THE POLITICS OF DEVELOPMENT IN LATIN AMERICA AND EAST ASIA

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From 1960 to 2010 the capitalist economies of Latin America grew more slowly, with higher income inequality, than the capitalist economies of East Asia. This chapter explores the reasons for this development divergence. The first section reviews levels and changes of GDP per capita and income inequality from 1960 to 2010 in eight Latin American and East Asian economies. The second section identifies government policies that help to explain why development in Latin America diverged from development in East Asia, focusing on land tenure, education provision, manufactured export promotion, and macroeconomic management. The third section explores historical legacies and social-structural circumstances that help to account for these cross-regional (as well as some intra-regional) policy differences, focusing on colonial heritage, the post-World War II geopolitical situation, natural resource endowment, and class structure. A concluding section addresses the issue of the autonomy of policy-makers from the historical legacies and social structures that shape and constrain their actions.

The conventional wisdom that East Asian economies have developed more successfully than Latin American economies tends to be based, on the East Asian side, on the experiences of South Korea, Taiwan, Singapore, and Hong Kong (the "four tigers"), and, on the Latin American side, on the experiences of Argentina, Brazil, and Mexico. This study extends the universe of cases to Chile, Costa Rica, Indonesia, and Thailand, leaving Hong Kong, Singapore, and Mexico for future study. The analysis thus focuses on eight cases: four in Latin America (Argentina, Brazil, Chile, and Costa Rica) and four in East Asia (South Korea, Taiwan, Indonesia, and Thailand). Each of these eight cases had a middle-income economy for most or all of the period from 1960 to 2010, and each is covered by good data and a large secondary literature.

Analysis of the new set of cases largely confirms the conventional wisdom, based on the comparison between the four Asian "tigers" and Argentina, Brazil, and Mexico, that manufactured export promotion and cautious macroeconomic management contributed to faster economic growth and lower income inequality in East Asia. At the same time, however, incorporation of the non-traditional cases highlights the crucial role of small farms, the public provision of basic education, and state promotion of labor-intensive production in explaining not only the development divergence across the two regions, but also certain important differences *within* each region. Small farms, basic education, and labor-intensive production are often mentioned in studies that compare Latin American to East Asian development, but have yet to be incorporated systematically, along with manufactured export promotion and cautious macroeconomic management, into a comprehensive account of the impact of alternative government policies on economic growth and income inequality. Incorporation of the non-traditional cases also illuminates the impact of colonial legacies, post-World War II geopolitics, natural resource endowment, and class structure on government policies themselves, as well as on development outcomes in ways not mediated by policies.

An advantage of a largely qualitative, but systematic, historical comparison such as the one reported below is that close attention can be paid to the processes that led to the policies and outcomes. The philosopher David Hume (1740: 86-94) recognized that even the contiguity, succession, and constant conjunction of a hypothesized cause and an observed effect is insufficient to infer causality. Statistical analysis has a hard time going beyond such inference. Large-scale statistical analyses permit a more rigorous evaluation of the correlates of outcome variation than can be achieved using qualitative historical comparison alone, but qualitative historical comparison is more versatile in identifying, through "process-tracing," causal mechanisms behind the empirical associations detected in large-scale statistical analyses. An inevitable cost of the non-random selection of cases in small-scale comparisons is that findings may not be generalizable to societies outside the sample. Some of the findings should be relevant to other middle-income countries, however, and even to some low-income and high-income countries as well.

1. Economic Growth and Income Inequality in Latin America and East Asia

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In 1960 Argentina was more than three times as rich as South Korea or Taiwan -- each of which was poorer than Honduras or Nicaragua, which were among the poorest countries in Latin America in both 1960 and 2010 (Heston, Summers, and Aten 2012). In 1960 Brazil, the poorest of the four Latin American countries, was richer than Taiwan, the wealthiest of the four East Asian societies (Table 1). From 1960 to 2010, however, among 110 cases with GDP per capita figures for both years, South Korea and Taiwan ranked second and third at economic growth (calculated from Heston, Summers, and Aten 2012), trailing only Equatorial Guinea, a tiny West African nation where oil was discovered in 1996 and in which 60 percent of the population still lives on less than $1 per day. By 1985 South Korea and Taiwan had surpassed Argentina in GDP per capita, and by 2010 these East Asian societies were each more than twice as rich as Argentina. Not only South Korea and Taiwan, but also Indonesia and Thailand, each registered faster GDP per capita growth from 1960 to 2010 than any of nineteen Latin American countries for which data are available (Heston, Summers, and Aten 2012). The purpose of this study is to explore some reasons for these outcomes.

[Insert Table 1 About Here]

Demographic factors deserve close scrutiny in explanations for economic growth. A society receives a demographic dividend when a baby-boom generation enters the labor force just as fertility (and thus the number of children) starts to decline, but before population aging raises significantly the number of retirees. As the baby boomers enter the work force, the dependency ratio initially falls (there are fewer children but not yet many more elderly), retirement savings initially rise (more people are paying in than taking out), women enter the labor force (thanks to falling fertility), and parents invest more in each child's education (because they have fewer children). Rapid fertility decline can thus contribute to faster GDP per capita growth not only by making the number of inhabitants -- the denominator of the GDP per capita quotient -- smaller than would otherwise be the case, but also by temporarily reducing the dependency ratio. Demographic factors fall short, however, in explaining why GDP per capita grew more slowly in Latin America than in East Asia. Fertility not only fell rapidly in South Korea, Taiwan, and Thailand from 1960 to 2010; it also dropped notably in Chile, Costa Rica, and Brazil, and was low at the outset in Argentina (McGuire 2010: 321). A demographic dividend probably accelerated economic growth in both East Asia and Latin America, but not appreciably more in the former region than in the latter. Different age structures are estimated to have accounted for less than ten percent of the growth gap between the regions from 1965 to 1990 (Bloom, Canning, and Sevilla 2003: 57-59).

Income distribution is another important aspect of the development divergence between East Asia and Latin America. Higher income inequality has been linked to poorer population health status, even taking poverty into account (Wilkinson and Pickett 2010). Higher income inequality has also been found to slow economic growth by limiting the size of the domestic market (Murphy, Schleifer, and Vishny 1989), by raising social and political instability (Alesina and Perotti 1996), and by pressuring policy-makers to enact market-distorting income-redistributive policies (Alesina and Rodrik 1994; Persson and Tabellini 1994; Sachs 1989). Accordingly, it is well worth exploring why, for most of the period from 1960 to 2010, income inequality was higher in each of the four Latin American cases than in any of the four East Asian cases (Table 2).

[Insert Table 2 About Here]

From 1970 to 2000 income inequality rose in Chile, Costa Rica, and Argentina and stayed very high in Brazil, but remained fairly constant in the East Asian cases (in Indonesia, however, surveys indicate a sharp rise between 1999 and 2005). Around 2002, however, income inequality began to fall in all four Latin American countries. Reasons for the decline included economic resurgence (which reduced unemployment), higher commodity prices (which raised incomes in rural areas), a fall in the wage premium paid to skilled labor (partly because of expanded secondary education in previous years), and the proliferation of non-contributory pension schemes and conditional cash transfer programs targeted to the poor (Barrientos 2011; Gasparini, Cruces, and Tornarolli 2011; Gasparini and Lustig 2011; Lopez-Calva and Lustig 2010). Even in 2010, however, all four East Asian cases still had lower income inequality than any of the four Latin American countries (Table 2). This lower income inequality resulted from policies in the same areas that led to East Asia's faster economic growth: land tenure, basic schooling, manufactured export promotion, and cautious macroeconomic management.

