

# **Inflation in Latin America**

*By*

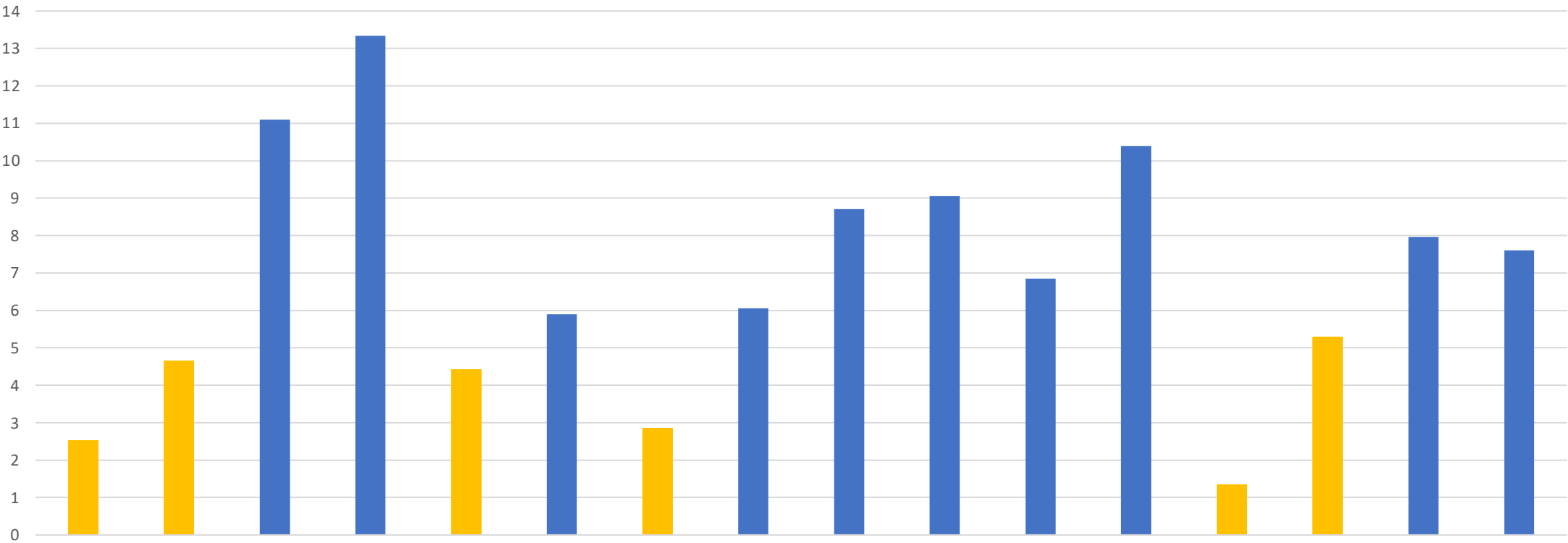
***Sebastian Edwards***

*Henry Ford II Professor*

*UCLA*

May 2023

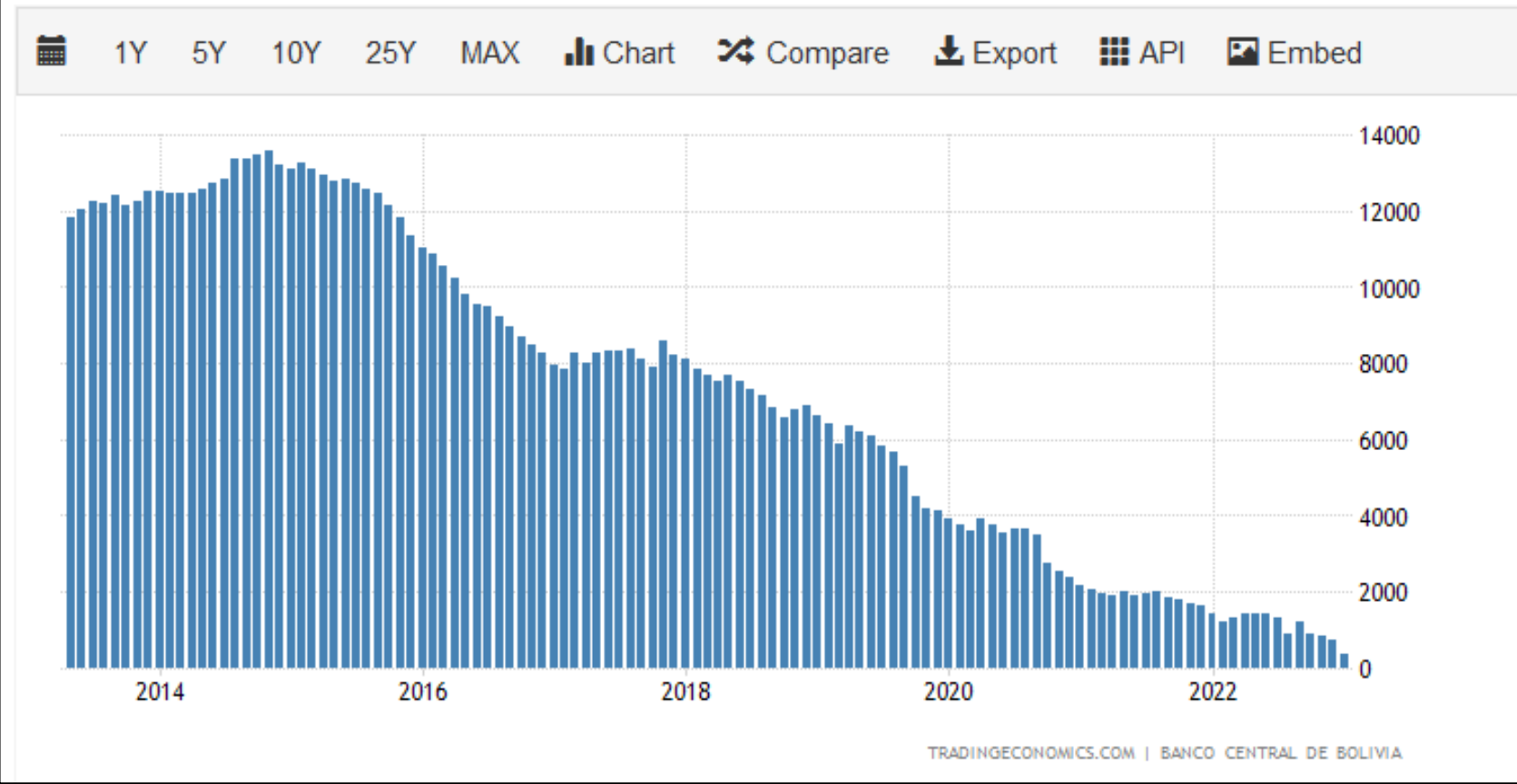
INFLATION, MARCH 2023



Bolivia Brazil Chile Colombia Costa Rica Dominican Republic Ecuador El Salvador Guatemala Honduras Mexico Nicaragua Panama Paraguay Peru Uruguay

