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Editors' Summary

This volume of *Economía* consists of five papers. The first two papers tackle natural resource management. The first of these, by Daniel Lederman and William F. Maloney, explores whether the resource curse exists. The second paper, by Osmel Manzano and Francisco Monaldi, studies the economic and political economy circumstances that have driven countries to expropriate oil contracts. The next two papers are related to trade openness: Eduardo A. Cavallo analyzes the relationship between trade openness and output volatility, while Erik Thorbecke and Machiko Nissanke assess the impact of trade openness on poverty and income distribution. Finally, the volume finishes with Francisco A. Gallego and Andrés E. Hernando's very important paper on school choice under the Chilean voucher system.

In "In Search of the Missing Resource Curse," Lederman and Maloney critically tackle the problem of whether the natural resource curse exists. The idea that countries rich in natural resources are "doomed" by the existence of their lucky endowment has been in the minds of economists for more than 200 years. Perhaps the most important empirical findings supporting the natural resource curse are the seminal contributions by Jeffrey Sachs and Andrew Warner, who consistently find that countries rich in natural resources tend to grow more slowly than their unendowed counterparts.[1] Many have questioned this view, although the two most prominent critics have been Lederman and Maloney.[2] In this paper, they argue that the channels through which the natural resource curse is most commonly thought to operate are not empirically relevant and most of them are theoretically questionable. The paper builds on earlier work to illustrate that the existing stylized fact of a curse is inconclusive at best. The authors use a better measure for resource intensity than what previous researchers have used and find no evidence of a curse. This

1. Sachs and Warner (1995, 2001).
2. Even I have written a paper dissenting from this view; see Manzano and Rigobon (2007).

is a thought-provoking and carefully crafted paper that convincingly argues against one of the strongest views supported by the conventional wisdom.

The second paper devoted to natural resources is "The Political Economy of Oil Production in Latin America," by Manzano and Monaldi. The 1990s started with a massive expansion of private sector investment in the oil industry. The private sector was thus responsible for the sizable development of reserves and production in several emerging markets. Together with this effort, an unprecedented increase in prices began in 1998 and only just ended in July 2008. During this time, the oil industry witnessed several expropriations and contract renegotiations. The most dramatic events occurred in Bolivia and Venezuela, but even the United Kingdom renegotiated contracts by changing their tax rates. Manzano and Monaldi argue that the recent trend in expropriations and renegotiation in Latin America is the consequence of the rise in the international price of oil. Of course, countries reacted very differently to the oil price increases. In Brazil, Colombia, and Peru, the institutional framework and property rights were strengthened, whereas that was not the case in Bolivia, Ecuador, and Venezuela. The authors study the relationship between the local institutional framework and how large movements in prices drive expropriation incentives. Their story is not just about the last seven years but rather rationalizes the experience of the oil industry over the last century. If Manzano and Monaldi are right, the recent drop in oil prices will generate a push toward privatization, which will be reversed when oil prices increase. This paper presents a fascinating and intriguing challenge for policy. Can contracts be improved to minimize the cycles? If the contracts are going to be renegotiated when extraordinary circumstances appear, should the contracts include clauses intended to deal with such situations?

The next two papers study the impact of trade openness on output volatility and on poverty. Cavallo's paper, "Output Volatility and Openness to Trade: A Reassessment," studies the relationship between trade openness and output volatility. It is commonly held that openness to trade increases the average growth rate of GDP but also increases its variance. Cavallo argues that this finding does not take into account the fact that trade openness has a stabilizing effect through the financial channel. Cavallo finds that, as indicated in the standard literature, openness increases the volatility of the terms of trade and its impact in the economy, but he also shows that credit availability increases and has a stabilizing role—meaning that credit is countercyclical. In other words, trade openness reduces vulnerability to some forms of financial crises, but it also smooths the adjustment in the aftermath of external shocks. In the end, the latter effect is larger than the former, and empirically the net impact of openness is that it stabilizes GDP. The main challenge in this paper is the resolution of simultaneous equation bias. The paper uses gravity equations—à la Jeffrey Frankel and David Romer—as instrumental variables to deal with endogeneity.[3] The paper presents a fresh view to the impact of trade openness on macroeconomic stability.

The fourth paper in the volume, "The Impact of Globalization on the Poor in Latin America" by Thorbecke and Nissanke, studies the impact of trade openness on income distribution and poverty. The paper starts by describing the transmission mechanisms discussed in the literature, and it then estimates the impact of trade openness on several Latin American countries. The last part of the paper studies eight cases in detail. The evidence presented in the paper indicates that institutions such as social protection, labor market flexibility, trade liberalization, and property rights are crucial in reducing the vulnerability of the poor. The authors find that the experience in Latin America between 1981 and 2004 is gloomy. First, the region grew at a very low rate, and trade openness contributed very little to that already small rate. Second, the growth experienced in the region was not progressive: it brought higher income inequality to the region rather than less. Surprisingly, however, Brazil, Chile, and Mexico were the best-performing countries—surprisingly because Brazil and Chile have among the worst income distributions of the world and experienced the worst deterioration in the 1970s and 1980s. Although the picture presented in the paper is not an optimistic one, two important issues arise from the analysis. First, countries in the region have undertaken several steps toward creating a better safety net, which will make future growth more beneficial to the poor. It is therefore possible that the recent growth in the region might have alleviated poverty tin a way that it did not in previous episodes. Second, from a political economy perspective, the Latin American societies were clearly exhausted by the reforms in the 1980s and 1990s. This fatigue may be the outcome of a growth process that was either truly unfair or perceived as unfair. The paper does not pretend to address these issues, but its findings certainly open the door to the question of what the channels of exhaustion are.

Finally, in "On the Determinants and Implications of School Choice: Semi-Structural Simulations for Chile," Gallego and Hernando study the implications of school choice in the Chilean voucher system. Chile is a model of education reform, and analyzing the impact of the reform on school choice is clearly a vital step in policy design. The current Chilean system was implemented in 1981. As summarized by the authors, the system has four central

3. Frankel and Romer (1999).

elements: "private and public schools receive government subsidies proportional to school enrollment, based on a (mostly) flat per-student subsidy; students are free to apply to any school that receives government subsidies; voucher schools are free to choose students among the pool of applicants and may charge top-ups; and school entry is relatively easy." Gallego and Hernando use information on the school choices of about 80,000 students that lived in the Metropolitan Area of Santiago in 2002. The purpose of the exercise is to determine how valuable the ability to choose a school is to households. They estimate a structural model, which reveals that the ability to choose is indeed valuable to households. They find, however, that there is a tremendous heterogeneity in the value—and that the value is regressive in some simulations. In other words, some dimensions of the design of the Chilean voucher system are progressive, but others are regressive. This is an important finding for policy design. Regardless of the distributional impact, the fact that households value school choice, and that the voucher system in some sense allows them to exercise that choice, is a first-order result worth exploring.

Economía is the result of a collaborative effort of many moving parts. 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 discussion; and *Economía* staff, in particular Catherine Mathieu-Canuto, helped put it all together. Without their steady and abundant effort, this volume would have not have come to fruition. The articles in this issue were presented at a panel meeting held at Yale University on May 2, 2008. I am especially grateful to Yale and Eduardo Engel for hosting us and providing us with their unbounded support.

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