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Editors' Summary

This volume of *Economía* includes six papers. Among them, we are proud to publish the Carlos F. Díaz-Alejandro lecture delivered by Carmen M. Reinhart at the 2014 Annual Meeting of the Latin American and Caribbean Economic Association (LACEA), on the current validity of Díaz-Alejandro's insights regarding the recurring features of financial crises. By granting Carmen Reinhart the Díaz-Alejandro award, LACEA recognizes her outstanding contributions to the profession. Three of the other papers in this issue cover topics of particular importance to Latin American labor markets: formal and informal labor market institutions versus macroeconomic outcomes and volatility; the trends in successful graduation rates in the region; and the microeconomic determinants of out-of-school, out-of-work status for youth in eighteen Latin American countries. The final two papers in this volume investigate important topics on institutions and political economy in the region: whether financial crisis leads to fiscal reform; and whether drug-related violence is related to the trafficking or possession of drugs, with implications for the expected effect of potential drug legalization.

In "Out-of-School and Out-of-Work Youth in Latin America: A Persistent Problem in a Decade of Prosperity," Mauricio Cárdenas, Rafael de Hoyos, and Miguel Székely explore the evolution and microeconomic determinants of the out-of-school, out-of-work (OSOW) status among Latin American youngsters. Using household surveys data for eighteen Latin American countries, they show that the recent prosperity in the region has had a smaller impact on the OSOW population than on other pressing economic problems. For instance, while the fraction of the population that is poor has fallen by over eight percentage points, the fraction of youth that are OSOW has only fallen by two percentage points. The authors also find that the probability of being OSOW for a young person is negatively correlated with household income, with the level of education of the household head, and with the probability that the household head is employed.

Common wisdom holds that crises are unique opportunities for reform, with fiscal reforms being frequently advocated in times of crisis. Mark Hallerberg and Carlos Scartascini explore the empirical link between crises and fiscal reforms in “When Do Governments Improve Fiscal Institutions? Lessons from Financial Crisis and Fiscal Reform in Latin America.” They find that in Latin America, the relationship has not been independent of the type of crisis. While fiscal crises have indeed led to fiscal reforms, the same cannot be said about banking crises. In fact, a banking crisis alone makes fiscal tightening less likely.

In “Institutions, Informal Labor Markets, and Business Cycle Volatility,” Alan Finkelstein Shapiro studies the relationship between different institutions that affect informality and long-run macroeconomic outcomes, as well as labor market volatility. Using a business cycle model with search and matching in the labor market, he shows that different policies intended to reduce informality have different effects on overall economic activity and unemployment volatility, even if their effect on informality is the same. He contrasts the effects of increases in penalties on informal employment with the effects of improvements in the business environment for formal firms, in magnitudes that imply the same reduction in informality. He finds that while increasing penalties to informal employment reduces economic activity and unemployment volatility, the opposite is true for improvements in the quality of institutions that regulate the formal sector.

“Enrollment, Graduation, and Dropout Rates in Latin America: Is the Glass Half Empty or Half Full?,” by Marina Bassi, Matias Busso, and Juan Sebastián Muñoz, documents the evolution of secondary school enrollment and graduation in eighteen Latin American countries between 1990 and 2010, using household surveys. They show that although enrollment and graduation rates increased during that period while dropout rates decreased, much progress is still to be achieved. Graduation rates remain low, and there is great inequality across income levels, genders, and regions. In the period, enrollment rates increased from 44 to 58 percent; graduation rates increased from 31 to 45 percent. These figures are still far from the numbers around 90 percent that the United States displays in both indicators.

In “Does Drug Illegality Beget Violence? Evidence from the Crack-Cocaine Wave in São Paulo,” João M. P. De Mello studies the relationship between crack trafficking and possession and violence, using city-level data and controlling for city effects, time effects, and time-varying covariates.

A reduction in crack trafficking is found to reduce homicides but not property crimes, while a reduction in crack possession (for personal consumption) has no independent effect on violence. Based on these findings, the author argues that drug-related crime is induced by illegality itself, rather than the possession and use of drugs. The argument supports the case for legalization.

The final paper is Carmen M. Reinhart's lecture presented on receiving the Carlos Díaz-Alejandro Prize, awarded by LACEA in November 2014. In the paper, she reviews the lessons from Díaz-Alejandro's studies of crises in Latin America. While his studies were based on the patterns of crises in the 1930s and 1980s, Reinhart's lecture shows that his findings apply to modern crises, as well, including the recent global financial crisis. She draws the lessons that these findings offer in terms of what Latin America should avoid.

We must extend thanks to people and institutions that have made this issue of the journal possible. The group of editors and associate editors has put great effort into evaluating the papers and providing suggestions to bring them to their full potential. The managing editor of *Economía*, Roberto Bernal, took this issue to completion. His work is a crucial piece in the working of the journal. The continued support of LACEA makes possible the existence of the journal. Finally, the publishing of this issue of *Economía* received the generous support of the LACEA Labor Network. The Network funded the publishing costs of the three papers in this issue that bear direct relationship to the workings of the labor market in Latin America.