



AMERICAN UNIVERSITY
WASHINGTON, D C

Department of Economics

ECON-661.01
Survey of Economic Development

Fall 2008
Larry Sawers

August 23

Office: Roper Hall 214; telephone: 885-3766; email lsawers@american.edu
Office hours: Tuesdays 12:00–4:00. Classroom: Watkins 102

Syllabus

Objectives

This course is concerned with economic development theory and policy. The focus of the course will be an exposition and evaluation of the practice of economic development policy in the last half century. We will trace the interplay of the theory and the practice of economic development from the state-led, import-substituting industrialization that was the dominant development paradigm in the 1950s and 1960s, to the rise of dependency analysis in the 1960s and neostructuralism of the 1970s, the resurgence of market-oriented policies in the 1980s, and the rethinking of those policies since that time. A major section of the course is devoted to analyzing the foreign exchange market, international trade, inflation dynamics, and financial markets in order to understand better market-oriented policies. The course ends with a critique of those policies and an effort to determine what development policy should be. The course will emphasize how development thinking reflected 1) broader intellectual and political currents generally and the evolution of economic theory specifically, 2) changes in the global economy and geopolitical relations, 3) the changing reality, perceptions, and misperceptions of the developing world, and 4) the successes and failures of development policy. The course will also examine how the theory of economic development affected the practice of economic development policy.

Requirements

The course is a reading and research course. You will get as much out of it as you put into it. You are expected to write a short research paper concerning a less developed or transition country of your choice. Your paper, the midterm, and final exam count equally in determining your grade for the course.

Reading Assignments

1. *Changing Paradigms (August 26 and September 2)*

Larry Sawers, (forthcoming) “The Reinvention of Development Economics,” Chapter Two, and “Changing Paradigms in Development Economics,” Chapter Three, *Economic Development Policy*.

Sanjaya Lall, (1975) “Is ‘Dependence’ a Useful Concept in Analyzing Underdevelopment?,” *World Development* 3 11–12, 799–810.

Moises Naim, 1999 “Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion?” Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms, Washington, D.C.

Dani Rodrik, 2006 “Goodbye Washington Consensus, Hello Washington Confusion,” working paper, Harvard University, January, pages 1–16 and skim the rest.

Additional readings:

William Easterly, “The Big Push *Dejà Vu*: A Review of Jeffrey Sachs’s *The End to Poverty*,” *Journal of Economic Literature*, **44**, 96–105.

John Williamson, (2003) “The Washington Consensus and Beyond,” Working Paper, Institute for International Economics, Washington.

Erik Thorbecke, (2006) “The Evolution of the Development Doctrine, 1950–2005,” Research Paper No. 2006/155 UNU-WIDER, December.

2. Exchange Rates (September 2, 9, and 16)

Larry Sawers, (forthcoming) “Exchange Rate Policy,” Chapter Four, *Economic Development Policy*.

John Williamson, (2000) “Designing a Middle Way between Fixed and Flexible Exchange Rates,” Institute for International Economics, A paper presented to a conference on “Monetary and Exchange Rate Policies: Options for Egypt,” Egyptian Center for Economic Studies Cairo, Egypt November 19--20. <http://www.iie.com/publications/papers/williamson1100.htm>

Calvo, Guillermo A. and Frederick S. Mishkin, (2003) “The Mirage of Exchange Rate Regimes for Emerging Market Economies,” *Journal of Economic Perspectives* **17** No. 4, 99–118. [JSTOR] Pay special attention to the first three pages; skim the rest.

3. Stabilization or Fixing Inflation (September 23 and 30)

Larry Sawers, (forthcoming) “Inflation and Stabilization,” Chapter Five, and “Economic Reform and Debt Service,” Chapter Fourteen, *Economic Development Policy*.

Kenneth Rogoff, (2003) “Globalization and Global Disinflation,” International Monetary Fund, <http://www.imf.org/external/np/speeches/2003/082903.htm#top>.

Christina Romer and David Romer, (1999) “Monetary Policy and the Well Being of the Poor,” *Economic Review*, Federal Reserve Bank of Kansas City, First Quarter: 21–49.

Additional Reading

Easterly, W. and Fischer, S. (2001). “Inflation and the Poor,” *Journal of Money, Credit and Banking*, **33**(2), 160–178.

4. Trade (October 7 and 14)

Larry Sawers, (forthcoming) “ISI and Trade Liberalization,” Chapter Six, *Economic Development Policy*.

Anne Kruger, (1997) “Trade Policy and Economic Development: How We Learn,” *American Economic Review*, **87**, 1–22.

