

Testimony

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Mr. Chairman, thank you for this opportunity to express my views on the causes of and cures for Argentina's current political-economic crisis. I first became seriously interested in economic reform in Argentina shortly after meeting Argentina's newly elected President, Carlos Menem, in 1989. At that time, I concluded that, while stability might not be everything, everything was nothing without stability. To achieve stability, a cure for Argentina's endemic inflation and unstable money was required. In consultation with some members of Argentina's Congress, I developed a blueprint for monetary stability during 1990 with a fellow economist, Kurt Schuler. In 1991, our proposal for an orthodox currency board was published (*Banco Central ó Caja de Conversión?* Buenos Aires: Fundación República). In 1994, I became President of Toronto Trust Argentina (TTA), a Buenos Aires-based domestic mutual fund that can invest in stock and bonds. TTA has had a good record. Indeed, in 1996, Micropal, a company that rates investment funds, ranked TTA as the best-performing emerging market mutual fund in the world. In 2000, S&P/Micropal ranked TTA third out of the 169 funds monitored in Latin America for the 1997-2000 period.

During 1995-96, I was an advisor to the Minister of Economy, Domingo Cavallo. In 1999, shortly after president Carlos Menem suggested dollarization for Argentina, Kurt Schuler and I wrote a paper explaining how to achieve that goal, step by step. I presented the paper to president Menem in February ("A Dollarization Blueprint for Argentina." *Friedberg's Commodity and Currency Comments Experts' Report*, Toronto: Friedberg Commodity Management, Inc., February 1, 1999, available at <http://www.cato.org/pubs/wwpapers/dollar.pdf>). In December 2001, I updated the case for dollarization in two papers, gave talks about dollarization in Argentina and presented my new proposal to Carlos Menem on December 6, 2001 ("Argentine Endgame: Couple Dollarization with Free Banking," Cato Institute Foreign Policy Briefing No. 67, December 4, 2001 <http://www.cato.org/pubs/fpbriefts/fpb-067es.html>; "How to Dollarize in Argentina Now," with Kurt

Schuler, December 20, 2001, updated January 2, 2002, <http://www.cato.org/pubs/papers/schuler-banke011231.pdf>.

All this is simply intended to inform you that I have been interested and involved in Argentine affairs for over a decade, and to indicate what the nature of that involvement has been.

### What Went Wrong in Argentina?

Anyone attempting to make sense out of Argentina's fall from grace to economic and political chaos faces a real challenge. Most of the commentary has been confused and confusing.

The road to good health began on April 1, 1991, when Carlos Menem's government installed what was known locally as a "convertibility system" to rid Argentina of hyperinflation and give the country a confidence shock. Under the Convertibility Law, the peso and the U.S. dollar both circulated legally at a 1-to-1 exchange rate. The owner of a peso had a property right in a dollar and could freely exercise that right by converting a peso into a dollar. That redemption pledge was credible because the central bank was required by law to hold foreign reserves to fully cover its peso liabilities.

With the passage of the Law of Public Emergency and Reform of the Exchange Rate Regime on January 6, 2002, near-dictatorial powers were conferred upon President Eduardo Duhalde and the convertibility system was swept into the dustbin. The peso was floated and is currently worth less than half of its former value.

The confusing commentary about Argentina centers on its rather unusual monetary regime, which although popular with the Argentine public, was not well understood by most economists, many currency speculators, or the International Monetary Fund.

Because the convertibility system was not well understood, it has been blamed for a number of Argentina's ills that either had little to do with convertibility or simply did not exist. The convertibility system was the linchpin for a decade of stable prices and a solid export and economic growth performance. The price level at the end of 2001 was about where it was in 1994. Exports grew each full year of the convertibility system, with the exception of 1999. And the real GDP growth rate during the decade of convertibility was greater than any other decade since World War II.

Was Argentina's monetary system an orthodox currency board? Argentina's monetary system from April 1, 1991 to January 6, 2002 was known locally as convertibility. It was an unusual name for an unusual system. The convertibility system was not an orthodox currency board. Rather, it was a currency board-like system: a mixture of currency board and central banking features. In writings dating back to 1991, I proposed that Argentina establish an orthodox currency board and criticized convertibility as an unstable, mixed system.

The three defining features of an orthodox currency board are:

- a fixed exchange rate with its anchor currency,
- unrestricted convertibility into and out of the anchor currency at the fixed rate, and

- net reserves of 100 percent or slightly more of the board's monetary liabilities, held in foreign assets only.

