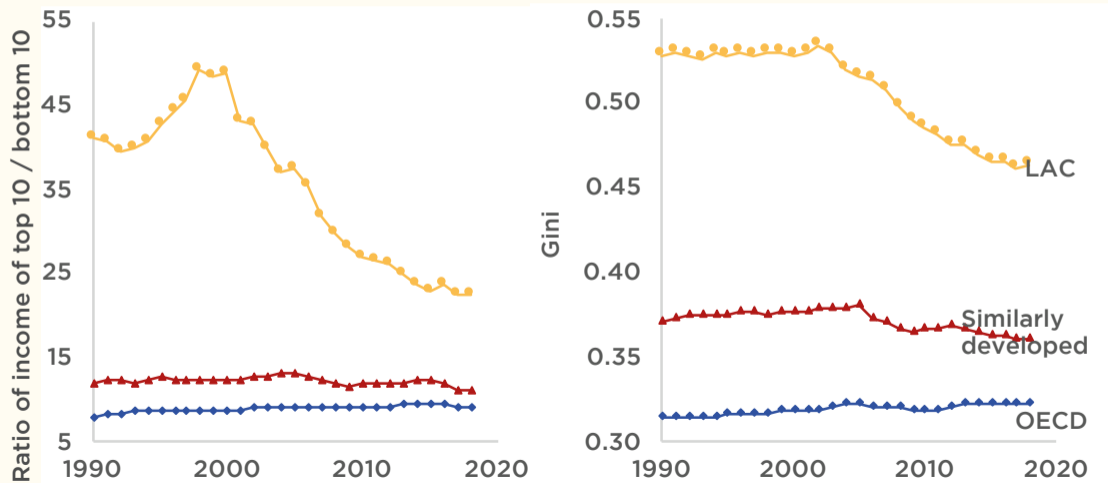


**FIGURE 2.3** Average Relative Intergenerational Educational Persistence  
Correlation coefficient of children's and parents' years of schooling

