

# Contemporary Public Policy Challenges in Latin America

University of California, Riverside  
Economics 187

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Winter 2012 Office Hours:  
M 10-12pm and R 11-12pm  
or by appointment

## 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:

- Daily “clicker” questions 20%
- Discussion section attendance 5%
- One 5 page paper (to be done in groups of 2 or 3, due on March 16) 20%
- Mid-term exam (tentatively scheduled for Tue., February 7) 20%
- Final exam (March 22) 35%

This course requires a considerable amount of reading. Students are expected to read one item per class (either a textbook chapter, book chapter, or article).

Daily “clicker” questions: Regular attendance is essential for gaining a clear understanding of the material in this course. In each class, I will ask several multiple choice questions related to the assigned reading for that day or to the previous lecture. We will do this in 17 of the 20 classes, i.e., in all classes other than the first week and on the day of the mid-term. Your two lowest scores will be dropped. This is designed to cover absences and technical problems (e.g. a bad battery). No other accommodations will be made.

Paper (to be done in small groups): 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.

Discussion section: Because classes have gotten so large at UCR, I will run a discussion section so that we can an opportunity to discuss the material. I will not lecture. You must come every other week, and bring a typed question with your name and student I.D.

**Academic Honesty:** 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.

**Laptops and cells phones:** My experience is that students overestimate their ability to multi-task, e.g. surf the net and pay attention in class. For this reason I will enforce the following policy: No laptops, cells phones, or texting in class.

## **Schedule in Brief**

1. Setting the Stage: Poverty, Inequality, and Human Development in Latin America
2. Background to the Washington Consensus
3. Reform of the State: Privatization and the Challenge of Regulation
4. Capital Flows, Volatility, and Currency Crises
5. Trade Liberalization and Regional Integration
6. Growth, Productivity, and Competitiveness
7. The Challenge of Reducing Poverty and Inequality in Latin America
8. Rural Poverty, Rural Development, and Land Reform
9. Health, Education, and Social Security Policies
10. The Pendulum Swings Back: The “Pink Tide” in the New Millennium

Mid-term exam: tentatively scheduled for Tuesday, Feb. 7

Final exam: Thursday, March 22, 11:30am

## Course Outline and Reading List

**Textbook:** Franko, Patrice, *The Puzzle of Latin American Development*, Lanham: Rowman and Littlefield Publishers, 3<sup>rd</sup> ed., 2007.

All Franko chapters are marked with an “\*” and are required reading. Additional required reading will be announced in advance. All other sources are recommended for those students who desire to gain a deeper understanding of a particular topic.

### 1. Setting the Stage: Poverty, Inequality, and Human Development in Latin America

\*Franko, “Development in Latin America: Conceptualizing Economic Change in the Region,” Chapter 1.

United Nations Development Program, *Human Development Reports* (various years):  
<http://hdr.undp.org/en/reports/>

World Bank, World Development Indicators: <http://data.worldbank.org/>

### 2. Background to the Washington Consensus

Cárdenas, Mauricio, and Steven Helfand, “Latin American Economic Development,” in the *New Palgrave Dictionary of Economics On-Line*, 2011, <http://dictionaryofeconomics.com/>

*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 20<sup>th</sup> Century*, Washington, D.C.: Inter-American Development Bank, 1998.

*The debt crisis (1980s)*

\*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.

*Macroeconomic Stabilization (1982-94)*

\*Franko, “Macroeconomic Stabilization: A Critical Ingredient for Sustained Growth,” Chapter 5.

### 3. Reform of the State: Privatization and the Challenge of Regulation

\*Franko, “The Role of the State: From a Smaller to a Smarter State,” Chapter 6.

*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*

- 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.

### *Privatization*

- Devlin, Robert, "Privatization and Social Welfare," in Jameson, K. and C. Wilber (eds.), *The Political Economy of Development and Underdevelopment*, 6<sup>th</sup> ed., 1996, pp. 431-64.
- Inter-American Development Bank, "Privatization," Chapter 5 in *Economic and Social Progress in Latin America, 1996 Report*, Washington, D.C.: Inter-American Development Bank, 1996.

### *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, "Financing for Development: Public and Private Capital Flows to Latin America," 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 and Regional Integration

\*Franko, “Contemporary Trade Policy: Engine 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.

Ramirez, Miguel D., “Mexico under NAFTA: A Critical Assessment,” *The Quarterly Review of Economics and Finance* 43: 863–892, 2003.

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

## 6. Growth, Productivity, and Competitiveness

\*Franko, “Policies Underpinning Growth: Productivity and Competitiveness in the Global Economy,” Chapter 9.

Gutiérrez, Mario A., “Economic Growth in Latin America: The Role of Investment and other Growth Sources,” United Nations Economic Commission for Latin America and the Caribbean, Chile, CEPAL, Economic Development Division, June 2005.

Lall, Sanjaya, “Competitiveness Indices and Development Countries: An Economic Evaluation of the Global Competitiveness Report,” *World Development* 29(9): 1501–25, September, 2001.

World Economic Forum, “The Latin America Competitiveness Review 2006: Paving the Way for Regional Prosperity,” World Economic Forum, 2006.

## 7. 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.

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*

Lindert, Kathy, Emmanuel Skoufias, and Joseph Shapiro, “Redistributing Income to the Poor and the Rich: Public Transfers in Latin America and the Caribbean,” mimeo, World Bank, March 2006.

- 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.

## 8. Rural Poverty, Rural Development, and Land Reform

- \*Franko, "Rural Development: 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.
- 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.
- Reardon, Thomas, Julio Berdegúe, and German Escobar, "Rural Nonfarm Employment and Incomes in Latin America: Overview and Policy Implications," *World Development*, V. 29, N. 3, March 2001, pp. 395-409.
- 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.

## 9. Health, Education, and Social Security Policies

### *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.

### *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 21<sup>st</sup> Century," Washington, D.C.: World Bank, 1994.

### *Social Security Policies*

Holzmann, R., and J.E. Stiglitz (eds.), *New Ideas about Social Security: Toward Sustainable Pension Systems in the 21<sup>st</sup> 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.

## **10. The Pendulum Swings Back: The "Pink Tide" in the New Millennium**

\*Franko, "Lessons Learned: Cycles in Latin American Development," Chapter 15.

Kingston, Peter, "The Two Lefts and the Return of the State," Chapter 4 in *The Political Economy of Latin America: Reflections on Neoliberalism and Development*, Routledge, 2010.

Beasley-Murray, J., M.A. Cameron, and E. Hershberg, "Latin America's Left Turns: A Tour d'Horizon," Chapter 1 in *Latin America's Left Turns: Politics, Policies, and Trajectories of Change*, Boulder: Lynne Rienner Publishers, 2010.