Economics 6774 Economic Reform in the Developing Countries  
Spring 1995  
Professors Alm, Howe, Kaempfer, Maskus, and Poulson

Syllabus

COURSE OBJECTIVES

This course will expose students to the major issues of economic reform in developing countries. Economic reform is now ubiquitous throughout the developing world. Most developing countries are at various stages in the transition from economies dominated by economic planning and dirigiste policies, toward more market oriented economies in which the role of government is more constrained. An understanding of the nature, timing and impact of these reforms is essential for all students in development economics.

TOPICAL OUTLINE AND ASSIGNED READINGS

Required Text: Rudiger Dornbusch and Sebastian Edwards, Reform, Recovery, and Growth: Latin America and the Middle East

Optional Texts on Reserve

I. Introduction to Economic Reform in the Developing Countries
   A. The need for economic reform January 17-22 Professor Poulson
      1. External shocks and the debt crises
      3. Developing country responses to external shocks and economic instability
   B. The political economy of economic reform January 24-Feb 5 Professor Kaempfer
      1. Distinction between political economy and public choice
      2. Public choice in the developing country setting
      3. The pluralist revolution in the developing countries
   C. Economic Reform and Economic Welfare Feb 7-12 Professor Poulson
      1. Economic reform and the distribution of income and wealth
      2. Economic reform and social progress

Readings

Required text:
Introduction
Part II Political Economy of Reform
   ch.3, Macroeconomic Instability and Social Progress
   ch.4, Continuity, Change, and the Political Economy of Transition in Chile
Part III Country Experiences
   ch.5, Inflation and Unemployment as Determinants of Inequality in Brazil: The 1980's
II. Stabilization Policies  Feb 14-26 Professor Poulson

A. Orthodox stabilization policies
   1. Fiscal reform
   2. Monetary reform
   3. Exchange rate reform

B. Heterodox stabilization policies
   1. Incomes policy
   2. Debt strategy
   3. Deregulation
   4. Privatization

C. Political economy of stabilization policy
   1. Case studies
   2. Lessons for stabilization policy

Readings

Required Text:
Part V How to Stabilize
   ch. 11, Partial Adjustment and Growth in the 1980's in Turkey
   ch. 12, Stopping Three Big Inflations: Argentina, Brazil, and Peru

Part III Country Experiences
   ch. 6, Israel's Stabilization: Some Important Policy Lessons
   ch. 7, Progress Report on Argentina
   ch. 8, Bolivia: From Stabilization to What
   10. ch. Deregulation as a source of Growth in Mexico

Optional Texts:
Sebastian Edwards, From Despair to Hope: Crises and Reform in Latin America
------------------------, Debt Adjustment and Recovery: Latin American Prospects for Economic Growth and Development
------------------------, Real Exchange Rates, Devaluation and Adjustment: Exchange Rate Policy in the Developing Countries
------------------------, Monetarism and Liberalization: The Chilean Experiment
------------------------, Capital Controls Exchange Rates and Monetary Policy in the World Economy
Jeffrey Sachs, Developing Country Debt and Economic Performance
------------------------, New Approaches to the Latin American Debt Crises
------------------------, Peru's Path to Economic Recovery: A Plan for Economic Stabilization and
growth
Rudiger Dornbusch, Stabilization Debt and Reform
-----------------------------------------------, The Political Economy of Argentina
-----------------------------------------------, The Chilean Economy: Policy Lessons and Challenges
Michael Bruno, Crises, Stabilization and Economic Reform: Therapy by Consensus
-----------------------------------------------, Lessons of Economic Stabilization and Its Aftermath
Hans-Jurgen Wagener, The Political Economy of transformation
Dennis Gayle and Jonathan Goodrich, Privatization and Deregulation in Global Perspective
OECD, Rebalancing the Public and Private Sector in Developing Countries

Midterm Examination Feb 28
III. Structural Adjustment Policies

A. Public Finance Reform Mar 4-13 Professor Alm
   1. Principles of taxation
   2. Revenue Sources
   3. Tax reform
   4. Case studies
   5. Lessons for public finance reform

Readings

Required Text:
Part IV Deregulation and Tax Reform
   ch. 9. Tax Lore for Budding Reformers

Optional Texts:
Harvey Rosen, Public Finance, ch. 13-20
Malcolm Gillis, Tax Reform in Developing Countries
Stephen Lewis, Taxation for Development
Donald Newberry and Nicholas Stern, The Theory of Taxation for Developing Countries
Richard Good, Public Finance in Developing Countries
Richard Bird and Oliver Oldman, Readings in Taxation in Developing Countries
World Development Report 1987

B. Trade reform Mar 18-Apr 3 Professor Maskus
   1. Outward looking versus inward looking trade policies
   2. Trade liberalization
   3. Case studies
   4. Lessons for trade reform

Readings

Required Text:
Part I Trade Policy, Foreign Investment and Privatization
   ch. 1. Trade Policy Exchange Rates, and Growth
   ch. 2. Are Economic Crises Necessary for Trade Liberalization and Fiscal Reform? The Mexican Experience

Optional Texts:
Ronald Jones and Anne Krueger, The Political Economy of International Trade
Anne Krueger, Perspectives on Trade and Development

C. Reforming resource and environmental policies Apr 8-17 Professor Howe
   (To be filled in by Chuck Howe)

D. Financial reform Apr 22-May 1 Professor Poulson
1. Financial repression
2. Financial liberalization
3. Case studies
4. Lessons for financial reform

Readings

Required Text:
Ronald Mckinnon. The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy

Optional Texts:
Sebastian Edwards. The Order of Liberalization of the External Sector in Developing Countries
Jeffrey Sachs. Poland's Jump to the Market Economy
Ronald McKinnon. Financial Liberalization and Economic Development: A Reassessment of Interest Rate Policies in Asia and Latin America

Final Examination
COURSE REQUIREMENTS

Students are required to participate in weekly seminars. The midterm examination will cover the first two topics, Introduction to Economic Reform and Stabilization Policy. The final examination will cover the third topic, Structural Adjustment Policies. Both examinations are essay exams focused on target questions relating to each topic.

Students are required to select one of the topics from the course as the basis for a term project. The project should identify a verifiable hypothesis relating to an issue in economic reform in the developing countries and explore at least one methodology from this literature that could be applied to test that hypothesis. The student is not expected to apply the methodology in order to satisfy this term project. Rather the purpose of the project is to explore a topic that could then serve as the basis for a thesis proposal.
Objectives of this Section: Most developing countries are not exporters of primary commodities: coal, oil, timber products, rubber, palm oil, fish products, etc. It is thus of interest to analyze the role these commodities have played in the development process.

These same countries often feel that they cannot afford to worry about the environment, that this is a luxury they will be able to afford only after incomes have risen.

In the brief span of four class meetings, only a small subset of these issues can be addressed. Much of our attention will be directed toward water resources and the role water plays in the development process.

Reading packets will be on reserve and can be checked out. The topics and reading assignments are given below.

April 8: "Environmental & Resource Issues in Developing Countries."

Assignment:
Markandya & Muñoz

April 10: "Water Resource Issues in Development Countries"

Assignments:
Brookshire & Whittington
Howe
Howe & Dixon

April 15: "Water & Poverty"

Assignments:
Fass
Whittington, Mu & Roche
Marchand
Drijver & Marchand

April 17: "Irrigation and River Basin Development"

Assignments:
Ostrom
Cowley
Scudder