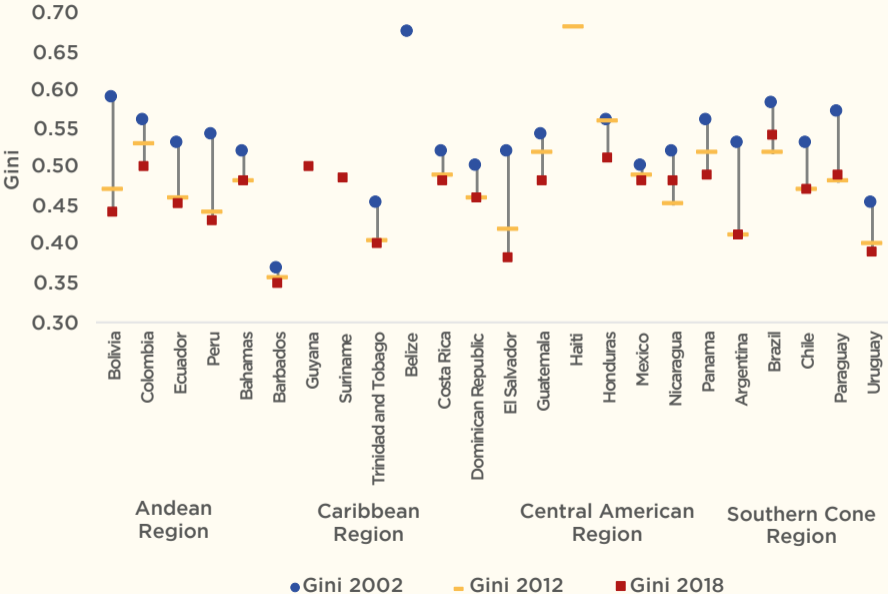


**FIGURE 2.4** The Evolution of Inequality in Latin America and the Caribbean, 1990–2018

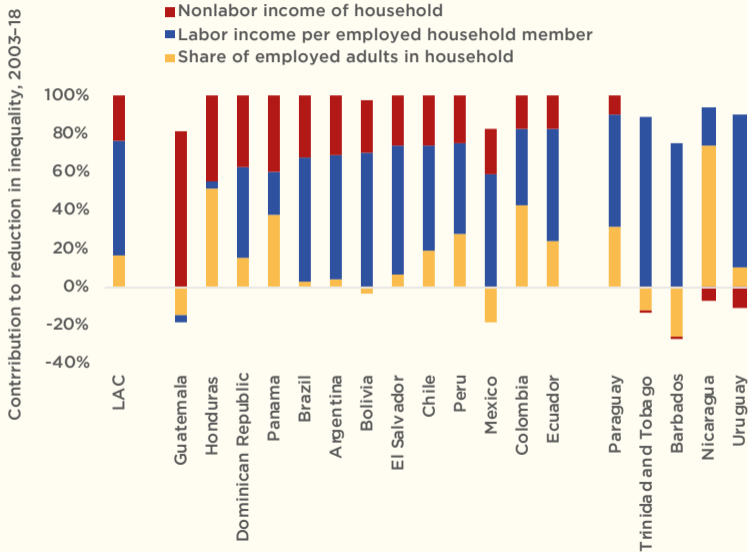
Average across countries



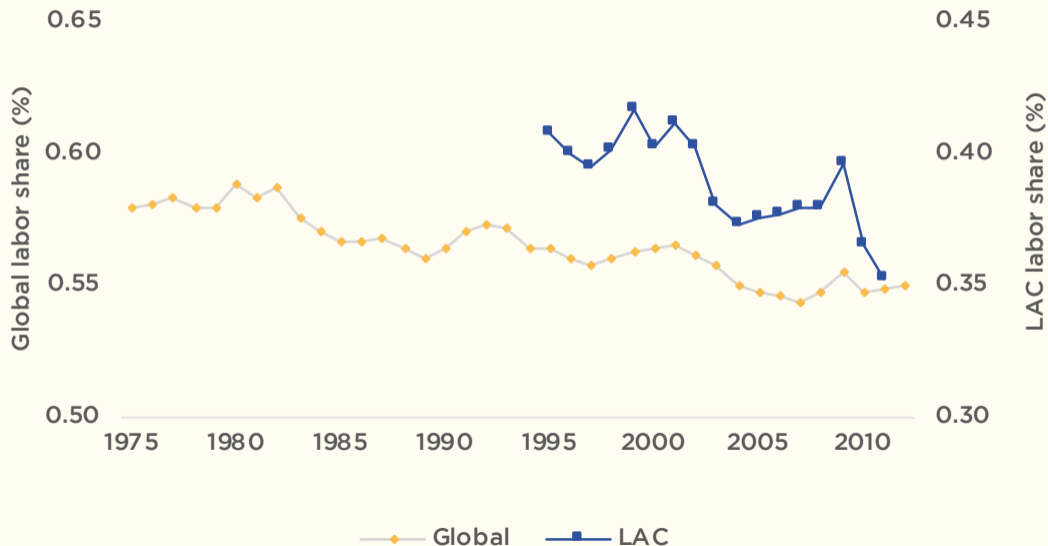
**FIGURE 2.5** Evolution of the Gini by country, 2002-18



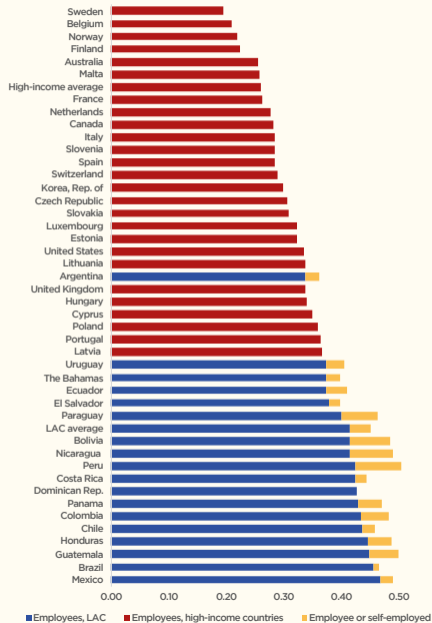
**FIGURE 2.6** Decomposition of Changes in Income Inequality in Latin America, 2003-18



