CAPITALISM AND LIBERATION THEOLOGY IN LATIN AMERICA

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standards for the 'have-nots' of Latin America.

I. THE ANIMUS TOWARDS CAPITALISM IN LATIN AMERICA

Any visitor to the third world cannot help but be struck by the apparent validity of many of the aforementioned criticisms of capitalism when they consider the economic realities of these countries. Mexico provides an important example. It is true that the Mexican economy has considerable private ownership and wide reliance upon markets. It is relatively well off as compared to other Latin American countries. Yet Mexico has an annual income per capita around $2000. More significantly, it has a highly unequal income distribution. The top 20% of its population receive 57.7% of the total income, while the bottom 60% of the population receive 21.9% of the income. Furthermore, the top 5% of the population receive 27.7% of the total income and the bottom 20% receive only 2.9% of the income (about $290 per capita per year). Given this pattern of income distribution, characterizing Mexico as a two class society of haves and have nots would seem to be a fair description.

It seems apparent to many social critics that the relative poverty of much of Latin American society is due to exploitation and oppression. And it is our contention that the poor of Mexico along with many other Latin American countries can rightly cry for liberation from oppression. As we will attempt to demonstrate, opportunities to freely better oneself are blocked at every hand. Business cannot be opened without great expense and difficulty, and housing cannot be obtained without jumping a myriad of legal and bureaucratic hurdles; to provide the basic necessities of life becomes a mammoth struggle that is obviously unjust.

Against such a backdrop, it is not surprising that opposition to the existing economic system, described by its critics as "capitalism," has been loudly expressed. This enmity has been especially vehement in the field of development economics over the last 30 years. Lord Peter Bauer, the well-known development economist, contends that hostility to the market is quite widespread. He observes that:

> The views of market supporters are so strange to Third World audiences that they sound eccentric, paradoxical, or bizarre, even when voiced by prominent persons, whether foreign or local, but especially when advanced by foreign academics. This is even so when what market supporters say is simple and obvious. visiting academics address a public soaked in antimarket ideas, derived from practically all Western visitors and the textbooks and the economic literature reaching these countries.

Bauer goes on to point out that pro-market information challenges the power and patronage of local politicians and civil servants. He reports that in 1970 he toured India doing lectures and found that the only discussion on economic development that existed among economic leaders was whether to adopt the Soviet or Chinese model of development. Several well-known first world economists are quoted by Bauer as supporting the idea that the first step to development is planning and socialism.[3]

In his book, The Poverty of "Development Economics", former Indian government planner Deepak Lal outlines the widely held set of views which he entitles the Dirigiste Dogma. There are several elements involved in this dogma. They include these propositions:

1. the price mechanism should be replaced by government planning;

2. allocation of resources through the market is of minor import compared to government strategy to stimulate economic growth;

3. the classical case for free trade is invalid for developing countries;

4. massive and continuing government intervention is necessary to redistribute assets and provide for the "needs" of the poor compared to the "wants" of the rich.[4]

From the early 1960's until recent times, such non-classical views have been pervasive in development economics.[5]

In Latin America, liberation theology has wielded the loudest voice of opposition to capitalism. Liberation theology emphasizes the role of the poor in leading the economic struggle by Christians for economic justice in today's world. One leading liberation theologian, Juan Luis Segundo**,** claims that what unifies liberation theologians is their belief that "human beings, both as individuals and as political beings, are already building up the kingdom of God here and now in history."[6] While liberation theology has not been monolithic in its approach to economic questions, nonetheless almost all liberation theologians advocate some form of socialism in place of the current economic order. Many, but not all, prescribe Marxian socialism. Virtually all of them utilize elements of Marxian analysis. Socialism is understood to be much more compatible with the present advancement of God's Kingdom.

Liberation theologians are united in their opposition to the present economic system operating in Latin America. Their designation for this order is "capitalism." For example, the final document produced by the Christians for Socialism movement in Latin America affirms that capitalism is "the economic structure
shapes the reality of Latin American countries." It further states that "The social structure of our societies is based on production relationships (predominantly capitalistic and dependent on worldwide capitalism) which are grounded on the exploitation of the workers."[7]

Most liberation theologians contend that Christians confronted with a fundamental decision with regard to economic systems. In Segundo's view, Christians must make a political choice between capitalism and socialism. He refers to capitalism as "a political regime in which the ownership of the goods of production is left open to economic competition." Segundo makes no reference to the legal stability regarding property rights, the encouragement of discovery and innovation, or the role of entrepreneurship which have been essential characteristics of capitalist economies over the last 200 years. Socialism, on the other hand, is "a political regime in which the ownership of the means of production is taken away from individuals and handed over to higher institutions whose main concern is the common good."[8] Again Segundo does not furnish -any further specifications as to how the higher (presumably publicly-owned) institutions in socialist economies have historically accomplished the common good.

