RAQUEL BERNAL
MARCELA ESLAVA
UGO PANIZZA
ROBERTO RIGOBON

Editors' Summary

This issue of *Economía* consists of four papers, two of which are related to macroeconomic instability, a highly relevant issue in the context of today's macroeconomic turmoil. One of the papers, by Herman Kamil and Kulwant Rai, studies the effect of the global financial crisis on foreign bank lending to Latin America and the Caribbean. The second paper, by Santiago Fernández de Lis and Alicia García-Herrero, studies macroprudential tools as a way to limit credit procyclicality, relying on the Spanish case to illuminate the discussion for countries in Latin America. The other two papers in this issue, one by Christian Daude and one by Diego Restuccia, study different dimensions of productivity growth in Latin America.

"Global Deleveraging and Foreign Banks' Lending to Latin American Countries," by Kamil and Rai, looks at how the global financial crisis affected foreign bank lending to Latin America and the Caribbean. The authors' econometric analysis uses quarterly data from the Bank of International Settlements covering twelve Latin American countries over the period 1999–2009 to assess how foreign bank lending to the region was affected by three factors: the freezing of international money markets; the deterioration of the financial health of parent banks in advanced economies; and more restrictive lending standards in home countries' banking systems.

Kamil and Rai show that those three factors had a large impact on foreign bank lending to Latin America. However, they also find that foreign banks that conducted a higher share of their lending through their local affiliates in domestic currency were less subject to home country shocks. For instance, their econometric estimates suggest that an increase in the TED spread has a large effect on cross-border foreign bank lending but no effect when lending is channeled through local affiliates. Along similar lines, the authors find that the transmission of financial shock was more muted in countries in which foreign-owned local affiliates relied more heavily on local funding (retail deposits) than on parent bank resources or wholesale market funding. Kamil and Rai's results suggest that policymakers interested in assessing the costs and benefits of financial globalization need to pay attention to the mode in which foreign banks enter the local markets and to be aware that cross-border lending is much more responsive to global shocks than is lending through local affiliates of foreign banks.

The discussion, by María Soledad Martínez Pería, emphasizes the importance of the policy implications of the paper and suggests that the paper opens many avenues for future research. In particular, she suggests that future research should provide a starker comparison between crisis and tranquil periods, explore potential sources of heterogeneity among home countries, and provide more evidence to substantiate the claim that foreign bank lending to Latin America was more resilient than lending to other regions.

"Dynamic Provisioning: A Buffer Rather Than a Countercyclical Tool?" by Santiago Fernández de Lis and Alicia García-Herrero, focuses on macroprudential tools and discusses how they can be used to limit credit procyclicality. The authors provide a detailed description of dynamic provisions in Spain and compare the experience under the Spanish system with the experiences of Colombia and Peru. The authors go into great detail in discussing various issues related to the design of the system and compare the cost and benefits of a rules-based system with those of one that allows for more discretionality. In their evaluation of the Spanish system, Fernández de Lis and García-Herrero conclude that while dynamic provisions helped in creating a cushion during a period of rapid credit growth, the Spanish macroprudential tool was not successful in discouraging excessive credit growth or in preventing a housing boom. When the crisis hit, accumulated provisions were rapidly depleted, and a steep increase in provisions was required during the crisis, a fact that calls into question the supposedly anticyclical features of the system.

In his discussion of the paper, Augusto de la Torre points out that the presence of financial procyclicality is not sufficient to justify the introduction of dynamic provisions. He then suggests that the policy rationale for financial regulation can be better discussed by focusing on three paradigms: the "agency paradigm; the collective action paradigm; and the collective cognition paradigm. He emphasizes that understanding which type of paradigm drives regulation is essential because there are tensions and trade-offs among the paradigms and because macroprudential policies can amplify microprudential distortions. He concludes that rather than try to achieve a perfect combination of macroprudential policies, authorities should seek to achieve a reasonable balance of macro- and microprudential policies given the inherent tensions and trade-offs.

The papers by Christian Daude ("Understanding Solow Residuals in Latin America") and Diego Restuccia ("The Latin American Development Problem: An Interpretation") examine different dimensions of what Restuccia calls "the Latin American development problem," namely a significant and pervasive productivity gap with respect to developed countries. Both papers start by using growth accounting techniques to illustrate the productivity gap. Decomposing the per capita GDP differences between countries in Latin America and the United States into the contribution of physical capital, human capital, and residual total factor productivity (TFP), both authors show that it is TFP that drives most of that gap. Moreover, Restuccia shows that the TFP problem is pervasive across sectors of the economy and thus is not fully resolved through efforts to transform the sector structure of the economy.

After illustrating the TFP gap between the region and the developed world, the two papers take on different dimensions of the problem. Daude further decomposes the productivity gap of Latin America with respect to the United States. He explores the potential contribution of differences in labor shares across countries; differences in hours worked (also accounted for in Restuccia's paper); and terms of trade fluctuations. None of those factors seems to have an important effect on the output gap, at least for the group of Latin American countries as a whole. But Daude does identify two factors that play a significant role: differences in the quality of education and differences in the production possibilities frontier. That is, Daude's findings indicate that an important part of the TFP gap is explained by the fact that the quality of education in Latin American countries is lower than it is in the United States. They also show that productivity lags in the region not only because of inefficiencies that prevent Latin American countries from reaching their potential but also because their potential is still far below that of the developed world.

In his comment on Daude's paper, Daniel Ortega points out the importance of using studies about productivity in Latin America to provide guidance on how policy can help overcome the gap with respect to the developed world. That is precisely the avenue taken by Diego Restuccia in his paper. Using a model in the spirit of his work with Richard Rogerson, Restuccia quantifies the contribution of two types of distortions partly attributable to policies—high entry costs and idiosyncratic distortions— to the difficulties that Latin America has had in catching up with the United States. Restuccia's findings indicate that idiosyncratic distortions can explain a large part of the productivity gap. Idiosyncratic distortions are modeled as differences in the price of output across producers, so that they can be attributed, for instance, to differential taxes or to subsidies. The implication is that more homogeneous (perhaps transversal?) regulations would help boost productivity in the region. Although the author also finds that high entry costs play a role, their quantitative importance is far lower than that of idiosyncratic distortions.

The comment of César Calderón to Restuccia's paper points to measurement issues that may affect Restuccia's results. Interestingly, some of these unresolved issues, like the effect of differences in quality of education, are addressed in Daude's paper. The two papers on productivity in this issue thus complement each other nicely, providing the reader with a rich characterization of the productivity gaps between the countries in the region and the United States. We hope that these studies will give way to future applied work that directly addresses the question of what policy can do to help the region catch up with the developed world in terms of productivity.

As always, we are very grateful to the people and institutions that make the issues of the journal possible. The journal's editors, associate editors, and panel members put great effort into evaluating the papers submitted and providing suggestions to bring them to their full potential. *Economía*'s managing editor, Roberto Bernal, worked incredibly hard to get the journal's machinery working and to see this issue through to completion. The Inter-American Development Bank and the World Bank hosted some of the meetings at which these papers were presented and discussed and provided logistical support for the meetings. For decades, these two institutions have provided support to economic research in the region, a legacy that the journal always benefits from. Finally, it is LACEA that makes the existence of the journal possible. We are grateful for the sustained support that the association gives to our activities.