# Bolivia: A classical speculative attack

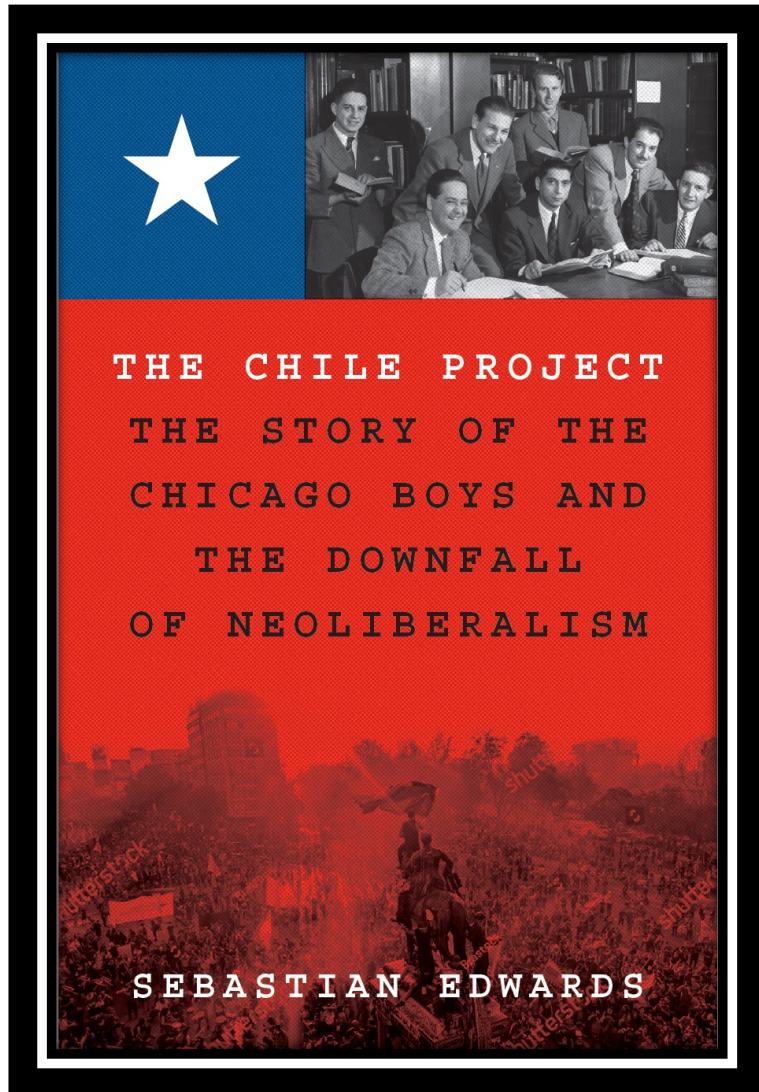
Foreign Exchange Reserves in Bolivia decreased to 372 USD Million in January from 709 USD Million in December of 2022. source: Banco Central De Bolivia



# Issues, controversies, dilemmas, & dangers

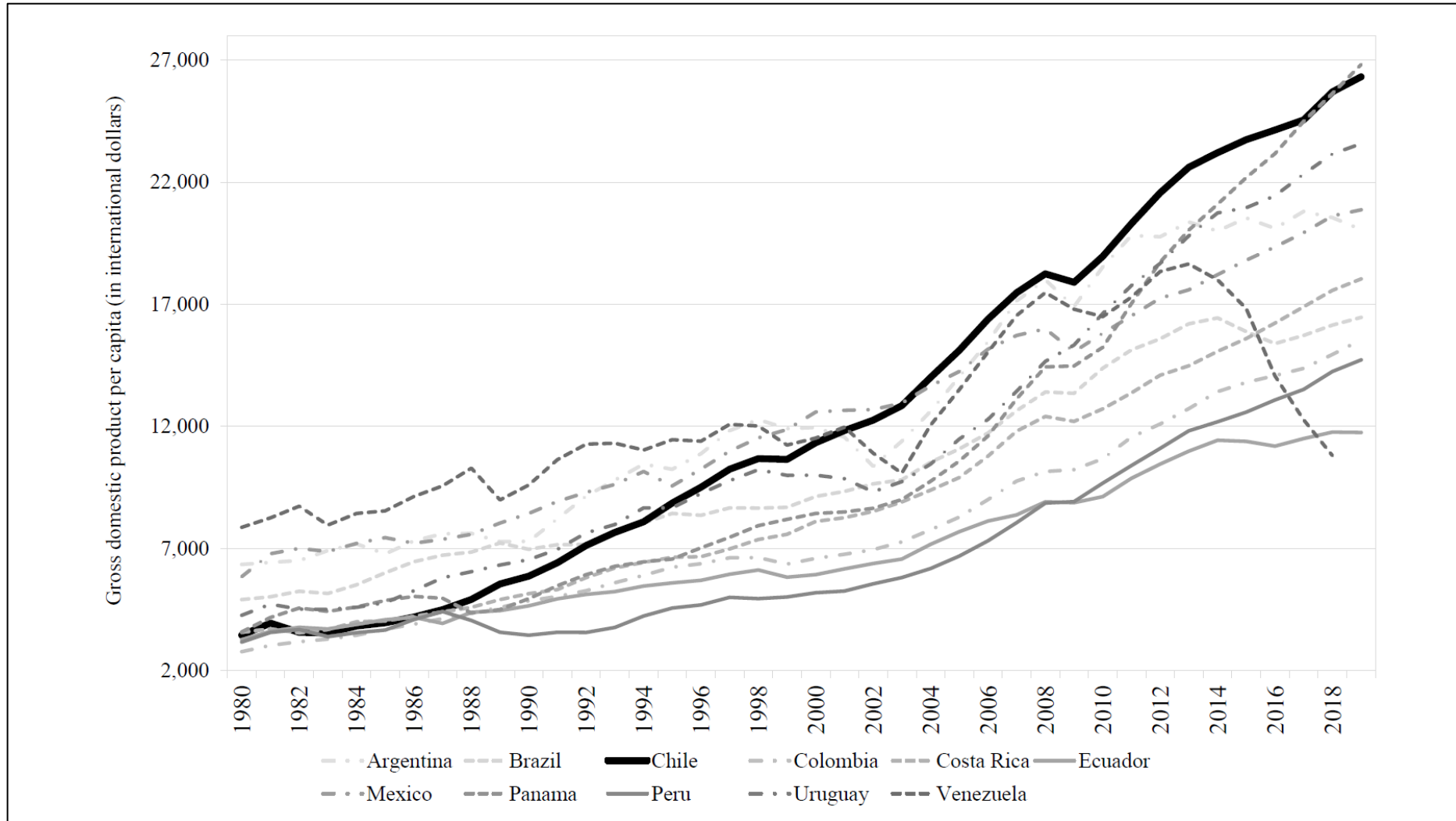
- How high should policy rates be in real terms?
- To dollarize or not to dollarize, that is the question.
- Is the “pass-through coefficient” going up?
- Capital and exchange controls.
- Remittances, monetary policy and sterilization.
- Independent central banks
- The revival of MMT.

