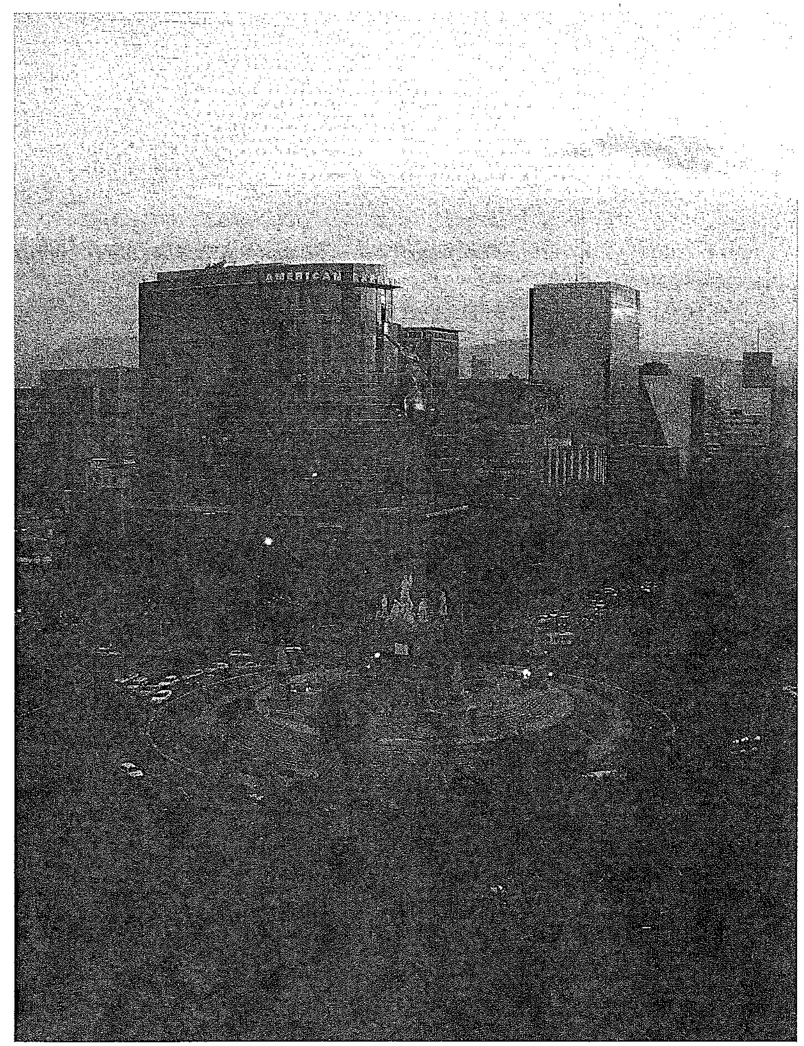
CHAPTER ONE

# Development in Latin America

## Conceptualizing Economic Change in the Region



Latin America contains cities of splendor. *(Photo by Patrice Franko)*

. . . and pockets of poverty. *(Courtesy of David Mangurian and the Inter-American Development Bank)*

Latin Americans live in a complex economic system, simultaneously inhabiting the frontiers of finance and technology while also appearing hopelessly mired in a vicious circle of poverty. Consider the following stories.

Carlos Slim Helu is the richest man in Latin America and one of the wealthiest men in the world. Primarily invested in telephone industry, Carlos Slim runs Mexico's and the region's largest cellular phone company (América Movil), as well as the virtual Mexican monopoly on landlines (Telmex). Said to have a Midas touch for selecting business acquisitions, he moved beyond the Mexican fixed line and mobile market to consolidate his telecom empire by snapping up companies throughout the region.[1] But Slim's greatest asset is diversification. His investment group Grupo Carso is a Mexican conglomerate that today ranges from North America to Tierra del Fuego; he owns an ISP (Prodigy), an online bank, department stores, a cigarette company (Cigatam), and a restaurant chain with hundreds of locations.[2]

Although he has made his money in markets, Carlos Slim has become a vocal critic of free trade as a development strategy for the region, arguing that the Mexicans have nothing to show for it and that the state must be a major investor in education and infrastructure.[3] Said to have one of Latin America's largest collections of Rodin sculptures, he is also the founder of Foundation of the Historic Center of Mexico City, dedicated to restoring colonial buildings in Mexico City's historic city center.[4] Additionally, as part of his philanthropic work, he heads the Latin America Development Fund project. Telmex and Grupo Carso each have foundations, with a combined fund of $850 million, which will reach $1 billion this year. In 2005 the organizations gave out 17,000 scholarships to college students, paid bail for 5,000



first-time arrestees accused of minor crimes (so that they wouldn't sit for years in jail waiting for the slow justice system to move), funded infant nutrition programs, and helped cover the expenses of 11,000 surgical operations in rural areas.[5]

Brazilian soccer superstar Ronaldo has reached the apex of soccer fame, becoming one of the highest-paid players in soccer history. After battling knee injuries for two and a half years, his remarkable comeback led Brazil to win its fifth World Cup title. A striker for the Spanish team Real Madrid, he has signed deals with Nike and the Italian milk company Parmalat, as well as Brazil's number-one beer maker, Brahma. Born in a poor *favela,* or slum, in Rio de Janeiro, Ronaldo had to quit soccer as a young boy because he didn't have the bus fare. Sixteen of Ronaldo's relatives live at the home where he grew up sleeping on the sofa with his older brother. The home is simply furnished—no telephone but a freezer and a television. Ronaldo is currently involved with a program in Brazil that takes poor kids out of the *favelas* and puts them in soccer camps to ensure that others have a chance for a future.[6]

Jessy Contreras, a cosmetology student, has long dreamed of logging onto the Internet to study the latest Parisian trends. But saving enough money for a computer and access in a poor country like Peru, where average income is less than $300 per month and few have private phones lines, seemed too far a stretch. Fortunately, Peruvians are signing on in droves through the Peruvian Scientific Fund, a network begun with $7,000 in seed money from the UN Development Fund and other cooperative arrangements with universities, hospitals, and nongovernmental organizations. Manuel Molla Madueno, a psychologist making somewhere in the range of

Peruvians sign on to the Internet. *(Courtesy of David Mangurian and the Inter-American Development Bank)*

> $400–$500 a month, is able to access international journals and participate in bulletin boards. Local teachers are able to monitor Spanish culture from around the world. Unfortunately, expansion is limited by the slowness of Telefonica, the telephone company, in installing telephone circuits.[7]

> Judith Yanira Viera, from El Salvador, is eighteen years old. For over a year she worked in the Taiwanese-owned Mandarin International *maquiladora* factory in the San Marcos Free Trade Zone where she made shirts for the Gap, Eddie Bauer, and JCPenney. From Monday to Thursday her shift went from seven in the morning until nine at night. On Fridays she would work straight through the night, starting at 7 A.M. and working until 4 A.M. She and her coworkers would sleep overnight on the factory floor. The following day, they would work from 7 A.M. until 5 P.M. Despite these very long hours, the most she ever earned was 750 *colones,* about $43 per month.[8]

