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Ideas for Development in the Americas

How to Live with Debt

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Public debt is one of the most powerful instruments of economic policy and, like a power tool, it can be used to efficiently achieve one's goals but can also cause severe injury. Governments can issue debt to finance new investment in human and physical capital, to affect the use over time of a country's resources, to respond to cyclical downturns or meet the financing needs caused by exceptional events such as financial crashes or natural disasters. However, excessive public debt can also have long-lived negative consequences: it can create a burden on future generations, it may crowd out private investment, and it may increase the propensity for financial crises or inflation outbursts.

Nowhere has sovereign debt had a more dramatic history than in Latin America and the Caribbean; but currently there are no crises and international markets are showing an enormous interest in debt instruments issued by emerging and developing countries. Why study the risks of sovereign finance now when all is well on the debt front in the region? Because it is precisely in tranquil times that one can devise policies that can help prevent future problems. There is currently a receptive attitude in international markets to new financial instruments, such as obligations denominated in domestic-currencies, which creates opportunities for improving the profile and risk characteristics of Latin American public debt. Moreover, the time is right to contribute to the debate regarding the current international financial architecture, and to discuss ideas and initiatives aimed at improving the management of key risks such as those associated with rollovers, currency denomination, commodity price volatility and economic shocks.

> Latin American countries need to make public debt an instrument of development and not a source of recurrent crises.

When looking at debt in Latin America and the Caribbean, it is important to focus on total government debt, comprising both international and domestic debt. The difference between the two types of debt has narrowed considerably in recent years, as the holders of bonds issued in domestic markets may be international investors and domestic investors may hold bond issued in international markets. Moreover, instruments such as credit derivatives can be used to shift risk among different investors almost instantaneously, and there is no practical way to trace results of the increasingly large volume of such derivatives. Using total government debt, which is a more comprehensive measure, turns out to be important because focusing exclusively on external debt has led some observers to conclude—erroneously—that government debt is decreasing in Latin America. The complete story is that the ongoing decline in external debt ratios in the countries of the region is often compensated for by an increase in domestic debt. All things considered, the average level of public debt in the region is now similar to that prevailing in the early 1990s.

Figure 1 provides a bird's-eye view of

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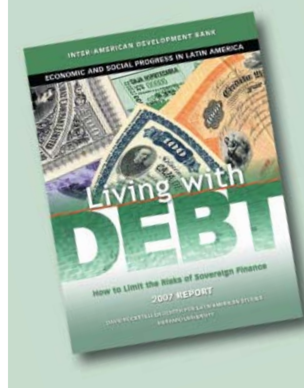

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the ratio of debt over GDP in the region, and shows three different measures of aggregate indebtedness. The dark bars report simple averages across countries, and show that in the early 1990s the region had very high levels of debt (above 100 percent of GDP). Debt decreased rapidly over the 1993–1997 period, bottoming out at 64 percent of GDP. The late 1990s were hit by a wave of financial and debt crises (East Asia in 1997, Russia in 1998, Brazil in 1999, and Argentina in 2001), which led to a rapid increase in debt (which went from 64 to 80 percent of GDP over the 1998–2003 period). The unwinding of these crises was then associated with a decrease of approximately 12 percentage points during 2004 and 2005.

The declining trend of the early 1990s was mostly driven by debt reduction in a few countries with very high levels of debt. As a consequence, median values (the light bars) show a much less dramatic decline than the average values, decreasing from 62 to 49 percent of GDP over the 1991–1998 period. From 1998 to 2003, by contrast, median debt increased as rapidly as average debt.

The dark area in Figure 1 reports a weighted average of the debt to GDP ratio. This gives relatively more importance to large countries because it is equivalent to computing the sum of total debt in Latin America and dividing it by the total regional GDP. The weighted debt to GDP ratio, which registered a minimum of 40 percent in 1994, has been increasing since then, reaching 66 percent of GDP in 2003 and then dropping to 59 percent of GDP in 2005.

There are many ways to interpret the data reported in Figure 1. An optimistic observer would focus on the simple average measure and note that debt in 2005 is much lower than in 1991. This is likely to be a misreading of the data because the large drop in debt is basically due to the behavior of two small countries (Guyana and Nicaragua) that in 1991 had debt levels above 500 percent of GDP, and by 2005 had managed to bring debt down to the still considerable level of 150 percent of GDP. A more moderate optimist would focus on median values or the weighted averages, and note that by 2005 debt was about at the same level as in 1991, and that these levels of debt compare well with those of several other regions (for instance, they are lower than those prevailing in the advanced economies). Such an optimist would think that this is a good outcome after a decade punctuated by a number of severe financial crises and high market volatility. This person's optimism would be further fueled by the decline in the last two years and favorable changes in the composition of debt, as well as the fact that part of the previous debt increase resulted from the privatization of pension systems.

A callous pessimist, however, would note that debt has been generally rising since 1995, squandering the significant debt reduction achieved in the early 1990s. This observer would also note that, while the 1990s were punctuated by several crises, the 1980s (often referred to as the "lost decade") was an even more traumatic period for Latin America. The pessimist would also point out that part of the original debt reduction was due to the privatization process and that, after selling the family jewels, most Latin American countries are back where they were before privatization.

Something on which optimists and pessimists are likely to agree is that debt is still of significant magnitude, and that good debt management must be a clear priority for the stability of a region that has been hit by devastating debt crises in the past. As public

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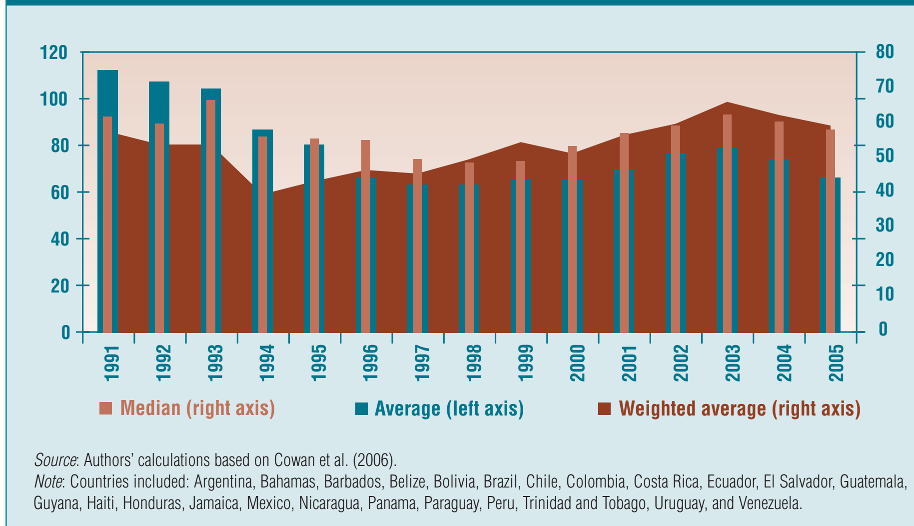
Figure 1. Public Debt in Latin America and the Caribbean
(Percentage of GDP.)



