

ECONOMIC DEVELOPMENT OF CUBA (ECS-3430)

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Class Hours: T-TR: 19:50-21:05
Class Room: PC-332

1.- COURSE DESCRIPTION

This course will focus mainly on development economics with an special emphasis to the Cuban Economy. About 60% of the class time will be devoted to learning the main issues of economic development. The rest of the class time (40%) will focus in reviewing and analyzing the key economics and institutional issues of the Cuban Economy.

Economic development is the part of economics which focus on the understanding of the problems of less developed countries (economies of transition). Its main special feature is the need to devote attention to aspects of the economy, including the institutions (regulations), human capital creation, structural adjustment policies, agricultural policies, saving issues, international trade, population problems, etc.

Economic development has a very long history and many theories have been developed through the years. On the other hand, the field of economic growth has reawakened in the last decade. Development and economic growth are central to understanding the long-run growth of countries, and is central to the study of macroeconomics.

In the first part of this course, the different *theories of development* will be studied and discussed, placing an special emphasis about their influence in the profession. In the second part of this course, the theory and applied issues about growth dynamics and development will be studied. In this section several important issues are studied, such as, (I) factor accumulation and growth accounting, (ii) old development ideas and new growth theory; (iii) Trade and development; (iv) institutions and development; (v) rent-seeking and growth. The third part of this course, the Cuban economy will be analyzed in the context of development issues (human capital, factor accumulation, trade issues, savings, labor force, etc) and latest structural reforms.

2.- COURSE PURPOSE

- To familiarize the student with the economic development key terminology.
- To familiarize the student with the different theories of development and growth. To familiarize the student with a variety of analytical tools (particularly macroeconomics) for policy planning.
- To provide experience in the critical evaluation of the assumptions, modeling, empirical evidence, and validity of alternative policy recommendations.
- To encourage original research in the field by trying to identify ways of obtaining more relevant empirical evidence, to develop new issues and to derive new policy implications.
- To develop skills in the presentation of policy or economic issues in ways that are likely to be useful and convincing to the decision-makers.

3.- COURSE FINAL OBJECTIVE:

- At the end of this course, students should be able to read and partially understand papers published in some journals related to development and growth topics such as: (i) *Journal of Development Economics*, (ii) *World Development*, (iii) *Journal of Economic Development and Cultural Change*, (iv) *Journal of Economic Literature*; (iv) *Journal of Economic Perspectives*, (iv) *World Bank Economic Review*, (vi) *Journal of Development Studies*; (v) *American Journal of Agricultural Studies*; (v) *Scandinavian Journal of Development Alternatives*; (v) *Environment and Development Economics (Cambridge U. Press)*; (v) *Journal of Environment and Development (UCSD)* (vi) *Journal of Comparative Policy Analysis*.

- At the end of this course, students should be able to read and partially understand papers published in journals related with the Cuban Economy and Latin American Issues, such as (i) *Journal of Interamerican Studies and World Affairs*; (ii) *Latin American Research Review*; (iii) *Estudios Cieplan*; (iv) *Journal of Latin American Studies*; (v) *CEPAL Review*; (vi) *Applied Economics*. At the end of this course, students should be able to read and partially understand most of the papers published in the collection of *Cuba In Transition*.

4.- SUBJECT MATTER AND THE RELATION OF THIS COURSE TO OTHERS

Since there are many courses in the field of development economics theory, such as Economic History and Development, Economic Development and related courses in contracts, organizations and institutions; Political Economy of Development, Political Economy of Institutions, and Comparative Economic Systems, this course gives deliberately minimal emphasis to topics covered in depth in those courses (e.g., history, demography, contractual relations, and microeconomics), as important to the field as they are. Instead this course provides a broad overview of the field and of issues deemed to be important in the future and for economies of transition. Thus, this course covers the different theories of economic development and gives special emphasis to current policy concern issues (e.g., factors contribution to growth, cases studies, sectoral analysis, and techniques for economic development programming, and planning) especially those of the macroeconomic level.

5.- PREREQUISITES

Intermediate microeconomics and macroeconomics is required. Some knowledge of development, international trade, and basic calculus is highly desirable. However, to cater to the students without a strong mathematical background, discussions in the first part of this course will not be highly mathematical, except for those related with quantitative topics.

