

Economics of Latin America

EC373 (Spring 1996)
MWF, 1:00-1:50 PM
Fulton 235

Prof. Chris Canavan

Carney 147, ext. 3689
Office Hours: TTh2:00-3:00

Prof. Douglas Marcouiller, SJ

Carney 139, ext. 3685
Office Hours: W 3-5, F 8:30-10:30

Course Description

This course, which will be taught in two consecutive modules, will survey the economic performance and evolution of economic policy in Latin America in the 20th century. From the beginning of the course until mid-March, Prof. Canavan will cover the major macroeconomic problems Latin American economies have faced, focusing on Latin America's relations with international capital markets. From March 11 until the end of the course, Prof. Marcouiller will cover microeconomic issues of trade and development. Throughout the course, we will pay especially close attention to the experience of the major countries in the region over the last twenty-five years. While the course is a historical survey, students will exercise the analytical tools they have learned in macro- and microeconomics.

Course Requirements

The prerequisites for this course are Microeconomic Theory (EC201) and Macroeconomic Theory (EC202).

Your course grade will be based on:

- two closed-book exams. **The first exam will be Friday, March 1, in class. The second will be Saturday, May 4, at 12:30 PM.** We will give no make-up exams.
- two essays. **The first essay is due Wednesday, March 13.** It must be related to material from the first half of the class and the topic must be approved by Prof. Canavan by Friday, February 23. **The second essay is due Monday, April 24.** It must be related to material from the second half of the semester and the topic must be approved by Prof. Marcouiller by Monday, March 25. These essays are your opportunity to develop your own opinion about the main economic issues facing Latin America. The essays must be clear, succinct, and no more than 10 pages using a 12-point font. Each essay must be turned in on time. Detailed instructions about preparing the papers will be given in class.

Each exam will be worth twenty-five percent of your grade, and each essay will also be worth twenty-five percent of your grade. Grading will follow university policy as explained in the Undergraduate Catalog.

Required Texts

John Sheahan, *Patterns of Development in Latin America* (Princeton: Princeton University Press, 1987).
Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995).
World Bank, *Labor and Economic Reforms in Latin America and the Caribbean*, in the series Regional Perspectives on World Development Report 1995 (Washington, D.C.: World Bank, 1995).

Recommended Texts

Eliana Cardoso and Ann Helwege, *Latin America's Economy: Diversity, Trends and Conflicts* (Cambridge: MIT Press, 1992).

Topics

First Module:

The Golden Age to the Great Depression
Latin America's Response to the Depression and the Rise of ISI
The Crisis of ISI and the structuralist-monetarist debate
Neo-conservative Experiments
The Debt Crisis
Heterodox Stabilization
The New Orthodoxy

Second Module:

Trends in Poverty and Income Inequality
Agrarian Structures and Rural Organization
Traditional Models of Urbanization
Traditional Policies Promoting Industrialization
Privatization, Deregulation, Legality and Informality
Trade Liberalization and Regional Preferences
Conclusions

Reading List: Module One

1. THE GOLDEN AGE TO THE GREAT DEPRESSION

Required Reading:

- Glade, William, "Economy, 1870-1914", in Leslie Bethel, ed., *Latin America: Economy and Society, 1870-1930* (Cambridge: Cambridge University Press, 1989).
- Ford, Alec. "Notes on the Working of the Gold Standard Before 1914," *Oxford Economic Papers*, 1960.
- Taylor, Alan. "External Dependence, Demographic Burdens, and Argentine Economic Decline after the Belle Epoque," *The Journal of Economic History*, 52:4, 1992.
- Thorp, Rosemary, "Economy, 1914-1929," in Leslie Bethel, ed., *Latin America: Economy and Society, 1870-1930* (Cambridge: Cambridge University Press, 1989)

Related Reading:

- Fishlow, Albert, "Lessons from the Past: Capital Markets during the 19th Century and the Inter-War Period," *International Organization* 39, Summer 1985, pp. 383-439.
- Fishlow, Albert, "Lessons of the 1890s for the 1980s," in Findlay, Ronald, ed., *Debt, Stabilization and Development* (New York: Basil Blackwell, 1988).
- Sachs, Jeffrey and Felipe Larrain, *Macroeconomics in the Global Economy*, (New Jersey: Prentice Hall, 1993), chs. 10 and 13
- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Chs 1 and 2.

2. LATIN AMERICA'S RESPONSE TO THE DEPRESSION AND THE RISE OF ISI

Required Reading

- Sheahan, J., *Patterns of Development in Latin America: Poverty, Repression and Economic Strategy* (Princeton: Princeton University Press, 1987), Ch. 4.
- Diaz-Alejandro, C., "Latin America in the 1930s," in R. Thorp, ed., *Latin America in the 1930s*, (New York: St. Martin's Press, 1984)
- Diaz-Alejandro, C., "Latin America in the 1940s," mimeo.