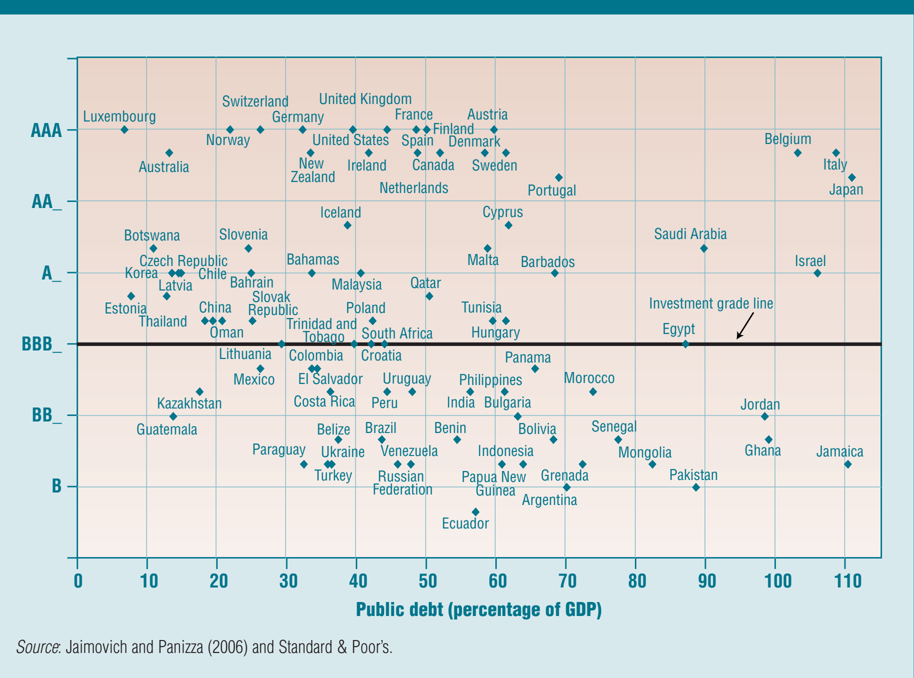
Source: Authors' calculations based on Cowan et al. (2006).
Note: Countries included: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

Debt Composition Matters

When analyzing the risks of debt, what matters most are debt levels—at least that's what conventional wisdom dictates. The argument is that higher levels of debt increase default risk, because the temptation to renegotiate the terms of the debt increases as the debt size (and thus the debt burden) grows. However, while debt levels are certainly important, debt composition may matter even more than debt level.

In fact, there is evidence that debt levels are not crucial determinants of the perception of default risk, as measured by the credit ratings assigned by the international credit-rating agencies. A simple plot of debt levels against credit ratings illustrates the point, showing the weak correlation between the two variables. Figure 2 includes countries with high credit ratings (such as Belgium, Italy, and Japan) with debt levels well above 100 percent of GDP, and countries with similar debt levels but low, speculative grade credit ratings (such as Ghana, Jordan, and Jamaica). At the same time, there are countries with high credit ratings and negligible levels of debt (Luxembourg and Australia) as well as several countries with low debt and low credit ratings (Guatemala and Kazakhstan). In the same vein, research on early-warning prediction of debt crises has failed to identify any measure of the level of public debt that serves as a red flag for a subsequent debt crisis. If debt levels do not matter that much, what are the drivers of the large differences among countries in perceived (and actual) credit risks? Three main factors explain these differences. The first one has to do with the country's economic quality, the second one relates to the country's political and institutional quality, and the third one involves the government's debt quality.

Figure 2. Public Debt and Sovereign Rating (1995–2005)



Source: Jaimovich and Panizza (2006) and Standard & Poor's.

With respect to economic quality, low- and middle-income countries characterized by limited diversification, high dependence on a few commodities, and high levels of income inequality tend to have a small and volatile tax base, which weakens their credit quality. Regarding political health, countries with unstable political systems tend to suffer from policies with low levels of credibility and hence are not trusted by either domestic or foreign investors, who demand a substantial risk premium as a result. Finally, governments that have a risky debt structure—which essentially means a high incidence of short-term and foreign currency debt—face situations in which the level of debt suddenly jumps in response to a depreciation of the exchange rate or a change in investors' perception of country risk.

All three factors tend to be mutually reinforcing. Countries with high levels of macroeconomic volatility tend to have weaker political coalitions, which, in turn, are often reflected in suboptimal policies that further increase macroeconomic volatility. Furthermore, as high economic and political instability increase country risk, investors provide intermittent lending, are reluctant to engage in long-term nominal contracts, prefer to lend either short term or in foreign currency, and thus further increase the risk generated by the debt. This, in turn, increases economic and political instability.

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Debt Composition Matters

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An example may be useful in illustrating the importance of debt quality. Every time there is a debt crisis, policymakers, investors, and the international community ask the same question: "How did debt in country *X* get to be so high?" Essentially there are two factors that determine debt growth. The first factor is the budget deficit, and the second is an unexplained residual entity called "stock-flow reconciliation;" debt composition plays a key role in this "unexplained part of public debt."

The answer to the question "How do countries get into debt?" may seem trivial. Anyone who has taken even the most basic economics course knows that countries accumulate debt whenever they run a budget deficit (i.e., whenever public expenditures are greater than revenues) and reduce their debt when they run a budget surplus. In fact, the standard Economics 101 textbook debt accumulation equation states that the change in the stock of debt is equal to the budget deficit (for those who like equations, this can be expressed as $DEBT_t - DEBT_{t-1} = DEFICIT_t$ and that the stock of debt is equal to the sum of past budget deficits. However, anyone who has worked with actual debt and deficit data knows that this equation rarely holds and that debt accumulation can be better described as the sum of deficit plus an unexplained residual which is often labeled as SF_t. This is what is called "the unexplained part of debt" or "stock-flow reconciliation." Clearly, the textbook equation is a good approximation for debt accumulation only if one assumes that SF_t is not very large. In fact, the stock-flow reconciliation is often considered to be a residual of little importance. But is this really the case? Is stock-flow reconciliation truly insignificant? Should policymakers not worry about stock-flow reconciliation and just focus on the deficit? Actually, stock-flow reconciliation does matter and policymakers do need to take account of it.

Before analyzing stock-flow reconciliation, it is useful to consider three examples. In December 1998, Brazil's net debt-to-GDP ratio stood at approximately 42 percent of GDP, but by January 1999 this ratio had surpassed 51 percent of GDP. Could the Brazilian government have run a deficit of almost 10 percent of GDP in just one month? This seems highly improbable. Likewise, in 2001 Argentina's debt-to-GDP ratio stood at just above 50 percent of GDP, and by 2002 the country's debt was well above 130 percent of GDP. Conversely, in 2004 Argentinean debt totaled 140 percent of GDP, but by the end of 2005 the country's debt had fallen to 80 percent of GDP. Was it truly possible for the Argentinean government to run a deficit of 80 percent of GDP in one year and a surplus of 60 percent of GDP less than two years later? Uruguay presents a third case that is puzzling. In March 2002, Uruguay's debt-to-GDP ratio was 55 percent, yet by the end of 2003 the country's debt had soared to 110 percent of GDP. Could the Uruguayan authorities have run a deficit of 55 percent of GDP in less than two years?

