



2002
Annual
Report

**Center for
Latin American
Economics**



Federal Reserve Bank of Dallas
Research Department

About the Center for Latin American Economics

The Federal Reserve Bank of Dallas established the Center for Latin American Economics (CLAE) in 1992 to promote public understanding of economic policy issues pertinent to Latin America. The center serves as a clearinghouse for information about the region and pursues the exchange of ideas internationally. The CLAE hosts scholars and central bankers from Latin America, organizes conferences, and sends staff economists to present papers at academic and technical conferences. The staff writes and publishes work in a wide variety of outlets, including refereed journals, books, and publications of the Federal Reserve Bank of Dallas.

The center's *Research Abstracts* publishes the abstracts of as-yet-unpublished papers on Latin America by authors from around the world. Abstracted papers include work by central bankers, academics, and economists and other social scientists. *Research Abstracts* enables CLAE members to become familiar with the latest research on the region on a timelier basis than is possible by relying on academic journals.



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From the Director General

One of the most important recent economic phenomena in Latin America has been low inflation, often resulting from disciplined central bank policy and more open markets. Because inflation in Latin America was not high in 2002, even in crisis countries where it once exploded regularly, other events have received more attention. These events, however, are part of what makes the inflation story noteworthy. Freer capital movements and trade play much more important roles than is widely recognized.

For Latin America, 2002 began with one crisis, ended with another, and endured still other volatile episodes in the interim. Between mid-December 2001 and mid-January 2002, Argentina defaulted on its \$155 billion in outstanding debt, announced three exchange rate regimes, devalued its currency by 100 percent, and had five presidents. In February 2002, the bolivar was devalued about 40 percent. The year ended with Venezuela, stunned by a political crisis and national strike, in economic free fall.

In the interim, Brazil had its own stresses, including a floating exchange rate that depreciated 75 percent against the dollar between February and October and then appreciated 12 percent between October and the end of December. Due largely to presidential election jitters, the spread of Brazil's Emerging Market Bond Index over U.S. Treasury rates moved from about 800 basis points in January to almost 2,300 in October, and fell to about 1,400 by year's end. Meanwhile, Mexico's economy, increasingly tied to the U.S. manufacturing sector, trailed the United States' slow growth rate but did grow in 2002.

The largest inflation-targeting countries, Brazil and Mexico, failed to achieve their targets. In trying to do so, however, Brazil engineered a 700-basis-point increase in its benchmark Selic interest rate between September and December. Mexico hewed hard to a target that was not achieved only because of increases in government-administered utility prices.

December-over-December inflation rates in the inflation-targeting countries—which also include Chile, Colombia, and Peru—were relatively low by the standards of the past 20 years, even though the pass-through from Brazil's exchange rate depreciation contributed to a 14 percent increase in that country.

Inflation and monetary expansionism were most strikingly low in the crisis countries, even though inflation was not really very low. Argentina seemed to have the greatest potential for a burst of high inflation. Suddenly, the nation was papered with low-denomination debt instruments that circulated as currency. Argentina's central government began issuing the patacon, which looked and felt just like money. Argentina's provinces did the same. Santa Cruz province, home of former president Carlos Menem, issued debt instruments with a portrait of Eva Perón. Something, however, restrained inflation to 41 percent between December 2001 and December 2002, compared with price increases substantially higher than 1,000 percent between December 1989 and December 1990.

Similarly, despite Venezuela's persistent efforts to reduce its debt without increasing taxes, the extremes of monetary expansionism that might have occurred a decade earlier never materialized. Price controls in Venezuela make comparisons difficult, but data on monetary expansions give us some idea of what was happening. Over December 1990 to December 1991, Venezuela raised its M1 monetary aggregate by 54 percent. In circumstances at least as stressful between December 2001 and December 2002, monetization proceeded rapidly by current Brazilian, Chilean, and Mexican standards. But at 18 percent, Venezuela's rate of monetary expansion was still only one-third what it was at the start of the 1990s.

Openness and Inflation

Different factors explain inflation—or its absence—in different countries. Much econometric evidence suggests that disinflation in the United States is largely due to technological advances. By contrast, in Europe the main cause is a surplus workforce that holds down wages.