Related Reading

- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch. 4.
- Diaz-Alejandro, C., "Stories of the 1930s for the 1980s," in P. Aspe, R. Dornbusch, and M. Obstfeld, eds., *Financial Policies and the World Capital Markets* (Chicago: University of Chicago Press, 1983).
- Baer, W., "Import Substitution Industrialization in Latin America," *Latin American Research Review*, 1972
- Fishlow, A. "Origins and Consequences of Import Substituting Industrialization in Brazil," in di Marco, ed. *International Economics and Development*, (New York: Academic Press, 1972).
- A.O. Hirschman, "The Political Economy of Import Substituting Industrialization in Latin America," *Quarterly Journal of Economics* (February 1968) or in his *Bias for Hope* (New Haven: Yale University Press, 1971)
- Thorp, R., "Introduction," in R. Thorp, ed., *Latin America in the 1930s*, (New York: St. Martin's Press, 1984)

3. THE CRISIS OF ISI AND THE STRUCTURALIST-MONETARIST DEBATE

Required Reading

- Sheahan, J., *Patterns of Development in Latin America: Poverty, Repression and Economic Strategy* (Princeton: Princeton University Press, 1987), Ch. 5.
- W. Baer, "The Inflation Controversy in Latin America: A Survey," *Latin American Research Review*, Spring 1967

Related Reading

- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch. 6.
- L. Taylor, "IS/LM in the Tropics: Diagrammatics of a New Structuralist Critique," in *Economic Stabilization in Developing Countries*, W. Cline and S. Weintraub (eds), Washington: The Brookings Institution, 1981
- W. Baer and I. Kerstenetsky, *Inflation and Growth in Latin America*, New Haven: Yale University Press, 1964
- Fishlow, A., "Some Reflections on the Post-1964 Brazilian Economic Policy," in A. Stepan, ed., *Authoritarian Brazil* (New Haven: Yale University Press, 1973).
- Hirschman, A.O., "Inflation in Chile," in his *Journeys Towards Progress* (New York, The Twentieth Century Fund, 1963), pp. 159-223.
- Campos, Roberto, "Two Views on Inflation in Latin America," in A.O. Hirschman, *Latin American Issues* (New York: The Twentieth Century Fund, 1961), pp. 69-79.
- Felix, David, "An Alternative View of the 'Monetarist'-'Structuralist' Controversy," in A.O. Hirschman, *Latin American Issues* (New York: The Twentieth Century Fund, 1961), pp. 81-93.
- Grunwald, J. "The Structuralist School on Price Stabilization and Economic Development: The Chilean Case," in A.O. Hirschman, *Latin American Issues* (New York: The Twentieth Century Fund, 1961), pp. 95-123.
- FitzGerald, E.V.K., "Stabilization Policy in Mexico: The Fiscal Deficit and Macroeconomic Equilibrium, 1960-1977," in R. Thorp and L. Whitehead, eds., *Inflation and Stabilization in Latin America*, (New York: Holmes and Meier, 1979), pp. 23-64.

4. NEO-CONSERVATIVE EXPERIMENTS*Required Reading*

- Sheahan, J., *Patterns of Development in Latin America: Poverty, Repression and Economic Strategy* (Princeton: Princeton University Press, 1987), Ch. 9.
- Dornbusch, R., "Stabilization Policies in Developing Countries: What have we learned?" *World Development* 10, 1982, pp. 701-708.

Related Reading

- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch 7.
- Ramos, Joseph, *Neoliberal Economics in the Southern Cone of Latin America, 1973-1983* (Baltimore: The Johns Hopkins University Press, 1986).

5. THE DEBT CRISIS*Required Reading*

- Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995), Ch. 2.
- Diaz-Alejandro, C., "Latin American Debt: I don't think we are in Kansas Anymore," *Brookings Papers on Economic Activity*, 2:1984.

Related Reading

- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch 5.
- Sachs, Jeffrey and Felipe Larrain, *Macroeconomics in the Global Economy*, (New Jersey: Prentice Hall, 1993), ch. 22.

6. HETERODOX STABILIZATION

Required Reading

Cardoso, E. "Inflation and Stabilization in Latin America: Orthodoxy versus Heterodoxy," mimeo.

Related Reading

Dornbusch, R. and M.H. Simonsen, "Inflation Stabilization with Incomes Policy Support: a review of the experience in Argentina, Brazil and Israel,"

7. THE NEW ORTHODOXY

Required Reading

Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995), Chs. 3, 7 and 8.

Related Reading

Sachs, Jeffrey and Felipe Larrain, *Macroeconomics in the Global Economy*, (New Jersey: Prentice Hall, 1993), ch. 23.

Kiguel, M. and N. Liviatan (1988), "Inflationary Rigidities and Orthodox Stabilization Policies: Lessons from Latin America," *The World Bank Economic Observer*, 2(3), pp. 273-298.

Reading List: Module Two

1. POVERTY, INCOME INEQUALITY, AND GROWTH

Required:

John Sheahan, *Patterns of Development in Latin America* (Princeton: Princeton University Press, 1987), Chapter 2, "Poverty," pp. 22-48.

Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995), Chapter 8, "Poverty, Income Distribution, and Human Resources," pp. 256-277.

