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Economy

Argentina: facing another debt crisis

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After four years of brutal neoliberal policies under Mauricio Macri as President, Argentina is again facing a major debt crisis.

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Let us remember that when Macri started his mandate in December 2015 he accepted all the injunctions formulated by a New York magistrate, who had ruled in the favor of vulture funds against Argentina. This has made it possible for those investment funds specializing in repurchasing sovereign securities at cut prices to garner \$4.6 billion, a 300% profit ([“The Vulture: How Billionaire Rubio Backer Paul Singer Made Billions off Argentina Debt Crisis”](#)). To compensate these vulture funds, Mauricio Macri borrowed on the financial markets. He claimed that everything would be fine since implementing neoliberal policies would make Argentina more attractive to foreign investors and lenders. International mainstream media supported him. When invited to comment experts in economics presented Macri’s Argentina as a success story. Issuing in 2017 bonds that would come to maturity one hundred years later, (2117) was hailed as the ultimate proof of Macri’s pro-market neoliberal success.

In early June 2017, bankers could borrow at 0% from the ECB, the Bank of Japan and the Swiss National Bank, at 0.25% from the Bank of England and at 1.00% from the Federal Reserve in the US, while investment funds had huge amounts of cash and return on public debt securities in the North was very low or even negative, Argentine bonds at 7.25% over one hundred years was a godsend

In fact, the success of those bonds had a completely different explanation: the interest rate every year for one hundred years is 7.25% (with an actual return on the initial purchase price of 7.917% for the bonds were sold at a cut price to attract investors). At the same time in early June 2017, bankers could borrow at 0% from the ECB, the Bank of Japan and the Swiss National Bank, at 0.25% from the Bank of England and at 1.00% from the Federal Reserve in the US, while investment funds had huge amounts of cash and return on public debt securities in the North was very low or even negative, Argentine bonds at 7.25% over one hundred years was a godsend. Their success was thus in no way evidence of the Argentine economy’s good health. There is such a huge amount of capital intended for speculation (and not for productive investment) that any State that issues sovereign securities with a return that is higher than average is likely to find takers.

Here is an example of comments to be found in the press heralding the 100 year bonds: *Argentina sold \$2.75 billion of a hotly demanded 100-year bond in U.S. dollars on Monday, just over a year after emerging from its latest default, according to the government. The South American country received \$9.75 billion in orders for the bond, as investors eyed a yield of 7.9 percent in an otherwise low yielding fixed income market where pension funds need to lock in long-term returns.* This Reuters report clearly celebrates the country’s achievement [“Argentina sees strong demand for surprise 100-year bond”](#).

One year earlier, in April 2016, Reuters reported: *Marking a rare bright spot among gloomy emerging markets, Argentina sold \$16.5 billion of sovereign debt on Tuesday in its first international bond issue since its record 2002 default... Investors seemed convinced of [new President Mauricio Macri’s] strategy... Argentina received offers worth \$68.6 billion from investors around the world.* [1]

Anybody will understand from such hyperbolic comments that major capitalist corporations all over the world were on the lookout for opportunities to obtain high yield by purchasing high risk securities. It does not tell anything about

Argentina's economic health.

Potential lenders such as investment funds or major banks thought that Argentine securities would be guaranteed by the State of Argentina and that if necessary they could seek favorable adjudication in the jurisdiction of New York. They were right since the loan agreements were made in accordance with the law of the State of New York. Anyway, they were also convinced that in case of necessity the IMF would bail-out the government of Argentina so that it may repay its debt to private funds as it had always done. Another argument was the following: Argentina's underground resources are significant and if hard pressed Argentina could increase production in order to meet lenders' expectations.

In short, in 2016-2017, while Argentina's real economy was collapsing, the government managed to find lenders and its right-wing government was praised in international media as well as by the IMF and by other governments in the hold of big capital.

