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I. Introduction

In May 1999, the World Bank awarded the Latin American and Caribbean Economic Association (LACEA) with US\$ 100,000.00 to support the preparation of a Global Research Project (GRP). The grant comes from the World Bank's FY99 Development Grant Facility (DGF) and is part of the program on Regional Research Consortia Capacity Building.

The purpose of the grant was to support the preparation of the GRP during the period July 1, 1999 to June 30, 2000. The GRP is the first major product of the Global Development Network (GDN), an international consortium established to support the development of regional research consortia. The broad topic undertakes explaining economic growth performance across regions, using a comprehensive and comparative approach that focuses on four key areas: macroeconomic growth, political economy, microeconomic factors and household level analysis.

Since July 1999 LACEA has been participating in the Global Development Network as one of the seven Regional Development Networks, representing the Latin American and Caribbean region. The following report provides a comprehensive overview of the activities supported by LACEA as part of the GRP.

Overall, the project has succeeded in achieving two important goals. First, attempting to analyze and explain both traditional and nontraditional growth factors within Latin American and the Caribbean (LAC). Secondly, to compare the analysis of growth in LAC with other regions of the world. We conclude that the research products funding through LACEA have significantly contributed to the progress and eventual success of the GRP.

II. Background on LACEA

The Latin American and Caribbean Economic Association (LACEA) was founded in July of 1992 in order to encourage greater professional interaction and foster increased dialogue among researchers and practitioners whose work focuses on the economies of Latin America and the Caribbean. Since its creation LACEA has grown to an organization with more than 400 active members. Starting from 1996, the association has held annual meetings in Mexico City, Mexico, Bogota, Colombia, Buenos Aires, Argentina, Santiago, Chile and most recently in Rio de Janeiro, Brazil. Additionally, in 1997, LACEA created two networks, the Network on Inequality and Poverty in conjunction with the Inter-American Development Bank and the World Bank, and the Network on Political Economy. LACEA is currently in the process of launching its journal ECONOMIA, modeled on the Brookings Papers on Economic Activity and Economic Policy.

LACEA is governed by an Executive Committee whose current members are noted below.

President	Guillermo Calvo, <i>Univeristy of Maryland</i> ,
Vice-President	Sebastian Edwards, <i>University of California at Los Angeles</i>
Secretary	Ariel Fiszbein, <i>The World Bank</i>
Treasurer	Enrique Mendoza, <i>Duke University</i>

Past Presidents

Albert Fishlow, *Violy, Byroum & Partners Holdings*
Nora Lustig, *Inter-American Development Bank*

Directors-at-Large

Nancy Birdsall, *Carnegie Endowment for International Peace*
Mauricio Cárdenas, *Independent Consultant*
Eliana Cardoso, *Independent Consultant*
Jose De Gregorio, *Ministry of Finance, Chile*
Ricardo Hausmann, *Kennedy School of Government, Harvard Univ.*
Ricardo Paes de Barros, *Institute of Applied Research (IPEA), Brazil*
Jaime Ros, *Kellogg Institute for International Economics, Notre Dame University*
Federico Sturzenegger, *Torcuato Di Tella University, Argentina*
Ernesto Talvi, *CERES, Uruguay*
Mariano Tommasi, *Center de Estudios para el Desarrollo Institucional Fundacion Gobierno y Sociedad, Argentina*
Carlos Vegh, *University of California at Los Angeles*
Andres Velasco, *Kennedy School of Government, Harvard University*

III. Global Research Project Paper Topics and Authors

LACEA issued four sub-grants to researchers to prepare research papers designed to present a general overview of the character of growth in the region. The four main themes included macroeconomic sources and determinants of growth, the political economy of growth, microeconomic perspectives on growth, and markets and economic growth. What follows is a list of the authors and a short description of each of the four papers.

1. “Economic Growth in Latin America: Sources and Prospects”

Jose de Gregorio
Professor
Universidad de Chile
Centro de Economía Aplicada
Casilla 2777
Santiago, Chile
jdegrego@dii.uchile.cl

Jong-Wha Lee
Professor
Harvard University and Korea University
Sungbuk-Ku, Anam-Dong 1
Seoul 136-701, Korea
(82-2) 3290-2200
jongwha@mail.korea.ac.kr

This paper examines the growth experience of Latin America and discusses future prospects. For this purpose, the authors use alternative approaches. First, they perform growth

decompositions to look at the behavior of total factor productivity and examine differences across regions of the world and within Latin America. Then, they use cross-country growth regressions to compare the relative performance of Latin American Countries vis-à-vis the rest of the world. This approach allows going beyond the traditional, and perhaps misleading, straightjacket of attributing growth to productivity or investment. It highlights the role of human resources, and institutional and policy factors. With this framework it is shown that high inflation and inward looking development strategies are the main reasons for the low growth of Latin America. But, as reforms have advanced within the region, growth prospects have improved.

