

Inflation in Latin America

By

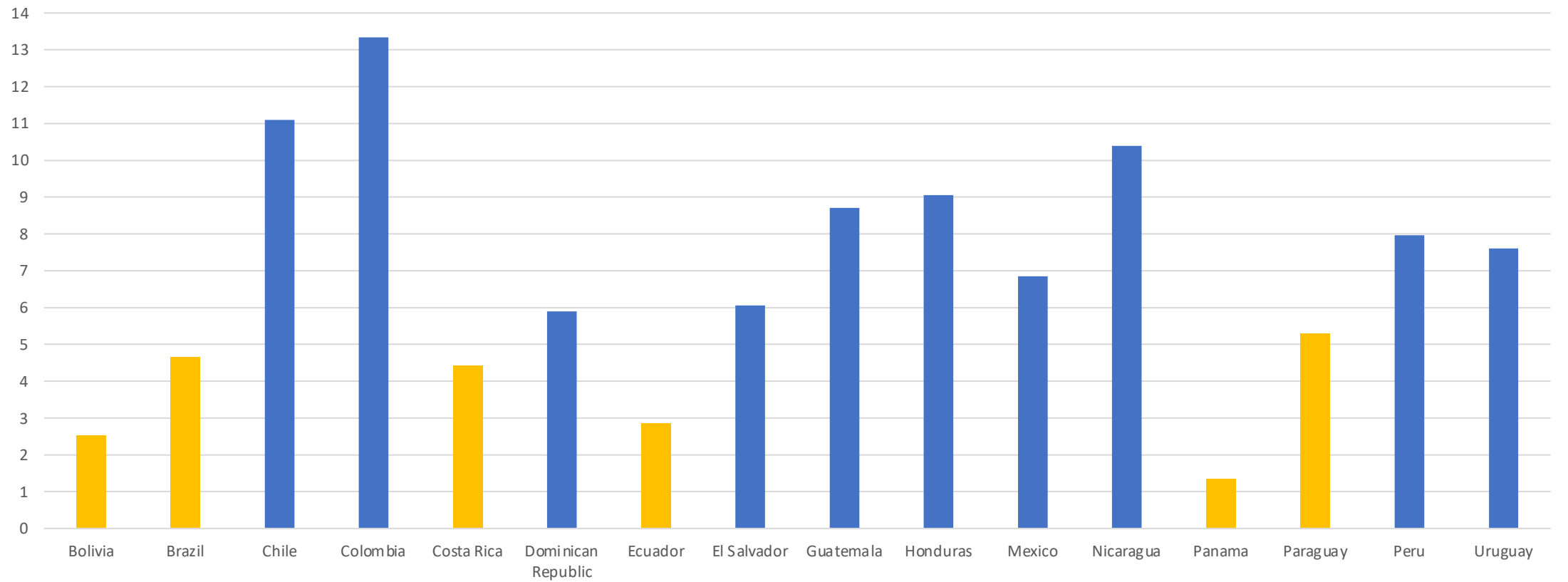
Sebastian Edwards

Henry Ford II Professor

UCLA

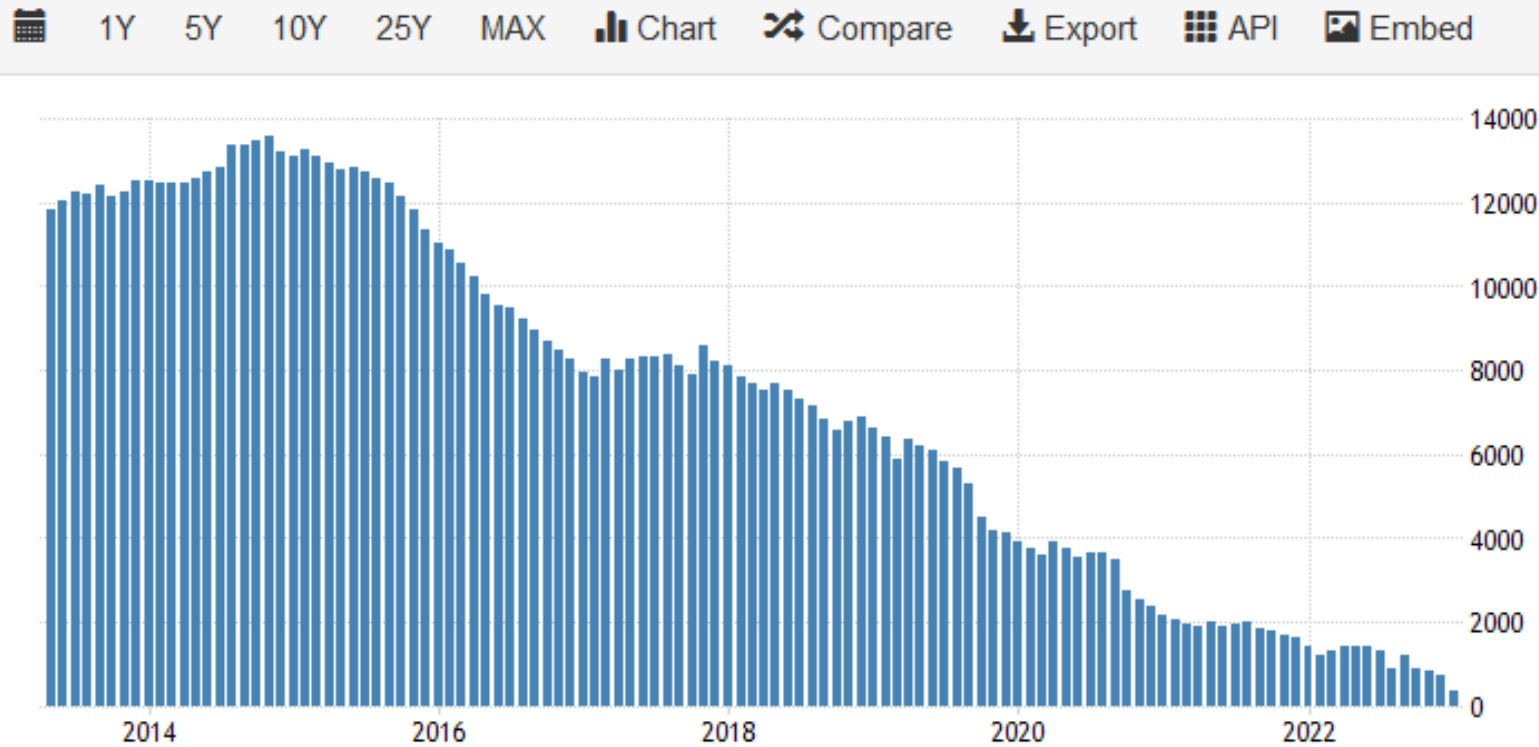
May 2023

INFLATION, MARCH 2023



Bolivia: A classical speculative attack

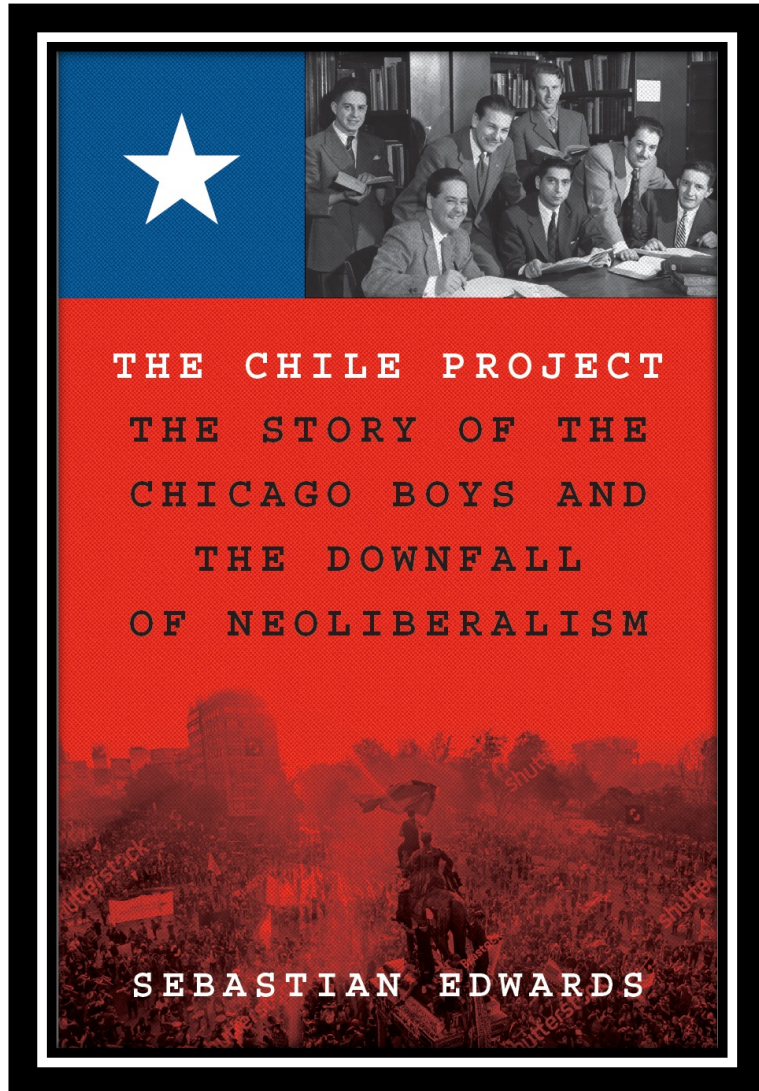
Foreign Exchange Reserves in Bolivia decreased to 372 USD Million in January from 709 USD Million in December of 2022. source: Banco Central De Bolivia