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But the situation took a turn for the worse in 2018 as a consequence of several negative factors resulting from Macri's policies such as a steep rise in the amount of interests to be paid (which had to be financed by ever new loans), massive flight of capital that was made possible by a most lax policy of complete freedom for capital to leave the country. It showed that Argentine capitalists had limited confidence in Macri's future and preferred shopping elsewhere including buying Argentine external debt securities in US dollars on Wall Street. Currency reserves sharply dropped. Production started to decline and Argentina slipped into recession. Employment plummeted. Most people's purchasing power dropped as a consequence of the government's and bosses' attacks. As a result, domestic consumption, that accounted for 70% of Argentina's GDP, also dropped. The Argentine peso gradually sunk: while 22 pesos bought one euro on 1st January 2018, 32 pesos were needed on 16 June 2018. [2]

In this context, in June 2018, Macri called on the IMF as foreign investors and Argentine capitalists had anticipated (["The IMF is back in Argentina: an economic and social crisis, even more serious than the present one, looms large on the horizon"](#)). The total credit promised by the IMF rose to \$57 billion (with \$44.1 billion actually paid up to now). As a first step, in June 2018, the amount of \$50 billion had been announced and a few months later, as the situation had not improved, \$7 more billion were added. This is the highest ever loan granted by the IMF (the IMF's loan to Greece in 2010 was 30 billion). As usual the IMF demanded even stricter austerity policies that were even more unpopular than those already introduced by Macri (["Argentina in turmoil"](#)).

In October 2019, the Argentine people turned away from Macri and elected the Peron political movement back into office after an intermission of four years. Alberto Fernandez became President and Cristina Fernandez, who was President from 2007 to 2015, Vice-President (Alberto and Cristina are not related).

The CADTM's Latin American and Caribbean network, CADTM AYNA, held its 8th annual assembly in preparation of Alberto Fernandez succeeding Mauricio Macri as President (10 December 2019). I participated in the meeting as well as in several talks and debates including one at the parliament of Argentina. I also gave four interviews: fifteen minutes live on a popular private and anti-Macri TV channel (<https://www.cadtm.org/Puede-Argentina-no-pagar-la-deuda-que-tomo-Macri>); a video for an information website (Canal Abierto-Â»

<https://canalabierto.com.ar/>) connected with the main civil service trade union, (<https://www.cadtm.org/Eric-Toussaint-La-deuda-con-el-FMI-es-espuria>); one on the main website of the revolutionary left *laizquierdadiario* (the daily paper of the Left) which has an average of two million visits per month <https://www.laizquierdadiario.com/Reperfilando-la-herencia-de-Macri-y-la-deuda-odiosa-en-la-mirada-de-Eric-Toussa> in; and one to the main center left newspaper, *Pagina 12* <https://www.pagina12.com.ar/235397-la-propuesta-de-guzman-le-vendria-bien-a-argentina-y-al-mund>.

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The rate of poverty strongly increased over the four years of Macri's mandate, going from 27 to 40% of the population. In the days before Macri left the Presidency the two Fernandezs debt repayment was the most debated issue.

On the other hand, we should emphasize that social and political movements in Argentina are massive and well organized: trade unions are still powerful, the feminist movement is still able to mobilize on a large scale, the unemployed too are well organized, the cooperative movement is strong. The various neoliberal experiments that started with the dictatorship (1976-1983) and that had their latest attempt under Macri have not been able to fracture the Argentine society and, contrary to what is the case in neighboring Chile, education is free including at university level, as indeed is health care.

The questions most often raised in Argentine media during the November-December 2019 period:

- While the previous government had suspended repayment of part of the internal debt, will the new government repay the accumulated debt and implement policies that have been rejected by a majority of the people?
- What should be done with the IMF agreements?
- Since the IMF is expected to pay Argentina \$11 to 13 billion, must the new government demand those payments or withdraw from them?
- Should not Argentina suspend debt repayment for two years so as to make sure that economic activity resumes properly and make later debt repayment sustainable? This is a suggestion by Martin Guzman, an Argentine economist who teaches in New York and works with Joseph Stiglitz, Nobel laureate for economy. Guzman has just been appointed minister for economy and finance in Alberto Fernandez' new government "[Meet Martín Guzmán, Argentina's next economy minister](#)".

A majority of the people clearly reject the IMF, whose deleterious impact on Argentina is obvious to all and sundry. It has to be remembered that after the second world war, president Juan Domingo Perón had turned down his country's adhesion to the IMF, an institution he exposed as an instrument of imperialism. [3] Argentina only joined the IMF in 1956 during the military dictatorship of General Pedro Eugenio Aramburu Silveti, who overthrew the constitutional president Juan Domingo Perón in 1955. Twenty years later, the IMF actively supported the bloody dictatorship of General Jorge Rafael Videla, who was responsible for the assassination of over 30,000 left-wing opponents. In the 1990s, the IMF put Argentina under pressure to turn it into one of the most active countries in terms of privatizations and structural adjustment. This eventually resulted in the massive upheaval of December 2001, which led to the fall of President Fernando de la Rúa.

