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ARGENTINA'S ECONOMIC CRISIS RESULTED FROM ANTI-GROWTH POLICIES, NOT A FAILURE OF FREE MARKETS

--New study examines country's depression and recovery--

WASHINGTON, D.C. - Argentina's depression of 1998 to 2002, whose effects linger today, was not a failure of free markets, as some observers have claimed. Rather, it resulted from blunders in economic policy that impeded economic growth, explains a new Joint Economic Committee study titled *Argentina's Crisis: Causes and Cures.*

"This study documents mistakes by Argentine officials that prevented economic growth and eroded property rights, with catastrophic effects," Saxton said. "The study also examines subsidized loans made by the International Monetary Fund (IMF). Despite reforms mandated by the U.S. Congress in 1998, the IMF has continued to lend to Argentina at artificially low interest rates, violating the requirement that in such circumstances, IMF loans should carry interest rates that are adjusted for risk. The IMF has also urged counterproductive tax increases and other policies on Argentina," Saxton concluded.

Argentina's economy, which had enjoyed strong growth earlier in the 1990s, went into recession in 1998 when the economy of Brazil, its largest trading partner, slowed down. By late 1999, though, Argentina's economy was showing signs of recovery. Then the new government of President Fernando de la Rúa imposed a large tax increase, which took effect in January 2000. The budding recovery ended. After a split within the governing coalition about economic policy in April 2001, the government imposed new tax increases in April and August 2001. It also made changes to the monetary system in April and June 2001 that further undermined confidence in the durability of the one-to-one exchange rate of the Argentine peso with the U.S. dollar. The changes drove up interest rates and worsened the economic situation.

In December 2001 the government froze bank deposits and defaulted on its debt to foreign private-sector creditors. A political crisis occurred: Argentina had five presidents within two weeks. President Eduardo Duhalde, who took office in January 2002, decreed a series of measures that upset well-established property rights. He devalued the peso; forcibly converted dollar loans and deposits into pesos, in such a manner as to impose large losses on banks; and voided many contracts. The economy finally hit bottom around August 2002, 28 percent below its peak of 1998.

For a copy of the study and more information on international economic policy, please visit our website at www.house.gov/jec.

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