> Blasio and Claire Lehman struggle with the help of their two teenage sons to make approximately $900 a year as tobacco farmers in Brazil. With a simple home on a small piece of land, their dream when they married twenty-two years ago was a future in tobacco. But competition in the global tobacco market has soured their dream. Small farmers are forced, in a feudal-like arrangement, to take bank loans to buy kits comprised of seeds, pesticides, herbicides, fertilizers, a plastic sheet to cover the soil, and protective gear for applying chemicals. When purchasing the kits they must pledge to sell their harvest to the companies that sold them. Fifteen percent of the payment for the first harvest is withheld to ensure complete delivery. If growers try to hold back crops because they disagree with the companies' valuation of the product, police assist the companies in seizing the crops. Illiteracy prevents farmers from mobilizing. Some farmers work in the tobacco processing plants to supplement crop income. The Lehmans' son Ismail has offered to quit school to make his family's ends meet—to save the $35 a month in bus fare. His future would brighten if the family could switch to another crop—but that would take money for start-up costs. Too bad that the fiscal incentives provided to the big tobacco companies—including Philip Morris—couldn't find their way into more affordable transportation.[9]

Economically, Latin Americans range from the very wealthy Carlos Slim to the desperately poor Judith Yanira Viera. Resources available to create working lives may be the tobacco plant or the complex strands of the Internet. International markets—for clothing, fruit, or sports—may propel some to relative affluence, but there are always the masses left behind in Ronaldo's *favela.* Economic life in Latin America is multilayered, from traditional rural life to dirty assembly factories to ultramodern skyscrapers in cosmopolitan cities. Latin American economic **development** is a puzzle. This text invites you to make some sense of this complex problem. Questions that we will explore in trying to unravel this puzzle include the following:

- How do so many fragments of different levels of economic life join to form a coherent whole?
- With a far wider income range than industrial countries, with available technologies running from a simple shovel to a sophisticated financial machine, what kind of macroeconomic policies can address the complex microeconomic structure of Latin America?
- How does this multilayered economy interface with the world market?
- How have the pressures of globalization and the international market transformed the varied lives of Latin Americans?



As an introduction to the puzzle of Latin American economic development, this book attempts to clarify the complexity of economic life in Latin America. We will try to understand the potential that Carlos Slim has been able to tap, as well as the constraints keeping many farmers and factory workers in poverty.

## A Conceptual Map: What Is Economic Development?

To understand the multilayered economic home of Jessy Contreras and Carlos Slim, we first need to contextualize it within a theory of economic development. The objectives of this chapter are to explore briefly the meaning of development and to highlight selected characteristics of economic policy and performance in Latin America. In an ideal world, readers of this text would have taken courses in economic development, international trade, and international finance before embarking on a study of Latin American economics. However, many students come to understand the economic importance of Latin America late in their academic careers and simply don't have the time (or may even lack the interest) to backtrack through this important theoretical framework. The economic component may be only a small part of your broader interest in the region. For you, this section raises some of the questions that would be grappled with over a longer period of time in a course on development theory. Students with a background in development theory are invited to draw on that broader conceptual framework and apply it to the case of Latin America to answer a fundamental question of this book: How can we understand the process of economic development in the Latin American region? How can we reconcile the different lives of Ronaldo and the Lehmans within a single economic system?

### *Characteristics of Development*

What characteristics do we normally associate with developed and less-developed countries? Try ranking the United States, Mexico, Brazil, Ecuador, Canada, and France on the following measures:

- Which countries have the highest rates of urbanization?
- Which countries have the highest per capita rates of **growth**?
- Which countries have the highest weight of international trade in the economy as measured by net exports and gross domestic product (GDP)?
- Which countries have the highest per capita carbon dioxide emissions?

The answers might surprise you. In Brazil, 84.2 percent of the population lives in urban areas; this is followed by 81.1 percent in Canada and 80.8 in the United States, 76.7 percent in France, 76 percent in Mexico, and 62.8 percent in Ecuador. Average growth of per capita GDP in 2004 ranged from 1.7 percent in France and 1.8 percent in Canada, to 2.9 percent in Mexico, 3.2 percent in the United States, 3.5 percent in Brazil, and 5.4 percent in Ecuador. Trade plays the greatest role in Canada, where exports represented 38.3% of GDP in 2003, followed by Mexico at 27.8%, France at 25.7%, Ecuador at 23.8%, Brazil at 16.4%, and the U.S. at just 9.6%. The United States has the dubious honor of leading the list of per capita carbon dioxide emissions at 19.92 metric tons in 2002, followed by Canada at 16.54, France at 6.34, Mexico at 3.84, Ecuador at 1.99, and Brazil at 1.92.

This short exercise raises a few questions. What do we mean by a developed (versus an underdeveloped) country? Are countries neatly classifiable? What is the diversity of economic experience within Latin America itself? How can we begin to think about a development strategy with relatively divergent conditions? You might want to open the most recent *World Development Report* or log onto the World Bank homepage at www.worldbank.org to look at some of the other data within the Latin America region and comparisons between Latin America and the rest of the world. Tables 1.1 and 1.2 summarize some of these statistics. You may be surprised at the diversity you find.

In table 1.1, we can see that although some countries in Latin America exhibit poor performance on indicators of child malnutrition and child mortality, others perform extremely well. Honduras and Guatemala, for example, are the worst performers, with nearly one in five children underweight, but in Chile only 1 percent of children suffer from hunger. Similarly, Bolivia, Guatemala, Honduras, and Nicaragua demonstrate tragic rates of infant mortality, whereas Chile, Costa Rica, and Uruguay demonstrate strong records. In Ecuador and Venezuela, only 80 and 71 percent of the population have access to improved sanitation facilities. Colombia, Panama, Mexico, Paraguay, Uruguay, Costa Rica, and Chile all have rates higher than 90 percent. Access to improved sanitation and safe water increases the chances that a child will make it to her fifth birthday or that he won't be plagued by diarrhea and other intestinal problems associated with underweight children. Throughout the region the growth of private consumption has been uneven, with slow rates in many countries reflecting small changes in the material well-being of the population. As we will see in this text, the long, hard road of economic adjustment to the debt shocks and the tough macroeconomic stabilization packages of the 1980s and the currency shocks of the 1990s left many Latin Americans with little more in their homes than they had when they started the decade.