**FIGURE 2.8** Average Labor Share in the Region and in the World, 1975–2010

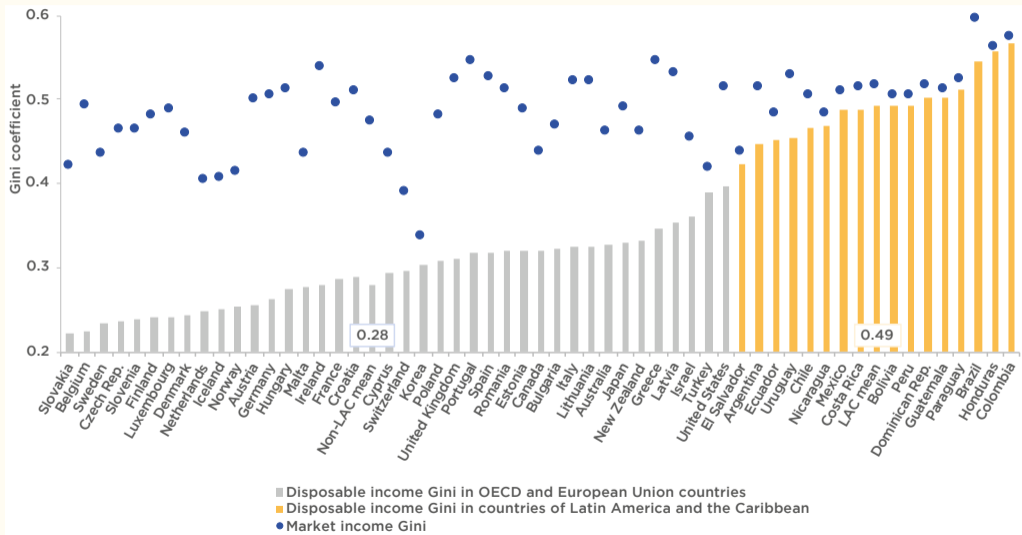


**FIGURE 8.9** Wage Inequality in Latin America and OECD Countries: Gini Coefficients, circa 2017





**FIGURE 12.2** Differences in Income Inequality Pre- and Post-Taxes and Government Cash Transfers in Latin America and the Caribbean, OECD, and European Union, circa 2012



Note: Redistribution is defined as the difference between market income and disposable income inequality, expressed as a percentage of market income inequality.

Source: IDB, 2019

**FIGURE 12.6** Differences in Income Inequality, Pre- and Post-Pensions, and Government Cash and In-Kind Transfers in Health and Education

