

## Diverse Histories, Different Outcomes: Social Policy and Development in Latin America and East Asia

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### Abstract

During the 20 century, over two hundred million Latin Americans and South East Asians abandoned their secular, agrarian, traditions and migrated to a modern, urban, way of making a living; at the same time, countless millions housewives joined the workforce. A turbulent, painful, and frequently violent, process that is still ongoing in full transition in the regions as a whole. It has been the birth of a century. It was led by the State, through two successive developmental strategies: Initially, the State had to build economic infrastructure by itself, meanwhile, social policy was used mainly as a means to transform backward peasantry into a fairly healthy, and educated, urban workforce. The second strategy took advantage of these achievements, to promote State-led market economies, meanwhile social policy shifted its focus mainly to address the problems of already large urban populations. Both regions are emerging out of this process as significant economic actors of the 21 century, and at the same time their overall indicators measured by UNDP social development index have improved quite dramatically. Yet, in spite of these regularities, wide differences are evidenced in their respective outcomes: Latin America started its transformation decades earlier, but East Asia has changed much faster; the former is the most socially unequal part of the world and relies heavily in the rent of natural resources exploited by a tiny part of the workforce, which relegated in large part to commerce and non productive services, remains in large part poorly educated and precariously unemployed or unemployed; meanwhile the latter is amongst the most egalitarian, and bases its economic might in the value added by its highly qualified, fairly decently and fully employed, mainly industrial, workforce. The paper tries to explain these different outcomes in the history of transition in both regions, analysed in the intersecting spaces of tectonic shifts in their social relations, historical starting points and paths, and institutional arrangements.

**Keywords:** Latin America; Urbanization; Modernization; Neoliberalism

### Introduction

#### Primitive accumulation of capital

On a tectonic level, economic development is all about urbanization. When peasants massively migrate to the cities, and women join the urban workforce, their exhausting work miraculously acquires the Midas Touch: everything they touch turns into gold, although very little of it ends in their own pockets. Before, in the fields, and homes, it had been just as hard, and they had delivered products and services that were just as useful, however, they consumed them mostly themselves or their families: scarcely any of them was sold in the marketplace. Meanwhile, when they join the urban workforce, most of their work is input into goods and services that are sold in the marketplace. Peasants and city dwellers have bread and milk for breakfast, but only the latter buy those in the marketplace. Gross Domestic Product (GDP), the core measure of modern economics, only accounts for the value added by human work input into goods and services that are sold in the marketplace. The rest of human work -that is to say, most of it in peasant, and male provider, societies-, does not count for this purpose. This is not the result of a mistaken calculation: human work assumes the form of value only when the goods and services produced are sold in the marketplace. This is the great finding of the classic liberal economists, which according to Marx, changed the course of human thought. Based on this knowledge, the latter author described this great peasant migration as the indispensable basis for the emergence of modern economies: He called it "primitive accumulation of capital", because it provides the armies of men and women, liberated from their oppressive bonds to lords, land and home, free to be hired by capitalist employers; and also forced to do so once and again, to earn a living, which most of them cannot do otherwise because in the cities they lack land or other means of production and

livelihood. It was only after the fall of the Berlin Wall in 1989, that the world has become aware that this is an ongoing process, as formidable capitalist competitors emerged from the other side, while communism remained a phantom. Goldman-Sachs' Jim O'Neill estimated in 2003 that the BRIC countries, until then considered condemned to eternal backwardness, would swarm into the G6 by mid century; since then, bankers have been greatly exaggerating the speed of this process to entice naive investors into the mother of all speculative bubbles. And there are much more to come, as the UN estimated that in 2008 exactly half of humankind were still peasants. Markus Kopplers, CEO of mining giant BHP Billiton, in a 2008 interview to The Wall Street Journal, described the same process saying: GDP is growing very fast as new people are arriving to industrial age, as a consequence of massive urbanization. "This journey, which takes place once in the lifetime of each society, is by no means an easy one. Peasants do not change their secular way of life easily; at a certain moment, historical forces force them to do so, usually by violence, economic crisis, war. When migrant peasants mass up in cities, all kinds of social and political turbulences take place along many decades, before the new economy is born, "dripping mud and blood by all its pores, from head to toe "as Marx described it in his famous chapter 24 of Das Kapital. Modern revolutions are the best way to map the capricious expansion of this process around the

