

Bernhardt, Thomas

**Article**

## Dimensions of the Argentine Crisis 2001/02. A Critical Survey of Politico-Economical Explanations

Intervention. European Journal of Economics and Economic Policies

**Provided in Cooperation with:**

Edward Elgar Publishing

*Suggested Citation:* Bernhardt, Thomas (2008) : Dimensions of the Argentine Crisis 2001/02. A Critical Survey of Politico-Economical Explanations, Intervention. European Journal of Economics and Economic Policies, ISSN 2195-3376, Metropolis-Verlag, Marburg, Vol. 05, Iss. 2, pp. 254-266, <https://doi.org/10.4337/ejeep.2008.02.03>

This Version is available at:

<https://hdl.handle.net/10419/277131>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<https://creativecommons.org/licenses/by/4.0/>

Stewart, M.B. (1991): Union wage differentials in the face of changes in the economic and legal environment, *Economica*, 58, 155–172.

## **Dimensions of the Argentine Crisis 2001/02. A Critical Survey of Politico-Economical Explanations**

*Thomas Bernhardt\**

### *Introduction*

When the Argentine economy collapsed in the final days of December 2001, in fact, this did not come too much as a surprise. The country had entered its fourth consecutive year of recession and scepticism about the sustainability of its economic model was widespread. However, the magnitude of the collapse was both surprising and terrifying. In 2002, Argentina's real GDP slumped by approximately eleven percent, gross fixed investment fell by 36.4 percent and private consumption by 14.4 percent. After almost an entire decade of price stability, in 2002, the inflation rate shot up to an annual 41 percent and capital flight added up to more than twelve billion U.S. dollar. This economic misery was accompanied by social unrest and political turmoil. Living standards of the majority of Argentineans had deteriorated considerably in the second half of the 1990s. In mid-2002, open unemployment stood at 21.5 percent and poverty had risen dramatically, affecting 52 percent of urban population.

Even compared to the sad experiences of the various financial crises in the last decade of the 20th century, Argentina's collapse was a particularly dramatic case. In fact, Argentina had been hit by a highly complex multidimensional crisis. The sheer magnitude and complexity of the crisis prompted a wide range of economists to try to deliver explanations of what had happened and why it had happened. In principle, at least three different (though partly interrelated) interpretations of the crisis can be distinguished. Firstly, numerous authors identify the so-called ›convertibility system‹ as the main cause of the crisis. A second group of economists puts the blame on the authorities' fiscal irresponsibility. A third view emphasizes the crucial role played by the external shocks that hit the country in the course of the 1990s. These three principal strands of interpretation will be treated in the following three sections of the paper and rounded off with some final remarks.

### *The ›Convertibility System‹ as the Main Cause of the Crisis?*

When Carlos Menem assumed office as President of Argentina in 1989, the primary task he felt he had to tackle was the hyperinflation that was plaguing the country's economy. In

\* Austrian Federal Chamber of Labour, Brussels Office.

April 1991 the Argentine legislature passed the so-called 'Convertibility law'. It established a currency board, fixing the exchange rate of the Argentine peso at an irrevocable one-to-one parity with the U.S. dollar and obligating Argentina's central bank to maintain convertibility by holding dollar reserves against its monetary liabilities. For a considerable number of observers, the far-reaching implications of the convertibility regime were the main cause of the Argentine crisis (Alberola et al. 2004, De la Torre et al. 2003, Galiani et al. 2003, Ocampo 2003a, Rodrik 2003, and Stiglitz 2002).

