

Gaicho Banking Redux¹

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Argentina's economic crisis has strong similarities with previous crises stretching back to the nineteenth century. A common thread runs through all these crises: the interaction of a weak, undisciplined, or corruptible banking sector, and some other group of conspirators from the public or private sector that hasten its collapse. This pampean propensity for crony finance was dubbed "gaicho banking" more than one hundred years ago. What happens when such a rotten structure interacts with a convertibility plan? We compare the 1929 and 2001 crises – the two instances where rigid convertibility plans failed – and reach two main conclusions. First, a seemingly robust currency-board can be devastated by an ill-conceived approach to the problems of internal and external convertibility (or, to rephrase Gresham, "bad inside money drives out good outside money"). Second, when modern economic orthodoxy collides with *caudillo*- style institutional backwardness, a desperate regime with its hands tied in both monetary and fiscal domains will be sorely tempted by a "capital levy" on the financial sector (for, as Willie Sutton said when asked why he robbed banks, "because that's where the money is").

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