In sum, Segundo refuses to embellish these definitions with any further institutional detail. Instead, he calls on Latin Americans to decide "whether or not we are going to give individuals or private groups the right to own the means of production that exist in our countries." This is the "option between capitalism and socialism."[9]

Gustavo Gutierrez poses a similar choice. He says that the Latin American Church lives "in a capitalist society in which one class confronts another."[10] Christians must engage in revolutionary struggle against the capitalist economic system. Their end is to create a society in which "private ownership of the means of production will be eliminated because it enables a few to expropriate the fruits of labor performed by the many, generates class divisions in society, and permits one class to be exploited by another."[11] Latin America must press on to a more just economic system:

> Only by getting beyond a society divided into classes, only by establishing a form of political power designed to serve the vast majority of our people, and only by eliminating private ownership of the wealth created by human labor will we be able to lay the foundations for a more just society. That is

> why efforts to project a new society in Latin America are moving more and more toward socialism. In doing this people are not ignoring the defects of actual embodiments of socialism on the world scene. They are trying to get away from prefabricated notions and schemas, to act creatively and follow their own path.[12]

Unfortunately Gutierrez does not elaborate as to what constitutes the defects of socialist practice. We are left to wonder whether in fact Gutierrez, as the leading liberation theologian, has fully pondered the actual effects upon the living standards of the poor of socialist measures such as public ownership of property and economic resources and state planning of the use of those resources.

It is clear that both Segundo and Gutierrez believe that a capitalist economic system perpetuates class divisions and that private property facilitates the exploitation of workers. Gutierrez further claims that these features of capitalism result in the observed wide disparities in income distribution: "The functioning of the capitalist economy leads simultaneously to the creation of greater wealth for the few and greater poverty for the many."[13] Such disparities are not merely found within a nation; liberation theologians often emphasize a key proposition of dependency theory, namely that the income disparities between nations find their source in the dominance of capitalist economies over dependent Latin American nations.

However, there is some recent evidence that at least Gutierrez is willing to reconsider his understanding of both the causes of poverty and the relationship between economic systems and income class disparities. In a new introduction to the revised edition of his classic work, <u>A Theology of Liberation</u>, Gutierrez acknowledges some of the conclusions reached by many social scientists regarding Latin America's "socio-economic dimension." It is not enough, says, to "give a narrow interpretation of opposition between social classes." We must recognize that there are "different kinds of opposition and social conflict that exist in the modern world." Furthermore, Gutierrez contends that dependency theory is " now an inadequate tool, because it does not take sufficient account of the internal dynamics of each country or of the vast dimensions of the world of the poor."[14]

This evidence of openness to a fresh look at Latin America’s economic problems creates the opportunity for a new, constructive dialogue between liberation theologians and economists. Liberation theologians offer a challenge to market economists to consider realities of Latin America’s economic life as understood by vast majority of its people. So we turn to an examination of economic characteristics of Latin America. Do they reflect features of capitalism? Or do they in fact reflect an alternative economic order? A constructive dialogue with liberation theologians requires a close consideration of the sources of their hostility to the economic system in which they operate.

II. THE ECONOMICS OF "CAPITALISM" IN LATIN AMERICA

In view of the intellectual climate and the realities of third world experience, it is not surprising that "capitalism" would be viewed with disgust. However, there is a fundamental misunderstanding in the views of capitalism held by its third world critics.

As an economic system and historical entity, capitalism has been marked by several distinct features:[15]

1. Capital goods are privately owned. Capital goods may be broadly interpreted to mean those things necessary production which would include land, plant and equipment, labor. Undergirding private ownership is a stable legal structure which secures private property rights.

2. Enterprise and investments are determined by private initiative rather than by state control. There is a large measure of occupational freedom and freedom for producers to combine resources to produce goods and services in the hopes of making a profit.

3. Production and distribution of resources and products determined mainly by competition in the free market. Prices are the mechanism by which resources and products allocated between uses.