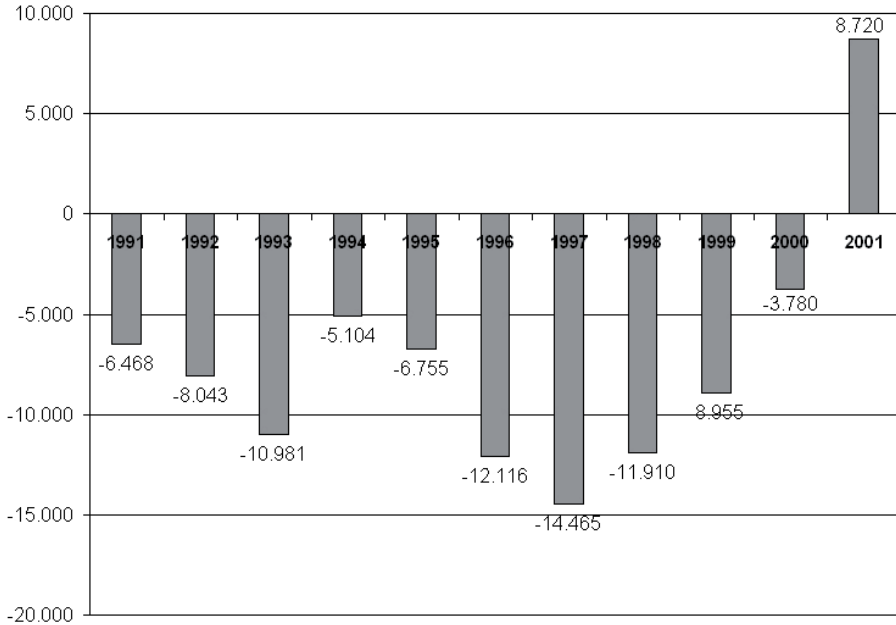
The peso's hard peg to the dollar should help to overcome inflation and to rebuild financial intermediation that had imploded in the course of the 1980s. As the creation of pesos not backed by dollars was legally precluded, the central bank was prohibited *de jure* from printing money to finance government deficits. At the same time, this strict money issuance rule *de facto* also deprived the central bank from its role as a lender of last resort. All in all, the convertibility plan represented a highly rigid system that left Argentina's government with very little room for manoeuvre (Ocampo 2003a: 22, Rodrik 2003: 17). It deprived Argentine authorities of two potent policy instruments, namely exchange rate policy and monetary policy. However, as the convertibility regime was conceptualized to be the core of a broader neo-liberal reform agenda this cutback of the authorities' competences was accepted without much reservation (De la Torre et al. 2003: 46–47, O'Connell 2005: 289). With the benefit of hindsight it can be said that the convertibility plan laid too much emphasis on monetary policy considerations, widely neglecting real economy concerns such as trade, employment and growth. This turned out to have grave implications (Stiglitz 2002).

### *Dependence on Volatile International Capital Flows and Institutional Rigidities*

From the point of view of Argentina's productive and trade structure, the peso's rigid peg to the U.S. dollar was a highly inconvenient choice. It was responsible for a considerable appreciation (and subsequently also overvaluation) of the peso, impairing the competitiveness of Argentine exports and thereby producing protracted current account deficits (that triggered a steady increase in external debt) (see Figure 1).

Simultaneously, the convertibility plan made the public and the private sector of the economy highly dependent on the inflows of foreign capital. In order to attract such external financial flows, Argentina had completely opened its capital markets already in 1989. With that, Argentina was highly exposed to the vagaries of international financial markets, therewith also importing a considerable degree of volatility (Blustein 2005: 32, Ocampo 2003b: xiii–xiv). In combination with the dependence on external finance and the rigidities of the convertibility regime, this volatility made Argentina's economy immensely vulnerable, which had severe consequences at the end of the 1990s when sentiments of international investors reversed dramatically, shifting from affinity to scepticism and therewith causing an abrupt slump in the inflow of external capital (see below). Argentina was not equipped for such a sudden stop of capital inflows: Neither could it – by nominally depreciating the peso – promote its exports in order to substitute export revenues for these capital account flows, nor could it use expansionary monetary policy in order to substitute internal

Figure 1: Current Account Balances, 1991–2001 (in million U.S. \$)



Source: IMF World Economic Outlook Database, April 2008

for external funds. In addition to that, the application of (expansionary) fiscal policy measures was also vastly limited due to the requirements of the convertibility system. In the end, the necessity of a high degree of flexibility imposed by the volatile international economic situation could not be met within the framework of an inadequately rigid system such as the convertibility plan (Miotti/Quenan 2006: 221).

#### *Provoking Overvaluation by Ignoring Optimal Currency Area (OCA) Theory*

As already mentioned, the decision to peg the peso to the U.S. dollar was primarily guided by monetary policy considerations. This implied that the hard peg was adopted against fundamental arguments provided by 'Optimal Currency Area' (OCA) theory. Argentina is far from meeting the conditions for an OCA with the U.S. dollar. In particular, Argentina's trade structure diverges substantially from that of the United States and it is typically subject to different shocks than the USA (De la Torre et al. 2003: 46, Servén/Perry 2005: 448). The United States only accounted for about 17 percent of the country's total foreign trade, while a considerable share was with countries whose currencies fluctuated markedly vis-à-vis the U.S. dollar, especially the euro and the Brazilian real. Partly as a consequence of this inappropriate hard dollar peg, the Argentine peso experienced a substantial appreciation of its real effective exchange rate (REER) in the course of the Convertibility years. According

to Perry and Servén (2003: 17), the peso's REER appreciated by more than 75 percent between 1990 and 2001. Alberola et al. (2004) estimate that, all in all, this led to an overvaluation of close to 50 percent in 2001.

