Latin America´s New Great Depression
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During the Great Depression Latin America was buffeted by a collapse in commodity prices, a slowdown in world trade, and a massive capital outflow. The same shocks are hitting the region today, but this time one has to add the decline in remittances (crucial for Central America and the Caribbean) and the productivity freeze that comes from having much of the labor force under lockdown.

Back then the economic contraction was brutal. Between 1929 and 1933, output fell by 10 percent in Argentina and Mexico and by an eye-popping 37 percent in Chile (the other two large economies in the region, Brazil and Colombia, also suffered sharp initial drops, but by 1933 had recovered pre-depression income levels). In the era of Covid-19 Latin America is well on its way to replicating that dismal performance. Back in mid-April the IMF predicted the region´s economy would shrink by 5.2 percent in 2020 alone, with particularly sharp drops of 6.6 percent in Mexico and 5.7 percent in Argentina. Those forecasts are already outdated. Actual 2020 contractions will in all likelihood be much larger.

In the alphabet soup of alternative paths for the economy, a V-shaped recovery for Latin America looks farfetched –unless, that is, a vaccine arrives quickly and with it a world-wide resumption of growth. The virus came late to the region and some countries —Brazil, Ecuador and Mexico stand out— have been remarkably inept at containing it. In others, high public debts and spotty access to international capital limit how much governments can do to counteract the effects of the pandemic. Only Chile and Peru have the fiscal space to finance aggressive containment policies, and even there new cases of contagion and Covid-19-related deaths are up sharply in the last two weeks.

The Inter-American Development bank has constructed alternative scenarios for this year and the next two. In the mildest scenario Latin America´s economy contracts by 6.3 percent in 2020-22. In the most extreme case the cumulative contraction reaches 14.4 percent –not too different from what the region experienced in the Great Depression.

In the 1930s the countries that recovered quickly were those (mostly in South America) that adopted unorthodox measures, cutting interest rates and allowing their currencies to depreciate after leaving the Gold Standard. Most also defaulted on their foreign debts –except in the Caribbean, where platoons of United States Marines guaranteed repayment. Today flexible exchange rates are the new orthodoxy, so that is not a constraint. Availability of dollar finance is. Unless institutions like the International Monetary Fund and the Inter-American Development

Bank sharply step up their lending, a new wave of debt defaults could make it 1930s *déjà vu* all over again.