

Rethinking the Development of Latin America and the Caribbean for the 21st Century

James Petras*

Introduction

Latin America and the Caribbean (LAC) are passing through a deep process of *devolution* during the last quarter century of the 20th Century. LAC experienced the *restoration* of *pre-national* forms of property ownership, the *reversal* of social relations of production (capital-labor). Forms of primitive accumulation, characterized by forcible seizure of urban and rural land and massive population displacement by the State and in some cases by paramilitary elites have been re-introduced.

Modern information systems, expanding world markets, large-scale, long-term mergers and acquisition leading to unprecedented levels of centralization and concentration of capital are combined, articulated and facilitated by the restoration of pre-national policies and structures.

The socio-economic and political consequences of this combined and uneven development are the deepening of class inequalities, a

* Binghamton University, SUNY, New York, USA, and Saint Mary's University, Halifax, Nova Scotia, Canada.

growing mass of uprooted, semi-urbanized peasants and workers, and the integration of a new super-rich LAC bourgeoisie into US-EU-Asian imperial circuits. The emergence of pre-national and externally controlled capitalism throughout Latin America has led to a massive increase in class and national conflicts, at a variety of socio-economic sites, involving a broad array of social strata, utilizing unorthodox strategies.

The social struggles reflect efforts to counter the socio-economic reverses and pre-national, primitive forms of exploitation as well as the modern forms of technological exploitation. Vague exhortations by the Left and Right to resist or defend 'globalization' or 'neo-liberalism' overlook the historical merger of the past, present and emerging forms of capitalist organizations. To 're-think the development' of LAC for the 21st Century requires that we understand the process and structures which configure the region.

Restoration and Reversals

The last 25 years have witnessed the *dismantling* of the entire economic structure, which characterized the construction of the LAC nation-state and the reversion to a pre-national economy. From the end of the nineteenth century, but especially 1930-1975, LAC created a national economy and State: large-scale mostly public investments in national industries, infrastructure, higher education, literacy, public health, local markets, and credit and financial institutions created the material basis for the modern nation-state. The State in different moments and places nationalized strategic sectors, like natural resources, petroleum, iron, copper, tin, land and maritime transport and public utilities (telecommunications, water, power and light). Foreign capital was not absent –but in most cases was regulated to complement, not displace,

national capital— as was the case with the normal development pattern of the US, Europe and Japan. Large-scale foreign capital was denied majority share ownership in many sectors; assembly plants were obligated to fulfill ‘national content’ rules; land ownership was restricted or denied in some countries. Profit remittances were regulated as was borrowing from local banks. In other words, Latin America moved from being a ‘*pre-national*’ praetorian State linked to foreign-dominated export enclaves to a nation-state capable of funding and developing the social infrastructures of a modern society.

Beginning with a series of historical political defeats in the mid 1970’s and continuing to the present day (2007), the entire social-economic architecture of the modern national economy and State was demolished and the pre-national political economy was restored.

Under the slogans of privatization, free markets and de-regulation, the restorationist regimes reconverted their economies to foreign-owned export-oriented enclaves. The process of devolution usually involved a two step process: privatized state enterprises were sold to local private elites with political ties to the regime, who either re-sold the productive facilities to foreign investors and conglomerates (acquisitions) or became lesser partners (mergers with multinational corporations).

Privatizations were accompanied by the pillage of natural resources and the violent seizure of rural and urban land—either through state policies, bogus land claims, utilizing ‘market mechanisms’ enforced by the military, or via counter-insurgency and paramilitary death squads which dispossessed millions of small farmers and peasants (Colombia). Counter-insurgency programs while supposedly motivated by political claims served to re-concentrate land-ownership in the hands of big agro-export elites linked to the pre-national regime and model.

The re-introduction of pre-national structures and policies took place in the context of relatively defined urban-industrial class struc-

ture with publicly-funded social programs (unlike the 19th Century version). The re-introduction of the colonial model caused immense damage to the entire fabric of society –converting modern workers into contingent workers, forcing skilled workers to flee the country to modern nations or imperial states overseas. Rural to urban migration was not accompanied by industrialization but by de-industrialization. In other words, what is called ‘neo-liberalism’ is the forcible political restoration of earlier forms of capitalist exploitation (uprooting local economic networks, undermining the national markets and the formation of skilled wage workers and a professional class).