2. Economic Policies and Development Outcomes

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Policy explanations for the contrasting development achievements of Latin America and East Asia fall broadly into market-friendly and industrial policy approaches. The market-friendly approach holds that the smaller the state's role in the economy and the more open the economy to international trade and capital flows, the faster the rate of economic growth (Balassa 1988; Hughes ed. 1989). The industrial policy approach holds that East Asia achieved faster economic growth than Latin America mainly because of industrial policies that overrode market forces, and that these policies were facilitated by state autonomy from class pressure (Evans 1995; Gereffi and Wyman eds. 1990; Haggard 1990). Even if the central claim of the market-friendly approach were true -- an issue that will not be adjudicated here -- it wouldn't help to explain why economies grew faster in East Asia than in Latin America. In South Korea and Taiwan the state was intimately involved in economic development, not only by redistributing land, skills, and jobs, but also by restricting international flows of goods, capital, and labor.

The industrial policy approach accords better than the market-friendly approach with the historical experiences of economies in the two regions, but remains itself incomplete. Scholars writing from the industrial policy perspective often recognize that the redistribution of land, skills, and jobs accelerated economic growth in South Korea and Taiwan, but tend to downplay the significance of these factors relative to the promotion of manufactured exports. This chapter will pay more systematic attention to land tenure, education, and the promotion of labor-intensive industry, as well as to the historical and social-structural factors that shaped and constrained policies in these areas. By showing how policies in each of these areas contributed to faster economic growth and lower income inequality in East Asia, and by noting the ways in which the absence or more tepid implementation of such policies limited the development achievements of countries in Latin America, this study will provide a comprehensive explanation for the development divergence between East Asia and Latin America from 1960 to 2010.

2.1. Land tenure and agrarian reform

In 1960 agrarian reform was urgent but neglected in Brazil (Pereira 2003); needed but avoided in Costa Rica (Edelman 1999); begun in the 1960s but reversed in the 1970s in Chile (Jarvis 1985); and largely off the political agenda in Argentina, which lacked a large sedentary peasantry (O'Donnell 1978). Land was much more evenly distributed in East Asia. Smallholding had prevailed for centuries in most parts of Indonesia and

Thailand, and governments in South Korea and Taiwan enacted land reforms in the 1950s that created smallholder majorities. Hence, from 1960 to 2010, large estates and an uneven distribution of land persisted in the Latin American countries, whereas smallholding and a more even distribution of land prevailed in the Asian cases.

Agrarian reform -- or widespread smallholding -- reduces income inequality by giving rural people higher incomes and steadier employment (Campos and Root 1996: 50; Thiesenhusen 1995: 159, 172). Smallholding also promotes economic growth. Small farms usually yield more per acre than big farms (Cornia 1985; Dorner 1992: 23-29) -- even though big farms are often more profitable owing to privileged access to credit, inputs, and markets (Johnson and Ruttan 1994). Smallholding discourages property speculation, reducing the amount of capital tied up in unproductive activity (Wade 1990: 301). Land reform disperses the political clout of agricultural elites, increasing the state's economic steering capacity; boosts rural incomes, raising the demand for consumer goods; helps to pacify the peasantry, reducing pressure for growth-inhibiting income-redistributive policies; and promotes land titling, making land available as collateral for loans (Campos and Root 1996: 51). Even the possibility of land reform creates an incentive for more efficient management, as when legislation subjects underutilized land to expropriation (De Janvry and Sadoulet 1989; Thiesenhusen 1995: 165). Governments in South Korea and Taiwan used agrarian reform to facilitate the transfer of resources from agriculture to industry but helped beneficiaries through agricultural extension, rural infrastructure, and credit and marketing assistance (Kay 2002; World Bank 1993: 32-37).

Agrarian reform is not a panacea. By 2010 the share of the population living in cities was higher in Argentina, Brazil, and Chile than in United States, so there was a limit to what land reform could do in these Latin American countries to reduce income poverty and income inequality. Moreover, land reform disrupts production and can have other negative consequences as well. If the male head of household receives title, the bargaining position of the woman in the household may deteriorate (Kay 1998: 20). Land reform can also disadvantage migrant laborers if they lose the opportunity to work on farms that have been divided among former tenants or resident laborers (Thiesenhusen 1995: 175). In the 1950s, however, smallholding in Indonesia and Thailand as well as land reform in South Korea and Taiwan contributed to rapid economic growth and an even distribution of income. Land reform might well have proved beneficial in the 1950s and 1960s in Latin America, and the failure to sustain or undertake it, for reasons to be discussed below, must be counted among the policy failures that help to explain why the four Latin American cases on which this chapter focuses exhibited from 1960 to 2010 slower economic growth and higher income inequality than the four East Asian cases.

2.2. Primary and secondary education

Beginning in the 1950s, governments in South Korea and Taiwan took steps to give all citizens a decent primary and secondary education (Liu 1992: 368-374; Macdonald 1988: 85-88). None of the other six cases matched these achievements. Indonesia and Thailand raised literacy and improved access to primary schooling, but their progress at expanding secondary education was slow until the 1980s and 1990s respectively. Each of the four Latin American countries from 1960 to 2010 achieved gains in literacy (from already high levels, except in Brazil), secondary enrollment, and mean years of schooling, but these gains too fell short of those of South Korea or Taiwan (McGuire 2010: 318-319). The expansion of primary and secondary schooling in South Korea and Taiwan provided a human capital base that enabled their governments during the 1960s and 1970s to steer their economies upward through the product cycle into higher value-added manufactured exports. Along with land reform, the public provision of reasonably high-quality basic education was also among the principal factors that kept income inequality low in South Korea and Taiwan. Cross-nationally, higher educational attainment has been associated with a more even distribution of income (De Gregorio and Lee 2002).

Despite gains in some educational indicators in Latin America, progress remained sluggish. Among the major problems in many Latin American educational systems, including in the four countries on which this chapter focuses, were heavy spending on school administration and excessive allocation of resources to university education, which served mainly wealthier segments of the population (McGuire 2010: 70, 100-101, 126, 154). Few Latin American countries followed the Pinochet government's example of creating a voucher system for private schools, but several took steps around 1990 to decentralize authority over educational institutions, to develop or expand pre-school programs, to shift resources to schools in poor areas, to introduce achievement tests, and to stimulate the "demand side" by making cash transfers depend on school attendance. Still, few countries made much progress on dropout rates or teacher education, and everywhere except in Cuba, which benefited from better teacher training and more orderly classroom environments, test scores remained low by international standards (McGuire 2012). In the end, increasing access to education in Latin America proved easier than improving its quality (Grindle 2004). These and other problems in Latin American educational systems slowed economic growth and raised income inequality.

2.3. Industrial policy: import substitution and export promotion

The eight cases differed not only in land tenure policies and in the provision of basic schooling, but also in the sequence and emphasis of industrial policy. Before 1960, each of the eight societies except Costa Rica (where the domestic market was too small to support much inward-looking industrialization) had moved from exporting commodities, to manufacturing previously imported inexpensive consumer goods, to producing limited quantities of intermediate goods like chemicals, refined oil, and steel. As industrialization progressed, more and more foreign exchange, which came mainly from agricultural and mineral exports, was needed to pay for imports of machines and raw materials. By the late 1950s, however, foreign exchange was growing scarcer in both regions because of currency overvaluation, higher European tariffs on Latin American agricultural exports, and the reluctance of the United States government to keep giving South Korea and

Taiwan massive foreign aid. At this point, around 1960, industrialization strategies diverged. Governments in Argentina, Brazil, Chile, and Thailand tried to reduce the long-term demand for foreign exchange, whereas governments in South Korea and Taiwan tried to increase its short-term supply (Costa Rica is excluded from the comparison because of its small domestic market; Indonesia is excluded because it spent 1960-1966 in economic chaos capped by mass political violence). To achieve these goals, governments in Latin America and in Thailand encouraged heavy import-substitution industrialization (the production for domestic use of previously imported consumer durables, intermediate goods like steel and refined oil, and capital goods), whereas those in South Korea and Taiwan promoted light export-oriented industrialization (the production for export of inexpensive consumer goods).

