

## Editor's Summary

This volume of *Economía* consists of four papers. One paper studies a quasi-natural experiment of lengthening the school days in Argentina. The other three papers examine sovereign debt crises, currency crises, and pricing issues in subnational debts.

The first paper is titled “Do Longer School Days Have Enduring Educational, Occupational or Income Effects?” by Juan J. Llach, Cecilia Adrogué, and María Elina Gigaglia. They study a very interesting event in which school days were increased for about a half of the students in the city of Buenos Aires. The paper starts by describing the context in which the policy reform takes place. For most of the twentieth century, Argentina had a public system of education in which primary school was compulsory and access was universal. To improve the quality of the education system during the 1960s, about 50 percent of the students participated in schools that increased their school day to a double shift. This paper studies the consequences for educational quality and subsequent occupation and income among participants in this program.

The paper interviews 380 individuals forty years after their graduation (1977). A key aspect of the paper—indeed the identifying assumption—is that individuals were selected into the different school systems mostly by their location, and only after that criteria had been fulfilled did the schools choose students by their socioeconomic status. This is important because they compare the outcomes of interest between those that were in the different systems; hence if selection occurred on the basis of ability, their results might be biased. The other weakness of the paper is that the data comes from a survey, a methodology that is always subject to collection problems.

In the end, the policy experiment is very interesting, the question of extending the school days is of crucial relevance to the region, and the results are quite surprising. They show that graduation rates of the double-shift schools increase. However, their data for the effects of double shifts on tertiary education are inconclusive, and they find almost no impact on income, employment,

and other longer-term outcomes. In the words of the authors, their results “suggest that the content and learning quality in DS [double shift] schools was not too good.” In the end, as with most policies related to educational attainment, the double shift was very effective in with regard to participation but less so with regard to quality.

Our second paper, “Credit Ratings in the Presence of Bailout: The Case of Mexican Subnational Government Debt” by Fausto Hernández-Trillo and Ricardo Smith-Ramírez, studies the puzzling behavior of credit rating agencies in rating subnational debts in Mexico. In Mexico some of the subnational governments are in a permanent state of default, and some have been continuously bailed out. Surprisingly, this debt is usually rated investment grade. In this context, it is fair to ask, what are the credit rating agencies really rating? Are they truly assessing the financial soundness of the subnational government, or rather are they just computing the probability of repayment—which includes the bailout. This is the question addressed by the paper.

The authors study how political and economic factors affect the rating. The motivation for studying financial and economic factors determining the rating is obvious. The reason why political factors were included as well is because bailouts are the outcome of a political negotiation. Therefore, they study whether the rating is affected by political factors that are likely to influence the likelihood of a bailout, such as the political party in power and the size of the subnational government.

The paper not only presents an interesting question but also makes a methodological contribution. Estimating these regressions for several rating agencies at the same time is not a trivial problem. Interested readers will find the details clearly explained in this paper. Let me concentrate on the results here.

The paper shows that the larger the size of the subnational government, as measured by population, the more likely it is to receive a positive rating. This can be interpreted as the “too-big-to-fail” syndrome. Second, political affinity also improves the rating, that is, if the party of the subnational or federal government is the same as the one in the central government, the likelihood that the state is bailed out increases. These two findings, as expressed by the authors, “challenge the purpose of rating subnational debt in LDCs with a bailout tradition, since the market may assess the risk of these entities as equivalent or superior to that of sovereign instruments.”

From the policy point of view, in recent years, Mexico has implemented new laws to improve transparency and reduce the likelihood of bailouts. This paper shows that “it seems that bond rating agencies are not yet convinced of the success of such legislation.”

The third paper in this volume, “Thirty Years of Currency Crises in Argentina: External Shocks or Domestic Fragility?” by Graciela Kaminsky, Amine Mati, and Nada Choueiri, studies thirty years of crises in Argentina, from 1970 until 2001. The main question it asks is what has caused the crises in Argentina: external or internal factors? Or more precisely, what proportion of the variance can be explained by external versus domestic factors?

During this period, Argentina had eight currency crises, four financial crises, and two defaults. (Clearly, this should lead to a change of most thesaurus entries for volatility: instability, unpredictability, explosive nature, Argentina.) The authors use a structural vector autoregression (VAR) to estimate the decomposition between the external and internal factors. Three external factors are considered: degree of world monetary policy stance, a variable for financial contagion, and a measure of world risk appetite. The domestic factors are measures of credit booms, shocks to real activity, domestic risk aversion, exchange rate controls, price controls, and bank deposit confiscations.

