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## Theory and Practice in Political Economy: Explaining Continuity in South American Socioeconomic Conditions

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

THEORY AND PRACTICE IN POLITICAL  
ECONOMY: EXPLAINING CONTINUITY IN  
SOUTH AMERICAN SOCIOECONOMIC  
CONDITIONS

A dissertation submitted in partial fulfillment of

the requirements for the degree of

DOCTOR OF PHILOSOPHY

in

INTERNATIONAL RELATIONS

by

Diego Zambrano

2019

To: Dean John F. Stack, Jr.  
Steven J. Green School of International and Public Affairs

This dissertation, written by Diego Zambrano, and entitled Theory and Practice in Political Economy: Explaining Continuity in South American Socioeconomic Conditions, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this dissertation and recommend that it be approved.

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Florida International University, 2019

ABSTRACT OF THE DISSERTATION:  
THEORY AND PRACTICE IN POLITICAL ECONOMY:  
EXPLAINING CONTINUITY IN SOUTH AMERICAN SOCIOECONOMIC  
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by

Diego Zambrano

Florida International University, 2019

Miami, Florida

Professor Félix E. Martín, Major Professor

The socioeconomic history of South America has been traditionally marked by the chronic problems of poverty and inequality. South American states and societies have commonly failed to address these issues effectively, which continue to characterize the region's socioeconomic outlook today. The persistence of poverty and inequality has created social and political pressures on those designing economic policy, prioritizing short-term “alleviating” mechanisms rather than long-term structural solutions. These same conditions, combined with historical experiences, have created a singular cyclical dynamic in the political economy of the region. In this context, this dissertation explores the underlying causes behind the continuity of such socioeconomic conditions. In doing so, the present study explores the systemic and structural conditions that influence the political economy of South America. Therefore, this dissertation situates itself within the academic literature on South American development, all the while it reinterprets the South American

experience by focusing on the structure and the role of the state as the main factor behind the continuity of socioeconomic challenges in the region. In this sense, this dissertation advances the state argument to understand what factors explain the presence of socioeconomic challenges in South America's political economy, and to explain why there is no change in these conditions or the political economy to tackle them.

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## INTRODUCTION

### INTRODUCING THE STATE ARGUMENT

*None could equal the lyrical talent of Alexis de Tocqueville, who wrote that the seas of pre European Latin America ‘sparkled with the fires of the tropics; for the first time the extraordinary transparency of the water disclosed the ocean’s depths to the navigators. Here and there little scented islands float like baskets of flowers on the calm sea. Everything seen in these enchanted islands seems devised to meet man’s needs or serve his pleasures.’ Then came the Spanish, and several centuries of colonial mismanagement had left Latin America in disarray. ‘May not revolution be the most natural state for the Spaniards of South America?’ Tocqueville wondered. ‘The people dwelling in this beautiful half continent seem obdurately determined to tear out each other’s guts; nothing can divert them from that objective.’ His summary judgment: ‘There are no nations on earth more miserable than those of South America.’  
Tocqueville had never set foot in Latin America.<sup>1</sup>*

In the last fifteen years, South America has witnessed a significant alleviation of two of its main chronic socioeconomic problems: poverty and inequality. In 2017, a total of 175 million people were estimated to be living in poverty in the region.<sup>2</sup> This stands in stark contrast to the 221 million people estimated to be living in poverty in 2002,<sup>3</sup> marking an important drop in the poverty rate from 44.5% in 2002 to an estimated 29.6% in 2018.<sup>4</sup> A similar trend is observable in terms of income inequality, in which South America

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<sup>1</sup> Schoultz, Lars. 2018. *In Their Own Best Interest: A History of the U.S. Effort to Improve Latin America*. Cambridge: Harvard University Press, p. 14.

<sup>2</sup> OECD/ECLAC/CAF. 2016. *Latin American Economic Outlook 2017: Youth, Skills and Entrepreneurship*. Paris: OECD Publishing, p. 15.

<sup>3</sup> Smith, Peter. 2012. *Democracy in Latin America: Political Change in Comparative Perspective*. New York: Oxford University Press, pp. 228-29.

<sup>4</sup> CEPAL. 2019. *Panorama Social de América Latina, 2018*. Santiago: LC/PUB.2019/3-P, p. 20.

reduced witnessed a reduction of 3 to 4 GINI points between the years 2000 and 2012.<sup>5</sup> These significant improvements occurred in a context of remarkable economic growth; an expansion of commodity exports induced by Chinese consumption and price increases, as well as increased foreign capital due to low interest rates in the United States.<sup>6</sup> The entire region, regardless of the uniqueness of individual cases, was immersed in what appeared to be a significant process of socioeconomic transformation. In fact, South America was able to resist the destructive fallout of the 2008 global financial crisis significantly better than regions like Europe or the United States.

Despite these positive developments, the socioeconomic improvement of the entire region does not seem to have been consolidated. According to the 2016 Human Development Report for Latin America and the Caribbean presented by the United Nations Development Programme, almost 30 million people of those who improved their socioeconomic conditions in the last fifteen years will certainly fall back into poverty in the near future.<sup>7</sup> This becomes more worrisome when one observes the current economic trends of the region, which show significant economic contractions for 2016 and 2017.

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<sup>5</sup> World Bank data suggests 3 points decline on average, while Data from the Socio-Economic Database in Latin America and the Caribbean suggests an average of 4 points decrease. For a discussion on the decline of inequality in Latin America see Tsounta, Evridiki, and Anayochukwu Osueke. 2014. *What Is Behind Latin America's Declining Income Inequality?* International Monetary Fund Working Paper WP/14/124, p. 7.

<sup>6</sup> Low interest rates in the United States created an opportunity for Latin America to attract foreign capital to the region both by providing higher returns to capital investment as well as by fostering economic growth. For a discussion on these conditions and their demise see "Macroeconomic Resilience". 2015. *World Economic Forum*. May 6-8, 2015. <https://www.weforum.org/events/world-economic-forum-latin-america-2015/sessions/macroeconomic-resilience>.

<sup>7</sup> PNUD. 2016. *Progreso Multidimensional: Bienestar Más Allá del Ingreso. 2016*. Programa de Naciones Unidas para el Desarrollo, p. 2.

Both 2015 and 2016 exhibited negative economic growth for South America; a trend that had not occurred since the early 1980s. The primary consequence of these trends is an increase in poverty since 2015 in which an estimated of 9 million people fell into extreme poverty, and overall poverty increased from 174 million people to 182 million people.<sup>8</sup> In terms of inequality, the continent has been able to continue reducing household income inequality, but the rate of decrease has deaccelerated, from an annual average reduction of 1.3% in household income inequality between 2002 and 2008 to an annual average reduction of only 0.3% between 2014 and 2017.<sup>9</sup> The consequence of these socioeconomic trends in the region is an important aggravation in Latin American living standards. On average, Latin America's income per-capita was -2.3% between 2013 and 2018, making the region the only emerging market to see its standards of living decrease in the last years.<sup>10</sup> Therefore, the socioeconomic improvements achieved in the first and a half-decade of the twenty-first century seem to be evaporating in the region.<sup>11</sup>

Current socioeconomic trends in the region are being portrayed as a missed opportunity,<sup>12</sup> but these dynamics are actually not exclusive to the twenty-first century.

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<sup>8</sup> CEPAL. 2019. *Panorama Social de América Latina, 2018*. Santiago: LC/PUB.2019/3-P, p.21.

<sup>9</sup> Ibid, p.17.

<sup>10</sup> Martin, Eric, and Walter Brandimarte. 2019. "As Latin America Gets Poorer, Democracy Itself is Now Questioned," *Bloomberg*. May 8, 2019. <https://www.bloomberg.com/news/articles/2019-05-08/as-latin-america-gets-poorer-democracy-itself-is-now-questioned>.

<sup>11</sup> For a brief discussion on the socioeconomic trends in the region in the past decades, see Ocampo, José Antonio. 2017. "Latin America's Mounting Development Challenges." In *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*, edited by Esteban Pérez and Matías Vernengo, 121-140. California: University of California Press, pp. 122-27.

<sup>12</sup> There is important discussion about the economically transformative opportunity the region missed these past decades both in mainstream conversations as well as in academic discussions. For example, see Pérez Caldentey, Esteban, and Matías Vernengo. 2017. *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*. California: University of California Press; Winter, Brian. 2019.

The apparent dynamic of the modern socioeconomic reality of the region suggests a cyclical condition and continuity. South American societies were able to take advantage of the commodity boom of the 2000s, thereby improving their socioeconomic conditions. Yet once these global conditions changed and commodity prices started to decrease in 2013, the region became once more submerged in the miasma of poverty and inequality. A similar dynamic occurred during most of the twentieth century, in which South America moved from periods of improved economic conditions to periods of increased poverty and income inequality. Perhaps the most evident example of this dynamic is the decline of socioeconomic conditions in the 1980s. After World War II, the region was able to create significant macroeconomic growth and stability under the strategies of Import Substitution Industrialization (ISI) and the developmental state. However, South American states grossed significant debt fueled both by their commitment to subsidizing industrialization as well as the accessibility of loans due to the effect of the petrodollars created during the 1970s-oil crisis.<sup>13</sup> The stagflation created by the oil crisis in the United States and the United Kingdom gave way to neoliberal policies embodied by the administrations of Ronald Reagan and Margaret Thatcher. Once these administrations implemented monetarist policies, interest rates spiked and commodity prices collapsed. The entire region

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“Latin America’s Decade-Long Hangover: The 2010s Started so Well, What Happened?” *Americas Quarterly*. April 9, 2019. <https://www.americasquarterly.org/content/latin-americas-decade-long-hangover> ; and Biller, David, and Eric Martin. 2019. “Lost Decade Specter Haunts Latin America as Big Economies Falter.” *Blomberg*. May 28, 2019. <https://www.bloomberg.com/news/articles/2019-05-28/lost-decade-specter-haunts-latin-america-as-big-economies-falter>.

<sup>13</sup> The oil crisis of the 1970s allowed for oil producing countries to amass significant amount of revenue from oil. This revenue was deposited primarily in commercial banks in the United States and the United Kingdom. The stagflation created by the oil crisis moved bankers to loan funds aggressively to third world countries. For a discussion on the dynamics of the 1980s Latin American debt crisis, see Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, pp. 56-9.

entered into a debt crisis, triggering changes in socioeconomic policy directed at macroeconomic stability. While these policies achieved its stated goal of stability, they also exacerbated inequality, which increased by an annual average of 3% during the 1980s and by an annual average of 1% during the 1990s.<sup>14</sup> Therefore, from a comprehensive perspective, a cyclical dynamic becomes apparent in the socioeconomic conditions of the region, where improvements achieved in the 1950s, 1960s, and 1970s, evaporated in the 1980s and 1990s. While the worsening conditions of the 1990s were offset by the previously discussed improvement of the 2000s, current trends merit an exploration of the present socioeconomic downturn in the region.

In this context, the study of South American political economy presents two fundamental research problems. First, poverty and inequality have characterized the region since colonial times, which makes it indispensable to understand the causes behind this phenomenon. There is a long tradition of Latin American thought—which could be defined as “export-oriented” literature—that points to the region’s reliance and structural predisposition toward primary exports as the main reason for its characteristic poverty and inequality.<sup>15</sup> An important example of this literature is Bulmer-Thomas’ work on South

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<sup>14</sup> Cornia, Giovanni. 2014. “Inequality Trends And Their Determinants: Latin America Over The Period 1990-2010.” In *Falling Inequality In Latin America*, edited by Giovanni Cornia, 23-48. Oxford: Oxford University Press.

<sup>15</sup> Whether explicitly or implicitly, countless academic works have identified Latin America’s structural predisposition to rely on exporting primary products to industrial or industrializing societies as the main explanation for the region’s pervasive continuity of poverty and inequality. Some prominent examples are Prebisch, Raúl, and Gustavo Martínez Cabañas. 1949. “El Desarrollo Económico de la América Latina y Algunos de sus Principales Problemas” *El Trimestre Económico* 63(3): 347-431; Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press; Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno; Prebisch, Raúl. 1976. “A Critique of Peripheral Capitalism.” *CEPAL Review* 1 <https://repositorio.cepal.org/handle/11362/12273>. ; Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary*

America's economic history. In the book *The Economic History of South America Since Independence*, Bulmer-Thomas explains why is it that a resourceful and potentially wealthy region like South America has been historically characterized by poverty and inequality.<sup>16</sup> He argues that the socioeconomic challenges of the region are the result of the combination of several factors, which are what he defines as the commodity lottery, the mechanisms of export-led growth, and the economic-policy environment. Overall, Bulmer-Thomas argues that the type of commodity (temperate or tropical agricultural products, mining, or oil) present in the political demarcation of each country, the volatility of commodity prices and the regulatory mechanisms of the international economic market, and the internal dynamics of exploitation and distribution condition the magnitude and dynamics of socioeconomic conditions in each country of South America. In essence, socioeconomic challenges like poverty and inequality are attributed to the region's economic history of export orientation .

The second research problem emerging from the study of South American political economy is the continuity of poverty and inequality. Both the academic literature and

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*Problems*. Cambridge: Cambridge University Press; Glade, William. 1995. "Latin America in the International Economy, 1874-1914." In *The Cambridge History of Latin America*, edited by Leslie Bethell, 321-26. Cambridge: Cambridge University Press; Skidmore, Thomas, and Peter H Smith. 1992. *Modern Latin America*. New York: Oxford University Press; Adelman, Jeremy. 2001. "Institutions, Property, and Economic Development in Latin America." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press; Abeles, Martín, and Sebastián Valdecantos. 2017. "South America after the Commodity Boom." In *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*, edited by Esteban Pérez and Matías Vernengo, 163-85. California: University of California Press; and Ocampo, José Antonio. 2017. "Latin America's Mounting Development Challenges." In *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*, edited by Esteban Pérez and Matías Vernengo, 121-40. California: University of California Press.

<sup>16</sup> Bulmer-Thomas, Victor. 1994. *The Economic History Of Latin America Since Independence*. Cambridge: Cambridge University Press, pp. 15-7.

policy implementation have pointed at the predominance of commodity commercialization in South America as the reason behind the region's socioeconomic challenges. In this regard, there are two main factors related to poverty and inequality in South America: a) the external conditions of commodity-export commercialization discussed above; and b) the political economy of commodity-export revenue and distribution. There is a vast literature discussing the external conditions of commodity-export commercialization,<sup>17</sup> yet the problem of understanding the continuity of these conditions is intricately related to the political economy of commodity export-revenue and distribution. It is both politically irresponsible and academically basic to simply accept the diagnosis pointing at South America's predisposition for export-orientation at the center of the region's socioeconomic challenges. Thus, developing a historical explanation for the continuity of this export-oriented predisposition becomes indispensable not only for understanding, but ultimately for transforming South America.

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<sup>17</sup> Most of the literature on macroeconomic volatility focuses on the volatile nature of commodity prices. Commodities tend to have, due to their nature as primary goods, a global business cycle with abrupt changes in prices. For a discussion on the issue of commodity volatility see Chapter 6 of Gordon, Wendell. 1965. *The Political Economy Of Latin America*. New York: Columbia University Press; van der Ploeg, Frederic. and Poelhekke, Stephen. 2009. "Volatility and the Natural Resource Curse." *Oxford Economic Papers* 61(4): 727-60, and van Der Ploeg, Frederic. 2010. "Voracious Transformation of a Common Natural Resource into Productive Capital." *International Economic Review* 51(2): 365-81. However, some of the literature on the nature of commodity commercialization—like the early literature of Latin American structuralism characteristic of the Economic Commission for Latin America and the Caribbean (ECLAC)—focuses on the issues of dependency emerging from focusing on such economic activity. For a good discussion on the problems emerging from the reliance on the commercialization of commodities, see Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, pp. 45-58; and Prada Alcoreza, Raúl. 2012. "El Círculo Vicioso Del Extractivismo." In *Renunciar Al Bien Comun*, edited by Gabriela Massuh, 157-87. Argentina: Mardulce.



## ASKING THE RIGHT QUESTIONS

Preoccupations about South America's socioeconomic challenges have been present in the consciousness of the continent for generations. At the turn of the twentieth century, there was a dominant pessimism in the general commentary of the region regarding its socioeconomic condition and its capacity to transform its future.<sup>18</sup> For most of its contemporary history, the South American political discourse has mostly gravitated around socioeconomic development. Both academics and policy makers have focused most of their efforts at understanding and transforming the region's problems of poverty and inequality. The result is a vast tradition in approaches, movements, theories, and political movements throughout South America's geography and historical moments all concerned with the region's political economy. But over and over again, a dominant theme permeates all the efforts at understanding and transforming the region's socioeconomic reality: questioning why South America appears incapable of doing so. Whether at the turn of the twentieth century, in the 1960s after the failure of industrialization efforts, or at the turn of the twenty-first century after the failure of the neoliberal reform agendas of the 1990s, the question was always about failure. For instance, in the 1960s, Fernando Henrique Cardoso and Enzo Faletto wondered why South American countries did not take the necessary measures to guarantee a continued development under industrialization and why the ones that were implemented ultimately failed.<sup>19</sup> Similarly, at the turn of the twenty-first century,

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<sup>18</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 37.

<sup>19</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p.4.

Jeremy Adelman wondered why South American societies failed to successfully use the revenue from exports to transform the socioeconomic outlook of the region.<sup>20</sup> Ultimately, after one of the greatest commodity booms in the history of the region, several authors are wondering why the region missed an incredible opportunity to move their countries toward a sustainable and overarching development path.<sup>21</sup>

Global studies about development and trade irrefutably show that export-oriented strategies create growth even in industrializing or developing countries.<sup>22</sup> South America has not been an exception to this phenomenon, the region has had various eras of economic growth under an export-oriented strategy. But regardless of these moments of growth, over two hundred years of studying South American political economy have created three certainties for any informed observer: 1) the region is predisposed to rely structurally on export-oriented growth; 2) regardless of any temporary improvements, socioeconomic challenges like poverty and inequality are a constant in South American political economy; and 3) regardless of the political or intellectual movement of the era, the region seems incapable to transform its socioeconomic reality. But if trade irrefutably leads to growth, and South America has historically relied on trading primary products, then the obvious question is why does South America continues to suffer deep structural socioeconomic challenges? This question has been at the center of the literature of political economy in

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<sup>20</sup> Adelman, Jeremy. 2001. "Institutions, Property, and Economic Development in Latin America." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press, p. 46.

<sup>21</sup> Caldentey, Esteban, and Matías Vernengo. 2017. *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*. California: University of California Press

<sup>22</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, p. 48.

South America. Perhaps the earliest attempts at answering this question emerge from the colonial era, which point at some sort of cultural inadequacy of South American's to govern themselves effectively. The rationale is that the Spanish and Portuguese conquest instilled in the continent a mixture of Catholic obscurantism, autocratic absolutism, and forced labor values that has been passed through generations creating a society of mysticism and status seeking with rebellious passions.<sup>23</sup> The cultural logic was present in early representations of South America by U.S. emissaries in the region, which described them as Catholic societies led by corruption, warlords, deeply poor, and with weak economies incapable of governing themselves.<sup>24</sup> In fact, John Quincy Adams, both as Secretary of State and President of the United States from 1817 to 1829, asserted that South Americans were incapable of governing themselves in a successful way, stating that "the people of South America are the most ignorant, most bigoted, the most superstitious of all the Roman Catholics in Christendom."<sup>25</sup> Moreover, late twentieth century approaches like the staple theory have also stated the cultural argument, pointing at European culture as a fundamental factor in development outcomes in recent settlement lands like Uruguay, Argentina, Costa Rica, or Chile.<sup>26</sup> Overall, the cultural argument is rooted in the Black

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<sup>23</sup> Adelman, Jeremy. 2001. "Institutions, Property, and Economic Development in Latin America." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press, p. 28.

<sup>24</sup> Schoultz, Lars. 2018. *In Their Own Best Interest: A History of the U.S. Effort to Improve Latin America*. Cambridge: Harvard University Press, p. 16.

<sup>25</sup> Schoultz, Lars. 1998. *Beneath the United States: A History of U.S. Policy Toward Latin America*. Cambridge: Harvard University Press, p. 5.

<sup>26</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, pp. 171-72

Legend, “a fabrication of sixteenth-century Elizabethan mythologizers aiming to debunk Spanish claims to sovereignty in the New World... which has survived the test of time and empirical verification with astounding agility.”<sup>27</sup> Yet the cultural argument is deeply problematic for several reasons; two of which are worthy of mentioning. First, the cultural argument is based on the premise that there are certain cultural values that are better suited for economic growth, and that these values are intrinsically linked to some ethnic or geographically located group. It is self-evident that this logic is not only borderline racist, but it also implicitly suggests that certain groups of people are superior than others, and that inferior groups are incapable of adopting the “right” cultural values to create economic development. But the second problem of the cultural argument is actually the empirical record. On the one hand, several Catholic cultures around the world, and even Iberian cultures in Western Europe, have been able to achieve incredible levels of socioeconomic development. On the other hand, several countries with various cultural values have achieved impressive levels of socioeconomic development throughout history.<sup>28</sup> Beyond its morally problematic undertones, the cultural argument is baseless when confronted to the empirical record.

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<sup>27</sup> Adelman, Jeremy. 2001. “Institutions, Property, and Economic Development in Latin America.” In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press, pp. 28-9.

<sup>28</sup> An important example of the inadequacy of the cultural argument as an explanation for development outcomes are the successes of countries like Japan or South Korea. Most notably, the cultural argument finds a difficult challenge in the case of North Korea, which has a very similar cultural value system to that of South Korea, yet its socioeconomic trajectory could not be more contradictory. For a discussion on the cultural argument see Caldentey, Esteban, and Matías Vernengo. 2017. *Why Latin American Nations Fail: Development Strategies in the Twenty-First Century*. California: University of California Press, p. 2.

Another significant answer to the question of continuity of socioeconomic challenges in South America points at geographical limitations as a factor for the economic development in the region. Overall, geography arguments point at an array of geographical factors to explain socioeconomic challenges ranging from temperature to access to the sea. While a survey of the geographical argument and its variations is beyond the effort of this paragraphs,<sup>29</sup> the main thesis states that it is geographic differences, and not racial or ethnic differences, what explain development outcomes.<sup>30</sup> In particular, the geography argument suggests that the determinant of socioeconomic outcomes lies in the way geographic characteristics of an environment interact with the settlement patterns of populations.<sup>31</sup> At first glance, the geographical argument seems compelling given that, for instance, most poor countries are located in tropical areas or that the poorest countries in South American have historically been landlocked Bolivia and Paraguay. In relation to South America, the geography argument points at the fragmented patterns of settlement given the different geographical characteristics present within national boundaries. Any South American high school student has read how the vastness and fragmentation of the Great Colombia, and the difficulty to control such geographical area, is one of the causes for its ultimate collapse. However, similarly to the culture argument, once the geography argument is confronted with the empirical record it becomes problematic. In an effort to measure geography's

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<sup>29</sup> For a discussion on the geography arguments and their inadequacies in explaining development outcomes see Chapter 2 in Acemoglu, Daron, and James Robinson. 2012. *Why Nations Fail: the Origins of Power, Prosperity, and Poverty*. New York: Crown Business, pp. 45-69.

<sup>30</sup> Gallup, John Luke, Alejandro Gaviria, and Eduardo Lora. 2003. *Is Geography Destiny? Lessons from Latin America*. Washington DC: Inter-American Development Bank, p. 4.

<sup>31</sup> *Ibid.* p. 7.

impact on the development outcomes of South America, Gallup, Gaviria, and Luke findings problematize the geography argument. First, by studying geography's impact on Bolivia's development, they find that tropical climates do not always generate negative socioeconomic outcomes. Second, Colombia shows how access to coasts and port cities do not necessarily have an geographic advantage over central areas. Third, the case of Brazil shows that the connection between geography and diseases is far more complicated than expected by the geography argument; meaning that it does not necessarily affects socioeconomic outcomes.<sup>32</sup> Ultimately, what is most striking about testing the geography argument in South America is that "institutional and historical forces often redirect, reinforce, or even undermine the effects of geography."<sup>33</sup> Therefore, if the effects of the geography argument can be drastically shaped by institutions or history, then it is clear that geography is, at best, an intervening variable on development outcomes in South America.

A recent and growing body of literature suggests that the reason why South American countries continue to present socioeconomic challenges despite the positive effects of trade on economic growth is the presence of long-run problems with exporting commodities. Overall, this literature suggests that while exporting commodities creates important short-term macroeconomic improvements like economic growth or positive balance of trade, it also creates political and economic problems given the nature and commercialization of natural resources. The resource curse argument, like the geography argument, presents an array of mechanisms through which commercializing commodities

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<sup>32</sup> Ibid. p. 126.

<sup>33</sup> Ibid.

negatively affect development outcomes that can be summarized as: 1) de-industrialization; 2) macroeconomic volatility; and 3) rent-seeking political behavior.<sup>34</sup> The resource curse argument states that reliance on a growth strategy of natural resource exports creates important de-industrialization in the long term. It argues that the problem lies in the negative effects the surplus generated by exploiting and exporting natural resources has on other productive areas of the economy. Especially during commodity booms, the increased demand for expanding exports pressures the appreciation of the local currency relative to the main medium of exchange in the international system—the dollar is the medium of exchange in the modern international economy.<sup>35</sup> Once the local currency appreciates, producing non-primary products at home for consumption becomes relatively more expansive than importing them while activities in the export sector become more lucrative. These dynamics lead to a contraction in the non-primary industries, ultimately leading to de-industrialization given the reallocation of productive resources to export sectors.<sup>36</sup> De-industrialization creates important socioeconomic dislocations based on the reduction of the real factor productivity of the entire economy. More importantly, de-industrialization and the concentration of economic activity create important dislocations in the labor market. Given that many extractive productive activities are significantly

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<sup>34</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, p. 48.

<sup>35</sup> Corden, Max, and Peter Neary. 1982. “Booming Sector and De-industrialisation in a Small Open Small Economy.” *Economic Journal* 92(368): 825-48; and Corden, Max. 1984. “Booming Sector and Dutch Disease Economics: Survey and Consolidation.” *Oxford Economic Papers* 36(3): 359-80.

<sup>36</sup> Sachs, Jeffrey and Andrew Warner .1995. “Natural Resource Abundance and Economic Growth.” In *Leading Issues in Economic Development*, edited by Gerald Meier and James Rauch, 161-67. Oxford: Oxford University Press.

capital intensive, their capacity to create labor is relatively smaller than other industries. The ultimate result is the creation of enclave economies, generating significant socioeconomic challenges such as unemployment, poverty, or inequality.<sup>37</sup>

The resource curse argument also points at the macroeconomic volatility created by a reliance on commodity exports as a problem for development outcomes. A high dependence on the commercialization of primary products exposes countries to considerable macroeconomic imbalances since the price of commodities fluctuates suddenly and dramatically on the international economic market.<sup>38</sup> Countries with significant primary product exports tend to base their entire economic budgets and prosperity on the successful commercialization of commodities. The volatility of commodity prices changes the amount of revenue a country receives, constraining long-term macroeconomic planning or stability by affecting expectations. The apparent expansion of the economy driven by export revenue hinders political leaders from identifying proper economic policy that can guarantee sustained growth. Therefore, the commercialization of commodities allows for periods of artificial economic growth driven by export revenue, but policymakers tend to fail to understand the short-lived nature of the

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<sup>37</sup> Gudynas, Eduardo. 2009. "Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual." In *Extractivismo, Política y Sociedad*, 187-225. Ecuador: Centro Andino de Acción Popular y Centro Latinoamericano de Ecología Social.

<sup>38</sup> For a discussion on commodity price volatility, see Blattman, Christopher, Jason Hwang and Jeffrey Williamson. 2007. "Winners and Losers in the Commodity Lottery: the Impact of Terms of Trade Growth and Volatility in the Periphery 1870–1939." *Journal of Development Economics* 82: 156–79; Deaton, Angus. 1999. "Commodity Prices and Growth in Africa." *Journal of Economic Perspectives* 13: 23–40; and van der Ploeg, Frederic and Steven Poelhekke. 2009. "Volatility and the Natural Resource Curse." *Oxford Economic Papers* 61(4): 727-60.



boom and do not adopt growth promoting policies.<sup>39</sup> Moreover, the macroeconomic volatility created by a dependence on exporting primary products perpetuates socioeconomic inequality.<sup>40</sup> Resource rich countries experience macroeconomic cycles based on international market fluctuations, so during commodity booms inequality decreases and economic performance improves, yet once the commodity boom disappears inequality increases once more with aggravating consequences given distorted policy making and expectations.

The resource curse argument also highlights rent-seeking political behavior as an explanatory factor of negative development outcomes. The resource curse argument states that the presence of natural resources have a negative impact on the behavior of political actors and political processes.<sup>41</sup> Given the immense attractiveness in revenue appropriation and the relative ease of discriminatory access to primary activities, countries that rely on a growth strategy of commodity exports are prone to perpetuating political processes that increase income inequality and reduce the political power of the vast majority of the population.<sup>42</sup> The resource curse argument explains that political elites influence the state through bribery, pacifying dissent instead of incorporating it into the political system, and reducing public accountability in order to resist structural changes that might threaten their

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<sup>39</sup>. For a discussion on the planning problems created by commodity price volatility, see Wallich, Henry. 1960. *Monetary Problems of an Export Economy*. Cambridge: Harvard University Press.

<sup>40</sup> Goderis, Benedikt and Samuel Malone. 2011. "Natural Resource Booms and Inequality: Theory and Evidence." *Scandinavian Journal of Economics* 113(2): 388-417.

<sup>41</sup> Chiasson-LeBel, Thomas. 2016. "Neo-Extractivism in Venezuela and Ecuador: A Weapon of Class Conflict." *The Extractive Industries and Society* 3: 888-901.

<sup>42</sup> Bourguignon, Francois, and Thierry Verdier. 2000. "Oligarchy, Democracy, Inequality and Growth." *Journal of Development Economics* 62(2): 285-313.

privilege position as owners of extractive activities.<sup>43</sup> Therefore, the resource curse argument highlights that since extractive activities make it easier for elites to appropriate revenue and discriminate vast sectors of society, then the political process is distorted and socioeconomic distortions are perpetuated.<sup>44</sup>

In contrast to the cultural argument and the geography argument, the resource curse argument has gained important traction in the contemporary academic literature. In fact, most of the literature on the resource curse presents a wide array of contemporary empirical cases that substantiate many of its claims. It is in fact evident—as it will be showed subsequently—that the mechanisms through which a reliance on export commercialization negatively affects development outcomes are present in South America. However, the resource curse argument presents a fundamental problem evident in the face of different empirical experiences. Both global and regional experiences show a significant degree of variation in terms of development outcomes, yet they also present important presence and

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<sup>43</sup> Social property relations refer to the division between those individuals in society that buy labor and those individuals in society that sell labor. The state is the one who primarily regulates this market, and those who tend to buy labor are also the ones who control rents. Classical political economy defines rent as a type of income that emerges from property rather than labor or capital. Like the labor market, rents are regulated by the state, given that it is the most political of all revenue. Therefore, the state becomes central in social property relations since it defines the terms of the labor market and assign the legitimate ownership over rent revenue. Chiasson-LeBel, Thomas. 2016. “Neo-Extractivism in Venezuela and Ecuador: A Weapon of Class Conflict.” *The Extractive Industries and Society* 3: 888-901, p. 881.

<sup>44</sup> For a discussion on how a reliance on commodities affects political institutions, see Ross, Michael. 1999. “The Political Economy of the Resource Curse.” *World Politics* 51(2): 297-322; Ross, Michael. 2001. *Extractive Sectors and the Poor*. Oxfam America; Acemoglu, Daron, James Robinson, and Thierry Verdier. 2004. “Kleptocracy and Divide-and-Rule: A Model of Personal Rule.” *Journal of the European Economic Association* 2(2-3): 162-92; Bourguignon, Francois, and Thierry Verdier. 2000. “Oligarchy, Democracy, Inequality and Growth.” *Journal of Development Economics* 62(2): 285-313; Isham, Jonathan, Michael Woolcock, Lant Pritchett, and Gwen Busby. 2005. “The Varieties of Resource Experience: Natural Resource Export Structures and the Political Economy of Economic Growth.” *World Bank Economic Review* 19(2): 141-74; and Boschini, Ann, Jan Pettersson, and Jesper Roine. 2007. “Resource Curse or Not: A Question of Appropriability.” *Scandinavian Journal of Economics* 109(3): 593-617.

reliance on exploiting and exporting primary products. Globally, the economies of many industrialized countries have significant primary products sectors exploited for exports. Countries like Australia, Norway, Canada, or the United States continue to have important export-oriented exploitative sectors in the twenty-first century, yet it is obvious that they do not have the pervasive problems described by the resource curse argument.<sup>45</sup> Moreover, the historical development of the United States, the United Kingdom, and Germany were largely spurred by the extraction of primary products. In fact, from the mid-nineteenth century to the mid-twentieth century the U.S. was the leading mineral abundant economy in the world. Moreover, Germany and the United Kingdom were capable of exploiting their coal and iron resources to trigger their industrial development, reaching industrialization and avoiding the pervasive limitations described by the resource curse argument.<sup>46</sup> Therefore, it is evident that the mere abundance of natural resources or export-oriented strategies is not sufficient to explain the developmental challenges of South America.

The developmental experience of South American countries also shows important variation in terms of development outcomes. While there are some generalizable trends observable throughout the region, the socioeconomic reality of Chile differs drastically from that of Bolivia. The same is true for the socioeconomic reality of Uruguay in comparison to that of Venezuela, and between these apparent extremes there is a wide array

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<sup>45</sup> The experiences of countries like Australia, Norway, Canada, or the United States show that the relationship between the commercialization of commodities and development is not deterministic. For a discussion on the experience of these countries and the effects of resource abundance on development, see Hujo, Katja. 2012. *Mineral Rents and the Financing of Social Policy: Opportunities and Challenges, Social Policy in a Development Context*. New York: Palgrave Macmillan.

<sup>46</sup> Van der Ploeg, Frederick. 2011. "Natural Resources: Curse or Blessing?" *Journal of Economic Literature* 49: 366-410, p. 369.

of experiences within contained regional dynamics. What makes mineral abundant Chile significantly different from mineral abundant Bolivia? What differentiates agriculturally oriented Uruguay from oil dependent Venezuela? The resource curse argument proficiently explain the commonality between these countries—the continued presence of some relatively high level of poverty and inequality—but fails short to explain the variation in experiences. Therefore, while the resource curse argument provides important insight on the processes that condition developmental outcomes in the presence of primary products, it cannot explain why those processes exist in some natural-resources-abundant-export-oriented societies and not others. More importantly, while the resource curse argument outlines the incentives for elites to subvert the political process and perpetuate development distortions, it fails to explain why the political process in South America is unwilling or unable to overcome such subversion and transform the socioeconomic reality of the region. Therefore, it is indispensable to formulate an explanation capable of answering these questions. It is fundamental to outline the continuity of South American socioeconomic distortions theoretically under a framework capable of accounting for both the global and regional variance in development outcomes.

## GIVING THE RIGHT ANSWERS

South American countries have the declared willingness and the material capacity to transform their societies. Neither their geography nor their cultural heritage sit as impeding factors to achieve a different socioeconomic reality. In fact, part of their geography actually provides immense material resources to ignite a process of structural transformation capable of eliminating the region's developmental distortions. History has

chronicled the countless approaches, theories, and political movements that have risen in order to resolve the region's poverty and inequality. Whether classic liberalism in the late nineteenth century, structuralism in the early twentieth century, neoliberalism in the late twentieth century, or progressive democratic socialism and developmentalism in the twenty-first century, the region has witnessed many intellectual attempts at understanding its problems and resolving poverty and inequality. Consequently, South America has been dominated by regimes ranging from republicanism, personalistic dictatorships, bureaucratic authoritarianism, socialist revolutions, and liberal and illiberal democracies with the declared commitment to improve the material reality of the region. But regardless of the variation in ideology and political movements, South America's political economy continues to present two of its most historic characteristics: a predisposition to rely on exporting primary products and the socioeconomic consequences of such strategy, poverty and inequality.<sup>47</sup>

A satisfactory explanation for this reality must be able not only to explain the regions productive predisposition but also its incapacity or unwillingness to transform it. In other words, it is not sufficient to point at the processes that create poverty and inequality. What is required is the formulation of a historically totalizing understanding that explains the causes that created the conditions for poverty and inequality to arise while also explaining the continuity of such conditions. Poverty and inequality are the symptoms

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<sup>47</sup> There is a growing body of academic literature on neo-extractivism which argues that the contemporary political economy of the region is an exacerbation of historical of commodity export in the region. Specifically, it argues that the so-called progressive governments of the twenty-first century did not transform the structural and material reality of the continent. For a discussion on this phenomenon, see Burchardt, Hans-Jürgen and Dietz, Kristina. 2014. "(Neo-) extractivism – a New Challenge for Development Theory from Latin America." *Third World Quarterly* 35(3): 468-86.

of a deep *problématique* at the root of South American societies, and the region's predisposition toward exporting primary products is the process through which such *problématique* manifests. South American societies have a structural condition that perpetuates these socioeconomic conditions, they organized around productive activities that generate periods of material improvement and periods of increased poverty and inequality. For this organizing factor to explain the continuity of export orientation and socioeconomic problems, it needs to be present throughout South American modern history. As it is evident with the culture argument, the geography argument, and the resource curse argument, variance cannot explain continuity and continuity cannot explain variance. There must be a condition driving the continuity of the processes and consequences of socioeconomic distortions.

The organizational factor that has been consistent throughout South American history is the state. South American societies organized around a state that grew structurally and functionally around productive activities that generate poverty and inequality. In other words, the South American state developed structurally and functionally around the exploitation of primary products for export. Therefore, any structural transformation of South American socioeconomic reality would unavoidably imply a structural transformation of the state. Throughout South American history, the South American state found structural ground and functional articulation around the legitimation and material resources it derived from exploiting natural resources for export. Every ideological or political movement that has reached the state in South America has confronted the same reality although inadvertently: the structural conditions that maintain the material viability of the state are the same ones that perpetuate the processes that cause socioeconomic

distortions in the region. Instead of arguing that the continuity of South American development challenges is the result of cultural values, geographic conditions, or elite behavior anathema to development, the state argument suggests that the continuity of a predisposition for exporting primary products and its socioeconomic consequences are because of the structural organization of the state.

The state argument is rooted in two important bodies of academic literature: the literature on the formation of the South American state and Dependency theory. The literature on the South American state is focused on how the state developed, particularly pointing at its post-independence period of inception and its late nineteenth century consolidation. Overall, there are two observable approaches within the literature on the formation of the South American state: 1) a more traditional, historical, and literary work approach that studies historically grounded narratives of state formation; and 2) a neo-institutionalist approach focusing on rational choice and the economies of state formation.<sup>48</sup> Despite the methodological and epistemological differences, the traditional and neo-institutional approach present a consensus regarding the formation of the South American state. First, most accounts on state formation agree that the ideology of those building the state influenced, to some extent, the decisions taken in the process. Most of the literature points at the liberal preference of the post-independence *criollo* leadership in South America as a factor in the formation of the state. Second, the literature points at the

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<sup>48</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando López-Alves, 153-76. New Jersey: Princeton University Press, pp. 154-55.

end of the nineteenth century as the period in which the South American state consolidated.<sup>49</sup> Therefore, the literature on the formation of the South American state points at the nineteenth century as a fundamental period of study in order to understand the role of the state in development outcomes in the region.

There is another fundamental factor for the study of the role of the state in development outcomes highlighted in the literature on the formation of the South American state. Although there is no explicit affirmation of this, there is an unequivocal consensus regarding the structural basis for the South American state. Most of the literature on the formation of the state in the region discusses whether the European models of state formation apply to the South American experience. While many find incidental coincidences between the two experiences, the verdict is the same: the South American state did not follow the European model, but instead grew and consolidated as a consequence of the first wave of globalization, developing in tandem with external variables.<sup>50</sup> Specifically, the literature on the formation of the South American state highlights that the state developed in the nineteenth century in parallel with the expansion of the international economy, and in particular with the expansion of the primary products export sector that swept region in the second half of the century.<sup>51</sup> In fact, controlling the exploitation of natural resources became fundamental for the South American state. The

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<sup>49</sup> Ibid. p. 155.

<sup>50</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 161.

<sup>51</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 114.



colonial experience impregnated regional leaders of the importance of controlling the value and exploitation of natural resources for the state to function properly, making it imperative for the domination of the export economy at the center stage of state formation.<sup>52</sup> Hence, the state argument not only requires studying the nineteenth century but also the intricate relation between the South American state, the international economy, and the exploitation of natural resources.

The state argument is also rooted in Dependency theory's focus on the interplay between internal and external factors in the formulation of development outcomes. Dependency theory argues that development outcomes in South America are the result of historical processes that maintain the region in a position of producer of primary resources. Similarly to the literature on the formation of the South American state, Dependency theory also considers the nineteenth century as a critical period to understand the socioeconomic reality of the region. It is at this moment in time when the interconnectedness between South America and the international economy is consolidated. While the colonial period was also an important point in the expansion of global capitalism that connected South America with the rest of the world, it is in the nineteenth century that the region was forced to play in the international game. This subjugation maintained the region incapable of escaping a condition of socioeconomic relegation, and the international context played a negative role in shaping such reality.<sup>53</sup> Therefore, Dependency theory focuses not only on

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<sup>52</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 164.

<sup>53</sup> *Ibid.* p. 170-71.

how internal structures affect developmental outcomes, but also how the international context affected both internal structures and socioeconomic realities. In other words, Dependency theory focuses on studying internal structures but rejects the idea that they developed in a vacuum. The fact is that the internal structures that maintain the predisposition to export primary products in South America are the result of the interconnectedness of between external and internal factors, and they reflect a historical process of domination between different social classes and how they interact with the internal and external environment.<sup>54</sup> If the state argument explains the continuity of socioeconomic distortions in South America and positions the structure of the state at the center of the analysis, then it must also focus on the context in which the state emerged and consolidated to elucidate the influence of external factors in its formation.

The state argument is not in dissonance with the literature on South American political economy. There is a long tradition embedded in the consciousness of regional scholars that considers the South American state as the most powerful actor of the political and economic systems.<sup>55</sup> The state argument follows this tradition by recognizing not only the centrality of the state in changing socioeconomic structures, but also as the fundamental actor in the continuity of productive processes that perpetuate South America's development challenges. In this sense, the theoretical logic of the state argument rests on the premise that organizing a society around exploiting primary products for export

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<sup>54</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 14-5.

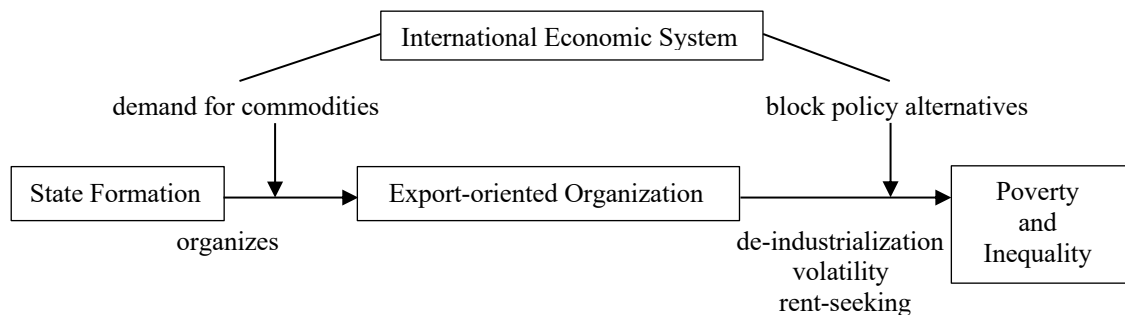
<sup>55</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 172.

generates problems like poverty and inequality. While there is a vast array of academic and political movements that have highlighted this problem, the state argument suggests that the structure of the South American state perpetuates the productive processes of extraction and the socioeconomic consequences of poverty and inequality. The reason behind the state's unwillingness or incapacity to transform the productive processes of South America to address the continuity of development challenges in the region lies in its structural and functional dependence on such processes. The South American state grew and consolidated structurally and functionally around the exploitation and export of primary products, and transforming these realities would require a deep structural transformation of the state. The actors that reach the state have little if no incentive to endanger their political survival by embarking on a structural transformation of the state that would not guarantee the state's viability, and by consequence, their own political success. This dynamic is aggravated in an international economic context where there are massive incentives to maintain exploitation processes in the form of consumption demand for primary products.

Moreover, the international context not only incentivizes South American states to maintain their predisposition towards export-oriented productive activities. The international context, through the action of other actors in the international economic system, restricts the possibility for implementing alternative policies that could transform the region's socioeconomic reality. Dependency theory highlights the active role that industrialized and countries play, through asymmetric relations of power, in perpetuating the region's socioeconomic reality. However, this is not exclusive of Dependency theory; many critics of the contemporary international economic system denounce how the current infrastructure of the global economic relations is designed to perpetuate the privilege

position of industrialized countries relative to that of peripheral societies.<sup>56</sup> Industrialized countries maintain their privilege position by denying policy alternatives to peripheral countries that they implemented openly while industrializing. A clear example of this are current trade regulations, which prohibit domestic governments from shaping industrial growth by protecting, subsidizing, or directing domestic capital to strategic areas vis-à-vis international capital.<sup>57</sup> Therefore, the structure of the international economic system not only incentivizes but also forces South American states to maintain the export-oriented productive processes that create poverty and inequality. In this sense, Figure 1 presents an illustration of the major propositions theorized by the state argument.

**Figure 1. Illustration of the State Argument**



<sup>56</sup> Chang, Ha-Joon. 2005. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press.

<sup>57</sup> The current international system closes policy alternatives to peripheral areas like South America through the implementation of specific trade rules designed to punish their implementation. A clear example of these are the TRIMS and the TRIPS, the financial and goods’ regulations established by the World Trade Organization. For a discussion on the role of these rules in reducing the policy space of development countries, see Wade, Robert. 2003. “What Strategies are Viable for Developing Countries Today: The World Trade Organization and the Shrinking of the Development Space.” *Review of International Political Economy* 10 (4): 621-44; and Wade, Robert. 2014. “‘Market versus State’ or ‘Market with State’: How to Impart Directional Trust.” *Development and Change* 45(4): 777-98.

The previous discussion about the contemporary socioeconomic trends in South America highlights the cyclical dynamic of economic growth and poverty and inequality in the region. More importantly, contemporary socioeconomic trends in the region highlight the continuity of two important characteristics of South America's political economy: a predisposition toward exporting primary products and socioeconomic distortions like poverty and inequality. The literature establishes the predisposition toward exporting primary products as the cause for development challenges. However, the cultural, geography, and resource curse arguments do not explain why—given the region's awareness of the pervasive consequences of relying on exporting commodities—South America maintains an export-oriented political economy. In other words, if the oldest development policy aspiration of the region has been to direct the resources extracted from international trade into the articulation of a sustainable domestic economy,<sup>58</sup> then why is it that South America has been historically unable to do so?

Building from the resource curse argument, the literature on the formation of the South American state, and Dependency theory, the state argument states that the structural and functional formation of the South American state around extractive activities explains the continuity of the characteristics of the region's political economy. The state relies on the functionality and material resources that the extractive economic activities provide, and changing them requires threatening transforming the state and threatening its viability. Ultimately, the international economy incentivizes the maintenance of the state structure

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<sup>58</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New York: D. Van Nostrand Company, Inc, p. 55.

through commodity consumption while also limiting the possibilities for change by prohibiting and punishing alternative policies.

The state argument presents a historically totalizing explanation to the continuity in South America's socioeconomic distortions. Yet a historically totalizing explanation requires not only the provision of a continuous condition capable of explaining continuity but also a theoretical framework that encapsulates the region's socioeconomic processes under an encompassing understanding of the world. In order to create such encompassing framework, it is necessary elucidate both the historical processes that sustain the state argument and the theoretical premises that illuminate its contextual and continued importance. Moreover, for the state argument to gain relevance as an explanatory approach for the political economy of South America, it is necessary to articulate the specific mechanisms through which the logic of the state argument becomes observable in reality. These mechanisms then need to be confronted to the empirical reality in order to gauge their validity as well as the overall traction of the state argument. In light of all this, it is evident that building the entire intellectual structure on which the state argument rests is a considerable effort; one that requires the allocation of resources such as time, dedication, and academic justification. Thus, before moving forward with this endeavor, it is necessary to outline the justification for the state argument and for studying South American political economy in general.

## THE CENTRALITY OF THE STATE ARGUMENT

It has been established that there is a long tradition of studying the socioeconomic reality of the region embedded in the consciousness of South American thinkers and policy

makers. The region has been the object of study for a multitude of intellectual approaches emerging within and outside South America. In fact, the most important South American contributions to the academic disciplines of Sociology, Economics, and International Relations are intrinsically related to the region's political economy. Given the vast literature on Latin America's political economy, is it necessary to allocate all of the required resources toward another study on the region's socioeconomic reality? It is not improper to consider whether there is anything else to say about South American historical development. Yet the contemporary socioeconomic dynamics of the region provide evidence a continuity in development distortions that require investigation. There are also other disciplinary, theoretical, and practical considerations for embarking on another historical study of South American political economy. Thus, the justifications for approaching this subject vary in terms of abstraction and generality, and can be consolidated as: 1) the current state and nature of the discipline of International Relations; 2) the current state of the field of South American political economy; 3) the role of the state in political economy; and 4) the practical implications of South American political economy.

The first justification for studying South American political economy is the ethnocentric nature of International Relations as an academic discipline. The history of International Relations (IR) as an academic discipline is characterized by common points of reference for any practitioner in the field. These points of reference are the inception of the field with the first Department of International Politics in Aberystwyth, Wales, in 1919, the evolution of the field with the predominance of Realism in the first debate, then the preeminence of behavioralism after the second debate, and then the eclecticism of the third

or paradigmatic debate. The academic lineage of the discipline is told as a sequence of clear episodes that moved the field forward, portraying an idea of progress that many question. Important discussions problematize the general myth about the history of the academic field International Relations, pointing to significant inconsistencies in the narrative.<sup>59</sup> In particular, these works highlight the myths surrounding the foundational debates of the discipline, pointing to their simplification of the prominent arguments of the era as well as the false notion of victors emerging from the debates.<sup>60</sup> The recurrence of this and other malpractices in the historiography of the discipline comes from the constant retelling of familiar yet usually under scrutinized arguments about the field. Perhaps the clearest example of this malpractice is the pivotal role of Stanley Hoffmann's article "An American Social Science: International Relations" in the history of the field. In the first section of the article subtitled "Only in America," Hoffmann argues that a discipline like International Relations could have only emerged in the United States because of certain unique institutional, methodological, and political characteristics of the United States context.<sup>61</sup>

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<sup>59</sup> Nayak, Meghana, and Eric Selbin. 2010. *Decentering International Relations*. New York: Zed Books, pp. 4-8.

<sup>60</sup> For a discussion on the problematic nature of the historiography of International Relations, see Khaler, Miles. 1997. "Inventing International Relations: International Relations Theory after 1945." In *New Thinking in International Relations Theory*, edited by Michael Doyle and John Ikenberry, 20-53. Colorado: Westview Press; Crawford, Robert and Darrel Jarvis. 2001. *International Relations - Still an American Social Science?* Albany: State University of New York Press; and Schmidt, Brian. 2012. "On The History And Historiography Of International Relations." In *Handbook Of International Relations*, edited by Walter Carlsnaes, Thomas Risse, and Beth Simmons, 1-28. London: SAGE

<sup>61</sup> Hoffmann, Stanley. 1977. "An American Social Science: International Relations." *Daedalus* 106 (3): 41-60, pp. 41-50.



While Hoffman's argument is ad hoc and therefore problematic,<sup>62</sup> he points at a crucial deficiency at the center of International Relations: ethnocentrism.

Although not explicitly, Hoffmann points to the problem of ethnocentricity in International Relations in his discussion about presentism in the discipline. Hoffmann argues that International Relations has been absorbed by the principles, preoccupations, and methodologies of the United States because of its predominance in the world.<sup>63</sup> Such predominance in the discipline creates problems of presentism and omission.<sup>64</sup> By being predominantly Euro-U.S. centered, the field fails to ask questions that are important to the rest of the globe, and it fails to question the applicability of its core principles to other political entities that differ drastically with the United States. In the relatively recent context of disciplinary self-reflection in International Relations, the problem of the field's ethnocentrism is of particular importance, and many authors from different academic and geographical backgrounds have pointed to the U.S.-European dominance of the field and the many problems it creates.<sup>65</sup>

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<sup>62</sup> Wæver, Ole. 1998. "The Sociology Of A Not So International Discipline: American And European Developments In International Relations." *International Organization* 52(4): 687-727, pp. 691-92.

<sup>63</sup> Hoffmann, Stanley. 1977. "An American Social Science: International Relations." *Daedalus* 106 (3): 41-60, pp. 56-7.

<sup>64</sup> Hoffmann argues that the discipline has been dominated by the academic standards and the political imperatives of the United States, moving the field of inquiry away from many important areas such as the study of hierarchies or relations between the weak and the strong. For a discussion on presentism and omission, see Hoffmann, Stanley. 1977. "An American Social Science: International Relations." *Daedalus* 106 (3): 41-60, pp. 58-9.

<sup>65</sup> For a succinct discussion on the different voices criticizing IR's US-European centrism, see Tickner, Arlene, and David Blaney. 2012. *Thinking International Relations Differently*. New York: Routledge, pp. 1-13.

The above mentioned trend of self-reflection about the history of the field has called for the inclusion of different sources of knowledge. The inclusion of different voices in the discipline is an imperative, given that their inclusion ultimately improves the field's capacity to answer to as many issues as possible affecting as many people as possible.<sup>66</sup> Despite the thrust of self-reflection literature and the demand for other voices, at some point the discipline failed at studying International Relations "from third world perspectives."<sup>67</sup> However, more recent works suggest an effort at "decentering" International Relations, increasing the voices in the field and incorporating explanations based on a multitude of empirical realities.<sup>68</sup> The effort is twofold: on the one hand, to incorporate non-Western academic voices in the production of theoretical knowledge; and on the other hand, to engage core principles in the field and challenge them through non-Western empirical contexts. Therefore, concepts like the state, war, anarchy, or power are confronted with the experience of political entities in various historical, cultural, and regional contexts transcending the European Westphalian model. Moreover, the primacy of power as an extension of material capabilities such as military prowess is challenged by the prioritization of development by the Global South. The logical implication of this

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<sup>66</sup> Tickner, Arlene. 2003. "Seeing IR Differently: Notes From The Third World." *Millennium: Journal Of International Studies* 32(2): 295-324, pp. 301-08.

<sup>67</sup> Ibid. p.296.

<sup>68</sup> There are important contributions within the disciplinary thrust of self-reflection and criticism of US-European centrism. While the book *Decentering International Relations* by Nayak and Selbin, and the book *Thinking International Relations Differently* by Tickner and Blaney are prominent examples at decentering International Relations, there are other examples that present implicit efforts at confronting disciplinary core concepts. For example, the book *The Other Mirror: Grand Theory through the Lens of Latin America* edited by Centeno and Lopez-Alves is an example of decentering social science by engaging with core concepts and redefining them through the experience of the Latin American context.

exercise, then, is the reconfiguration of the academic panorama of International Relations, transforming the composition of core principles, dominating narratives, and even research agendas.<sup>69</sup>

As a subfield of International Relations, political economy has been marked by the preponderance of knowledge formation from the United States and Europe. Peripheral areas like South America have been primarily used as a testing ground for grand theory. The fact is that South America is constantly used as a case study, as a negative case for counterfactual analysis, or simply as outliers in the generation of theory.<sup>70</sup> The centered and ethnocentric nature of International Relations requires studying political economic realities based on peripheral experiences. Therefore, studying the historical processes of South American political economy entails not only engaging and transforming core concepts of the discipline, but also generating theoretical knowledge that is actually suited to understand the region's contemporary reality. Decentering International Relations requires more than implying that European models of state formation cannot explain South America; it requires the creation of a South American model of state formation that provides an analytical framework to understand the region's chronic socioeconomic distortions.

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<sup>69</sup> Core concepts in International Relations have been traditionally formed by studying Europe or the United States, and then these concepts are "applied" to the South American experience in order to declare the region an anomaly that does not conform to disciplinary concepts. A clear example of this dynamic is the concept of the state, a concept in which weak states or states not conforming to the experience of Europe are considered deviations or imperfections. For a discussion on the application of core concepts to peripheral areas, see Tickner, Arlene. 2003. "Seeing IR Differently: Notes from the Third World." *Millennium: Journal of International Studies* 32(2): 295-324, pp. 314-17.

<sup>70</sup> Centeno, Miguel and Fernando Lopez-Alves. 2001. *The Other Mirror: Grand Theory through the Lens of Latin America*. Princeton: Princeton University Press, p. 10.

Both as a sub-field of International Relations and as a unique area of inquiry, the field of South American political economy has a rich tradition and a vast body of research. Overall, the socioeconomic reality of the region has been the formal subject of study of the Economic Commission for Latin America and the Caribbean (ECLA) since the early twentieth century, it marked the agenda of post-WII Area Studies, Developmentalism, and Modernization theory, it has been the main concern for Dependency theory since the mid-twentieth century, and it has informed the Neoliberal agendas framed under the Washington Consensus of the late twentieth century. Moreover, the so called progressive movements that characterized the political landscape of the twenty-first century have been primarily preoccupied with the region's political economy. However, as an area of inquiry, South American political economy presents two important limitations that require addressing: a) the historical use of external models; and b) the current state of the field of South American political economy. South American political economy has been historically marked by its reliance on external knowledge and models to understand and transform its socioeconomic reality. With the exception of the Dependency theory, “[s]ince its inception as part of the global economy in the sixteenth century, South America has looked elsewhere for models to understand and imagine itself or to emulate.”<sup>71</sup> It is therefore indispensable to provide the field of South American political economy with models based on its own reality, capable of explaining the historical processes behind its current socioeconomic reality. But regardless of the long tradition of South American political economy or its reliance on external inspiration, the field itself is in decline. While

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<sup>71</sup> Centeno, Miguel and Fernando Lopez-Alves. 2001. *The Other Mirror: Grand Theory through the Lens of Latin America*. Princeton: Princeton University Press, p. 5.

South America has been experiencing significant socioeconomic dynamics, political economy studies have been declining in recent times relative to other areas of inquiry in the region.<sup>72</sup> Authors like Juan Pablo Luna, Maria Victoria Murillo, and Andrew Schrank have identified the growing gaps of knowledge created by the decline in studies focusing on South American political economy.<sup>73</sup> Therefore, it is not only necessary to provide the field of South American political economy explanations based on the region's own reality that are capable of explaining the historical processes of its development outcomes. Doing so would reinvigorate a historically important area of inquiry in South American thought, honoring its long tradition and moving the field forward.

Examining the continuity of socioeconomic conditions in South America and building the state argument as a theoretical function of the region's experience provides an opportunity at decentering International Relations while reinvigorating political economy as a fundamental area of inquiry. The research formulated in the United States about South American political economy has come to regard the South American state as a secondary actor in the region's development outcomes. In this sense, the predominant literature in the United States considers the South American state as an institution that is too weak and too constrained by external forces to act and transform the region's socioeconomic reality. This is a clear example of how International Relations and U.S.-centered knowledge distorts the understanding of non-center areas of the world, given that for South American scholars the

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<sup>72</sup> This argument was developed in a special section of *Latin American Politics and Society* in 2014, see Luna, Juan Pablo, Maria Murillo, and Andrew Schrank. 2014. "Latin American Political Economy: Making Sense of a New Reality." *Latin American Politics and Society* 56(1): 3-10, pp. 4-5.

<sup>73</sup> *Ibid.* p. 8.

state has not lost its central role as the most important actor in the region.<sup>74</sup> Therefore, the state argument developed in this study also influences the sub-field of political economy by stressing the role of the state in development outcomes. With the advent of Neoliberalism in the late twentieth century, common discourses on globalization have relegated the state as a mere obstacle for development. The state's role in the economy is considered to be limited for development to exist, and if the state intervenes significantly in economic processes, then it ultimately produces negative socioeconomic outcomes. A litigation on the positive or negative state actions in development is beyond the point of the state argument. The state argument is concerned not on the specific steps the state enacts in economic policy, but on the structural organization on the state and how such condition limit state action. What is important for the state argument is not whether the state enacts strategy A or strategy B, but whether it can effectively implement one or the other. Therefore, the state argument is concerned with the state structural condition and functionality; a debate that precedes the dominant discourses on specific state intervention in development outcomes.

However, what is imperative for the state argument to South American political economy is the recognition of the central role of the state in development outcomes. Regardless of which type of specific policy or strategy a state adopts, the state is at the center of the development process, and this was an uncontroversial fact in the post-WWII

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<sup>74</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 173.

era.<sup>75</sup> While it is important to generate knowledge from non-center experiences that reinvigorate socioeconomic debates, it is imperative to focus on the state as a fundamental actor in South American political economy. In other words, it is fundamental for the study of political economy to bring back the state to the center of the development process. Recovering the centrality of the state in development is not only a function of its past recognition as such, but also because whether it is considered to be a central player or not in intellectual thought, in reality the state continues to be a crucial actor in the historical processes of South America. The fact is that without the modern state, and more importantly without a structurally functional modern state, contemporary economic markets would be impossible. States are the guarantors of predictable exchanges that mold and assure modern productive processes. In fact, without modern states there are no contemporary citizens, and without contemporary citizens there are no collective processes of wealth accumulation, distribution, and consumption. The modern state is the only organization capable of using force and violence to maintain the rules and regulations that permit any contemporary economic activity. Without states, economic exchanges and productive process would look completely different from what they are in the contemporary international system.<sup>76</sup> Yet the centrality of the state in South American political economy is not only abstract or as a mere regulator. Incidental recounts of

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<sup>75</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New York: D. Van Nostrand Company, Inc, p. 3.

<sup>76</sup> Wallerstein, Immanuel. 1971. "The State and Social Transformation." *Politics and Society* Vol 1: 359-64, p. 361; and Centeno, Miguel Angel, and Agustin Ferraro. 2013. "Republics of the Possible: State Building in Latin America and Spain." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 3-24. Cambridge: Cambridge University Press, p. 10.

historical processes in the nineteenth century, for example, show the central role of the state in South American economic activities. Specifically, the nineteenth century South American state played an instrumental role in fostering the development of the external sector in order to obtain maximal growth while also directing the allocation of the influx of foreign capital that swept the region between 1850 and 1914.<sup>77</sup> The incidental recounts of the role of the South American state in socioeconomic outcomes inform the state argument, which in turn influences the field of study of political economy by bringing back the centrality of the state in the development process.

The state argument presents a challenge to a centered International Relations discipline by explaining a non-centered reality based on its own experience while reinvigorating the study of South American political economy through its focus on the centrality of the South American state in development. Yet mobilizing the entire academic infrastructure requires not only a better interpretation of a reality but ultimately a justification on its practical impact. The fact is that the state argument speaks to the core of South America's socio-political movements. Throughout history, understanding and changing its socioeconomic reality has been at the center of regional sociopolitical movements. Socioeconomic distortions and development challenges have been at the center of South America's foreign policy throughout its history.<sup>78</sup> For regional leaders, the resolving socioeconomic problems through autonomous autonomy action has been a

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<sup>77</sup> Cowen, Michael, and Robert Shenton. 1996. *Doctrines of Development*. London: Routledge, p. 65.

