

The Decline of Latin American Economies: Growth, Institutions, and Crises. Edited by Sebastian Edwards, Gerardo Esquivel, and Graciela Marquez. Chicago: University of Chicago Press, 2007. viii + 418 pp. Figures, tables, notes, index. Cloth, \$85.00. ISBN: 978-0-226-18500-2.

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A question of continuing interest to economic historians is why some nations develop their economies late or, in some cases, are unable even to get them off the ground. In recent literature, Latin American countries have figured as examples of continuing economic failure. As an anomaly within the Western world, the region presents a natural laboratory for the study of the origins of economic development. In taking up the challenge, the editors of *The Decline of Latin American Economies* have produced a far-reaching, methodologically ambitious book that advances the scholarship on this subject.

The book comprises ten articles written by noteworthy experts in both international and Latin American economic history. It is the product of a conference organized by the National Bureau of Economic Research at the end of 2004. The articles, which are of impeccable quality, represent a sample of recent cliometric research. As a starting point, they address the manifesto and questions put forward by Stephen Haber in his book *How Latin America Fell Behind*, published in 1997. In that book, Haber analyzed the economic progress of Latin America, using relatively unified methodologies to demonstrate that an integrated approach to history and economics generates more interest than separate consideration of the two disciplines. In this spirit, the essays in *The Decline of Latin American Economies* demonstrate that any consideration of economic action must also pay attention to the historical context. These essays show how societies faced with economic hardship manage to find answers and create rules for a game in which the final outcome may come as a surprise.

Like many collections, *The Decline of Latin American Economies* suffers from a lack of cohesion. Although stories of debacles and local shortcomings are repeated from one chapter to the next, they are not linked in any meaningful way. And a closer look at the chapters reveals contradictions in the explanations for the region's poor economic performance that are not addressed in a satisfactory manner.

In an attempt to close these gaps, the editors, in their introduction, have identified two unifying themes: "a) institutions have played an important role in shaping the Latin American economies; and b) political considerations—including, in particular, distributional struggles—have been crucial in determining economic outcomes in the region" (p. 1). This is only bewildering, as the two assertions are overly general explanations for the economic performance of any nation. Since the two factors are natural elements of economic performance, they appear frequently throughout the chapters.

Institutions, according to Douglass North's definition of them as humanly devised constraints on human behavior, are broad, even vague, analytical constructs that the contributors apply without much conceptual accuracy. In past economic histories, Latin America's lagging economies were seldom

attributed to distributional struggles, probably because such an explanation was associated with Marxist theory. The late Kenneth Sokoloff viewed economic inequality as a factor that reinforces economic backwardness and hinders institutions that promote development. Sokoloff introduced a sophisticated discussion of the relation between economic inequality and economic progress in a number of earlier publications. In the present book, he, as well as Gerardo Esquivel, Graciela Marquez, and, indirectly, Aurora Gomez in their chapters, provide hard evidence to support their views. The chapters by these four authors single out economic inequality as not only an epiphenomenon but also a cause, a consequence, and a component of economic backwardness.

Following a sober introduction by the editors, the book opens its first section, “Economic Growth, Taxation and Institutions,” with a chapter entitled “When did Latin America Fall Behind?” by Leandro Prados de la Escosura, which offers a challenging reinterpretation of the reasons for the region’s relative backwardness. Through an elegant application of data series, Leandro Prados explains that the course of economic growth adopted by Latin American nations began to diverge from the path followed by the industrialized nations in the second half of the twentieth century, rather than, as previous research has suggested, during the nineteenth century. Prados was one of two academic researchers who initiated an investigative agenda on comparative economic growth; the other was by Albert Carreras. Both academics questioned established notions of the starting point of Latin America’s stagnation (thereby also challenging its causes). Their conclusions to some extent contradict the hypotheses proposed by the authors of the other chapters.

In the second chapter, Pedro Lains compares growth in Mexico and Portugal. Although an interesting piece with some merit, the author’s conclusions are vague, and the essay does not further the discussion, leaving me puzzled about the reasons for its inclusion. The first section closes with a masterly chapter written by Sokoloff and Eric Zolt, who demonstrate the endogenous nature of the relation between inequality and the structure of tax institutions.

The second section, “Financial Crises, Lending and Inflation,” comprises five chapters by Michael Bordo and Christopher Meissner, Gerardo della Paolera and Martin Grandes, Noel Maurer and Stephen Haber, Luis A. Catao, and Sebastian Edwards. Bordo, Haber, and della Paolera are heavyweights in the field of economic history. The value of some of the chapters in this section is not limited simply to the histories they present. For example, two of the chapters, by Michael Bordo and Christopher Meissner and by Luis A. Catao, which explore the nature of the financial crises that occurred in the region, should be required reading for macroeconomists. Maurer and Haber, in chronicling the history of Mexican banking under the Porfirio Diaz presidency (known as the Porfiriato) and the practice of related lending in this sector, construct an analytical framework for examining the institutional nature of the behavior of financial intermediaries. The chapters by della Paolera and Grandes and by Edwards, while less ambitious in scope, are nevertheless solid and engaging. Using the case of Argentina during the financial crises of the late nineteenth century, Della Paolera and Grandes describe the ways in which political structure affects the

assessment of national risk. For his part, Edwards explains how foreign advisors in Chile acted as a third-party mechanism in the implementation of stabilization programs.

The final two chapters are magnificent analytical undertakings. Esquivel and Marquez present a creative study of the relation between commercial protectionism and the structure of Mexico's economy. The authors evaluate the degree of openness that existed in the Mexican economy and contrast it with the predictions of trade theory. They embark on an analysis that could, or should, be applied also to other countries, and they compare the results.

Aurora Gomez explains, in readable, yet sophisticated, prose, the endogenous relationship and path-dependent mechanisms that arose from clashes between the protectionist policies of the textile industries and the rules of the game constructed by different political actors in Mexico. Gomez has consulted company archival sources with splendid results.

While some authors have made better use of sources, the historiography on display in all the chapters is noteworthy. Their achievement should be weighed against the fact that these authors were writing about a region in which the archives of economic information do not contain enough organized collections. While some might object to the strong focus on Mexican topics, they should keep in mind that Mexico has been a constant participant in the region's economic history.

The combination of deductive arguments and inductive analysis and the use of data series may appear excessive to business historians (and may even be viewed as heretical by some historians). Nevertheless, the rich findings and elegantly constructed arguments that characterize many of the essays make this a collection that should be read by anyone wishing to understand the Latin American business environment.

The book ignores geopolitics and largely overlooks resources, or factor endowments (despite the fact that one of the chapters was written by Sokoloff, coauthor of a groundbreaking article about the impact of factor endowments on economic performance in the New World). The articles are largely concerned with sophisticated aspects of the Latin American economies (banking, industry, political and economic decision-making). They overlook social factors, such as the proportion of urban versus rural populations; the collective or individualistic makeup of societies; and the political organization of the masses. It is not clear whether these oversights were the result of shortcomings common to all the studies, or whether they occurred because the authors considered such issues to be beyond the book's purview.

Latin America's greatest failure has been its inability to create sustainable, long-term economic development. This problem has many facets, some of which are analyzed by the book's contributors. However, they fail to decipher the root cause: did the economies of Latin America suffer from an "original sin," or did they simply fall victim to a chain of adverse events? Despite this omission, the book offers both a wealth of material on which to meditate and benchmarks for future research.

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