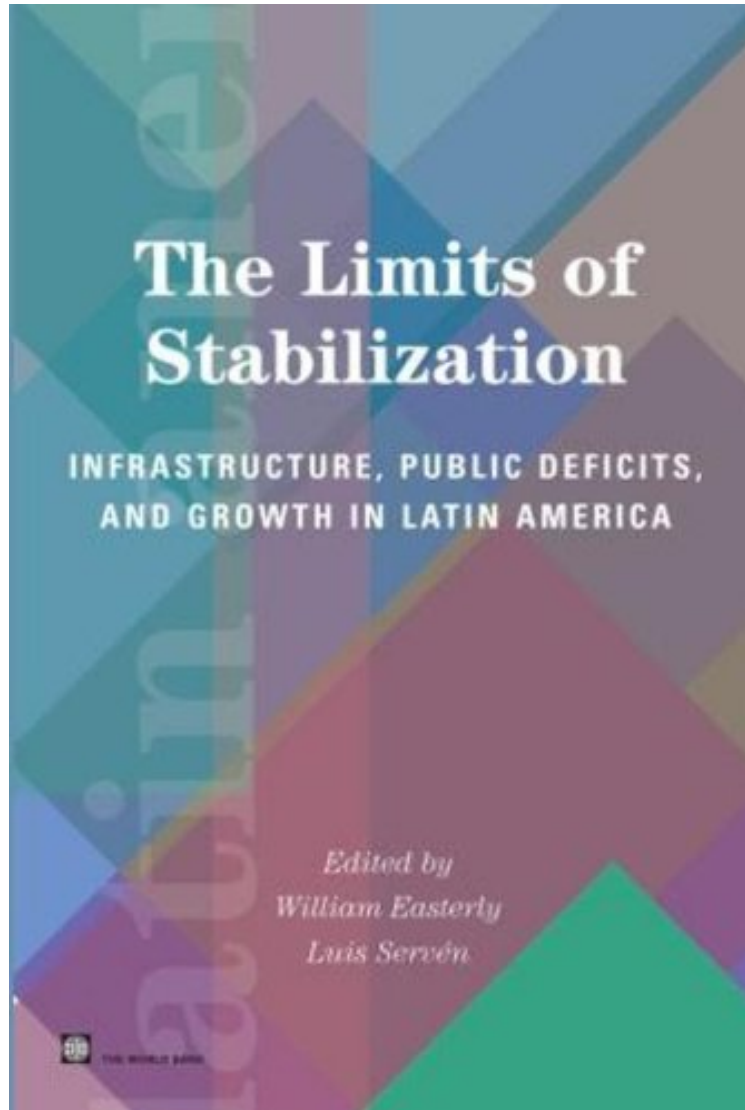


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The Limits of Stabilization (Latin American Development Forum)

William Easterly, Luis Servén

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William Easterly, Luis Servén : The Limits of Stabilization (Latin American Development Forum) before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Limits of Stabilization (Latin American Development Forum):

1 of 1 people found the following review helpful. lesson for the US ?!By W BoudvilleThis book is a reaction to the Latin American fiscal crisis of the early 80s. When several countries ran up huge debts often denominated in foreign currencies. The debts were large relative to the countries GDPs. The International Monetary Fund and the World Bank weighed in with technical advice about reducing these debts. Often, one of the line items was a reduction in national spending on infrastructure. The authors of the papers in the book argue that such cuts were extremely ill wrought.

Because infrastructure is generally conceded to contribute from 19% or more per annum in terms of rate of return on the investment. Whereas the debts have lower interest rates. In sum, as the introduction suggests, this was a very short sighted measure. The bulk of the book goes on to expand on this thesis. Now [2009], as the entire world goes into a recession, the book's argument takes on a new relevance. Granted, many key developing countries learnt from the 80s experience, and now have strong currency reserves, and much less foreign debt. The governments tend to understand the merit of running surpluses, both at the governmental level and for their citizens. But the returns from infrastructure investment are compelling enough that some deficit spending might be incurred here. Ironically, one key measure for the US in the new [as I write this, Obama got inaugurated this morning] administration is a proposal for vast infrastructure spending. So maybe the book's thesis also applies to the US.

Over the 1980s and 1990s, most Latin American countries witnessed a retrenchment of the public sector away from infrastructure provision and an opening up of infrastructure activities to the private sector. This book analyzes the consequences of these policy changes from two perspectives. First, it reviews in a comparative framework the major trends in infrastructure provision in Latin America over the last two decades. Second, it evaluates the implication of these trends for economic growth and public deficits in the region. The book shows that in most countries private participation did not fully offset the public sector retreat. The result was a slowdown in infrastructure accumulation, which entailed a significant growth cost and weakened the intended impact of the infrastructure spending cuts on public sector insolvency.

"This fascinating book highlights a neglected cost of two decades of fiscal austerity in Latin America. The authors' careful analysis reveals that the decline in public investment in infrastructure may have been expensive not only for growth but for long-term fiscal solvency as well. Deserves to be read by every IMF economist (and many others besides)." — Dani Rodrik, John F. Kennedy School of Government, Harvard University