The turn of the twentieth century was a time of great modernization. Around the world, new technologies and new means of transportation changed the nature of work. They increased people’s wealth.

Mexico took part in this modernization. But its peasants bore most of the costs. For instance, during this time, machines became available to do work that peasants had done by hand. The new machines helped the country realize immense gains in productivity. But they tended to put manual laborers out of work faster than the workers could find their way into new factories.

During the same period, the government seized much private and collectively owned land. The idea was to create fewer but bigger and more-productive farms. By 1910 most villages had lost their communally owned lands. Much of the country’s most productive lands were in the hands of just a few hundred wealthy families. More than half of all rural Mexicans worked on these families’ estates. By 1911 the average Mexican’s income, adjusted for inflation, had only just recovered to the level of 1821, the year Mexico won independence from Spain.
The Challenges of the Region’s Economic Systems

A common thread runs through Latin American history. As countries developed and more or less prospered, most of their people did not. Most citizens simply never had much of a stake in society. During the immense economic expansion of the nineteenth century, they had never been “dealt into the game” as their North American counterparts were. A number of factors contributed to this.
Why Feudalism and Mercantilism Continue in Latin America

A major factor was that European nations established their colonies in the New World primarily to make money. Mercantilism, which you read about in the Introduction, was the economic philosophy behind these ventures. Europeans at the time saw trade as a “zero-sum game.” That is, they believed there was a limit to how much trade could take place. If one country gained, another had to lose. Modern ideas about economic growth, on the other hand, are more expansive. They hold that trade can benefit everyone who takes part. But those ideas lay far in the future as the first Europeans put down roots in the Americas.

Trade Rules

The colonial powers had strict rules about who could sell what to whom. The colonies were to produce raw materials for export back to Europe and to buy pricey finished goods from Europe. (As you may recall, the British made these demands of their colonies, too. The North American colonists didn’t like them at all.) And the government always took a cut. The king of Spain, for instance, charged a 20 percent levy—a tax known as “la quinta real,” or “the royal fifth”—on all production in the colonies.
In Latin America, land was abundant and so were people. A relatively small number of Europeans received grants of land from their rulers and set up vast haciendas. The term hacienda is another way to say an estate. But it can refer to a mine or even a factory as well as, more commonly, a plantation. Europeans forced native peoples into laboring on these haciendas—as farm laborers, as miners, and sometimes eventually as skilled tradespeople.

The plantations of New Spain operated largely as self-sufficient communities. They relied mostly on barter and exported very little. Mines, on the other hand, were soon turning out large quantities of gold and, even more important, silver. By the late sixteenth century, silver accounted for 80 percent of New Spain's exports. Today we get produce and even fresh meat from around the world. But in those days agricultural produce was consumed near where it was grown or raised. Silver, however, was not perishable, and it was well worth the cost of shipping back to Europe.

The same was true of sugar. It was a high-value, portable exception to the rule about farm produce staying local.

Social Classes
As these haciendas developed, natives and Europeans naturally came into contact with each other. Soon they began to intermarry. An elaborate racial classification developed, as in India, or in South Africa during apartheid. It was a very stratified, or layered, society.

At the top were the white Europeans. Peninsulares was the term for those born on the Iberian Peninsula, that is, in Spain or Portugal. Down just a notch were the criollos, or creoles, whites born in Latin America. They sometimes “married up” to peninsulares to get ahead in society. The next group was those of mixed European and Native American parentage, known as mestizos. Then came the full-blooded indigenous people. And then there were African slaves. They were brought to the New World early on to work the sugar cane and other plantations.

A hacienda owner was called hacendado or patrón. The economic system was similar to feudalism—the owner was very much like a feudal lord in Europe, with serfs and peasants below him, along with cowboys on horseback.

Southern Colonies vs. Northern Colonies
The same mercantilist philosophy lay behind the colonization of territories farther north. But in the future United States and Canada, conditions were different. There were fewer indigenous people and relatively fewer colonists. Land was harder to farm. Laborers were fewer, so they were in a better position to bargain with landowners and employers. They could demand, and get, more money. North American laborers were not as replaceable as their South American counterparts. What's more, North American colonists often arrived as complete families, or with extended families or communities. They often brought their pastors with them.
All this meant that North America’s European colonies tended to become home to smaller populations. People were more likely to come from the same racial and ethnic backgrounds. There was far less intermarrying with native peoples. And so the north didn’t form the same racial classes as did Latin America. There were fewer “layers” to society. More people took part in the economy at a higher skill level, too. There were more blacksmiths and carpenters, for instance, rather than unskilled farm laborers.

North American colonists also had greater rights. More people there had the vote. More had citizenship rights and legal protections than in South America. They had local assemblies early on, such as the House of Burgesses in Virginia. They had rights that an African slave on a Brazilian sugar plantation, for instance, did not.