However, among the less well-understood relationships observed between inflation and other variables, some of the most robust involve not only openness to capital flows and trade but also the liberalization of capital and current accounts. CLAE staff economists offer evidence that these factors are not only linked but that the liberalization leads and the reduction in inflation follows. This flies in the face of some analysts' thinking, for reasons that are understandable.¹ For if a sudden, unsterilized rush of capital into a country signals out-of-control monetary expansion, how could capital account liberalization be anti-inflationary? However, the more open capital markets are, the easier it is for assets to go abroad when domestic policies would erode their value at home. Currency substitution becomes easier. As a result, the seigniorage-maximizing inflation rate falls. Reactions to this new calculus could include tighter monetary policy—or at least monetary policy that is tighter than it would otherwise be—or making the central bank autonomous.

Latin America has made big strides toward more openness to international capital flows in the past 15 years. The persistent connection between capital account liberalization and lower inflation suggests this relationship contributes significantly to the relatively low inflation rates being seen in the region's crisis countries. Moreover, even where official capital market liberalization is slow, technological advances may still be making capital more footloose. As a famous paper by Stijn Claessens, Michael Dooley, and Andrew Warner concludes, all capital is now "hot" capital.² Whether legal or illegal, looser capital movement intensifies currency competition; the ability of capital to relocate can impose greater consequences when one government seeks to inflate its currency and another does not.

The Current Account and Inflation

Inflation also falls when the current account opens. In the late 1990s, some economic literature claimed the statistical regularity connecting current account openness and inflation was not really very regular. According to some, the connection only reflected factors peculiar to heavily indebted countries during the great debt crises of the 1980s. This detail was purportedly hidden in previous estimations that had sampled large numbers of many different types of countries without correctly disaggregating them. Countries that were not heavily indebted, according to these economists, did not show this relationship.

This interpretation was strongly debated even then, and it continues to be questioned. Research by CLAE staff economists shows that in the 1990s the inverse relation between current account or trade openness and inflation—and even between trade liberalization and changes in inflation—applied to rich countries, poor countries, heavily indebted countries, and not heavily indebted countries. This research also demonstrates that the negative relation between current account openness and inflation has strengthened overall since the 1980s.

Agreement on a paradigm to explain the negative link between current account openness and inflation is less widespread now than a decade ago. However, more trade obviously means more opportunities for businesses to understate the value of their exports and overstate the value of their imports. This offers more avenues for parking assets abroad and creates opportunities for currency substitution and currency competition, just as capital account openness does in other ways.

Some of Latin America's largest countries still do not trade very much. But both imports and total trade as shares of gross domestic product adjusted for purchasing power—a common measure of trade openness—have risen markedly over the past 20 years. During 1986–90 and 1996–2000, trade as a share of this adjusted GDP rose by about one-fourth in Argentina, about one-third in Brazil, and about one-half in Mexico. Chile's and Venezuela's ratios did not increase but have always been high.

While capital and current account liberalization may not have been the only factors

lowering inflation in Latin America over the past decade or so, the robustness of the negative relations between them suggests they have been important in making the region's inflation less newsworthy. Inflation targeting, freely fluctuating exchange rates, technological advances in international finance, and industrial country disinflation have had an effect, and the policies resulting in the capital and current account liberalizations may have been determined in conjunction with these factors. The link between liberalization and inflation, however, seems clear.



William C. Gruben
Director General
Center for Latin American Economics

Notes

¹ See Rodrik, Dani (1998), "Who Needs Capital-Account Convertibility?" Harvard University (Cambridge, Mass., February).

² Claessens, Stijn, Michael P. Dooley, and Andrew Warner (1995), "Portfolio Capital Flows: Hot or Cold?" *World Bank Economic Review* 9 (January): 153–74.

Research and Shorter Analysis

CLAE staff, visiting scholars, and their coauthors conducted research on topics related to current account and financial crises, banking, capital flows and capital account liberalization, undocumented immigration, the informal economy, and the interaction of political and economic pressures. The work included CLAE and Research Department working papers and articles submitted for publication in books and outside journals. Center staff members also contributed to the Dallas Fed's *Economic and Financial Review* and *Southwest Economy*.

Exchange Rate, Current Account, and Financial Crises

Some of the most extensive CLAE research and analysis has been on exchange rate, current account, and financial crises. Latin America offers some of the world's best-known examples of such crises, but even the study of lower profile Latin American financial events helps us understand how these phenomena operate.