In the late 1980s governments in Indonesia and Thailand began to move closer to the industrialization strategies pioneered by South Korea and Taiwan by devaluing their currencies and encouraging manufactured exports. In the late 1990s a surge of foreign investment shifted Costa Rica's major exports from coffee, bananas, beef, cotton, and sugar to textiles and semiconductors. By 2010 the share of manufactures in merchandise exports was higher in Costa Rica (61 percent) than in Brazil (37 percent), Indonesia (37 percent), Argentina (33 percent), or Chile (13 percent), although still lower than in Thailand (75 percent), South Korea (89 percent), or Taiwan (99 percent) (World Bank 2011; Taiwan. CEPD 2012: 222). South Korea and Taiwan thus began as early as 1960 to benefit from the strategy of promoting the export of manufactured goods. They were followed in the late 1980s by Indonesia and Thailand, and in the late 1990s by Costa Rica. Argentina, Brazil, and Chile as of 2010 remained primarily commodity exporters, although manufactures had represented 58 percent of Brazil's exports as recently as 2000 (a commodity price boom contributed to the subsequent plunge to 37 percent in 2010).

The contrast between the development models of Latin America and East Asia should not be exaggerated. In the late 1960s governments in Argentina, Brazil, and Costa Rica began to use subsidies, tax rebates, and free-trade zones to promote the export of manufactures (Kaufman 1979: 221, 236; Ocampo and Ros 2011: 7; Wilson 1998: 97, 104). At the same time, governments in South Korea and Taiwan encouraged the production of steel and vehicles for the domestic market (Amsden 1989: 155, 268; Wade 1990: 87, 90). Import substitution and export promotion can be complementary. Import substitution creates factories and technical skills for export promotion, while export promotion produces foreign exchange for import-substitution (Gereffi 1990: 18; Wade 1990: 363). The main differences in industrial strategy between Latin America and East Asia involved sequence and emphasis. The shift around 1960 in Latin America from light to heavy import substitution, without an intervening stage of light manufactured export promotion, wound up contributing to slow economic growth and high income inequality. The initial adoption of a mainly light export-oriented strategy by South Korea and Taiwan proved to be conducive to rapid economic growth and low income inequality.

One beneficial feature of the East Asian strategy was that it maintained an inflow of foreign exchange that contributed to macroeconomic stability and allowed for a more sustainable build-up of heavy industry -- which after gaining a foothold in the domestic market was encouraged to export. In Argentina, Brazil, Chile, and Thailand, by contrast, governments during the 1960s depended on agricultural or mining exports to meet the even greater foreign exchange requirements of their more immediate and single-minded pursuit of heavy import-substitution. Such exports were subject to climatic and price fluctuations, and the foreign exchange they earned was less and less able to cover the costs of importing the machines and equipment needed to deepen the industrial structure. Moreover, commodity (and manufactured) exports were discouraged by currency overvaluation, which was permitted in part to allow the heavy import-substitution industries to buy foreign inputs at low prices. Overvaluation was a key defect of the heavy import-substitution strategy. Exporters hesitated to expand output, finding that foreign receipts were buying less in overvalued domestic currency (which they needed to buy domestic inputs). Foreign customers sometimes switched to alternative suppliers, finding that they had to pay more for goods whose prices had risen in their own currencies. Overvaluation thus aggravated the shortage of foreign exchange.

A second advantage of the labor-intensive manufactured export orientation was that it encouraged efficiency and adaptability. In the 1960s and 1970s each of the eight societies was labor-abundant and capital-scarce. Those societies whose governments promoted labor-intensive industrialization thus had an efficiency advantage over those whose governments did not. The export dimension was also important. Competing in international markets, South Korean and Taiwanese export firms had to keep costs low, and quality consistent, in order to survive. They also had to learn to anticipate and respond to changes in technology and international markets. In the Latin American cases, as well as in Indonesia and Thailand from the late 1960s to the mid-1980s, governments used high tariffs, multiple exchange rates, and subsidized credit and inputs to maintain an industrial strategy focused on the domestic market rather than on exports, creating what Carlos Waisman (1987: 264) has called a "hothouse capitalism." Industries that matured under these fertile but fragile conditions failed to become internationally competitive, and thereby to generate foreign exchange that might have been used to sustain the import-substitution drive.

South Korea and Taiwan began to export labor-intensive manufactures in the early 1960s, and Indonesia and Thailand followed in the late 1980s. Growth rates surged in each of the four economies after the strategy was adopted. Exports were more labor-intensive in South Korea and Taiwan in the early 1960s than in Indonesia or Thailand in the late 1980s, so the strategy did more to reduce income inequality in the former cases. Each of the Latin American countries did well at expanding non-traditional agricultural exports from the late 1960s onward, but only Brazil in the 1970s and Costa Rica in the 1990s pushed aggressively into manufactured exports. Even in these cases the export of manufactures dominated economic development less than in the East Asian cases, and in both countries manufactured exports tended to be more capital-intensive than the 1960s exports of South Korea or Taiwan. On the whole, South Korea and Taiwan reaped enormous economic gains from the strategy of exporting labor-intensive manufactures. Indonesia and Thailand, which came twenty-five years later to manufactured export-oriented industrialization, reaped significant gains. Brazil and Costa Rica reaped modest gains, while Argentina and Chile reaped few gains, although Chile did well after 1985 at raising exports of wine, juice, fruit, timber, paper pulp, and other agricultural and seafood products, some of which require fairly labor-intensive production and packing processes.

2.4. Macroeconomic management

From 1960 to the 1990s Latin American countries suffered from what the South Korean and Taiwanese governments managed to avoid: persistent budget deficits, negative real interest rates, and overvalued currencies (Wade 1990: 52-61). Thailand likewise pursued cautious macroeconomic policies during this period (Bowie and Unger 1997: 187-188). After Sukarno's fall in 1966 the Indonesian government implemented a stabilization plan featuring sharp budget cuts, unification of the exchange rate regime, higher interest rates, and a tighter money supply (Bresnan 1993: 65-67, Prawiro 1998: 21-57). On the whole, "Indonesia displayed generally sound macroeconomic policies during the 1970s as well as the 1980s" (MacIntyre 1994a: 17). Whereas the four East Asian states kept public employment low and spent little on pensions, the four Latin American states spent massively in these areas, weakening their long-term fiscal stability.

State firms in 1980 actually contributed more to GDP and to fixed investment in Taiwan than in either Argentina or Brazil (Jenkins 1991: 50), but those in Taiwan usually set their prices sufficiently high, and performed efficiently enough, to make money rather than lose it (Amsden 1989: 296; Wade 1990: 52-61, 180). Argentine state firms, in particular, did not (Lewis 1990: 490). The Park government in South Korea kept lending rates below inflation in most years from 1974 to 1981, but deposit rates fell below inflation in only four years from 1970 to 1984, compared to fourteen in Argentina (Woo 1991: 160; World Bank 1993: 112). The Park government, like those of the Latin American countries, subsidized private corporations with cheap credit and other policies, but did so using performance rather than patronage criteria (World Bank 1993: 93-102).

Each of the four East Asian cases thus practiced cautious macroeconomic management until the mid-1990s, when Indonesia, South Korea, and Thailand reduced restrictions on the inflow of short-term foreign capital but kept their currencies linked to the US dollar. These policies led to overborrowing, overinvestment, and currency overvaluation, which triggered the 1997 financial crisis (Nixson and Walters 1999). Governments in Chile and Costa Rica maintained cautious macroeconomic policies after the mid-1980s, but their predecessors in the 1960s and 1970s had run large budget and trade deficits, overvalued their currencies, kept interest rates low, and borrowed heavily abroad. Brazil and Argentina through the 1990s alternated wrenching stabilization plans with looser macroeconomic policies that resulted in big budget deficits, overvalued currencies, and negative real interest rates. Consequently, the East Asian economies experienced much faster GDP growth than the Latin American economies, and also reaped some gains on the income distribution front, insofar as the inflationary episodes that result from loose macroeconomic policies devastate the poor, who carry money around, more than the rich, who often have foreign bank accounts, or unionized workers, whose wages are often indexed to inflation (Armijo 2005; Morley 1995: 157-160).