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Received May 05, 2015; Accepted September 22, 2015; Published October 02, 2015

**Citation:** Draibe S, Riesco M (2015) Diverse Histories, Different Outcomes: Social Policy and Development in Latin America and East Asia. J Pol Sci Pub Aff 3: 172. doi:10.4172/2332-0761.1000172

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world during the past three centuries. The State presided over it all, increasingly. In pioneering 18 century England, it was instrumental in expropriating peasants off their lands, by “enclosure” and “vagrancy” laws, among other means described at length by Marx. Institutional, social, and economic, changes resulting of the Great French Revolution were more drastic. Newborn 19 century western European unified States, were even more active to catch up with already the already relatively advanced British and French economies, abolishing feudal customs and borders to ensure the free flow of goods, capital, and workers, and protecting and promoting their emerging industries; too much, in fact, because international competition “in a superior, imperialist, phase” as Hilferding and Lenin called it, ended up in devastating war. In the 20 century, catching up with already advanced Western Europe and their “white colonies” enhanced the State role to a new level. Only the State could bring the great fruits of capitalist development, railroads, roads, electricity, telecommunications, steel mills, and others, to backward periphery; nobody else was there to do it. At the same time, the State bureaucracy actively “engineered” social change, through agrarian reform and other expropriatory means, (prudently) following the radical example of the French and Russian revolutions; forcefully confronting decadent landed oligarchies. Social policy became an integral part of State developmentalism, following the example of 19 century European States, which had taught national languages and instituted pensions for their new citizens; they groomed unhealthy and ignorant peasantry into a relatively educated and healthy urban workforce. Thus, a new actor and concept were born: the Developmentalist Welfare State. When these chores were fairly complete, the developmentalist State shifted gears, and promoted the new market actors, workers and capitalists, which it had nurtured into adolescence, to assume many of the economic activities it had previously assumed by itself. In most countries, this shift from “statist” to “market” State developmentalism was relatively painless, without significant dismantling of their previous constructions, if any. The Japanese model has been exemplary on this matter, followed closely by other East Asian countries, but other cases such as India or Brasil are just as clear in this aspect. As will be discussed, only in a few countries, such as Chile or the ex socialist European countries, this shift of State strategies took the form of destructive retrenchment of the previous achievements of State developmentalism.

### The particularities of Latin American development

The above described general case suffered severe distortions in Latin America, stemming from historical and economic particularities, and resulting in the well known insulting inequalities, and relative weakness of its economic emergence, vis à vis similar East Asian experiences. One of these seem to hold a special significance: transplanted, rent seeking, elites. Transplanted populations have played a significant role in modernization. During the second half of the 19 century and the turn of the 20, massive peasant migration had only occurred in Western Europe, but some of them did not end up in London, Paris, and Berlin: they jumped over the ocean, and landed in New York, Buenos Aires, and Sydney, among other lesser destinies around the world; powering early economic emergence wherever they did. In the preceding four centuries, ten million African slaves were exported by European masters of the infamous trade, mostly to America, to replace sparse and depleted indigenous populations in the sweet regions of sugar and coffee that was demanded by nascent metropolitan capitalism. During the same period, poor Peninsular peasantry trickled constantly to Latin America. Together with slaves, they mixed with indigenous Americans to conform the mass of Latin American population. In recent years, immigrants from all over the emerging world, continue

to flow to Europe and the “white colonies,” powering most of GDP growth there, replacing what stagnant or diminishing local populations are not able to deliver. Certainly, transplanted workforces have always been a huge engine of economic growth. However, transplanted elites are quite a different thing and the Latin American and other colonial cases around the globe, seem to prove that they exert a rather freakish and distortive influence. Conquistadores transplanted European feudalism over pre-existing American seignioralisms, according to the suggestive thesis of Dr. Alejandro Lipshutz, an eminent russian born scientist that emigrated to Chile in the wake of the 1905 revolution. In the manner of European condotieri, they provided their superior military techniques to feuding local lords, and replaced them in the process. Dr. Lipshutz brilliantly argues that for this reason, conquest was amazingly successful in the lands of ancient American empires, where a handful of brutal peninsular soldiery “conquered” tens of thousands of sophisticated Americans. At the same time, they failed miserably, for three centuries, in the North American great plains, Argentinian pampas or in the forests, lakes and fiords of southern Chile: in these relatively barren lands aboriginal Americans, lived in the most primitive communism, and had not been able to generate the surplus required to build pyramids or cities in the sky, or to sustain any lordship whatsoever.

