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Editors' Summary

The four papers in this issue of *Economía* cover both macro- and microeconomic topics of extreme relevance to the policy debate in Latin America. In "A Comparison of Product Price Targeting and Other Monetary Anchor Options for Commodity Exporters in Latin America," Jeffrey Frankel discusses the advantages and drawbacks of seven alternative nominal variables that could become anchors or targets of monetary policy. Also with respect to monetary policy, Marc Hofstetter notes in "Inflation Targeting in Latin America: Toward a Monetary Union?" that five of the main economies in Latin America have moved toward inflation-targeting regimes (Brazil, Chile, Mexico, Colombia, and Peru) and asks whether, under those circumstances, it might not be better for these economies to adopt a common currency. Switching to the microeconomic perspective, in "Is Violence against Union Members in Colombia Systematic and Targeted?" Daniel Mejía and María José Uribe investigate the claim that union leaders are targets of political violence in Colombia, finding no empirical support for this commonly held belief. Finally, "The Dynamics of Income Inequality in Mexico since NAFTA," by Gerardo Esquivel, analyzes the reduction in inequality in Mexico since 1994, showing that labor income, social programs, and remittances played a major role in that process and arguing that the observed pattern resulted from the interaction of market forces and state interventions.

In the first paper, Jeffrey Frankel considers the relative strengths of alternative anchors or targets of monetary policy, focusing on Latin America and the Caribbean. Economies in this region tend to be price takers on world markets, to export commodities subject to volatile terms of trade, and to experience procyclical international finance. Of the seven anchors and targets considered, three are exchange rate pegs (dollar, euro, and special drawing rights), one is orthodox inflation targeting, and three represent new proposals for inflation targeting, with particular emphasis on the price of export commodities: PEP (peg the export price), PEPI (peg an export price index), and PPT (product price targeting). The paper presents counterfactual exercises to analyze the performance of these different regimes in response to various types of shocks. Frankel argues that the advantage of the new proposals in relation to traditional CPI inflation targeting is that they can serve as nominal anchors and, at the same time, accommodate shocks to the terms of trade. CPI-based inflation targeting typically leads to tighter monetary policy as a response, for example, to increases in the world price of imported oil, generating currency appreciation. The author argues that a product price target would perform better in stabilizing the real domestic prices of tradable goods, since it would lead to appreciation in response to increases in the world prices of commodity exports, not in response to increases in the prices of imports. The recently increased volatility of commodity prices resurrected the debate on the desirability of currency regimes that are able to accommodate terms of trade shocks, highlighting the timeliness of the discussion raised in Frankel's paper.

In the following paper, Marc Hofstetter keeps the focus on monetary policy but turns his attention to the potential costs and benefits of a monetary union in Latin America and its weaknesses and strengths relative to those of dollarization. Brazil, Chile, Colombia, Mexico, and Peru have adopted inflation targeting since the 1990s, and inflation has been kept at one digit in all of them since 2000. Hoffstetter concentrates on these five countries, noting that converging monetary strategies lead naturally to the question of whether welfare gains might result from adopting a common currency. In trying to answer this question, the paper presents a simple policy model, along with results from the vast literature on monetary unions, to obtain estimates of the benefits and costs associated with a monetary union and with unilateral dollarization. The results suggest that the five countries considered would indeed benefit from a monetary union. With the exception of Brazil, they would also benefit from dollarization, but only in Mexico would the benefits from dollarization be clearly higher than those from a monetary union. Dollarization has obvious advantages only in countries that have strong trade links with the United States or business cycles that are closely related to the U.S. cycle. The author also informally considers the political costs associated with a monetary union and compares them with those of dollarization, claiming that the political barriers confronting a multilateral Latin American monetary union would be much weaker than those faced by dollarization. The paper is rooted in the traditional literature on optimal currency areas and therefore does not consider the potential effects of a currency union on debt sustainability. Given the current predicaments of the euro area, this issue is likely to become central in future work on currency regimes.

The third paper in this issue, by Daniel Mejía and María José Uribe, shifts focus to the issue of violence in Colombia. It often has been argued in policy circles that union leaders in Colombia are selectively targeted objects of political violence. In various circumstances, nongovernmental organizations and unions themselves have used this claim to back their opposition to free trade agreements and to gather political support for maintaining trade restrictions. The goal of Mejía and Uribe is simple: to verify whether there is any empirical support for this commonly held belief. The authors first set out to gather the available evidence on violence against union members in Colombia. They then analyze the recent evolution of violence indicators and investigate whether they seem to be linked to involvement in specific union activities (strikes, wage negotiations, and so forth). Their main finding is that there was a substantial decline in violence against unionists in Colombia over the last decade, independent of the data source used. In particular, the reduction in homicides of union leaders has been larger than that observed, for example, for teachers, journalists, and mayors. In addition, using different data sources and empirical strategies, the authors find no evidence that homicides of union members are in any way associated with involvement in union activities. The evidence presented in the paper suggests that violence against union members in Colombia is neither generalized nor targeted and that it probably is just another consequence of the overall level of violence in the country. The paper contributes not only to the policy debate surrounding free trade agreements and violence against union members in Colombia but also to the broader literature on targeted political violence. This is an understudied topic of particular relevance to Latin America, so *Economía* is pleased to be able to publish this original contribution.

Finally, Gerardo Esquivel revisits the issue of the evolution of inequality in Latin America, analyzing the recent experience of Mexico. Despite its long history of high and persistent inequality, Mexico started observing some reduction in income inequality from the mid 1990s onward. Esquivel constructs measures of income inequality using different definitions of income and then performs Gini decomposition exercises to investigate the contribution of different factors to the recent changes in the income distribution. Three factors appear as the main driving forces behind this process: better targeting and delivery of social programs (such as Progresa/Oportunidades), reductions in labor income and wage inequality, and increases in remittances from Mexicans living abroad. In addition, the author argues that the observed reduction in labor income and wage inequality seems to be associated specifically with labor market responses to improvements in educational level. The reduction in inequality after 1994 measured by Esquivel is enough to almost completely offset the widely documented increase in inequality in Mexico between 1984 and 1994. Reductions in inequality have been observed in various Latin American countries over the last decade. Esquivel's detailed analysis of the Mexican experience highlights the role of some factors that may also have played a key role in other experiences in the region: improved targeting and delivery of social programs and increased educational attainment. *Economía* has recently published on the topic of income inequality in Latin America, with a broad review of the recent trends. Esquivel's article is a welcome addition to this literature, focusing on the experience of Mexico and identifying factors that could shed light on other recent experiences.

Economía is the result of a collaborative effort, and, as usual, thanks are due to the many people who make it possible. We would like to thank the associate editors and discussants for putting in the time and effort to guide authors through the editorial process and members of our panel for providing a lively and critically dense debate environment. We would also like to thank our managing editor, Roberto Bernal, without whom it would have been impossible to put this volume together in such a timely fashion. The papers by Esquivel and Hofstetter were presented at the *Economía* sessions in the 2009 and 2010 LACEA annual meetings (Buenos Aires and Medellín). The papers by Mejía and Uribe and by Frankel were presented at the *Economía* spring conferences in 2010 and 2011, which were held at the Inter-American Development Bank and the World Bank, respectively, both in Washington, D.C. We thank the Inter-American Development Bank and the World Bank for their continued support of *Economía*.