6.- REQUIRED TEXTBOOKS

- Gilles, M, Perkins, Roemer, and Snordgrass. *Economics of Development*. Norton, W.W. Company, third Edition. (GPRS Book)
- Skarsyein, Rune. *Development Theory*. Oxford University Press, New York, 1997 (SR Book)
- Madrid-Aris, Manuel. *Growth and Technical Change in Cuba: The Fatal End of Central Planning*. Book Draft, 1999. (MM Book)

It is highly recommended to buy a Dictionary in Economics. Any of the following are recommended:

- Graham Bannock, R. Baxter and Evan Davis. *The Penguin Dictionary of Economics*. Penguin Books, New York, 1992.
- John, Black. *A Dictionary of Economics*. New York: Oxford University Press, 1997.

7.- THE KEY PUBLICATION RELATED WITH THE CUBAN ECONOMY

Cuba in Transition. Vol 1 to Vol 9, Association for the Study of the Cuban Economy (ASCE), Washington D.C., 1991.. 1999.

Cuba in transition publications can be obtained from ASCE Books: Ph: (301) 587-1664. Publications are in the internet: <http://laric.utexas.edu/la/cb/cuba/asce/>

8.- KEY PUBLICATION RELATED WITH DEVELOPMENT ECONOMICS

- Chenery H., and T.N. Srinivasan. *Handbook of Development Economics*. Amsterdam: North-Holland, 1989, Vol1 and Vol 2 (HDE).
- Berham, J., and T.N. Srinivasan. *Handbook of Development Economics*. Amsterdam: North-Holland, 1995, Vol 3a. and Vol 3b. (HDE)

9.- CUBAN PUBLICATION FOR NATIONAL ACCOUNTS DATA

Anuario Estadístico de Cuba, published by Comité Estadístico de Cuba, la Habana, Cuba.

Some issues (1980-81, 84-86) can be found un FIU main library: Docs- 2nd floor – HA871.A65

10.- KEY PAPERS (Review of the Main Issues about the Cuban Economy).

The following research papers provide a good general review of the current economic issues and future challenges of the Cuban Economy.

- Madrid-Aris, Manuel, “Growth and Technological Change in Cuba,” in *Cuba In Transition* 7, ASCE, Washington D.C., 1997
- Madrid-Aris, Manuel, “Investment, Human Capital and Technological Change: Evidence from Cuba and its implications for Growth Models”, in *Cuba In Transition* 8, pp. 465-481, ASCE, Washington D.C., 1998.
- Perez-Lopez, Jorge, “Bringing The Cuban Economy Into Focus: Conceptual and Empirical Challenges;” *Latin American Research Review*, Vol 26, No3, 1991.
- Perez-Lopez, Jorge, “The Cuban Economy in the Age of Hemispheric Integration,” *Journal of Interamerican Studies and World Affairs*,” Vol 39, No3, Fall 1997
- Betancourt, Roger, “Growth Capabilities and Development: Implications for Transition Processes in Cuba,” *Economic Development and Cultural Change*, 1996.

11.- RESERVED BOOKS

Several books have been placed on reserve in the main library. These books are important source of economic data and historical background about the Cuban economy.

- Mesa-Lago, Carmelo. *Are Economic Reforms Propelling Cuba to the Market?* North-South Center, University of Miami, 1994
- Mesa-Lago, Carmelo. *Cuba after the Cold War*. University of Pittsburgh Press, 1993.
- Perez-Lopez, Jorge. *Measuring Cuban Economic Performance*. University of Texas Press, 1987.
- Mesa-Lago, Carmelo. *The Economy Of Socialist Cuba: A Two Decades Appraisal*. Albuquerque: University of New Mexico Press, 1981.
- Zimbalist, Andrew, and Claes Brundenius, *The Cuban Economy: Measurement and Analysis of Socialist Performance*. Baltimore: The Johns Hopkins University Press, 1989
- Rodriguez, Jose Luis. *Estrategia del Desarrollo Económico de Cuba*. Habana: Editorial de Ciencias Sociales, 1990.
- Perez-Lopez, Jorge and Matias Travieso-Diaz, “Perspectives on Cuban Economic Reforms,” Center for Latin American Studies Press, Arizona State University, 1998.
- Ray, Debrag, “Development Economics,” Princeton University Press, 1998 (ISBN:0-691-01706-9)