James M. Boughton, (2004), “The IMF and the Force of History,” IMF Working Paper WP/04/75.

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=17199.0>

Henry Bruton, (1998) "A Reconsideration of Import Substitution," *Journal of Economic Literature* **36** 2, 903–926.

Sebastian Edwards, (1997) "Trade Liberalization Reforms and the World Bank," *American Economic Review* **87** 43–48.

Robert E. Baldwin (2000) "Trade and Growth: Still Disagreement about the Relationships," Economics Department Working Papers No. 264, OECD, October.

Robert Blecker, (2000) "Diminishing Returns to Export Led Growth," Council on Foreign Relations.

Additional Readings:

Francisco Rodríguez and Dani Rodric, (2000) "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," Harvard University and University of Maryland working paper. This is the paper discussed in Baldwin. Skim lightly to get a sense of how they make their case.

Larry Sawers (2005) "Nontraditional or New Traditional Exports: Ecuador's Flower Boom," *Latin American Research Review* **40** No. 3, 40–67. (This is a case study of how changes in the policy regime affected a nontraditional export industry.)

Larry Sawers (2006) "Sustainable Floriculture in Ecuador," *International Journal of Economic, Social, and Environmental Sustainability*, **1** No. 2, 3–9, 2006. (See especially the section on Cultural and Social Sustainability.)

Sebastian Edwards, (1993) "Openness, Trade Liberalization, and Growth in Developing Countries," *Journal of Economic Literature* **31**, 1358–1393.

Jeffrey Williamson, (1998) "Globalization, Labor, and Policy Backlash in the Past," *Journal of Economic Perspectives* **12** (4), 51–72. [JSTOR]

5. *Financial Markets (October 21)*

Larry Sawers, (forthcoming) "Finance and Economic Development," Chapter Seven, *Economic Development Policy*.

Ayhan Kose, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei, (2006) "Financial Globalization: A Reappraisal," IMF Working Paper, August.

Midterm exam October 28

6. *Regions (October 28, November 4 and 11)*

a. *Africa (October 28)*

Andrew Kamarck, 2001 "The Tropics and Economics," Chapter 11, *Economics for the Twenty-first Century*, Aldershot, England: Ashgate, 174–187.

Larry Sawers, Eileen Stillwaggon, and Tom Hertz (2008) "Cofactor Infections and HIV Epidemics in Developing Countries: Implications for Treatment," *AIDS Care*, March.

Additional Reading

Paul Collier and Jan Willem Gunning, (1999) "Why Has Africa Grown Slowly?" *Journal of Economic Perspectives* **13**, 3–22.

Julio Henao and Carlos Baanante, (2006) "African Agriculture and Soil Nutrient Mining in Africa," International Center for Soil Fertility and Agricultural Development working paper.

Eileen Stillwaggon, (2003) "Racial Metaphors: Interpreting Sex and AIDS in Africa," *Development and Change*, **34** No. 5, 808–832.

b. Latin America (November 4)

José Antonio Ocampo, (2004) "Latin America's Growth and Equity Frustrations during Structural Reforms," *Journal of Economic Perspectives* **18** No. 2, 67–88.

Additional Reading

Tarik M. Yousef, (2004) "Development, Growth and Policy Reform in the Middle East and North Africa Since 1950," *Journal of Economic Perspectives* **18** No. 3, 91–116.

c. The Transition Economies (November 11)

Jan Svejnar, "Transition Economies: Performance and Challenges," *Journal of Economic Perspectives* **16** 1, 3–28.

Julian Berengaut and Katrin Elborgh-Woytek, (2005) "Who Is Still Haunted by the Specter of Communism? Explaining Relative Output Contractions Under Transition," International Monetary Fund, Working Paper., page 18 only.

d. Asia (November 11)

Qian, Yingyi, (1999) "The Institutional Foundations of China's Market Transition," Stanford University. Prepared for the World Bank's Annual Conference on Development Economics, Washington, D.C., April 28-30.

Walter Russell Mead (2007) "The Great Fall of China: Revised GDP Calculations Show that Beijing Isn't the Giant We Thought It Was," *Los Angeles Times*, December 30.

Dwight Perkins, (1994) "There Are at Least Three Models of East Asian Development," *World Development*, **22**, 655–661.

7. Agriculture (November 18)

Hans Binswanger and Klaus Deininger, (1997) "Explaining Agricultural and Agrarian Policies in Developing Countries," *Journal of Economic Literature* **35** No. 4, 1958–2005.