North Americans had slaves, too, of course. But there were fewer of them. And they became important to the economy much later—especially in the nineteenth century, after the invention of the cotton gin. Many important institutions of society were already set up by the time slavery became economically significant in North America. The European colonies of Latin America, on the other hand, developed with less equality in wealth, human capital, and ultimately political influence.

**Historical Patterns**

In 2003 the World Bank published a major report—*Inequality in Latin America and the Caribbean: Breaking with history?* Its authors said that these developments at the colonial period’s beginning set the tone for this region. The World Bank authors discussed how these patterns took hold in Latin America. They also considered how the patterns continued after independence in the nineteenth century. Their study focused on the importance of institutions such as schools and universities.

The authors found that extreme inequality persisted in Latin America because, even after independence, institutions continued to favor the wealthy. The system shut most people off from opportunity. The elites developed impressive universities, for instance, because they wanted to send their own children there. But they did little to develop primary schooling, which would have benefited everyone.

Independence brought new leadership to Latin America. But in practice, it didn’t always amount to much change. Local creole elites simply took over from European-born elites. Sometimes the new locally born leaders were even more conservative than the old colonial ones. In fact, in some cases, notably Mexico, creoles wanted independence because they thought Spain was getting too “liberal” for them. The World Bank authors concluded: “[I]ndependence did not fundamentally alter the structures of political power in Latin America.” And nearly two centuries after independence, many of the same forces remain at work.
The Inequalities of Income and Wealth

The gaps between rich and poor are wider in Latin America and the Caribbean than in almost any other region on earth. It’s not just that rich Latin Americans have bigger incomes. There are big gaps between rich and poor in terms of all kinds of access, also: to education, to health care, and even to water and electricity.

The region also exhibits what a World Bank official called “huge disparities” between the rich and poor in assets. The Latin American poor have much less voice in their societies. And they have fewer opportunities to improve their lot.

The Imbalance of Land Ownership

These inequalities help explain why one of the themes of Latin American history is land reform. The model for land ownership was set early on: vast haciendas controlled by rich peninsulares and creoles, but worked by vast armies of landless peasants or campesinos. That model continues, in some form, even today.
The nineteenth century was a time of expanding political rights. The liberal ideas imported from Europe should have helped improve the peasants’ lot. But the nineteenth century was also a time of falling transportation costs. New railroads and faster steamships made remote places less remote. It helped increase land values, and this led to a small group of people owning more and more land. The new waves of development also helped hold down wages.

A World Bank study of rural land ownership around 1900 showed some striking gaps between Latin America, on one hand, and the United States and Canada, on the other. These numbers showed how many farmers owned their own land compared with how many merely worked other people’s land. In 1910, on the eve of the Mexican revolution, only 2.4 percent of heads of households in rural Mexico owned land. The Bank called this number “astoundingly low.”

Roughly comparable numbers for Argentina in 1895 were higher—around 20 percent. But the numbers for the United States in 1900 and Canada in 1901 were 74.5 percent and 87.1 percent.

**The Wide Gaps Between the Very Rich and Very Poor**

What do these gaps matter for a society? Economists say that great inequality doesn’t just make it hard for poor people to escape poverty. It tends to hold back the whole society. Countries with higher inequality have to grow faster to lift their people out of poverty. If wealth were spread around as evenly in Latin America as it is in Europe, Latin America would have a poverty rate of only 12 percent instead of 25 percent.

**A Small Middle Class**

A related point is that a society where the gaps between rich and poor are wide tends to have a small middle class. That’s not good for growth and development. Middle-class consumption is an important economic engine. A society’s middle classes tend to be the people moving “up”—wherever “up” happens to be at any given time. For example, Chinese people these days are buying new refrigerators and television sets. Indians are buying their first family car. This is part of the demand fueling economic growth in these two countries.

Another key point about Latin America: The racial divisions that developed in early colonial times continue to have economic effect. The World Bank study found that race and ethnicity still limit people’s opportunities and welfare. Indigenous people and those of African descent are “at a considerable disadvantage with respect to whites,” according to the Bank. Whites continue to earn the highest wages in the region.
The World Bank, focusing on seven different Latin American countries, found that indigenous men earn 35 percent to 65 percent less than white men. White women earn more than indigenous ones by a similar margin. In Brazil, men and women of African descent earn only about 45 percent of what their white counterparts do.

**The Challenges Related to the Political Struggle for Power**

History has also set political patterns in motion in Latin America: Turmoil prevalent in the past still crops up in many of the continent’s nations today. The region has fought its share of civil wars. Three of its major countries have swung back and forth between military and civilian rule. And two of its important modern leaders have developed poor relations with the United States.

