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Editors' Summary

The four papers included in this issue of *Economía* range across many topics and subdisciplines, but they all contribute to shedding light on issues that are at the center of the economic policy debate in Latin America. The first paper uses a novel data set to check whether households respond to crises by allocating more time to shopping search and other home production activities. The second paper uses a theoretical model and cointegration analysis to study the effect of remittances on the real exchange rate. The third paper looks at whether the democratization process has affected the nature of the political budget cycle in Latin America. The last paper describes recent trends in income inequality in Latin America and provides some speculation on whether the recent decline in income inequality is sustainable.

In the first paper, David McKenzie and Ernesto Schargrodosky use the Argentine crisis of 2002 as a natural experiment to study whether households react to macroeconomic shocks by taking actions aimed at reducing the unit cost of their food expenditure. In other words, the paper asks whether economic crises lead households to shop more in search of better bargains. McKenzie and Schargrodosky find that although Argentine households responded to the crisis by reducing consumption, the total quantity of food purchased fell less than total expenditure. In particular, the paper uses high-frequency data that track the shopping activities of a panel of Argentine households to show that while the crisis led to an 11 percent drop in real expenditure, consumers increased shopping frequency by 7 percent. This increase in search allowed households to find better bargains and thus to buy more goods for any given level of expenditure. The paper estimates that this increase in shopping time allowed consumers to save about two percent on the cost of food, beauty, and cleaning products—a reduction that corresponds to approximately 17 percent of the drop in expenditure in these products. The discussion by Guillermo Cruces emphasizes that McKenzie and Schargrodosky's work is one of the few attempts to look at how households actually respond to a crisis, rather than focusing on households' stated strategies. Cruces's discussion also includes an interesting point about gender. In particular, he suggests that there is evidence that women tend to have a better grasp on the evolution of prices and that women experienced a larger drop in the opportunity cost of time during the Argentine crisis. It would thus be interesting to know more about gender differentials in price search during tranquil and crisis periods.

In the second paper of this issue, Adolfo Barajas, Ralph Chami, Dalia Hakura, and Peter Montiel examine how remittances affect the equilibrium real exchange rate. They start by modeling a two-sector small open economy with a fixed exchange rate and flexible wages and prices. The model starts by analyzing the case in which remittances are exogenous, reproducing the standard result that an increase in the level of remittances leads to an appreciation of the equilibrium real exchange rate. However, the authors show that the magnitude of this effect is decreasing in the degree of trade openness and labor market flexibility. Next, Barajas, Chami, Hakura, and Montiel explore what happens if remittances are assumed to respond to domestic income shocks. In particular, the authors study the case in which family members working abroad increase remittances when the recipient country receives a negative income shock. They find that assuming endogenous remittances weakens but does not reverse the standard result indicating that an increase in remittances leads to an appreciation of the real exchange rate. As a third exercise, the authors study what happens if remittances affect a country's risk premium (which may happen because a permanent increase in remittances has a positive effect on the country's wealth). They show that in this case remittances have no effect on the equilibrium real exchange rate. Finally, they look at the case in which remittances affect households' preferences over the composition of consumption. They show that if remittances increase the share of traded good in consumption, there are parameterizations under which an increase in remittances may lead to a depreciation of the real exchange rate. After having concluded that different sets of assumptions yield different results on the relationship between remittances and the equilibrium real interest rate, Barajas, Chami, Hakura, and Montiel use panel data and cointegration analysis to test the long-run relationship between remittances and the real exchange rate. They find that the sign and statistical significance of the effect of remittances on the equilibrium real exchange rate depends on the sample of countries included in the analysis and on the set of variables included in the cointegrating equation. While they find some evidence that countries with low trade openness tend to face larger appreciations, they also find that the effect is often small, relaxing the fear that large remittance inflows can lead to Dutch Disease problems. In his discussion, Thierry Tressel argues that it is important to understand why remittances have such a small effect on the real exchange rate. Since the model discusses the role of the composition of expenditure, it would be interesting to determine whether remittances are associated with expenditures on tradable or nontradable goods. If remittances are not spent on imports, it would be necessary to explore alternative reasons for the weak association between remittances and the equilibrium real exchange rate. The discussion also points to the fact that the empirical findings of the paper stand in contrast to the fact that aid inflows appear to lead to real appreciations. It would be interesting to understand what drives this difference.

