

## COMMENTARY

# Argentina and the IMF During the Two Bush Administrations

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### I. Introduction

The economic history of Argentina from the mid-1940s, when Juan Domingo Peron came to power, to the end of the 1980s can be narrated without any significant reference to the role of the US government. However, since 1989, when Carlos Saul Menem became the first Peronist to be elected president after Peron's death, the relationship between Argentina and the US government has been often mentioned as a key factor in the ups and downs of the Argentinian economy.

*Nationalism and Statism*, an ideology that replaced the prevalent *Market Capitalism* that had dominated Argentinian politics during the second half of the nineteenth century and the first decades of the twentieth century, became the mainstream of political thinking during the 1930s and 1940s. By 1946, when Peron was elected president, *Nationalism and Statism* had become the hegemonic political force.<sup>1</sup> Peron explicitly adopted an import-substitution industrialization growth strategy and implemented populist

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<sup>1</sup>Peron's campaign slogan was '*Braden or Peron*'. Braden referred to Spruille Braden who was the US ambassador to Argentina at the time.

macroeconomic policies that – except for very short periods of temporary reversals – prevailed until the end of the 1980s.<sup>2</sup>

The performance of the Argentinian economy during those five decades can be fully explained by the policies decided by the Argentinian authorities within the framework of this Peronist paradigm and no one attributes significant influence to the US government for those policy decisions. When Menem abandoned *Nationalism and Statism*, as the ideological framework guiding his policies and embraced once again *Market Capitalism*, the USA became an important factor in local political debate. Very often in these analyses the US government is portrayed as playing the same role that the British government had played during the years when Argentina was actively linked to the British Empire.

## II. Adoption of Market Capitalism

I do not agree with those that argue that Menem's decisions on economic policies were simply imposed by the US government through the so-called Washington Consensus. I served as Menem's Foreign Minister from July 1989 to January 1991 and as Economy Minister from January 1991 to July 1996; this was precisely during the years when foreign and economic policies reversed almost 50 years of *Nationalism and Statism*. I know with certainty that our decisions were the result of our own diagnosis of the origins of Argentina's stagnation and hyperinflation and, consequently, not the result of the imposition of any foreign government or international organization.

Nevertheless, I do support the view that the policies of the administration of George H. W. Bush ('Bush 41') created incentives for countries that wanted to embrace the US-led new world order and offered a window of opportunity to solve crises and renew economic growth.<sup>3</sup> I have no doubt

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<sup>2</sup>For a description of these policies see Cavallo Domingo, Yair Mundlak and Roberto Domenech *La Argentina Que Pudo Ser*, Los Costos de la Represion Economica. Centro Internacional para el Desarrollo Economico. Fundacion Mediterranea. Ediciones Manantial, 1989. For the English version, see *The Argentina That Could Have Been: the Costs of Economic Repression*. Executive Summary, International Center for Economic Growth, 1992.

<sup>3</sup>See the following speeches delivered by former President George H. W. Bush: Remarks at a Fundraising Dinner for Gubernatorial Candidate Pete Wilson in San Francisco, California, 28 February 1990. *'Time and again in this century, the political map of the world was transformed. And in each instance, a New World Order came about through the advent of a new tyrant or the outbreak of a bloody global war, or its end.'* And: Address to the Nation Announcing Allied Military Action in the Persian Gulf. THE WHITE HOUSE Office of the Press Secretary, 16 January 1991. *'When we are successful, and we will be, we have a real chance at this New World Order, an order in which a credible United Nations can use its peacekeeping role to fulfill the promise and vision of the United Nations' founders.'* And also:

that the attitude of the US government helped to shift Argentinian foreign and economic policies and contributed to a climate of friendship and sense of alliance between Argentina and the USA that had not existed in the previous 100 years.

In 1998, after eight years of impressive modernization of its economy and rapid economic growth,<sup>4</sup> Argentina entered what would become a long lasting economic recession. During the last days of 2001 and the beginning of 2002, the recession imploded into the deepest economic crisis for a hundred years. Once again, widespread opinions blamed the US government imposition of the Washington Consensus and IMF austerity policies for the long recession and the final implosion of the Argentinian economy in 2002. Having been Economy Minister during the last nine months of the De la Rúa administration until the moment of the implosion in December 2001, I disagree with those opinions.

