

South America: from Farm to *Favela*

The Colonial Disease: Displacement & Rent Privatisation

OF THE top 20 countries with the most unequal distribution of land, 16 are in Latin America. Ewout Frankema, citing the results of his study and that of the World Bank, concluded that “the assertion that there is a ‘Latin’ type of inequality is indeed supported by a global comparison of land inequality. In Europe, countries with the most unequal distribution of land are Spain, Portugal and Italy. It is quite remarkable that land inequality in the former Iberian motherlands is as high as any in an average Latin American country”.¹

But the claim that there is a Latin American “type of inequality” may mislead. The maldistribution of land in these countries is the consequence of a general dynamic: the land grab of the past, and taxation that favours rent seekers

(see box opposite). So what Latin American countries have in common with poverty stricken regions on other continents is that direct taxes (those that fall regressively harder on the poor) account for a large fraction of total government revenue. Taxes on rents of land and natural resources, on the other hand, are a small and declining fraction. Direct payroll contributions for social security, for example, represent about 18% of total tax revenue in Latin American countries. Property taxes, in contrast, represent less than 2% of overall tax revenues on average.² We shall trace this impact of colonialism as it evolved in Bolivia from the 16th century. There, the contours of Europe's territorial ambitions remain clear-cut today, indelibly marked on the population by spatial segregation, and by persistent high levels of income inequality.³

The seeds were sown by the displacement of people from land they had occupied for generations. This, in turn, delivered a captive labour force available to do the bidding of the land grabbers. In terms of life expectancy and literacy – indeed, any measure one cares to examine – Bolivia became the archetype of a country whose dynamic was the simultaneous exploitation of nature and of human beings.

It began in 1545 when the Spaniards discovered the richest silver mine in the Americas. The boom that followed enriched the settler farmers who grew maize, wheat and the coca leaf that mine workers chew to relieve hunger pains. The first model of tenure was the *encomienda* system, in which *conquistadors* received grants of land that included the rights to the labour and product of the Indians who lived on their estates. In time, this arrangement changed into the *hacienda* model – the extensive ownership of (largely underused) land for cattle rearing.

The Internal Colonisation of Europe

THE modern colonial project began within Europe. The feudal aristocracies, which originated as servants of monarchs (as evidenced by their status as tenants), grew tired of public service; they decided that they wanted their rewards (the rent of land) unencumbered by the duty to perform public services. So began the historic project to shear rent from the social obligations that were naturally attached to that income.

The consequences, in terms of a grossly skewed distribution of land – and so of power – are exemplified by rural Scotland. Here, according to Andy Wightman, we find today “the most concentrated, inequitable pattern of landownership anywhere in Europe”.*

That Scotland was in need of land reform – or the complementary tax reform – was emphasised by Wightman’s finding that “Scotland has the most concentrated pattern of private landownership in the world. Fully half of the privately-owned rural land in the country is owned by just 343 landowners”.**

The model employed by the feudal aristocracy to grab the land of others (or, more precisely, the rents of others) was the model that the European powers then employed to colonise other people’s territories around the world.

*Wightman (1999) **Wightman (2001)

Bolivia became independent in 1825, but the prospects for the Indians were not improved. The white elite remained rapacious in its demands. But the country was not only gnawed away from within. It also had predators at its borders. A succession of wars saw the country yield nearly half its territory to its neighbours.⁴

Tin was discovered in the late 19th century, fuelling a boom that doomed the remaining traditional Indian communities. The mechanism for achieving this has lessons for us today.

The government broke up free Indian communities by introducing individual titles to lands. The *haciendas* acquired land through small purchases in each community to break the community's cohesion, then used fraud and force as well as straight purchase to acquire Indian lands. Free communities saw their share of land fall from half in 1880 to less than a third by 1930. This third was the most unarable land.⁵

Hope was raised in 1951 with the election of Victor Paz Estenssoro as president. He nationalised the tin mines and announced a land reform. This threatened to shift resource rents into the public sector where they could fund infrastructure and raise health and literacy standards. The prospects were fabulous. Bolivia was rich in zinc, copper, silver, tungsten and gold (oil was discovered in the early 1960s). Properly directed, the resource rents could have transformed a desperately poor nation into a model for other Latin countries to emulate. But landowners had one more trick up their sleeves: the army. Suitably rewarded, the generals could be persuaded to usurp the democratic process and protect the property of the landlords.