### Secular Rent Seeking

Conquistadores came after the gold. And gold they found, and silver. A lot, to be sure. So much, indeed, and so cheap to find and mine, that value of the universal currency fell, and all prices increased accordingly, afflicting Europe with a sort of 16-Century inflation malaise, according to Karl Marx. They fell upon an even richer treasure: agricultural land. Capable of producing delitiae to which Europe soon became addicted, such as tobacco, cacao, and of course, sugar. In addition, especially in the rich Andean valleys of ancient American empires, these lands also provided abundant harvests of maize, potatoes, quinoa, and other wonder crops, which nourished large peasant populations, which in turn provided seemingly endless surplus labour. This was the real El Dorado, the greatest hidden treasure of America: the abundant surplus labour of it’s numerous peasantry. Those who grabbed the land possessed this treasure. Accordingly, conquistadores and misioneros turned into landlords. As with their predecessors, their riches were measured in the number of their subjects, and the months in each year they could work for them for free, after providing for their own maintenance. Mostly in this manner, they collected the rent of their appropriated land. In the meagre fringes of the empires, peasants were not numerous, and needed more work to feed themselves. Early peninsular settlers had to work as well, and initially were scarcely different from the peasants in their lands. However, their modest riches had exactly the same origin as those of their opulent neighbours: the surplus work extracted from the peasantry in return for the land ceded to them. Once again, those who owned the land could collect this rent. The paradisaical warm shores of the Atlantic and the Caribbean were uniquely fit to produce sugar and other exquisites. But, alas, nobody feeds on sugar alone. Native populations were scarce and soon became extinct, from diseases and hardships brought upon them by European descubridores and conquistadores. Portuguese slave trade readily provided the alternative. Their Dutch and British successors in the infamous business were more than happy to continue to provide plantation owners with the workforce they needed to extract these treasures out of their land. In this case, as with gold, rent was derived not from surplus work of the slaves, which provided pretty little in fact, but from the unique scarcity of the resource itself. The same kind of treasure-hunting fever possessed modern imperialists that in the past

two centuries grabbed nitrate, tin, oil, copper, and other raw materials, and lands apt to produce sugar, coffee, rubber, cotton, and the like. In addition, of course, to more silver and gold. They still do much the same today. LA remains a huge private hunting preserve for mining companies and other transnational rent seeking corporations. With such historical background, no wonder the region remains among the most segregated and unequal in the world, which is a well known fact. In addition, the LA elite has accumulated five centuries of experience as rent-seekers, which most surely pervades to the present day.

### Early Latin American modernity

There was, however, at least one, notable, exception. At the turn of the 20-Century, some places in Latin America were also one of the destinies of then massively migrating European peasantry. By that time, this epoch-changing transit of the bulk of the working population to the cities was taking place almost exclusively there, and most arrived to then ebullient cities of the so-called old continent, where it generated what now is universally reckoned to be its most genuine and general result: economic emergence, known then as industrial revolution. Quite a mass of these migrants jumped over the Atlantic and arrived in America. Most in the North of the continent, where they provided the ground troops for the economic boom of the East, and the blazing conquest of the West. A good number of them also landed in the South, mostly in Río de la Plata, where they produced the same result in the flourishing modern twin cities of Buenos Aires and Montevideo, which together had surpassed one million inhabitants by 1900. In part, they also established in significant numbers around the Sao Paulo region, in Brazil, among other places. Others, trickled down to all the rest of LA. They were very few. Chile, for example, at the peak of European immigration in 1906, had 6 per cent foreign born in the overall population. By that time, Argentina received almost half a million every year, which were one third of its population in the mid 19-Century. Everywhere, they conformed the core of nascent, urban, business, professional, and intellectual, middle classes. Where they arrived massively, they provided the social fabric for modern economic emergence, which in LA started precisely there. As has been the rare and probably unique historical experience in all these overseas offspring of 19 Century European peasant migration, they conformed singularly democratic, non segregated, societies, with a fairly good distribution of income among the majority of the population, and early welfare states provided fairly universal education, health care, and pensions of decent quality. This has been the case in Buenos Aires, and Montevideo, as well, since the early 20-Century, and until today. There is another important economic difference: they industrialised instead of conforming rent seeking economies. The immense plains and pampas, and other wilderness to the north and south of America, initially held nothing of interest for conquistadores, whatsoever. No gold could be found there, and except for what was to become the land of the Confederate slave owners, no valuables could be planted either. In addition, the scarce and nomadic populations were of little use for them, because they were mostly dedicated to their own, harsh, survival. A part from the fact that, precisely for the same reason, they were not used to having lords, and had never been submitted to none at all. Accordingly, they fought fiercely and successfully defended their independence and hunting territories all along four centuries. When at last they were conquered by the expansion of capitalism in the late 19-Century, they were mostly exterminated, everywhere. According to a recent article (Gerard Lyons, *Financial Times*, October 4, 2010), London investors discussed over the competing chances of Argentina and the US to become their emerging hub, much in the way they argue today about China and India. One century later, it seems quite clear that those who

