

ITRN 767 Political Economy and Economic Integration in Latin America Study Guide

Revised 27 February 2009

Introduction

- The 10 elements of the “Washington consensus”
- Market fundamentalism vs. a more nuanced view of the WC.

History and Overview

- Institutional economics and path dependence
- Colonial histories (in very rough outline), including mercantilism
- Colonial legacies
 - e.g. “dutch disease”, latifundio/minifundio duality, primary exports
- Franko's "five issues"
 - external balance, credibility of reform, distribution, environmental sustainability, role of state
- Bulmer-Thomas' "three ideas"
 - commodity lottery, mechanics of export-led growth, the economic policy environment

Import Substitution Industrialization

- Graphical (supply and demand) interpretation of ISI argument
- Schools of thought
 - dependency theory, structuralism, ECLA (CEPAL)
- Rationale of ISI
 - e.g., declining terms of trade, infant industry considerations, learning
- The nominal exchange rate
- ISI policy "toolbox"
- Consequences of ISI policies (positive and negative)
- Bulmer-Thomas chapter
 - differences between the LA6 and the LA14
 - income distribution
 - ISI and regional integration
- Reasons why ISI did not succeed in the long run
 - e.g., import intensivity, debt, competitiveness

Debt and Stabilization

- Open economy accounts: fundamental accounting equation
- Domestic Investment – Domestic Savings = Foreign Savings = Trade Deficit
- The debt trap
- Monetarist-structuralist debate
 - Monetarist equation of exchange and graph
 - Cardoso-Helwedge table of comparison

Potential middle ground
The “Trilemma” or “Impossible Trinity”
Change in international environment that set off crisis (1979-82)
IMF policy package and the "Washington consensus"
Baker (1985) and Brady (1989) Plans
Bolivian monetarism
Heterodoxy in Brazil
Austral and convertability plans in Argentina
Mexican stabilization, including *El Pacto*
Stabilization-induced poverty
Rojas-Suarez chapter: roles of managed floating and inflation targeting

The State

Spiller and Tommasi (2003) framework
Order of economic liberalization
The concepts of "fiscal inadequacy" and public goods
Rodrik's positive correlation and the size of Latin American state
Three theoretical approaches
 new political economy (neoliberal), new institutionalism, neostructuralism
Means of increasing tax revenue, including VAT (IVA)
Privatization
 valuation, ownership, competition, corruption
 banking and prudential regulation
Artana et al. chapter: role of countercyclical fiscal policy

The "New Openness"

Exchange rate determination and capital flows
Portfolio vs. direct investment in Latin America
Costs and benefits of FDI
Capital flight
Mexican peso crisis
Trade liberalization and currency overvaluation
Primary product exports in the contemporary era
"Open regionalism"
EPZs and maquilas
Labor relations
Unemployment and the informal sector
Technology and labor productivity
Infrastructure
Bouzas and Keifman chapter: openness, employment, and inequality

NAFTA

Trade creation vs. trade diversion

Hufbauer and Schott

Basic sectoral features: agriculture, autos, textiles and clothing, energy, financial services, transportation, telecoms

Ramirez reading

Role of FDI, maquilas, and maize markets

Role of rules of origin

Employment implications

Investment and intellectual property

Mercosur/FTAA/CAFTA

Notion of “new regionalism” or “open regionalism”

World Bank chapter on CAFTA

Limitations to trade liberalization in Central America

Basic provisions

Protecting the rural poor

Complementary policies

Mercosur history and structure

Leipziger et al. reading

Mercosur institutional weaknesses

Salazar-Xirinachs and Tavares du Araujo

Obstacles to FTAA integration: exchange rates/currencies, fiscal imbalances, technological obsolescence

Negotiating groups

Rural Development

Lewis model, ISI, and rural neglect

Importance of rural nonfarm sector

Latifundia legacies (rural dualism)

Land reform and property rights

Non-traditional agricultural exports

Supporting policies: credit, technical assistance, roads, services

World Bank chapter

Notion of “rurality”

Rural public goods

Poverty

Poverty as a concept

Measures of poverty and poverty vs. inequality

Extent and characteristics of poverty in the region

Roles of income distribution, education, and market liberalization

Effects of income inequality on growth (limitations of Kuznets' inverted U)

Linkages between poverty and the role of the state (above)

Rural development and poverty

Birdsall and Székely chapter

 The role of assets in poverty alleviation in Latin America

 The effect of reform programs on poverty

 Link between social and development policy

Health and Education

The concept of human development

Health and education profiles of region

Franko's health priorities

Epidemiological backlog and epidemiological transition

Gender and ethnicity (*indigenas*) issues

Issues concerning the finance and delivery of health services

Issues concerning the relative roles of primary, secondary, and tertiary education

Linkages to the role of the state (above)

Wolff and de Moura Castro chapter

 Characteristics of education in Latin America

 Priorities for education reform

 Four challenges and "smart state"

Summary

Navia and Velasco chapter

 Characteristics of second-generation reforms

 Political challenges to second-generation reforms

Williamson summary chapter

 Issues left out (e.g. illegal drugs, environment)

Your own assessment of Latin America's reform priorities

Relationship between reform and development