**The Traditions of Political Authoritarianism**

When George Washington stepped down after two terms as president of the United States, he set an important precedent. He showed self-restraint despite all the power his position gave him. The Constitution didn’t require him to serve only two terms. But he thought it was a good idea.
Early decisions matter. They establish traditions. In August 1828 Simón Bolívar, several years into independence from Spain, took steps that helped establish a less fortunate political tradition in Latin America.

Bolívar assumed dictatorial powers as the leader of Greater Colombia. He tried to put in place a constitution that he had developed for Bolivia and Peru. His constitution increased the central government’s power. It also called for a president-for-life who would name his own successor.

A large share of the people didn’t like it, though, and it failed to gain acceptance. In 1830 Greater Colombia fell apart. Venezuela and Ecuador broke off as separate countries. Bolívar resigned, and by year’s end he was dead.

The Results of Civil Wars in Mexico, Colombia, Argentina, El Salvador, and Nicaragua

The countries named above have each waged more than one civil war. Many of these conflicts have lasted for years—in some cases, decades. Some have seen many revolutions.

In Mexico and El Salvador, land ownership has come up as an issue again and again. In other countries, tension between different political parties has ignited into open warfare.

Mexico

You read in Lesson 1 about a Mexican civil war known as the War of the Reform (1858–61). But early in the twentieth century, Mexicans lived through more years of civil war as part of their revolution.

The liberals’ overthrow of Maximilian I in 1867 led to a peaceful, tolerant period known as the Restoration. But in 1876 a political mastermind named José de la Cruz Porfirio Díaz Mori took power. He would lead the country, directly or indirectly, for a remarkable 34 years. Historians call these years “the Porfiriato.”

It was a time of modernization and progress. Mexico began to play a bigger role in the global economy. The Díaz formula combined natural resources, cheap labor, and foreign capital and technology. This made export production possible. Railroads—the high technology of the day—helped expand agriculture, manufacturing, and mining.
But times were not so good for ordinary Mexicans and their civil liberties. Díaz courted foreign interests. He let the clergy get involved in politics. He let the army violate people's guaranteed rights. He either co-opted his opponents—exploited them for his own purposes—or jailed them.

By 1908 Mexicans thought they saw change coming. That's when Díaz told an American reporter he wouldn't run for reelection. Seizing the apparent opportunity, liberals put up Francisco Madero González as their candidate.

Then Díaz changed his mind. He ran and won in June 1908. He had to take some harsh measures to do so, though. These included arresting thousands of his opponents.

Within a few months, Madero, then in exile, was calling for the people to rise up in protest. They welcomed his call. By January 1911 a large-scale revolt had broken out. Madero returned to lead the revolution. By the end of May the 80-year-old Díaz had quietly set sail for exile in France.

The story doesn't end there, though. Madero soon saw that the revolution had raised hopes it wouldn't be able to fulfill—at least not under his leadership. He saw a split between moderates and radicals. Moderates wanted political change. Radicals wanted land reform.

Madero soon fell victim to a coup. Next came a period of dictatorship that ended on 8 July 1914. A period of civil war and anarchy followed. At that point, Mexico had four different governments. Each claimed to represent the will of the people.

The leader of one of these, Venustiano Carranza Garza, won out. Carranza took office as president on 1 May 1917.

By then Mexico had a new charter: the Constitution of 1917. It was the product of the revolution. It guaranteed civil liberties. It limited the president to a single term. And it promised to protect all Mexicans from foreign or domestic exploitation.

**Colombia**

A clear division between liberals and conservatives has marked Colombia's politics from the beginning. Simón Bolívar was the Republic of Greater Colombia's first president. His supporters became the core of the Conservative Party. They favored strong centralized government and an alliance with the Roman Catholic Church. They also wanted to limit the right to vote.

Followers of Bolívar's vice president, Francisco de Paula Santander y Omaña, became the core of the Liberal Party. They wanted decentralized government. They wanted the state, not the church, to control education and other civil matters. And they wanted more people to be able to vote.

**LESSON 2  ■ Economic Reform, Leadership, and the Political Pendulum**
By 1850 the two groups had formed organized political parties. Elections over
the years gave each a roughly equal period in control of the government. In fact,
Colombia has a solid tradition of civilian government and regular free elections.

But conflict between the two parties has more than once led to civil war. The War
of a Thousand Days (1899–1903) claimed 100,000 lives. It was as part of this
conflict that Panama, with US help, declared its independence from Colombia
in 1903. Decades later, a civil war known simply as “La Violencia” (the violence)
took about 300,000 lives from 1946 to 1957.