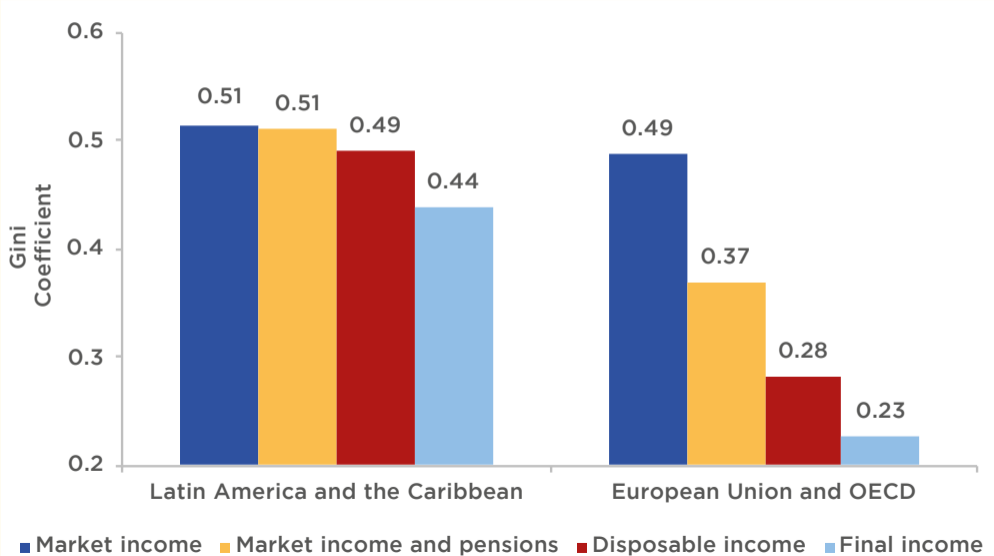
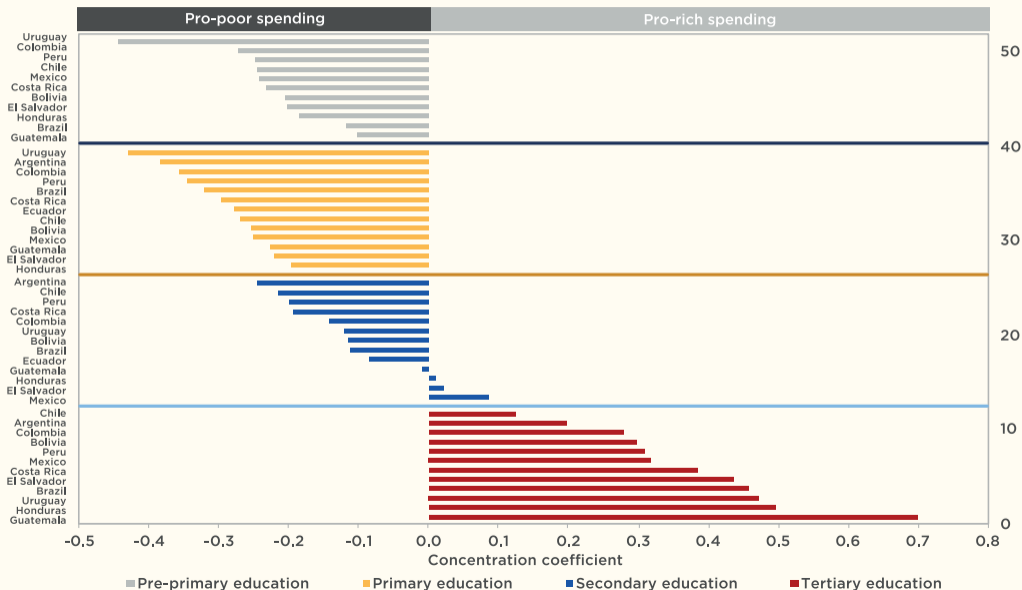


FIGURE 12.7 Pro-Poor and Pro-Rich Spending on Education by Level, Ordered by Market Income, circa 2012



**When did Latin America fall  
behind?**

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# When did Latin America fall behind?

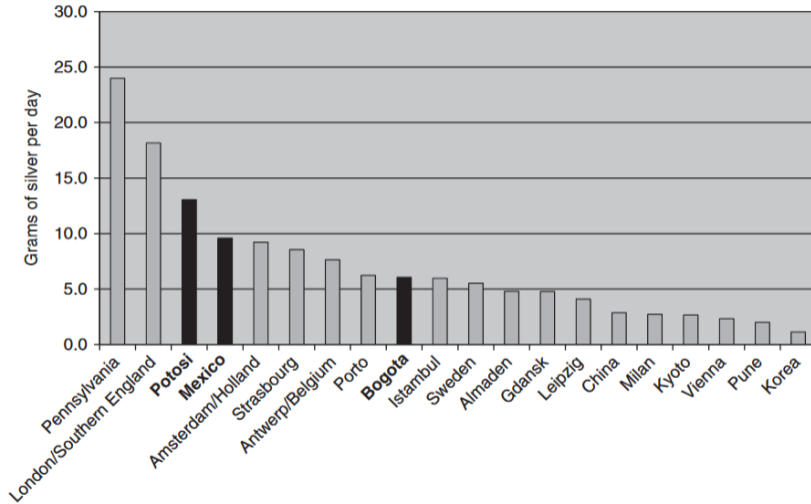
- The colonial period: Engerman and Sokoloff (2002), Allen, Murphy, and Schneider (2012).
- The post-independence period (early 19th century): North, Summerhill, and Weingast (1999), Abad and Van Zanden (2016).
- The interwar period (especially the Southern cone countries): Taylor (1998).
- The 1980s and 2020s: the “lost decades.”