"Argentina's Recovery and Excess Capital Shallowing of the 1990s" deals with one of the more widely known financial crises. Finn Kydland and Carlos Zarazaga test for differences between how Argentina's economy would have operated in the 1990s had it followed standard free market neoclassical assumptions and how it actually performed.

Kydland and Zarazaga find that Argentina's productivity growth rates during the '90s generated lower investment levels than a neoclassical economy would have. Because of this subpar development of physical capital—the "capital shallowing" of the paper's title—a basis for sustained expansion did not materialize. This appears to be one reason Argentina could not recover from the economic slump and financial crisis that still plague the country.

In another modeling comparison with ideally neoclassical behavior, Kydland and Zarazaga examine the country's protracted crises of the 1980s. "Argentina's Lost Decade" addresses what complicated the country's efforts to escape a depression

after a crash in Argentine export prices and a severe world credit crunch. In the authors' shallowing piece, distortions that discouraged investment made sustained growth increasingly difficult during the 1990s. The economists' study of Argentina's 1980s crisis suggests that the characteristics of the nation's capital markets played an important role in that decade.

"Argentina's Lost Decade" finds that because the country has relatively open capital markets, the fall in total investment needed to reach a postcrisis equilibrium is large compared with that of more financially closed countries. In the latter, economic downturns depress interest rates. Because investment goes up when interest rates go down, an interest rate drop cushions what would otherwise be a crash in investment. But in an open capital market like Argentina's, the same output fall would not push down interest rates as much. The international financial interconnections that result from capital market openness mean that local interest rates are determined more by world rates than by local supply and demand factors. Because world credit markets impeded the decline of local credit prices, investment had no cushion and so fell further in the 1990s. Labor market rigidities were a second adjustment problem in the 1980s. Labor market flexibility could have led to greater long-term growth, but government payments discouraged job shifts.

"Banking and Currency Crisis Recovery: Brazil's Turnaround of 1999" takes a different approach. William Gruben and John Welch examine how Brazil emerged so quickly from the economic problems surrounding its 1999 devaluation.

Brazil's textbook exchange rate crisis involved persistent deficits and financial market expectations of more to come. What made the postdevaluation turnaround so fast was that the banking system had been steadily strengthening for five years, the result of an increase in Brazil's supervisory and regulatory authority to enforce sound banking practices. To ensure sick banks

would have sufficient funds to pay off nervous depositors, capitalization rules were made more stringent than those of the Basel Accord and then strengthened even more.

In addition, concerns over private-sector sluggishness encouraged Brazil's banks to lower their loans as a share of total assets and move into government paper. By the time the megadevaluation occurred, the government had created a way to hedge most private-sector foreign obligations. As a result, the devaluation did not trigger the wave of loan defaults that occur during many exchange rate crises. Banks had already shifted their portfolios away from private-sector lending anyway. Their heavy capitalization meant the banks would have been well protected even if loan defaults had risen rapidly. This environment allowed the central bank to pursue policies restrictive enough to assure potential investors that inflation or further devaluation would not erode the value of their funds. Once this foundation was laid, and markets were convinced it was permanent, growth could follow quickly.

In "Yesterday's Crisis Countries: Where Are They Now?" Gruben further explores the interconnections between financial institutions, financial markets, and exchange rate crises. Unlike Brazil, many countries in crisis were torn between stabilizing their exchange and inflation rates with hard-money policies and minimizing their banks' nonperforming loan problems with softer monetary policies. After initial indecisiveness during the 1994–95 Tequila Crisis, Mexico went the hard-money route and turned its economy around quickly. Indonesia pursued soft-money policies punctuated by intermittently tighter episodes. The result was not only a slower recovery than Mexico's but one that largely occurred only because of a jump in world oil prices.

Not all large exchange rate devaluations occur under crisis conditions. Some are simply fiscal moves that while reflective of problems, are made well before the onset of serious financial pressure. In "Venezuela Addresses Economic Stress,"

Gruben and Sherry Kiser note that much of the government's income is in dollars. Because a large share of Venezuelan debt is typically denominated in local currency (bolivares), the government sometimes seems to devalue its currency almost casually, as a way of lowering the dollar value of its debt. When the dollar has been pegged and then devalued, the share of dollar-denominated government income required to service the bolivar-denominated debt falls.

