INTERNATIONAL ISSUES

Argentina: A Decade of the Convertibility Regime

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This distinguished Argentine economist analyzes his country’s path to crisis. He acknowledges that there were several factors contributing to the current situation, but he presents a brief history of events to demonstrate his view that the convertibility regime was the chief cause—and that the International Monetary Fund, not only the Argentine government, should shoulder some of the blame.

On December 1, 2001, Domingo Cavallo, Argentina’s minister of economy, announced, among other measures, the decision to establish controls and restrictions on transactions in the foreign-exchange market. He thus put an official end to the monetary regime that he himself had launched slightly more than ten years before.\(^1\)

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The economic breakdown and a wave of social turmoil and political turbulence brought President Fernando de la Rua’s administration to a dramatic end well before the completion of its constitutional term, which had begun at the end of 1999.

The macroeconomic regime of the 1990s, including convertibility of the peso at a 1-to-1 rate with the U.S. dollar, is now history. An entire decade passed between the radiant initial success of the hard-pegging of the exchange rate, in April 1991, to its abandonment following a protracted recession that persisted for more than three years. It was another “lost decade” in many respects, with lasting consequences that have not yet developed fully and are yet to be understood.

At present, the Argentine economy is struggling to emerge from the many uncertainties that arose with the downfall of the former set of economic rules and from the difficulties in establishing an alternative setting. It faces the challenge of recovering the basic macroeconomic balances in an unfavorable international context.

Argentina embraced a comprehensive economic reform effort at the beginning of the 1990s. In addition to convertibility, it included a massive privatization of public utilities, deep trade and financial opening, equal treatment of local and foreign capital, and the deregulation of domestic markets.

At first, both a drastic disinflation and fast economic growth seemed to prove this combination was working. Other reforms, like the autonomy of the central bank and the reorganization of the pension system, were later implemented as additional measures to consolidate the institutional framework of the new macroeconomic setting.

Some negative signals were already perceptible during the initial expansionary phase that preceded the Tequila episode of late 1994, and not only regarding the rising financial vulnerability to sudden stops or reversions of capital inflows. In effect,
well before the impact of the Mexican crisis, some labor-market indicators began to deteriorate. In particular, the lack of dynamism in employment creation became evident as a kind of anomaly in a period of fast economic growth. Additionally, income-distribution indicators like the incidence of indigence among both households and individuals were also showing an early worsening.

In the second half of the 1990s, a much poorer macroeconomic performance lay behind a generalized deterioration of labor-market and income-distribution indexes. This phase led to a deep crisis and the breakdown of the convertibility regime in December 2001.

The launching of the convertibility regime was a landmark in the 1990s in Argentina. The program finally collapsed ten years later at the end of 2001. The decade can be identified with a macroeconomic regime that was also based on a redefinition of the public and private spheres of economic activity (through an intense process of privatizing public-owned firms), trade and financial opening, and, at a more general level, a clear market-friendly orientation.

From a macroeconomic standpoint, two neat cycles can be observed in the period. The outstanding and early success of price stabilization came together with a lengthy four-year expansion and a subsequent short recession in 1995. A brief recovery followed, and then the current recession began in mid-1998, characterized by an unusually long contractionary period. It is a true depression, accompanied by a slight declining trend in nominal prices. This phase led to the final crisis of the monetary regime of the 1990s.

Capital flows had a crucial role in the short-run macroeconomic dynamics of the period through their impact on interest rates, internal liquidity, and aggregate expenditure. In the early 1990s, the net capital inflows exceeded the current-account defi-
cit, thus allowing for a significant accumulation of foreign reserves while feeding domestic credit creation and the economic recovery. In this way, capital inflows reached a double target: price stabilization and output growth. In contrast, significant capital outflows would later trigger the recession of the mid-1990s. Renewed inflows (following the same pattern of the initial period) gave impulse to the next recovery. A worsening of the international context after the crises of Southeast Asia in 1997 and Russia in 1998 would stop the economic expansion and trigger the second recession in the decade. Later, the closing of access to foreign credit would determine the collapse of the regime.

Under the convertibility framework, there was a close relationship between fluctuations in capital flows and the domestic cycle of economic activity. In this institutional context, changes in the international conditions regarding liquidity and credit availability have an immediate impact on the domestic interest rates, on the supplies of money and credit, and, thus, on the short-run macroeconomic performance. This feature is particularly disadvantageous, given the evident volatility of international capital movements.

