Travel report from an International Conference

"XXV Latin American Meetings of the Econometric Society"
Buenos Aires, October 1-3, 2009

The XXV Annual Latin American Meeting of the Econometric Society (LAMES) was hosted by Universidad Torcuato Di Tella in Buenos Aires, on October 1-3, 2009. The conference was organized in parallel with the 14th Annual Latin American and Caribbean Economic Association Meeting.

The Global Development Network, a partner of LAMES and LACEA, highlights in its feature of the conference that these Latin American meetings are considered by many economists and social scientists a landmark annual event, essentially because of the wide number of topics covered, and because they bring together leading scholars and junior academics, policy makers at senior and junior levels, officials of international financial institutions, and economists from the private sector, giving also students at the Ph.D. level the chance to present their research.

The main focus of the conference is to encourage debate on issues of relevance for the Latin American region. This year, the conference had more than 400 presentations. It also had 6 plenary speakers, 24 invited lecturers, and around 70 presenters in invited sessions and panels. The program covered virtually all areas within development and applied and theoretical economics: informality, corruption, gender inequality, crime, political economy, education, family economics, social opportunity, migration, industrial organization, banking, microfinance, and many others. The full program, with downloadable files for most papers and presentations for the contributed and invited sessions and round tables, is available at http://www.webmeets.com/lacea-lames/2009.

Some highlights of the conference

1. Latin American income levels have been increasingly lagging behind those of the developed world. An invited session entitled "The age of productivity: Transforming economies from the bottom-up", discussed the draft of an IADB research report showing that high transportation costs can be a problem comparable in its consequences to that of having bad governance institutions and low accumulation of human capital in the long run.

   One of the main findings in the report was that 22 countries in the Latin American region spend nearly twice as much as the United States in freight expenses to import goods. High transportation costs naturally undermine trade but can also have a negative impact on the productivity of the entire economy, for example, by inhibiting access to more and better products, in particular capital goods. High transport costs might also prevent the entrance of new firms to the markets (protecting this way inefficient producers), and limiting the expansion of efficient plants (lowering their chances to export more).

   What can governments do? One of the conclusions in the debate was that reducing transportation costs requires not only better infrastructure but also a regulatory framework that promotes more investment and competition. More efficient ports and airports and improved regulation should be, for example, a top priority for governments in the region. A policy of more open skies in the region would also create a number of positive side effects, since more travel can be a major source of exchange of new ideas and technologies –at least as important as free trade of goods.

2. A paper in a contributed session on Corruption, presented by Claudio Ferraz of the P. Catholic University of Rio de Janeiro, explored the mechanisms that link corruption to long-run economic development. This paper was focused on the consequences of corruption for the quality of education. The paper uses micro data from auditing of Brazil's local governments to construct objective measures of corruption involving irregularities about educational grants transferred from the central government to municipalities.

   The main finding of the paper is that corruption significantly reduces the school performance of primary school students. Specifically, students residing in municipalities where corruption in education was detected are found to have significantly higher dropout and failure rates, and score less on standardized tests.

   The bottom line is that corruption affects economic growth and development not only indirectly (by impairing the well functioning of economic activities and increasing inequality, for example), but also directly, by lowering the quality of education and reducing human capital accumulation.

3. Ricardo Hausman of Harvard University, in a lecture entitled "The building blocks of economic complexity", presented a body of research he has been doing on trade, specialization, and development. He documented the fact that, as people and firms specialize in different activities, economic efficiency increases. This suggests that development is associated with an increase in the number of individual activities, but also with the complexity that emerges from the interactions between them, and the set of capabilities that countries need in order to sustain their productive structures.

   He approximates the complexity of a country's economy by characterizing the structure of a network connecting countries according to what they export. And interestingly, his paper shows that these measures are positively correlated with income per capita across countries, are predictive of future growth, and are predictive of the complexity of a country's future exports. All this makes a strong case that a country's level of development is associated to the complexity of it's economy.

   What are consequent lines of action? The results indicate that aggregate measures of physical and human capital are not necessarily enough to guide policies aimed at furthering development –as development economists have usually tended to think. The findings justify, for example, the search of specific products or the promotion of particular sets of capabilities, as a way to stimulate the development of new products and the accumulation of new capabilities, and as a practical way to achieve higher and sustainable levels of development.

Presentation

My presentation took place at a Development Economics parallel session organized by LAMES. It was entitled "Does the Internet reduce Corruption? Evidence across countries and US states". (A working paper version is available at http://www.econ.ku.dk/pabloselaya/papers/corruption.pdf). This paper is join work with Jeanet Bentzen, Thomas Barnebeck Andersen, and Carl-Johan Dalgaard, all affiliated to the Department of Economics, University of Copenhagen.

The answer to the question in the title of the paper is yes, that the Internet has effectively helped to reduce corruption, globally and regionally, since its appearance at the beginning of the 1990's. The analysis renders probable that the Internet is a powerful anti-corruption technology, because it (1) facilitates the dissemination of information about corrupt behavior, making it more risky for bureaucrats and politicians to take bribes; and because it also (2) facilitates the use of e-

government, and obviates the need for potentially corrupt officials to serve as middlemen between the government and the public, which has probably allowed for more transparency in the context.

Our finding takes into account that many other factors than the Internet might drive the dynamics of corruption, and thus our estimations control for the effects that the level of development, initial conditions, the level of human capital, and a large list of other socioeconomic factors might have.

Among the attendants in the session, Martin Ravallion of the World Bank, and Paolo Vanin and Matteo Cervellati of the University of Bologna, gave very helpful insights and suggestions. Their comments focused on the strategy used in the paper to identify a causal impact from Internet use on corruption. They liked the fact that we control for different confounding factors in trying to establish the link between Internet use and corruption, but emphasized that the correlations should be robust not only to the individual effects of potential confounders, but also to the combination of all of them (or at least to groups of them). A very useful suggestion from Mr Ravallion was that a decomposition of the index used to measure corruption, would open the possibility of disentangling the channels through which the Internet affects corruption, which would be highly informative and interesting to other researchers of the topic.

One of the main messages of this paper is that the change in the quality of institutions in developing countries –which is easier to understand conceptually than to start or implement in practice–, is a process that can probably be triggered and sustained by empowering people with larger and less costly access to new technologies of information.

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