Banking

Banking research, particularly as it applies to crises and credit shortages, is always an important component of CLAE research. In "When Does Financial Liberalization Make Banks Risky? An Empirical Examination of Argentina, Canada, and Mexico," Gruben, Koo, and Moore examine connections between the absence of depositor discipline (in which depositors pull their money from banks with asset quality problems) and risky lending. This connection does not invariably hold. But when liberalizations of government banking policy or bank privatizations motivate banks to compete for market share, the inverse relation between depositor discipline and risky lending clicks in.

"Banking and Finance in Argentina in the Period 1900–35," by Leonard Nakamura and Carlos Zarazaga, shows the consequences of Argentina's involuntary evolution from dependency on foreign (mainly British) finance to relative self-sufficiency. Domestic finance did not fill the void left by the decline of London and the breakdown of the world financial system in the interwar period. Neither the Buenos Aires Bolsa nor private domestic banks developed rapidly enough to fully replace British investors as efficient channels for financing private investment. Consequently, investable Argentine funds were increasingly concentrated in a single institution, Banco de la Nación Argentina. This created a lopsided financial structure vulnerable to rent seeking and authoritarian (governmental) capture. Never-

theless, several measures—including gold reserves, interest rates, money supply, bank credit, and market capitalization of domestic corporations—attest to Argentina’s high level of financial development.

Capital Flows and Capital Account Liberalization

Capital flows and capital account liberalization are often closely related in Latin America to commercial banking, but recent CLAE research addresses the topic with regard to central banking.

In “Capital Account Liberalization and Inflation,” Gruben and Darryl McLeod challenge the contention that opening the capital account to inflows of foreign funds triggers bursts of inflation. If the principal result of capital account liberalization were simply inrushes of foreign funds that created large increases in the money stock, that would, indeed, be possible. After all, inflation is too much money chasing too few goods. But when international capital inflows and outflows are possible, investors can move their assets from a country where monetary policy looks menacing to a country with less confiscatory and more stable policies. Open capital markets allow currencies to compete more intensely. This competition means a central bank’s ability to inflate its currency is much more limited than when the capital account is closed, so inflation may on average be lower.

That is exactly what Gruben and McLeod find in a 114-country study that includes most of those in Latin America. Not only is there a negative relation between the openness of a nation’s capital account and its inflation rate, but there is also a negative relation between the act of opening the capital account and changes in inflation.

Undocumented Immigration

The topic of undocumented immigration is of special interest in the Eleventh Federal Reserve District, which shares more than 1,000 miles of border with Mexico. Most Bank research on undocumented

immigration deals with immigration to the United States from Mexico.

Undocumented immigration has grown along with border enforcement in the United States for over thirty years, leading some to conclude that U.S. border policies have been ineffective. In “Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement,” Mark Guzman, Joseph Haslag, and Pia Orrenius offer an alternative view, extending the literature by incorporating both the practice of people smuggling and a role for nonwage income in a two-country, dynamic general equilibrium model.

The authors define conditions under which two steady-state equilibria—or persistent migration patterns—can exist. In one pattern, U.S. physical capital is relatively low and illegal immigration is high. In the other, physical capital is relatively high and illegal immigration is low. To evaluate how the system would work, the authors model two types of shocks: a positive technology shock to smuggling services and an increase in border enforcement. In the low-capital steady state, the capital–labor ratio declines with technological progress in smuggling and illegal immigration increases. In the high-capital steady state, a technology shock causes the capital–labor ratio to rise and the effect on migration is indeterminate. The authors show that an increase in border enforcement is qualitatively equivalent to a negative technology shock to smuggling. They also show that a developed country would never choose low levels of border enforcement rather than an open border. Moreover, a high level of enforcement is optimal only if it significantly decreases capital accumulation. The economists also find that under certain conditions an increase in smuggler technology will lead to a decline in the optimal enforcement level.

In “Do Amnesty Programs Encourage Illegal Immigration? Evidence from IRCA,” Orrenius and Madeline Zavodny examine whether allowing certain undocumented immigrants to legalize their status leads to additional illegal immigration. The study

focuses on the effects of the 1986 Immigration Reform and Control Act (IRCA), which granted amnesty to more than 3 million undocumented immigrants. Apprehension of people illegally crossing the U.S.–Mexico border declined immediately after the law’s passage but returned to normal during the period illegal immigrants could file for amnesty and the years thereafter. Moreover, apprehensions did not rise during the filing period, as would be expected if people immigrated to the United States to fraudulently apply for the program.