# A fascinating case study: Chile, inflation and the Chicago Boys market reforms

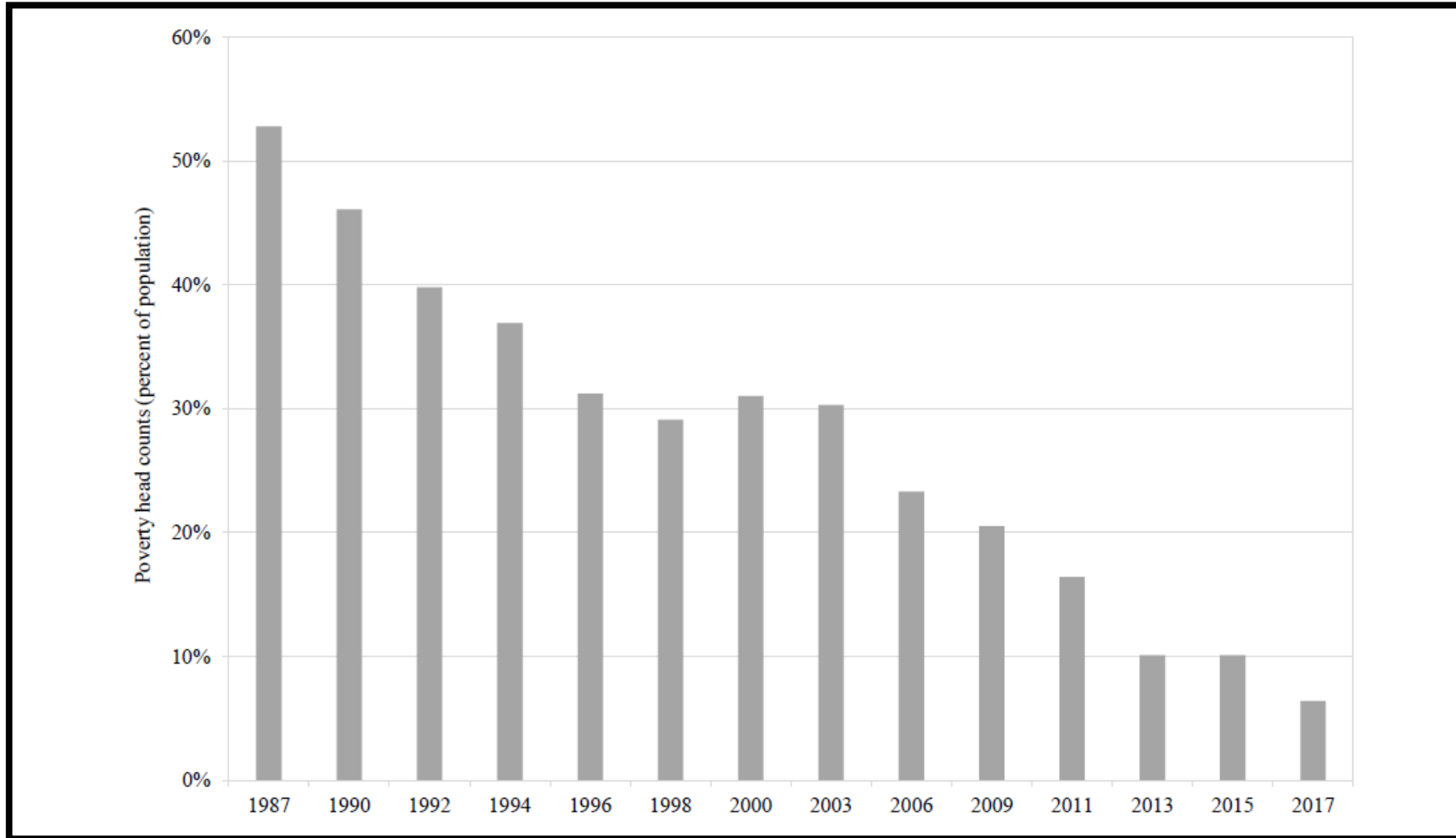


- Chicago Boys reforms created an economic “miracle.”
- Chile moved from 9<sup>th</sup> in Latin America to number one in one generation.
- The reforms were maintained after the return to democracy.
- Social conditions improved greatly.
- Inequality was persistently high.
- Purest experience with “neoliberalism”
- In 2019 a massive and violent revolt indicated that there were problems in the “Latin American oasis.”