Larry Sawers, (forthcoming) "Agriculture," Chapter Eight, *Economic Development Policy*

Additional Reading:

Cormac Ó Gráda, (2007). "Making Famine History," *Journal of Economic Literature* **45** No. 1, 5--38. [JSTOR]

8. Poverty and Inequality (November 18)

Gary Fields, (2001) *Distribution and Development: A New Look at the Developing World*, Russell Sage Foundation and MIT Press, Chapters 3 and 5.

Xavier, Sala i Martin, (2002) "The Disturbing 'Rise' in Global Income Inequality," National Bureau of Economic

Research, working paper 8904, April 2002.

David Dollar and Aart Kraay, (2002) "Growth is Good for the Poor," working paper, the World Bank.

Larry Sawers, (forthcoming) "Adjustment Policies and Poverty," Chapter Eleven, *Economic Development Policy*, skim.

Pinelopi Koujianou Goldberg and Nina Pavcnik, (2007) "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature* **45** No. 1, 39-82. [JSTOR]

Shaohua Chen and Martin Ravallion, (2004) "How Have the World's Poorest Fared Since the Early 1980s?" World Bank Policy Research Working Paper 3341, June.

9. *Financial and Exchange Rate Crises (December 3)*

Patrick Conway (2006) "The International Monetary Fund in a Time of Crisis: A Review of Stanley Fischer's IMF Essays from a Time of Crisis: The International Financial System, Stabilization, and Development," *Journal of Economic Literature* **46**, No. 1, 115--144. [JSTOR]

Maurice Obstfeld, (1998) "Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives* **12** 9-30.

Sebastian Edwards, (1999) "How Effect Are Capital Controls?" *Journal of Economic Perspectives* **13**, 65-84. [JSTOR]

Additional Readings:

Kristin Forbes, (2004) "Capital Controls: Mud in the Wheels of Market Discipline," NBER working paper 10284.

Lawrence Summers, (1999) "Reflections on Managing Global Integration," *Journal of Economic Perspectives* **13**, 3-19.

Kenneth Rogoff, (1999) "International Institutions for Reducing Global Financial Instability," *Journal of Economic Perspectives* **13**, 21-42.

Graciela L. Kaminsky, Carmen M. Reinhart, and Carlos Végh, (2003) "The Unholy Trinity of Financial Contagion," *Journal of Economic Perspectives* **17**, No. 4, 51-74.

Paper Due December 3 [Before you submit your paper, reread the guidelines for research project.]

Please name your file as a word document using the following format: your last name 661 country (for example, "smith 661 nigeria.doc" or "smith 661 nigeria.docx").

Final Exam December 8

GUIDELINES FOR RESEARCH PROJECT

The term research project will be a case study of a developing or transition country of your choosing, but you must consult with me before you finalize your choice. Your twelve-to-fifteen page paper is to analyze and evaluate the development strategies adopted by your country since the reinvention of development economics a half century ago, or

since your country gained or regained political control over its development policies. Since policy reform is almost always implemented because of unsatisfactory results of earlier policies, your paper should also evaluate the success or failure of your country's policies to produce growth and alleviate poverty, and how changes in your country's policies built on or reacted to those successes and failures. Note that many countries announce plans that are never (or never even intended to be) implemented. Your paper must focus on actual policies implemented rather than announcements about policies to be implemented in the future. Put another way, your sources should be economists analyzing your country's policies rather than government documents describing them since they are almost uniformly uninformative. You are strongly urged to organize your paper chronologically. Please note that any data you use in your paper that are in current rather than in real units are nearly useless. If you can only find data in current figures, then find a price index and deflate them for your paper. Even better, express magnitudes as a percent of GDP that is also measured in current units.

Pick a developing or transition country in which you are interested and that undertook important market oriented reforms at some point. It is understood that you cannot talk about everything that happened in your country and that what you are able to say is importantly shaped by the sources you can find and your own interests. Nevertheless, you must devote an important part of your paper monetary, fiscal, trade, and exchange rate policies, but you are encouraged to talk about other topics as well.

You must cover quite a bit of material in your paper, so you should aim for a condensed style of presentation. You are urged to not spend valuable time and space in flowery introductions. Assume that I know where your country is and am familiar with its geography, political history, flag, and national anthem. Of course, you should discuss your country's geography or political events, etc., if that helps explain the evolution of development policy. It may be useful to organize the material using bullets or a numbered outline (but do not write in sentence fragments unless your presentation is crystal clear). Do not spend time on elaborate transitions, but get straight to the analysis and to the facts. Carefully edit your papers for clarity, concision, and precision. Take what you consider to be your final draft and then edit it down by 10 to 20 percent, eliminating repetition and words, phrases, sentences, and paragraphs that do you move your argument forward.