<sup>78</sup> Muñoz, Heraldo. 1996. "The Dominant Themes in Latin American Foreign Relations: An Introduction." In *Latin American Nations in World Politics*, edited by Heraldo Muñoz and Joseph Tulchin. Colorado: Westview Press, 1-16.



fundamental concern informing and conditioning their foreign policy. Therefore, developing the state argument is not only an intellectual exercise, it is an indispensable process in order to approximate the region to practical steps directed at changing its socioeconomic reality. South American societies cannot continue to depend on narratives that are not theoretically based on the regional historical processes behind its contemporary socioeconomic reality. In other words:

Work on the importance of ideas has more than adequately demonstrated that the manner in which we view the world plays an immense role in determining whether we choose to change it and how we seek to interact with it. A South America understood through European or North American eyes is not an accurate representation – not because Eurocentric spectacles are worse than any other but simply because they are shaped by assumptions foreign to the continent.<sup>79</sup>

Continuing to understand socioeconomic challenges through European or North American explanations not only distorts the way the region thinks about itself, but it ultimately limits its capacity to act upon transforming its reality. Thus, the state argument becomes not only an intellectual necessity but a practical imperative. The majority—if not all—of South America’s contemporary leaders identify the region’s socioeconomic distortions as the most important challenge their political movements are confronted with.<sup>80</sup> If they continue to rely on distorted understandings of the contemporary socioeconomic reality of the continent, it is unlikely they will be able to articulate the mechanisms to transcend poverty

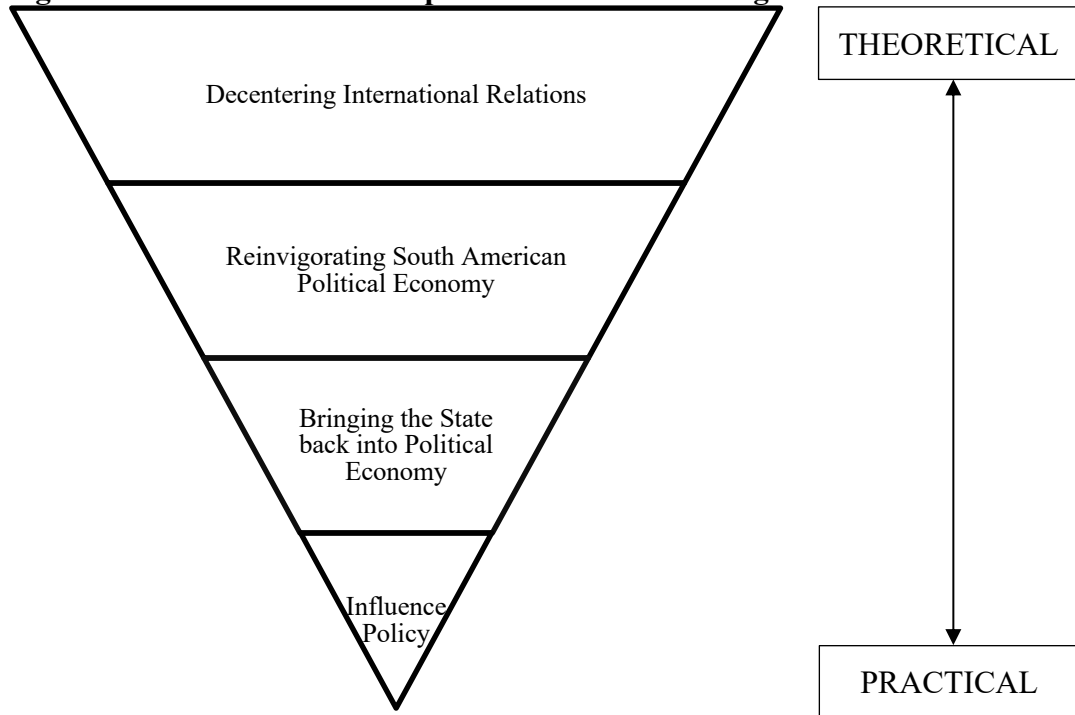
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<sup>79</sup> Centeno, Miguel and Fernando Lopez-Alves. 2001. *The Other Mirror: Grand Theory through the Lens of Latin America*. Princeton: Princeton University Press, p. 6.

<sup>80</sup> Gudynas, Eduardo. 2009. “Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual.” In *Extractivismo, Política y Sociedad*, 187-225. Ecuador: Centro Andino de Accion Popular y Centro Latinoamericano de Ecología Social, pp. 208-13

and inequality; and in fact they have not.<sup>81</sup> In this sense, Figure 2 illustrates the relevance of the state argument.

**Figure 2. Illustration of the Importance of the State Argument**



## OVERVIEW OF THE STUDY

The state argument presents a historically totalizing explanation for the continuity in South America's socioeconomic distortions. The state argument rests on the premise that countries with a reliance on producing primary products for exports face significant development challenges that ultimately generate poverty and inequality. Based on this, the

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<sup>81</sup> There is a growing body of literature that highlights how the self-proclaimed progressive movements that reached power in South America at the beginning of the twenty-first century failed to transform the socioeconomic reality of the region. On the contrary, these governments relied on historical economic processes based on resource extraction and exporting primary products. For a prominent example on the Neo-extractivism literature, see Burchardt, Hans-Jürgen and Kristina Dietz. 2014. "(Neo-)extractivism – a New Challenge for Development Theory from Latin America." *Third World Quarterly* 35(3): 468-86.

state argument questions why is it that societies that have been historically characterized by a predisposition towards exporting activities like South American countries have not been able to change their economic structures in order to transcend chronic poverty and inequality. In this sense, the state argument states that South American societies have organized around economic activities directed at exporting primary products. Specifically, the state argument states that South American states developed both structurally and functionally around productive activities directed at exporting primary products. Therefore, transforming South American societies in order to overcome its socioeconomic distortions requires a structural and functional transformation of the state. Yet this structural and functional transformation of the state is difficult to achieve given important internal and external conditioning factors. In terms of internal conditioning factors, any structural and functional transformation of the South American state requires the willingness and capability of individual actors within the state to articulate such process. Even if the capacity to execute a structural and functional transformation of the state is assumed, it is difficult to envision a context in which individual actors within the state face an incentive structure that motivates them to threaten the viability of the state in order to transform it. Moreover, the international economic system also affects the structural and functional transformation of the state, conditioning its organization through increased demand for primary products and limiting policy alternatives through global economic rules and regulations. In this context, the state argument proposes that the South American state developed functionally and structurally around extractives productive activities directed at exports, and given the internal and external structures of incentives and conditioning factors, the state maintains its foundational organization. This foundational

organization of the state around extractive productive activities directed at exports creates perpetuates society's reliance on commodity commercialization and explains the continuity of socioeconomic distortions in South America.

The logical premise of the state argument requires important theoretical, causal, process, and empirical elaboration. The first step on the formation of the state argument requires the formulation of a specific understanding of the world, one in which socioeconomic processes are interconnected and totalizing. Since there is a long tradition in South American political economy, the search for a theoretical formulation for the state argument starts there. *Chapter 1: Searching the State Argument* presents a chronological discussion of the different theoretical approaches that have explained socioeconomic distortions in South America. The discussion of the different theoretical approaches that have explained development challenges in South America stresses three important elements required for the formulation of state argument: 1) what is the role of extractive economic activities; 2) what is the role of the state; and 3) what is the role of international context. By paying close attention to these three elements, *Chapter 1* considers the Dependency approach to provide the best theoretical framework to formulate the state argument. However, the literature on Dependency theory is almost insurmountable, and the approach has suffered significant rejection in International Relations. Therefore, *Chapter 2: Refining the State Argument* presents a reformulation of Dependency theory as a valid framework to understand and explain South American political economy. In particular, *Chapter 2* addresses the main criticisms of Dependency theory, refines its concepts and theoretical formulations to adapt them to contemporary relations, argues that Dependency theory is not a theory but an analytical approach, and then stresses its

continued validity given its influence on contemporary discourses on development. The next step in the formulation of the state argument is to articulate the specific processes, concepts, and mechanisms through which it explains the continuity of socioeconomic distortions in South America. *Chapter 3: Designing the State Argument* elaborates the epistemological and methodological approach of this study in the formulation of the state argument. It presents a quantitatively dominant sequential mixed method with multistrand design in which historical analysis informs the theoretical formulation of the state argument and multivariate statistical and time series regressions tests the validity of its propositions. Then, *Chapter 3* operationalizes the structure and functionality of the South American state, highlighting the mechanisms to measure and test the state argument propositions. Ultimately, *Chapter 3* discusses the periodization of analysis, assigning specific concepts, methods, indicators, and tests to each period. The state argument affirms that the first explanatory factor of the continuity of socioeconomic distortions is the formation of the South American state around export-oriented productive activities. Therefore, *Chapter 4: Building the State Argument* presents a historical analysis elucidating the process of state formation in the region. *Chapter 4* presents the first step of the quantitatively dominant sequential mixed method with multistrand design of this study, in which the main premise of the state argument is formulated. Therefore, *Chapter 4* studies the period of state formation and consolidation, which in the case of South American is the nineteenth century. The historical analysis formulates the structural organization of the South American state, showing how it grew around exporting primary products. Ultimately, the state argument states that the structural organization of the South American state affects its functionality and perpetuates the region's predisposition toward exporting primary

products. The maintenance of this predisposition explains the continuity of poverty and inequality in the region. Hence, *Chapter 5: Testing the State Argument* presents a series of quantitative methods based on statistical analysis that test the causal relationship between the structural and functional organization of the South American state and poverty and inequality. Informed by the historical analysis in *Chapter 4*, *Chapter 5* presents the second step of the quantitatively dominant sequential mixed method with multistrand design of this study, in which the main causal relationship of the state argument is empirically tested. Therefore, *Chapter 5* measures the traction of the state argument in explaining contemporary socioeconomic dynamics in South America. In this sense, *Chapter 5* first shows how South American states continue to maintain a reliance on exporting primary products in the twenty-first century, and then it shows how countries where the state is structurally organized around extractive activities and functionally incapable present higher levels of socioeconomic distortions. Ultimately, *Conclusion: Reflecting on the State Argument* summarizes the logical premises, theoretical formulations, and empirical causal relationships of the state argument. It then discusses subsequent areas of research, particularly in terms of the periods of state reorganization and social changes of the twentieth century in South America.

## CHAPTER 1

### SEARCHING THE STATE ARGUMENT

There is a vast literature on the study of South American political economy. Countless studies focus their attention on examining the reality of the continent based on general theoretical understandings of development. In fact, the second half of the twentieth century witnessed an impressive expansion of theoretical approaches focused on South American political economy that both challenged core theoretical models as well as reinterpreted the region's experience. Hence, South American political economy presents a wide array of theoretical positions and policy strategies like structuralism and import substitution industrialization, Dependency theory and its countless variations, Modernization theory and Developmentalism, Neoliberalism and market reforms, Extractivism and export oriented growth, and Neo-Developmentalism with Neo-Extractivism. Rather than presenting each individual theory and approach separately, the next section discusses the evolution of development thinking in South America by following the chronological emergence, debates, and political application of these perspectives from the early twentieth century up until today.

A systematic examination of the literature on South American political economy requires at least an informal structure to present the concepts, analytical propositions, and practical implications of each approach. Therefore, the subsequent discussion follows an informal chronological structure in which each approach is presented following these elements: first, the global and regional context are described in order to observe how international conditions interact with domestic factors. Second, the approach is introduced

by discussing its particular diagnosis of the problem and its differences with any previous approach. At this point the main theoretical, conceptual, and analytical aspects of the approach are discussed. Third, based on the diagnosis of the problem, the challenged theory, and the theoretical aspects, the discussion presents the practical implications and policy prescriptions of the approach. As mentioned before, the order in which each approach is presented is chronological, and any paradigm shifts are contextualized with the international and regional dynamics.

Overall, this chapter points at the global context in which a theoretical paradigm appeared, highlights the causes behind poverty and inequality identified by the theory, discusses their policy prescription and their application, and contrasts the theoretical contestation they represent. There are three main justifications for this informal chronological structure in the discussion of the vast literature on South American political economy. First, the state argument states that the continuity of South American development challenges is explained by the continuity in the structural and functional organization of the state. However, the state argument contends that the state did not develop in a vacuum, the international context played a significant role in its formation, consolidation, and maintenance. Presenting the literature chronologically while discussing the global context under which each theoretical evolution took place elucidates the global-local dynamic embedded in the state argument. Second, only a historical discussion of the different approaches that explain socioeconomic challenges in South America can illuminate aspects of continuity in the literature. Since the state argument suggests that it is the continuity of export oriented economies what creates poverty and inequality, then it is indispensable to present the literature on South American political economy historically



and chronologically in order to identify continuous factors. Third, the practical implications of the state argument require to identify the policy prescriptions of the different theoretical approaches on South American political economy throughout history. Only by identify how these approaches proposed changes to South America's socioeconomic reality can the state argument point at a different trajectory. In this sense, the next section presents a discussion of the most influential theoretical approaches in the history of South American political economy.

## THE LITERATURE ON SOUTH AMERICAN POLITICAL ECONOMY

The academic literature on South American political economy is immense ranging from works on the economic history of colonial America to examinations of contemporary dynamics. In order to establish the theoretical framework of the state argument, it is first necessary to review the existing literature in order to illuminate on aspects of continuity present since the late nineteenth century. Therefore, the starting point is South America's implementation of a classical liberal economic model from the moment of independence until the early twentieth century. The penetration of the industrial revolution in South America transformed the region and its socioeconomic structures. Industrial development in Europe from the 1840s onwards created both a concentration of capital and labor towards industry as well as an increase in the demand for agricultural products.<sup>82</sup> This created two main effects in the economies of peripheral areas such as South America: first, there was a massive migration of Europeans towards peripheral areas looking for jobs in the production

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<sup>82</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 54.

of primary products for European industrial consumption. This migration allocated European labor that was dislocated due to the industrial focus of the European economy throughout Latin America.<sup>83</sup> The second effect of Europe's industrial allocation of resources in other regions of the world was the massive investment in industrial activities related to the extraction of primary products. The massive influx of financial investment that Europe located in the Western hemisphere was directed toward commodities exploitation.<sup>84</sup> The allocation of European human and financial resources toward the exploitation of primary goods shaped the socioeconomic structures of the South America.

The commercial relationship between Europe and South America was characterized by trade. Under the influence of Ricardian classical economics, South America specialized in the export of primary products towards Europe, while Europe specialized in manufactured products exported, among many other areas, to South America.<sup>85</sup> This is not to say that this model was imposed on the region by Europe. On the contrary, the philosophical and theoretical principles of classical economics were significantly appealing for the South American elite that emerged after the independence movements.<sup>86</sup> Particularly attractive were the ideas of Adam Smith, who promoted a division of labor by breaking the production process into different specialized stages.<sup>87</sup> This division of labor was also applied as an international principle, in which South

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<sup>83</sup> Ibid. p. 58.

<sup>84</sup> Ibid. pp. 54-5.

<sup>85</sup> Ibid. p. 59.

<sup>86</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 49.

<sup>87</sup> Willis, Katie. 2011. *Theories and Practices of Development*. New York: Routledge, p. 47.

America and Europe would focus on a specific stage of the production process based on their comparative advantages. Therefore, the transformation of the region is the result of the dynamic of the international economic system in combination with regional conditions. The fact is that South American economies were already predisposed to be export-oriented since the development of the colonial productive system.<sup>88</sup> Such predisposition, combined with the ideological preferences of regional elites and entrepreneurs who strongly favored Smithian economics,<sup>89</sup> favored the concentration of exporting primary products.

The implementation of the classical liberal economic approach forced South American countries to organize their societies around these activities. The region implemented free trade policies that guaranteed a free flow of goods, labor, and financial resources within a classical liberal institutional framework. The state involvement in the economy was focused towards the acquisition of productive land from indigenous and peasant groups, financing export activities, and maintaining cheap labor through migration and anti-union policies.<sup>90</sup> Classical liberalism was the dominant ideological preference of South American elites at the start of the twentieth century despite the circulation of protectionist ideas. Liberal policies were supported by a massive demand of commodities in the global economy, which increased the revenue of local and foreign elites involved in

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<sup>88</sup> For a discussion on the predisposition of South American economies for the exploitation of primary goods since the colonial period see Chapter 3 in Sanderson, Steven. *The Politics of Trade in Latin American Development*. California: Stanford University Press, pp. 70-106.

<sup>89</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 62-9.

<sup>90</sup> This is the basic premise of the state argument, and it is discussed at length in Chapter 4. Ibid. p. 68.

the industries of beef, wheat, sugar, coffee, oil, copper, and bananas.<sup>91</sup> Ultimately, the liberal model that characterized South America from the 1860s conditioned these countries to use the foreign exchange obtained from the commercialization of commodities to import industrial and manufactured goods.

Significant transformations in the twentieth century challenged the classical economic model that characterized South America since the mid-nineteenth century. The catalyst for the entire challenge to the liberal approach was World War I. The war precipitated the decline of Great Britain as the global hegemon, thereby also undermining the foundational principles governing South America's political economy. The first consequence of Great Britain's demise was the emergence of the United States as the global hegemon and economic superpower. The United States' economy was different than Great Britain's since it could compete with South America in the production of primary products. While Great Britain's economy presented an important integration with South American economies, the United States had a more diverse economy that reduced the need for importing primary products.<sup>92</sup> The second consequence of the demise of Great Britain was that the global economy moved toward protectionism, modifying the entire processes of international trade. These transformations culminated in 1929 with the stock market crash and the global economic depression of the 1930s. These circumstances—the rise of the United States, the collapse of Great Britain, the emergence of protectionism, and the global economic depression—were catastrophic for South America's political economy.

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<sup>91</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, pp. 49-50.

<sup>92</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 71.

The consequences of World War I reduced the global demand for primary products, creating a significant decline in commodity prices. South American export markets disappeared by 1929, which significantly reduced the region's capacity to import manufactured and industrial goods because of the reduction of foreign exchange. Internally, the region suffered widespread poverty, unemployment, misery, and social unrest. The global and regional context eliminated the attractiveness of the liberal ideology in the South America because of their poverty-stricken reality.<sup>93</sup> It is in this context of global recession and regional poverty that the first major theoretical challenge to the classical liberal approach emerges. In 1936, John Maynard Keynes' book *The General Theory of Employment, Interest and Money* was published in response to the failure of classic liberal economics. Keynes challenged the primacy of the free market as a self-regulating positive force, and considered investment as the main driver of economic growth. In fact, in sharp contrast to classical liberal economic theories, Keynes argued that governments should play a role in economic development in order to promote investment during economic downturns as a counter-cyclical measure.<sup>94</sup>

Keynesian economic theory became influential around the world, becoming the ideological premise of the global economy under the Bretton Woods system. The positive experience of the Marshall Plan created optimism for a similar injection of investment to

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<sup>93</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 50.

<sup>94</sup> Willis, Katie. 2011. *Theories and Practices of Development*. New York: Routledge, p. 40.

produce economic development in the periphery.<sup>95</sup> Keynesianism not only challenged classical liberal economic theory on the role of the state but also on the sources of growth. For classical liberal economic theory the main driver of economic growth was trade. Yet after the experience of the early twentieth century, many economists started to point at capital accumulation and investment as the main drivers of economic growth.<sup>96</sup> The preference for capital accumulation and investment as the main drivers of economic growth informed Walt Rostow's 1960 book *The Stages of Economic Growth: A Non-Communist Manifesto*. In the book, Rostow argues that there is an identifiable linear path through which all societies can achieve development.<sup>97</sup> Rostow developed his unilinear and ahistorical theory of stages by studying the developmental evolution of industrialized countries in Europe and the United States. This path consisted of a series of stages through which traditional societies transitioned in order to trigger economic development and reach the stage of mass consumption. Rostow's theory of stages listed five stages: the traditional stage, the preconditions for take-off stage, the take-off stage, the drive to maturity stage, and the age of mass consumption stage. According to the theory, in order to trigger economic development, countries needed to allocate capital and technology in industrial activities of high productivity in the preconditions for take-off stage and the take-off stage.

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<sup>95</sup> Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, pp. 106-07.

<sup>96</sup> Ibid. p. 108; and Meier, Gerald. 2001. "The Old Generation of Development Economists and the New." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 13-39. New York: Oxford University Press, pp. 13-4.

<sup>97</sup> Willis, Katie. 2011. *Theories and Practices of Development*. New York: Routledge, p. 45.

The allocation of resources in industrial activities of high productivity would ignite a transformational transition from traditional economies to economies of consumption.

The theoretical influence of Rostow's theory of stages informed the study of peripheral societies under Modernization theory. Overall, Modernization theory argued that economic development was a process characterized by industrialization, urbanization, and the abandonment of traditional structures.<sup>98</sup> The Modernization approach stated that the development challenges of peripheral nations were due to the presence of traditional sectors in their societies. Authors like M. J. Levy or James S. Coleman argued that traditional nations were characterized by societies with low per capita income, technological rigidity, high levels of agrarian production, and low literacy.<sup>99</sup> Traditional countries based their societies on principles derived from religiosity or sacred cultural norms, and Modernization considered it imperative to eradicate such structures and establish modern sectors based on secularism and rationality. In this sense, authors like Gabriel Almond and David Apter pointed at the specialization and distinctiveness of political structures rooted in a secular-libertarian principles as the main characteristic of modern societies.<sup>100</sup>

The Modernization approach considered development to be a transition from traditional to modern socioeconomic structures. Yet the transition from traditional societies

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<sup>98</sup> Lewellen, Ted. 1995. *Dependency and Development: An Introduction to the Third World*. Connecticut: Bergin and Garvey, pp. 54-5.

<sup>99</sup> Mansilla, Hugo. 1980. "Critica a las Teorias de la Modernizacion y de la Dependencia." *Revista Paraguaya de Sociologia* 17(48): 47-64, p. 49

<sup>100</sup> Ibid. pp. 50-1.

to modern societies was usually diffculted by dualism.<sup>101</sup> Arthur Lewis described dualism as discernable characteristic of developing societies in which there was a cohabitation of a predominantly traditional sector with a smaller modern sector. For Modernization theory, dualism creates socioeconomic tensions that can only be resolved through a deep societal transformation by completing the transition from traditionalism to modernity. Lewis argued that economic dualism was evident in traditional societies because there were high levels of labor in rural activities that constantly depressed labor on urban activities. Only when there was massive migration from rural to urban productive activities the tensions of the dualistic economy would secede and economic development would appear.<sup>102</sup> But this transition, or the fulfillment of the take-off stage in Rostow's theory, were considerably challenging in peripheral countries.

The problem in peripheral economies was the lack of preconditions for the take-off stage to succeed. Scholars within the modernization approach started to realize that it would be challenging to replicate the successes of the Marshall Plan in developing countries because of significant market rigidities that affected capital accumulation and capital allocation in peripheral countries. Hence, Modernization theory called for establishing a policy of foreign direct investment so that foreign capital could resolve the issues of capital accumulation in peripheral countries.<sup>103</sup> However, while capital

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<sup>101</sup> Ibid. pp. 51-2.

<sup>102</sup> Willis, Katie. 2011. *Theories and Practices of Development*. New York: Routledge, p. 47.

<sup>103</sup> Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, p. 107.



accumulation was to be resolved by foreign direct investment, the market failures that affected capital allocation were still present in peripheral countries. Given the need to allocate foreign capital effectively in developing countries, policy makers and scholars advocate for peripheral states to intervene in the process. Therefore, Developmentalism emerged in the context of post-World War II as an approach to resolve the market rigidities present in developing countries. Informed by modernization, Keynesianism, and Structuralism, Developmentalism envisioned the developmental state as the mechanism to effectively allocate foreign capital toward industrial activities with high productivity. For Developmentalism, the developmental state was required to promote capital accumulation, to direct industrialization through public and private investment, and to protect infant industries through subsidies and tariffs.<sup>104</sup>

Keynes' thinking and Developmentalism were particularly influential in Latin America, informing the thinking of the Economic Commission for Latin America and the Caribbean (ECLAC). In 1949, Raúl Prebisch and Gustavo Martínez Cabañas stated that the classic liberal economic approach that characterized South American economies since the nineteenth century made it impossible for region to achieve independent development<sup>105</sup> Prebisch and Martínez identified the unequal terms of trade between the centers of economic activity and the periphery as the main impediment for development in South America. ECLAC's diagnosis of South American development challenges argued

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<sup>104</sup> Meier, Gerald. 2001. "The Old Generation of Development Economists and the New." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 13-39. New York: Oxford University Press, pp. 13-6.

<sup>105</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 51.

that while the productive improvement of industrial activities in the center had triggered economic growth in the periphery through the center's consumption of primary products, the rate of decreasing returns of primary products created considerable constraints for South American development.<sup>106</sup> The consequence of the unequal terms of trade between center and periphery was that the more time progressed the decreasing terms of trade of commodities in relation to industrial products would reduce the consumption capacity of South America by reducing its capacity to import manufactured and industrial goods. For example, Prebisch and Martínez show that while from 1876 to 1880 a peripheral country could consume 100 manufactured products from the commercialization of a specific number of commodities, by 1946 this figure had dropped to 68.7.<sup>107</sup>

This was a significant challenge to the classic liberal economic approach, since the empirical reality was not following the logic of its theoretical propositions. According to classic liberal economics, the increase in productivity of manufactured and industrial goods would lead to a decline in their relative costs. However, Prebisch and Martínez showed how while technological innovation significantly increased the productivity of manufactured and industrial goods, their prices did not decrease relative to primary products. In fact, if the theoretical logic of the classic liberal economic approach was true, commodities should have seen a price increase relative to manufactured or industrial goods because the productivity of primary goods production did not increase at the same rate as the productivity of manufactured goods production. If the productivity of manufactured

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<sup>106</sup> Prebisch, Raúl, and Gustavo Martínez Cabañas. 1949. "El Desarrollo Económico de la América Latina y Algunos de sus Principales Problemas" *El Trimestre Económico* 63(3): 347-431, pp. 347-61.

<sup>107</sup> Ibid. p. 362

goods production increased more than the productivity of primary goods production, the classic liberal economic theory states that the prices of primary goods should increase relative to those of manufactured goods. As it was shown by Prebisch and Martínez, the classic liberal economic theory did not happen. The cause behind the failure of the classic liberal economic theory, according to Prebisch and Martínez, was the increase of revenue for entrepreneurs and those controlling the factors of production in industrial and manufactured activities. The consequence of this was that industrial centers were able to retain the revenue of their economic activities while the peripheral economies saw their revenue increasingly flowing for the acquisition of manufactured goods.<sup>108</sup>

Therefore, the diagnosis of South American development elaborated by Prebisch and Martínez, and therefore adopted by ECLAC, evolved into Structuralism. The Structuralism approach states that the unequal terms of trade between the center and the periphery made it impossible for the periphery to achieve development, which called for South America's own industrialization policy. To achieve industrialization, South American countries had to adopt a policy of Import Substitution Industrialization (ISI), in order to move away from the production of commodities towards the production of industrial and manufactured goods.<sup>109</sup> Informed by Keynesianism, Developmentalism, and Modernization, ISI consisted of an industrialization model in which the state would protect infant industries through tariffs and subsidies in order to ignite development. The role of

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<sup>108</sup> Ibid. pp. 363-66.

<sup>109</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 51.

the state was to direct resources, both financial and human capital, away from commodity commercialization towards more productive industries.

The policy prescription of ISI played a significant role in the development of South American countries during the post-World War II period, but the development strategy of the region transcended industrialization and protectionism. Modernization theory also gained traction in South American academic circles, and the concept of marginality influenced both theory and practice. The DESAL School, based in Chile after the founding work of Roger Vekemans, produced a series of studies on modernization in South America. Following the idea of dualism described by Modernization theory, the DESAL approach argued that peripheral societies are dichotomized between sectors that are incorporated and sectors that are marginalized from social, political, and economic participation. Therefore, marginality refers to the social groups that have a receptive passive participation in the social process, creating little access to education, health, or income.<sup>110</sup> While authors like Gino Germani considered marginality to be a consequence of the modernization process, the DESAL approach considered South American marginality to be a colonial heritage in the region.<sup>111</sup>

The concept of marginality developed by the DESAL approach had significant policy implications for Developmentalism and Modernization. Modernization theory based its policy prescriptions of “asistencialismo” in the understanding of marginality.<sup>112</sup> Hence,

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<sup>110</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 93-5.

<sup>111</sup> Ibid. 92-3.

<sup>112</sup> State assistance for marginalized groups such as social assistance policies. Ibid. p. 94.

the state was responsible for articulating policies directed to increase the participation of marginalized groups in society by increasing their passive participation with the objective of making them active participants in society. However, authors like Mattelart and Garreton argued that integrationist policies faced significant challenges because of rigid class structures and dualism in South America.<sup>113</sup> Hence, the policy prescription of the Modernization approach were directed at removing these barriers, calling for the state to create collective bargaining organizations for individuals in marginalized groups, to create significant institutional reforms to integrate marginalized groups into society, and to dislodge the dominant classes. These Modernization theory policy prescriptions had real practical implication, inspiring the process of land reform in Chile in the 1960s and in Peru in the 1960s and 1970s.<sup>114</sup>

Therefore, during the post-World War II period, South American countries embraced Developmentalism, Structuralism, and Modernization as their main strategies against the failures of the classic liberal economic approach that dominated the region since the mid nineteenth century and well into the 1930s. Informed by Developmentalism, Structuralism highlighted the external structural disadvantages of South America under the free trade regime of the global economy. In order to solve these disadvantages, Structuralism called for protectionism and industrialization under ISI, challenging the theoretical premises of classic liberal economics by stressing the role of the state in directing economic development. Moreover, Modernization theory focused on the internal

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<sup>113</sup> Ibid. p. 96.

<sup>114</sup> Ibid. pp. 96-9.

structural distortions of South American societies, and how these traditional societies impeded development in the region. In terms of economic growth, Modernization theory also called for the state to direct capital accumulation and labor away from traditional economic activities and towards industrial activities with high productivity. Ultimately, given the characteristic dualism of South American societies, the Modernization approach considered it imperative for the state to also apply integrationist policies in order to allow for marginalized groups to have active participation in society.<sup>115</sup>

The development that was supposed to be achieved by the application of Developmentalism was not part of the socioeconomic reality of South America by the late 1960s and early 1970s. Under the theoretical expectations of Modernization and the policy prescriptions of Structuralism, South America was expected to, among other things, attain greater independence in foreign trade, transfer economic decision making back to the region,<sup>116</sup> integrate socially marginalized groups, transition into a modern society, and democratize. These expectations, to various degrees, were ultimately not achieved throughout the continent. First, the region was unable to break from the process of

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<sup>115</sup> From the 1940s until the 1970s, South America is dominated by Developmentalism. Both Modernization and Structuralism found their policy goals aligned under Developmentalism, since they both highlighted the role of the state in directing the economy, both stressed the centrality of industrialization, both understood the dual nature of South American society, and both recognized the need to address marginality. For a discussion on how Modernization and Structuralism aligned their diagnoses and policy prescriptions under Developmentalism, see Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. England: Penguin Books, pp. 64-6; Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 55; and Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 16.

<sup>116</sup> Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. England: Penguin Books, p. 67.

commodity commercialization, primarily because the demand for primary products increased dramatically during World War II <sup>117</sup> Ironically, the fact is that the combination of ISI policies and the deterioration of exchange rates actually increased the region's dependence on foreign trade. The revenue obtained from exporting commodities was directed at importing industrial inputs that were fundamental for industrialization policies to succeed, ranging from technological inputs to semi-manufactured primary products.<sup>118</sup> Moreover, given the increased implementation of protectionist policies around the world, South American infant industries found it very difficult to allocate their manufactured products abroad, reducing their market presence, their revenue and ultimately their capacity to reduce production costs. <sup>119</sup> Second, the region failed to achieve significant autonomy in the execution of its political economy. The Developmentalism approach was also interested in transferring the centers of decision-making from the external sectors of the economy to the internal sectors of the economy in order to generate sustainable development in South America. However, the emergence of vertical corporations that integrated the entire production process and their penetration in the continent increased the foreign control of the industrialization process, reducing the capacity and autonomy of internal actors and

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<sup>117</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 52.

<sup>118</sup> Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. England: Penguin Books, p. 67.

<sup>119</sup> Griffith-Jones, Stephany and Osvaldo Sunkel. 1986. *Debt and Development Crises in Latin America: The End of an Illusion*. Oxford: Clarendon Press, pp. 20-1.

ultimately the state.<sup>120</sup> The fact that the modern corporations controlled technological inputs, investment capital, and administrative knowhow increased their power in relation to South American states. Therefore, rather than creating sustained and autonomous development, industrialization in South America strengthened the position of foreign capital by insulating it from competition through protectionism while it concentrated revenue and expatriated profit.<sup>121</sup> Third, Developmentalism did not integrate marginalized sectors of society given its bias toward traditional elites and the urban sector. The state effort during Developmentalism and industrialization focused primarily in the big cities of the region, creating massive internal migration from rural to urban areas. The massive internal migration that started in the 1950s transformed South American countries from predominantly rural to urban societies. However, the formal sector of the economy in urban centers was not equipped to absorb the massive influx of labor coming from rural areas given the capital-intensive nature of industrial Developmentalism.<sup>122</sup> Beyond the failure of industrialization policies to absorb displaced labor, the integrationist policies promoted by Modernization theory also biased toward urban centers, deviating public resources away from rural areas. A clear example of this was education, since public investment was directed at improving urban public education, benefiting urban middle-classes and elites

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<sup>120</sup> North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation." *Third World Quarterly* 37 (8): 1483-1504, p. 1490.

<sup>121</sup> Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. England: Penguin Books, p. 68.

<sup>122</sup> Ibid. pp. 70-1.



while depriving rural social sectors.<sup>123</sup> Ultimately, Developmentalism did not modernize political structures in the region and it failed to usher the promised democratization. The fact is that traditional elites continued to yield significant power and privilege in detriment of democratizing political participation. The failures of Developmentalism and the consequences of its political implementation are best described by economic historian Rosemary Thorp:

while the growth record overall was impressive and while the institutional story was one of radical change in many areas, industrialization and import substitution were inserted into and reinforced the existing extremely unequal economic and social system. Even brave efforts at land reform did not modify the essential picture of poverty and exclusion. Women and indigenous groups remained relatively dispossessed, and urban labor market trends tended to create new inequalities<sup>124</sup>

By the late 1960s, the productive reality of South America under Developmentalism was characterized by the exhaustion of the policies of ISI.<sup>125</sup> The main problem for industrial policy in the region was the production structure of manufactured goods. On the one hand, internal demand for industrial products did not increase and external demand was blocked by protectionism, maintaining production costs high given the incapacity to exploit economies of scale and ultimately reducing potential industrial

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<sup>123</sup> The urban bias in Developmentalism is also exemplified in the limited progress taken by land reform policies or the continuous blocking of transformative redistributive policies under tax reform. This urban bias, rather than to modernize South American societies, perpetuated marginality in rural sectors of the society and expanded marginality in urban sectors. North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation" *Third World Quarterly* 37 (8): 1483-1504, p. 1491.

<sup>124</sup> Thorp, Rosemary. 1998. *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20<sup>th</sup> Century*. Maryland: John Hopkins University Press, p. 199.

<sup>125</sup> For a discussion on how protectionism and the rules of the global economy exhausted South American industrialization under Developmentalism, see Griffith-Jones, Stephany and Osvaldo Sunkel. 1986. *Debt and Development Crises in Latin America: The End of an Illusion*. Oxford: Clarendon Press.

revenue. On the other hand, the cost of intermediary industrial inputs did not decrease, putting pressure on access to foreign exchange. Therefore, South American states absorbed the cost of intermediate industrial inputs and the cost of protectionism through fiscal deficits and public debt.<sup>126</sup> The result was that states in the region became at the same time financial intermediaries subsidizing industrialization, compensatory actors through redistribution, and producers of capital through public investment.<sup>127</sup> In order to cope with the increased financial responsibilities and the growing fiscal deficits, South American states started to print money in order to finance public investment and industrialization, generating in return high levels of inflation and capital flight.<sup>128</sup>

It is not a surprise that by the late 1960s the region had lost faith in Structuralism and Modernization, and two theoretical approaches emerged to challenge Developmentalism: Dependency theory and Neoliberalism. While the emergence of Neoliberalism took place particularly after the debt crisis of the early 1980s, Dependency presented a theoretical challenge to Developmentalism in the 1960s.<sup>129</sup> While Dependency agreed with ECLAC's diagnosis of the socioeconomic reality of South America, it considered that ECLAC's policy prescriptions of industrialization, improved terms of

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<sup>126</sup> Ibid. pp. 22-3.

<sup>127</sup> Ibid. p. 24.

<sup>128</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, pp. 53-54.

<sup>129</sup> Naoroji's work on the Indian economy represents the first work that captures the economic arguments of Dependency theory. In his work, Naoroji discusses in detail how the revenue from agricultural and commercial activities were being expatriated to benefit Great Britain. However, Dependency does not gain traction until the works of authors like Paul Baran and Andre Gunder Frank in the 1950s and 1960s. Somjee, A. H. 1991. *Development Theory: Critiques and Explorations*. New York: St. Martin's Press, pp. 51-2.

trade, and increased foreign investment exacerbated national dependency. For Dependency theory, the underlying problem with ECLAC's policies prescriptions was their view of certain conditions in South American societies as impediments for economic development that needed to be resolved. However, Dependency theory considered these conditions the reflection of deeper structural problems created by capitalism and perpetuated by ECLAC's policy prescriptions.<sup>130</sup> However, Dependency theory challenged the entire Modernization approach by problematizing its diagnosis on South America's socioeconomic reality, by contesting its theoretical propositions, by criticizing its underlying premises, and by rejecting its policy prescriptions. First, Dependency challenged Modernization's theoretical understanding of national units as autonomous or independent actors by stressing the importance of the international context and by highlighting the dependence of South America in relation to global economic centers.<sup>131</sup> Second, Dependency considered Modernization theory to be ahistorical, unilinear, parochial and irrelevant for the reality of South America. Much like mainstream approaches to International Relations, the episteme of Modernization theory reflected the experiences of Europe and the United States, creating ahistorical and context-insensitive development models and policy prescriptions could not transform the region. On the contrary, Dependency theory stressed that the international context in which industrialized countries developed changed dramatically to the point that late industrializers would not be able to follow the same path. Specifically, Dependency writers considered the South American context to be diametrically different to that of the

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<sup>130</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 17.

<sup>131</sup> Ibid. p. 15.

developed world—given the region’s colonial heritage and its contemporary position in the international division of labor—therefore arguing that developmental models based on the U.S.-European experience were irrelevant to the region.<sup>132</sup> Second, Dependency theory challenged the policy prescriptions of Modernization theory and problematized the approach’s assumptions regarding political and development outcomes. Dependency rejected the causal relationship between modernization and democracy,<sup>133</sup> and authors like Oswaldo Sunkel and Rodolfo Stavenhagen problematized Modernization’s policy prescriptions directed at resolving dualisms and marginality. Contrary to Modernization theory, Sunkel and Stavenhagen considered that marginality was structurally embedded in South American societies by the penetration of foreign capital in the region.<sup>134</sup> Since Modernization theory advocated for the penetration of foreign capital in South America in order to trigger the take-off stage, Dependency considered marginality to be a consequence of Modernization theory.

But perhaps the biggest difference between Dependency theory and Modernization theory was their theoretical and ideological background. The theoretical and ideological basis for Dependency theory lies in the works of Karl Marx and his study of human relations through capitalism. Marxism studies the relations of domination and subjection within the context of material conditions, arguing that labor—as it allows for the interaction

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<sup>132</sup> Dos Santos, Theotônio. 1973. “The Crisis of Development Theory and the Problem of Dependence in Latin America.” In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. England: Penguin Books, p. 59.

<sup>133</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 15.

<sup>134</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, p. 99.

of the self with nature and with others—is the defining human activity. Marxism considers it imperative to study productive processes and labor relations, since they are the mechanisms through which individuals satisfy their material needs.<sup>135</sup> Therefore, the idea of labor as the most defining activity for individuals because of its capacity to satisfy material needs is the theoretical justification for Marx to study human relations through capitalism. While a discussion of Marx’s theory of capitalism is beyond the objective of these paragraphs,<sup>136</sup> it is necessary to highlight that the areas of focus within Marxism are: 1) the study of class structures in advanced economies; 2) the study of the relationship between advanced and backward economies; and 3) class structures in backward countries. The theory of imperialism developed by Vladimir Lenin—which explains the expansion of capitalism in the need to extract cheap primary products, to expand consumption markets, and to repatriate financial profits from peripheries to economic centers—studies the second area Marx’s theory of capitalism.<sup>137</sup> However, Lenin’s theory of imperialism studies the expansion of the capitalist system from the perspective of the economic centers. In contrast, Dependency theory focuses on the second area of Marx’s theory of capitalism but does so from the perspective of the periphery. Therefore, the main theoretical basis of Dependency theory considers human interaction to be conditioned and regulated through productive relations. In this sense, capitalism becomes a fundamental aspect of human

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<sup>135</sup> Palma, Gabriel. 1978. “Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?” *World Development* 6: 885-924, pp. 883-84.

<sup>136</sup> Marx’s theory of capitalism is based on Marx’s labor theory of value, which states that capitalist profits tend to decrease—therefore forcing productive expansion—that working classes are excluded from wealth accumulation, and that an internal crisis of capitalism would lead to the collapse of the system. *Ibid.* pp. 884-89.

<sup>137</sup> *Ibid.* pp. 885-86.

relations given its transformative effect on productive processes. Development distortions like poverty and inequality are considered to be the result of human interactions, and Dependency theory studies the viability and feasibility of capitalist expansion in peripheral regions like South America in order to understand the region's socioeconomic reality.<sup>138</sup> However, Dependency theory also challenged some of the causal propositions of Marxism, presenting a theoretical influence but also an analytical refinement. For instance, Marx considered that once capitalist technology was either developed or introduced in a society, then capitalism became an unstoppable force of transformation. On the contrary, many Dependency theory authors considered that the development or introduction of capitalist technology capable of transforming the region's socioeconomic reality was unviable given the structure of the international economy.<sup>139</sup> Yet the issue of capitalist development in South America is one of important contention and debate within Dependency theory, marking the degree of variation in dependency analyses.

Beyond the substantive and important differences among dependency authors, there are consistent propositions regarding Dependency theory's diagnosis on South America's socioeconomic reality. As it was mentioned before, the Dependency approach was based on the premise that development outcomes are not the result of self-contained national

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<sup>138</sup> Marx's theory of capitalism discussed two main aspects of capitalist expansion in peripheral economies: whether there was a necessity for capitalism to develop, and whether there was a viability for capitalism to develop. Marx considered capitalism to be exploitative in nature, but he also considered it an inescapable progressive force. He theorized that only capitalism, or the exhaustion of capitalism, could bring forward the emergence of a socialist society. Therefore, he considered capitalism to be the only process capable of creating a structure for equitable development, criticizing other forms of production in non-European societies as a drag in the historical process. This led Marx to consider colonialism as a necessary step in the process of capitalist development. *Ibid.* p. 887.

<sup>139</sup> *Ibid.* p. 889.

processes. For dependency authors, the interconnectedness of national process and international power structures are the main drivers of the socioeconomic reality of South America. In this sense, power relations and the productive exploitation of capitalism are central analytical factors for Dependency.<sup>140</sup> Therefore, the condition of underdevelopment that characterized South America was the consequence of how global centers power interacted with regional structures. Specifically, Dependency argued that European colonization positioned South America in an economically disadvantageous position in the international division of labor. Once colonization ended, post-colonial relations perpetuated the same colonial economic structures through the alignment of foreign centers of power and national elites.<sup>141</sup> At the center of Dependency's analysis was the expansion of capitalism, which was considered to be the justification for perpetuating structures of labor exploitation in South America. In this sense, the fact that South America was characterized socioeconomic distortions was not because the region was unable to transform traditional structures, but because those traditional structures were perpetuated by international capitalism in order to maximize productive processes.<sup>142</sup> Ultimately, the policy prescriptions of Dependency theory also presented important differences among authors within the approach. From radical violent revolution to progressive dependent development, dependency scholars recommended policies directed at addressing South America's position in the international division of labor. According to Dependency theory,

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<sup>140</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, p. 74.

<sup>141</sup> Ibid. p. 79.

<sup>142</sup> Ibid. p. 76.

the only path to development was through a processes of separation from the world economic system that permitted South American states to amass sufficient autonomy to replace capitalist elites so that a socialist state could be established.<sup>143</sup> As long as South America maintained its position in the international division of labor as a provider of primary product for industrial production in developed centers of power, the region would continue to suffer from important socioeconomic problems like poverty and inequality.

Therefore, the Developmentalism crisis in the 1960s and early 1970s, combined with the critical emergence of the Dependency approach, created different political consequences. First, countries like Brazil and Colombia continued applying Developmentalism's policy prescription, but they implemented important corrections by promoting manufacturing and other non-traditional exports. Other countries like Argentina, Chile, and Peru, followed the socializing, statist, and redistributive strategy prescribed by Dependency theory in order to transition from dependent capitalism to socialism. However, the Dependency inspired political movements did not last long, and they were mainly overthrown by military dictatorships, and countries like Chile, Argentina, Uruguay, and Peru moved away from their short-lived socialist strategies by the 1970s. With the apogee of Dependency theory and the demise of Developmentalism, the Neoliberalism approach also emerged as a contestation to the dominant discourses of the region. A third group of countries like Costa Rica and Venezuela became important

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<sup>143</sup> Ibid. p. 80.



expressions of the Neoliberalism approach even when Dependency was still important in the region.<sup>144</sup>

The changing economic environment of the international system in the 1970s and the subsequent debt crisis of Latin America in the 1980s signaled the definitive collapse of Developmentalism, ISI, and any attempt at Dependency inspired socialism in the region. The debt crisis represented the worst socioeconomic crisis in South America since the Great Depression, with the difference that it was now affecting a predominantly urban population in the region.<sup>145</sup> The causes of the debt crisis can be found both in the changes in the international economic market as well as in the embrace of Developmentalism and Dependency in the region. First, the international economic system suffered a dramatic trembling in in the 1970s because of the economic deceleration and rising inflation of core industrial countries. The increase in oil prices in 1973 and 1979 created massive stagflation in the industrial centers of powers, and traditional Keynesian policies were ineffective in resolving the economic crisis.<sup>146</sup> The administrations of Ronald Reagan and Margaret Thatcher applied strict monetary policies that increased interest rates to control inflation and applied fiscal policies aimed at triggering growth.<sup>147</sup> The ideological and theoretical support for Reagan and Thatcher's policies was to be found in the works of Milton Friedman and other influential economists from the University of Chicago, which

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<sup>144</sup> Griffith-Jones, Stephany and Osvaldo Sunkel. 1986. *Debt and Development Crises in Latin America: The End of an Illusion*. Oxford: Clarendon Press, p. 26.

<sup>145</sup> Ibid. pp. 6-18.

<sup>146</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 56.

<sup>147</sup> Griffith-Jones, Stephany and Osvaldo Sunkel. 1986. *Debt and Development Crises in Latin America: The End of an Illusion*. Oxford: Clarendon Press, p. 68.

represented the core intellectual thrust behind Neoliberalism's challenge to Developmentalism and Dependency. Neoliberalism argued that the socioeconomic problems of South America in the 1980s were the consequence of maintaining incorrect prices in the region. The problem was created and sustained by state intervention in the process, particularly given that subsidies to industrialization underestimated the cost of capital and overestimated the cost of labor. Therefore, the Neoliberalism approach considered it necessary for South America to allocate resources toward labor intensive, and not capital intensive, productive activities.<sup>148</sup> But for this to happen, Neoliberalism prescribed for South American states to reduce their role in regional development. The diagnosis of the Neoliberalism approach contended that the development challenges plaguing South America were the consequence of wrong policy choices implemented by states, and so the state needed to reduce its active participation in economic processes and to allow the free market to correct these distortions.<sup>149</sup> The consequence was, as John Toyé argued, that during the 1970s a "counter-revolution" emerged in development studies that challenged Developmentalism and its policy prescriptions like tariffs, subsidies, quotas, and the emphasis on investing in physical capital.<sup>150</sup>

The stagflation of the 1970s and the monetary policies of the Reagan and Thatcher administrations created significant changes in the international economy that directly

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<sup>148</sup> Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, pp. 110-12.

<sup>149</sup> Ibid. pp. 113-15; and Meier, Gerald. 2001. "The Old Generation of Development Economists and the New." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 13-39. New York: Oxford University Press, pp. 17-9.

<sup>150</sup> Willis, Katie. 2011. *Theories and Practices of Development*. New York: Routledge, p. 52.

affected South America. First, the economic contraction of the industrial centers created by the oil crisis significantly decreased the prices of commodities and the entire export volume of the region declined. Lower export volumes meant that Latin America's terms of trade in 1983 were 26% lower than what they were in 1978.<sup>151</sup> A reduction of 26% in the terms of trade meant that the revenue that was used to import industrial inputs, to import consumption goods, and to service public debt simply evaporated. Not only did consumption and industrial output decrease, but since the state was indirectly subsidizing the labor market given its subsidies on industry, the reduction of the terms of trade also created massive unemployment. Second, the monetarist policies of the industrialized countries created a sharp increase in interest rates by reducing capital liquidity. Once interest rates increased, the cost of the public debt that South American countries acquired during the Developmentalism era became more expensive, and the amount of resources directed at debt service in the region increased from 6.9 billion dollars in 1977 to over 39 billion dollars in 1982.<sup>152</sup> But the cost of public debt was not the only problem the debt created. A considerable part of foreign inflows in the region during the late 1970s and early 1980s were devoted for consumption of non-essential goods.<sup>153</sup> Rather than investing in productive activities, South American countries consumed their way through the period of Developmentalism fueled by high commodity prices, state subsidies, and an irrational expectation for unlimited economic growth. Third, the de-regulation policies implemented

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<sup>151</sup> Griffith-Jones, Stephany and Osvaldo Sunkel. 1986. *Debt and Development Crises in Latin America: The End of an Illusion*. Oxford: Clarendon Press, p. 98.

<sup>152</sup> Ibid. p. 99.

<sup>153</sup> Ibid. p. 107.

by certain countries like Argentina and Chile in the 1970s increased the vulnerability of their financial systems once the debt-crisis exploded in 1982.<sup>154</sup> When Mexico declared it had run out of foreign exchange on Friday, August 15, 1982, foreign bankers panicked in fear of a massive regional default. Since commodity prices decreased, public revenue evaporated, and the cost of public debt increased, South America could no longer enjoy the access to cheap foreign capital that it had in the early 1970s. Foreign Bankers, given the reduced capacity of Latin American states to collect revenue and then pay the service on public debt, closed credit options to the region thereby decreasing net capital inflows to the region by 33.3 billion dollars between 1981 and 1983.<sup>155</sup> The consequences of all of these changes were devastating to the productive structure of the region. The fact is that in less than five years, South American societies lost significant export volume, massive losses of export revenue, important drops on commodity prices, rising costs of public debt service, and a limited access to foreign credit while poverty, inequality, and unemployment increased significantly.

Neoliberalism's diagnosis of the region's socioeconomic problems focused on the nature and magnitude of debt, its budgetary consequences, and the role of the state. For Pedro Pablo Kuczynski, the most worrisome aspects of the economic crisis in the region was the size or nature of public debt in South American budget balances. Public debt per se was not a problem since other regions in the world had acquired debt by the 1980s. The problem was that Latin America's debt was significantly bigger, totaling 351 billion dollars

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<sup>154</sup> Ibid. pp. 107-09.

<sup>155</sup> Ibid. p. 101.

while the rest of the developing world owed 383 billion dollars.<sup>156</sup> The size of the debt and the nomination in United States dollars made the region more susceptible to dollar appreciations. Moreover, since Latin America's debt was mostly contracted with commercial banks, they were signed under floating interests rates, which made the region incredibly vulnerable to changes that were completely outside its control like interest rates' hikes. Therefore, Neoliberalism authors focus not only on the magnitude of the economic crisis, but in understanding how the policies that allowed for the crisis to emerge were enacted in the first place. In this sense, Kucynski argued that the cause of the region's massive problem with public debt resided in the Developmentalism policies directed at favoring manufactured production for internal markets.<sup>157</sup> Specifically, ISI policies weakened agricultural production while limiting export revenue from manufactured goods by maintaining industrial production uncompetitive due to protectionism. Moreover, under Developmentalism the state artificially manipulated the value of its currency in order to favor imports for non-essential consumption, which ended up being financed by budget deficits and public debt. Ultimately, the Neoliberalism approach criticized the central role of the state under Developmentalism, arguing that the state grew too much because of the active role it assumed in the productive process. Since the state decided to address socioeconomic distortions like poverty and inequality under Developmentalism, it tended to employ more workers than it required in order to absorb labor. The consequence was a huge state with massive labor costs that also artificially overestimated the cost of labor

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<sup>156</sup> Kingston, Peter. 2011. *The Political Economy of Latin America: Reflections on Neoliberalism and Development*. New York: Routledge, p. 47.

<sup>157</sup> Ibid. p. 48.

and subsidized basic services. In this context, Neoliberalism argued that it was a matter of time before such a big and economically connected state suffered from corruption and inefficiency, ultimately exacerbating the crisis and reducing the state's capacity to resolve it.<sup>158</sup>

As mentioned before, Neoliberalism prescribed the reduction of the role of the state in economic processes. In the specific case of South America, the particular policy prescriptions of neoliberalism were encapsulated into what came to be known as the "Washington Consensus." Coined by John Williamson in 1990, the "Washington Consensus" was a summary containing a ten-point policy proposal created from the neoliberal views that emerged in the Institute of International Economics Conference organized in Washington, D.C. in 1989.<sup>159</sup> The ten points of the consensus called for South American societies to adopt fiscal discipline, to reallocate public expenditure toward public education and public health,<sup>160</sup> to implement tax reform, to let financial markets regulate interest rates, to liberalize exchange rates, to liberalize trade, to open the economy to

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<sup>158</sup> Ibid. pp. 48-9.

<sup>159</sup> Birdsall, Nancy, Augusto de la Torre and Felipe Valencia Caicedo. 2011. "The Washington Consensus: Assessing a Damaged Brand." *Center for Global Development Working Paper 211* May 2010, 1-42, p. 5.

<sup>160</sup> Neoliberalism challenged the theory of growth presented by early developmental economists. These economists consider growth to be the consequence of investment. Therefore, in order to have investment there needed to be capital accumulation, but developing countries could not generate sufficient capital for investment. This was called the low-income trap. Since developing countries could not generate enough capital accumulation, both states and foreign capital would supply and direct capital towards capital intensive industries. By the late 1980s and early 1990s economists were challenging the theory of growth as a function of investment, arguing that growth was actually a function of human capital. The logic was that investment is magnified by the productivity of labor, which increases with investing in human capital. Hence, the policy prescription was for states to direct investment towards human capital. Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy" In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, pp. 115-16.

foreign direct investment, to privatize public owned enterprises, to deregulate the economy, and to protect property rights.<sup>161</sup> The policy prescriptions of the Washington Consensus were based on the economic experience of developed countries like the United States after the stagflation period of the 1970s. Since the United States was able to experience economic growth by applying policies that informed the Washington Consensus, the Neoliberalism approach contended that South America would also experience a positive socioeconomic transformation. The proper application of the policy prescription of the Washington Consensus was assumed to promote exports, to trigger private entrepreneurship and investment, and to attract foreign direct investment, all of which would result in socioeconomic development.<sup>162</sup>

The policy prescriptions of the Washington Consensus gained significant relevance throughout South America mainly as a consequence of the International Monetary Fund (IMF) and its structural adjustment packages. After Mexico declared it had no resource to service its public debt, the IMF successfully negotiated a bailout deal, and the rest of the continent moved to receive similar rescue packages. The mechanism that the IMF proposed to solve the crisis was to restructure South America's commercial debt by issuing more debt contracted with the fund. In this sense, the IMF would issue new loans to South American countries so that they could meet their commercial compromises, but in

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<sup>161</sup> For a brief discussion on each of the ten points of the Washington Consensus, see Williamson, John. 1990. "Latin American Adjustment: How Much Has Happened?" *Institute for International Economics, Conference Volume*. Washington, D.C.; and Kingston, Peter. 2011. *The Political Economy of Latin America: Reflections on Neoliberalism and Development*. New York: Routledge.

<sup>162</sup> Moreno, Juan Carlos, Eduardo Perez, and Pablo Ruiz. 2004. "The Washington Consensus: a Latin American Perspective Fifteen Years Later." *Journal of Post Keynesian Economics* 27(2): 345-65, p. 355.

exchange the region needed to enact significant structural adjustments programs (SAP).<sup>163</sup> The SAPs became known as the IMF conditionalities, and while they varied depending on each country, they followed the basic tenets of the policy prescriptions of the Washington Consensus. Given the magnitude of the economic crisis and the need for IMF funds, South America embarked on a decade of unprecedented free market reforms between the mid-1980s and the 1990s.<sup>164</sup> The fact is that these reforms were a direct reversal to the political economy that dominated the region for more than fifty years, but South American leaders in the region embraced the “Washington Consensus” up to a point in which it was implemented ideologically rather than pragmatically.<sup>165</sup> While the implementation of the policy prescriptions of the Washington Consensus varied across the region, its achievements are subject of much discussion.<sup>166</sup> On the one hand, the macroeconomic

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<sup>163</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, pp. 58-9.

<sup>164</sup> The intensity of the free market reforms was greater than any other opening reform in the history of the continent. Birdsall, Nancy, and Augusto de la Torre. 2001. *Washington Contentious*. Washington, DC: Carnegie Endowment for International Peace, p. 6.

<sup>165</sup> Moreno, Juan Carlos, Eduardo Perez, and Pablo Ruiz. 2004. “The Washington Consensus: a Latin American Perspective Fifteen Years Later,” *Journal of Post Keynesian Economics*, 27(2): 345-65

<sup>166</sup> The achievements of the Washington Consensus are a subject of significant debate in the literature. In fact, early proponents of the SAPs like Davinson Budhoo, Joseph Stiglitz, and to some degree Jeffrey Sachs, distanced themselves from the programs and condemned the role of the IMF. For a discussion on this, see Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, p. 65. Moreover, many authors consider the SAPs to have been a failure, since they did not deliver the expected results. For a discussion on the achievements of the Washington Consensus, see Birdsall, Nancy, and Augusto de la Torre. 2001. *Washington Contentious*. Washington, DC: Carnegie Endowment for International Peace; Stiglitz, Joseph. 2002. *Globalization and Its Discontents*. New York: W.W. Norton; Williamson, John. 2002. “Did the Washington Consensus Fail?” Paper presented at the Center for Strategic and International Studies, *Institute for International Economics*, Washington, D.C.; Lora, Eduardo and Ugo Panizza. 2003. “The Future of Structural Reform.” *Journal of Democracy* 14(2): 123-37; Manzetti, Luigi. 2003. “Political Manipulations and Market Reforms Failures.” *World Politics* 55(03): 315-60; Moreno, Juan Carlos, Eduardo Perez, and Pablo Ruiz. 2004. “The Washington Consensus: a Latin American Perspective Fifteen Years Later.” *Journal of Post Keynesian Economics* 27(2): 345-65; and Katz, Jorge. 2004. “Market-oriented Reforms, Globalization and the Recent Transformation of Latin American Innovation Systems.” *Oxford Development Studies* 32(3): 375-87.



imbalances of the 1970s and 1980s were controlled given that budget deficits and inflation decreased and foreign direct investment increased dramatically.<sup>167</sup> On the other hand, in the 1980s per capita income decreased by 10%, nearly a third of the region's population fell in poverty by 1990, and almost 10 million children suffered malnutrition.<sup>168</sup> Ultimately, the SAPs almost tripled the region's debt and forced the reallocation of resources away from public health and education toward debt service.

By the late 1990s and early 2000s, the failure of the Washington Consensus was evident throughout South America. As it was the case with the achievements of the policy prescriptions of the Washington Consensus, there is immense debate regarding the reasons behind their massive failure. First, many argued that the policy prescriptions of the Washington Consensus failed because of poor implementation given that, for example, many fiscal and labor reforms were not even enacted.<sup>169</sup> Second, the failure of the policy prescriptions of the Washington Consensus were the result of a lack of preconditions for free market economics to succeed. Building from the work of Milton Friedman, Luigi Manzetti argues that for free market capitalism to succeed there needs to be institutional

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<sup>167</sup> Lora, Eduardo and Ugo Panizza. 2003. "The Future of Structural Reform." *Journal of Democracy* 14(2): 123-37, p. 132.

<sup>168</sup> Cupples, Julie. 2013. *Latin American Development*. New York: Routledge, pp. 60-1.

<sup>169</sup> The implementation argument is based on the theoretical developments of institutional economics, which consider the efficiency and effectiveness of the state to be a fundamental condition for economic growth. For a discussion on this see Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, pp. 116-17; Meier, Gerald. 2001. "The Old Generation of Development Economists and the New" In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 13-39. New York: Oxford University Press; Williamson, John. 2002. "Did the Washington Consensus Fail?" Paper presented at the Center for Strategic and International Studies, Institute for International Economics, Washington, D.C.; and Fernández-Arias, Eduardo, and Peter Montiel. 1997. "Reform and Growth in Latin America: All Pain, No Gain?" Working Paper # 351. Washington, D.C.: Inter-American Development Bank.

accountability. Since the region did not have the proper institutional framework for accountability, Manzetti argued, corruption was rampant, and elites manipulated the reform process in order to maintain their privilege and create creating inefficient monopolies.<sup>170</sup> Similarly to Manzetti, Jorge Katz argued that the economies of the region lacked the necessary technological and innovative preconditions for market economies to succeed, therefore making the policy prescriptions of the Washington Consensus ineffective in transforming the socioeconomic reality the continent.<sup>171</sup> Third, the failure of the Washington Consensus was attributed to the scope and nature of the policies prescriptions. On the one hand, Joseph Stiglitz and Dani Rodrik considered the reform program to be incredibly narrow in focus, only considering macroeconomic stability. For them, the failure of the policy prescriptions of the Washington Consensus was attributed to the absence of reforms directed at addressing income distribution, economic volatility, institutional processes, or innovation.<sup>172</sup> On the other hand, Ronaldo Munck argued that the failure of the Washington Consensus was not necessarily because of the particularities of the policy prescriptions, but because of the Neoliberalism theory that informed them. While the Neoliberal approach stated that the implementation of the free market represented a stabilizing force, Munck argued that the policy prescriptions of the

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<sup>170</sup> Manzetti, Luigi. 2003. "Political Manipulations and Market Reforms Failures." *World Politics* 55(03): 315-60, pp. 322-23.

<sup>171</sup> Katz, Jorge. 2004. "Market-oriented Reforms, Globalization and the Recent Transformation of Latin American Innovation Systems." *Oxford Development Studies* 32(3): 375-87.

<sup>172</sup> Stiglitz, Joseph. 2002. *Globalization and Its Discontents*. New York: W.W. Norton, p. 78; and Rodrik, Dani. 2006. "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform." *Journal of Economic Literature* 44(4): 973-87.

Washington Consensus actually destabilized the economies of the region since they increased their vulnerability and their volatility.<sup>173</sup> Similarly to Munkc, James Cypher, challenged the Neoliberalism approach given its theoretical assumption that free markets have independent regulatory mechanisms. By implementing neoliberal reforms, the policy prescriptions of the Washington Consensus through the adoption of SAPs deprived the region of the autonomy to manage the devastating effects of the economic crisis by making them hostage of foreign financial markets.<sup>174</sup>

Regardless of the conditions that explained the failure of the Washington Consensus, the reality was one of immense social convulsion in South America by the 1990s.<sup>175</sup> The socioeconomic crisis of the 1990s was conducive for important theoretical modifications to the Neoliberalism approach. Based on the positive economic experience of certain South East Asian countries as well as the mediocre performance of the developing world under neoliberalism, international economic institutions and scholars alike started to stress the centrality of good governance as an important precondition for economic success.<sup>176</sup> The good governance shift also impacted the policy prescriptions of the Neoliberal approach and the Washington Consensus in particular. Informed by the

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<sup>173</sup> Munck, Ronaldo. 2013. *Rethinking Latin America*. New York: Palgrave, pp. 150-52.

