UNIVERSIDAD NACIONAL DE QUILMES
INGLÉS NIVEL DE SUFICIENCIA
DIPLOMATURA EN ECONOMÍA Y ADMINISTRACIÓN

NOMBRE Y APELLIDO:

LEGAJO:

IMPORTANTE: Realice el examen con letra clara y legible. No utilice lápiz. Responda las consignas en castellano. No traduzca. Elabore sus respuestas de modo tal que demuestren su comprensión del texto. Es indispensable responder el 70% del examen en forma correcta para aprobarlo. No podrá rendir si no presenta su libreta de estudiante ó DNI ó CI.

Rethinking Growth Roberto Zagha, March 2006

Economists are reconsidering what they really know about economic growth and how to go about formulating policies in the absence of reliable models.

For development economists of the 1950s and 1960s, growth was a complex process of economic, social, and political transformation. New economic concepts were created to capture some of **its** dimensions—for example, "dual economy" and "surplus unemployment"; "human capital"; "stages of development" theory, and "structuralism."

In the late 1980s and early 1990s, **however**, economists working on development came around to the simpler view that growth was a matter of getting national policies right. No matter it was the country, the right policies meant lower fiscal deficits; lower import tariffs; fewer restrictions on international trade and capital flows; and a greater role for markets in allocating resources, regardless of history, political economy, or local institutions.

Much of this vision was reflected in the Washington Consensus. Articulated by John Williamson in 1990, the consensus synthesized the policies most economists in the World Bank, the IMF, the U.S. Treasury, and Washington's think tanks thought were necessary to rescue Latin American countries from cycles of high inflation and low growth. It was emphasized that the consensus was to be applied judiciously, not mechanically, and it became the expression of what most economists inside and outside Washington thought most developing countries needed for growth.

As the 1990s unfolded, countries around the world implemented policies consistent with that consensus. In Eastern Europe and the former Soviet Union, market reforms followed the end of communism. In Latin America, countries stabilized their economies, defeated hyperinflation, further opened their markets to international trade and capital, and privatized public enterprises. In Asia, India abandoned central planning, embracing a wide range of reforms, and China continued its market-oriented reforms. In Africa, countries such as Ghana, Tanzania, and Uganda embarked on privatization, retrenched the public sector, and liberalized trade. And, in places as diverse as Bolivia, Brazil, India, and Russia, grossly overvalued exchange rates became more competitive; the devaluation of the CFA franc in 1994 was a particularly important change.

The scope, breadth, and depth of the reforms during the 1990s were unprecedented in recent economic history. The developing world emerged with more open and competitive economies, lower inflation, lower fiscal deficits, smaller governments, fewer restrictions on private sector activities, and more market-based financial sectors. The changes were not only economic. The number of democracies increased to 100 from 60 during the decade, and social indicators (particularly basic education and child health) improved steadily. In the early 1990s, most economists believed that these developments, combined with a favorable international environment—firm commodity prices, rapid growth of international trade, and abundant capital flows—would enable developing countries to overcome the "lost decade" of the 1980s and return to a path of sustained growth.

The results, however, were unexpected. They exceeded the most optimistic forecasts in some cases and fell well short of expectations in others. In East and South Asia, including China and India, which together account for 40 percent of the developing world's population, domestic liberalization and outward orientation were associated with spectacular growth, poverty reduction, and social progress. This was so **even though** reforms were implemented in a manner that departed from conventional wisdom—in terms of speed and design of reform, a large state presence, and, until well into the 1990s, high levels of import protection (with export orientation ensuring international competitiveness).

At the same time, booms and busts continued in Latin America, extending to other regions. For most former Soviet Union countries, the 1990s will be remembered as a costly and traumatic decade. **While** everyone knew that the transition to a market economy would be tumultuous and difficult, the output loss was longer and deeper than expected. It took more than a decade for the best-performing economies to return to the per capita income levels prevailing at the beginning of the transition, and some of the worst cases are still below the starting point. Africa did not see the takeoff that was expected, although many countries showed signs of recovery in the late 1990s. Costly financial crises rocked Mexico (1994), East Asia (1997), the Russian Federation (1998), Brazil (1999, 2002), Turkey (2000), and Argentina (2001). Some countries managed to sustain rapid growth with just modest reforms, while others could not grow even after implementing a wide range of reforms. **Moreove**r, similar economic reforms yielded vastly different responses.

