

Contemporary Public Policy Challenges in Latin America

University of California, Riverside
Economics 187

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Office Hours:
Wed. 2-4pm
or by appointment

Prerequisites: Econ 002 or Econ 003, or consent of instructor.

Course Description:

Latin American countries have undertaken wide-sweeping policy reforms since the 1980s. This course provides a survey of the reforms and of the most important contemporary public policy challenges in Latin America. The challenges include extremely high levels of poverty and inequality, inadequate educational and healthcare systems, problems of trade competitiveness, and recurring currency crises. The course will place current problems in an historical perspective and use applied economic analysis to understand the choices as well as the constraints that Latin American policy makers face.

Requirements and Grading:

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| • Seven reaction pieces to articles from the syllabus | 15% |
| • Presentations, participation, and attendance at debates | 15% |
| • One 6-8 page paper due on March 2 (Tue. of week 9) | 35% |
| • Final exam | 35% |

This course requires a considerable amount of reading and writing. Students are expected to read one textbook chapter and one article per week, and to come to class prepared to discuss the material. Students are encouraged to read the articles that they find most interesting. The reaction pieces and papers are explained below.

Reaction pieces: In order to verify that students are reading the material and attempting to think critically about it, there will be seven two-page reaction pieces to articles or book chapters from the syllabus. These should include a brief summary of the most important points in each article/chapter, and a brief analysis of these points.

Paper: The paper will address a particular policy in a Latin American country. It should review the evidence on that policy, and make an argument for how the policy could be (or could have been) improved. Examples include exchange rate policy in Argentina in the 1990s, trade policy in Mexico, social security policy in Chile, and land reform policy in Brazil.

Plagiarism: We will discuss appropriate ways for referencing the material used to write the paper. Any student found committing plagiarism, not handing in original work of his/her own, or cheating, will be given an F in the course and will be subject to disciplinary action by the University.

Textbook: Franko, Patrice, *The Puzzle of Latin American Development*, Lanham: Rowman and Littlefield Publishers, 2nd ed., 2003.

Schedule of Classes

Week 1. Background to the Policy Reforms

Week 2. First and Second Generation Reforms

Week 3. Reform of the State: Privatization, Decentralization, and the Challenge of Regulation

Week 4. Capital Flows, Volatility, and Currency Crises

Week 5. Trade Liberalization, Regional Integration, and a Free Trade Area of the Americas

Week 6. The Challenge of Reducing Poverty and Inequality in Latin America

Week 7. Rural Poverty, Rural Development, and Land Reform

Week 8. Education Policies

Week 9. Health Policies

Week 10. Social Security Policies

Course Outline and Reading List

1. Background to the Policy Reforms

Import substitution industrialization (1930-82)

Franko, "Import Substitution Industrialization: Looking Inward for the Source of Economic Growth," Chapter 3.

Thorp, Rosemary, *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*, Washington, D.C.: Inter-American Development Bank, 1998.

The debt crisis (1982-)

Franko, "Latin America's Debt Crisis: The Limits of External Financing," Chapter 4.

Sachs, Jeffrey D., "Introduction," in *Developing Country Debt and Economic Performance*, Chicago: The University of Chicago Press, 1990.

2. First and Second Generation Reforms

The emergence of a new model: the Washington consensus

Iglesias, Enrique, "From Adjustment Policies to Structural Reforms," Chapter 3 in Costin, Harry, and Hector Vanolli (eds.), *Economic Reform in Latin America*, Orlando: The Dryden Press, 1998.

Williamson, John, "Latin American Reform: A View From Washington," Chapter 7 in Costin, Harry, and Hector Vanolli (eds.), *Economic Reform in Latin America*, Orlando: The Dryden Press, 1998.

Second generation reforms

Ffrench-Davis, Ricardo, *Reforming the Reforms in Latin America: Macroeconomics, Trade Finance*, New York: St. Martin's Press, 2000.

Inter-American Development Bank, *Latin America After a Decade of Reform: Economic and Social Progress in Latin America, 1997 Report*, Washington, D.C.: Inter-American Development Bank, 1997.

Kuczynski, Pedro Pablo, and John Williamson, *After the Washington Consensus: Restarting Growth and Reform in Latin America*, Washington, D.C.: Institute for International Economics, 2003.

Stallings, Barbara, and Wilson Peres, *Growth, Employment, and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*, Washington, D.C.: The Brookings Institution and ECLAC, 2000.

3. Reform of the State: Privatization, Decentralization, and the Challenge of Regulation

Franko, "The Role of the State: Defining a Desirable and Sustainable Level of State Activity," Chapter 6.

Privatization

Devlin, Robert, "Privatization and Social Welfare," in Jameson, K. and C. Wilber (eds.), *The Political Economy of Development and Underdevelopment*, 6th ed., 1996, pp. 431-64.

