

## **Gaicho Banking Redux**

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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 with some other group of conspirators from the public or private sector that hasten its collapse. This propensity for crony finance was dubbed gaicho banking more than a 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 in which 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 the monetary and fiscal domains will be sorely tempted to impose a capital levy on the financial sector, because as Willie Sutton said when asked why he robbed banks, that's where the money is.