Recommended for background or further reading:

Michael Todaro, *Economic Development* (New York: Longman, 1994), Chapter 5, "Growth, Poverty, and Income Distribution," pp. 131-177.

Eliana Cardoso and Ann Helwege, *Latin America's Economy* (Cambridge, MA: The MIT Press, 1992), Chapter 9, "Poverty," pp. 223-249.

George Psacharopoulos, Samuel Morley, Ariel Fiszbein, Haeduck Lee, and William Wood, "Poverty and Income Inequality in Latin America during the 1980s," *Review of Income and Wealth* 41:3, September, 1995, pp. 245-264.

Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," *World Bank Economic Review*, 9:3, September, 1995, pp. 477-508.

United Nations Development Programme, *Human Development Report 1995* (New York: Oxford University Press, 1995).

2. AGRARIAN STRUCTURES AND RURAL ORGANIZATION

Required:

Sheahan, Chapter 6, "Ownership: Land," pp. 130-154.

Recommended for background or further reading:

Todaro, Chapter 9, "Agricultural Transformation and Rural Development," pp. 281-316.

Cardoso and Helwege, Chapter 10, "Agrarian Reform," pp. 251-279.

Joseph Stiglitz, "The New Development Economics," *World Development* 14:2, February, 1986, pp. 257-265.

Alain de Janvry, *The Agrarian Question and Reformism in Latin America* (Baltimore: Johns Hopkins, 1981).

Charles Brockett, *Land, Power, and Poverty* (Boston: Unwin Hyman, 1990).

Brad Barham, Mary Clark, Elizabeth Katz, and Rachel Schurman, "Nontraditional Agricultural Exports in Latin America," *Latin American Research Review* 27:2, 1992, pp. 43-82.

3. TRADITIONAL MODELS OF URBANIZATION

Required:

Todaro, Chapter 8, "Urbanization and Rural-Urban Migration: Theory and Policy," pp. 247- 275.

Sheahan, Chapter 3, "Employment and Earnings," pp. 49-73.

World Bank, *Labor and Economic Reforms in Latin America and the Caribbean*, in the series Regional Perspectives on World Development Report 1995 (Washington, D.C.: World Bank, 1995), Chapter 1, "Policy Background," and Chapter 2, "Labor Market Conditions," pp. 1-9.

4. TRADITIONAL POLICIES PROMOTING INDUSTRIALIZATION

Required:

- Sheahan, Chapter 4, "External Trade, Industrialization, and Growth," pp. 74-98.
 Paul Krugman, "Protection in Developing Countries," in *Policymaking in the Open Economy*, edited by Rudiger Dornbusch, (Washington, DC: World Bank, 1993), pp. 127-148.
 Sheahan, Chapter 7, "Ownership: Multinationals, Public Enterprise, and Dependency," pp. 155-176.

Recommended for background or further reading:

- Cardoso and Helwege, Chapter 4, "From Import Substitution to Trade Liberalization" pp. 73-107.
 Raul Prebisch, "Five Stages in My Thinking on Development," in *Pioneers in Development*, edited by Gerald Meier and Dudley Seers, Oxford University Press: 1984, pp. 173-191.

5. PRIVATIZATION, DEREGULATION, LEGALITY AND INFORMALITY*Required:*

- Hernando de Soto, *The Other Path* (New York: Harper & Row, 1989), Chapters 1, 2, 3, and 5, pp. 3-92, 131-180.
 Edwards, Chapter 6, "Privatization and Deregulation," pp. 170-200.
Labor and Economic Reforms in Latin America and the Caribbean, pp. 16-27.

Recommended for further reading:

- Victor Tokman, *Beyond Regulation: The Informal Economy in Latin America*, (Boulder: Lynne Rienner, 1992).
Labor Markets in an Era of Adjustment, Volumes 1 and 2, edited by Susan Horton, Ravi Kanbur, and Dipak Mazumdar (Washington, DC: The World Bank, 1994).

6. TRADE LIBERALIZATION AND REGIONAL PREFERENCES*Required:*

- Edwards, Chapter 5, "The Opening of Latin America," pp. 115-163.
 Roberto Bouzas and Jaime Ros, "The North-South Variety of Economic Integration: Issues and Prospects for Latin America," in *Economic Integration the Western Hemisphere* (Notre Dame: University of Notre Dame Press, 1994), pp. 1-45.

Recommended for background or further reading:

- Todaro, Chapter 14, "The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration," pp. 483-517.
 Gary Hufbauer and Jeffrey Schott, "Overview," in *Western Hemisphere Economic Integration*, Institute for International Economics: 1994, pp. 1-14.

7. CONCLUSIONS*Required:*

- Sheahan, Chapter 14, "From Conclusions to Questions," pp. 355-362.

Enrique Iglesias, "Economic Reform: A View from Latin America," in *The Political Economy of Policy Reform*, edited by John Williamson (Washington, DC: Institute for International Economics, 1994) pp. 493-499.

Edwards, Chapter 9, "The Mexican Crisis of 1994 and the Future of the Latin American Reforms," pp. 295-314.