These jumps in debt were clearly not due to standard budget deficits. In the case of Brazil, the sudden jump in debt resulted from the currency devaluation that followed the abandonment of the Real Plan. In the case of Uruguay, debt surged because of both a currency devaluation (which led to an increase in the debt-to-GDP

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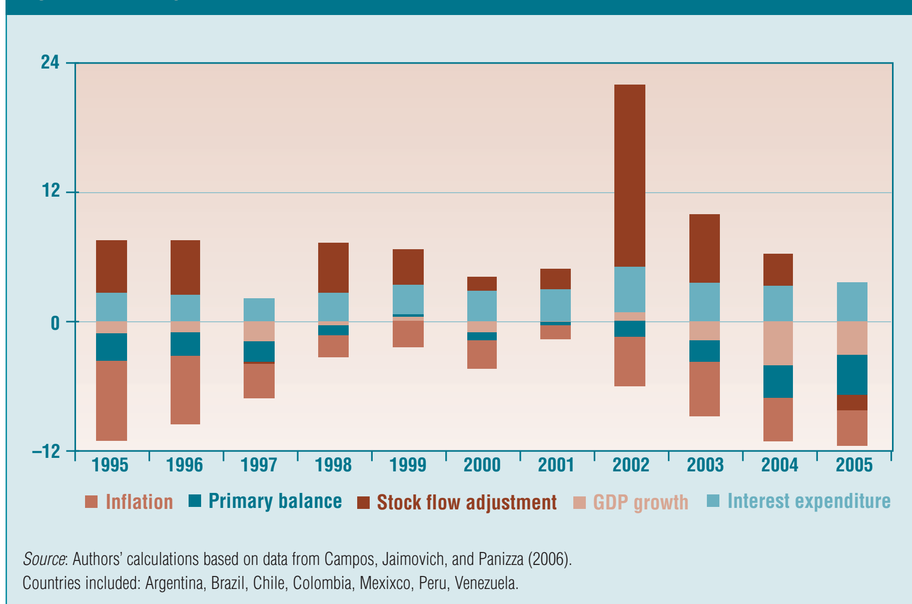
Figure 3. Decomposition of Debt Growth in Latin America



Source: Authors' calculations based on data from Campos, Jaimovich, and Panizza (2006).
Countries included: Argentina, Brazil, Chile, Colombia, Mexixco, Peru, Venezuela.

Debt Composition Matters

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ratio of approximately 40 percentage points) and the resolution of a banking crisis (which cost approximately 18 percent of GDP). In the case of Argentina, the causes are similar but even more complex.

Across countries, the change in debt explained by stock-flow reconciliation ranges between 3 and 5 percent of GDP per year, clearly a residual of no small importance! Figure 3 decomposes the growth of the debt-to-GDP ratio into five components: inflation, real GDP growth, stock-flow reconciliation, interest expenditure, and primary deficit (the last two components add up to the total deficit). The figure reports data for the 1995-2005 period for the seven largest Latin American economies (Argentina, Brazil, Chile, Colombia, Peru, Mexico, and Venezuela). The stock-flow reconciliation tends to be very large at the time of crisis or just after a crisis. In particular, it was very high in the two years that followed the Tequila crisis (1995–1996), the year of the Russian crisis (1998), and the year of the Brazilian devaluation (1999) and reached epic levels at the time of the Argentinean crisis (2002–2004). Interestingly, the stock-flow reconciliation was basically zero (or even negative) in tranquil years like 1997 or 2005.

If the stock-flow reconciliation is so important, so too are its determinants, which can be lumped into three sets of variables. The first set of variables has to do with contingent liabilities and skeletons, which often reflect past deficits that were not appropriately measured. Thus, a first policy suggestion is to build better accounting systems that keep track of liabilities as soon as they are incurred. A second set of variables has to do with the resolution of banking crises, which often have an extremely large fiscal cost. The third and most important set of variables has to do with debt composition. In particular, debt explosions are often due to capturing balance sheet effects that result from the interaction of currency depreciations and the presence of foreign currency debt. A country could have a brilliant fiscal policy, a fully transparent budget, with no skeletons and contingent liabilities, and a super safe banking system, yet, if its debt is mostly in foreign currency and the real exchange rate is very volatile (as is often the case in emerging markets), then the debt to GDP ratio will likely be very volatile and subject to debt explosions. In this sense, debt structure is really the key to avoid debt crises.

Debt explosions often result from the interaction of currency depreciations and the presence of foreign currency debt. For this reason, debt structure is really the key to avoid debt crises.

Given the great importance of debt structure, adjustments in the decision-making process may be in order. The usual arrangement, in which deficits are decided in the political arena and debt management is left to technocrats who often have the explicit objective of minimizing the cost of borrowing, may generate perverse incentives towards issuing too much low-cost, high-risk debt. Policymakers should be aware of the cost-safety trade-off and, by recognizing that more costly debt may have a desirable insurance component, internalize this trade-off in their decision on the costs of financing a given deficit (this would lead to setting technocrats' incentives in terms of both the cost and risk of debt). It is a welcome development that several Latin American countries are indeed moving in this direction.

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debt is not going away anytime soon, countries need to make public debt an instrument for development and not a source of recurrent crises. With this objective in mind, the Inter-American Development Bank (IDB) published its 2007 Economic and Social Progress Report entitled *Living with Debt: How to Limit the Risks of Sovereign Finance.* This issue of *IDEA* draws heavily from that report, looking at the causes and consequences of public borrowing and suggesting ways to advance the region towards safer debt.

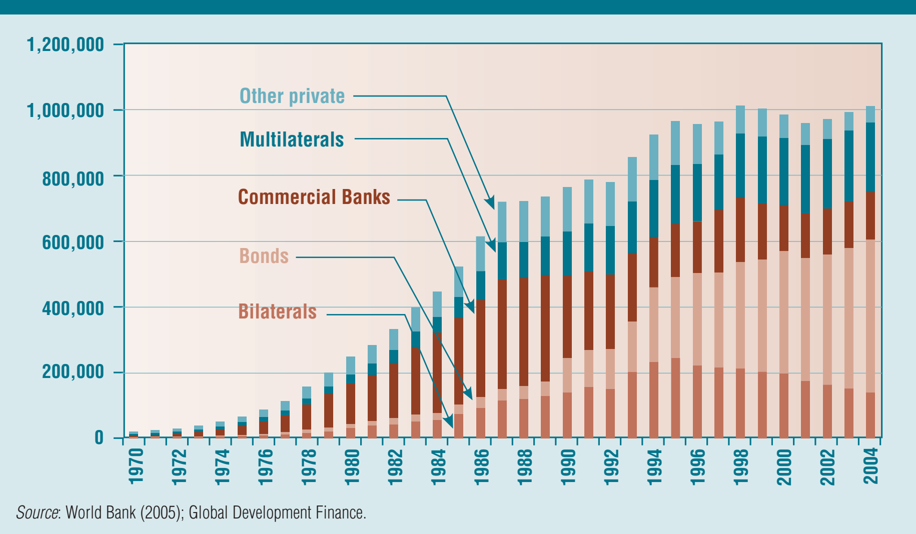
The Role of Multilateral Lending

Multilateral lending to developing countries may be declining in terms of market share but it is still important—and not just for the cash it provides. Private lending grew substantially during the 1990s, but official debt (multilateral and bilateral lending) remains significant—and constitutes more than 40 percent of the total sovereign external developing country debt. Moreover, multilateral debt accounts for a full 28 percent of total developing country external debt and is significant not only for its sheer size but also for the influence of multilaterals on other lenders and borrowers alike.

Total long-term developing country sovereign external debt (excluding that financed by the IMF) rose sharply during the 1990s, but since the late 1990s has been flat at about $1 trillion (Figure 4). Sovereign external debt held by private creditors in the 1980s was largely held by commercial banks, but through the 1990s, in part as a result of the Brady restructurings and then through subsequent new issues, debt in the form of bonds grew substantially. Bonds only represented some 6 percent of private debt in 1989 but now represent as much as 46 percent of total external long-term nonconcessional debt.