argued in favor of the US had a better idea. It was not a clean start. The lacklustre of traditional, segregated, rent seeking, landed elites from the interior, pulled down early the bustling LA cities. Their destiny was sealed when they lost their 19 century equivalents of the US Civil War to their Confederates from the interior. They grabbed the immense rent of the pampas húmedas, which finally appeared as they became the grain and cattle fields of the world, after the advancing railroads and army opened them in a pincer movement that exterminated the local population all the way down to Patagonia. Nevertheless, these cities managed to create one early beam of modern LA societies, which in spite of everything they still are, at least in the case of Buenos Aires and Montevideo, as any happy visitor may confirm. They were the scouts of generalised modernisation that soon were to emerge out of the hands of massive internal peasant migrant ion.

### Chile: A paradigmatic case of 20-century modernisation

Chile is a quite insular territory, separated by almost impenetrable deserts and mountains from the south of what was the Inca empire. Its history falls in the above described category of segregated, early settler, LA society. It did not possess abundant precious metals, nor the climate needed for cultivating valuable delitia, and productivity in crops was far from spectacular. As a consequence, it was relatively scarcely populated and did not experience slavery. Neither did it receive massive European migration at the turn of the 20-Century, as said. Most of its modernisation is then, almost exclusively, the product of internal economic, social, and political, evolution. That is not to say that international events did not influence, quite on the contrary, as will be seen.

### The harsh tale of primitive accumulation

Socio-economic transition was initiated in the last decades of the 19-Century, when peasants began to be enganchados to work in the nitrate mines in the northern deserts, which had been annexed to the country after a war with Perú and Bolivia in 1879. Although the owners of the mines were mostly British, and the produce was exported mainly to then emergent Europe, they worked in similar conditions as in latifundia, far from modern salaried relations. However, the Chilean working class was born mainly in these massive labour concentration camps - in fact, one of the nitrate oficinas was to be reopened decades later by Pinochet as a proper concentration camp. The second moment was the 1930 crisis, which closed almost all the mines and dispatched the licensed workers back south. Most of them arrived in Santiago, which exploded in population, and provided the modern workforce for the State-promoted desarrollo hacia adentro (inward oriented development), to which most countries were forced after the crisis. The third moment came after the 1973 coup, when most peasants were forcibly expelled from the land in the course of two or three years. In the wake of the coup, at least a hundred thousand were expelled, and at least two thousand were assassinated, for having supported the radical agrarian reform implemented by presidents Frei and Allende. Far more were expelled during the following years, after their lands were given back to the sons of the old landlords, or auctioned to forest companies who grabbed over half a million hectares at a token price. In both cases, the old tenant farming system was immediately replaced by outside salaried labour. It must be mentioned that Pinochet did not reinstate latifundia, but instead complied in his brutal manner with the agrarian reform law, including the delivery of about 40 per cent of the expropriated land to peasants considered loyal to their old masters. This new land property structure propelled the agriculture and forestry export boom in the following decades. In addition, normal rural migration increased in speed all along this period, peaking by