<sup>174</sup> Cypher, James. 1998. "The Slow Death of the Washington Consensus on Latin America." *Latin American Perspectives* 25(6): 47-51, p. 50.

<sup>175</sup> For a discussion on the devastating effects of the Neoliberal approach in South America, see North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation." *Third World Quarterly* 37(8): 1483-1504, pp. 1492-496.

<sup>176</sup> Adelman, Irma. 2001. "Fallacies in Development Theory and Their Implications for Policy." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 103-30. New York: Oxford University Press, p. 116.

good governance shift in neoliberalism, Dani Rodrik identified what he called the “Washington Consensus 2.0.” which was an augmented set of neoliberal policy prescription for the developing world. The policy prescriptions of the Washington Consensus 2.0 highlighted the centrality of good governance, and considered the efficient and transparent behavior the state to be a fundamental precondition for economic success.<sup>177</sup> However, the socioeconomic crisis in the region was also conducive to the rise of various political movements that challenged the Neoliberal approach. A heterogeneous group of forces rose to power at the end of the 1990s and the early 2000s with a common ideological and political thread: their unequivocal rejections of neoliberalism and the Washington Consensus.<sup>178</sup> The self-proclaimed progressive movement started with the 1998 election of Hugo Chavez in Venezuela, followed by the 2000 election of Ricardo Lagos in Chile—later succeeded by Michele Bachelet—then the 2002 election of Luis Inacio Lula da Silva in Brazil, and the subsequent elections of Nestor Kirchner and Cristina Fernandez in Argentina, Evo Morales in Bolivia, Rafael Correa in Ecuador, Tabare Vazquez and Jose Mujica in Uruguay, and Fernando Lugo in Paraguay.<sup>179</sup> All of these governments considered it indispensable to move away from neoliberalism by promoting a new development model that stressed the centrality of the state in transforming the

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<sup>177</sup> Rodrik, Dani. 2006. “Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank’s Economic Growth in the 1990s: Learning from a Decade of Reform.” *Journal of Economic Literature* 44(4): 973-87.

<sup>178</sup> Zurbriggen, Cristina, and Emiliano Travieso. 2016. “Hacia un Nuevo Estado Desarrollista: Desafios para America Latina.” *Perfiles Latinoamericanos* 24(47): 259-81, p. 269.

<sup>179</sup> Ibid. p. 269 ; also see Gudynas, Eduardo. 2009. “Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual.” In *Extractivismo, Politica y Sociedad*, 187-225. Ecuador: Centro Andino de Accion Popular y Centro Latinoamericano de Ecologia Social, p. 189.

socioeconomic reality of the continent. While many considered the new development model to be neo-structuralism<sup>180</sup> or post-neoliberalism,<sup>181</sup> the fact is that the political economy preferences of these progressive governments is best described as Neo-Developmentalism.

The South American political economy of the twenty-first century has been characterized by Neo-Developmentalism, an approach that represents the coalescence of two main historical strategies in the region: Extractivism and Developmentalism.<sup>182</sup> Informed by Developmentalism, the Neo-Developmentalism approach states that it is indispensable for the economic success of the region to recover the role of the South American state in development. However, the Neo-Developmentalism approach challenges the policy prescriptions of industrialization that were at the core of Developmentalism. Neo-Developmentalism's diagnosis of the socioeconomic distortions of South America states that such conditions are the result of the combination of the failure of Developmentalism and the exacerbation of poverty and inequality generated by Neoliberalism.<sup>183</sup> Therefore, it is the responsibility of South American states to address the socioeconomic problems of the region directly through policies that alleviate poverty and

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<sup>180</sup> ECLAC coined the term Neo-Structuralism to describe the political economy preferences of contemporary progressive governments in the region in 2007. Zurbriggen, Cristina, and Emiliano Travieso. 2016. "Hacia un Nuevo Estado Desarrollista: Desafíos para América Latina." *Perfiles Latinoamericanos* 24(47): 259-81, p. 269.

<sup>181</sup> Ibid. p. 269.

<sup>182</sup> North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation." *Third World Quarterly* 37(8): 1483-1504, p. 1483.

<sup>183</sup> Ibid. p. 1484.

inequality. While Developmentalism and Dependency considered it imperative to break with the region's predisposition toward exporting primary products, Neo-Developmentalism imagines a state that makes Extractivism the center of its political economy. The policy prescriptions of the Neo-Developmentalism approach focus on appropriating the revenue from the export of primary products and direct them toward social policies. In this sense, Neo-Developmentalism mirrors the policy implications of the nineteenth century reliance on primary products. But instead of the state simply collecting a tax from extractive activities, the Neo-Developmentalism approach calls for the state to actively engage in the extractive process in order to appropriate as much revenue as possible to be directed toward social policy. The active role of the state in the exploitation of natural resources is considered a form of Neo-Extractivism, and it is the central productive activity of the Neo-Developmentalism approach.<sup>184</sup>

The Neo-Developmentalism approach emerged as a direct challenge to the ideological predominance and political application of Neoliberalism in South America. The theoretical and ideological justifications for Neo-Developmentalism are found in the works of current economists and scholars identified with development pragmatism.<sup>185</sup> In theory, development pragmatism focuses on issues that are not foreign to previous approaches such as institutional development, globalization, socioeconomic distortions, and industrialization. Specifically, development pragmatism prescribes policies directed at generating industrialization, yet it calls for states to direct public and private investment

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<sup>184</sup> Ibid. pp. 1484-485.

<sup>185</sup> Ibid. p. 1486.

toward industries with dynamic efficiencies.<sup>186</sup> However, development pragmatism faces important challenges for the application of industrial and development policies because the rules and regulations of the contemporary international economic system have limited policy alternatives. The fact is that the expansion of neoliberalism in the 1980s and 1990s erected trade norms against agricultural and farmer protection, while the current international trade structure provides increased protection to the interests of foreign capital by, among other conditions, guaranteeing capital mobility.<sup>187</sup> Under development pragmatism, the consequence of the limited policy space that South American countries have to address its socioeconomic distortions is that states have been pushed to adopt Neo-Extractivism as a mechanism to appropriate and direct resources.

As mentioned before, Neo-Developmentalism has been the dominant approach in the South American political economy of the twenty-first century. In the last decade and a half, Neo-Extractivism has been the main productive activity of South American societies, and the volume of primary products extracted and commercialized has increased considerably in the region.<sup>188</sup> Historically, Extractivism in South America was characterized by the role of foreign capital—through multinational corporations—in the production and commercialization of primary products. Under traditional Extractivism,

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<sup>186</sup> For a discussion on development pragmatism, see Khan, Shahrukh Rafi. 2011. “Exploring and Naming an Economic Development Alternative.” In *Towards New Developmentalism: Markets as Means Rather than Masters*, edited by Shahrukh Rafi Khan and Jens Christiansen, 3-18. London: Routledge.

<sup>187</sup> North, Lisa and Ricardo Grinspun. 2016. “Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation.” *Third World Quarterly* 37(8): 1483-504, pp. 1494-495.

<sup>188</sup> Burchardt, Hans-Jürgen and Kristina Dietz. 2014. “(Neo-)extractivism – a New Challenge for Development Theory from Latin America.” *Third World Quarterly* 35(3): 468-86, pp. 471-73.

multinational corporations were able to appropriate most of the revenue from exploiting and commercializing primary products, which would be mostly extradited to the global centers of powers. In this sense, the state appropriated revenue mainly through exploitation taxes and export duties, making it imperative for the state to maintain the internal structures that guaranteed foreign capital investments and free trade. Neo-Extractivism presents a more active role of the state in the exploitation process, increasing the avenues for revenue appropriation from royalties and taxes to extractive state corporation.<sup>189</sup> Through various degrees, most countries in South America have implemented Neo-Extractivism depending on the particular dominant extractive activities present in the region. Three main approaches to Neo-Extractivism have been observable in South America throughout the twenty-first century, First, countries like Chile, Brazil, and Colombia present an increased role of the state in extractive processes, but they continue to allow for multinational corporations to participate in the economy. Second, countries like Venezuela and Bolivia are characterized by a more radical form of Neo-Extractivism in which the state has become the main actor exploiting natural resources and it is highly involved in the appropriation of most of the revenue. Third countries like Argentina which continue to present a more traditional form of Extractivism where the state shares the ownership of the most important extractive corporation.<sup>190</sup> While there is an important degree of variation in terms of Neo-Extractivism in the continent, all South American states are heavily involved in the redistribution of the revenue extracted from the commercialization of primary products.

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<sup>189</sup> Ibid. p. 470.

<sup>190</sup> Burchardt, Hans-Jürgen and Kristina Dietz. 2014. "(Neo-)extractivism – a New Challenge for Development Theory from Latin America." *Third World Quarterly* 35(3): 468-86, p. 475.



Through an innumerable amount of social programs and redistributive policies of conditional cash programs, South American states have adopted the policy prescriptions of the Neo-Developmentalism approach on social justice. In fact, it is the embrace of Neo-Developmentalism—both in terms of appropriating extractive revenue and redistributing it—that South American states have claimed and maintained political legitimacy in the twenty-first century.<sup>191</sup>

The effects of the policy prescriptions of the Neo-Developmentalism approach are subject to important discussions in the academic literature. For most of the twenty-first century there have been significant achievements in terms of poverty and inequality, primarily because of the growing presence of the state in the labor market.<sup>192</sup> However, these improvements have been superficial, particularly after 2012-2013 when exports and commodity prices started to decline.<sup>193</sup> As it was previously discussed, there have been increases in poverty and inequality in the last few years, and the regional economy has contracted significantly since 2015. Moreover, the continent is the only emerging market where its population has seen a real loss in their standards of living since 2013. In other words, while the rest of the developing world has increased its standards of living, South Americans have lost important socioeconomic improvements achieved at the beginning of

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<sup>191</sup> Gudynas, Eduardo. 2009. "Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual." In *Extractivismo, Política y Sociedad*, 187-225. Ecuador: Centro Andino de Acción Popular y Centro Latinoamericano de Ecología Social, p. 209.

<sup>192</sup> Zurbriggen, Cristina, and Emiliano Travieso. 2016. "Hacia un Nuevo Estado Desarrollista: Desafíos para América Latina," *Perfiles Latinoamericanos* 24(47): 259-81, p. 271.

<sup>193</sup> North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation." *Third World Quarterly* 37(8): 1483-504, p. 1496.

the twenty-first century. The labor market has also suffered in recent years, where the South American informal sector has had a significant expansion. What is most sticking is that Neo-Developmentalism has increased the region's reliance on exporting primary products, perpetuating the structural organization of the state around export rents. Since 2013, South America has presented the same dynamic that characterized its political economy throughout the twentieth century: once international demand for primary products slows down and commodity prices budge, socioeconomic achievements evaporate. The socioeconomic achievements of the Neo-Developmentalism approach can be characterized as the "elevator effect": when there is an expansion of the export sector given an increase global demand of primary products and commodity prices rise, all social groups improve their material condition. But as soon as global conditions change, the most vulnerable sectors of society fall back into poverty and informality, showing how the social structure of distribution remains the same.<sup>194</sup>

## THE STATE ARGUMENT AND THE LITERATURE ON SOUTH AMERICAN POLITICAL ECONOMY

The most influential approaches in South American political economy present some profound theoretical and analytical differences among them. The ideological spectrum of the dominant development narratives in the region present figures as contradictory as Vladimir Lenin and Milton Friedman. Yet all of these approaches are bound by a common denominator: their focus at resolving poverty and inequality in South America. For any

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<sup>194</sup> Burchardt, Hans-Jürgen and Kristina Dietz. 2014. "(Neo-)extractivism – a New Challenge for development Theory from Latin America." *Third World Quarterly* 35(3): 468-86, pp. 474-75.

observer of the socioeconomic reality of South America, the particularities of the policies implemented by the countless political and ideological movements in the region appear divergent, contradictory, and even comical. How can anyone expect for South American societies to resolve their socioeconomic issues if every couple of decades a new approach gains relevance and sweeps the political movements of the region? Cynically, the only continuity in the region's political economy is that the poor stay poor and the rich get richer selling commodities. Add in corruption, machismo, and violence and these are indeed the most miserable nations Tocqueville described a couple of centuries ago.

The fact is that the reality of South American political economy is not as varied and divergent as it might seem. The chronological discussion on the literature on South American political economy reveals important continuities for the observant eye. Beyond the fact that all the approaches want to solve poverty and inequality, they all hint at a crucial factor, an indispensable precondition, a central player in South American development: the state. The Developmentalism approach considered the state at the center of the development process; the only actor capable of mobilizing the necessary resources to resolve socioeconomic distortions. The Dependency approach considered it indispensable to take over the state, separate it from the elites that favored foreign interests, and use it to eliminate the region's foreign dependence. The Neoliberal approach requires the state to enact profound reforms to the productive apparatus of the region, reforms without which development was simply unimaginable. In fact, once the policy prescriptions of the Washington Consensus failed to achieve its stated objectives, the Neoliberal approach pointed to the state and demanded for it to apply good governance for free markets so as to create economic growth. Ultimately, Neo-Developmentalism considers the state the most

important actor in South American society, promoting policies that put the state at the center of the exploitative and redistributive process.

The Neo-Developmentalism approach stresses the centrality of the state in the literature on South American political economy. Consider the theoretical, political, and ideological identity of the political movements that achieved political power and the control of the state in South America in the twenty-first century. These were all leftist movements in which their leaders—at some point in their history—used some form of protest or violence to challenge the status quo that perpetuated poverty and inequality in South America. Most strikingly, these movements and their leaders were informed by profound criticisms of the traditional productive processes in the region, and in particular of Extractivism. Leftist and progressive movements criticized Extractivism for its capacity to create enclave economies, to perpetuate marginal labor conditions, and to subordinate local power to foreign markets and interest. Yet once these leftist progressive movements reached positions of power, they exacerbated all of the conditions they once criticized by embracing Neo-Developmentalism. To various degrees, the self-proclaimed progressive movements that characterize twenty-first century politics in South America have either maintained or exacerbated socioeconomic problems in the region by implementing Neo-Extractivism activities like export-oriented monoculture agriculture or mineral extraction.<sup>195</sup> In fact, these progressive governments have actually perpetuated the

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<sup>195</sup> Gudynas, Eduardo. 2009. “Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual.” In *Extractivismo, Política y Sociedad*, 187-225. Ecuador: Centro Andino de Acción Popular y Centro Latinoamericano de Ecología Social, pp. 188-93.

condition of South America as an exporter of primary products,<sup>196</sup> which was their main argument against traditional Extractivism.<sup>197</sup> In cases like Ecuador or Bolivia, for instance, the embrace of Neo-Developmentalism by so called progressive governments has in fact increased the concentration of assets, capital, and land, and drove the state to direct confrontation with indigenous groups.<sup>198</sup> Therefore, even when explicitly anti-Extractivism movements obtain political power and control of the state in South America, the region seems to have been unable to break from the structures that perpetuate socioeconomic problems.

In this context, South America appears to be trapped in state of Magical Realism, a place where ideologies and political movements come and go and still everything remains constant. In face of how even the most rhetorically vehement proponents of anti-Extractivism, social justice, and autonomy were completely ineffective in transforming the region in the twenty-first century, it seems tempting to suggest that the main explanation for South America's socioeconomic problems is, in fact, South Americans. The interpretation for the literature on South American political economy suggests that regardless of the theory, the approach, or the policy prescription, South Americans are

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<sup>196</sup> The same dynamic of exacerbating South America's reliance on extracting commodities occurred during the Neoliberalism approach, in which a return to theoretical justifications for specialization and free market found Extractivism to be the central strategy, but extractive activities were under private and foreign exploitation. Azamar, Aleida, and Jose Ponce. 2015. "El Neo-Extractivismo como Modelo de Crecimiento en América Latina." *Economía y Desarrollo* 154(1):185-98, p. 186.

<sup>197</sup> Ibid. pp. 198-99.

<sup>198</sup> North, Lisa and Ricardo Grinspun. 2016. "Neo-Extractivism and the New Latin American Developmentalism: the Missing Piece of Rural Transformation." *Third World Quarterly* 37 (8): 1483-1504, p. 1496; and Gudynas, Eduardo. 2009. "Diez Tesis Urgentes Sobre el Nuevo Extractivismo: Contextos y Demandas Bajo el Progresismo Sudamericano Actual." In *Extractivismo, Política y Sociedad*, 187-225. Ecuador: Centro Andino de Accion Popular y Centro Latinoamericano de Ecología Social, pp. 214-20.

always failing at resolving poverty and inequality.<sup>199</sup> The fact that they have tried everything and have not done so correctly points at the validity of the historically prescient Elizabethan Black Legend of Iberian America. But to accept the Black Legend is to accept that at some level, people that were born and raised in a specific geographical location are incapable of resolving their social problems. Moving from such an argument to suggesting that South Americans are an inferior ethnic group or race is not that difficult, and it would reject the biological evidence that points to the contrary. Therefore, the real problem is that all of the theoretical approaches discussed above fail to understand a crucial factor in South American political economy: the problem *is* the state. It is not that the people that obtain political control over the state are genetically and culturally predisposed to be corrupt and inefficient leaders. It is not that South American societies are culturally predisposed to accept servitude, subjugation, and exploitation. It is not that South Americans are not biologically or sociologically equipped to overcome the geographical patterns of their continent. The problem is that the way South American societies organized created structures of incentives that favored exploitative processes that perpetuate poverty and inequality in the region.

The one question that all the previously discussed theoretical approaches failed to address is why there is no change. From Developmentalism to Neoliberalism, all of the

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<sup>199</sup> The tendency to consider every aspect of South American political economy as a failure is a characteristic feature of the region. While discussing Dependency theory's pessimism, Albert Hirschman describes this tendency as *fracasomania*: a predisposition to see the socioeconomic reality of the region as nothing more than a failure. Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, pp. 204-05.

approaches suggested in one form or another that the economic crises that plagued South America were due to some sort of failure in the implementation of its policy prescriptions. Either the region was unable to escape its dependence on exporting primary products or it failed to implement market reforms efficiently. It is rare to see an author within a particular theoretical approach reflecting on the premises of its preferred policies and wondering whether the crises were, not because of poor implementation or state failure, but because the logic and expectations of the approach were unrealistic. Instead of focusing on demanding for the state to be more efficient or to categorize South Americans as intrinsically incompetent or corrupt, the state argument questions whether all of the aforementioned approaches were demanding something that the South American state is simply not equipped to perform. The state argument agrees with all the previous theoretical approaches in the centrality of the state in the development process. But by focusing the analysis on the structure of the state, the state argument suggests that before examining any failure at policy implementation, what the study of South American political economy requires is an examination of the structure of the state.

The fact is that by studying the formation of the South American state, it is evident that it was specifically designed to maintain the best possible environment for exporting primary products. The South American state consolidated in the second half of the nineteenth century thanks to the expansion of international commerce. After independence, the South American state did not have a specific function to fulfill; the region was insulated from international warfare and countries in the region did not engage in total war in order

to secure their territorial integrity.<sup>200</sup> Therefore, the South American state found its purpose on the expansion of the international economy, and regional statesmen used the imperatives of participating in the international economy to provide the modern state with a fundamental function.<sup>201</sup> In this sense, the relationship between the South American state was mutually constitutive: the state was made by the international economy and the international economy benefited from the state. On the one hand, the conditions of the international economy provided a structure of incentives for South American elites to create a state that could guarantee their participation in global trade. On the other hand, the state was the instrumental mechanism used by elites to secure the exploitation of natural resources that were most demanded in the international economy. In this sense, the formation of the South American state was the result of state makers using the techniques that were plausible in the context of an nineteenth century capitalist expansion.<sup>202</sup>

In retrospect, and informed by Dependency theory, this period has been characterized by many as a conspiracy of elite greed and international coercion. The consolidation of the South American state has been considered as a process in which corrupt dictators sold out the massive natural wealth of the continent to foreign capitalist

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<sup>200</sup> The post-independence condition of South American states has been widely studied in the literature on state formation. The most prominent author in the field is Miguel Angel Centeno, who argues that war was not a conditioning factor for the creation and consolidation of the post-independence South American state. Without security imperatives, the state was able to consolidate through the requirements of the expansion of exporting activities, which increased dramatically in the second half of the nineteenth century. Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press.

<sup>201</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New York: D. Van Nostrand Company, Inc, p. 32.

<sup>202</sup> Ibid.



powers.<sup>203</sup> However, this is an opportunistic and unfair characterization of the leaders of the era. No doubt many of them were corrupt autocrats that wanted their aggrandizement above all, but the reality was that the way they consolidated the state was also the consequence of their context. The post-independence period was one of massive social fragmentation with regional and local powers claiming authority over the territory. Capitalist strongmen rejected the idea to centralize power by strengthening the state because they feared it would be counterproductive given the region's history of guerilla warfare and because they had already invested in local militias.<sup>204</sup> For much of the first half of the nineteenth century, the context of fragmented societies with regional *caudillos* and a weak central state characterized the political landscape of South America. Therefore, when the international economy started to expand massively as a consequence of Britain's industrial revolution in the second half of the nineteenth century, South American states found a mechanism of state consolidation: trade. Central states were able to claim legitimacy and rally political support through the implementation of economic strategies that were centered on trade.<sup>205</sup> Therefore, the predisposition of the South American state toward protecting and promoting export oriented activities responds to the rational calculation of nineteenth century statesmen that wanted to achieve state consolidation.

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<sup>203</sup> Ibid. p. 29.

<sup>204</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando López-Alves, 153-76. New Jersey: Princeton University Press, p. 159.

<sup>205</sup> Ibid. p. 169.

For all of the negative problems that contemporary scholars point at the strategies that are centered on trading primary products, the fact is that in the late nineteenth century trade gave the South American state a function and a purpose without which it could not have consolidated the way it did. The economic role that the South American state assumed was designed to function within the international capitalist system it participated in, and the only space available in that system where the region could have an advantage was providing natural resources.<sup>206</sup> Therefore, if the efficiency and effectiveness of a state is measured by how well it performs the tasks that it was designed to achieve, then the South American state is one of the most effective states in the modern history of capitalism. For almost two hundred years the South American state has guaranteed the supply of natural resources used throughout the entire international capitalist productive system. South American natural resources have fueled the industrial expansion of Britain and to a lesser extent Western Europe, and more recently they have fueled the Chinese economic miracle. Perhaps before determining that the problem is that policy prescriptions fail, any examination of South American political economy must examine the role of the most important socio-political organization of the continent and measure whether it can accomplish any given policy prescription. The problem arises when it is now known that the function of the South American state was designed to perform creates processes that perpetuate socioeconomic distortions like poverty and inequality. Thus, informed by the long literature on South American political economy, it is now indispensable to build the

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<sup>206</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New York: D. Van Nostrand Company, Inc, pp. 30-1.

state argument. In this context, Table 1 summarizes the literature on South American political economy in relation to the state argument.

**Table 1. Summary of the Literature on South American Political Economy**

	<b>Developmentalism</b>	<b>Dependency</b>	<b>Neoliberalism</b>	<b>Neo-developmental-ism</b>
<b>Period</b>	<i>1930s – 1960s</i>	<i>1960s – 1970s</i>	<i>1970s – 1990s</i>	<i>2000s – 2010s</i>
<b>Policy</b>	Industrialization/ modernization	Delinking and socialism	Open market reform	Neo-Extractivism and social programs
<b>Problem</b>	Reliance on commodity export	Position in the global economy	State intervention	Vulnerability and foreign control
<b>Context</b>	Great Depression and WWII	Crisis of Developmentalism	The Debt Crisis	Fall of Washington Consensus
<b>State</b>	Protect industry	Socialist takeover	Good governance	Exploit resources and distribute revenue

## CHAPTER 2

### REFINING THE STATE ARGUMENT

The discussion on the literature on South American political economy illustrates the centrality of the South American state in the development thinking of the region. Whether implicitly or explicitly, the state has always been a fundamental player in South America's socioeconomic history. The most dominant approaches in the continent have attributed to the state a contradictory role; the state is the main problem solver in the region yet it is also the main troublemaker. It is the only actor capable of directing a profound process of socioeconomic transformation but it is also the actor that is always responsible for the failure of any prescribed policy. The state argument illuminates this paradox by simultaneously accepting the centrality of the state in development while also problematizing its structural and functional organization. It is indeed correct to point at the state as a central player in the region's socioeconomic reality, but the South American state is functionally and structurally organized in a way that makes it difficult for the state to abandon certain productive processes. Therefore, it is crucial for the state argument to focus on the formation of the South American state, given that it is at this moment in history when the state adopts its characteristic structural and functional features. Yet as it was mentioned before, external conditions were fundamental in the formation and consolidation of the South American state, given that local state makers found purpose and legitimacy in participating in the international economy. Then, studying the formation and consolidation of the South American state requires to focus on how internal conditions interacted with external stimuli in the formation of the state. In fact, for the state argument to present a historically totalizing explanation of South America's socioeconomic reality, it is indispensable to understand the

formation and consolidation of the state in the context of an expanding international capitalist economy. The sociopolitical fragmentation of the post-independence period is not sufficient to explain why the South American state adopted a structural organization that favored productive processes geared towards exporting primary products. Only by including the increasing demand of commodities driven by the Industrial Revolution in the analysis of the South American state can the state argument explain the historical process of state formation in the region. From the discussion on the literature on South American political economy it is evident that the Dependency theory approach provides a theoretical and analytical framework suited for the internal-external dynamic embedded in the state argument. But Dependency theory has an negative intellectual baggage that needs to be addressed before moving forward in the formation of the state argument. Therefore, it is indispensable to discuss the history of the movement in order to highlight its useful insights, to put to rest some of the criticisms against the approach, and to elaborate on the relationship between the state argument and Dependency theory.

Contemporary discussions on Dependency theory are marked by the idea that the approach is no longer useful to explain the socioeconomic reality of the developing world. In this sense, in the United States, Dependency theory is seen as a “dead” or “passé” paradigm in International Political Economy.<sup>207</sup> This is not an exclusive feature of contemporary discussions on Dependency theory; the reception of the approach in academia

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<sup>207</sup> Blaney, David. 1996. “Reconceptualizing Autonomy: The Difference Dependency Theory Makes.” *Review of International Political Economy* 3(3): 459-97, p. 460.

in the United States considered it to be either unscientific or too political.<sup>208</sup> Therefore, there is a long tradition in academic thought in the United States that considers Dependency theory to be inadequate or ill-equipped to understand and explain the socioeconomic reality of the developing world. The consequence has been to declare the approach “dead,” considering it an appendage of critical theories that is mentioned in passing as an expression of Latin American intellectualism. Regardless of the predisposition of academia in the United States to consider everything outside its core narratives and methodologies as unscientific or irrelevant, the fact is that Dependency theory imprinted the evolution of South American intellectualism and instilled itself in the social consciousness of the region.<sup>209</sup> Yet the relevance of Dependency theory is not only a function of its continued presence in South American thinking. It is possible that the region clings to an outdated analytical framework in order to blame foreign intervention for its dire socioeconomic reality, but that is not the case. The discussion on the literature on South American political economy—and the discussion on Neo-Developmentalism in particular—shows that many of the analytical insights of Dependency theory continue to be present in the region’s socioeconomic reality. Many of the concepts of Dependency theory, while relegated to historical accounts, continue to explain the most characteristic features of the region’s problems.<sup>210</sup> For instance, South American countries have increased their reliance on

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<sup>208</sup> Tickner, Arlene and David Blaney. 2012. *Thinking International Relations Differently*. New York: Routledge, p. 4.

<sup>209</sup> Beigel, Fernanda. 2006. “Vida, Muerte, y Resurrección de las ‘Teorías de la Dependencia’.” In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO, p. 288.

<sup>210</sup> *Ibid.* pp. 304-06.

exporting primary products in the twenty-first century, deepening the degree of dependency with external conditions.<sup>211</sup> In fact, current discussions on South American political economy continue to stress the problems of distribution and productivity differences between center and peripheral economies, highlighting the discriminatory and concentrating nature of economic activities in the region.<sup>212</sup> Therefore, although academia in the United States considers the approach to be irrelevant, the socioeconomic reality of South America shows just how important Dependency theory is when studying the developing world. Yet it requires more than just pointing at how the approach describes certain aspects of the socioeconomic reality of the region to justify Dependency theory as the theoretical framework for the state argument. So the next sections are dedicated to the arduous task of defending the validity of the Dependency approach by presenting its important contributions, by highlighting its central debates, by responding to the most relevant criticisms, and by refining its analytical propositions in face of the state argument.

## IN DEFENSE OF DEPENDENCY THEORY

The history of Dependency Theory has been written many times in the academic literature on International Political Economy. The continued presence of Dependency theory in the United States academia shows how the approach represents what many have called the most important contribution to social sciences by Latin America.<sup>213</sup> Similarly to

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<sup>211</sup> Ibid. p. 308.

<sup>212</sup> Ibid. p. 309.

<sup>213</sup> Sánchez, Omar. 2003. "The Rise And Fall Of The Dependency Movement: Does It Inform Underdevelopment Today?" *Estudios Interdisciplinarios De America Latina* 14 (2): 31-50, p. 31.

the history of the discipline of International Relations referenced before, the history of Dependency theory consists of many widely known points; from identifying a pioneer or “father” of the movement to explaining why it was considered a new paradigm and why it lost its relevance. Yet also similarly to the history of International Relations, the widely known history of Dependency theory is also filled with oversimplifications, inaccuracies, and ahistorical references characteristic of a myth rather than an analytical framework.<sup>214</sup> The importance of Dependency theory as a new paradigm explaining the socioeconomic reality of the region emerged in the 1960s with the popularization of the works of authors like Andre Gunder Frank, Paul Baran, and Fernando Henrique Cardoso. However, by the moment the Dependency approach gained relevance particularly in the United States, there were already many authors like Ragnar Nurkse, Hans Singer, Karl Gunnar Myrdal, or Albert Hirschman with a long tradition of criticizing Modernization theory and explaining the problems of the developing world with the analytical concepts of Dependency theory.<sup>215</sup> This long tradition of criticizing Modernization theory was placed at the center of Dependency theory’s contributions, stressing the ahistorical, parochial, U.S.-European centrism, and irrelevance of Modernization to Latin America. Yet the general criticisms of Modernization theory were rooted in a long and rich debate within the Dependency

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<sup>214</sup> For a discussion on the distortions of the history of Dependency theory, see Cardoso, Fernando. 1977. “The Consumption Of Dependency Theory In The United States.” *Latin American Research Review* 12 (3): 7-24.

<sup>215</sup> Cardoso argues that the inaccurate depiction of Dependency theory characteristic of academia in the United States is the consequence of the oversimplification of the paradigm in the article Bodenheimer, Susanne. 1970. “The Ideology of Developmentalism: American Political Science’s Paradigm-Surrogate for Latin American Studies.” *Berkeley Journal of Sociology* 15: 95-137. Ibid. pp. 8-9.



approach, making it difficult to highlight one particular criticism of Dependency against Modernization beyond the overarching arguments mentioned before.

Authors in the Dependency approach were very active in criticizing existing paradigms like Modernization and Developmentalism, but they also engaged in meaningful discussions with other Dependency authors. The consequence is a rich literature with a heterogeneous body of analytical concepts and theoretical explanations. A revision of all of the different avenues of discussion within Dependency theory is a herculean task, and one that is beyond the objective of this section. However, if the state argument is to be formulated within the theoretical framework of the Dependency approach, it is necessary to engage in a discussion on the main arguments of the theory.<sup>216</sup> There are many divisions within Dependency theory among authors who either accept or reject the viability of capitalist development in the periphery, and particularly on the mechanisms of dependency that explain socioeconomic structures in the region.<sup>217</sup> These major debates within Dependency theory are best captured by the divide described by Robert Packenham as orthodox and unorthodox dependency and described by Cristobal Kay as reformist and Marxist dependency.<sup>218</sup> Authors of orthodox dependency are characterized by their stress

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<sup>216</sup> For an in-depth discussion on the different debates within Dependency theory, see Jackson, Steven, Bruce Russett, Duncan Snidal, and David Sylvan. 1979. "An Assessment of Empirical Research on Dependencia." *Latin American Research Review* 14 (3): 7-28; Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 125-96; and Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press.

<sup>217</sup> Palma, Gabriel. 1978. "Dependency: A Formal Theory Of Underdevelopment Or A Methodology For The Analysis Of Concrete Situations Of Underdevelopment?." *World Development* 6(7): 881-924, pp. 898-906.

<sup>218</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 40; and Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 125-62.

on asymmetric relations of power and relations of subjugation and exploitation. The most important exponent of orthodox Dependency theory is Andre Gunder Frank, who presented an analysis of Latin American underdevelopment as a consequence of the economic industrialization of the United States and Western Europe. Informed by the work of Paul Baran, and in particular the book *The Political Economy of Growth*, Gunder Frank argued that advanced capitalism restricted the economic development of peripheral economies by aligning with domestic elites in order to maintain access to cheap resources, expatriate surpluses, and control their economies through investment. Therefore, Latin American underdevelopment was not a deviation from a specific process of economic development. On the contrary, Latin American underdevelopment was a required condition for the industrial centers of power in the international economy to enjoy a privileged position of development. Gunder Frank's analysis stated that it was colonialism that introduced capitalism in the region, and that Latin American integration in the international economic system perpetuated its condition of dependence and underdevelopment through the exploitation of natural resources. The condition of underdevelopment was therefore maintained by the permanence of the international structures of global capitalism between the industrial centers and the periphery.<sup>219</sup> Thus, Latin American underdevelopment was not a deviation from development, but a byproduct of the economic development of certain areas of the global economy; development and underdevelopment are different sides of the same coin.

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<sup>219</sup> Palma, Gabriel. 1978. "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development* 6: 881-924, p. 899; and Jackson, Steven, Bruce Russett, Duncan Snidal, and David Sylvan. 1979. "An Assessment of Empirical Research on Dependencia." *Latin American Research Review* 14 (3): 7-28, p. 8.

In particular, Gunder Frank provided one of the most incisive challenges to Modernization theory with his analysis of dualism and traditional structures. The Modernization approach considered development challenges to be a consequence of the cohabitation of traditional and modern structures in Latin America. In this sense, Modernization considered it imperative to transcend traditional structures such as the hacienda in order to ignite the process of development in the region. Gunder Frank challenged Modernization theory by pointing at the capitalist and modern nature of these traditional structures. He argued that it was in the colonial era that these supposedly traditional structures were created and perpetuated in the region, and that they were functionally organized to generate profit and inputs for European capitalism. Therefore, structures like the hacienda or the plantation, which served as the characteristic traditional structure in the analysis of Modernization theory, were not pre-capitalist structures blocking development but modern societies designed to fuel European capitalist development.<sup>220</sup> The implication of Gunder Frank's analysis was a set of policy prescriptions that differed drastically from those of Modernization theory. Once the supposedly traditional structures are understood as capitalists mechanisms designed to support European development, then the integrationist policies of Modernization designed to transition from traditional to modern societies loses all meaning. Hence, underdevelopment could not be resolved by emulating European development because European development created the structures that perpetuate underdevelopment in Latin

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<sup>220</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, pp. 72-3.

America.<sup>221</sup> Other authors like Ruy Mauro Marini followed Gunder Frank's analysis on the causes of underdevelopment, arguing that the industrialized center of the international economy—through unequal terms of trade, labor exploitation, and sub-imperialism—perpetuates underdevelopment in Latin America.<sup>222</sup> Informed by the nature of exploitative structures in Latin America, orthodox Dependency concluded that emulating an European-inspired capitalist development in the region was impossible since it would require to perpetuate underdevelopment. The consequence of the impossibility of capitalist development in the periphery was to consider the political future of Latin America to be trapped in a dichotomy of accepting oppressive sub-imperialism or conducting a radical violent socialist revolution.<sup>223</sup>

It is the possibility for capitalist development to emerge in Latin America that marks the most important division within Dependency theory. Unorthodox Dependency is characterized by the recognition that capitalist development could occur in peripheral societies. Therefore, in order to develop their propositions, authors within unorthodox Dependency engaged in profound debates with the analysis of orthodox Dependency. The most influential author of unorthodox Dependency is Fernando Henrique Cardoso, who presented the most important response to Gunder Frank's arguments. In general, Cardoso argued that the idea that capitalist development was not possible in Latin America was

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<sup>221</sup> Ibid. p. 76.

<sup>222</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 164-66.

<sup>223</sup> Ibid. pp. 166-67; and Palma, Gabriel. 1978. "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development* 6: 885-924, p. 904.

erroneous given that capitalist dependent development was already happening in various countries of the region.<sup>224</sup> Specifically, Cardoso challenged Gunder Frank's proposition that local elites were incapable of promoting any type of capitalist development in Latin America, and pointed at the positive effects of multinational corporations in the industrial advances of the region. Therefore, Cardoso criticized Gunder Frank's propositions considering violence or oppression to be the only viable political outcomes in dependent nations,<sup>225</sup> and developed a somewhat different understanding of Latin American dependence and underdevelopment. The book *Dependency and Development in Latin America* by Fernando Cardoso and Enzo Faletto is the most important representation of unorthodox Dependency. For Cardoso, capitalist development was not impossible in Latin America, but he considered capitalist dependent development to be a different expression of capitalism than that of European capitalism. The different aspects of dependent development, he argued, were the result of the interaction between specific internal structures in Latin America and external conditions of the global economy. In this sense, Cardoso parts with the mechanic and deterministic conclusions of Gunder Frank, instead providing a more nuanced understanding of dependency situations based on the examination of the role of alliances created between external conditions and local dominant

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<sup>224</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, p. 81.

<sup>225</sup> Cardoso rejected the mechanic and deterministic logic of Gunder Frank, yet at some point he argued that if the state continued to maintain capitalism, then socialism would become the only acceptable solution to underdevelopment. Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 125-96; and Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 95.

classes, stressing the importance of local power dynamics such as labor relations.<sup>226</sup> Rather than focusing on the subjugation of peripheries in the international economic system to the interests of core powers, Cardoso focuses on the particularities of capitalist manifestations in peripheral societies.<sup>227</sup> Therefore, Cardoso was more concerned in understanding political and power dynamics in peripheral countries than on proposing an explanation of underdevelopment based on an idea of international control and domination. In this sense, Cardoso stressed the necessity to avoid two fallacies in Dependency analysis: 1) the idea of socioeconomic realities in peripheral societies to be the consequence of mechanic conditioning by external forces; the notion that peripheral societies are just a mirror reflection of foreign interests; and 2) the proposition that every single particularity of the socioeconomic reality of societies is the result of self-contained historical contingencies. Socioeconomic realities, Cardoso stated, are the result of historical processes in which national and international factors interact in a mutually constitutive relationship.<sup>228</sup>

The revision of the debate between orthodox and unorthodox Dependency presents two different understanding of underdevelopment in Latin America. For orthodox Dependency, the socioeconomic distortions of peripheral societies are explained by the expansion of capitalism, and for European capitalism to succeed, Latin American

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<sup>226</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, p. 80.

<sup>227</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 87.

<sup>228</sup> Beigel, Fernanda. 2006. "Vida, Muerte, y Resurrección de las 'Teorías de la Dependencia'." In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO, p. 298.

underdevelopment must be perpetuated. For unorthodox Dependency, the expansion of European capitalism created situations of dependency in Latin America, but the specificity of these situations are the consequence of the interaction between local power dynamics and foreign conditioning factors. Beyond the specific differences between orthodox and unorthodox authors, they both present significant continuities showing the overarching influence of Dependency theory. The most important continuity in analyses rooted in Dependency theory is the presence of a specific theoretical understanding of human relations. Rooted in Marxism, Dependency theory understand socioeconomic outcomes to be the result of labor relations between individuals, and more importantly, between societies. This is the driving thread between all Dependency analysis; whether national or international, production relations define the historical processes of societies. More specifically, Dependency theory suggests that contemporary socioeconomic outcomes, regardless of their specificities, are the result of productive relations under capitalism.<sup>229</sup> Therefore, the most important aspect of Dependency theory is perhaps the most counterintuitive: Dependency theory is not a “theory.”

By naming it Dependency theory, there was a growing expectation that the approach in fact formulated theoretical causal relations more in accordance with the dominant propositions present in Behavioralist U.S. academia. Many authors within the movement formulated such parsimonious causal relationships, but discussion within the movement highlighted that Dependency transcended such propositions and embodied an

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<sup>229</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, p. 74.

approach.<sup>230</sup> Therefore, Dependency theory presented not a theory but a theoretical problem: how to study capitalist expansion and the situations that existed in certain structural conditions of interaction between socioeconomic forces.<sup>231</sup>

The main implication of understanding Dependency theory as a theoretical approach is that dependency is not a specific variable or outcome. In the Dependency approach, dependency represents a descriptive category for certain societies under the expansion of modern capitalism. In other words, dependency is “a form of relationship in the context of which other phenomena such as economic expansion and development, which are variable properties, are important and are subjects the subjects of study.”<sup>232</sup> Therefore, the Dependency approach understand dependency to be the specific situation under which capitalism manifests in peripheral societies, and it is under this situation of dependency that certain factors influence, affect, or condition development outcomes. In this sense, the Dependency approach provides a historical context and a theoretical framework for the study of South American political economy. Particularly relevant for the study of South American political economy is Dependency’s contextualization in the study of the relationship between the capitalist economic system, the export enclave syndrome,

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<sup>230</sup> For a discussion on how Dependency authors rejected the formalization of theoretical propositions as equivalents of the Dependency approach, see Palma, Gabriel. 1978. “Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?” *World Development* 6: 881-924, pp. 902-03.

<sup>231</sup> Beigel, Fernanda. 2006. “Vida, Muerte, y Resurrección de las ‘Teorías de la Dependencia’.” In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO, p. 297.

<sup>232</sup> Duvall, Raymond. 1978. “Dependence and Dependencia Theory: Notes Towards Precision of Concept and Argument.” *International Organization* 32(1): 51-78, p. 56.



and the socio-political distortions under the domestic/international spectrum.<sup>233</sup> But before contextualizing the study of South American political economy under the Dependency approach, it is necessary to address the criticisms that the analytical propositions of the movement have received in the past. Only addressing such criticism makes it possible to evaluate the validity of Dependency's theoretical formulations and analytical propositions in the study of South American political economy.

Just like there is a long Dependency tradition in the social consciousness of Latin America, there is also a long tradition of criticisms against the movement in International Political Economy. Conducting an exhaustive review of the criticisms levied against Dependency theory is nearly impossible, but Cristobal Kay provides a summary of the litany of accusations against the approach. In a wide array of contexts, and from a multiplicity of voices, Dependency theory has been accused of being:

tautological, economistic, ahistorical, utopian, devoid of class analysis, populist or Narodnik, nationalist, myopic, one-dimensional, ideological, eclectic, mechanical, sophist, a negative teleology, idealist, anti-capitalist, a Marxified structuralism, non-Marxist or non-materialist, careless in the use of Marxist theory, unable to break with bourgeois development, without empirical grounding, theoretically imprecise, unclear, contradictory, too global or holistic, deterministic, methodologically and conceptually eclectic – a tower of Babel, lacking clear policy recommendations for overcoming dependence, stagnationist, circulationist, and so on.<sup>234</sup>

Many of the charges against Dependency theory are fair, and they have been dealt at length throughout the literature.<sup>235</sup> However, it is necessary to address some of the criticisms that

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<sup>233</sup> Ibid. p. 70.

<sup>234</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. London: Routledge, p. 175.

<sup>235</sup> For a discussion on the criticisms against Dependency theory, see Cardoso, Fernando. 1977. "The Consumption Of Dependency Theory In The United States." *Latin American Research Review* 12 (3): 7-24;

were unfairly levied against Dependency theory in order to rescue its valuable insights. As mentioned before, Dependency theory is consistently considered as a “dead” paradigm in the study of developing countries. Authors like Omar Sánchez identify several reasons for the approach’s apparent demise. For Sánchez, the experience of certain South East Asian countries in the second half of the twentieth century shows how the propositions of Dependency theory were erroneous.<sup>236</sup> The premise of this criticism states that Dependency theory assumed it to be impossible for countries in peripheral situations to be able to position themselves at the center of the international division of labor. But there are two main problems with Sánchez’s use of the South East Asian experience as a contradiction of Dependency’s propositions. First, Sánchez seems to obviate the Asian financial crisis of the 1990s, and in particular, how such financial crisis reinforces Dependency’s diagnoses on how situations of dependency exacerbate financial vulnerability and sensitivity.<sup>237</sup> But most importantly, Sánchez fails to engage with an important body of literature that challenges the idea that the South East Asian experience somehow diminishes the validity of Dependency theory.<sup>238</sup> Particularly with the South East Asian experience, Sánchez fails

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Blaney, David. 1996. “Reconceptualizing Autonomy: The Difference Dependency Theory Makes.” *Review of International Political Economy* 3 (3): 459-97; and Beigel, Fernanda. 2006. “Vida, Muerte, y Resurrección de las ‘Teorías de la Dependencia’.” In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO.

<sup>236</sup> Sánchez, Omar. 2003. “The Rise And Fall Of The Dependency Movement: Does It Inform Underdevelopment Today?” *Estudios Interdisciplinarios De America Latina* 14 (2): 31-50, p. 39.

<sup>237</sup> Dos Santos, Theotônio. 1970. “The Structure of Dependence.” *The American Economic Review* 60 (2): 231-36.

<sup>238</sup> For an in-depth discussion on the South East Asian experience and their relationship with Dependency theory, see Evans, Peter. 1989. “Predatory Development and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State.” *Sociological Forum* 4(4): 561-87; and Evans, Peter, Dietrich Rueschemeyer, and Theda Skockpol. 1985. *Bringing the State Back In*. Cambridge: Cambridge University Press.

to appreciate that the socioeconomic success of these countries was in fact the result of a combination of the policies prescribed by ECLAC and their access to industrial consumer markets, and more importantly, the political outcomes in these countries showed the relevance of Gunder Frank's analysis of underdevelopment and autocratic oppression.<sup>239</sup>

Yet the most important observation against Sánchez's criticism of Dependency theory is its superficiality. Sánchez's criticism of Dependency theory based on the experience of certain South East Asian countries is based on Gunder Frank's premise that under capitalist conditions, peripheral countries were condemned to their subjugated position of underdevelopment.<sup>240</sup> The problem is that Sánchez ascribes Gunder Frank's proposition to the entire Dependency approach, and by doing so shows once again that he ignored important literature on the subject. Sánchez seems to have missed the entire debate between orthodox and unorthodox Dependency, a debate in which most of Dependency authors had already rejected Gunder Frank's proposition by 1970s.<sup>241</sup> In fact, one of the most important pillars of Cardoso's work was the recognition that capitalist development was possible in peripheral countries, a point of major debate within the Dependency approach.<sup>242</sup> To be fair, orthodox Dependency was in fact the most popular narrative of the

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<sup>239</sup> Studwell, Joe. 2013. *How Asia Works: Success And Failure In The World's Most Dynamic Region*. New York: Grove Press.

<sup>240</sup> Frank, Andre Gunder. 1967. *Capitalism and Underdevelopment in Latin America*. New York: Monthly Review Press, p. 11.

<sup>241</sup> Cardoso, Fernando. 1977. "The Consumption Of Dependency Theory In The United States." *Latin American Research Review* 12 (3): 7-24, p. 15.

<sup>242</sup> Cardoso, Fernando. 1973. "Associated-dependent Development: Theoretical and Practical Implication." In *Authoritarian Brazil: Origins, Policies, and Future*, edited by Alfred Stepan. New Haven: Yale University Press; and Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press.

Dependency approach in the United States,<sup>243</sup> making Gunder Frank's work one of the most read Dependency authors in English given its accessibility.<sup>244</sup> But by the time Sánchez writes in 2003 that Dependency has been "relegated to footnote status in the field of development studies" and that "dependency is rarely even mentioned today,"<sup>245</sup> the vast majority of the Dependency literature is already available in English, and important books discussing all the aspects of Dependency that he fails to mention are now part of many published works in the United States.<sup>246</sup> Therefore, it is inexcusable to omit an important part of the literature of Dependency theory while arguing that the approach is just a footnote

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<sup>243</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 190.

<sup>244</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. London: Routledge, p. 125.

<sup>245</sup> Sánchez, Omar. 2003. "The Rise And Fall Of The Dependency Movement: Does It Inform Underdevelopment Today?" *Estudios Interdisciplinarios De America Latina* 14 (2): 31-50, p. 39.

<sup>246</sup> The superficiality of Sánchez's argument regarding the South East Asian experience is also evident in his other criticisms about Dependency theory. Sánchez argues that one of the reasons Dependency theory declined as an analytical field is the formalization of economics. Since Dependency theory could not formalize its propositions to the standards of economics, Sánchez argues, the approach lost its explanatory power. However, in 1977, Cardoso had addressed such criticisms by discussing the parameters of the Dependency approach and methodology. Cardoso, Fernando. 1977. "The Consumption Of Dependency Theory In The United States." *Latin American Research Review* 12 (3): 7-24, pp. 15-6. The same problem of superficiality is true regarding the charges against Dependency theory because of its political implications. Authors like Cardoso and Sunkel saw a proletariat socialist political revolution simply unviable, and Sunkel even believed in reforming capitalism instead of following a violent revolution or socialism. Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. London: Routledge, pp. 130-39. In fact, it is ironic that authors like Sánchez point at the example of countries in South East Asia to challenge Dependency theory while at the same time criticizing the movement because of its political implications. It is pseudo-academic to separate the political processes through which countries like South Korea, Singapore, or Thailand achieved capitalist development while defending classical theories of development and criticizing Dependency. Modernization theory implies a logical consequence of democratization as a result of capitalist development, yet Singapore and Thailand are far from exemplary liberal democracies. Also, Dependency was criticized because certain authors within the movement called for political violence to achieve autonomy under capitalism, but countries like South Korea implemented authoritarian political violence in order to achieve their now-praised capitalist development.

in contemporary debates of International Political Economy. But the most problematic aspect of certain criticisms against Dependency theory is that they also show a degree of superficiality by ignoring important literature in the approach. For example, Desmond Platt argues that Dependency theory incorrectly portrays the conditions of the post-independence economies of Latin America, and that the approach exaggerated the role of external factors over internal conditions. Platt states that Dependency misrepresents the outward predisposition of Latin American economies in the first half of the nineteenth century. He argues that this predisposition is most characteristic of the economies of Latin America in the later decades of the nineteenth century, not in the post-independence moment.<sup>247</sup> But such criticisms obviate important works by authors like Oswaldo Sunkel and Pedro Paz, Celso Furtado, and to a lesser extent Cardoso and Faletto, who all identify the post-independence context to be one of economic stagnation in the region.<sup>248</sup>

Despite the superficiality of some criticisms against Dependency theory, there are others that represent fair challenges to the approach's propositions. A clear example is the challenge against Dependency theory for its reliance on Marxism, which is a form of cultural dependency. It is an irrefutable fact of history that Marxism developed from the experience of industrialized economies with the explicit intent to study capitalism in

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<sup>247</sup> Platt, Desmond. 1980. "Dependency in Nineteenth-Century Latin America: An Historian Objects." *Latin American Research Review* 15 (1): 113-30, p. 119.

<sup>248</sup> Sunkel, Oswaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno; Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press; and Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press

developed societies. Dependency theory criticized Modernization theory for, among many other things, studying development based on the experience of the U.S. and Europe. Yet by relying on Marxism as a theoretical influence, Dependency theory was using the insight and logic of an approach that derived its formulations from a context that was irrelevant for the Latin American reality.<sup>249</sup> Cultural Dependency, Brazilian literary critic Silvio Romero argues in 1881, describes how Latin America uses foreign—usually European—knowledge to understand its reality.<sup>250</sup> Therefore, given Dependency’s inspiration in Marxists concepts, Claudio Véliz charges against Dependency authors by describing them as just another iteration of the cultural dependency that they themselves forcefully challenged.<sup>251</sup> In this sense, cultural dependency poses an important criticism against Dependency theory, and more importantly to its claims about studying capitalism by challenging core concepts in social science. But it is important to highlight that while the cultural dependency criticism considers Dependency theory to be too Marxist and therefore Eurocentric, several orthodox Marxists criticize Dependency for being vulgar Marxism or not Marxist enough. A discussion on the Marxist criticisms against Dependency theory highlight the actual influence of Marxism on Dependency theory and also mitigate the charges of cultural dependency.

Many Marxist authors criticized Dependency theory and considered it to be vulgar Marxism. In general, these types of criticisms argued that Dependency, when compared to

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<sup>249</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 201.

<sup>250</sup> Ibid. p. 199.

<sup>251</sup> Ibid. p. 202.

Marxism, was excessively based on notions of spatial relations and exchange rather than on production relations, therefore being devoid of class analysis given its focus on nations.<sup>252</sup> Perhaps the most serious criticism is that of Ernesto Laclau, who argues that Gunder Frank's Dependency confuses the concepts of capitalist production with capitalist circulation, equating capitalist modes of production with participation in the international economy. For Laclau, Gunder Frank's mistake was that he considered Latin America's participation in the international economy during the colonial period as the introduction of capitalism in the region. Laclau argues that Latin America was not introduced to capitalism in the colonial era because the production processes of the region were not capitalist structures. Therefore, just exchanging goods in the international economy was not participating in international capitalism because the productive structures in Latin America were still precapitalistic. Yet Laclau's criticism, like many other Marxists critiques, is exaggerated; a discussion on precapitalistic structures highlights the Dependency approach's capacity to generate theoretical propositions to understand capitalism in the periphery.

Laclau's differentiation between capitalist production and capitalist circulation is exaggerated for various reasons. First, as it was discussed before, Gunder Frank's work shows how the hacienda and the plantation, the precapitalistic productive structures that Laclau identifies, were in fact modern structures created by colonial capitalism. Just because servitude and subsistence agriculture were not comparable with industrial labor

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<sup>252</sup> Johnson, Dale. 1981. "Economism and Dependency Theory." *Latin American Perspectives* 8(3-4): 108-17, p. 108.

relations in Europe does not mean that they are traditional, indigenous, precapitalistic structures. Second, Laclau's distinction between capitalist production and capitalist circulation separates two aspects of the same phenomenon. By focusing on circulation rather than just production, Dependency theory introduces another factor of capitalism that gains relevance when observing non-Western experiences: commodity distribution and the circulation of money.<sup>253</sup> Third, the Dependency approach was able to introduce the notion of class relations as being affected, conditioned, and mitigated by spatial relations. While Marxism consider classes to be the dominant factor in productive relations and criticized Dependency theory for its nationalism, the Dependency approach actually showed how political relations along the lines of national borders and political states affects the expansion and evolution of capitalism.<sup>254</sup> Therefore, while Laclau's criticisms were exaggerated, the Dependency approach was able to transcend Marxism by generating important concepts to understand capitalism. In other words, the Dependency approach represents a "conceptual revolution in a scientific understanding of large-scale questions of capitalist development."<sup>255</sup>

The implication of Dependency's conceptual revolution in relation to the criticisms of cultural dependency is that cultural dependency exaggerates Marxism's influence. It is unquestionable that Dependency authors were influenced by Marxism, but there is also vast historical tradition of Dependency thinking in Latin America. First, Franz

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<sup>253</sup> Ibid. p. 109.

<sup>254</sup> Ibid. p. 113.

<sup>255</sup> Ibid. p. 108.



Hinkelammert argues that Dependency's main focus was not, like orthodox Marxism, to study capitalism in developed societies. On the contrary, Dependency's main focus was to challenge the idea for capitalist development in peripheral societies since they considered it intolerable. Therefore, Dependency authors found in Marxism certain theoretical propositions that helped them to study Latin America's reality, but the important theoretical development of the approach meant that they were not orthodox Marxists.<sup>256</sup> In fact, the Dependency approach was not exclusively inspired by Marx's or Lenin's studies on industrialized societies. The the works of authors like Paul Baran, José Carlos Mariátegui,<sup>257</sup> or Raúl Presbich were fundamental for the development of the Dependency approach and they all formulated their analytical concepts by studying peripheral societies. The fact is that Latin America has a long tradition of thinkers that question the region's condition of subjugation. The movements of the first and the second emancipation presented a profound preoccupation about issues of national autonomy. This tradition also influenced the formation of the Dependency approach, informing its theoretical propositions on hierarchy and global power relations.<sup>258</sup> Therefore, it is evident that the Dependency approach was more than another expression of Marxism: it was and continues to be an independent and influential framework to study political economy.

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<sup>256</sup> Beigel, Fernanda. 2006. "Vida, Muerte, y Resurrección de las 'Teorías de la Dependencia'." In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO, pp. 300-01.

<sup>257</sup> Robert Packenham points at José Carlos Mariátegui as the father of Dependency theory. Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, pp. 10-1.

<sup>258</sup> Beigel, Fernanda. 2006. "Vida, Muerte, y Resurrección de las 'Teorías de la Dependencia'." In *Crítica y Teoría en el Pensamiento Social Latinoamericano*, edited by Bettina Levy, 287-326. Argentina: CLACSO, pp. 291-94.

## THE CONTINUED WISDOM OF THE DEPENDENCY APPROACH

The previous discussion on the superficiality and exaggeration of many of the criticisms against the Dependency approach highlights the magnitude of the movement as a framework to understand the socioeconomic reality of peripheral capitalism. In particular, the discussion on cultural dependency highlights how the Dependency approach introduced important analytical concepts and theoretical propositions to the study of global capitalism. Yet perhaps the most important contribution of the Dependency approach is the understanding of International Political Economy as the tension between the logic of sovereignty and the logic of capitalism.<sup>259</sup> Overall, the Dependency approach criticizes the concept of sovereignty as a universal principle enjoyed by every political organization in the world. The traditional understanding of sovereignty promised to all political actors the aspirations of self-determination and self-realization. But the Dependency approach challenges the traditional understanding of sovereignty by introducing dynamics of capitalism and power relations. In fact, Dependency authors focused on the processes and mechanisms through which global capitalism prohibits peripheral countries from fulfilling the promises of sovereignty.<sup>260</sup> While the universal narrative of sovereignty and statehood dominant in International Relations portrays a world of independent political and economic units interacting autonomously in the fulfillment of its objectives, the Dependency approach introduces the impositions suffered by non-Western actors while pursuing their sovereign promises. For the Dependency approach, “the idea of independent political and

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<sup>259</sup> Blaney, David. 1996. “Reconceptualizing Autonomy: The Difference Dependency Theory Makes.” *Review of International Political Economy* 3 (3): 459-97, p. 463.

<sup>260</sup> Ibid. p. 461.

economic communities is anathema...[and] demonstrate[s] that capitalism possesses a global logic and is a joint construction of core and periphery.”<sup>261</sup> Therefore, the validity of the Dependency approach is not only the result of the superficiality or exaggerations of its criticisms, but also the consequence of Dependency’s important contributions.

The reconceptualization of sovereignty implicit in the Dependency approach is a fundamental aspect of the study of political economy. As mentioned before, the dominant definition of sovereignty implies a world composed of self-contained political units that behave autonomously in order to fulfill the promise of self-determination. But Dependency stresses how problematic it is to understand sovereignty as the existence of independent political units interacting in the international economy.<sup>262</sup> If political units are really autonomous and can enjoy true self-determination and self-fulfillment, then any lack of material or ideal realization is the result of individual action. More importantly, if sovereignty is in fact the existence of self-contained independent political units, then the positions of privilege that certain units enjoy in the international system are the consequence of their exclusively independent actions. The logical implication, and indeed the problematic nature of the traditional concept of sovereignty, is that if all political units are truly autonomous, then development outcomes like inequality are justified since privilege is based on individual merit. It is here where Dependency’s most important contribution emerges: by rejecting that the world is composed of truly autonomous and independent political units, the Dependency approach challenges the status quo and

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<sup>261</sup> Ibid. p. 472.

<sup>262</sup> Ibid. p. 470.

criticizes inequalities in the global economic system.<sup>263</sup> By forcing an analytical recognition of an interconnected international economy, the Dependency approach shows the constitutive nature of privilege and underprivilege. By transforming the traditional concept of sovereignty, the Dependency approach introduces non-Western contexts as a constitutive part of the development outcomes. All of the sudden, the world is no longer a story of certain actors succeeding because of their ingenuity and others “falling behind” or “failing to achieve” some status. The Dependency approach contribution rests in showing the connections between wealth accumulation and exploitation; it rests in showing how socioeconomic outcomes are reproduced and perpetuated through geographical structures of power.

It is evident that the Dependency approach presented important conceptual and analytical contributions to the study of global capitalism. However, the most important justification for the validity of the Dependency approach as a relevant theoretical framework to study socioeconomic realities in peripheral societies is the influence the movement continues to have on contemporary narratives on development. The fact is that the predominance of Neoliberalism in the 1980s and 1990s pushed the Dependency approach to an undeserving ostracism. But while the Dependency approach itself was considered dead, several concepts and ideas of the movement found validity in mainstream discourses on development studies, and they continue to be relevant in contemporary public

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<sup>263</sup> Ibid. pp. 472-73.

debates and academic publications.<sup>264</sup> For instance, the contemporary relationship between China and many other developing countries shows important parallelisms with the theoretical formulations of Dependency theory. In particular, the aggressive pace of Chinese industrialization has created a massive demand for primary products, incentivizing Latin America to focus on extracting primary products for their export. The consequence has been an important process of increased dependency on selling commodities to China parallel to an important process of de-industrialization in the region.<sup>265</sup> Therefore, very much in line with the postulates of dependent development formulated by Cardoso and Faletto, the economic growth of Latin America is now conditioned by any expansion or contraction of the Chinese economy.<sup>266</sup> Thus, contemporary debates on development continue to be informed by the ideas of the Dependency approach.

The influence of the Dependency approach on the growing body of the resource curse literature is considerable.<sup>267</sup> As it was discussed before, the literature on the resource curse examines how certain extractive productive processes create socioeconomic conditions that affect development outcomes. In this sense, by the 1940s and then again by the 1960s both Structuralism and Dependency theory identified how exporting primary products constrained access to foreign exchange, and how this ultimately conditioned Latin

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<sup>264</sup> Bull, Benedicte, and Morten Bøås. 2012. "Between Ruptures and Continuity: Modernisation, Dependency and the Evolution of Development Theory." *Forum for Development Studies* 39(3): 319-36, p. 320.

<sup>265</sup> Ibid. p. 332.

<sup>266</sup> Ortiz, Jaime. 2012. "Déjà Vu: Latin America and Its New Trade Dependency . . . This Time with China." *Latin American Research Review* 47(3): 175-90, p. 188.

<sup>267</sup> Luna, Juan Pablo, Maria Murillo, and Andrew Schrank. 2014. "Latin American Political Economy: Making Sense of a New Reality." *Latin American Politics and Society* 56(1): 3-10, p. 8.

American economies.<sup>268</sup> Similarly, the literature on the resource curse stresses how the commercialization of commodities produces important pressures on the local economy to de-industrialize and favor manufactured imports, ultimately limiting development because of unstable commodity cycles.<sup>269</sup> Moreover, the Dependency approach focused on examining not only situations of dependency but also how sensitive and vulnerable were peripheral countries to such conditions. In this sense, Dependency authors explored how different situations of dependency, whether conditional situations or situations of subordination, affected development outcomes in peripheral societies. In particular, Raymond Duvall discussed the theoretical implications of factors of vulnerability and sensitivity under dependency situations. The degree to which a peripheral society suffered significant costs by any variation in the external conditions represented a dependency situation of vulnerability. The fact that peripheral societies responded at certain changes in external conditions represented their degree of sensitivity under dependency situations.<sup>270</sup> Once again, the literature on the resource curse presents an important influence from the Dependency approach given its focus on studying vulnerability and commodity price volatility. An important body of literature under the resource curse argues that societies

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<sup>268</sup> Kay, Cristobal. 1989. *Latin American Theories of Development and Underdevelopment*. New York: Routledge, pp. 214-15.

