

# **Argentina's Avoidable Crisis: Bad Luck, Bad Economics, Bad Politics, Bad Advice**

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## **Abstract**

This paper contends that the recent financial crisis in Argentina was avoidable. Until the end of 2000, and arguably even until the second quarter of 2001, a fiscal adjustment would have substantially improved Argentina's situation, but the country achieved virtually none. The root of the crisis was the interaction between bad luck; moderate but certainly required fiscal adjustment; slow deflationary and recessionary current-account adjustment process; and, very importantly, extremely messy politics.

These interactions can also be thought of as vicious, self-enforcing cycles, suggesting potential multiple equilibria, both within the economic variables and between the economy and politics. A vector autoregression (VAR) analysis indicates significant interrelations between key economic and variables and politics. For its part, the IMF was caught between a growing concern regarding moral hazard and the possibility of a run. This more structural explanation to Argentine-IMF relations suggests that the international financial architecture is still incomplete, and further creative thought is required to contain the incentives for countries in such unfortunate positions to pursue more risky policies as default becomes more likely.