

Presentation by the Executive Secretary of the  
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It is a great honor and pleasure to participate in this inaugural session of the XIII Congress of the International Economic History Association. I would like to express my gratitude to my friend, Roberto Cortés Conde, for this opportunity and congratulate him for the splendid organization. I have had the opportunity to share with him, over many years, our common passion for economic history, and for understanding the present as history, a tool that I have generally found more useful and reliable than the recourse to abstract deductive analysis, so typical of economic thinking. So, let me use this opportunity to reflect on present economic conditions in Latin America in historical perspective.

Two simple observations on current economic conditions in Latin America will be the focus of my attention. First, this region will complete in 2002 a lost half decade. Average per capita GDP in the region will stand this year 2% below the level reached in 1997, the year in which the series of crises in the developing world, starting in East Asia, cut short the period of renewed growth that had begun in the early 1990s. Furthermore, half of the countries in the region have experienced a decline in per capita GDP since 1998 and all cases of rapid growth have been interrupted, including Chile and the Dominican Republic, the two most dynamic economies of Latin America in the 1990s.

Second, this generalized slowdown coincides with a major shift in international capital markets. Whereas the 1980s coincided with a period of international credit crunch for Latin America and much of the developing world, growth in 1990-1997 was accompanied by renewed international capital flows to the region. The slowdown since the Asian crisis has been characterized by a new credit crunch. High spreads, short term instability of flows and period episodes of rationing from capital markets have also been distinguishable features of this recent period. Indeed, in the case of Latin America, such negative financial resource flows are not very different from the levels of the 1980s. Moreover, foreign direct investment, the only private source of positive resource transfers over the past half decade, is now experiencing a third year of contraction.

Against the background of the lost decade of the 1980s and relatively slow growth in 1990-1997 (about 3.7% a year) relative to the historical record of the three and half decades of state-led industrialization (5.5% a year), slow growth since 1998 has generated almost a quarter of a century in which Latin American income levels have diverged from those of industrialized countries. According to the historical estimates of Angus Maddison, Latin American income levels relative to the United States, fell from the 28% around which they fluctuated from 1870 to 1973 to 22% in 1998 and some 20% today. This result goes against the theoretical expectations of “convergence” in income levels, the most important prediction of many models of economic growth.

History demonstrates indeed that convergence has been the exception rather than the rule. The only strong case of convergence in per capita income levels occurred among developed countries during the “golden age” of the post war period, 1950-1973. The process proceeded steadily until 1990, albeit at a slower pace, and came to a halt in the final decade of the twentieth century. The other historical period in which convergence took place was the second half of the nineteenth century. O’Rourke and Williamson have demonstrated that during this period the United States and Europe witnessed a convergence of wage levels, basically as a result of the mass migration of European labor to the New World. Within Western Europe, a process of wage equalization also occurred, though it did not encompass countries of the European periphery (the Mediterranean countries, with the exception of Italy, and those of Central and Eastern Europe) or other regions of the world. Hence, even within the group of countries of now industrialized countries, there was a slight divergence in per capita GDP trends, and this divergence was even greater when a wider group of countries is included.

This subject has been examined thoroughly in the literature on economic growth in the last quarter century. In general, these analyses confirm that there has been a long term **divergence** of per capita income levels over the past two centuries, that was particularly rapid in the nineteenth and the first half of the twentieth centuries, slowed down in 1950-1973 and was renewed since then. Using per capita GDP levels for the 141 countries included in Angus Madisson’s historical series, the mean log deviation increased from 0.56 in 1973 to 0.65 in 1998. However, various studies also indicate that there is some, though not systematic evidence of “conditional convergence”, when other factors that influence the growth of countries are taken into account, including the educational level of the population, infrastructure, macroeconomic stability, and political, social and economic institutions. These two pieces of evidence taken together would indicate that those determinants of economic growth are distributed just as unequally as per capita GDP, or even more so. This, I must add, casts significant doubts on the validity of the concept of “conditional convergence”.

Interestingly, an analysis of the same data source reveals another phenomenon: the marked and growing dispersion of growth rates among the developing countries during the last quarter of the twentieth century. The standard deviation of per capita GDP growth increased, indeed, for the same sample of 141 countries from 1.73 in 1950-1973 to 2.50 in 1973-1990 and to 3.09 in the 1990s. It is important to emphasize that this trend has been much more widespread than that towards greater international income disparities, as it has affected all regions and both low and middle-income countries. Within countries, a similar differentiation has occurred, both across different social sectors and geographic regions.

These trends are part of a larger process of a worsening distribution of income at the world level, as a series of recent papers indicates. The most comprehensive of them, that by Bourignon and Morrison on trends in world income distribution between 1820 and 1992, concludes that international inequalities increased significantly between 1820 and 1910, remained stable from 1910 to 1960, and grew again from 1960 to 1992. Up to 1910, the dominant aspect of this process was the deepening of international disparities. During the period marked by a reversal of the globalization process (1914-1950) the continuing divergence in per capita GDP levels was counterbalance by an improvement in income

distribution within countries, linked both to the emergence of the welfare State in Western Europe and the United States and to the socialist revolutions in Central and Eastern Europe. The trend towards an amplification of international inequalities in recent decades can be attributed not only to a renewed growth in international disparities in per capita GDP levels, but also to a fairly widespread increase in inequalities within countries.

