In Praise of Debt? Expectational Power and the Causes of Financial Crisis in Argentina

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Extended Abstract

Enormous, sustained debt appears to be a universal feature of modern states. Since the COVID pandemic, IMF estimates put total public debt at approximately the same size as global GDP. Yet such debt is nearly universally reviled. To political economists, it represents a puzzling credibility problem (Tomz 2007); to economists, it presents a looming crisis (Gokhale et al. 2023). Among voters and politicians, debt is widely regarded as morally suspect, inappropriate for "responsible" states, and blamed for economic and political disaster (Graeber 2014). It is little exaggeration to say that debt is among the most central and contested elements of modern global politics.

These sentiments must be understood as the outcome of "monetary silencing:" a historical-political process by which the actual history and function of money have been widely forgotten (Feinig 2022). Under monetary silencing, discussions of monetary creation are removed from the sphere of legitimate democratic politics. As a result, money has been both intentionally and unintentionally misapprehended as a binding constraint rather than a malleable tool. To understand the actual workings of money and debt, we must properly re-contextualize money within its history as a form of "governance project" (Desan 2014).

Money and debt are always two sides of the same coin. For example, all government bills and notes are government liabilities, corresponding in the last instance to a state promise to accept these instruments to fulfill tax obligations (Ingham 2001, Ingham 2004). Alternatively, private bank deposits, though often considered "money" by users, are a form of revocable bank debt–a promise by the bank to pay holders government money on demand in the future (Braun 2016). But it must be remembered that debt and money exist in the last instance "in our heads." They are short-hand representations or loci for beliefs we hold about the world. These beliefs

concern the relationships among people and especially beliefs about how the present will be connected to the future. These beliefs are not natural or inevitable, but are rather the active and contingent product of institutions and actors' efforts to set, contest, or maintain them.

I term the capacity for such belief-maintenance "expectational power." Expectational power is the ability of an actor to coordinate and stabilize a set of "fictional expectations" about the future (Beckert 2016). I propose that the exercise of this power by the state renders the entire economic sphere possible. It is obvious to everyone that the state regulates and guarantees the financial system in important ways via an intricate institutional and bureaucratic architecture. But often forgotten are the even more foundational roles of the state in setting and maintaining a unit of account, teaching money users the purported meanings and usage of instruments, and putting monetary circuits into motion via ordinary taxation and spending. In return, money is modern states' most indispensable governance tool and their primary means, other than direct coercion, for coordinating collective behavior around shared projects.

Nevertheless, actors' existing expectations are often diverse and difficult to coordinate. In addition, state-led expectations are often intentionally contested by other states, by private actors, and even by heterogenous levels of government within a nation. Monetary sovereignty is a function of a state's degree of expectational power within its society. This view qualifies the conceptions of monetary sovereignty among both orthodox economists and scholars of Modern Monetary Theory (MMT), the latter of whom equate monetary sovereignty to a state's formal ability to freely issue a currency in their own unit of account. Weak states are theoretically free to print a currency, but they do not have the ability to control the meanings and expectations around it. A focus on expectational power also partially qualifies work in critical macrofinance, which sees monetary sovereignty as a state's ability to indirectly regulate and influence the composition of semi-private and private sector financial balance sheets (Murau and Klooster 2022). These institutional channels are important for attempting to control outcomes in the overall money market, but they must be considered within the broader context of the state's foundational capacities of belief- and expectation-setting.

State expectational power is rarely destabilized to the point where the foundations of the economic and value system begin to show cracks, but the instances where it has happened are both revealing and instructive. Among the most important of these cases is the economic disaster in Argentina at the end of 2001. The Argentine crisis was by far the largest of only two or three financial "triple crises" of the 21st century in which a country simultaneously experienced sovereign debt crisis, banking crisis, and currency crisis (Laeven and Valencia 2018, Nguyen et al. 2021.) The causes of the 2001 Argentine crisis are widely understood to be a few well-worn mechanisms from classical economics and political economy: governmental overspending and excessive debt accumulation, a rigid and vulnerable currency exchange peg, and exogenous "shocks" that fueled self-fulfilling speculative crisis of confidence (Pou 2002; Powell 2002; Mussa 2002; Huasman and Velasco 2002; Blustein 2006; Reinhardt and Rogoff 2009, p. xliii). Even left-wing critics of Argentina's political economy center the high debt load as the central cause of malaise, and instead criticize the debt's illegality and contribution to austerity pressures (Cantamutto and Ozarow 2016). These explanations are all "internal" to the architecture of contemporary financialization. They therefore do not make visible the sociological processes, and expectational power in particular, that are the lifeblood of the entire economic and financial spheres. Thus, they do not entertain the hypothesis that a crisis could originate in the loss of invisible but efficacious mechanisms that coordinate and stabilize ordinary economic life.

It is therefore time to crack open again the causes of Argentina's landmark economic disaster. This is an important case to understand in part because it continues to be formative for reigning political actors and international institutions in their ongoing, normative understanding of monetary governance (Independent Evaluation Office of the IMF 2004, 3; Nelson 2016, 87). Did Argentina suffer a financial crisis because of an oversized debt load? I argue that both the theoretical underpinnings and empirical support for this story are weak. Instead, I propose a hypothesis centered around expectational power. In the alternative hypothesis, the legitimacy of a government's currency is the contingent product of a social and political discourse which is not simply rational but rather reflects cultural logics, power distributions among different levels of government, and the structure of economic governance. In this view, Argentina's economic malaise was not predetermined by its debt levels or even fully attributable to speculating foreign investors. Instead, it was a process of breakdown in domestic political legitimacy and destruction of trust in institutions which delegitimized the peso and thereby forced Argentina into default. A key motivating piece of understudied empirical evidence for the alternative hypothesis is the proliferation of scrip-like currencies and monetary surrogates in Argentina before and during the currency crisis. I argue this phenomenon should be understood as both a symptom and cause of the breakdown in normal functioning of political and economic institutions.

To study Argentina's complementary currencies, I review archival materials including state tax and financial records, archived online advertisements, newspaper discussions, federal and provincial legislation, state memos to investors, and press releases to the Argentine public. In particular, I focus on Argentina's "Monetary Reunification Program" and the legal frameworks implemented in the process of economic recovery. I argue that Argentina's structures of fiscal federalism became a particular chokepoint where federal politicians could forcibly impose austerity governance, and provincial politicians could increase their own autonomy and power. To the degree that Argentina was able to restore confidence in their domestic, centralized unit of account, it was because of practical stimulus-centered governance and centralized guarantees which could re-teach money users to develop embodied expectations concerning the peso. Nevertheless, these efforts were decisively hampered by austerity discourses and a focus on international investors, contributing greatly to ongoing problems with rampant dollarization and ordinary money user's weak overall trust in their money system.

In the paper, I first develop a theory of expectational power that highlights the sociological processes that underlay finance, and contrast that to conventional explanations which understand debt as a cause of crisis. Then, I review the Argentina case study by drawing upon archival evidence to compare the orthodox explanation of the Argentine disaster to the expectational power view.