Together, these three features imply that an orthodox currency board is a narrowly focused, rule-bound institution. In particular, an orthodox currency board lacks the power to conduct sterilized intervention, does not lend to the government, does not regulate commercial banks, and does not act as an official or unofficial lender of last resort.

The convertibility system lacked one or more of the defining features of an orthodox currency board throughout its lifetime. Last year, when the convertibility system began encountering severe problems, the government fiddled with the exchange rate and restricted convertibility. Throughout the lifetime of the convertibility system, the Banco Central de la República Argentina (BCRA)—note that it was never officially renamed a currency board—held extensive domestic assets in addition to its foreign assets. The BCRA was initially allowed to hold true foreign reserves of as little as 66-2/3 percent of its monetary liabilities. It was allowed to hold the difference between its true foreign reserves and 100 percent in the form of Argentine government bonds denominated in foreign currency, valued at market prices. Later, the minimum ratio was raised to 90 percent, although the BCRA was allowed to breach that floor temporarily, which it did on a number of occasions, most recently from July 25 to September 7, 2001 and from December 12, 2001 until the convertibility system ended on January 6, 2002.

The BCRA was never subject to any *maximum* ratio of foreign reserves. In contrast, if an orthodox currency board holds reserves beyond 100 percent of its monetary liabilities, the purpose is to merely provide a small cushion to prevent reserves from falling below 100 percent. Many currency boards have held supplementary reserves of 5 or 10 percent to guard against losses, but they have not used their supplementary reserves to conduct discretionary monetary policy and have remitted to their owners all surpluses beyond what was necessary to maintain the core and supplementary reserves. Over the course of 2001, the BCRA had a ratio of true foreign reserves to monetary liabilities that varied from a high of 193 percent on February 23 to a low of 82 percent at year-end. The BCRA gained foreign reserves through the IMF loan of September 7. It lost foreign reserves by lending to commercial banks and indirectly supporting the market for government bonds, since government bonds were used as collateral for many loans.

The holding of domestic assets and the varying of the ratio of foreign reserves to monetary liabilities meant that the BCRA engaged extensively in a discretionary policy of sterilized intervention, which an orthodox currency board does not do. The problem with sterilized intervention is that it forces a monetary authority to attempt to hit simultaneously two possibly incompatible targets—an exchange-rate target and a money-supply target. The convertibility system thus eventually encountered the problem common to all pegged exchange rates: which target to hit when the two came into conflict. Argentina chose the money-supply target, which involved giving up the exchange-rate target.

Under the convertibility system the BCRA also retained the power to regulate banks, such as by setting reserve ratios. It was unofficially a lender of last resort, though it retained a constructive ambiguity about its role that reduced moral hazard risk.

As evidence of the BCRA's hyperactivity, one has to only look at the *Bulletin of Monetary and Fiscal Affairs* published quarterly by the BCRA. Each issue since April 1991 contained a long list of measures taken by the BCRA. If the BCRA had been operating as an orthodox currency board, these pages would have been blank.

In a 1993 book, *Russian Currency and Finance*, which I co-authored with Lars Jonung and Kurt Schuler, we predicted that Argentina's monetary system would eventually behave more like a typical central bank than an orthodox currency board. After a longer delay than we ever expected, we were proved correct.

*Moral: An unorthodox, currency board-like system is an internally contradictory mixture of currency board and central banking elements. An orthodox currency board system is internally consistent and therefore does not encounter the same problems.*

Was the original convertibility system in effect until January 6? The original convertibility system began to crack in April 2001, when Domingo Cavallo, who had been recently appointed minister of the economy, sent a bill to Argentina's Congress to change the peso's anchor from the dollar to a 50-50 basket of the dollar and the euro. As economy minister in 1991, when the convertibility system was established, Cavallo had considered but rejected a similar idea. Also in April, Pedro Pou, the independent-minded president of the central bank who preferred dollarization to devaluation, was ousted on a pretext in favor of the more pliable Roque Maccaroni.

By June the original convertibility system was definitively finished. Congress approved changing the exchange rate link if and when the euro ever appreciated to one per dollar. More importantly, Cavallo announced a preferential exchange rate for exports—a dual exchange rate. This was contrary both to the intent of the original convertibility system and of an orthodox currency board. Cavallo's measures showed that the government was quite willing to tamper with the convertibility system. In previous episodes when confidence in the peso declined, the government had responded, sometimes after an agonizing delay, by reaffirming the link to the dollar and the commitment to a single exchange rate. By removing the cornerstones of the convertibility system, Cavallo left the edifice shaky.