The two aforementioned cycles had a counterpart in the labor market. They also affected income-distribution indicators and poverty and indigence levels.

In effect, exchange-rate–based stabilization processes like the one in Argentina in the early 1990s, which also involve a simultaneous trade opening, privatization, and fiscal adjustment, tend to generate a characteristic dynamic that can also be observed in other national experiences.

In the labor market we can typically see the development of a cycle in employment and distribution. In the early 1990s, both the employment levels and the average real incomes initially grew. However, in the ensuing contractionary phase, those effects weakened, and a number of negative factors became domi-
nant. We refer to the persistent consequences of the combination of trade opening and exchange-rate appreciation. Later on, the reversion of aggregate expenditures’ rising trend acted in the same direction.

Therefore, the ratio of full-time employment to population, for instance, after having increased from 1991 to 1992, started to fall to a new low in 1996, well below its 1990 level. Note that the ratio of the number of employed individuals to the total population began to decline (and the unemployment rate to rise) well before the turning point of the economic expansion in the beginning of the decade.

The average earnings and the employment rate rose again in the second cycle of the 1990s, to decline once more from mid-1998. By the end of the period, for instance, the average real incomes of the employed individuals were almost 11 percent below the 1994 level. And the full-time employment ratio was about 2.7 percentage points of the population lower in 2000 than during the 1992 peak. Meanwhile, the unemployment rate increased by 3.87 percentage points in the same period (according to Greater Buenos Aires figures).

The contractionary adjustment of employment in the 1990s can be understood as a gradual adaptation to the conditions (of trade opening and relative prices, in particular) set at the beginning of the decade. Increased competition of imported goods, on the one hand, and a strong upswing in the ratio between average wages and the cost of capital goods (as reflected by the average wage measured in U.S. dollars, which rose abruptly in 1990–91), on the other hand, explain a significant drop in labor demand.

The estimated coefficient of structural adjustment of full-time employment would explain, in fact, a fall in this ratio equivalent to ten percentage points of the population between 1990 and 1996 (about 1.44 percentage points a year), though this effect
was partially offset by the increase in labor demand caused by gross domestic product (GDP) growth.

Although both the privatization process and the fiscal adjustment had some negative impact on employment, the dominant negative effects came from the restructuring and concentration of economic activity in the tradable sectors, particularly in manufactures, as was observed in the cases of Brazil and Mexico.

Even in expansionary periods, the increases in the demand for manufactured goods could not offset a number of negative effects. These effects resulted from the direct displacement of domestic production by imported goods and from the reduction in the number of jobs per unit of output in the surviving firms, as an adaptation to the new set of relative prices. Furthermore, many small and medium-sized firms found serious difficulties in continuing to operate. Their closure was an important cause of employment contraction.

In spite of the decline in the full-time employment ratio, total employment, including the underemployed, rose by 1.09 percentage points between the extremes of the period. This result reflects the fact that involuntary underemployment (which showed a countercyclical behavior as well as a rising trend in the 1990s) increased by more than three percentage points during the decade.

The average real incomes of employed individuals rose during the expansionary phase of 1991–94, as did the active population’s average earnings. But the increase was lower for the active population, reflecting the impact of unemployment rates that started to rise in this period in spite of a still growing output.

Income-distribution indicators estimated for both households and employed individuals improved slightly in this initial period. The incidence of poverty showed an important fall from the record levels related to the hyperinflationary phase of 1989–90. However, the rate of indigence occurrence was different: af-
ter an initial reduction, it started to climb early on, while the economy was still in the middle of an economic expansion.

This state of affairs seriously worsened after 1994. Average real incomes of both employed workers and the active population fell rapidly, in particular among the latter (as a consequence of the simultaneous impact of lowered wages and a higher unemployment rate).

The income-distribution indicators suffered a generalized and significant deterioration in the mid-1990s. The Gini coefficient for households, for instance, recorded significant increases, as did that for employed workers and, even more intensely, for the active population.

The rising unemployment rate is the main factor in explaining the deterioration in these income-distribution indexes. Unemployment affects income distribution in a number of ways. One is direct, by diminishing the number of income recipients among active persons. As the contraction in the number of jobs hits the lowest-income households more intensely, unemployment was not neutral with regard to income distribution among households, affecting more those with lower income. Meanwhile, unemployment had a bigger impact on the less educated workers, who represent a high proportion of the lowest-income households.