Table 1.2 gives a few measures of what you might expect in terms of material life in the Americas. Residential energy use is a measure of electric gadgets and appliances in the home. Brazil uses 13 percent of the U.S. value, Mexico 19.4 percent. As a measure of technology penetration, the number of personal computers is far more limited in the region as compared to the United States or Canada, restricting access to the wealth of information on the web via the Internet. The number of cell phone users has boomed, connecting people as well as opening possibilities for employment. (Try getting or holding a job when you can't contact your

Clean, potable water is a step forward for the community, but its collection is part of the double duty of work that women perform in the developing world. *(Courtesy of the Inter-American Development Bank)*

**Table 1.1. Quality of Life Indicators**

| | Final Consumption Expenditure, etc. (annual % growth) | Improved Sanitation Facilities, Urban (% of urban population with access) | Life Expectancy at Birth, Total (years) | Mortality Rate, Under 5 (per 1,000) | Prevalence of Underweight Children <5 (MDG 4) (%) |
|---|---|---|---|---|---|
| | 2003 or 2004 | 2002 | 2004 | 2004 | 2004 |
| Argentina | 8 | .. | 75 | 18 | 5 |
| Bolivia | 2 | 58 | 65 | 69 | 8 |
| Brazil | 1 | 83 | 71 | 34 | 6 |
| Canada | 4 | 100 | 80 | 6 | .. |
| Chile | −1 | 96 | 78 | 8 | 1 |
| Colombia | 4 | 96 | 73 | 21 | 7 |
| Costa Rica | 3 | 89 | 79 | 13 | 5 |
| Ecuador | 5 | 80 | 75 | 26 | 12 |
| El Salvador | 2 | 78 | 71 | 28 | 10 |
| Guatemala | 4 | 72 | 68 | 45 | 23 |
| Honduras | 3 | 89 | 68 | 41 | 17 |
| Mexico | 5 | 90 | 75 | 28 | 8 |
| Nicaragua | 3 | 78 | 70 | 38 | 10 |
| Panama | 5 | 89 | 75 | 24 | 7 |
| Paraguay | 4 | 94 | 71 | 24 | 5 |
| Peru | 3 | 72 | 70 | 29 | 7 |
| United States | 3 | 100 | 77 | 8 | .. |
| Uruguay | 14 | 95 | 75 | 17 | .. |
| Venezuela, RB | 16 | 71 | 74 | 19 | 4 |

*Source:* World Bank World Development Indicators 2006, www.worldbank.org, and The State of Food Insecurity in the World, 2005, for data on malnutrition.

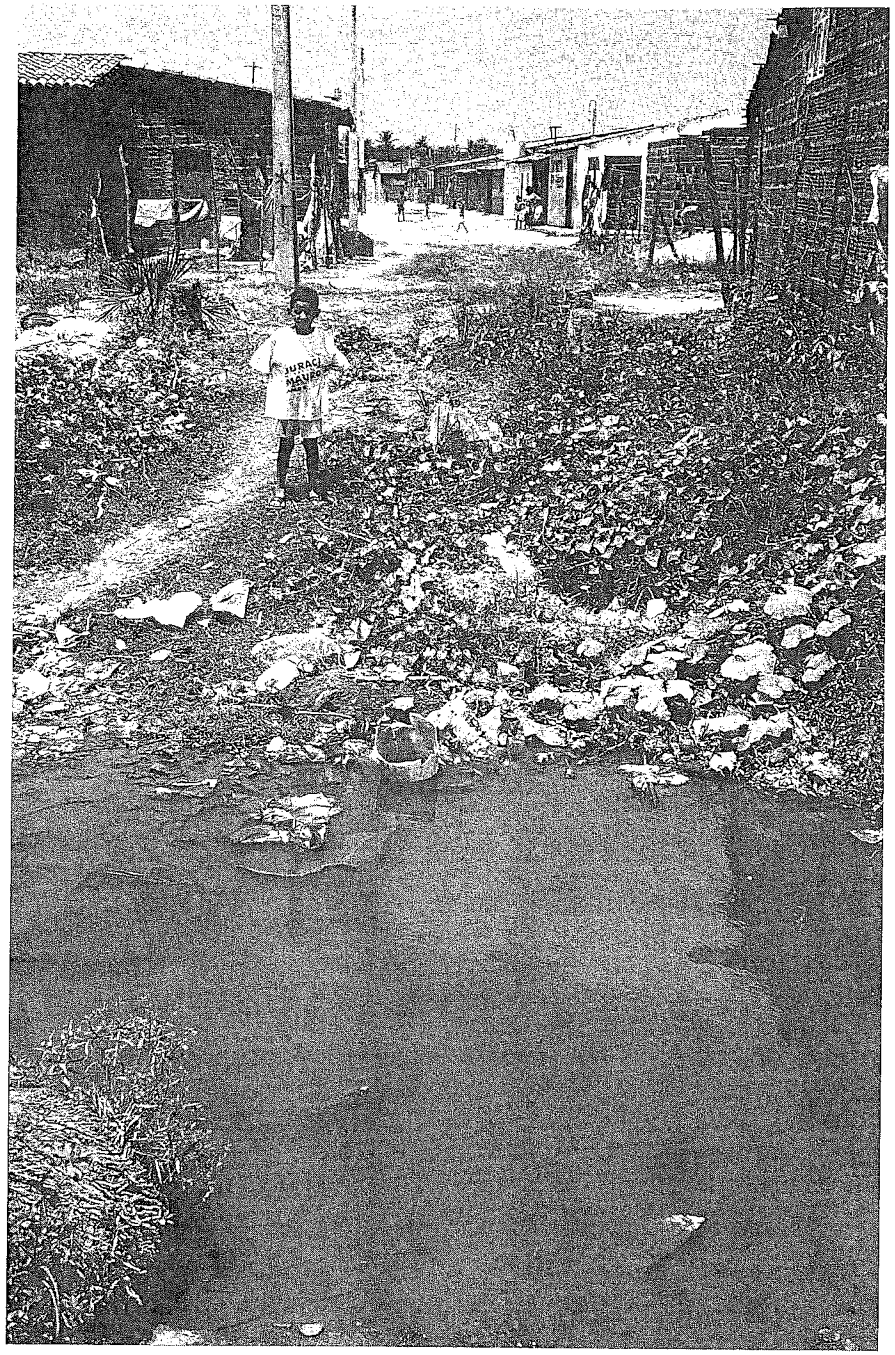
employer.) Access to health care exhibits a wide range, with poorer countries registering a scarcity of physicians, nurses, and doctors. Of course, we want to be careful with these data; cross-country data are always difficult to collect, especially when you are estimating houses with access to sanitation or computers. Furthermore, we don't want to suggest that computers or mobile phones are the bellwethers of what it means to be developed. We need to be aware of data difficulties even as we develop more sophisticated measures to evaluate progress and poverty in the region in later chapters.

What do we mean by development? When we think about the challenges of development and underdevelopment in Latin America, what do we really mean? Are mobiles and toilets the goal of development? How does "promoting development" translate into something concrete for the policymaker to target? U.S. president Harry S. Truman, in his inauguration speech in January 1949, envisioned a bold new program, based on "the concepts of democratic fair-dealing," to make the "benefits of our scientific and industrial progress available for the improvement and