This suggests the amnesty program did not encourage illegal immigration. IRCA reduced illegal immigrant apprehensions in the short run, perhaps because after the law was passed, potential migrants thought it would be more difficult to cross the border or get a job in the United States. Despite some lawmakers’ predictions, amnesty also did not appear to encourage illegal immigration in the long run in the hopes of another such program.

Another Orrenius–Zavodny paper, “Self-Selection Among Undocumented Immigrants from Mexico,” tests for what decides who migrates and when in terms of skill levels. The results show that push factors, such as downturns in the Mexican economy, have the most influence on whether high-skill workers immigrate to the United States from Mexico. Pull factors, such as high wages, have a greater effect on low-skill workers. Other things equal, when an economic downturn hits Mexico, the number of undocumented immigrants leaving there for the United States rises and the share of immigrants who are highly skilled goes up. When Mexico experiences an economic upturn, other things equal, the number of undocumented workers coming to the United States from Mexico goes down, but the share of low-skill workers increases. When the U.S. minimum wage goes up, the number of undocumented workers from Mexico increases and the share of such workers who are low skilled increases. Moreover, the stricter the border enforcement, the higher the skill level of the aver-

age undocumented worker. Access to a network of previous immigrants appears to lower the cost of migrating but has no differential effect on skill level.

The Informal Economy

An important strand of CLAE research involves the problems informal sectors present for developing economies.

Erwan Quintin’s “Contract Enforcement and the Size of the Unofficial Economy” describes a model economy in which the size of the informal sector declines as the enforcement of financing contracts in the formal sector increases. The paper assesses how the availability of financial intermediation for agents who would otherwise operate in the informal sector might motivate them to operate in the formal sector.

In this model, agents who operate in the informal sector can avoid taxes, but they have no access to official contract enforcement and so their borrowing opportunities are much constrained. Quintin compares quantitative implications of the model with the evidence of informal-sector production in developing nations. He finds that tax enforcement alone cannot generate a large unofficial sector, but contractual imperfections can do so and account for several features typical of the organization of production in developing countries.

“Are Labor Markets Segmented in Argentina? A Semiparametric Approach” evaluates the hypothesis that workers in the informal sector make lower wages than they would in the formal sector. Using various definitions of informal employment, Sangeeta Pratap and Quintin find that on average, formal-sector wages are higher than informal-sector wages. But the subject is more complicated than it first appears. Applying parametric tests, the authors find that a formal-sector wage premium remains even after controlling for individual and establishment characteristics. However, the parametric approach results in econometric problems that can be solved with semiparametric methods. With such methods, the estimates of the formal-sector premium are

small, statistically insignificant, or even negative. This means that once the authors correct for econometric problems, they find no evidence that Argentina's labor markets are segmented along formal-sector versus informal-sector lines. Informal-sector workers do not make less once skill levels are accounted for.

A related study by Pedro Amaral and Quintin, "The Implications of Capital–Skill Complementarity in Economies with Large Informal Sectors," notes that formal-sector workers in most developing nations have more experience and education and higher earnings than workers in the informal sector. While this is commonly thought to mean low-skill workers face barriers to entry into the formal sector, there is little direct evidence these barriers are significant enough to matter.

Amaral and Quintin's paper describes a model with significant differences between formal and informal workers even though labor markets are perfectly competitive. In equilibrium, the informal sector emphasizes low-skill work because informal managers have less access to outside financing, so they substitute low-skill labor for physical capital. The financial contract enforcement problems discussed in the earlier Quintin paper express themselves in the Amaral and Quintin paper through the mix of labor that informal-sector firms use compared with what they would choose in a world where credit is readily available and all firms operate in the formal sector.

Political Pressures and the Latin American Economies

The interaction of political and economic pressures has been another CLAE focus. In "Is Mexico Ready to Roar?" Quintin compares Mexico with the East Asian tigers, pointing out that in 1965 Korea's income per capita was half Mexico's but is now more than twice that country's. Some reasons for the change are obvious. Korea has invested far more in education and plant and equipment. Mexico collects much less tax as a share of GDP—even less than

many Latin American countries—and so spends less as a share of GDP. As much as half of Mexico's economy does not pay taxes, leaving the financing burden to the rest.