Private property and markets have long been features of traditional economies. In themselves, they do not make an economy capitalist. As Max Weber and Michael Novak have emphasized, capitalism must be understood in terms of a certain spirit or ethos. It is the entrepreneurial spirit of risk and experiment, of invention and innovation.[16] This capitalist spirit is accompanied by certain economic institutions, which include easy access to legal incorporation and to credit for individual entrepreneurs, and incentives for economic growth.[l7]

In contrast, Latin American economies are better described as twentieth-century versions of European mercantilism. They closely parallel the key organizational features of mercantilist practice in Europe from roughly 1500 to 1800. While there is some debate regarding the extent to which mercantilism embodied a coherent form economic policy, it is generally agreed that mercantilist economies had certain features in common.[l8] For our purposes, several of these characteristics should be highlighted.

Mercantilist economies were organized to promote the power and unity of the state. To accomplish these ends, they relied upon measures to limit both international and domestic competition. In domestic sphere, they utilized detailed and extensive regulation to guide private production decisions. Access to enterprise was limited to individuals or groups who obtained regulatory favors.

A key feature of mercantilist economy was the pursuit of economic rent, i.e. the above normal returns that can be gained by eliminating or limiting competition. In the European mercantilistic economies, rent-seeking activity was pervasive.[19] Resources were used for lobbying, bribes, and other methods of gaining economic protection.

What is perhaps most significant is that a mercantilistic economy does not allow competition between producers to freely flourish. The Dictionary of Modern Economics notes that "The extent to which the price mechanism is used, the degree of competitiveness in markets, and the level of government intervention distinguish the exact forms of capitalism."[20] Perhaps one could place modern-day Latin economies under the category of "state capitalism" in contrast with market capitalism. Novak prefers the terms "traditionalist economy or pre-capitalist economy." He notes that Latin economies are "heavily burdened by traditionalist state bureaucracies."[21] Whatever the precise label, it is evident that economic features of Latin American nations are not those characteristic of capitalism in its classic form.

We can illustrate this proposition by a closer look at each of the elements of market capitalism. In our examination we highlight the salutary effects of a market-based economic order which encourages the flourishing of the capitalist spirit. We also point out the detrimental effects upon the poor of governmental regulation of economic activity.

Consider first the private ownership of property. Private ownership of the means of production is a necessary element of capitalism because it allows for the enterpriser to gather the resources required to produce a commodity. It also provides incentive to produce, given that the profits (or losses) will accrue to the owner of the enterprise.

Private property has an important legal dimension to it as well. Private ownership requires that a person's right to his or her property be protected by a system of law which can ensure that theft does not strip away the benefits or costs that should accrue to the property owner.

Private property is a feature of capitalism often associated with greed, envy, and generally selfish behavior. The economizing that private property engenders is often misunderstood or overlooked. In developing countries, needs such as nutrition, water, population control, shelter, and clothing are especially significant. Private property plays a crucial role in addressing the problem of scarcity with respect to these needs.

Consider a plot of land which is not owned by anyone and which could be utilized in several different ways. Suppose that it could be used for growing various crops, or it could alternatively serve as a foundation for building houses. Would the land be used efficiently to meet the needs of the society? Without private ownership, and under the assumption that the members of society are self-interested, there would be relatively little incentive to plant a crop or to build on the land because of the uncertainty of gaining the fruits of one's labor. A -crop may be ultimately consumed by any other person who happens to be in the area of the land at the time when the crop is ready to harvest. Moreover, the crop may be destroyed or trampled prior to harvest -- there would be no way to protect the investment of labor put into the crop. In this situation, a person may choose to plant only that area that he or she could personally protect or police. No laws or rules would provide protection against loss.

Suppose further that the land is in the middle of an urban area and the best use of the land would be to build a hospital; would the hospital be built without private property? once again there would be no guarantee that building on the common property would result in the needed medical care. As the building was built, it could be destroyed by a person wanting to use the land for his or her own home which to some particular individual might be valued more than the hospital. Perhaps squatters would take over the building as it was being built and use it for their basic shelter needs which may be of less value than the medical services which might be provided.

If private property were instituted, what would happen to the land? Consider a case in which the property was owned by a wealthy landowner. Given that the hospital is the highest valued use of the land including the present value of expected future uses, the potential hospital owner/managers would be willing to bid the most for the land and would be able to build the land. (An exception would be that if the landowner were not interested in optimizing his or her own economic value, he or she may keep the land and absorb a loss).