The paper starts with a detailed description of the crises. This section alone is a masterful summary of the economic history of Argentina. For those interested in making sense of the economy of one of the most prominent countries in Latin America, and its tumultuous history, this will be a key section.

The authors then estimate a VAR where the identifying restrictions come from the description of behavioral equations and accounting relationships. For example, they assume a money demand equation, but they use the fact that local prices are equal to the nominal exchange rate times the real exchange rate. The first equation could be questioned; the second one is mostly a definition. Using these equations they arrive at the restrictions that structural shocks must satisfy within their system. These restrictions are summarized by equation 24.

To me, the most telling results are the variance decompositions in tables 2 and 3. They also present results on impulse responses and simulations. Those results are important. Still, I prefer the results from the variance decompositions. It is easy to see that each crisis is driven by a different factor. The only common denominator, though, is shocks to the money demand, which has been the only constant in Argentina during those thirty years. What is also revealing is the proportion explained by the money shocks: in the short run, it is always about 80 percent of the variation, and two years after, it still continues to explain about 20 percent of the variance. The second result, which I particularly like, is that during the convertibility plan, monetary supply shocks play a minimal role. In both the 1991–98 and 1998–2002 periods, the supply shocks have very little explanatory power. This is in contrast with the other

periods where monetary shocks explain about a quarter of the volatility, especially in the long run. Furthermore, two years ahead, monetary supply and monetary demand shocks are about equally important.

Finally, our fourth paper, “Who Saw Sovereign Debt Crises Coming?” by Sebastián Nieto-Parra, examines the market microstructure of sovereign debt. The paper explores how fees (underwriting fees) are affected before crises. The author finds that three years before a crisis, the countries that ultimately experienced a crisis paid twice the underwriting fees of those that did not enter a crisis. It is important that the identification assumption of this paper comes from the panel comparison. Of course, this presents the problems that it is possible that unobservable characteristics are explaining the differences. The author argues that those unobservable characteristics are affecting the probability of a debt crisis and the underwriting fees, but they have no impact on other fundamentals, such as the sovereign spreads. This finding has two interesting features. First, the fees tend to anticipate crises. Second, fees provide information that is beyond the sovereign bond spreads. This last one is perhaps the most surprising of all the results: it implies that investment bankers price default risk better than investors. Underwriters price the default risk on the fee whereas investors price the risk in the sovereign spread.

The paper also studies the behavior of investment bankers’ fees with regard to the type of crisis suffered by countries: sovereign debt crisis, currency crisis, twin crises, defaults, and International Monetary Fund rescue packages. Interestingly, those crises that are driven by liquidity have much smaller fees (three years prior to the crisis) than those countries that collapse because they had bad fundamentals. This is perhaps the weakest section of the paper (in terms of the econometrics and the identification assumptions required to make these conclusions), but certainly the question and the results are fascinating.

Finally, this paper asks important questions regarding the predictability of crises and the pricing of sovereign bonds. If fees provide additional information to the spreads regarding the medium-run likelihood of facing a sovereign default event, why aren’t they included in the pricing of the spreads? This seems like a good topic for additional research.

*Economía* is the result of a collaborative effort, and as usual, thanks are due to many people who made that process successful. Associate editors worked hard to guide papers to publication, members of the panel contributed valuable insights and spirited discussions, and *Economía* staff, in particular Catherine Mathieu and Myriam Bahiman, helped put it all together. Without their steady and abundant effort, this volume would have not have come to fruition. I thank them for their tremendous support. Finally, in the last meeting of associate

editors, we decided to expand the number of editors for *Economía*, adding Raquel Bernal, Rodrigo Soares, and Ugo Panizza to the *Economía* panel. We four now are responsible for the editorial aspects of the journal. I thank them personally for their continued friendship and the tremendous effort they have already put into producing this journal and that I know they will continue to show.

This volume also sees the departure of great associate editors who were with us for a long time. Carmen Pages has been an incredible force for our journal, and we will miss her greatly. Federico Sturzeneger worked without stop, and now that he is taking care of saving the poor in Argentina, he has less time for the journal. We will miss him as well. Finally, we bid farewell to Kevin Cowan; although his span with the journal was short, his work and commitment had no parallel.