But a rise in unemployment also has an indirect impact on labor earnings and distribution. It causes a decline in the hourly earnings of both full-time and underemployed workers. The elasticity of both hourly and total real earnings of the employed workers to unemployment is negative and statistically significant. The unemployment rate also has a negative effect on the number of hours worked by the underemployed. Furthermore, the unemployment elasticity of income is higher for the underemployed than for full-time workers. As the incidence of underemployment is higher in the lowest-income households, these
effects have negative consequences on income distribution.

The estimated unemployment elasticity of workers’ earnings in Argentina are very close to the rate for the United States and other developed economies. This parallel suggests that the observed increase in unemployment and underemployment cannot be attributed to a particularly strong downward inflexibility of wages. From 1998, for instance, average earnings fell somewhat, in a context of a slight negative trend in nominal prices, without any significant positive effect on the employment levels. To the contrary, it is possible that these factors generated greater excess supply in the goods markets, thus reinforcing the depressed situation of the labor market. On the one hand, lower earnings have a negative impact on aggregate demand. On the other hand, price deflation increases the level of debts in real terms, which can also have a negative effect on aggregate expenditures through its impact on debtors’ spending propensity (investment projects, fall in future expected cash flows, etc.).

An intermittent procyclical fiscal policy (not always confirmed by ex post figures) was added to these depressive factors in recent years, and particularly from late 1999, when the public-sector access to foreign credit became increasingly difficult. The economic malaise had another manifestation in the lack of policy instruments to help the economy emerge from the scenario of depression and price deflation.

After a deterioration in the mid-1990s, the estimated income-distribution indicators recorded a moderate improvement in the ensuing expansion between 1996 and 1998. But they never reached the 1994 levels, before the Tequila episode. During this phase, the average incomes of both employed workers and active individuals rose, but without reaching the preceding peak. After 1998, and following the spillover of the Russian crisis, the macroeconomic performance clearly worsened.
Even if it is true that the effects of the exchange-rate appreciation (combined with trade opening) were a crucial determinant in the behavior of labor indicators at the beginning of the 1990s, other factors assumed a dominant role in the second half of the decade. They were also a result, in part, of the exchange-rate appreciation. We refer in particular to the negative effects that result from the accumulation of foreign debt, which was, in turn, a consequence of the sustained deficits in the current account of the balance of payments in the 1990s.

The debt overhang is another constraint to growth that reinforces the negative effect of the low profitability of firms in the tradable sectors. The combination of higher financial fragility with an unfavorable shift in the international scenario led to a significant decline in private capital inflows from 1998. The accumulation of foreign reserves stopped, negatively impacting domestic liquidity and pushing up interest rates. A new economic contraction followed, as well as a decline in average real earnings of both the employed workers and the active population. These new trends could still be observed.

Indigence and poverty indicators also resumed their rising trend in 1998–2000. Thus, poverty almost completed its return to 1991 levels, while indigence rose between the beginning and the end of the decade.

The described end-of-period panorama happens to be the scenario preceding the outburst of the crisis, whose consequences will certainly include an additional worsening of labor conditions and income distribution indicators.

The situation can be summarized with the following comparisons of the end of the convertibility period with its beginning. The full-time employment rate (for the urban population) fell by 1.8 percentage points, basically explained by the behavior of the manufacturing sector and, in particular, a lower proportion of male and head-of-household workers in this kind of job. How-
ever, the proportion of involuntarily underemployed persons rose strongly (by more than three percentage points). As a consequence, the employment rate (including the underemployed) increased by slightly more than one percentage point of the population. The only sector to generate a relatively important number of full-time jobs was financial services.

The proportion of active individuals in the total population followed a sustained upward trend. This ratio increased by about one percentage point every three years in the 1990s, mainly as a result of the behavior of female participation rates.

Weak employment creation, together with the rising trend in the number of active individuals, explains the important upward shift in the unemployment rate. It passed from 6.3 percent of the active population at the beginning of 1991 to 14.7 percent by late 2000.

On the other hand, the per capita real income of the employed was almost 9 percent higher by the end of the period. But it was almost the same for the active population (only 1 percent higher, according to the estimation presented in the text). This is because of the aforementioned upward shift in the participation rates, which largely surpassed the increase in the rate of total employment.

Although the average earnings of the employed workers rose (by less than 10 percent), their distribution worsened considerably, according to several indicators. This result is due in part to the distributive effects of the rise in the unemployment rate.