Issues, controversies, dilemmas, & dangers

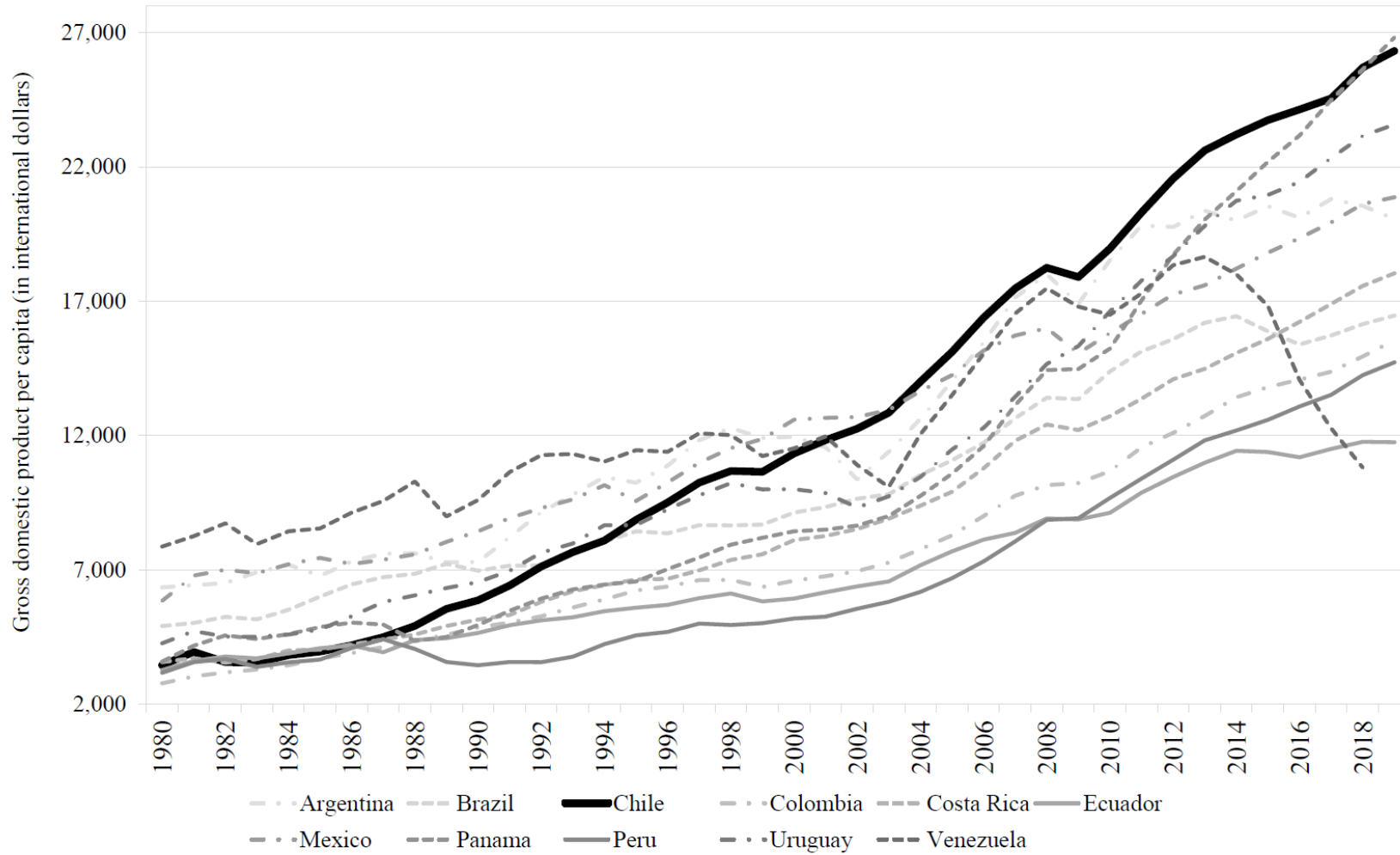
- How high should policy rates be in real terms?
- To dollarize or not to dollarize, that is the question.
- Is the “pass-through coefficient” going up?
- Capital and exchange controls.
- Remittances, monetary policy and sterilization.
- Independent central banks
- The revival of MMT.