At the same time, within nonconcessional debt, multilateral debt has risen relative to bilateral debt. In 1991, bilateral nonconcessional debt accounted for about 20 percent of total debt, and peaked at about 25 percent in 1994–95 with the financial support offered to alleviate the Mexican crisis. It has now slipped to about 14 percent. On the other hand, multilateral debt represented only 11 percent of the total in 1984, jumped to about 18 percent in 1991, and has now risen to about 21 percent of the total. In the last decade or so, then, multilateral debt has lost market share relative to private debt but has gained it relative to bilateral debt, and the net effect has been, if anything, a slight rise in market share.

Figure 4. External Sovereign Debt Stocks



Source: World Bank (2005); Global Development Finance.

Multilaterals don't lend to everyone; in fact, they're quite picky about who receives their loans. The top 10 recipients accounted for 58 percent of the stock of multilateral lending as of 2004. Considering Latin America specifically, the concentration of multilateral finance mirrors the size of recipient economies closely. The largest seven economies in the region accounted for 90 percent of recipient GDP and received 80 percent of the stock of multilateral lending as of 2004. Chile is something of an exception, accounting for 4 percent of recipient GDP but receiving only 1 percent of multilateral lending. The stock of multilateral financing also mirrors closely that of external private financing, with the seven largest economies accounting for some 87 percent of total private external lending to the region.

What makes multilateral development banks different when it comes to sovereign lending? Actually, there are two parts to this question: first, what makes multilaterals different from private lenders with regard to nonconcessional lending, and second, what makes multilateral lending different from bilateral lending when it comes to concessional lending and, in particular, official development assistance?

There are several differences between multilateral lending and private lending. First and foremost, multilaterals and private sector lenders have different objectives. The private sector is motivated by profits, whereas multilateral lenders have a general objective of promoting development and social welfare in the countries that borrow from them. This may lead multilaterals to lend more in support of development projects, to lend in riskier environments, and to lend more in hard times relative to private lenders. For this reason, multilaterals may act countercyclically, while private lenders are more likely to be procyclical.

Second, multilateral lending is more likely to fall victim to political influence

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The Costs of Sovereign Default

The "default point" of a private company is the point at which its debt liabilities are equal to the total market value of its assets, that is, that point at which the equity value of the firm becomes zero. Finding the default point of sovereign debt is much more complicated, because a government's assets, which include, for example, the ability to tax its citizens, do not have an observable market value. Moreover, governments typically do not stop paying pensions or disband the military to make room for debt service payments—and are not expected to do so.

Furthermore, creditor rights are less effectively enforceable for sovereign debt than for private debts. If a private firm becomes insolvent, the legal authorities have the means to enforce the creditors' claim on the company's assets, even if those assets may be insufficient to cover the totality of the debt. By contrast, in the case of sovereign debt, despite the fact that the claim and the relevant legal authority are typically well-defined, the enforcement capacity is limited to assets in the same legal jurisdiction, which limits the efficacy of the legal recourse.

This has led economists to posit that sovereign defaults are a reflection of a government's "willingness to pay" rather than its "ability to pay." The theoretical economic literature has traditionally seen the sovereign as calculating the cost implied by a debt default and comparing it to the burden of servicing its debt to decide whether to continue meeting its debt obligations. Defaults are then the result of a strategic decision to obtain a financial gain, rather than the result of a legitimate situation of bankruptcy. As a consequence, the existence of significant costs of default is considered as the mechanism that makes sovereign debt possible in the first place. Otherwise, why would sovereigns repay their debts? If sovereigns did not suffer some type of cost in the event of default, no investor would be willing to lend any money to them.

Yet this type of strategic behavior is not in line with what has been observed in sovereign debt crises. The strategic default hypothesis would require that defaults occur in good times, when countries enjoy a strong financial position and do not anticipate the need of market financing in the near future; yet sovereign defaults have taken place after a country's economy has gone through a serious downturn and other measures have failed. The precise timing seems to respond to economic considerations that are far removed from the strategic factors hypothesized by the sovereign debt literature. In fact, there is no evidence of strategic sovereign defaults ever occurring, and time after time default events occur in situations in which a country has reached a condition that can be described as sovereign bankruptcy.

While defaults may have costs in terms of higher spreads, lower international trade, and more limited access to finance, these costs tend to be short lived. The fact that economic crises take place before defaults and that recoveries start soon after the event suggests that sovereigns may sometimes delay debt-restructuring decisions too long. Clearly, more work needs to be done in this area, but if further analysis confirms this conjecture, the next challenge will be to find out why this is the case and what are the policy implications of this finding.

There are two possible explanations why a political administration may postpone the moment of reckoning. The first focuses on self-interested politicians who are worried about the effect on their careers, as there is clear evidence of accelerated political turnover following a debt default. The second interpretation assumes that, while strategic defaults would be very costly in terms of reputation—and that is why they are never observed in practice—"unavoidable" defaults carry limited reputation loss in the markets (Grossman and Van Huyck, 1988). Hence, policymakers may postpone defaults to ensure that there is broad consensus, prior to the actual occurrence of default, that the decision is unavoidable and not strategic. The idea is that politicians choose the lesser of the two evils and are willing to pay the additional cost brought about by the delayed default rather than subject the country to a punishment by the market. This would be consistent with widely anticipated defaults that happen in situations when the economy is very weak.

These two interpretations have widely different policy implications. If the problem is self-interested politicians who do not maximize social welfare, then reforms should focus on the policymaking process. If the problem is that politicians delay default in order to guarantee that markets will perceive the default, when it does occur, as necessary, then part of the solution may be a better, faster understanding of the economic situation of countries that are headed for default, a front where international financial institutions could make a valuable contribution.

How to Make Debt Safer

How can countries reduce the risks of sovereign finance? First, countries should limit debt accumulation by adopting prudent fiscal policies. But, as all countries are starting with an existing stock of debt, prudent fiscal policies are only part of the story. Debt management matters and a safer debt structure can greatly reduce the risks of sovereign finance. But what can countries do to make debt safer?

Experience has highlighted two key sources of vulnerability: debt denomination (foreign currency debt) and debt maturity (short-term debt). Policies aimed at reducing these vulnerabilities are complicated by the fact that there may be a trade-off between these two elements. For example, shifting to domestic currency debt often requires employing short-maturity instruments. Inflation-indexed instruments provide an alternative that can help improve the terms of the trade-off between denomination and maturity, as it may be possible to issue long-term inflation-indexed instruments at moderate cost, because investors are protected from the risk of unexpected inflation. Past experiences in which financial indexation spearheaded widespread indexation of wages, pensions, and other expenditures, and created stubborn inflation and inflexible relative prices may make governments wary of such instruments. Still, some countries have been successful in using indexed financial instruments widely without perceptibly worsening inflation persistence.

The high volatility underlying emerging markets' economies and global financial markets creates an argument for introducing into debt contracts contingencies with equity-like features that allow for more efficient risk sharing. These are instruments that offer lower payoffs during bad times and higher payoffs during good times. They would then be safer for investors and afford governments the opportunity to manage their fiscal policy stance better over the business cycle. Interest payments could be indexed to commodity prices, the terms of trade, or the rate of GDP growth. Another option would be to obtain contingent coverage directly from international financial markets through the use of derivative contracts. In practice, however, many futures and option markets lack depth and liquidity and therefore offer only limited scope for insurance. The lack of markets for contingent instruments is more acute in the case of events such as fluctuations in tourism revenue, hurricanes, and other natural disasters. Fortunately, financial market innovation is increasing the scope for using this type of market coverage, as in the case of the recent operation by Mexico securing earthquake insurance for three at-risk geographical areas.