What made this overvaluation so problematic was the fact that nominal depreciation was not possible under the hard peg. This implied that real exchange rate depreciation had to be achieved via deflation. However, in view of sticky prices and nominal wages, this was a rather tricky challenge. Although domestic prices did decline to a certain (very moderate) extent, the downward flexibility of prices and wages proved to be insufficient to have any significant effect on the misalignment of the peso's REER. In reality, this deflationary pressure was already enough to be partly responsible for the country's slipping into a recession in the second half of 1998 (Hausmann/Velasco 2002: 12–14). The prolonged economic slowdown, growing doubts about the sustainability of the public debt, and increasing scepticism about the permanence of the peso-dollar-parity rule then combined into a vicious circle. Finally, this led to a massive run on bank deposits, which the government intended to halt by imposing a limit on cash withdrawals from bank accounts (the so-called ›corralito‹) in the first days of December 2001. Strictly speaking, the imposition of the ›corralito‹ *de facto* brought the currency board to an end. In any case, this was the last straw. The angry protests it prompted forced the president to resign, marking the collapse of the Argentine economy.

### *Objections*

To sum up, the convertibility plan was established as the fundament of a broader neo-liberal politico-economical agenda. In fact, it constituted a particular rigid system that built various vulnerabilities into Argentina's economic framework. In view of the drawbacks described above, the convertibility system definitively can be identified as the main cause for the collapse of the Argentine economy. However, the weaknesses it implied often unfolded only in combination with other factors, which the convertibility system cannot be blamed for (e.g. the lack of fiscal prudence or the volatility of the international context, see below). It was this combination with other events that triggered problems connected with the convertibility system. In the end, however, all of these problems can be traced back to the structural problem installed by the convertibility plan.

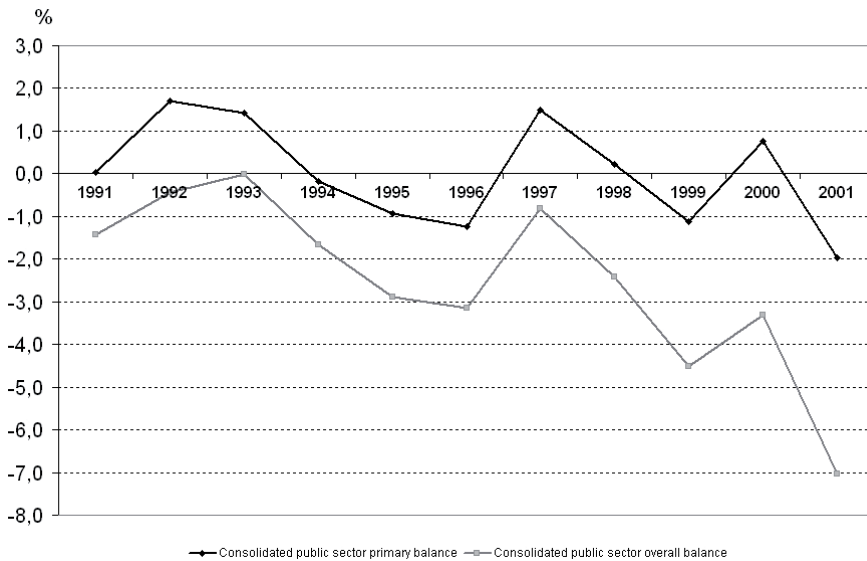
### *Fiscal Irresponsibility as the Main Cause of the Crisis?*

A second group of economists, providing an ›orthodox approach‹ (Teijeiro 2001: 286), identifies the Argentine government's ›fiscal irresponsibility‹ as the »fundamental cause of disaster« (Mussa 2002: 10). Mussa (2002) and Teijeiro (2001) are arguably the most prominent proponents. In their opinion, the steady increase in public debt has to be attributed to a lack of budgetary discipline, which eventually led to an unsustainable mountain of debt and the government's insolvency.

### *Excessive Public Spending*

In particular, these authors refer to, firstly, the expansion of public expenditures, secondly, the persistent budget deficits both on the national and on the provincial level, and thirdly, the rapidly rising public debt throughout the 1990s. As a percentage of GDP, public expenditures increased from 22.8 percent of GDP in 1991 to 28.5 percent of GDP in 2000 (Teijeiro 2001: 271). Consequently, as can be seen in Figure 2, Argentina's consolidated budget exhibited a deficit in every single year of the decade. As a result, public debt grew constantly from 25 percent of GDP in 1992 to more than 60 percent of GDP in 2001 (see Figure 3). Importantly, a considerable fraction of public debts was denominated in foreign currency, mainly in U.S. dollar. Between 1991 and 2000, 83 percent of the accumulated fiscal deficit was financed with external funds (Teijeiro 2001: 272). At the same time, the authorities' tax revenues were denominated in pesos. The resulting currency mismatch built an important vulnerability into Argentina's economic system (Perry/Servén 2003: 41).