mid century, and maintaining its force until the late 1980s. Even today, about 10 per cent of the population remains in rural areas, down from 50 per cent in the 1930 census, and continues to migrate fast. Another significant transition at this tectonic level was the massive incorporation of women into the workforce since the 1980s. They account for much of the fast growth of the labour force since then, and continue accelerating up to this day. It is interesting to ascertain that from 1929 to 1971, GDP growth was pushed mainly by the huge productivity gains of migrating peasants, whose hands receive the touch of Midas, when their hard and extensive traditional farm work destined mainly to self consumption, suddenly becomes an input to commercial goods and services in the cities. The workforce did not grow significantly faster than the population in that period. Meanwhile, from 1971 to 2006, GDP growth was due mainly to the fast growth of the workforce fuelled by the explosive incorporation of women, who were not counted previously as workers. For this reason, productivity remained stagnant during this period. It is quite an irony that the “Chilean economic miracle” during the Neoliberal years was caused mainly by women joining the workforce. It is also interesting to substantiate that in each of the above mentioned periods Chilean GDP multiplied exactly 3,7 times, which gives very similar annual growth averages - the average GDP growth for the whole period is 3,5 per cent a year (Riesco). Thus went the harsh tale of what Marx called primitive accumulation of capital, by which he meant the accumulation of a massive workforce, mostly urban and in any case freed from traditional agrarian bondages, reasonably educated and healthy, which in turn is the social premise for the surge of modern capitalism.

### The Developmentalist State

This essential premise was clearly understood by the group of young, progressive, military officers and liberal professionals, mostly medical doctors, most of them belonging to nascent middle classes, when they assumed power in September 11, 1924, in the aftermath of a bloodless military movement. Their program was very simple: the State had to promote progress, building directly those institutions, infrastructure, and modern industries, already born in Europe and other advanced countries. At the same time, the State had to nurture the social actors that had produced those miracles abroad, mainly, a modern urban workforce and an entrepreneurial class. None of the above had a significant presence in Chile at the time, where the majority of the population remained sleeping their secular siesta campesina, trapped in the depths of illiteracy, insalubrity, and subservience, of traditional agrarian relations. The reformers were carried in the wings of widespread social agitation, which had been severely repressed in the previous years, including a massacre of nearly a thousand unarmed striking nitrate workers in the northern city of Iquique in 1907. During the following half a century, a series of governments of all political inspirations, democratically elected since 1931, carried out this program unhesitatingly, pushed from below by an increasingly powerful labour movement, which exploded in the mid 1960s when peasants finally woke up from their siesta and spearheaded a truly revolutionary agitation. In three vibrant years, all the main reforms were completed, including a massive agrarian reform and nationalisation of mineral resources, among many others. However, this did not happen in isolation, as lighting in a clear day. Quite on the contrary, it was the coronation of half a century of State developmentalism. The man who best impersonates this whole period of progress was a young medical student when his teachers provided the young military with a developmentalist program in 1924. He was a student leader in the turbulence of the early 1930s, which terminated military rule and instated a long series of democratic governments.

