Book Review


In their book, Javier Reyes and Charles Sawyer stress that Latin America covers a vast area and includes a population of over half a billion people. Therefore, they say, offering a general explanation that accounts for the variables contributing to and/or constraining economic growth proves difficult. While so lamenting, the authors also seek to explain the relatively slow growth rates in per-capita GDP. “Sadly,” they conclude, “there is no simple or certain answer” (p. 13). The authors, however, do note common features that render the vast region of Central and South America — including Mexico, north of the Isthmus of Tehuantepec — homogenous enough to be explained by some general principles. This focus provides the foundation for their book.

Integral to Reyes and Sawyer’s work is the effort to avoid simple or certain answers. They deploy “new institutional economics” to explain the major constraints limiting Latin America’s economic growth and development in the last five centuries. Expectedly, the authors emphasize “property rights” and the “rule of law.” Their Table 2.1 reports 2008 data from the World Economic Forum regarding property rights. Undaunted by incomplete data, the authors note that “[w]hile research on the effect of property rights on economic growth in Latin America is limited, it is safe to assume that the greater the extent to which property rights are enforced, the more economic growth would be enhanced” (p. 25).

Table 2.3 offers data supporting the authors’ “rule of law” argument. Scores run a wide gamut: from Chile’s high of 88 percent to Venezuela’s 3.3 percent. This leads to the conclusion that Latin America’s average of 33.9 percent is well below that of Canada and the USA, with 96.2 and 91.9 percent respectively. This averaged data ostensibly gives credence to the authors’ claim that the “rule of law“ is important in affecting economic outcomes, while simultaneously validating their reliance upon explanatory powers associated with new institutional economics.

Reyes and Sawyer introduce theoretical approaches to economic growth in their book. They first consider the basic Solow growth model, stressing the importance of labor and capital that derive from domestic and foreign sources. Later, in Chapter 2, they introduce a new growth theory that relates technological changes to advances in knowledge, and especially germane to research and development.
When measuring per-capita GDP growth in Latin America, the authors note that while growth does indeed take place, it tends to run at lower annual rates than in some other parts of the world. Comparative references relate Latin America’s sluggish growth to the United States and Canada, as well as to some East-Asian countries. One of the ongoing problems is that, from 1960 to 1999, one finds negative growth rates in total factor productivity (Table 2.10), which the authors relate to problems with institutions. Their understanding of institutions seems to run parallel to that of Douglass North: Namely, poorly functioning institutions impede economic growth, whereas well-functioning institutions foster economic growth.

I agree with Reyes and Sawyer that for a vast region with an average middle-income status, Latin America exhibits comparatively slow growth rates in per-capita output. However, I remain unconvinced by the explanatory capability of their scientific approach. It seems to me that it has become fashionable in new institutional economics to advocate that clearly defined “property rights” and “rule of law” are essential to economic growth and development. But what about the vigorous growth rates exhibited by China’s economy since the end of the 1970s? China serves as a clear example that per-capita output could also grow rapidly in an economy with an ambiguous understanding and implementation of “property rights.” In sum, I find the authors’ neo-institutional assertions fully in line with what has become acceptable in the literature in recent years, but what, at the same time, fails to gain support in terms of data and examples.

Reyes and Sawyer’s rely heavily on key ideas advanced and/or endorsed by Ronald Coase and Douglass North, while neglecting other concepts and thinkers, including David Landes’s analysis in The Wealth and Poverty of Nations (1998). Landes considers a variable, such as Max Weber’s notion of northern Europe’s “protestant ethic,” as a relevant non-measurable factor for generating measurable economic outcomes. In this light, the authors’ Latin American Economic Development fails to emphasize that Latin America’s immigrants, by and large, derive from Europe’s southern and catholic regions. Might the dominant faith and related culture generate measurable economic outcomes that we need to consider?

Furthermore, Reyes and Sawyer fail to consider Cold-War power struggles, generating effects on economic development. They neglect to observe that strategic U.S. interests became a powerful force following World War II, which included the selective opening of U.S. markets to absorb portions of the output coming from a retooled Japan and West Germany. Similarly, the United States’ policy clearly enhanced per-capita growth in South Korea and Taiwan through technology-transfer and export-promotion efforts in the 1960s and 1970s. By contrast, during the post-war decades, Latin American states received comparatively limited technology-transfer benefits, or access to U.S. markets. The US-inspired “Operation Condor,” running parallel to the U.S. aid programs in other countries, failed to include an economic development program as part of an anti-socialist buyout, relying instead on brute force to suppress progressive social movements in Latin America.

Despite these criticisms, this book is nicely composed. The prose and arguments are easy to follow for they are both straightforward and clearly presented. While the
book largely assumes that readers possess a background in the principles of economics, the authors still do a fine job introducing the fundamentals of economics. Moreover, the authors recurrently emphasize such conceptions as the economics of commodity extraction, production, and stability in export-prices, which prove important for understanding some of the challenges Latin American economies face.

This book would serve well in any undergraduate or graduate-level course which focuses on Latin America’s economic development from an international-studies perspective. The authors offer many take-off points for additional lecturing on a host of topics in economics. These could certainly include the challenging ideas advanced by proponents of new institutional economics.

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