A major cause of the problem is the Mexican government's weak enforcement of contracts between private-sector parties, which makes financial institutions reluctant to lend to the sector. This, in turn, discourages potential taxpayers from paying taxes. In other countries, an important reason firms enter the private sector is so they can produce tax receipts and other documentation that will allow them to borrow money.

Political problems are also the focus in the Zarazaga and Kiser article "Latin American Market Reforms Put to the Test." Consistent with the theorem of the second best, they note that introducing reforms in some markets but not others is not necessarily better than a little government intervention in all of them. While Latin America has made great progress in financial and trade liberalization, the region's governments lack the political commitment to deregulate labor markets. The result is not enough jobs for workers displaced by the trade liberalizations.

In "The Politics of Brazil's Financial Troubles," Gruben and Quintin show how market fears over the 2002 presidential election rapidly raised interest rates and suppressed exchange rates in Brazil, increasing the volatility of the cost of doing business.

"Financial Globalization: Manna or Menace? The Case of Mexican Banking" outlines how Mexico's mid-1990s Tequila Crisis resulted in political pressure to open the nation's banking system to foreign owners. After decades-long proscriptions on any but the smallest foreign footholds, about four-fifths of Mexico's banking assets are now controlled by foreign firms. Despite concerns about foreign ownership, Robert Bubel and Edward Skelton find that efficiency and capital adequacy have been the result.

Other Activities

CLAE staff members participated in a number of activities in addition to research and writing last year.

Gruben and Kiser accompanied Dallas Fed President Robert D. McTeer, Jr., to the Central Bank of Brazil. There they met with bank President Arminio Fraga and board members Ilan Goldfajn and Beny Parnes and their staffs to discuss the Brazilian and U.S. economies and monetary policies.

The CLAE was active in the formation of the Institute for the Study of Financial Intermediation and Growth. ISFIG, a joint endeavor of the Dallas Fed and the University of Texas at Austin, was established in 2002 to promote research and dialogue between policymakers and scholars, with a focus on Latin America.

The center organized a media roundtable at the Dallas Fed's San Antonio Branch that included presentations on Mexican fiscal reform (Quintin), the country's financial structure (Skelton), and its economic outlook (Keith Phillips); policy issues on Mexican–U.S. immigration and trade (Pia Orrenius); and free market reforms in Latin America (Zarazaga).

A CLAE seminar at Trinity University in San Antonio covered the globalization of the Mexican banking system (Skelton) and the country's economic outlook (Phillips); the integration of U.S. and Mexican markets (Orrenius); the stock wealth effect (John Duca); and free trade in the Americas (Zarazaga).

Policy issues were the focus in other forums. Gruben presented “How Much Does International Trade Affect Business Cycle Synchronization?” at the Latin American Meeting of the Econometric Society in Sao Paulo and the Latin American and Caribbean Economic Association meetings in Madrid. He presented “Capital Account Liberalization and Disinflation in the 1990s” at the Central Bank of Uruguay's Jornadas de Economia in Montevideo and “Mexico and U.S. Business Cycles: Disconnects and Connects” at Texas A&M International University. Gruben spoke on “Some Finer Points of Trade Liberalization: Did NAFTA

Affect Maquiladora Industries at All?” at a conference whose sponsors included the Dallas Fed's El Paso Branch and the University of Texas at El Paso. Gruben coauthored “Resisting and Recovering from Crisis: Lessons from Brazil and Argentina,” which John Welch presented at a Federal Reserve Bank of Atlanta conference on domestic capital and global finance in Latin America.

Zarazaga discussed “The Convertibility Law, Optimal Policy Rules, and the Fate of Free Market Reforms” at the Teresa Lozano Long Institute of Latin American Studies at UT–Austin. He presented “Argentina's Recovery and Excess Capital Shallowing” at meetings of the Latin American and Caribbean Economics Association in Madrid, Centro de Estudios Macroeconomicos de Argentina in Buenos Aires, and Georgetown University. He presented “Banking and Finance in Argentina in the Period 1900–35” at the 13th World Economic History Congress. At an international seminar organized by the Central Bank of Venezuela and Universidad Central de Venezuela, Zarazaga presented “Conjectures on Why a Devaluation Did Not Cure Argentina.” He presented “Emerging or Submerging Markets? The Consequences of Economic Turmoil in Latin America” to the James A. Baker III Institute for Public Policy at Rice University. He spoke on “Why Latin America Needs the Free Trade Agreement for the Americas More than Ever” at Austin College's Center for Southwestern and Mexican Studies and “Argentina's Melt-down: Food for Thought” to the Dallas Committee on Foreign Relations.

