Argentina: A Decade of the Convertibility Regime[1]

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This article is an assessment of the Convertibility period in Argentina, which covered the nineties. It is presented in two sections. In the first section macroeconomic performance is described and evaluated, together with the effects on employment, unemployment and income distribution. An important contraction in full employment and significant increments in unemployment and involuntary underemployment are stressed. As from the mid-nineties income distribution shows a strong worsening trend and the poverty and indigence indicators tend to rise. The increment in unemployment stands as the main explanatory factor of the worsening of social conditions. In the second section different aspects of the Convertibility Regime are discussed: the appreciated exchange rate, the dollarization of the financial system, the accentuated dependency on capital flows, the external sustainability and the regime durability.

1. THE MACROECONOMIC PERFORMANCE, EMPLOYMENT AND INCOME DISTRIBUTION[3]

On December 1, 2001, Domingo Cavallo, Minister of Economy at that time, 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 just over ten years before.

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[3] This section presents a sythesis of the conclusions of the book: M. Damill, R. Frenkel and R. Maurizio, *Argentina: A Decade of Currency Board. An analysis of Growth, Employment and Income Distribution*, Geneva, International Labor Office, 2002, forthcoming. In Spanish: *Argentina: una década de convertibilidad. Análisis del crecimiento, el empleo y la distribución de los ingresos*, OIT. Santiago de Chile, 2002.

The economic breakdown and a wave of social turmoil and political turbulence brought president 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 nineties, including convertibility of the peso at a 1-to-1 rate with the US dollar, is now history. An entire decade passed from 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. Another "lost decade" in many respects, with lasting consequences that have not yet developed fully and still must be understood.

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

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

At first, both a drastic deflation and fast economic growth seemed to prove this combination right. 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. This is not only true regarding the rising financial vulnerability to sudden stops or reversions of capital inflows. In effect, well before the impact of the spillover 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 households and individuals, were also showing an early worsening.

In the second half of the nineties, 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 regime in December 2001.

The launching of the convertibility regime was a landmark in the nineties in Argentina. The program finally collapsed ten years later at the end of 2001. Thus, 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 privatization process of 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 nineties.

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 nineties, net capital inflows exceeded the current account deficit, thus allowing a significant accumulation of foreign reserves while feeding domestic credit creation and the economic recovery. In this way, they ensured the achievement of a double target: price stabilization and output growth. In contrast, significant capital outflows would later trigger the recession of the mid-nineties. 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 had an immediate impact on the domestic interest rates, on the supplies of money and credit and, thus, on the short-run macroeconomic performance. This was a particularly disadvantageous feature, taking into account the evident volatility of international capital movements.

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

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

In the labor market we can see, typically, the development of a cycle in employment and distribution. In the early nineties, both the employment levels and the average real incomes initially grew. However, in the ensuing contractionary phase, those initial effects weakened and a number of negative factors became dominant. We refer to the persistent consequences of the combination of trade opening and exchange-rate appreciation; later on, the reversion of aggregate expenditure's 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.

Average earnings and the employment rate rose again in the second cycle of the nineties, to decline once more from mid-1998, but falling short of the levels attained in the preceding peak. By the end of the period, for instance, the average real income of employed individuals almost 11% below the 1994 level. And the full-

time employment ratio was about 2.7 percentage points of the population lower in 2000 than the 1992 peak. Meanwhile, the unemployment rate increased by 3.87 p.p. in the same period (according to GBA figures).

The contractionary adjustment of employment in the nineties 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. The increased competition of imported goods, on the one hand, and a strong upswing in the ratio between the average wages and the cost of capital goods (as reflected by the average wage measured in US dollars, which rose abruptly in 1990-91) on the other, explain a significant drop in labor demand by firms.

The estimated coefficient of structural adjustment of full-time employment would explain, in fact, a fall in this ratio equivalent to 10 percentage points of the population between 1990 and 1996 (about 1.44 p.p. a year), though this effect was partially offset by the increase in labor demand caused by GDP growth.

Although both the privatization process and the fiscal adjustment had some negative impact on employment, the dominant negative effects came from the re-structuring and concentration of economic activity in the tradable sectors, particularly in manufacturing, 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 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 had serious difficulties to remain in operation. 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 p.p. between the extremes of the period. This reflects the fact that involuntary underemployment (which showed a counter-cyclical behavior as well as a rising trend in the nineties) increased by more than 3 p.p. over the decade.

The average real income 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 second, reflecting the impact of unemployment rates that started to rise in this period in spite of the 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 behavior of indigence was different: after an initial reduction, it started to climb early on while the economy was still in the middle of an economic expansion.

This panorama seriously worsened from 1994 onwards. Average real incomes of both employed workers and the active population fell strongly, in particular 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-nineties. The household's Gini index, for instance, recorded significant increases, as also happened in the case of employed workers and, even more intensely, of the active population.

The rising unemployment rate is the main factor explaining the deterioration of 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 hit the lowest-income households more intensely, unemployment was not neutral with regards to income distribution among households. Meanwhile, unemployment affected the less educated workers most, who represented a high porportion 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 under-employed 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 had negative consequences on income distribution.

The estimated unemployment-elasticities of workers' earnings are very close to their values in the United States and other developed economies. This 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 the 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 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, and this can also have a negative effect on aggregate expenditures, through its impact on debtor's spending propensity (investment projects, fall in future expected cash-flows, etc.).

In recent years an intermittent procyclical fiscal policy (not always confirmed by ex post figures) added to these depressive factors, 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) had been a crucial determinant in the behavior of labor indicators at the beginning of the nineties, 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 nineties.

The debt overhang was another constraint to growth that reinforced 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 halted, negatively impacting on 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 can 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.

