

Economics of Latin America

EC373 (Spring 1997)
MWF, 1:00-1:50 PM
Fulton 235

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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. In the first half of the course, Prof. Canavan will cover the major macroeconomic problems Latin American economies have faced, focusing on Latin America's relations with international capital markets. In the second half 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 survey of the major historical episodes and issues that have affected Latin America, students will exercise the analytical tools they have learned in macro- and microeconomics.

Course Requirements

The prerequisites for this course are the intermediate theory courses, Microeconomic Theory (EC201) and Macroeconomic Theory (EC202).

Your course grade will be based on:

- two closed-book exams. **The first exam will be held on February 28, the Friday before Spring Break, in class. The second will be held on Saturday, May 10, at 9:00 am,** the time assigned by the Registrar for the final examination in this course. We will give no make-up exams.
- two essays. **The first essay is due Friday, February 21.** It must be related to material from the first half of the class and the topic must be approved by Prof. Canavan by Friday, January 31. **The second essay is due Wednesday, April 30.** It must be related to material from the second half of the semester and the topic must be approved by Prof. Marcouiller by Wednesday, March 26. *We do not expect to give any extensions.* These essays are your opportunity to develop your own opinion about the main economic issues facing Latin America. Below you will find detailed instructions about preparing the papers.
- Class participation: Prof. Canavan will hold classroom discussions of selected articles (marked with asterisks). Prof. Marcouiller will solicit student participation on an on-going basis.

Each exam will be worth twenty-five percent of your grade. Each essay will be worth twenty percent of your grade. Ten percent of the grade will be based on class participation, split evenly between the two modules. Grading will follow university policy as explained in the Undergraduate Catalog.

Instructions for Writing Essays

Your essays must be **no more than** 10 pages, double-spaced, using a 12-point font.

Each essay should have a clear thesis, stated in the first paragraph, that is carefully argued and supported by evidence drawn from relevant research materials. It is simplest to state your thesis in the form of a question, and to provide a brief answer to the question in the first paragraph. The essay is an elaboration of the answer.

The first essay should focus on one of the themes of the first module of the course and on one Latin American economy (or, if you like, a comparison between two countries). The second essay, which must focus on challenges currently confronting policymakers in a particular country, should provide a cogent argument in favor of specific policies designed to deal with one of the problems considered in the second half of the course.

You should rely first on the readings from the reading list below. However, you will need to consult other sources as well. The EconLit data base in the reference section of O'Neill Library is a good place to start for references to articles in the economics journals. We also recommend that you use information available on the internet, starting your search at the Latin American Network Information Center of the University of Texas (<http://lanic.utexas.edu>). The sources of information used for the essay are to be clearly acknowledged in footnotes and a bibliography.

Midterm Questions

Your midterm will comprise two of the following three questions. Two questions will be selected randomly at the beginning of the exam period. You will be asked to answer one of the two selections. You will have a maximum of 50 minutes to answer the question you have chosen. **I expect you to support your arguments with theoretical rigor and evidence from at least two countries.** And because you have time in advance to prepare, your answer should be well-organized and succinct. I encourage you to study with others. You will profit from a healthy debate with your colleagues about each of these questions. It will be a closed-book exam.

1. Latin America has experienced two severe external shocks in the 20th century, the Great Crash of 1929 and the debt crisis of 1982. After 1929, many Latin American governments moved to insulate their economies with capital and trade controls, whereas after 1982 they mostly set out to liberalize capital and trade flows. What do you think accounts for the different responses?
2. Monetarism has gone through many incarnations in Latin America: the price-specie flow mechanism of the Golden Age, the monetarists who debated the structuralists in the 1950s and 1960s, those who advocated neoconservatism in the 1970s and early 1980s, and the new orthodoxy of the 1980s and 1990s. Based on the lectures and the readings, why do you think monetarism has had such an enduring appeal in Latin America?
3. Inflation has been a perennial problem for most Latin American countries throughout the century. Despite the simplicity of inflation as a problem—prices rise too quickly because the money supply expands too rapidly—the popular cures for inflation have changed considerably over the century. What accounts for the way thinking about inflation has evolved in Latin America across the century?

Required Texts

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

Hernando de Soto, The Other Path: The Invisible Revolution in the Third World, translated by June Abbott (New York: Harper and Row, 1989).

Nora Lustig, editor, Coping With Austerity: Poverty and Inequality in Latin America (Washington, D.C.: Brookings, 1995).