Nonetheless, I do support the view that the lack of commitment of the administration of George W. Bush ('Bush 43') with the new world order and the lack of US leadership in international finance contributed more than any other factor to discredit *Market Capitalism*, and pushed the country back into the ideas and practices of *Nationalism and Statism*. No doubt, this return of Argentina to its traditional Peronist foreign and economic policies will reinstall the conflicts and tensions that characterized the relationship between Argentina and the USA during most of the twentieth century.

In a few words, just as the Bush 41 administration helped the Menem administration to embrace ideas in line with a new world order led by the USA, the Bush 43 administration offered President Duhalde's government the arguments that would result in the abandonment of those ideas and the restoration of the Peronist paradigm that dominated Argentinian political and economic thinking between 1945 and 1990.

### III. The 1989–90 Crisis

Leading politicians and intellectuals saw the hyperinflationary process that started in Argentina in the second quarter of 1989 and ended in the second quarter of 1991 as the end-result of a long period of institutional

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State of the Union Address, 29 January 1991. 'What is at stake is more than one small country, it is a big idea – a New World Order, where diverse nations are drawn together in a common cause to achieve the universal aspirations of mankind; peace and security, freedom, and the rule of law. Such is a world worthy of our struggle, and worthy of our children's future.'

<sup>4</sup>During this period the country rapidly reversed the negative impact of the Tequila Crisis of 1994–95.

degradation stemming from Argentina's *Nationalism and Statism*, which had been the prevailing political and ideological framework at that time. My colleagues and I at the *Fundacion Mediterranea*, an Argentinian Economic Research Institute, had characterized the economic organization of Argentina as capitalism without the market and socialism without the plan. We argued that the solution to our problems would come from a complete institutional reorganization that should include a reform of the state as well as a reform of the market.<sup>5</sup> Of course, several other economic research institutions and a small number of political leaders shared this interpretation of reality.

Among the economists who shared this view, two were in a position to influence the Peronist Party, the political party that by and large had been responsible for transforming *Nationalism and Statism* into the prevalent thinking. I was one of them. The other was Guido DiTella. We had been elected Members of Congress in 1987 and were part of the Peronist caucus in the House of Representatives. From that position, during the final months of the Alfonsín Administration, we had an extraordinary opportunity to influence the discussion and share our interpretation of what was happening in Argentina not only with our colleagues in Congress, but also with the frontrunner candidates of the Peronist Party in the 1989 presidential and gubernatorial elections.

Events that were taking place in the international arena proved to be very helpful when we explained our views to Menem. Thus, most of our conversations regarding the economy shifted immediately towards subjects such as the end of the Cold War, the victory of the USA, the fall of the Berlin Wall and the disintegration of the Soviet Union. He understood, with his natural intuition, that these events offered opportunities for Argentina.

Once elected, Menem offered us positions in his cabinet in the area of Foreign Affairs. Having been the first Minister of Foreign Affairs in Menem's cabinet<sup>6</sup> and the Economic Minister who implemented the main economic reforms of that administration, I am probably one of the best-informed witnesses of the influence that the US government had in shaping the change in paradigm that Menem introduced in Argentinian politics.<sup>7</sup>

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<sup>5</sup>See Cavallo, Domingo F. *Volver a Crecer*, Editorial Planeta, 1984 and 1991.

<sup>6</sup>The second and last Foreign Affairs Minister in his Cabinet was Guido Di Tella (1991–99).

<sup>7</sup>Guido DiTella would be another well-informed witness but unfortunately he passed away in January 2002.

#### **IV. Economic Reform: A Homegrown Phenomenon**

Let me start by saying that the IMF and the so-called Washington Consensus had no influence at all. All of the economic reforms introduced in those years were the result of the analysis and policy discussions that had taken place in Argentina earlier, particularly during the 1980s and at the time of the hyperinflationary explosion of 1989. Some of those reforms were aligned with the Washington Consensus recipes but others, such as the monetary reform ('convertibility' – pegging the peso to the dollar) contradicted its recommendations. Furthermore, the tax reforms, namely the elimination of export taxes and the reduction of the payroll tax rates, were explicitly opposed by the IMF staff at the time.<sup>8</sup>

The US government did have an influence, however. I would say it had a strong influence on Menem's decision to abandon the Peronist paradigm of the previous decades. Its influence was not directly connected to the economic reforms but much more related to Argentina's and Argentinians' relationship with and attitude towards the rest of the world, particularly the USA.