So resumed Bolivia's long history of military coups that would go on to number 190. Factions within the army took turn to exercise dictatorial power. This consolidated the triadic partnership between the landed elites, the military and the state. The function of the state was to provide the bureaucratic channel for funnelling the resource rents from the tin mines to the elites.

The generals were well rewarded. They acquired a slice of the tin rents through the state budget, and used the army as the means to acquire land.⁶ As the *New York Times* was to note: "Air force planes shuttle duty-free automobiles into Bolivia

for officers and land titles are diverted to them at bargain prices".⁷ Thus corrupted, it was a short step for the military to engage in the narcotics trade. Cocaine yielded fabulous rewards: exports to North America turned the industry into the highest earner of foreign exchange. As the price of tin on world markets declined in the 1980s, so the landowners and the military relied increasingly on a share of the coca rents.

Dramatic stories in the media conveyed the flavour of Hollywood movies such as *Butch Cassidy and the Sundance Kid*. Military protection provided the security for the cocaine trade. In return, the drug cartels funded coups. One such coup took place on July 17, 1980, which brought to power General Garcia Meza.⁸ The occasional scandals were smoothed over and the corrupt ties reaffirmed – as occurred at a pre-coup conference involving six of the major cocaine traffickers with army leaders in La Paz on June 26, 1980. *Sunday Times* correspondent Nicholas Asheshov, citing reports from the US Drug Enforcement Agency, wrote: "The aim was to reach a deal allowing unrestricted growth of the coca acreage already illegally planted in Bolivia's tropical mountain jungles, plus continuation of the already lax policing of the air-freighting cocaine paste across the Amazon to Colombia and Miami".⁹

Che Guevara thought he could use Bolivia at the epicentre of a counter-revolution in Latin America. He launched his guerrilla expedition in 1967 with visions of a conquest that could spread Marxist brotherhood throughout the continent. He did not have a chance. The state – mobilised by the 'anti-communist' elites and an army flush with coca rents – was determined to preserve the privileges of its clients. Guevara became a pin-up picture on countless student

dormitory walls around the world, while the rents of a rich territory were squandered in the squabbles for power. By the time democracy was restored in 1982, the colonial model was securely preserved.

“Socialism of the 21st Century”

WITH THE reintroduction of democracy, a new phase began in Bolivia's history. Elections eventually led to the return of Victor Paz Estenssoro to the presidential palace in La Paz. He had attempted to reform property rights in 1952, and was now to be given another chance. Would he launch a new programme of reforms? A small population of under 9m people occupying a territory of more than 1m km² (nearly twice the size of France) ought to enjoy the highest material standards. They were not doing so, because the nation's land was inefficiently distributed (see box opposite).

But instead of laying the foundations for a new prosperity, Bolivia became the victim of hyper-inflation of the kind that was last seen in Germany after World War I. Following the elections in 1982, we find Jeffrey Sachs on the first of his missions, flying in to La Paz on July 9, 1985, and his first meeting with destiny.

“I did not know exactly where Bolivia was in South America,” he was to record.¹⁰ But his ignorance ran deeper. He relied for his knowledge on book learning. His speciality at Harvard was the high finance of rich nations. And yet he travelled to Bolivia to advise a government which was trapped at the bottom of the poverty league. Poverty, Sachs was to note, required a “comprehensive diagnostic

Maldistribution of Land in Bolivia

ACCORDING to Bolivia's Agricultural Census of 1950, a tiny group of absentee landowners (4% of the population) controlled about 95% of all agricultural property, divided into units of more than 1,000 hectares each. Two-thirds of the population held under 0.25% of cultivated land in units of less than 5 hectares each (*minifundia*).

The Economic Commission for Latin America reported that only 21.6% of all arable lands (2% of the national territory) was under cultivation, compared to a continental average of 30%. A wide variety of forms of bondage was employed to control the peasants, including labour-duty, debt-peonage, service-tenure and share-tenure.

The process of land accumulation damaged the culture of the indigenous population. Their traditional communities (*comunidades indigenas*) declined from 18,000 at the beginning of the 19th century, to 3,780 by 1950. The peasants tried to fight back – there were more than 2,000 spontaneous rebellions between 1861 and 1944 – but they failed. The discontent came to lead to the revolution of April 1952.*

* Source: Contemporary Archive on Latin America, London: Fact Sheet, July 18, 1978

checklist”, which happened to be missing from his briefcase when he arrived in Bolivia. The issues that challenged that country were matters which “I had not been truly trained to address”.¹¹ That did not inhibit Sachs from experimenting with strategies that were to evolve as shock therapy.