Argentina

Early in the twentieth century, Argentina was one of the world’s wealthiest
countries. But by mid-century, a string of military governments was struggling
to keep the economy going. They also tried to contain terrorism and other
political violence.
By the early 1970s a charismatic but long-exiled leader, Juan Domingo Perón, sensed the time was right to return to his homeland. By October 1973 he was once again the country’s elected president. His third wife, Maria Estela Isabel Martinez de Perón, became vice president.

It was a triumph for the Peróns. But it was a turbulent time for the country. Political violence was rife. The government responded with emergency measures, including holding people in prison without charge and without a clear release date.

Then on 1 July 1974 Perón died. His widow succeeded him in office. The armed forces removed her on 24 March 1976, however. A junta—a group of military officers ruling a country after seizing power—took control of the government.

The junta took harsh measures against those it deemed political extremists or their sympathizers. Gradually basic public order returned. But the human costs of this so-called “Dirty War” were immense. Tens of thousands of people “disappeared.” The authorities simply rounded them up and killed them.

Understandably, this meant the public had little trust in the junta. Meanwhile, the economy was weak. And charges of public corruption kept piling up.

Trying to stir up public support, the junta in 1982 tried to seize from Britain a group of islands in the South Atlantic. The Argentines called these islands the Malvinas, and they had long claimed them as part of Argentina. To the British, who had controlled them for centuries, they are “the Falklands.”

The Argentines hadn’t reckoned with British Prime Minister Margaret Thatcher, however. Nicknamed “the Iron Lady,” she insisted the Falklands were British—and would remain so. When Argentina attacked and conquered the islands, Britain’s air, land, and naval forces counterattacked and threw them out. The conflict lasted just a few months and ended with the Argentine surrender on 14 June 1982.

Argentina’s crushing defeat in the Falklands/Malvinas and the souring economy cost the junta its hold on power. Democracy returned. Raúl Alfonsin of the Radical Civil Union won the presidency and took office on 10 December 1983.

**El Salvador**

Like much of Central America, El Salvador has a long history of revolutions. By the beginning of the twentieth century, the country had reached some degree of calm. But by the 1970s its democratic institutions were on the decline again. Arturo Armando Molina Barraza won the 1977 presidential election. Yet people believed the vote was rigged—and clumsily so. In 1979 a reformist coup took place. Soon the situation deteriorated into civil war.
One especially shocking event of this period was the murder of the Roman Catholic archbishop of El Salvador, Oscar Arnulfo Romero y Galdámez. Police intelligence agents shot Romero as he was saying Mass on 24 March 1980. The war took an estimated 75,000 lives, with the US government actively backing the moderate-conservative government against leftist rebels.

In January 1992, after lengthy peace talks, the two sides came to terms. The military came under civilian control. The peace accord allowed former guerrillas to become a normal political party and take part in elections.

**Nicaragua**

The Monroe Doctrine warned Europe to keep its hands off the New World. There’s another side to that coin, however. The United States has seen Latin America as its own sphere of influence and often intervened there.

Nicaragua is a clear example of this. The United States kept troops there almost without a break between 1909 and 1933. From 1927 to 1933 the US Marines in Nicaragua fought a long-running battle with a rebel force led by General Augusto Calderón Sandino. He was a Liberal who had rejected a US-sponsored peace agreement between his party and the Conservatives.

But by 1933 the American public wanted to bring the Marines home. After they left, a general named Anastasio Somoza García outfoxed his opponents, assassinated Sandino, and took over the presidency.

Despite the way he came to power, Somoza kept close ties to the United States. So did his sons, who succeeded him. Their dynasty lasted until 1979. Then the Sandinista National Liberation Front, which had been fighting Somoza’s sons since the early 1960s, toppled them.

The Sandinistas were authoritarian rulers. Voicing Marxist slogans, they seized property. They nationalized industry. And they supported guerrilla and terrorist groups in the region. The United States halted aid to, and trade with, Nicaragua. Eventually Washington even began to support the resistance.

Eventually the Sandinistas yielded to pressure from both home and abroad. They began peace talks with their opponents. These led to national elections in February 1990. Violeta Barrios de Chamorro won the presidency. She was well known as the widow of an influential slain journalist, Pedro Joaquín Chamorro Cardenal. Her nearly seven years in office were a time of great progress for Nicaragua. Its democracy strengthened, its economy stabilized, and its human rights practices improved.