Cautious macroeconomic policies are not the same thing as a free-market approach to economic development. The South Korean and Taiwanese governments were more successful, not less involved, than Latin American governments in promoting economic growth. They consumed as much, spent almost as much, and relied on state corporations about as heavily as Latin American governments (Jenkins 1991: 48-50). They opened their borders slightly more to goods, but less to labor and capital, than governments in Latin America. Rather than "getting prices right," as free market partisans recommend, policy makers in South Korea and Taiwan often intervened to "get prices wrong" (Amsden 1989: 139), especially by targeting for export development industries and sectors that needed raw materials that neither society produced. South Korea lacked iron and coal but became a big producer of ships and automobiles. Taiwan lacked petroleum but became a top petrochemical and plastics manufacturer. Moreover, as has already been noted, the state in both South Korea and Taiwan played a crucial role during the 1950s and 1960s in redistributing land (by land reform), skills and knowledge (by investing in basic education), and jobs (by promoting labor-intensive export industries) (Drèze and Sen 1989: 195). South Korea and Taiwan outpaced the Latin American countries at GDP per capita growth, and achieved lower levels of income inequality, not because their governments guided their economies less, but because their governments guided their economies better, in more congenial circumstances.

With few exceptions, then, Latin American governments did less than East Asian governments to create or preserve smallholder agriculture, to provide basic education, to promote labor-intensive manufactured exports, or to maintain cautious macroeconomic policies. These policy differences help explain why, in general, the Latin American economies grew more slowly, with higher income inequality, than the East Asian ones.

3. Historical Legacies, Social Structure, and Economic Policies

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Bureaucratic initiative (political will) is responsible for a social or economic policy to the extent that officials in an executive-branch agency, acting with a degree of autonomy from pressures outside the executive, propose, design, approve, implement, or sustain such a policy. Bureaucratic initiative so defined does indeed help to explain why Latin American governments did less than their East Asian counterparts to redistribute land, skills, and jobs, as well as to maintain cautious economic policies and to promote manufactured exports. As a hypothesized causal factor, however, bureaucratic initiative resists generalization. Moreover, political will is shaped and constrained by the environment in which it is exercised. This section will focus on four contextual factors that shaped and constrained social and economic policies: colonial rule, the post-World War II geopolitical situation, natural resource endowment, and class structure. These historical legacies and social-structural factors, it is argued, were less conducive to development-promoting social and economic policies in Latin America than in East Asia.

3.1. Colonial heritage

Argentina, Chile, and Costa Rica became colonies of Spain, and Brazil became a colony of Portugal, in the early 1500s. Each remained under colonial rule until 1816-1822, when the Spanish-American colonies fought wars of independence and Brazil negotiated independence from Portugal. Japan colonized Taiwan from 1895 to 1945 and Korea from 1910 to 1945. The Dutch occupied Indonesia from 1600 onward and colonized most of the archipelago during the 19th century, ruling most of what is now Indonesia through 1949. Thailand was never colonized, although it was occupied by Japan from 1941 to 1945. Until 1932 it had an absolute monarchy and a traditional village society, after which the military dominated until the early 1990s.

The impact of colonial rule on subsequent institutions, policies, and development outcomes in Latin America and East Asia is a venerable topic of scholarly research (Acemoglu, Johnson, and Robinson 2005; Booth 1999; Cumings 1987; Engerman and Sokoloff 1997; Kohli 2004; Mahoney 2010). Here it is suggested that colonial rule exerted a particularly important impact on land tenure, the state bureaucracy, education, and industry and infrastructure. In each of these areas, Japanese colonialism in Korea and Taiwan left a more development-friendly legacy than Iberian colonialism in Latin America or than Dutch colonialism in Indonesia (or, for that matter, than absolute monarchy in independent Thailand). Colonial rule was harsh under the Japanese, especially in Korea; but it was also harsh under the Iberians and Dutch. The Japanese colonial legacy proved more conducive to subsequent economic development.

A first important difference between the colonial experiences involved their effects on the subsequent strength of landed classes and on land tenure. Land grants by Iberian monarchs created powerful landowning families in Brazil and Chile (Mahoney 2010: 175, 245-246), and to a lesser extent in Argentina and Costa Rica (Rock 1987: 45-49; Meléndez Chaverri 1989). Many such families kept their lands after independence. The Dutch created plantations in Indonesia, but smallholding continued to predominate (Geertz 1963: 86). Thailand was also characterized by a traditional village society, without much tenancy through the end of World War II. In Taiwan the Japanese actually carried out land reform, weakening the previous landlord class. In Korea the Japanese conducted a land-use survey that led to tax hikes and formalized property rights, pushing some marginal farmers off the land. Ultimately, however, Japanese colonialism weakened landlords in Korea. Japanese landlords were expropriated after World War II, and many Korean landlords who had managed to hold on to their properties under

Japanese rule were disparaged as collaborators. This public disdain weakened them after colonial rule ended in 1945, facilitating land reform in the late 1940s and early 1950s and increasing the state's autonomy from the dominant social classes (Cumings 1981: 41-48).

A second difference between colonial experiences in Latin America and East Asia involved the degree to which the colonizer created an effective state bureaucracy that penetrated throughout the colonial territory. The Iberian powers were disadvantaged in this respect because they colonized at a time (about 1500 to 1820) when transport was slow and communication was poor. Moreover, long distances separated the Iberians from their overseas possessions, and the territory they colonized in Central and South America was vast. The Dutch in Indonesia shared these handicaps; they arrived in the 1660s but did not fully control the far-flung archipelago until 1910 (Anderson 1990: 97). In both Korea and Taiwan, by contrast, the Japanese implanted strong, centralized bureaucracies (Kohli 2004: 32-61; Peattie 1984: 31-37), helped along by the historical time in which colonization occurred (1895 or 1910 to 1945), by their geographical proximity to Korea and Taiwan, and by the compactness of the colonized territories. The strong, centralized bureaucracies that are sometimes credited with a central role in the economic "miracles" of South Korea and Taiwan are in part legacies of the Japanese colonial state.

A third difference among the colonized societies involved investment by the colonizing power in education. At a time when education was scarce on the Iberian peninsula itself, there was bound to be little in the Latin American colonies. No more than ten percent of the colonial population was literate in 1800. Schooling was sometimes provided to the sons of Amerindian leaders, but blacks and females were denied formal education (Burkholder and Johnson 1990: 225-226; Gibson 1987: 391-392). In Indonesia, the Dutch committed themselves to improving education in the context of the "ethical policy" implemented after 1901, but the scale of such efforts was small (Booth 1999: 311; Ricklefs 1993: 159-162). Japanese colonialism in South Korea and Taiwan had a more salutary impact on schooling. In an effort to train an educated labor force and to create loyal subjects by exposing the locals to their language and culture, the Japanese greatly expanded schooling for children up to age 14 (Eckert et al. 1990: 263; Gold 1986: 38-39; Ho 1984: 353; Tsurumi 1984). Japanese initiatives in education improved welfare and productivity in Korea and Taiwan, facilitating post-colonial economic development.