The academic had learnt from his history books that the way to terminate hyper-inflation was, as in Germany, sudden action to end the printing of money. The prescription worked for the monetary problems in Bolivia, and Sachs was delighted. He employed his model for economic ‘transition’ to the market economy in Poland four years later, and then again in Russia in 1990. The advice was simple:

- raise prices, especially of oil and gas, to yield government a revenue that removed the need to print the bank notes that fuelled inflation; *and*
- privatise state assets.

This, apparently, was the recipe that would deliver economic growth. But the monetary crisis was a symptom that reflected deep-seated problems that were beyond the understanding of the unworldly professor. President Estenssoro wanted a plan that could deliver fairness as well as efficiency; dealing with out-of-control inflation was merely one of the first steps.

William Easterly, one of Sachs' critics, attributes the hyper-inflation to "financial mismanagement" by the government, resulting in price rises that peaked at 25,000% per annum.¹² Should we not ascribe responsibility to the Bolivian government for the economic chaos? Why focus on the diagnostic shortcomings of an American scholar when the men in power in La Paz made the laws?

The problem was that, in the 1980s, democratic power came with strings attached. First and foremost, the *latifundistas* and their military henchmen should not be upset. So in 1985, when President Estenssoro received the proposals submitted by Sachs, he was sensitive to what had happened just 12 months earlier. Following the restoration of democracy, presidential authority was exercised by Hernán Siles Zuazo. On June 30, 1984, the president was kidnapped by the Leopards, a new narcotics police unit which had been financed and equipped by Washington to the tune of \$5m. The us initiative was supposed to clamp down on the cocaine cartels. Instead, it struck against the government.¹³

The attempted coup failed, however, and the president was rescued. Nevertheless, politicians were reminded of the limits of their powers.

It was the ever-present military threat that constrained democratic politics. Land reform was off limits. But that does not excuse foreign scholars who turn advisors. They are not bound by the brutal colonial legacy that shapes the political agenda in capitals like La Paz. As scientists, are they not supposed to offer optimum policies from which the politicians can choose? Sachs, by failing to understand the total problem confronting the majority in Bolivia, emphasised strategies that were piecemeal; these could not, therefore, lay the foundations for the social stability that was the precondition for sustained economic growth and an end to poverty. An example of this same shortcoming today is the emphasis Sachs now places on the need to cancel the debts of poverty-stricken countries.

Of course the colonial legacy may be approached from different angles. One of these is the debt owed to foreign financiers, which in Bolivia's case had climbed to \$4.5bn in 1984, just before Sachs arrived in the country. How would this debt be addressed by anti-poverty campaigners? Today, Sachs tours the world preaching the need to cancel the debts. But what would prevent those countries from relapsing back into financial servitude? The debts were accumulated solely because home-grown rents were privatised and so were not available to fund 'public goods'. Consequently, public spending had to be funded either by taxing the poor or borrowing from the rich (usually, a combination of the two¹⁴). Either way, the outcome would be budgetary chaos. That insight is fundamental to any plan for stabilising an economy like

Bolivia's. But this diagnosis was missing from the submission offered by Sachs to governments that welcomed him as an economic guru.

As Sachs toured the world dispensing his humanitarian charm, he (no doubt unwittingly) helped to smooth the way for IMF-framed structural reforms that usually reduced the money spent on the poor. That was to be Bolivia's fate. Twenty years after his sortie in La Paz, GDP *per capita* was still below the 1980 level.¹⁵ One result was the continued exodus from the countryside as people sought urban refuge in shanty towns.

Come the millennium, South America's populist politicians – because no alternative model for growth was proposed to them – returned to socialism. It was as if the failures of the Soviet experiment had never happened. The loudest champion was President Hugo Chávez of Venezuela – proclaiming a “socialism of the 21st century”. He was joined by Evo Morales, the coca farmer who was elected President of Bolivia in 2005 with the promise to nationalise the oil and gas industry. Morales secured electoral victory by campaigning against land speculation.¹⁶ Did a model exist that could solve the problems challenging South America? Was it possible to foster the entrepreneurial economy while securing justice in the realm of land rights? If a solution existed, it had to cement town and country into a common cause. If there was one man who had the charisma and popular support to carry through such an agenda, it was Luiz Ignácio Lula da Silva.