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

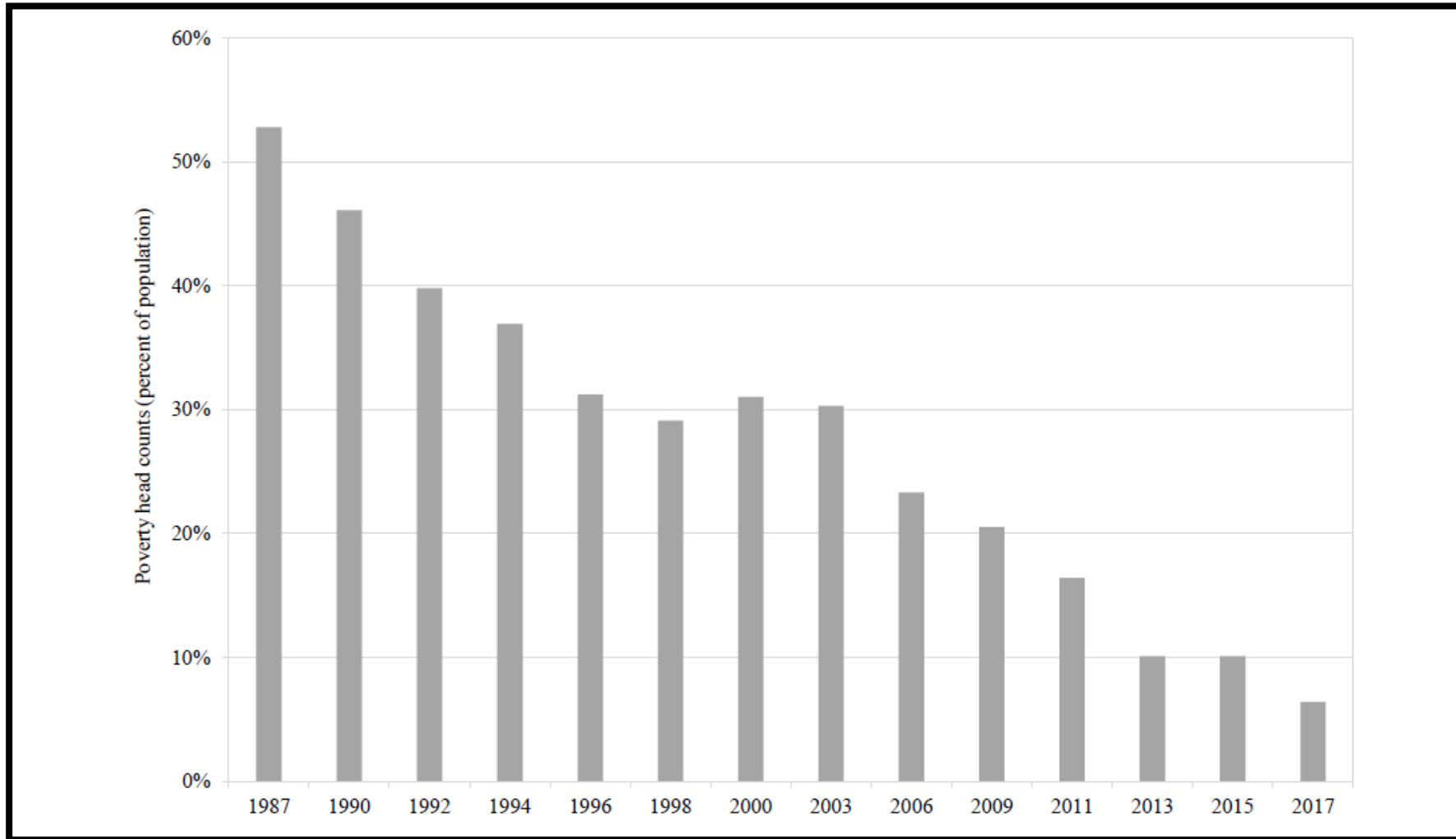


- Chicago Boys reforms created an economic “miracle.”
- Chile moved from 9th in Latin America to number one in one generation.
- The reforms were maintained after the return to democracy.
- Social conditions improved greatly.
- Inequality was persistently high.
- Purest experience with “neoliberalism”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