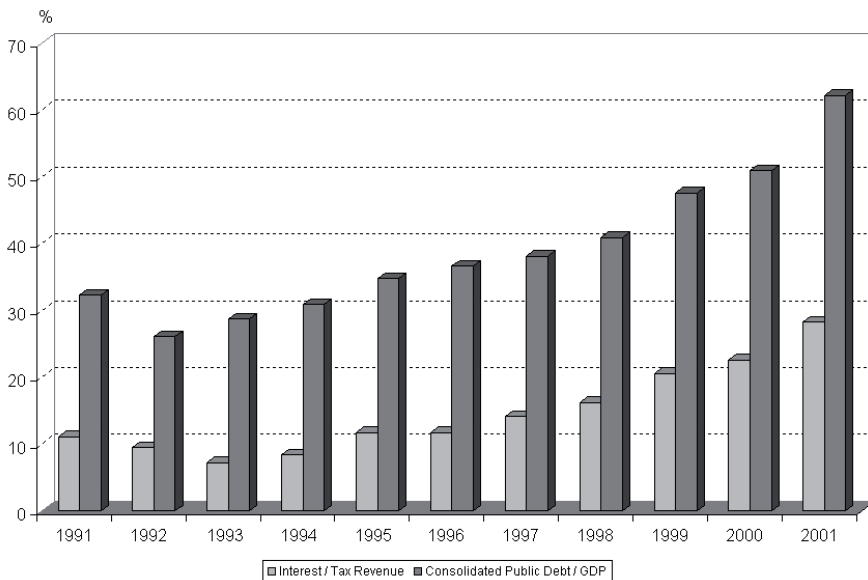
*Figure 2: Fiscal Balance Excluding Privatization Revenues, 1991–2001 (% of GDP)*



*Source: Ferreres (2005)*

Judging Argentina's fiscal policy as irresponsible is particularly based on two arguments. First, in the 1990s, the country experienced various years of economic growth, which should have made it easier for the government to bring its budget into balance or even generate a surplus. Second, in the first couple of years of the decade the Argentine administration implemented a very ambitious and comprehensive privatization program. This should have brought relief to the government's budget through two channels: in the short run, the pri-

Figure 3: Consolidated Public Debt and Service (Percentages)



Source: CEPAL 2008, Perry/Servén (2003: 37)

vation proceeds positively entered into the books; in the long run, as most of the public enterprises had been in deficit, selling them implied relieving the budget from this burden (of current expenditures) (Teijeiro 2001: 268, Rapoport 2007: 800). Apart from this, Argentine authorities have been criticized for having applied pro-cyclical fiscal policy measures throughout the entire decade (Mussa 2002: 21, Teijeiro 2001: 294).

What made these failures even worse in the 1990s was the fact that budget deficits were »absolutely inconsistent« (Teijeiro 2001: 278) with the rigid requirements of the convertibility regime. Especially the objective of price stability should have been supported by tight fiscal policy. Furthermore, in view of repeated budget deficits and rising public indebtedness, the sustainability of the convertibility system itself was put into question.

### *Worsening Terms of Finance*

In any case, times were getting harder from 1998 on. Not only domestic finance was becoming scarcer because of the incipient recession. In view of deteriorating sentiments on international financial markets, it also became increasingly difficult for the Argentine government to meet its financial needs using external funds. As a consequence of the turbulences on international financial markets following the Asian and the Russian crises, investors took a more sceptical stance towards emerging markets and emerging market sovereign spreads sharply increased as capital inflows dried up (Calvo 2003). The debt burden, which

Argentina had accumulated as a result of its recurrent budget deficits, now began to weigh heavier. In fact, public default did not seem to be an unthinkable and impossible outcome any longer (Boris 2002: 2).

With the outlook on Argentina's future development deteriorating, the creditors and investors' confidence in the country's capability to service its debts and to sustain the exchange rate regime decreased and they were increasingly reluctant to provide (new) funds or even started to withdraw them. At the end of 2001, this situation could no longer be maintained and ultimately, according to this group of economists and their strand of interpretation, the chronic lack of fiscal discipline (as primary cause) led to the collapse of the Argentine economy.