Suppose the squatters were given ownership to the land. Since the hospital would place a higher value on it than the squatters, they would gain by exchanging it for cash and using the cash to purchase other land and other commodities that gave them the greatest satisfaction. In the absence of coercion, such an exchange would benefit both the hospital owner/managers, the squatters, and the society at large by more efficiently allocating land to its productive uses.

In many Latin American countries (including Mexico), the legal acquisition of any land is blocked by many government agencies that require various stipulations be satisfied. The process of satisfying these agencies often requires relatively great expenditures of time and money. Hernando De Soto, in his best selling book, The Other Path, documents a similar situation in Peru. The average cost in time in Peru to acquire legal ownership of land is 83 months of dealing with various government agencies.[22] The result is that land is frequently acquired illegally through "land invasions". These are informally organized take-overs by sometimes large groups of squatters on land that is not being used. This is the common way that land for housing is acquired by the poor. In some cases, by remaining on the land for a stipulated period of years, legal ownership can be obtained. However, the uncertainty of whether the land can be held for the future means that investment in housing on the land would yield an uncertain return. Given this situation it is not surprising that cardboard shacks contain TV's and other relatively expensive appliances. TV's are transportable; permanent walls, water pipes, telephone lines etc. are not. In this case the lack of well defined property rights leads to inefficient housing for vast numbers of poor.

Consider the second key element of capitalism: private initiative in decision making with regards to enterprise investment. This element of "free enterprise" includes a combination of private decision making and private ownership. In Mexico as well as many other third world countries, free enterprise is severely blocked and, on a legal level, made almost impossible for the poor by a myriad of government regulations. According to the Chamber of Commerce in Cuernavaca, Mexico, no less than 25 agencies would have to be satisfied in order to begin a business in Cuernavaca. Such a process would require valuable time which may be impossible for the poor to expend given that they may be near the minimum subsistence level of income.

In the case of Peru, De Soto found that in order to start up a small clothing factory, 289 days were necessary as well as $1231 of expenses and lost wages to fulfill the required legal steps to establish such a business. This represented 32 monthly minimum wages for the poor of Peru. In order to get a simple street kiosk or sell from a pushcart, it required “forty-three days of commuting between bureaucrats” and $590.56 in expenses. In addition to the legal hurdles involved in establishing a business, in the case mentioned here, ten bribes were asked for and two were absolutely required in order to actually establish the business.[23]

These barriers may make legal opening of a business in Peru nearly impossible for the poor. They impose huge costs on enterprise. One result is that a majority of businesses in Peru are illegal black-market enterprises.

Similar circumstances exist in Mexico and many other third world countries. In Mexico City, the world's largest, an estimated 60% of the GNP is produced outside of the legal sector of business activity. Surely such a situation cannot be described as free enterprise.

The costs of such a restricted framework for economic activity explain much of the throttling of the micro-economy of the third world. De Soto describes the costs to those operating legally in formal sector of the Peruvian economy as costs of access to business and costs of retaining legal status. Some examples of other costs of access to enterprise in the Peruvian setting include time costs of 83 months to get land from the state for urbanization, 43 days to get a small store approved, 14 1/2 years for a group of vendors to open an organized market, and 26 or 27 months to get approval for a minibus route or bus route respectively.[24] Of course lost wages and other expenses are associated with these costs. The costs of retaining one's legal stature include taxes, compliance with bureaucratic procedures, and obligations to administer personnel in a required way. Instability of the legal system, insecurity of property rights, inefficiency of the judiciary in settling disputes or collecting debts are some of the general costs embedded in the legal structure. In a study of 50 small businesses, De Soto found that the costs of remaining a formal, legal business amounted to 347.7% of after-tax profits and 11.3% of production costs.[25] Available funds for investment were severely cut. Forty percent of employees' total working time was devoted to complying with bureaucratic procedure. As firms get larger with more employees, legal costs escalate. There is an incentive to use more capital instead of labor in spite of the fact that labor is relatively abundant and should be used more.