The clearest expression of the pre-national restorationist nature of contemporary regimes is the expansion of private education and health services creating enclaves of privilege, which ensures the reproduction of a rigid class structure characteristic of earlier agro-mineral export societies.

Moreover, the general assault on public sector employees, their salaries, employment and pensions is an essential part of substituting pre-national private paternalistic ‘charity’ and ‘voluntarism’ for professional public services.

The reversion to private services dependent on the ‘good will’ of wealthy benefactors in place of public obligations in meeting basic citizen needs is accompanied by the public usurpation of private space for a new predatory sector of capitalism. The most lucrative, dynamic sector of capital is found among real estate capitalists, intimately linked to financial institutions, construction companies and the state. Real estate investment is the most profitable sector on a world scale; drawing on the support of the state via easy credit, low interest, high liquidity and favorable land use regulations. A study of the new rich multi-billionaires in Latin America, Russia, China and India demonstrate that real estate profits were a key factor converting millionaires into billionaires.

The Role of the State in the Restoration of the Pre-National Economy

As under earlier pre-national capitalism, contemporary real estate capitalism relies on property and land rents and speculative valuations, not profits based on production of goods and services. The state plays a key role in the expansion of real estate capital, by seizing high value rural and urban property owned by poor rural and city dwellers and transferring it to wealthy elites. In other words, political force, the methods of early capitalism ('primitive accumulation') displaces masses and allows real estate and other forms of capital –such as agro-business– to exploit the land.

The rentier State provides export subsidies and tax abatements, as well as large-scale investments in infrastructure, which links the new business, commercial, apartment complexes to domestic and overseas markets and employment.

The rentier, pre-national State does not 'de-regulate'-, 'shrink' or 'withdraw'. It established *new regulations* giving primacy to foreign investors and *eliminates regulations* promoting national public enterprises and social programs. The State *expands* its police and repressive apparatus and its intervention in civil society and *reduces* the number and quality of social services. The State actively intervenes to co-opt civil associations and non-governmental organizations (*sic*) (NGOS), while eliminating agencies protecting the environment, health and occupational safety, indigenous populations and children.

New Class Structure: The Four Tiers

The massive large-scale re-entry of foreign capital into strategic sectors of the national economy epitomizes the reversion to a pre-national

economy or more precisely a colonial entity –albeit with vastly different economic, class and political institutions and organizations. Unlike the earlier colonial period, based exclusively on agro-mineral exports, contemporary re-colonization penetrates all sectors, primary, secondary and tertiary. Large-scale multinational corporations rely on advanced information technology and a variety of new financial instruments to extract rents, profits, royalties and speculative windfalls and to transfer wealth to several thousand billionaires in the imperial centers and colonized capitals of the world.

The imperial system has four inter-related levels of exploitation. On the bottom tier the new imperial architecture rests on foundations of labor power, productive resources exploited and extracted from Latin America, Asia and Africa. At the next level, manufacturers and agro-mineral capitalists extract profits from the exploitation of labor and natural resources. At the third tier, real estate, commercial, banking and IT capitalists extract interests, rents and royalties. At the top of the imperial pyramid are the investment, pension, hedge and derivative funds, which profit from buying and selling, merging and acquiring multinational corporations and speculate in the speculators paper value. The four-tiered hierarchy defines the architecture of contemporary Latin American development in the 21st Century.

At each level the value produced at the lower levels is transferred to a higher level leading to an inverted pyramid of wealth: the top 0.01% of the super rich own more assets than the bottom 50%. To speak of the 'capitalist class' without clarifying its location in the imperial architecture is to obfuscate the new configuration of imperial power. The links between the different levels of the class structure are powerful because of inter-sectoral investment and their common interest in the exploitation labor and natural resources. There are no progressive bourgeois even as conflicts exist between the latter and the more powerful sectors of capitalists above them.

