

**ITRN 767 Political Economy and Economic Integration in Latin America/  
Economía Política e Integración Económica en América Latina  
Study Guide**

Revised: November 26, 2013

*Introduction/Introducción*

- The 10 elements of the “Washington consensus”
- The 10 elements of “second generation reforms”
- Basic development indicators
- Basic themes
- The problem of “waltzing paradigms”

*History/Historia*

- Institutional economics and path dependence
- Colonial histories (in very rough outline), including Columbian encounter/exchange, mercantilism, role of disease, sugarcane and slavery, mining
- Colonial legacies in Latin America
- Independence, instability and divergence
- The “Golden Age”

*Import Substitution Industrialization/Industrialización por Sustitución de Importaciones*

- Inward looking vs. outward looking development
- Rationale of ISI: Lewis model, Engel’s Law, Solow growth model, balanced growth and the big push, Prebisch-Singer hypothesis
- Raúl Prebisch and his thinking
- Dependency theory
- The commodities problem
- ISI policies and their effects
- Nominal and real exchange rates
- Graphical (supply and demand) interpretation of ISI argument
- Reasons why ISI did not succeed in the long run: import intensity, debt, competitiveness

### *Debt and Stabilization/Deuda y la Estabilización*

- Open economy accounts: fundamental accounting equation:
- Domestic Investment – Domestic Savings = Foreign Savings = Trade Deficit
- Balance of payments accounts
- Macroeconomics of fiscal policy
- The debt trap
- Monetarist-structuralist debate: monetarist equation of exchange and graph, monetarist and structuralist policies
- 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
- Evolution of stabilization in Brazil
- Austral and convertibility (currency board) in Argentina
- Santiso on “institutional short circuits”

### *The State and Growth in Latin America/El Estado y el Crecimiento en América Latina*

- Basic growth theory, including TFP
- The application of growth accounting to the LAC region
- Fiscal inadequacy
- Means of increasing tax revenue, including VAT/IVA
- Potential roles of the state
- Tax reform and elite resistance
- Privatization issues: valuation, ownership, competition, corruption
- Privatization/liberalization of banking and the role of regulatory environments
- Stabilization funds
- The case of Chile
- The order of economic liberalization (in broad outline, not details)

### *The New Openness/La Nueva Apertura*

- Trade liberalization in the LAC region (multilateral and preferential/regional)
- Exchange rate determination and capital inflows/flight
- Openness to: FDI, equity investment, bond finance, commercial bank lending, remittances
- The roles of these inflows in LAC development
- Costs and benefits of FDI
- Evolving structure of LAC exports
- Trade and development in LAC
- Export processing zones (EPZs)
- Challenges of market access abroad

## *NAFTA*

- Types of preferential/regional integration
- Trade creation vs. trade diversion
- Urban-based ISI in Mexico
- Basic content of NAFTA agreement
- 1994/1995 crisis
- FDI response to NAFTA and its implications
- NAFTA and labor markets
- NAFTA rules of origin
- NAFTA and energy sector
- Other sectors/issues under NAFTA: dispute settlement, agriculture, autos, textiles and clothing, services
- Migration and the environment

## *Mercosur/FTAA/CAFTA/CAN/Pacific Alliance*

- Old regionalism vs. new/open regionalism
- *Brief* history and structure of each agreement
- Rhetoric vs. reality of Mercosur
- Negotiating history and disagreements in FTAA
- World Bank chapter on CAFTA: limitations to trade liberalization in Central America, basic provisions, protecting the rural poor, complementary policies
- Pacific Alliance vs. Mercosur: alternative visions for Latin America

## *Rural Development/El Desallorro Rural*

- The comparison with East Asia
- Lewis model, ISI, and rural neglect
- More positive views of the rural sector
- 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 and Inequality/La Pobreza y la Desigualdad*

- Poverty as a concept
- Measures of poverty and poverty vs. inequality
  - Gini coefficient
- Extent and characteristics of poverty and inequality in the region
- Roles of income distribution, education, and market liberalization
- Effects of income inequality on growth
- Linkages between poverty and the role of the state (above)
- Rural development and poverty
- The role of conditional cash transfers (CCTs)

### *Health and Education/La Salud y La Educación*

- The concept of human development
- Health and education profiles of region
- Health priorities
- Epidemiological backlog and epidemiological transition
- Gender and ethnicity (los indígenas) issues
- Issues concerning the finance and delivery of health services
- Education and growth in the region and rate of return to education
- Issues concerning the relative roles of primary, secondary, and tertiary education
- Linkages to the role of the state (above)