During the public lectures organized by ATTAC- CADTM in collaboration with some ten other associations in Buenos Aires from 27 to 29 November 2019, I had the opportunity as international spokesperson for the CADTM to put forward a number of proposals to face the Argentine debt crisis. Those proposals are the result of wide ranging

debates within the CADTM network. This was also the case at a hearing held in the Parliament of Argentina on 27 November at the initiative of economist Fernanda Vallejos, an MP in the new presidential majority (see my contribution in Spanish:

[“Deuda externa : Alternativas para una solución soberana”](#)).

The following is a summary of my points and proposals.

There should be no hesitation in arguing the doctrine of odious debt because it is particularly applicable to the situation in which Argentina finds itself.

According to this doctrine a debt is deemed odious and nullified if it fulfils two conditions:

1. it was taken on against the interests of the Nation, the People or the State.
2. the creditors are unable to prove that they were unaware that the debt was contrary to the interests of the Nation. It is to be pointed out that the nature of the political regime or the government is not taken into consideration in the doctrine.

The deciding factor is the use that is made of the debt. If a democratically elected government puts its population into debt against their best interest this debt may be deemed odious. It is erroneous to say that only debts taken on by dictatorial regimes may be deemed odious (see [“The Doctrine of Odious Debt: from Alexander Sack to the CADTM”](#)). [4]

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It is fundamental that Argentina unilaterally takes sovereign measures to improve its debt situation.

Five principal examples:

1. pass laws prohibiting vulture funds
2. suspend debt repayments
3. bond holders must be registered with the Buenos Aires authorities
4. setting up a citizens' debt audit
5. repudiation of current agreements with the IMF

1 - Pass laws prohibiting vulture funds

As Belgium showed in 2008 and again in 2015, it is possible to pass laws restricting vulture funds (see Renaud Vivien, 17401" class="spip_out" rel="external">“Analyse de la loi belge du 12 juillet 2015 contre les fonds vautours et de sa conformité au droit de l'UE” (in French)). The act of law is quite simple – an investment fund cannot reclaim sums superior to what it paid to acquire treasury bills. In fact, vulture funds purchase the sovereign debts of countries with repayment difficulties at junk prices and then apply legal pressure on the government concerned to pay in full and so make profits sometimes amounting to several hundred per cent of their initial layout. If Argentina passed a similar law it would have some protection against vulture funds. If many countries did the same vulture funds would be neutralized. The practice of designating foreign jurisdictions (such as New York or London with laws

that are favourable to creditors) as competent in the case of sovereign debt litigations must end.

2 - Suspend debt repayments

Suspending debt repayments is one of the possibilities that permit governments to deal with financial and/or humanitarian crises. The country may declare suspension unilaterally, many have done so. It was the case of Argentina between 2001 and 2005 for a total of \$80 billion and the benefits followed.

In a collective book published by OUP in 2010, [5] Stiglitz claims that Russia in 1998 and Argentina in the 2000s are proof that a unilateral suspension of debt repayment can be beneficial for countries that make this decision: "Both theory and evidence suggest that the threat of a cut-off of credit has probably been exaggerated." (p.48)

When a country succeeds in enforcing debt relief on its creditors and uses funds that were formerly meant for repayment in order to finance an expansionist tax policy, this yields positive results: "Under this scenario the number of the firms that are forced into bankruptcy is lowered, both because of the *lower interest rates* [6] and because of the improved overall economic performance of the economy that follows. As the economy strengthens, government tax revenues increase" again improving the fiscal position of the government. [...] All this means that the government's fiscal position is stronger going forward, making it more (not less) likely that creditors will be willing to again provide finance." (p.48) In an article published in *Journal of Development Economics* [7] under the title "The Elusive Costs of Sovereign Defaults", Eduardo Levy Yeyati and Ugo Panizza, two economists who worked for the Inter-American Development Bank, set out the findings of their thorough inquiry into defaulting in some forty countries. One of their main conclusions is that "Default episodes mark the beginning of the economic recovery." It could not be better put.