By meddling with the convertibility system, Cavallo tightened monetary conditions. Indeed, peso interest rates shot up and remained at punishingly high levels until peso interest rate caps were imposed in December 2001.

In December 2001 the government imposed a freeze on bank deposits. It was the last straw. Angry Argentines remembered how high inflation during similar freezes in 1982 (engineered by Cavallo) and 1989 had robbed them of the real value of their savings. Cavallo and president Fernando de la Rúa resigned in the face of widespread protests.

There was another way out: official dollarization, which would have eliminated questions about confidence in the peso by eliminating the peso itself. Unfortunately, a lack of resolve by the Argentine government and a lack of support from the U.S. government prevented this economically beneficial, but politically somewhat difficult, option from being implemented either when president Menem first proposed it in 1999 or subsequently. Instead, Argentina temporized and eventually

suffered both a currency crisis and a political crisis.

*Moral: When a currency board-like system faces a crisis caused by lack of confidence in the currency, a "hard" exit, for example via dollarization, is preferable to the "soft" exits of devaluation or floating.*

**Was the peso overvalued?** Many people assert that the crux of the Argentine crisis was an overvalued peso. Supposedly, the peso's link to the strong US dollar made the peso overvalued, rendering Argentina uncompetitive, causing the economy to slump, and forcing the government to default.

Does the story withstand examination? A classic sign of uncompetitiveness caused by an overvalued currency is declining exports. But Argentina's exports increased every full year of the convertibility system except 1999, when Brazil, its largest trading partner, suffered a currency crisis. Exports during the first 11 months of 2001 were 3.2 percent ahead of the same period in 2000. Considering that estimated real growth in world trade was only 0.9 percent last year, Argentina's export performance was relatively strong. Indeed, the export sector has been one of the few bright spots in the Argentine economy. If the rest of the economy had been growing as fast as the export sector during the last two years, Argentina would not be in a recession.

In an attempt to bolster claims that the peso was highly overvalued under the convertibility system, some observers asserted, on the basis of taxi rides from the airport or other casual impressions, that prices were high in Buenos Aires, and that high prices were evidence the peso was significantly overvalued against the dollar. A recent Union Bank of Switzerland survey of prices in 58 of the world's largest cities found that for a basket of 111 goods and services, weighted by typical consumer habits—including three categories of house rent—Buenos Aires ranked 22nd, about midway between the most expensive city, Tokyo, and the least expensive, Bombay. The survey also found those taxi rides that were allegedly so expensive cost about 8 percent less than in Rio de Janeiro.

There are other indicators that contradict the overvaluation story. For example, the *Economist* magazine's Big Mac Index, which compares the price of McDonald's hamburgers around the world, indicates that the peso, before its devaluation, was 2 percent undervalued. In 1999 the index had indicated that the peso was 3 percent overvalued and in 2000 it had indicated no overvaluation. Even so, from May 15, 1999 through February 2, 2002, the *Economist* contained twenty-six articles claiming that the economy was being dragged down by an overvalued peso. And although the Big Mac index, as well as more sophisticated estimates of equilibrium exchange rates, should be treated with great skepticism, a recent careful study of the matter using data from 1993 to 1999 indicates that the peso was always within 6 percent of its so-called fundamental equilibrium real exchange rate (Kalin Hristov, "FEER and Currency Boards: Evidence from the 90's," unpublished manuscript, Bulgarian National Bank, presented at the Centre for Central Banking Studies (Bank of England) Conference on Exchange Rates, November 26, 2001, p. 25).

*Moral: Look carefully at the evidence before claiming that a currency is overvalued.*

**Will the devaluation restart the economy?** For better or worse, devaluation is now a fact.

The big question going forward is: Will it revive the economy? Let's go through the arithmetic. The short-run price elasticity for Argentine exports is about -0.1. So, to stimulate exports by 1 percent, the real value of the peso (adjusted for inflation) would have to depreciate by 10 percent. Exports in Argentina only accounted for 9 percent of GDP last year. Consequently, if the current devaluation of 50 percent (the floating peso is trading at about two to the dollar) doesn't pass through to any domestic inflation—in short, if the nominal devaluation is a real devaluation—exports will increase by about 5 percent. Under this optimistic scenario, the current level of devaluation would add less than a half percent to GDP—a GDP that, thanks to the new exchange-rate regime, has collapsed. And even though estimates of price elasticity cannot be treated with very high confidence, the short-run price elasticity for exports would have to be about ten times as great as its estimated value to offset the 5 percent officially-projected contraction in GDP this year. If you use private-sector forecasts of the Argentina's contraction in GDP for 2002 (which are much more pessimistic and realistic than the official estimate), the elasticity would have to be even greater.