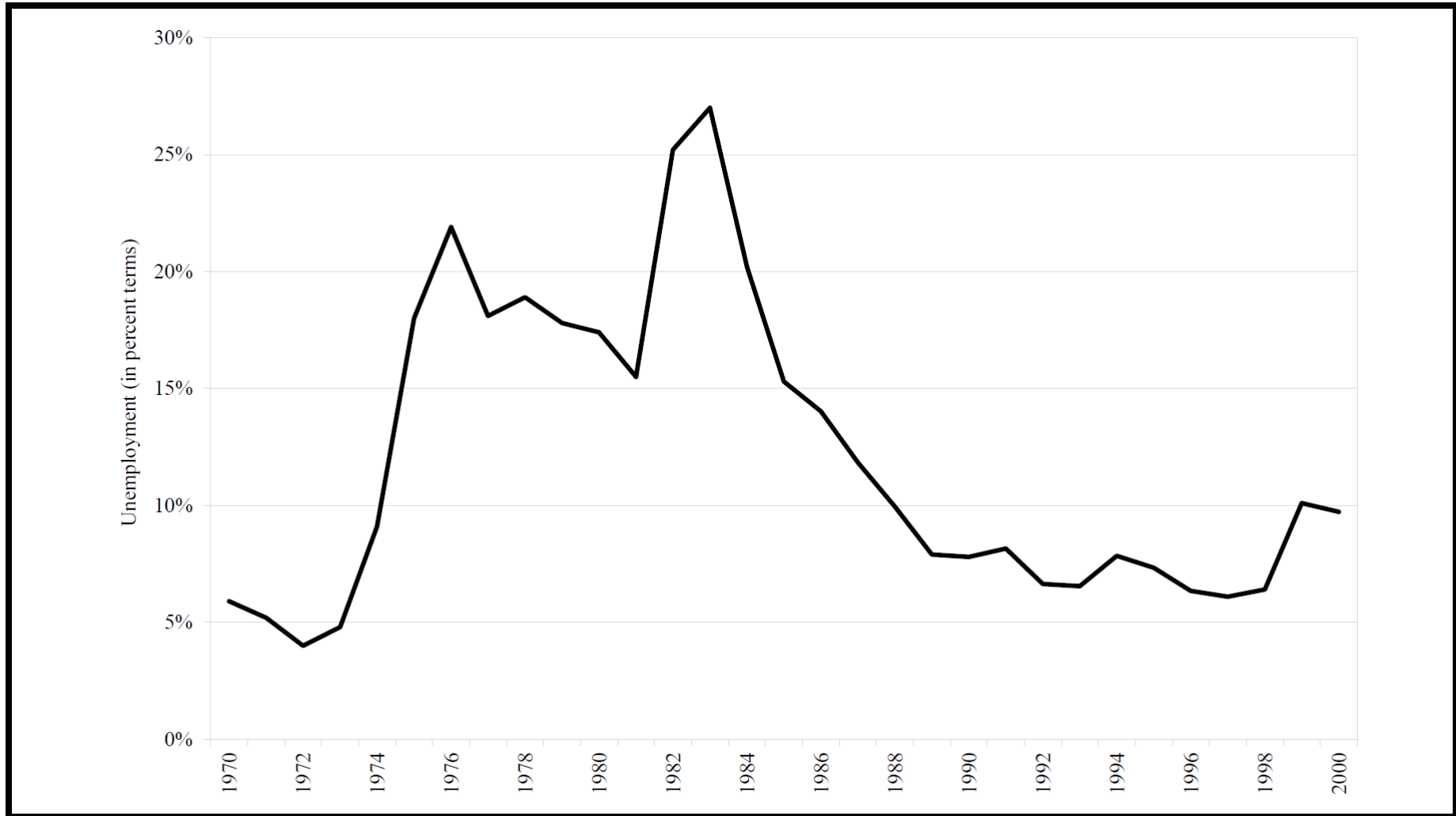
Income per capita



Poverty Headcount



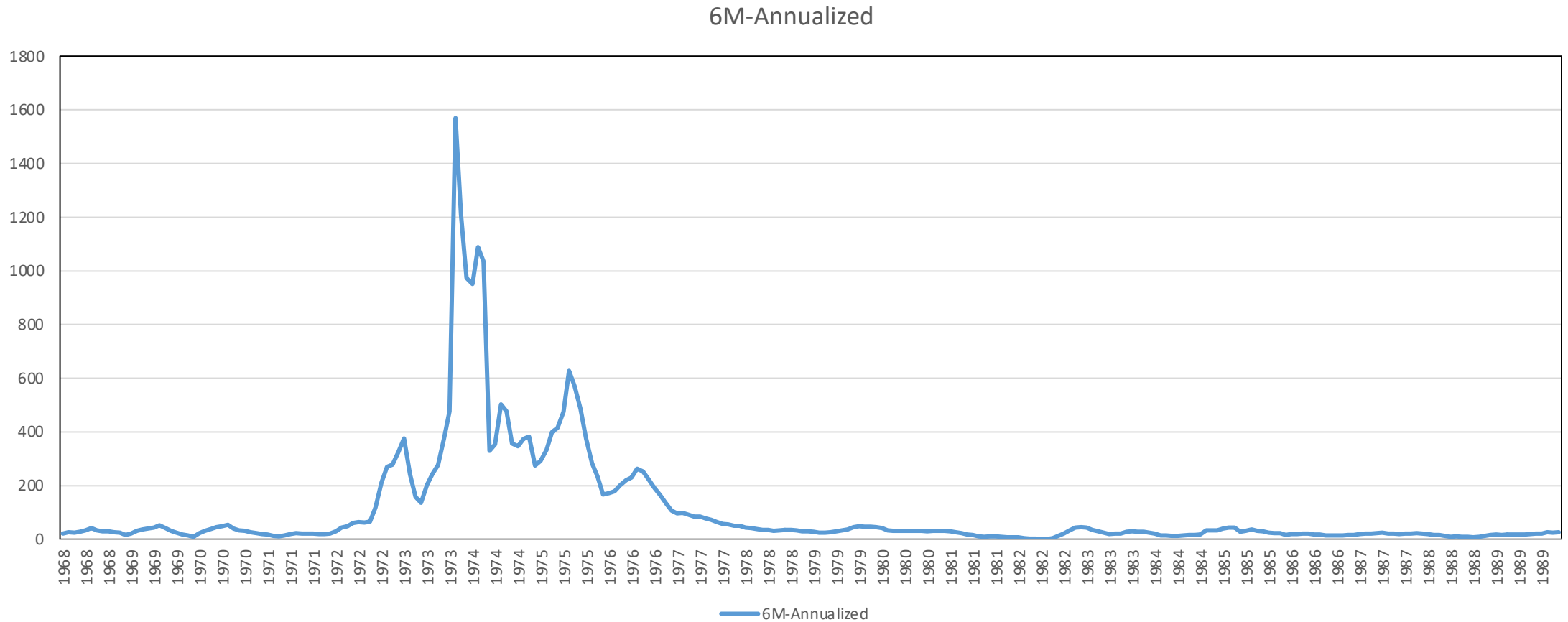
Rate of Unemployment