2. *“The Political Economy of Latin American Economic Growth”*

Francisco Rodríguez
Assistant Professor
University of Maryland
Department of Economics
College Park, Maryland 20742
(301) 405-3480
rodrig-f@econ.umd.edu

This paper concentrates on the political reasons for Latin America’s inability to attain the high levels of investment in human and physical capital necessary for sustained economic growth. It is argued that a grasp of Latin American politics is fundamental for understanding the region’s poor institutions and its perverse reaction to natural resource abundance.

The rest of the paper is divided into four sessions. In Section 2 the author studies the historical evolution of decision making in Latin America. The main question is how today’s institutions came into being and how they can be associated with institutions that emerged during colonial times or later. Section 3 explains the author’s approach to the study of the political economy of growth and discusses the alternative views of politics and of growth that will be used in the analysis. Section 4 is devoted to one of the most important determinants of growth, the investment rate. In particular, this section emphasizes the role of political uncertainty and credibility in shaping investment decisions in the region. Section 5 discusses other determinants of growth—investment in human capital, resource abundance, institutions, democracy, and trade policy—exploring at every point their political economy determinants.

3. *“Households and Economic Growth in Latin America and the Caribbean”*

Jere Behrman
William R. Kenan Professor of Economics
University of Pennsylvania
Department of Economics
542 McNeil Building
(215) 898-7704
jbehrman@econ.sas.upenn.edu

E. Miguel Szekely
Research Economist
Inter-American Development Bank (IDB)
Office of the Chief Economist
1300 New York Av., NW, Room NW-0414
Washington, DC 20577
(202) 623-2907
miguels@iadb.org

Suzanne Duryea
Consultant
Inter-American Development Bank (IDB)
Office of the Chief Economist
1300 New York Av., NW, Room SW-0404
Washington, DC 20577
(202) 623-3589
suzanned@iadb.org

The objective of this paper is to provide an overview and a framework for examining the relation between households and economic growth in Latin America. The study intends to explore the factors explaining growth from the perspective of these microeconomic agents, and to point out the factors that shape these decisions at the micro level.

The authors focus primarily on two kinds of household decisions that are crucial to economic growth: fertility and investment in education. These two decisions determine the quantity and quality of the human resources available to the economic system of a country and the age structure of the population. Another key input in the growth process from the perspective of microeconomic agents is saving. Unfortunately, the lack of information on household consumption at the micro level in the region prevents examining this element here. Authors do not focus on household enterprises or rural production either, mainly because of data limitations and because most countries in Latin America are already quite urbanized and the share of GDP generated in the agricultural sector is relatively low.

The first section of the paper discusses the relevance of education and fertility decisions as inputs for economic growth in Latin America and provides some examples of their importance. The second section explores what determines the fertility and schooling investment behavior of households from a macroeconomic and microeconomic perspective. Section three briefly discusses some data problems for improving our understanding of the determinants of education and fertility decision in the region. Section four highlights the conclusions.

4. “Markets and Growth in Latin America”

Pablo Andrés Neumeyer
Director
Department of Economics
Universidad Torcuato di Tella
Miñones 2177 - (1428)

Buenos Aires, Argentina
Tel. (5411) 4784-0080/0085 y 4783-3070
pablo@rcf.usc.edu

Hugo Hopenhayn
 Professor
 Department of Economics
 University of Rochester
huho@troi.cc.rochester.edu

The purpose of this paper is to explore the role of distortions to capital accumulation in explaining the development experience of Latin America (LA) between 1960 and 1997. These distortions affect the relative price of capital and its opportunity cost.

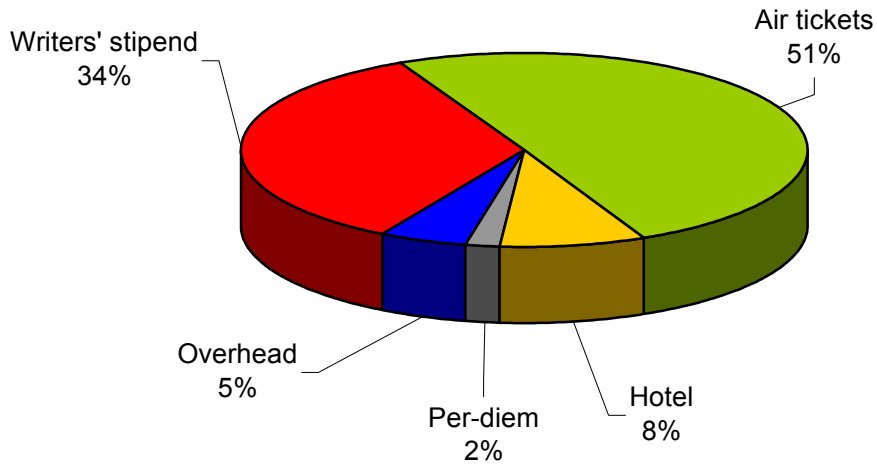
The authors attribute differences in the relative price of capital across countries and across time to government policies. These prices reflect a broad range of policies, such as import tariffs and quotas on capital goods and other disincentives to invest such as corruption, and bureaucratic obstacles. The authors attribute differences in interest rates across countries, country risk spreads, to distortions such as the lack of legal certainty and the inability of governments to commit not to tax future capital income.

