Case Study Appendix to Political Economic Pressures in Financial Crisis Resolution

Jamus Jerome Lim*

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This appendix outlines two historical case studies that accompany the paper "Political Economic Pressures in Financial Crisis Resolution."

1 The Asian Financial Crisis

Led by the financial liberalization mantra of the Washington Consensus, the East Asian economies engaged in an aggressive drive through the 1980s in an attempt to court foreign capital. They found willing suitors in the form of global banks and institutional investors. Having just been burnt by the 1982 Latin American debt crisis, and attracted by these economies' macroeconomic stability and what was thought (at the time) to be relatively uncorrupt governments, developed-country (especially German and Japanese, and to a lesser extent American) lenders willingly poured their assets into the emerging markets of East Asia. Private capital flows into the region increased by an order of magnitude, from USD \$6.88 billion in 1984 to USD \$65.8 billion in 1996.[1] This early confidence was vindicated by the returns seen on these investments: Between the same time period, the economies of emerging East Asia grew, on average, at an impressive 7.7% per year.

While the unfolding of the Asian financial crisis occurred in several concurrent phases, it is probably easiest to date its onset to the flotation of the Thai baht on July 2, 1997. Although this event was the culmination of a series of failures of large corporations and banks throughout East Asia, it was only the beginning of a year-long banking and currency crisis that impacted a region of more than 2 billion people, cost a potential USD \$1 trillion in economic losses,[2] and shattered the idea of the Asian "miracle" (Table 1). The depth and speed of the crisis came as a surprise to most observers at the time, although—with the benefit of hindsight—*ex post* analyses have stressed the deterioration of both

*University of California, Santa Cruz. Email: jamus@ucsc.edu.

[1] The continued capital account liberalization in the 1990s, coupled with the Tequila crisis, meant that a significant jump actually occurred post-1994.

[2] Price tag courtesy of the IMF (1999 [29]).

Table 1: Selected macroeconomic indicators, crisis countries†

	1984	**1994**	**1996**	**1997**	**1998**
Capital flows (USD billions)					
Net private capital flows					
Crisis countries	6.88	36.12	65.8	-20.41	-25.56
Net official flows					
Crisis countries	4.15	0.31	-0.41	17.92	19.74
Investment (USD billions)					
Indonesia	3406	13326	5800.4	21615.1	-82716.1
Korea	794.1	1635.9	6225.01	1705.6	-25903.4
Malaysia	1306	1870	-2579	-398	-427
Thailand	8.62	10.72	35.24	-5.47	-89.47
Crisis countries (average)	699.3	2496.9	2011.3	3887.4	-18123.0
Interest rates (%)					
Indonesia	-	17.76	19.22	21.82	32.15
Korea	10	8.5	8.84	11.88	15.28
Malaysia	-	8.76	9.94	10.63	12.13
Thailand	16.79	10.9	13.4	13.65	14.42
Crisis countries (average)	10.79	11.14	12.08	13.43	16.37
Real GDP growth (%)					
Indonesia	6.74	7.54	7.98	4.54	-13.01
Korea	8.25	8.25	6.75	5.01	-6.69
Malaysia	7.76	9.21	10	7.32	-7.37
Thailand	5.76	8.95	5.93	-1.68	-10.17
Crisis countries (average)	4.92	8.29	7.33	4.80	-6.24

† Sources: IMF WEO database, IMF IFS database (various years)

macroeconomic and microeconomic fundamentals as early as 1995.[3] As late as May 1997, the then-head of the world economic studies at the IMF asserted that it was "difficult to imagine a Mexico-style crisis happening here [in Asia] because the economic fundamentals are so much stronger" (The Straits Times 1997a [55]). The literature that emerged thereafter has looked to both systemic structural and policy distortions as explanations for the crisis (Eichengreen 1999 [10]; Goldstein 1998 [19]; Corsetti, Pesenti & Roubini 1999 [5]).

The crisis had clear economic effects on each of the crisis-struck nations. After a rapid reversal, private capital flows virtually shut down. Bid-ask spreads for sovereigns peaked, and foreign creditors refused to rollover maturing private debt.

In the aftermath of the crisis, the resolution process was characterized by four features.

First, the Fund became heavily involved in immediate post-crisis lending. Altogether, the Fund disbursed USD $36 billion during the period to the crisis-hit

[3]The exception to this was probably Krugman (1994 [38]), who was the first to question the sustainability of East Asia's growth record. Nonetheless, the prevailing viewpoint at the time, in both academic and policy circles, was well summarized by the 1993 World Bank publication *The East Asian Miracle* (World Bank 1993 [59]).

countries of Indonesia, Korea, and Thailand, through its Emergency Financing Mechanism and the newly-created Supplemental Reserve Facility.[4] While the Fund does not reveal the specific source of stand-by credit for each instance of lending, these are generally drawn from quota subscriptions, the bulk of which are from developed countries—with the United States, Japan, and Germany contributing just slightly over 30% of total quotas. Moreover, the IMF also convened meetings for interested (developed) countries to assist in filling the financing gap. For example, the IMF received pledges of bilateral lending from Japan (USD $4 billion) and Australia (USD $1 billion) to Thailand (IMF 1997a [26]). The final bill for these three countries eventually came up to USD $95 billion. The IMF was thus very much an active conduit for official capital flows from developed countries to the crisis-hit developing economies.