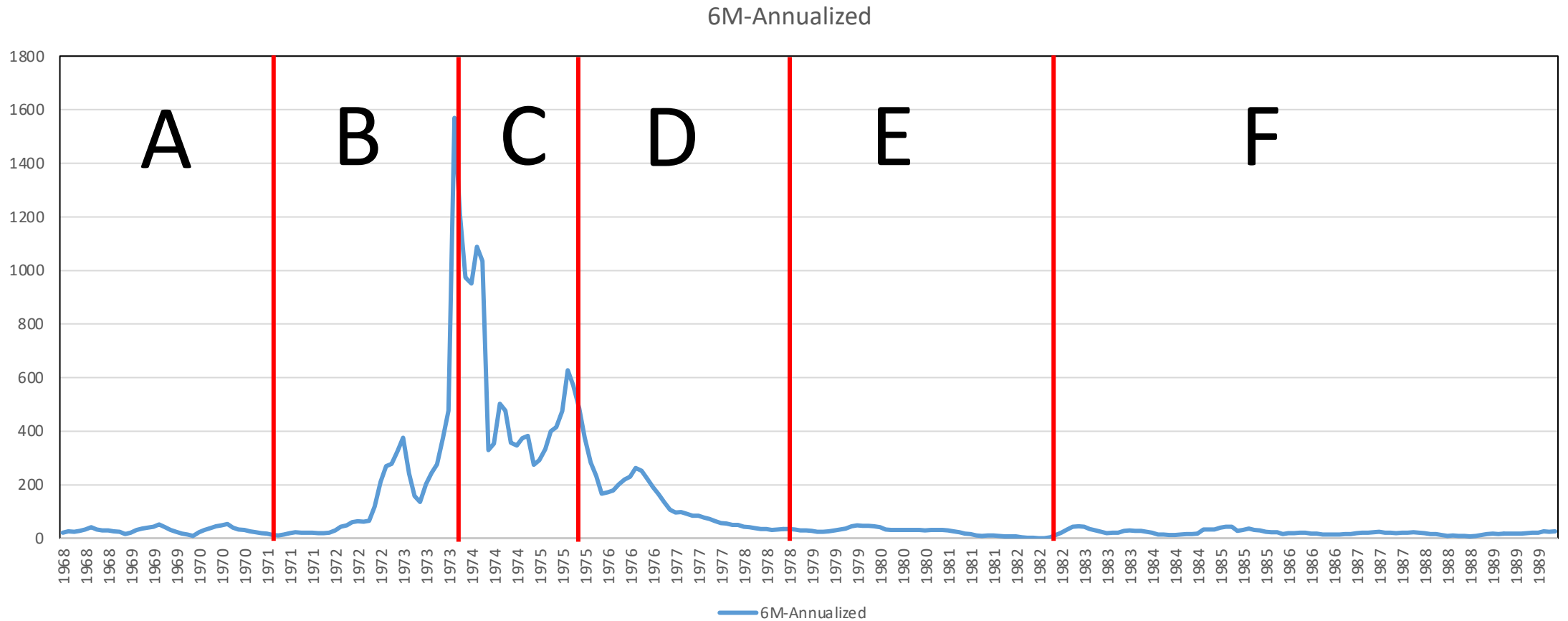




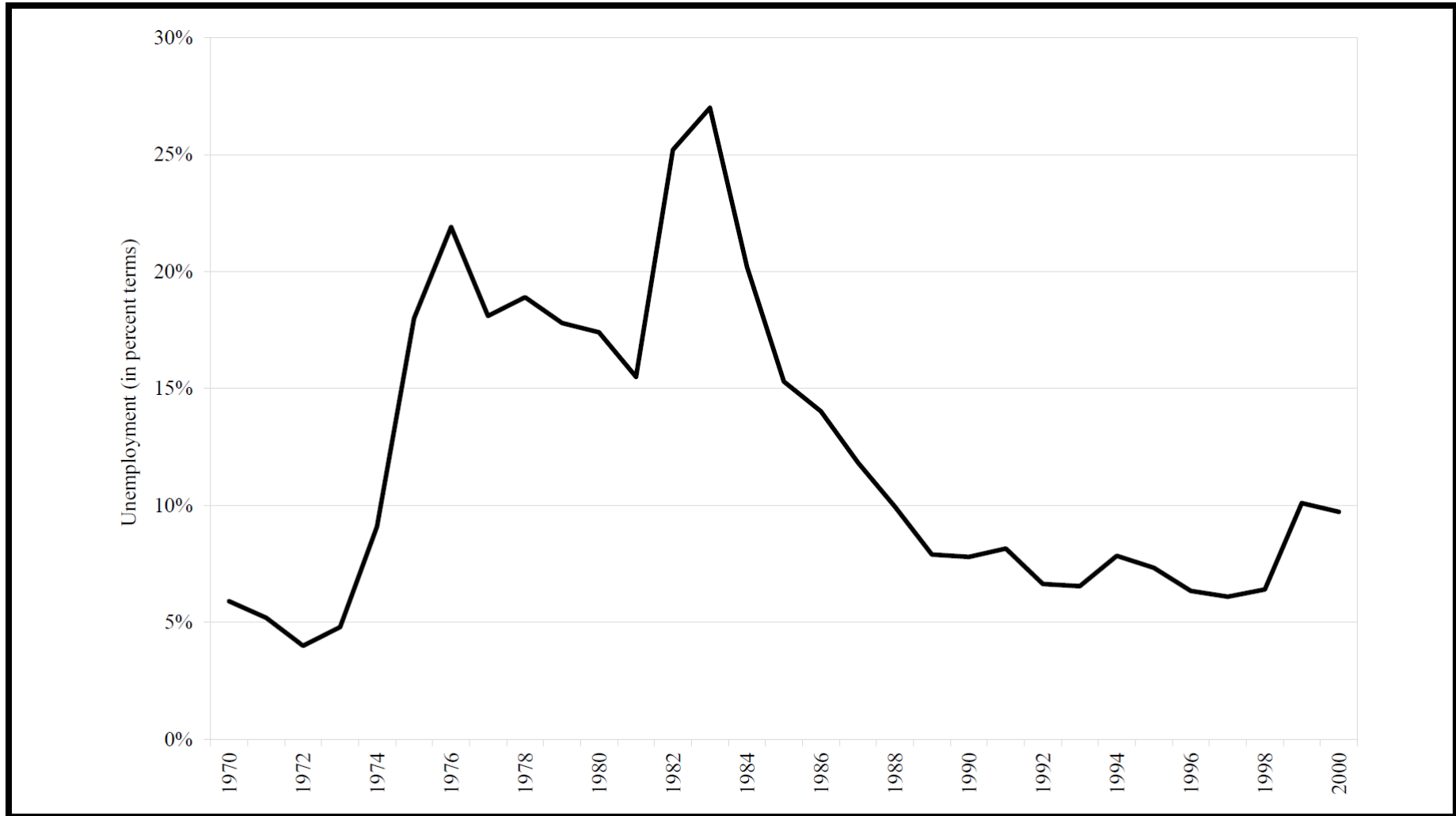
A Multitude of Inflation and Monetary Regimes