**Table 1.2. Indicators of Standards of Living**

| | Residential Energy Use per Capita | | Human Resources per 10,000 Pop | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Kg Oil Equivalent per Person 2001 | % of 2001 US Value | Physicians c2001 | Nurses c2001 | Dentists c2001 | Personal Computers | Internet Users | Mobile Phones |
| | | | | | | (per 1,000 people) 2003 | | |
| Argentina | 239.7 | 27.01 | 32.1 | 3.8 | 9.3 | 82.0 | 112 | 178 |
| Bolivia | 75.9 | 8.55 | 10.2 | 12.3 | 1.3 | 22.8 | 32 | 152 |
| Brazil | 116.4 | 13.12 | 7.6 | 3.2 | 1.2 | 74.8 | 82 | 264 |
| Canada | 963 | 108.51 | 20.6 | 5.2 | 9.5 | 487.0 | 513 | 417 |
| Chile | 314.9 | 35.48 | 11.5 | 6.6 | 4.4 | 119.3 | 272 | 511 |
| Colombia | 113.8 | 12.82 | 12.7 | 6.1 | 7.8 | 49.3 | 53 | 141 |
| Costa Rica | 118.9 | 13.40 | 11.5 | 7.1 | 3.3 | 197.2 | 193 | 111 |
| Cuba | 78 | 8.79 | 60.4 | 71.4 | 4.9 | 31.8 | 11 | 2 |
| Ecuador | 105.7 | 11.91 | 16.4 | 5.3 | 1.7 | 31.1 | 46 | 189 |
| El Salvador | 209.3 | 23.58 | 12.6 | 8.1 | 5.5 | 25.2 | 84 | 176 |
| Guatemala | 300.1 | 33.81 | 9.5 | 3.6 | 1.6 | 14.4 | 33 | 131 |
| Honduras | 192 | 21.63 | 8.7 | 3.2 | 2.2 | 13.6 | 25 | 49 |
| Mexico | 172.5 | 19.44 | 15.6 | 10.8 | 1 | 82.0 | 118 | 291 |
| Nicaragua | 232.3 | 26.17 | 16.4 | 1.4 | 2.9 | 27.9 | 17 | 85 |
| Panama | 184.6 | 20.80 | 13.8 | 11.2 | 2.8 | 38.3 | 62 | 268 |
| Paraguay | 239.1 | 26.94 | 5.6 | 2.2 | 0.8 | 34.6 | 20 | 299 |
| Peru | 138 | 15.55 | 11.7 | 8 | 1.1 | 43.0 | 104 | 106 |
| United States | 887.5 | 100.00 | | | | 658.9 | 551 | 543 |
| Uruguay | 211.5 | 23.83 | 39 | 8.7 | 12.4 | 110.1 | 119 | 193 |
| Venezuela | 147.3 | 16.60 | 20 | 7.9 | 5.7 | 60.9 | 60 | 273 |

*Source:* World Resources Institute, Earthtrends online database, www.earthtrends.wri.org, derived from International Energy Agency data, 2004; Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 2004; and World Bank, World Development Indicators 2005 (Washington, D.C.: World Bank, 2005).



Lack of access to adequate housing leaves millions in misery. *(Courtesy of David Mangurian and the Inter-American Development Bank)*



growth of underdeveloped areas."[10] Although the word "underdeveloped" had been introduced in 1942 by Wilfred Benson, a member of the secretariat of the International Labor Organization, development economists such as Paul Rosenstein-Rodan spoke of "economically backward areas," and Arthur Lewis characterized the emerging challenge as the gap between rich and poor countries throughout the 1940s. Truman popularized the term "underdevelopment" but did not clearly define it. Since Truman, the goal of development has been to undo the hardships of underdevelopment—without a clear statement of the positive objective. What does it mean to be developed? With the advent of the Cold War, the world was divided into industrial market economies, the communist or "second" world, and finally the rest of the globe or the "third" world. These nations were once again the residual—what was left over when the rest of the counting was done. Since the collapse of the Berlin Wall, the second world has euphemistically been referred to as "transitional economies." What exactly are they transitioning toward? What is a usable definition of the goal of "development"?

In common language, development describes a process in which the potential of an organism is released to achieve its mature form. Dictionary definitions point to growth or expansion to bring about a more advanced state. When we think of the development of a tree or an animal, we have a clear idea of the appearance of the mature, advanced form. In economics we find ourselves in a bit of trouble. We can measure degrees of industrialization or access to a wider array of consumer products, but things become murky when we try to associate the terms "modern," "mature," and "developed" with societies having well-articulated economic infrastructures. Given the long list of ills associated with modern society, we should be clear in our understanding that more sophisticated production techniques and a wider range of electronic toys do not necessarily imply a better or happier society. In addition, we don't know which members of society have access to the gains of economic growth. More industrialization—particularly with the associated environmental costs—does not necessarily mean an increase in the well-being of citizens.

How then should we think about development? Is a developed country simply the opposite of a poor country? Is a developing country a rich country in the making? Box 1.1 presents the thoughts of development economists and practitioners on defining the term. Generally, they find it easier to agree on what constitutes the alleviation of poverty and meeting the basic needs of a population than on what represents the achievement of wealth or the satisfaction of material wants. This text looks at development as a process of meeting the basic human needs of the population and enhancing options for the allocation of economic resources both today and in the future to increase the choices citizens have in their daily lives. It pays particular attention to how much is produced and for whom, and it addresses the environmental sustainability of production for future generations. One measure to promote progress on development was the adoption of the millennium development goals or MDGs. These goals, depicted in box 1.2, were adopted at the United Nations Millennium Summit in 2000 and broadly seek to reduce global poverty by 2015 as well as to improve health and educational outcomes among the world's least advantaged people.

## Box 1.1. Development, Underdevelopment, and Growth: An Evolution of Definitions

**WEBSTER'S DICTIONARY**

"The act, process, or result of developing; the state of being developed; a gradual unfolding by which something is developed, a gradual advance or growth through progressive changes."

**W. ARTHUR LEWIS (1954)**

"The central fact of economic development is rapid capital accumulation, including knowledge and skills with capital."[11]

**CELSO FURTADO (1964)**

"Economic development, being fundamentally a process of incorporating and diffusing new techniques, implies changes of a structural nature in both the systems of production and distribution of income. The way in which these changes take place depends, to a large extent, on the degree of flexibility of the institutional framework within which the economy operates."[12]

**P. BAUER AND B. YAMEY (1967)**

"The widening of the range of alternatives open to people as consumers and producers."[13]

**B. HIGGINS (1968)**

"A discernible rise in total and in per capita income, widely diffused throughout occupational and income groups, continuing for at least two generations and becoming cumulative."[14]

**THEOTONIO DOS SANTOS (1968)**

"Development means advancement towards a certain well-defined general objective which corresponds to the specific condition of man and society or can be found in the most advanced societies of the modern world. The model is variously known as modern society, mass society and so on."[15]

**DENIS GOULET (1971)**

"Underdevelopment is shocking: the squalor, disease, unnecessary deaths, and hopelessness of it all! No man understands if underdevelopment remains for him a mere statistic reflecting low income, poor housing, premature mortality, or underdevelopment. The most empathetic observer can speak objectively about underdevelopment only after undergoing, personally or vicariously, the 'shock of underdevelopment.'"[16]

**CHARLES K. WILBER (1973)**

"Development itself is simply a means to the human ascent."[17]

**DUDLEY SEERS (1972)**

"The questions to ask about a country's development are therefore: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned."[18]



**SIMON KUZNETS (1973)**

"A country's economic growth may be defined as a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands."[19]

**JAMES J. LAMB (1973)**

"If there is to be a possibility of choosing a human path so that all human beings may become the active subjects of their own history, it must begin at the level of new analysis. Development should be a struggle to create criteria, goals, and means for self-liberation from misery, inequity, and dependency in all forms. Crucially, it should be the process a people choose which heals them from historical trauma, and enables them to achieve a newness on their own terms."[20]

**PAUL STREETEN (1979)**

"A basic-needs approach to development starts with the objective of providing the opportunities for the full physical, mental, and social development of the human personality and then derives ways of achieving this objective."[21]

**PETER J. A. HENRIOT (1981)**

"'Underdevelopment' is seen as the flip side of the coin of 'development.' It refers to the process whereby a country, characterized by subsistence agriculture and domestic production, progressively becomes integrated as a dependency into the world market through patterns of trade and/or investment."[22]

**ORTHODOX PARADIGM (1980s)**

"The view of the historical process contained in the orthodox paradigm is clear from this characterization: it is one in which developing societies move toward ever greater availability of goods and services for their citizens."[23]

**WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT (1987)**

"Humanity has the ability to make development sustainable—to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. . . . **[S]ustainable development** is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the directions of investment, the orientation of technological development, and institutional change are made consistent with future as well as present needs."[24]

**GERALD M. MEIER (1995)**

"Although requiring careful interpretation, perhaps the definition that would now gain widest approval is one that defines economic development as the process whereby the real per capita income of a country increases over a long period of time—subject to the

*continued*

*continued*

stipulations that the number of people below an 'absolute poverty line' does not increase, and that the distribution of income does not become more equal."[25]

UNEQUAL !