A coursepack of readings for the Second Module will also be available in late January.

Topics

First Module:

- The Golden Age
- World War I to the Great Depression
- ISI and the structuralist-monetarist debate
- Neo-conservative Experiments
- The Debt Crisis
- Heterodox Stabilization
- The New Orthodoxy

Second Module:

- Poverty, Inequality, and Growth
- Agrarian Structures and Rural Organization
- Migration and the Urban Informal Sector
- Industrial Policy and International Competition
- Concluding Comments

Reading List: Module One

1. THE GOLDEN AGE

Required Reading:

- **Ford, Alec. "Notes on the Working of the Gold Standard Before 1914," *Oxford Economic Papers*, 1960.
- Glade, William, "Economy, 1870-1914", in Leslie Bethel, ed., *Latin America: Economy and Society, 1870-1930* (Cambridge: Cambridge University Press, 1989).
- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Chs 1 and 2.

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

2. WORLD WAR I TO THE GREAT DEPRESSION

Required Reading:

- **Barry Eichengreen, "House Calls of the Money Doctor: The Kemmerer Missions to Latin America, 1917-1931." in Guillermo Calvo et al., eds., *Debt, Stabilization and Development: Essays in Memory of Carlos Diaz-Alejandro* (Oxford: Oxford University Press, 1989).
- Thorp, Rosemary, "Economy, 1914-1929," in Leslie Bethel, ed., *Latin America: Economy and Society, 1870-1930* (Cambridge: Cambridge University Press, 1989)

Related Reading:

- Taylor, Alan. "External Dependence, Demographic Burdens, and Argentine Economic Decline after the Belle Epoque," *The Journal of Economic History*, 52:4, 1992.

3. ISI AND THE STRUCTURALIST-MONETARIST DEBATE

Required Reading

- 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.
- W. Baer, "The Inflation Controversy in Latin America: A Survey," *Latin American Research Review*, Spring 1967
- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Chs. 4 and 6.

Related Reading

- 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)
- Sheahan, J., *Patterns of Development in Latin America: Poverty, Repression and Economic Strategy* (Princeton: Princeton University Press, 1987), Chs. 4 and 5.
- 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

- **Alejandro Foxley, "A Radical Conservative Experiment: Chile after 1973," in his *Latin American Experiments in Neo-conservative Economics* (Berkeley: University of California Press, 1983).
- Dornbusch, R., "Stabilization Policies in Developing Countries: What have we learned?" *World Development* 10, 1982, pp. 701-708.
- Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch 7.

Related Reading

- Sheahan, J., *Patterns of Development in Latin America: Poverty, Repression and Economic Strategy* (Princeton: Princeton University Press, 1987), Ch. 9.
- Carlos Diaz-Alejandro, "Southern Cone Stabilization Plans." in W. Cline and S. Weintraub, eds., *Economic Stabilization in Developing Countries* (Washington, DC: Brookings Institution, 1981)
- Ramos, Joseph, *Neoconservative Economics in the Southern Cone of Latin America, 1973-1983* (Baltimore: The Johns Hopkins University Press, 1986).

5. THE DEBT CRISIS

Required Reading

- **Diaz-Alejandro, C., "Latin American Debt: I don't think we are in Kansas Anymore," *Brookings Papers on Economic Activity*, 2:1984.

Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995), Ch. 2.

Eliana Cardoso and Ann Helwege, *Latin America's Economy*, The MIT Press: 1992, Ch 5.

Related Reading

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

**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.

Sebastian Edwards, *Crisis and Reform in Latin America* (New York: Oxford University Press, 1995), Ch. 9.

Related Reading

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

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

Reading List: Module Two

1. POVERTY, INEQUALITY, AND GROWTH

Required:

Michael Todaro, Economic Development, sixth edition (New York: Addison-Wesley, 1997), "Growth, Poverty, and Income Distribution," pp. 139-160 only. This text is on reserve at O'Neill Library under the call number HD82 .T552 1997.

Nora Lustig, "Introduction," pp. 1-41, and Samuel Morley, "Structural Adjustment and the Determinants of Poverty in Latin America," pp. 42-67, in Coping With Austerity: Poverty and Inequality in Latin America, edited by Nora Lustig (Washington, D.C.: Brookings, 1995).

Related reading:

Gert Rosenthal, "On Poverty and Inequality in Latin America," Journal of Interamerican Studies and World Affairs 38:4, Winter 1996-1997, pp. 129-156.

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.