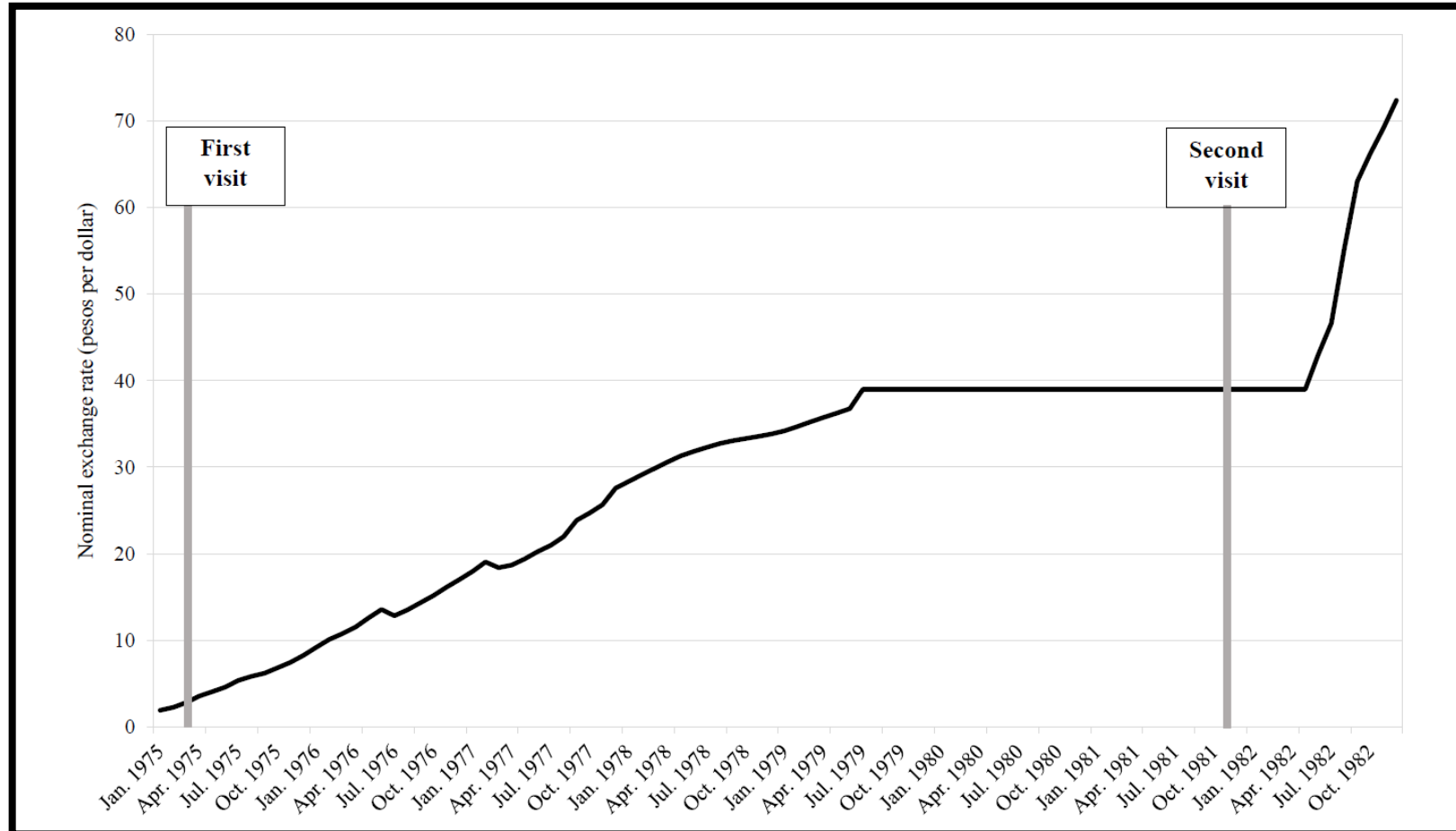
A Multitude of Inflation and Monetary Regimes



Rate of Unemployment



Mundell, Harry Johnson and the exchange rate anchor



Was Chile Neoliberal?

