8 The Historical Experience: Growth Accounting

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8.1 INTRODUCTION

The objective of this chapter is to identify and measure the main factors that account for overall economic growth in some small Latin American countries during the post-war period. Growth accounting analysis provides insight into the contribution of factor accumulation and the overall efficiency of the economy to economic growth. We shall follow the approach put forward by Maddison (1991), whose analysis of economic performance is conducted basically at two levels: ‘ultimate’ and ‘proximate’ causes of growth. ‘Ultimate’ causes of economic growth refer to institutions, ideologies, pressure groups, historical accidents and economic policy at the national level. At the same time, positive and negative influences from outside the country are involved. It is rather difficult to quantify these ‘ultimate’ features and legitimate scope for disagreement on what is important remains.

‘Proximate’ causes of economic performance have been quantified in all kinds of models developed by economists and statisticians. Macroeconomic growth accounts attempt to ‘explain’ GDP growth (per caput) and productivity by measuring inputs of labour and capital, availability of natural resources and influences affecting the efficiency with which resources are combined.

This chapter focuses on ‘proximate’ causes of growth by applying quantitative supply-side analysis; the ‘ultimate’ causes of growth such as national and international policies and institutions are dealt with in other chapters of this volume.

The group of small Latin American countries in this study includes Chile, Colombia, Ecuador and Venezuela. These countries have been selected on the basis of data availability. Capital stock estimates require data that are not available for many countries.

The performance of these four small Latin American countries is compared with the performance of four other groups of countries:
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(i) three large Latin American countries – Argentina, Brazil and Mexico;
(ii) three Asian developing countries with a remarkably high growth performance during some decades – South Korea, Taiwan and Thailand;
(iii) Portugal and Spain, which have an institutional heritage that has a good deal in common with Latin America; and
(iv) six advanced countries – France, Germany, Japan, The Netherlands, UK and USA, which have levels of income per capita and productivity that are amongst the highest in the world.

A growth accounting framework is presented, using data analysis for the period 1950–89. This period has been subdivided into 1950–73, 1973–80 and 1980–89, according to the common practice of scholars in the field. The period 1950–73 was a Golden Age and several interrelated factors may explain this performance. The new world order which was created after the Second World War had many more elements of stability than the order created after the First World War, which had built-in elements of instability. This new order affected the options of most countries in a positive way, offering greatly enlarged opportunities for trade and specialisation and improved access to foreign capital and technology. Domestic policies were directed towards promoting high levels of demand and employment in the advanced countries and orientated to development objectives in other regions of the world. Finally, there was a large increase in investment ratios and capital stocks, an accelerated educational effort and improvements in international trade and specialisation (Maddison, 1989, p. 65). In Latin America the change in policy attitudes and instruments was smaller, since the region had fared relatively well in the previous period. There was a general tendency in the region towards more inward-looking policies.

The period 1973–89 cannot be characterised as clearly as the previous periods. OECD countries experienced a slowdown after 1973, but in the other countries of our sample this slowdown was not as straightforward. Latin America continued to grow until the beginning of the 1980s, with the substantial support of increased capital inflow at low interest rates. However, inflation increased and my results show clearly that productivity indices started to fall in most Latin American countries as early as 1973. Since the beginning of the 1980s Latin America has experienced a crisis that can only be compared with the Great Depression.

The Asian countries also experienced some problems: Japan’s growth rate fell dramatically, but the developing Asian countries have continued to grow at a high rate, in some cases even higher than during the Golden Age.