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## INTELLECTUAL TYRANNY OF THE STATUS QUO FOLLOW-UP

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### Reply to David Altig and Brad Setser

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DAVID ALTIG AND BRAD SETSER ASK HOW IMPORTANT IT IS WHAT we call Argentina's monetary system of April 1991-January 2002. I consider it crucial because clear, consistent terminology helps us understand how the system worked and to what extent it resembled other systems to which we may wish to compare it. Unclear, inconsistent terminology hinders our understanding. It can result in bad advice that hurts many people. Economists contributed to Argentina's severe economic troubles of 2001-2002 by misunderstanding the monetary system and foreclosing consideration of policies that a more accurate diagnosis would have left open.

I may have unwittingly contributed to the lack of precision about Argentina's monetary system. For at least a decade I have usually called it "currency board-like," specifying that I meant the system had some elements of a currency board, but was missing other important elements. In retrospect, I regret not using a term that would have more strongly urged economists to pay attention to the missing elements. Most economists reasoned as though the system was quite close to a currency board. Calling Argentina a "pseudo currency board" instead might have been a better strategy.

Like many other economists, Altig and Owen Humpage (1999, 2) noted legal provisions allowing the central bank discretionary powers that a currency board would not have had, but did not seem to consider them

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important in practice, because they called the result “Argentina’s Almost Pure Currency Board.” To show how Argentina’s system worked in practice, my article offered five statistical measures based on balance sheet figures from Argentina’s central bank, as standardized by the International Monetary Fund (Schuler 2005, 244, Table 3). For a currency board, the measures should be near or equal to 100 percent. Appendix 3 of the article compared Argentina’s measures with those for Brazil, universally acknowledged to have had a central banking system, and Bosnia, which among the countries the IMF covers is perhaps closest to a pure currency board. For Bosnia, all five measures were in the range 90-100 percent. For Argentina, the measures were 34, 76, 47, 31, and 241 percent. Calling Argentina a currency board, or almost a currency board, implies that it was like Bosnia, when in fact four of the five statistical measures indicate it was closer to Brazil.

In private correspondence, Charles Calmoris remarked that he was quite aware of the differences between Argentina’s system and a currency board even if he did not dwell on them in print. Although I do not doubt it in his case, I classified economists’ views according to their statements available in print because I lacked knowledge of their private thoughts. I disagree with Brad Setser that awareness was widespread of the differences between Argentina’s system and a currency board. For example, in July 2002 the National Bureau of Economic Research held a conference on Argentina that included prominent U.S. and Argentine economists. Among the 15 speakers recorded as mentioning currency boards, only Edwin Truman offered any caveat to the view that Argentina’s system had been one. Argentina’s system continues to be cited as literally a textbook example of a currency board. Doing so groups it with several current cases and dozens of historical cases with which it has little in common, and hinders understanding of the strengths and weaknesses of currency boards.

David Altig refers to a footnote by Sebastian Edwards indicating that I myself had identified Argentina’s system as a currency board. Edwards’s footnote was incomplete. I mentioned the differences between currency boards and systems such as Argentina’s, but indicated willingness to compare systems such as Argentina’s to more typical central banks.

Regarding Brad Setser’s remarks on dollarization, I limited my article to matters of diagnosis rather than prescription. I intend in future writings to revisit prescriptions I offered from 1999 to 2003, to explain how dollarization and related policies could have worked in Argentina, and to consider points such as those Setser usefully makes. This is not the place for a full reply. Briefly, though, Setser thinks monetary policy would have

been “tight,” discouraging economic growth, under any arrangement that preserved the exchange rate of one Argentine peso per U.S. dollar. I think dollarization at one peso per dollar would have “loosened” monetary policy in a vital sense by eliminating the currency risk premium in interest rates charged by banks. That was what happened in Ecuador when it dollarized in January 2000 and in El Salvador when it dollarized a year later.

I wish to make some small emendations to my article. In discussing remarks by Sebastian Edwards I said that Mercosur, the common market to which Argentina belongs, did not begin until 1995. Many commentators have used “Mercosur” as a shorthand to include steps in the early 1990s that led the formal establishment of the common market in 1995, and I should have accepted the shorthand. In private correspondence, Charles Calomiris has informed me that he did not consider the Argentine peso overvalued, contrary to what I inferred from one of his writings. Also, I incorrectly coded his views on dollarization, stating that he expressed no view about it even though a passage by him reproduced in Appendix 2 said it was feasible.

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