The
Walter
Lippmann
Colloquium

The Birth of Neo-Liberalism

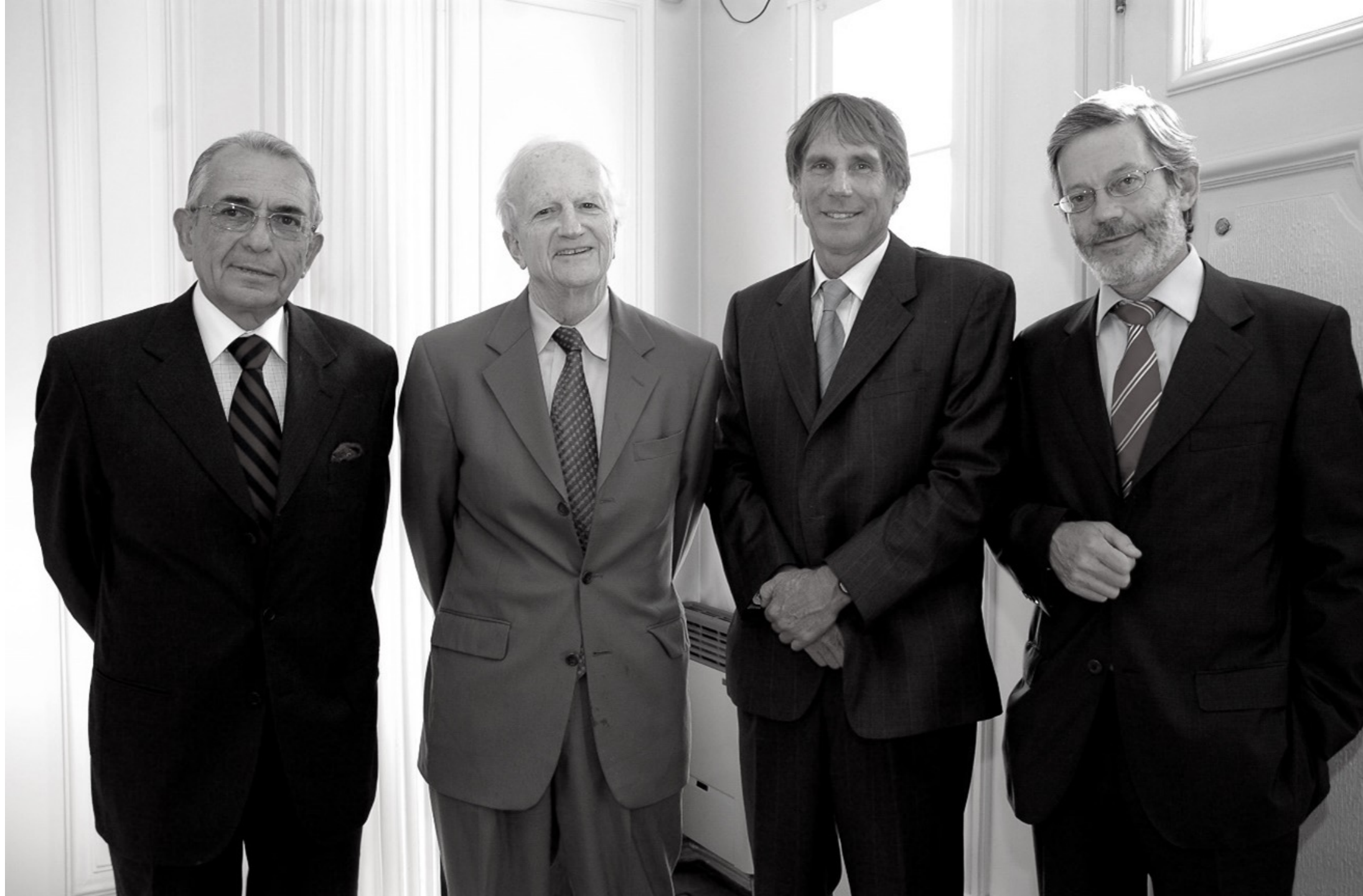


Jurgen Reinhoudt and Serge Audier



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-

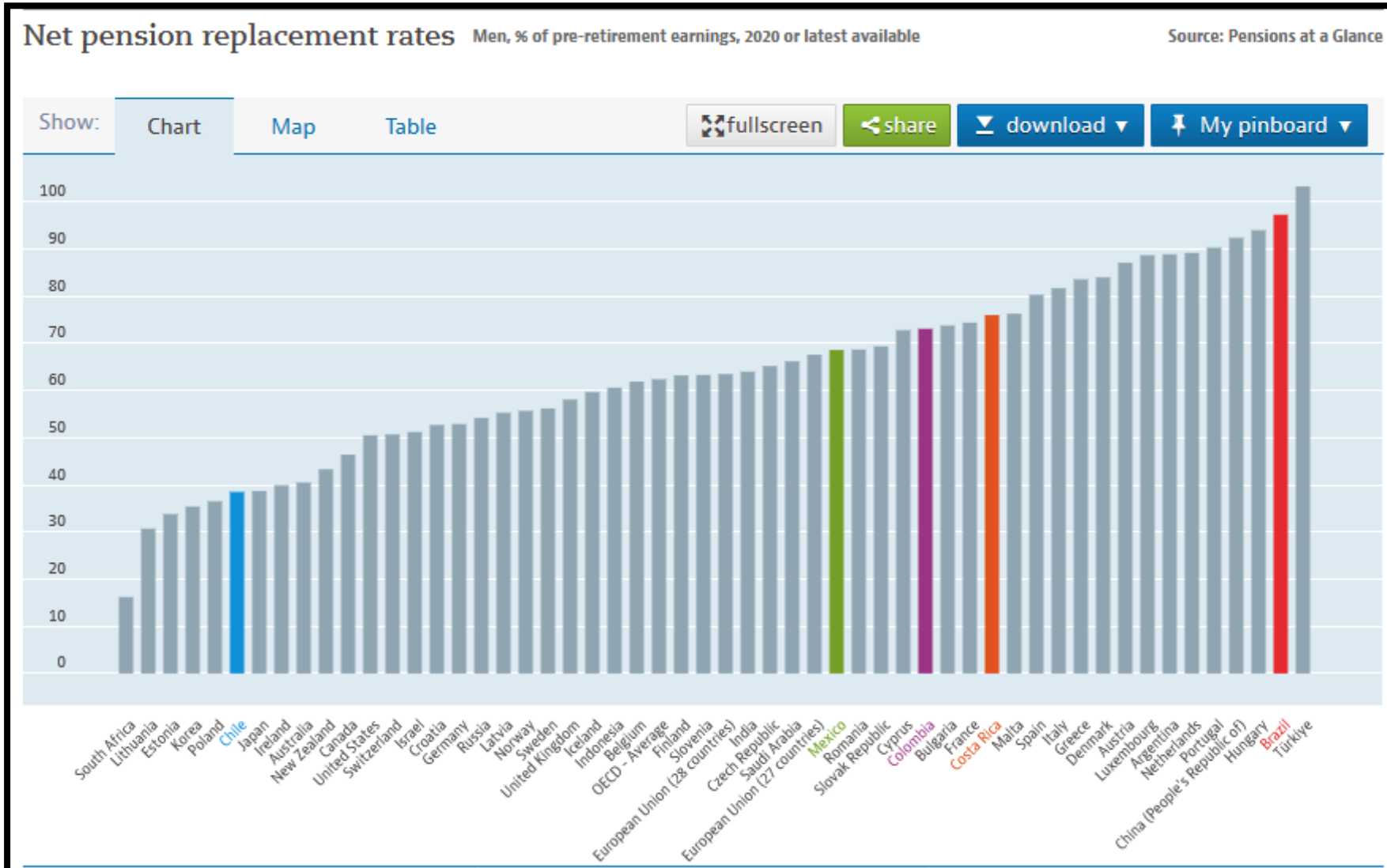


The 2019 Revolt:
The Downfall of Neoliberalism?