Differing from the prevailing views in Latin America regarding Uncle Sam, the influence of the Bush 41 administration did not come from the stick but from the carrot. The carrot was President George H. W. Bush's vision of a new world order and his style of leadership in international affairs. US leadership to restore peace and security would be exercised under the umbrella of the United Nations. Moreover, on economic and social matters, the international institutions – the IMF, the World Bank and the GATT (later the WTO) – would become tools for global economic and social progress.

The Brady Plan, which would help emerging economies to re-enter capital markets, the collective efforts of many countries with US support to obtain a significant reduction in agricultural subsidies through the Uruguay Round, and the Initiative for The Americas, which would deepen free trade in the Hemisphere, looked particularly attractive to the indebted and isolated nations of Latin America. These were the arguments that persuaded Menem to look for the best possible relationship with the USA and seek to reverse the traditional anti-American sentiment of Argentinians.

Argentina decided both to reverse the 30-year nuclear race against Brazil and to cancel a programme financed by Iraq aimed at developing a middle range missile. In addition, the international community received a clear message from Argentina: it not only would stop contributing to atomic and

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<sup>8</sup>Cavallo, Domingo F. and Joaquin A. Cottani (1997), 'Argentina's Convertibility Plan and the IMF', *AEA Papers and Proceedings*, 87(2), May, 17–22.

missile proliferation, but also would help to restore and preserve peace in the world through multilateral efforts under the United Nations umbrella. Menem found in this approach to international security an opportunity to provide the Argentinian armed forces with a new international role, tackling one of his greatest concerns at the time.

Argentina was given decisive international support for the economic reforms it launched in 1991. Consequently, the IMF, under pressure from the US government, started to cooperate with the implementation and financing of the programme. I am convinced that, on economic matters, the influence of the US government was stronger on the IMF side – pushing it to support Argentina's reform package, including those aspects that did not conform with standard IMF recipes – than on the Argentinian side.

Rather than IMF-style fiscal austerity measures, our policies emphasized supply-side structural reforms that would open up opportunities for investment and productivity increases. By and large, the US government was much more supportive of our approach than the staff of the IMF. Furthermore, the IMF's Managing Director and Board of Directors ended up supporting our programme, based more on political considerations than on technical advice from its staff.

The economic reforms delivered stability and growth during eight consecutive years. Those achievements increased the enthusiasm of Argentinians for market-oriented reform in place and, by the same token, increased the popularity of the new foreign and economic policies. The continuity that the Clinton Administration provided for President George H. W. Bush's vision and initiatives in relation to Latin America helped to maintain and even increase that sense of friendship and alliance between Argentina and the USA.

## **V. The 2001–02 Crisis**

The origins of the Argentinian crisis that became virulent in 2001–02 can be traced back to the long lasting recession that started in the second half of 1998. This recession was the result of the combination of domestic phenomena and foreign shocks.

The main domestic phenomenon was the lack of fiscal discipline of the Argentinian provincial governments and their heavy borrowing from the domestic banking system. This problem became acute in 1998 as a consequence of the internal race for the Peronist Party presidential nomination for the elections that would take place in 1999. In addition, there was a growing perception of corruption regarding Menem's ways,

which started to create uncertainty in relation to the continuity of the economic reforms.<sup>9</sup>

On the other hand, the main foreign shock was the strength of the dollar that, in Argentina's case, translated into a strong appreciation of the Argentinian peso *vis-à-vis* the Brazilian real and the euro. This had a negative impact on the production of tradable goods, particularly products competing with imports from Brazil.

The recession could have been avoided or reversed very early on if Argentina had simultaneously stopped excessive provincial spending and shifted from the peg to the dollar to a peg to a basket of currencies consistent with its foreign trade. However, these reforms were delayed until 2001. By mid-2001, it became clear that the implementation of these reforms was not going to be enough to end the recession. Argentina had accumulated a level of public debt that was becoming increasingly expensive, particularly that of the provinces. Consequently, some kind of debt restructuring became inevitable.

By July 2001 what Argentina needed and expected from the US government was political support for an orderly process of debt restructuring. Unfortunately, the vision and style of leadership in international affairs of President George W. Bush prevented his administration from delivering this support.