*Moral: When considering a regime shift, use the back of an envelope and make a few calculations.*

**Why was Argentina's devaluation unique?** The Convertibility Law gave a peso holder the right to convert a peso into a US dollar. That redemption pledge was made credible because the central bank was required by law to hold foreign reserves to fully cover its peso liabilities. It was this redemption pledge that made the convertibility set up unique and distinguished it from the typical fiat money system.

With the repeal of the Convertibility Law, the redemption pledge was thrown to the wind and the peso holders' claims on foreign reserves held at the central bank were revoked. Argentina's devaluation, then, represented more—much more—than a garden-variety devaluation. It was a great bank robbery. Foreign reserves equal to 17.8 billion dollars that were the property of peso holders were confiscated by the government.

That was just the beginning. In addition to taking the foreign reserves from people who held pesos, the government of Eduardo Duhalde has passed other laws and issued regulations to "pesofy" the economy (that is, convert dollar assets, liabilities, and prices into pesos, almost always at a rate that is not the market rate). These have annulled property rights and ignored the rule of law. The Congress acquiesced in the government's actions by approving the Law of Public Emergency and Reform of the Exchange Rate Regime on January 6, 2002. The law transfers extraordinary powers to the president and allows him to, in effect, rule by decree for two years (when his term is scheduled to end).

*Moral: In a country that fails to adhere to the rule of law, the domestic currency should be replaced with a foreign currency produced in a country that embraces the rule of law.*

**So, then, what caused Argentina's crisis?** Argentina's economy went into recession in September 1998 in the aftermath of the Asian and Russian currency crises, which resulted in a general decline in flows of investment to emerging market economies. The Brazilian currency crisis of 1999 dealt the economy another blow. Signs of recovery appeared in late 1999 and early 2000, but the incoming de la Rúa government choked the recovery by enacting large tax increases that took

effect at the start of 2000. The government (and the IMF, which lent support to the government's program) thought the tax increases were necessary to reduce the budget deficit. Instead, tax collections fell. When Domingo Cavallo became minister of the economy in March 2001, he pushed through a financial transaction tax, which was increased in August to its current rate of 0.6 percent on bank debits and credits. Although the tax rate may appear low, it is not.

The tax increases added to the already heavy tax burden Argentines bear if they are part of the legal economy. Tax evasion is high in Argentina because the tax savings from going into the underground economy are huge. The value-added tax is 21 percent; social security and medical care taxes are 31.9 percent; and the top income tax rate of 35 percent starts at 102,300 pesos—currently about 50,000 dollars. Compare these with US state sales taxes of 0-9 percent (there is no federal tax); Social Security and Medicare taxes of 15.3 percent; and a top federal tax rate of 38.6 percent starting at about 300,000 dollars (plus state taxes of 0-11 percent). Unlike Argentina, the United States does not tax bank credits and debits at all.

The distortions created by Argentina's sky-high tax rates show up in the labor markets. For example, the tax wedge between gross labor costs and net wages is 42 percent, comparable to the largest wedges in Europe and almost double that of the U.S. It is not surprising, therefore, that the unemployment rate is relatively high and the underground economy is so vibrant.

It is also not surprising that tax revenue fell as higher tax rates aggravated the recession. Falling tax revenue made the government's debt more precarious. Particularly after Domingo Cavallo's changes to the convertibility system, concern about the consequences of a debt default spilled over into the currency market. Forward rates reflected an expected devaluation of the peso, and interest rates in pesos shot up to 40-60 percent. Concern about the consequences of a default also spilled over into the banking system, reflected by withdrawals of deposits and interest rates in dollars of 20-30 percent. (Most bank deposits and loans were, in fact, in dollars rather than pesos.) People feared that the government would not let the default remain compartmentalized as a problem of government finance, but would make it spill over into the rest of the economy.

Again, dollarization would have helped contain the problem, by depriving the government of a national currency as a tool for devaluation and inflation. Dollarization would not have guaranteed success—no monetary system can—but it would have improved the chances for success. It still would help today.