<sup>269</sup> Corden, Max, and Peter Neary. 1982. "Booming Sector and De-industrialisation in a Small Open Small Economy." *Economic Journal* 92(368): 825-48; Corden, Max. 1984. "Booming Sector and Dutch Disease Economics: Survey and Consolidation." *Oxford Economic Papers* 36(3): 359-80; and Sachs, Jeffrey and Andrew Warner .1995. "Natural Resource Abundance and Economic Growth." In *Leading Issues in Economic Development*, edited by Gerald Meier and James Rauch, 161-67. Oxford: Oxford University Press.

<sup>270</sup> Duvall, Raymond. 1978. "Dependence and Dependencia Theory." *International Organization* 32(1): 51-78, pp. 62-5.

with a high reliance on exporting commodities face significant financial risks because commodity prices fluctuate drastically in the world economy.<sup>271</sup> The volatility of commodity prices puts enormous pressures on socioeconomic outcomes in peripheral societies because they limit their capacity to design and implement development strategies with stability. In fact, the literature on the resource curse even argues that the volatility of commodity prices creates socioeconomic distortions such as inequality, reducing it under commodity booms but then increasing it when prices drop.<sup>272</sup> Therefore, similarly to Raymond Duvall's discussions on sensitivity and vulnerability, the literature on the resource curse actually explains the specific mechanisms through which societies under dependency situations are conditioned by changes in external conditional factors. Ultimately, the Dependency approach focused on studying how certain dependency situation influenced elite behavior, and how elite behavior perpetuated situations of dependency. In particular, authors like Andre Gunder Frank, Oswaldo Sunkel, and Gabriel Palma discussed how elites tend to distort political development in order to maintain the structures of dependency.<sup>273</sup> The literature on the resource curse states that elites seek to manipulate the political process through bribery and by reducing accountability in order to appropriate most rents from extractive activities while perpetuating the structures that

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<sup>271</sup> Blattman, Christopher, Jason Hwang and Jeffrey Williamson. 2007. "Winners and Losers in the Commodity Lottery: the Impact of Terms of Trade Growth and Volatility in the Periphery 1870–1939." *Journal of Development Economics* 82: 156-79; Deaton, Angus. 1999 "Commodity Prices and Growth in Africa." *Journal of Economic Perspectives* 13: 23-40; and van der Ploeg, Frederic and Steven Poelhekke. 2009. "Volatility and the Natural Resource Curse." *Oxford Economic Papers* 61(4): 727-60.

<sup>272</sup> Goderis, Benedikt and Samuel Malone. 2011. "Natural Resource Booms and Inequality: Theory and Evidence." *Scandinavian Journal of Economics* 113(2): 388-417.

<sup>273</sup> Palma, Gabriel. 1978. "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development* 6: 881-924, pp. 896-97.

create socioeconomic distortions.<sup>274</sup> The fact that the literature on the resource curse presents arguments that follow the logic of many ideas of the Dependency approach validates the premises of the movement as a relevant theoretical framework to study contemporary political economy.

Similarly to the literature on the resource curse, the contemporary literature on globalization studies, and particularly authors identified as globalization skeptics, presents important ideas from the Dependency approach. First, both globalization studies and Dependency focus on studying how the global forces of capitalism affect local structures and how these structures adopt, adapt, and respond to external influences.<sup>275</sup> Second, similarly to the Dependency approach, many authors under the literature on globalization argue that the expansion of modern capitalism tends to be detrimental for the development of peripheral nations.<sup>276</sup> In particular, authors like Ha-Joon Chang argue that industrialized countries have erected a set of rules and regulations in the international economy in order

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<sup>274</sup> Ross, Michael. 1999. "The Political Economy of the Resource Curse." *World Politics* 51(02): 297-322; Ross, Michael. 2001. *Extractive Sectors and the Poor*. Oxfam America; Acemoglu, Daron, James A. Robinson, and Thierry Verdier. 2004. "Kleptocracy and Divide-and-Rule: A Model of Personal Rule." *Journal of the European Economic Association* 2(2-3): 162-92; Bourguignon, Francois, and Thierry Verdier. 2000. "Oligarchy, Democracy, Inequality and Growth." *Journal of Development Economics* 62(2): 285-313; Isham, Jonathan, Michael Woolcock, Lant Pritchett, and Gwen Busby. 2005. "The Varieties of Resource Experience: Natural Resource Export Structures and the Political Economy of Economic Growth." *World Bank Economic Review* 19(2): 141-74; and Boschini, Ann, Jan Pettersson, and Jesper Roine. 2007. "Resource Curse or Not: A Question of Appropriability." *Scandinavian Journal of Economics* 109(3): 593-617.

<sup>275</sup> Herath, Dhammika. 2008. "Development Discourse Of The Globalists And Dependency Theorists: Do The Globalisation Theorists Rephrase And Reword The Central Concepts Of The Dependency School?" *Third World Quarterly* 29(4): 819-34, pp. 822-26.

<sup>276</sup> Christiansen, Jens, and Shahrukh Rafi Khan. 2010. *Towards New Developmentalism: Markets as Means Rather than Masters*. London: Routledge.



to maintain their privilege and restrict the economic development of peripheral nations.<sup>277</sup> More importantly, Chang even challenges the Neoliberalism approach by arguing that none of the industrialized countries in the world followed neoliberal policy prescription when they were industrializing. It was not until these countries were developed that they adopted the policy prescriptions of the Neoliberalism approach with the sole purpose of expanding their material wealth while maintaining their dominant position in the international economy.<sup>278</sup> The predisposition of industrialized countries to pressure peripheral countries into adopting policies that asymmetrically benefit developed economies described by Chang is similar to the discussions on domination and subordination present in the Dependency approach. In particular, Theotônio dos Santos argues that under situations of dependency, peripheral countries cannot simply escape the domination of core countries. The articulation of external interests, Dos Santos argues, affect the situation of dependency and ultimately condition socioeconomic outcomes in peripheral societies.<sup>279</sup> Therefore, the conditions of the contemporary international economy described by Chang are a characterization of the relations of domination elaborated by Dos Santos.

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<sup>277</sup> Chang, Ha-Joon. 2002. *Kicking Away The Ladder Development Strategy In Historical Perspective*. New York: Anthem Press.

<sup>278</sup> Chang's criticisms of the Neoliberalism approach points at the predisposition of industrialized countries to pressure peripheral societies into adopting policies that asymmetrically benefit developed economies. What is most interestingly about this argument is that none of the industrialized countries in the world followed Neoliberalism when they were developing, and nowadays China has also been able to achieve its economic miracle mainly by ignoring the policy prescriptions of the Neoliberalism approach. Turner, Adair. 2017. "China Vs. The Washington Consensus." *Project Syndicate* October 23, 2017. <https://www.project-syndicate.org/commentary/china-versus-washington-consensus-by-adair-turner-2017-10>.

<sup>279</sup> Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, edited by Henry Bernstein, 57-89. Middlesex: Penguin Books, pp. 76-9.

Similarly to Chang, Robert Wade is also skeptical of the expansion of modern capitalism and its effects on developing countries. Wade argues that the regulations of the current international trade regime condition the development of peripheral by reducing the policy choices for developing nations.<sup>280</sup> Specifically, Wade argues that the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) and the Agreement on Trade-Related Investment Measures (TRIMS) diminish development policy alternatives for developing countries. First, Wade argues that TRIPS increase the cost of knowledge while failing to increase the rate of innovation or knowledge transfer from industrialized centers to peripheral countries.<sup>281</sup> The consequence of the lack of knowledge transfer through the extensive protection of intellectual property rights is that developing countries become even more dependent on knowledge from industrialized centers. At the same time, the rising costs of knowledge also increase the net outflow of resources from peripheral countries to industrialized centers. Second, when discussing TRIMS, Wade argues that these policies hinder peripheral development even more because they prohibit establishing conditions to foreign capital. In this sense, peripheral countries cannot require foreign capital to invest based on specific developmental goals to benefit local objectives, limiting the spillover effect of foreign capital and perpetuating the periphery's dependence on the financial resources from industrialized countries.<sup>282</sup> Wade's analysis of how the current

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<sup>280</sup> Wade, Robert. 2003. "What Strategies Are Viable For Developing Countries Today? The World Trade Organization And The Shrinking Of 'Development Space'." *Review Of International Political Economy* 10(4): 621-44, pp. 621-23.

<sup>281</sup> Ibid. p. 624.

<sup>282</sup> Ibid. pp. 627-28.

rules and regulations of international trade shares several ideas with the analysis of the Dependency approach regarding global capitalism. First, the rising knowledge and technological dependency described by Wade as a consequence of TRIPS is an argument presented by Dos Santos described as “the new dependence” or the “technological-industrial dependence” which emerged in the mid twentieth century with the advent of the multinational corporation.<sup>283</sup> More importantly, Wade describes how the obligations imposed on peripheral countries by the current rules and regulations on international trade are easily enforceable, while the responsibilities acquired by the industrial center are not. In particular, Wade argues that while one of the responsibilities of the developed countries is to guarantee the transfer of technology and knowledge to developing countries, the reality is that technology is only moving between industrialized economies without any repercussion.<sup>284</sup> The dynamic of technology transfer in the current international trade system highlights the importance of Dependency ideas like power relations, asymmetric benefits, and structures of subordination and domination.

The validity of the Dependency approach as a theoretical framework to study political economy is evident. The Dependency approach successfully introduced important concepts and unique analytical propositions to study the expansion of capitalism in peripheral societies. By presenting the expansion of capitalism in peripheral societies as a theoretical problem, the Dependency approach introduced concepts of mutually

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<sup>283</sup> Dos Santos, Theotônio. 1970. “The Structure of Dependence.” *The American Economic Review* 60(2): 231-36.

<sup>284</sup> Wade, Robert. 2003. “What Strategies Are Viable For Developing Countries Today? The World Trade Organization And The Shrinking Of ‘Development Space’.” *Review Of International Political Economy* 10(4): 621-44, p. 625.

constitutive power relations in development outcomes. Most importantly, it made it imperative for any study on political economy to focus on the historical context of peripheral societies as an explanatory factor in their socioeconomic reality. But many other Dependency concepts and ideas informed important bodies of literature on development such as the literature on the resource curse or globalization studies. In fact, the Dependency approach is the most significant contribution to post-colonial thought,<sup>285</sup> informing Post-Colonialism and Post-Developmentalism studies.<sup>286</sup> Therefore, the Dependency approach provides a theoretical framework that understands socioeconomic realities to be the consequence of historical processes in which external and internal structures interact and generate specific development outcomes. In this sense, the Dependency approach considers development outcomes to be the result of how the expansion of capitalism interacted with local factors, and how those factors influenced the evolution of capitalism in their specific context. The state argument states that the socioeconomic reality of South America is the consequence of the structural and functional structure of the state. The formation and consolidation of the South American state is a historical process in which local factors interacted with changes in the international economic system resulting in a society organized around exploiting commodities. Then, it is evident that the Dependency

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<sup>285</sup> Coronil, Fernando. 2004. "Latin American Postcolonial Studies and Global Decolonization." In *The Cambridge Companion to Literary Postcolonial Studies*, edited by Neil Lazarus, 221-40. Cambridge: Cambridge University Press, p. 223.

<sup>286</sup> For a discussion on the parallelisms of post-colonialism, post-developmentalism, and the Dependency approach, see Blaney, David. 1996. "Reconceptualizing Autonomy: The Difference Dependency Theory Makes." *Review of International Political Economy* 3(3): 459-97, pp. 475-80; Kapoor, Ilan. 2002. "Capitalism, Culture, Agency: Dependency Versus Postcolonial Theory." *Third World Quarterly* 23(4): 647-64; and Herath, Dhammika. 2008. "Development Discourse Of The Globalists And Dependency Theorists: Do The Globalisation Theorists Rephrase And Reword The Central Concepts Of The Dependency School?" *Third World Quarterly* 29(4): 819-34.

approach provides the state argument with the theoretical grounding to explain the historical formation of the South American state. However, before moving forward towards the consolidation of the state argument as a Dependency explanation, it is necessary to resolve a theoretical issue of the Dependency approach: the role of the state.

## THE STATE ARGUMENT AND THE DEPENDENCY APPROACH

The Dependency approach understood the socioeconomic reality of Latin America to be the result of the interaction between the external forces of capitalist expansion and the internal power structures of the region. In this sense, it argued that the predisposition of South American societies to rely on exporting primary products was the result of the region's insertion into the global economy. More importantly, the Dependency approach highlighted the capitalist nature of exploitative productive structures, stressing how global capitalism incentivized and perpetuated the creation of the economic activities that subjugated the vast majority of South Americans. But the historical understand of the state in the Dependency approach presents significant theoretical formulations that require important revision in relation to the state argument. Overall, the nation-state was central to Dependency analysis, which maintained the logic of the state as a fundamental actor in the process of development.<sup>287</sup> However, the role that the Dependency approach ascribed to the state was dichotomous: the South American state of the 1950s, 1960s, and 1970s represented a problem for the development of the region, but it also represented the most important aspect of the prescribed solution. Dependency argued that the state was a

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<sup>287</sup> Bergeron, Suzanne. 2004. *Fragments of Development: Nation, Gender, and the Space of Modernity*. Michigan: University of Michigan Press, p. 74

function of dominant classes in the region, and that these classes controlled the state in order to perpetuate capitalist structures of exploitation. Given that the dominant classes aligned their interests with the interest of external actors, the state was there merely as an expression of global capitalism. Therefore, the state was problematic because the alliance between the dominant classes that controlled it with foreign interests represented an obstacle for development in the region.<sup>288</sup> The central problem with the state for the Dependency approach was that authors in the movement saw it incapable of transforming the socioeconomic reality of South America. Since the state was controlled by dominant classes which aligned their interests with foreign actors, the link between the national state and the imperialist system is impossible to escape.<sup>289</sup> The approach had little faith on the capacity and willingness of the dominant classes to transform the socioeconomic reality of the region since that would require for them to eliminate their privilege position in the global economy. And here lies the paradox of the role of the state in the Dependency approach: before the region could address any of the external conditions that limited its development, it was indispensable to transform the state in order to modify internal structures.

The Dependency approach considered it imperative to transform the state in order to affect change in South America's socioeconomic reality. Only by achieving a level of national autonomy could the region organize its economic processes in a rational and

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<sup>288</sup> Ibid. pp. 86-7.

<sup>289</sup> Ibid. pp. 78-9.

sovereign structure that improved the region's development outcomes.<sup>290</sup> The problem with promoting development through autonomous and rational states was that, according to Theotônio dos Santos, not a single country in the entire global South could be characterized as a real sovereign nation.<sup>291</sup> Therefore, the problem of South American development was a political one: the state needed to autonomously transform the structures of capitalist expansion but there were no autonomous states in South America. It is in this analytical context that the Dependency approach prescribes for South American societies to first capture the state in order to increase its autonomy with the confidence that, while international forces shaped the structures that maintained socioeconomic distortions, delinking from global capitalism would grant the political conditions to create development.<sup>292</sup> The Dependency approach presented variation on the specific processes through which South American societies could increase state autonomy—either violent revolution or moderate reforms—yet a common denominator was to establish a socialist state. A socialist state could be able to increase its autonomy by by delinking from global capitalism while also transforming the socioeconomic reality of the region. This socialist state would shape policy based on the interests of all sectors of society except those of the sellout elites.<sup>293</sup> Thus, only a socialist state would be able to separate from the conditioning

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<sup>290</sup> Ibid. p. 83.

<sup>291</sup> Ibid. p. 75.

<sup>292</sup> Ibid. p. 87.

<sup>293</sup> Ibid. pp. 86-8.

forces of capitalism, to create true autonomy, and to engage in a transformative process of development.

But the policy prescriptions of a socialist state promoted by the Dependency approach present important theoretical contradictions and empirical inadequacy. Once again, the Dependency approach thought it possible for a socialist state to separate from capitalist expansion and create development in South America. Yet considering it possible to separate from global capitalism and obtain true, unchallenged, self-contained autonomy is a direct contradiction to one of the most incisive theoretical propositions of Dependency. As it was discussed before, the Dependency approach challenged the idea of sovereignty as a universal principle enjoyed by all self-contained political units. In this sense, Dependency understood autonomy as a relational concept conditioned by hierarchies and power asymmetries. More importantly, the movement highlighted the mutually constitutive nature of socioeconomic relations under capitalism. For privilege to exist, there must be underprivilege, and development outcomes are the consequence of capitalist relations, not self-contained universal and ahistorical processes. Therefore, by prescribing for South American socialist states to delink from global capitalism in order to develop, the Dependency approach is in fact contradicting one of its most important contributions to the study of capitalism: interconnectedness is unavoidable. To various degrees, capitalist relations are at the center of development outcomes, and by promoting delinking, Dependency is not actually pivoting socialism as a system of self-contained units but actually ignoring many of its crucial insights on power relations and hierarchies in the



global economy.<sup>294</sup> But more importantly, by promoting delinking through a socialist takeover of the state, the Dependency approach portrayed a convenient but unrealistic understanding of human relations. The entire logic of the policy prescriptions of the Dependency approach assumes that socioeconomic distortions in the region are the result of the greed of certain domestic classes and the exploitation and domination of external actors.<sup>295</sup> Yet based on the understanding of domination as a mutual relation and not an imposition, Dependency portrayed external actors and certain internal actors as irrational and only moved only by greed. This characterization of internal dominant classes was taken to an extreme, considering all internal and external capitalist classes tantamount to evil while the rest of social structures in the region were considered blameless victims.<sup>296</sup>

The political prescriptions of the Development approach not only ignored the movements most important contributions, but they have been contradicted empirically by contemporary development in the South America. The discussion on Neo-Developmentalism showed how the political realization of self-proclaimed progressive movements does not necessarily guarantees a socioeconomic transformation. On the contrary, what the discussion on Neo-Extractivism shows is how once the political

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<sup>294</sup> Ibid. p. 84.

<sup>295</sup> It is important to highlight that for the Dependency approach, external domination was not absolute. For domination to exist, there needs to be an alliance between external actors and domestic classes. While many superficial characterizations of the Dependency approach criticized the movement based on a caricatured representation of the concept of domination, authors like Dos Santos elaborate domination as a mutual relation, not an imposition. Dos Santos, Theotônio. 1973. "The Crisis of Development Theory and the Problem of Dependence in Latin America." In *Underdevelopment and Development: The Third World Today*, 57-89. England: Penguin Books, pp. 76-9.

<sup>296</sup> Packenham, Robert. 1992. *The Dependency Movement: Scholarship and Politics in Development Studies*. Cambridge: Harvard University Press, p. 209.

movements that were informed by Dependency reached the state, they increased socioeconomic distortions by exacerbating capitalist exploitative structures that increased dependence and decreased autonomy. It is true that many of the individuals within these movements were incredibly corrupt, and that their corruption definitely affected policy implementation in the region. However, corruption is not a sufficient explanation for the unwillingness of ideologically marked movements to transform productive structures in the region. The corruption argument not only feeds into the idea of South Americans as intrinsically incapable of self-governance—and therefore perpetuating the Balck Legend—but it also distorts the study of South American political economy. It is unquestionable that extractive productive processes are more prone to bribery and clientelism, but it is also true that these activities provided the most resources for the self-proclaimed progressive governments to guarantee their political success. These movements, once they reached the state, were faced with a structure that incentivized maintaining exporting primary products because the viability of the state depended on those activities. Transforming the state's structural organization would risk the material resources necessary for the success of these political movements. Let's not forget that these governments proclaimed legitimacy on their capacity to redistribute the revenue from natural resources in order to alleviate poverty and inequality. Transforming the productive structures that perpetuate socioeconomic distortions presented a risk for these governments: to lose the material resources that guaranteed their political viability in the short term. In a context where controlling the state is the most viable avenue for wealth, prestige, and power,<sup>297</sup> engaging in a deep

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<sup>297</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New York: D. Van Nostrand Company, Inc, p. 24.

transformation of the organizational structure of the state is simply too risky an endeavor to consider. Therefore, the corruption argument and the policy prescriptions of the Dependency approach distort the study of South American political economy by focusing on the wrong factors and providing the wrong explanations.

The state argument challenges the theoretical and empirical problems of the Dependency approach by refocusing the study of South American political economy towards historical processes and durable structures. By focusing on the structure of the state and its implications for maintaining exploitative socioeconomic processes, the state argument ascribes rationality to the behavior of all social sectors in South American societies. It could very well be argued that the problem with South American development not only lies in the inadequacy of its leaders but also in the complete absence of accountability claims by the rest of the population.<sup>298</sup> The region has been politically independent for almost two hundred years, and it is then unlikely to suggest that the socioeconomic problems of the region are just because of corrupt elites and imperialist foreign interests. In other words, is it likely that for over two hundred years the vast majority of social classes in South America have been completely powerless and therefore victims of greed and domination. Informed by the Dependency approach and the historical processes of the region, the state argument challenges this characterization of development outcomes in the region and brings national agency at the center of the study of political economy. The problem with the policy prescriptions of the Dependency approach is that

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<sup>298</sup> Ibid. pp. 25-6.

they assume the region to be a passive actor in its own destiny.<sup>299</sup> The state argument turns around the passive role of South American societies by placing the structure of the state at the center of the development process. In doing so, the state argument stresses the role of domestic structures and how different social sectors interact with them as the definitive factor affecting socioeconomic outcomes. Following Dependency, the state argument examines how external factors influenced the formation, consolidation, and historical behavior of state structures, but it places the explanatory power of development outcomes on how national structures interact with all internal and external factors.

Therefore, the state argument represents a theoretical refinement to the Dependency approach. The state argument not only keeps accordance with Dependency concepts of autonomy and hierarchies, but it also provides the tools to differentiate among different situations of dependency. One of the problems of the Dependency approach was its incapacity to differentiate between countries with external reliance and high development levels and countries with external reliance and low development levels. In fact, the theoretical contradictions of the policy prescriptions of the Dependency approach made it impossible to differentiate between the nature and the magnitude of the socioeconomic distortions of countries in situations of dependency.<sup>300</sup> Since all countries under situations of dependency are affected by external conditions, differences in the nature and magnitude of their socioeconomic challenges are explained by how internal structures interact with all

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<sup>299</sup> Centeno, Miguel and Fernando Lopez-Alves. 2001. *The Other Mirror: Grand Theory through the Lens of Latin America*. Princeton: Princeton University Press, p. 6.

<sup>300</sup> Caporaso, James, and Behrouz Zare. 1981. "An Interpretation and Evaluation of Dependency Theory" In *From Dependency to Development: Strategies to Overcome Underdevelopment and Inequality*, edited by Heraldo Muñoz, 43-56. Colorado: Westview Press.

sectors in the global economy. In this sense, the state argument reinterprets the insights of Cardoso and Faletto,<sup>301</sup> yet by focusing on the structure of the state, the state argument resolves the theoretical contradictions of the policy prescriptions of the Dependency approach. Therefore, the Dependency approach provides important theoretical concepts for the state argument, but the state argument reformulates the most problematic aspects of Dependency by focusing the study of South American political economy on the structure of the state. It is now indispensable to build the state argument by elaborating on its internal logic, by articulating the particularities of its propositions, and by designing the mechanisms to operationalize and measure the validity of its causal formulations.

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<sup>301</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 72.

## CHAPTER 3

### DESIGNING THE STATE ARGUMENT

The state argument argues that the continuity of socioeconomic distortions in South America is the consequence of the structural and functional organization of the state. Specifically, the state argument points at the structural and functional organization of the South American state around the exploitation of primary resources for export creates and maintains socioeconomic distortions in the region. The logic of the state argument suggests that the region's predisposition toward commercializing commodities is the result of how the state formed under the context of the expansion of global capitalism. Given the lack of defensive purpose for the state after the wars of independence, the South American state found legitimacy and functionality through the promotion of economic growth by securing the success of economic activities directed at exporting primary products. The nature of exploitative economic activities creates economic vulnerability, the concentration of wealth, productive concentration and exploitation, and socioeconomic distortions. Therefore, countries that focus the majority of their productive activities on exporting commodities exacerbate economic dislocations that affect development through de-industrialization, macroeconomic volatility, and rent-seeking political behavior. The consequence is a continuity of socioeconomic problems like poverty and inequality regardless of important commodity cycles of booms and busts. Such negative consequences from focusing on exporting primary products have been known for decades in South America, yet the region continues to maintain a predisposition toward exploitative productive activities. Therefore, a thorough examination of South American political economy requires to question not only what creates poverty and inequality, but why such problems continue to affect the region.

At this point, it is necessary to formalize the study of South American political economy in general and how the state argument responds to the most pressing questions in the field. The problem of socioeconomic distortions in South America is a historical conundrum that requires an explanation based on a historical process capable of explaining its continuity. Therefore, at the heart of any study of South American political economy lies a first paradox: the continent possesses immeasurable resources yet its socioeconomic problems appear to be insurmountable. The answer to such paradox informs the rest of the study on South American political economy, given that understanding the causes of socioeconomic distortions is imperative for addressing the region's development. In other words, any study of South American political economy must first ask: What causes socioeconomic distortions like poverty and inequality in South America? As it was discussed before, there is a vast literature on South American political economy focused on elucidating the causes of poverty and inequality in the region. With the emergence of the resource curse argument as the most contemporary example, the literature points at the reliance on exporting commodities as the main reason for the presence of poverty and inequality in South America. In fact, as the discussion on the literature on South American political economy revealed, the most dominant theoretical approaches of the twentieth century pointed at either the region's reliance on commodity export or at the state's failure as the causes for poverty and inequality in the region. These observations in the literature are not contradictory, but they require elaboration to articulate the role of commodities and the role of the state into a historical explanation of the continuity of poverty and inequality. In this sense, the state argument accepts the premise of the resource curse argument regarding the processes that create poverty and inequality while building from the existing

literature about the role of the state in maintaining the structures that perpetuate socioeconomic distortions.

The reliance on exporting primary products responds to the major paradox of South American political economy. While the region has immense resources, the nature of productive activities to extract them concentrate their revenue and create poverty and inequality. Yet a second paradox emerges from the literature on South American political economy: if there is a vast literature that points at how relying on exporting commodities creates poverty and inequality, then why is it that such problems continue to affect the region's socioeconomic reality in the twenty-first century. The fact is that at least since the 1940s with the work of authors like Raúl Prebisch, the region has been aware of the detrimental effects of exploitative economic processes. Despite such historical knowledge and the historical commitment of many political movements to transform the socioeconomic reality of the region, South America continues to present a political economy primarily based on exporting primary products and redistributing trade revenue. In light of the second paradox of South American political economy, it becomes indispensable to ask: Why does South America continue to rely on exporting primary products given its negative effects on poverty and inequality? The state argument responds to this question by pointing at the structural and functional organization of the state as the explanation for the continuity of exploitative productive processes in South America. In this sense, the logic of the causal mechanism of the state argument states that the South American state found legitimacy and functionality in the promotion of exploitative productive processes. The consequence of this promotion was that the structure of the South American state developed around the exploitation of primary products, deriving most of its material resources from exporting



commodities. But these exploitative productive processes—through de-industrialization, macroeconomic volatility, and rent-seeking political behavior—distorted South American development and created poverty and inequality. By the early twentieth century, the region was intellectually aware of the pervasive effects of its reliance on trading commodities, and the most dominant political and ideological movements of the era vowed to transform South America's socioeconomic reality. However, the structural and functional organization of the South American state maintained the reliance on exporting primary products, and after decades of political and ideological variation, the region's political economy continues to be characterized by a predominance of exploitative productive activities and poverty and inequality.

Embedded in the state argument is a criticism of the literature on South American political economy. Informed by the Dependency approach, the state argument points at the importance of historical and global processes in explaining the region's socioeconomic reality. The state argument stresses how the expansion of capitalism affected the formation of the South American state, and how the omnipresence of the contemporary global economy continues to condition development policy choices in the region. However, the state argument also challenges certain aspects of the Dependency approach by problematizing the structure and function of the South American state. The Dependency approach considered the South American state to be controlled by elites that aligned their interest with external actors, therefore subjecting the vast majority of South Americans to processes of exploitation. In contrast, and in light of the empirical reality of Neo-Developmentalism in the twenty-first century, the state argument suggests that it is not the ideological or individual preferences of elites, but the structure and function of the state

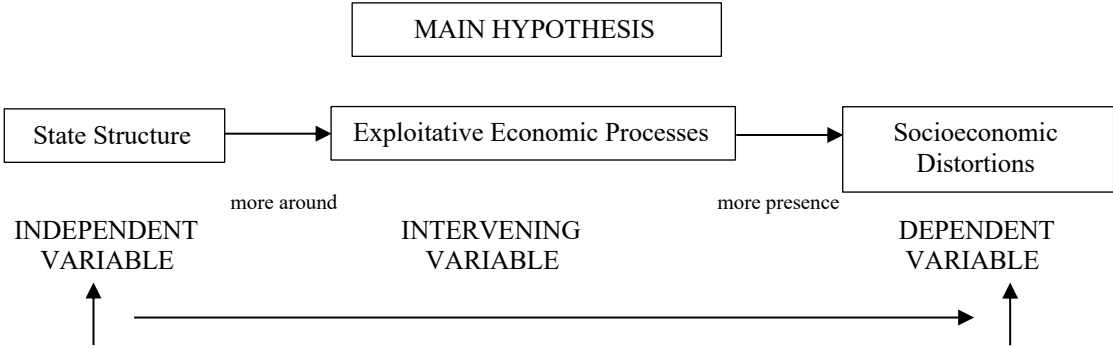
what explains the continuity of socioeconomic distortions like poverty and inequality. In this sense, the state argument is rooted in the theoretical understandings of the Dependency approach, but it advances its logic by stressing the relational nature of global capitalism and how it manifests in the structure of the state.

In this sense, the discussion of Neo-Developmentalism highlights a third paradox of South American political economy: the behavior of socioeconomic conditions appears to be cyclical, with periods of sustained improvement succeeded by periods of important decreases in the rates of poverty and inequality. The sustained socioeconomic improvements that characterized the South American political economy of the 2000s have suffered important contractions in the second half of the 2010s. In light of this third paradox of South American political economy, it is important to ask: Why does the socioeconomic reality of South America present a cyclical dynamic? Informed by the Dependency approach and the resource curse argument, the state argument responds to this question by pointing at how global capitalism conditions the formation and consolidation of productive structures in South America. Given the mutually constitutive nature of global development outcomes stressed by the Dependency approach, it becomes important to consider: How does global capitalism conditions development outcomes in South America? More importantly, given the logic of the state argument, it is imperative to ask: Which factors of global capitalism conditioned the formation and consolidation of the South American state? The state argument points at the incentivizing and conditioning structures of global capitalism and how such factors influenced the formation of the South American state and how they continue to incentivize the maintenance of exploitative productive processes. In particular, the state argument highlights how the growing demand of commodities by industrializing

centers of power in the international economy incentivizes South American states to exacerbate their reliance on exporting primary products. Moreover, the state argument highlights the current rules and regulations of the international trade system to show how South American states are punished if they implement policy alternatives.

The formalization of the state argument requires the operationalization of the paradoxes of South American political economy. In this sense, before articulating the causal mechanisms of the state argument, it is important to formalize the central questions of the study of South American political economy and its tentative answers. The central question of this study of South American political economy asks why does South America continues to rely on exporting primary products given its negative effects on poverty and inequality? The state argument responds by pointing at the structure and function of the South American state as the reason for the continuity of exploitative processes in the region. Therefore, the state argument hypothesizes that the South American countries that present states with the most structural and functional organization around exporting primary products should present the biggest exploitative economic sectors. Moreover, the state argument then hypothesizes that the South American countries that present states with the most structural and functional organization around exporting primary products should present the highest levels of socioeconomic distortions like poverty and inequality. In this sense, Figure 3 illustrates the causal mechanism hypothesized by the state argument.

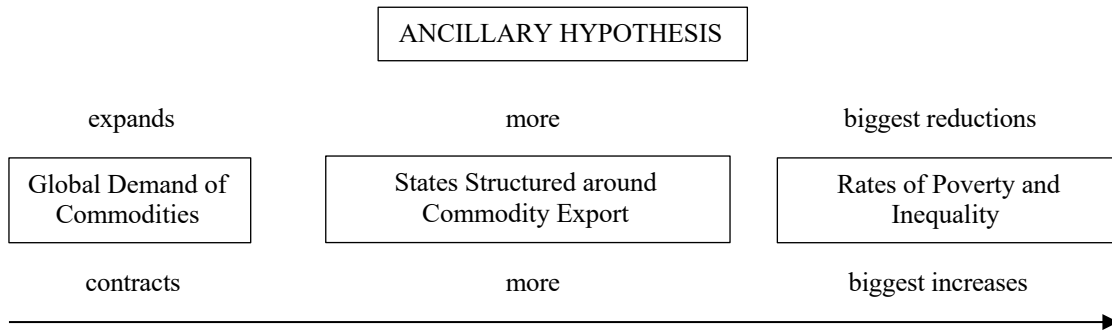
**Figure 3. Illustration of the Causal Mechanism of the State Argument**



Moreover, the state argument hypothesizes that certain factors of global capitalism affect state formation and consolidation. In particular, the state argument hypothesizes that in a global context of greater demand for primary products, the countries in South America that present the state with the most structural and functional organization around exporting primary products should present an increase in the activities of exploitative economic sectors. The state argument further hypothesizes that under such global context of greater demand for primary products, the countries in South America that present the state with the most structural and functional organization around exporting primary products should also present the highest levels of socioeconomic distortions. However, the conditioning effect of global capitalism illuminates an important socioeconomic trend in South America. Holding the previously mentioned hypothesized conditions constant, the state argument hypothesizes that in a global context of greater demand for primary products, the countries in South America that present the state with the most structural and functional organization around exporting primary products should present the greatest decreases in the rate of socioeconomic distortions. In this sense, in moments of expansion of the global demand for commodities, the countries that present the most reliance on exporting primary products

should present the biggest changes in the rates of poverty and inequality. Thus, informed both by the Dependency approach and the resource curse argument, the state argument hypothesizes the volatile relationship between global conditions and regional development outcomes. Figure 4 illustrates the relationship between global conditions and development outcomes in South America.

**Figure 4. Illustration of the Relationship between Global Conditions and Development Outcomes in South America**



The formalization of the state argument elucidates the relationship between the structure of the state and development outcomes in South America. Informed by the Dependency approach and the resource curse, the state argument introduces the role of the state at the center of the study of South American political economy. The state argument rests on the premise that given the internal and external conditions of South America before, during, and after the wars of independence in the early nineteenth century, the state formed and developed around economic activities geared toward exploiting and exporting natural resources in the region. Therefore, the implications of the state argument transcend the three paradoxes of South American political economy discussed before, given that it also requires the examination of the formation of the South American state. The state argument does not assume that the South American state developed around extractive productive activities; the

state argument requires to examine the historical process of state formation in the region. Since the state argument is premised on the examination of the formation of the state, then it is necessary to ask: How did the South American state form and develop? The state argument suggests that the South American state formed around the production of commodities. In particular, the state argument highlights that the state consolidated as a function of the interest of local actors that favored exporting primary products to the expanding industrializing global powers of the era.

Therefore, the formalization of the state argument points at the different areas of study on South American political economy that need to be examined in order to formulate a historical explanation for the region's socioeconomic problems. First, the state argument points at the colonial era to understand the antecedents that conditioned the internal structures under which the South American state formed. Second, the state argument points at the nineteenth century as a crucial moment of South American state formation given that the region gained political independence and consolidated the state. In fact, the nineteenth century is also a crucial moment of study given the global conditions of capitalist expansion that influenced the formation and consolidation of the South American state. Third, the state argument highlights the importance of Neo-Developmentalism in the twenty-first century given the continued reality of South America's socioeconomic distortions. The shifts in global demand for commodities between the 2000s and the 2010s also present an important era for the study of South American political economy. In this context, it is necessary to outline the parameters under which to build and test the validity of the logic of the state argument. A totalizing explanation requires an array of approaches to formalize both the historical processes that shaped South American states and the academic analysis that

measures the explanatory traction of the state argument. The next sections outline the parameters to formulate and to test the state argument.

## THE PARAMETERS TO STUDY THE STATE ARGUMENT

The state argument requires the formulation of a theoretical understanding of the formation of the South American state while also testing the validity of its propositions. In order to elaborate the state argument as a totalizing explanation of the contemporary socioeconomic reality of South America, it is necessary both to advance the theoretical understanding of the field and to measure the explanatory power of the structure of the state in development outcomes. In other words, the paradoxes and complexity of South American political economy require an academic approach capable of reformulating theory while also testing the validity of such theoretical propositions. In particular, the study of the state argument requires a multimethodology research design capable of providing the necessary mechanisms to generate inferential power that validates the logic of its premise and causal propositions. A multimethodology research design provides important advantages for the study of South American political economy in general and for the formulation of the state argument in particular. First, a multimethodology research design allows for the formulation of exploratory and confirmatory questions that can generate and validate theoretical propositions simultaneously.<sup>302</sup> Second, a multimethodology research design allows for the triangulation of data and methodologies, increasing inference certainty by reducing the randomness of variances. In fact, methodological triangulation increases the explanatory

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<sup>302</sup> Tashakkori, Abbas and Charles Teddlie. 2009. *Foundations of Mixed Methods Research: Integrating Quantitative and Qualitative Approaches in the Social and Behavioral Sciences*. California: SAGE Publications, pp. 33-4.

power of causal mechanisms by reducing the impact on correlation derived from the nature or inconsistencies of certain methods.<sup>303</sup> Therefore, by studying the state argument under a multimethodology research design, it is possible to formulate theoretical propositions about the formation of the South American state, it is possible to elaborate on the relationship between the structural formation of the South American state and development outcomes, and it is possible to measure the magnitude and significance of the structure of the South American state on socioeconomic distortions like poverty and inequality in a single study.

Although there are various multimethodology research designs, the formulation of the state argument requires a design that addresses the complexity and temporality of South American political economy. The fact is that the complexity of the paradoxes of South American political economy and the temporality of the formation and consolidation of the South American state differ greatly from one another. Therefore, the multimethodology research design of the state argument follows a sequential logic in order to address all aspects of the argument. A sequential multimethodology research design comprises at least two phases of the research process that occur sequentially in which the results and inferences of the first phase inform and condition the formulation of the second phase.<sup>304</sup> The sequential logic of the research process allows for the formulation of exploratory questions that can be later verified through confirmatory questions. In this sense, a multimethodology research design starts with exploratory questions which create

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<sup>303</sup> Ibid. pp. 40-2.

<sup>304</sup> Ibid. p. 153.



theoretical propositions that are either confirmed, refined, explained, or rejected in subsequent phases of the research.<sup>305</sup> Moreover, the nature of a sequential multimethodology research design deploys both qualitative and quantitative methods in each phase of the research process in order to strengthen the inference traction of the entire study, so the formulation of the state argument is conducted under a quantitatively dominant sequential multimethodology research design.<sup>306</sup> The logic of the multimethodology research design presents a process of qualitative data collection, analysis, and inference which informs the collection and analysis of quantitative data and either the confirmation, refinement, or rejection of the previous inferences. Yet temporality of the premises of the state argument as an explanation of South American political economy require a chronological logic for the research process. Given that the first phase of the research process informs and conditions the second phase, and that the analysis and results of the second phase either confirm, refine, or reject the inferences of the first phase, the study of the state argument is conducted under a sequential multimethodology with multistrand research design.<sup>307</sup> A sequential multimethodology with multistrand research design deploys a first phase of exploratory questions that create theoretical knowledge based on inferences derived from the analysis of initial data. The inferences of the first phase then inform a second phase in which exploratory questions are examined and the

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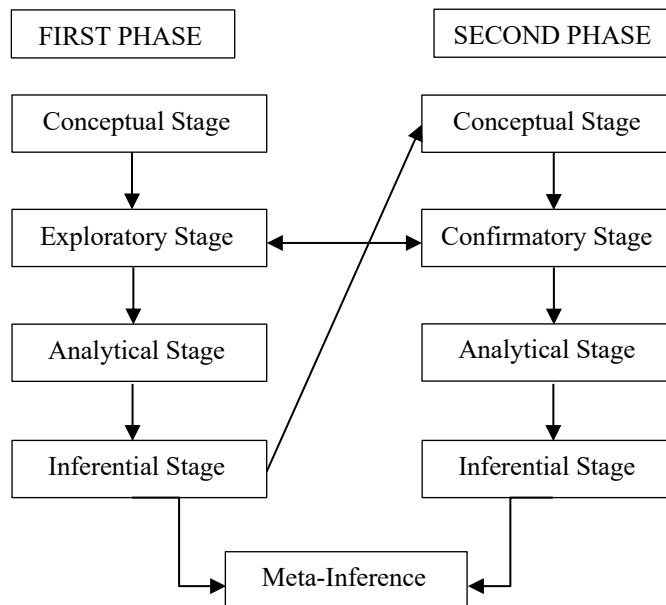
<sup>305</sup> Ibid. p. 43.

<sup>306</sup> Morse, Janice. 2003. "Principles of Mixed Methods and Multimethod Research Design." In *Handbook of Mixed Methods in Social and Behavioral Research*, edited by Abbas Tashakkori and Charles Teddlie, 189-208. California: SAGE Publications, p. 198.

<sup>307</sup> Tashakkori, Abbas and Charles Teddlie. 2009. *Foundations of Mixed Methods Research: Integrating Quantitative and Qualitative Approaches in the Social and Behavioral Sciences*. California: SAGE Publications, p. 154.

validity of the previous inferences is measured. It is at the end of the second phase that the formulation of explanatory theoretical propositions emerges in the research process. Most importantly, it is after the second phase that the explanatory validity of theoretical proposition is supported by the triangulation of data and methods and the confrontation of exploratory and confirmatory questions through a single research process. Hence, Figure 5 illustrates the sequential multimethodology with multistrand research design to study the state argument.

**Figure 5. Illustration of the Sequential Multimethodology with Multistrand Research Design**



The sequential multimethodology with multistrand research design provides significant advantages for the formulation of the state argument. In general, the formulation of the state argument presents two main objectives: 1) to elaborate on the formation and consolidation of the South American state; and 2) to measure the impact of the formation and consolidation of the South American state on the region’s development outcomes. In

this sense, the state argument proposes that the South American state formed and consolidated around extracting primary products for export. Moreover, it is the structural and functional organization of the South American state around exploitative productive activities that maintains the structures that create socioeconomic distortions in the region. The sequential multimethodology with multistrand research design permits to engage both propositions sequentially allowing for the theoretical formulation and validity evaluation of the state argument. In particular, the first phase of the sequential multimethodology with multistrand research design engages with the exploratory question regarding the formation of the South American state. It is in this first phase that the proposition of the state argument stating that the South American state formed and consolidated around exporting primary products is elaborated through historical analysis. The inferences from the first phase then inform the second phase of the sequential multimethodology with multistrand research design, in which the relationship between the structure of the state and development outcomes in South America. The second phase of the methodology questions why there is continuity in South America's socioeconomic distortions. Informed by the particularities of the inferences of the first phase, the second phase presents the state argument's hypothesis about the specific structure of the South American state as the explanatory factor behind the region's development outcomes. It is in the second phase of the methodology that the study engages with the confirmatory questions about the hypothesized relationship between the South American state and poverty and inequality. Ultimately, the inferences of the second phase are then contrasted with the inferences of the first phase in order to provide a theoretical understanding of the political economy of South America. By leveraging the advantages of the sequential multimethodology with

multistrand research design, the stage of meta-inference generates theoretical knowledge capable of influencing the study of South American political economy and the discipline of International Relations in general.

In order to leverage the methodological advantages of the multimethodology design it is necessary to elaborate on the concepts presented by the state argument. As it has been elaborated before, the state argument establishes a causal relationship between the structure of the state and development outcomes. In particular, the state argument discusses how the organization of the South American state around extractive productive activities perpetuates development challenges like poverty and inequality. Therefore, the concepts of the state and development are central to the state argument, but their definition is not without debate in the academic literature. At the heart of study of South American political economy lies the continuity of socioeconomic distortions. In particular, the region's political economy presents a curious dynamic in the fact that there have been different types of political movements in control of the state yet they all seem to be incapable of transforming development outcomes. The important level of variance in the ideology and identity of the political movements that have governed South America points at a fundamental aspect of the concept of the state: the difference between state and regime. Much of the variance among the different political movements that have governed the region lies in their type of regime rather than in any type of structural change of the state. In this sense, Cardoso's differentiation between regime and state provides an initial understanding of the structure of the state for the formulation of the state argument. Cardoso argues that the concept of regime refers to the rules that regulate the relationship between various political institutions as well as the norms that define the relationship

between citizens and rulers.<sup>308</sup> The concept of regime points at the hierarchical relationship between the executive, the legislature, and the judiciary, as well as the democratic, oligarchic, totalitarian, autocratic, or monarchic processes through which rulers are elected and exercise their governing power. In contrast, the concept of the state refers to the basic “pact of domination” among the different social factors in a specific political unit or organization.<sup>309</sup> The concept of the state refers to the specific hierarchical organization between dominant classes and the mechanisms devised to maintain their preferred positions within the structure.

Cardoso’s differentiation between regime and state, then, highlights an important aspect for the formulation of the state argument: structure and process. There is no particular combination between regimes and states, meaning that the structural composition of the state does not necessarily conditions a particular type of regime or vice versa. In fact, the South American experience highlights how there can be a coexistence between a particular state and various different regimes, whether they are authoritarian, corporatist, democratic, or even fascist.<sup>310</sup> Therefore, the fact that South America has been governed by various regimes does not necessarily mean that they have presented different organizational structures, pointing at the state argument as an explanation for the continuity of socioeconomic distortions in the region. In other words, development outcomes in South

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<sup>308</sup> Cardoso, Fernando. 1979. “On the Characterization of Authoritarian Regimes in Latin America.” In *The New Authoritarianism in Latin America*, edited by David Collier, 33-57. Princeton: Princeton University Press, p. 38.

<sup>309</sup> Ibid. p. 38.

<sup>310</sup> Ibid. p. 39.

America are not a consequence of regime types, they are a consequence of organization. While focusing on the organization of social classes through a pact of domination illuminates one aspect of the study of political economy, the literature on state formation still highlights a problematic area regarding the formation of the South American state. Following the logic of the state as an organizational function of a pact of domination, authors like Frederic Lane and Charles Tilly point at security as the main driver motivating the agreement between dominant classes that create the modern state. As Miguel Angel Centeno argues, the modern state emerges as nothing more than a “protection racket,” a social pact in which citizens subjugate themselves to a particular organization in exchange for protection from internal and external violence.<sup>311</sup> In essence, the state is the articulation of an agreement directed at obtaining security in which social domination, hierarchy, and privilege are codified and maintained.

Yet the state argument specifically highlights how the formation of the South American state did not follow the security imperatives described by Lane or Tilly. As it is discussed later, the South American state formed as a function of the expansion of global capitalism. When the international economic system expanded dramatically particularly at the second half of the nineteenth century, the dominant classes in South America found a motivation for organizing in participating in international trade. Therefore, the South American pact of domination was articulated into an organizational structure that responded to economic imperatives. The process of state formation in South America, then,

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<sup>311</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 108.

follows the logic of the capital-intensive route described by Charles Tilly.<sup>312</sup> To various degrees, dominant classes in South America bargained an agreement of domination in which they would exchange economic resources for protection, providing an encompassing motivation to articulate a state capable of guaranteeing the fulfillment of the agreement. The logical implication of the process of state formation in South America is that the organizational structure of a state that emerges from a pact motivated by economic imperatives is going to be different than the organizational structure of a state that emerges from an agreement based on security imperatives. A state that emerges from a pact of dominant classes motivated by securing economic resources must necessarily present a prior agreement outlining how the state must collect and dispose social surplus.<sup>313</sup> In fact, it is the prior agreement regarding the process of surplus collection and distribution what ultimately determines the organizational structure of the state. In the capital-intensive route, Tilly argues that dominant classes bargain with state makers in order to articulate an organization that can secure their privilege access and control to material resources. But such organization also requires access and control of certain material resources in order to articulate the mechanisms to guarantee the promises of the pact of domination. Without material resources, a state sees their capacity to guarantee economic security significantly diminished, and it is the agreement regarding how to provide the state with resources what ultimately delimits its organizational structure.

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<sup>312</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 153-76. New Jersey: Princeton University Press, p. 158.

<sup>313</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 107.

In South America, the articulation of the agreement of the dominant classes emerged through the formation of a state capable of guaranteeing the exploitation of primary products and access to foreign markets. For this, the state needed to guarantee the control of dominant classes over resources, the security for dominant classes to exploit the resources, and the access to foreign markets for dominant classes to commercialize resources. The consequence was a state intrinsically related to exploitative economic processes, and the pact of domination between dominant classes envisioned the commercialization of commodities as the mechanism through which the state would receive its required material resources. Therefore, any analysis of the organizational structure of the state must observe how the state obtains and disposes of material resources. Then, the state argument requires an examination of taxation systems in order to fully understand the organizational structure of the South American state, given that states organize around certain social sectors and economic processes depending on how they extract material resources. Taxation provides not only an understanding of which socioeconomic sectors sustain the state, but also they provide a measure of state strength and state penetration.<sup>314</sup> The state argument states that the South American state organized around the exploitation of primary resources, meaning that the functioning of the state was dependent on its organizational capacity to extract material resources from the commercialization of commodities. It is not only that dominant classes envisioned the purpose of the South American state to be the protection of exploitative activities, but also that the viability of the state relied on obtaining revenue from such activities. Any other

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<sup>314</sup> Ibid. p. 103



imaginable function or purpose of the South American state required the success of exploiting primary products, making it imperative to understand the organizational structure of the state around such economic processes.

To this point, the state is understood as the articulation of an organizational agreement between social factors. The organizational structure of the state is observable through the mechanisms by which the state obtains the material resources necessary to fulfill its agreed promises. Therefore, in order to formulate the state argument, it is necessary to elaborate on the structure of the South American state. However, the state argument also contends the functionality of the South American state to be fundamental for development outcomes in the region. It is not only that the state organized around exploitative activities, but also how given structural organization affects the state capacity to fulfill any objective. In other words, when studying development outcomes, it is also imperative to understand the capabilities of the state. Yet there is not broad consensus regarding how to measure state capability in the academic literature. In fact, there is an identifiable divide regarding measuring state capability between those who focus on the effects of state action versus those who focus on the quality of state functions. Authors like Robert Rotberg and Craig Boardman argue that state capability should be measured by observing the quality of the end products of state functions or the success of public policy.<sup>315</sup> If the state is responsible for providing security or education, then an evaluation

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<sup>315</sup> Boardman, Craig. 2014. "Assessing Governance: The Importance Of Evaluating Policy Outcomes In National Mission Areas." *Governance* 27(3): 519-26; Rotberg, Robert. 2014. "Good Governance Means Performance And Results." *Governance* 27 (3): 511-18; and Centeno, Miguel Angel, and Agustin Ferraro. 2013. "Republics of the Possible: State Building in Latin America and Spain." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 3-24. Cambridge: Cambridge University Press, pp. 10-1.

of its capabilities would focus on homicide rates, literacy rates and schooling years. But measuring state capability through its functional consequences creates comparative difficulties given the wide array of functions modern states are required to perform. It is simply impossible to compare state capability by observing the quality of the results if two states do not share the same functions. In other words, it is impossible to compare the capability of states to provide education if not all of the compared states are functionally required to provide public education. In this context, authors like Francis Fukuyama argue that state capability should be measured by observing the quality of state functions.<sup>316</sup> Particularly in the context of development outcomes, state capability is relevant given the capacity of the state—regardless of their specificity—to establish procedures capable of delivering autonomous results.

The measurement of state capability is therefore dependent on which aspects affect the effectiveness of the functions of the state. If the effectiveness of the state is fundamental for development outcomes, then it is imperative to elucidate the particular factors that make a state effective. Following the understanding of the state as the articulation of the agreement of social forces, the functionality of the state is therefore condition by its structural organization. In this sense, Miguel Centeno and Agustin Ferraro identify four different areas of state capability relevant to development outcomes. Informed by Max Weber, Centeno and Ferraro point at territoriality—the monopoly over the means of violence—as the first aspect of state capability relevant for development outcomes.

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<sup>316</sup> Fukuyama, Francis. 2013. “What Is Governance?” *Governance* 26(3): 347-68.

Second, Centeno and Ferraro identify economic capacity as a fundamental aspect of state capability, pointing at two different functions: promotion and appropriation. What is important for economic capacity is for the state to be able to appropriate resources through efficient fiscal systems, providing the state with its required material resources while promoting economic prosperity. Moreover, informed by Michael Mann, Centeno and Ferraro point at infrastructural power as the third aspect of state capability. Infrastructural power is an important aspect of modern states, it relates to the capacity to establish and mobilize organizational and technical power in order to process information and maintain communication structures. Finally, Centeno and Ferraro point at symbolic power—or what Max Weber identifies as legitimacy—as the fourth aspect of state capability. Symbolic power refers to the capacity of the state to concentrate and diffuse practices of authority capable of generating conformity and deference.<sup>317</sup> These four aspects of state capability are instrumental for development outcomes, and they become crucial in understanding not only the organizational structure of the state but ultimately its functionality.

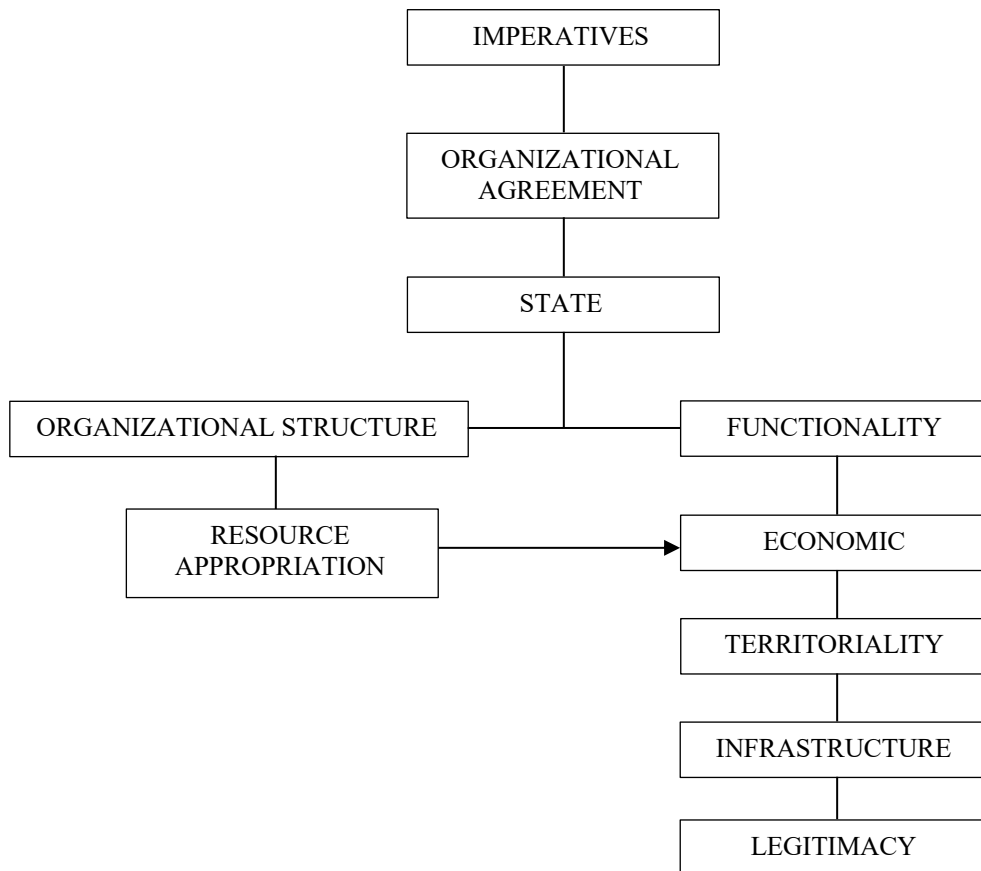
The state argument defines the state as the articulation of the organizational agreement between the dominant social factors in a particular geopolitical space. Dominant social factors find a specific purpose for the state based on their material, existential, or ideational imperatives. The nature of the imperatives that motivate powerful social factors to reach a pact of domination and then create an organization to maintain given pact influences the structure and functionality of the state. The defining feature of the organizational structure of the state is how it appropriates and disposes the material

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<sup>317</sup> Centeno, Miguel Angel, and Agustin Ferraro. 2013. “Republics of the Possible: State Building in Latin America and Spain.” In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 3-24. Cambridge: Cambridge University Press, pp. 10-2.

resources required for it to fulfill its functions. In turn, the organizational structure of the state also influences the nature and effectiveness of state action, conditioning state capability. Overall, states focus on four main areas that delimit their capability: territoriality, economic, infrastructure, and legitimacy. The economic capability of the state is inescapably related to the structural organization of the state. The capacity for the state to capture, appropriate, or extract material resources from a particular sector of society is dependent on the nature of such sector, making the original envision and motivation for the formulation of the state a fundamental aspect of state capability. In this context, Figure 6 illustrates the concept of the state according to the state argument.

**Figure 6. Illustration of the Concept of the State**



The state argument formulates a causal relationship between the concept of the state and the concept of development. In particular, the state argument argues that the organizational structure and functionality of the South American state perpetuates the socioeconomic processes that create poverty and inequality in the region. Yet in contrast to the concept of the state, the concept of development presents profound contradictions in the academic literature.<sup>318</sup> Defining development has become an elusive task, and authors within the field more often than not present a concept composed of several indicators without any clear analytical formulation.<sup>319</sup> Therefore, as Anthony Payne and Nicola Phillips suggest, “the concept of development has never been in greater need of analysis and clarification than in the present era.”<sup>320</sup> In this context, it is necessary to present a brief discussion on the historical evolution of the concept of development given the causal relationship formulated by the state argument. The concept of development in the English language can be traced back to the translation of Karl Marx’s book *Capital*, in which development is defined as a historical process of collective realization that transcends economic growth and is marked by the structure of economic relations.<sup>321</sup> Nonetheless, in contrast to Marx’s definition of development, British colonial policy of the early twentieth

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<sup>318</sup> For a thorough discussion on the concept of development, see Somjee, A. H. 1991. *Development Theory*. New York: St. Martin's Press, pp. 1-42; Pieterse, Jan Nederveen. 1996. “The Development of Development Theory: Towards Critical Globalism.” *Review of International Political Economy* 3(4): 541-64; Peet, Richard and Elaine Hartwick. 2009. *Theories Of Development*. New York: Guilford Publications, pp. 1-19; Cowen, Michael and Robert Shenton. 1996. *Doctrines Of Development*. London: Routledge, pp. 3-59; and Payne, Anthony, and Nicola Phillips. 2010. *Development*. Cambridge: Polity, pp. 1-10.

<sup>319</sup> Myrdal, Gunnar. 1974. “What Is Development?” *Journal of Economic Issues* 8 (4): 729-36, p. 729.

<sup>320</sup> Payne, Anthony, and Nicola Phillips. 2010. *Development*. Cambridge: Polity, p. 1.

<sup>321</sup> Arndt, Heinz. 1981. “Economic Development: A Semantic History.” *Economic Development and Cultural Change* 29(3): 457-66, pp. 458-59.

century—through the works of Lord Alfred Milner—considered development to be the state’s actions directed at exploiting natural resources.<sup>322</sup> Yet these definitions ignored the sociological tradition of the concept of development found in the works of Augusto Comte. Informed by the drastic socioeconomic transformations of the Industrial Revolution, Comte understood development as an action taken by the state with the constructivist purpose of imposing order and balancing society.<sup>323</sup> Given the growing socioeconomic distortions of the Industrial Revolution, Comte considered any action taken by the state to ameliorate or to influence distributive realities to be development. Hence, the contrasting definitions by Marx, Milner, and Comte highlight how difficult it is to elaborate a specific concept of development. More importantly, they stress different aspects of the concept, from whether it is a deliberate action or a historical process to whether the subject of development is the economy, society in general, or particular socioeconomic distortions.

The analytical problems derived from the contrasting definitions of development have not been resolved; they have actually stressed the compartmentalization of Development Studies in general.<sup>324</sup> As a consequence of the compartmentalization of Development Studies, Development Economics became the most dominant area in the field. Informed by Area Studies and the post-WWII context, Development Economics defined development purely in economic terms as a concept to differentiate between

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<sup>322</sup> Ibid. p. 460.

<sup>323</sup> Cowen, Michael and Robert Shenton. 1996. *Doctrines Of Development*. London: Routledge, p. 8.

<sup>324</sup> Somjee, A. H. 1991. *Development Theory*. New York: St. Martin's Press, p. 2.

industrialized and poor societies.<sup>325</sup> In this sense, authors like Frank Notestein and Walt Rostow defined development as a unilinear process of stages transited by all societies in order to achieve economic growth.<sup>326</sup> As a consequence of the dominance of Development Economics, the concept of development became interchangeable with concepts like economic development or economic growth. The consolidation of the concept of development as economic development moved societies toward generating the conditions for rapid economic growth even if they created environmental degradation or increases in poverty and inequality.<sup>327</sup> The redefinition of development as economic growth and its practical implications were soon criticized in the academic literature. For instance, Dudley Seers argued in 1969 that the concept of development should encompass other social processes beyond economic growth, stressing the importance of issues like poverty, inequality, and the satisfaction of basic material needs.<sup>328</sup> In fact, Nobel Prize Winner Amartya Sen challenge the concept of development as economic growth and suggested that development is actually the expansion of political freedoms, economic facilities, social opportunities, transparency, and security.<sup>329</sup> However, by criticizing the concept of development as economic growth, authors like Seers and Sen created an overspecification

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<sup>325</sup> Wallerstein, Immanuel. 2004. *World-Systems Analysis*. Durham: Duke University Press, p. 10.

<sup>326</sup> Crafts, Nicholas. 2001. "Historical Perspectives on Development." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 301-44. New York: Oxford University Press, p. 302

<sup>327</sup> Basu, Kaushik. 2001. "Historical Perspectives on Development." In *Frontiers of Development Economics: The Future in Perspective*, edited by Gerald Meier and Joseph Stiglitz, 61-86. New York: Oxford University Press, pp. 63-4.

<sup>328</sup> Seers, Dudley. 1969. "The Meaning of Development." *International Development Review* 11(4): 3-4.

<sup>329</sup> Sen, Amartya. 1999. *Development as Freedom*. New York: Knopf, pp. 36-8.

of the concept that has derived in analytical vagueness. By increasing the aspects relevant to the concept of development, development became a concept that captures everything, limiting the analytical usefulness of the term. A clear example of the vagueness of the concept of development is Hugo Slim's definition, which states that development "is essentially about change: not just any change, but a definite improvement—a change for the better. At the same time, development is also about continuity."<sup>330</sup> It is difficult to operationalize a concept that is both about the continuity and change of an ephemeral improvement. The consequence of the expansion of the concept of development is an ineffective term that refers to everything, and by consequence, to nothing.

It is in this context that operationalizing the concept of development for the formulation of the state argument becomes increasingly difficult. Yet it is important to highlight that the causal mechanism presented by the state argument stresses the relationship between the organizational structure of the state and development outcomes, not the development process. Informed by the previous discussion on the concept of development, the state argument understands development to be a process that transcends mere economic growth. Moreover, informed by the resource curse argument, the state argument understand poverty and inequality to be the consequence of the economic processes generated by the exploitation of primary products. Therefore, the state argument considers development as the process—regardless of the specific phases or parameters of a process—through which societies generate different development outcomes. In other words, the state argument states that development is not a certain result but the process to

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<sup>330</sup> Slim, Hugo. 1995. "What Is Development?" *Development in Practice* 5 (2): 143-48, p. 143.



reach such result. Studying the particularities of the development process are beyond the objectives of this study, and therefore the concept of development is not elaborated thoroughly. Perhaps the organizational structure and functionality of the state are either part or conditioning factors of the development process, but elucidating their connection is not part of the state argument. At this point it is important to highlight, then, that understanding state formation and state capability within the context of the development process is an important area of investigation in the field of South American political economy, and it should be explored in subsequent studies. But the objective of this study is to demonstrate how certain societies with a particular organizational structure of the state present continuity in certain development outcomes. As it has been described before, the state argument focuses on two particular development outcomes: poverty and inequality. These outcomes are considered socioeconomic distortions given their undesirable effect in the material existence of those societies where they are present. In this sense, the terms development outcomes and socioeconomic distortions refer to poverty and inequality and are used interchangeably. Thus, in order to formulate the state argument it is indispensable to elaborate on the operationalization and measurement of the causal relationship between the state and development outcomes.