Latin America, in its current pre-national devolution, rests on highly predatory practices of capital accumulation based on political and economic mechanisms. The new relationships between the State and economy, began with the destructions of the national State and the restoration of colonial structures, grafted upon modern labor force, national institutions and social consciousness. The construction and expansion of the new financial-real estate-extractive centered economy highly depends on *political control*. The new economies are not self-sustaining via purely market mechanisms and they face numerous powerful class adversaries who have been profoundly alienated.

Contradictions and Transformation of the Pre-national State

Reversion and restoration to a pre-national regime and economic structure has created a multiplicity of enemies and vulnerabilities which can lead to profound transformations.

The changes are recent, brutal and swift, but the ideology justifying them has failed to gain hegemony among the great majority, even as most changes of electoral regimes have failed to undertake a new project. Secondly the deepening inequalities, the concentration and centralization of capital evidenced by the massive growth of mergers and acquisitions (M&A) and the multi-billion dollar income of the super-rich has created highly polarized societies. Thirdly, M&As have *integrated* the economies and *socialized* production, even as *private profits* have grown, deepening the contradictions between private ownership and social production. Fourthly, the concentration of wealth into the financial, insurance and real estate, speculative sectors, adds to the vulnerability of the entire imperial edifice. Finance and real estate, collecting rents and interest without producing value, is the most *parasitical sector*, divorced from the direct production of goods and services is subject to the greatest *volatility* and risk of economic crisis.

Fifthly, the long-term, large-scale boom in manufacturing in China, East and Southwest Asia has led to record breaking international prices for base metals (copper, lead, tin, nickel and zinc), agricultural products (soya, wheat and sugar) and energy products (gas, petroleum and ethanol) generating. This has led to enormous profits for the export elites and a great increase in revenues for governments in Latin America.

The 'crisis' in Latin America today is not the 'stagnation' of capitalism, but growth based on intensified exploitation of labor and the concentration of income and revenue in the ruling class and its political elite. Never in recent history has so much wealth been accumulated in Latin America and never has the ruling class allocated so much wealth for conspicuous consumption, overseas investment and speculation in real estate. Never has Latin America seen the growth of so many multi-millionaires and the transformation of millionaires into billionaires as has occurred over the past decade, despite the 'crisis' of the late 1990's.

The combination of privatization, pillage and mergers of the 1990's and the astronomical world prices of the past seven years has created enormous budget surpluses and massive private fortunes.

These changes in the structure of capitalism have created the objective basis for large-scale, long-term popular mobilization and class conflict. All the basic economic ingredients for a structural transformation are present today as never before. Several strategic changes are necessary and feasible. The key is the re-nationalization of the most dynamic lucrative financial and agro-mineral export sectors – which will allow the financing of a diversified manufacturing sector, large-scale food production in highly mechanized farms and major public investments in re-building social services.

The second necessary and feasible reform is the public takeover of the dynamic foreign trade sector, which generates the biggest profits,

and is the greatest source of public revenue for long-term investment. Export-oriented development is obviously a growth engine for social development –especially in the epoch of rising international prices– *if the state is directed by the popular classes*. The real questions are what social classes direct and control the state and dispose of the profits and how are they invested in the domestic market? Export income *equitable distributed* among the direct producers, rationally invested between export and domestic market sectors and capital controls can become the vehicle for financing a social transformation.

Popular rural and urban *re-development* requires the reversion of land-ownership from agro-business elites, speculators and real estate developers to public sector agronomists allied to peasants and urban planners allied to low-income city dwellers. The *reversion* of illegally seized lands requires fundamental changes in the state, property law and especially the judiciary. Luxury offices and apartments can be reconverted into public facilities for social services, cultural activities and low-rent housing. Large-scale plantations resulting from violent, illegal or arbitrary displacement of farmers and peasants can be converted into public-peasant-rural worker profit-making enterprises.