**AMARTYA SEN (1998)**

"It is not hard to see why the concept of development is so essential in general. Economic problems do, of course, involve logistics issues, and a lot of it is undoubtedly 'engineering' of one kind or another. On the other hand, the success of all this has to be judged ultimately in terms of what it does to lives of human beings. The enhancement of living conditions must clearly be an essential—if not the essential—object of the entire economic exercise and that enhancement is an integral part of the concept of development."[26]

**JOSEPH E. STIGLITZ (1998)**

"It used to be that development was seen as simply increasing GDP. Today we have a broader set of objectives, including democratic development, egalitarian development, sustainable development, and higher living standards."[27]

**NANCY BIRDSALL (2005)**

"Global inequality poses enormous challenges for managing and civilizing globalization so that it works for the developing world. Monetary inequality matters to people. Moreover, in developing countries, where markets and politics are by definition far-from-perfect, inequality is likely to be destructive, reducing prospects for growth, poverty reduction, and good government. Globalization is too often asymmetric, i.e. benefiting the rich more than the poor, both within and across countries. The world is not 'flat,' as *New York Times* columnist Thomas Friedman has suggested. Rather, what appears to be a level playing field to people on the surface is actually a field of craters in which other people are stuck—and hard to see."[28]

**BOX 1.2. MILLENNIUM DEVELOPMENT GOALS**

| *Goals* | *Targets* |
|---|---|
| Eradicate extreme poverty and hunger | Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day<br>Halve, between 1990 and 2015, the proportion of people who suffer from hunger |
| Achieve universal primary education | Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling |



| *Goals* | *Targets* |
|---|---|
| Promote gender equality and empower women | Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015 |
| Reduce child mortality | Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate |
| Improve maternal health | Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio |
| Combat HIV/AIDS, malaria, and other diseases | Have halted by 2015 and begun to reverse the spread of HIV/AIDS<br>Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases |
| Ensure environmental sustainability | Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources<br>Halve, by 2015, the proportion of people without sustainable access to safe drinking water<br>Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers |
| Develop a global partnership for development | Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction—both nationally and internationally)<br>Address the special needs of the least developed countries (includes tariff- and quota-free access for exports enhanced program of debt relief for HIPC and cancellation of official bilateral debt, and more generous ODA for countries committed to poverty reduction)<br>Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term |

*Source:* United Nations, www.un.org.

## Growth versus Development

From the definitions in box 1.1, we can see that most economists agree: development is far more than economic growth. It is useful, however, to clarify the difference between the two terms. Joseph Schumpeter distinguishes growth as a process of gradual change, with all quantities, such as wealth, savings, and population, increasing slowly and continuously; development is characterized as rapidly propelled by innovations.[29] Robert Lucas defines growth as the increase of income proportional to the increase of population and development as the process whereby income increases more rapidly than population. In other words, growth does not presuppose technical change; development does.[30] For both Schumpeter and Lucas—economists of very different dispositions—development centrally engages the question of how **technological change** takes place in an economy. A key element in development is the management of technological change or how technology is used to transform the economic structure. This of course presupposes that technology is in scarce supply and that its use has a price. In this sense, policy matters very much. Economic development is not simply driven by factor endowments or the quantity of resources but by how land, labor, and capital are combined in new ways to increase productivity and the choices available to a population.

New technologies require new ways of doing things. The leap from feudalism to early capitalism was propelled by technological changes—the introduction of the horse and plow as well as the three-field crop rotation system—that made an agricultural surplus possible. But like the transition into early capitalism, the contemporary process can be politically and socially tumultuous. Development policy can be viewed as the implementation of economic tools when political and social structures as well as economic institutions are rapidly changing. In contrast to the thrust of standard economic theory, where in principle we begin with the *ceteris paribus* condition, or "all else held constant," development policy is harder to carry out consistently due to simultaneous changes in a number of arenas. An economic policymaker in an industrialized country may be able to rely on a bit of automatic pilot under stable conditions; in the developing world, navigation is far more demanding with a variety of new challenges at each turn.

This text chronicles the development journey of Latin America. We begin by trying to understand the attempts of Latin American policymakers to promote growth and development in the region. Chapter 2 focuses on the engine of trade and Latin America's export performance in the late colonial and early independence periods. Chapter 3 looks at a growth strategy widely adopted in the region from roughly the 1950s through the 1980s: import substitution industrialization. We can see, in both cases, that the strategy centered largely on the problem of growth and made less progress in the arena of social and environmental change. In chapters 4 and 5 we discuss two unintended results of the development strategies adopted: high rates of inflation and increased vulnerability to macroeconomic shocks. The policy response to economic disequilibrium was to step back and rely more on markets and less on state intervention in the economy. Chapter 6 takes up this changed role of the state under the neoliberal model; chapters 7 and 8 look at its implications for



international capital flows and trade. How industry and agriculture have fared under a more open, internationalized economic model is taken up in chapters 9 and 10. Although policies that transformed the structure of Latin American economies from closed to open markets have been largely successful in macroeconomic terms, the rest of our book explores some of the deficits in human and social development hindering sustainable growth.

## Basic Human Needs versus Growth as Measures of Development

In addition to thinking about how economies change, we must raise the question of growth: Who benefits from new economic opportunities? Technological change—new combinations of capital and labor to produce a surplus—does not address the general well-being of society. Does the process of economic development help the rich or the poor? A modest goal of development might be for a developed nation to meet the basic human needs of its population. Paul Streeten defines enhancing basic human needs as improving income-earning opportunities for the poor, reforming public services that reach the poor, augmenting the flow of goods and services to meet the needs of all members of the household, and increasing the participation of the poor in the policy-making arena.[31] Streeten goes on to suggest why growth itself is not a good measure of economic development. Rather than generating the predicted theoretical results that growth would trickle down to the poor or that governments would extend benefits through progressive taxation or social services, Streeten argues that growth has been accompanied by increasing **dualism.** That is, when countries grow as measured by annual GDP growth rates, the rich often become richer and the poor more destitute in the process of change. We see the expansion of the modern, capitalist sector alongside a traditional, backward sector—two distinctly different worlds growing side by side. Dualism—the simultaneous existence of modern and traditional economies—complicates the policymaker's task. More important, if an economy magnetized by growth neglects the plight of the poor, people without assets are marginalized by the growth process and made even worse off. Those without land, capital, or education, such as the poor peasant in feudal times who lost access to the agricultural commons, can be pushed into the margins of society. Without access to resources, the poor can become poorer. Their attempts to scrape together a subsistence existence often pressure the environment as desperation drives people to use up land or forests or dump open sewage or waste today without thought of tomorrow—for tomorrow holds little promise when they struggle with hunger or sickness.