A fourth important difference among the colonial powers involved infrastructure and industry in the colonized territories. The Spanish and Portuguese in Latin America established plantations, dug mines, improved transport, and built cities, but discouraged manufacturing. Indeed, Queen Maria of Portugal issued a decree in 1786 banning manufacturing throughout Brazil (Frank 1967: 189-190). In Indonesia the Dutch planted new crops, cultivated new regions, built railroads and irrigation systems, drilled for oil, and introduced light industry in the 1930s (Geertz 1963: 63, 86), but relative to population the scale of these initiatives was small. In Taiwan and Korea the Japanese did more to create infrastructure and industry. They modernized agriculture; improved ports, roads, railways; constructed facilities to generate hydroelectric power; and built steel, aluminum, and chemical factories (Cumings 1987: 55-56). Taiwan's factories were bombed heavily during World War II, and because Japan located most Korean heavy industry in the north, it did not become part of the South Korean industrial base. Some industrial expertise survived, however; and on the whole, the Japanese did more than either the Iberian powers or the Dutch to create industry and infrastructure in their colonies. These activities encouraged subsequent development.

Japanese colonialism was thus more conducive than Iberian colonialism to post-independence economic development. The Japanese weakened powerful landlord classes; the Iberians created them. The Japanese founded strong, centralized bureaucracies; the Iberians developed weak, decentralized administrations. The Japanese established industry in their colonies; the Iberians forbade it in theirs. The Japanese built schools and controlled diseases; the Iberians neglected education and spread epidemics. As with Japanese colonialism in East Asia, the impact of Dutch colonialism in Indonesia was not inimical to post-colonial smallholding, but as with Iberian colonialism in Latin America, the Dutch left a legacy of low education, a weak bureaucracy, and limited industry.

3.2. The post-World War II geopolitical situation

The growth of communism and anti-communism in East Asia after 1945 led to titanic military conflict and gave political elites in each of the four Asian cases an excuse to maintain authoritarian rule. Paradoxically, however, the growth of communism and anti-communism also contributed to economic growth. Elites fleeing the communist regimes brought capital and entrepreneurship. Communist triumphs in neighboring countries produced a countersurge of nationalism that mobilized citizens for development. The perceived threat of communism encouraged the United States government in the 1950s to provide massive foreign aid to South Korea and Taiwan. In South Korea, the US occupation in 1947, pressure from the US Truman administration on the South Korean legislature in 1949, and the North Korean invasion in 1950 combined to encourage and facilitate land redistribution (Cumings 1990: 472, 677-680). In Taiwan, the Kuomintang implemented the 1949-1953 land reform because, as outsiders, they needed domestic allies; and because they wanted to avoid repeating their experience in mainland China, where land reform in communist-occupied areas had won peasant support for the Red Army. The war in Vietnam provided lucrative opportunities for contractors and suppliers in South Korea and Taiwan (Eckert et al. 1990: 398-399; Gold 1986: 86-87). Also, the rise of East Asian communism gave the authoritarian governments in South Korea and Taiwan an excuse to repress unions, keeping wages low. The low wages facilitated the shift around 1960 from light import substitution to labor-intensive manufactured exports.

In 1965-1966 hundreds of thousands of Indonesians died in violence involving communism and anti-communism (Friend 2003: 113-115). This violence weakened the Indonesian Communist Party, and by the end of 1968 its remnants could not threaten the Suharto government (Ricklefs 1993: 298). The establishment of revolutionary regimes in

Vietnam, Cambodia, and Laos presented ongoing security challenges, however, so even though Indonesia after 1966 faced no powerful domestic insurgency, the perception of threat to the existing order, augmented by secessionist movements, was not negligible. Consequences of this perceived threat included generous US foreign aid in the late 1960s and the repression of the labor movement (Hadiz 1997: 61). In these respects Indonesia in the late 1960s resembled South Korea and Taiwan in the 1950s. US foreign aid facilitated cautious macroeconomic policies, and labor repression kept wages low, which helped in the late 1980s when Indonesia began to export manufactures. The perceived threat of communism was lower in Thailand than in Indonesia during the 1960s and 1970s, but communist forces took over neighboring Cambodia and Laos in 1975, and leftist insurgencies were active in northeast Thailand from the late 1960s to the early 1980s.

The struggle between communism and anti-communism also shaped development in Latin America, but not as much as in the Asian cases. As Ché Guevara's failure in Bolivia showed, Castro's capacity to export the Cuban Revolution was not as great as Kim Il Sung's potential to threaten South Korea or Mao Tse-tung's ability to threaten Taiwan, or even as great as the capacity of revolutionary forces to threaten regimes in Indonesia or Thailand. Outside of the White House basement, few were persuaded that (barely) socialist Nicaragua posed a threat to capitalism in Costa Rica in the 1980s. Guerrilla groups were active in the late 1960s in Argentina and Brazil, but neither country faced a credible revolutionary threat. A Marxist candidate, Salvador Allende, became president of Chile in 1970, but did so with a scant 36 percent of the vote -- a handicap which, combined with his ambitious program to build socialism, set the stage for serious social conflict and made him vulnerable to overthrow by the military in 1973 (Valenzuela 1978: 41-44). Among the four Latin American cases, only Chile in the late 1960s and early 1970s carried out a large-scale land reform, and it was mostly reversed under Pinochet a few years later. Because communist forces were weaker in Latin America than in East Asia, landed elites tolerated less land reform (Dorner 1992: 11).

The low level of threat posed by communism in Latin America in the decades after World War II made some factions of the elite willing to forge alliances with labor unions, notably under Perón in Argentina (1946-1955) and Vargas in Brazil (1950-1954). Earlier, Aguirre Cerda in Chile (1938-1941) and Calderón Guardia in Costa Rica (1940-1944) had also formed labor-based governments (Collier and Collier 1991; McGuire 1997; Yashar 1997). In Korea, Taiwan, Indonesia, and Thailand, by contrast, unions had been severely repressed under colonial or, in Thailand, monarchical and then military rule. This history of repression, along with general poverty, made industrial wages around 1960 much lower in East Asia than in Latin America. Low wages facilitated export-oriented industrialization in South Korea and Taiwan; higher wages posed a deterrent to this strategy in the Latin American cases (Mahon 1992).

3.3. Natural resource endowment

Sachs and Warner (1995) and others have noted a cross-national statistical association between a rich natural resource endowment and slower economic growth. One mechanism that is often invoked to account for this association is the "Dutch disease." In 1959, a rise in Dutch natural gas exports led to a foreign exchange windfall that drove up the value of the guilder and priced Dutch manufactured exports out of other European markets. This experience exemplifies the tendency of natural resource exports to generate an inflow of foreign exchange, pushing up the value of the domestic currency. Overvaluation makes a country's exports less competitive in foreign markets. It also makes exporting less profitable relative to selling on the domestic market, because export earnings arrive in (cheap) foreign currency, whereas most expenses (for labor, services, etc.) are paid in (expensive) local currency (Davis 1995: 1768; *Economist* 1995: 88). A related phenomenon is the "unbalanced productive structure," by which natural resource exporters suffer from higher equilibrium exchange rates than countries without many such exports (Diamand 1986; Mahon 1992). Natural resource exporters can overcome the Dutch disease, as the Indonesian case shows (Prawiro 1998: 114-124). The rule of law and protection of property rights seem to help (Torvik 2009). Still, the Dutch disease represents a challenge that policy-makers have to confront.

Mechanisms in addition to the Dutch disease could also mediate the association between a rich natural resource endowment and slower economic growth. From 1862 to 1999 natural resource exports suffered from declining terms of trade relative to industrial products, as well as from higher price volatility (Cashin and McDermott 2002). From 2002 to 2010, however, commodity prices skyrocketed, erasing a century's worth of decline (Dobbs, Oppenheim, and Thompson 2011: 1-2). If resource wealth slows economic growth, factors other than the terms of trade are probably involved. One such factor may involve wages. Wealth derived ultimately from natural resources may allow employers to raise wages higher than is optimal for export competitiveness. In the 1600s, Keynes noted, Spanish wages rose above competitive levels after gold and silver began to arrive from the Americas (Gelb et al. 1988: 33). Mahon (1992) argues that relatively high wages may have made Latin America "too rich to prosper." Natural resource exports can encourage protectionism if governments raise tariffs and other import restrictions to counter the import surge produced by currency overvaluation (Sachs and Warner 1995). Perhaps most importantly, countries can use foreign exchange generated by agricultural and mineral exports to transit directly from light to heavy import substitution, without going through a foreign exchange-generating stage of light manufactured exports (Auty 1994: 16). This sequence of industrialization, which is facilitated by natural resource exports, has proven to be suboptimal for economic growth.