When different categories of workers are considered, a decline in full-time jobs can be observed (in particular for wage earners), and an important increase in involuntary underemployment results as a counterpart. The participation of female workers in the labor force also rose, as did the participation of workers with a tertiary-level education. The same can be said of the workers with a secondary-level education, but in lower proportion, while
those with only a primary-level education lost ground. These trends in employment figures closely followed the changes in the educational levels of the total population. An important increase in the returns to education can also be observed in the period.

Distribution indicators like the Gini coefficient for households, as well as those for poverty and indigence, showed markedly rising trends in all cases (beyond a cyclical behavior that resembles that of output). We can mention, as an example of the results of these trends, that the income of the richest decile of households was 40.3 percent of total income in 2000, while it had been only 35.3 percent in 1991. This income was equivalent to 23.6 times the total earnings of the lowest-income decile of households in 1991. But the ratio increased to 38 in 2000.

As surprising as this may appear to an outsider, note that this dramatic impairment in labor indicators and in income distribution was not the result of the final crisis of the macroeconomic regime of the 1990s in Argentina, but preceded it.

The Anatomy and Physiology of the Convertibility Regime

The story told in the first section attributes the causality of the process almost exclusively to macroeconomic factors. We appeal to Occam’s razor—the principle that one should work with the fewest elements possible—in order to focus the analysis on the macroeconomic factors that have led Argentina to the present situation. This focus does not mean that other aspects of the “model” should be disregarded. For instance, some of the reforms—such as the privatization of natural monopolies without adequate regulation and the privatization of pension funds—had direct negative impacts on the fiscal accounts and on income distribution. Nor do we disregard the importance of political
corruption and the opportunistic behavior of most of the political leaders. But if political errors could be ranked according to their relative importance, we think that the administrations of Saúl Menem and Fernando de la Rua should be blamed mainly for setting up and supporting the convertibility regime.

The same should be said about the International Monetary Fund (IMF), because the institution supported the Argentine administration’s sacred dogma with financial resources by giving its seal of approval to unsustainable programs and by providing arguments in defense of the currency board. Before abandoning the boat just when it was sinking, the IMF encouraged policy measures that contributed to deepening the recession and pushing the economy further down into a vicious cycle of sales and activity contractions that reduced tax collection and caused a further deterioration in the fiscal accounts. Both the authorities and the IMF, in following this line, disregarded sensible analyses, international experience, and the overwhelming evidence on the persistent worsening of the country’s economic and social situation.

Since 1991, the Argentine macroeconomic setting has comprised trade and financial opening, a currency board regime ruling the exchange rate and monetary policies, partial but increasing dollarization of the banking system, and a strongly appreciated exchange rate. The story that can be told starting from that date is not original. For instance, the stylized facts of the Argentine performance are essentially the same as those observed in Argentina and Chile in the late 1970s and early 1980s and, more recently, in Mexico between 1988 and 1994 and in Brazil between 1994 and 1998.

In all the mentioned national cases, a cycle developed, with a first expansionary phase followed by a period of stagnation or recession, increasing external and financial fragility, and a final financial and exchange rate crisis. The decline in the number of
workers in the tradable and formal sectors, the rise in unemployment or employment in the informal sector, and the deterioration in income distribution were also common features of the mentioned national cases.

Argentina experienced the cycle twice in the decade, because the convertibility regime survived the 1995 Tequila-effect crisis. After 1995 the economy underwent another short expansionary phase backed by a new surge in capital flows that lasted until the Asian crisis. As a consequence of the first cycle, high external-debt ratios and a high unemployment rate were part of the initial conditions of the second cycle.

The appreciated exchange rate and the partial dollarization of the local banking system are not necessary ingredients of a currency board regime. They arose from specific local circumstances, but both constituted basic characteristics of the convertibility regime and significantly influenced its performance.

The appreciated exchange rate is a crucial factor. The exchange rate was greatly appreciated when it was pegged to the dollar in 1991. Coming from a highly depreciated exchange rate reached in early 1990 in the hyperinflation context, the exchange rate significantly appreciated during the rest of that year. The appreciation accentuated in the first half of the 1990s, and there was a slight depreciation in the late 1990s, but these changes did not significantly alter the appreciated level, which persisted throughout the whole period. There was an important increment in manufacturing-sector labor productivity, but the average unit labor cost in constant dollars did not fall because the prices of nontradable goods and services and nominal wages rose in the first half of the 1990s. Fluctuations in the multilateral real exchange rate around the trend were mainly caused by exchange-rate fluctuations in trade partners, particularly in Brazil.

