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Emerging Markets, Argentina and Lessons for the U.S.

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Stress on sovereigns will remain in coming days-to-months as many “risk-free rates” in advanced economies are no longer “risk-free.” The associated uncertainty among sovereign credits rightfully prompts observers to seek lessons from other nations or history – as witnessed by the resurgence of interest in the Great Depression.

To be sure, emerging markets also offer vital lessons and useful blueprints for solving debt and solvency problems (see “[Solving the Greek Crisis](#),” Center for Financial Stability - June 24, 2011). Unfortunately, some reports are highly misguided.

For example, “Argentina’s Turnaround Tango” (*New York Times* - 9/1/11) suggests that “President Obama and Congress should look to Argentina for inspiration.”

This would be a grave mistake. Analysis of the data and introduction of key facts that “Argentina’s Turnaround Tango” omitted, reveal an entirely different story. In other words, Argentina should be one of the last countries on earth to offer lessons for dealing with economic malaise.

For example:

- A lift of 150% in commodity prices drove the recent recovery in Argentina since 2003, in contrast to an 11% slide coincident with growth in the “market experiment” years (1991-1998). Ironically, government spending designed to shield Argentina from the Asia and Russia crises ultimately halted growth and unleashed a currency crisis.
- Surprisingly, the issue of sovereign credibility is omitted at a time when many nations are in the midst of serious debt crises and striving to regain trust.
- The public does not believe official Argentine inflation reports – which private organizations estimate at more than double the latest 9.7% release.
- Lastly, Argentina defaulted on claims to creditors and suppliers – freeing resources for public works spending.

So, officials should carefully consider consequences for the U.S. of a boost in public spending, release of faulty inflation statistics, and a default on Treasury obligations before looking to Argentina for inspiration.

Argentina is one of the last countries with economic policy lessons for the U.S.



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