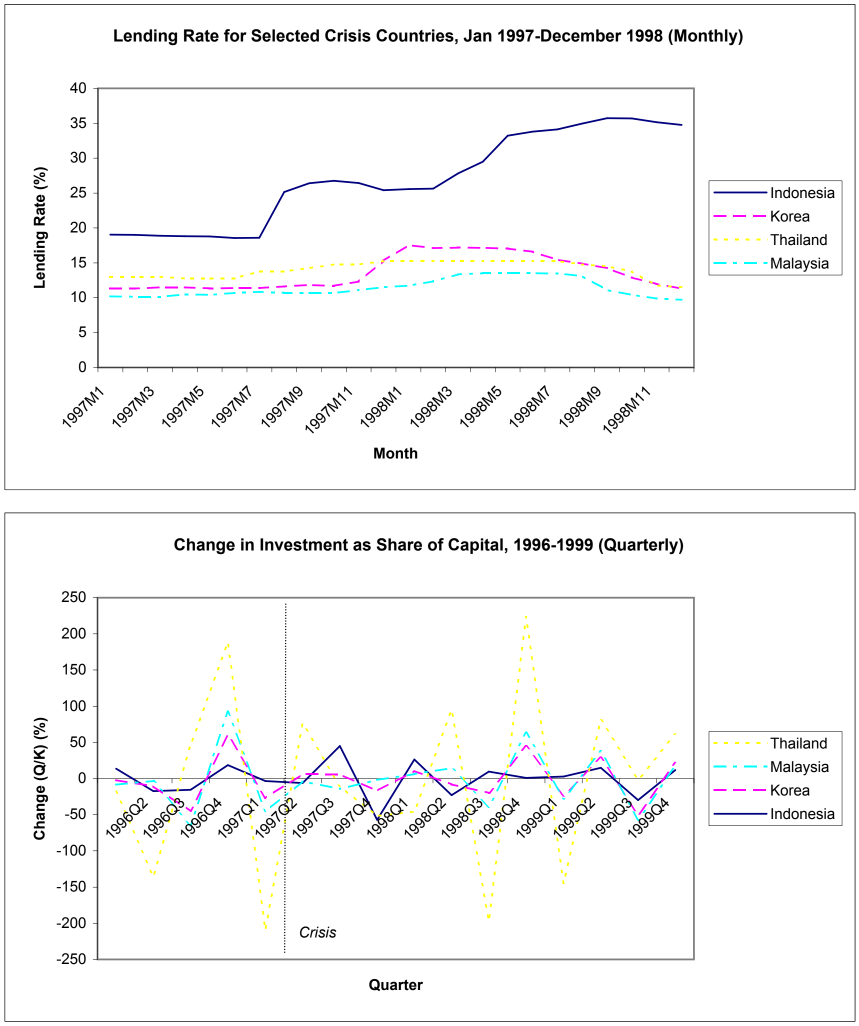
In addition, as part of a country-specific rescue package, the IMF generally imposed conditionalities that reflected what was the prevailing wisdom regarding currency crises—the standard prescription of an interest rate defense. As a result, interest rates economy-wide rose significantly (Figure 1a). For instance, the lending rate in Indonesia, South Korea, and Thailand averaged 14.2% in June 1997, but by the same time in 1998, they were 21.9%. Even in Malaysia, which resisted IMF financial assistance, rates rose in response to currency pressure (from 10.7% to 13.5% in the same period).[5] Private investment collapsed; in most crisis-hit countries, gross fixed capital formation was either flat for the duration of the crisis, or went into negative territory (Figure 1b).

Second, the bargaining process, as well as the agreed loan packages, often reflected not just purely economic bases, but political-economy considerations as well.[6] Bargaining occurred between governments and was often in the context of the larger concerns of their constituents, with the Fund serving more as a forum for these workouts, as opposed to an involved actor. In Korea, for example, negotiations were led by policymakers from the U.S. Treasury and were conducted between an international team comprised of central and private investment bankers, and Korean officials (Lee 1998 [43]). Similarly, Thai negotiations were conducted with the knowledge—and reassurance—of international bank complicity in the maintenance of credit lines (Ghosh *et al* 2002). Overall, official loan negotiations, conducted under the auspices of the IMF, are often tightly constrained by each government's need to take into account the preferred positions of their constituents, more so than any IMF stance *per se* (Blustein

[4]These constituted about 28%, 36% and 23% of total the total financing package, respectively.