Expect to use a variety of resources for your paper. Reliance on one or two books or articles is not sufficient to earn a good grade. Do not expect a good grade if most of your sources are from the internet. Encyclopedias, especially on-line encyclopedias are inappropriate sources for a paper of this sort, though you may want to begin with an encyclopedia article to orient yourself in the subject matter. Some of you may be really interested in countries for which little published material exists (Equatorial Guinea or Suriname, for example); be realistic in choosing your country, making sure that you can find sufficient materials to permit a satisfactory completion of the assignment. Some countries will pose an opposite challenge: a wealth of material that is difficult to sort through.

Good papers will be detailed and specific. They will demonstrate a knowledge of your chosen country and an understand of the economics needed to explain your country's policies. In talking about trade policy, for example, you may wish to say what was the average tariff level, year by year, how many categories of dutiable goods there were, what precisely was the nature and extent of other subsidies to import-substituting industries, how many nontariff barriers were in place, and by how much was the exchange rate overvalued (the black market premium). In talking about fiscal policy, your paper would be strengthened by including data on annual percentage change in the nominal money supply, rates of inflation, government spending as a proportion of GDP, budget and trade deficits as proportions of GDP, real exchange rates. These are just examples of important variables and should not be considered an exhaustive list. Over the decades, developing countries have improved the quantity and quality of their economic data. Do not be surprised if you cannot find much numerical data for the early years. If you do not already use it, learn to appreciate Google Scholar at <http://scholar.google.com/>.

You will lose points on your paper

- if the paper is not turned in on the assigned date (late papers accepted without penalty with reasonable excuse)
- if the paper is not spell checked
- if your paper is not double-spaced
- if your paper is not paginated

- if you do not have one inch top, bottom, and side margins
- if you do not include a list of works cited and a list of other references used in writing your paper
- if works are not properly cited. Citations should be in the text, not in footnotes. The preferred citation format is as follows: “. . . the sequencing of liberal reforms (Smith 1776, 324–326).” Your bibliographic entry would then appear as “Smith, Adam. (1976) *An Inquiry into the Wealth of Nations*. New York: Modern Library Edition.”
- if the paper uses endnotes. Footnotes are also discouraged: if it is important, put it in the text; if it is a citation, put it in the body of the text
- if you do not use a liberal citation policy in which the reader is told the source of every major idea and fact
- if you send me the text of your paper as a Word file and your tables of data as an Excel File; instead, import your spreadsheet into you Word document.

Copying material from published sources (including the internet) or from other student’s term papers without proper citation is a violation of academic protocol and violates the agreement that you have signed with the university. Any such breaches of academic integrity will be reported to the dean of the college. Penalties may include a failing grade in the course with the reason noted on your transcript and dismissal from the university. Similarly, receiving or giving help to other students during an examination will be treated in the same way. You are encouraged to study together in preparing for the exams. Asking a fellow student or the university learning center to make suggestions on drafts of your papers is appropriate. If you are not a native English speaker, you are urged to seek help editing the paper so that it is in the best English possible. Taking other people’s ideas or words without acknowledgment or giving or receiving help once an exam has started is not acceptable.

Submit your term papers by attaching a copy to an email. When I save your paper to my hard drive, I will reply to your email with one of my own saying that I have received your paper. If you do not hear in a day or two that I got your paper, check with me. I will return your paper by email with my comments. Please submit your paper in Word. You must have up-to-date virus protection on your computer before you submit your papers. You can download for free the latest version of Norton Anti-Virus software from my.american.edu. Set your options to run Live Update daily. While you are at it, download and install the new XP service pack 2. Please name your files using the following format: your last name country number of paper.doc (for example, “Smith 661 Nigeria.doc” or “Smith 661 Nigeria.docx”).

I will be using Blackboard to post messages, copies of assigned readings, study guides, practice questions, and dormwork assignments. I will not keep a separate email roster with your actual email addresses, but I will email you through Blackboard. Blackboard sends your messages to your official AU email address. You will not get my messages unless you either check your AU email account regularly or have your mail forwarded. Go to my.american.edu /technology and have your email forwarded from your official AU email address to whatever hotmail, gmail, or yahoo address you currently use. From my.american.edu/technology, you can download the latest version of Adobe Reader (8.1). This new version allows you to search pdf documents (except for some very old ones) for words or phrases using the Edit/Search option. This may be useful in preparing for exams.