The third paper of this issue, authored by Lorena Barberia and George Avelino, looks at the political business cycle in a panel of eighteen Latin American democracies. In particular, the paper uses the Latin American experience to test whether governments in developing countries and new democracies are more likely to adjust fiscal and monetary policy to affect the likelihood of being reelected. More specifically, the paper asks whether elections affect fiscal policy in Latin America and whether electoral competitions held during democratic transitions are more likely to lead to large fiscal deficits than elections in established democracies. The authors find that the political business cycle is indeed at work in Latin America, with election years being associated with large fiscal deficits. However, the paper does not find any evidence that the political business cycle is stronger when countries are transitioning toward democracy. In fact, the authors argue that the number of years for which a country has been democratic does not affect the intensity of the political budget cycle. What matters is whether the democratic process can guarantee a real turnover of political power. Another interesting finding of the paper is that larger budget deficits during elections are due to reduced tax collection and not increases in expenditure. The authors suggest that this behavior may be due to the government's attempt to please the upper classes and the military elite. The paper by Barberia and Avelino is accompanied by two excellent discussions. In the first of these discussions, Marcela Eslava relates Barberia and Avelino's work to recent research on the behavior of subnational governments. This research shows that local politicians in unconsolidated democracies are rewarded for running large fiscal deficits, but local leaders in consolidated democracies are actually punished for running larger deficits. The discussion by Jorge Streb suggests that future work should concentrate on the relationship between the political business cycle and the dynamics of debt. In particular, it would be interesting to check whether Latin America is characterized by stop-and-go policies driven by the political business cycle or whether the main driver of policies in the region is outright populism. In the presence of populism, debt keeps accumulating until the government is no longer able to borrow. Of particular interest is Streb's comment on the importance of the first competitive election and his example of how Juan Perón used the 1946 elections to create the party that has ruled Argentina for much of the following sixty-four years.

In the fourth and last paper of this issue, Leonardo Gasparini, Guillermo Cruces, and Leopoldo Tornarolli analyze the recent evolution of income inequality in Latin America and the Caribbean. The paper uses data from more than 200 household surveys in the region for the period going from 1992 to 2006 and confirms the well-known fact that Latin America and the Caribbean is characterized by high inequality. However, the paper also shows that the first years of the new century marked a turnaround in the trend of increasing inequality that marked the 1980s and 1990s. While writing the paper, the authors were not very optimistic about the sustainability of this trend and argued that the reduction in inequality documented in the paper was mainly driven by the recovery from economic crises. The paper is now complemented by an addendum that uses data up to 2009 and paints a much rosier picture of the situation. The addendum shows that the trends documented in the paper have continued during the second half of the 2000s and that the global contraction that followed the U.S. subprime crisis did not have negative distributional consequences for Latin America. This paper also comes with two excellent comments. Daniel Mejía makes the point that the paper by Gasparini, Cruces, and Tornarolli opens the road for new research and puts forward four questions. What drives the evolution of inequality over time? Does inequality affect economic activity, and if so, what are the channels through which this effect operates? How does inequality affect the political process in Latin America? What is the relationship between income inequality and inequality in the accumulation of human capital? The second comment, by Daniel Ortega, also emphasizes the need to understand more about the drivers of the trends documented in the paper. In particular, Ortega emphasizes the role of employment growth and wonders why crises seem to have a positive ratchet effect, in which inequality first increases and then drops and remains lower than its precrisis level. These are all fascinating issues worth much more work, and the data set put together by Gasparini, Cruces, and Tornarolli will be of great help for social scientists interested in addressing some of these questions.

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