Because of the high costs of obtaining and running a legal business, the majority of enterprises in many of the third world countries operate outside of the formal sector. Here, too, there are heavy costs imposed because of the avoidance of the formal sector. A great amount of time and effort is spent attempting to avoid detection and the penalties associated with illegal activity. As the result of this situation, illegal businesses pursue strategies that are rational under their circumstances but are irrational for society in terms of using scarce resources well. Avoidance of detection means that firms do not advertise, but instead spread production out into small inconspicuous parcels, and spend large amounts to bribe officials to overlook their illegality. De Soto estimates that firms spend 10 to 15% of their income on such bribes.[26] Such strategies, along with lack of access to credit, cause these firms to lack optimal economies of scale and to be undercapitalized. Informal firms tend to be too small and inefficient. They are excluded from industries that are easily detected.

In addition, the lack of legal support for the informal sector means that contracts are limited to the very short-term. Since one is dealing with illegal enterprises, the idea of long-term commitments is virtually impossible. Any business activity that requires a gestation period of more than a few weeks or requires many investors is ruled out.

In summary, typical third world economies push the majority of enterprises into the informal, illegal sector with its heavy costs and impose heavy bureaucratic costs on legal businesses. Rent-seeking activity is encouraged by a myriad of detailed regulations required to obtain and maintain government protection from competition. Large incentives are created to corrupt the many bureaucrats that a business must deal with. Alongside the fact that a bureaucrat may be able to multiply his income many times through bribes, special interest groups who stand to gain such jobs also have a strong incentive to push law makers or the executive into creating more and more of these jobs. (In the case of Peru, 99% of these jobs are not created by the appropriate branch, the legislature, but rather by the executive branch).[27] Resources spent in rent-seeking activity are not being utilized for productive purposes; they are wasted from society's standpoint. This is especially harmful in a third-world setting, as one observer notes: "Developing countries have too few resources to waste."[28] The same study notes that in Mexico the annual costs of protection have been found to amount to 3% of Gross Domestic Product.

As noted above, capitalism largely relies upon private decision rather than state control of economic decision-making. Yet in Latin America decisions regarding the use of resources are often made in the political sphere. In the case of Mexico, the state and fifty year ruling political party control a large portion of economic activity. The state is the largest employer in Mexico. For the most part, government is not differentiated from the ruling political party. Thus one often has to be a member of the ruling PRI party in order to qualify for a job. In Cuernavaca, taxi drivers ceased to pick-up members of the opposition PRD party with the result that PRD members began their own taxi business offering lower rates than the PRI taxis. The state is also in control of the many bureaucratic jobs that because of the frequency of bribes become a quick way to personal wealth.

A major genius of capitalism is the emphasis on diffusion of economic -power. If there is concentrated political power, the advantage of diffusion of economic power may be thwarted. Mexico again provides an illustrative case. The concentration of political power in the hands of one party for fifty years has resulted social order in which the political system distorts and destroys the efficiency of whatever vestige of capitalism there is. When the state controls so much (so that it even overrules election results), concentrated political power tends to distort economic relationships and further concentrate economic power. A successful capitalist economy requires a diffused, democratic political system.

A third aspect of capitalism is market determination of allocation of resources and distribution of income through freely determined prices. In the case of the Mexican economy, many prices controlled by government. Of the largest Latin American economies, Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela have extensive price controls. Only Chile is relatively free of controls.[29] This may reflect the general mistrust of the price system. Nonetheless, the outcome of price controls in various markets is clearly undesirable. The surplus that results from prices set above the market-clearing level means that resources are into goods that are not demanded at the controlled price. Likewise, the shortage that results from prices set below the market-clearing level means that resources are underallocated to these products. Instead, various forms of non-price rationing take place: individuals wait in line, participate in black markets, and/or engage in bribes.

It is this "irrationality" of controlled prices that has played perhaps the greatest role in the collapse of the Eastern European socialist economies. Market-established prices provide crucial information that is required to know how to use resources effectively to produce the products that are most wanted or needed by society. When prices are set by government edict they do not reflect true costs and benefits, and the economy flounders in inefficiency.

A related additional aspect of capitalism is a reliance upon free international markets. In the late 1950's, the Secretary of United Nations Economic Commission for Latin America, Raul Prebisch, developed a theory which hypothesized that developing countries faced a deterioration in the terms of trade. Therefore they should raise protective trade barriers and turn the focus of their economies inward toward import substitution policies. This recommendation had a large impact on third world economic policy for the next three decades. Once again free market rationality was throttled. While there are some "grey" areas of trade theory that have been used to support the position of Prebisch, a period of many years of experience has tended to draw into question the strategy of import barriers and substitution.