At the end of her term she handed power over to her successor, José Arnoldo Alemán Lacayo, a former mayor of Managua. It was the first such peaceful transfer of power in recent Nicaraguan history.
Brazil completed its transition to a popularly elected government in 1989. and João Baptista de Oliveira Figueiredo (1979–85), began a democratic opening. though, two of its more enlightened military rulers, Ernesto Geisel (1974–79) Brazil’s constitutional republic ended with a military coup in 1930. In the 1970s, Chile began its return to democratic rule. 5 October 1988 denied him a second eight-year term as president. Soon after, Human rights abuses marked Pinochet’s rule. It ended after a popular vote on Allende was killed. General Augusto Pinochet Ugarte threw out Allende in a military coup in which Allende was killed. In Chile, Salvador Allende Gossens, a Marxist, headed a group that took power in 1970. He nationalized industry, including US interests in Chilean copper mines. The economy did not run well under his leadership. On 11 September 1973 General Augusto Pinochet Ugarte threw out Allende in a military coup in which Allende was killed. Human rights abuses marked Pinochet’s rule. It ended after a popular vote on 5 October 1988 denied him a second eight-year term as president. Soon after, Chile began its return to democratic rule. Brazil’s constitutional republic ended with a military coup in 1930. In the 1970s, though, two of its more enlightened military rulers, Ernesto Geisel (1974–79) and João Baptista de Oliveira Figueiredo (1979–85), began a democratic opening. Brazil completed its transition to a popularly elected government in 1989.

The Up-and-Down Patterns of Democracy in Argentina, Chile, and Brazil

Like Argentina, Chile and Brazil have swung over the years between civilian and military rule. In all three, rising middle classes pushed for change and more democracy. Then conservatives pushed back. And all three spent many years under military rule.

In Chile, Salvador Allende Gossens, a Marxist, headed a group that took power in 1970. He nationalized industry, including US interests in Chilean copper mines. The economy did not run well under his leadership. On 11 September 1973 General Augusto Pinochet Ugarte threw out Allende in a military coup in which Allende was killed.

Human rights abuses marked Pinochet’s rule. It ended after a popular vote on 5 October 1988 denied him a second eight-year term as president. Soon after, Chile began its return to democratic rule.

Brazil’s constitutional republic ended with a military coup in 1930. In the 1970s, though, two of its more enlightened military rulers, Ernesto Geisel (1974–79) and João Baptista de Oliveira Figueiredo (1979–85), began a democratic opening. Brazil completed its transition to a popularly elected government in 1989.

LESSON 2  •  Economic Reform, Leadership, and the Political Pendulum
The Influence of Perón and Peronism in Argentina

Around the world, political parties tend to have similar names: “Liberal” or “Conservative,” for instance. What's much rarer is a political movement named for a person. But that's what Juan Perón, the Argentine leader whom you read about earlier, founded: Peronism.

Perón first burst onto the political scene as an army colonel in 1943. He was part of a military coup that ousted Argentina’s constitutional government. He’s hard to place on the usual left-to-right political spectrum. His first role in the new government was as labor minister. He worked to give the working class more power. He also moved to nationalize industry. He produced five-year plans, not unlike Joseph Stalin. All that may make him sound like a socialist.

Some call Perón a fascist, however. Himself of Italian descent, he openly admired Italian fascist Benito Mussolini. In 1955 a military coup ousted Perón as Argentina's elected civilian president. So he went into exile in Spain, where the fascist dictator Francisco Franco Bahamonde still ruled.

Even without Perón, Peronism lives on in Argentina. Since the restoration of civilian rule in 1983, Argentina has elected several Peronist presidents. Along with Perón’s, their record hasn’t been good: They have often mismanaged the economy, bankrupted the government, allowed labor unions too much influence at the expense of business, and propped up unprofitable industries.

The Influence of Castro and Communism in Cuba

Fidel Castro first came to wide public notice in 1953. He was a revolutionary activist in Cuba. The country may have won its independence back in 1902, but by the 1950s it was languishing under a corrupt dictator, Fulgencio Batista y Zaldívar. People wanted a return to constitutional rule. Many resistance groups, urban and rural, wanted to topple Batista. But on New Year's Day 1959, after rebel forces led by Castro had won a series of victories, Batista simply fled.

As Castro took power, he promised a return to constitutional rule and democratic elections. He promised social reforms, too. But it didn’t work out that way. He used his control of the military to increase his power. He repressed dissent. He pushed other resistance fighters aside. And he jailed or executed thousands of opponents. As Castro turned more radical, hundreds of thousands of Cubans fled, most to Florida. He declared Cuba a socialist state on 16 April 1961.
All this—plus Cuba’s takeover of US property—quickly soured relations with the United States. Washington had already imposed an economic embargo on Cuba in October 1960.

For years, Castro worked closely with the Soviet Union. He provided the foot soldiers for Soviet military adventures, notably in Africa. The period of greatest tension between the two countries was the 1962 Cuban missile crisis.

A half-century later, an ailing Castro has turned over some powers to his brother Raúl. But the real “post Castro” era lies still in the future.