[5]Indeed, it was this aspect of IMF policy that has garnered the most criticism, not just from without (Krugman 1999 [39]; Radelet & Sachs 1998 [48]; Stiglitz 2002), but also from within (Ghosh *et al* 2002 [18]). It should be noted, however, that the image of the IMF as a purely monolithic bureaucracy, blindly following formulaic policy prescriptions, is a mischaracterization. The Independent Evaluation Office (IEO 2003 [24]) noted that there was considerable internal debate with regard to the issue of raising interest rates, although it did ultimately recommend that interest rates be raised.

[6]Most notably, the so-called catalytic nature of IMF loans have often been used as a strong economic justification for Fund involvement. See Cattarelli & Giannini (2002 [6]) for an excellent review of the literature on the catalytic effects of IMF crisis lending.



Source: IMF IFS, WEO

Figure 1: Selected macroeconomic indicators, crisis countries

2001).

In addition, the packages to Asia also demonstrated the reality of political pressures inherent in accepting IMF money. In Korea, the national press described the act as a "national shame". Kim Dae-Jung—then the opposition presidential candidate—went as far as to call December 3, 1997—the day the IMF and Korean government finalized negotiations over a USD $57 billion loan—"National Economic Humiliation Day" (JoongAng Ilbo 1997 [35]).[7] Sim-

[7] Interestingly, this negative perception of the IMF was largely limited to the political elite.

ilarly, Indonesia's then-president Suharto engaged in a several confrontations with the IMF and the Clinton Administration (South China Morning Post [52]). Indeed, the Malaysia's explicit rejection of any IMF assistance was premised in part on a view that the political costs of doing so would be too great, conspiracy theories involving Soros aside (Woo 1999 [58]).[8] Overall, the widely-held view in these crisis economies was that "[s]everal features of the IMF plan are replays of policies that [developed countries] have been trying to get [developing countries] to adopt... [they] saw this aspect of the plan as an abuse of IMF power... at a time of weakness" (Feldstein 1998 [15], p. 32).

Third, the cozy relationships between the private and public sector in the crisis countries have been widely documented. A fairly broad sweep of quantitative and qualitative evidence suggests that special interest pressures were not just present, but prevalent in the developing countries that underwent the crisis, giving rise to the (now familiar) charge of "crony capitalism". In most crisis countries, private economic power was typically relatively concentrated, often in a few family-owned business groups (Table 2). As an example, ownership concentration in the 10 largest *pribumi* firms in Indonesia stood at 53%, and Korean *chaebol* were generally run by families that controlled firms in diverse industries through a complex system of cross-shareholdings (Haggard 2000 [21]). Similarly, the banking sector was also concentrated in relatively few powerful banks, some of which—Bangkok Bank (Thailand) and Bank Duta (Indonesia) being examples—had strong relationships to business groups. This concentration was often, directly or indirectly, translated into political influence over policymaking. Overall, a large share of crisis country firms could boast *ex ante* political connections (Claessens, Djankov & Lang 2000 [3]; Faccio 2006 [13]) with a potentially corrupt bureaucracy (Table 2).

This notion of policymaker responsiveness to private sector persuasion was by no means limited to the debtor countries. Global banks with a large exposure to East and Southeast Asia could have influenced their respective governments in the post-crisis episode as well. European, especially German, and Japanese banks had high exposures to the crisis countries of East Asia (Table 3). On top of IMF quotas, Tokyo pledged an additional USD $4 billion to Thailand, (IMF 1997a), USD $10 billion to Korea (Mainichi Shimbun 1997 [44]), and an unspecified amount to Indonesia (The Straits Times 1997b [56]).[9] Other developed economies, such as France, Germany, and the United Kingdom, were also active participants in providing supplemental financing for the crisis countries (IMF 1997a, b [27], c [28]).

Hayo & Shin (2002 [22]) find that the popular reaction was a little more muted, with a mix citizens being supportive of and opposed to the IMF package.

[8]In particular, given the power struggle at the time between prime minister Mahathir Mohammed and his designated successor, Anwar Ibrahim, unilaterally imposing capital controls ensured that the political support that Mahathir enjoyed from powerful groups within UMNO would remain intact in the event of Anwar's expulsion from the cabinet. Indeed, capital controls were implemented on the eve of Anwar's firing; had Mahathir not done so, the ensuing capital flight would meant recourse to the IMF for support, a position that would have been highly unpopular.

[9]Soesastro & Basri (1998 [51]) place this at USD $5 billion.