#### ON BUILDING THE STATE ARGUMENT

The formulation of the state argument requires first to elaborate on the formation of the state and then to develop the causal relationship between the organizational structure and functionality of the state and development outcomes. The logical premise of the state argument rests on a specific understanding of the formation of the South American state.

In this sense, the first phase of the sequential multimethodology with multistrand research design responds to: How did the South American state form and develop? The state argument suggests that the formation of the South American state responded to economic imperatives, and that it was organized around the exploitation of primary resources.<sup>331</sup> Therefore, the state argument relies on the use of historical explanations to understand the process of state formation in South America. Historical explanations are a methodological resource widely used in social sciences,<sup>332</sup> and they leverage the logic of inference in order to understand specific outcomes that occurred either in the distant or the recent past.<sup>333</sup> Rooted in the idea of causality developed by David Hume, most historical explanations describe events through the logic of counterfactual and necessary causation.<sup>334</sup> In particular, historical explanations understand outcomes by connecting events that unfold sequentially over time which are linked as causal factors. In this context, informed by the philosophy of logic and Paul Lazarsfeld's elaboration, James Mahoney, Erin Kimball, and

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<sup>331</sup> The fact that the South American state developed around economic imperatives is not a novel or exclusive idea. Authors like Miguel Angel Centeno and Fernando López-Alves have pointed at the specific process of state formation in Latin America, stressing how such process dramatically differed from the experience of Europe or the United States, López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 153-176. New Jersey: Princeton University Press; and Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, pp. 101-66.

<sup>332</sup> For a discussion on the methodological use of historical explanations in International Relations, see Bennett, Andrew, and Colin Elman. 2007. "Case Study Methods in the International Relations Subfield." *Comparative Political Studies* 40(2): 170-95.

<sup>333</sup> Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. "The Logic of Historical Explanation in the Social Sciences." *Comparative Political Studies* 42(1): 114-46, p. 116.

<sup>334</sup> Mahoney, James. 2008. "Toward a Unified Theory of Causality." *Comparative Political Studies*, 20(10):1-25, p. 6; and Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. "The Logic of Historical Explanation in the Social Sciences." *Comparative Political Studies* 42(1): 114-46, p. 117.

Kendra Koivu developed the method of sequence elaboration in order to assess the causal links of historical explanations.<sup>335</sup> Therefore, in order to understand the process of state formation in South America, the first phase of the research design presents a historical explanation that uses a method of sequence elaboration. It is through the method of sequence elaboration that the initial explanation of how the South American state formed presented by the state argument is contextualized.

The method of sequence elaboration requires the formulation of a causal mechanism between certain initial conditions and a particular outcome. The nature of the relationship between the initial conditions and the particular outcome is defined through the logic of necessary and sufficient conditions.<sup>336</sup> In this sense, the sequence elaboration method defines initial conditions either as either necessary or sufficient causes for a particular outcome to occur through the use of set theory and Boolean logic.<sup>337</sup> Logically under set theory, for an initial condition to be a necessary cause, the observable outcome must be a subset of the initial condition. The implication for an initial condition to be necessary is that the observable outcome could occur with or without the presence of such necessary cause.<sup>338</sup> On the contrary, for an initial condition to be a sufficient cause, the

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<sup>335</sup> Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. "The Logic of Historical Explanation in the Social Sciences." *Comparative Political Studies*, 42(1): 114-46, p. 115.

<sup>336</sup> Ibid. p. 118.

<sup>337</sup> For a discussion on necessary and sufficient conditions, see Goertz, Gary, and Harvey Starr. 2003. "Introduction: Necessary Condition Logics, Research Design, and Theory." In *Necessary Conditions: Theory, Methodology, and Applications*, edited by Gary Goertz and Harvey Starr, 1-24. Lanham: Roman and Littlefield; Mahoney, James. 2008. "Toward a Unified Theory of Causality." *Comparative Political Studies*, 20(10):1-25; and Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. "The Logic of Historical Explanation in the Social Sciences." *Comparative Political Studies*, 42(1): 114-46.

<sup>338</sup> There is an important distinction when discussing necessary conditions under Boolean or set-theory regarding trivial necessary causes. A trivial necessary cause is always present regardless of the occurrence of the observable outcome, and therefore it should not be a part of any causal mechanism. An example of

initial condition must be subset of the observable outcome. The logical implication for an initial condition to be sufficient is that every time such condition is present then the observable outcome occurs. However, historical explanations rarely consider initial conditions to be either independently necessary or independently sufficient causes. In fact, historical explanations present sequence elaborations that suggest how the combination of multiple initial conditions generates a particular observable outcome. It is not the presence or absence of one single initial condition, but the combination of various conditions that are jointly necessary or sufficient what creates a particular observable outcome.<sup>339</sup> Informed by the work of John Lesley Mackie, historical explanations take into account the combination of multiple initial conditions that work as a necessary cause for a particular observable outcome as an INUS condition: “An insufficient but necessary part of a condition which is itself unnecessary but sufficient for the result.”<sup>340</sup> One particular condition is neither necessary or sufficient, but once it is combined with another initial conditions, then they are all sufficient for the particular observable outcome to occur. Nonetheless, given the dominant probabilistic nature of causality in social sciences, INUS causes are probabilistically necessary, and they can present different combinations of

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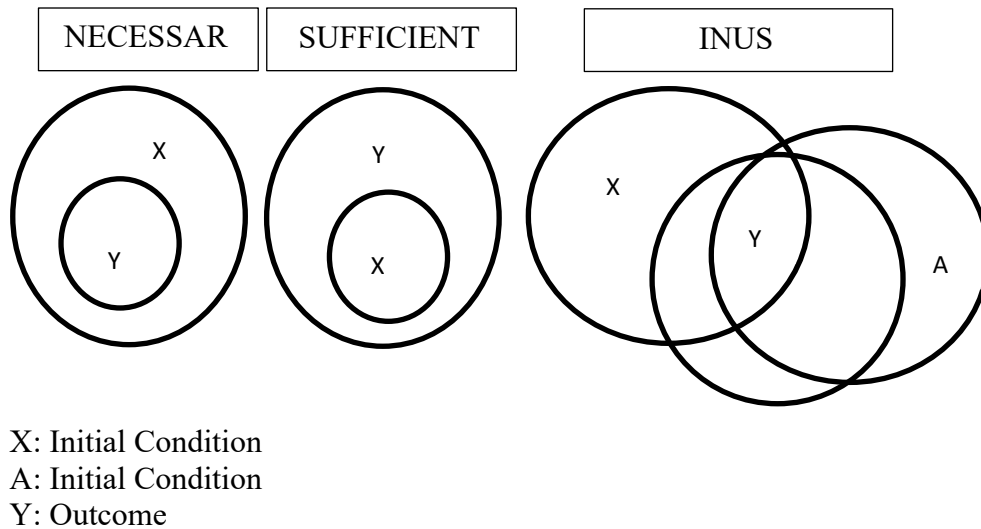
this is the use and abuse of the idea of “political will” as an explanatory variable for political outcomes. Any political outcome, by nature, requires the existence of the “political will” of the power brokers involved in the process. Without the “political will” of those actors capable of creating a political outcome, the outcome itself is logically impossible. A more illustrative example of a trivial necessary cause in political outcomes is oxygen. Any human action requires the presence of oxygen, thus considering oxygen as a necessary cause for a particular outcome is trivial and it should not be included in any causal mechanism, Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. “The Logic of Historical Explanation in the Social Sciences.” *Comparative Political Studies* 42(1): 114-46, p. 118.

<sup>339</sup> Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. “The Logic of Historical Explanation in the Social Sciences.” *Comparative Political Studies* 42(1): 114-46, p. 124.

<sup>340</sup> Ibid. p. 125

variable values capable of creating the observable outcome.<sup>341</sup> In this sense, Figure 7 presents a representation of the logic of necessary, sufficient, and INUS causes.

**Figure 7. Necessary, Sufficient, and INUS Causes**



Historical explanations present a causal relationship between certain initial conditions and a particular observable outcome. However, the method of sequence elaboration introduces other conditions either as antecedent or as intervening variables in order to elaborate on the initial causal relationship. It is through the introduction of other variables to the initial bivariate relationship that the method of sequence elaboration can determine causality through set-theory and Boolean logic.<sup>342</sup> In this sense, if the historical explanation presents a relationship between certain initial conditions as necessary causes for an observable outcome, then the method of sequence elaboration examines the

<sup>341</sup> Mahoney, James. 2008. "Toward a Unified Theory of Causality." *Comparative Political Studies* 20(10): p. 15.

<sup>342</sup> Mahoney, James, Erin Kimball, and Kendra Koivu. 2009. "The Logic of Historical Explanation in the Social Sciences." *Comparative Political Studies*, 42(1): 114-46, p. 129.

relationship between the initial conditions and antecedent conditions in order to examine the validity of the first relationship. For example, if the antecedent conditions are determined to be sufficient causes for the observable outcome, then set-theory and logic suggest that the initial relationship is wrong and spurious.<sup>343</sup> Therefore, the introduction of antecedent or intervening conditions can either contextualize or eliminate an initial relationship by determining not only how antecedent or intervening conditions interact with the initial conditions, but also by observing the nature of the relationship between antecedent or intervening conditions and the observable outcome.<sup>344</sup> By introducing either antecedent or intervening conditions, the method of sequence elaboration presents a sequence of linked necessary causes in which the probabilistic importance of the conditions increases logically by chronological approximation to the temporal moment of the observable outcome.<sup>345</sup> Hence, the objective of the method of sequence elaboration is not to determine the nature of an initial condition either as necessary or sufficient. On the contrary, the logic of the method of sequence elaboration is designed to evaluate the relationship of various conditions that are casually linked and exist at different chronological points of a temporal sequence.<sup>346</sup> Thus, the result of the method of sequence elaboration is to measure the causal mechanisms embedded in a particular historical explanation.

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<sup>343</sup> Ibid. p. 133

<sup>344</sup> Ibid. pp. 129-31.

<sup>345</sup> Ibid. p. 132.

<sup>346</sup> Ibid. p. 142.

The first phase of the research design presents a historical explanation in which various causal mechanisms explain the process of state formation in South America. While a mechanism is the recurrent causal relationships between certain initial conditions and a particular observable outcome, a process is the specific ordering of various causal mechanisms in a sequential or chronological logic.<sup>347</sup> Mechanisms usually specify why and how certain realities change, therefore engaging not only with chronological ordering but ultimately with the temporality of conditions. Time is usually assumed in social sciences as an independent or self-evident causal force, but temporality is distinct from causal mechanisms since it delimits the distinction between causes and dynamics.<sup>348</sup> Therefore, any historical explanation for a particular process that presents causal mechanisms requires the specification of temporality. Temporality not only delimits the period in which a particular event occurred, it actually presents the ordered dynamic between causal events present in a process. The method of sequence elaboration presents how certain conditions interact in a causal mechanism while delineating sequence dynamics explains the duration, tempo, and timing of each causal mechanism within a particular process.<sup>349</sup> First, delimiting duration requires measuring how much time elapses between the beginning and the end of a specific mechanism, sequence, or process through the periodization of the temporal moment under observation.<sup>350</sup> Second, delimiting tempo requires the observation

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<sup>347</sup> Grysmala-Busse, Anna. 2011. "Time Will Tell? Temporality and the Analysis of Causal Mechanisms and Process." *Comparative Political Studies* 44(9): 1267-97, p. 1268.

<sup>348</sup> Ibid. pp. 1268-273.

<sup>349</sup> Ibid. p. 1274.

<sup>350</sup> Ibid. p. 1278.

of the frequency of certain conditions and events within a particular moment in a mechanism or process.<sup>351</sup> Third, delimiting timing is required to determine the specific moment in which a particular condition or event unfolded given a particular context. Timing is not about sequencing or the relationship between conditions within a particular mechanism or process, timing refers to the exogenous context in which certain conditions, mechanisms, or processes take place.<sup>352</sup> In this sense, the relevance of delimiting timing lies in its capacity to contextualize a particular condition, mechanism, or process—not on relation to other aspects of the mechanism—to external conditions that ultimately affect how future events unfold in the mechanism.<sup>353</sup> These aspects of temporality are crucial for historical explanations since they not only explain the dynamic between mechanisms but also because they elucidate why and how processes unfold within an overall context.

In this context, the first phase of the research design presents a historical explanation rooted in the method of sequence elaboration and the definition of important aspects of temporality. Specifically, the first phase of the research design presents the state argument's historical explanation regarding the formation of the South American state. In this sense, the observed outcome—the specific organizational structure and functionality of the South American state—is the result of the interaction of certain initial conditions. In order to do so, the state argument leverages the work of Miguel Angel Centeno and Fernando López-Alves as alternative explanations to the process of state formation in

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<sup>351</sup> Ibid. p. 1282.

<sup>352</sup> Ibid. p. 1288.

<sup>353</sup> Ibid. p. 1290.



South American. Since the works of Centeno and López-Alves reject that the South American state formed by following the European model and point at the economic imperatives at the heart of the process in the region, the state argument presents an initial causal relationship between the existing conditions in the post-independence period and the specific organizational structure and functionality of the state in the continent. The state argument presents a historical explanation composed of sequences in which contingent events affect the possibilities for further outcomes either through reinforcing a particular pattern or by triggering a reaction.<sup>354</sup> Therefore, while Centeno and López-Alves point at the nineteenth century, the state argument also focuses on how certain contingent and preceding events affected the process of state formation in the region.

The fact is that certain local, regional, and global conditions that took place in the nineteenth century conditioned the formation of the South American state. But these conditions represented drastic transformations that were the result of long historical processes ranging from colonialism to the Industrial Revolution. Therefore, the first phase of the research design focuses on the period of antecedents to the process of state formation in South America, identifying their initial moment at the colonial period of Spanish and Portuguese domination in the Americas. There are almost four hundred years between the moment of Spanish conquest until the Industrial Revolution, stressing the importance on periodization. Any identifiable period within a historical explanation is marked by four main starting points: the emergence of new institutions, the transformation of preexisting

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<sup>354</sup> Ibid. p. 1276.

institutions, external or contextual shocks, and variation in causal mechanisms.<sup>355</sup> In this context, the time frame of the first phase of the research design presents four main chronological periods between the moment of the colonial encounter and the early twentieth century. While the boundaries between each period are arbitrary, they capture significant local, regional, and global changes that inform the formulation of the state argument. More importantly, each period presents important characteristics that influenced and conditioned the formation of the South American state. Periodization contextualizes the moment in which sequences unfold given how broader processes can increase or decrease the likelihood that a particular causal mechanism occurs.<sup>356</sup> In other words, periodization marks the different contexts in which causal mechanisms unfold, and it is the broader context what ultimately delimits the particular outcome.<sup>357</sup>

In this sense, the first period of study encompasses the early process of colonial settlement in South America from the end of the fifteenth century until mid-seventeenth century. The second period of study encompasses the colonial period from the mid-seventeenth century until the period of independence in the early nineteenth century. The first and second periods identify important local, regional, and global transformations that serve as antecedents to the process of state formation in the nineteenth century. In particular, the main division between these two periods is the change in colonial policy that Spain implemented in the eighteenth century and the emergence of Great Britain in the

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<sup>355</sup> Ibid. p. 1280.

<sup>356</sup> Ibid. p. 1272.

<sup>357</sup> Ibid. p. 1289.

global economy. The third period of study focuses on the independence and immediate post-independence period between the early nineteenth century and mid-nineteenth century. It is at this point that politically autonomous states form in South America, and the local and regional context of the continent after the wars of independence conditioned much of the process of state formation. The fourth period of study stresses the expansion and consolidation of the South American state between mid-nineteenth century and early twentieth century, and the main characteristic of the global context is the massive expansion in international trade that took place at the time. The fourth period of study is the most important period of the first phase of the research design since it examines how the South American state developed and consolidated. The first three periods provide crucial background and analytical information in order to consolidate the premise of the state argument regarding the formation of the South American state as a function of economic imperatives in the region. Thus, Table 2 presents a summary of the periodization of the process of state formation in South America as hypothesized by the state argument.

**Table 2. Periodization of the process of state formation in South America**

<b>Stage</b>	<b>Antecedents</b>	<b>Antecedents</b>	<b>Formation</b>	<b>Consolidation</b>
<b>Period</b>	<i>1490s – 1650s</i>	<i>1650s – 1810s</i>	<i>1810s – 1860s</i>	<i>1860s – 1900s</i>
<b>Context</b>	Early colonization	Colonization	Independence	Industrial Revolution
<b>Starting Point</b>	Conquest	Colonial Reforms and British growth	Napoleon invasion of Spain	Britain’s commercial expansion

As discussed above, the first phase of the research design examines the process of state formation in South America. The state argument presents a historical explanation discussing the causal mechanism between certain contingent conditions and the particular

state formation in the region. In light of the existing literature and the logical premise of the state argument, it is necessary to examine the relevant historical context, the particular process of state formation, and the economic relationship between the region and the world. The first phase of the multimethodology research design builds the state argument first by examining the relevant historical processes between the end of the fifteenth century and the late nineteenth century. The examination of the historical context and relevant processes elaborates on secondary sources present in the literature that have chronicled the socioeconomic history of South America. In this sense, the first phase of the research design analytically engages with secondary sources in order to elucidate which historical conditions influenced the formation of the South American state. However, building the state argument also requires identifying the moment the South American state formed as well as the particular characteristics it adopted during its consolidation. In addition to secondary historical sources, determining the process of state formation in the region also relies on examining various historical databases with quantitative data. The quantitative data in the first phase of the research design describes three main elements of the state argument: the moment of state formation and consolidation, the particular characteristics of the state during its formation and consolidation, and the commercial trends between the region and the world.

The first phase of the research design focuses on the work of Centeno and López-Alves in order to determine the moment of formation and consolidation of the South American state. In particular, Centeno measures centralization and pacification as proxies for the establishment of modern independent states in South America by identifying the years in which there was a federalization of capital, the end of major regional revolts, an

effective end of banditry or Indian revolts, and a national census.<sup>358</sup> In fact, Centeno also identifies the length of railway lines open as an important proxy for state centralization. Therefore, the first phase of the research design also measures the length of railway line open in South America from Brian Mitchell's work on international historical statistics.<sup>359</sup> Moreover, the particular characteristics of the state during its formation and consolidation are measured by the variables on the centralization of political authority in the POLITY II research database.<sup>360</sup> These variables measure the degree of state centralization (cent), the directiveness of regulation (scope), and the persistence of the particular regime (persist).<sup>361</sup> Ultimately, the logical premise of the state argument points at the importance of international commerce in the formation and consolidation of the South American state. Hence, the first phase of the research design examines historical statistics on external trade aggregates and major commodity exports. In fact, it is important to highlight the structural role of external trade in supporting the state by focusing on customs and royalties as share of ordinary income, and the economic statistics are obtained from Brian Mitchell and Miguel Angel Centeno's work.

In conclusion, the first phase of the research design presents a historical explanation for the process of state formation in South America. In this sense, it presents a periodization

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<sup>358</sup>Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, pp. 109-11.

<sup>359</sup> Mitchell, Brian. 1993. *International Historical Statistics: The Americas 1750 – 1988*. United Kingdom: Macmillan Publishers LTD.

<sup>360</sup> Gurr, Ted Robert. 1990. "Polity II: Political Structures and Regime Change, 1800-1986." ICPSR 9263. Ann Arbor: Inter-university Consortium for Political and Social Research.

of the historical context in which the state emerged, highlighting relevant historical contingencies that influenced the process of state formation. Relying on secondary historical sources, the first phase of the research design elaborates on the necessary local and global conditions that created the particular structure and functionality of the South American state. Moreover, the first phase of the research design elucidates on the historical moment in which the state formed and consolidated, paying close attention to the role of external commerce by observing historical statistics on centralization, pacification, state concentration, and trade. The logical premise of the state argument states that the South American state formed as a consequence of economic imperatives in the region, and that it developed around the commercialization of primary resources. Therefore, the first phase of the research design shows how the incipient South American state was fragmented and weak, and how it increased its functional role given its structure around the expansion of international trade.

#### ON TESTING THE STATE ARGUMENT

The first phase of the research design examines how the South American state formed and consolidated. Building from the works of Centeno and López-Alves, it discusses the historical contingencies that generated the necessary conditions for the state to develop as a consequence of economic imperatives. In this sense, it identifies the global and contextual conditions that interacted with local and regional dynamics in order to shape the particular characteristics of the South American state. The structural organization of the state around the exploitation and commercialization of primary products rests at the heart of the state argument. Yet the state argument suggests that such organizational

structure not only creates socioeconomic distortions but is actually responsible for their continuity. Hence, the state argument identifies a causal relationship between the organizational structure of the state, the state's function, and development outcomes. In fact, informed by the literature on South American political economy, the state argument proposes that the current socioeconomic dynamics of the region are a consequence of the continuous reliance of the state on the commercialization of commodities. Therefore, informed by the inferences of the first phase, the second phase of the research design measures the contemporary validity of the causal propositions of the state argument. The state argument suggests that the organizational and functional structure of the South American state creates and maintains socioeconomic distortions in the region. In this sense, the second phase of the sequential multimethodology with multistrand research design responds to: Why does South America continues to rely on exporting primary products given its negative effects on poverty and inequality? The state argument leverages the explanatory power of quantitative data, statistical regression analysis, and time series analysis in order to examine the proposed causal relationship between the organizational structure of the state, global conditions, and development outcomes.

The second phase of the research design has two main objectives: to determine whether the structural and functional organization of the South American state around the commercialization of primary resources that emerged and consolidated in the nineteenth century is still present, and to determine the impact it has on socioeconomic distortions like poverty and inequality. According to the United Nations Conference on Trade and Development (UNCTAD), a country is considered to be dependent on commodities when

primary products represent 60% of total exports.<sup>362</sup> Therefore, in order to determine whether South American states continue to be dependent on the commercialization of commodities, the second phase of the research design observes the rates of commodities as a share of total exports and the rates of commodities as a share of gross domestic product between 1996 and 2017.<sup>363</sup> The second objective of the second phase of the research design is to measure the impact of the dependence on commodity commercialization on the continuity of poverty and inequality in South America. For this, the second phase of the research design builds a multivariate linear regression model in which it operationalizes the structural and functional organization of the state and socioeconomic distortions. Based on the theoretical discussion presented before, the structural organization of the state is operationalized as resource dependence and resource appropriation. Therefore, the first aspect of the independent variable is measured both by the indicators on the rate of commodities as a share of total exports and gross domestic product as well as the percentage of total natural resource rents and the share of tax and non-tax revenue as a percentage of gross domestic product between 1996 and 2017.<sup>364</sup> Moreover, the state argument also identifies the functionality of the state as an important aspect influencing development outcomes. Informed by the discussion on the literature on the formation of the South American state as well as the literature on

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<sup>362</sup> UNCTAD. 2019. “The State of Commodity Dependence 2019.” Geneva: United Nations Conference on Trade and Development, p. 2.

<sup>363</sup> The indicators on rates of commodities as a share of total exports and the rates of commodities as a share of gross domestic product are obtained from UNCTAD and ECLAC databases at UNCTADstat [https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en) ; and CEPALstat [https://estadisticas.cepal.org/cepalstat/WEB\\_CEPALSTAT/estadisticasIndicadores.asp?idioma=i](https://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i)

<sup>364</sup> The indicators on the percentage of total natural resource rents and the share of tax and non-tax revenue as a percentage of gross domestic product are obtained from the World Bank databases. See the World Data Bank <https://data.worldbank.org/>.



measuring state capacity, the second phase of the research design measures the functionality of the state by the Worldwide Governance Indicators published by the World Bank between 1996 and 2017.<sup>365</sup> Therefore, Figure 8 presents the operationalization of the concept of the state based on the theoretical discussions on the literature on the formation of the South American state as well as the discussion measuring state capacity presented above.

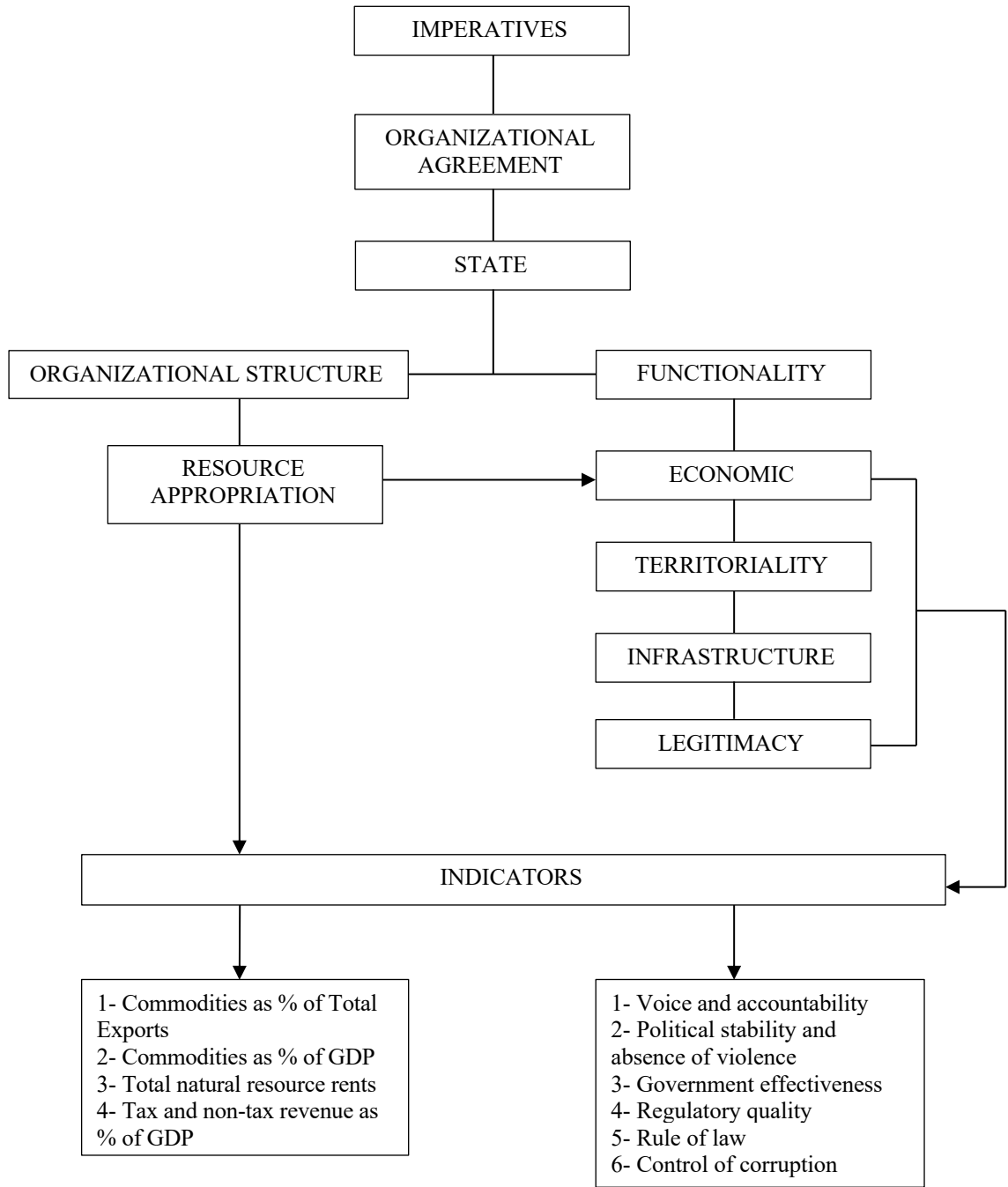
The second phase of the research design measures the causal relationship between the structural and functional organization of the South American state and the continuity of development outcomes. The literature presents important discussions on the concept of development, and a unified analytical term is not reachable. Therefore, the operationalization of development outcomes in South America is based on socioeconomic distortions like poverty and inequality. The operationalization of the dependent variable is simpler than the operationalization of the concept of the state primarily because of the long tradition of the use of international economic statistics. Poverty and inequality have been measured thoroughly in academia, and major statistical institutions present various indicators referring to both socioeconomic conditions. However, there is important observations against the use of international economic statistics, particularly because of the disconnect between the concepts that are described and the exact measurements that indicators provide.<sup>366</sup> In order to reduce the distorting effects of the concept-measurement

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<sup>365</sup> Kaufmann, Daniel, and Aart Kraay. 2019. "Worldwide Governance Indicators." The World Bank Group. <https://info.worldbank.org/governance/wgi/#home>.

<sup>366</sup> The disconnect between the analytical concepts and the actual measurements of indicators is called the concept-measurement gap. The concept-measurement gap emerges because of indicators being derived from national statistics or because of poor academic application. Linsi, Lukas, and Daniel Mügge. 2019. "Globalization and the Growing Defects of International Economic Statistics." *Review of International Political Economy* (26)3: 361-83, pp. 361-65.

**Figure 8. Operationalization of the Concept of the State**



gap, the second phase of the research design uses various indicators to measure poverty and inequality. First, poverty is measured by using the indicators on the poverty headcount ratio at national poverty lines (percentage of population), the poverty headcount ratio at \$1.90 a day (2011 Purchase Power Parity) (percentage of population), and the poverty headcount ratio at \$5.50 a day (2011 Purchase Power Parity) (percentage of population).<sup>367</sup> Second, inequality is measured by using the indicators on the GINI coefficient, the income share held by highest 10%, and the income share held by highest 20%.<sup>368</sup>

The causal relationship hypothesized by the state argument contends that the continuity of poverty and inequality in South America is because of the structural and functional organization of the state. In other words, the hypothesized causal relationship of the state argument proposes that as countries present higher levels of dependence on the commercialization of commodities while also relying on greater appropriation of its resources, they will also present higher levels of poverty and inequality. Specifically, the state argument contends that the states that present higher rates of commodities as a share of total exports, higher rates of commodities as a share of gross domestic product, higher rates of total natural resource rents as a share of gross domestic product, and lower rates of taxes as a share of total revenue, also present higher levels of poverty headcount ratio at national poverty lines as a percentage of the population, higher levels of poverty headcount

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<sup>367</sup> The indicators on the poverty headcount ratio at national poverty lines (percentage of population), the poverty headcount ratio at \$1.90 a day (2011 Purchase Power Parity) (percentage of population), and the poverty headcount ratio at \$5.50 a day (2011 Purchase Power Parity) (percentage of population) are obtained from the World Bank databases at <https://data.worldbank.org/>.

<sup>368</sup> The indicators on the GINI coefficient, the income share held by highest 10%, and the income share held by highest 20% are obtained from the World Data Bank at <https://data.worldbank.org/>.

ratio at US \$1.90 a day, higher levels of poverty headcount ratio at US \$5.50 a day, a higher GINI coefficient, higher levels of income share held by highest 10%, and higher levels of income share held by highest 20%. Moreover, informed by the literature on the resource curse argument, the state argument contends that the countries that present the highest levels of state dependence on the commercialization of commodities also present the lowest levels of state capacity. The causal mechanism identified by the state argument suggests that the structural organization of the South American state around the commercialization of commodities deteriorates the capacity of the state, affecting its governing capabilities and ultimately perpetuating poverty and inequality. Therefore, based on the logical relationship hypothesized above, the countries that present the higher levels of state dependence on commodities also present the lower levels of voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

Based on the theoretical formulations of the state argument, there are four hypotheses measured by the operationalization of the variables. First, the operationalization of the variables identifies a relationship between the state's economic dependence on commercializing commodities and poverty and inequality. Second, the operationalization of the variables identifies a relationship between the state's organizational dependence on appropriating commodity revenue and poverty and inequality. Third, the operationalization of the variables identifies a relationship between the state's capacity and poverty and inequality. Fourth, the operationalization of the variables identifies a relationship between all the previous aspects of the concept of the state and poverty and inequality. Therefore, the second phase of the research design builds five main statistical models to test the

hypothesized relationship of the state argument. The first two models test the first two hypothesis identified above, while the third model tests the relationship between both the state's economic dependence and organizational dependence on the commercialization of commodities and poverty and inequality. The fourth model tests the third hypothesized relationship between the state's capacity and poverty and inequality, while the final model tests the relationship between the state's structural and functional organization around the commercialization of commodities and poverty and inequality. Table 3 summarizes all of the multivariate statistical models while identifying the general concepts, the variables, the indicators, and the direction of the hypothesized relationship.

In this context, the second phase of the research design tests the contemporary validity of the causal relationships hypothesized by the state argument. The second phase of the research design focuses on testing the relationship between the South American state and poverty and inequality between 1996 and 2017. Since the state argument emerges from studying the historical processes that shaped the geopolitical organization of the areas colonized by Spain, the entire population in question for the statistical analysis is comprised of Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. Therefore, the data for the second phase of the research design is organized as panel or longitudinal data comprised of nine observations or units over twenty two consecutive points in time.<sup>369</sup> Overall, panel or longitudinal data is used in social sciences to measure

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<sup>369</sup> Panel data analysis is the combination of cross section analysis (the observation of many units at one particular point in time) with time series analysis (the observation of one unit at various points in time). In this sense, panel data examines observations of various units over various points in time, increasing the degrees of freedom and data points for statistical analysis while controlling for subject or unit heterogeneity. Frees, Edward. 2004. "Longitudinal and Panel Data: Analysis and Applications in the Social Sciences." Cambridge: Cambridge University Press, pp. 2-5.

**Table 3. Summary of the Multivariate Statistical Models**

Model	Variable	Concept	Indicator	Variable	Concept	Indicator	Relationship	
1	<i>Independent</i>	Economic Dependence	1	<i>Dependent</i>	Poverty	11	Positive	
			2			12		
1	<i>Independent</i>	Economic Dependence	1	<i>Dependent</i>	Inequality	14	Positive	
			2			15		
2	<i>Independent</i>	Structural Dependence	3	<i>Dependent</i>	Poverty	11	Positive	
			4			12		
2	<i>Independent</i>	Structural Dependence	3	<i>Dependent</i>	Inequality	14	Positive	
			4			15		
3	<i>Independent</i>	State Capability	5	<i>Dependent</i>	Poverty	11	Negative	
			6				Negative	
			7				Negative	
			8				Negative	
			9				Negative	
10	Negative							
3	<i>Independent</i>	State Capability	5	<i>Dependent</i>	Inequality	14	Negative	
			6				Negative	
			7				Negative	
			8				Negative	
			9				Negative	
10	Negative							
4	<i>Independent</i>	Structural Organization	1	<i>Dependent</i>	Poverty	11	Positive	
			2				Positive	
			3				Positive	
			4				Negative	
4	<i>Independent</i>	Structural Organization	1	<i>Dependent</i>	Inequality	14	Positive	
			2				Positive	
			3				Positive	
			4				Negative	
5	<i>Independent</i>	Structural and Functional Organization of the State	1	<i>Dependent</i>	Poverty	11	**	
			2					7
			3					8
			4					9
			5					10
5	<i>Independent</i>	Structural and Functional Organization of the State	1	<i>Dependent</i>	Inequality	14	**	
			2					7
			3					8
			4					9
			5					10

\*The indicators are identified by a number as follows: (1) Commodities as share of total exports; (2) Commodities as share of GDP; (3) Total rents of natural resources as share of GDP; (4) Tax revenue; (5) Voice and accountability; (6) Political stability and absence of violence; (7) Government effectiveness; (8) Regulatory quality; (9) Rule of law; (10) Control of corruption; (11) Poverty headcount at national poverty lines; (12) Poverty headcount at US \$1.90 per day; (13) Poverty headcount at US \$5.50 per day; (14) GINI coefficient; (15) Income share held by highest 10%; and (16) income share held by highest 20%.

\*\*The relationship between the independent variable indicators and each of the dependent variable indicators is the same as in the previous models. For instance, for model 1, the relationship between indicator 1 and indicators 11, 12, and 13 is Positive, yet in model 2, the relationship between indicator 4 and indicators 11, 12, and 13 is Negative.

trends or dynamics of change in different hypothesized relationships.<sup>370</sup> Yet the state argument measures a static relationship between the structural organization of the South American state and the continuity of poverty and inequality in the region. It is the time-invariant factors between observational units what explains the hypothesized relationship. The state argument suggests that while there might be variations between the hypothesized explanatory parameters between units or subjects, the nature of these explanatory parameters is homogeneous among all units. In fact, the state argument theorizes that these parameters do not change over time; they are time-invariant in nature because they have been present throughout history perpetuating poverty and inequality in South America. Based on the theoretical understanding of the state argument, the second phase of the research design treats longitudinal data as a series of cross sectional data, ignoring the time variant characteristic of each unit and applying an OLS-Pooled Regression Model.<sup>371</sup>

Ultimately, the second phase of the research design also measures the role of the global context in the relationship between the structural and functional organization of the state and development outcomes in South America. Informed by the first phase of the research design, the second phase of the research design understands the importance of

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<sup>370</sup> Ibid, p. 6.

<sup>371</sup> The OLS-Pooled Regression Model assumes that there are no significant unit-specific or time effects on the hypothesized relationship, therefore treating longitudinal data as repeated cross-sectional data by imposing the same intercept and function slope on the observed data. For a discussion on this, see Pillai, Vijayamohan. 2017. "Panel Data Analysis with Stata Part 1: Fixed Effects and Random Effects Models." MPRA Paper No. 76869, 20 February 2017. <https://mpra.ub.uni-muenchen.de/76869/>, and Frees, Edward. 2004. "Longitudinal and Panel Data: Analysis and Applications in the Social Sciences." Cambridge: Cambridge University Press, pp. 7-8 and p.53.

global capitalism and the presence of major global consumers of primary products in the socioeconomic trends of South America. In this sense, the second phase of the sequential multimethodology with multistrand research design responds to: Why does the socioeconomic reality of South America present a cyclical dynamic? The state argument suggests that the cyclical dynamic of socioeconomic trends in South America responds to the changing conditions of global capitalism. In particular, and informed by the resource curse argument, the state argument points at the volatility of global commodity markets as the main explanation for the cyclical dynamic of socioeconomic trends in South America. In order to measure the role of commodity market volatility, the second phase of the research design identifies changes in the price index of various commodities as an indicator of changes in the global economy. The capitalist nature of the global economy, and in particular the dynamics of supply and demand, condition the price of commodities in the global market. The state argument suggests that the fluctuation of commodity prices in the international economy conditions the financial resources available for South American societies, ultimately affecting the socioeconomic reality of the region. Almost all countries in the global economy are impacted by changes in commodity prices either as consumers or as producers. Yet not all societies in the world suffer dramatic changes in their socioeconomic realities due to changes in the global demand and supply of natural resources. Therefore, the indicators for changes in the indexes prices of fuels, minerals, and agricultural commodities are introduced as control variables in the multivariate regression models.<sup>372</sup> The state argument ultimately proposes that it is the structure of the South

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<sup>372</sup> The indicators for the variation of commodity price indexes are obtained from UNCTAD databases at UNCTADstat [https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en).



American state what explains for the continued presence of poverty and inequality in the region. By controlling for the effects of the global economy on the cyclical dynamic of poverty and inequality, the second phase of the research design isolates the actual effect of the structure of the state on development outcomes.

In conclusion, the second phase of the research design measures the validity of the causal relationship identified by the state argument through comparative data analysis and multivariate statistical models. First, the second phase of the research measures the continuity of South America's economic dependence on commodity exports. Based on the definition of commodity dependence of UNCTAD, the second phase of the research determines whether commodities continue to represent more than 60% of South American exports. Second, the second phase of the research design measures the relationship between the structural organization and functionality of the state and poverty and inequality. The state argument's causal mechanism is measured by five different statistical models that wage on various hypothesized relationships. Finally, the second phase of the research design measures the role of global conditions on the socioeconomic trends of South America. In this sense, the state argument considers the volatility of commodity prices as an indicator for changes in the international economy. Changes in the international economy explain the cyclical dynamic of poverty and inequality in the region, while the structure of the South American state explains the presence and continuity of development outcomes. In this context, Table 4 summarizes the research design to study the state argument by pairing the relevant theoretical observation with its specified period of study, its theorized response, and the each particular indicator used for measuring the hypothesized relationships.

**Table 4. Studying the State Argument**

<b>Period</b>	<b>Observation</b>	<b>Question</b>	<b>Answer</b>	<b>Indicators</b>
<i>1490s-1900s</i>	State argument logical premise	How did the South American state form and develop?	Based on economic imperatives around commercializing commodities	Statistics on centralization, pacification, trade, and POLITY II
<i>1490s-1900s</i>	Major paradox	What causes socioeconomic distortions like poverty and inequality in South America?	Reliance on exporting primary products	Commodities as share of total exports and gross domestic product
<i>1996-2017</i>	Second paradox	Why does South America continue to rely on exporting primary products given its negative effects on poverty and inequality?	The state is structurally and functionally organized around commercializing commodities	Total rents from natural resources and tax revenue
<i>1996-2017</i>	Third paradox	Why does the socioeconomic reality of South America present a cyclical dynamic?	Changes on global commodity markets influence chances in socioeconomic trends	Variation in commodity prices indexes

#### ON THE STATE ARGUMENT AND SOUTH AMERICA

The state argument is theoretically rooted in the literature on the process of state formation in South America and in the literature on South American political economy. In fact, the state argument is informed by the theoretical understanding of global relations developed by the Dependency approach under the discipline of International Relations and the sub-field of International Political Economy. The vast lineage of academic literature that influences the state argument presents an unequivocal reality: both empirically and

theoretically, the formation of the South American state is particular given the specific regional conditions in which it emerged and the global context that influenced its consolidation. While the state argument could reinvigorate the general debate regarding the role of the state in development outcomes, its specific theoretical propositions and causal inferences are bound by the contextual reality of South America. The uniqueness of the regional experience derives from a shared colonial past, a particular process of political emancipation, and a similar process of integration into global capitalism. While there might be variation among the different societies in the region, there are sufficient common points of reference that allow for a shared understanding. It is based on this assumption that the state argument presents its causal propositions based on the experiences of Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. Although the contemporary socioeconomic reality of Brazil presents important similarities with the rest of the region, Brazil is not included in the study of the state argument because of its separate colonial past. Informed by the contextuality of the Dependency approach, the state argument considers it imperative to differentiate between the colonial processes of Brazil and the rest of Spanish South America.

Therefore, the state argument is an explanation of the socioeconomic reality of the contemporary geopolitical territories conquered and colonized by Spain. The different historical trajectories of the various geopolitical territories under Spanish colonial rule is stressed in the first phase of the research design. In fact, such geopolitical territories continue to present drastic contemporary differences among themselves, and such variation also helps to strengthen the measurement of the state argument's causal mechanisms. It is through such variation that the state argument can elucidate which sequences and causal

mechanisms where determinants in the formation and consolidation of the South American state. Moreover, it is through such variation that the impact of contemporary regional conditions and global factors can be measured. Intuitively, the state argument hypothesizes that given their current development outcomes, countries like Argentina, Uruguay, or Chile present less dependence on the commercialization of primary products. Yet without such variation in development outcomes it becomes difficult for the state argument to elucidate on the mechanisms that maintain the continuity of socioeconomic distortions in South America. In this sense, the first phase of the research design studies the entire regional and global dynamics that preceded the process of state formation in the region. The entire colonial period and the nineteenth century are studied from a regional level of analysis, only stressing relevant differences analytically through the use of secondary sources. The second phase of the research design leverages the power of statistical data in order to elucidate on differences and trends from a national level of analysis. The sequential multimethodology with multistrand research design used to study the state argument allows for the combination of different questions, different levels of analysis, and different inferential stages in order generate robust inferences through inferential triangulation and comparisons. Thus, the state argument studies the experience of Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela from different levels of analysis both through exploratory and explanatory research questions by leveraging variation for inference power and validity.

## CHAPTER 4

### BUILDING THE STATE ARGUMENT

The process of state formation in South America is a contentious issue both politically and academically. Whether it is during the colonial period or in the post-independence moment, state makers are considered short of national traitors given the particular pact of domination that resulted in the state. However, the structural organization and functionality of the South American state is the result of the geopolitical context of the nineteenth century. In the absence of socioeconomic and political demands by the vast majority of the population, state makers in the post-independence period laid claims on the available power and resources in order to form a state responsive to their own vision and capacity.<sup>373</sup> In fact, the South American state was not the result of a rising sociopolitical coalition that challenged the colonial domination and fought to replace it. On the contrary, the political independence of the state as a consequence of the wars of independence was the result of the collapse of Spanish imperial legitimacy. Therefore, when independence was achieved, there was no major social group willing or able to establish a strong state; what dominant elites wanted at the time of independence was as little interference in their economic activities as possible.<sup>374</sup> The absence of an encompassing social pact of domination is crucial for understanding the particular structure of the South American state specially under the context of war.

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<sup>373</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, pp. 25-6.

<sup>374</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 157.

The fact of the matter is that wars—either the wars of independence or the subsequent wars during the nineteenth century—present an opportunity for state formation.<sup>375</sup> Wars require states to mobilize resources by building on their capacity to centralize power, by pacifying societies, and by extracting taxes from the population, which ultimately represent an opportunity for state growth. The relationship between war and the state is at the center of the process of state formation in Europe.<sup>376</sup> Yet in contrast to the European experience, few wars in South America actually created an opportunity for state growth,<sup>377</sup> and they were unable to break the existing relations between various dominant social groups.<sup>378</sup> In fact, dominant elites were hesitant to fund the wars of independence or any other military process in the nineteenth century.<sup>379</sup> Therefore, the South American state emerged as a consequence of the wars of independence, but the local structures did not take advantage of the opportunity presented by war in order to build a strong state. The collapse of Spanish colonialism created a context in which sociopolitical fragmentation and lack of resources hindered state makers' efforts. Those tasked with creating a politically independent state solved this challenge by copying the European model of the nation-state. Yet the European model of the nation-state was superimposed on various geopolitical

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<sup>375</sup> Ibid. p. 106.

<sup>376</sup> Ibid. p. 102.

<sup>377</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 153-76. New Jersey: Princeton University Press, pp. 161-62.

<sup>378</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 107.

<sup>379</sup> Ibid. p. 157.

demarcations in which social factors could not embrace the process of state formation.<sup>380</sup> In other words, the European model of the nation-state responded to particular sociopolitical processes, and the post-independence context of South America was different than that of Europe.

Nineteenth century state makers in South America faced a continent socially fragmented and economically destroyed after the wars of independence. The lack of social cohesion and the unwillingness of dominant elites to build a state following the process of state formation in Europe condition the process of state formation in South America. Moreover, at the time of post-independence, many elites that resulted victors against Spain still found it difficult to claim victory in South America. Unresolved conflict and growing power challenges were also an obstacle for state formation after the wars of independence. In order to secure centralization and pacification, many leaders had to give tax concessions to local *caudillos*. Yet not every challenge to power was coopted, and the state still faced armed conflict at home while having few resources to appropriate. Therefore, in a context of sociopolitical fragmentation and few resources, not much else was available to centralize power in the state except economic imperatives.<sup>381</sup> South American state makers found a mechanism to legitimize and to garner support for the state in economic development, particularly on maintaining and expanding the region's participation in foreign trade. It is success in foreign trade rather than any participation in war what explains the formation of

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<sup>380</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 8.

<sup>381</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 153-76. New Jersey: Princeton University Press, p. 169.

the South American state. Participating in foreign trade and appropriating resources from such participation provided states with the necessary resources to support state development.<sup>382</sup> In fact, the colonial period of European expansionism taught to the dominant classes in independent South America the importance of controlling natural endowments for the successful functioning of the state.<sup>383</sup> The consequence was a deep relationship between the South American state and local activities dedicated to foreign trade.

The South American state found a structure and a function in economic development, particularly in maintaining and expanding the region's participation in foreign trade. States were able to appropriate resources from foreign trade in order to fund its activities. The main concern of the incipient states was not building an army or expanding the capacity of the state;<sup>384</sup> it was actually the creation of a bureaucracy capable of collecting custom duties that were then used to reconstruct their ravished economies or to buy the loyalty of local *caudillos*. The appropriation of resources from foreign trade and the availability of massive external funds, combined with the existing sociopolitical fragmentation, made it impossible for state makers to subjugate local elites under an overarching and powerful state.<sup>385</sup> As a consequence, the South American state grew

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<sup>382</sup> Safford, Frank. 2013. "The Construction of National States in Latin America." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 25-55. Cambridge: Cambridge University Press, pp. 54-5.

<sup>383</sup> López-Alves, Fernando. 2001. "The Transatlantic Bridge: Mirrors, Charles Tilly, and State Formation in the River Plate." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 153-76. New Jersey: Princeton University Press, p. 164.

<sup>384</sup> Ibid. p. 165.

<sup>385</sup> Ibid. p. 161.



supported by elites involved in foreign trade yet relatively weak given its incapacity to penetrate all social groups. Therefore, the historical weakness that has characterized the South American state is rooted in an inadequate tax base caused by the lack of resource redistribution and the appropriation of tax resources and the state apparatus by dominant social groups with private interests.<sup>386</sup> The fact is that South American states were not able to create the expected systems of taxation required to maintain a modern state, and any growth in tax receipts represented an growing connection with the global economy instead of a growing state.<sup>387</sup>

Given the post-independence context, the South American state formed around economic imperatives through the appropriation of resources from foreign trade without penetrating massive sectors of the population. The historical relationship between the South American state and the global economy has been characterized by foreign debt, the commercialization of commodities, and customs.<sup>388</sup> The incipient South American states found an initial source of revenue in foreign credit, yet by the 1820s many had already defaulted on their loans.<sup>389</sup> Once they lost access to foreign markets of credit because of their defaults, South American states financed their activities by either selling access or

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<sup>386</sup> Jarquin, Edmundo, and Koldo Echebarria. 2007. "The Role of the State and Politics in Latin American Development (1950-2005)." In *Democracies in Development: Politics and Reform in Latin America*, edited by Mark Payne, Daniel Zovatto, and Mercedes Mateo Diaz, 1-12. Washington: Inter-American Development Bank, p. 3.

<sup>387</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 117.

<sup>388</sup> Ibid. p. 134.

<sup>389</sup> Bulmer-Thomas, Victor. 1994. *The Economic History Of Latin America Since Independence*. Cambridge: Cambridge University Press, pp. 28-9.

exploiting commodities. A clear example of this was guano, which allowed for the Peruvian state to appropriate massive revenues without creating any real connection to society.<sup>390</sup> Yet the most important source of revenue for South American states in the nineteenth century was tariffs or custom duties on foreign trade. Custom duties and tariffs on foreign trade were very attractive for state makers in the region for various reasons. First, custom duties and tariffs on foreign trade represented an easier form of revenue to collect than any other form of taxation. For the incipient states in the nineteenth century it was easier to control the ports through which commodities had been exported for over three hundred years than to build a bureaucracy capable of taxing most of society. Second, customs duties and tariffs on foreign trade were an attractive source of revenue for South American states because the entire region had a long tradition of exporting raw materials since colonial times. In a post-independence context in which South American economies were devastated, engaging in exporting primary products was easier than creating a new economy given the central role dominant elites had in exploiting commodities under colonialism. Third, customs duties and tariffs on foreign trade guaranteed some level of social order and were the least likely to generate a revolt.<sup>391</sup> Since the post-independence states were dominated by landed proprietors, taxation was deviated towards the consumer, appropriating revenue from the most visible sectors of the economy.

State makers in post-independence South America, given the social fragmentation and lack of security imperatives, identified economic development as the main purpose of

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<sup>390</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 135.

<sup>391</sup> Ibid. p. 135.

the state. Yet foreign trade became the central aspect of the economy for the state since it provided the most readily available resources for appropriation. The global context in the nineteenth century was one of important expansion of the international economic system described as the first wave of globalization. The South American state is “an offspring of the first wave of globalization,”<sup>392</sup> meaning that it was only logical for state makers to try to harness the expanding resources of the global economy through the state. However, the nineteenth century was also characterized by a period of exceptionally rapid divergence between the industrial centers of the global economy and the rest of the world. Particularly between 1820 and 1870—a crucial period for the formation of the state in South America—the economic centers of the world reached massive levels of socioeconomic development thanks to industrialization while peripheral societies were unable to catch up.<sup>393</sup> In the case of South America, the inability of the region to experience the same levels of economic development in comparison to global economic centers like the United States or Western Europe was rooted in its reliance on exporting commodities. The region’s economic development has always been dependent on favorable conditions for exports in the global market.<sup>394</sup> Such dependence meant that when favorable conditions for commodity exports in the global market changed, the region’s economic development and consequently the capacity of the state were significantly reduced. The consequence of the structural

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<sup>392</sup> López-Alves, Fernando. 2012. “The Latin American Nation-state and the International.” In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 161.

<sup>393</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, p. 4.

<sup>394</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 6.

dependence of the region on favorable conditions for exports in the global market was reduction in state capacity and state autonomy. Actors in the state would recognize the importance of global factors for their domestic success, and they would align accordingly with international actors in order to maintain or improve the conditions for exporting commodities.<sup>395</sup> Therefore, the global context of the nineteenth century not only influenced the structural formation of the South American state, it also influenced the behavior of state makers who would secede autonomy in order to align their interest with foreign actors even in detriment of local sectors of the economy.

The South American state formed and consolidated in a regional context of sociopolitical fragmentation and a global context of economic expansion. These factors interacted and shaped a structure of incentives that lead state makers to identify economic development and foreign trade as the main purpose of the state. But the consequence of this process is a state incapable of enacting or enforcing effective rules that can reach all sectors of society within their territories.<sup>396</sup> South American states are characterized by a big divide between their institutional divide and their capacity for rule implementation. The fact is that while the region has a long tradition of “rules and lofty legal declarations, few respect and abide by such strictures.”<sup>397</sup> The efforts of state makers in the post-

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<sup>395</sup> López-Alves, Fernando. 2012. “The Latin American Nation-state and the International.” In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, pp. 171-72.

<sup>396</sup> Centeno, Miguel Angel, and Agustin Ferraro. 2013. “Republics of the Possible: State Building in Latin America and Spain.” In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 3-24, p. 6.

<sup>397</sup> Adelman, Jeremy. 2001. “Institutions, Property, and Economic Development in Latin America.” In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press, p. 36.

independence period resulted in the state that was possible given the conditions, yet this state presented structural characteristics that incentivized behaviors that hindered the socioeconomic development of the vast majority of society. The South American state presents important continuities with the political structures of the colonial period given that the traditional dominant sectors of society perpetuated their system of political power and control.<sup>398</sup> Politically independent South America benefitted from its insulation from major confrontation and competition for power as well as from the economic expansion of international commerce at the moment of state formation. However, the consequence of these benefits was that South American states were able to be successful without having to consolidate their power by building the infrastructure of a modern state and a modern economy.<sup>399</sup>

The state argument postulates that the particular structure of the South American state creates and perpetuates socioeconomic distortions in the region. The South American state formed and consolidated around the commercialization of primary products, and these economic activities create massive inequality and poverty. As discussed above, various regional and global factors shaped the process of state formation in South America. The sociopolitical fragmentation of the region and the absence of major security imperatives in the post-independence period created a legitimacy vacuum for the state. Under these conditions, local elites identified economic development to be the main purpose of the

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<sup>398</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 7.

<sup>399</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, pp. 27-8.

incipient states, and they organized society around economic imperatives. Given the massive expansion of international commerce in the nineteenth century and the region's historical tradition commercializing primary products, the South American state was organized around exploiting commodities in order to appropriate resources and gain legitimacy with exporting elites. The works of Wendell Gordon, Charles Anderson, Fernando Cardoso, Enzo Faletto, Victor Bulmer-Thomas, and Agustín Ferraro identify these conditions as the most influential factors in the process of state formation in South America. In fact, the works of Miguel Angel Centeno and Fernando López-Alves point at economic development at the center of the process of state formation in the region while rejecting other competing explanations. Yet in order to elaborate the state argument it is necessary to examine the explanation presented above. In this sense, it is imperative to elucidate on the historical legacies that created the region's predisposition towards exporting commodities, the processes that triggered the political independence of South America, the mechanisms that generated sociopolitical fragmentation in the incipient republics, and the global dynamics behind the expansion of international commerce in the nineteenth century. Studying the sequences, causal mechanisms, and historical antecedents that preceded the South American state in the nineteenth century provides a better understanding of the role of these factors as necessary conditions for the particular process of state formation in the region.

#### THE ANTECEDENTS TO THE FORMATION OF THE STATE 1490s— 1650s

The academic literature points at the nineteenth century as the origin of the modern and politically independent South American state. Yet many of the processes that defined

the structure and functionality of the South American state after the wars of independence can be traced back to the pre-colonial and colonial eras. Many sociopolitical characteristics of the great pre-Hispanic civilizations influenced the colonial process and the structure of the incipient republics in the nineteenth century. The hierarchical political organization and social structures of the great civilizations facilitated the Spanish conquest by allowing the implementation of vertical structures of exploitation and extraction.<sup>400</sup> At the time of conquest, there were three main groups of civilizations in South America: advanced civilizations based on agricultural surplus, societies based on subsistence agriculture, and gathering and hunting nomad communities. The vast majority of the indigenous population in South America by the time of the conquest were part of the Inca empire and other advanced societies, while the minority lived in tribal communities. Advanced civilizations in the region were characterized by agricultural production based on technological irrigation systems, social and political stratification, and a thriving urban economic activity.<sup>401</sup> The Inca empire, which became the center of the initial colonial effort, presented an impressive social stratification with social classes divided into nobility, soldiers, a religious elite, merchants, and skilled artisans.<sup>402</sup> The great pre-Hispanic civilizations represented the main focus of conquest for Spanish colonizers given their existing capacity to generate resources for extraction.

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<sup>400</sup> For a discussion on the influence of the political structures of pre-Hispanic civilizations on the Spanish conquest and colonialism, see Acemoglu, Daron, and James Robinson. 2012. *Why Nations Fail: the Origins of Power, Prosperity, and Poverty*. New York: Crown Business, pp. 7-44.

<sup>401</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 275-76.

<sup>402</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 34.

Enriching the colonial center of power was at the heart of Spain's sociopolitical and economic organization. The Spanish state at the time was organized around a centralized authority that was strengthened through taxation, through a positive balance of trade, and through a territorial expansion that guaranteed the appropriation of natural resources and the exploitation of labor.<sup>403</sup> Therefore, the political understanding of the state dominant in Spain at the time of conquest represented an incipient mercantilist model that organized the entire colonial effort. Given that the metropolis was enriched through extraction, the existing richness of the great pre-Hispanic civilizations in South America were at the center of Spanish colonialism in the Western hemisphere. In this sense, precious metals like gold and silver became the organizational principle of the Spanish empire in the America.<sup>404</sup> The initial phase of the colonial effort was marked by the appropriation of metals, yet the Spanish stole existing gold and silver in the hands of the indigenous population relatively fast.<sup>405</sup> The exhaustion of existing metals forced the colonizers to envision bigger efforts in order to exploit the deposits of gold, and most significantly, silver. The nature of the accessible deposits of gold condition settlements, which were very short-lived and usually scattered along the vast territories of South America. However, exploiting accessible silver mines required an enormous effort, giving rise to "an important urbanization process and

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<sup>403</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo*. Mexico: Siglo Veintiuno, p. 277.

<sup>404</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 26.

<sup>405</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo*. Mexico: Siglo Veintiuno, p. 278.



to the formation of satellite economies.”<sup>406</sup> In order to exploit the existing deposits of silver, the Spanish colonial effort designed an entire sociopolitical system capable of extracting metals, exploiting labor, and exporting resources.

The colonial effort, focused on extracting metals to strengthen the metropolis, gravitated around the domination of the Inca empire given its abundance of existing metals, its vast reservoir of exploitable labor, and its advanced agriculture capable of creating surplus.<sup>407</sup> The effort was first directed by individuals who were responsible for expanding the territorial dominion of the metropolis, which in exchange granted growing rights to the conquistadors. What started as a system of concessions between the Spanish crown and individual conquistador evolved into an entire system of sociopolitical domination to guarantee the exploitation of resources.<sup>408</sup> Characterized by important levels of state patronage, the initial socioeconomic organization of the colonial effort consisted of various structures directed at the exploitation of the indigenous population like the *encomienda*, the *mita*, and the *reducción a pueblo*. The system of the *encomienda* consisted on the Spanish crown commending or entrusting a portion of the indigenous population to an individual conquistador who came to exercise public functions of the state. The conquistador was required to instruct his entrusted native population into Roman Catholicism, and in

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<sup>406</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 27.

<sup>407</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 277.

<sup>408</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 16.

exchange he was given the right to exploit their labor.<sup>409</sup> The *encomendero*—the conquistador granted with the *encomienda*—could either exploit labor by requiring natives to provide services without retribution or by forcing natives to pay him tribute with products.<sup>410</sup> The system of the *mita* was a mechanism for the mobilization of the labor force which required the native population to provide a certain percentage of their members to work on the mines or other functions. In theory, the *mita* required for labor to be compensated, yet in practice the payment represented servitude or even temporary enslavement. The exploitation of the *mita* allowed for *encomenderos* to pay their own tribute to the Spanish crown since they would “rent” their entrusted natives as labor force.<sup>411</sup> Yet for the *mita* to be effective, it was necessary to control entire native populations, so the Spanish colonial effort established the system of *reducción a pueblo*. The *reducción a pueblo* was a relocation mandate for indigenous populations, forcing them to relocate to specific towns or villages with local authorities from which the conquistadors could easily extract the *mita* and guarantee the exploitation of labor.<sup>412</sup>

Spanish colonialism imposed socioeconomic structures on the native population with devastating consequences. By the time Spanish colonialism is defeated in the wars of independence, the population of the Americas was lower than when the first conquistadors

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<sup>409</sup> Ibid. p. 17.

<sup>410</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 279.

<sup>411</sup> Ibid. pp. 279-80.

<sup>412</sup> Ibid. p. 280.

arrived at the end of the fifteenth century.<sup>413</sup> Yet regardless of the massive genocide on the local population or the growing urban-rural divide, the first phase of the mercantilist colonial effort was successful for the empire. The emergence of important colonial cities inhabited by Europeans with high levels of consumption demand signaled the success of the socioeconomic structures of colonialism.<sup>414</sup> These cities became the sociopolitical centers of the colonial effort, with marked diversification of social classes and the growing presence of bureaucracies and political authorities. The colonial state was incredibly centralized, with a hierarchy that emanated from the crown and was represented in the Americas by the *Virreinos* and local governors. The *Virreinos* represented the most important geopolitical areas of the Spanish empire in the Americas, with the *Virreinato* of Peru as the most important political center in South America. Other social groups were represented in the colonies by the *Consejo de Indias*, the *Reales Audiencias*, and the *Casa de Contratación*. But beyond the *Virreinato*, colonial cities also had two important political institutions: the *Cabildo* and the *Consulado*. The *Cabildo* represented the political interest of the Spanish residents of the most important colonial cities, while the *Consulado* represented the interests of merchants and traders.<sup>415</sup> All these institutions responded to the main interest of the crown, highlighting the political centralization of the colonial domains. More importantly,

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<sup>413</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 6.

<sup>414</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 287.

<sup>415</sup> *Ibid.* p. 281.

the political organization of the colonial state represented a superimposition of the Spanish crown over the existing structures of the pre-Hispanic civilizations.

