

Chapter 3

The Significance of Institutionalism for Increasing Wealth at Multi–Levels of Latin American Small States

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ABSTRACT

The text states the problem in connection with defining the dilemma of small states, the advantages and disadvantages of being small and gives a brief background of how the problem developed, a brief history of how dependency developed and at the same time offers a solution, a futuristic perspective on development planning that eliminates the problem of dependency. The authors argue that the attempts of supra national institutions and NGO's to foster a Neo Liberal approach to development without implementing strategies for bolstering the social institutions of particular states has crippled their effort to create sustained economic development, although it has contributed to spiking material assets and creating a bubble for the financial sector and certain segments of production but per capita income of the general public has not benefited from such strategies and indeed on some cases their interest of the general public has been hurt.

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Economic activity has to be planned in such a way “as to protect every member of the society from the injustice or oppression of every other member. Justice ... is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society ... must in a moment crumble into atoms.” (Smith 1976, 687). *Smith (1979, 86) (Smith 1979: 13ff.).*

1. INTRODUCTION

This chapter addresses the issue of the role of institutions in the social and economic development of the small states of Latin America. The authors argue that the attempts of supra national institutions and NGO's to foster a Neo Liberal market approach to development without the implementation of strategies for bolstering the social institutions of particular states has crippled their effort to create sustained economic development (although it has contributed to a sharp rise in financial assets, in creating a bubble for the financial sector, and in improving performance for certain segments of production) but per capita income of the general public has not benefited from such strategies and indeed in some cases the interest of the general public has been hurt (Streeten 2005, 4).

Recently research articles on development published by respected development economists argue that underdevelopment follows as the result of weak institutions. This acknowledgement, which is particularly endorsed by social economists, has led scholars to conclude that by applying the Neo Liberal agenda to contexts that do not have the corresponding strong social institutional structures development tends to create conditions that favor *special interest groups* without corresponding benefit to the overall economy. That is to say that development experts claim that a lack of viable institutions is a cause of underdevelopment.

This study analyzes the role that institutionalism plays in the political economy of small Latin American states. This chapter defines small states, analyzes their characteristics, reviews the historic role of institutions in small states, emphasizes the consequences of their openness, and examines the consequential social economic conditions that occurred in the aftermath of their attempt to modernize (after their colonial past). This chapter claims that the cause of the vulnerability and insecurity of small Latin American States is directly related to the lack of an approach to institutionalism that complements the culture, values, and the heritage of small Latin American states. In addition this research will analyze: the factors that cause the economic failures of small Latin American states (including examining the extent to which institutionalism is a factor) as well as what factors contribute to social economic success and sustainable development.

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