In synthesis, this panorama can be summarized to the following elements that compare the end of the convertibility period with its beginning. The full-time employment rate (for the urban population) fell by 1.8 p.p., 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. However, the proportion of involuntarily underemployed persons rose strongly (by more than 3 p.p.). 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 1 p.p. every three years in the nineties, 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, explain the important upward shift in the unemployment rate. It passed from 6.3% of the active population at the beginning of 1991 to 14.7% by late 2000.

On the other hand, the per capita real income of the employed was almost 9% higher by the end of the period. But it was almost the same for the active population (only 1% 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%),

their distribution worsened considerably according to several indicators. This 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 happened with those with a tertiary-level education. The same can be said of the workers with secondary-level education, but in lower proportion, while those with only 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 of education can also be observed in the period.

Distribution indicators like the household's Gini index, 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% of total income in 2000, while it had been only 35.3% in 1991. This income was equivalent to 23.6 times the total earnings of the lowest-income decile of households in 1991 but had jumped to 38 times by 2000.

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

2. WHY HAS THE REGIME LASTED FOR SO LONG? WHY ARE THE NEGATIVE SOCIAL EFFECTS SO ACUTE? WHY IS THE FINANCIAL CRISIS SO DEEP AND COMPLEX? SOME HYPOTHESES.

1. The story told in the first section attributes the causality of the process almost exclusively to macroeconomic factors. We appeal to Okham's razor 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 a rank of political errors could be determined according to their relative importance, we think that the Menem's and De la Rua's administrations should be blamed mainly for setting up and supporting the Convertibility Regime.

The same should be said about the IMF, because the institution supported the Argentinean 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 as it was sinking, the IMF encouraged policy measures that contributed to deepening the recession and push the

economy further into a vicious circle of sales and activity contractions which reduced tax collection and caused a further deterioration in the fiscal accounts. Both the authorities and the IMF followed this line disregarding sensible analyses, international experience and the overwhelming evidence on the persistent worsening of the country's economic and social situation.

2. As from 1991 the Argentinean macroeconomic setting comprised of 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 from that date is not new. For instance, the stylized facts of the Argentinean performance are essentially the same that were observed in Argentina and Chile in the late seventies and early eighties and, more recently in Mexico, between 1988 and 1994, and in Brazil, between 1994 and 1998.

In all the mentioned 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 and/or employment in the informal sector and the deterioration in income distribution (in Argentina, Chile and Mexico) were also common features of the mentioned 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.

3. 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 nineties and there was a slight depreciation in the late nineties, 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 since the prices of non-tradable goods and services' and nominal wages rose in the first half of the nineties. 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 Regime and the complexity of the present financial crisis. The Convertibility Law sanctioned the validity of monetary contracts

denominated in any currency. The measure was originally intended to encourage the repatriation of Argentinean capital, allowing their owners to make deposits in dollars in the domestic banks. Despite the high credibility enjoyed by the exchange rate commitment (as measured by the interest rates differential), private sector savers have showed preference for dollar denominated deposits while banks hedged (or so them 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 towards 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 both by the public and 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 banks and big firms indebted abroad but also on numerous local bank debtors with peso denominated income. This feature later amplified the wealth effects of devaluation and forced the authorities to implement a massive intervention in private financial contracts.

4. As was mentioned above, the Argentinean experience is not new because it resembles other cases of trade and financial opening cum exchange rate appreciation. On the other had, owing to some specific characteristics, it could be said that the negative consequences of financial globalization were in 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 non-tradable-good prices (to be found only in some macroeconomic text-books). Actually, no significant nominal deflation took place either in the1995 recession or between 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 USA and other developed countries.

The Convertibility Regime setting determined two features of 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 meant 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.

Secondly, 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 nineties. In the Argentinean case the correlation was accentuated by the Convertibility Regime because it lacked any significant monetary and nominal flexibility. In the first half of the nineties domestic demand boomed led by capital inflows and consumption. After the Mexican devaluation the Argentinean 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 another 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 Argentinean economy suffered one of the deepest recessions in the region (only Ecuador and Venezuela ranked below Argentina).

5. The currency board regime played up to some extent its intended role as an automatic stabilizer of the external accounts. 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 recession left the current account with a substantial deficit and a very high unemployment rate. These features weighed on the con side of international investors' perceptions and tended to compensate for its pro side. The Argentinean 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 and/or the abandonment of the Convertibility Regime was one of the potential outcomes in the Argentinean 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 Argentinean game and other emerging market games was the reduced relevance of domestic economic factors in the Argentinean case. Given the above 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 future of the trade balance: export commodity prices and Brazilian demand for Argentinean 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 markets with respect to the country, i.e. the behavior of other players. Signals about the prospects of the trade balance — like any other signal — 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 was worth more as a signal to the market than the amount of resources committed in it.

6. It has already been mentioned that an acute dependency on external capital inflows was the original sin of the Convertibility Regime. Sustainability and growth expectations fluctuated throughout the nineties 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-dollar 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 unfoundedly optimistic expectations and a new surge in capital inflows. This 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 Argentinean economy — including the bilateral real exchange rate vis-à-vis Brazil — all turned for the worse. Without the compensating effect of external good news, the low competitiveness of the Argentinean economy regained relevance in the view of analysts. The last wave of moderate optimism was motivated by the support package agreed with the IMF in October of 2000. This 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 inalterable 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.

Meanwhile, 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 fruits 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 self-interest, 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. An 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 an extent 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 public attitudes, opinions and silence were driven more by fear than by conviction. In the end, as in most other similar situations, crisis, and not a decision, brought an end to the Convertibility Regime.