As a counterfactual guess, I would argue that, if President George W. Bush had had the same vision and style of leadership in international affairs as his father, the outcome would have been completely different. Argentina and Argentinians would not be blaming market capitalism and the IMF for their suffering. Moreover, the climate of friendship and alliance of the 1990s in the bilateral relationship between Argentina and the USA would not have been reversed.

## **VI. Relevant Differences in Vision and Style of Leadership**

President George H. W. Bush's vision of a new world order in the early 1990s suggested that the USA would provide leadership in helping to integrate the emerging democracies into a global system characterized by freer trade and globalization of capital.

For this global economy to function well, it was necessary to set clear rules of the game and to have the international organizations contributing to it. At least that was our perception of his vision in Argentina. This perception was consistent with the image the Bush 41 administration built around the solution it proposed and implemented for the Iraqi invasion of Kuwait. The

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<sup>9</sup>This was the reason I left the Menem Government in 1996.

USA decided to use the umbrella of the United Nations to organize a multinational force, led by the USA but integrated with many nations. Argentina decided to participate, thus breaking a century-old tradition of neutrality in this kind of conflict, and sent troops to the Persian Gulf.

The Brady Plan for restructuring the debt of the emerging economies, the way the US Trade Representative worked with Latin American nations during the Uruguay Round in trying to reduce the subsidies and restrictions that plagued agricultural trade, and the Initiative for the Americas were clear indicators of the practical content of that vision for Latin America.

We in Latin America assumed that these ideas included US leadership in helping participant nations to resolve crises, particularly if those crises stemmed from the risks associated with the process of globalization. This assumption was tested at the time of the Tequila Crisis in 1994 when a new administration had taken office in the USA. The way that the new US administration reacted to that crisis convinced us that President Bush's vision had been taken on by the Clinton Administration, and therefore, become the US vision.

Paradoxically, the Republican Congress did not support President Bill Clinton's efforts to prevent Mexican default on its public debt. At that time, we assumed it was not a change in world affairs strategy but the typical attitude of a party that was then in opposition. Later on, we interpreted in the same light the Meltzer Commission's<sup>10</sup> criticism of the help offered by

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<sup>10</sup>See the Report of the International Financial Institutions Advisory Commission, March 2000. Available at <http://www.house.gov/jec/imf.ifiac.htm>. In page 27 it says: '1994–95: The Mexican Crisis. The 1994–1995 Mexican crisis is seen by many as a watershed in the history of the "new" international monetary system and the "new" IMF. It raised important questions about the effectiveness of IMF assistance in preventing such crises. Mexico had been the largest single recipient of IMF credit during the six years leading up to the crash of the Mexican peso in December 1994. With its loans it received frequent advice, conditions, and visits by IMF officials and staff. After the crisis, the IMF approved an eighteen-month standby credit worth \$17.8 billion, the largest financial package ever granted a member state and one clearly beyond the borrowing limits that the IMF had always maintained. The US Treasury offered to provide up to \$20 billion in additional funds through its Exchange Stabilization Fund and the Federal Reserve's swap network. According to the General Accounting Office (GAO), Mexico eventually used some \$13 million of IMF money and \$13.5 billion of US official funds. The Mexican program established several bad precedents. Congress had shown that it opposed a large expenditure to aid Mexico. The Treasury used the Exchange Stabilization Fund to circumvent the Congressional budget process. And the IMF circumvented established procedures for approving loans and limiting their size in relation to the borrower's IMF quota. The IMF and the US Treasury view the Mexican bailout as a success. It certainly enabled the Mexican government to redeem some of its debts (tesobonos) as they matured. These were short-term, dollar-linked bonds that the government had issued in an unsuccessful attempt to avoid devaluation. Thus foreign private investors avoided large losses. The IMF–Treasury bridge loan allowed the Mexican government to maintain its debt

the IMF to solve crises in emerging economies and its emphasis on the moral hazard problem that the IMF programmes were supposedly creating.