Not all economists concur that a "resource curse" exists (Pineda and Rodríguez 2011). Still, the hypothesis is largely consistent with the experiences of the eight cases compared here. From 1960 to 2010 economic growth was much faster in South Korea and in Taiwan than in any of the six resource-rich countries. Lacking natural resources, and with relatively small domestic markets around 1960, neither South Korea or Taiwan was able to use foreign exchange from agricultural or mineral exports to pay for the imports needed to shift directly from light to heavy import substitution. Argentina and Brazil, by contrast, had both large markets and rich natural resource endowments, whose exports provided substantial foreign exchange. These earnings allowed their governments to create infrastructure and industry catering to the domestic market, without the need to expand labor-intensive manufactured exports first. Chile and Costa Rica had small domestic markets but, relative to population size, rich natural resource endowments, with Chile dependent on the export of copper and Costa Rica on the export of agricultural products. Costa Rica remained at a low level of industrial development until the 1990s, when clothing and later semiconductor exports took off. In Chile, however, the government of Eduardo Frei Montalva (1964-1970) used copper revenues to encourage the installation of a dozen automobile factories, many in would-be "growth poles" in remote areas of the country, to turn out expensive clunkers for a minuscule domestic market (Johnson 1967). A rich endowment of natural resources thus made possible in Chile a sequence of industrialization that proved inimical to rapid economic growth.

Thailand likewise used natural resource exports to finance the deepening of import substitution during the 1960s (Muscat 1994: 107-108, 294). Indonesia was too poor and politically turbulent from 1960 to 1966 to follow this course, and Costa Rica's domestic market was too small to support much in the way of heavy industry at any time. In South Korea and Taiwan, however, a scarcity of natural resources prevented commodity exports from financing heavy import substitution during the 1960s, leaving their governments with little choice but to pursue an industrialization strategy based on the export of light manufactured goods. This sequence proved to be more propitious for long-term economic growth than the sequence followed in Argentina, Brazil, Chile, or Thailand, which involved transiting directly from light to heavy import substitution.

3.4. State hardness and class structure

Rapid GDP growth in South Korea and Taiwan is sometimes attributed to a "strong state," a concept that combines authoritarianism with the capacity of government officials to make and implement economic policy with a degree of autonomy from interest group pressure or clientelistic ties. Not every aspect of authoritarian rule is functional, however, let alone necessary, for rapid economic growth, much less for lower income inequality. More useful is the notion of a "hard state," a concept that is limited to bureaucratic insulation -- a degree of which is compatible, as in postwar Japan, with free, fair, inclusive, and decisive elections and with basic human and civil rights. Too much autonomy can deprive state officials of information and of allies for policy implementation, but too little can leave the state vulnerable to colonization by powerful interest groups or rent-seeking clients (Evans 1995). In middle-income developing societies, the latter problem is usually more acute than the former.

The state was harder in Taiwan and in South Korea than in any of the Latin American or Southeast Asian societies. South Korea and Taiwan inherited strong, centralized bureaucracies from the Japanese. The Latin American countries inherited weak bureaucracies from the Iberians, Indonesia received a weak bureaucracy from the Dutch (MacIntyre 1994b: 261), and Thailand evolved a weak bureaucracy under the monarchy (Unger 1998: 76). State "hardness" depends, however, not only on features of the state bureaucracy, but also on the "softness" of major social classes. The weaker the cohesion and organization of such classes, the higher the state's steering capacity.

On the whole, big landowners, industrialists, and urban workers were stronger in Latin America than in East Asia. Big landowners in the four Latin American societies had sufficient cohesion and organization to block, reverse, or circumvent land reform. Those in South Korea and Taiwan failed in this endeavor, while those in Thailand and Indonesia were few in number and weakly organized. Industrialists in the Latin American countries, often organized into business associations, pressed successfully for overvalued currencies; those in the East Asian cases were less cohesive and often depended on government officials for low-interest loans. Unionized workers in Argentina, Brazil, and pre-1973 Chile kept wages high, fought devaluation, resisted free-market reforms, and derailed stabilization policies; those in East Asia were too weak or too repressed to exert such influence. The strength of state policymakers vis-à-vis class actors helps to explain why economic policies were less growth-friendly in Latin America than in East Asia.

Argentine landowners, particularly cattle ranchers, wielded enormous political influence from 1880 until Perón came to office in 1943 (Smith 1967: 49). After Perón's overthrow in 1955 landowners did not to regain their former political clout, but they continued to exercise enough influence to derail a wide range of taxation, price control, import liberalization, and local land reform initiatives, exacerbating the erratic policy shifts of the era (Manzetti 1993: 257-277; O'Donnell 1978). The main source of landowners' ongoing political influence was their lock on the country's supply of foreign exchange. In 2009 agricultural products, mostly grains and oilseeds, still made up 52 percent of Argentina's merchandise exports (World Bank 2011).

Landowners were less cohesive in Brazil, partly because of regional divisions, but collectively they remained strong (Carter 2010). From 1889, when republic replaced empire, to the military coup of 1930, coffee growers from São Paulo, dairy farmers from Minas Gerais, and cattle ranchers from Rio Grande do Sul dominated Brazilian politics. Presidents Getúlio Vargas and Juscelino Kubitschek, the main Brazilian political figures from 1930 to 1960, pushed for industrial development, but neither attempted land reform and both subsidized coffee growers (Skidmore 1967: 85, 168-169; Skidmore 1979: 150-151). A tepid land reform bill was enacted under president José Sarney (1985-1990), but military opposition and landowner vigilantism blocked its implementation. The Cardoso government (1995-2002), under pressure from the Landless Movement, settled more land claimants than any previous government, but only a small fraction of potential beneficiaries received land (Allen 2002; Ondetti 2008). Progress during the avowedly leftist presidencies of Lula da Silva (2002-2010) was no better (NERA 2011: 22).

Most large landowners in Chile in the early 20th century held land in the compact Central Valley, lived in Santiago, and joined the same clubs (Bauer 1975: 207). This cohesion gave them formidable political influence. In 1918, 46 percent of Chile's national legislators owned a large estate (Smith 1978: 14). From the 19th century onward Chilean landowners exercised electoral influence out of proportion to their numbers thanks to clientelistic relations with workers resident on their estates. Electoral reforms in 1958 weakened these ties (Baland and Robinson 2008; Scully 1995: 116-117), and from 1965 to 1972 the Frei and Allende governments redistributed some 43 percent of the country's agricultural land (Jarvis 1985: 11). After the 1973 coup, however, the Pinochet dictatorship returned nearly half of this land to its formers owners and withheld technical assistance, credit, and infrastructure from the remaining recipients, forcing many beneficiaries to sell their plots (Jarvis 1985). Accordingly, landowners remained politically powerful. In the early 1990s most Chilean senators still held "significant agricultural interests" (Collins and Lear 1995: 198). Many streamlined their operations in the 1980s and 1990s, selling off land to raise capital to invest in producing fruit, juice, and wine for export (Thiesenhusen 1995: 165).

