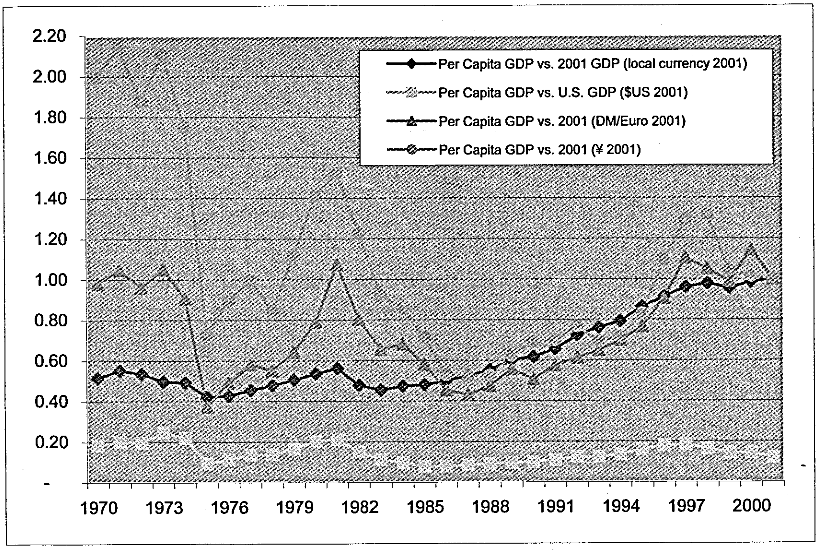
Figure 7. Chile: Real Per Capita GDP in own-currency terms, constant US dollars, constant yen and constant DM/euros, 1970-2000



Source: International Monetary Fund, International Financial Statistics, December 2002.

The picture that emerges from consideration of income trends in common currency terms is not only a lack of convergence and considerable instability, it is one of *conflicting information.*

First, on the production side, instability in international purchasing power is associated with a roughly equivalent degree of instability in the international costs of the factors of production employed in individual economies—labour and land. Moreover, in countries that are dependent at the margin on foreign capital, there would also volatility in the relative price of capital compared to labour and land. Instability in factor prices affects decisions concerning where to locate internationally oriented production as well as choice of production technology, with downstream implications for capital-labour ratios, human capital requirements, wage and productivity levels. Since market economies generate production through self-organizing net-