For development economists such as Michael Todaro, growth must be accompanied by a change in the economic and social rules of the game. Todaro defines development, in addition to raising people's living levels, as "creating conditions conducive to the growth of people's self-esteem through the establishment of social, political, and economic systems and institutions that promote human dignity and respect and increasing people's freedom by enlarging the range of their choice variables."[32] But this is a difficult task. As we will see in chapters 11 through 13, the social deficit in Latin America must be addressed to promote an equitable and sustainable development policy. As we investigate poverty in chapter 11, we will analyze ways of measuring human development including the human development index (HDI), which is a composite index comprising three indicators: life expectancy (representing a long and healthy life), educational attainment (representing knowledge), and real inflation-adjusted GDP (representing a decent standard of living). Poverty and the associated social challenges of promoting education and health are discussed in chapters 12 and 13.

The United Nations, in its *Human Development Report,* suggests that a human development paradigm incorporates four elements: productivity, **equity,** sustainability, and **empowerment.** People must be enabled to increase their own productivity and participate as fully in the economy as their own talents allow. Gender barriers to achievement must be confronted. Economic growth is therefore a subset of human development models. To encourage fair outcomes, people must have access to equal opportunities. Economic and environmental sustainability is enhanced when all forms of capital—physical, human, and environmental—are replenished to promote access to opportunity, which must be for future generations as well as the present. Finally, development must be by people, not for them. People must participate fully in the decisions and processes that shape their lives for the benefits of genuine development.

## *Is There a Development Theory?*

If the goal is to imitate industrial countries, is the road to a modern economy well marked by stages? Or are there different pathways to modernization? If countries are to progress economically and improve the quality of life for their inhabitants, what is the best way to do it? Is there a theory of economic development that is distinct from the economic theory we apply to our understanding of industrially advanced countries?

These are questions that economists have been grappling with for centuries. Adam Smith in *The Wealth of Nations* puzzled over how nations can best mobilize resources to produce the greatest wealth for their citizens. Box 1.3 highlights some of the conceptual guides that pioneers of development theory have offered in response to these questions. In contemporary times economists have struggled with the problem of understanding why some countries grow and others do not. This text does not assume that countries undergoing rapid economic change will necessarily follow the same pathway to achieve improvements in the quality of life. There may be different strategies to achieve the goal of raising the well-being of their citizens. The new global context for growth that Latin American economies face as we begin the twenty-first century requires a different set of policies from the ones used by the United States and Europe during the Industrial Revolution. A country's place in the region, its size, and its natural endowments may also condition its development strategy. Development theory and practice are dynamic, evolving over time.



### Box 1.3. Pioneers in Economic Development

**WALT W. ROSTOW (NEW YORK CITY, 1916–2003)**

Walt W. Rostow, an American economic historian, is known for his theory of the stages of economic growth. For Rostow, development was a linear process that began with traditional society, which then moved into the stage of "preconditions for takeoff into self sustaining growth." The economy would then "take off," follow "the road to maturity," and finally hit "the age of high mass consumption." Rostow believed that the "takeoff" would be caused by an increase in investment, leading manufacturing sectors, and the existence of an institutional framework consistent with expansion.

**PAUL ROSENSTEIN-RODAN (AUSTRIA-HUNGARY, 1902–1985)**

Development economist Paul Rosenstein-Rodan advanced the concept of balanced growth. He believed that in order to achieve sustained growth, an economy must develop various industries simultaneously, requiring a coordination of investment or a "big push." He was one of the first economists to emphasize market failure and the need for state intervention.

**RAGNAR NURSKE (ESTONIA, 1907–1959)**

Ragnar Nurske, like Rosenstein-Rodan, advocated balanced growth and further elaborated upon his colleague's work. For Nurske, small market economies were victims of a vicious cycle hindering growth. The small size of the market was responsible for the limited amount of production and income and for the perpetual poverty and stagnation. To break the cycle, an economy needed a "big push" coordinated by a government properly allocating domestic and foreign resources.

**ALBERT OTTO HIRSCHMAN (GERMANY, 1915–)**

Economist Albert O. Hirschman provided a contrary thesis: the idea of unbalanced growth as the principal strategy for development. Building on the concept of development as a state of disequilibrium, Hirschman identified and attacked bottlenecks to growth. Like Nurske and Rosenstein-Rodan, he called for government intervention to achieve sustained growth. Yet Hirschman believed that decision-making and entrepreneurial skills were scarce in underdeveloped economies. Governments should therefore concentrate this scarce resource in a few sectors rather than on the entire economy. Planners and policymakers would need to use "forward and backward linkages" between industries to attack the bottlenecks within an economy.

**W. ARTHUR LEWIS (WEST INDIES, 1915–1991)**

W. Arthur Lewis, a Nobel Prize winner in economics in 1979, formulated a model in the 1950s known as "economic development with unlimited supplies of labor." Lewis's structure of the economy has a dualistic nature, with divisions into the subsistence sector and the capitalist sector. According to Lewis, underdeveloped economies are characterized by a large subsistence sector with surplus labor and a small capitalist sector, which contributes directly to a low savings rate. Economic growth occurs when there is an increase in the savings rate, which is made possible only when the capitalist sector expands and absorbs the surplus labor from the agricultural sector.

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**RAÚL PREBISCH (ARGENTINA, 1901–1986)**

Raúl Prebisch was an Argentine economist and former chairman of the UN Economic Commission for Latin America (ECLA). Prebisch is well known for the "Prebisch-Singer thesis," which claims that the export of primary products prevalent in developing countries results in a decline of terms of trade—the price of exports compared to the price of imports. There are two important implications of the thesis: first, that a decline in terms of trade results in the transfer of income from the periphery (the developing countries) to the center (the developed countries), and second, the periphery then needs to export more and more to be able to import the same quantities as before. Prebisch's pessimism on terms of trade was used to support import substitution industrialization policies in Latin America.

**PAUL ALEXANDER BARAN (UKRAINE, 1910–1964)**

Paul Baran is known for his neo-Marxist view of development and for his contributions to the dependency school of thought. Although not completely agreeing with Marx, Baran used Marxist principles to locate the causes of underdevelopment. Countries suffer from low per capita income because the ruling classes fail to productively use the surplus extracted from peasants and wage laborers. Instead, they hold monopoly power over production and the political system. To break this monopoly power and achieve growth, a revolution must take place to replace the dominant classes with one committed to social and economic development.

**GUSTAV RANIS (GERMANY, 1929–) AND JOHN FEI (GERMANY, 1923–1996)**

Gustav Ranis's early work focused on the economic development of Japan in the post-Meiji period and used it as a successful case of transition to modern growth. From there he began to focus on balanced growth and teamed up with another economist, John Fei, to further develop concepts used by Rostow and Lewis. For both Ranis and Fei, the process of "takeoff," as introduced by Rostow, would occur when the industrial sector absorbed both redundant labor and the disguised unemployed, using Lewis's process of absorption of surplus labor.