Costa Rica has a reputation as a society of small farmers, but big cattle ranches blanket the northwest, large cacao and banana plantations operate in the east and southwest, and small coffee growers in the Central Valley depend on credit from banks that are often owned by big landowners and receive processing and marketing help from large planters (Yashar 1997: 55-60). Costa Rican governments in the second half of the twentieth century never pushed strenuously for land reform, and often helped landed elites with policies that raised output and encouraged diversification into cotton and cattle. Pressure from landed elites for subsidies contributed to a major fiscal crisis in the early 1980s (Wilson 1998: 90). Ensuing market reforms encouraged new exports of flowers, houseplants, pineapple, and palm oil alongside coffee, bananas, cotton, beef, and sugar. Big landholders, however, produced most of these new products as well, for which they received generous export tax credits (Barham et al. 1992: 70; Clark 2001: 131).

Landed elites in the four Latin American countries have thus been strong enough to resist land reform, to extract generous subsidies, and to constrain policy initiatives. Landed elites in South Korea and Taiwan were in a weaker position in the 1950s, when land reform began. In Taiwan the Japanese colonial regime had expropriated many absentee landlords, and the Kuomintang government bought off most who remained with equity in industrial firms. In South Korea, big landowners who survived Japanese rule were often viewed as collaborators, and U.S. pressure and the North Korean invasion combined to persuade them to give up their land. Thailand and Indonesia were largely smallholding societies from the outset. The weakness of landed classes in the East Asian cases facilitated land reform, increased the state's steering capacity, cushioned sectoral clashes between agricultural and industrial interests, and reduced the demand for expensive state subsidies, contributing directly and indirectly to rapid economic growth as well as to lower income inequality.

The stronger the industrialists who emerged during the early stages of import substitution, the weaker the will and capacity of state policy-makers to enact the policies needed to stimulate a shift toward export promotion, or to make the flow of state benefits depend on efficiency or export performance. Industrialists who are accustomed to cheap inputs and steady sales are likely to oppose devaluations that raise the cost of production and depress local demand. Those who have gotten used to receiving state subsidies on the basis of patronage or political criteria are likely to become annoyed if those subsidies are made contingent on performance criteria. If these industrialists have enough political clout to translate such dissatisfaction into effective opposition, export promotion and performance-based subsidies will be harder to propose, approve, and implement. Industrialists had such clout in Argentina, Brazil, and Chile, but not in the East Asian cases (nor as much in Costa Rica, where industry remained small in scale).

Argentina and then Brazil began to industrialize after 1880, and by the late 1920s each produced textiles, food and beverages, and other non-durable consumer goods. Industrial development got a boost when import capacity fell during the depression of the early 1930s, and even after finances recovered governments continued to encourage industrialization with subsidies and protective tariffs. The light import-substitution phase thus lasted longer in Argentina and Brazil (about 1930 to 1955) than in South Korea or Taiwan (in the 1950s), in Thailand (in the 1960s), or in Indonesia (in the 1970s, when substantial heavy import substitution also took place). The duration of this phase in Latin America increased expectations of state support and strengthened vested interests. To try to control industrialists who benefited from tariff protection and subsidies, government officials in Argentina and Brazil forced or encouraged them to join officially-sanctioned employers' organizations. Once created, such organizations put reciprocal pressure on policy-makers to preserve the model of inward-looking industrialization.

Before the 1973 military coup that installed General Pinochet in the presidency, economic development in Chile roughly paralleled economic development in Argentina and Brazil. A shift in the direction of state ownership and central planning during the Allende government frightened business enough that even weaker sectors of industry acquiesced to the radical dismantling by the Pinochet government (1973-1990) of the subsidies and protection that had permitted import substitution to proceed. During the initial years of Pinochet's rule, business conglomerates borrowed huge sums in foreign currency and used them to buy up smaller companies. The rise in interest rates in the early 1980s made this strategy unsustainable, but the conglomerates continued to resist devaluation until what might have been a soft landing became a titanic crash. In the mid-1980s the finance ministry replaced the radical neoliberalism of the 1970s with a more pragmatic variant, raising tariffs, undervaluing the currency, subsidizing non-traditional exports of timber, seafood, fruit, and wine, and imposing taxes and reserve requirements on short-term foreign capital (McGuire 2010: 97-98). These policies, some of which resembled South Korea's and Taiwan's in the 1960s and 1970s, helped to raise Chile's GDP per capita from $4,053 in 1983 (down from $4,336 in 1974) to $5,404 in 1989

(Heston, Summers, and Aten 2012). The Chilean "miracle" began not with the radical free-market reforms of 1974, but with the more state-interventionist reforms of 1983.

Costa Rica's domestic market has never been large enough to make inward-looking industrialization cost-effective. In the 1990s, however, foreign firms began to locate export-oriented textile and garment factories in the country. The arrival of a single foreign-owned semiconductor plant in 1998 elevated microchips to first place among the country's merchandise exports. By 2010, among the four Latin American cases, the share of manufactures in exports was highest in Costa Rica, at 61 percent, and lowest in Chile, at 13 percent. Throughout the 20th century, however, business interests were weaker in Costa Rica than in the other Latin American cases. The shift to export-led development in the mid-1980s certainly did not require the collapse of a wide swath of import-substitution industries, as in Chile.

Among the eight cases considered here, unions from 1960 to 2010 were strongest in Argentina (McGuire 1997), strong in Chile before 1973 (Angell 1972), strong in Brazil especially after 1980 (Collier and Collier 1991), weaker in Costa Rica (Regidor Umaña 2003) and South Korea (Kuruvilla and Erickson 2002), and very weak in Indonesia (Hadiz 1997), Taiwan (Frenkel, Hong, and Lee 1993), and Thailand (Brown 1997). On the whole, economic growth was slower, and income inequality was higher, in the cases with stronger unions. Particularly in the early 1960s, when South Korea and Taiwan began to promote light manufactured exports, unions in Argentina, Brazil, and Chile resisted policies that might have accelerated growth and reduced inequality in the long run. Unions were especially opposed to currency devaluation, which had been critical to export promotion in South Korea and Taiwan, partly because devaluations raise the price of imports and their substitutes, reducing real wages. Where workers and unions were strong, as in Argentina, Brazil, and Chile in the late 1950s and early 1960s, policy-makers were more reluctant to propose devaluations, and when they did, as in Argentina, they encountered fierce resistance (Mahon 1992). Similarly, high public spending and negative real interest rates -- policies that were also favored by Argentine, Brazilian, and Chilean unions -- contributed to macroeconomic imbalances that fuelled inflation, which slowed economic growth and exacerbated income inequality.

Labor union strength reduced the competitiveness of manufactured exports and encouraged incautious macroeconomic policies involving big budget deficits, overvalued currencies, and negative real interest rates. The stronger the organized working class, the more resilient the development policies that have benefited unionized workers. A shift from import substitution to light manufactured exports may eventually create jobs and raise wages, but in the short run the devaluation and tariff reductions required for such a shift will cause layoffs and plant closings in previously protected industries, encouraging workers to protest. If such workers are organized into strong unions, government officials are likely to hesitate before provoking them, making a change in development strategy less likely. Strong labor unions also tend to push wages up, making labor-intensive production less attractive and shifting resources from investment to consumption. Strong labor unions thus discouraged a shift toward labor-intensive manufactured exports in Argentina, Brazil, and Chile, whereas weak unions facilitated such a shift in the Asian cases, in South Korea and Taiwan around 1960 and in Indonesia and Thailand after 1985. It is well worth noting, however, that strong labor unions in Latin America often took action to encourage more rewarding labor, more control and dignity for workers, and more collegial relations between employers and employees. A full evaluation of the impact of labor strength on the expansion of human capabilities would have to consider a broad range of effects, positive as well as negative.