He was the youngest ever cabinet member, as Health Minister in the government of Popular Front president Pedro Aguirre Cerda, whose motto was “governing is educating.” As such, he drafted a bill to create a National Health Service, which was enacted unanimously by parliament in 1952, when he had become President of the Senate. years later he was elected President of the Republic, and as such he declared that during his government no Chilean was born without being received by the hands of a medical doctor, in a gratuitous clinic of the National Health Service, and being entitled to half a liter of milk a day until his adolescence; despite all, every Chilean keeps this right until today. During his government, 30 per cent of the overall population was enrolled in an establishment of the national educational service, which was gratuitous in every level, and had good quality which was recognised internationally. As a reference, in 2010, only 27 per cent of the population is enrolled in educational system, considering every level and both public and private schools. With the significant differences that quality is very low, as every international and national report proves year after year, and now families are forced to disburse half of overall educational costs, 86 per cent of university costs and 100 per cent of tertiary technical schools. If at the same time, the country has managed to increase its educational coverage in all age segments, its has been because the number of young people has decreased significantly in proportion to overall population, not because the country is trying any harder, quite the opposite. Between 1929 and 1971, GDP multiplied 3.7 times, that is, it almost quadrupled, as said. However, the overall earnings of workers multiplied 6.8 times, mainly because real wages multiplied 3.5 times. This means that the share of workers in national income roughly doubled. By contrast, real wages fell by half in the wake of the 1973 coup, and remained depressed until 1990. Only in December 1999, average real wages recovered their pre-coup levels in real terms, and in 2006 they were 20 percent above that level. Even considering the fast increase in the number of workers during the second period, the overall earning of workers multiplied 3 times between 1971 and 2006. As GDP again grew exactly 3,7 times, this means workers participation in the overall pie shrank by almost one fourth, after falling by no less than half in the wake of the coup, as said [1]. This figure is highly indicative of the overall changes in Chilean society along the past century: five decades of State developmentalism democratised society, greatly improved income distribution, and built all the necessary institutional, economic, and social preconditions of economic emergence; mainly, the State transformed the mass of the working population from traditional peasants into a modern urban workforce, which by the end of the period was a true protagonist of history. This means that the secular Apartheid-like segregation, and basic inequality of society, had been in effect pretty much demolished. Shift to the market under Neoliberalism, during the the cold war. In a brutal turn of history, after the the 1973 coup, the mass of the population was repressed, and all democratic advances were reversed during 17 years of dictatorship. Income distribution initially regressed at least to where it was in 1929, and for forty years, workers disappeared from any kind of protagonism. What happened in between? After half a century of singularly advanced, and democratic, State developmentalism, which had gained the sincere admiration and likes of the whole world, Chile turned against itself, and destroyed, and severely dismantled, what it had built before. The same military that had started the whole process in 1924, turned against it in 1973, and ironically in the same day, September 11. Chile during the developmentalist period exemplifies what happened in almost every country that initiated or completed its transition to modern urban societies during the 20-Century. All around what was then called the under developed world, the same as in Chile, the State assumed the twin challenges of bringing economic

and social progress to backward, agrarian societies. Their forms and inspirations were very different, but their deeds were pretty much the same. Similarly, when the social and economic preconditions for the functioning of modern market economies had been created, the developmentalist State itself promoted this new strategy, especially, fostering a vigorous entrepreneurial class. Certainly, while performing this strategy shift, the developmentalist State took good care of, not destroying but on the contrary, enhancing what it had built before. Japan was the classic role model of this seamless shift from pure State developmentalism to market oriented State developmentalism. A similar path was followed later by Korea and the Asian tigers, and most significantly, by China, among other countries.

Many countries in LA were also able to perform a rather non-destructive shift from one strategy to the other, under the guidance of the State. Brazil and Mexico, the largest economies in the region, are the most notable cases in point, but also others such as Argentina, and even small Costa Rica, managed fairly well in the process, when compared to what happened in the most extreme cases. In the case of Chile, as happened later in the ex-socialist countries, the shift in developmentalist strategies coincided with severe economic downturns, State dismantling, and significant hardships for the population, all of which went on for one or two decades in the least. Why? In the Chilean case, at least two factors conspired especially against a seamless strategy shift: cold war, and the neoliberal hegemony in the last three decades, which in turn now seems to have been mostly a consequence of the contemporary global rise and hegemony of financiers, seconded by rent-seeking transnational corporations. The cold war was key to turning the military against the people and the developmentalist process they had started in the first place. In 1973 they had been influenced by a foreign power that they were pursuing an "internal enemy," which had got hold of the civil part of the State, especially in the largest services such as education and health, among others. As they are taught, they secured and significantly destroyed these supposedly "enemy positions." In the case of education, for example, they occupied the whole system, replaced rectors with military personnel, expelled teachers, professors, and students, closed faculties, trampled the national educational services in many parts, reduced the budget by half, teachers' salaries by two thirds, and even shrunked overall school enrollment; there were less students enrolled in 1982 than they were in 1974. Evidently, nothing of this makes any sense at all, except in a counter-revolutionary climate during the cold war. The global hegemony of Neoliberalism also played a significant role all along, until now [2]. As seen today, in the wake of the financial crisis, this ideology appears as a sort of demented liberalism, with serious influence of a kind of bourgeois anarchism, as British historian Eric Hobsbawm has noted. In the case of Chile, several of the extremist Neoliberal views were readily embraced with fervour by the young siblings of the traditional landed elite; which is what the renowned Chicago boys were, in fact. In particular, Neoliberal sermons against State intervention were well received by them, because of the leading role the State had played during the previous half century, when they had been stripped of most of their land and secular privileges. In addition, Neoliberal disregard of rent theory appealed to their secular experience of being precisely a rentist elite, as will be argued below. Finally, Neoliberal hegemony expressed through "third way" theories prevailed in the technocratic cadres that within the post-1990 democratic governments played the role of containing supposedly "populist" leanings of progressive political parties. They always counted with the support and close watch from the entrepreneurial organisations, and rightist leaning media, and political parties; in addition to the international network built under the guidance of the Bretton Woods organisations. In the transitional