**IRMA ADELMAN (ROMANIA, 1930–)**

Irma Adelman is well known for a forty-three-nation cross-country study done with Cynthia T. Morris. The results of the study show an increase in income inequality as poorer nations grow. Both women also provided a quantitative analysis of the effects of social and political factors on economic conditions. Prior to their work, social and political factors had been ignored. Adelman also worked with Sherman Robinson in the areas of policy analysis and economic planning for developing countries and the application of computable general equilibrium models. Her current interests include land reform, trends in income distribution and poverty, agriculture development-led industrialization, and the modeling of institutional change.

**ANNE KRUEGER (NEW YORK, 1934–)**

Anne Krueger's work on foreign trade controls creating windfall gains, known as rent-seeking behavior, and its relationship to corruption in developing countries influenced a new theory in development: the new political economy. Her early work concentrated on international trade and payments theory. She is currently researching policy reform in developing countries, the political economy of policy formation, and U.S. economic policy toward developing countries.



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## *Challenges for Development Policy in Latin America*

Developing countries must contend with a set of economic issues that make economic policy more difficult—and for a student perhaps more interesting—than traditional theory. Throughout this text we will analyze how these issues have been addressed in Latin America from its earliest economic history through contemporary times. It is useful to raise some of these challenges here to help you begin to think about the dilemmas of economic policy making in the region. It is important to remember, however, that each of these challenges plays out differently in each country in Latin America; the diversity of experience is probably as great as the set of common problems.

### Internal versus External Macroeconomic Balance

Developing countries, in large part because by definition they are capital poor, find themselves reliant on international capital to fuel the growth process. Unlike the United States (which until recently focused little on domestic economic policy effects of the international sector because they were relatively small), Latin American countries have had to weigh carefully the effects of changes in domestic macropolicy—traditional money supply and fiscal tools—against their effects on the external sector. There is a constant tension between internal and external balance. Lessons from economic history in Latin America will show that a one-sided focus on either the internal or the external sector results in imbalances and the deterioration of the economic plan. Integrating a nation into international capital markets raises important complexities. This may be done in the form of debt (as in the 1890s and 1970s) or through foreign direct investment in the economy, raising questions of multinational presence (such as in the control of the United Fruit Company in Guatemala in the 1950s) or contemporary questions of international labor standards. Countries that orient themselves toward the international export economy—as in Chile through copper or in Ecuador through oil—may have to sacrifice domestic goals to maintain an exchange rate that is compatible with international market conditions. One response to the trade conundrum has been to pursue alternate trade regimes in the form of integration efforts such as the Central American Common Market (CACM) or the South American Common Market (Mercosur). We will be grappling with the need to achieve internal and external balance throughout this text.

Internationalization creates a wide range of opportunities, but it also introduces constraints in domestic policy making. For new entrepreneurs such as Carlos Slim it creates profit, but it may limit the relative well-being of the Lehman family. For now, remember that developing economies are especially sensitive to the internal versus external balance.

## Stability versus Change: The Question of Timing

The process of development involves rapid structural change, yet economic agents like certainty. In traditional economic models we assume perfect information held by all agents. We know that divergence from the assumption of perfect information leads to inefficiencies in the market. How to handle economic agents' need for greater certainty and good information in an environment that is almost by definition (when it is working best) characterized by change is a challenge for policymakers in the developing world. Officials in Latin America must at once be agents of change, flexibly adapting to the dynamic needs of the economic transformation while also acting as strict guardians of confidence and stability. The ability to walk this policy tightrope as both motivators and moderators of change often defines policy success. When governments fail to navigate and anchor the economy, they suffer a loss of confidence. Given rapid rates of change, past policy responses have often been volatile and unpredictable, creating uncertainty. Latin American governments have a smaller store of institutional credibility than, for example, the Bank of England or the U.S. Fed—where the big news might be a 0.25 percent increase in the interest rate and not the freezing of all bank accounts, the 30 percent devaluation of a currency, or the implementation of a currency peg. During Ismail Lehman's young life, for example, the Brazilian currency changed names five times. Confidence building in economic policy making is a long and slow process—one not easily achieved when the economic waters are rough and choppy. Students of Latin American economic policy always need to ask how the proposed policy is going to affect the confidence and long-run credibility of economic agents.

## Policy for Whom?

Economic policy affects various groups within an economy differently. One of the fundamental challenges facing policymakers in Latin America is the deep divisions that exist in its socioeconomic structure. Latin America is characterized by high degrees of income inequality. There is a huge gap between the lives of Carlos Slim and Judith Yanira Viera. The goal becomes promoting not only growth but some form of equitable growth—quite a tall order. Income inequality introduces complications in the measurement of growth. If equality is important, the change in a poor person's income should carry roughly the same weight as that of a rich person. But given inequality, if a rich person earns twenty times more than a poor person, changes in the income of the wealthy receive twenty times the weight of changes in income of the poor in the national growth calculation.[33] If growth is supposed to measure economic performance, even the measures are far from the mark.



In many cases inequality is exacerbated by an ethnic and cultural mosaic of approaches to economic life. Traditional forms of social organization in indigenous communities may clash with the marketization of economic life. Gender also plays a key role in the assessment of policy outcomes. In a society often conditioned by traditional gender roles, policymakers sensitive to the gender divide must ask, how accessible terms of credit or access to technology are to the widest range of citizens. Although these problems are not unimportant in policy making in more industrialized countries, the range of difference confronts the policymaker with hard choices. Women in Santiago, for example, may be well-educated, active economic contributors, whereas their sisters in the Altiplano live a far more traditional life. In assessing policy in Latin America, do not neglect to ask: Policy for whom? Whose needs should policy be designed to meet? Judith Yanira Viera's? Or Carlos Slim's?

## Present versus Future Value: The Environmental Dimension

Promoting not only development but also sustainable development—or a strategy that leaves future generations as well-off as the present—may seem unrealistic when more than half of a population lives on the verge of starvation or when inflation eats away at the meager earnings of the working poor. Policymakers in the developing world—like those anywhere—are constrained by political and financial capital. There are only so many things that can be done with limited energy and finances. Daily crises take precedence over long-term planning. This becomes quite evident in the environmental arena. The challenge becomes how not to forfeit future growth while confronting present dilemmas. Even in industrial market economies, characterized by less sensational economic twists and turns, it is hard enough to promote incentives for sustainable use of resources. Imagine the difficulties in a developing country. Enforcement of environmental laws in industrial economies, with stronger institutional and financial resources, is often lax or ineffective. Yet without an environmental sensitivity to the future, policy will not be sustainable over time. Bad choices today have costs tomorrow. Policy to promote rational environmental decision making in Latin America must be carefully crafted—and perhaps supplemented with external capital—for long-term investment in the future. Macro- and microeconomic policies must be assessed through environmental lenses to protect resources for future generations.

