

**Sabbatical Report – Spring 2009**  
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**A Century of Democracy and Economic Growth in Latin America: 1900-2000**

**I. Summary of Purpose/Goals**

This project aims to explore the causal relationships between democracy and economic performance in an historical framework. Latin America during the 20<sup>th</sup> century presents an ideal framework as the region, both collectively and individually, has experienced substantial fluctuations in both democracy and economic performance.

This project augments and differs from previous work in two key ways. First, the use of the simple yet elegantly powerful technique of Vector Autoregression, specifically designed to address causality and impetus in statistical data, allows for a complete accounting of the intertemporal relations between democracy and economic variables. Second, the project decomposes both the indicators of democracy and economic performance to achieve richer and more subtle interpretations. Democracy is not absolute, but rather, a matter of degree, comprised of multiple components, each of which may affect the economy in different and unexpected ways. Similarly, GDP or GDP growth – the most common measures of economic performance – are merely the end result of countless, myriad aspects of economic activity, each of which may react differently to changes in the state of democracy. In a policy context, these contributions are crucial. Too often, policies address only beginning and endpoints without regard to the intermediate processes and effects that may derail the final desired and expected outcome.

The purpose and end result of this work will be to produce at minimum two peer reviewed publications. One article will focus on the innovative analytical methodology of applying VAR to issues of democracy and economics. A second article will engage in substantial decompositions of both the democracy and economic data to identify, in particular, notable relations that broader levels of analysis miss. Taken together, this work will begin to form a model for analyzing the effects of policy changes and developing a more cohesive framework for the development of effective social and economic policies. This line of inquiry will be particularly appealing to journals in economic history, economic dynamics, political economy and Latin American economics.

**II. Summary of Work/Outcomes**

As often occurs in empirical research, the data reveal unanticipated patterns and relationships. In the case of this project, spanning the experience of Latin America throughout the 20<sup>th</sup> century, the Great Depression turned out to be a pivotal break point in the analyses.

In particular, it was found that:

- a. The timing of the beginning of the Depression varied substantially by country.
- b. The severity of the Depression varied substantially by country.
- c. Economic policies in each country represented one of two perspectives: Keynesian or neo-classical, broadly speaking.
- d. Post-Depression economic performance by country depended heavily on the depth of the Depression and speed of recovery.

These findings, particularly relevant given the current global economic climate, refocused the research agenda. Rather than the originally proposed methodological paper followed by empirical results, the work focused along temporal lines.

The first paper studies the 1900 ~ 1940 period. While the findings are quite diverse, definite patterns emerge. Countries with strong linkages to the international marketplace were most quickly and severely affected by the onset of the Depression as rapid contagion manifested in reductions in international trade and quickly spread to the banking sector and disposable income. Countries that instead had relatively insular, self-sufficient economies remained relatively isolated from the most severe effects of the Depression.

Interestingly, the level of measured democracy in a country played a key role in determining the policy reactions undertaken to combat the effects of the Depression. Less democratic, more autocratic countries – those with less direct accountability to the populace – generally implemented more aggressive and comprehensive Keynesian stimulus policies and, as a result, tended to shorten significantly the duration of the Depression. More democratic countries, perhaps quagmired in political processes, tended instead to implement piecemeal policies with little hope of manifesting any real impact or adopted a laissez-faire approach; these countries, in general, suffered deeper and longer.

This paper is currently under review at the *Journal of Latin American Studies*.

The second paper is a follow-up piece tracing economic and democratic progress from the height of the Depression to approximately 1970. In a fascinating yin-yang turn of events, countries that tended to follow aggressive Keynesian policies found that, despite the relatively quick depression recovery, they were unable to sustain a level of economic growth that would adequately offset the Depression-era expenditures. These difficulties were particularly severe for countries whose primary exports were slow to recover on the international marketplace. Closely related to the economic woes, the levels of measured democracy in these countries remained relatively stagnant throughout the period.

Countries that instead took a hands-off approach to the Depression generally found that investment activity and capital flows recovered more quickly; further, the excess of physical capital and labor during the Depression provided impetus for nascent entrepreneurial and industrial activity, generating a base for economic growth once global demand resumed forward progress. These countries tended to exhibit stronger patterns of economic growth and consistent progress in measured democracy.

This paper is due to be submitted to the *Latin American Research Review* in January 2010.

This work has sparked two other extensions of the work already done, hopefully to be completed in one year's time. Also, elements of this work have already been presented to my students in Intermediate Microeconomics, Economics Capstone and MBA Quantitative Methods.