agreements that severely limited the post-dictatorship governments, these technocratic cadres played a significant institutional role, led by the Finance Minister, who acted as a virtual proconsul, whose de facto powers exceeded those of the President in sensible economic matters. All this has become quite evident for everyone after the end of transition in the recent election: the new centre-right president has an authority that his predecessors simply lacked, even though all of them used better forms to exert power. The Minister of finance and the technocrats have simply disappeared, as their institutional role became extinguished.

### **Overcoming segregated inequality sustained by rent-seeking LA elites**

This paper wants to highlight two aspects of the last decades of Neoliberal-inspired policy in Chile and several LA countries, which do not seem to have been sufficiently reckoned: the persistent social segregation and inequality in many countries and, the rent-seeking feature of regional elites. Both problems seem to be related to each other, and probably are the single most negative aspects that hamper economic emergence in this region of the world, and must be addressed. As has been argued at the beginning of this paper, segregated elites and deep inequalities are in major part an historical inheritance of the European colonial period. This is quite obviously true, and has been highlighted by a recent World Bank report, among others (Riesco). However, contrary to this report, it does not mean that it is an intractable problem. Quite on the contrary, the Chilean developmentalist experience shows that at least once in recent history, this segregation and inequality were corrected by State policy, which consciously and decisively promoted democratization and equality, with great success in both counts. Recent South African experience in undoing Apartheid shows that it is perfectly possible to unwind secular segregation, in a singularly peaceful and democratic manner, when societies reckon and address this problem, institutionally; Latin America in general, and Chile in particular, has quite a lot to learn from this experience. In the case of rent-seeking, recent economic debate (see for example, a special section under this title in the Martin Wolf Exchanges in the Financial Times) has highlighted that Neoliberalism and its predecessors in economic theory, disregarded ground rent theory in economic thinking. This runs head-on against classical liberalism, which as is well known, was the theoretical argument of nascent industrialists against precisely, landlords. As they argue, capitalism derives its revolutionary dynamism and its main social justification from its constant quest for innovation, pressed by competition, which results in successively improved and cheaper products and services, the value of which depends entirely on the amount of work needed to produce it. Landlords, on the contrary, as stated by classical economists, do not create any value whatsoever, but are able instead of appropriating part of the value created elsewhere by productive work, because they have grabbed a scarce resource that industrialist need. In short, they are parasites of industrialists, whose main purpose is to preserve and if possible increase the scarce resources under their dominion, and secure a hefty rent for its use. As was masterly described by the Financial Times in a June 1, 2010, editorial in support of Australian ex-premier Kevin Rudd's bold attempt to properly tax mining companies, the economics of miners and other rent-seekers is similar to that of treasure hunters. That is, once the treasure is found and extracted, its value has little relation to the costs of these operations, and depends instead on whatever customers are willing to pay for it. For this reason, concludes the FT, countries where the treasure is found should capture a hefty part of this price. In present economic reality and especially under Neoliberal inspiration, the classical opposition between industrialists and landlords has faded

away, theoretically and practically, and several of the world's largest corporations are in fact hybrids, which derive most of their earnings not from the industrial operations that they carry out as well within them, but from the scarce resources they have appropriated.