## The State and the Market: Promoting Partnership

Who should be the primary development actor in the region? What should be the relative balance between the state and the market in promoting development in Latin America? These questions have framed much of the twentieth-century policy debate in the region. We will see that the pendulum has swung from a market-led to a state-dominated economy. Social protest in the first years of the twenty-first century by those who have been marginalized by growth has forced a reevaluation of the belief in the return to the market. Whether or not you support a stronger role for the state in economic decision making may be conditioned by your view of the relative sophistication of economic institutions in the region. Irma Adelman and Cynthia Taft Morris, two highly respected development economists, suggest that the crucial factor affecting development is the effectiveness of economic institutions and how economic institutions mediate the way in which gains from growth are distributed.[34] Are the economic institutions—central banks, capital, land and labor markets, redistributive agents, and laws governing property rights—sufficiently strong to promote equitable and sustainable growth without much day-to-day state interference? If independent market institutions or the property code is weak, is policy intervention warranted? Defining where the state can and should supplement the activity of the market is an important element in crafting effective policy for development in Latin America.

Three broad schools of thought can be identified with respect to the role of the state in development policy.[35] During the 1950s and 1960s, the success of the socialist model in jump-starting industrialization in the Soviet Union led to a **planning model** that accorded a strong role to the state in promoting development. The economists within Latin America who broadly believed that state intervention was critical to promoting development were called **dependency** theorists. Since markets were viewed as incomplete and unable to send strong and accurate price signals to economic agents, the state was viewed as an essential vehicle to orchestrate the growth process. Without an interventionist state, markets alone would not spontaneously generate growth. State-run activity was seen as necessary in providing infrastructure, such as roads and railways, and public services in education and health. In addition, state activity was encouraged in the direct production of goods and services in which private initiative had failed. The state was also supposed to help to counterbalance the power of domestic and international elites. We will consider the extension of this model to Latin America in chapter 3 on import substitution industrialization. Today, the potential gains from globalization and international trade, the benefits of entrepreneurship and the profit motive, and the difficulties introduced by problems of accountability and enforcement have created a shift away from the planning model.

The second broad approach falls within the **institutionalist tradition.** Institutionalists accord a strong role to nonmarket institutions. In particular, institutionalists suggest that rather than relying solely on price signals, other forms of organization—judges, chieftains, priests, or community councils—may intervene to settle disputes arising from the conflict over scarce economic resources.[36] Economic problems must therefore be treated within the context of legal, social, and political systems. Economic outcomes were often determined as much by power as by price signals. As the wealthy would be better able to command resources, high degrees of inequality would bias development against the poor. For institutionalists, with a variety of factors influencing outcomes, development does not tend toward equilibrium but may be a bumpy and discontinuous process. As we will see in chapter 3, the planning model and dependency theorists as well as institutionalist thought informed the position of some of the structuralist thinkers and policymakers in Latin America. **Structuralists**—economists who believed that the particular structure of developing economies warranted a different policy approach—dominated regional policy from the 1940s through the 1970s. Neostructuralists suggest that the modern demands of global red markets require a balancing hand of the state.

A third school of thought in development economics is the **neoclassical tradition.** Linked in part to the **Chicago School** of **orthodox** economic policies, it places the market at the center of the development equation. The orthodox key to development policy is in ensuring that economic agents face accurate price incentives without interference to make the best of all possible economic decisions. State-led activity in infrastructure and public services is seen to have a poor performance record. Well-intended short-term market interventions are argued to perpetrate unintended long-run misallocations of resources.[37] Strict neoclassical theorists therefore see a minimalist role for the state as a guarantor of rules and property rights and a provider of a limited array of public goods such as defense. The private sector, through the profit motive and Adam Smith's invisible hand, will generate the greatest good for all. Foreign trade and international prices should become the engine for growth. Under the leadership of the late Milton Friedman, the Chicago School was the principal articulator of the Pinochet model in Chile, and it broadly informs the neoliberal policies that have dominated development strategies in Latin America in the 1990s.

All development approaches do not necessarily fall into one of these three policy boxes. However, the three tend to define answers to the critical question: Is the market the best of all possible mechanisms to organize economic activity and promote growth, or is state intervention a necessary ingredient to development policy in Latin America? The planner would argue for the hand of the state to guide development policy, the institutionalist would suggest that mechanisms beyond the market are critical in determining economic outcomes, and the subscriber to the Chicago School would staunchly support market-based policies. As we proceed through the puzzle of development in Latin America, you will need to resolve for yourself the most beneficial mix of market, state, and complementary institutions to promote development in the region. We will address this question in chapter 6 as we take an in-depth look at the contemporary role of the state in development.

These five issues—external balance, credibility, distribution, environmental sustainability, and the role of the state—pervade our examination of the backdrop to development policy in the region and our treatment of contemporary issues. In chapters 2 and 3 we will see how they played out in early development theories in the region. Chapters 4 and 5 address two of the dramatic legacies of imbalances of past mistakes—hyperinflation and debt. Chapter 6 introduces the new economic model in the region and chapter 7 chronicles the return of Latin America to international capital markets. In chapter 8 we consider contemporary trade performance, and then we go on to analyze sources of industrial competitiveness as well as the potential of the agricultural sector in chapters 9 and 10, respectively. We will see the radical economic changes adopted by the region in the 1990s and evaluate their significant gains. But challenges remain. In chapter 11 we take up the problem of poverty, and in chapters 12 and 13 we assess educational and health systems in the region. Finally, although we pay attention to the environment throughout this text, in chapter 14 we look at environmental priorities in Latin America and suggest an agenda for action. We conclude in chapter 15 with an evaluation of the relative weight of the state and the market in addressing the challenges to a sustainable and equitable development strategy in Latin America.

## Key Concepts

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|---|---|---|
| Chicago School | empowerment | planning model |
| dependency | equity | sustainable development |
| development | growth | technological change |
| dualism | institutionalist tradition | |

## Chapter Summary

### *Development: Definitions and Theory*

- Development is a word not easily defined in the context of economic advancement. Questions arise as to what kinds of characteristics "developed" countries have or should have.
- A distinction exists between development and economic growth. Development is multidimensional, involving political and social institutional change. Growth focuses on increased output.
- The goals of development extend beyond economic growth. These goals may include meeting basic human needs, increasing economic opportunities for the poor, empowering marginalized groups, and ensuring economic benefits for future generations.
- Economists have not been able to agree on a well-defined theory of development. The development processes for less-developed nations are likely to differ from those followed by industrialized nations. Approaches to development will depend upon the location, size, and natural endowments of each country.
- Three schools of thought for development policy provide policy guides to development strategy: the planning model, the institutionalist tradition, and the neoclassical tradition. Each of these defines a degree to which the state should intervene in the development process and the extent to which the process should be left in the hands of the market.



### *Challenges in Development Policy in Latin America*

Policymakers face five major challenges when designing development policy in Latin America. First, they must establish a delicate balance between the external sector and domestic macropolicy. Second, they must be attentive to the changing nature of the global economic environment as well as preserve confidence and stability within their own economies. Third, to attain equitable growth, they must fashion policies to target different economic, ethnic, and gender groups. Fourth, their policies must balance the allocation of resources between meeting the needs of present as well as future generations. Finally, policymakers are faced with the challenge of deciding the extent to which each state should supplement the activities of its own market to facilitate equitable, sustainable development.

## Notes

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