The partial dollarization of the domestic financial system is an important factor, and explains both the persistence of the re-
gime and the complexity of the present financial crisis. It was already mentioned that the convertibility law sanctioned the validity of monetary contracts denominated in any currency. The measure was originally intended to encourage the repatriation of Argentine capital, allowing local residents to make deposits in dollars in the domestic banks. Despite the high credibility enjoyed by the exchange-rate commitment (as measured by the interest-rate differentials), private-sector savers have shown preference for dollar-denominated deposits while banks hedged (or so they thought) balance sheets against exchange-rate risk by offering dollar-denominated credits. Consequently, as from the early steps of the convertibility regime, there was a persistent trend toward a growing proportion of dollar-denominated assets and liabilities in the local banking system.

The dollarization of local savings and credits played important roles in agents’ perceptions and behavior. The dollarization of private-sector assets was perceived by both the public and the banks as a hedge against the risk of devaluation (wrongly, because both disregarded the existence of a systemic exchange risk) and so has contributed to stabilizing local portfolios. On the other hand, the exchange-risk burden rested not only on foreign investors and on banks and big firms indebted abroad, but also on numerous local bank debtors with peso-denominated income. This feature greatly amplified later on the wealth effects of devaluation and forced the authorities to implement a massive intervention in private financial contracts.

As was mentioned above, the Argentine experience is not original because it resembles other cases of trade and financial opening cum exchange-rate appreciation. On the other hand, owing to some specific characteristics, it might be said that the negative consequences of financial globalization were more accentuated in Argentina than in other countries.

The convertibility regime was an extremely rigid setting. The
rigidity did not follow exclusively from the legal rules but also from the actual behavior of real markets. For instance, the flexibility of the real exchange rate vis-à-vis negative external shocks would have required a significant downward flexibility of domestic nontradable-good prices (to be found only in some macroeconomic textbooks). Actually, no significant nominal deflation took place either in the 1995 recession or in 1998–2001, in spite of the significant flexibility of wages. Labor market legislation plays, at most, a minor role in this regard. As mentioned above, the wages-unemployment elasticity is significant and similar to the unemployment elasticity estimated in the United States and other developed countries.

The convertibility-regime setting determined two features of the macroeconomic performance. Firstly, there was a growing external gap. The combination of trade opening with an appreciated exchange rate has resulted in a chronic trade-balance deficit. The trade balance reached equilibrium or surplus only under conditions of deep recession. On the other hand, there was a growing structural deficit in the factor services account, caused by debt accumulation and foreign capital investment. Consequently, the regime generated a rising current-account deficit. This means that the economy required substantial net capital inflows to reach a positive rate of growth. Moreover, the economy required increasing external capital inflows to sustain any positive rate of growth.

Second, the volatility of the international financial conditions confronted by the country was mechanically transmitted to the domestic activity and employment levels. The correlation between national performance and the behavior of international capital markets is a common characteristic of the emerging market economies, as was dramatically illustrated in the second half of the 1990s. In the Argentine case, the correlation was accentuated by the convertibility regime because it lacked any significant monetary and
nominal flexibility. In the first half of the 1990s, domestic demand boomed, led by capital inflows and consumption. After the Mexican devaluation, the Argentine economy was the hardest hit by the Tequila effect, with the second deepest regional recession (after Mexico). A second surge in capital inflows led to an acceleration in growth in 1996–97. The external impulse slowed down after October 1997, together with the rate of growth. There was again a turnaround in economic activity in the third quarter of 1998, after the Russian-Brazilian crisis (but well before Brazilian devaluation in January 1999). In 1999, when the international financial conditions confronted by the country were still similar to those of Brazil (as indicated by the country-risk premium), the Argentine economy suffered one of the deepest recessions in the region (only Ecuador and Venezuela ranked below Argentina).

The currency board regime played up to some extent its intended role as an automatic stabilizer of the external accounts. A balance-of-payments deficit caused an automatic contraction in money and credit, a fall in aggregate demand, and a consequent contraction in imports. But in the convertibility regime, the deepest recessions left the current account with a substantial deficit and a very high unemployment rate. These features weigh on the negative side of international investors’ perceptions and tend to compensate for the positive side. The Argentine version of the currency board far from moderated the risk of default.