Inter-American Development Bank, "Privatization," Chapter 5 in Part 2 of *Economic and Social Progress in Latin America, 1996 Report*, Washington, D.C.: Inter-American Development Bank, 1996.

Estache, Antonio, and Marianela González, "What Does "Privatization" do for Efficiency? Evidence from Argentina's and Brazil's Railways," *World Development*, Vol. 30, No. 11, 2002.

Decentralization

Inter-American Development Bank, "Fiscal Decision Making in Decentralized Democracies," Chapter 3 in *Latin America After a Decade of Reform: Economic and Social Progress in Latin America, 1997 Report*, Washington, D.C.: Inter-American Development Bank, 1997.

Regulation

Baer, W., and T. Calvacanti (eds.), special issue on "Privatization and Regulation in Latin America," *Quarterly Review of Economics and Finance*, Vol. 41, 2001.

Coes, Donald V., "Beyond Privatization: Getting the Rules Right in Latin America's Regulatory Environment," *The Quarterly Review of Economics and Finance*, Vol. 38, Issue 3, 1998.

Manzetti, Luigi (ed.), *Regulatory Policy in Latin America: Post-Privatization Realities*, Miami: North-South Center Press, University of Miami, 2000.

4. Capital Flows, Volatility, and Currency Crises

Franko, "New International Capital Flows: The Benefits (and Hidden Costs) of Latin America's Return to Markets," Chapter 7.

Foreign direct investment and portfolio flows in the 1990s

Stallings, Barbara, and Wilson Peres, "The International Context: Trade and Capital Flows," Chapter 2 in *Growth, Employment, and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*, Washington, D.C.: The Brookings Institution and ECLAC, 2000.

Exchange rate crises: Mexico, Brazil, and Argentina

Gavin, Michael, and Ricardo Hausmann, "Growth with Equity: The Volatility Connection," Chapter 4 in Birdsall, Nancy, Carol Graham, and Richard H. Sabot (eds.), *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America*, Washington, D.C.: The Brookings Institution and Inter-American Development Bank, 1998.

Roett, Riordan (ed.), *The Mexican Peso Crisis: International Perspectives*, Boulder: Lynne Rienner Publishers, 1996.

Wise, Carol, and Riordan Roett (eds.), *Exchange Rate Politics in Latin America*, Washington, D.C.: The Brookings Institution, 2000.

5. Trade Liberalization, Regional Integration, and a Free Trade Area of the Americas

Franko, "Contemporary Trade Policy: Engines or Brakes for Growth?," Chapter 8.

Trade liberalization

Edwards, Sebastian, "The Opening of Latin America," Chapter 5 in *Crisis and Reform in Latin America: From Despair to Hope*, New York: Oxford University Press, 1995.

Inter-American Development Bank, "Trade Liberalization," Chapter 2 in *Economic and Social Progress in Latin America, 1996 Report*, Washington, D.C.: Johns Hopkins University Press, 1996.

Regional integration

Economic Commission for Latin America and the Caribbean, *Open Regionalism in Latin America and the Caribbean*, Santiago, Chile: United Nations, 1994.

Roett, Riordan (ed.), *Mercosur: Regional Integration, World Markets*, Boulder: Lynne Rienner Press, 1999.

Free trade area of the americas

Bulmer-Thomas, Victor, and Sheila Page, "Trade Relations in the Americas: MERCOSUR, the Free Trade Area of the Americas and the European Union," in *The United States and Latin America: The New Agenda*, edited by Bulmer-Thomas, V. And Dunkerley, J., London: Institute of Latin American Studies, 1999.

6. The Challenge of Reducing Poverty and Inequality in Latin America

Franko, "Poverty and Inequality: Addressing the Social Deficit in Latin America," Chapter 11.

The evidence

Inter-American Development Bank, *Facing up to Inequality in Latin America: Economic and Social Progress in Latin America, 1998-99 Report*, Washington, D.C.: Inter-American Development Bank, 1998.

Lora, Eduardo, and Juan Luis Londoño, "Structural Reforms and Equity," Chapter 3 in Birdsall, Nancy, Carol Graham, and Richard H. Sabot (eds.), *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America*, Washington, D.C.: The Brookings Institution and Inter-American Development Bank, 1998.

Morley, Samuel A., *Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980s*, Baltimore: The Johns Hopkins University Press, 1995.

World Bank, *World Development Report 2000/2001, Attacking Poverty*, Washington, D.C.: Oxford University Press for the World Bank, 2001.

Policies and strategies

Carter, Michael R., and Jonathan Coles, "Inequality-Reducing Growth in Agriculture: A Market Friendly Policy Agenda," Chapter 6 in Birdsall, Nancy, Carol Graham, and Richard H. Sabot (eds.), *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America*, Washington, D.C.: Inter-American Development Bank, 1998.

Raczynski, Dagmar (ed.), *Strategies to Combat Poverty in Latin America*, Washington D.C.: Inter-American Development Bank, 1995.