Orrenius presented “The Role of U.S. Border Enforcement in the Crossing Behavior of Mexican Migrants” at the Third Binational Conference on Mexico–U.S. Migration in Puerto Vallarta. She talked about the “Impact of Trade on the U.S. Mexico Border” at the annual meeting of the Society of American Business Writers and Editors. “Do Amnesty Programs Encourage Illegal Immigration? Evidence from IRCA” was her topic at a National Institutes of Health conference and at meetings of the Population Association of America

and the Association of Private Enterprise Education. Mark Guzman presented “Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement” at the Latin American and Caribbean Economics Association meetings in Madrid.

Quintin presented “The Implications of Capital–Skill Complementarity in Economies

with Large Informal Sectors” at the University of Montreal, and coauthor Amaral talked about the paper at a staff seminar at the Dallas Fed. Quintin presented “Growing Old Together: Firm Survival and Turnover Rates” at the Federal Reserve Bank of Atlanta and to a staff seminar at the Dallas Fed.

CLAE Publications, Papers, and Submissions

Amaral, Pedro S., and Erwan Quintin, “The Implications of Capital–Skill Complementarity in Economies with Large Informal Sectors,” submitted to *Journal of Monetary Economics*, November 2002.

Bubel, Robert V., and Edward C. Skelton, “Financial Globalization: Manna or Menace? The Case of Mexican Banking,” Federal Reserve Bank of Dallas *Southwest Economy*, January/February 2002.

Gruben, William C., “Yesterday’s Crisis Countries: Where Are They Now?” in *Forex Markets: Exchange Rate Dynamics*, ed. G. R. K. Murty (Hyderabad, India: ICAFI Press, 2002).

Gruben, William C., and Sherry L. Kiser, “Venezuela Addresses Economic Stress,” Federal Reserve Bank of Dallas *Southwest Economy*, March/April 2002.

Gruben, William C., and Darryl McLeod, “Capital Account Liberalization and Inflation,” *Economics Letters* 77 (October 2002), 221–25.

Gruben, William C., and Erwan Quintin, “The Politics of Brazil’s Financial Troubles,” Federal Reserve Bank of Dallas *Southwest Economy*, September/October 2002.

Gruben, William C., and John H. Welch, “Banking and Currency Crisis Recovery: Brazil’s Turnaround of 1999,” Federal Reserve Bank of Dallas *Economic and Financial Review*, Fourth Quarter 2001 (published 2002).

Gruben, William C., Jahyeong Koo, and Robert Moore, “When Does Financial Liberalization Make Banks Risky? An Empirical Examination of Argentina, Canada, and Mexico,” in *Prompt Corrective Action in Banking: 10 Years Later*, ed. George Kaufman (Amsterdam: Elsevier Science, 2002), 293–312.

Guzman, Mark G., Joseph H. Haslag, and Pia M. Orrenius, “Coyote Crossings: The Role of Smugglers in Illegal Immigration and Border Enforcement,” Federal Reserve Bank of Dallas Working Paper no. 0201, submitted to *International Economic Review*, December 2002.

Kydland, Finn E., and Carlos E. J. M. Zarazaga, “Argentina’s Lost Decade,” *Review of Economic Dynamics* 5 (January 2002): 152–65.

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Orrenius, Pia M., and Madeline Zavodny, “Do Amnesty Programs Encourage Illegal Immigration? Evidence from IRCA,” Federal Reserve Bank of Dallas Working Paper no. 0103, submitted to *Demography*, July 2002.

———, “Self-Selection Among Undocumented Immigrants from Mexico,” submitted to *Journal of Development Economics*, November 2002.

Pratap, Sangeeta, and Erwan Quintin, “Are Labor Markets Segmented in Argentina? A Semiparametric Approach,” Center for Latin American Economics Working Paper no. 0701, submitted to *International Economic Review*, April 2002.

