Lessons from the Monetary and Fiscal History of Latin America

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Summary

Monetary and Fiscal Policies

→ Latin American countries each had unique problems with their economy.

→ Primary commodity price swings were thought to be main culprit of worsening economy. This turned out to be false.

Latin America's Macro Instability

→ **Cause-** lack of following rational monetary policies and fiscal discipline. Example- Transfer payments.

★ **Effect-** allowed excessive spending to continue with low revenues.

Consequences to Macro Instability

→ Lack of control on spending created uncontrollable markets.

→ **Produced varying instabilities-** increase of reliance on loans, hyperinflation, banks defaulting, long-term recessions, increasing gov. deficit, political instability.

Summary

Resolutions to Macro Instability

→ **Stabilization plan-** tightening fiscal policy & fixed exchange rate.

What it has taught Latin America

→ Each country shares common economic faults. Their economic positions are not unique to each other.

→ **Commonalities-** high deficits, uncontrolled inflation, need for renegotiation of debt to US loans.

→ **Common changes needed-** fiscal discipline, gradual opening to free-trade, better controls on fixed exchange rates & monitor gov. spending better