Table 2: Selected political indicators, developing countries†

	Indonesia	**Malaysia**	**South Korea**	**Thailand**
Concentration of priv econ power				
Four-firm concentration ratio (%)[a]	54.0	53.0	57.0	-
Ownership concentration (%)	53.0	23.0	46.0	44.0
Market capitalization controlled by top 15 families (%)	61.7	28.3	38.4	53.3
Concentration of banking power				
Market share of five largest banking institutions (%)[b]	41.0	41.0	75.0	70.0
Firms with political connections[c]				
Top 50 firms with close political relationship (%)	24.0	44.0	4.0	34.0
Connected firms' share of market capitalization (%)	12.7	28.2	9.0	41.6
Corruption[c]				
Corruption survey (out of 10)	8.9	5.7	6.8	7.5
Corruption perception (out of 10)	2.1	5.1	4.3	3.2

† Sources: Haggard (2000), Faccio (2005), PERC Corruption in Asia (2001), ICCR Transparency International CPI (various years)
[a] Measured as average share of total sales in each sector accounted for by the top four firms. Calculated in 1993, 1990, and 1987, respectively.
[b] Market share for Korea is for 8 dominant nationwide banks.
[c] Political connections are either direct (through top firm executives or large shareholders having links to political elites) or indirect (through top executives or large shareholders having familial or close friendship ties with a head of state).
[d] Survey (perception) average between 1995 (1996) and 2001, with higher (lower) scores indicating more corruption.

Furthermore, the vulnerability of U.S. banks to the prospect of a wider crisis was very real, which prompted the involvement of the Treasury. A report noted that "the exposure [to emerging markets] of six money center banks (BankAmerica, Bankers Trust, Chase, Citicorp, First Chicago and JP Morgan) equaled 97% of their combined tangible equity... [a] 35% write-down of emerging-market exposure... would wipe out all of the six banks' estimated 1997 earnings" (Lee 1997 [42]). The threat of a wider emerging market meltdown could have prompted these banks to seek political intervention in the crisis; in the United States, this often occurs through the medium of Congress, or through the Treasury department (Table 3). In terms of congressional influence, the extent of contributions from the major money center bank Political Action Committees (PACs) to members of the House Committee on Banking, Finance and Urban Affairs hint at the extent to which international banks seek the political support of key policymakers. The contributions were clearly not for nought: In a series of bills and amendments proposed to limit the extent to which the Exchange Stabilization Fund (ESF) could be used for international financial rescues (H.AMDT.572, H.AMDT.730, H.AMDT.293, and S.1458), the proposals all failed to pass into law, dying at either the committee, house, or senate levels (Henning 1999 [23]).[10]

[10] A softer substitute for H.AMDT.572, S.AMDT.2229, did eventually pass into law, although the amendment that was a watered-down version that permitted ESF use if the foreign financial crisis threatened "vital United States economic interests" (Congressional Record

Table 3: Selected political indicators, developed countries[†]

	1994	1995	1996	1997	1998	1999
Top 20 recipients of Bank PACs						
Number in House BFU committee		-		-	10	-
Bank PAC contributions (thousands)		-		-		-
Share of total bank PAC (%)		-		-		-
Roll call voting for ESF bailouts						
Committee support for amendments[a]	-	Y	-	N	Y	Y
Congressional support for amendments	-	Y	-	-	N	N
Senate support for amendments	-	N	-	-	-	-
Foreign claims crisis countries (USD bln)						
France	19.9	28.6	35.9	42.7	29.2	31.1
Germany	29.4	46.3	67.3	75.1	58.2	47.5
Japan	163.1	185.7	157.1	159.1	108.2	82.4
U.K.	31.1	40.4	47.6	53.9	47.8	52.3
U.S.	36.2	44.2	53.7	57.2	47.1	50.3
Creditor countries (total)	279.6	345.1	361.6	387.9	290.4	263.6

[†] Source: FEC PAC database, U.S. roll call database, BIS statistics (various years)
[a] See text for explanation of details of these amendments.

Last, the redistribution of the loan package was typically heterogeneous. Arguably, part of this was by design: Government authorities in the crisis-struck countries had to guarantee the viability of their financial sectors, in order to prevent panic-induced bank runs and financial collapse. However, part of this was due to the preexisting relationships between the governments of these countries with private sector banks.

While the ostensible objective of IMF bailout funds—according to countries' Letters of Intent—were for the purposes of comprehensively restructuring the corporate and financial sectors through the closure of failed firms, the reality of expeditiously doing so was complicated by the existing relationships between government and business interests (Table 2). In most crisis countries, the process of redistribution seemed to follow a fairly standard pattern: An initial phase, where the government would seek to rescue distressed firms and banks; a capitulation phase, where governments would make some attempt at closing failed entities (sometimes due to changes in government); and a reversion phase, where the government would return to its original goal of recapitalization, acceding to some closures but leaving most banks and firms intact. As an illustration, consider the case of Indonesia. After floating the rupiah in mid-August 1997, the Suharto administration announced two government packages aimed at, among other things, strengthening the banking sector and private corporate sector, and in one case "transferred up to $500 million to selected banks" (Soesastro & Basri 1998, p. 9). However, continued depreciation of the rupiah and the slide of the Jakarta stock market led the administration to seek IMF support. At the insistence of the IMF, the administration undertook to close insolvent banks as well as poorly performing enterprises (Government of Indonesia 1997 [20]). This compliance was illusory: Suharto quickly took ac-

1995 [4], p. S11629).

tion to protect favored individuals and firms, and by January 1998 it became evident that the administration was seeking to return to business-as-usual: Big-ticket economic projects for connected firms were quietly passed, and "crony banks consumed the bulk of the emergency liquidity credit" (Haggard 2000, p. 67). This episode, repeated in various guises throughout the crisis countries, underscores a more general point: Post-crisis redistribution would often favor special interests over the general population, in spite of *ex ante* promises and statements to the contrary.