Lessons of the 1990s

The central result of the exercise was rediscovering the complexity of economic growth, recognizing that it is not amenable to simple formulas. Another result was the degree of convergence of views. Even though the practitioners, senior Bank operational staff, and economists started from different perspectives, they all came up with remarkably similar lessons.

First, expectations about the impact of reforms on growth were unrealistic. The lessons are that trade is an opportunity, not a guarantee, and that it was overly *naïve* to expect that simply reducing tariffs would automatically increase growth.

Second, reforms should promote growth, not just efficiency. The reforms of the 1990s focused on the efficient use of resources, not on the expansion of capacity and growth. They enabled better use of existing capacity, thereby establishing the basis for sustained long-run growth, but did not provide sufficient incentives for expanding that capacity. Thus, whereas reforms can help achieve efficiency gains, they will not put the economy on a sustained growth path unless they also strengthen production incentives and address market or government failures that undercut efforts to accumulate capital and boost productivity.

1) Read the text carefully and answer the questions below IN SPANISH. BE TO THE POINT AND DO NOT TRANSLATE WHAT THE TEXT SAYS. WE DO NOT WANT TRANSLATION, WE WANT COMPREHENSION (0.80 each= 40)

a- Identify the type of text and the purpose.
b- What is the main point the writer is trying to state?
c- What was the concept of growth by the end of the 1980s?
d- Give examples of what happened in different countries in the 1990s.
e- Mention the two "lessons" learned by economists from this experience.

2) Reread the text. Analyze the four connectors in underlined bold type (however, while, even though, thus). What category do they belong to? Explain what ideas they are connecting in each case. (20p)
3) Analyze the four references underlined (this vision, they, this was so, another result) (20p)

4) This paragraph belongs to the text. Identify where to insert it and explain what information is given before or after it that helped you to decide. (20p)

«The study focused on the main areas of policy and institutional change during the 1990s: macroeconomic stabilization, trade liberalization, financial sector reform, privatization and deregulation, public sector reform, and democratization. And it combined an analytical review of growth episodes with the views of practitioners—policymakers who had been in charge of implementing significant policy and institutional reforms during the 1990s and former World Bank country directors.»

KEY

Answers

a- paper
b- la reconsideración de lo que se sabe sobre crecimiento económico y la formulación de políticas ante la ausencia de modelos.
c- que el crecimiento dependía de políticas nacionales correctas.
d- Europa del este y Unión Soviética: reformas del mercado; Latinoamérica: estabilización de la economía, fin de la hiperinflación, apertura de mercados. En Asia: India abandonó el centralismo e impuso reformas, China también hizo reformas de mercado. Ghana, Tanzania y Uganda implementaron la privatización, restringieron el sector público y liberaron el comercio. En general, las tasas se volvieron competitivas en todos los países.
e- países1- El comercio es oportunidad, pero no garantía: reducir tarifas no significa aumento automático de crecimiento.2- Las reformas promueven el crecimiento y la eficacia.

Connector

however: el crecimiento como proceso complejo de transformación económica, política y social (1950)/el crecimiento como producto de políticas nacionales correctas (1980)

even though: crecimiento espectacular, reducción de la pobreza y progreso/las reformas se implementaron de manera poco común

While: saber que la transición sería difícil/la pérdida resultante más prolongada de lo esperado

Moreover: resultados según el rango de reformas/reformas económicas similares con diferentes resultados

References

this vision: el pensamiento de los economistas de 1980 respecto del crecimiento, que dependía de políticas nacionales correctas.

they: los resultados

this was so: lo que sucedió en East and South Asia, including China and India

another result: otro resultado, aparte del central

Párrafo: (antes de Lessons of the 1990s)