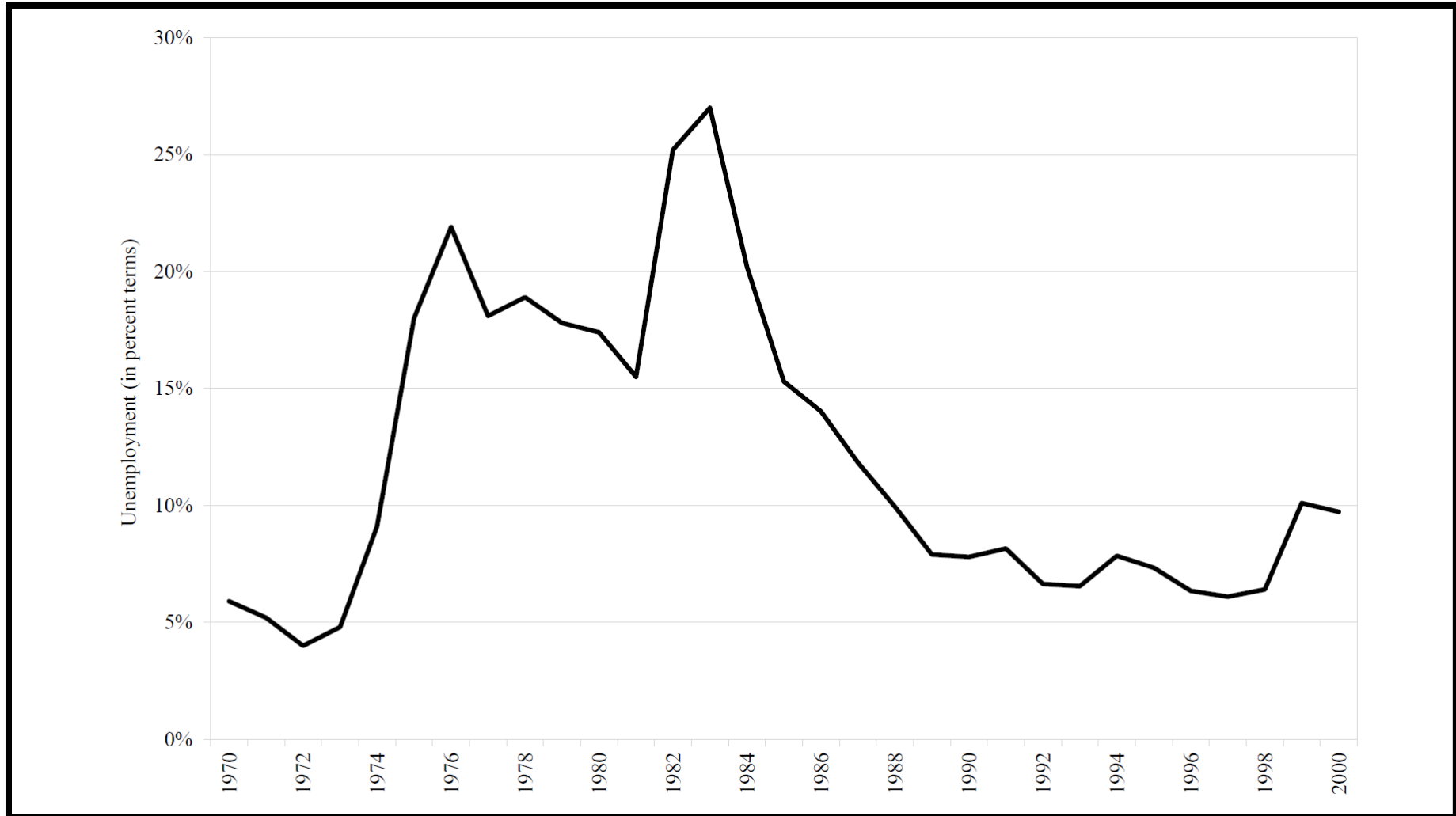
# Income per capita



# Poverty Headcount

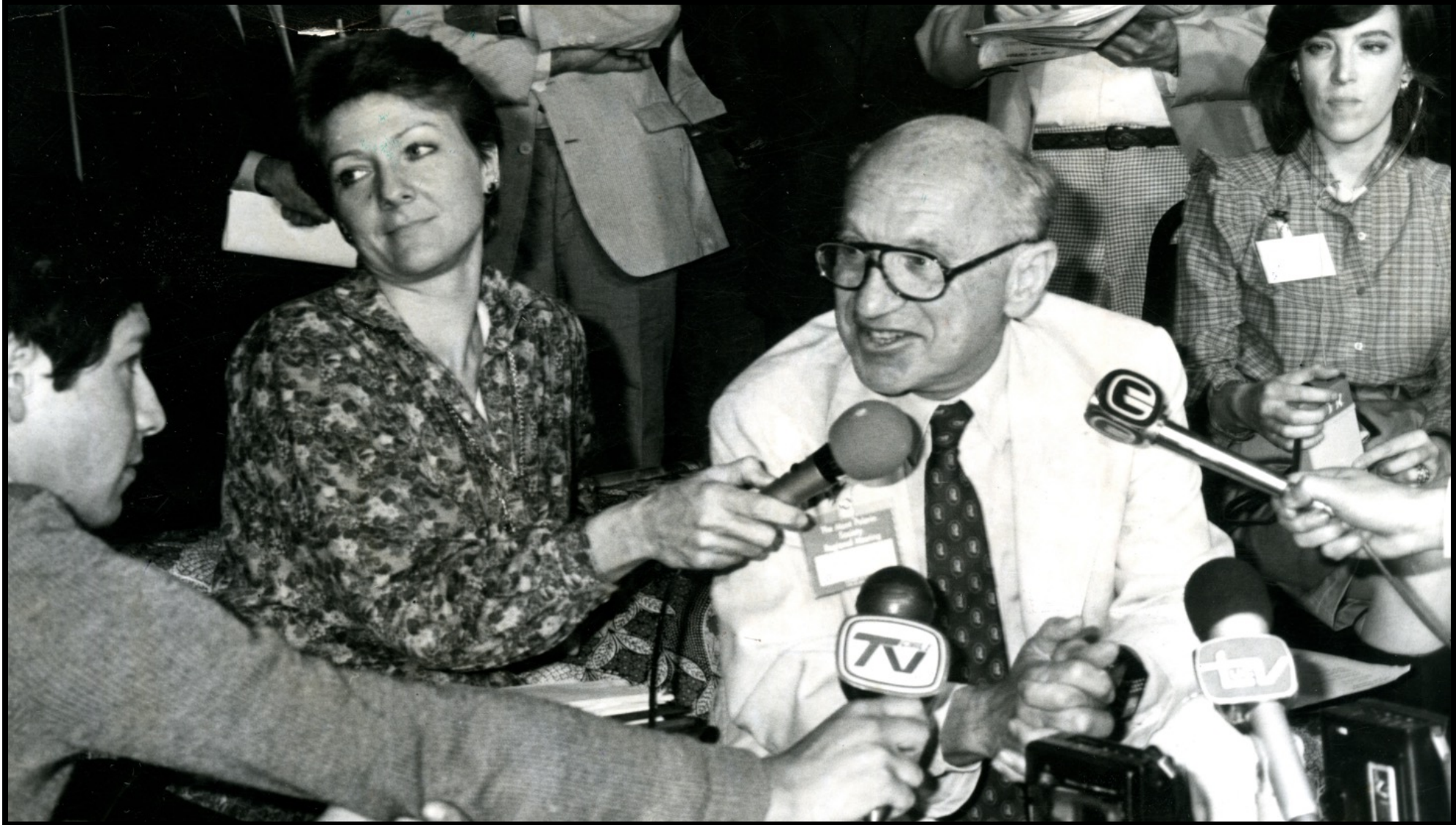