In the aftermath, the danger of IMF bailouts acting as a wealth transfer from both developing and developed country taxpayers to international commercial banks was very real. Since both private bank debt (Klingen, Weder & Zettlemeyer 2004 [37]) as well as official loans from the IMF (Rogoff 2003 [49]) were often repaid in full—and sometimes ahead of schedule—there seems to be little doubt that, at least for Asia, the major burden of financing these bailouts was ultimately borne by taxpayers (Sacks & Thiel 1998 [50]).[11]

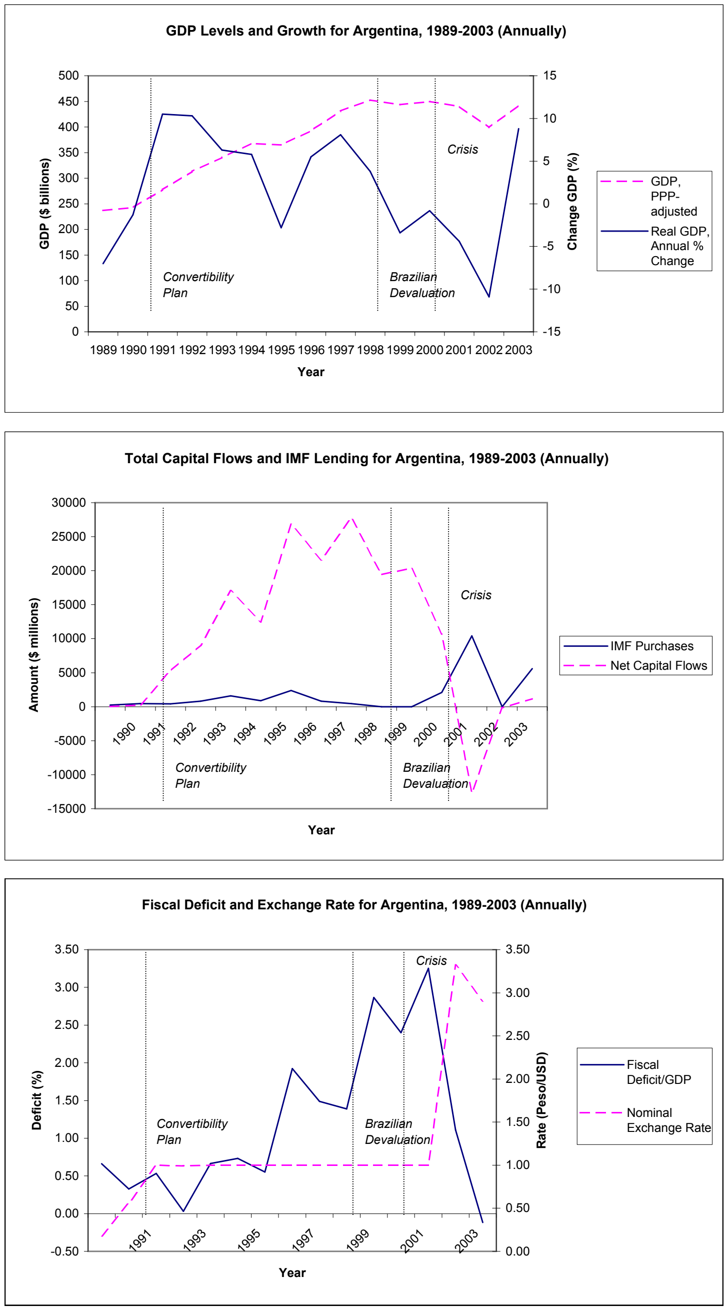
2 The Argentinean Crisis

Argentina, the darling of emerging markets in the 1990s, was considered atypical among Latin American economies. Its orthodox economic policies—such as the Convertibility Plan,[12] reform of the banking sector, and its privatization of state-owned firms and social security—endeared it to Wall Street and Washington alike. Growth was rapid: Save for a brief interruption in 1995 due to Mexico's Tequila crisis, GDP growth exceeded 5% through most of the period (Figure 2a). Moreover, the economic and political stability offered by the Convertibility Plan successfully tamed inflation and led to unprecedented capital inflows; net inflows grew from a meager USD $26 million in 1989 and peaked at USD $20.37 billion 10 years later. Argentina also featured in the IMF's good books, drawing an average of USD $1.74 billion a year between 1989 and 2003, weighing in as the Fund's third-largest debtor (at 15% of total loans outstanding) (Figure 2b).