Our misreading of these issues led us to believe that Allan Meltzer's proposal<sup>11</sup> in May 2001, for a unilateral suspension of the service of Argentinian public debt in order to create the climate to impose a significant haircut on creditors, did not reflect the prevalent opinion of the new Republican administration led by George W. Bush.<sup>12</sup>

But we became alarmed and started to worry about what could be a significant change of vision and style of leadership in international affairs when, in July 2001, Paul O'Neill stated that 'Argentines have been off and on in trouble for 70 years or more. They don't have any export industry to speak of at all. And they like it that way. Nobody forced them to be what they are.'<sup>13</sup> A few days later he added: 'And Argentina is now, after the \$41 billion intervention, in a very slippery position. We're working to find a way

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*payments, support insolvent Mexican banks, and protect many insolvent bank borrowers from being forced to repay their debts.'* And in page 32 it adds: '1997-98: The East Asian Crisis. The East Asian Crisis erupted in the summer of 1997 and went on to reverberate around the world. This crisis occurred for different reasons than the Mexican crisis and involved far larger capital movements. Its impact on the rest of the world was correspondingly greater and, not surprisingly, the IMF increased its promised assistance to more than \$100 billion, much more than the Mexican program... Critics also claimed that, by preventing or reducing the losses borne by international lenders, the IMF's 1995 Mexican program sent the wrong message to international lenders and borrowers. By preventing or reducing losses by international lenders, the IMF had implicitly signaled that, if local banks and other financial institutions incurred large foreign liabilities and governments guaranteed private debts, the IMF would provide the foreign exchange needed to honor the guarantees. Economists give the name "moral hazard" to the incentive inherent in such guarantees.'

<sup>11</sup>Lerrick, Adam and Allan H. Meltzer 'Beyond IMF bailouts: Default without Disruption', Carnegie Mellon Gailliot Center for Public Affairs, Quarterly International Economics Report, May 2001, p. 1.

These authors sustained that there could be 'default without disruption'. They proposed 'an IMF-backed facility that stands ready to buy all debt of a crisis government to the private sector at a support price significantly below its expected restructured value'.

<sup>12</sup>The IMF and the US Treasury had shown, however, no disposition at all to allocate the money necessary to support a last resort lending scheme, which in turn would have been necessary to prevent the collapse of the Argentinian Financial System following the suspension of payments on the public debt. As a consequence, we considered the proposal an academic exercise with no actual economic policy implications. Notwithstanding, the markets read it differently. Indeed, economic agents interpreted that Argentina could eventually decide to unilaterally stop servicing its debt even without the support of a lender of last resort.

<sup>13</sup>See *The Economist*, July 19, 2001. See also, Economist.com, [http://www.economist.com/displaystory.cfm?story\\_id=701377](http://www.economist.com/displaystory.cfm?story_id=701377).

to create a sustainable Argentina, not just one that continues to consume the money of the plumbers and carpenters in the USA who make \$50,000 a year and wonder what in the world we're doing with their money.<sup>14</sup>

After long discussions with Paul O'Neill regarding the characteristics of Argentina's economy and the actual performance of various sectors, including the export sectors he had referred to in his disagreeable and undiplomatic statements, I came to the conclusion that he had at least one legitimate concern about the Argentinian situation: we were paying very high marginal interest rates on our debt which would eventually make our debt dynamic completely unsustainable.

I argued that a default on all our debt and the imposition of the significant haircut on the debt that Allan Meltzer had been proposing – and what the markets took to reflect the opinion of the US government – would only aggravate matters. As a matter of fact, it would destroy both the financial and the private pension fund system. However, I said that we would be ready to conduct an orderly debt restructuring if we found ways to protect the pension funds, Argentinians' savings and financial institutions.

After some hesitation O'Neill said that he would be willing to support an IMF additional package for Argentina, but only if it included an orderly debt restructuring that would significantly reduce the interest cost of our public debt. I accepted his view and immediately started to work with the IMF and the Treasury's staff on the \$8 billion package that was approved by the IMF board at the end of August 2001.<sup>15</sup>

The rationale for approving the package was that Argentina was committed to eliminating the fiscal deficit and to conducting an orderly debt restructuring process with the help of the IMF. Nonetheless, in practice, we did not get any help from this institution. On the contrary, the IMF delayed its responses to both our questions and our proposals on how to conduct the debt restructuring process. Instead, the IMF made public comments about a future Sovereign Debt Restructuring Mechanism<sup>16</sup> (SDRM) that would not be ready to help Argentina. However, all market observers paid close attention to these comments, and assumed that the IMF

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<sup>14</sup>Interview with the CNN, 17 August 2001, quoted by several communication means. See *La Nacion*, August 8, 2001, pp. 7. *Economia*. [www.lanacion.com.ar/01/08/18/de\\_328554.asp](http://www.lanacion.com.ar/01/08/18/de_328554.asp). And also: [www.bradynet.com/bbs/argentina/100081-0.html](http://www.bradynet.com/bbs/argentina/100081-0.html).

