

## Monetary and Fiscal Policy in Latin America

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In this course, we will study the interaction of fiscal policy, monetary policy, and the real economy, focusing on eleven Latin American countries — Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela — over the years 1960–2017. Along with periods of poor economic performance, these Latin America’s countries have been plagued by a wide variety of economic crises. Kehoe and Nicolini (2021) advance the fundamental hypothesis that, despite different manifestations, these crises all have been the result of poorly designed or poorly implemented fiscal policies.

We will use the government budget accounting framework developed by Kehoe, Nicolini, and Sargent to discipline the narratives for the modern economic histories of each of our eleven countries. We will focus on the Mexican crisis of 1982, especially the Mexican default that touched off the great depressions of the 1980s in Latin America known as the Lost Decade. We will use the Mexican experience to illustrate how studying modern economic history using the budget accounting framework can suggest directions for future research.

In stressing the interdependence of the government’s monetary and fiscal policies, we follow the approach pioneered in

Thomas J. Sargent, *Rational Expectations and Inflation* (Third edition). Princeton, NJ: Princeton University Press, 2013,

particularly in Sargent and Wallace’s “Unpleasant Monetarist Arithmetic.” A fundamental principle in Keynesian macroeconomics and even in Friedman’s monetary economics is that monetary policy and fiscal policy are independent policy options for the government. Sargent and Wallace argued that they were not: They are intimately tied together by the government’s intertemporal budget constraint.

The text for the course is

Timothy J. Kehoe and Juan Pablo Nicolini, *A Monetary and Fiscal History of Latin America, 1960–2017*. Minneapolis, MN: University of Minnesota Press, 2021.

This book is available online at <https://manifold.bfi.uchicago.edu/projects/monetary-fiscal-history-latin-america-1960-2017> and can be downloaded for free. This 592-page book can also be purchased at <https://www.upress.umn.edu/book-division/books/a-monetary-and-fiscal-history-of-latin-america> for 20.00 USD or at <https://www.amazon.es/Monetary-Fiscal-History-America-1960-2017/dp/1517911362/> for 19.06 EUR. Even if you purchase the book, the online version of the book is valuable for its online data appendices that include MS Excel files that do the Kehoe-Nicolini-Sargent government budget accounting for the eleven Latin American and that can easily be modified to this this government budget accounting for other countries and other periods.

As an example of the sort of research that can be done following up on that in the book, we will go over

Victor Almeida, Carlos Esquivel, and Juan Pablo Nicolini, “Default and Interest Rate Shocks: Renegotiation Matters,” Federal Reserve Bank of Minneapolis, 2019.

(<http://users.econ.umn.edu/~tkehoe/papers/DefaultAndInterestRateShocks.pdf>)

There will be a website for the course at <http://users.econ.umn.edu/~tkehoe/classes/BSE-22.html>.

The course will consist of three lectures on Wednesday, 1 June in room 24-S19, and on Thursday, 2 June and Wednesday, 8 June in room 24.S05 in Building 24 in the Ciudadella Campus of the Universitat Pompe Fabra that have been scheduled 10:30am–12:30pm, but are likely to end sooner than 12:30. In addition, I hope to organize a special class at a time and place to be determined.