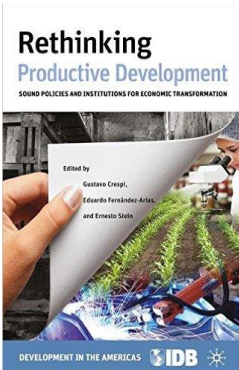


The Central Bank of Barbados Book Review Series seek to highlight publications which offer useful insights and analysis on topics related to finance, economic development, and other issues relevant to small island developing economies. The views expressed are those of the author(s) and do not necessarily represent those of the Central Bank of Barbados.



RETHINKING PRODUCTIVE DEVELOPMENT: SOUND POLICIES AND INSTITUTIONS FOR ECONOMIC TRANSFORMATION

Author: Inter-American Development Bank (Edited by: Gustavo Crespi, Eduardo Fernández-Arias, and Ernesto Stein)

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*Book Review contributed by Nlandu Mamingi**

The book concerns Latin America and the Caribbean and has 461 pages, 3 parts and 11 chapters. The book notes the ever growing income per capita gap between the typical country of the Latin America and Caribbean region and advanced countries like the US, acknowledges diminishing total factor productivity (TPF) in the region as the cause of the increasing gap, proposes rethinking productive development policies (PDPs) as a way out to enhance productivity, and emphasizes institutions as the appropriate environment or framework to conduct PDPs.

At the outset, the book underlines the fact that, instead of closing the gap (convergence), the Latin America and Caribbean region is, in terms of per capita income, lagging behind advanced countries such as the United States. Indeed, “the typical country in the region has an income per capita 80 percent below the income per capita of an advanced country like the United States.” (P. 3). Overall, the region’s relative position is that it is worse off today than it was 50 years ago.

The book finds low productivity or rather diminishing total factor productivity as the key causal factor of the region’s poor economic performance. Low productivity itself can be explained by limited capital and schooling.

As far as sound policies are concerned, the book proposes to revisit or rethink productive development policies (PDPs) understood as “policies directed to the activities of the productive sectors of a national economy” (p. 6), to boost productivity in the region. In fact, new thinking is needed because of the failure of the first industrialization policies based on the import-substitution industrialization (ISI) and manufacture. The rethinking of PDPs materializes

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through the answers to a certain number of pertinent policy feature questions. “Do policies to reduce the cost of starting a business attract the right type of firms? Should countries rely more on subsidies or tax incentives as a way to foster business innovation? How can pioneers be rewarded in order to maximize productivity gains at the national level? Does it make sense to subsidize new technological equipment? How should the private sector be involved in labor training policies? Do immigration policies have a role in PDPs? What to look for when attracting foreign direct investment (FDI) and connecting to global value chains? Does it pay to have special programs for small young firms? Should credit promotion policies rely on guarantees, loans, or grants? Should the provision of public inputs for clusters be conditional on beneficiaries sharing the costs? How should the PDP mix change as countries develop?” (P. 9-10).

The institutional framework generates some questions too whose well thought answers help define the perimeter of adequate institutions for PDPs. Among the questions, two are particularly essential. “How do countries accumulate technical, operational, and political capabilities to carry out PDPs? What kind of public-private interaction is more effective to design and implement PDPs?” (P. 10).

The book emphasizes that the policy chosen to improve productivity and put the region on the path of a sustainable growth must respond to the market failure diagnosed. In addition, the policy in matter must be a “good match for the diagnosis” (p. 28). The institutional capabilities must be appropriate “to design and carry out policy as intended.” Overall, the book acknowledges that economic transformation which conforms to international competitiveness is key to raising income per capita and putting the region on a sustainable growth path.

Summing up, the most important positive aspects of the book include the following. First, the fact of proposing to rethink productive development is already a noble initiative for improving income per capita of Latin America and the Caribbean. Second, the concepts are well explained. Third, the chapters are coherent, and linked making this edited book a good piece of work.

There are, however, a number of limitations that need to be signaled. First, the concept “typical country” referring to the mean country can really be misleading when some countries behave as outliers. Second, as the authors acknowledge themselves, not taking “informality” into account may bias the outcome of the exercise. This is most likely the case as in a number of countries the informal sector is an important sector. Third, similarly to many papers or books dealing with Latin America and the Caribbean, this book marginalizes the Caribbean. Indeed, only Figure 6.1 in chapter 4 alludes to the Caribbean in a substantial way. That is, the book is really about Latin America.

Overall, despite the limitations the book fulfils its intended goal, that is, to rethink productive development policies to improve income per capita in the region and close the income per capita gap between the region and the more advanced countries. As such the book deserves to be widely read to deepen the knowledge about the region.