• Giant private transnational oil and mining companies are an example of such hybrids, half capitalist, half landlords. In this precise and deep theoretical sense, Exxon or BHP Billiton are completely different in nature from, for example, Apple or Toyota. The latter operate in a highly competitive environment and are constantly forced to innovate, improve, and lower the price of their products. The former derive most of their earnings from the resources they have appropriated, for which purpose they use huge budgets for lobbying and outright political intervention, as became clear when they recently orchestrated a bloodless coup - as the financial Times called it against the Australian Prime Minister. Happily, most of the world's largest mining companies are State owned, which eliminates this problem in its roots. A simple remedy for this malaise was devised by classic economists: David Ricardo was in favour of nationalisation of land, so that the State would control and charge a rent for scarce resources, thus levelling the play field for every actor, those who control scarce resources and those who do not. Paul Samuelson, among others, made significant contributions to rent theory, when he suggested that instead of nationalising resources, the State should tax them specifically, so that most of the ground rent were appropriated by the State, avoiding subsidies to those industries based on them. In addition, Samuelson proposed quasi-rent, as a concept for explaining monopolistic behaviour even in industries that are not based on scarce resources. Some countries that are rich in mineral resources have followed these theoretical directions to enormous success, as the notable example of Norway shows. Others, like Chile, followed them in the past, when it nationalised its mining resources in the early 1970s and secured most of its State budget from this source during the next two decades, most of them under Pinochet. However, the Neoliberals under the direction of José Piñera, the older brother of the current Chilean president and ex Pinochet minister, devised a legal twist to lease mining resources that according to the present Chilean constitution belong exclusively to the State. Using this catch which they did not dare to touch under the transitional arrangements, democratic governments permitted that in the course of the last two decades, a few giant miners appropriate 70 per cent of copper production - State owned CODELCO account for most of the rest -, out of which they have earned over 76 billion dollars in the last five years, more than three times their total investments in Chile since 1974, and the equivalent to roughly half the State budget in the same years [3]. This is only the tip of the iceberg of the gigantic distortion that rent-seeking has meant for the Chilean economy. Along the last four decades since 1974, half of overall foreign investments have gone to just one sector, mining, which occupies less than one per cent of the overall workforce. The sectors that follow as investment destinies are electricity and fisheries, both based mainly in the appropriation of water rights. The next destiny is forestry, which depends mostly on the rent derived from more rapid than average growth of trees in Chile. So forth and so on. The largest industry in Chile, by far, is mining, whose mostly foreign owners have appropriated most of the country's valuable minerals, mainly copper, but others as well, including lithium. The two largest Chilean private conglomerates are sitting on top of half a million hectares of forests and own good part of the fishing rights. The third group is electricity generation, where one company, now owned

by Italian ENEL - it was owned by the Chilean State until 1988, and now is controlled by the Italian State -, has the rights over 90 per cent of all water for power generation. The next groups in line own the shopping malls that have displaced small commerce all along the country, and of course, most of their earnings derive from the rent they charge to tenant shops. Other groups control State protected semi monopolies, such as banking, pensions and health administration. And so on and so forth. In such an economy, proper industry has no place whatsoever. The share of manufacturing in GDP has fallen to 10 per cent, from circa 30 per cent before the 1973 coup. In such a rent-seeking environment, it is no wonder that in Chile unemployment has averaged almost 8 per cent since the coup, up from 2-3 per cent during the developmentalist period. It is no wonder that such an elite has not cared while the national public educational system falls apart in shambles, literally, as was exposed during the recent so called "penguin revolt" of secondary students. A rent-seeking economy could not care less about the extent and qualification of its workforces. That has been the case of Chile under long lasting neoliberal influence. This must change, is changing and will change further. In the plight of the 33 miners buried alive, the real Chilean working class appeared again in the surface after four decades of oblivion, again to planetary audience. The same day that the miners were being shuttled back to life by technicians from CODELCO, parliament was doubling up from 4 per cent to 8 per cent of operational profits, the modest super tax the country has been charging since 2003. In the parliamentary discussion, over half of the MP expressed that this should be enhanced further, soon. Calls have been made by wide and influential actors to re-nationalise water resources. And so on. The debate over the appropriation of the rent of natural resources has changed significantly in recent years. Precisely, because everybody is now aware of the fact that in a few decades, peasant migration of unprecedented massiveness will generate widespread economic emergence in the regions where 90 per cent of humanity lives and works. This has generated better conditions for developing countries to rightfully establish or re-establish their ownership over the resources that rightfully belong to them. This is a central element of the new State developmentalism that seems to be in the making. Perhaps, the end of rent-seeking will have a crucial side effect on the stature of workers. As was discovered by classic liberalism, they are the one and true source of the riches of modern nations, and deserve a better deal.

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Citation: Draibe S, Riesco M (2015) Diverse Histories, Different Outcomes: Social Policy and Development in Latin America and East Asia. J Pol Sci Pub Aff 3: 172. doi:10.4172/2332-0761.1000172