The Influence of Hugo Chávez in Venezuela

As Fidel Castro has begun giving up power in Cuba, Hugo Chávez Frías of Venezuela has moved into the role of Latin America’s leading leftist troublemaker. Venezuela long had a reputation as one of the most stable democracies in Latin America. But that began to change in 1989. That’s when people rioted in response to such things as inflation and government program cutbacks—referred to by historians as an “austerity program”—intended to deal with the nation’s huge debts. Some 200 people died in the riots. In 1998 Chávez ran for president on a reform platform and won.

Chávez, a career military officer, argued that the system had lost touch with ordinary people. He called for, and got, a new constitution. Voters reelected him in 2000. In 2002 a military coup briefly deposed him. But he regained office. In 2004 he faced a recall election and won with 59 percent of the vote. In 2006 he won the presidency again, with 63 percent of the vote.

But the following year, voters narrowly defeated a package of reforms he proposed. These would have, among other things, scrapped presidential term limits and redefined private property. It was his first electoral defeat. Many saw it as a rebuke to his efforts to increase his power. He has signaled his intent to make many of the changes by presidential decree—that is, without input from anyone but himself.

Under Chávez, US-Venezuelan relations have been tense. The United States is a major trading partner with Venezuela. But Chávez has used particularly fiery rhetoric to refer to Washington and US policies. He has also called for a “multipolar world” devoid of US influence. And he has made overtures to—or deals with—several countries the United States finds problematic: Iran, North Korea, Belarus, and Syria. His purchase of Russian shoulder-fired missiles in the summer of 2009 sparked alarm in Washington, where officials feared Chávez would give the missiles to the Colombian rebels.
How Weak Governments, Corruption, and Crime Affect Economic Development

One way to understand Latin America’s political instability throughout history is to look at the different forces shaping the economy. These forces include weak governments, corruption, crime, and, more specifically in Colombia’s case, the drug trade.

Colombia’s economic report card through the 1980s was not bad. Its solidly middle-tier economy was growing at a respectable rate. The country had good trade relations, a skilled workforce, and good levels of investment and savings.

But there were some blots on its record as well. Careful observers had to admit that Colombia’s relative prosperity was built at least in part on the illegal drug trade. And drugs created problems.

For a start, the drug lords’ political and economic power rivaled the government’s. The parts of Colombia where the drug trade was concentrated were notably better off than other parts of the country. Another problem was inflation. A steady stream of dollar bills from the United States meant prices kept rising higher than they would have otherwise. People put more money than necessary into the financial, real estate, and construction sectors because they were such good places to introduce illegal drug money into everyday use.

Finally, the drug trade drew more and more people into a life of crime. As a result, violence and corruption spread throughout the country. Colombia is by no means the only country running into drug-related issues. Mexico, for instance, is facing such serious drug violence that some observers are beginning to compare the country to a “failed state.”
How Bribery Affects Government Officials

George Friedman, an analyst writing for Stratfor Global Intelligence, has described how drug money and bribery affect governments and their employees. Drug cartels have the power both to bribe government officials at all levels and to kill them, he noted. “Government officials are human; and faced with the carrot of bribes and the stick of death, even the most incorruptible is going to be cautious in executing operations against the cartels.”

Government officials who take bribes either look the other way and allow crime to occur, or they actively participate in criminal activity. Perhaps they issue permits that criminals do not qualify for or hand out phony identification papers that allow criminals to operate. In any event, they violate their responsibilities to the people they are supposed to serve. Instead of working for the government, they work for the drug lords.

How Violence and Assassination Affect Economic Development

In these ways, outlaws can gain enough power against a government that the two sides trade places. The cartel governs the government. Public officials become the drug cartels’ tools.

It’s similar to what happened in Chicago during the 1920s. Alcohol smuggling created a huge pool of money, which criminals used for bribes. The city government was effectively “absorbed,” to use Friedman’s word. Only with major reinforcements brought in from Washington—the FBI—did the forces of law and order get a grip on the situation. Such high levels of lawlessness—actual violence, or the threat of it, combined with bribes—make it hard for a state to function at all. Normal economic forces can no longer operate, as businesses are forced to cooperate with the criminals and do their will. The criminals often “tax” legitimate businesses—skimming part or all of the profits—thus increasing the costs of doing business. Some businesses give up and close, and their owners leave.

The Economic Results of the Flight of Prominent Citizens From a Society

When rich people leave a place, they tend to take their money with them. That’s the principle analysts have in mind when they think about how general lawlessness affects a local economy. It leads to less investment.

A business owner worried about his son or daughter being kidnapped on the way to school is likely to move to where he feels safer. So is a merchant concerned about his shop being looted and his goods stolen. And when affluent Latin Americans move to Miami or Houston or Los Angeles, their new investments are likely to go into their new city. This has been Latin America’s recurrent theme for decades.
Prominent citizens often exercise a degree of informal leadership in their communities as well. They help “get things done,” not only with their money but also with their contacts and connections. The ability and push to improve conditions go away when such people no longer live in a place, even if they retain property there.