Class structure, which was itself strongly conditioned by the colonial legacy and by the impact of post-World War II geopolitics, thus shaped and constrained economic policy decisions in each of the eight cases analyzed. From about 1960 onward landlords, industrialists, and workers were relatively weak in the four East Asian cases, giving government policy-makers considerable leeway in their attempts to steer their economies. These social classes were stronger in the Latin American cases, placing heavier constraints on policy design and implementation. Hence, government officials in the East Asian cases had greater freedom to steer their economies well (or poorly) than in the Latin American cases. That they generally steered them well can be attributed in part to good leadership and in part to aspects of their colonial legacies, post-World War II geopolitical situations, natural resource endowments, and class structures.

4. Conclusion: Do Government Policies Matter for Economic Development?

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Differences in government policies -- especially those pertaining to land tenure, education, manufactured export promotion, and macroeconomic management -- help to explain why, from 1960 to 2010, the four Latin American economies (Argentina, Brazil, Chile, and Costa Rica) experienced slower economic growth and higher income inequality than the four East Asian economies (Indonesia, South Korea, Taiwan, and Thailand). These policy domains are likely to continue to influence these outcomes for years to come, not just in these societies, but also in other middle-income countries. The era of land reform may be fading, but policies designed to preserve smallholding and to grant legal title to small farms (to women as well as to men) can still contribute in many societies to faster economic growth and lower income inequality. Improving the quality of primary and secondary education, rather than merely raising the share of age-appropriate children in school, remains a steep challenge everywhere (Grindle 2004). Despite the surge in commodity prices from 2002 to 2010, exporting manufactures continues to have advantages over exporting agricultural and mineral products, including opportunities for learning, forward and backward linkages, and (usually) the production of higher value-added goods. Cautious macroeconomic management is rarely a bad idea.

Secure smallholding, good basic education, the export of manufactures, and cautious macroeconomic management are not always feasible, even when they may be desirable. Whether policymakers will propose, design, approve, implement, and sustain particular economic and social policies depends, among other things, on historical inheritances and social structures. Among these legacies and circumstances the preceding analysis has highlighted colonial heritage, the post-World War II geopolitical situation, natural resource endowment, and class structure. Other important influences might well be adduced, but these contextual factors are among the ones most likely to shape policies in these societies, as well as in other middle-income developing countries, in the future.

Although government policies are often shaped by historical legacies and social structures, choices among them matter crucially for development outcomes. Just because a situation encouraged a policy in one place doesn't mean that an identical situation is necessary to implement a similar policy everywhere else. Policy choices matter, and will matter all the more if political actors understand the opportunities and constraints that others have faced. A grasp of these opportunities and constraints can help such actors identify, and thus more easily overcome, historical legacies and social structures that might otherwise confine them. To reflect on the ways in which historical legacies and social structures shape the choices of policy-makers expands, rather than diminishes, the political space available for public action to influence development.

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Table 1: GDP per capita, 1960-2010

Year	Taiwan	South Korea	Thai-land	Indo-nesia	Chile	Brazil	Costa Rica	Argen-tina
1960	1,861	1,656	954	665	3,687	2,483	4,920	6,043
1965	2,508	1,912	1,166	647	3,853	3,062	5,496	6,692
1970	3,539	2,808	1,566	816	4,429	3,853	6,366	7,617
1975	4,932	3,788	1,852	1,162	3,609	5,536	7,235	8,043
1980	7,424	5,179	2,406	1,500	4,957	6,960	8,229	8,496
1985	9,263	7,191	2,974	1,733	4,244	6,143	7,008	6,997
1990	13,638	11,643	4,404	2,162	5,520	6,145	7,330	6,928
1995	18,542	15,889	6,105	2,891	7,971	6,646	8,076	8,323
2000	23,065	18,729	5,651	2,750	9,339	6,839	8,864	8,909
2005	26,693	22,577	6,966	3,224	11,068	7,234	9,939	9,671
2010	32,105	26,609	8,065	3,966	12,525	8,324	11,500	12,340
1960-1965	6.1	2.9	4.1	-0.6	0.9	4.3	2.2	2.1
1965-1970	7.1	8.0	6.1	4.8	2.8	4.7	3.0	2.6
1970-1975	6.9	6.2	3.4	7.3	-4.0	7.5	2.6	1.1
1975-1980	8.5	6.5	5.4	5.2	6.6	4.7	2.6	1.1
1980-1985	4.5	6.8	4.3	2.9	-3.1	-2.5	-3.2	-3.8
1985-1990	8.0	10.1	8.2	4.5	5.4	0.0	0.9	-0.2
1990-1995	6.3	6.4	6.7	6.0	7.6	1.6	2.0	3.7
1995-2000	4.5	3.3	-1.5	-1.0	3.2	0.6	1.9	1.4
2000-2005	3.0	3.8	4.3	3.2	3.5	1.1	2.3	1.7
2005-2010	3.8	3.3	3.0	4.2	2.5	2.8	3.0	5.0
1960-2010	5.9	5.7	4.4	3.6	2.5	2.4	1.7	1.4

Source: Heston, Summers, and Aten 2012, variable RGDPCH. Top panel: GDP per capita at purchasing power parity in 2005 constant prices according to a chain index. Bottom panel: average annual GDP per capita growth during the indicated period, calculated using the RATE compound growth function for Microsoft Excel.

Table 2: Gini Index of Income Inequality, 1960-2010

Year	Brazil	Chile	Costa Rica	Thai-land	Argen-tina	Indo-nesia	Indo-nesia	South Korea	Taiwan
Unit	income	income	income	income	income	income	cnsmp.	income	income
1960	53.0		50.0	43.7				32.0	
1965					36.0		33.3	35.2	32.8
1970	59.0	46.0	43.0	43.8	36.4		30.7	33.3	29.9
1975	63.5		46.4	42.8	36.8	43.3	34.0	39.1	28.1
1980	56.0	53.2	47.6	45.1	42.5		34.2	38.6	27.7
1985	58.9	54.9	43.2			40.4	35.7	34.5	29.0
1990	60.5	55.1	47.9	43.6	44.4	38.7	31.9	33.6	30.9
1995	59.1	54.8	47.5	43.7	48.1	39.6	36.5	33.5	31.5
2000	58.9	55.2	45.8	42.9	50.4		30.8	37.2	31.9
2005	56.4	51.8	47.2	42.4	48.8		39.4	33.0	34.0
2010	53.7	51.9	48.0	40.0	44.2		37.6	34.1	34.2
Mean	57.9	52.9	46.7	43.2	43.1	40.5	34.4	34.9	31.0
Change 1970 - 2010	-5.3	5.9	6.7	-3.8	7.8		6.9	0.8	4.3

Source: 1960-2000: WIDER 2008. Selection criteria: McGuire 2010, Web Appendices B1 and B2. 2005 and 2010: Argentina, Brazil, Chile, and Costa Rica from SEDLAC 2012. Indonesia: 2005 from WIDER 2008; 2010 from Hayashi, Kataoka, and Akita 2012: 32. Thailand: 2005 [2006] and 2010 [2009] from Vora-Sittha 2012: 490. South Korea: Statistics Korea 2012. Taiwan: Taiwan. CEPD 2012: 23. The quantity surveyed is income, except in Indonesia, where income and consumption expenditure Ginis are given separately. "Argentina" is Greater Buenos Aires (1965-1990); 15 metropolitan areas (1995); 28 metropolitan areas (2000, 2005); or 31 metropolitan areas (2010). In 2003, the three sets of metropolitan areas surveyed up to that time had similar income distributions (Gasparini 2004: 33). Surveys are from the indicated year, except in the following cases when the survey is from a nearby year: Brazil 1976, 1999, 2009; Chile: 1971, 1996, 2006, 2009; Costa Rica 1961, 1971, 1974, 1981, 1986; Thailand: 1962, 1969, 1981, 1996, 2006, 2009; Argentina: all surveys from indicated year; Indonesia, income: 1976, 1984, 1996; Indonesia, consumption: 1964, 1976, 1984, 1996, 1999; South Korea: 1961, 1976, 1988, 1998, 2006; Taiwan 1964, 1976, 1999.