The investor community had to express opinions and bet on the risk of default and on the permanence of the convertibility regime. Default or the abandonment of the convertibility regime was one of the potential outcomes in the Argentine case. This characteristic put the economy in a multiple-equilibria situation, vulnerable to self-fulfilling prophecies.

Multiple-equilibria situations and self-fulfilling prophecies are not unusual in the present setting of international financial markets. One difference between the Argentine game and other
emerging market games was the reduced relevance of domestic economic factors in the Argentine case. Given the mentioned features of the macroeconomic performance, what counted most for sustainability were external factors. These factors included, for instance, the main external circumstances affecting the prospects of the trade balance: export commodity prices and Brazilian demand for Argentine imports. But fundamentals contributed only partially to the formation of the players’ conjectures. Given that the bulk of the financial needs originated in inertial sources (debt rollover and the deficit in the factor services account), the most important conjecture for each individual player had to focus on the future behavior of the international financial market with respect to the country, that is, the behavior of other players. The signals about the prospects of the trade balance—like any other signals—were valued mainly for their expected influence on the financial market’s future behavior.

Because the convertibility regime gave little room for correcting policies, the government’s “economic policy” was restricted to delivering signals. Government economic measures counted mainly for their presumed signaling value. Fiscal adjustment and fiscal equilibrium commitments, for instance, were credibility signals of sure value, despite their negative impact on the aggregate demand. For instance, an agreement with the IMF weighed more as a signal to the market than the amount of resources committed in it.

It has already been mentioned that an acute dependency on external capital inflows is the original sin of the convertibility regime. Sustainability and growth expectations fluctuated throughout the 1990s driven by good and bad news. The Mexican crisis contagion disappointed the initial expectations of persistently high capital inflows and revealed their volatility. But, at the same time, booming commodity prices and the Brazilian real plan represented good news. Helped by the positive real
shock and an $11 billion rescue package, the convertibility regime survived the Tequila effect. The combination of both a favorable real external environment and the very success of the rescue operation gave strength to unfounded optimistic expectations and a new surge in private capital inflows. These conditions lasted until the Asian crisis. From then on, optimism receded, capital inflows declined, and the country risk premium rose persistently with relative high peaks marked by the Russian-Brazilian crisis and the Brazilian devaluation. In 1998–99, while the general financial conditions of the emerging markets reflected the lasting effects of the crisis initiated in Asia, the main external real factors of the Argentine economy—including the bilateral real exchange rate vis-à-vis Brazil—all changed for the worse. Without the compensating effect of external good news, the low competitiveness of the Argentine economy regained relevance in the view of analysts. The last wave of moderate optimism was motivated by the support package negotiated with the IMF in October 2000. The effect lasted for only a month.

On no occasion throughout that turbulent history was an eventual withdrawal from the convertibility regime put under serious public discussion. Although some criticism was expressed from time to time, no significant political or social representative has taken an open position in favor of a change of regime. Similarly, few economists criticized or even focused their analysis of Argentina’s problems on the difficulties embodied in the regime. In the public arena, the convertibility regime was taken as a given and unalterable state of nature. It became a sacred dogma not to be discussed in rational terms. Critics carried the burden of being labeled as “devaluationist” and were doomed to intellectual and political isolation.

On the other hand, some influential economists strongly supported the regime. Their arguments did not disregard the negative evidence, but they emphasized its virtues in the discipline it
imposed on government and society. With time, those virtues were expected to bear fruit in competitiveness, higher exports, and sustainable growth.

Sectoral interests help to explain the situation. Banks, large firms indebted abroad, foreign-owned companies, and financial intermediaries were strongly interested in continuity. Domestic credit dollarization vastly expanded this interest. Analyses and opinions were not immune to those influences.

Leaving aside faith and interests, it is fair to say that a change in the convertibility regime would have been, in any case, a very difficult and risky policy move. This acceleration of inflation was a real threat. The fear of inflation constituted the main source of popular adherence to the fixed exchange rate to such a point that convertibility and price stability were almost interchangeable terms in the public arena. No less difficult and risky seemed to be the change for the local financial system.

On top of the technical complexities, the change of regime would have entailed a risky political operation. The authorities in office at the time would have surely carried the full burden of responsibility and would have been blamed by popular opinion for the short-run disruptions and negative consequences. Thus, it could be said that most of the public attitudes, opinions, and silence were driven more by fear than by conviction. Finally, as in most of other similar situations, the crisis, not a decision, put an end to the convertibility regime.

Note