Quintin, Erwan, “Contract Enforcement and the Size of the Unofficial Economy,” submitted to *Review of International Economics*, July 2002.

———, “Is Mexico Ready to Roar?” Federal Reserve Bank of Dallas *Southwest Economy*, September/October 2002.

Zarazaga, Carlos E. J. M., “Conjectures on Why a Devaluation Did Not Cure Argentina,” *Revista Venezolana de Analisis de Coyuntura*, proceedings of the international symposium “Monetary Options for South America in Light of the Globalization and Integration Process,” organized by the Central Bank of Venezuela and Universidad Central de Venezuela (2002).

Zarazaga, Carlos E. J. M., and Sherry Kiser, “Latin American Market Reforms Put to the Test,” Federal Reserve Bank of Dallas *Southwest Economy*, July/August 2002.

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Membership Application

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The Federal Reserve Bank of Dallas has established the Center for Latin American Economics in its Research Department to facilitate communication among researchers, academicians, and policymakers concerned with the economies of Latin America. We invite people with this interest to become members of the center. There are no membership fees.

Upon affiliation with the center, you will periodically receive center publications free of charge and will be able to publish abstracts of your work in *Research Abstracts*, which we issue twice a year. The purpose of this publication is to create an efficient means of timely communication among those dedicated to economic research, teaching, and analysis of economic policy in Latin America.

In preparation for our next issue of *Research Abstracts*, we invite all center members to send us their recent research papers on Latin American monetary and economic issues, together with short abstracts for each paper. We ask that the authors write their abstracts in English and limit the length to 250 words. We also ask that the authors include their address, telephone and fax numbers, and e-mail addresses as well as those of their coauthors so those interested in obtaining the papers can contact the authors directly. Also include any URLs where the papers may be found. The abstracts you send will appear in the next issue of *Research Abstracts*, which will be sent to all members.

The center is here to serve you and all those who are interested in Latin American economic research. Please pass the word about the center to your colleagues and invite them to write to us. We look forward to hearing from you.

Sincerely,



William C. Gruben
Director General
Phone 214-922-5155

Sincerely,



Carlos E. Zarazaga
Executive Director
Phone 214-922-5165

Membership Application
Center for Latin American Economics

Name/title: _____

Company: _____

Address: _____

Phone: _____ Fax: _____ E-mail: _____

Web site: _____

Major areas of interest/research: _____

Centro Para Estudios Económicos Latinoamericanos

Solicitud de Inscripción

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Dallas, TX 75265-5906
Fax: 214-922-5194
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El Banco de la Reserva Federal de Dallas ha establecido el Centro para Estudios Económicos Latinoamericanos con el propósito de crear una red de comunicación y discusión sobre temas económicos entre investigadores y estudiosos de las economías de América Latina así como entre éstos y aquellos con responsabilidades en decisiones de política económica en los países del área. Invitamos a todos ellos a hacerse socio del centro. No hay ninguna cuota de afiliación o suscripción.

Con su afiliación al centro los socios adquieren el derecho a recibir periódicamente, sin costo, las publicaciones del centro, así como a publicar los resúmenes de sus trabajos de investigación en nuestra publicación *Research Abstracts*. El objetivo de esta publicación es crear un canal de comunicación ágil y actualizado entre aquellos dedicados a la investigación económica, su enseñanza, o su aplicación al nivel de política económica en América Latina.

Precisamente, en preparación de la próxima edición del *Research Abstracts*, invitamos a los socios del centro a enviar un resumen de todos los trabajos de investigación sobre temas económicos que tengan actualmente en elaboración. Rogamos que los autores escriban los resúmenes en inglés, y que los envíos se limiten a 250 palabras y a temas económicos. Se ruega a los autores incluir en los resúmenes sus direcciones postales, correo electrónico, número de FAX, y la dirección de web a fin de que otros socios o personas interesadas en sus trabajos puedan solicitárselos directamente.

Reiteramos que el objetivo del centro es proveer un canal de comunicación ágil y eficaz entre todos aquellos con interés en el estudio de temas económicos que puedan ser de especial relevancia para América Latina. Por favor no dude en hacernos llegar sus sugerencias al respecto. Esperamos tener pronto noticias suyas.

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William C. Gruben
Director General
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Solicitud de Inscripción

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