We analyze the per capita output growth performance since 1960 of countries in Latin America and the Caribbean (LAC) and assess the respective contributions of production factors and productivity. In this broad decomposition, productivity refers to the overall efficiency with which accumulated factors of production are allocated in the economy through the interplay of market conditions and public-sector activities. Using a worldwide panel of countries, we first find highly significant statistical evidence that, relative to countries with the same output per capita, LAC countries have a large average growth shortfall (of 0.7% per annum) that is almost entirely driven by subpar productivity growth. This finding holds across LAC countries. Second, while growth performance in LAC countries has generally improved substantially after 1990, regional productivity growth remains subpar and the productivity gap with respect to the US widened in virtually all LAC countries. We then ask to what extent high inequality in LAC countries is statistically associated with subpar productivity growth, and in this way shed light on the nature of investment misallocation. We find that, in fact, the high Gini index of disposable income in LAC countries goes a long way to account for their subpar productivity growth. However, high inequality does not account for the region’s overall poor per-capita output growth because it is also associated with high factor accumulation