An influential book, Toward Renewed Economic Growth in Latin America, subscribed to by over 100 Latin American leaders in academics, business, labor, and government, makes a strong case that those countries that have over the last three decades followed policies of trade restriction and inward looking import substitution have grown relatively slowly or not at all while those countries with outward oriented export supporting policies have grown rapidly. These countries include those along the Pacific Rim (the so-called newly industrialized countries of Korea, Taiwan, Singapore, and Hong Kong) and the lesser known and more recent case of Turkey. Recommended policies for Latin America include adoption of competitive exchange rates, avoidance of excessive import protection, and the use of internationally acceptable export incentives. These proposals reflect the outcome of various empirical studies of trade based on comparative advantage which have concluded that trade is, in general, beneficial to those involved.[30]

The result of excessive regulation in Latin America is anything but free enterprise and uncoerced private decision making. These characteristics signify that the economic order that liberation theologians oppose is mercantilist, not capitalist.[31]

III. CONCLUSION

One can identify with the picture of Latin American society offered by Gustavo Gutierrez. He describes it as "a social order fashioned economically, politically, and ideologically by a for their own benefit."[32] Given the problems of rent-seeking, barriers to occupational entry, and other institutional restrictions on enterprise, such a description surely applies. The Latin American economies are characterized by a myriad of legal hurdles blocking access to land ownership and business ownership, concentrated political power in some cases), and markets that throttled through price controls and trade restrictions. But these are not the institutional features of capitalism. Certainly poor are oppressed by the state and kept from access to the means by which they might solve their own economic problems. And thus Gutierrez rightly notes that the marginalized sectors of society are speaking out in opposition to this system:

> The lower classes of the populace, forced to live on the margins of society and oppressed since time immemorial, are beginning to speak for themselves more and more rather than relying on intermediaries

> . . . They want to be the active subjects of their, own own history and to forge a radically different society.[33]

In the economic realm, the Latin American desire for a different order is well-grounded. Adam Smith, author of the well-known treatise which expounded the desirable features of the economic "system of natural liberty,"[34] observed that "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."[35] Certainly the Christian economist finds that one of the central aspects of his calling is to pursue methods and recommend institutional changes which can truly liberate the poor from economic oppression.

Historically it has been private initiative and market-based economic reforms which have lifted the living standards of the great majority of low-income persons. One study found that market-oriented economies have experienced "substantial improvements in life expectancy and health, and substantial reductions in the incidence of hunger and illiteracy since the end of the Second World War." By comparison, the performance of state-owned and directed economies has been "systematically inferior."[36] For Latin America to move in the direction of greater state control of the economy as a remedy to poverty would mean the adoption of "a cure that would only deepen the current disease."[37] While it is understandable that Latin Americans are hostile toward their current economic institutions, the needed changes to lift the living standards of the impoverished may very well involve more true capitalism, not less.

In Mexico, there are some hopeful signs in the measures taken Salinas since his presidency began in 1988. A leading element in his program has been privatization of state-run industry. Over last year, Mexico has divested a major share of its stake in the country's leading air carriers, as well as major parts of its telephone, steel, and banking industries. By means of a host of inefficiencies, these industries were losing millions of dollars annually and wasting precious resources. However, as the "Third World Survey" in The Economist observes, privatization that occurs in the context of protected markets and price distortions is often insufficient. Previous experience with privatization in developing countries has shown that it must "take the form of allowing private business to compete on equal terms with what was formerly a state monopoly supplier."[38] In this regard it is significant that Salinas has been lifting price controls in some parts of the economy. He actively sought a trade agreement with the United States in which both countries make drastic reductions in the tariffs placed on imports. In order for these economic policy changes to produce lasting benefits, they must be followed up by viable competition in the political sphere as well. Political reform in the direction of eliminating the lack of credible political parties has to be implemented.

In sum, diffusion of political and economic power, well defined property rights and a reasonable rule of law, truly free enterprise and markets, and free trade are all critical features of capitalism that are sorely missing in most Latin American societies. Surely the addition of these features would not cure all of the problems of these societies, but the societies of the world that are succeeding by most measures generally are characterized by large doses of them.