# Rate of Unemployment



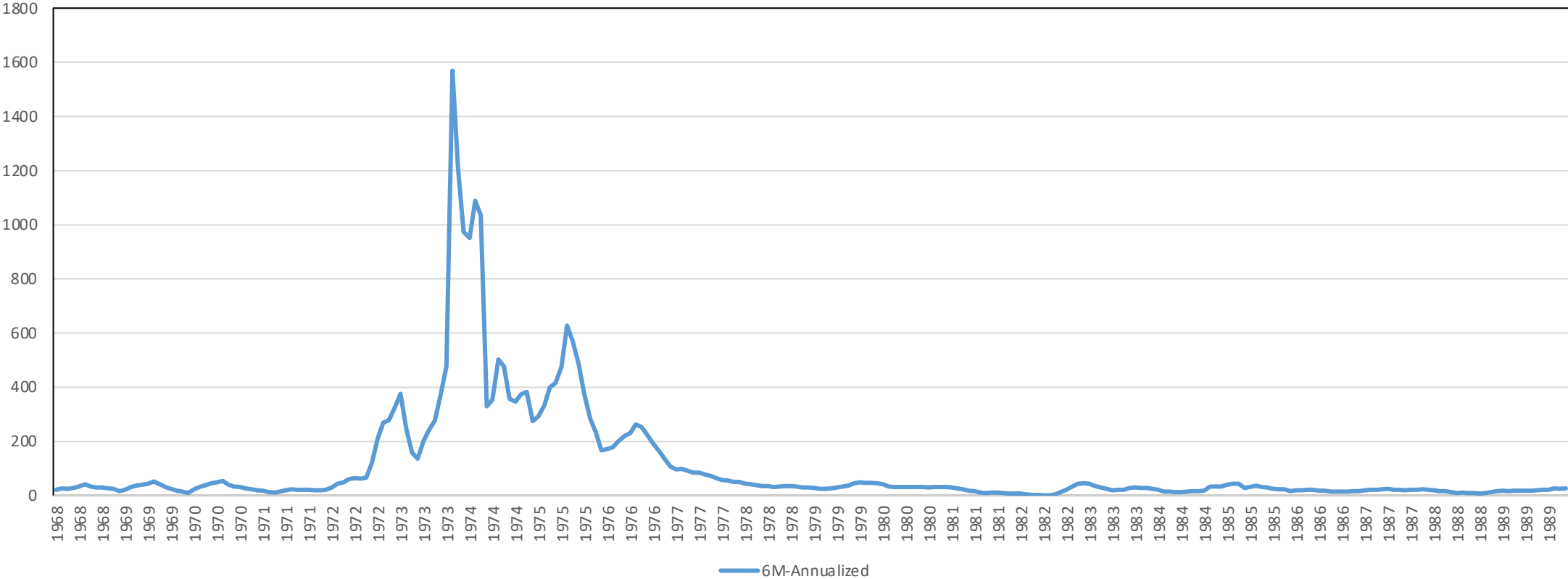




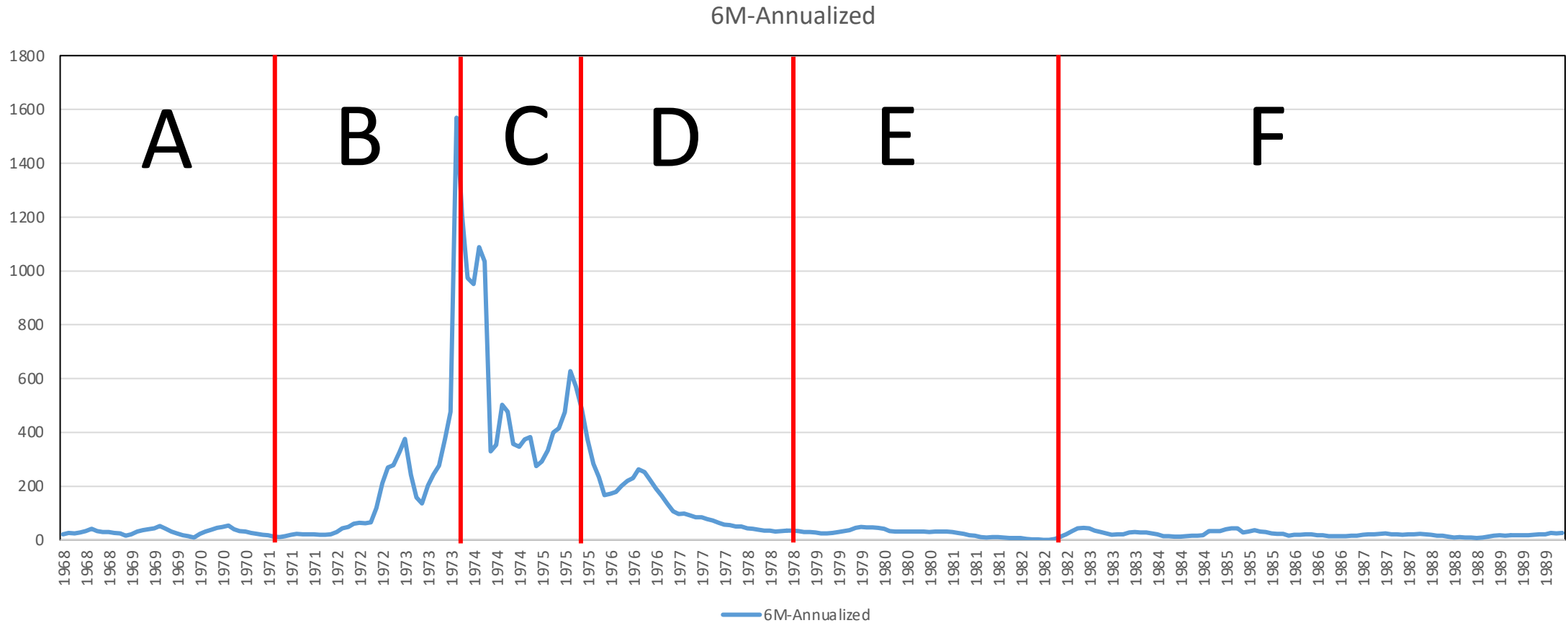


# A Multitude of Inflation and Monetary Regimes