Taken together, the foregoing considerations leave no doubt as to the existence of strong factors which determine an unequal distribution of world income. When convergence has occurred, it has done so only among developed countries and only at specific stages in the evolution of the world economy. A broad trend towards divergence in development levels has been mixed with the stagnation in relative income levels, the average experience of Latin America from 1870 to 1973, or to several experiences of “truncated convergence”, such as Argentina after its period of rapid growth from 1880 to 1913, or Brazil and Mexico after their successful period of state-led industrialization that went on for several decades until cut short by the debt crisis of the 1980s.

The strong renewal of the trend towards income divergence in recent decades also goes against the expectations that economic liberalization would accelerate convergence, by providing ample opportunities for developing countries. Thus, the attempt to draft simplistic links between economic liberalization and growth has been shown to be misguided. Taken as a whole, Latin America has today the most liberalized economies in the developing world. This has been positively reflected in fairly rapid export growth, which over the 1990s reached the highest real growth rates in history, close to 9% a year, and in the capacity of the region to attract foreign direct investment. Moreover, this has been matched by major gains in terms of macroeconomic stability in Latin America, as reflected in the fact that average inflation rates continuously fell through the 1990s, reaching in 2001 the lowest levels in half a century, a trend that has continued in 2002, except in a few countries, particularly Argentina and Venezuela. None of these positive features has been reflected, however, in rapid growth, or in an improved capacity to withstand external shocks.

Indeed, the best stylized fact in relation to the links between liberalization and growth is that, although trade policy, capital market liberalization and market incentives do matter, there are no single rules that can be applied to all countries at any point in time, nor to any single country in different time periods. This conclusion comes strongly from comparative analyses of development experiences. Thus, protection has been shown to be a source of growth in some periods in specific countries, but to block it in others. The same thing can be said of freer trade. Mixed strategies have proven optimal under many circumstances. As Hollis Chenery and many others have observed for at least two decades, successful experiences of manufacturing export growth in the developing world since the mid-1960s were generally preceded by periods of import substitution industrialization, and the very successful integration of Asian NICs into the world economy was matched by strong State intervention. Paul Bairoch came, indeed, to similar views regarding the relations between protection and economic growth in the period which preceded the First World War, and indeed to the paradoxical conclusion that the fastest periods of growth of world trade prior to the War were not those characterized by the most liberal trade regimes, and thus that economic growth led the expansion of world trade rather than the contrary.

The growth and persistence of large inequalities in the world economy make it useful to think of the world economy as a system in which opportunities are unevenly distributed, a point made by Latin American structuralist thinkers half a century ago, among them the renowned Argentinean economist, Raúl Prebisch. Indeed, the best simple manifestation of this fact is that, despite some changes, the world hierarchy of per capita GDP levels has been remarkably stable over the past century, as demonstrated by the fact that about 60% of current income disparities in the world today can be explained simply by the same disparities in 1913. This is also reflected in other crucial features of the world economic order: the very high concentration of the generation of core technology in a few countries, and the equally high concentration there of world finance and the home headquarters of multinational firms.

The major implications of this fact are that, although national economic, social and institutional factors obviously do matter, economic opportunities are largely determined by the position within the world hierarchy, implying that climbing the international ladder is a rather difficult task. Essential international **asymmetries** help to explain why the international economy is, in fact, an "**unleveled playing field**": prohibitive entry costs into technologically dynamic activities; entry costs into mature sectors, which implies that possibilities open to developing countries may be restricted to the attraction of established multinationals in those sectors; and basic macroeconomic and financial asymmetries, which are reflected in the unstable access to international finance, the high costs of such financing, the strong incentives to adopt risky pro-cyclical macroeconomic policies and the severe restrictions on the limit of developing countries to adopt counter-cyclical policies. This also means that unless such asymmetries are systemically addressed, world inequalities would continue to be deep.

This implies, in turn, that economic development is not a question of going through "stages" within a uniform pattern associated to the rise in income per capita: it is about succeeding in the required structural transformations and the appropriate macroeconomic and financial strategies, within the restrictions that the position within the world hierarchy creates and the internal economic and socio-political structures, which are partly functional to that position and partly determined by their own historical development. This is the essential insight of the Latin American structuralist school, as well as of the literature on "late industrialization" since Gerschenkron.

This leads me back to the strong association between the medium-term cycle experienced by Latin American economies over the past quarter century and capital flows. The central role of international financial instability in Latin American economic history can only be emphasized once and again. So, let me finish with a quote from a great Latin American economist and my professor of economic history, Carlos Díaz-Alejandro, relating to the debt crisis of the 1980s: "what could have been a serious but manageable recession has turned into a major development crisis unprecedented since the early 1930s mainly because the breakdown of international financial markets and an abrupt change in conditions and rules for international lending. The nonlinear interactions between this unusual and persistent external shock and risky or faulty domestic policies led to a crisis of severe depth and length, one that neither shocks nor bad policy alone could have generated".

This turns out to be as a remarkable insight on today's economic conditions of Latin America, as much as when it was written two decades ago. Indeed, it is a peculiarity of Latin American economic history that the severe instability of international financing was largely responsible for the end of both the export age in the 1930s and of state-led industrialization in the 1980s. The current phase of financial turmoil seems to be proving today that many of the views of economic development over the past two decades were simplistic. Would this lead to change? If we are to rely on historical analysis, it should. However, this is still a pending historical question.