### *Objections*

Although most of the arguments brought forward above merit (at least some) acknowledgement, several objections have been raised by other economists. Fundamentally, they claim that criticism of the Argentine authorities' fiscal policy in the 1990s is based on a partially correct but incomplete and kind of myopic judgment. What the orthodox verdict fails to do is to adequately contextualize Argentina's fiscal policy measures during that decade. To be precise, the economic circumstances (at least the domestic ones) Argentina faced in the 1990s were the result of the implementation of a wider political program that was largely inspired by what is known as the 'Washington Consensus' (Musacchio/Becker 2007: 1, Boris 2002: 5). Only in interplay with other politico-economical decisions could the Argentine fiscal policy unfold its negative effects. Introducing the convertibility regime left the government with very little room for manoeuvre. Given completely liberalized capital markets, it virtually deprived the Argentine authorities of two important policy tools, namely monetary and exchange rate policy. In the absence of these two instruments, it was de facto only fiscal policy that remained for intervention measures (Galiani et al. 2003: 18, Miotti/Quenan 2006: 221). Recognizing neither that nor the rigidities and vulnerabilities mentioned above while singling out the (allegedly) ill-suited fiscal policy as 'main cause' of the crisis disregards several other important factors.

In addition to this more general objection, a series of other (more specific) pleas have been raised. O'Connell (2005: 299) points out the fact that, basically, the magnitude of Argentina's federal budget deficits was not worrying; on average, it just accounted for 1.3 percent of GDP between 1993 and 2001. In several years of the decade, Argentina's budget even exhibited a primary surplus (see again Figure 2). In all of these years it was interest payments and reimbursements that pushed the budget into the deficit. While in 1991 public interest payments merely accounted for 1.2 percent of GDP, in 2001 this percentage had risen to 3.6 percent of GDP. Although it has to be acknowledged that this increase in interest payments was in part the consequence of growing public debts, it must not be forgotten that other factors beyond the government's sphere of influence also played an important role.<sup>2</sup>

2 In particular, country risk premiums were on the rise after the turmoil on international financial markets caused by the crises in South-East Asia and Russia in 1997 and 1998.



According to some estimations, out of the approximately two percentage points of GDP of increase in interest payments between 1996 and 2000, one entire percentage point related to the rise in interest rates (O'Connell 2005: 311). Taking this into account, one might question whether it was really just lack of budgetary discipline that led to the crisis.

And, finally, there is one more issue to be mentioned in conjunction with the Argentine authorities' affinity to the suggestions of the Washington Consensus. Consistent with the neo-liberal idea that state-run institutions operate less efficiently, in 1994, Argentina initiated a profound reform of its social security system. The old state pay-as-you-go pension scheme was to be replaced by a system of private pension funds. At the same time, the state committed itself to continue to cover all existing pension payments. For the budget, this had serious consequences. A thorough analysis reveals that from 1993 on the non-social security component of the public sector ran a primary surplus in every year except for 1995 (Perry/Servén 2003: 38). In any case, the (transition) costs caused by this reform, which was inspired by the neo-liberal doctrine, must not be confused with the lack of fiscal discipline.

#### *External Shocks as the Main Cause of the Crisis?*

A third group of authors is of the opinion that Argentina had quite a lot of »bad luck« (Powell 2002), referring to the fact that the country was hit by various severe external shocks in the course of the 1990s (Calvo 2003, Calvo et al. 2003, Fanelli 2003). While not ignoring different domestic weaknesses and vulnerabilities, these economists stress that these external shocks (or at least their aggregation) were the fundamental cause of Argentina's collapse.

#### *The Mexican ›Tequila‹ Crisis*

After having experienced four years of economic well-being between 1991 and 1994, the sudden devaluation of the Mexican peso in December 1994 came as a first shock. Overall scepticism about emerging markets grew and also affected Argentina as international investors started to scrutinize the country's economic fundamentals. This proved to be momentous as Argentine authorities had adopted a policy of heavy external borrowing. Tensions rose and owing to fears that Argentina would not be able to maintain its peso's hard peg to the U.S. dollar, depositors started to withdraw money from Argentine banks which ended up in an 18 percent slump of bank deposits. A few small banks failed, country risk spreads jumped up and interest rates skyrocketed to substantial levels. This impacted also on the real economy, causing the country's GDP to fall by 2.8 percent in 1995 (Mussa 2002: 12). Nevertheless the banking system as a whole survived the pressures of the crisis and in view of determined actions adopted by Argentine authorities to defend the convertibility system, confidence of investors began to return rapidly. Within two years, capital flows more than resumed their old dynamics (Calvo et al. 2003: 10). This enabled a quick recovery starting in late 1995.