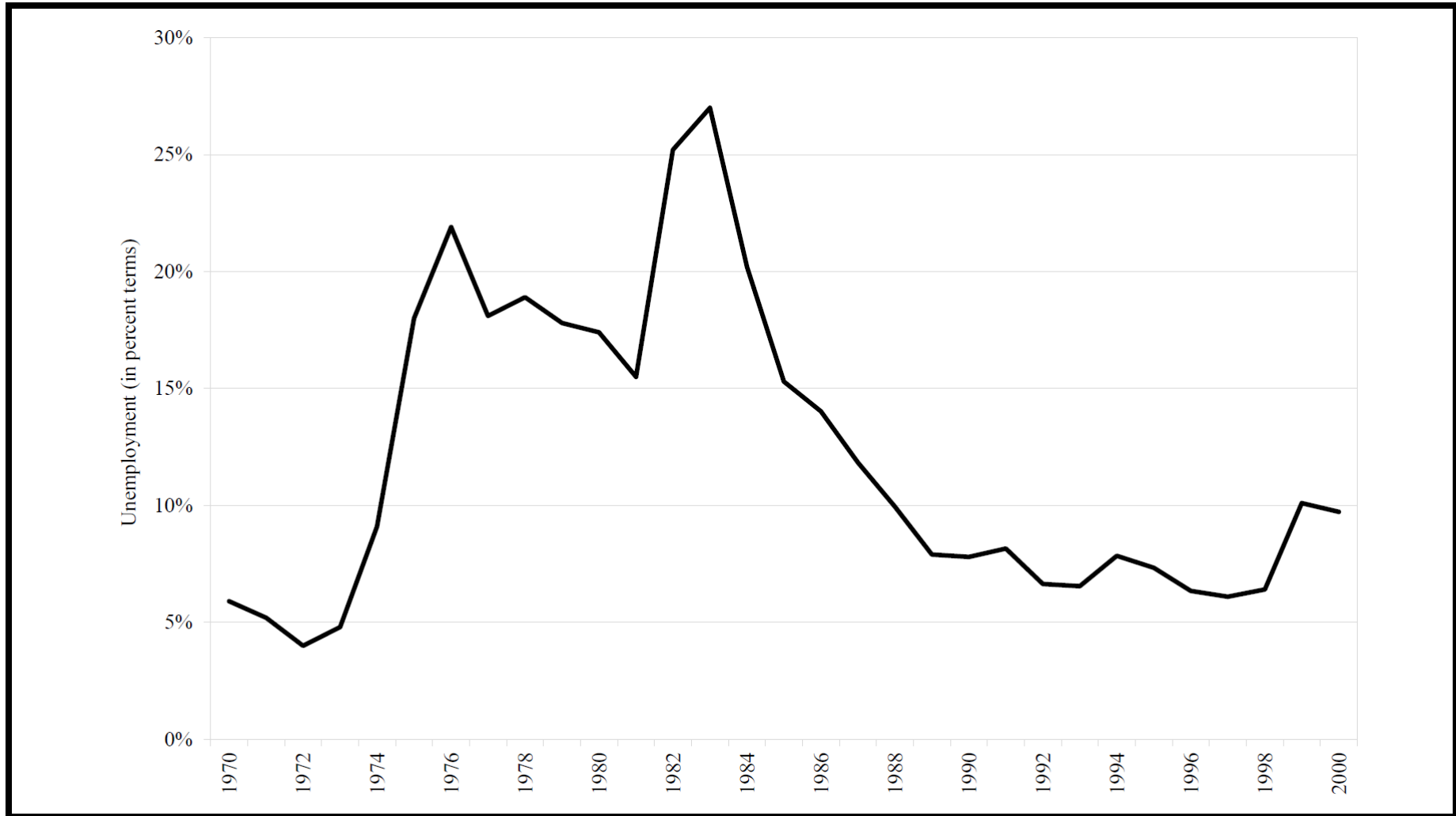
6M-Annualized



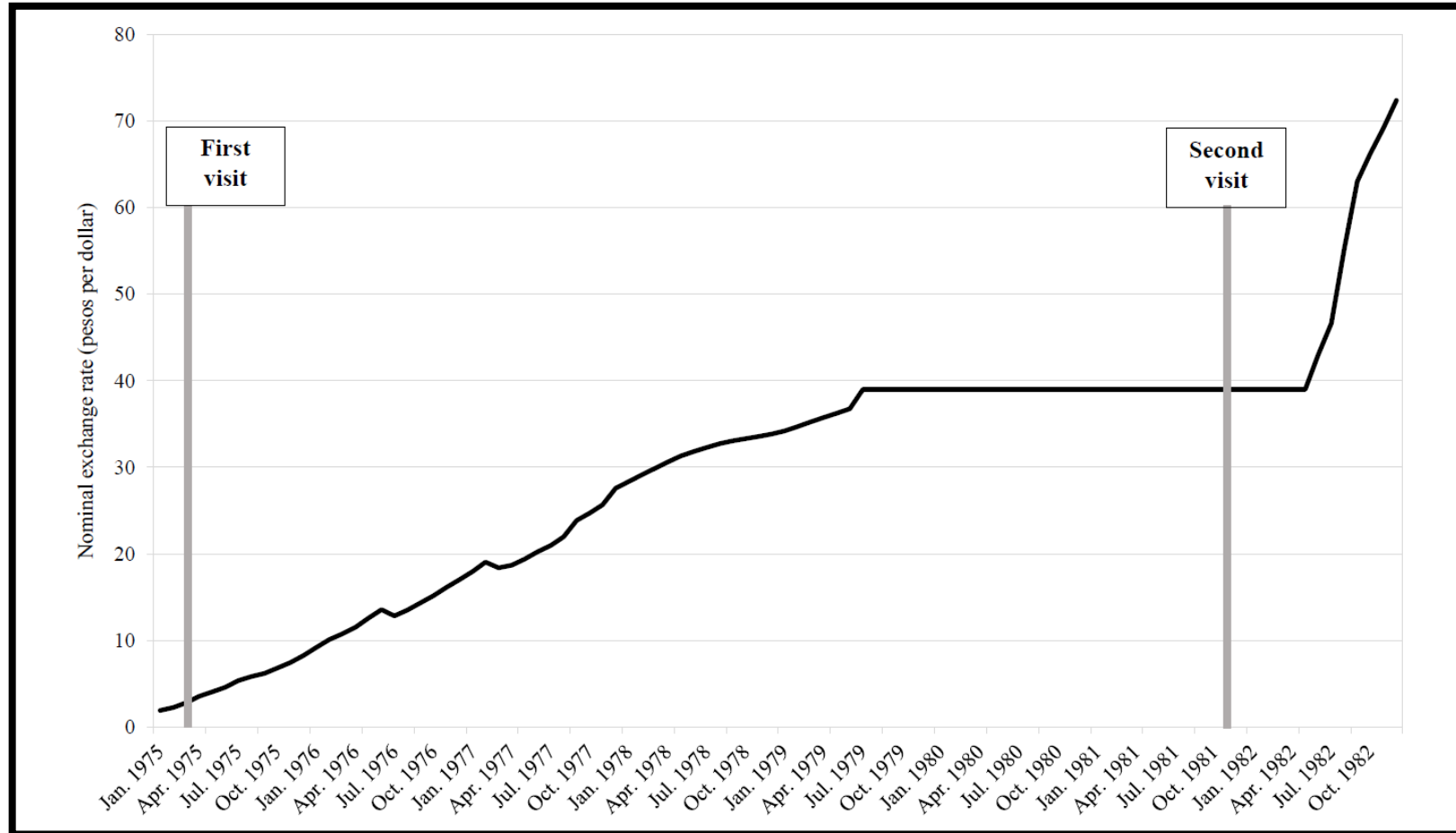
# A Multitude of Inflation and Monetary Regimes