*Moral: During a recession, avoid raising tax rates and don't "tighten" monetary conditions by meddling with monetary institutions.*

#### The IMF's Role in Argentina's Crisis

During the boom years, 1990-94, when Argentina's per capita GDP measured in dollars grew by 72.8 percent, the IMF played a minor role in Argentina's economic affairs. Argentina implemented the convertibility system without the IMF's aid or advice. Following the Mexican devaluation of December 1994, Argentina suffered a crisis of investor confidence, which it overcame by enacting policies that included a reaffirmation of its commitment to an exchange rate of 1 peso per dollar. The IMF lent Argentina funds to support these policies, and ever since has been heavily

involved in Argentina. Unfortunately, the IMF threw cold water on President Menem's dollarization proposal in early 1999. As a result, Argentina was forced to forego a much-needed positive confidence shock. When Fernando de la Rúa became president in December 1999, things went from bad to worse. His administration's new economic plan, approved by the IMF, was supposed to lower interest rates and produce a boom by raising taxes, which was meant to reduce the government's deficit. Its timing was awful. World interest rates in December 1999 were on the rise, so Argentina's rates also rose and the economy slumped further into recession. Argentina was headed for a crisis of confidence, one that would plunge the economy into a deeper recession and cause debt-servicing problems. The rest is history, almost.

From there the de la Rúa administration would commit a steady stream of policy errors that would undermine the successful reforms of the early 1990s: stable money and sound banking. And during this period, the IMF stood by silently and at the same time extended more credit to Argentina.

Then, during the early days of the Duhalde government, the IMF again threw cold water on the dollarization idea. When asked about dollarization for Argentina during a press briefing on January 11, Anne Krueger, first deputy managing director of the IMF, said: "Well, my understanding at the moment is that [dollarization] is technically unfeasible. So I don't think the authorities are thinking about it; I don't think we are thinking about it."

Dr. Krueger's statement implies that the BCRA did not have enough foreign reserves to liquidate its peso monetary liabilities and dollarize the economy. According to the BCRA's balance sheet of January 10, this was not the case, however. The BCRA's peso monetary liabilities were 17.92 billion pesos and its "pure" foreign reserves in US dollars were \$14.75 billion. In addition, the BCRA had 14.96 billion pesos of domestic assets valued at market prices that could be sold to acquire U.S. dollars. Consequently, at the time Dr. Krueger made her statement, it would have been feasible for Argentina to dollarize at an exchange rate of 1 peso to 1 U.S. dollar, the rate in force under the Convertibility Law.

This, of course, leads to a number of questions. Was Dr. Krueger misinformed? Or does the IMF know something that the rest of us don't know? In short, does the BCRA have an "Enron problem"? Either way, the IMF does not look good.

If that were the end of the IMF-Argentina story it would be bad enough. But there is more. While Dr. Krueger's remarks about dollarization were quite specific, the IMF's mantra has been a vague stipulation that the Duhalde government must produce a comprehensive and sustainable economic program. The IMF has not been forthcoming publicly about what such a program might look like, so it is hard for outside analysts to evaluate whether the IMF's advice is even in the right ballpark. In contrast, I have proposed a detailed set of monetary, banking, and tax policies that I believe would bolster confidence in Argentina's economy and set it on the road to a sustainable recovery (<http://www.cato.org/pubs/papers/schuler-banke011231.pdf>). Such policies include dollarization, significant reductions in tax rates, and fiscal reforms to enhance transparency.

### What Should the U.S. Role Be in Argentina?

The Duhalde government's measures, especially those connected with the exchange rate and the banking system, have drawn praise from many observers as steps in the right direction. The observers are wrong. They neglect that the government's program amounts to destruction of the rule of law, to the imperfect extent that it existed in Argentina. The government has changed the terms of some contracts between private parties, suspended the validity of other contracts, and seized wealth from some members of the public to redistribute to other members or to itself.

The Duhalde government has so disrupted rights to private property that they hardly exist any more. The government's measures are disastrous for Argentina's future. Without a reversal of most of the measures, Argentina will remain for years to come what it has been for more than half a century: a once-rich country that has stagnated while other countries, once poorer, surged ahead of it. If private property has no stability, there will be no reason for Argentines or foreigners to invest much in Argentina.