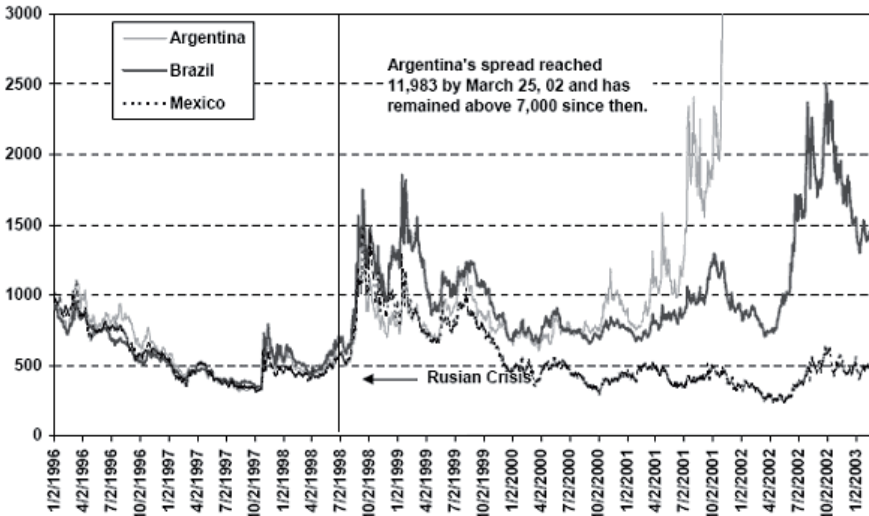
However, what was not clear yet at that time was the fact that this external shock and the recession it had triggered also implied long run consequences. Most notably, the high rate of unemployment caused by the recession of 1995 should prove to be persistent and did

not fall to previous levels again. In addition, having convinced both domestic politicians and the IMF of its functioning and having reinforced the Argentine public's confidence, abandoning the convertibility regime became more and more difficult – regardless of the vulnerabilities it (had) built into the country's economic system.

*The Asian Financial Crisis*

In mid-1997, financial turmoil began to spread in Southeast Asia, dooming to also impact Argentina. Again, sovereign spreads on emerging market bonds soared – a development that did not spare Argentina (Calvo 2003: 116). Although the increase was lower than expected, Argentina's country risk premiums did not recover completely afterwards and stubbornly remained at levels above those of the pre-crisis situation (see Figure 4). However, after all, the Asian crisis left Argentina relatively unscathed (Powell 2002: 3, Galiani et al. 2003: 31). Yet, it added further momentum to the generally deteriorating sentiments on international financial markets. And it was a first impulse that caused capital flows to partially dry up – a trend that should intensify dramatically about one year later (Blustein 2005: 52).

Figure 4: Sovereign Spreads (Basis Points)



Source: Perry/Servén (2003: 10)

### *Russia's Default*

When Russia declared default on its external obligations in August 1998, financial markets fell into panic. Investors reacted with a »flight to quality« (Calvo 2003: 113) and capital flows to emerging markets were cut dramatically. Among the countries that were hit hardest ranked Argentina. Simultaneously, country risk premiums on emerging market bonds (including Argentina's) exploded to levels above 1,500 basis points (see Figure 4). In conjunction, this put Argentina's long-term solvency in question, given its high degree of foreign debt.

The Russian crisis changed the behaviour of capital markets drastically and fundamentally. First of all, it provoked what Calvo et al. (2003) tellingly called a »sudden stop« of capital flows to emerging markets, meaning that the stop was »large and highly unexpected« (Calvo et al. 2003: 6). Taking into account that Russia had very little financial and trading ties to Latin America, the intensity of contagion effects was indeed surprising. Secondly, in the case of Argentina, this sudden stop turned out to be permanent (Calvo 2003: 113). While capital flows returned to most Latin American countries and other emerging markets some time around 1999, Argentina effectively remained locked out of international financial markets. What Argentina suffered this time was a persistent external shock. This contrasted markedly with the experience of the Tequila crisis and came somewhat unexpectedly for economic agents and politicians. This experience prompted Calvo et al. (2003: 3) to draw the conclusion that in the case of the Russian crisis, explanations had to be derived from the »intrinsic behaviour of capital markets«. In principle, a lot of investors suffered sizeable losses, which abruptly made them aware of the risk they had taken, triggering an overall increase in risk aversion (Calvo 2003: 117).