La Revuelta en Chile

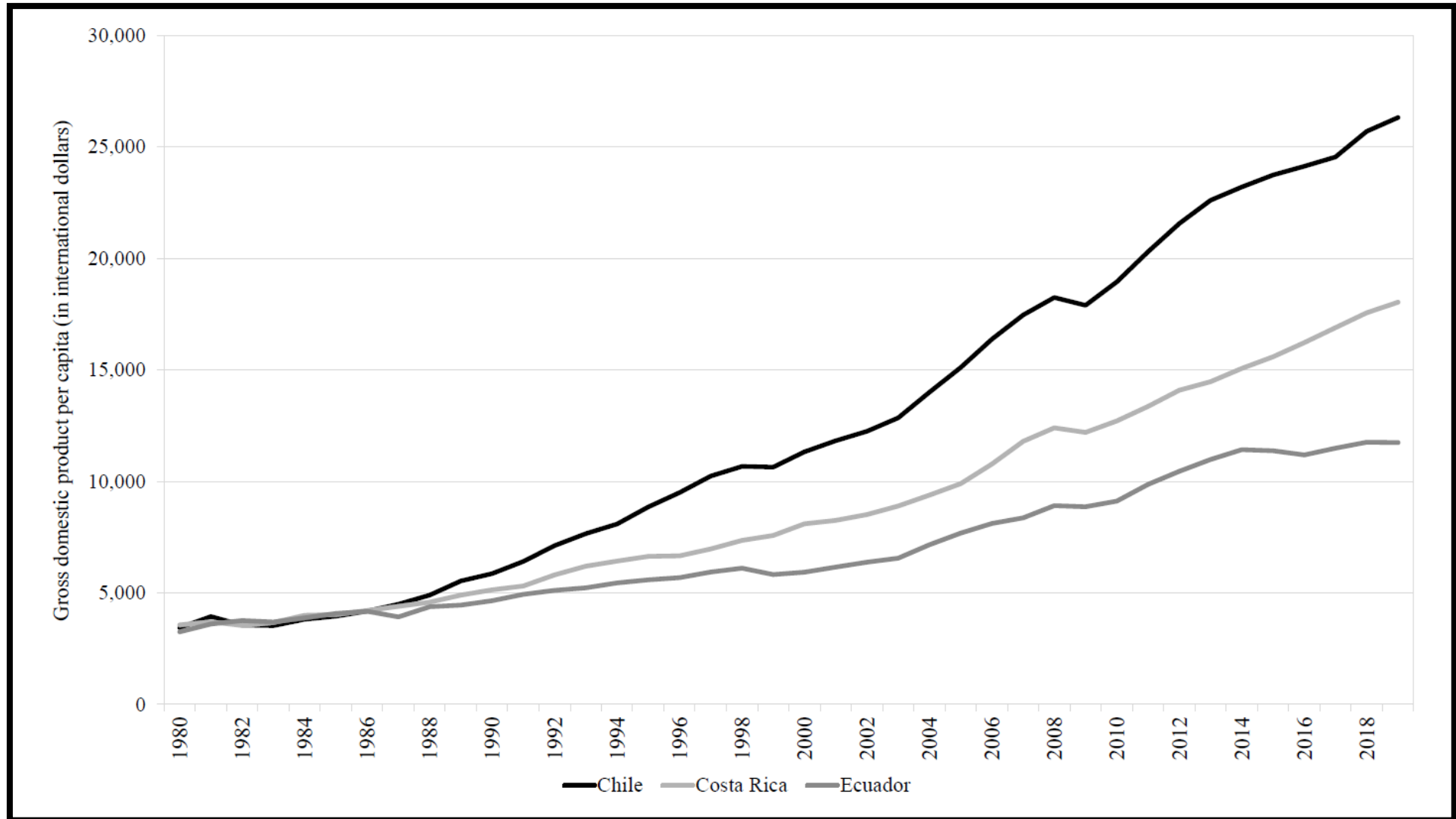


A major issue: Old age pensions

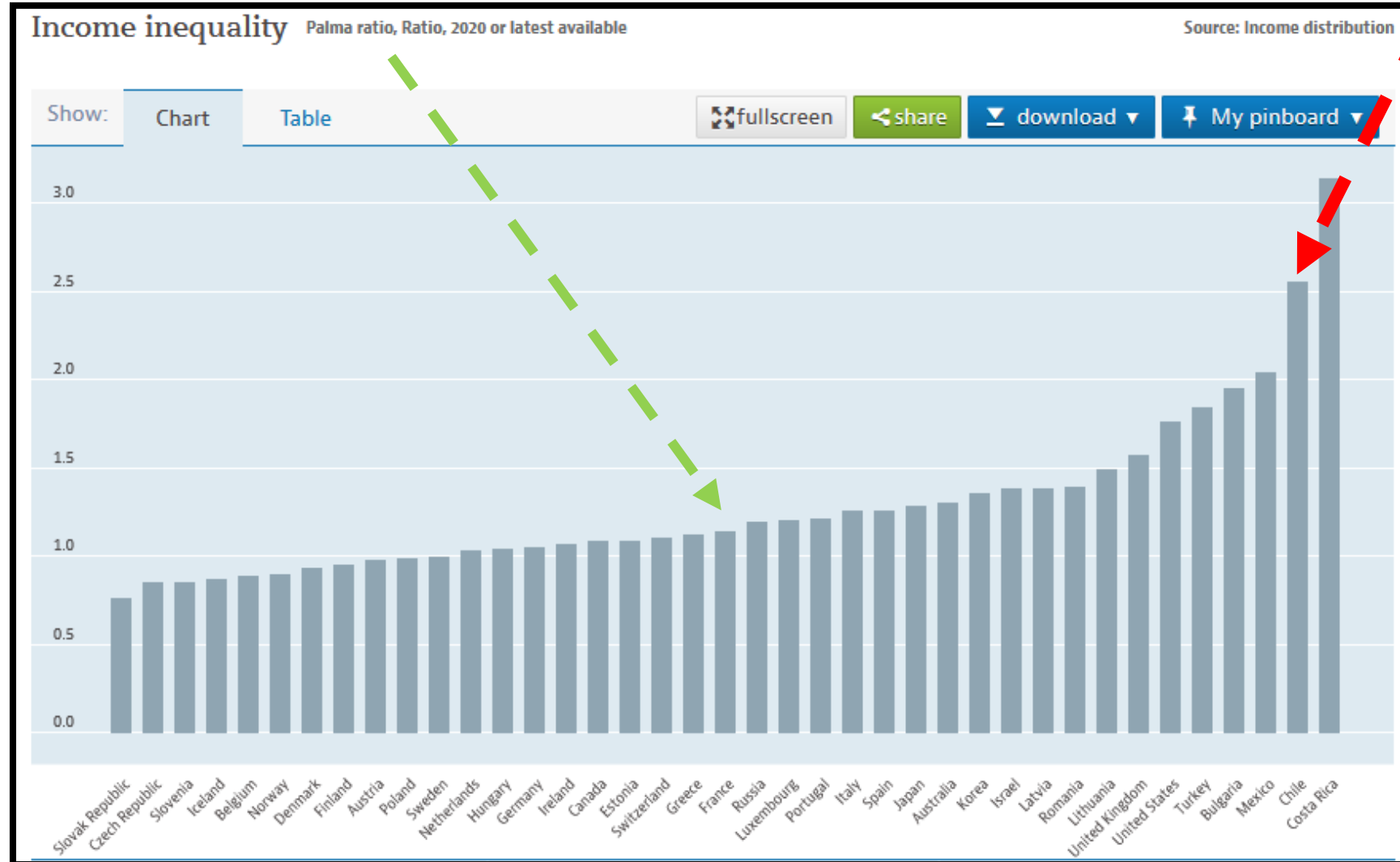


A two words conclusion:
Success and Neglect

Success



Neglect: Palma Ratio (10%/40%)

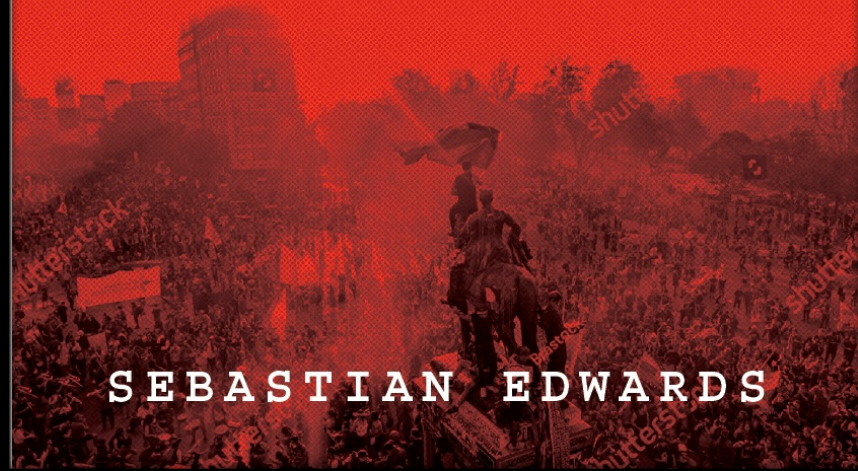


But there is an even more serious form of neglect

- 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