It should be noted, however, that obtaining some form of market insurance, through either derivative contracts or indexed debt, faces a fundamental *domestic* obstacle. By their nature, these contingent instruments work as an insurance policy for the country as a whole. Because their costs must generally be paid up front, but their payoffs may not occur until years later, the reasons for purchasing them can be easily misunderstood by the public, and the insurance instruments can become a political liability. This might give little incentive for politicians to enter into large-scale contracts of this type. The international community could help surmount this obstacle by promoting studies and disseminating information about the benefits of these instruments.

The development of domestic bond markets is another key component of a strategy of safer sovereign finance. These markets hold the promise of providing a stable investor base for government debt and offsetting—at least to some degree—the risk of sudden stops and volatility in international markets. Moreover, domestic markets are a natural venue for debt denominated in domestic currency, and the benefits of a well-developed domestic currency bond market would also extend to the private sector. There is the risk, however, that governments might attempt to capture the resources of institutional investors, such as pension funds, through regulation or moral suasion, which again underscores the importance of prudent fiscal policies in ensuring the success of any policy of encouraging the development of domestic markets.

In recent years, the international community has focused on the process of resolving debt defaults with the widespread introduction of collective action clauses in debt contracts. But the same degree of progress has not been made in the *prevention* of debt crises. In this area, there is a lot that international financial institutions (IFIs) could do.

IFIs could design workable, fast-disbursing credit facilities to offset rollover risks. Such facilities should work in much the same way as a central bank lends to domestic financial institutions, which is an effective deterrent to a possibly self-fulfilling run. Rather than limiting themselves to loans to governments, IFIs could develop a strategy to respond to certain global emergencies more effectively by directly acting on international markets. Although this type of intervention has so far been outside the toolkit of IFIs, a set of well-established rules could avoid any anticipated pitfalls.

IFIs could also help make member countries' own efforts to prepare for

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The Role of Multilateral Lending

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than private lending. Most multilaterals are governed by boards of directors controlled by the richest countries, whose weight is apt to be reflected in lending priorities and decisionmaking.

Third, from the standpoint of the borrower, multilateral loans may be considered costly in terms of red tape and conditionality (when the borrower sees the latter as a burden) but cheaper in terms of the interest rate charged. Borrowing from a multilateral generally involves detailed discussions over the intended use of the funds, conditions regarding promised economic reforms or other matters, and extended negotiations on many details of both the loan and possibly the macroeconomic environment. On the other hand, a bond may have a higher interest rate than a loan from a multilateral, and while there are certainly administrative and legal costs associated with a bond issue that have to be paid, they may be less costly in terms of the time demanded of senior officials. As a consequence, when countries have access to relatively inexpensive private funds, officials may prefer to borrow from the private sector; but when conditions are less favorable and private sector interest rate spreads rise, the additional red tape and conditionality is worth enduring to obtain the lower costs associated with borrowing from multilaterals. In times of severe market dislocation, multilateral funds may be the only ones available.

A fourth difference is seniority. Multilateral institutions enjoy the status of a preferred creditor, which grants them legal priority over private creditors. (Note that this does not extend, in general, to bilateral official loans.) The interaction between official and private debts in times of debtor distress is, however, a complex one, as official loans are usually made available at such times, while short-term private financing may be withdrawn.

Multilateral and private flows are likely to affect each other. An attractive feature of multilateral lending is that it may be catalytic, namely, that it may provide incentives for private investors to lend to the country as well. Dani Rodrik suggests that multilaterals may have better information on the economic fundamentals in a particular borrowing country and rationalizes their lending as "putting their money where there mouth is." In the absence of such lending, statements from the multilaterals regarding the good health of a particular economy may not be considered credible. Multilateral lending is then seen as a signal to enhance the generally poor information available to private lenders.

There are also broad differences between multilateral and bilateral lenders when it comes to concessional financing and specifically to aid flows. Multilateral aid flows are less affected by political or colonial ties or political alignment, whereas bilateral flows do tend to be affected by these factors. There is also evidence that bilateral flows are larger where they are more concentrated in a few donors. It may be that many bilateral lenders face a problem in terms of coordinating aid. Countries with many bilateral donors receive less aid in total. Intermediating aid through the multilaterals may resolve the problems of donor coordination, but at the cost of diluting the interests of a particular donor.

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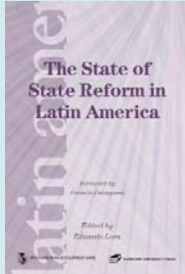
emergencies more effective. In recent years, countries have attempted to gain a measure of protection against sudden stops by accumulating large international reserves. This is a generally expensive and always inefficient self-insurance strategy. There have also been initiatives in Latin America and East Asia to gain efficiency and financial backing by partially pooling the reserves of several countries. IFIs could assist in these efforts both at the technical level, refining operational methods and access rules, and by providing financial support. Moreover, as these initiatives are regional and risks are often regional by nature, there would be clear advantages to cooperation between regional agreements or creating a multilateral one.

The IFIs also have an important new role to play as facilitators of reforms aimed at limiting the risk of sovereign finance. IFIs can promote the development of markets for local currency instruments and new contingent debt instruments in various ways. The debt instruments used by governments today were mostly designed in an era preceding financial globalization, and there is room for improvement in widening the spectrum of instruments. IFIs can provide assistance with the design of new instruments, and they can help to overcome the externalities and start-up costs of new markets and attract new investors, including by issuing their own debt securities with the contingencies promoted for country insurance.

Finally, IFIs could change the nature of their own loans to member countries by offering a wide menu of domestic currency loans and contingent facilities and thus contribute to the dedollarization process.

New Publications

BOOKS



The State of State Reform in Latin America
Edited by Eduardo Lora

Published by Stanford University Press as part of the Latin American Development Forum Series. 2006.

Latin America suffered a profound state crisis in the 1980s, which prompted not only the wave of macroeconomic and deregulation reforms known as the Washington Consensus, but also a wide variety of institutional or 'second generation' reforms. *The State of State Reform in Latin America* reviews and assesses the outcomes of these less studied institutional reforms.

RESEARCH DEPARTMENT PUBLICATIONS

Is the World Flat? Or Do Countries Still Matter? (WP-584)
Alberto Chong and Mark Gradstein

This paper revisits the effects of a country's institutional framework on individual firms' behavior, in particular focusing on their propensity to comply with legal rules. The theoretical model presented here suggests that these effects may be of paramount significance, contrary to the recently popularized paradigm arguing that differences across countries have ceased to matter much. This paper looks at the variation in measures of non-compliance with legal rules and finds that most variations emanate from country-wide differences in institutional quality. The conclusion is that countries still matter in providing institutional infrastructure, which determines to a large extent the context within which firms operate.

Trade, Gravity and Sudden Stops: On How Commercial Trade Can Increase the Stability of Capital Flows (WP-588)
Eduardo A. Cavallo

This paper provides new theoretical and empirical evidence on the causal connection between lack of exposure to commercial trade and proclivity to sudden stops. It shows how exposure to trade raises the creditworthiness of countries and reduces the probability of sudden stops. The results indicate that, all else equal, a 10 percentage point decrease in the trade to GDP ratio increases the probability of a sudden stop between 30 percent and 40 percent. The policy implications are unambiguous: increasing the tradable component of a country's GDP will, ceteris paribus, reduce the vulnerability of that country to sudden stops in capital flows.