NOTES

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3. Ibid., pp. 172-173.
4. Cambridge, Massachusetts: Harvard University Press, 1985, p. 5.
5. Ibid., p. 103.
6. Juan Luis Segundo, "Capitalism versus Socialism: Crux Theologica." in Frontiers of Theology in Latin America. Rosino Givellini, ed. John Drury, trans. Maryknoll, New York: Orbis Books, 1979, p. 247.
7. Christians and Socialism: Documentation of the Christians for Socialism Movement in Latin America. John Eagleson, ed. John Drury, trans. Maryknoll, New York: Orbis Books, 1975, p. 164.
8. Segundo, op. cit., p. 249.
9. Ibid., p. 250.
10. A Theology of Liberation: History, Politics and Salvation. rev. ed. Sister Caridad Inda and John Eagleson, trans. Maryknoll, New York: Orbis Books, [1973] 1988, p. 137.
11. "Liberation Praxis and Christian Faith." in Givellini, op. cit-/ pp.
12. Ibid., pp. 17-18.
13. The Power of the Poor in History. Robert R. Barr, trans. Maryknoll, New York: Orbis Books, 1983, p. 28.
14. A Theology of Liberation, op. cit., p. xxiv.
15. The description of capitalism is compiled from The New Pelgrave Dictionary of Economics. John Eatwell, Murray Milgate, and Peter Newman, eds. London: MacMillan Press, 1987, Vol. 1, pp. 347-353; The McGraw-Hill Dictionary of Modern Economics. 3rd ed. New York: McGraw-Hill, 1983, p. 193; The Dictionary of Modern Economics. ed. David W. Pearce. rev. ed. Cambridge, Massachusetts: MIT Press, 1983, pp. 54-55
16. The Protestant Ethic and The Spirit of Capitalism. Talcott Parsons, trans. New York: Charles Scribner's Sons, 1958; The Spirit of Democratic Capitalism. New York: Touchstone, 1982, p.
17. Michael Novak, Will It Liberate? Questions About Liberation Theology. New York: Paulist Press, 1986, p. 46.
18. The classic work on mercantilism is Eli Heckscher, Mercantilism. 2 vols. London: George Allen and Unwin, 1935. The description of mercantilism is compiled from Heckscher as well as The New Pelgrave Dictionary, off,. cit., Vol. 3, pp. 445-449; The McGraw-Hill Dictionary, op. cit., p. 295; The Dictionary of Modern Economics, op. cit., pp. 281-282.
19. Robert B. Ekelund and Robert D. Tollison, Mercantilism As A Rent-Seeking Society: Economic Regulation In Historical Perspective. College Station, Texas: Texas A&M University Press, 1981
20. Op,. Cit., p. 54
21. Will It Liberate?, op. cit., p. 46.
22. June Abbott, trans. New York: Harper and Row, 1989, pp. 134135.
23. Ibid., p. xii.
24. Ibid., pp. 142-146.
25. Ibid., p. 148.
26. Ibid., p. 154.
27. Ibid., p. xvi.
28. "The Third World Survey," The Economist, September 23, 1989 p. 28.
29. Bela Balassa, Gerardo M. Bueno, Pedro-Pablo Kuczynski, and Mario Henrique Simonsen, Toward Renewed Economic Growth in Latin America. Washington, D.C.: Institute for International Economics, 1986, pp. 132-133

30. David Colman and Frederick Nixson, Economics of Change in Less Developed Countries. 2nd ed. Totowa, New Jersey: Barnes and Noble, 1986, pp. 148-149
31. In The Other Path, pp. 201-229, De Soto draws out many significant parallels between the Peruvian economy and European mercantilism.
32. "Liberation Praxis," op. cit., p. 1.
33. Ibid.
34. Smith did not use the term capitalism to describe this system natural liberty. Smith's depiction of the market economy came to be associated with capitalism in the works of the English economists of the nineteenth century. It was Karl Marx who first introduced the term capitalism into the literature of political economy.
35. An Inquiry Into The Nature And Causes Of The Wealth of Nations. Indianapolis, Indiana: Liberty Press, [1776] 1976, 1, Ch. 8, par. 36.
36. Nicholas Eberstadt, "Progress Against Poverty in Communist and Non-Communist Countries In The Postwar Era." in Modern Capitalism. Vo1.2: Capitalism And Equality In The Third World. Peter L. Berger, ed. Lanham, Maryland: Hamilton Press, 1987, p. 77. See also Nicholas Eberstadt, The Poverty Of Communism. New Brunswick, New Jersey: Transaction Books, 1988. This work provides detailed studies of the performance of particular countries which have attempted to boost living standards by non-market means.
37. Novak, Will It Liberate?, op. cit., p. 172.
38. Op. cit., p. 28.