# Rate of Unemployment



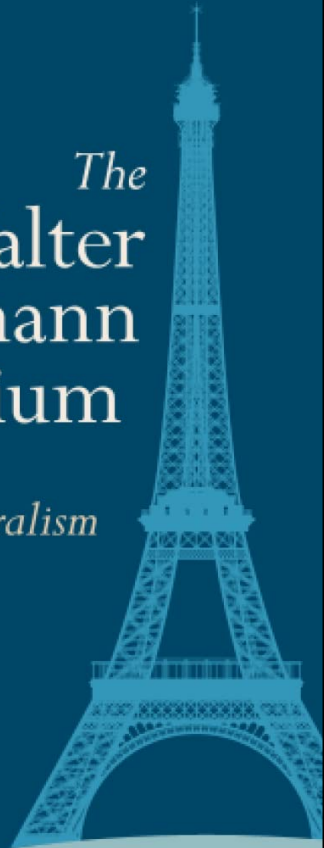
# Mundell, Harry Johnson and the exchange rate anchor



Was Chile Neoliberal?

*The*  
Walter  
Lippmann  
Colloquium

*The Birth of Neo-Liberalism*



Jurgen Reinhoudt and Serge Audier





# Five Phases

- Correcting distortions and mild neoliberalism: 1973-1978
- The birth of a neoliberal regime (Seven Modernizations): 1979-1982
- Pragmatic neoliberalism: 1984-1989
- Inclusive neoliberalism: 1990-2015
- The downfall of neoliberalism: 2019-



The 2019 Revolt:  
The Downfall of Neoliberalism?