Observers who have praised the government's measures have also somehow failed to notice that a depreciating peso, which is the only kind Argentina is likely to get, is massively unpopular. Since central banking was established in Argentina in 1935, the peso has depreciated against the dollar by a factor of approximately 6,000,000,000,000. In the Argentine context, a floating exchange rate has always meant a depreciating rate. The convertibility system, though imperfect, was the cornerstone of Argentina's economic growth in the 1990s. Now that the cornerstone has been removed, much of the structure has already crumbled.

At a hearing of this subcommittee on February 6, 2002, John Taylor, the Under Secretary of the Treasury for International Affairs, remarked that he thought Argentina should have dollarized rather than frozen bank deposits on December 1. To me, it is astonishing that he did not communicate this view to Argentina's government, since it would have carried considerable weight. Although the United States is not responsible for Argentina's economic problems, it is in our national interest for the Treasury Department to offer advice that would promote economic growth and political stability in Argentina. The result of the Treasury's hesitant attitude about recommending dollarization has been that Argentina is now asking the IMF and other international financial institutions for billions of dollars in new loans. Since the United States is the largest provider of funds to those organizations, if they lend to Argentina at their customary below-market rates, U.S. taxpayers will in effect be paying for the Treasury's hesitation. This leads me to my two recommendations for U.S. policy towards Argentina.

First, recommend dollarization. As a purely technical matter, dollarization is *always* feasible at some exchange rate, and as Ecuador's experience of dollarization in 2000 indicates, it is feasible even when established in the midst of political and economic chaos. The question in Argentina's case is what exchange rate is appropriate now and, if dollarization is not adopted soon, how to determine the exchange rate that would be appropriate should a future government decide to dollarize. Dollarization remains desirable because the prospects are poor for making the peso into a stable currency that people will want to use without coercion. People trust the dollar; they do not trust the peso.

It may no longer be possible to return to an exchange rate of 1 peso per dollar, but Argentina can do what Ecuador did when it dollarized in 2000: establish a uniform exchange rate for converting local currency into dollars and apply it to all assets and liabilities denominated in local currency. This rate should not be determined mechanically, by simply looking at what exchange rate would be necessary to make the central bank's dollar assets cover its peso monetary liabilities. The confidence that dollarization would inspire might enable dollarization to occur at an exchange rate considerably more favorable for the Argentine public than a mechanical calculation indicates.

Interest rates in pesos are far above rates in dollars because of expectations of substantial inflation. They can be adjusted as they were in Ecuador, by establishing procedures for reducing nominal interest rates downward to reflect lower expectations of inflation.

My second recommendation is that the Treasury respect laws that Congress has passed, which establish the wise principle that Americans as taxpayers should not support a government that robs Americans as investors. A number of provisions of Title 22 of the U.S. Code state that the President shall deny foreign aid to governments that seize the property of or nullify contracts with U.S. citizens or corporations. These provisions also state that the President shall instruct U.S. executive directors at international financial institutions to vote against loans (except humanitarian aid loans) for such governments unless the governments have, within a specified period, provided compensation for the property taken or submitted claims for compensation to arbitration in accord with international law. The relevant provisions of Title 22 include sections 283r; section 284j; section 2370, subsection (e); and section 2370a, subsections (a) and (b).

In my view, the actions Argentina has taken should clearly trigger U.S. opposition to loans by international financial institutions to which the United States belongs. In testimony to the Joint Economic Committee on February 14, 2002, Dr. Taylor indicated that Argentina's actions have not triggered the provisions of Title 22 because Argentina has treated all foreign investors equally. That is not the standard the provisions refer to, however; rather, the provisions are supposed to be triggered by specified violations of property rights that affect Americans whether or not other foreign investors have suffered similar violations. Mr. Chairman and members of this committee, whether the administration will enforce the laws Congress has passed depends mainly on you and your fellow legislators. If American as taxpayers end up supporting a government that has robbed them as investors in Argentina, it will send a terrible signal.

Secure private property rights are an essential ingredient of our prosperity and that of every other wealthy country. To turn a blind eye to the massive violations of property rights in Argentina would not only harm U.S. investors, it would reinforce longstanding tendencies that have made Argentina a problem-prone country for most of its history. Without well-defined, secure property rights, people cannot plan for the future. Consequently, there is little incentive to invest, to create jobs, to innovate—in short, to do all the things to produce the economic growth Argentina's people desperately need. Therefore I urge you to ensure that the laws are upheld and that the United States vote against aid for Argentina from the IMF and other institutions until Argentina reverses its seizures of property or provides compensation for them. Promoting the security of property rights is not simply in the interest of U.S. and other foreign investors; it is in the interest of the Argentine people.