**The Struggle for Power Between Church and State**

Another power historically exerting influence in Latin America is religion. The United States largely settled its question about the relationship between church and state long ago through the First Amendment to the Constitution. Yet many Latin American countries still struggle with the issue.

As you read in Lesson 1, Protestantism has made significant inroads in Latin America in recent decades. But the region is still overwhelmingly Catholic. In fact, the Roman Catholic Church has tried to exert influence in Latin America for centuries. But from country to country, the role of the church in politics has varied. A look at four countries in particular tells the story.
The Conflicts Between the Mexican Government and the Roman Catholic Church

Mexico has been Catholic since soon after the Spaniards arrived. Priests traveled with Spanish conqueror Hernán Cortés when he first came to Mexico in 1519. Spain claimed new territories in the name of the cross as well as the crown. But since Mexican independence, church-state relations have been complex, as governments have tried to limit church power and influence.

The nineteenth-century liberals who fought for Mexican independence embraced the French revolutionary ideal of *anticlericalism*. This means *opposition to the involvement of the clergy in secular affairs*. Liberals favored decentralization and free competition. They couldn’t help noticing that in Mexico the church was practically a state within a state. After all, the church was a major landowner. And it controlled most schools, hospitals, and charitable institutions. The liberals saw the church as resisting needed reforms.

The constitutions of 1857 and 1917 restricted the church in many ways. Those went well beyond forbidding the “establishment” of the church as a state religion. Rather, they amounted to what Americans would consider limits on the “free exercise” of religion. One provision, for example, gave the state ownership of all church buildings.

By the 1980s, though, the church was demanding an end to these restrictions. Widespread political corruption was becoming more and more blatant. The clergy demanded the right to speak out on national affairs. And so in 1992 Mexico abolished constitutional limits on the church. Church-state tensions have not disappeared. But they have eased considerably.

The Influence of Catholic Social Reform Initiatives on Government in Paraguay

Paraguay is another country where the Catholic Church challenged a corrupt government. From 1954 until 1989 Alfredo Stroessner Matiauda was the government strongman in charge. Stroessner kept the country under one successive 90-day state of emergency after another. Only during election campaigns did he lift it.

By the late 1960s the church, traditionally neutral on politics, decided it could no longer play along. It spoke out against human rights abuses and the lack of social reform. The church was one of very few independent voices in the country.

The Stroessner regime soon cracked down on the church’s social activism. But the church bounced back. By the early 1980s it had become the regime’s most important opponent. The Stroessner era ended with a military coup in 1989. Civilian rule soon followed. Church activists can fairly claim credit for preparing the way for the transition.
The Relationship Between Church and State in Brazil

Brazil is yet another Latin American country where clergy have heeded the call to social action. Liberation theology is the term for an activist movement of Roman Catholic priests who make direct efforts to improve the lot of the poor. Brazil has been a center of this movement. Brazilian theologian Leonardo Boff played a leading role in it.

The movement drew its inspiration from the Second Vatican Council of 1965 (Vatican II). This council liberalized and modernized some church procedures. The “liberationists,” as they’re sometimes called, also got a push from the Latin American Bishops’ Conference in Medellín, Colombia, in 1968. This conference endorsed direct action on behalf of the poor.

During Brazil’s years under military rule, progressive priests defended human rights. They made the church a focus of resistance to an undemocratic regime.

The liberation theology movement has faded somewhat in recent years. The end of military rule has given Brazilians new channels of political expression. And as conservative Pope John Paul II’s appointees have risen within the church, Brazil’s bishops have become more conservative, too.

The Church’s Mediating Role in El Salvador

Liberation theology was an important movement in El Salvador as well. Luis Chávez y González served for nearly 40 years as the archbishop of San Salvador. He was a strong advocate for the poor. He did things such as trying to help peasants who had lost their farms to large businesses.

As in Brazil, so also in El Salvador—the Second Vatican Council and the Medellin bishops’ conference of 1968 moved the clergy to act on behalf of the poor. Activist clergy and church members set up so-called Christian Base Communities to work for social change.

But as civil unrest grew during the late 1970s, right-wing groups started attacking priests who worked to help the poor. The church became divided. Most bishops supported the church’s traditional role and the government’s authority. But a small group of parish priests favored developing the Christian Base Communities. They continued to call for more aid to the poor.