Determinacy and Learnability of Monetary Policy Rules in Small Open Economies (WP-576)
Gonzalo Llosa and Vicente Tuesta

This paper highlights an important link between the Taylor principle and both determinacy and learnability of equilibrium in small open economies. More importantly, the degree of openness coupled with the nature of the policy rule adopted by the monetary authorities might change this link in important ways. A key finding is that expectations-based rules that involve the CPI and/or the nominal exchange rate limit the region of E-stability and the Taylor Principle does not guarantee E-stability. It also shows that some forms of managed exchange rate rules can help alleviate problems of both indeterminacy and expectational instability, yet these rules might not be desirable since they promote greater volatility in the economy.

Institutional Enforcement, Labor-Market Rigidities, and Economic Performance (WP-589)
César Calderón, Alberto Chong, Gianmarco León

This paper studies the issue of institutional enforcement of regulations by focusing on labor-market policies and their potential link to economic performance. It tests the different impacts of enforceable and non-enforceable labor regulations by proxying non-enforceable labor rigidity measures using data on conventions from the International Labor Organization (ILO). Whereas in theory, a country's ratification of ILO conventions gives the country legal status and thus supersedes domestic regulations relating to those issues, in practice the degree of labor-market rigidity depends on how the conventions are enforced. It is the outcome of the regulations that matters, rather than their number.

Quid pro Quo: National Institutions and Sudden Stops in International Capital Movements (WP-587)
Eduardo A. Cavallo and Andrés Velasco

The paper explores the incidence of sudden stops in capital flows on the incentives for building national institutions that secure property rights in a world where sovereign defaults are possible equilibrium outcomes. Also, the paper builds upon the benchmark model of sovereign default and direct creditor sanctions by Obstfeld and Rogoff (1996). In their model it is in the debtor country's interest to "tie its hands" and secure the property rights of lenders as much as possible

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because this enhances the credibility of the country's promise to repay and prevents default altogether. It incorporates two key features of today's international financial markets that are absent from the benchmark model: the possibility that lenders can trigger sudden stops in capital movements, and debt contracts in which lenders transfer resources to the country at the start of the period, which have to be repaid later. The paper shows that under these conditions the advice "build institutions to secure repayment at all costs" may be very bad advice indeed.

The Political Economy of Fiscal Policy: Survey (WP-583)

Marcela Eslava

This paper surveys the recent literature on the political economy of fiscal policy, in particular the accumulation of government debt. It examines three possible determinants of fiscal balances: opportunistic behavior by policymakers, heterogeneous fiscal preferences of either voters or politicians, and budget institutions. It finds that less-fragmented governments and a greater ability of voters to monitor fiscal policy are related to lower deficits. It also finds that voters do not favor high-spending governments. It suggests the role of the courts in the determination of fiscal policy as a promising new avenue of research, and presents some suggestive novel evidence on the importance of this channel.

The Elusive Costs of Sovereign Defaults (WP-581)

Eduardo Levy Yeyati and Ugo Panizza

Few would dispute that sovereign defaults entail significant economic costs, including, most notably, important output losses. To address serious measurement and identification problems, this paper examines the impact of default on growth by looking at quarterly data for emerging economies. It finds that output contractions precede defaults. Moreover, the trough of the contraction coincides with the quarter of default, and output starts to grow thereafter, indicating that default episode seems to mark the beginning of the economic recovery rather than a further decline. This suggests that, whatever negative effects a default may have on output, those effects result from anticipation of a default rather than the default itself.

Redistributional Preferences and Imposed Institutions (WP-579)

Alberto Chong and Mark Gradstein

To what extent do imposed institutions shape preferences? This paper considers this issue by comparing the market-versus-state attitudes of respondents from a capitalist country, Finland, and an ex-communist group of Baltic countries, and by arguing that the period of communist rule can be viewed as an "experiment" in institutional imposition. It finds that citizens from ex-communist countries tend to be more supportive of state ownership than respondents from capitalist economies. However, they also favor increasing inequality and competition as the means to enhance incentives. It concludes that institutional imposition (which lasted for about 50 years) had a limited effect on preferences. The lessons for Latin America are straightforward.

Policy Volatility and Growth (WP-578)

Alberto Chong and Mark Gradstein

A growing body of recent macroeconomic evidence suggests that volatility is detrimental to economic growth. The channels through which volatility affects growth, however, are less clear; substantive evidence based on disaggregate data is almost non-existent. This paper offers a framework in which policy volatility has an adverse effect on firms' entry into productive industries, thereby affecting economic growth. A detailed dataset of thousands of firms from some 80 countries provides additional evidence on the channels through which volatility affects firm growth, showing that institutional obstacles magnify the effect.

Sovereign Debt in the Americas: New Data and Stylized Facts (WP-577)

Kevin Cowan, Eduardo Levy Yeyati, Ugo Panizza & Federico Sturzenegger

This paper presents a new database on sovereign debt in the Americas, describing the sources used and briefly discussing several methodological issues. The paper also highlights major trends in level and composition of public debt in the Americas, discussing debt dollarization in detail.

Real Exchange Rates, Dollarization and Industrial Employment in Latin America (WP-575)

Arturo Galindo, Alejandro Izquierdo, José Manuel Montero

This paper uses a panel dataset on industrial employment and trade for nine Latin American countries for which liability dollarization data at the industrial level is available. It tests whether real exchange rate fluctuations have a significant impact on employment, and analyzes whether the impact varies with the degree of trade openness and liability dollarization. Econometric evidence supports the view that real exchange rate depreciations can impact employment growth positively, but this effect is reversed as liability dollarization increases. In industries with high liability dollarization, the overall impact of a real exchange rate depreciation can be negative.

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Optimal Sovereign Debt: An Analytical Approach (WP-573)

Jean-Charles Rochet

This paper develops a model of sovereign debt where governments are myopic. Instead of focusing on the incentives to repay, it considers that governments always repay when they can, but also borrow as much as possible, without paying attention to the burden of future repayments. The pattern of debt is then only determined by the willingness of international investors to lend to the country. The Rational Expectations Equilibria of the credit market behave like rational bubbles: international investors lend a lot because they expect other investors to lend again in the future. Capital flows are procyclical: the government borrows a fixed proportion of its income until a sudden stop occurs, generating default and an economic crisis. The paper suggests possible remedies to the high volatility of public expenditures that is generated by such borrowing patterns.

Barriers to Exit (WP-572)

Alberto Chong and Gianmarco León

Unlike previous empirical studies that focus on barriers to entry in international trade, this paper focuses on barriers to exit as measured by passport costs for a cross-section of countries. It tests four common theories on the determinants of such exit barriers and finds that macroeconomic and brain-drain explanations do explain high barriers to exit. However, institutional and cultural hypotheses do not appear to be empirically robust explanations of such high barriers.

International Remittances and Income Inequality: An Empirical Investigation (WP-571)

Valerie Koechlin and Gianmarco León

The aim of this paper is to provide comprehensive empirical evidence on the relationship between international remittances and income inequality. The paper provides evidence that in the first stages of migration history, there is an inequality-increasing effect of remittances on income inequality. Then, as the opportunity cost of migrating is lowered due to these effects, remittances sent to those households have a negative impact on inequality. Education and the development of the financial sector can help countries to reach the inequality-decreasing section of the curve more quickly.