The Modern Paradox: Capitalist Concentration and Popular Socialization

The paradox of the current unjust economic system is that it has created all the necessary conditions for a social transformation, properly understood. Mergers and acquisitions have narrowed the economic bases of the ruling class. The growth of speculative capital has undermined all paternalistic and hegemonic forms of exploitation by which capitalists manipulate workers or peasants' consciousness. The growth of great fortunes has further distanced the super-rich from

the great mass of people, ending any mass illusions of 'rags to riches'. The rationalization of the economy based on the introduction of new technology facilitates the flow of information for public planning. The growth of a multiplicity of new markets and their demands for strategic goods undercut imperial blockades and boycotts.

In historical perspective, current development strategists benefit from the negative lessons of experiences with neo-liberal capitalism and bureaucratic collectivism. Privatization concentrates profits, finances real estate speculation and overseas flight of capital. The unequal returns on investment idles enormous amounts of labor power and drives millions of modern skilled workers and professionals out of the country.

Bureaucratic collectivism failed to adequately manage a balance between production of capital goods and private consumption, collective work discipline and productivity. Arbitrary political structures encouraged passivity and discouraged innovation.

Re-thinking Latin American Development in Light of the Bolivarian Experience

The promise and the contradictions of the Venezuelan Bolivarian experience provides additional experiences and lessons for re-thinking development in Latin America and the Caribbean despite differing resource endowments and historical-cultural idiosyncrasies.

Specific features also suggest we proceed with some caution. In addition, while deep changes have taken place in Venezuela, they are not fully consolidated. However we can mark out several important lessons that contribute to our re-thinking of recent 'center-left' dogmas. Let us summarize the contribution of the Bolivarian process (BP) to opening the development debate.

First the BP has demonstrated that privatized property can be *re-nationalized* successfully. Privatization is not 'irreversible', nor is it the 'only' direction for economic development. Secondly large-scale insertion in the international economy is not incompatible with the creation of advanced social welfare programs and public enterprises. In other words 'globalization' does not 'require' all the paraphernalia of a neo-liberal economy. Insertion and participation in the international economy is compatible with a variety of mixes of public and private property, more equitable income distribution patterns, and increasing public and private consumption.

Thirdly the BP demonstrates that windfall profits from the high prices of primary commodities need not lead to wealthy enclaves in a sea of poverty. In Venezuela, the government controls trade revenues and re-allocates funds toward the popular classes in the form of massive educational, health and subsidized food programs.

Finally the BP demonstrates that a consequential nationalist-welfare President can come to office via elections, *but can only continue in power thanks to massive popular mobilizations and support from sectors of the military*. President Chavez' electoral victory was severely tested by a US-backed military coup (April 2002), a bosses' lockout (December 2002-February 2003), paralyzing and sabotaging the oil industry and a US-funded referendum. In each case, *the electoral process survived because of the massive intervention of extra-parliamentary action*: one million urban slum dwellers marched against the coup-makers; a majority sector of petroleum workers and a minority of technicians re-started the petroleum industry; the overwhelming majority of the popular classes mobilized, organized and defeated the referendum. The BP demonstrates that electoral politics under some circumstances can open important openings for political change but *requires independent mass direct action to defend the process, sustain the regime and defend strategic nationalized industries*.

Equally the BP demonstrates the need for profound structural changes in the nature of the state apparatus. Important sectors of the Venezuelan military and judiciary intervened against the process of structural change. The existing civil and diplomatic bureaucracy, largely put in office by previous neo-colonial regimes, fails to implement social programs, sabotage the processing of budget allocations, and delays *ad infinitum* the agrarian reform, housing programs, while continuing corrupt practices and bribery.

The new reality of Latin America with its flourishing export economies and highly polarized class structure, its pre-national regimes and modern information systems suggests that social movements and political parties have every advantage in *challenging* the existing regime. The focus of the opposition popular movements on the colonial regimes' distributive politics facilitates politicizing each and every economic demand. This is inevitable because the *State* plays a *decisive role* in *maximizing earnings* of the export sector and denying the allocations of resources to the social service workers in the public sector.