In 1977 Bishop Chávez resigned. His successor was Monsignor Oscar Arnulfo Romero y Galdámez. Bishop Romero was seen as a moderate, not a radical. But like Chávez, he spoke out publicly for social justice. He became the leading advocate for the poor. Every Sunday morning, he gave radio addresses. As tensions rose, his outspokenness was too much for the right wing. That led to his assassination.
How Free Trade Agreements Have Affected the Region

One of the difficulties developing countries around the world have experienced is finding markets for their goods. Without such markets, it’s difficult for their economies to grow and a middle class to develop.

Since World War II, US policy has been that the best way to expand trade in all directions is to have freer trade. The US government has found that free trade agreements are one of the best ways to open foreign markets to American goods. By allowing other countries to sell goods in the United States without trade barriers, these countries are then able to buy more US goods. The United States has such agreements with 17 different countries in place. Of these, half are with Latin American countries.
Of the three other free trade agreements pending at this writing—that have been worked out but not put into effect—two are with Latin American countries: Panama and Colombia.

One measure of the success of these accords is that they account for far more US exports than the size of the trading partners’ economies would suggest. In 2007 US free-trade partners, in Latin America and elsewhere, made up 7.5 percent of global production. But they bought more than 42 percent of US export goods.

**The Purpose of Free Trade Agreements**

The basic idea of free trade goes back to the early days of classical economics. If each country produces the things it does best and trades freely with other countries doing what they do best, everyone is better off. Among economists this view has wide support.

Among politicians, however, it’s a different story. Free trade means opening a nation’s doors to foreign competitors. And letting foreign firms compete means letting them win when they’re better—or cheaper—than their domestic counterparts. That benefits consumers, who get lower prices, more innovative products, or both. But for the producers—including the local firms that fail and their employees—it can be a tough process.
The Scope and Benefits of the North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) created a free trade zone among the United States, Canada, and Mexico. It’s the largest free trade zone in the world. It connects 444 million people whose annual production of goods and services comes to $17 trillion.

The agreement entered into force on 1 January 1994. NAFTA called for some duties and other trade restrictions to be phased out over time. That process was completed on 1 January 2008.

Two-way trade by the US with Canada and Mexico now exceeds US trade with the European Union and Japan combined. And US exports to the NAFTA partners have risen from $142 billion to $418 billion.

The Mexican economy grew by 30 percent between 1993 and 2003. Mexican exports to the US reached more than $138 billion, while its exports to Canada grew from $2.7 billion to $8.7 billion during the same time. But Mexico’s small farmers, whose plots are tiny and not very productive, complain that they cannot compete with more efficient US farms. While US farms receive US government subsidies, in the past few years the Mexican government has cut its farm subsidies. This has increased problems for Mexican farmers.
The Scope and Goals of the Central American Free Trade Agreement

The Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) is the first trade accord the United States has signed with a group of developing countries. The United States approved the agreement on 5 August 2004. The other parties include:

- Costa Rica
- El Salvador
- Guatemala
- Honduras
- Nicaragua
- The Dominican Republic.

CAFTA-DR has been put into practice on a rolling basis as individual parties have fulfilled its requirements. Like other trade pacts, it’s meant to create new opportunities by doing away with tariffs, opening markets, and reducing barriers to services. It also aims to establish state-of-the-art rules for twenty-first-century commerce. Advocates of CAFTA-DR say it will make trade and investment in the region easier and will promote closer relationships between the countries. Like all such agreements, however, it has many opponents in the United States and the partner countries, especially among labor unions, who fear that free trade endangers jobs.

The CAFTA-DR countries are the third-largest market for US exports in Latin America, after Mexico and Brazil. US policymakers hope that such agreements will lead to more economic development in the region, ending the cycles of poverty, political turmoil, violence, and drug smuggling that have troubled it for so long. They also hope more opportunity in Latin Americans’ home countries will lessen the pressure many feel to illegally emigrate to the United States.

US military intervention in the region over 200 years has not greatly altered the patterns that have hindered Latin America. Free trade advocates are betting that their policies can be effective where armed force has not.
Lesson 2 Review

Using complete sentences, answer the following questions on a sheet of paper.

1. What was the importance of silver and sugar in the New World?

2. What does the GINI index measure, and how does Latin America compare with other regions?

3. What did Simón Bolívar do in 1828 that helped establish a tradition in Latin America?

4. What patterns have Argentina, Chile, and Brazil followed?

5. What country has drug violence so serious that some are comparing it to a “failed state”?

6. Which American city in the 1920s had conditions similar to those in Colombia?

7. What ideal was behind Mexican liberals’ efforts to limit the Roman Catholic Church?

8. What is “liberation theology”?

9. What is the basic purpose of free-trade agreements?

10. What is the largest free trade zone in the world? How many people does the zone connect, and how much do its members produce?

Applying Your Learning

11. How does drug money affect an economy like Colombia’s?