

Preface

This book is devoted to the analysis of the three main financial crises which happened in the present century. The first one was the 2001 Argentina's default on its external debt; the second was the American subprime crisis; and the third was the European public debt and banking crisis. In fact, the recent Great Crisis has extended over two periods: the first one covered the 2007–2009 subprime crisis in the USA, while the second took the form of a twin sovereign debt and banking crisis in Europe after 2010 and in some respects persists in 2015.

These events have led to increasing interest on the subject of financial crises, to which economists had paid almost no attention during the optimistic years of the so-called Great Moderation, which cover the last two decades of the twentieth century following the two oil crises that happened in the 1970s. However, as Reinhart and Rogoff exhaustively show, financial crises and sovereign debt defaults are far from strange events in economic history, in both less developed as well as developed countries.

While in 2003, Padma Desai, from Columbia University, could still assert that there was a big difference in the debt management between developed and emerging countries, events after 2007 show that this is no longer valid. In spite of being endowed with a sophisticated network of financial institutions and supervisory regulatory agencies, the US economy was hit by a financial crisis that has much in common with previous episodes in emerging countries. The same has happened in the European Union in the last years. Moreover, the policies being undertaken by crisis-hit countries are similar to those Argentina tried in 2001 in its desperate effort to save the peso-dollar peg.

Undoubtedly, the financial crisis damaged the reputation of economics. The institutional changes that made the 2007–2008 crisis possible were inspired by the mainstream belief based on the self-reliance of utter competition, rationality, and efficiency; the same origins had the analytical models used to build the subprime mortgage securitization pyramid that nearly blew up the financial system in the USA.

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Argentina, United States and Europe

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