12.- GOOD REFERENCE BOOKS IN SPANISH

- Mesa-Lago Carmelo, “Breve Historia Económica de la Cuba Socialista,” Alianza Editorial, Madrid, Spain, 1994.
- Comisión Económica para América Latina y el Caribe(CEPAL), “La Economía Cubana: Reformas Estructurales y Desempleo en los Noventas,” Fondo de Cultura Economica, Mexico, 1997.
- Carranza, Julio, Luis Gutierrez, y Pedro Monreal. *CUBA- La Reconstrucción de la Economía: una propuesta para el debate*. Havana: Editorial de Ciencias Sociales, 1995.

13.- FINAL GRADING:

The final grade will be calculate as follows: Paper Presentation: 25%, Class participation (attendance): 25% , Research Paper: 50%

The grading scale will be:

A: 86-100

B: 76-85

C: 61-75

D: 55-60

F: below 50

14.- SOME SUGGESTIONS ABOUT IMPORTANT RESEARCH TOPICS:

These are the main economic issues that need to be researched about the Cuban economy:

- Tendency of Foreign investment (especially in tourism)
- Productivity in Agricultural Sector (Microanalysis)
- Human Capital Analysis
- Labor Force, Gender and Income
- Estimating actual income per-capita and poverty
- National Accounts Data Collection and Updating (for the last 7 years)
- Productivity in the 90s
- Some Sectoral Analysis (especially industry, tourism, mining, agriculture)
- Corruption and rent-seeking activities
- The informal economy in Cuba
- Cuban Debt and its future challenges
- Cuban-American fund transfers to Cuba
- Balance of Payment in Cuba
- Agricultural sector reforms
- Financial Sector Reforms
- Exchange Rate
- Others

KEY DATES:

| WEEK | DESCRIPTION OF THE TASK | NOTES |
|-----------------|--|------------------------|
| August 23-29 | | |
| Sep. 30-5 | | |
| Sep 6-12 | Presentation of the Research Proposal | Sep 6: Labor Day |
| Sep. 13-19 | | |
| Sep 20-26 | | |
| Sep 27-Oct 3 | | |
| Oct 4-10 | | |
| Oct 11-17 | Class Presentation | |
| Oct 18-24 | Class Presentation | |
| Oct 25-31 | | |
| Nov 1-7 | First Draft must de delivered | 30% of the paper grade |
| Nov 8-14 | | |
| Nov 15-21 | | |
| Nov 22-28 | | Thanksgiving |
| Nov 19-Dec 3 | Research Paper Final Version must be delivered | 70% of the paper grade |
| Dec 5-12 | WEEK FOR FINAL EXAM | |

COURSE OUTLINE AND READINGS

PART 1: BASIC ISSUES AND THEORIES OF DEVELOPMENT

August 23-29

1.1: National Accounting and the Soviet System

The purpose of the first part is to introduce students with basic concepts of national accounting in the Western System (GDP) and Soviet Systems (GMP, GSP.).

- GPRS Book: Chapter 1 and Beginning Chapter 3.
- Madrid-Aris, Manuel. Growth and Technical Change in Cuba: The Fatal End of Central Planning. Book Draft, Appendix 1.
- Mesa-Lago, Jorge Perez Lopez. A Study of Cuba Material Product System. World Bank Working Papers, Number 770, 1985.

August 30- Sept 5

1.2: Basic Concepts about Development

The purpose of this topic is to introduce the concepts of Human Development Index (UN), Physical Quality of Life Index (Sen), Purchasing Parity Power (PPP), Relative Income Hypothesis, and to analyze the differences between the concept of development and growth.