Most observers of Argentina date the genesis of the crisis to the second half of 1998 (Dominguez & Tesar 2005 [9]; Mussa 2002 [46]). A combination of domestic and foreign shocks—namely, fiscal profligacy that led to rising public sector debt in spite of its external obligations, and the competitive devaluation of the Brazilian real—progressively led to sharp increases in interest rates, capital flow reversals, runs on banks, and eventually the unwinding of a decade of reforms

[11] It would be an oversimplification, however, to suggest that creditor-country banks were completely unaffected by the crisis. As Frankel (2000 [16]) argues, international investment banks such as J.P. Morgan, Chase, and Citibank all reported adverse effects on profits due to the Asian crisis. However, this does not detract from the fact that the haircuts taken by these institutions were typically small, and these banks definitely recovered a good share of loans outstanding.

[12] The Convertibility Plan, implemented under the Menem government under the guidance of the Minister of the Economy, Domingo Cavallo, was designed to eliminate hyperinflation in Argentina and restore credibility to the Argentine peso. The Plan pegged the peso at one-to-one parity with the dollar and required that two-thirds of the monetary base be supported by international reserves.



Source: IMF IFS, WEO; WB GDF

Figure 2: Selected macroeconomic indicators, Argentina

(Figure 2c). Argentina was effectively shut out of global financial markets, and between December 20, 2001 to January 2, 2002, the country plunged into the deepest economic and political crisis that it had seen in a hundred years. Disillusioned and outraged, citizens took to the streets, forcing the resignation of then-president de la Rúa and economy minister Cavallo, and the country teetered on brink of collapse. The nation virtually came to a standstill: When she finally emerged from those dark days in January, there had been three ephemeral presidencies, the Convertibility Law was no more, and Argentina was went, overnight, from "poster-child to basket case" (Pastor & Wise 2001 [47]).

Although the crisis in Argentina was substantively different from that of East Asia,[13] post-crisis events in the two episodes share some strikingly common themes.

First, the IMF, together with the World Bank and the Inter-American Development Bank, were active participants in post-crisis resolution—in 2002 alone, the IMF sent 22 staff missions to the country. In particular, the IMF worked closely with the Argentine authorities "in the definition and formulation of a sound and comprehensive economic plan to overcome the crisis. The goals of the plan, which the IMF could support with financial assistance, are to rekindle activity, to preserve macroeconomic stability and to set the basis for growth". The IMF also coordinated international efforts in this area (IMF 2002 [30]). For Argentina, the Fund was even involved in *pre*-crisis advising and crisis management, although the imposed conditionalities have often been criticized as being too soft.[14] In spite (or perhaps because of) IMF actions, interest rate spreads between Argentine debt over U.S. Treasuries went through the roof, going past 4,000 basis points in November and falling just short of 10,000 at the end of December. Output contraction in the first half of 2002 was severe: Real GDP contracted 13%, one of the largest experienced by any crisis country.

Second, both crisis and post-crisis bargaining over official lending seemed to demonstrate strong political-economy factors. It was clear that official debt negotiations under the IMF, as well as actual Fund disbursements, were subject to the complicity and support of the U.S. Treasury. The factor was certainly strong enough to have potentially overruled prudence as the crisis deepened, leading two Directors of the Executive Board to abstain from voting for the September 2001 package (De Beaufort Wijnholds 2003 [8]). As a matter of fact, Cavallo goes as far as to claim that "what Argentina needed and expected from the US government was political support for an orderly process of debt restructuring" (Cavallo 2004 [2], p. 143), and that the failure of the second Bush administration in providing this support that eventually led to the suspension of disbursements

[13]In particular, the Argentinean crisis unfolded in several cycles, with a protracted crisis phase, thus complicating the analysis. Furthermore, the prolonged period of post-crisis bargaining primarily involved the renegotiation of sovereign debt to private creditors, as opposed to private debt rescheduling.

[14]The IMF has come under significant criticism for its abetting of Argentina's fiscal misconduct, both from the outside (Mussa 2002), as well as from within (IEO 2004 [25]).

by the IMF in December 2001 (Wall Street Journal 2001 [57]).[15] The country remained in a state of limbo with the IMF for almost a year, until January 2003 (IMF 2003a [31]), when a transitional arrangement was reached, followed by a new stand-by credit agreement for USD $12.5 billion in September 2003 (IMF 2003b [33]). In the interim, what played out was "a game of chicken between Buenos Aires and the IMF" (Blustein 2005 [1], p. 206). The indisputable fact seems to be that "[t]he IMF yielded to external political and market pressures" (Daseking, Ghosh, Thomas, & Lane 2005 [7], p. 46).

