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## Challenges for World Development: Letter from the Editors

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## **Challenges for World Development: Letter from the Editors**

**ROLAND EISEN**

**ALBERTO M. DÍAZ CAFFERATA**

The Revista de Economía y Estadística hosts in this volume selected papers from the VIIIth Arnoldshain Seminar held at the Universidade do Sao Paulo on March 2008, together with a contribution by Juan Carlos de Pablo.

The Arnoldshain Seminars are named after the small town in the Taunus Mountains north of Frankfurt am Main where the first meeting in October 1995 took place. The organizer at that time, under the inspiration of Prof. Ulrich Ritter was the Johann Wolfgang Goethe-Universität, with the rest of the participants coming from the Universidad Nacional de Córdoba, Argentina, and Universidade do Sao Paulo, Brasil.

Since that time periodical meetings and other academic cooperation activities have taken place with the purpose of opening a forum that will improve, through the discussion of scientific papers, the knowledge of the modern socio-economic world and to develop a mutual knowledge and understanding of the different, and some times also conflicting, national perspectives. The fruitful experience of these meetings has kept the Arnoldshain Seminars alive, with economists from other universities enriching them. A non-profit institution has been created to serve as a place of encounter of the academic activities.<sup>1</sup>

In the following we present briefly the contributions included into this issue.

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1. To learn more about Arnoldshain Seminars and isces, please see <http://www.isces.net>.

The reader finds first a new one of a series of interviews by Juan Carlos de Pablo with noted Argentine economists which are published in the second issue of each year. In this opportunity the guest is Lucio Rea, one of the leading agricultural economists who has developed a fruitful research agenda and had also, as Secretary of Agriculture, a critical role in the technological revolution of Argentine agriculture in the 1980s.

The next contribution by Roland Eisen notes that substantial increase in earnings inequality is a pervasive modern phenomenon. Using a dual-economy model à la Harris-Todaro he develops Kuznet's "U-shaped hypothesis" relating the process of inter-sectoral transition from the traditional sector to the modern sector in which technical progress takes place, with economic inequality along the growth process. As labor participation in the modern sector rises the already higher wages paid in this sector inequality tend to increase. However, if enough labor is incorporated in the modern economy, differences in wages will begin to diminish and inequality decreases. Income inequality will continue to worsen between the two sectors, however, if a new modern economy (e.g. IT-based technical change) is introduced, potential GDP shifts to a new trajectory before the turning point is reached could occur. Introducing technical progress into the modern sector can lead to a different picture where the increase in inequality never stops. Policy solutions and the role of reforms of the international economic and financial system are shortly discussed.

In the third paper, the study focuses on the productivity performance in the wholesale and retail trade sector in Brazil. Gaaitzen de Vries decomposes sectoral productivity growth during 1996-2004 into the contributions from entering, exiting, and continuing firms. The within-firm productivity change in the last group is found to make the larger contribution. This result is closer to the neoclassical model than to the conjecture of creative destruction which is related with between-firm market share changes and net-entry effects. The smaller reallocation effects are different from that observed in several OECD countries where reallocation dynamics play an important role in accounting for growth.

The next paper by María Luisa Recalde, Marcelo Florensa and Iván Iturralde is a contribution to the issue of the econometric techniques to estimate the parameters of the gravity equation. The suggested procedure is to use a multiplicatively specification and to estimate the parameters of the gravity equation by a Poisson pseudo-maximum-likelihood (PPML) estimator, taking also into account for the presence of heteroskedasticity.

Their results indicate that the effects of Preferential Trade Agreements are very sensitive to the method chosen to estimate the gravity equation, with those obtained by PPML seeming to be the most reliable.

Adriana Peluffo examines technology spillovers to Uruguayan manufacturing firms through imports, foreign direct investment (FDI) and learning by exporting, for the period 1997-2001. To evaluate for dynamic gains from trade, evidence on channels of international technological diffusion at the firm level is examined. There are positive effects on production of imported intermediates and backward linkages with foreign firms. On the other hand, there is evidence of negative effects of multinational presence at the industry level, while results for exporting firms are mixed. Finally, the results would indicate that absorptive capacity matters to take advantage of increased openness and FDI, so policies aimed to improve absorptive capacity such as investing in R&D and improving the skills of workers through training are likely to play a role in facilitating knowledge spillovers.

The last paper in the Observatorio de Política, written by Eckhard Freyer, offers a striking account of the pervasive practice, the channels and the magnitude of money laundering activities, largely related to the dark side of our societies, the world of the financing of terrorism, the business of drugs that poison youngsters around the world depriving them of the possibilities of human development.