- GPRS Book: Chapter 1.
- Human Development Report, United Nations Development Program, 1998. (**)
- Sen, A. "The Concept of Development" HDE, Chapter 1 (Optional)

Sept 6-Sept 12

1.3 Basic Ideas and Main Thinkers about Development and Growth Theories

The purpose of this topic is to introduce the old basic ideas about development and growth (Smith, Ricardo, Schumpeter), and the main thinkers related with the starting the modern economic development (Lewis, Hirschmann, Gerschenkron, etc). An special emphasis will be placed on balance and unbalanced growth. Also, non traditional development theories will be reviewed (Prebisch, Rostow, and others)

- GPRS Book: Chapter 1
- GPRS Book. Chapter 6 (interindustry and input-output models).
- MM Book. Chapters 1,3. (**)
- Krugman, Paul. The Fall and Rise of Development Economics. Chapter 1 in Development, Geography and Economic Theory, The MIT Press, 1997. (**)
- SR Book . (Optional)
- Krugman, Paul. "Cycles of Conventional Wisdom on Economic Development," International Affairs, Vol 71, pp. 717-732, London, 1995 (Optional). Published in Spanish in Desarrollo Económico, 1996.

Sept 13-Sept 19

1.6 Production Functions, Efficiency, Sources of Growth (Traditional Growth Accounting) and Technological Change.

- GPRS Book: Chapter 13. Appendix.
- MM Book, Chapter 3, and 4.
- Solow, R, "Technical Change and the Aggregate Production Function," Review of Economics and Statistics, 39, pp. 312-320, 1957. (optional)

Sept 20-Sept 26

1.4: Economic Structure in the Process of Development

a) Agriculture

- GPRS Book: Chapter 16. Agriculture
- Yotopoulos and Nugent, Chapter 15. (optional)
- Hirschman, A., A Generalized linkage Approach to Development with Special Reference to Staples, Economic Development and Cultural Change, 1977. (**). Hirschman Theory of Development.

b) Industry

- GPRS Book: Chapter 18. Industry
- Syrquin, M., "Patterns of Structural Change, HDE, Chapter 7. (optional)
- Yotopoulos and Nugent. Economics of Development. Chapter 16. (optional)

Sept 20-Sept 26

1.5 Inequality, Poverty and Inverted U-Hypothesis

The purpose of this topic is to present the concepts of Poverty Line, Poverty Gap Index, Squared Poverty Gap Index (Foster, Green, and Thorbecke-1984), Equivalence Scale Effects (Contreras, 1996), Sen Index.

Concept of income distribution measurement such as Gini Coefficients will be also presented.

- GPRS Book: Chapter 4
- World Bank. *Poverty Lines in Theory and Practice*. Washington D.C., 1997. (**)
- World Bank. Poverty. World Development Report, Oxford University Press, 1990. (Optional)
- Contreras, Dante. Household and Individual Welfare: Evidence from Less Developed Countries. Ph. Dissertation. School of Economics, UCLA. 1996.(optional)
- Adelman, I., and S. Robinson, "Income Distribution and Development," HDE, Chapter 19. (optional)
- Jones, Charles, "The Evolution of World Income Distribution," Journal of Economic Perspectives, Vol 11, No 3, pp. 19-36, Summer 1997.(optional)
- Taylor, L. and P. Arida, "Long-Run Income Distribution and Growth," HDE, Chapter 6. (optional)

Sept 27-Oct 3

1.5 Factor Markets and Underdevelopment

This topic consist in the analysis of issues such as, (i) asymmetries of information, (ii) adverse selection and moral hazard and their applications; (iii) thinness of markets and imperfections; (iv) economies of scales and externalities.

- GPRS Book: Chapter 9
- GPRS Book: Chapter 14
- HDE, Chapter 5. Stiglitz J. Economic Organization, Information and Development.(optional)
- Adams, D. and D. Graham, "A Critique of Traditional Agricultural Credit Projects and Policies," JDE, 1981.