Ramos, Joseph, "Poverty and Inequality in Latin America: A Neostructuralist Perspective," *Journal of Inter-American Studies and World Affairs*, Vol. 38, No. 2, 1996.

Sheahan, John, and Enrique V. Iglesias, "Kinds and Causes of Inequality in Latin America," Chapter 2 in Birdsall, Nancy, Carol Graham, and Richard H. Sabot (eds.), *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America*, Washington, D.C.: Inter-American Development Bank, 1998.

7. Rural Poverty, Rural Development, and Land Reform

Franko, "Agricultural Policy: Sowing the Seeds of Equitable, Sustainable Growth in Latin America," Chapter 10.

de Janvry, Alain, and Elisabeth Sadoulet, "Rural Poverty in Latin America: Determinants and Exit Paths," *Food Policy*, Vol. 25, Issue 4, August 2000.

de Janvry, Alain, Elisabeth Sadoulet, and Wendy Wolford, "The Changing Role of the State in Latin American Land Reforms," in de Janvry, A., G. Gordillo, J.-P. Platteau, and E. Sadoulet (eds.), *Access to Land, Rural Poverty, and Public Action*, New York: Oxford University Press, 2001.

Deininger, Klaus, and Hans Binswanger, "The Evolution of the World Bank's Land Policy: Principles, Experiences, and Future Challenges," *The World Bank Research Observer*, Vol. 14, No. 2, August 1999, pp. 247-76.

- Kay, Cristóbal, “Agrarian Reform and Rural Development in Latin America: Lights and Shadows,” paper presented at the International Conference on Agrarian Reform and Rural Development, Philippines, December 5-8, 2000.
- Valdés, Alberto, and Tom Wiens, “Rural Poverty in Latin America and the Caribbean,” pp. 107-124 in *Annual World Bank Conference on Development in Latin America and the Caribbean 1996: Poverty and Inequality*, edited by Burki et al., Washington D.C.: The World Bank, 1998.

8. Education Policies

- Franko, “Education Policy: The Source of Equitable, Sustainable Growth,” Chapter 13.
- Birdsall, N., and R. Sabot, *Opportunity Forgone: Education in Brazil*, Washington, D.C.: Johns Hopkins University Press, 1996.
- Inter-American Development Bank, “Education: The Dynamics of a Public Monopoly,” Chapter 4 in Part 3 of *Economic and Social Progress in Latin America: 1996 Report*, Washington, D.C.: Inter-American Development Bank, 1996.
- Moura, Claudio, and Daniel C. Levy, *Myth, Reality and Reform: Higher Education Policy in Latin America*, Washington, D.C.: Johns Hopkins University Press and the Inter-American Development Bank, 2000.
- Prawda, Juan, “Educational Decentralization in Latin America: Lessons Learned,” *International Journal of Educational Development*, Vol. 13, No. 2, 1993.
- Wolff, L., E. Schiefelbein, and J. Valenzuela, “Improving the Quality of Primary Education in Latin America: Towards the 21st Century,” Washington, D.C.: World Bank, 1994.

9. Health Policies

- Franko, “Health Policy: Investing in People’s Future,” Chapter 12.
- Birdsall, N., and R. Hecht, “Swimming Against the Tide: Strategies for Improving Equity in Health,” in Colclough, Christopher (ed.), *Marketising Education and Health in Developing Countries: Miracle or Mirage?*, Oxford: Clarendon Press, 1997.
- Inter-American Development Bank, “Health Services: A Profile of Four Subregions,” Chapter 5 in Part 3 of *Economic and Social Progress in Latin America: 1996 Report*, Washington, D.C.: Inter-American Development Bank, 1996.
- Berman, Peter (ed.), *Health Sector Reform in Developing Countries: Making Health Development Sustainable*, Cambridge: Harvard University Press, 1995.
- Overholt, Catherine, and Margaret Saunders, *Policy Choices and Practical Problems in Health Economics: Cases from Latin America and the Caribbean*, Economic Development Resources Series, Washington, D.C.: World Bank, 1996.

10. Social Security Policies

- Holzmann, R., and J.E. Stiglitz (eds.), *New Ideas about Social Security: Toward Sustainable Pension Systems in the 21st Century*, Washington, D.C.: The World Bank, 2001.
- James, Estelle, “Pension Reform: An Efficiency-Equity Trade-Off?”, Chapter 9 in Birdsall, Nancy, Carol Graham, and Richard H. Sabot (eds.), *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America*, Washington, D.C.: Inter-American Development Bank, 1998.
- Mesa-Lago, Carmelo, “Myth and Reality of Pension Reform: The Latin American Experience,” *World Development*, Vol. 30, No. 8, 2002.
- Oliveira, Francisco E. B. (ed.), *Social Security Systems in Latin America*, Washington, D.C.: Inter-American Development Bank, 1994.