Phoenix Miracles in Emerging Markets: Recovering without Credit from Systemic Financial Crises (WP-570)

Guillermo Calvo, Alejandro Izquierdo, Ernesto Talvi

Using a sample of emerging markets that are integrated into global bond markets, the paper analyzes the collapse and recovery phase of output collapses that coincide with systemic sudden stops. It finds a very similar pattern across different episodes: output recovers with virtually no recovery in either domestic or foreign credit, a phenomenon the authors call a Phoenix Miracle, where output "rises from its ashes," suggesting that firms go through a process of financial engineering to restore liquidity outside formal credit markets. Moreover, the paper shows that the U.S. Great Depression could be catalogued as a Phoenix Miracle. However, in contrast to the U.S. Great Depression, EM output collapses occur in a context of accelerating price inflation and falling real wages, casting doubt on price deflation and nominal wage rigidity as key elements in explaining output collapse, and suggesting that financial factors figure prominently in these collapses.

Why are Latin Americans so Unhappy about Reforms? (WP-567)

Ugo Panizza and Mónica Yañez

The objective of this paper is to use opinion polls to document Latin Americans' increasing discontent with reforms and to explore possible explanations for this trend. It tests four possible explanations for the rejection of reforms. The first focuses on a change in political orientation. The second focuses on a change in political activism on the part of those who oppose reforms. The third focuses on trust in political actors. The fourth focuses on the economic situation.

Bank Ownership and Performance. Does Politics Matter? (WP-566)

Alejandro Micco, Ugo Panizza, Mónica Yañez

(Document published in Spanish; English version available as (WP-518)

This paper builds a new dataset to assess the relationship between bank ownership and bank performance, providing separated estimations for developing and industrial countries. It is found that state-owned banks operating in developing countries tend to have lower profitability and higher costs than their private counterparts, and that the opposite is true for foreign-owned banks. There is no clear correlation between ownership and performance in banks in industrialized countries. In order to evaluate whether the difference in performance between public and private banks depends on political factors, the paper analyzes whether this performance gap widens during election years. It finds evidence to support this hypothesis.

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Does the Quality of Training Programs Matter? Evidence from Bidding Processes Data (WP-555)

Alberto Chong and José Galdo

This paper estimates the effect of training quality on labor-market earnings using a Peruvian non-experimental training program, PROJOVEN, which targets disadvantaged youths aged 16 to 24 years. Two attractive features of the data allow for the identification of causal effects. First, the selection of training courses is based on public bidding processes that assign standardized scores to multiple proxies for quality. Second, the program's evaluation framework allows individuals in the treatment and comparison groups to be compared six, 12, and 18 months after the program. The paper finds that individuals attending high-quality training courses have higher average and marginal treatment impacts.

OTHER PUBLICATIONS

Unemployment Insurance in Chile: A New Model of Income Support for Unemployed Workers.

Germán Acevedo, Patricio Ezkenazi and Carmen Pagés.
Well-Being and Social Policy, Vol. 2. No. 1., 2006.

This paper describes the implementation of a new unemployment insurance (UI) program in Chile. The use of individual savings accounts, private management and a redistributive fund (Common Fund) to help workers pool risks are essential elements. The paper discusses the political, social, and economic context in which this program was implemented, reviews its key characteristics, assesses its initial performance in terms of coverage and benefits and assesses future challenges. Finally, the paper discusses the potential of this system as a model for other middle- and low-income countries.

Adjustment Policies, Unemployment and Poverty: The IMMPA Framework.

P.R. Agenor, A. Izquierdo, and H. Jensen eds., Blackwell, October 2006.

This volume catalogues for the first time the pioneering work of Agenor on Integrated Macroeconomic Models for Poverty Analysis (IMMPA). These dynamic general equilibrium models are designed to analyze the impact of adjustment policies on unemployment and poverty in the developing world. This book details the history and uses of these models to date and points to future possibilities for their utilization.

Do Democracies Breed Rent-Seeking Behavior?

Cesar Calderon and Alberto Chong. The Journal of Policy Reform, Vol. 9, No. 4, December, 2006.

Using objective institutional historical data for the case of Uruguay, this paper tests the link between rent-seeking behavior in democracies using time-series and panel data approaches. There are three main findings. First, democratic regimes are negatively linked with rent-seeking actions. Second, the longer the duration of democracy, the less rent seeking in a society. Third, legislation enacted more transparently is negatively correlated with rent-seeking behavior.

Sudden Stops and Phoenix Miracles in Emerging Markets.

Guillermo Calvo, Alejandro Izquierdo and Ernesto Talvi.
American Economic Review, Volume 96, Number 2, May 2006.

Using a sample of 32 developed and developing countries, this paper analyzes the empirical characteristics of sudden stops in capital flows and the relevance of balance sheet effects in the likelihood of their materialization. It finds that large real exchange rate (RER) fluctuations coming hand in hand with Sudden Stops are basically an emerging market (EM) phenomenon. Openness, understood as a large supply of tradable goods that reduces leverage over the current account deficit, coupled with domestic liability dollarization (DLD), are key determinants of the probability of Sudden Stops. The relationship between Openness and DLD in causing Sudden Stops is highly non-linear, implying that the interaction of high current account leverage and high dollarization may be a dangerous cocktail.

For Better or For Worse: Job and Earnings Mobility in Nine Middle and Low Income Countries.

Suzanne Duryea, Gustavo Marquez , Carmen Pages, and Stefano Scarpetta. Brookings Trade Forum, 2006.

A controversial debate on institutional design and economic policy has been sparked over the tradeoffs between economic efficiency and job insecurity associated with labor mobility. This article examines worker flows and their associated earnings changes across different statuses in the labor market and across different types of jobs in three Latin American countries and six transition economies of Eastern Europe and the former Soviet Union. It finds a higher degree of labor mobility across different types of jobs, and between employment, unemployment and inactivity in Latin America than in transition economies. Also, mobility has important earnings consequences, which differ across countries and are shaped by individual heterogeneity and selection processes.

Look Who's Talking

This section of the newsletter spotlights presentations or events sponsored by RES in recent months.

Ernesto Schargrodsky spoke on September 20, 2006 on Property Rights for the Poor: Effects of Land Titling

Are land titling programs a useful instrument for poverty reduction? Research says they are, but not for the reasons put forth by many academics and policy advocates. Hernando de Soto argued that providing formal land titles to the poor would allow them to use land as collateral to access credit. In turn, this credit would be invested as capital in productive projects and ultimately boost labor productivity and income. Actually, the empirical evidence finds that titling has little effect on credit and productivity but does work through other channels to improve wellbeing.

> Empirical evidence finds that land titling has little effect on credit and productivity but does work through other channels to improve wellbeing.

In a policy seminar presented at the IDB, Ernesto Schargrodsky presented the findings of his research with Sebastian Galiani on a natural experiment in land titling in the suburbs of Buenos Aires, Argentina. A group of squatters occupied land outside of the capital more than twenty years ago. Some of these squatters received titles for the land when Congress passed legislation expropriating these parcels and the former owners accepted the government compensation offered to them. However, 410 of the 672 families who live on this land still lack titles, as the former owners rejected the government's offer and are pursuing the case in the slow Argentine courts. Years later, the differences between the people with and without titles are striking, but not for the reasons suspected.

The effect on housing investment was notable. The variables measured included good walls, a good roof, surface construction, concrete sidewalks and overall housing quality. In terms of all variables, the homes of the families with titles fared far better. The security that their homes would not be seized and the transferability of their asset likely played a role in their decisions to invest in their homes. An overall housing improvement of 37% was associated with titling.

Land titling also positively affected the size and structure of households. Families in titled homes were smaller than in untitled homes, largely due to the presence of fewer extended family members and lower fertility rates. A possible explanation for this difference lies in insurance motives. Given the use of their housing investment as a savings tool and as secure shelter for their old age, families in titled homes were less likely to depend on relatives as insurance or on children for their future security.

