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Journal of Monetary Economics 52 (2005) 109–112

Journal of MONETARY ECONOMICS

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Discussion

Comment on: "Latin America in the rear view mirror"☆

William Easterly*

Department of Economics, New York Universisty, 269 Mercer Street, 7th Floor, New York, NY 10003, USA

Received 23 April 2004; received in revised form 4 October 2004; accepted 4 October 2004

Available online 15 December 2004

This is an insightful paper on Latin America as a development disappointment. I agree with the authors that Latin America's performance over the last two decades, or the last five decades, or even the last century is a disappointment. However, the authors' perspectives on this disappointment are a little open to question.

First is the claim that Latin America is a *unique* disappointment. They make this case on three grounds: (1) that Latin America performed poorly compared to what they label its peer group of Western European countries, (2) Latin America performed much worse than East Asian nations, which should have been at a disadvantage adopting Western technology, (3) other developing regions such as Africa and the Middle East suffered from other factors that explain their poor performance, and these other factors are much worse than anything Latin America faced.

All three of these arguments fall a little short of persuasion. (1) depends on Western Europe being the correct peer group for Latin America. They apparently choose it based on the claim that Latin America is a region with a majority of European population. To derive Table 1, they make the curious decision to add together "white" and "mixed white". "Mixed white" (mestizo and mulatto) populations in Latin America started with worse initial conditions and have

☆This discussion was prepared for the April 2004 Carnegie-Rochester Conference on Public Policy.

*Tel.: +1 212 992 8684.

E-mail address: william.easterly@nyu.edu (W. Easterly).

0304-3932/$ - see front matter © 2004 Published by Elsevier B.V.
doi:10.1016/j.jmoneco.2004.10.003

Table 1
Comparing estimates of share of Europeans

	Alesina et al. percent share of white population	Cole et al. share of European descent
Argentina	85	97
Bolivia	10	45
Brazil	54	93
Colombia	20	92
Costa Rica	87	94
Ecuador	15	65
Mexico	9	69
Peru	12	52
Uruguay	86	96
Venezuela	21	89
Median	20	90

historically faced discrimination by the white population. In the US, you would not normally call African–Americans "mixed white" and lump them together with "white" to assess economic outcomes. Racial dividing lines are not as sharp in Latin America as in the US, but they are still significant. For example, in Brazil, 40% of the population is mixed white and black according to Alesina et al. (2003) (whereas Cole et al. have the European share at 93%). The legacy of slavery in Brazil, which was much more extensive than in the US, left many disadvantages for the mixed and black populations. I compare Alesina et al. share of whites to Cole et al.'s European share in Table 1:[1]

Alesina et al.'s estimates are far below Cole et al.'s. For the median Latin American country on which we have estimates from the two sources, Alesina et al. estimate a European share of 20%, whereas Cole et al. estimate 90% European. This wide disparity may reflect great fuzziness about who exactly is "European" in Latin America. However, many historical sources describe Latin America's history as characterized by a minority white "oligarchy" who disproportionately occupy high positions in business and government. Culture is also usually thought to be a synthesis of pre-Columbian traditions, African culture carried over by the slaves, and European culture. Hence, it is a stretch to classify Latin America as "Western European" in the same peer group as countries actually in Western Europe.

Another problem with the comparison with Western Europe is that the period 1950–1980 was partly driven by European recovery from World War II. This recovery to the previous trend led to unusually fast growth. Note that there is no further catch-up to the US by Western Europe after 1980.

Cole et al. also state that "all the other poor Western countries have had significant catch-up." This is apparently a reference to Portugal, Greece, Spain, and

[1]Chile and Paraguay are omitted because Alesina et al. were unable to find a breakdown between whites and mestizos in the original sources. In 1900, Chile was 50% white according to Acemoglu, et al., (2001), and Paraguay was 25% white. Cole et al have populations of European descent at 95% in both cases.

Ireland, which have had among the world's fastest growth in the last few decades. When the East Asian countries are added as another comparison group, this paper winds up comparing Latin America to the world's fastest growers, as shown in Table 2.

The rest of the poor countries (like the Middle East and Africa) are excluded because they have "large, idiosyncratic development impediments, including AIDS (Africa), substantial civil conflict, ethnic cleansing, and repressive, non-democratic institutions." But Latin America has had a long history of repressive, non-democratic institutions and civil conflict, and more recently, persistent political instability, guerilla violence, right-wing death squads, corruption, crime, high inequality, and drug trafficking. The 12 major Latin American countries had 174 revolutions over 1950–2001. The paper does not really cinch the case that "obvious" hindrances blocked development in Africa and the Middle East, while "non-obvious" hindrances to development characterize Latin America.

The authors' preferred explanation for Latin America's stagnation is barriers to competition. However, by the same token that it is difficult to distinguish Latin America from other developing regions because of many different hindrances to development, it is difficult to attribute Latin America's lack of success compared to East Asia to competitive barriers as opposed to many other differences.

Another difference between the two regions is that Latin America has had chronic macroeconomic instability, while East Asia has been a model of good macroeconomic management. Latin America's frequent debt crises, from Mexico in 1982 to Argentina in 2002, have been major setbacks. The compound inflation rate in the 12 major Latin American economies is 44% over 1960–2001, while it is only 5% in the 7 East Asian success stories. Argentina, Brazil, Bolivia, Chile, Peru, Nicaragua, and Uruguay have all had full-scale hyperinflations. Inflation is correlated with low productivity growth according to many studies, although causality is an open question (see Bruno et al., 1998). Inflation is also associated with retarded development of the financial sector, which is a major determinant of productivity according to Levine 2004. The average ratio of financial assets to GDP (measured by M2) was 74% in East Asia but only 22% in Latin America.

Table 2

Per capita growth, 1960–2000 (Summers–Heston)	Percentile rank	
Taiwan	6.3	100
Korea	5.9	99
Singapore	5.9	98
Hong Kong	5.4	97
Thailand	4.6	95
Japan	4.2	93
Ireland	4.1	92
Malaysia	3.9	92
Portugal	3.8	91
Spain	3.4	88
Greece	3.1	83

Having said this, the authors do provide a wealth of insightful detail about competitive barriers. They document Latin America's high protectionism, high costs to starting a new business, government ownership of banks, and stifling labor market regulations. They provide case studies of nationalization of Venezuelan oil and iron ore, the reversal of nationalization of Chilean copper, the reversal of the ban on imports of PCs into Brazil (competing with the Brazilian PC industry), privatizing Brazilian iron ore, and the privatization of Mexican and Argentinean state-owned enterprises (SOEs). In all cases, productivity decreased following natinalization or quota imposition, and increased following privatization or lifting of quotas. These examples have received some previous attention, but several of them are new, their productivity effects are better documented than previously, and hence are a valuable contribution of the paper.

One quibble about this evidence is whether the examples really address the concept of "competitive barriers." All of the examples except the Brazilian computer quotas are examples of nationalization or privatization. We can think of many reasons why state enterprises are inefficient besides barriers to competition. For example, even in the presence of competition, state enterprise managers may not care about profits or efficiency because they have political objectives rather than economic ones (such as maximizing employment as a form of political patronage).

The selection of non-renewable resources like oil, iron, and copper is also less than ideal, as output in these industries fluctuates widely with world market conditions, exhaustion of low-cost deposits, or choices on intertemporal allocation of production. For example, US crude oil production declined by 50% from 1980 to 2000, but this presumably does not reflect increased competitive barriers.

Despite these many quibbles, the authors have contributed an insightful survey of Latin America's macro and micro performance that constitutes a major contribution to the literature.

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