### *The Brazilian Devaluation*

Whereas the Russian crisis was originated in the financial sphere, the next shock that hit Argentina was rooted in the real sphere. In January 1999 Brazil decided to drop its semi-fixed exchange rate and let its currency, the real, float, which immediately triggered a considerable devaluation. While in the financial sphere the Brazilian crisis did not spread beyond the country's borders, the devaluation of the real by 18.4 percent and the economic slowdown in Brazil had grave consequences for the competitiveness of Argentina's economy. The fact that Brazil had purchased nearly one-third of Argentina's total exports in 1998 (making it Argentina's single most important trading partner) gives an idea of the magnitude of the shock. At the end of 1999, Argentine exports to Brazil had fallen by about 30 percent (Fanelli 2003: 146).

### *Real Effective Exchange Rate and Terms of Trade*

Aside from the above-mentioned abrupt external shocks owing to turbulences in other countries, Argentina also experienced more slowly evolving external shocks caused by unfavourable developments in the world economy. Due to the peso's hard peg to the U.S. dollar en-

shrined in the Convertibility Law, every (nominal) fluctuation of this currency was automatically passed on to the Argentine peso, directly affecting the peso's effective exchange rate. The appreciation of the U.S. dollar in the final years of the 1990s aggravated Argentina's already tense economic situation at that time.

In addition to this appreciation in the peso REER, Argentina's exports suffered from a deterioration of its terms of trade from 1996 to 1999 by a cumulative 25 percent. This fall did not only reduce Argentina's export receipts but also worsened the burden of its foreign debt in relation to its exports. That certainly affected perceptions of Argentina's solvency (Fanelli 2003: 146).

### *Objections*

While it is a matter of fact that Argentina had to face various external shocks, the argument that they were the key reason for the collapse of the economy is highly disputed. Perry and Servén (2003: 1) claim that Argentina was not hit harder than other comparable economies. Neither did Argentina's country risk spreads rise more than those of Brazil, Ecuador or Mexico in the aftermath of the Russian crisis, nor did capital inflows decrease more markedly. Actually, from Perry and Servén's (2003: 9–16) point of view, the fact that after the Russian crisis capital flows returned to other Latin American countries but not to Argentina provides evidence for the assumption that this happened due to underlying vulnerabilities in Argentina's economic framework (such as fiscal imbalances, current account deficits or REER misalignment) rather than due to a persistent external shock.

Essentially, the series of external shocks described above could only hit the country so hard because of the underlying fragility of the economic model applied by the Argentine authorities. Several deliberately taken policy measures, above all the complete liberalization of capital markets and the rigid monetary and exchange rate policy, made the Argentine economy particularly vulnerable for such shocks. The fact that Argentina's government had only a very limited range of policy options at its disposal to react to this type of external shocks was a logical consequence of the rigid system it had established in 1991 (Miotti/Quenan 2006: 221). In other words, the devastating effects of the external shocks were not an unavoidable outcome. Rather, they were the consequence of a highly rigid economic regime that did not allow for a flexible reaction to unfavourable external shocks.

### *Final Remarks*

The multidimensionality of the Argentine crisis allowed for different approaches in analysing it. Three broad categories of interpretation were presented. To conclude, the argument that the installation of the convertibility regime was the most important element in the conglomerate of causes of the crisis can be identified as the most valid. It constituted a highly rigid system that left the authorities with very little room for policy manoeuvre to react to necessities emanating both from the domestic situation and the external context. That way, it built the basis upon which all the bad luck and bad policies that were to come could hit

the country as hard as they actually did. In this sense, the lack of fiscal prudence and the package of external shocks were merely amplifiers of underlying vulnerabilities rather than the roots of all evil. However, this does not mean neglecting or even negating them. In the end, it was the complex net of interaction between various crisis-triggering elements that provoked the collapse.