## Real GDP per capita (2011 \$)

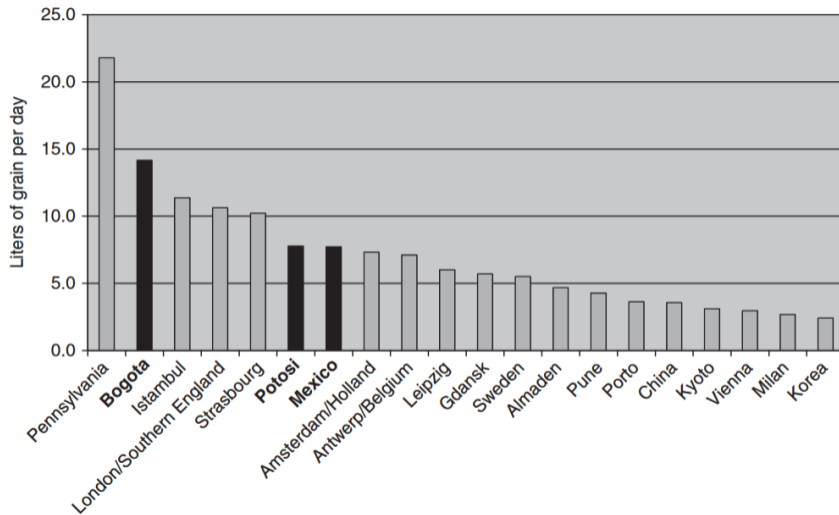
<b>Year</b>	<b>Argentina</b>	<b>Chile</b>	<b>Colombia</b>	<b>Mexico</b>	<b>Peru</b>	<b>USA</b>	<b>UK</b>
<b>1650</b>				1,172	1,062	897	1,446
<b>1720</b>				1,522	1,100	1,769	2,715
<b>1800</b>	1,484	853	942	1,305	1,058	2,545	3,343

