

Growth and Economic Reforms in Latin America

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What do we know?

1. Macroeconomic stability is essential

... even if it's not sufficient for growth

*The incredible and sad tale of my
good friend Jorge Reyes Peralta...*

What do we know?

2. *Market-oriented reforms generate the conditions for sustainable growth*

... but, of course, they can be improved

Reductio ad absurdum

reduction to the absurd *or* proof by contradiction:

“Which reform would you reverse?”

- *Dissolve the independence of the central bank?*
- *Nationalize utility companies?*
- *Increase tariff rates and impose import quotas?*
- *Force credit to “strategic” sectors?*

well, not really...

The permanent revolution ...; that is, a revolution whose every successive stage is rooted in the preceding one and which can end only in complete liquidation

Leon Trotsky

The Permanent Revolution, 1929

What do we need to know?

1. *How does innovation occur in developing countries?*
 - *In technology*
 - Technology gap is 5 times bigger than output gap!
 - *In institutional reform*
 - More complicated: reversals

What do we need to know?

2. *How do policies and conditions interact to produce successful outcomes?*

Interactions, Non-linearities, Complementarities

- Trade openness without domestic reform
 ➔ *high destruction and lagging creation*
- Education without “investment climate”
 ➔ *underemployment and brain drain*

*The even more incredible tale of
Roberto Challe –a genuine soccer
hero...*