Moreover, with even the middle class *caceroleros* joining the poor and unemployed *piqueteros* in mass protests—all decrying the draconian financial controls imposed by the *corralito*, the IMF, and the banking system—ignoring the populace's views concerning IMF debt would have been tantamount to political suicide (Gaudin 2002 [17]). Throughout the crisis period, Argentine authorities, together with Cavallo, often took "policy initiatives unforeseen by—and often incompatible in spirit with—the program negotiated with the IMF, without prior consultation" (IEO 2004, p. 60). It was also certainly a declared "preoccupation" of Duhalde (La Nación 2003 [40]). Indeed, the ultimate rescindment of *pesificación* was due to pressures from the democratic process; this had culminated in decrees, issued by successively higher courts, that the "pesofication" of Argentine debt was unconstitutional and, hence, illegal. This point was recognized as much by the Fund: In its Article IV report, staffers stressed the need to "ensure that the political consensus can be sustained in the face of populist pressures" (IMF 2003b [32], p. 30).

Third, there were no shortages of incidences involving special interest politicking. For starters, the ownership structure of firms in Argentina's economy may facilitate political rent-seeking. As La Porta, Lopez-de-Silanes & Shleifer (1999 [41]) have noted, concentrated family control of firms in Argentina is extremely high (Table 4). While there is no direct linkage from oligarchic family control to political rent-seeking, there are good reasons to believe that political rent-seeking is easier in such economic environments (Morck & Yeung 2004 [45]).[16] Moreover, special interest activity could is also evident from the interactions between the Argentine provinces and the central administration in Buenos Aires.

This is coupled with the perception that policymakers were generally responsive to such special interest pressures (Table 4). Even after the displacement

[15] Cavallo goes on to question: "Why did the IMF not help Argentina to conduct its orderly debt restructuring process as promised? 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 a 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."

[16] Since controlling shareholders can exercise a disproportionate amount of power in firm decisionmaking processes, political favors—such as bribes—may be easier to effect, as rent-seeking cooperative behavior becomes easier to sustain. As Morck & Yeung (2004, p. 403) assert, "oligarchic families plausibly have an innate advantage as political rent seekers. . . [they possess] characteristics [that] make them better able to establish and sustain the relationships of trust with public officials that raise the returns to political rent seeking. Moreover, it is hard to conceive of others who share these advantages."

of Menem, the poor quality of political leadership was recognized even by the average citizen (Euromoney 2001 [11]). With global banks holding a significant proportion of their portfolios in Argentine bonds, it was unsurprising that there would be close relationships between policymakers and international bankers (Blustein 2005). The *megacanje* ("mega-swap") deal in the summer of 2001 between Argentina and her creditors was criticized as a "private deal between Cavallo and his Wall Street chums" (Euromoney 2002 [12]); fees paid to banks totaled USD \$125 million. The national strike on December 13, 2001 that paralyzed the nation was called in order to topple what was regarded as a government that favored capitalist interests over those of labor.

Table 4: Selected political indicators, Argentina[†]

Indicator	**Value**
Family control of largest publicly-traded firms[a]	
Ownership share of medium (large) firms (%)	80 (65)
Pyramid holding structure (cross shareholdings) (%)	5 (0)
Probability controlling shareholder is alone	0.85
Corruption[b]	
Corruption measure (out of 6)	2.3
Corruption perception (out of 10)	3.1
Output redistribution[c]	
Change in proportion of population below poverty line (%)	-21.6
Change in Y/N due to L/N (K/N) (%)	-3.60 (2.91)
Change in net resident lending abroad (USD million)	7670

[†] Source: La Porta, Lopez-de-Silanes & Shleifer (1999), PRS ICRG (various years), ICCR Transparency International CPI (various years), IMF IFS database

[a] Ownership is measured with 20% threshold level, althoug this remains unchanged for a 10% threshold; pyramid structures require controlling shareholders to exercise control with at least one publicly-traded company, and cross-shareholdings indicate the extent to which firms own shares in other firms in its control chain.

[b] Measure (perception) average between 1996 and 2002 (2003), with lower scores indicating more corruption.

[c] Proportion of population below poverty line calculated for all urban centers between May 2001 and October 2002; change in capital-labor share was for the years 1998 and 2002; change in net resident lending includes net lending, monetary gold, and errors and omissions, and were for the years 2002 and 2003.