# La Revuelta en Chile

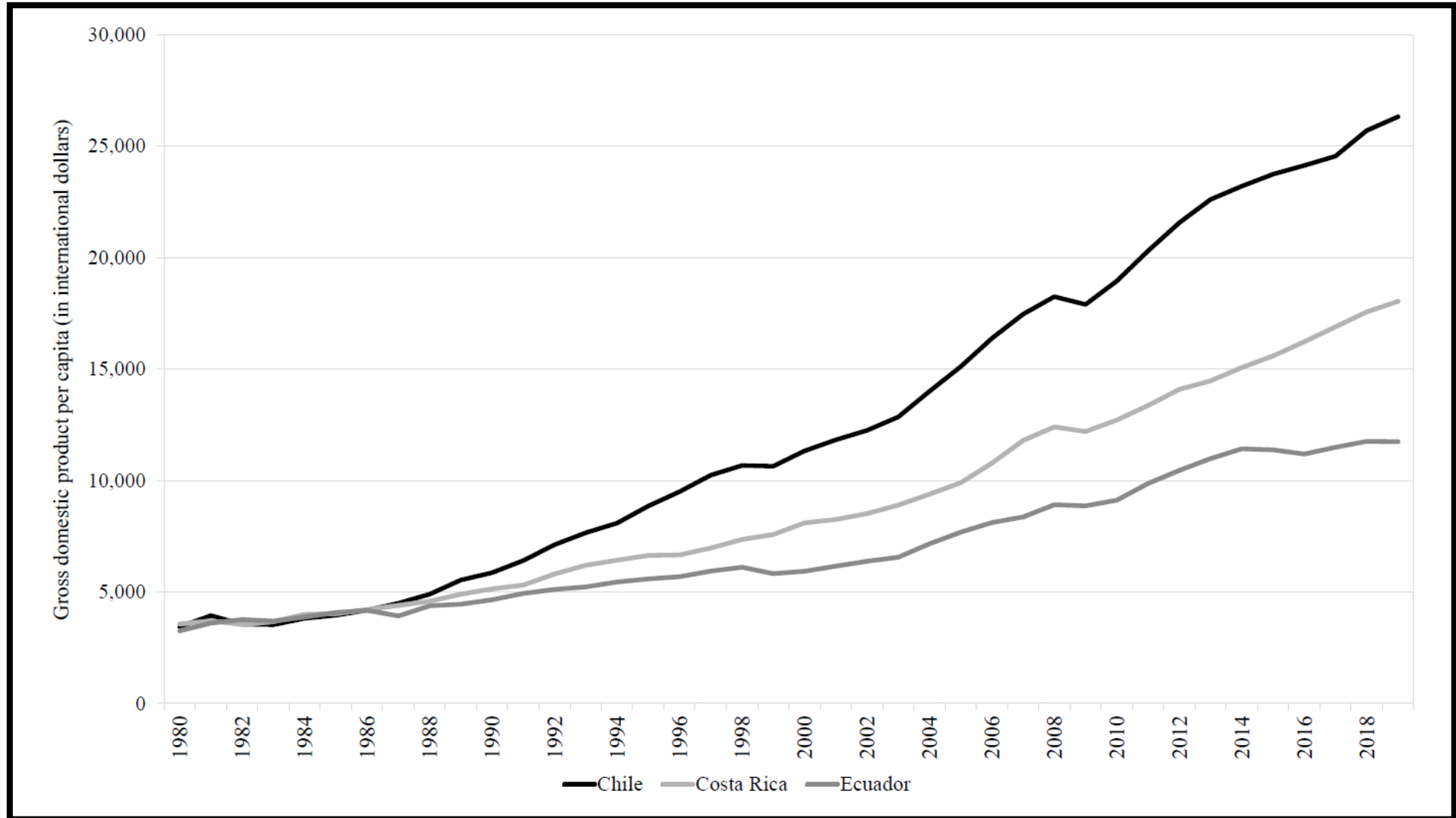


# A major issue: Old age pensions

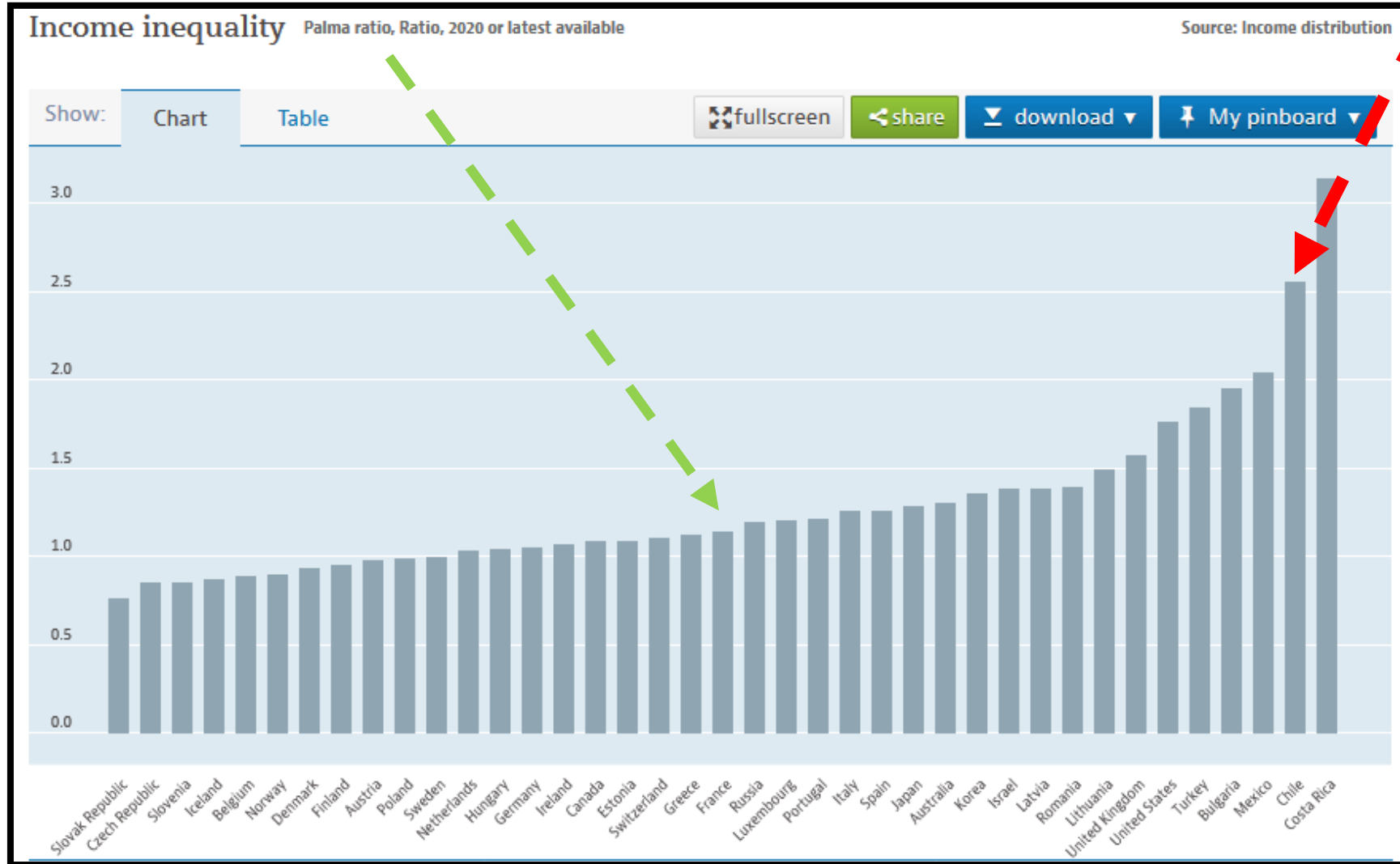


A two words conclusion:  
Success and Neglect

# Success



# Neglect: Palma Ratio (10%/40%)



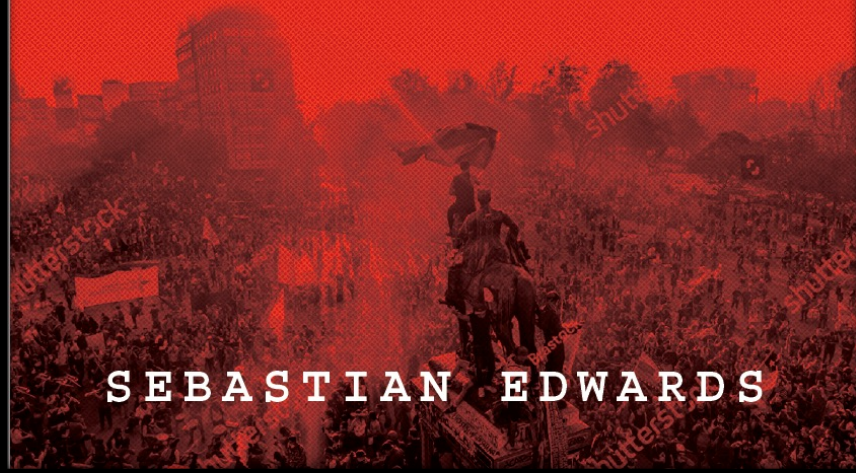


# But there is an even more serious form of neglect

- Pro-markets, pro-freedom, pro-liberty individuals withdrew from the “war of ideas”
- The far-left, on the contrary, understood that whoever controls the narrative, eventually controls power



THE CHILE PROJECT  
THE STORY OF THE  
CHICAGO BOYS AND  
THE DOWNFALL  
OF NEOLIBERALISM



SEBASTIAN EDWARDS