The Spanish crown also centralized commerce in the colonies in order to guarantee the most extraction of resources as possible. The superimposition of Spanish political authorities over existing native institutions served to exploit the labor force in societies marked by racial and class divisions. First, the crown establishes two systems of taxation in order to appropriate resources from the colonial activities: the *almojarifazgo* (a customs duty); and the *alcabala* (a consumption tax).<sup>416</sup> Second, the crown prohibited free commerce with the colonies, centralizing trade through a handful of ports in Spain and in the Americas. In this sense, the relationship between the metropolis and the colonies was so centralized that they were only annexed to the kingdom of Castile, prohibiting other kingdoms in the Spanish empire to exploit the Americas.<sup>417</sup> As a mechanism of control, any commercial activity in the colonies was to be approved by the *Casa de Contratación*, and it could only be exchanged through the ports of Sevilla and Cadiz in Spain, and the ports of La Havana, Portobello, and Cartagena in South America.<sup>418</sup> Third, the crown allowed colonial economic production only to satisfy the demand of European residents in the Americas and to provide the necessary agricultural inputs for the exploitation of minerals.<sup>419</sup> Vast areas outside the

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<sup>416</sup> Ibid. p. 280.

<sup>417</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 14.

<sup>418</sup> The other authorized port in the Americas was the port of Veracruz in modern Mexico. Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 280.

<sup>419</sup> The colonial state even prohibited the production of goods that could compete with Spanish products. For instance, the Spanish prohibited the cultivation of grapes in colonial territories since they could have

colonial mining centers produced agricultural products destined for consumption in the Americas; for example, the early settlements in Chile and in Argentina produced the food and textiles that sustained the exploitation of the silver mine of Potosi.<sup>420</sup> The success of the mercantilist colonial model and the emergence of colonial cities that triggered the formation of regional agricultural producers ultimately generated a characteristic feature of South American societies, the *hacienda*. The *hacienda* represented a social structure of colonial South America dedicated at producing agricultural products with labor conditions resembling servitude. Although the *hacienda* and other landowning social structures like *latifundio* spread rapidly during the nineteenth century, their origins lie in the areas producing agricultural products to satisfy the needs of the mining centers in the colonial period.<sup>421</sup> In fact, *latifundios* represented another mechanism of political centralization by the Spanish crown in the colonies. The political domination of the Americas was articulated through two main mechanisms based on the density of the population. In areas with dense indigenous populations, Spanish conquistadors ruled by maintaining direct relationship with traditional chiefs. In remote settlements with scattered tribal communities, Spanish conquistadors ruled through the establishment of *latifundios*, ruling through remote landowners.<sup>422</sup>

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competed with Spanish wine. Gordon, Wendell. 1965. *The Political Economy of Latin America*. New York: Columbia University Press, p. 12.

<sup>420</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 27.

<sup>421</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 287.

<sup>422</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 30.

The entire organization of the colonial empire created a series of dependent relationships based on the actual socioeconomic structures of Europe at the time. By the time of conquest in 1492, Spain was considered a peripheral economy in relation to the rest of Western Europe, particularly with the Dutch and the French kingdoms.<sup>423</sup> While Eastern Europe provided the European economy with grain, timber, cattle, furs, and ores; Spain and its colonial empire in the Americas provided silver, gold, sugar, tobacco, hides, and dye-stuffs.<sup>424</sup> In consequence, the Spanish colonial state reproduced in the Americas the same structural patterns that it had in Europe. The fact is that Spain was still a fragmented state by the time of conquest, and the connection of the kingdom of Castile and the kingdom of Aragon was merely political. In practice, all kingdoms in the Spanish peninsula were socioeconomically fragmented by the 1500s, and they co-existed as separate entities with disparate rules and regulations.<sup>425</sup> In this context, the colonial state followed the same pattern of political centralization and socioeconomic fragmentation than the one present in the Spanish peninsula. At the center of the colonial state in South America was the *Virreinato* of Peru, which was organized around the exploitation of silver. Yet beyond dominating the Inca empire, the colonization of less populated areas was only for the production of goods to satisfy the colonial centers, to guarantee the movement of exports from South America to Spain, and to diminish the risks of any imperial challenge in the

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<sup>423</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 4.

<sup>424</sup> Ibid. p. 43.

<sup>425</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 14.

Americas.<sup>426</sup> Therefore, the colonial effort created a structure of dependency in South America between the *Virreinato* of Peru and proximate areas like Chile or northern Argentina. The Caribbean and other port areas like Colombia or Venezuela created a direct dependency with Spain, given that their main economic activity was serving as ports for trade.<sup>427</sup> Thus, the entire colonial system represented an incipient structure of dependency, both in terms of Spain with Western Europe as well as South America with Spain.

Therefore, the early mercantilist colonial system implemented in South America since 1492 was characterized by economic dependence, with a centralized colonial state designed to exploit labor for the production of minerals and some agricultural goods which ultimately created massive discrimination and inequality.<sup>428</sup> However, by the mid-seventeenth century, the mercantilist colonial model started to collapse, affecting the production of exported goods in South America dramatically. At the center of the collapse of the mercantilist system was the decimation of mining activities primarily in the *Virreinato* of Peru. Silver imports to Spain from the Americas decreased drastically in a span of fifty years, from an estimate of 2,707,629.00 kilograms at its highest historical point between 1591 and 1600 to 443,257.00 kilograms between 1651 and 1660.<sup>429</sup> Various factors conflated for the collapse of mining in the Spanish colonies, from the depletion of superficial mines to a shortage of the mercury. Yet the most profound factor was the

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<sup>426</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 278-79.

<sup>427</sup> Ibid. pp. 284-85.

<sup>428</sup> Ibid. pp. 288-89.

<sup>429</sup> Ibid. p. 290.

destruction of labor supply given the sociopolitical structure of exploitation. Between 1492 and 1550, Spanish colonization annihilated the indigenous population, and by 1596 the short supply of forced labor drastically affected the production of silver in Peru.<sup>430</sup> Given the centrality of mining in the colonial economy, once the exploitation of silver started to decrease, the entire economic system suffered dramatically. It is the economic recession triggered by the mining crisis what ultimately imposes drastic transformations and important unintended consequences to the colonial structure.

#### THE ANTECEDENTS TO THE FORMATION OF THE STATE 1650s—1810s

The economic recession created by the mining crisis in the Americas signaled the beginning of important socioeconomic transformations in the region. The colonial structure of mining centers and agricultural peripheries had already started to create new empowered social classes, particularly the land owning class.<sup>431</sup> However, with the decline in mining by the mid-seventeenth century, traditional mining elites witnessed a gravitational pull away from exploiting silver and gold towards agricultural production. Fueled both by the mining crisis and a growing European demand for tropical agricultural products, there was an important migration of resources from mining towards agriculture, and access to land became a pivotal factor in the socioeconomic success of social classes in South America.<sup>432</sup>

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<sup>430</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 38.

<sup>431</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 288.

<sup>432</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, pp. 24-5.



In this context, Spanish conquistadors found in the *hacienda* the mechanism to recreate in the Americas the landed estate of southern Spain, giving rise to the characteristic large landowner in South America.<sup>433</sup> Yet access to land became absolutely central to any aspiration of socioeconomic success in South America after the abolition of the *encomienda* system in 1720.<sup>434</sup> The emerging economic activity was agriculture, and having access to land allowed elites not only to participate in the activity but ultimately to continue exploiting the native population to increase gains. Although the colonial state experienced important transformations, social inequality and social discrimination remained because land was granted only to Europeans or those of European descent.

The social structure based on the exploitation of the indigenous population that characterized the mercantilist colonial effort since the beginning of the conquest in 1492 transformed into a more rural, fragmented, and agricultural organization. Colonial societies reorganized around landownership, creating scattered rural communities embodied in the *hacienda*. The rural and native population found working in the *hacienda* as the only mechanism of socioeconomic survival. Yet the result was that colonial societies organized in self-sufficient and isolated communities scattered throughout the vast territories of the region. The *hacienda* became its own social structure completely separated from the state or the market, leaving laborers in conditions of servitude and under the direct control of the landowning class. Since the exploitation of labor was only used in the *hacienda*, these self-

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<sup>433</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 32 and p. 66.

<sup>434</sup> Gordon, Wendell. 1965. *The Political Economy of Latin America*. New York: Columbia University Press, p. 13.

contained social units relied on a subsistence economy, stressing the role of land ownership within the system of social discrimination and political domination. But the effects of the transformation from a centralized mining society to a scattered agricultural society also affected dominant elites. Landowners became increasingly important political figures in colonial South America, yet given that the social organization was based on scattered self-sufficient social units, the new empowered elites had little connection with the metropolis and operated under strict local horizons.<sup>435</sup> In fact, the empowering of the landowning class, in detriment of traditional mining elites and local bureaucracy, created growing pressures on the colonial state because of their divergent interests.

The mercantilist colonial system was designed to extract as much revenue as possible from the colonies while also prohibiting the development of any economic activity that could challenge Spanish interests. In this sense, the Spanish crown created an entire system of control directed at centralizing productive activities in South America ranging from extracting direct tribute to controlling trade routes for primary products traveling to Spain. Yet the new empowered landowning class found the strict centralization of Spain's colonial policy inconvenient in face of their growing economic interests. The consequence is growing economic and political tensions between the landowning class of European descent called *criollos* and the Spanish crown.<sup>436</sup> The mercantilist colonial system was challenged by changes in the economic processes of the colonies, which gave rise to new

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<sup>435</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, pp. 29-32.

<sup>436</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 291-92.

social classes with the power to impose their interests or force traditional elites to accommodate them.<sup>437</sup> However, the growing tensions between social classes during the second half of the seventeenth century is not resolved until after the war of Spanish succession. It is with the change of the Habsburgs for the Bourbons as kings of Spain that several reforms take place, accommodating the growing demands of the *criollos* and dealing with important global transformations.

The end of the mercantilist colonial system was precipitated both by regional changes in the dominant social classes as well as by major shifts in the global context. While landowners grew important in South America, the British empire was able to become a major European power by the eighteenth century. From the mid-seventeenth century onwards, the British empire was able to subjugate rival Portuguese, French, Dutch, and Spanish empires while imposing global norms on trade that benefited its interests. First, the British were able to subjugate the Dutch's maritime supremacy by claiming around 1,700 merchant vessels as prizes between 1652 and 1654.<sup>438</sup> Second, the British were able to open colonial Brazil by signing the Methuen Treaty with Portugal in 1703 during the war of Spanish succession.<sup>439</sup> The treaty granted Britain access to commercial activities with Brazil in exchange of guaranteeing Portugal's territorial integrity and access for

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<sup>437</sup> Social and political structures are the result of class struggles. Any transformation of the sociopolitical structure is the result of new empowered classes achieving their objectives. Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 14.

<sup>438</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 26.

<sup>439</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 35.

Portuguese wines to England's market. In fact, the treaty also guaranteed England's access to Brazilian gold, which would be fundamental for Britain to defeat the French during the Napoleonic wars. Third, the British gained important commercial concessions from Spain in the Treaty of Utrecht in 1713 at the end of the war of Spanish succession. Beyond obtaining Gibraltar in exchange for Spanish domination of the Americas, the British also gained the supply of slaves<sup>440</sup> for the colonies as well as the capacity to sell limited goods in the region.<sup>441</sup> Therefore, the centralized control that Spain had over the economy of its colonies was permeated by a growing Britain that achieved supremacy through technological innovation and effective war making.

The war of Spanish succession represented the end of the mercantilist colonial system established in the Americas since the moment of conquest. Beyond Britain's success at gaining commercial access to the Americas, Spain considered it imperative to implement important reforms to its colonial policy in order to adapt to the changing environment. With the advent of the Bourbons as kings of Spain, liberalism became the dominant economic ideology, changing the principles of the colonial policy from mercantilism to free trade.<sup>442</sup> Realizing the importance of commercial trade between the Americas and Europe, and understanding its precarious position after the Treaty of Utrecht,

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<sup>440</sup> At the beginning of the war of Spanish succession in 1701, it was a French company the one with the rights to sell slaves in Spanish America. The Treaty of Utrecht solidified an important commercial victory of the British over the French by securing the slave trade under England's power. Ibid. p. 24.

<sup>441</sup> The Treaty of Utrecht in 1713 also opened the Americas to France since the Spanish tolerated French merchants in Spain. Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 87.

<sup>442</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 294.

the Spanish crown decided to focus on improving its capacity to participate in free trade. However, many Spanish elites and traditional commercial guilds in Madrid resisted these changes, retarding transformations to the colonial policy that were necessary for the crown to regain supremacy in the Americas. The early changes that were adopted despite resistance concentrated on recovering the concessions that Spain made to England—particularly on Gibraltar in order to eliminate contraband, stimulating production in untapped peripheral areas like Caracas or Buenos Aires in order to meet European growing demand, reinvigorating Spain’s agricultural production, and reducing the influence of British and French merchants in Cadiz.<sup>443</sup> First, the Spanish crown created a series of commercial companies in order to organize the financial and technical resources needed to develop activities for agricultural exports in various areas of the Americas. For example, in 1728 the Spanish created the Guipúzcoa Company in Caracas in order to support the export of Venezuelan cocoa.<sup>444</sup> Second, in order to mitigate the effects of a limited and decaying royal fleet, Spain allowed for commercial and independent ships to trade with the colonies under a registry system in 1740.<sup>445</sup>

Yet profound changes to Spain’s colonial policy did not take place until the fear of external threats quieted the voices of resistance. British merchants operating in the Caribbean had threatened to bypass the stipulations of the port of Cadiz in order to access

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<sup>443</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, pp. 87-8.

<sup>444</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 24.

<sup>445</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 295.

the colonial market since 1740. However, it is not until the British invasion of La Havana and Manila in 1762 that Spain recognizes the need to adapt its colonial policy to avoid losing commerce in the Americas.<sup>446</sup> La Havana was considered an inexpugnable fortress critical for the control of the commercial trade between the Americas and Spain. Once the British sent around 700 vessels full with goods during the eleven months they controlled La Havana, the Spanish realized it was indispensable to revamp its colonial policy.<sup>447</sup> Hence, in 1765 the crown allows for several Spanish ports—not only Cadiz or Sevilla—to commercialize directly with the colonies in the Americas.<sup>448</sup> The liberalization of trade culminated in 1789 when all Spanish ports were allowed to trade directly with all major ports in the Americas, including the port of La Guaira.<sup>449</sup> Moreover, in recognition of the growing influence of Buenos Aires<sup>450</sup> in relation to traditional colonial centers like Lima, Spain created the *Virreinato* of Río de la Plata in 1776.<sup>451</sup> Also, Spain gradually abandoned the convoyed fleet system used to centralized commerce between Europe and its colonies in America, eliminating it altogether by 1778. Ultimately, the liberalization broke the

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<sup>446</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, pp. 95-6.

<sup>447</sup> The Spanish would usually send no more than 15 ships a year to La Havana, an evidence of their precarious commercial position in relation to the British. *Ibid.* p. 97.

<sup>448</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 295.

<sup>449</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 100.

<sup>450</sup> For a discussion on the growing influence of Buenos Aires at the time, see Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 25.

<sup>451</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 295.

commercial prohibition on the colonies, allowing for intercolonial trade on products that did not compete with Spanish goods.<sup>452</sup> Thus, the eighteenth century is one of marked liberalization of the commercial trade, which also affected the regional and local transformations in terms of the structures of power.

The decline in mining triggered an important change of the regional local structures of power by empowering the landowning class. The Bourbon reforms and the rise of the British empire interacted with the regional conditions and reduced the centralization and control that Spain had over its South American colonies. The war of Spanish succession and the Treaty of Utrecht represented important catalysts for the erosion of Spain in the region. However, the process of change that would end up in the wars of independence was also the consequence of Spanish imperial decay. First, Spain suffered drastic demographic changes in the few hundred years of colonialism. Plagues, wars, the colonial effort, and the expulsion of Jews and Moors maintained Spain's population in 1715 at similar levels than in 1541: 7.5 million people.<sup>453</sup> Second, the mercantilist colonial system that Spain implemented since the moment of conquest had dramatically debilitated the productive capacity of the metropolis.<sup>454</sup> Spain suffered inflation in its price structure given the massive injection of South American silver into its economy, particularly during the sixteenth century. The existing industries that developed before 1550 were decimated since

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<sup>452</sup> Ibid. p. 295.

<sup>453</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 13.

<sup>454</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 18.

they could not compete with cheaper imports financed by exploited silver.<sup>455</sup> In this sense, the textile industry of areas like Valencia, Toledo, Burgos, Segovia, and Sevilla collapse since they could not compete with the cheaper woolens from northern Italy, France, or Holland. When silver imports started to collapse in the mid-seventeenth century, there were no existing industries in Spain capable of reactivating industrial activity.<sup>456</sup> By the seventeenth century the import of luxury goods financed by South American silver was the most important economic activity in the capital of the empire.<sup>457</sup> Third, the spread of dynastic claims and patrimony also factored into Spain's decay in the eighteenth century. A growing nobility created an illusion of grandeur and control that was not representative of the reality.<sup>458</sup> Yet with a stagnated population and poor economic capacity, Spain was required to serve a considerable body of nobility that was not justified for the requirements of the empire at the moment.

Therefore, regional and global dynamics in the eighteenth century created a process of Spanish colonial decay that led to the wars of independence in South America. The socioeconomic and political structure of the colonies moved from a centralized system of mining areas surrounded by controlled peripheries and a closed commercial network of trade to a group of scattered areas characterized by self-sufficient agricultural units with increased commercial contacts with the rest of the world. During the second phase of the

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<sup>455</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 15.

<sup>456</sup> Ibid. p. 16.

<sup>457</sup> Ibid. p. 17.

<sup>458</sup> Ibid. p. 15.



colonial effort, Spain reforms moved merchants, miners, and bureaucrats in South America to exacerbate dependence of agricultural exports in detriment of creating local industry.<sup>459</sup> The fact is that while the Bourbon reforms might have created a more efficient colonial bureaucracy, they also stressed the conditions that drove local landowners towards social fragmentation.<sup>460</sup> Local landowners developed important commercial relations with other global powers like Britain or the United States, eroding any semblance of centralization in the region. More importantly, commercial relations with Britain created important incentives for local landowning elites to favor free trade, which would put them in contention with the legitimacy of Spanish colonial rule. The empowered and fragmented landowning class, the imposed permeability of colonial trade imposed by the British through war, and the decay of the Spanish state confabulated for the process of independence to take place at the beginning of the nineteenth century. It was ultimately the aggressiveness of the British and the French which shattered the Spanish empire,<sup>461</sup> but the specific process through which South America would gain its independence and then formed its republics was the result of the socioeconomic transformations of the eighteenth century. The evolution from a predominantly mining society to an agricultural society created the socioeconomic fragmentation that informed the process of state formation in the region. The Bourbon reforms increased the power of landowning elites by giving them

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<sup>459</sup> Ibid. p. 52.

<sup>460</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 142.

<sup>461</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 53.

access to foreign commerce, allowing them to create links with global actors that shaped their strictly local interests. It is under these conditions that the wars of independence started at the beginning of the nineteenth century, and the colonial structures that the Spanish established since the time of conquest would continue to influence the region during the formation of the South American state.

#### THE FORMATION OF THE STATE 1810s—1860s

The sociopolitical and economic transformations of the eighteenth century generated growing tensions between Spain and its colonies in South America. The decline of the mining economy empowered the landowning class given the shift towards the exploitation of agriculture. Land became the most important aspect of South American societies, and by consequence the *hacienda* was established at the center of the region's sociopolitical organization. The empowered landowning class found the centralized system of colonial trade to be detrimental to their own economic interests, particularly given the expansion the global economy. It is in this context that the role of the British empire as the uncontested superpower of the world in the eighteenth century becomes pivotal for the political process of South America. Both the landowning elites in the region and the British empire were interested in increasing trade in order to position their products in new and growing markets. The landowning elites were constrained by the political domination of Spain and the limitations imposed by a liberalizing colonial policy. But the British empire was only constrained by their capacity to penetrate markets either through war or through technological innovation and economic prowess. Both the British and the French were able to permeate the centralized system of trade that Spain imposed on their American colonies,

first in the context of the war of Spanish succession with the Treaty of Utrecht and then through direct war and contraband. The presence of the British empire in the Caribbean and the growing commercial relationship it developed with landowning elites in South America through commerce and contraband fractured the factors of domination Spain had on the colonies. Landowning elites were able to circumvent Spanish domination thanks to the material empowerment obtained by establishing commercial relations with the British. Therefore, growing tensions and important regional and global dynamics created the conditions for the ultimate collapse of the Spanish domination of South America: the wars of independence.

The independence wars of South America marked the end of the Bourbon control over the region, starting the process that would allow for the emergence of independent republics in the continent. The developments of the eighteenth century created the conditions that motivated the wars of independence, yet the Napoleonic wars ultimately precipitated the process. Monarchical Spain was afraid of the deep transformation generated by the French Revolution, particularly in face of the dangers that could emerge even with controlled change. Traditionalists in Spain understood the French Revolution as an anarchic process of regicide and mob-rule, and they decided to break their alliance with France in 1793 and gravitate towards anti-republican England.<sup>462</sup> England wanted to deprive France of Spanish support, but they also wanted to weaken Spain in order to gain access to commerce with its colonies in America. In the face of England's attitude towards Spain, the Spanish crown decided to abandon its ephemeral approach with the British empire and

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<sup>462</sup> Ibid. p. 104.

renewed its Bourbon allegiance with France in 1796. Yet Spain's renewed alliance with France moved them back to the middle of the Anglo-French conflict, and Britain took aggressive action to deprive France of any Spanish support. Once Napoleon invaded Spain in 1807 and claimed control over the colonies, the British moved swiftly to deny the French access to South American resources. The British empire took aggressive action even before Napoleon invaded Spain with the invasion of Trinidad in 1797, the attempt at occupying Buenos Aires in 1806, and ultimately the commercial penetration of La Plata through contraband by 1807.<sup>463</sup> However, it is not until the Britain's most decisive move was to blockade the Spanish peninsula, effectively severing any commercial trade between the metropolis and the colonies.<sup>464</sup> But Britain's blockade of the peninsula was not only designed to deprive France of South American resources, it was also important for England to access commercial markets in the Americas.

Colonial centers that relied on mining could theoretically sustain any blockade since silver could be stored, but agricultural products would suffer greatly under a commercial blockade. Products like sugar, tobacco, cacao, or hides deteriorated rapidly, yet slaves that produced them needed to be fed.<sup>465</sup> Therefore, the landowning elites in places like Caracas or Buenos Aires felt growing pressure because of the blockade, and they were ready to consider alternatives to the colonial trade with Spain. From its bastion in Brazil, British products found their way to La Plata and contraband from the Caribbean flooded Venezuela

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<sup>463</sup> Ibid. p. 109.

<sup>464</sup> Ibid. p. 108.

<sup>465</sup> Ibid. p. 105.

with English and North American goods.<sup>466</sup> Therefore, the British created a condition of tension for elites in the region since they severed commercial relations with Spain while also providing an alternative for the landowning class through contraband. Yet political independence from Spain did not become a priority for South American elites until 1808. When the Bourbons lost their control in Spain and in the Americas between March and May of 1808, the creation of self-constituted *Juntas* in throughout the Spanish territories laid the foundation for independence.<sup>467</sup> The fact is that the British had created significant material pressures for elites to consider independence, but it was actually legitimacy questions that triggered the process for the formation of independent *Juntas*<sup>468</sup> in South America. The dominant understanding of sovereignty in Spain stipulated that when the crown collapsed, power would fall back to its royal subjects. However, the centralization of political power in the colonies created contention on the legitimate role of *Virreinos* or *Capitanias Generales* once the crown ceased to exist. Since the *Virreinos* and *Capitanias Generales* obtained their political legitimacy directly from the crown, once the crown ceased to exist local elites in South America challenged their role in the colonies.<sup>469</sup>

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<sup>466</sup> The British had access to Brazilian markets since the Methuen Treaty signed with Portugal in 1703. However, access increased dramatically once the British supported the move of the Portuguese royal family to Brazil in 1807 when Napoleon invaded the peninsula. Ibid. p. 109.

<sup>467</sup> Ibid. p. 110.

<sup>468</sup> The *Juntas de Gobierno* were political institutions that emerged throughout the territories of the Spanish empire once the Bourbon monarchy lost control of Spain.

<sup>469</sup> Knöbl, Wolfgang. 2013. "State Building in Western Europe and the Americas in the Long Nineteenth Century." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 25-55. Cambridge: Cambridge University Press, p. 72.

Yet the establishment of self-constituted *Juntas* in South America was a consequence of the Spanish efforts at maintaining control of the colonial trade. Between May and September of 1808, the unoccupied territory of Sevilla claimed control over the colonies. The *Junta de Sevilla* became the de facto power over colonial trade, and it sent military agents to South America in order to apprehend the local colonial leaders that considered pacifying *criollos* elites.<sup>470</sup> However, by mid-1809 the *Junta Central* gained relevance of the *Junta de Sevilla* and started to consider opening up colonial trade. Both the *Junta de Sevilla* and the *Junta de Cadiz*, which represented the traditional merchant classes that benefited the most from the centralized colonial trade, pressured for the dissolution of the *Junta Central* and formed the *Consejo de Regencia*. The *Consejo de Regencia* ended the short-lived control of the *Junta Central*, and after moving to Cadiz since it was not occupied by Napoleon in 1810, it eliminated any possibility for opening colonial trade.<sup>471</sup> Elites in the colonies grew desperate by the political developments of the *Juntas* in Spain, and given their understanding of sovereignty, they determined that the *Consejo de Regencia* was illegitimate and formed their own *Juntas* in major cities of South America.<sup>472</sup> The *Junta de Caracas* was established in April and the *Junta de Buenos Aires* was established in May of 1810, signaling the formal beginning of the process of independence.

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<sup>470</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 111.

<sup>471</sup> Ibid. p. 112.

<sup>472</sup> Knöbl, Wolfgang. 2013. "State Building in Western Europe and the Americas in the Long Nineteenth Century." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 25-55. Cambridge: Cambridge University Press, p. 71.

The existing system of colonial trade was no longer tolerable for the South American elites trapped in the conflict between England and France. By establishing their own *Juntas* and claiming sovereignty from the *Consejo de Regencia*, South American landowning *criollos* wanted to establish direct commercial links with the British empire.<sup>473</sup> The war was envisioned as the process by which to create a different pact of domination with the European metropolis that controlled the region for over three hundred years. Yet the movement for independence was not supported by all elites, many of which hoped to maintain allegiance to Spain while also enjoying the benefits of commercial contraband with England and the United States.<sup>474</sup> Therefore, it was not until Spain decided to use military force against in order to maintain control of colonial trade that open conflict emerged in South America.<sup>475</sup> The sociopolitical fragmentation characteristic of colonial South America and the division among local elites regarding the role of Spain in South America characterized the wars of independence. For most of the initial phases of the conflict, most of the fighting acquired features of a civil war with a succession of victory claims between those who supported the Spanish crown (*realistas*) and those who supported independence (*patriotas*). Given that the fighting was characteristic of a civil war, the wars

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<sup>473</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, pp. 31-5.

<sup>474</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 131.

<sup>475</sup> *Ibid.* p. 132.

of independence represented the separation of the systemic substance that maintained the social and economic life of South America throughout the colonial period.<sup>476</sup>

It is not after the defeat of Napoleon and the Bourbon restoration that the wars entered into a more direct confrontation between the Spanish crown and the *criollo* insurgency. Once the Bourbons are back in power in Spain in 1814, the Spanish crown decides to reconquest its colonial territories in South America. The Spanish crown sends armies to its colonial centers with support of local *realistas* in order to regain control and squash the insurgency. In the case of South America, the crown sends an army to the newly instituted Gran Colombia seeking to regain control of the entire territory. However, by the time of the Spanish reconquest both England and the United States were already in tacit support of independence, facilitating the purchase of arms by the *patriotas* and allowing for national volunteers to join the war effort.<sup>477</sup> In fact, Britain's support allowed for the provinces of La Plata to maintain their territorial integrity even in face of the Spanish effort to reconquest South America.<sup>478</sup> Therefore, the wars of independence were a peripheral effort that succeeded given the regional and global contexts. The bastions of independence, Caracas and Buenos Aires, were colonial peripheries that were able to launch an insurgency against Spain thanks to their empowerment after the collapse of mercantilist colonial system. The Napoleonic wars precipitated a conflict that grew in intensity since the

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<sup>476</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 17.

<sup>477</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 35.

<sup>478</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo*. Mexico: Siglo Veintiuno, p. 298.



seventeenth century, and the emergence of Great Britain as a global superpower was instrumental for the success of peripheral areas in South America.<sup>479</sup> Both the armies of the *Virreinato* of Río de La Plata and the Gran Colombia were able to first consolidate their power in Venezuela and Argentina—two of the most outward areas of colonial South America—and then move towards the center of the colonial state. Thus, in 1824, after fourteen years of open conflict, the *patriotas* defeated the last Spanish bastion in the *Virreinato* of Peru at the battle of Ayacucho.<sup>480</sup> With Antonio José de Sucre's triumph in Ayacucho, the Spanish reconquest effort is ultimately defeated and the new independent republics of South America are unchallenged by any foreign power.

The South American state emerged from the wars of independence, allowing for the empowered landowning elites to achieve political control of their territories. The dominant classes of the post-independence period were characterized by a liberal ideology marked by their European preferences.<sup>481</sup> The fact is that most of the leaders of the wars of independence were educated in Europe and/or from European descent, and they considered Europe to be a superior continent in comparison to South America. Therefore, the incipient republics were marked by an acute racial pessimism that influenced the decision of powerful elites during the formation of the state. Elites believed that only European immigration could create the necessary conditions for South American republics to prosper in the

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<sup>479</sup> Ibid. p. 299.

<sup>480</sup> Ibid.

<sup>481</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 35.

nineteenth century.<sup>482</sup> In fact, the ideological preferences of the dominant classes of the post-independence period influenced their policy making. First, ruling *criollos* considered imports from Europe (and the United States) as a mechanism to civilize what they considered to be their inferior South American compatriots.<sup>483</sup> In comparison to the lawlessness and weak defense of property characteristic of their context, elites understood Europeans to be a superior race. Second, informed by their views on the superiority of Europeans, the dominant *patriotas* decided build the South American state based on the proven models of Great Britain, the United States, France, and even the Dutch Republic.<sup>484</sup> The ideological preferences of the dominant elites and the policy decisions they made instilled the idea that the international is superior, civilizing, and modernizing in South America. Therefore, rather than following what they considered as the utopic model of unification proposed by Simón Bolívar, elites responded to the dominant localisms of the era and applied a model of various independent republics in the continent.

One legacy of Spanish colonialism in South America was sociopolitical fragmentation of the territories in the region. Particularly after the collapse of the mercantilist colonial system, the economic model of exporting agricultural products organized societies in self-sufficient and separated productive units like *haciendas*.

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<sup>482</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 119.

<sup>483</sup> López-Alves, Fernando. 2012. "The Latin American Nation-state and the International." In *Thinking International Relations Differently*, edited by Arlene Tickner and David Blaney, 161-80. New York: Routledge, p. 167.

<sup>484</sup> Centeno, Miguel Angel, and Agustin Ferraro. 2013. "Republics of the Possible: State Building in Latin America and Spain." In *State and Nation Making in Latin America and Spain: Republics of the Possible*, edited by Miguel Centeno and Agustin Ferraro, 3-24. Cambridge: Cambridge University Press, p. 3.

Landowners might share similar economic incentives, yet they had no social fabric or political organization that bound them together. Therefore, the elites that led the independence movement in Caracas and Buenos Aires lack the capacity or political control that could replace the colonial state, making political localism the main driver of any social organization.<sup>485</sup> In fact, the development process based on exploiting labor and exporting primary resources that the Spanish implemented in South America failed to create any intraregional integration. The incipient South American republics would maintain a similar model of development by exporting similar natural resources while importing manufactured products from Europe and the United States. The consequence of the continuation of the colonial model of development was that South American states became competitors searching for markets to export similar primary resources.<sup>486</sup> Yet this competition and social fragmentation was evident both regionally as well as nationally, particularly on the role of landowning rural elites. In the post-independence period, the rural landowning class raised personal or local militias in order to guarantee their economic interests and to maintain their own property.<sup>487</sup> The creation of personal or local militias took place in detriment of any centralization effort at building an independent state.

Control of the land in post-independence South America was as important as it was during the colonial period. Perhaps one of the most important heritages of Spanish

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<sup>485</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 36.

<sup>486</sup> Ibid. p. 2.

<sup>487</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 15.

colonialism in South America was the creation of the large estate. The large estate was embodied by *latifundios*; vast areas of land capable of producing resources for local consumption and for export.<sup>488</sup> The vast majority of South America's population resided in *latifundios*, which stressed the power of the rural landowning class. In fact, the rural landowning class was able to assert their power not only because of their militias, but ultimately because the vast majority of the rural population under their control was under arms.<sup>489</sup> Therefore, the wars of independence leveled the balance of power between urban and rural elites, ultimately making it difficult for the formation of a centralized and capable state. In fact, *latifundios* evolved into self-contained and self-sufficient socioeconomic and political units. Internally, they maintained integrated social structures reinforced by the power of landowners. Externally, they had little to no connection with each other, lacking any type of social or economic link capable of creating an overarching state. Once the state was created after the wars of independence, its relationship with *latifundios* was incredibly superficial, dealing only with powerful landowners.<sup>490</sup> The balance of power between the urban liberal *criollos* that led the wars of independence and the rural landowning classes after the wars of independence maintained control of the state in contention for several

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<sup>488</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 137.

<sup>489</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 37.

<sup>490</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 21.

decades after its formation.<sup>491</sup> Thus, the incipient independent states in South America were really weak at the beginning of the nineteenth century.

In this context, two major factors conditioned the formation of the South American state after independence: the socioeconomic fragmentation of the region based on a landowning class with no internal linkage, and the ideological preferences of the urban elites that seek to maintain contacts with the global economy.<sup>492</sup> The urban *criollos* that considered Europe to be superior to their South American compatriots wanted to maintain their connection with the rest of the world. Urban elites had historically benefitted the most from colonial trade, and they wanted to expand the region's exporting industry. However, for urban elites to expand the export industry and increased their material benefits it was necessary to control the production of primary products in the region. In face of the social fragmentation and the power of local landowners with no incentive for centralizing efforts, urban elites were required to create an export-oriented alliance that could guarantee the maintenance of the export industry.<sup>493</sup> It is at the intersection between urban and rural economic interests that the South American state is created. The fact is that landowners did not require the formation of a centralized state capable of guaranteeing their own security or their capacity to maintain their property. In the absence of any existential threat that required the cooperation of scattered landowners, forming a state was secondary to the

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<sup>491</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 139.

<sup>492</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 37

<sup>493</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 35.

dominant classes of the region. Therefore, elites in South America found a legitimate purpose for the state in the alignment of economic interests.<sup>494</sup> In particular, the South American state was articulated in order to establish a legitimate order that could guarantee the exploitation and commercialization of primary resources in the international market. In this sense, South American elites were able to reach a pact of domination based on their shared economic incentives, but the particularities of each area depended on the existing conditions. For instance, in areas where different export lines emerged, urban elites were able to consolidate rural support by aligning their economic interests and building an uncontested power coalition. This dynamic was particularly true for agricultural economies; once urban elites were able to expand the market for a particular agricultural goods, they would consolidate power with the regional landowners where such products were produced and then dominate the rest of the regions. In contrast, in areas where mining was the most important economic activity, the state was able to consolidate around the control of mineral extraction and commercialization. Exploiting minerals provided a strong basis for the state, and no regional landowner was capable of challenging the authority of a state supported by a mining coalition.<sup>495</sup> Hence, given the sociopolitical fragmentation and the absence of any other centralizing incentive, it was economic imperatives what provided the legitimate purpose for the formation of the South American state.

Yet even after they were able to consolidate power in order to organize society, elites were required to raise the necessary resources to maintain and fund the state. Spanish

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<sup>494</sup> Ibid. p. 29.

<sup>495</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 37.

colonialism and liberalism conditioned *criollos* against growing the state, but they recognized the necessity to create a state apparatus capable of appropriating resources. However, the incipient republics of the region did not have the administrative capacity to collect resources even in the face of armed conflict.<sup>496</sup> It is in this context of poor state capacity that the incipient republics suffered a collapse of the fiscal system. The removal of the colonial state represented the elimination of the administrative bureaucracy responsible for extracting resources from society, ultimately limiting the capacity of the new states. But the conditions for the incipient states was even more challenging considering the social fragmentation discussed before. Many powerful landowners had little incentive in creating a centralized and powerful state to begin with, let alone the willingness to pay for a more powerful entity to grow and risk their own potential collapse. Therefore, state makers decided to make early fiscal concessions in order to coopt regional landowners into supporting the formation of the state while avoiding any political problems as a result of new taxes.<sup>497</sup> But beyond the problem of state capacity and the necessity to make fiscal concessions in order to consolidate power, incipient South American states also faced a problem of possibility. The first decades of the nineteenth century were marked by a massive economic crisis in the region.<sup>498</sup> The wars of independence destroyed the entire material patrimony of the continent, creating a profound challenge not only for the

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<sup>496</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 139.

<sup>497</sup> Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 29.

<sup>498</sup> *Ibid.* p. 27.

formation of the state but ultimately for the prosperity of the entire region. An entire economic system was simply destroyed since there was no capital market, labor supply was either reduced or displaced, and socioeconomic inequalities were stressed to the limit of reducing the capacity of the economy to sustain growth-inducing demand.<sup>499</sup> In this scenario, the problem was not only about elites' willingness to build a state capable of appropriating resources. The post-independence context was one of widespread poverty in South America, making it very difficult for even the most voracious of states to extract resources from the vast majority of the population.<sup>500</sup> Thus, although they were inspired by existing models of European states, elites were required to envision a specific model to form the South American state that responded to the region's socioeconomic challenges.

The dominant elites in the post-independence period had important economic incentives to create a state capable of guaranteeing their material benefits as owners of the export industry in South America. But the social fragmentation of the region and the empowerment of rural landowning elites since the late seventeenth century presented an important contestation to political centralization. Urban *criollos* were able to align their interests with the incentives of rural landowning in order to guarantee political control through the creation of the state. One important mechanism used by urban elites to convince regional landowners was to give them important fiscal concessions, removing their responsibility in funding the state. The widespread poverty of the continent was

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<sup>499</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 134.

<sup>500</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, pp. 130-31.



another complication for the formation of the state since it reduced even further the sectors of society from which the state could extract resources. While the vast majority of the population was poor and therefore not taxable, the rich elites were unwilling to provide the basis for the structure of the state. Therefore, elites decided to use the export industry as the fiscal basis for the formation of the South American state. It was an inadequate solution, but tariffs and customs duties were particularly attractive for elites in the post-independence context.<sup>501</sup> Appropriating resources from tariffs and customs duties was attractive for nineteenth century elites because they avoided political unrest from regional landowners,<sup>502</sup> they financed the expansion of export lines (the main interest of urban elites for the formation of the state), and they did not require a massive state apparatus. As long as it controlled the ports of export, the state could collect tariffs and customs duties.

The solution that elites found to overcome the various challenges faced in the post-independence period to consolidate power in South America was to create a viable state able to exploit and commercialize primary resources. First, the region had been institutionally designed since colonial times to exploit natural resources and export them primarily to Europe. Second, both urban and rural elites benefited from the export economy since they controlled the lines of export and the land to produce resources. Once they were able to align their interests, elites understood the importance of creating an institution capable of guaranteeing their dominant role in society. Third, taxing exports allowed for

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<sup>501</sup> Ibid. p. 136.

<sup>502</sup> By building the structure of the state over tariffs and customs duties, elites were able to reduce the likelihood of political upheaval since the state did not have to force the most powerful sectors of society to pay taxes. Every time the South American state decided to extract more resources from domestic sectors of society, it was ultimately defeated. Ibid. p. 127.

the state to appropriate resources without creating political animosity from elites that did not want to either create or fund a centralized authority. Therefore, both the structure and the function of the incipient South American state gravitated around the extraction and export of commodities. In this sense, independence not only brought greater access to foreign commercial partners beyond Spain, but it ultimately increased the region's dependence on trade taxes and by consequence on the entire international economy.<sup>503</sup> However, the particular structure and functionality of the South American state was not only conditioned by the socioeconomic fragmentation of the region, the historical legacies of colonialism, the economic interests of the dominant elites, or the global context of expanding international commerce. Certain geographical and geological conditions also affected the way the South American state organized and developed. As described before, whether economies predominantly produced minerals or agricultural products defined the processes of power consolidation in the region. Yet geographical and geological factors also conditioned the specific processes through which South American nations related to the rest of the world.<sup>504</sup> For instance, the geographical and geological conditions of Chile

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<sup>503</sup> Ibid. p. 138; and Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 32.

<sup>504</sup> There is consensus in the academic literature regarding the conditioning effect of commodity exports on the socioeconomic development. However, the specific consequences of such relationship are still contested. Topik, Steven, Carlos Marichal, and Zephyr Frank. 2006. "Commodity Chains in Theory and in Latin American History." In *From Silver to Cocaine: Latin American Commodity Chains and the Building of the World Economy, 1500–2000*, edited by Steven Topik, Carlos Marichal, and Zephyr Frank, 1-24. Durham: Duke University Press, p. 2.

differed drastically from those of Colombia, shaping the type of primary resources on which the state was structured and ultimately affecting how each country developed.<sup>505</sup>

The entire economic and political organization of South American societies was based on the export economy. Since the wars of independence were motivated primarily by the desire to obtain greater access to global commerce, regional conditions after independence confabulated for economic imperatives to sustain the creation of the South American state. Therefore, South American societies conditioned their socioeconomic success on their capacity to expand the commercialization of primary products in the global economy. Yet any development effort based on the expansion of exports requires vast capital resources, a functional state, and labor.<sup>506</sup> In this sense, South American societies faced important challenges given the lack of capital—technology, infrastructure, and financial resources—and the socioeconomic fragmentation that condition the state. By linking the structure and functionality of the state to the international economy, South American elites conditioned the capacity of the state to eventual changes in the commercialization of commodities. In theory, for countries structured on the basis of commercializing primary products in the global market, any expansion on export lines allowed for increasing taxes on foreign trade and therefore more resources for the state. Yet when the global economy contracted, state resources were reduced consequently affecting state capacity. Beyond this vulnerability, the use of resources particularly under times of expansion are also critical not only for the capacity of the state but ultimately for

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<sup>505</sup> Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 15.

<sup>506</sup> Ibid.

societies socioeconomic success. Hence, if resources are used primarily to reinforce the export economy—as it was the case in South America—then other sectors of the economy would either contract or fail to develop, conditioning the socioeconomic success of the entire society.<sup>507</sup> In the particular case of South American incipient republics, given how resources were directed at controlling and expanding exports, any expansion of state resources represented an increased connection to the international economy rather than an increase in state capacity.<sup>508</sup>

While the structural design of the South American state solved the challenges of social fragmentation and the consolidation of state power, it also created a vulnerable state. The capacity of the state was limited by the resources appropriated from the export economy, which in turn was susceptible to drastic changes outside the control of regional states. Yet the vulnerability of South American states became evident immediately after their foundation. Given the incapacity of states to create a broad fiscal base with which to finance their efforts at centralizing power and guaranteeing economic success, the incipient South American republics would use foreign loans as a substitute for domestic taxes. Nevertheless, most South American republics defaulted on their foreign loans by the late 1820s because of mismanagement, corruption, and global conditions.<sup>509</sup> The fact is that the incipient republics had significant challenges at expanding exports immediately after the

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<sup>507</sup> Ibid. p. 16.

<sup>508</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 117.

<sup>509</sup> Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 29.

wars of independence. The end of the Napoleonic wars depressed European demand and the prices of various agricultural commodities fell dramatically,<sup>510</sup> and since South American states were dependent on resources from exports, they became incredibly weak for their first decades of existence. Moreover, by linking the fiscal health of the state to the expansion of the export sector and consequently to the international economy, South American states were trapped between the difficulty for long-term planning and the impossibility of losing their foreign trade.<sup>511</sup> In areas like Uruguay and Argentina, the centrality of foreign trade forced local elites to concede property claims of the export sector to British merchants and representatives. The British empire required ownership of the export industry in order to grant political recognition to the incipient republics of South America, and regional elites could not risk losing access to a commercial relationship with England.<sup>512</sup> Thus, by organizing society around the export economy, elites were able to resolve the challenges of political centralization while structuring a state dependent on the international economy.

Yet the external vulnerability of South America was not the only structural challenge derived from organizing society around exporting primary resources. Elites were primarily concerned with generating social control in order to guarantee the maintenance and expansion of the export industry. The aspiration for independence that was dominant

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<sup>510</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, p. 37.

<sup>511</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 136.

<sup>512</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 302.

among elites at the beginning of the nineteenth century was rooted in their desire to expand their material privilege. Therefore, the post-independence period allowed for elites to realize their aspiration by replacing the political domination of Spain with *criollos* as leaders of the newly independent states.<sup>513</sup> But if wars have been historical catalysts for sociopolitical changes, the South American wars of independence actually maintained and reinforced structures of power in the region. The fact is that in terms of economic structures, South America had transformed into an agricultural society by the late seventeenth century. Independent elites not only maintained but actually stressed the importance of colonial economic structures by organizing the state around exploiting commodities. Nonetheless, the maintenance of colonial economic structures represented the perpetuation of social structures of exclusion and exploitation. The independent republics of South America continued to be organized around land and land ownership, particularly through *latifundios* and the *hacienda*.<sup>514</sup> South American societies continued to present discrimination based on race and class, and the dominant elites after the wars of independence maintained colonial structures of exploitation. For instance, South American states used property as a mechanism of sociopolitical discrimination immediately after independence. Access to property was historically determined by race and ethnicity in the region, yet owning property was an indispensable prerequisite for individuals to be able to

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<sup>513</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 160.

<sup>514</sup> Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 29.

participate in the political process.<sup>515</sup> This is not to say that the wars of independence did not create opportunities for individuals from lower classes to ascend in the ranks and even gain access to land and property. But the commitment of liberty and equality *criollos* assumed with the lower classes and the native population during the wars was soon reduced or eliminated once South Americans were politically independent.<sup>516</sup> Hence, for the vast majority of the population, political independence meant the emergence of a new exclusive and oppressive elite in power.

The issue of social inclusion and discrimination revealed the actual commitment that elites had to the ideals of liberalism, liberty, equality, and republicanism. It has been widely documented that the leaders of the wars of independence were ideologically influenced by the French Revolution, the constitution of the United States, and liberal republicanism.<sup>517</sup> In fact, state makers designed the legal framework of the incipient republics of South America based on the principles of liberalism. Yet only powerful elites were able to enjoy the political rights and civil liberties espoused by republican liberalism. In practice, the legal framework of the incipient republics was not applied in defense of every individual, and it was unable to actually break the social structures of exploitation and domination that were perpetuated by agricultural productive processes.<sup>518</sup> Therefore, the exploitation and discrimination that characterized social life in South America

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<sup>515</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 171.

<sup>516</sup> Ibid. p. 161.

<sup>517</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 300.

<sup>518</sup> Ibid. p. 301.

throughout the nineteenth century stresses the importance of economic imperatives behind the wars of independence and the formation of the state. Elites wanted political control to expand their commercial relations with the growing international market, and they actually maintained the structures of exploitation that had guaranteed the production of natural resources for export since colonial times. What becomes clear after independence is that *criollos*' commitment to liberal republicanism was as long as it concerned them. When the benefits of liberal republicanism benefited lower classes and threatened their control of socioeconomic structures, *criollos* established the same exploitative mechanism that guaranteed the success of Spanish colonialism in the Americas.<sup>519</sup> But beyond the apparent hypocrisy of the independence leaders, the fact was that given the maintenance of exploitative and discriminatory social structures, the South American state emerged as simply irrelevant for the vast majority of South Americans. Since most of the region continued to be subjugated in social structures of exclusion, the state did not exercise any meaningful authority over the lower classes of society.<sup>520</sup> In fact, the South American state was superimposed over an area with which it had little to no actual relationship given that the vast majority of the region understood authority at supranational and regional levels

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<sup>519</sup> The apparent contradiction between the ideals that inspired the leaders of the wars of independence and the practical application of such principles is not exclusive of the maintenance of social structures of exclusion. During the wars, Simón Bolívar feared the political power of lower classes with such intensity that he proposed the establishment of lifetime senators from prominent criollo families in order to guarantee their privilege. Moreover, once Spain was defeated, Bolívar actually rejected the idea of republicanism in South America, calling for a more centralized and autocratic political system.

<sup>520</sup> Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, p. 128.



through the large estate.<sup>521</sup> Thus, organizing the state around exporting primary products required the maintenance of social structures of productive exploitation, which in turn stressed the disconnection and vulnerability of the South American state.

Building an independent state after the wars of independence proved to be a difficult challenge for state makers. The traditional conditions that through which the European state emerged were not present in South America, and the political vacuum left by the colonial state was not easily replaced. Social fragmentation, a massive economic crisis, and the growing accessibility of foreign funds influenced dominant elites to consolidate power by relying on the export economy. The consequence of building the state around exporting commodities was the maintenance of the central role of land, which in turn perpetuated socioeconomic structures of exploitation and exclusion. In fact, one of the most important paradoxes of independence in South America was that it simultaneously brought free trade and private property while also perpetuation regional oligarchies.<sup>522</sup> Yet more deeply rooted in the South American state was an important continuity of problematic features of the colonial state. First, the incipient South American state was profoundly centralized around the executive, making local political representation merely nominal and extremely dependent on the centers of power. Second, the incipient South American republics maintained the colonial practice of using public office for personal power and

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<sup>521</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 21.

<sup>522</sup> Adelman, Jeremy. 2001. "Institutions, Property, and Economic Development in Latin America." In *The Other Mirror: Grand Theory through the Lens of Latin America*, edited by Miguel Angel Centeno and Fernando Lopez-Alves, 27-54. New Jersey: Princeton University Press, p. 41.

wealth.<sup>523</sup> It is necessary to highlight that early colonial efforts were driven by individuals who would be granted important privileges while acting on behalf of the state. Moreover, Spanish nobility was well accustomed to use the state for personal benefit even during the period of Spanish decay in the eighteenth century. But the abuse of public office for personal benefit once South America was independent was not necessarily a colonial legacy. The entire socioeconomic structure of South American republics in the early nineteenth century provided various incentives to abuse public office. First, the creation of the state allowed for the concentration and appropriation of resources that were completely irrelevant for the vast majority of the population. State makers had very narrow demands from society, which allowed for an environment of public office abuse with little to no repercussions.<sup>524</sup> Second, the maintenance of the export economy and the socioeconomic structures of exploitation and discrimination created very little opportunities for the vast majority of the population to improve their material existence. The economic opportunities for the lower classes of the incipient republics of South America was either under conditions of exploitation in rural *latifundios* or under conditions of servitude as urban proletariats.<sup>525</sup> Therefore, having access to the state guaranteed access to massive resources, and for many this was the only avenue for individual and social advancement.<sup>526</sup>

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<sup>523</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, pp. 160-61.

<sup>524</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 23.

<sup>525</sup> Stein, Stanley, and Barbara Stein. 1970. *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective*. Oxford: Oxford University Press, p. 118.

<sup>526</sup> In fact, in societies marked by exploitation and discrimination, controlling the state became an imperative for many given the lack of other options. But the consequence of understanding the state as the only avenue for personal gain increased the stakes of political failure, increasing the likelihood of political

In this context, Table 5 presents a summary of the economic and sociopolitical structures of South American states by the mid-XIX century.

**Table 5. Characteristics of South American States by mid-XIX Century**

<b>Colonial Role</b>	<b>Country</b>	<b>Economic Structures</b>	<b>Sociopolitical Structures</b>
<i>Colonial Center</i>	Peru	Agricultural subsistence. Growing exporting tropical agriculture. Decaying mining industry.	Anarchy. Social fragmentation. Caudillos.
<i>Colonial Periphery</i>	Bolivia Colombia Ecuador	Agricultural subsistence. Very limited export of tropical agriculture.	Anarchy. Social fragmentation. Caudillos.
<i>Colonial Periphery</i>	Chile	Growing mining industry. Important agricultural sector.	Viable state by 1830s consolidated on a mining conservative elite.
<i>Distant Colonial Periphery</i>	Venezuela	Mercantilist <i>hacienda</i> system with export activities formed in the colonial era.	Traditional elites. Maintenance of colonial social structures.
<i>Distant Colonial Periphery</i>	Argentina Uruguay	Important agricultural exports, particularly meat production.	A viable state by 1862 based on land owners and empowered by colonial era connections with Great Britain

Own elaboration based on Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 303-05.

In conclusion, the South American state emerged as a consequence of the wars of independence at the beginning of the nineteenth century. Yet the specific characteristics of the structure and functionality of the South American state responded to the particular conditions of the region immediately after independence. Some conditions were the immediate result of the wars, while other were actually part of the legacy of Spanish

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abuse and ultimately political violence. Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, pp. 24-5.

colonialism in the region since the late fifteenth century. The specific structure of the South American state was conditioned by social fragmentation, the absence of existential security imperatives, the destruction of the regional economy, the historical centrality of the export economy, and the changing global context. Dominant elites after independence wanted to control and expand the export economy, and they required the support of rural landowners in order to guarantee their own material success. Yet landowning elites did not share any link that could resemble a social fabric with which to build an independent state other than their own interests in producing and exporting commodities. It is through the alignment of economic incentives that the South American state is structured, but the existing social fragmentation and the economic crisis of the period reduced the possible resources that could fund the state. South American elites resolved this inconvenience by organizing the state both structurally and functionally around the export economy. The state was funded by the export economy and its legitimate purpose was to guarantee an order in which elites could thrive by exploiting commodities. But by structuring the state around the export economy, state makers maintained many problematic aspects of the colonial society after independence. Economic exploitation and social discrimination were perpetuated, leaving the masses with few opportunities for individual advancement. The end result was a state vulnerable to external changes that maintained precarious conditions internally, which affected its capacity to consolidate power and to establish an overarching political control. In other words, "With independence from Spain, Latin American states came into

existence. A new institution had been appended onto an old society, at the behest of a small part of the population who felt it relevant to its way of life.”<sup>527</sup>

#### THE CONSOLIDATION OF THE STATE 1860s—1900s

South American state makers found in the export economy both a legitimate purpose as well as a structural basis for the state. After the wars of independence, the South American state was formed in order to guarantee a social control that allowed for dominant elites to improve their material condition through exports. Yet dominant elites had little political incentive in funding the state, so they structured the state around the financial resources appropriated from exporting primary products. However, the early decades of the post-independence period were marked by important economic constraints in the region. Between the 1820s and the 1850s, South American states found it difficult both to rely and to expand the export economy. Given the dependence of the state on the international economy, the precarious condition of exports in the region condition the capacity of the state. But after 1850, almost the entire region was able to enter a period of greater economic expansion. The international economy went through important improvements in terms of integration, which allowed for South American exports to increase considerably.<sup>528</sup> The expansion of South American exports by the mid-nineteenth century responded not only to the recovery of various export lines lost due to the wars for independence, but also because

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<sup>527</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 15.

<sup>528</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, p. 54.

of the introduction of other products for exports.<sup>529</sup> In this sense, the expansion of exports that took place in the mid-nineteenth century represented a reintegration of South America into the international economy. By the 1840s South America started to experience an expansion of export channels particularly fueled by the increase of world demand of tropical agricultural products like cacao and coffee.<sup>530</sup> Yet by the 1850s the world demand for various primary resources increased, providing an opportunity for almost all independent republics in the continent to expand their exports while incentivizing productive specialization towards a handful of products. Therefore, increases in the global demand for wool, meat, and grains allowed Argentina and Uruguay to expand their exports. Moreover, the development of European agriculture expanded global demand for guano and nitrates, which in turn developed such industries in Peru and Chile respectively. Ultimately, the beforementioned demand for tropical agricultural products like coffee or cacao allowed for Colombia, Ecuador, and Venezuela to expand their export base considerably throughout the nineteenth century.<sup>531</sup> In this context, Figure 9 shows the expansion of South American exports during the nineteenth century for countries for which data is available in current monetary values.

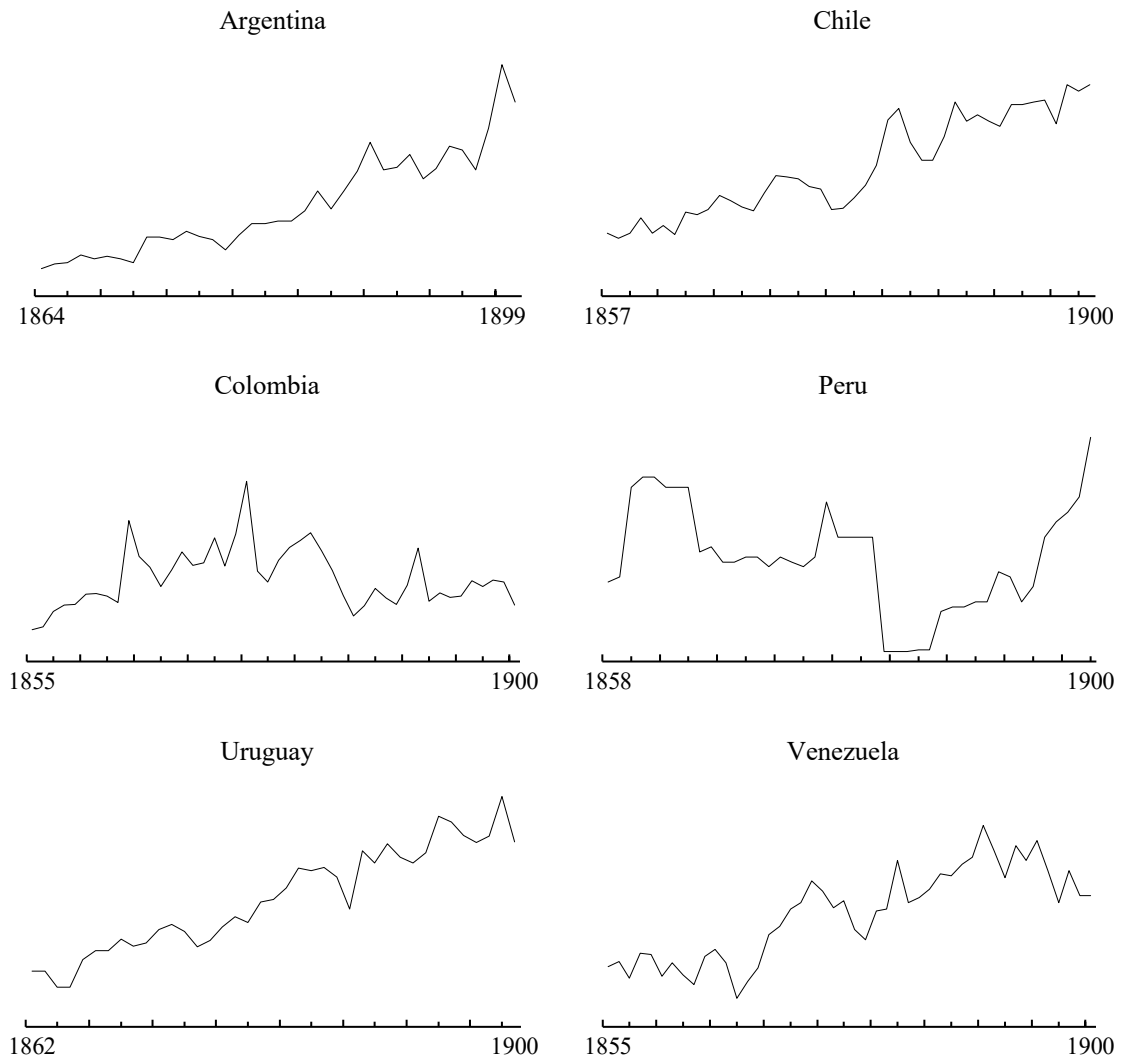
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<sup>529</sup> Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press, p. 42.

<sup>530</sup> Furtado, Celso. 1977. *Economic Development of Latin America: Historical Background and Contemporary Problems*. Cambridge: Cambridge University Press, pp. 47-8.

<sup>531</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, pp. 59-60.

**Figure 9. South American Exports in the XIX Century**



Own elaboration based on Mitchell, Brian. 1993. *International Historical Statistics: The Americas 1750 – 1988*. United Kingdom: Macmillan Publishers LTD, pp. 433-37.

The expansion of South American exports in the second half of the nineteenth century was a response to exogenous factors. By the mid-nineteenth century, Europe was undergoing important economic and demographic changes: both the European economy and the European population increased dramatically. The expansion of the European economy meant more industrial activities that required more natural resources and more consumption capacity. The growing European population combined with more

consumption capacity translated into more demand for agricultural products.<sup>532</sup> Therefore, South American states were able to expand their exports—and by consequence the amount of resources they could appropriate—because of the transformations taking place in Europe in the nineteenth century. At the center of European transformations was the Industrial Revolution, which by changing socioeconomic structures in Europe it also affected the entire social organization of South America. The Industrial Revolution allowed for the drastic demarcation of economic centers and peripheries in the global economy, increasing the wealth and productive gap between them that already existed for almost four hundred years.<sup>533</sup> However, trade between South America and Europe had also existed since the time of conquest, which begs the question what aspect of the Industrial Revolution explained the explosion of commodity exports in the nineteenth century. The Industrial Revolution brought about a massive transportation revolution with the introduction of the steam engine. In terms of production, the steam engine freed industry from geographical limitations, particularly the indispensable requirement to be near bodies of water for energy or transportation. But in terms of trade, the transportation revolution permitted to expand the entire volume of exchange both by reducing the time of trade and by increasing the capacity of transportation vehicles. In the case of South America, the transportation revolution allowed for the reduction of price differentials for primary products with global

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<sup>532</sup> Ibid. p. 54.

<sup>533</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, p. 4.



economic centers.<sup>534</sup> More importantly, the transportation revolution allowed for the rapid integration of most of the South American continent into the world economy. For instance, the cost of moving a ton of products from England to Montevideo was 2 pounds sterling in 1842, while moving them to Bogota was 52.9 pounds sterling. The price differential was due to the cost of moving goods from South American ports to the interior. Yet the transportation revolution allowed for a drastic reduction of the cost of moving goods from the interior of the continent to South American ports and vice versa. In this sense, the cost of moving goods from Uruguay into the interior pampas decrease by 3.1% every year between 1870 and 1913.<sup>535</sup> Thus, the Industrial Revolution not only increased the demand of South American products, but it also removed the difficulties of moving commodities to Europe.

The transformations triggered both in Europe and in South America by the Industrial Revolution affected the South American state. The South American state created the legal and institutional framework required to ensure the region's integration into the world economy through its fiscal, credit, and labor policies.<sup>536</sup> The state represented mainly the exporting and landowning class, which had material incentives to expand the region's access to the global economy. Therefore, the dominant classes that were involved in the production of primary products influenced the implementation of free trade policies that

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<sup>534</sup> Ibid. p. 21.

<sup>535</sup> Ibid. p. 20.

<sup>536</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 60.

characterized the region from 1850 onwards.<sup>537</sup> But the state was not only responsible for guaranteeing a free trade legal framework that allowed for the dominant classes to benefit from the world economic expansion. In a period of rapid commercial growth and financial integration, the structure and function of the South American state positioned it as a crucial actor in the global market for capital and skills.<sup>538</sup> In this sense, a significant proportion of the foreign capital that found its way into South America since the 1850s was directed through instruments of the state, which invested it in order to expand the export economy with little change in domestic institutions.<sup>539</sup> Once it had attracted and directed foreign trade, the South American state became an instrument of dominant classes by investing resources mainly towards infrastructure.<sup>540</sup> The second half of the nineteenth century was marked by the state's investment on major infrastructure projects destined at expanding and improving the export economy. Most of the infrastructure projects in the region were designed to facilitate the movement of commodities from the interior of the country towards an exporting port and ultimately to the global economy.<sup>541</sup> Therefore, just as the Industrial Revolution was central to the expansion of global trade, the South American state was instrumental for the region's expansion of commodity exports.

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<sup>537</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, pp. 60-1.