### *References*

- Alberola, E., López, H., Servén, L. (2004): *Tango with the Gringo: The hard peg and real misalignment in Argentina*, World Bank Policy Research Working Paper, No. 3322.
- Blustein, P. (2005): *And the money kept rolling in (and out). Wall Street, the IMF and the bankrupting of Argentina*, New York: Public Affairs.
- Boris, D. (2002): *Die argentinische Tragödie*, Supplement der Zeitschrift Sozialismus, No. 12/2002.
- Calvo, G. (2003): *La crisis argentina: una explicación*, in: Bruno, C., Chudnovsky, D. (eds.), *¿Por qué sucedió? Las causas económicas de la reciente crisis argentina*. Buenos Aires: Siglo XXI.
- Calvo, G., Izquierdo, A., Talvi, E. (2003): *Sudden stops, the real exchange rate and fiscal sustainability: Argentina's lessons*, NBER Working Paper, No. 9828.
- Oficina de la CEPAL en Buenos Aires [CEPAL] (2008): *Base de indicadores macroeconómicos*, URL: <http://www.eclac.org/cgi-bin/getprod.asp?xml=/argentina/noticias/paginas/9/95/19/P9519.xml&xsl=argentina/tpl/p18f.xsl&base=/argentina/tpl/top-bottom.xsl>.
- De la Torre, A., Levy-Yeyaty, E., Schmukler S.L. (2003): *Living and dying with hard pegs: The rise and fall of Argentina's currency board*, *Economía*, 3(2), 43–107.
- Fanelli, J.M. (2003): *El sistema financiero argentino: La crisis y los desafíos*, in: Bruno, C., Chudnovsky D. (eds.), *¿Por qué sucedió? Las causas económicas de la reciente crisis argentina*, Buenos Aires: Siglo XXI.
- Ferrerres, O. (2005): *Dos siglos de economía argentina (1810–2004): Historia argentina en cifras*, Buenos Aires: El Ateneo.
- Galiani, S., Heymann, D., Tomassi, M. (2003): *Expectativas frustradas: El ciclo de la convertibilidad*. Serie Estudios y Perspectivas No. 16, Buenos Aires: Oficina de la CEPAL.
- Hausmann, R., Velasco, A. (2002): *The Argentine collapse: Hard money's soft underbelly*, Harvard University, Kennedy School of Government, Cambridge, MA.
- Miotti, L., Quenan, C. (2006): *Argentina's structural crisis*, in: Coriat, B., Petit, P., Schméder, G. (eds.), *The hardship of nations. Exploring the paths of modern capitalism*, Cheltenham: Edward Elgar.
- Musacchio, A., Becker, J. (2007): *La crisis argentina: ¿Sólo un problema cambiario?*, in: Becker, J. (ed.), *Cuando el capital golpea. Crisis financieras en el Cono Sur*, Montevideo: Coscoroba.
- Mussa, M. (2002): *Argentina and the fund: From triumph to tragedy*, Washington DC: Institute for International Economics.

- O'Connell, A. (2005): The recent crisis – and recovery – of the Argentine economy: Some elements and background, in: Epstein, G.A. (ed.), *Financialization and the World Economy*, Cheltenham: Edward Elgar.
- Ocampo, J.A. (2003a): The mistaken assumptions of the IMF, in: Teunissen, J.J., Akkerman, A. (eds.), *The Crisis that was not prevented – lessons for Argentina, the IMF, and globalisation*, The Hague: Fondad.
- Ocampo, J.A. (2003b): Preface, in: Teunissen, J.J., Akkerman, A. (eds.): *The Crisis that was not Prevented – lessons for Argentina, the IMF, and globalisation*, The Hague: Fondad.
- Perry, G., Servén, L. (2003): The anatomy of a multiple crisis: Why was Argentina special and what can we learn from it, World Bank Policy Research Working Paper, No. 3081.
- Powell, A. (2002): Argentina's avoidable crisis: Bad luck, bad economics, bad politics, bad advice, paper prepared for Brookings Trade Conference, May 2, Washington DC.
- Rapoport, M. (2007): *Historía económica, política y social de la Argentina (1880–2003)*, Buenos Aires: Emecé Editores.
- Rodrik, D. (2003): Argentina: a case of globalization gone too far or not far enough?, in: Teunissen, J.J., Akkerman, A. (eds.), *The crisis that was not prevented – lessons for Argentina, the IMF, and globalisation*, The Hague: Fondad.
- Servén, L., Perry, G. (2005): Argentina's macroeconomic collapse: Causes and lessons, in: Aizenman, J., Pinto, B. (eds.): *Managing economic volatility and crises. A practitioner's guide*, New York: Cambridge University Press.
- Stiglitz, J. (2002): Argentina's collapse incited the largest default in history, in: *The Strait Times*, January 10, 2002.
- Teijeiro, M. (2001): Una vez más, la política fiscal..., in: Lascano, M.R. (ed.), *La economía Argentina hoy. Un análisis riguroso de un país en crisis*, Buenos Aires: El Ateneo.

## **Policy Reform and Income Distribution: The Case of Honduras**

*Karin Fischer\**

### *Introduction*

Honduras is one of the poorest countries in the Western hemisphere. At the same time, income and wealth are highly concentrated. The policy reforms carried out during past decades promised to reduce poverty and inequality by promoting the productive use of the most abundant asset of the poor – labour (World Bank 1990: 61). If one accepts the assumptions underlying the neoliberal reforms, the 1990s offered bright prospects: Honduras experienced a massive inflow of foreign direct investment (FDI), a surge in labour-intensive exports and

\* Vienna University of Economics and Business Administration.