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Rethinking Productive Development

Latin America and the Caribbean is a middle-income region. The typical country in the region has an income per capita about 25 percent above the typical country in the world, but 80 percent below the income per capita of an advanced country like the United States.[1] The region's relative position is declining: 50 years ago, it was much better off than it is today compared to the rest of the world (ROW), and despite recent strides, it has been unable to converge with respect to the United States (Figure 1.1). Why is the region so much poorer than the advanced countries in the world? Why is the region lagging behind while other parts of the world are catching up with the leaders? And most important, what can the region do about it?

Behind the region's disappointing performance in income per capita lie substantial shortfalls in its productive capabilities. Measured against the United States, workers are less productive because they have less capital and schooling with which to multiply the fruits of their labor. Important as these shortfalls in production factors are, however, they miss a key part of the problem. The main driver of the region's disappointing performance, and the one factor on which to lock the policy radar, is the low productivity with which factors of production are utilized. In economists' jargon, the key to understand the region's underperformance is total factor productivity (TFP) (for details, see Daude and Fernández-Arias, 2010).

In fact, economic performance over the last 50 years has been held back by declining TFP compared to both the most advanced economies and the successful developing economies. Figure 1.2 shows

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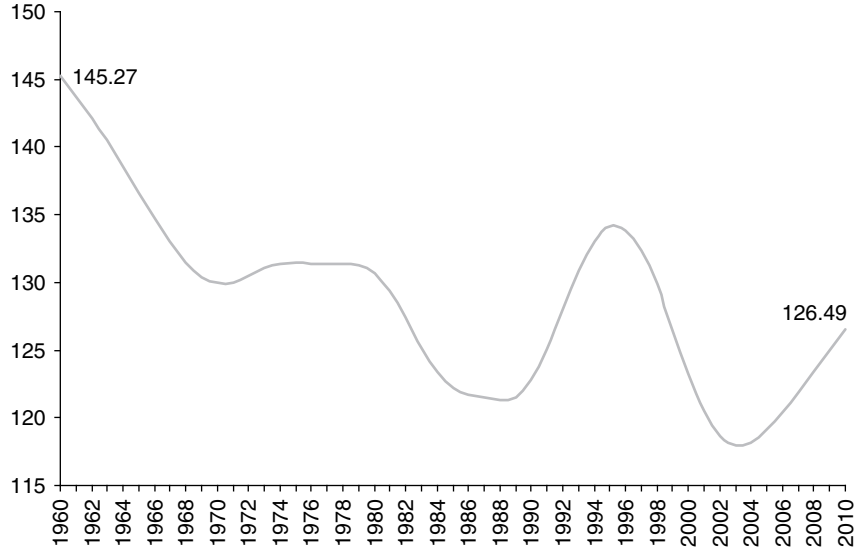
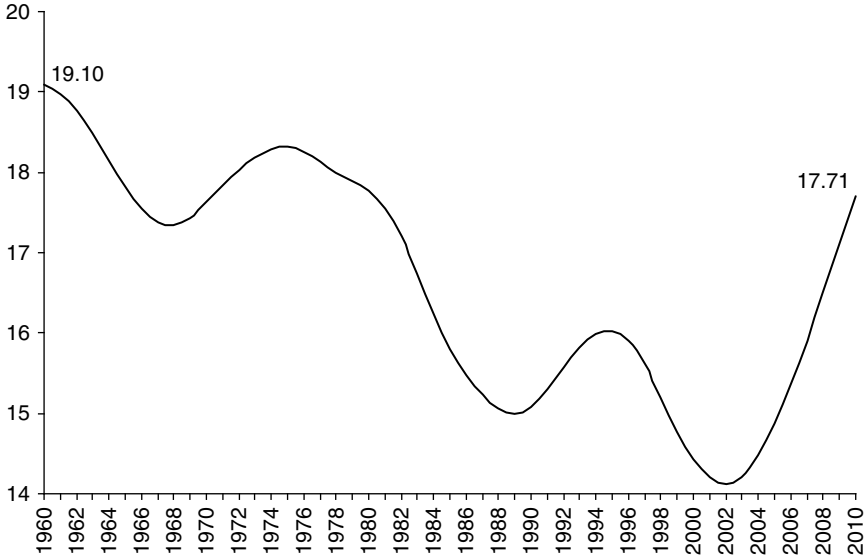
Figure 1.1 Relative GDP per Capita (Percentage)

a. Typical Latin American Country vs. Typical Country from the Rest of the World



b. Typical Latin American Country vs. the United States



Source: Authors' calculations based on Feenstra, Inklaar, and Timmer (2013).