<sup>15</sup>See Druckerman, Pamela 'How U.S. Academics are riling Argentina', *The Wall Street Journal*, 28 August, 2001 [www.bradynet.com/bbs/em/100131-0.html](http://www.bradynet.com/bbs/em/100131-0.html).

<sup>16</sup>Krueger, Anne 'International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring', address given at the National Economists' Club Annual Members' Dinner, American Enterprise Institute, Washington DC, November 26, 2001. Available at <http://www.imf.org/external/np/speeches/2001/112601.htm>.

would apply in the Argentinian case the same approach that it would use in future crises, namely the SDRM.

Anne Krueger's statement that future SDRM would require the debtor nation to impose temporary exchange controls to prevent capital flight was particularly damaging for an Argentinian financial system that had started to suffer a run on dollar deposits.<sup>17</sup> A few days after Anne Krueger's statement, we had no alternative but to impose exchange controls to prevent the collapse of the banking system. Ironically, the IMF used that decision as an excuse to announce that it would suspend future disbursements of the loans that had been recently granted, including the instalment that was due in November 2001.

That announcement amounted to a suggestion that Argentina should suspend payments on its public debt and interrupt the process of orderly debt restructuring that had already achieved a 30% reduction in annual interest service.<sup>18</sup> As if the message were not clear enough for Argentinian politicians, in December 2001 Allan Meltzer visited Buenos Aires to tell Eduardo Duhalde and most of the senators that the debt restructuring process in which the Argentinian government was engaged would not generate enough of a haircut and Argentina should simply default on all its debt.<sup>19</sup>

Once the organized riots of December 19–20, 2001 forced my resignation and that of President Fernando De La Rúa, the new *de facto* Argentinian leader Eduardo Duhalde and his supporters, including former President Raul Alfonsín, were, I believe, honestly convinced that the complete abandonment of the rules of the 1990s was not only beneficial for Argentina, as they had thought and had publicly stated going back several years, but now had the blessing of the IMF and the Bush administration.

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<sup>17</sup>'A formal mechanism for sovereign debt restructuring would allow a country to come to the Fund and request a temporary standstill on the repayment of its debts, during which time it would negotiate a rescheduling or restructuring with its creditors, given the Fund's consent to that line of attack. During this limited period, probably some months in duration, the country would have to provide assurances to its creditors that money was not fleeing the country, which would presumably mean the imposition of exchange controls for a temporary period of time.' Krueger, Ann. *Ibid.*

<sup>18</sup>The day before to the IMF decision to suspend disbursements, Argentina had closed the first trench of its debt restructuring process and had achieved an annual interest service reduction of around 4 billion dollars and three years uniform extension in the amortization of 55 billion dollars of debt principal that voluntarily participated in the swap of old public debt for a 'Guaranteed Loan' to the Federal Government.

<sup>19</sup>Revista 3 Puntos. Año 4 N. 231. Interview with Allan Meltzer by Pablo Rosendo Gonzalez. Available at [www.3puntos.com/seccion.php3?numero=231&seccion=protagonista](http://www.3puntos.com/seccion.php3?numero=231&seccion=protagonista).

The outcome was disastrous. The imposition of a drastic haircut on the already restructured domestic debt destroyed the contractual base of the economy. It was implemented through the compulsory 'pesofication' of financial contracts signed under Argentinian law. This action, combined with the floating of the exchange rate, generated an extreme devaluation of the Peso (75%) that in turn meant a very large devaluation of all domestic financial assets, including bank deposits and pension fund assets, and a sharp fall in real wages. The additional fall in the level of economic activity was of the same magnitude of the fall that had accumulated in the previous three and a half years of recession.