Who were the losers in the crisis? Compared to Asia, while the crisis was heterogeneous in terms of the constituents affected, post-crisis redistribution more closely followed class cleavages. After all, despite the turn toward free markets in the 1990s, the overall structure of the Argentine economy continues to largely adhere to the traditional class-based lines of capital versus labor. The imposition of the *corralito* probably hurt workers and the bulk of the middle class, more than it did the rich; as shown in Table 4, the proportion of Argentines below the official poverty line jumped from 35.9% in 2001 to 57.5% in 2002.[17]

[17] Since the calculation of the poverty line is in terms of a basket of basic goods and services (*Canasta Básica Total*, CBT), this measure is affected by both the contractionary impact of

This can also be seen through a growth accounting exercise: Kehoe (2003 [36]) estimates that, for the period 1998–2002, changes in real output per working-age individual that were attributable to deviations from balanced growth due to labor was -3.6% (compared to +2.9% for capital). Finally, to the extent that net resident lending abroad may indicate successful repatriation of private funds by certain economic groups that had access to international capital markets, the increase in these flows post-crisis may be indicative of how these groups were better able to insulate themselves from the impact of the peso devaluation. This reality of redistribution was perhaps best summarized by the former president of the Banco Central de la República Argentina, who claimed that "[t]he government has transferred about 40% of private debt to workers, who are seeing their salaries cut in half... [w]e are experiencing a mega-redistribution of wealth and income unprecedented in the history of the capitalist world" (Gaudin 2002, p. 9).

Nonetheless, and in contrast to Asia, haircuts taken by private investors due to the Argentine crisis was also probably high. Although no data for private sector bond holdings are available, estimates of investor losses in the sovereign restructuring place the haircut at about 73 percent (Sturzenegger & Zettlemeyer 2005 [54]). Therefore, for the Argentine case at least, it seems that the severity of the crisis there ensured that there were losers all round.

In summary, it appears that the crisis in Argentina, while distinctly different from the experience of East Asia, did share many commonalities. The tragic consequences of these factors is summarized in Table 5, which presents a selected chronology of key political-economic events that occurred in Argentina both leading up to and following the crisis.

3 Summary: Some Key Stylized Facts

The preceding case studies make clear some stylized facts about the recent spate of financial crises.

- International financial institutions, especially the IMF, were often actively and intimately involved in post-crisis management, which included official lending as well as technical assistance with associated conditionalities;
- The loan packages made by these international institutions were the outcome of a bargaining process often reflected political-economic concerns of both debtor and creditor nations—in particular, rescue packages were contingent on political pressures from their respective domestic constituents;
- There is evidence that strong relationships between the private and public sector exist in both debtor and creditor countries (and especially so in the financial sector), although the power structure of these relationships may change after a crisis;

the crisis as well as any potential redistribution. However, the reality of the poor and middle class being hurt more by the crisis is indisputable.

Table 5: Selected chronology of crisis-related events, Argentina[†]

Date	**Event**
April 1, 1991	Convertibility Plan enacted through Convertibility Law, fixing exchange of pesos to dollars at one-to-one rate
January 13, 1999	Brazilian devaluation
December 10, 1999	Fernando de la Rúa inaugurated as president and seeks IMF assistance
December 18, 1999	IMF releases USD $40 million aid package to Argentina
March 10, 2000	IMF agrees to USD $7.2 billion stand-by arrangement
December 18, 2000	IMF announces strengthened economic assistance program, including $40 billion multilateral assistance package organized by the IMF
January 12, 2001	IMF augments assistance package by USD $7 billion
June 3, 2001	Completion of USD $29.5 billion "mega-swap" of bonds for longer-term instruments
September 7, 2001	IMF further augments assistance package by USD $8.1 billion
December 2, 2001	Minister of Economy Cavallo announces *corralito* involving sweeping financial restrictions, in attempt to stop run on banking system
December 5, 2001	IMF withholds USD $1.24 billion loan disbursement
December 13, 2001	Argentina's three largest trade unions call for a general strike in protest against the *corralito*
December 20, 2001	Prime Minister de la Rúa and Economy Minister Cavallo resign in response to protests and riots
January 3, 2002	Eduardo Duhalde sworn in as fourth new president in 2 weeks
January 6, 2002	Abolishment of Convertibility Law
January 9, 2002	Establishment of dual exchange rate regime and asymmetric *pesofication* of bank balance sheets (ARS $1/USD $1 for assets, ARS $1.4/USD $1 for liabilities)
February 11, 2002	Unified free foreign exchange market reopens and the peso trades at ARS $2.1/USD $1
March 25, 2002	Peso depreciation reaches a peak of ARS $4/USD $1
July 9, 2002	Federal court rules deposit freeze and pesofication unconstitutional
September 5, 2002	Federal court of appeals declares *corralito* and pesofication unconstitutional
December 2, 2002	*Corralito* rescinded
March 9, 2003	Supreme Court rules that pesofication is unconstitutional
September 10, 2003	Argentina reaches agreement with the IMF for a 3-year, USD $12.6 billion standby credit package
April 9, 2004	Argentina makes first USD $3.1 billion repayment to the IMF

[†] Source: Dominguez & Tesar (2005), IEO (2004), IMF (2003b), La Nación (selected dates)

- The redistributive outcome of financial crises were often heterogeneous, although this was often more evident in the crisis country.

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