IV. GDN Sub-grant Allocation*

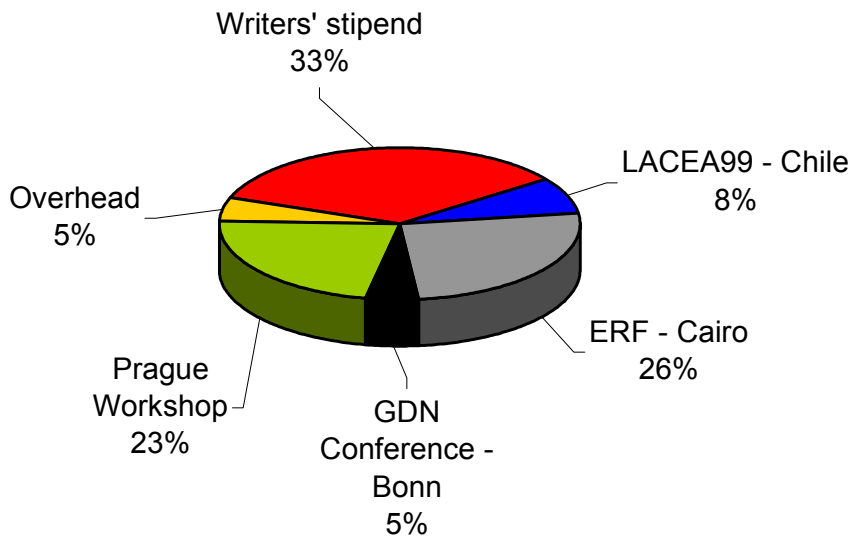
<i>Description</i>	<i>Amount</i>	<i>Sub-total</i>
1 Grants to authors		
De Gregorio/Wa-Lee	10,000.00	
Behrman/Szekely/Duryea	7,000.00	
Neumeyer/Hopenhayn	10,000.00	
Rodriguez	7,000.00	
		34,000.00
2 Travel expenses		
Air tickets	49,920.31	
Hotel	8,042.00	
Per-diem	2,003.41	
		59,965.72
3 Overhead		5,000.00
TOTAL		98,965.72

* See part five of this report for detailed budget information

GDN grant allocation



Global Research Project (GRP) Sub-grant distribution by activities



V. Detailed Budget

Budget Category	Amount	Sub-total
1 Authors' stipend		
De Gregorio/Wa-Lee	10,000.00	
Behrman/Szekely	7,000.00	
Neumeyer/Hopenhayn	10,000.00	
Rodriguez	7,000.00	
	34,000.00	34,000.00
2 Travel Expenses		
<i>Chile</i>		
Air fares		
F. Rodríguez	1,202.25	
Szekely	1,185.45	
Bourguignon	4,356.20	
	6,743.90	6,743.90
Hotel		
F. Rodríguez	202.00	
Bourguignon	480.00	
	682.00	682.00
Per-Diem		
Rodriguez	350.00	
Bouguignon	50.00	
Neumeyer	40.00	
	440.00	440.00
<i>Cairo</i>		
Air fare		
Rodriguez	5,121.05	
Neumeyer	3,608.00	
Hopenhayn	3,608.00	
Szekely	4,639.05	
Bouguignon	2,258.77	
De Gregorio	5,294.85	
	24,529.72	24,529.72
Per-Diem		
De Gregorio	150.00	
Rodriguez	168.00	
Szekely	200.00	
Bourguignon	122.11	
Neumeyer	150.00	
	790.11	790.11
<i>Bonn</i>		
Air fare		
De Gregorio	3,762.00	
Neumeyer	0.00	
Hopenhayn		
Bourguignon	740.00	
	4,502.00	4,502.00

Budget Category		Amount	Sub-total
<i>Prague</i>			
Air fare	J.W. Lee	3,410.00	
	Neumeyer	1,054.00	
	Hopenhayn	1,371.00	
	Szekely	895.28	
	Rodriguez	1,289.41	
	Calvo	1,406.00	
	Bourguignon	815.00	
	Corbo	3,904.00	
			14,144.69
Hotel	J.W. Lee	920.00	
	Neumeyer	920.00	
	Hopenhayn	920.00	
	Szekely	920.00	
	Rodriguez	920.00	
	Calvo	920.00	
	Bourguignon	920.00	
	Corbo	920.00	
			7,360.00
Per Diem	J.W. Lee	0.00	
	Neumeyer	202.00	
	Hopenhayn	123.30	
	Szekely	0.00	
	Rodriguez	168.00	
	Calvo	0.00	
	Bourguignon	105.00	
	Corbo	175.00	
			773.30
3 Overhead			5,000.00
	TOTAL		98,965.72