More than 50% of the population blamed Menem, De la Rúa and me as the politicians responsible for the policies of the 1990s. Most Argentinians also blamed the IMF and the US government for the same reason. However, part of the population blamed the IMF and the USA for not supporting our efforts to avoid the default and the devaluation. Therefore, in terms of the image of the USA among Argentinians, the final result could not have been more damaging.<sup>20</sup> The consequence was a significant reversal of the climate of friendship and alliance between Argentina and the USA that had prevailed during the 1990s, and a revival of the climate of mistrust that had prevailed during the previous five decades.

Why did the IMF not help Argentina to conduct its orderly debt restructuring process as promised at the time of approving the \$8 billion package? Did the IMF and the US government seek Argentina's default on all its public debt as it actually happened? Was Argentina chosen as an example to send the message that the new administration would avoid moral hazard no matter how much that decision would cost Argentina? I believe the answer to the last two questions is yes.

This confirms that the vision of the second Bush administration and its style of leadership in international affairs are completely different from those of the first Bush administration. In the same way as the war in Iraq was decided and executed outside the umbrella of the United Nations, preventing or solving debt crises in emerging economies is not considered a subject that should concern the IMF nor deserves US leadership and help. This is far from the new world order and the style of leadership in international affairs that President George H. W. Bush had envisioned in the early 1990s.

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<sup>20</sup>See Centro de Estudios para la Nueva Mayoría, poll on US Image, taken in July 2002.

## VII. Closing Remarks

There is no easy fix for the disorganization of the Argentinian economy that resulted from the 2001–2002 crisis. It will be equally difficult to rebuild the climate of friendship and alliance between the USA and Argentina. There is not much room for damage control after what happened in those two years.

Why then worry about what could have happened had the decisions and actions in Argentina and abroad been different?

My intention in writing this article is to point out how damaging the current US vision of the world and style of leadership in international affairs can be, not only for the climate of friendship and sense of alliance between the USA and its southern neighbours, but also for the well-being of the people of Latin America.

I do not want to sound hopelessly negative on the prospect of my country and less so on that of Latin America. On the contrary, I am taking advantage of my presence at Harvard as Robert F. Kennedy Visiting Professor of Latin American Studies to reflect upon what happened in Latin America during the 1990s and what the ways out of the current sense of frustration are: more specifically, how Latin American countries can responsibly rebuild the great expectations of the early 1990s and, above all, to find the institutional strength that is necessary to prevent a new frustration in future decades.

I believe that Argentina and the Latin American nations should not manically swing from ‘globalization love’ to ‘globalization hate’ and cut themselves off from the rest of the world. I am convinced that to avoid further frustration, Latin America needs to find, through the multilateral system or through hemispheric integration, the same sort of institutional anchoring that emerging European countries have in entering the European Union. The phenomenon of convergence that is taking place in Europe is mainly explained by the existence of a monetary and financial system that permits stable cross-border capital movements in favour of less developed countries for long periods of time.

The international financial institutions have not provided such a mechanism on a permanent basis. During the quarter of a century following World War II, the IFIs did provide such a mechanism for the post-war reconstruction and development of Europe and Japan because the USA assumed leadership for this challenge. Since 1971, the IFIs have not performed the same role, at least not in a stable way. But since the end of the 1970s, European efforts towards intra-European monetary and financial integration have provided an alternate mechanism for the benefit of emerging European nations.

After the Brady Plan, Latin America thought that the IFIs would play the same role for Latin America that they had played in the immediate post-war

period for Europe and Japan.<sup>21</sup> But during the last three years, as shown by the details on the genesis of the Argentinian crisis that I have tried to explain today, the international financial institutions seem to have been contributing more to global financial disorder<sup>22</sup> than to the new world order envisaged in 1990.

To reverse the current feeling of globalization scepticism that prevails in Latin America, a revival of the new world order vision here in the USA would be of great assistance. But Latin America should renew its effort to take advantage of globalization while trying to protect itself against its risks, even if they do not materialise. I think that Latin American commercial and monetary integration along with monetary and trade agreements with Europe, Japan and the USA will mitigate the effects of the current global financial disorder.

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<sup>21</sup> Asian nations, thanks to their high savings rates, did not require this sort of assistance.

<sup>22</sup> See Cavallo, Domingo F. 'The Latin American Economies and the Global Monetary Disorder. Why "Pesofication" or "de-dollarization" is a bad idea', Lecture delivered at MIT, Boston MA, USA, March 8, 2003. Both the Spanish and English versions are available from [www.cavallo.com.ar](http://www.cavallo.com.ar).