<sup>538</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 30.

<sup>539</sup> Cowen, Michael and Robert Shenton. 1996. *Doctrines Of Development*. London: Routledge, p. 65.

<sup>540</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo*. Mexico: Siglo Veintiuno, p. 312.

<sup>541</sup> Ibid. p. 60.

It is in the context of global commercial expansion that the South American state is capable of consolidating power. In face of the growing international economy, the South American state is tasked with responsibilities that are increasingly important to the dominant urban and rural elites. Yet the power and legitimacy of the state was not only the result of its increased functions, it was also because of the massive expansion of resources. The expansion of the volume of exports represented an increase in the monetary value of trade. Since the South American state was structured on the basis of customs and tariffs, the nineteenth century provided the state with an ever growing fiscal revenue that allowed for the consolidation of its central power.<sup>542</sup> In this sense, while the second half of the nineteenth century was characterized by an expansion of free trade, South American states actually maintained their preestablished tariffs.<sup>543</sup> The maintenance of ideologically protectionist policies in the context of expanding liberalism responded to the centrality of export revenue in the structure of the state. Throughout the nineteenth century, all South American states found customs and tariffs to be the majority of their ordinary revenue, making it impossible for them to threaten their viability by removing export taxes. Table 6 shows the proportion of customs and royalties as share of ordinary income, stressing the importance they had on the viability of the state.

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<sup>542</sup> Ibid. pp. 311-12.

<sup>543</sup> Ibid. p. 314.

**Table 6. Customs and Royalties as Share of Ordinary Income**

Year	Argentina	Bolivia	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela
1840	0.7		0.62	0.32		0.06			0.74
1841	0.93	0.07	0.59						0.88
1842	0.92	0.07	0.6						0.73
1843	0.9	0.06	0.55						0.62
1844	0.9	0.06	0.51						0.68
1845	0.89	0.09	0.53						0.67
1846	0.69		0.56	0.21	0.54	0.05	0.35		0.69
1847	0.84	0.07	0.53		0.6		0.4		0.57
1848	0.9	0.07	0.49		0.62		0.44		0.33
1849	0.93	0.09	0.51				0.37		0.45
1850	0.93		0.57	0.47		0.04	0.53		0.49
1851			0.57				0.57		0.57
1852		0.07	0.57		0.6		0.74		0.72
1853		0.11	0.43		0.59	0.06	0.82		0.66
1854		0.09	0.6	0.52	0.59		0.86		0.77
1855		0.1	0.56		0.59		0.91		0.74
1856		0.09	0.5		0.61	0.11	0.91		0.74
1857			0.58		0.61	0.22	0.95		0.74
1858			0.51		0.65	0.18	0.94		0.53
1859			0.41				0.86		0.63
1860			0.56			0.25	0.94		0.56
1861			0.49		0.7		0.95		0.62
1862		0.1	0.43		0.59		0.86		0.6
1863		0.15	0.47	0.32	0.52		0.56		
1864	0.81		0.36		0.5		0.62		0.57
1865	0.92		0.23	0.21	0.5		0.74		0.74
1866	1	0.05	0.18		0.64		0.87		0.75
1856		0.09	0.5		0.61	0.11	0.91		0.74
1857			0.58		0.61	0.22	0.95		0.74
1858			0.51		0.65	0.18	0.94		0.53
1859			0.41				0.86		0.63
1860			0.56			0.25	0.94		0.56
1861			0.49		0.7		0.95		0.62
1862		0.1	0.43		0.59		0.86		0.6
1863		0.15	0.47	0.32	0.52		0.56		
1864	0.81		0.36		0.5		0.62		0.57

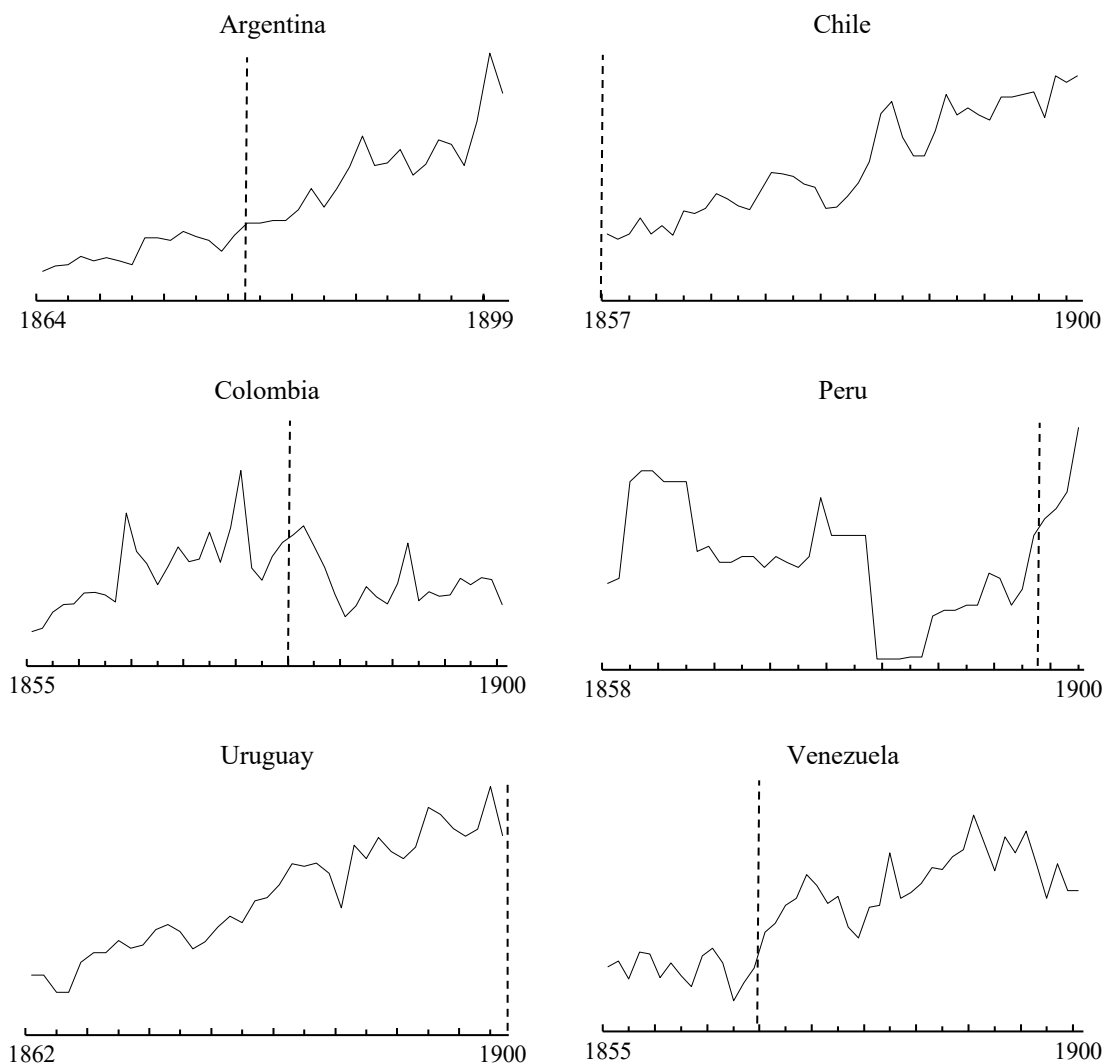
1865	0.92		0.23	0.21	0.5		0.74		0.74
1866	1	0.05	0.18		0.64		0.87		0.75
1867	0.86	0.06	0.28	0.4	0.62		0.7		0.8
1868	0.95	0.04	0.47		0.77		0.72		0.89
1869	0.97	0.05	0.45		0.73		0.47		0.99
1870	0.94		0.34		0.73		0.75		
1871	1	0.12	0.45	0.47	0.64		0.96		
1872	0.83		0.53	0.45	0.53		0.62		0.76
1873	0.83	0.35	0.33	0.52	0.66		0.76		0.85
1874	0.8		0.5	0.59	0.61		0.94		0.79
1875	0.72		0.38	0.69	0.48		0.72		0.8
1876	0.89		0.4	0.69	0.67		0.73		0.74
1877	0.96		0.36	0.62	0.53		0.85		0.57
1878	0.82		0.37	0.62	0.64		0.9		
1879	0.72		0.25	0.62	0.49		0.85		0.75
1880	0.79	0.42	0.34	0.61	0.72				0.71
1881	0.89	0.31	0.58	0.61					0.7
1882	0.78	0.26	0.7	0.68	0.75				0.65
1883			0.65	0.63	0.7			0.53	0.72
1884			0.67	0.68	0.68			0.57	0.7
1885			0.62	0.6	0.57			0.5	0.63
1886			0.39	0.48	0.62			0.57	0.69
1887			0.44	0.47	0.74			0.6	0.73
1888			0.71		0.68			0.59	0.7
1889			0.66	0.52	0.61			0.61	0.74
1890			0.65		0.8			0.55	0.76

Own elaboration based on Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: The Pennsylvania State University Press, pp. 123-25.

The Industrial Revolution introduced important changes both in the center and in the periphery of the international economy. Societies in Europe experienced a demographic transformation in which their consumption capacity increased considerably, expanding the global demand for various agricultural products produced in South America. Moreover, the technological changes introduced by the transportation revolution allowed for an increase

in the volume of commercial exchanges by increasing the capacity of vehicles while reducing transportation costs. South America was historically predisposed towards the production and commercialization of commodities, and once the political impediments of colonialism and the productive impediments of geography were removed, the incipient republics of the nineteenth century organized towards exporting primary products and extracted important benefits. Dominant elites in the region in particular were able to expand their material benefits while consolidating political power over their societies. In this sense, the South American state benefitted from the expansion of global capitalism since it was the expansion of exports what ultimately allowed for its consolidation. Despite some exceptions, the majority of South American independent states were able to consolidate their legitimate power either in the second half of the nineteenth century or in the early twentieth century. It is through the expansion of exports that the South American state was able to appropriate more resources to fund its activities and subjugate any potential challenge to its power. More importantly, it is through the expansion of exports that South American states consolidated their legitimacy by guaranteeing social order for dominant groups to improve their privileged condition. In this sense, Figure 10 shows the moment when South American states were able to centralize power in the context of the expansion of exports during the nineteenth century for those countries for which there is available export data.

**Figure 10. Centralization of South American States in the Context of Trade**



Dotted line marks the date the state achieved centralization.

Centralization: Chile in 1833, Bolivia in 1900, Ecuador in 1916, and Paraguay in 1820.

Pacification: Argentina in 1881, Bolivia in 1952, Chile in 1881, Colombia in 1950s, Ecuador in 1950s, Paraguay in 1820, Peru in 1940s, Uruguay in 1900s, Venezuela in 1930s.

Own elaboration based on Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: Pennsylvania State University Press, p. 111.

As the data show, only Chile—and Paraguay—were able to centralize the power of the state before the expansion of global trade and South American exports. More

importantly, only Paraguay<sup>544</sup> was able to impose the power of the state through the pacification of other violent challengers before the expansion of trade. In this sense, data suggests that it was the expansion of exports what provided the states with the necessary resources to guarantee its viability and dominate belligerent groups. Hence, most South American states were able to centralized power once they appropriated important resources from the export economy. A similar yet more nuanced conclusion is also evident when observing the data on the persistence of political systems and authorities measured by years without any major interruption. The dataset POLITY II by Ted Robert Gurr measures an array of characteristics of political structures ranging from type of political regime to durability of political authority.<sup>545</sup> Specifically, POLITY II defines the persistence of the particular regime as the “measure, in years, of the current age of a polity, i.e. the number of years since the last, fundamental, abrupt polity change.”<sup>546</sup> In this sense, Figure 11 shows the persistence of South American political structures throughout the nineteenth century. In the context of the nineteenth century and the growth of South American exports, the indicator shows how, regardless of the reason explaining an abrupt interruption of a particular political structure, the countries that experienced a continued expansion of exports were able to maintain their political structures without major interruptions. For instance, Argentina, Chile, Uruguay, and Venezuela had a continued expansion of exports

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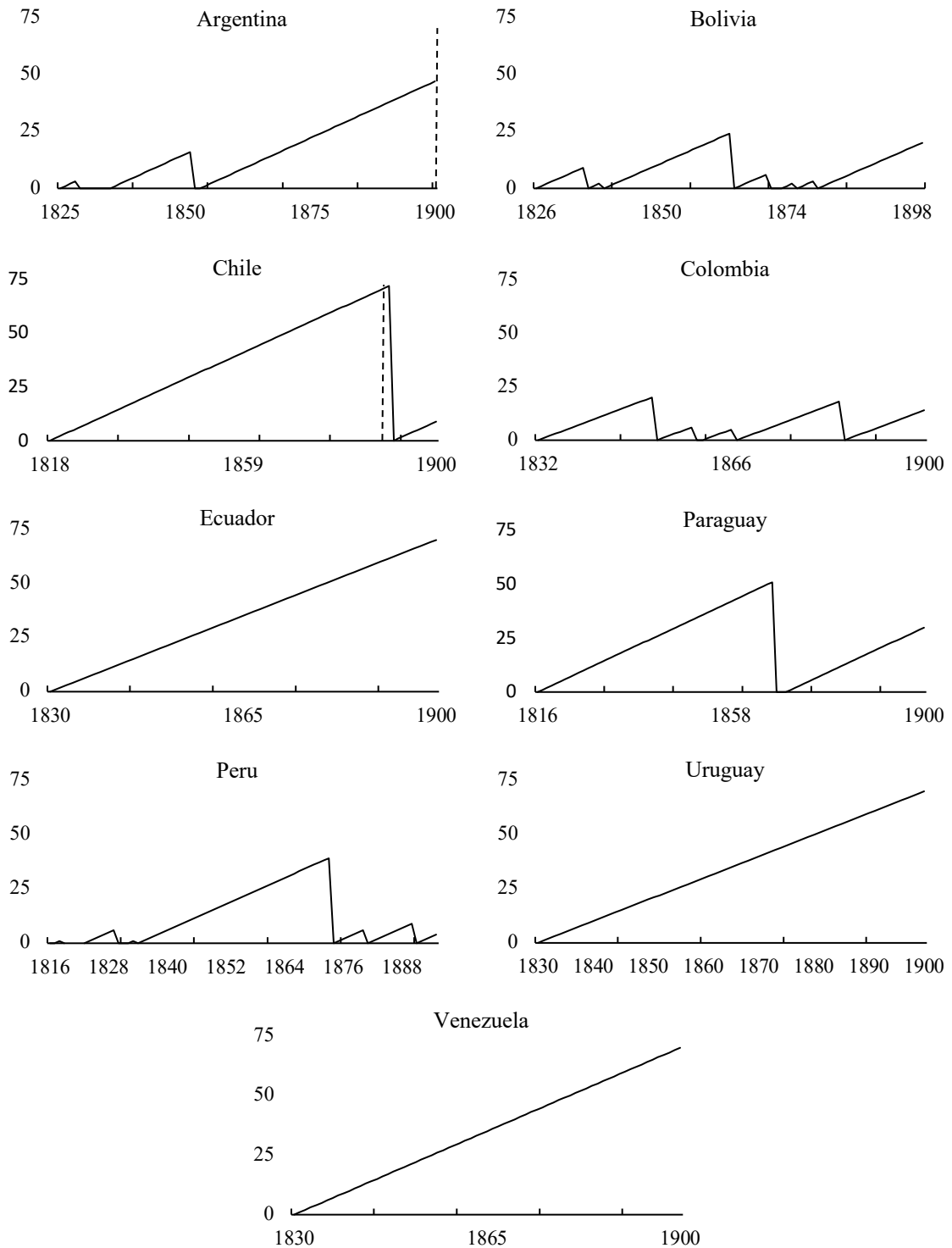
<sup>544</sup> The case of Paraguay is unique relative to the rest of the region since the country was isolated for most of the nineteenth century. Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-state in Latin America*. Pennsylvania: Pennsylvania State University Press, pp. 109-13.

<sup>545</sup> Gurr, Ted Robert. 1990. “Polity II: Political Structures and Regime Change, 1800-1986.” ICPSR 9263. Ann Arbor: Inter-university Consortium for Political and Social Research.

<sup>546</sup> Ibid. p. 41.



**Figure 11. Persistence of South American Political Structures in the XIX Century**



Dotted line marks the date the South American states changed in scope. Own elaboration based on the indicator persist and scope in Gurr, Ted Robert. 1990. "Polity II: Political Structures and Regime Change, 1800-1986." ICPSR 9263. Ann Arbor: Inter-university Consortium for Political and Social Research.

after 1850 and they were able to maintain the authority of political structures uninterrupted throughout the same period. Moreover, both Peru and Colombia experienced major fluctuations on their exports after 1850 and the authority of their political structures was interrupted multiple times in the nineteenth century. The case of Peru is exemplary given that its exports collapsed dramatically by the late 1870s and its political structures suffered important interruptions at the same period despite thirty years of stability.

The expansion of world trade and the capacity of South America to integrate into the international economy provided the necessary resources and the functional legitimacy to consolidate its power during the nineteenth century. As it has been discussed before, the socioeconomic conditions of the post-independence period, as well as the historical legacies of colonialism and the emergence of Great Britain as a major superpower, influence the particular structure and functionality of the South American state. The South American state was structured around the exploitation and commercialization of primary products, and its main function was to guarantee the necessary social order for elites to improve their privilege condition through expanding exports. The viability and ultimate success of the South American state did not emerge until the second half of the nineteenth century with the Industrial Revolution and the expansion of global capitalism. But instead of creating more freedom, the expansion of global capitalism in the nineteenth century provided the material basis and justification to perpetuate internal socioeconomic structures of exploitation and discrimination.<sup>547</sup> Since colonial times the extraction and export of commodities was intimately related to the exploitation and discrimination of the

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<sup>547</sup> Cardoso, Fernando, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. California: University of California Press, pp. 67-8.

native population and the lower classes, and the expansion of global capitalism in the nineteenth century was no exception. The expansion of global capitalism in the nineteenth century considerably increased the amount of wealth of South American countries.<sup>548</sup> Yet the increase in wealth did not translate in material benefits to the entire population. On the contrary, the benefits of the expansion of exports were concentrated on a handful of urban and rural elites given the existing social structures of exclusion, which increased the already existing social and wealth inequality in South America.<sup>549</sup> Therefore, nineteenth century global capitalism perpetuated the inequality that has characterized South America at least since colonial times.

The South American state was functionally designed to guarantee social order for the extraction of primary resources. Throughout the nineteenth century, the South American state maintained its functional design, taking action in the service of the export economy. Once again, the POLITY II database substantiates the functional role of the South American state during the nineteenth century. The data on the characteristics of political structures developed by Ted Robert Gurr also measures the directiveness of the state. In this sense, the scope of the state measures “the extent to which all levels of government combined—national, regional, and local—attempt to regulate and organize the economic and social life of the citizens and subjects of the state.”<sup>550</sup> The measurement

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<sup>548</sup> Sunkel, Osvaldo, and Pedro Paz. 1970. *El Subdesarrollo Latinoamericano y la Teoría del Desarrollo*. Mexico: Siglo Veintiuno, p. 61.

<sup>549</sup> Ibid. p. 66.

<sup>550</sup> Gurr, Ted Robert. 1990. “Polity II: Political Structures and Regime Change, 1800-1986.” ICPSR 9263. Ann Arbor: Inter-university Consortium for Political and Social Research, p. 21.

ranks countries in a continuum ranging from totalitarian (1) to minimal (9), with minimal meaning states that only engage in basic functions like the maintenance of security characteristic of “extractive” or “predatory” governments.<sup>551</sup> Almost all South American countries ranked as minimal “extractive” or “predatory” states throughout the nineteenth century. As Figure 11 shows, only Argentina and Chile were able to move towards a limited (7) category at the very end of the nineteenth century, providing limited public services like education, transportation, and postal service.<sup>552</sup> Hence, the South American state was minimal in terms of its societal functions, and it only operated to guarantee the expansion and success of the export economy. The consequence of the structural and functional organization of the South American state was the ultimate disenfranchisement of the vast majority of the population. Similarly to the conclusions based on the measurements on directiveness, the data on the centralization of power around the executive also shows the discriminatory and exclusive nature of South American political structures in the second half of the nineteenth century. The POLITY II data measures the level of centralization in structural terms, focusing on the conformation of political structures. The centralization measure identifies whether a political structure is centralized (3) or decentralized (1), recognizing that centralized political structures present lower levels of political participation and inclusion, and regional leadership are subservient of central power.<sup>553</sup> In

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<sup>551</sup> Ibid.

<sup>552</sup> Ibid.

<sup>553</sup> Ibid.

this sense, Table 7 shows the centralization or decentralization of South American states throughout the nineteenth century.

**Table 7. Centralization and Decentralization of South American States**

Year	Argentina	Bolivia	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela
1830	2	1	1		1	1	1	1	3
1831	2	1	1		1	1	1	1	3
1832	2	1	1	1	1	1	1	1	3
1833	2	1	1	1	1	1	1	1	3
1834	2	1	1	1	1	1	1	1	3
1835	1	1	1	1	1	1	1	1	3
1836	1	1	1	1	1	1	1	1	3
1837	1	1	1	1	1	1	3	1	3
1838	1	1	1	1	1	1	3	1	3
1839	1	1	1	1	1	1	1	1	3
1840	1	1	1	1	1	1	1	1	3
1841	1	2	1	1	1	1	1	1	3
1842	1	1	1	1	1	1	1	1	3
1843	1	1	1	1	1	1	1	1	3
1844	1	1	1	1	1	1	1	1	3
1845	1	1	1	1	1	1	1	1	3
1846	1	1	1	1	1	1	1	1	3
1847	1	1	1	1	1	1	1	1	3
1848	1	1	1	1	1	1	1	1	3
1849	1	1	1	1	1	1	1	1	3
1850	1	1	1	1	1	1	1	1	3
1851	1	1	1	1	1	1	1	1	3
1852	2	1	1	1	1	1	1	1	3
1853	3	1	1	3	1	1	1	1	3
1854	3	1	1	3	1	1	1	1	3
1855	3	1	1	3	1	1	1	1	3
1856	3	1	1	3	1	1	1	1	3
1857	3	1	1	3	1	1	1	1	3
1858	3	1	1	3	1	1	1	1	2
1859	3	1	1	3	1	1	1	1	2
1860	3	1	1	2	1	1	1	1	2
1861	3	1	1	3	1	1	1	1	2
1862	3	1	1	3	1	1	1	1	2
1863	3	1	1	3	1	1	1	1	2
1864	3	1	1	3	1	1	1	1	2
1865	3	1	1	3	1	1	1	1	2
1866	3	1	1	3	1	1	1	1	2
1867	3	1	1	3	1	1	1	1	2
1868	3	1	1	3	1	1	1	1	2
1869	3	1	1	3	1	1	1	1	2
1870	3	1	1	3	1	1	1	1	1
1871	3	2	1	3	1	1	1	1	1
1872	3	2	1	3	1	1	1	1	1
1873	3	1	1	3	1	1	1	1	1
1874	3	1	1	3	1	1	1	1	1

1875	3	1	1	3	1	1	1	1	1
1876	3	1	1	3	1	1	1	1	1
1877	3	1	1	3	1	1	1	1	1
1878	3	1	1	3	1	1	1	1	1
1879	3	1	1	3	1	1	1	1	1
1880	2	1	1	3	1	1	1	1	1
1881	2	1	1	3	1	1	2	1	1
1882	2	1	1	3	1	1	1	1	1
1883	2	1	1	3	1	1	1	1	1
1884	2	1	1	3	1	1	1	1	1
1885	2	1	1	3	1	1	1	1	1
1886	2	1	1	1	1	1	1	1	1
1887	2	1	1	1	1	1	1	1	1
1888	2	1	1	1	1	1	1	1	1
1889	2	1	1	1	1	1	1	1	1
1890	2	1	1	1	1	1	1	1	1
1891	2	1	1	1	1	1	1	1	1
1892	2	1	1	1	1	1	1	1	1
1893	2	1	1	1	1	1	1	1	1
1894	2	1	1	1	1	1	1	1	1
1895	2	1	1	1	1	1	1	1	1
1896	2	1	1	1	1	1	3	1	1
1897	2	1	1	1	1	1	3	1	1
1898	2	1	1	1	1	1	3	1	1
1899	2	1	1	1	1	1	3	1	1
1900	2	1	1	1	1	1	3	1	1

2 represents an intermediate category of transition between decentralized and centralized

Own elaboration based on the indicator cent in Gurr, Ted Robert. 1990. "Polity II: Political Structures and Regime Change, 1800-1986." ICPSR 9263. Ann Arbor: Inter-university Consortium for Political and Social Research.

The data show that the majority of South American states were centralized, politically disenfranchising the masses and reducing the role of legitimate local leadership. Most interestingly, the data also supports the conclusions of the state argument regarding the impact of relying on exporting commodities on political structures. The state argument, informed by the resource curse argument, proposes that those countries that present higher levels of export dependence tend to present political processes that reduce both the participation and the power of the lower classes. The case of Venezuela is illustrative given that as the levels of exports increased after 1850, political structures move from decentralized (3) to centralized (1). On the contrary, Argentina moves fairly quickly from

decentralized (1) to centralized (3) after the expansion of exports in the 1850s, although by the 1880s it starts moving back towards centralization. Therefore, the data show that South American states in the nineteenth century were primarily responsive to the interests of dominant export-oriented elites, maintaining sociopolitical exclusion and socioeconomic exploitation.

In conclusion, the structure and functionality of the South American state was the result of the conditions present in the region after the wars of independence. The social fragmentation and empowerment of rural landowners was the result of both regional and global processes that started in colonial times. Yet it is this social fragmentation, combined with an existing economic crisis and the lack of security imperatives in the region, that forced South American state makers to structure the state around the export economy. The export economy provided the necessary funds for the state that the dominant classes did not want to finance while also aligning the economic interests of urban and rural elites. South America was historically predisposed to produce primary products for export since before independence, yet the post-independence and post-Napoleonic wars economic crisis made it difficult for the South American state to appropriate much resources from the global economy. Therefore, it is the expansion of global capitalism as a result of the Industrial Revolution that allows for the viability and consolidation of the South American state in the second half of the nineteenth century. The Industrial Revolution increased the demand for agricultural products and reduced the cost of global trade, ultimately increasing the amount of resources appropriated by the state. It is during this period of global capitalism expansion that the South American state consolidates by centralizing power and pacifying political challengers. Export-oriented elites benefited massively from the

consolidation of the state, not only because the state was primarily responsive to them but also because by centralizing power the state was able to expand the export economy. But by doing so, the South American state maintained sociopolitical and socioeconomic structures of exploitation and discrimination, affecting the vast majority of the population in the region. Thus, while the expansion of global capitalism ensured the viability of the South American state, it ultimately failed to transform the lives of the vast majority of South Americans who continued to live under conditions similar to those of the period of the wars of independence.<sup>554</sup>

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<sup>554</sup> Anderson, Charles. 1967. *Politics and Economic Change in Latin America: The Governing of Restless Nations*. New Jersey: D. Van Nostrand Company, Inc, p. 37.



## CHAPTER 5

### TESTING THE STATE ARGUMENT

Since the time of conquest, the Spanish had implemented a colonial system that stressed social and economic fragmentation in South America. The emergence of Great Britain as a global superpower in the eighteenth century allowed for English merchants and products to penetrate the Spanish system of colonial trade in the Americas, empowering *criollos* relative to the Spanish crown. Therefore, once Napoleon invaded Spain and the Bourbons lost power, *criollos* in South America decided to strive for political independence in order to expand their access to the international economy. However, the post-independence context was marked by the absence of any social fabric on which to build a viable state in the region. It was through the alignment of economic incentives and the expansion of global capitalism in the nineteenth century that dominant elites were able to form and to consolidate the South American state. The state was structurally organized around the export economy, appropriating resources from commercializing primary resources while finding purpose in providing the social order under which elites could expand their material benefit. South America had a structural predisposition to exploit and export natural resources since colonial times, and elites decided to maintain many of the structures that guaranteed the expansion of the export economy even after independence. But the reliance on exporting primary products created significant impediments for the socioeconomic development of South America. Exploiting natural resources perpetuated the conditions of poverty and inequality that had characterized the region at least since colonial times. The industrial economies were able to maintain most of the productivity gains from the expansion of trade in the mid-nineteenth century, prohibiting peripheral

economies like South Americans to enjoy the same levels of economic growth and socioeconomic development as their industrial counterparts.<sup>555</sup>

The difference between the rates of socioeconomic development experienced by industrial centers and economic peripheries in the nineteenth century did not mean that the expansion of global trade did not benefit South America. On the contrary, beyond allowing for the consolidation of the state, the expansion of global capitalism in the second half of the nineteenth century also provided greater sustained economic growth for the region. In this sense, the expansion of global capitalism increased the wealth of South American nations by increasing both the amount and the value of primary resource exports. But the increase in wealth did not translate into increased income equality or a reduction of socioeconomic exploitation in the region. On the contrary, the contemporary reality of the political economy of South America continues to be characterized by poverty and inequality. If it is now uncontroversial to affirm that trade increases wealth for every society involved in the international market, then what explains the undisputable asymmetry between the historically industrial centers of the global economy and peripheral societies like South America. The socioeconomic divergence between core and periphery lies in the nature of the dominant productive activities of each region. While industrial activities generate increasing and growing terms of trade, extractive activities tend to create detrimental conditions for prolonged socioeconomic development. As discussed before, economic activities that focus on extracting and exporting natural resources tend to create

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<sup>555</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, p. 27.

three conditions that affect the capacity for societies to develop: rent-seeking political behavior, de-industrialization, and macroeconomic volatility.<sup>556</sup>

The state argument not only explains how the South American state formed and consolidated, it also explores explanations for the continuity of poverty and inequality in the region. In this sense, it is necessary to assess the validity of the state argument as an explanation for the current socioeconomic reality of South America. The state argument proposes that the structural and functional organization of the South American state around the exploitation and commercialization of commodities not only creates poverty and inequality but ultimately maintains them. Therefore, assessing the contemporary validity of the causal proposition of the state argument requires determining whether South American societies continue to present the structural and functional qualities that created socioeconomic distortions as well as measuring the actual relationship between such structure and poverty and inequality. Testing the state argument requires first to elucidate whether the conditions of rent-seeking political behavior, de-industrialization, and macroeconomic volatility are present in contemporary South America. In other words, before measuring the validity of the causal propositions of the state argument, it is necessary to determine whether South American societies continue to present rent-seeking political behavior like corruption, to determine whether the region's economies have been able to develop industrial sectors or do they continue to depend on the commercialization of primary products, and to determine whether South American states continue to experience drastic shifts and volatility because of changes in the international economy.

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<sup>556</sup> Ibid. p. 48.

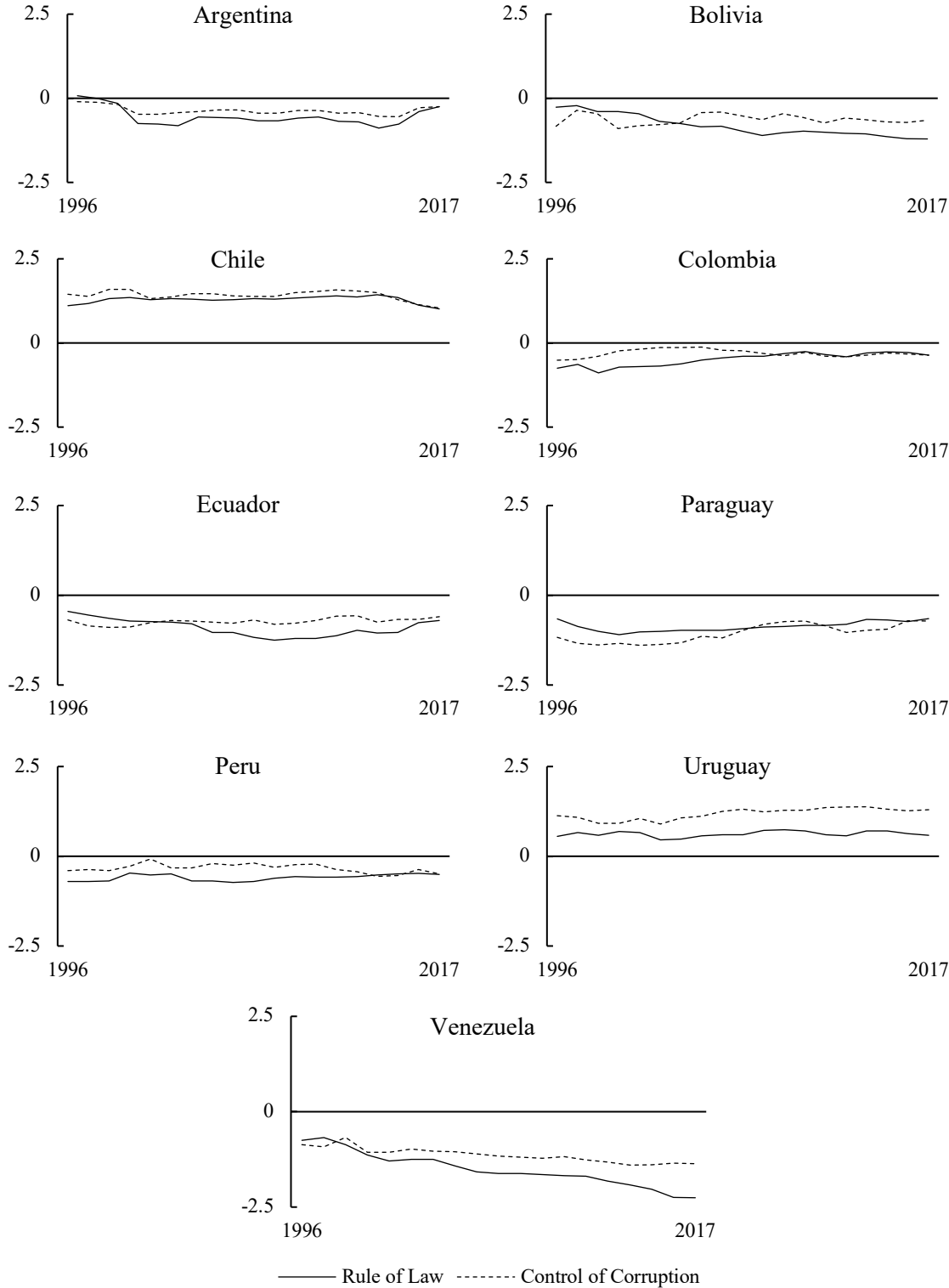
## CONTEMPORARY CHARACTERISTICS OF SOUTH AMERICAN STATES

As discussed before, the presence of economic activities centered around extracting and exporting commodities tends to create incentives for political actors to engage in rent-seeking behavior. The attractiveness of natural resource rents lies in their capacity to be easily controlled without generating major political conflict. By controlling access to the geographical area where natural resources are extracted or access to export routes, political actors can easily extract resources from the export economy. Moreover, the centralization of resources allows for political leaders to maintain political control by engaging in corrupt behavior like bribery. The nature of exploitative productive processes makes it is easier for political actors to maintain power and the incentives to do so usually justify corruption and clientelism. In this sense, Figure 12 shows the levels of control of corruption and the rule of law in South America between 1996 and 2017 obtained from the Worldwide Governance Indicators (WGI) published by the World Bank Group. Overall, the WGI are a series of six different composite indicators capturing various aspects of state governance. The indicators range between -2.5 and 2.5, and they measure the existing general perception about the state's capacity to function in a particular area of governance. In particular, the indicator for rule of law measures "the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence."<sup>557</sup> Moreover, the indicator control of corruption measures "the extent to

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<sup>557</sup> Kauffmann, Daniel, and Aart Kraay. 2019. "The Worldwide Governance Indicators (WGI) Project." The World Bank Group. Accessed July 28, 2019. <https://info.worldbank.org/governance/wgi/#faq>.

**Figure 12. Control of Corruption and Rule of Law 1996-2017**



Own elaboration based on the indicators “rule of law” and “control of corruption” obtained from Kauffmann, Daniel, and Aart Kraay. 2019. “The Worldwide Governance Indicators (WGI) Project.” The World Bank Group. Accessed July 28, 2019. <https://info.worldbank.org/governance/wgi/#home>.

which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests.”<sup>558</sup> The data in Figure 12 shows that with the exception of Chile and Uruguay, all other South American states present very low levels of rule of law and control of corruption. In fact, Bolivia, Ecuador, and Venezuela present an impressive reduction in their levels of rule of law and control of corruption between 1996 and 2017. Therefore, the region continues to present the rent-seeking political behavior characteristic of states structured around the exploitation of commodities.

Rent-seeking political behavior affects the socioeconomic development of states by maintaining political exclusion and the use of public office for private gain. Yet the presence of economic activities around the exploitation of primary resources also affects political calculations. Political leaders tend to favor policies that alleviate immediate demands to the detriment of prolonged and sustainable planning since the massive availability of resources facilitates political relationships through clientelism. Nevertheless, the high presence of resources from the exploitation of primary products also affects the productive structure of the economy. As discussed before, the windfall of foreign currency that appears because of the exploitation of natural resources artificially overvalues the local currency, making imports cheaper to local manufactured products which ultimately destroys industry. Yet de-industrialization is not only a consequence of the overvaluation of the local currency. As prices for commodities increase, economic actors decide to allocate resources towards exporting natural resources and away from any

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<sup>558</sup> Ibid.

other economic sector, which leads to de-industrialization.<sup>559</sup> In fact, in societies that have traditionally exported primary products, economic actors have little incentive to venture on industrial activities given that their resources will yield higher returns in the export sector. South American societies have been historically characterized by a political and economic structure that disincentivizes industry since the colonial period. In this sense, Figure 13 shows the actual process of de-industrialization experienced in the region between 1996 and 2017 by measuring the export of manufactured goods as a percentage of total exports. As the data show, contemporary South America is characterized not only by its historically low levels of industrial output, but also by a marked process of de-industrialization. As discussed before, contemporary South America experience an expansion of trade primarily because of the growth of China. The economic growth of China increased the demand for primary resources in the global market, raising the price of commodities.<sup>560</sup> As the price of commodities increased, South American societies moved resources away from industry and into the exploitation of natural resources, resulting in the de-industrialization process showed by Figure 13.

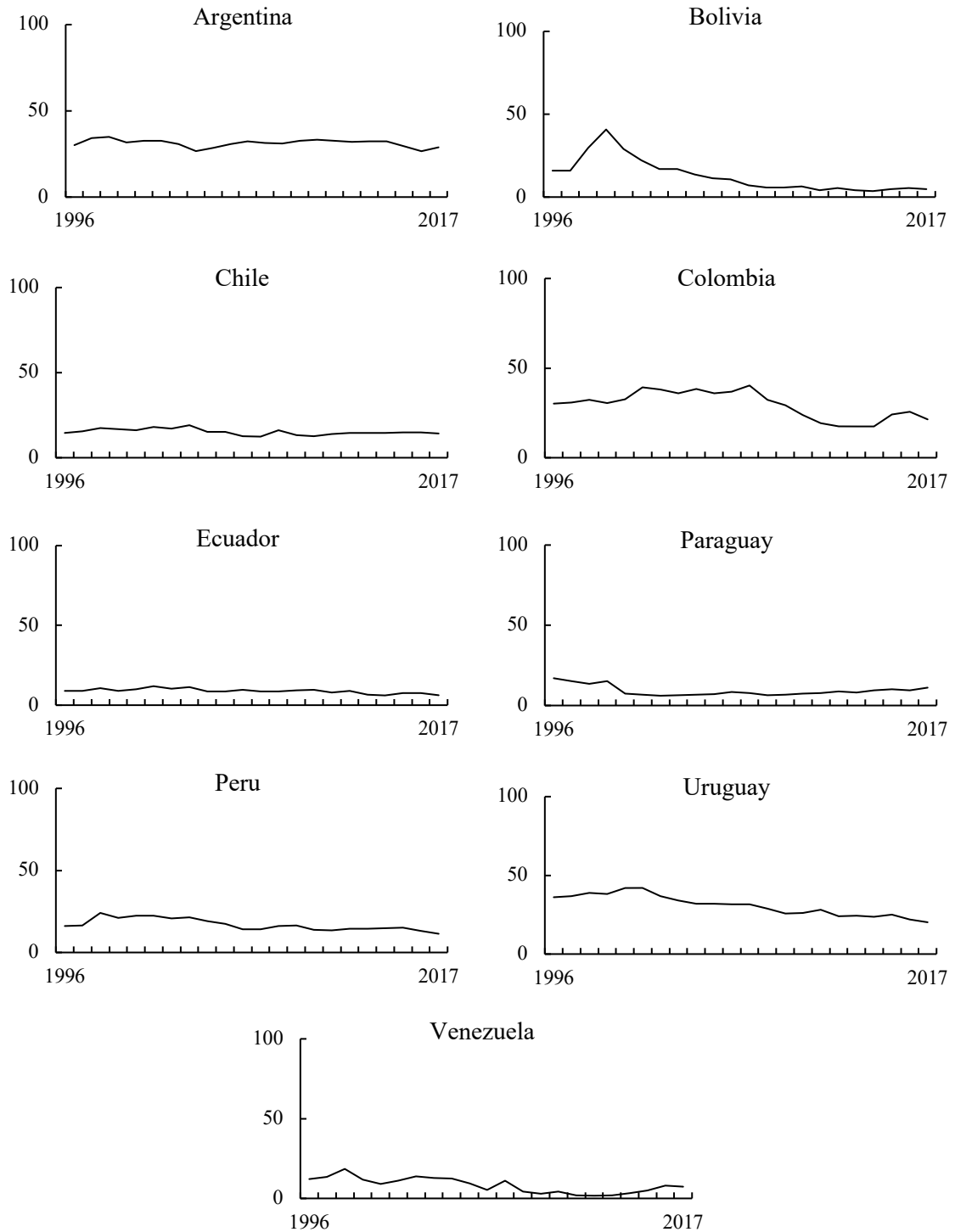
In societies that are organized around the exploitation of primary products, changes in the price of commodities not only incentivizes de-industrialization but also conditions government policy. Societies organized around exporting commodities tend to have states that appropriate resources from exploiting primary products. However, given the capitalist nature of the global economy and the inherent cycles of commodity commercialization, the

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<sup>559</sup> Williamson, Jeffrey. 2011. *Trade and Poverty: When The Third World Fell Behind*. Cambridge: The MIT Press, 49.

<sup>560</sup> Any increase in commodity prices triggers a process of de-industrialization in countries that have been historically exploiting and exporting natural resources. *Ibid*.

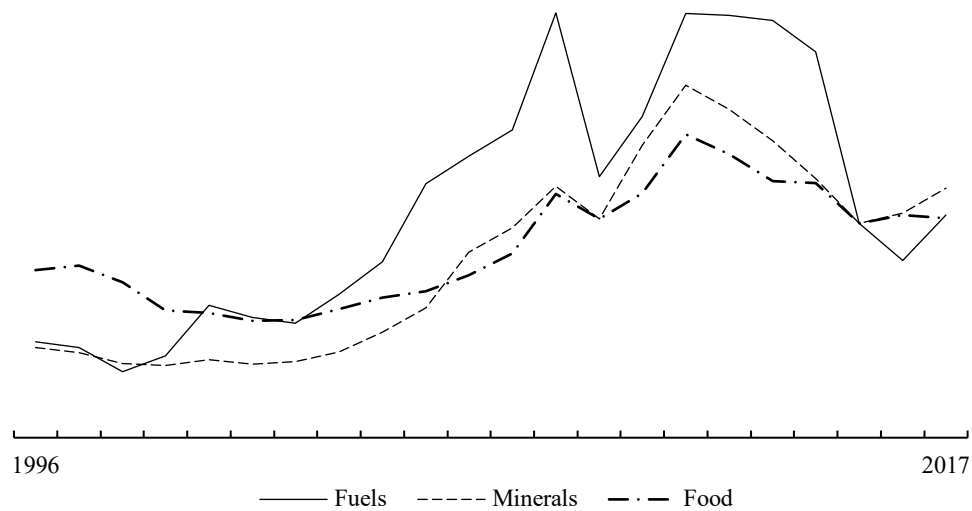
**Figure 13. Manufactured Goods Exports as Share of Total Exports 1996-2017**



Own elaboration based on the indicator “exports of manufactured products as a share of total exports” at <https://cepalstatprod.cepal.org/cepalstat/tabulador/ConsultaIntegrada.asp?idIndicador=1911&idioma=i>. In the case of Venezuela, the years 2007, 2014, 2015, 2016, and 2017 are based on the indicator “manufactured goods (SITC 5 to 8 less 667 and 68)” obtained from UNCTADstat <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>.



**Figure 14. Commodity Price Index 1996-2017**



Own elaboration based on the indicator “Free market commodity prices indices, annual (2015=100)” obtained from UNCTADstat <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

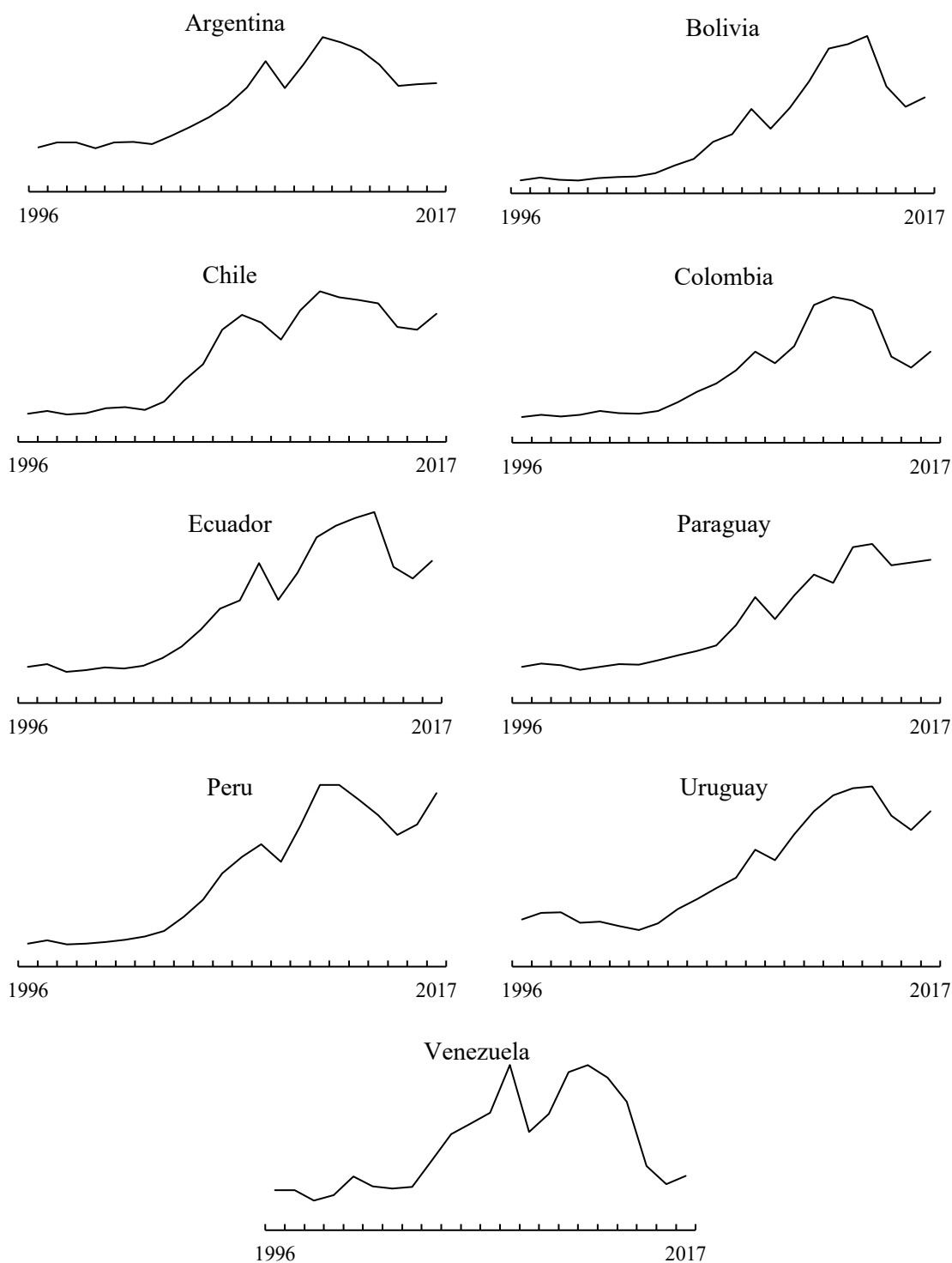
price of commodities tends to change consistently and considerably. As discussed before, the global commodity market is characterized by important levels of volatility. Beyond the daily shifts in prices, commodity prices tend to have marked periods of booms with abrupt moments of busts. Changes in commodity prices affect the amount of revenue that can be extracted from their commercialization, and for states that are organized around exporting commodities, volatility translates into sudden crises and the inability for long term planning. In this sense, South America has been historically affected by the volatility of global commodity markets. Whether during the nineteenth century or between 1970 and the early 2000s, greater commodity price volatility translated into lower public resources and an increased need for foreign borrowing, leading to lower public resources and ultimately lower economic growth.<sup>561</sup> Figure 14 shows that the volatility of commodity prices is not

<sup>561</sup> Ibid. p. 70.

exclusive of previous eras but a characteristic of the global market that continues to affect South American states. As the data show, just between 1996 and 2017 the prices of commodities increased to considerable levels just to drop back to pre-increase levels in just a few years. In particular, the dynamic of commodity prices between 2004 and 2015—with a significant drop in prices in 2009—shows the abrupt volatility to which South American states are subjected in the international economy.

Yet the price of commodities is not an indicator for global socioeconomic trends. Commodity prices might signal changes either in the supply or demand of a particular resource, but they do not signal abrupt changes of socioeconomic conditions, particularly in industrial societies. Therefore, the historical responsiveness of South American states to changes in commodity prices lies in the region's structural organization around them. In this sense, Figure 15 shows the relationship between commodity prices and productive output in contemporary South America. Between 1996 and 2017, all countries in the region experience a historic expansion of their exports. Most importantly, the expansion of South American exports started at the same time that commodity prices increased dramatically, in 2004. In fact, the exports of all South American states between 1996 and 2017 presented the same dynamic that commodity prices showed in the same period. Beyond individual differences in magnitude, all South American countries experienced a dramatic drop of total exports in 2009, and the period of growth seemed to at least deaccelerate in 2015. By 2017 all exports started to pick up again—even in crisis ridden Venezuela—given that the price

**Figure 15. Total Exports 1996-2017**

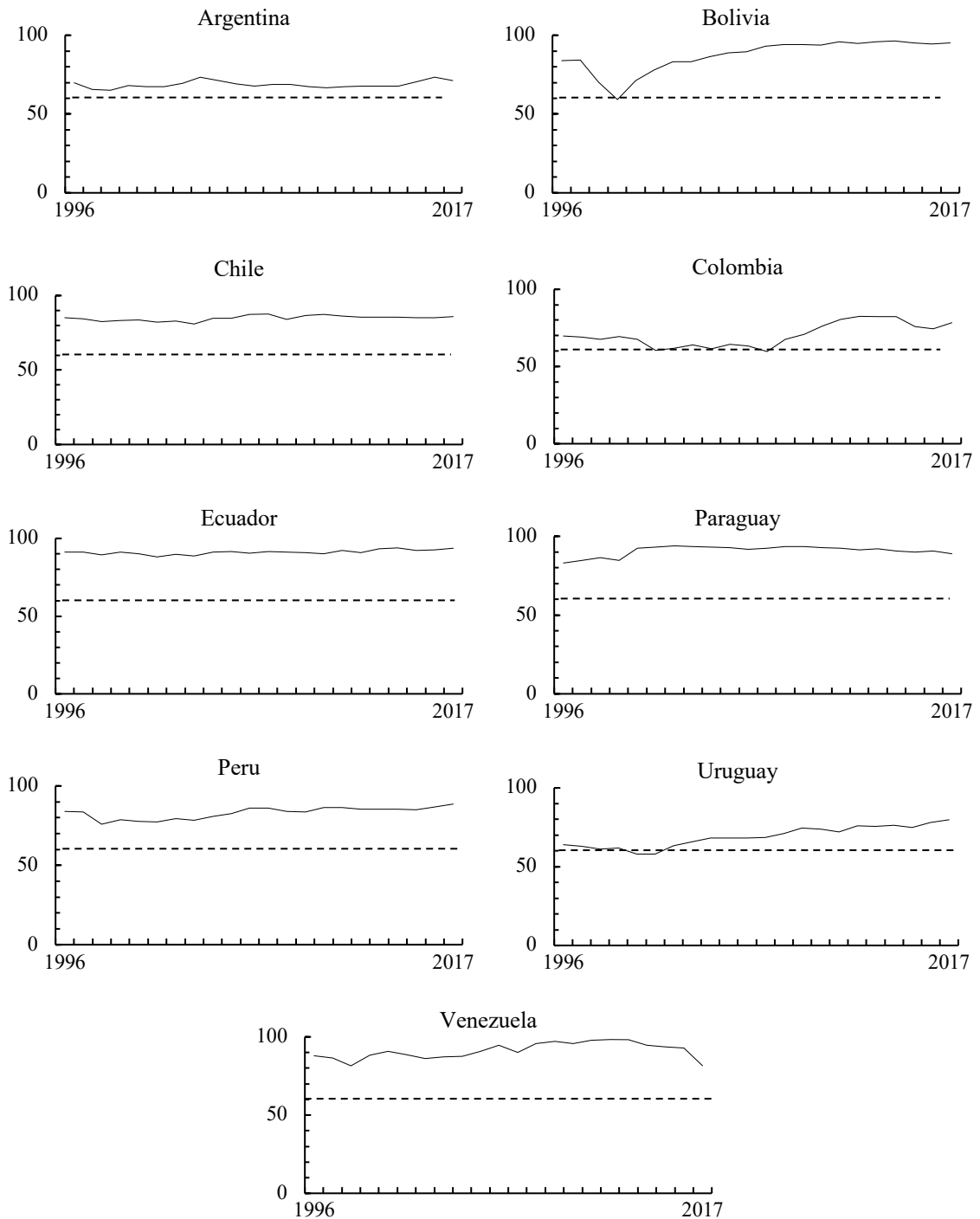


Own elaboration based on the indicator “total all products” obtained from UNCTADstat <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

for food, fuels, and minerals also increased in 2017. Therefore, South American states continue to be particularly sensitive to changes in the international economy, and the volatility of commodity prices ultimately creates macroeconomic volatility in the region.

The responsiveness of South American states to changes in commodity prices becomes clearer given the region's export structure. Contemporary South America continues to present the political behavior that hinders socioeconomic development in societies organized around primary resources. Moreover, contemporary South America continues to present the de-industrialization characteristic of peripheral societies focused on exporting commodities. Also, contemporary South America continues to suffer from the macroeconomic volatility generated by the abrupt changes in commodity prices. Therefore, the characteristics of contemporary South America all describe a region that continues to be structurally and functionally organized around natural resources. In this sense, Figure 16 corroborates South America's structural dependence on exporting primary products. As discussed before, UNCTAD considers a country to be dependent on natural resources if the share of commodity exports surpasses 60% of total exports. As Figure 16 shows, all South American countries continue to be dependent on the commercialization of commodities. Only Bolivia in 1999, Colombia in 2007, and Uruguay between 2001 and 2002 had a share of commodity exports below 60% of total exports. However, once commodity prices increased considerably in 2004, the entire region either maintained or increased their structural dependence on the commercialization of commodities.

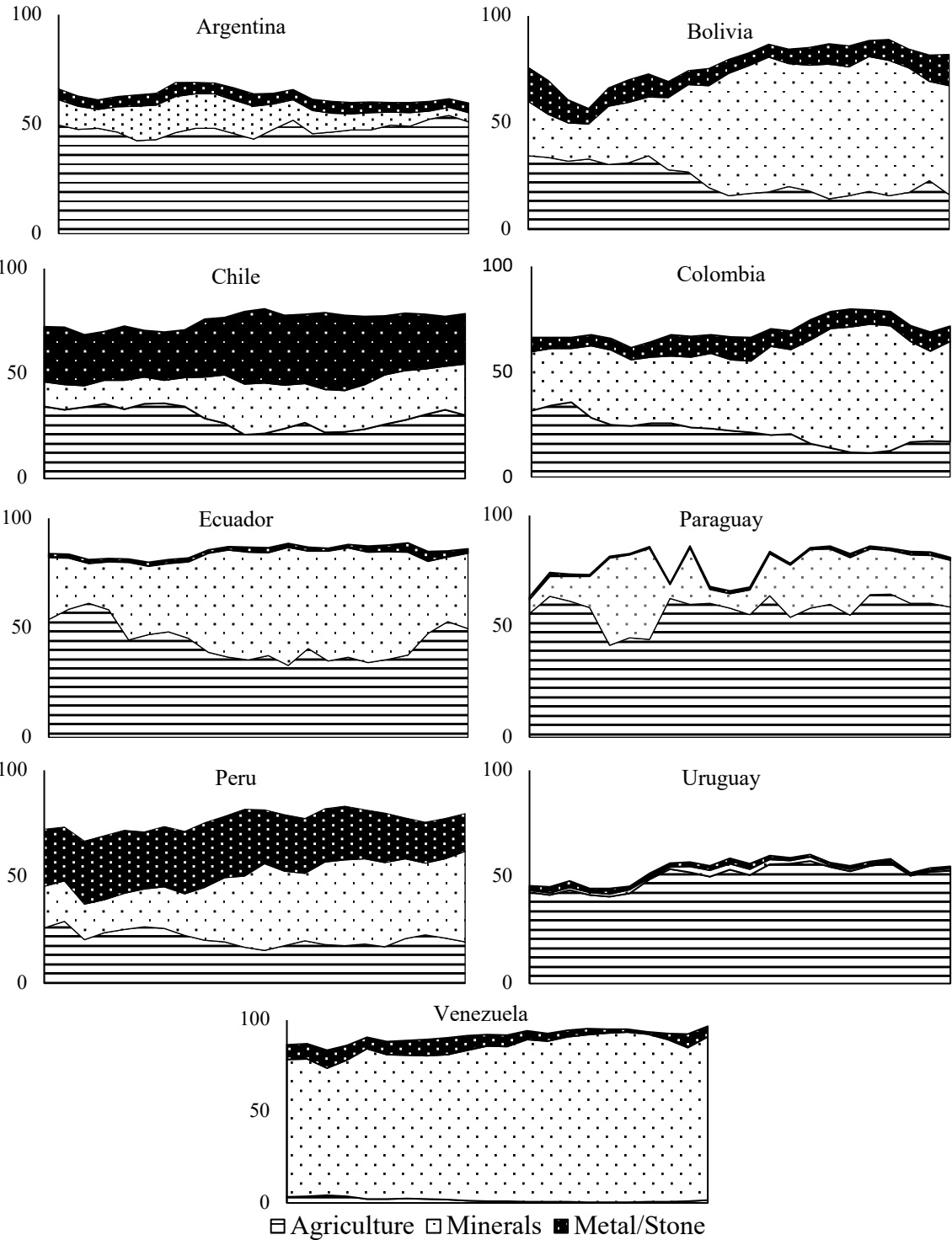
**Figure 16. Commodity Exports as Share of Total Exports 1996-2017**



Dotted line marks the 60% of total exports. Own elaboration based on the indicator “exports of primary products as a share of total exports” obtained from CEPALstat <https://cepalstatprod.cepal.org/cepalstat/tabulador/ConsultaIntegrada.asp?idIndicador=1910&idioma=I> In the case of Venezuela, the years 2007, 2014, 2015, 2016, and 2017 are based on the indicator “primary commodities, precious stones and non-monetary gold (SITC 0 + 1 + 2 + 3 + 4 + 68 + 667+ 971)” obtained from UNCTADstat <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

The fact that South America continues to present the historical characteristics that have created and perpetuated poverty and inequality becomes more evident by understanding the product structure of the region's commodity dependence. Figure 17 shows the product structure of South American commodity exports as share of total exports. Whether it is agricultural, mineral (fuels), or metal/stone products, all countries in the region continue to be dependent on commodities. Interestingly, there is discernible pattern based on geographic distinctions in South America, particularly between the Andes and the rest of the region. Bolivia, Colombia, Ecuador, Peru, and Venezuela show an expansion of mineral exports particularly after 2005, when commodity prices increased dramatically. On the contrary, Argentina, Chile, Paraguay, and Uruguay maintained their more traditional commodity structure sustained by agriculture (and metal/stone for Chile). The geographical and geological conditions that influenced the particular formation of export economies and the subsequent consolidation of the state in the nineteenth century continue to characterize contemporary South America. Therefore, the conditions that create poverty and inequality identified by the state argument are still present in the continent. Given the organization of the region around exporting primary products, once there is a change in the global commodity market, the entire region is negatively affected. The volatility of commodity prices conditions the productive structure of the economy by incentivizing de-industrialization, by increasing the dependence on natural resources, and by affecting the value of the region's total output and consequentially state resources. In other words, South America has been historically dependent on commodities, and it is the structure of the state what perpetuates the processes that generate poverty and inequality in the region.

**Figure 17. Product Structure of Commodity Exports as Share of Total Exports**



Own elaboration based on the indicators “agriculture, minerals, metal, and stone” obtained from CID at Harvard  
<http://atlas.cid.harvard.edu/explore/?country=188&partner=undefined&product=undefined&productClass=HS&startYear=undefined&target=Product&year=2017>

## EXPLAINING POVERTY AND INEQUALITY IN SOUTH AMERICA

The South American state continues to rely on the commercialization of primary resources. The literature has identified the role of rent-seeking political behavior, de-industrialization, and macroeconomic volatility as the processes that create poverty and inequality in societies that are organized around the commercialization of primary products. Despite knowing the pervasive consequences of these productive processes, South American societies continue to rely on commodities as their main economic activity. In other words, why is it that South American countries continue to depend on exporting commodities while knowing that this creates the processes responsible for poverty and inequality. The reason for the perpetuation of these processes is structural, with the state organized around the export economy as the epicenter of sociopolitical and economic order in the region. Since its inception, the South American state has relied on economic development for legitimacy and resources. The structural conditions that have historically characterized South American societies since the nineteenth century are still present in the region. A clear example of this is the region's susceptibility to the volatility of global markets. Latin America in general suffered at least three times the volatility of the industrial centers during the nineteenth century because of drastic price changes of minerals and sugar.<sup>562</sup> The last two decades also show how susceptible the region is to price changes in fuels, minerals, and agricultural products in general.

This is not to say that there have not been socioeconomic advances in the political economy of the region in absolute terms. On the contrary, just like the rest of the world, the

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<sup>562</sup> Ibid. p. 173.



contemporary conditions of poverty in South America are far better than those twenty, fifty, one hundred, or two hundred years ago. Nevertheless, the improvement of poverty conditions relative to the past does not mean that the current socioeconomic reality of the continent is not worrisome. As Figure 14 and Figure 15 show, South America has just experienced an important period of export expansion, yet its deacceleration has raised the alarms of looming crises and worsening socioeconomic conditions. It is inevitable to wonder what happened to the windfall of resources derived from the massive expansion of global exports. More importantly, it is inevitable to wonder why after such a period of bonanza South America is once more experiencing the same socioeconomic problems of the past. The state argument responds to this empirical paradox by suggesting that while global forces explain the cyclical dynamic of South America's political economy, it is the structure and functional organization of the South American state what maintains the processes of rent-seeking political behavior and de-industrialization that create poverty and inequality. The organization of the state around the export economy is even more pronounced in contemporary South America given the role of national industries in the exploitation of natural resources. While in the nineteenth and twentieth century the private multinational corporation played a crucial role in the exploitation of commodities in South America, the twenty first century has been marked by Neo-Extractivism and the centrality of the state.