PART 2: GROWTH AND DEVELOPMENT: Dynamics and Change

Oct 4-Oct 10

2.1: Factor Accumulation, and Growth Accounting

MM Book. Chapters 5 and 6.

a) Education (human capital creation) and Development

- GPRS Book: Chapter 10
- Psacharopoulos, George. Returns to Investment in Education: A Global Update," World Development, Vol 22, No 9, pp. 1325-1343, 1994. (**)
- T.P. Schultz, "Educational Investment and Returns" HDE Chapter 13. (optional)
- Selowsky, M., "On the Measurement of Education's Contribution to Growth," Quarterly Journal of Economics, pp. 449-463, 1971. (optional).

b) Savings and Development

- GPRS Book: Chapter 12. Capital and Saving
- Mark Gersovitz, "Saving and Development," HDE, Chapter 10. (optional)
- Corbo, Vittorio, and Klaus Schmidt-Hebbel, "Public Policy and Saving in Developing Countries," Journal of Development Economics, 36(1), pp. 89-115, 1991. (**)
- Edwards, Sebastian, "Why are Saving Rates so Different Across Countries? An International Comparative Perspective" NBER Working Paper 5097, Cambridge, MA, 1994.

Oct 11-Oct 17: Students Presentations (research papers)

Oct 18-Oct 24: Students Presentations (research papers)

Oct 25-Oct 31:

2.2: Old Development Ideas and New Growth Theory

- Barro and Sala-i-Martin. Economic Growth. Selected Chapter on Endogenous Growth Theory – Empirical Evidence (**).
- MM Book, Chapter 3 and Chapter 8. (**)

Oct 1-Nov 7:

2.3 Trade and Development

- GPRS Book: Chapter 19: Trade and Industrialization
- Pack, H., "Industrialization and Trade," Chapter 9, HDE (optional)
- Rodrick, Dani, "Trade and Industrial Policy Reform," Chapter 45, HDE. (optional)
- Dollar, D. "Outward-oriented Developing Countries Really do Grow More Rapidly; Evidence from 96 LDCs, 1976-1985," Economic Development and Cultural Change, 1992. (optional) (**)
- Edwards, Sebastian, "Openness, Trade Liberalization and Growth in Developing Countries," Journal of Economic Literature, 31, pp. 1358-1393, 1993.(optional)

Nov 8-Nov 14:

2.4 Institutions and Development (Growth)

- Lin, Justin and Jeffrey Nugent, "Institutions and Economic Development," HDE, Vol 3a, Chapter 37. (optional)
- World Bank. *Beyond the Washington Consensus: institutions Matter*. Washington D.C., 1998. (optional)
- Campos, Nauro and J. Nugent, "Institutions and Economic Growth: Can Human capital be a Link," Cepal Review, Santiago, 1997.(optional)

2.6: Structural Adjustment, Institutional Change, and Policy Reform

- GPRS Book: Chapter 5: Guiding Development: Markets versus Controls
- Corbo. V. and Stanley Fisher, "Structural Adjustment, Stabilization and Policy Reform: Domestic and International Finance," HDE, Chapter 44.(optional)

Nov 15-Nov 21:

2.5: Rent-Seeking and Growth

- Mauro, Paulo, "Corruption and Growth" The Quarterly Journal of Economics, pp. 681-712, 1995. (optional)
- Gelb, Alan, John Knight and Richard Sabot, "Public Sector Employment, Rent-Seeking and Economic Growth," Economic Journal, 101(408), pp. 1186-1199, 1991. (optional)
- Papers about Corruption in "Cuba in Transition," Volume 9, pp. 443-469, ASCE, 1999.

2.7: Environmental Degradation, Sustainability and Development

- GPRS Book: Chapter 7: Sustainable Development
- World Bank. Development and the Environment. World Development Report, Oxford University Press, 1992.(optional)
- Panayotou, T. *Green Markets: The Economics of Sustainable Development*. San Francisco: ICS Press, 1993. Selected Chapters. (optional)
- World Development (Journal). Special issues on Development and the Environment. Feb. 1996.(optional) (**)
- Diaz-Briquets, S. and Jorge Perez-Lopez, Conquering nature: The Environmental Legacy of Socialism in Cuba, forthcoming, University of Pittsburgh Press, 1999.

TOPIC 3: CRITICAL ANALYSIS OF THE CUBAN ECONOMY

Nov 22-Dic 3:

3.1: Explaining the Cuban Economic Situation

3.2: Will the Cuban Structural Reform take Cuba to a path of Development?

NOTES: Material specified with (**) will be given in class.