Brazil: Cementing Town & Country

LULA, AS the Brazilian president was popularly known, had a history in trade unionism. He was elected on the promise to help the poor. In the event, Brazil did enjoy economic growth, but on the back of a global boom driven by China and India's need for natural resources. It was a growth that would be terminated by the next global recession. But if he had been armed with the correct analysis of trends in the economy, Lula could have exercised his mandate to adopt those tax-and-tenure policies that would deliver sustainable growth. To achieve this, however, he would have to combine town and country into a unified strategy.

The catalyst for new strategies was to be found in the cities. Property companies flourished, as real estate prices soared into the stratosphere, but this did little to alleviate the nation's housing deficit. There was an estimated shortfall of 7.9m homes. Easy borrowing terms made mortgages accessible to the rich, but the government-owned mortgage bank (Caixa Econômica Federal) failed families on the lowest incomes. Slums continued to blight the inner cities where high-value activities co-existed with marginalised sections of the population.

Housing policy in the neo-colonial era requires the demolition of slums to make way for expensive properties, leaving the poor to relocate in whatever crevices they can find elsewhere. The alternative strategy is a redesigned tax system that attracts the rents of land into the public purse. This yields the self-funding approach to capital formation that avoids becoming indebted to international financiers. But on this the consensus in Washington is silent (see box over).

How would investment in infrastructure drive Brazil on to a new growth path? One answer is provided by the solution to the problem that confronted farmers. Despite their success at increasing crop yields, Brazil's farmers were unable to compete on the international markets because of the costs of transportation. They were disadvantaged by a pitiful highway network. It cost \$80 per tonne to deliver grain to coastal ports, twice the cost faced by Argentina's farmers and four times the cost carried by United States farmers.¹⁷

What would happen if Brazil's transport costs were slashed from \$80 to \$20? Under the current tax regime, land owners would raise their rents. But what if government shifted to a funding arrangement that recycled back into the public purse the rents that flowed from public investment in a new highway network? The additional revenue – created by the roads – would fund the capital costs of that infrastructure. So the new investment would not be a financial burden on anybody's earned incomes.

Now relate this fiscal model to the urban context. If slum-dwellers are to be rehoused on low-value land on the city fringe, government is faced with providing roads and sewerage systems as well as schools and hospitals. Under the current tax regime, the funds for these services are not available. That is why the dwellers of the *favelas* and *barrios* are left to fend for themselves. Why should we be surprised if some of them resort to gangsterism?

The self-funding model – where the infrastructure pays for itself – however, removes the financial obstacle to investment in 'public goods'. As government invests in the roads and the schools that families need, so the rents of land in the new catchment areas rise to pay for these services. This virtuous

The Information Void

THE World Bank confirms that the colonial heritage underpins the persistent high levels of inequality in Latin American countries. And yet, the Bank persists with policies that neither redistribute land itself nor, alternatively, shares the revenue from land equitably.

Tax-and-tenure reform is hindered by the paucity of data on land values and their distribution. The international financial institutions which actively prescribe profound social change do not deploy similar enthusiasm for collating data on land. Governments are encouraged to adopt revenue raising instruments favoured by the World Bank and the IMF.

The information void favours those conditions that determined the kind of appropriation that was imposed on South America.

In areas with unfavourable settler conditions, colonists adhered to a type of rent seeking behaviour that may have suppressed the rural economy as a whole due to the burden of taxes, but did not affect the existing distribution of land. The redistribution of land from natives to colonists was part of a colonial policy with extractive and developmental objectives. The expropriation of land and the exploitation of forced labour served extractive purposes, but investments in the local economy in order to raise the profitability of agricultural production served developmental purposes.*

The tragedy remains that, post-independence, governments continue to neglect the information about land and rents even as some of their leaders launch polemical attacks on imperial powers of the past. So governments that claim to be speaking for the poor continue to use tax tools that penalise that constituency, while persisting with policies that favour the elite rich.

* Frankema (2006) p. 7

circle automatically generates the employment opportunities that people need, with an affordable rise in wages.

This model of tenure-and-taxation, we shall see (in Part 3), ends spatial segregation. It was the model of development that Western advisors failed to place on Lula's desk. Reforming politicians continue to be hampered by the void in vital statistics. The prospects look bleak in Latin America, but all was not lost for the neo-colonised world. The Anglo-colonial legacy offered some hope in Asia.