Source: Maddison dataset

**FIGURE 1**  
NOMINAL WAGES OF LABOURERS, 1800-1820

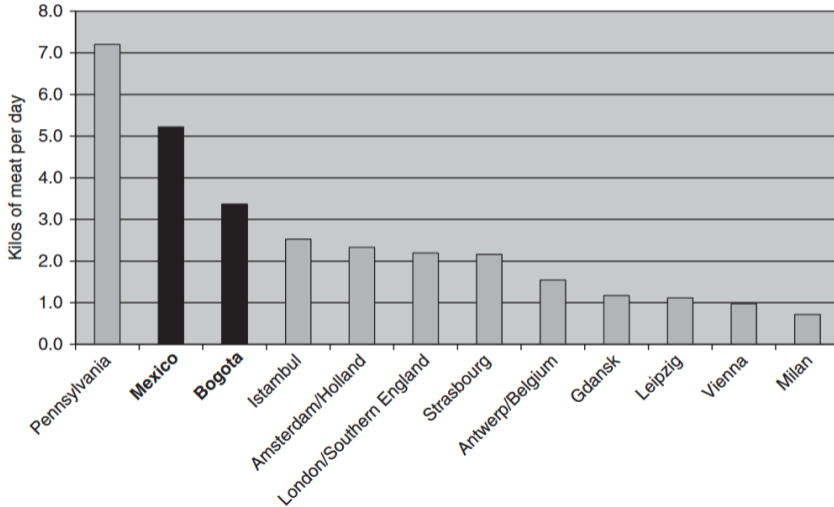


**FIGURE 2**  
GRAIN WAGES OF LABOURERS, 1800-1820





**FIGURE 3**  
**MEAT WAGES OF LABOURERS, 1800-1820**



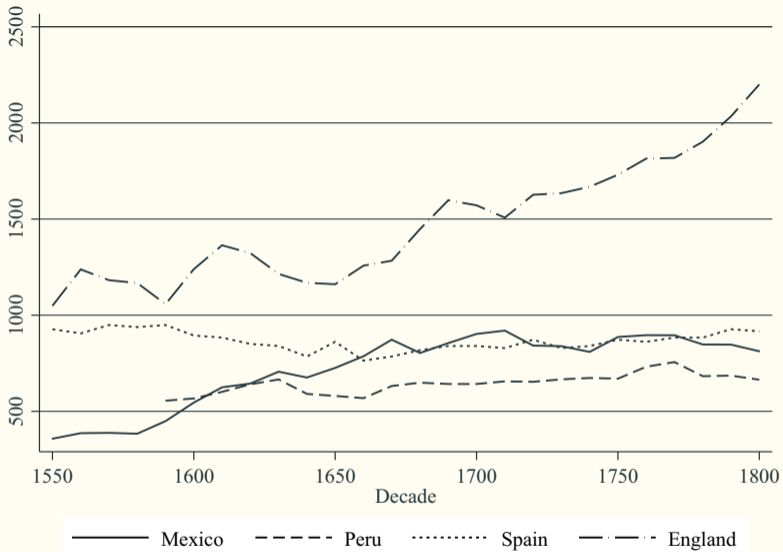


FIGURE 5  
 GDP PER CAPITA, MEXICO, PERU, SPAIN, AND ENGLAND,  
 IN 1990 GEARY-KHAMIS DOLLARS, 10-YEAR AVERAGE



FIGURE 2  
 PUBLIC REVENUES REMITTED TO SPAIN  
 AS PERCENTAGE OF GDP, 10-YEAR AVERAGE

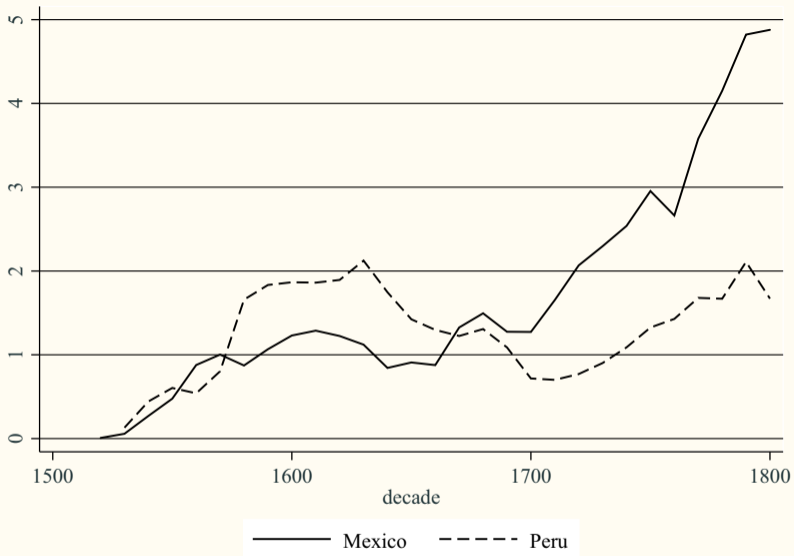


FIGURE 3  
SILVER PRODUCTION BY DECADE, IN MILLIONS OF KILOGRAMS

Source: Brown and TePaske (2010).

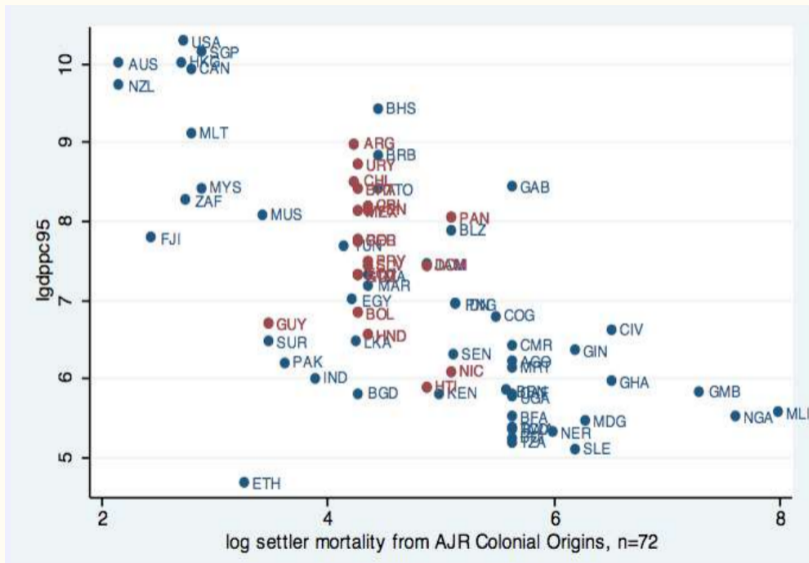
TABLE 3  
 REAL WAGES OR WELFARE RATIOS FOR SPAIN, MEXICO, BOLIVIA, AND PERU,  
 IN NUMBER OF BARE-BONES BASKETS