Therefore, the state argument provides a comprehensive explanation for the paradoxical nature of the political economy of South America. The socioeconomic outlook of the region presents historical variation with periods of improvement and periods of decay. Yet these variations oscillate within a range that create prolonged stability in poverty and

inequality. This stability is not explained by the volatility of commodity prices or by the periodic relative industrialization or de-industrialization of the region. This stability is explained by a sociopolitical structure that allows for the entire economy to de-industrialize during moments of commodity boom while maintaining the state vulnerable to changes in the global market. In other words, the processes identified by the resource curse argument are the symptoms of a structural disease rooted at the center of social organization: the state. In this sense, the state argument suggests that those countries that present higher levels of dependence on commercializing commodities also present the highest levels of poverty and inequality. In particular, the logical premise of the state argument identifies a positive relationship between the rate of commodity exports as a share of total exports, the rate of commodity exports as a share of GDP, and poverty and inequality. Table 8 presents Model 1, the OLS-Pooled Regression model that tests the validity of the first hypothesis proposed by the state argument.

The data show that the hypothesized relationship between the economic dependence on the commercialization of commodities and poverty and inequality is generally correct. The state argument hypothesized that a state organized around higher levels of the rate of commodities as a share of total exports (indicator 1) would also present higher levels of poverty and inequality. The model shows that the positive relationship between indicator 1 and poverty and inequality is not statistically significant, challenging the state argument's hypothesis. On the contrary, Model 1 shows that the hypothesized relationship between the rate of commodity exports as a share of GDP (indicator 2) and poverty and inequality is significant. Yet the state argument hypothesized that this relationship was positive, meaning

**Table 8. Model 1: Economic Dependence and Socioeconomic Outcomes**

	Poverty			Inequality			Control		Fixed Effects	
	National Lines	\$1.90 a day	\$5.50 a day	GINI	Income held by top 10%	Income held by top 20%	National Lines	GINI	National Lines	GINI
Column	1	2	3	4	5	6	1a	4a	1b	4b
1 Commodities as share of total exports	0.479 <i>0.000**</i>	0.219 <i>0.000**</i>	0.591 <i>0.000**</i>	0.091 <i>0.017**</i>	0.787 <i>0.050**</i>	0.071 <i>0.049**</i>	0.473 <i>0.000**</i>	0.091 <i>0.017**</i>	-0.736 <i>0.002**</i>	-0.115 <i>0.017**</i>
2 Commodities as share of GDP	-0.496 <i>0.000**</i>	-0.222 <i>0.000**</i>	-0.309 <i>0.017**</i>	-0.046 <i>0.294</i>	0.008 <i>0.862</i>	-0.019 <i>0.648</i>	-0.484 <i>0.000**</i>	-0.046 <i>0.281</i>	0.398 <i>0.035**</i>	0.100 <i>0.119</i>
Fuel price index	0.174 <i>0.000**</i>	0.051 <i>0.002**</i>	0.140 <i>0.000**</i>	0.038 <i>0.004**</i>	0.027 <i>0.047**</i>	0.030 <i>0.013**</i>	0.174 <i>0.000**</i>	0.038 <i>0.003**</i>	0.098 <i>0.000**</i>	0.028 <i>0.002**</i>
Minerals price index	-0.307 <i>0.004**</i>	-0.127 <i>0.003**</i>	-0.357 <i>0.000**</i>	-0.122 <i>0.000**</i>	-0.102 <i>0.004**</i>	-0.107 <i>0.001**</i>	-0.424 <i>0.000**</i>	-0.121 <i>0.000**</i>	-0.257 <i>0.000**</i>	-0.101 <i>0.000**</i>
Food price index	-0.183 <i>0.227</i>	-0.065 <i>0.246</i>	-0.122 <i>0.363</i>	0.002 <i>0.963</i>	0.007 <i>0.884</i>	0.008 <i>0.850</i>				
Constant	29.270	4.944	15.876	49.136	36.818	53.969	23.518	49.216	104.389	63.168
Mean VIF	9.86	9.05	9.05	9.05	9.05	9.05	2.57	3.36		
Adj R-square	0.538	0.515	0.553	0.438	0.340	0.391	0.536	0.442	0.130	0.350

\* 90% Confidence      \*\* 95% Confidence      *p-values in italics*

that for those states organized around higher levels of commodity exports as a share of GDP would also present higher levels of poverty and inequality. But Model 1 consistently shows that while indicator 2 is statistically significant in explaining poverty, its relation is actually negative. The model suggests that, contrary to what the state argument hypothesized, as the rate of commodities as a share of total exports increases, poverty actually decreases. This result is consistent for all three indicators on poverty, with or without controls. The negative relationship between indicator 2 and poverty actually suggests that as the share of commodities increases relative to the entire economy, South American societies are capable of decreasing poverty. Such a dynamic suggests that once commodities grow relative to GDP, states are capable of appropriating more resources and directly distribute them to alleviate poverty as measured by income.<sup>563</sup>

However, the relevance of the state argument becomes evident once controlling for global conditions and dynamics. The state argument is theoretically rooted in the Dependency approach, therefore understanding socioeconomic trends in the region to be responsive to global changes. The influence of the Dependency approach on the state argument is twofold: the state argument examines how the South American state is the consequence of the interaction of local, regional, and global dynamics since the late fifteen

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<sup>563</sup> This is actually consistent with the creation and expansion of conditional cash transfers programs (CCT) in the region since the mid-1990s. First originated in Brazil in 1995, conditional cash transfer programs are an important mechanisms for South American countries to combat poverty which consist in distributing cash from the state directly to families under conditions of poverty in exchange for various social conditionalities like health or education. Excluding Venezuela, there are now 15 active CCT programs between Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay. Cecchini, Simone, and Bernardo Atuesta. 2017. *Conditional Cash Transfer Programmes in Latin America and the Caribbean: Coverage and Investment Trends*. Economic Commission for Latin America and the Caribbean Social Policy Series. Chile: United Nations, pp.15-8.

century; and the state argument points at the responsiveness and vulnerability of contemporary South American states to changes in the global market. Therefore, Model 1 measures the role of global dynamics in the relationship between economic dependence and poverty and inequality by controlling for changes in the price index of three major commodity groups. As Figure 17 shows, there are three main product groups that represent the majority of South American commodity exports: agriculture, minerals (fuel), and metal/stone. In this context, Model 1 controls for changes in the price indices of fuels, minerals, and food in order to measure the role of global conditions on the relationship between economic dependence and poverty and inequality. Table 8 shows that once controlling for global conditions, the relationship between indicator 1 and indicator 2 with poverty becomes statistically significant. Whether it is poverty at national lines (indicator 11), poverty at \$1.90 a day (indicator 12), or poverty at \$5.50 a day (indicator 13), both the rate of commodities as a share of total exports (indicator 1) and the rate of commodities as a share of GDP (indicator 2) are statistically significant. Moreover, Model 1 shows that indicator 2 cannot explain inequality in South America. Regardless of how inequality is measured, indicator 2 is not statistically significant. Informed by the negative relationship between indicator 2 and poverty, Model 1 suggests that the mechanisms used by the South American state to alleviate poverty are not effective at reducing income inequality in the region. Conditional cash transfer programs are able to increase the income of families under conditions of poverty to a point that it affects the measurement of poverty rates, but such increases are simply irrelevant when measuring wealth inequality at national levels. Indicators on inequality, in contrast to indicators on poverty, measure wealth in relative terms. This means that inequality can either increase or decrease based on changes on both

extremes of social income. In other words, changes in inequality can be responsive to decreases in the amount of wealth held by those at the top of society or by increases in the amount of wealth held by those at the bottom of society. Hence, even if South American countries are able to increase the income of poor families through conditional cash transfer programs, it could be possible that the rate of income growth for higher classes is greater, which would actually increase inequality.

The explanatory validity of the first hypothesis of the state argument becomes even stronger when correcting for multicollinearity. When applying the controls for changes in global conditions, Model 1 presented high levels of multicollinearity, which means that the variance explained by the model is actually inflated. In this sense, Model 1 runs alternative linear regressions between the independent indicators and calculates a variance inflation factor (VIF) in order to measure and correct multicollinearity. The variance inflation factors of the control indicator for changes in the price index of food and for changes in the price index of minerals showed multicollinearity regardless of the dependent variable indicators. For instance, the regression that measures the relationship between economic dependence and poverty at national lines (column 1) with control for global conditions presents a mean variance inflation factor of 9.86. The main drivers for the mean variance inflation factor are actually the factors for the indicators on minerals (22.83) and on food (20.8), while the other factors are below 4. Model 1 also shows that changes in the price index of food are not statistically significant for poverty and inequality, so the regressions on column 1a and column 4a remove the control variable on the change of the price index for food in order to correct for multicollinearity. Given the consistency of the regressions' results regardless of the specific indicator for poverty or inequality, Model 1 tests the first hypothesis of the state

argument while controlling for the price of fuel and minerals only with indicators for poverty at national lines and inequality measured by the GINI index. The results corroborate the preexisting multicollinearity given that the mean variance inflation factor drops from over 9 to below 3.50, while the variance inflation factor for minerals drops from the previous 22.83 to 3.91.

After correcting for multicollinearity, Model 1 substantiates the first hypothesis of the state argument. First, the variation of economic dependence of South American states on the commercialization of commodities explains more than half of the variation of poverty in the region. The states that are organized around higher levels of commodities as share of total exports also present higher levels of poverty given that as commodity share increases across time by 1%, poverty increases by 0.47% (see column 1a). Moreover, states organized around higher levels of commodities as share of GDP also present lower levels of poverty given that as commodity share increases across time by 1%, poverty decreases by 0.48% (see column 1a). Second, the economic dependence of South American states on the commercialization of commodities explains over a third of the variation of inequality in the region. After controlling for changes in global conditions, states that are organized around higher levels of commodities as share of total exports also present higher levels of inequality given that as commodity share increases across time by 1%, the GINI coefficient increases by 0.09 points (see column 4a). Ultimately, Model 1 also shows that changes in global conditions affect socioeconomic outcomes in South America. Specifically, increases in fuel prices tend to increase poverty and inequality, while increases in the price of minerals tend to decrease poverty and inequality. When prices on minerals increase, South American states are able to appropriate more resources from their commercialization and then direct

them towards reducing poverty. However, when fuel prices increase many other consumer prices in society increase, affecting income, employment, and ultimately increasing poverty. Yet the specific processes that explain the relationship between the price of fuel and poverty and inequality should be examined further beyond the study of the state argument.

However, the state argument also provides an opportunity to explain the variation between different states in within South America. The state argument theorizes that the continuity of poverty and inequality in South America is the result of structural factors shared by all states in the region. The nature of the structural organization of the state has been invariant throughout the continent's history, yet the state argument recognizes variation in terms of magnitude between states. In other words, while all South American states have been structurally organized around the commercialization of primary products, some states have a higher level of structural reliance on such activities. These differences in magnitude explain the variation in terms of outcome in the region. While poverty and inequality are characteristic of the region's political economy, certain countries present more levels than others, and this variation is explain by time-variant factors unique of each state. Therefore, the second phase of the research design also introduces a Fixed-Effects regression model in order to measure the significance of country-specific parameters on development outcomes. Statistically, the Fixed-Effects model differs from the OLS-Pooled Regression model by assigning a particular intercept point of the regression to each observational unit. By doing this, the Fixed-Effects model controls for time-invariant factors and measures the impact of heterogeneity on the variance of the indicators for poverty and inequality.



Column 1b and column 4b in Model 1 show the results of the Fixed-Effects model measuring the significance of heterogeneity on contemporary poverty and inequality in South America. In terms of statistical significance, the Fixed-Effects model corroborates the results of the OLS-Pooled Regression model, ultimately supporting the logic of the state argument in explained the process of poverty and inequality change in contemporary South America. The only difference between the Fixed-Effects model and the OLS-Pooled Regression model is regarding the directionality of the relationship between the rate of commodities as share of total exports and poverty and inequality. The Fixed-Effects model shows that as the rate of commodities as share of total exports increases across time, poverty and inequality actually decrease in South America. The statistical difference between the Fixed-Effects model and the OLS-Pooled Regression model suggests that while the continuity of poverty is explained by time-invariant structural factors, the variation between states in South America across time is explained by state-specific characteristics particularly in terms of the role of the rate of commodities as share of total exports. Intuitively, the differences might be due to the difference in the type of predominant commodities between states in the region. In any case, the time-variant and state-specific factors that explain the variation of poverty and inequality between countries in South America requires more examination.

The state argument also highlights the structural dependence of the South American state as an explanation for the continuity of poverty and inequality in the region. The first hypothesis of the state argument examines how the structure of productive output affects socioeconomic conditions in South America. Yet the second hypothesis of the state argument examines how the structure of the state affects poverty and inequality in the

continent. In this sense, the second hypothesis of the state argument suggests that those countries that present states with the highest levels of structural organization around the commercialization of primary products also present the highest levels of poverty and inequality. In particular, the logical premise of the state argument identifies a positive relationship between the rate of total rents from natural resources as a share of GDP and poverty and inequality. Conversely, the state argument suggests a negative relationship between the rate of tax revenue as a share of GDP and poverty and inequality. Logically, the states that are organized around regular taxes tend to depend less on export taxes, ultimately presenting a different organizational structure than states that are organized around resources from natural resources. Table 9 presents Model 2, the OLS-Pooled Regression model that tests the validity of the second hypothesis proposed by the state argument.

The data show that the hypothesized relationship between the structural dependence of the state on the commercialization of commodities and poverty and inequality is correct. First, the state argument hypothesized that states organized around higher rates of total rents from natural resources as a share of GDP (indicator 3) also present higher levels of poverty and inequality. The model shows that indicator 3 is statistically significant with all the indicators used to measure poverty and inequality under the OLS-Pooled Regression model. Second, the state argument hypothesized that states organized around lower levels of tax revenue as a share of GDP (indicator 4) also present higher levels of poverty and inequality. Other than with extreme poverty (column 2), indicator 4 is statistically significant for all indicators of poverty and inequality under the OLS-Pooled Regression model. Therefore, the causal relationship hypothesized by the state argument between the organizational

**Table 9. Model 2: State's Structural Dependence and Socioeconomic Outcomes**

	Poverty			Inequality			Control		Fixed Effects	
	National Lines	\$1.90 a day	\$5.50 a day	GINI	Income held by top 10%	Income held by top 20%	National Lines	GINI	National Lines	GINI
Column	1	2	3	4	5	6	1a	4a	1b	4b
3 Rents natural resources (%GDP)	0.629 <i>0.010**</i>	0.295 <i>0.029**</i>	1.086 <i>0.001**</i>	0.409 <i>0.000**</i>	0.409 <i>0.000**</i>	0.378 <i>0.000**</i>	0.733 <i>0.003**</i>	0.395 <i>0.000**</i>	0.689 <i>0.083*</i>	0.071 <i>0.471</i>
4 Tax revenue (% GDP)	-1.885 <i>0.000**</i>	-0.263 <i>0.128</i>	-1.207 <i>0.003**</i>	-0.514 <i>0.000**</i>	-0.426 <i>0.002**</i>	-0.412 <i>0.001**</i>	-1.909 <i>0.000**</i>	-0.513 <i>0.000**</i>	-1.768 <i>0.017**</i>	-0.457 <i>0.019**</i>
Fuel price index	0.163 <i>0.000**</i>	0.029 <i>0.166</i>	0.086 <i>0.78*</i>	0.018 <i>0.255</i>	0.008 <i>0.618</i>	0.012 <i>0.395</i>	0.159 <i>0.000**</i>	0.016 <i>0.287</i>	0.132 <i>0.000**</i>	0.026 <i>0.006**</i>
Minerals price index	-0.167 <i>0.235</i>	-0.114 <i>0.039**</i>	-0.297 <i>0.021**</i>	-0.116 <i>0.005**</i>	-0.095 <i>0.027**</i>	-0.103 <i>0.008**</i>	-0.418 <i>0.000**</i>	-0.091 <i>0.000**</i>	-0.341 <i>0.000**</i>	-0.090 <i>0.000**</i>
Food price index	-0.383 <i>0.058*</i>	-0.031 <i>0.671</i>	-0.051 <i>0.764</i>	0.039 <i>0.483</i>	0.043 <i>0.451</i>	0.043 <i>0.404</i>				
Constant	90.880	18.890	62.228	59.260	45.419	61.789	79.277	60.801	73.053	60.497
Mean VIF	9.57	8.35	8.35	8.35	8.35	8.35	2.08	3.09		
Adj R-square	0.663	0.417	0.464	0.478	0.366	0.431	0.649	0.480	0.670	0.440

\* 90% Confidence      \*\* 95 % Confidence      *p-values in italics*

structure of the state and socioeconomic outcomes is supported by Model 2. Nevertheless, Model 2 shows the same issues of multicollinearity present in Model 1. The mean variance inflation factor for all the regressions controlling for global conditions is above 8, which means that the variation of the indicators for the independent variable are actually inflating the explanatory power of the model. The results of Model 2 also corroborate the findings of Model 1 regarding the different indicators for poverty and inequality. The results are generally consistent except with extreme poverty (column 2), which shows the validity and consistency of all the indicators for the dependent variable. Therefore, Model 2 corrects for multicollinearity and presents two regressions in column 1a and 4a that measure the relationship between the state's structural dependence on commodities and poverty and inequality.

After correcting for multicollinearity, Model 2 substantiates the second hypothesis of the state argument. First, the structural dependence of South American states on the commercialization of commodities explains almost two thirds of the variation of poverty in the region. States organized around higher levels of total rents from natural resources as a share of GDP also present higher levels of poverty given that as commodity rents increase across time by 1%, poverty increases by 0.73% (see column 1a). Moreover, states organized around lower levels of tax revenue as share of GDP also present higher levels of poverty given that as tax revenue decreases across time by 1%, poverty increases by 1.9% (see column 1a). Second, after controlling for changes in global conditions, states organized around higher levels of total rents from natural resources as a share of GDP also present higher levels of inequality given that as commodity rents increase across time by 1%, the GINI coefficient increases by 0.36 points (see column 4a). Moreover, states organized

around lower levels of tax revenue as share of GDP also present higher levels of inequality given that as tax revenue decreases across time by 1%, the GINI coefficient increases by 0.51 points (see column 4a). Third, Model 2 also shows that changes in global conditions affect socioeconomic conditions in South America. In fact, Model 2 corroborates both the statistical significance and the directionality of the relationship between commodity prices and socioeconomic outcomes in South America present in Model 1. The only difference appears in the role of the price of fuels on the region's inequality since the relationship is not statistically significant. Ultimately, the Fixed-Effects Regression model in Model 2 also corroborates the findings of the OLS-Pooled Regression model and Model 1. Under the Fixed-Effects Regression model global conditions are statistically significant in explaining the variance of poverty and inequality between South American states. Moreover, only the rate of rents from natural resources as a percentage of GDP is statistically insignificant under the Fixed-Effects Regression model when explaining the variance of contemporary inequality between South American states, suggesting that such variance responds to time-variant factors that are state-specific (see column 1b and 4b).

Moreover, the state argument also stresses the role of the functional capacity of the South American state in explaining socioeconomic outcomes in the region. The third hypothesis of the state argument examines the relationship between the functional capacity of the South American state and the continuity of poverty and inequality. In this sense, the third hypothesis of the state argument suggests that states with the lowest levels of functional capacity also present the highest levels of poverty and inequality. In particular,

**Table 10. Model 3: State’s Functional Capacity and Socioeconomic Outcomes**

		Poverty			Inequality			Control		Fixed Effects	
		National Lines	\$1.90 a day	\$5.50 a day	GINI	Income held by top 10%	Income held by top 20%	National Lines	GINI	National Lines	GINI
Column		1	2	3	4	5	6	1a	4a	1b	4b
5	Voice and accountability	25.362 <i>0.000**</i>	-1.985 <i>0.395</i>	-14.240 <i>0.001**</i>	-5.962 <i>0.000**</i>	-7.996 <i>0.000**</i>	-6.553 <i>0.000**</i>				
6	Political stability	-12.137 <i>0.000**</i>	-2.279 <i>0.025**</i>	-6.793 <i>0.000**</i>	-2.677 <i>0.000**</i>	-2.321 <i>0.001**</i>	-2.426 <i>0.000**</i>	-4.789 <i>0.002**</i>	-3.297 <i>0.000**</i>	-10.793 <i>0.000**</i>	-1.821 <i>0.019*</i>
7	Government effectiveness	2.256 <i>0.619</i>	-3.475 <i>0.037**</i>	-9.319 <i>0.003**</i>	-0.936 <i>0.417</i>	-2.156 <i>0.065*</i>	-1.212 <i>0.261</i>				
8	Regulatory quality	-6.133 <i>0.046**</i>	0.564 <i>0.630</i>	3.111 <i>0.155</i>	-1.132 <i>0.167</i>	-0.840 <i>0.309</i>	-1.225 <i>0.110</i>				
9	Rule of law	0.444 <i>0.937</i>	-0.432 <i>0.849</i>	3.006 <i>0.478</i>	8.964 <i>0.000**</i>	11.231 <i>0.000**</i>	9.695 <i>0.000**</i>				
10	Control of corruption	-12.209 <i>0.001**</i>	1.858 <i>0.224</i>	4.705 <i>0.100*</i>	-2.683 <i>0.013**</i>	-2.443 <i>0.024**</i>	-2.321 <i>0.021**</i>	-3.637 <i>0.007**</i>	0.547 <i>0.239</i>	6.547 <i>0.067*</i>	2.213 <i>0.144</i>
	Fuel price index	0.114 <i>0.000**</i>	0.017 <i>0.217</i>	0.051 <i>0.050**</i>	0.025 <i>0.012**</i>	0.019 <i>0.058*</i>	0.020 <i>0.027**</i>	0.108 <i>0.001**</i>	0.019 <i>0.079*</i>	0.079 <i>0.001**</i>	0.030 <i>0.001**</i>
	Minerals price index	-0.205 <i>0.035**</i>	-0.091 <i>0.022**</i>	-0.205 <i>0.005**</i>	-0.052 <i>0.059*</i>	-0.027 <i>0.321</i>	-0.040 <i>0.116</i>	-0.313 <i>0.000**</i>	-0.079 <i>0.000**</i>	-0.267 <i>0.000**</i>	-0.099 <i>0.000**</i>
	Food price index	-0.163 <i>0.240</i>	-0.009 <i>0.858</i>	-0.045 <i>0.667</i>	-0.030 <i>0.431</i>	-0.039 <i>0.309</i>	-0.028 <i>0.439</i>				
	Constant	51.030	27.701	96.983	67.500	56.894	71.030	70.169	59.699	58.880	53.567
	Mean VIF	16.48	12.03	12.03	12.03	12.03	12.03	2.83	3.09		
	Adj R-square	0.680	0.613	0.794	0.687	0.671	0.675	0.627	0.575	0.440	0.400

the logical premise of the state argument identifies a negative relationship between the levels of voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption and poverty and inequality. Informed by the resource curse argument, the state argument suggests that states organized around the commercialization of commodities present lower levels of functional capacity. Consequentially, states with the lowest functional capacity also present the highest levels of poverty and inequality. Therefore, Table 10 presents Model 3, the OLS-Pooled Regression model that tests the validity of the third hypothesis proposed by the state argument.

The data show that the hypothesized relationship between the functional capacity of the state and poverty and inequality is generally correct. Model 3 corroborates the findings of Model 1 and Model 2 regarding the role of global conditions in socioeconomic outcomes as well as regarding the different indicators for poverty and inequality. However, Model 3 presents serious problems of multicollinearity beyond the correlation between the price index of food and the price index of fuel and minerals. All the regressions in Model 3 present very high means of variance inflation factors, with the lowest mean variance inflation factor being 9.19. Therefore, it is evident that there is strong correlation among the indicators for the functional capacity of the state. In fact, based on the first regression of Model 3 (column 1), the variance inflation factor of the indicators for the functional capacity of the state are well above 10. The only indicator with a lower variance inflation factor is political stability with 6.49, which stresses the importance to correct for multicollinearity. In this sense, Table 11 shows the correlation between the indicators for the functional capacity of the state. As the table shows, other than regulatory quality (indicator 8) with political stability and

absence of violence (indicator 6), all the indicators are highly correlated. In fact, all indicators are highly correlated with control of corruption (indicator 10), with political stability and absence of violence (indicator 6) as the lowest one. Therefore, Model 3 corrects for the correlation of the parameters by maintaining indicator 6 and indicator 10 as proxies for the indicators for the functional capacity of the state. Indicator 6 presents the lowest levels of correlation with all other indicators, and indicator 10 is maintained because of theoretical reasons explained in Model 5.

**Table 11. Correlation of Indicators for the Functional Capacity of the State**

	i5	i6	i7	i8	i9
i5	1.0000				
i6	0.8298	1.0000			
i7	0.8751	0.6611	1.0000		
i8	0.7600	0.4595	0.8676	1.0000	
i9	0.9178	0.7030	0.9424	0.9063	1.0000
i10	0.9019	0.7069	0.9360	0.8220	0.9419

More importantly, Model 3 corroborates the third hypothesis proposed by the state argument. First, states with lower levels of political stability and absence of violence also present higher levels of poverty given that as political stability decreases across time by 1 point, poverty increases by 4.79%. Moreover, states with lower levels of control of corruption also present higher levels of poverty given that as control of corruption decreases across time by 1 point, poverty increases by 3.64% (see column 1a). Second, states with lower levels of political stability and absence of violence also present higher levels of inequality given that as political stability decreases by 1 point, the GINI coefficient increases by 3.30 points (see column 4a). Third, Model 3 also shows that changes in global conditions affect socioeconomic conditions in South America. In fact, Model 3 corroborates



both the statistical significance and the directionality of the relationship between commodity prices and socioeconomic outcomes in South America present in Model 1 and in Model 2. Ultimately, column 1b and column 4b in Model 3 present a Fixed-Effects Regression model, which also corroborate the results of the OLS-Pooled Regression model. The only difference appears in the directionality of the relationship between control of corruption and inequality. After controlling for heterogeneity and time-invariant factors, the Fixed-Effects Regression model suggests that as control of corruption increases across time, the variance of inequality in contemporary South America also increases, contradicting the hypothesized relationship of the state argument and established understandings in the literature (see column 4b). Therefore, after correcting for multilinearity and after controlling for changes in global conditions, Model 3 corroborates the relationship between the functional capacity of the state and socioeconomic outcomes in South America hypothesized by the state argument.

However, Model 1, Model 2, and Model 3 measure various aspects of the logical premise of the state argument independently. Yet the state argument suggests that it is actually the combination of various structural conditions that ultimately perpetuate poverty and inequality in South America. Therefore, Table 12 presents Model 4, the OLS-Pooled Regression model that measures the relationship between the structural organization of the South American state and poverty and inequality. In accordance with the multimethodology research design, Model 4 is informed by the inferences from Model 1, Model 2, and Model 3 regarding the multicollinearity of the indicators that measure changes on global conditions and on the consistency of the indicators for poverty and inequality. Therefore, Model 4 presents three regressions that measure the statistical relation between the rate of

commodities as a share of total exports (indicator 1), the rate of commodity exports as a share of GDP (indicator 2), total rents from natural resources as a percentage of GDP (indicator 3), the rate of tax revenue as a share of GDP (indicator 4), and poverty and inequality. Yet Model 4 focuses only on the indicators on poverty rates at national lines (indicator 11), poverty rate at \$1.90 a day (indicator 12), and the GINI coefficient (indicator 14) while only controlling for changes in the price index of fuels and changes in the price index of minerals.

**Table 12. Model 4: State's Structural Organization and Socioeconomic Outcomes**

	Poverty		Inequality	Fixed Effects	
	National Lines	\$1.90 a day	GINI	National Lines	GINI
Column	1	2	3	1a	3a
1 Commodities as share of total exports	0.365 <i>0.049**</i>	0.331 <i>0.000**</i>	0.239 <i>0.000**</i>	-0.602 <i>0.042**</i>	-0.267 <i>0.670</i>
2 Commodities as share of GDP	-0.850 <i>0.000**</i>	-0.461 <i>0.000**</i>	-0.238 <i>0.000**</i>	0.942 <i>0.048**</i>	-0.081 <i>0.444</i>
3 Rents natural resources (%GDP)	0.806 <i>0.001**</i>	0.278 <i>0.023**</i>	0.327 <i>0.001**</i>	0.034 <i>0.949</i>	0.157 <i>0.270</i>
4 Tax revenue (% GDP)	-2.486 <i>0.000**</i>	-0.442 <i>0.006**</i>	-0.567 <i>0.000**</i>	-1.121 <i>0.131</i>	-0.448 <i>0.026**</i>
Fuel price index	0.186 <i>0.000**</i>	0.049 <i>0.008**</i>	0.028 <i>0.057*</i>	0.192 <i>0.002**</i>	0.027 <i>0.006**</i>
Minerals price index	-0.399 <i>0.000**</i>	-0.135 <i>0.000**</i>	-0.097 <i>0.000**</i>	-0.278 <i>0.000**</i>	-0.091 <i>0.000**</i>
Constant	66.366	-1.078	45.794	98.120	63.221
Mean VIF	2.27	2.91	2.91		
Adj R-square	0.786	0.566	0.557	0.190	0.440

\* 90% Confidence      \*\* 95 % Confidence      *p-values in italics*

In this sense, Model 4 corroborates the inferences from Model 1, Model 2, Model 3, as well as the logical premises of the state argument. After controlling for changes in global conditions, Model 4 stresses the importance of the structural organization of the state on regional socioeconomic outcomes. First, states organized around higher levels of commodities as a share of total exports also present the higher levels of poverty given that as commodity share increases across time by 1%, poverty increases by 0.37%. Similarly, states organized around higher levels of rents from natural resources also present the higher levels of poverty given that as natural rents increase across time by 1% poverty increases by 0.81%. Moreover, states organized around higher levels of commodities as a share of GDP also present lower levels of poverty given that as commodities as share of GDP increase across time by 1%, poverty decreases by 0.85%. Ultimately, states organized around higher levels of tax revenue as share of GDP present lower levels of poverty given that as tax revenue increases across time by 1%, poverty decreases by 2.49% (see column 1). Second, states organized around higher levels of commodities as a share of total exports also present the higher levels of inequality given that as commodity share of total exports increases across time by 1%, the GINI coefficient increases by 0.24 points. In addition, states organized around higher levels of rents from natural resources also present the higher levels of inequality given that as natural rents increase across time by 1%, the GINI coefficient increases by 0.33. Also, states organized around higher levels of commodities as a share of GDP also present lower levels of inequality given that as commodities as share of GDP increases across time by 1%, the GINI coefficient decreases by 0.29 points. Finally, states organized around higher levels of tax revenue as share of GDP present lower levels of inequality given that as tax revenue increases across time by 1% , the GINI coefficient

decreases by 0.57 points (see column 3). Thus, Model 4 corroborates the causal relationship proposed by the state argument regarding the structural organization of the South American state and socioeconomic outcomes in the region .

In addition, Model 4 also corroborates the validity of the state argument regarding the structural organization of the state and extreme poverty. In this sense, states organized around higher levels of commodities as a share of total exports also present higher levels of extreme poverty given that as commodities share increases across time by 1%, extreme poverty increases by 0.33%. Similarly, states organized around higher levels of rents from natural resources also present higher levels of poverty given that as natural rents increase across time by 1%, extreme poverty increases by 0.28%. Moreover, states organized around higher levels of commodities as a share of GDP also present lower levels of poverty given that as commodities as share of GDP increase across time by 1%, extreme poverty decreases by 0.46%. Also, states organized around higher levels of tax revenue as share of GDP present lower levels of poverty given that as tax revenue increases across time by 1%, extreme poverty decreases by 0.44% (see column 2). Similarly to previous models, Model 4 corroborates the role of global conditions on poverty and inequality in south America by suggesting that changes in the price index of fuels have a statistically significant and positive relationship with poverty, extreme poverty, and inequality in South America while changes in the price index of minerals have a statistically significant and negative relationship.

However, the Fixed-Effects Regression model in Model 4 presents differences with the OLS-Pooled Regression model previously discussed. In terms of poverty, the Fixed-Effects Regression model presents different results regarding the relationship between

indicator 1 and 2 with poverty and inequality (see column 1a and 3a respectively). The OLS-Pooled Regression model shows that between South American countries, as the rate of commodities as a share of total exports increases (indicator 1), poverty at national lines and the GINI index also increase (see column 1 and column 3). However, the Fixed-Effects Regression model suggests that within each individual country, as the rate of commodities as a share of total exports increases (indicator 1), poverty at national lines and the GINI index actually decrease (see column 1a and column 3a). Moreover, while the OLS-Pooled Regression model shows a negative relationship between the rate of commodities as a share of GDP (indicator 2) and poverty at national lines in South America (see column 1), the Fixed-Effects Regression model suggests a statistically significant yet positive relationship between the rate of commodities as share of GDP and poverty at national lines (see column 1a). The results of the Model 4 suggest that while increasing commodities as a share of total exports reduces poverty and inequality within each country, this improvement is superficial since in general terms the region actually suffers as a whole when commodities increase. Therefore, while the OLS-Pooled Regression model in Model 4 validates the logical premise and the hypothesized relationship of the state argument when explaining the continuity of South American poverty and inequality, the Fixed-Effects Regression model suggests that the intracontinental variation responds to state-specific and time-variant factors.

Ultimately, the state argument suggests that it is the structural and functional organization of the South American state that explains the continuity of poverty and inequality in the region. The literature on the resource curse has identified three processes that create poverty and inequality in countries that are organized around the

commercialization of commodities: rent-seeking political behavior, de-industrialization, and macroeconomic volatility. However, the state argument suggests that these processes are not responsible for the continuity of socioeconomic distortions in the region. The state argument suggests that socioeconomic distortions in South America can't be understood solely by observing the political behavior of actors, rates of industrialization, or changes in global markets. The logical premise of the state argument responds to a simple observation: if South American states have known for decades that these processes create poverty and inequality, then why is it that they have not change them. The region has experience periods of more or less industrialization, with administrations that have been more or less corrupt, and under global contexts of more or less volatility. Yet the rate of poverty and inequality fluctuate accordingly to the relationships corroborated by Model 1, Model 2, Model 3, and Model 4. What the models ultimately suggest, corroborating the main hypothesis of the state argument, is that the continuity and inequality in South America is the structural and functional organization of the state. Chapter 4 elaborates on the historical processes that influenced the specific formation and consolidation of the South American state, pointing at how the structure of the South American state responded to economic imperatives and was organized around the export economy. This particular structure continues to characterize South American states, regardless of the changes in magnitude between the late nineteenth century and the twenty first century. In other words, the state argument suggests that the resource curse argument has identified a spurious relationship between rent-seeking political behavior, de-industrialization, macroeconomic volatility, and poverty and inequality. The resource curse has identified processes, the state argument identifies the structure that creates the incentives and possibilities for processes to take place.

The state argument is not a rebuttal of the resource curse argument, it presents a resolution to a pivotal challenge to the resource curse argument: why is it that other countries that have an important presence of natural resources do not present the same processes of rent-seeking political behavior, de-industrialization, and macroeconomic volatility? Why is it that Canada or Australia do not suffer drastic socioeconomic distortions once the global commodity market changes? The state argument responds by pointing at the structural and functional organization of the state. Based on the experience of the South American state, the state argument hypothesizes that the reason why Canada or Australia do not suffer drastic socioeconomic distortions once the global commodity market changes is because they have not organized their societies, their economies, and their states around exporting primary products. In this sense, Table 13 presents Model 5, the OLS-Pooled Regression model that operationalizes the main hypothesis of the state argument. Informed by the results of Model 1, Model 2, Model 3, and Model 4, Model 5 combines the indicators that measure the structural organization of the state (indicators 1, 2, 3, and 4) and the indicators that measure the functional capacity of the state (indicators 6 and 10) while controlling for changes in the global commodity market. However, in order to test the validity of the state argument claims about the role of the structure of the state instead of the process of de-industrialization in perpetuating poverty and inequality in the region, Model 5 introduces an indicator measuring the rate of manufactured exports as a share of total exports as shown in Figure 13.

The data show that the state argument explains poverty in South America, while it is not definitive on the validity of the state argument explaining inequality. Column 1 of Model 5 shows the relationship between structural and functional organization of the state

**Table 13. Model 5: The State Argument**

Column	Poverty		Inequality		Fixed Effects			
	National Lines		GINI		National Lines		GINI	
	1	2	3	4	1a	2a	3a	4a
1 Commodity (%exports)	0.302 <i>0.210</i>		0.277 <i>0.000**</i>		-0.219 <i>0.372</i>		-0.074 <i>0.534</i>	
2 Commodity (%GDP)	-0.561 <i>0.003**</i>	-0.561 <i>0.003**</i>	-0.239 <i>0.001**</i>	-0.239 <i>0.001**</i>	1.788 <i>0.000**</i>	1.788 <i>0.000**</i>	0.125 <i>0.319</i>	0.125 <i>0.319</i>
3 Rents (%GDP)	0.482 <i>0.091*</i>	0.482 <i>0.091*</i>	0.153 <i>0.093*</i>	0.153 <i>0.093*</i>	-1.138 <i>0.023**</i>	-1.138 <i>0.023**</i>	-0.074 <i>0.653</i>	-0.074 <i>0.653</i>
4 Tax (% GDP)	-1.226 <i>0.035**</i>	-1.226 <i>0.035**</i>	-0.725 <i>0.000**</i>	-0.725 <i>0.000**</i>	-0.450 <i>0.474</i>	-0.450 <i>0.474</i>	-0.362 <i>0.088*</i>	-0.362 <i>0.088*</i>
6 Pol. stability	-3.444 <i>0.133</i>	-3.444 <i>0.133</i>	-3.467 <i>0.000**</i>	-3.467 <i>0.000**</i>	-9.480 <i>0.001**</i>	-9.480 <i>0.001**</i>	-1.368 <i>0.117</i>	-1.368 <i>0.117</i>
10 C. of corruption	-2.278 <i>0.417</i>	-2.278 <i>0.417</i>	3.083 <i>0.000**</i>	3.083 <i>0.000**</i>	19.231 <i>0.000**</i>	19.231 <i>0.000**</i>	3.570 <i>0.052*</i>	3.570 <i>0.052*</i>
Manufacture (%exports)		-0.302 <i>0.210</i>		-0.277 <i>0.000**</i>		0.22 <i>0.372</i>		0.046 <i>0.534</i>
Fuel price index	0.158 <i>0.000**</i>	0.158 <i>0.000**</i>	0.027 <i>0.038*</i>	0.027 <i>0.038*</i>	0.052 <i>0.078*</i>	0.052 <i>0.078*</i>	0.019 <i>0.061*</i>	0.019 <i>0.061*</i>
Minerals price index	-0.386 <i>0.000**</i>	-0.386 <i>0.000**</i>	-0.085 <i>0.000**</i>	-0.085 <i>0.000**</i>	-0.223 <i>0.000**</i>	-0.223 <i>0.000**</i>	-0.075 <i>0.000**</i>	-0.075 <i>0.000**</i>
Constant	65.61	95.83	44.63	72.38	21.64	-0.254	55.02	50.28
Mean VIF	4.38	4.38	3.46	3.46				
Adj R-square	0.787	0.787	0.662	0.662	0.040	0.040	0.150	0.150

\* 90% Confidence      \*\* 95% Confidence      *p-values in italics*

and poverty at national lines while controlling for changes in global conditions. The results show that variance in the structural organization of the state—not its functional capacity—and changes in the global commodity market explain almost four fifths of the variance of poverty in South America. The rate of commodities as share of GDP (indicator 2), the rate of total rents from natural resources as a share of GDP (indicator 3), and the rate of tax



revenue as share of GDP (indicator 4) are statistically significant in explaining the variation of poverty in the region (see column 1). The more rents from natural resources the more poverty, while the less rate of commodities as share of GDP or the less tax revenue the more poverty in the region. Most strikingly, the results in column 1 also corroborate the role of global conditions in explaining poverty in South America. Column 2 of Model 5 tests the logical improvement of the state argument on the literature of the resource curse. By including indicators that measure rent-seeking political behavior (indicator 10), de-industrialization (cmanufacture), and volatility (cfuels and cminerals), column 2 shows the results that measure whether poverty in South America is a result of structural conditions or political and economic processes. The data suggest that variance in poverty is the result of structural conditions and macroeconomic volatility. The model in column 2 omits indicator 1 given its correlation with cmanufacture in order to avoid multicollinearity, and it shows that only one (volatility) of the three processes identified by the resource curse to explain poverty is statistically significant. Informed by the Dependency approach, the state argument actually identifies the importance of global conditions in explaining poverty in South America, which means that the results shown in column 2 corroborate the main hypothesis of the state argument.

In contrast, the data is not as straightforward regarding inequality as it is regarding poverty. Column 3 in Model 5 shows that the structural organization, the functional capacity, and global conditions explain almost two thirds of the variation of inequality in South America. The only results that directly contradict the hypothesized relationships of the state argument are the direction of the relationship between indicator 2 and indicator 10 with poverty and inequality. The state argument hypothesized a positive relationship

between indicator 2 and poverty and inequality. Similarly to Model 1 and Model 3, Model 5 shows a negative relationship between indicator 2 and inequality. Moreover, the state argument hypothesized a negative relationship between indicator 10 and inequality, yet Model 5 shows a positive relationship. The statistical results regarding indicator 10 directly contradict the theoretical understanding of the role of corruption on socioeconomic outcomes. The literature on the resource curse is unequivocal in identifying the negative role of corruption on poverty and inequality, yet Model 5 shows that for every point increase across time in the control of corruption, the GINI coefficient increases by 3.083 (see column 3). This means that the countries that present the lower levels of control of corruption (or the higher levels of corruption) also present the lower levels of inequality. Although the relationship between corruption and inequality challenges conventional wisdom, logic, and the existing literature; the results of Model 3 and Model 5 require further examination. Yet beyond the contradiction of the results with the hypothesized relationship between indicator 10 and the GINI index, column 4 in Model 5 shows that every single indicator is statistically significant. This result contradicts the logical premise of the state argument which understands the relationship between rent-seeking political behavior and de-industrialization with poverty and inequality to be spurious. Model 5 actually shows that inequality in South America is explained by the combination of the structural organization and functional capacity of the state, the existing rent-seeking political behavior, de-industrialization, and macroeconomic volatility. The theoretical implication of the results shown in column 4 is that the hypothesized relationship of the state argument is not correct. The state argument hypothesizes that once the structural and functional organization of the South American state is accounted for, the relationship between the processes identified by

the resource curse argument and socioeconomic distortions is spurious. Model 5 shows that while that is the case for poverty, the state argument does not provide a comprehensive explanation of inequality in South America.

Ultimately, the Fixed-Effects Regression model in Model 5 contradicts the results of the OLS-Pooled Regression model. Regarding poverty, the Fixed-Effects Regression model suggests that the rate of commodities as share of total exports and the rate of tax revenue are not statistically significant. Moreover, while the rate of commodities as a share of GDP, the rate of natural rents, and control of corruption are statistically significant, the direction of their relationship with poverty contradicts previous models and the hypothesized relationship of the state argument. Only the levels of political stability and absence of violence present a statistically significant and negative relationship with poverty, supporting the hypothesized relationship of the state argument. Regarding inequality, the Fixed-Effects Regression model presents contradicting results to those of the OLS-Pooled Regression model and the hypothesized relationships of the state argument. The Fixed-Effects Regression model suggests that the rate of commodities as share of total exports, the rate of commodities as share of GDP, and the rate of natural rents is not statistically significant in explaining the variation of inequality between South American states. Only the rate of tax revenue presents a statistically significant and theoretically consistent relationship with inequality under the Fixed-Effects Regression model, suggesting the variation of inequality between South American states responds to time-variant and country-specific factors. Yet what is clear both from the OLS-Pooled Regression model and the Fixed-Effects Regression model is the statistically significant relationship between global conditions and poverty and inequality. All the models elaborated on the second phase

of the research design suggest that the variation in the price index of fuels and in the price index of minerals explains the contemporary variation of poverty and inequality in South America. Thus, both types of regression models show the importance of global condition in South American development outcomes.

In conclusion, the state argument explains the continuity of poverty and inequality in contemporary South America. Table 14 summarizes the main results of each multivariate regression model after controlling for changes in global conditions and correcting for multicollinearity. Overall, the state argument provides a powerful explanation for the continuity of poverty in South America. In this sense, Model 4 and Model 5 show the most theoretically consistent results regarding poverty. When controlling for commodity price volatility, the structural organization of the South American state explains the variation of poverty in the region. The only result that contradicts the relation hypothesized by the state argument is indicator 2, which shows a consistently negative and statistically significant relationship with poverty. However, it is possible that as the rate of commodity exports as a percentage of GDP increases, states are able to appropriate more resources and direct them towards alleviating poverty through conditional cash transfer programs. Nevertheless, once the rate of commodities as a share of GDP decreases poverty increases because public funds drop.

Yet Table 14 shows that the state argument's explanation for inequality is not as clear as it is for poverty. The state argument suggests that once the structural and functional organization of the South American state is introduced in the relationship, the processes identified by the resource curse argument would not be statistically significant. However,

**Table 14. Summary of the Models**

		Poverty					Inequality					
Model		1	2	3	4	5	1	2	3	4	5	
1	Commodity (%exports)	0.473 <i>0.000**</i>			0.365 <i>0.049**</i>		0.091 <i>0.017**</i>			0.239 <i>0.000**</i>		
2	Commodity (%GDP)	-0.484 <i>0.000**</i>			-0.850 <i>0.000**</i>	-0.561 <i>0.003**</i>	-0.046 <i>0.281</i>			-0.238 <i>0.000**</i>	-0.239 <i>0.001**</i>	
3	Rents (%GDP)		0.733 <i>0.003**</i>		0.806 <i>0.001**</i>	0.482 <i>0.091*</i>		0.395 <i>0.000**</i>		0.327 <i>0.001**</i>	0.153 <i>0.093*</i>	
4	Tax (% GDP)		-1.909 <i>0.000**</i>		-2.486 <i>0.000**</i>	-1.226 <i>0.035**</i>		-0.513 <i>0.000**</i>		-0.567 <i>0.000**</i>	-0.725 <i>0.000**</i>	
6	Pol. stability			-4.789 <i>0.002**</i>		-3.444 <i>0.133</i>			-3.297 <i>0.000**</i>		-3.467 <i>0.000**</i>	
10	C. of corruption			-3.637 <i>0.007**</i>		-2.278 <i>0.417</i>			0.547 <i>0.239</i>		3.083 <i>0.000**</i>	
	Manufacture export rate					-0.302 <i>0.210</i>					-0.277 <i>0.000**</i>	
	Fuel price index	0.174 <i>0.000**</i>	0.159 <i>0.000**</i>	0.108 <i>0.001**</i>	0.186 <i>0.000**</i>	0.158 <i>0.000**</i>	0.038 <i>0.003**</i>	0.016 <i>0.287</i>	0.019 <i>0.079*</i>	0.028 <i>0.057*</i>	0.027 <i>0.038*</i>	
	Minerals price index	-0.424 <i>0.000**</i>	-0.418 <i>0.000**</i>	-0.313 <i>0.000**</i>	-0.399 <i>0.000**</i>	-0.386 <i>0.000**</i>	-0.121 <i>0.000**</i>	-0.091 <i>0.000**</i>	-0.079 <i>0.000**</i>	-0.097 <i>0.000**</i>	-0.085 <i>0.000**</i>	
	Constant	23.518	79.277	70.169	66.366	95.833	49.216	60.801	59.699	45.794	72.383	
	Mean VIF	2.57	2.08	2.83	2.27	4.38	3.36	3.09	3.09	2.91	3.46	
	Adj R-square	0.536	0.649	0.627	0.786	0.787	0.442	0.480	0.575	0.557	0.662	
	* 90% Confidence	** 95% Confidence		<i>p-values in italics</i>								

both rent-seeking political behavior and de-industrialization are statistically significant in Model 5. In fact, rent-seeking political behavior presents a positive relationship with inequality, which is theoretically inconsistent since the literature suggests that those countries that present higher levels of control of corruption also present lower levels of inequality. Nevertheless, Model 5 suggests that those countries that present lower levels of control of corruption are the ones that present lower levels of inequality in the region. Therefore, Table 14 shows the inconsistency of results in terms of inequality throughout all the multivariate regression models, which suggests that the state argument does not provide a robust explanation for inequality in contemporary South America. Either under an OLS-Pooled Regression model or a Fixed-Effects Regression model, the state argument does not provide an empirically consistent explanation of inequality in contemporary South America. The results of the second phase of the research design suggest that the structural and functional organization of the South American state do not explain the continuity of inequality in the region. In fact, the statistical results suggest that the variation of inequality between states in contemporary South America responds to factors outside the ones measured by the state argument. Regardless of whether they are time-variant or state-specific factors, what is clear is that understanding the continuity and the variation of South American inequality requires further exploration, and that the state argument is at least poorly equipped to provide a totalizing explanation.

## CONCLUSION

### REFLECTING ON THE STATE ARGUMENT

The current socioeconomic reality of South America is marked by the presence of high levels of poverty and income inequality. The emergence of China as a global consumer of primary products triggered the expansion of commodity exports that allowed for South American societies to increase their revenue and improve their socioeconomic reality. However, the socioeconomic improvements of the region since the early 2000s have not actually consolidated. As Figure 14 shows, the prices of commodities started to decrease in 2014, stabilizing at prices similar to those of 2005. Yet with the decrease of commodity prices the entire socioeconomic outlook of the region started to shake. Economic growth has deaccelerated in South America, and the danger of massive poverty and inequality is still lingering over the vast majority of the population. The cyclical dynamic of South American political economy is not only a characteristic of the twenty first century. The region in general has already experienced periods of industrialization and de-industrialization, and moments of improved socioeconomic conditions succeeded by prolonged socioeconomic crises.<sup>564</sup> Therefore, the contemporary characteristic of South American political economy is another instance of the cyclical dynamic of socioeconomic conditions in the region.

In this sense, socioeconomic distortions are a chronic condition of South American political economy. There are periods of reduced poverty and inequality, yet once the global

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<sup>564</sup> Hirschman, Albert. 1987. "The Political Economy of Latin American Development: Seven Exercises in Retrospection." *Latin American Research Review* 22(3): 7-36.

market of commodities changes, socioeconomic improvements soon dissipate. The literature presents various explanations for the presence of socioeconomic distortions in South America, but one after the other they seem incapable of resolving the empirical paradoxes of the region's political economy. Since South America became independent, scholars and policy makers have pointed at the region's cultural heritage as the explanation for the pervasive presence of socioeconomic distortions. Observations that South Americans are Catholic and therefore submissive, culturally predisposed to accept centralism and even oppression, and ultimately prone to be corrupt and disrespect the rule of law have been used as explanations for the region's poverty and inequality. But these observations are not only one step away from dangerous racist and xenophobic arguments, they are also empirically incorrect given the development outcome of other Catholic societies in Western Europe. Others have pointed at geographic conditions as an explanation for socioeconomic outcomes in South America, arguing that the vast territories and rough terrain of the region make it difficult for economic success. Yet beyond actual studies that have tested the validity of geography arguments and found them inconclusive at the very least, the fact is that there are other societies with rough terrains and even landlocked that have been able to prosper. The case of Switzerland is perhaps illustrative given its lack of access to the sea and the fragmented and mountainous nature of its terrain.

The answer to South American socioeconomic distortions must lie beyond the region's culture and geography. Current academic works propose a different answer: the resource curse argument. The resource curse argument suggests that the presence of abundant natural resources tends to create conditions that are unfavorable for socioeconomic success. Although there is great diversity in the literature on the resource



course argument, its general proposition suggests that the exploitation of natural resources tends to create rent-seeking political behavior, macroeconomic volatility, and de-industrialization, which in turn create poverty and inequality. The merits of the resource curse argument have been studied thoroughly in the academic literature, and the validity of its propositions empirically corroborated in various disciplines. Yet the resource curse argument presents an important theoretical challenge based on the observation of societies with high presence of natural resources without high incidence of poverty and inequality. The United States is perhaps an important illustration of the limitations of the resource curse argument given its capacity to exploit primary products without the incidence of poverty and inequality characteristic of South American societies. Therefore, it is necessary to elucidate the observations that present an empirical challenge to the proposition of the resource curse argument.

The logical consequence of questioning the validity of the resource curse argument is to examine which factors create rent-seeking political behavior, de-industrialization, and macroeconomic volatility in some countries while not in others when they all present high levels of natural resources. The state argument responds to the empirical challenge to the resource curse argument by stressing that the defining factor for countries with abundant natural resources is their sociopolitical organization. In this sense, the state argument suggests that poverty and inequality are higher in countries that have organized around the exploitation and commercialization of primary resources. It is not merely the presence of natural resources but the sociopolitical organization around commodities that creates poverty and inequality. In this sense, the state argument is premised on the idea that the South American state, as the main representation of sociopolitical organization in the

region, formed and developed around commercializing commodities. The particular organization of the South American state ultimately creates a structure that incentivizes rent-seeking political behavior and de-industrialization, which in turn amplifies the region's dependence on the global market increasing macroeconomic volatility. Therefore, the state argument is not a direct contradiction of the resource curse argument. On the contrary, the state argument provides a structural framework for the processes identified by the resource curse argument. The processes that create poverty and inequality in South America are possible given the region's sociopolitical structure explained by the state argument, which provides for differentiation among societies with high presence of natural resources yet lower incidence of poverty and inequality.

Perhaps the difference between the state argument and the resource curse argument is best explained by questioning the continuity of the processes that create poverty and inequality in the region. At least since the early twentieth century, South American academics and policy makers have been aware of the pervasive consequences of relying on commercializing commodities. Nevertheless, South American societies have been unable to break their reliance on exporting commodities. The most illustrative example of the region's impossibility in breaking with commodity dependence is the self-proclaimed progressive governments that have dominated the political landscape of the region in the twenty first century. The political movements behind these governments have historically criticized the extractivist nature of the South American economy. Yet when they reached power, they actually increased their dependence on natural resources aggravating rent-seeking political behavior, accelerating de-industrialization, and ultimately increasing macroeconomic volatility. This dynamic is best explained by Fernando Coronil, who states:

Even when these nations try to break their colonial dependence to commodity exports through the implementation of development plans designed at diversifying their economies, in general they based themselves in the revenue obtained by exporting commodities, with which they intensify their dependency to them. Paradoxically, by trying to take benefit from their comparative advantage, these exporting nations consistently assume their colonial role as producers of primary goods, a role that is rationalized through the neoliberal capitalist ideology. For these nations, post colonialism follows neocolonialism.<sup>565</sup>

In light of the dominance of Neo-Extractivism in South America, it is therefore necessary to wonder why is it that the region has not changed their socioeconomic outlook. It is in this context that the state argument points at the structural organization of the South American state as the reason behind the continuity of processes that perpetuate poverty and inequality.

The state argument responds to two main questions of South American political economy: how did the South American state form and develop?; and what explains the continuity of South American poverty and inequality? The state argument responds to the first question by suggesting that the South American state formed and developed as a response to economic imperatives. South American state makers not only responded to economic imperatives but ultimately to the existing social fragmentation of the region and the expansion of global capitalism in the nineteenth century. In fact, the factors that conditioned the specific structure of the South American state were the consequence of historical processes that date as back as the moment of colonial conquest. The social fragmentation imposed by Spanish colonialism and reinforced by British commercial

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<sup>565</sup> Coronil, Fernando. 2017. *El Estado Mágico: Naturaleza, Dinero y Modernidad en Venezuela*. Caracas: Editorial Alfa, p. 43 [translated from Spanish by the author].

policy combined with the internal productive structures of exploitation and discrimination conditioned the formation of a state around the commercialization of commodities. Nineteenth century South American elites were not interested in forming a state, and it was only through the alignment of their export interests that they decided to support a viable state. But the state was required to appropriate resources from exports since the vast majority of South Americans were poor and elites were not inclined to fund it. It is therefore the connection between the state and the export economy what maintains the region's dependence on commercializing primary products. Without massive resources from exports, elites would lose their privileged position in society and the state would not be able to appropriate the necessary resources to fulfill its responsibilities.

Although there are important differences in terms of magnitude, contemporary South American states continue to be structurally organized around commercializing commodities. In fact, they continue to present the processes that create poverty and inequality. In this context, the state argument suggests that what explains the continuity of poverty and inequality in contemporary South America is the structure of the state. Through various statistical models, the state argument validates the role of the structure of the South American state in explaining poverty and inequality in the region. Overall, the state argument finds that the countries that present higher levels of structural organization around commercializing commodities also present higher levels of poverty. Specifically, the data show that countries with higher levels of commodities as share of total exports, higher levels of rents from natural resources, and lower levels of taxes as share of total revenue tend to present higher levels of poverty and inequality. The socioeconomic conditions in contemporary South America corroborate the state argument given that countries like

Bolivia, Venezuela, Ecuador, and Colombia present both higher levels of structural organization around primary products as well as higher levels of poverty. However, the findings on inequality are not as conclusive as those regarding poverty. Countries with higher levels of structural organization around commodities do present high levels of inequality, yet countries with low levels of structural organization around commodities like Chile also present higher levels of inequality. The data show that while the continuity of poverty responds to structural conditions and cycles in the global commodity market, the connection between the structural organization of the state and South American income inequality is not clear. The multivariate linear regression model shows statistically significant results explaining inequality, but the results contradict the relationships hypothesized by the state argument. Therefore, explaining inequality in contemporary South America requires elaborating on the causal propositions of the state argument.

In this context, state argument provides a structural explanation for the continuity of South American poverty. The structural organization of the South American state conditions the specific behavior of political actors in the region, favoring the maintenance of the continent's reliance on commodities and consequently perpetuating the specific processes that create poverty. In examining the formation of the South American state, the existing literature identified the necessary conditions that influenced the particular political organization of the region. The work of Centeno and Lopez-Alves showed how the formation of the South American state did not respond to any security imperatives. On the contrary, the formation of the South American state responded to economic imperatives, and both the post-independence conditions of the region as well as global changes in the nineteenth century ultimately shaped the particular structural organization of the state. The

state argument elaborates on the formation of the South American state by examining the historical processes that shaped the conditions that ultimately influenced state development in the region. Through the introduction of antecedent conditions, the state argument elaborates a historical explanation for the continuity of poverty in South America. Yet the state argument primarily elaborates on the structural organization under which the political economy of the region operates by demarcating, explaining, and contextualizing the processes that create South American poverty.

The current elaboration of the state argument advances the understanding of South American political economy while also expanding the discipline's understanding of different experiences of state formation. The state argument shows how particular regional experiences interacted with global processes both at the moment of conquest as well as at the moment of capitalist expansion and conditioned the formation of the South American state. Both by providing theoretical knowledge from South America as well as by contrasting the region's experience with Europe's, the state argument engages with the US-Eurocentrism of the discipline of International Relations and attempts to decenter it. Moreover, the state argument also influences the literature on International Political Economy by stressing the central role of the state in developmental outcomes. The state argument stresses that what differentiates developmental outcomes in countries with abundant natural resources is the organization of the state. In other words, the state argument explains the theoretical inconsistencies of the resource curse argument by contextualizing rent-seeking political behavior, de-industrialization, and macroeconomic volatility. Ultimately, the state argument explains the contemporary dynamics of socioeconomic conditions in the region. By stressing the relationship between global

conditions and regional political structures, the state argument explains the contemporary cyclical dynamic of socioeconomic distortions in South America. Yet even in the face of various theoretical and empirical benefits, the explanatory limitations showed by the data regarding inequality highlight the necessity to expand the state argument.

In order to provide a historical and totalizing explanation of socioeconomic distortions in South America, it is necessary to expand and refine the state argument. The multimethodology research design provided the historical and theoretical foundations for the elaboration of state argument. However, the current elaboration of the state argument does not review the relevant historical processes that took place during the twentieth century. Although the literature and the data stress the continuity of South America's socioeconomic and political structures, during the twentieth century there were important processes relevant to the structure of the state and socioeconomic outcomes. For instance, it is during the twentieth century that South American countries moved from having most of the population living in rural areas and became a predominantly urban region. Moreover, it is during the twentieth century that South American states expanded their functional responsibilities, mirroring the legal arrangements of modern welfare states. In fact, it is during the twentieth century that South American countries experienced a serious process of industrialization under ISI, regardless of the controversial results of the policy. Ultimately, the twentieth century witnessed the definitive emergence of the United States as the uncontested global superpower under an increasingly transformative globalization process. Therefore, examining the relationship between the consolidated South American state and regional and global processes in the twentieth century could expand the explanatory power of the state argument.

The state argument provides a structural framework under which to understand processes of political economy in the region. As mentioned in previous sections, the socioeconomic distortions characteristic of South America have been understood through various explanations. Yet the elaboration of the state argument allows for the contextualization of these explanations, ultimately providing a historically relevant narrative about poverty and inequality in the region. Hence, further areas of elaboration transcend examining the historical processes of the twentieth century. Expanding the state argument to encompass a totalizing explanation of processes of political economy in South America would require not only elaborating on the structural organization of the region but ultimately identifying the particular processes characteristic of the continent. Once the state argument establishes the particular characteristics and structural organization of South American states, regional processes of political economy are contextualized rather than dismissed as an anomaly on certain preconceived standards defined by the historical experiences of the United States and Western Europe. For instance, given the specific structure of South American states and the historical processes of the twentieth century, populism can be understood not as a political anomaly of the region but as an specific rational process incentivized by the continent's context.

Most importantly, expanding the study of the state argument can elucidate the specific structural conditions or processes that explain inequality in South America. The current understanding of the state argument showed inconsistent results regarding the factors that explain contemporary dynamics of income inequality in the region. Yet introducing the historical processes of the twentieth century and their relationship with the structure of the South American state could illuminate the mechanisms that explain



contemporary inequality. For instance, the state argument requires an understanding of how the structural organization of the South American state affects the processes of income redistribution in the region. Specifically, the distribution of income in predominantly urban countries must differ drastically from rural societies. While access to land continues to be a distributional imperative at least in the collective imaginary of South American progressive movements, twentieth century urban unemployment or informal employment provide a better measurement of contemporary income inequality. For the state argument to be a totalizing explanation of South American development outcomes, it is therefore necessary to explore how the structure of the state relates to twenty first century conditions like massive informal economic sectors or global chains of production.

In conclusion, the state argument provides a structural explanation for the continuity of poverty in South America. It examines how the South American state formed and developed by building on the existing literature on the subject while providing a historical causal mechanism relevant to the experience of the region. In doing so, the state argument stresses the centrality of the state in development outcomes, influencing the existing literature on International Political Economy. In fact, the data measuring the causal relationship proposed by the state argument suggests that the continuity of poverty in South America is the consequence of the structural organization of the state rather than because of cultural values, geography, natural resources, rent-seeking political behavior, de-industrialization, or macroeconomic volatility. This is not to say that these factors do not aggravate the conditions of poverty and inequality in the region, but they are intervening processes perpetuated by historical structures. For instance, rent-seeking political behavior is incentivized by an organizational structure that facilitates the centralization of power, the

appropriation of resources for political gain, and a society responsive to distributional schemes designed to alleviate material difficulties. So far the state argument establishes the central role of the organizational structure of the state in South American political economy, yet it still requires profound elaboration in order to elucidate how it affects inequality in the region. The resource curse argument identifies how rent-seeking political behavior, macroeconomic volatility, and de-industrialization are detrimental to development outcomes. But the state argument resolves the theoretical and empirical challenges of the resource curse argument by answering why various countries with abundant natural resources present such dissonant development outcomes. Even in the case of South American countries, with similar historical processes and structural organizations, the state argument is able to explain the intra-regional differences in terms of poverty. By stressing the centrality of the structural organization of the state in development outcomes, the state argument explains why there are degrees of variation between the levels of poverty in Uruguay in comparison to Ecuador, for instance. Thus, while the current study elaborates on the fundamental aspects of the state argument, it ultimately has the potential to contextualize and explain the processes and outcomes of South American political economy.

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