There were also marked differences in educational outcomes between the two groups. The study looked at both school achievement, which covers differences in school dropout rates, grade repetition and school initiation ages, and school absenteeism. Overall, children in titled homes enjoyed 0.4 more years of education than their counterparts in untitled homes and over a period of five days missed .4 days less of school.

Interestingly, when the study looked at the effects on performance in the credit and labor markets, there was little difference between the two groups. As far as access to credit cards, banking accounts, and non-mortgage formal credit from banks, the government, labor unions or cooperatives, both groups have virtually no access to these types of formal credit. They have a little more access to informal or on-trust credit from relatives, friends and local stores, but the difference in access between the two groups is minimal. Similarly, there were no perceptible differences in labor market outcomes between the two groups. Household head income, total household income, total household income per capita and employment status of the household head were the same for both groups. Families with titled and untitled property were both very poor.

Apparently, real estate possession is a necessary but not sufficient condition for access to credit. In order to sit down with a lender, prospective borrowers need formal employment, decent wages and a minimum amount of time in their jobs. Without these other conditions, titling alone opens few doors in the world of credit.

These results on credit access suggest that land-titling programs are not a one-step panacea to harnessing the capital of the poor. Does this mean the programs have been a waste or that the idea should be abandoned? The answer is, no. Families in titled property end up living in better homes with fewer, more educated people. In other words, they, and particularly the next generation in those households,

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are better off. Certainly this is justification enough for any program.

Christian Vonbun reported on Brazil's IPEA on October 30, 2006.

Christian Vonbun presented the Instituto de Pesquisa Econômica Aplicada's 2006 flagship report, which addresses labor markets, employment and informality. His remarks focused on the following areas: i) the macroeconomic environment, ii) demographic trends, iii) the educational system, iv) labor market institutions, v) technology, exports and employment, and vi) the social security system.

Following the international financial shocks and policy shocks of the 1990s, and investor uncertainties surrounding the 2002 election, Brazil has in recent years reduced unemployment and inflation, and stabilized the value of the Real, while increasing its trade surplus through export growth and raising its primary surplus. In contrast to these positive developments, however, federal government expenditures continue to grow rapidly, and the tax burden as a share of GDP approaches developed-country levels.

A combination of demographic trends is defining Brazil's population and labor force. Population growth is slowing, largely as a result of lower fertility rates, and the population is becoming on average both older and more urban. While child labor remains a problem, developed-world trends such as a decline in years of work by men and an increase in female participation are also present.

Brazil's educational system presents decidedly mixed results. Illiteracy rates are at historical lows and still declining, access to education is nearly universal, and post-secondary enrollment has tripled in the last two decades. At the same time, the educational system's ability to produce skilled workers is compromised by the poor quality of primary and secondary education, accompanied by low completion rates, and extremely low college completion rates among the poorest classes; this results in high returns to education and the reinforcement of existing inequality. In addition, substantial demand remains for post-secondary education. The cost of addressing these systemic deficits is formidable.

Labor market institutions in Brazil meanwhile continue to suffer the conflict between constitutionally mandated worker protections and regulatory and administrative requirements, on the one hand, and monetary stabilization and the opening of the economy on the other. Payroll taxes, as well as rigidities in hiring and firing, have led to an increase in informality, which is no longer countercyclical. In fact, changes in workers' incomes are driven by the informal sector.

Formal and overall employment do, however, benefit from the growing importance of technology and exports. Jobs in these areas pay better wages than in other fields, and they have a positive net impact on job creation. Moreover, foreign companies operating in Brazil pay better wages than equivalent Brazilian companies. All of these results can be traced to the opening of the nation's economy.

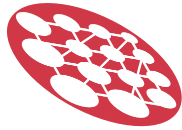
Finally, Brazil's social security system is challenged by an imbalance between the number of beneficiaries and the number of contributors. Only 12.5 years of contributions are required for direct coverage, even though life expectancies and years of retirement are increasing; at the same time, workers in the informal sector are left out of this portion of the system. Social society coverage of the elderly, moreover, is almost universal, and risk benefit payouts are rising, with some evidence of fraud. Given that Brazil's social security system is generally seen to function as a poverty reduction program, the emphasis on payments to the elderly appears to be suboptimal. Exercises on the impact of redistributing 20 percent of transfers from the elderly to the young suggest that any poverty increases among the elderly would be notably exceeded by decreases in poverty among younger age groups. Under these circumstances, the Brazilian social security system requires institutional adjustments.

WELCOME TO RES

The Research Department is pleased to announce the addition of Carlos Scartascini to its research staff. Carlos, a native of Argentina, holds a Ph.D. and MA in Economics from George Mason University. At George Mason he also held research and teaching positions and was awarded the William Snavely Award for Outstanding Achievement in Graduate Studies in Economics. Before coming to the U.S. he worked in Argentina at the Dirección General Impositiva (Tax Administartyion) and at the Centro Regional de Estudios Económicos. He originally joined the Bank in the Junior Professionals Program. His areas of expertise include public finance and political economy; his recent research analyzes the policy process in Latin America with special emphasis on budget institutions and budget processes.

We are also pleased to welcome back Carmen Pagés-Serra. Carmen returns to the Research Department after two years at the World Bank. Carmen is a native of Spain and received her Ph.D in Economics from Boston University under a Fullbright scholarship. Carmen was with the IDB Research Department from 1995 through 2004, when she left for a two-year tour with the World Bank. Her areas of expertise include employment and labor issues.

www.iadb.org/res/researchnetwork



Network News

These three books are products of an innovative Latin American Research Network project, "The Preparation of Basic Textbooks in Latin America and the Caribbean." The purpose of this project is to fill the gap in domestically written textbooks in a region where economics is taught largely with foreign texts.

Macroeconomía Argentina

Miguel Braun and Lucas Lach
(Available in Spanish only)
Alfaomega, 2006
http://www.alfaomega.com/macroeconomia argentina/index.php

Macroeconomía Argentina is an introductory textbook that presents basic economic concepts in a way geared specifically for the Argentine context. Issues such as the value of the dollar, country risk and the fiscal situation are given the same weight they are in the national public debate. Case studies and examples are familiar to the Argentine reader and include hyperinflation, convertibility and the 2002 devaluation.

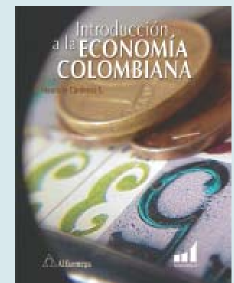
Para entender la economía del Uruguay

CINVE
Fundación de Cultura Universitaria, 2006.
http://www.fcu.com.uy/novedad.htm

Is Uruguay's economic growth rate low or is it simply subject to large fluctuations? What is Uruguay's trade position in world markets? Is public spending excessive in Uruguay? What explains unemployment in the country? This textbook is written in relatively simple language and addresses many of these questions, which are of particular interest to the Uruguayan reader.

Introducción a la economía colombiana

Mauricio Cárdenas
Alfaomega, 2006.
http://www.alfaomega.com.co



This textbook presents basic economic concepts from the perspective of the Colombian student. It seeks to contribute to the vision of the Colombian economy of the 21st century and reflects the dramatic changes that have beset the country in just a few short decades. The book takes an aggregate approach and focuses on issues such as growth, inflation, unemployment, poverty and inequality.

This issue of *IDEA* was coordinated by Ugo Panizza and is based on the 2007 Economic and Social Progress Report titled **Living with Debt: How to Limit the Risks of Sovereign Finance**.

Eduardo Lora	Rita Funaro
General Coordinator	Managing Editor

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