	1550–1599	1600–1649	1650–1699	1700–1749	1750–1799
Madrid	1.61	1.83	1.81	1.91	1.29
Mexico	0.74	1.64	2.57	2.66	2.35
Potosí				2.95	2.20
Arequipa & Cuzco	1.08 <sup>a</sup>	1.19	1.03	1.18	1.64

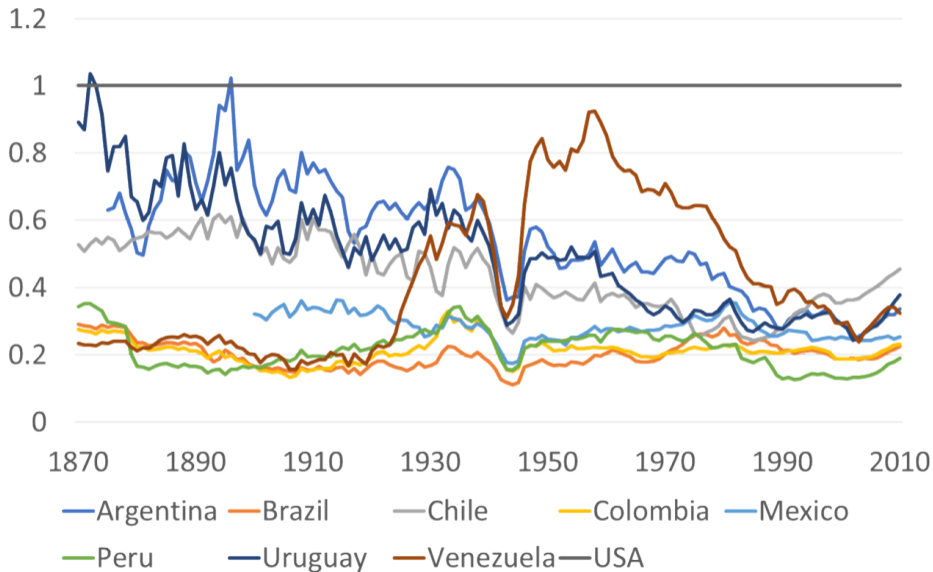
<sup>a</sup> Only 1590 to 1599.

*Sources:* Latin America: Arroyo Abad et al. (2012), Spain: Allen (2001).

# AJR's theory in Latin America



## Relative Real GDP/Capita (USA = 1)



## Relevance of economic history

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## Some ideas

- In this class, we will bring economics and history together from a global perspective to understand better the Latin American experience.
- A road of two directions: we will look at the historical record and ask ourselves what we can learn from it (as well as political science, social theory, anthropology, law, ...).
- But also how we can use economics to understand history.
- Carlo Cipolla says economic history is **between two cultures**.

# Between Two Cultures

An Introduction to  
Economic History

**Carlo M. Cipolla**

## Some methodological points

- Precise statement of questions to be studied.
- The hypotheses under consideration should be explicitly specified, logically consistent, and falsifiable.
- The relevant variables should be explicitly specified, and the data should be systematically gathered and analyzed.
- Rigorous statistical testing and causality investigation.

## Some historiographical traditions

### Enrique Krauze, Mexico: Biography of power

The weight of the past has sometimes been more present than the present itself. A repetition of the past has sometimes seemed to be the only foreseeable future.

- Weight of “nationalist histories.” Instead, we will focus on linkages: within the Americas and with respect to the rest of the world.
- Inheritance of structuralism and dependency theory: Whig history *al revés*. Balance between structure and contingency.
- Culturalists views.