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Productivity Growth in Latin America: The Limits of Neoliberal Reforms

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Summary. — This paper explores some of the main elements behind poor productivity performance in Latin America under neoliberal reforms. I argue that free market reforms addressed only some of the elements shaping productivity growth, while neglecting others that are complementary and necessary for increases in productivity. A means comparison of different indicators for Latin America and a comparison income group shows that Latin American countries demonstrate, on average, poorer performance in technological capabilities, secondary enrollment rates and infrastructure. More activist government policies need to address these issues, if productivity is to rise in the future.

Key words — Latin America, neoliberal reforms, productivity performance, technological change, growth

1. INTRODUCTION

After 15 years of neoliberal reforms in Latin America productivity growth has been very disappointing. This paper explores some of the underlying reasons. Productivity growth results from the interplay of a number of different elements, which complement each other and cumulatively build on each other. I argue that the neoliberal reforms addressed only some of these elements, most importantly access to technological change, while ignoring others that are also important, particularly firms' technological capabilities and the countries' relatively low levels of secondary education.

The evidence is mixed on how successful the free market reforms have been with respect to the productivity-enhancing elements that they did address. On the one hand, there is econometric evidence supporting a positive link between trade liberalization and productivity growth. On the other hand, trade liberalization has led to a renewed export concentration in natural-resource based goods for South American countries, products which tend to have lower productivity growth and face lower income elasticities. The evidence also indicates limited linkages between multinational corporations (MNCs) and national enterprises in Latin America.

The conceptual framework for the analysis is deliberately comprehensive to highlight the importance of the different factors behind productivity growth. But the analysis does not aim to cover all possible interactions among the different factors or to quantify the relative importance of each of them. Rather the investigation focuses on some of the key complementarities among productivity-shaping factors that were addressed or neglected by neoliberal reforms. The neglect of this complementarity plays an important explanatory role in past productivity performance and demands a set of different policies for the future.

The paper is structured as follows. Section 2 provides a brief description of productivity performance in Latin America during the last two decades. Section 3 lays out the conceptual framework for the discussion in this paper. The analysis in Section 4 explores the impact of free market reforms on productivity growth in Latin America, while Section 5 discusses the state of key productivity-shaping elements that neoliberal reforms did not address. The paper

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concludes with a discussion of policy implications in Section 6.

2. PRODUCTIVITY PERFORMANCE IN LATIN AMERICA

While the adoption of free-market reforms in Latin America in the mid to late 1980s led to improved economic growth rates during most of the 1990s, growth was not high enough to provide the basis for a sustained improvement in living standards for the vast majority of the population. GDP per capita grew at an average annual rate of 1.5% in the 1990, compared to an annual decline of 0.7% in the previous decade (see Table 1). [1] On a per capita basis, Latin America's growth was still lower than in any other parts of the world, with the exception of the Middle East and Africa. Employment growth has been very slow, and the absolute number of people living on less than $1 a day increased slightly. [2]

This paper focuses on one of the driving forces behind economic growth: productivity growth. At the aggregate level, productivity growth was disappointing in Latin America during the last decade. Table 1 shows that total factor productivity (TFP) growth improved, but only in the sense of being less negative in the 1990s than in the 1980s. [3] Edwards (2001) provides slightly different figures for TFP growth, but the overall trend is the same for the continent as a whole. [4] Nonetheless there are substantial intra-regional differences. Chile, Argentina, Uruguay, the Dominican Republic, Peru, and Barbados, all registered positive TFP growth in the 1990s, with the highest annual growth rates in Chile and Argentina (2%). The other countries had negative TFP growth. Haiti experienced the worst performance, with an annual decline of more than 4%.

With the exception of Eastern Europe and the "rest of Asia," other developing economies also had poor TFP performance in the 1990s. At an annual rate of 0.74% in the 1990s, labor productivity performance was better than TFP growth in Latin American countries, but it was still below most other areas of the world. [5] The absence of significant productivity growth weighs especially heavily in Latin America, since it was combined with slow overall growth.

Slow productivity growth is not the only reason for the slow economic growth in Latin America in the 1990s. Another important element is the low investment rate in the region. At an average rate of 19.2%, it was only slightly higher than in the 1980s, and it was lower than in any other region of the world. There can be no sustained increase in economic growth in the coming years without an increase in the investment rate. Since productivity growth is in part the result of new machinery embodying new technology, a higher investment rate may give a boost to productivity as well. Yet the potential for an increase in investment, at least from the public sector, has been severely limited by the conditionalities attached to neoliberal reforms. Given the burgeoning debt burden faced by many of the reforming countries, they have been forced to reduce discretionary investment spending as opposed to nondiscretionary interest spending, in order to comply with the fiscal deficit reduction goals imposed by international financial institutions. [6]

Table 1. *Output and productivity growth (in percentage)*[a]

	GDP		Per capita GDP		Per worker GDP		Total factor productivity		Investment rate	
	1980s	1990s	1980s	1990s	1980s	1990s	1980s	1990s	1980s	1990s
Developed countries	2.69	2.55	2.17	1.99	1.59	1.68	0.43	0.56	22.38	19.93
East Asia	5.93	5.13	4.02	3.30	3.23	2.72	−0.40	−0.80	28.85	32.32
Middle East	2.97	3.98	0.08	1.25	−0.23	0.19	−4.17	−2.00	22.98	23.58
Eastern Europe	3.80	3.48	3.10	2.77	3.21	2.26	0.60	0.82	23.52	23.18
Latin America	1.33	3.34	−0.68	1.50	−1.40	0.74	−2.65	−0.62	18.70	19.19
Rest of Asia	4.77	5.15	2.75	3.49	2.50	2.86	−0.72	0.69	22.15	21.94
Africa	3.04	3.15	0.19	0.52	0.28	0.41	−2.65	−1.71	18.55	21.43

Source: From IADB (2001, pp. 12, 13).

[a] All figures are annual growth rates, except the investment rate, which is gross fixed investment as a percentage of GDP. All data are countries' simple averages.