George Psacharopoulos and Harry Patrinos, editors, Indigenous People and Poverty in Latin America: An Empirical Analysis (Washington, DC: World Bank, 1994).

Carol Graham, Safety Nets, Politics, and the Poor (Washington, DC: Brookings, 1994).

2. AGRARIAN STRUCTURES AND RURAL ORGANIZATION

Required:

Eliana Cardoso and Ann Helwege, "Agrarian Reform," in Latin America's Economy: Diversity, Trends, and Conflicts (Cambridge, MA: MIT Press, 1992), pp. 251-279.

Michael Carter, Bradford Barham, and Dina Mesbah, "Agricultural Export Booms and the Rural Poor in Chile, Guatemala, and Paraguay," Latin American Research Review 31:1, 1996, pp. 33-65.

David Bornstein, "The Barefoot Bank with Cheek," The Atlantic Monthly, December, 1995, pp. 40-47.

Karla Hoff and Joseph Stiglitz, "Introduction: Imperfect Information and Rural Credit Markets--Puzzles and Policy Perspectives," World Bank Economic Review 4:3, 1990, pp. 235-250.

Related reading:

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

Michael Carter and Bradford Barham, "Level Playing Fields and *Laissez Faire*: Postliberal Development Strategy in Inegalitarian Agrarian Economies," World Development 24:7, July, 1996, pp. 1133-1149.

Michael E. Conroy, Douglas L. Murray, Peter M. Rosset, A Cautionary Tale: Failed U.S. Development Policy in Central America (Boulder, Colo. : Lynne Rienner, 1996).

Pranab Bardhan, editor, The Economic Theory of Agrarian Institutions (Oxford: Clarendon Press, 1989).

3. MIGRATION AND THE URBAN INFORMAL SECTOR

Required:

Todaro, "Urbanization and Rural-Urban Migration: Theory and Policy," pp. 263-288.
 Hernando de Soto, The Other Path (New York: Harper & Row, 1989), Chapters 1, 2, 3, and 5, pp. 3-92, 131-180.

Related reading:

Víctor Tokman, editor, Beyond Regulation: The Informal Economy in Latin America (Boulder: Lynn Rienner, 1992).
 Alejandro Portes, Manuel Castells, and Lauren Benton, editors, The Informal Economy: Studies in Advanced and Less Developed Countries (Baltimore: Johns Hopkins Press, 1989).
 Cathy Rakowski, editor, Contrapunto: The Informal Sector Debate in Latin America (Albany: SUNY Press, 1994).
 Douglas Marcouiller, Verónica Ruíz de Castilla, and Christopher Woodruff, "Formal Measures of the Informal Sector Wage Gap in Mexico, El Salvador, and Peru," Economic Development and Cultural Change, January, 1997.
 Douglas Marcouiller and Leslie Young, "The Black Hole of Graft: The Predatory State and the Informal Economy," American Economic Review 85:3, June, 1995, pp. 630-646.

4. INDUSTRIAL POLICY AND INTERNATIONAL COMPETITION

Required:

Cardoso and Helwege, "From Import Substitution to Trade Liberalization," pp. 73-107.
 Paul Krugman, "Protection in Developing Countries," in Policymaking in the Open Economy, Rudiger Dornbusch, editor (Washington, DC: World Bank, 1993), pp. 127-148.
 Sebastian Edwards, "Privatization and Deregulation," in Crisis and Reform in Latin America (New York: Oxford University Press, 1995), pp. 170-199.
 ECLAC, "Economic Reforms," pp. 19-24, and "Policies for Strengthening Competitiveness and Productive Development," pp. 69-92, in Strengthening Development: The Interplay of Macro- and Microeconomics (Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean, 1996), pp. 19-24 and 69-92.
 Todaro, "South-South Trade and Economic Integration," pp. 482-486 only.
 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.

Related reading:

Raúl 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.
 Anne O. Krueger, Trade Policies and Developing Nations (Washington, DC: Brookings, 1995).
 Gary Hufbauer and Jeffrey Schott, Western Hemisphere Economic Integration (Washington, D.C.: Institute for International Economics, 1994).
 Nora Lustig, Barry Bosworth, and Robert Lawrence, editors, North American Free Trade: Assessing the Impact (Washington, DC: Brookings, 1992).

5. CONCLUDING COMMENTS

"Neoliberalism in Latin America: A Letter of the Latin American Provincials of the Society of Jesus," November 14, 1996. [An official translation into English is in preparation.]