Today, more than at any time in the past, the pre-national export regimes living on rents, royalties and revenues from colonial economic activity are politically vulnerable. The massive shift of public revenues from public investment and social services to private foreign and domestic capital is accompanied by major cutbacks in salaries and pensions for public employees, creating militant concentrated urban classes facing downward mobility. The expansion of multinational corporations into retail trade –shopping malls– has driven urban retailers into bankruptcy. The expansion of 'free trade zones' and contract labor has undermined social legislation and security for the urban industrial working class. These are not merely temporary 'sectoral' economic problems, they are national political problems, which centers on the centrality of the State and State power.

Conclusion: Instruments of Socio-Economic Change: Electoral Processes and Social Power

To the extent that electoral processes change the *composition* of the *State apparatus* and its *orientation* they can be useful. Merely '*grafting*'_onto the *State* newly-elected officials results in the continuation of the old order. No progressive electoral movement can come to power unless it is the product of intensive class and national struggles, which raise consciousness and create mass extra-parliamentary organizations capable of sustaining the newly elected regime against inevitable post-election coups and sabotage. In most cases the key to political power is not the questions of elections but organizing social and political power outside of the established institutional channels to guarantee a continuous process of transformation.

Organized social power is necessary because even public ownership can hide new class inequalities, which perpetuate injustice and alienation. Moreover public investment decisions, allocation of trade surpluses and the balance between capital consumption and public/private consumption requires the participation of direct producers and mass consumers.

As a reference point Venezuela provides some useful lessons but no one should construct a model based on the BP, even less so on the practices of the 'center-left' regimes in Latin America. For one thing, Venezuela has been and continues to be a rentier economy despite President Chavez' efforts to transform it. Secondly, none of the self-styled 'center-left' regimes (Lula in Brazil, the Kirchner family in Argentina, Evo Morales in Bolivia and Vazquez-Astori in Uruguay) has broken with the elitist agro-mineral export model, reversed the privatized strategic economic sectors. In fact, Kirchner has renewed one of the most regressive mining laws in the entire hemisphere with royalty payments to the state not exceeding 2%, and Evo Morales handing over the iron-magnesium

Mutun Complex to the Indian multi-national cartel, Jindal, on exceedingly favorable (anti-national) terms.

The lesson from five years experience with the political economy of the 'center left' regimes is that they are not 'left' or even 'center', but are unequivocally part of a 'third wave' of neo-liberal regimes, which came to power after the collapse and crisis of the second wave (Menem-De la Rúa, Sanchez de Lozada-Mesa, etc.) and have been favored and sustained by the exceptional world prices and demand. The examples of the failure of progressive structural reform under the new (ex-leftist) neo-liberals teach us that past ideological labels, popular social origins and anti-neo-liberal rhetoric is not a good indicator of current political-economic practice, and social alliances in political power. The entire political class defining itself as 'center-left' is composed of upwardly mobile professionals, lower middle class social and political officials and electorally oriented movement leaders. They use their past links to the social struggle to gain political power, economic affluence and social acceptance by the dominant classes and their foreign counterparts. To avoid the repeated vicious circle of starting on the left with the people, passing to the 'center left' with the middle class and embracing the right and big business, the mass movements must exercise direct democratic *control over* their leaders, close vigilance over their social programs and the tactics and strategies of their leaders.

The *structural transformations* (agrarian reform, nationalization and direct popular control) must be mediated by the political *circumstances*, based on mass organized popular movements and professional capacity to design, administer finance and execute policy. Concrete programs that directly improve lives are necessary to gain popular adherence to the process; but careful delineation of the 'rules of the game' for different strategic allies among small and medium property holders in services, manufacturing and farming are central to isolating the financial,

real estate and agro-mineral elites. Fundamental to creating mass anti-colonial consciousness is the creation of a new popular culture and recreation as alternatives to colonial and pre-national mass media propaganda.

The specific transformative packages of measures and the timing should be reflective of the specificities of each country –but the immediate goal is to hasten the transition from a pre-national to a national economy. This involves transforming a speculative real estate market to a socially based public housing program and a rent, interest, royalty and profit remittance economy based, on overseas payments, to a self-financing, domestic market linking local resources and regions. Export sector windfall profits should lead to strengthening domestic production and exchanges which expand productive sectors and local consumption based on egalitarian norms which equalize popular political participation.