As was already done in 2001 Argentina should not hesitate to declare a new unlimited suspension of payments. The recuperated amounts could be used to stimulate consumer spending and economic activities favouring the population. Two years would appear to be a minimum period to achieve lasting results with the possibility of prolonging the period.

It is recommended to suspend selectively - small savers and shareholders as well as public pension schemes should be exempted from suspension on the domestic debt. This means that they would continue to be paid. It is quite right to make this discrimination in order to protect the weaker investors and public institutions. It is the big private investors and the IMF who are to be defaulted.

3 - Bond holders must be registered with the Buenos Aires authorities

Argentine authorities should revive the practice of the first half of the 20th century that established lists of bond holders. In the litigation between Mexico and its creditors in the 1940s the creditors were obliged to make themselves known and have their certificates rubber stamped or be excluded from settlement. This permitted the cancellation of 90% of the Mexican debt (see "[Mexico proved that debt can be repudiated](#)"). Registering bond holders makes it possible to sort big and small, private and public bond holders in order to favour small and public holders.

4 - Setting up a citizens' debt audit

To have a clear idea of the stakes and sums involved and a solid legal arsenal it is essential to conduct an audit of the debt under citizens' control. An audit would show how much of the debt (possibly an overwhelming part) may be deemed illegal or odious and could be the way forward towards debt repudiation and/or a unilateral restructuring.

The real reason the IMF granted such a huge loan was because the US President Donald Trump wanted to help Macri remain in power to implement policies that favoured the US in political, military and economic terms

5 - Repudiation of current agreements with the IMF

As has been shown by many observers and Argentine jurists the agreements made with the IMF by Mauricio Macri are contrary to the country's and the people's interests. When the IMF granted a loan of \$57 billion to the Macri government it transgressed its own rules that state that the IMF can only grant loans if as a consequence the borrowing country's debt becomes sustainable, which is not at all the case as evidenced less than a year later. Macri also transgressed the Argentine constitution that requires that the signature of such an agreement that has the value of an international treaty must be debated in Parliament and then be ratified by Parliament. The real reason the loan was granted was because the US President Donald Trump wanted to help Macri remain in power in spite of the crisis and win the 2019 elections, to implement policies that favoured the US in political, military and economic terms. As the Argentine electors have disavowed Macri's policies and Macri had transgressed the Argentine constitution, the new government would have the right to refuse to validate the agreement. This is a text-book case of odious debt: when a country sees regime change the new government is not held to respect the debts of its predecessors if they were taken on against the interest of the Nation or the People and in the former regime's own advantage (in this case to remain in power) and it is clear that the IMF directors were aware of the context.

It is important that Argentina does not make the same errors of debt negotiation as in the 2002-2010 period (see the analysis by Maud Bailly and Eric Toussaint, ["The mixed fortunes of Argentina's 2005 and 2010 debt restructuring"](#)).

The above measures should be part and parcel of a larger programme that would include; capital controls, socialization of the banking sector, tax reforms, measures against the extractivist/exportation market model and ecological policies among others.

In conclusion: a new situation will arise in Argentina as from December 2019, a new government must face up to a serious debt crisis. It is fundamental that a large popular social and political front be created in order, by all necessary means, to promote the solutions that will liberate the Argentine people from the burden of illegitimate and odious debt.

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[1] See Reuters report ["Argentina returns to global debt markets after 15-years"](#).

[2] End of September 2018, 48 pesos were needed for one euro, and 66 in early December 2019.

[3] Noemía Brenta y Pablo Anino, ["Una de terror: la historia de Argentina y el FMI"](#).

[4] The father of the odious debt doctrine, Alexander Sack says very clearly that a **regular government** may very well agree to debt that is odious. He says "For a debt taken on by a regular government to be considered odious, it must..." Sack defines a regular government as follows: "We must consider as regular government the supreme power that reigns over given territory. Whether that power be monarchic (absolute or limited) or republican, reigning by the grace of God or the will of the people or only a portion of them or whether it was legally established or not, etc. **None of this has any importance for the question we are considering.**" (p. 6) (our emphasis). Source: *Les effets des transformations des états sur*

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leurs dettes publiques et autres obligations financières : traité juridique et financier, Recueil Sirey, Paris, 1927. The document almost entirely complete is available for consultation or download on the CADTM website [here \(in French\)](#).

[5] Barry Herman, Jos' Aéonio Ocampo, Shari Spiegel, *Overcoming Developing Country Debt Crises*, OUP Oxford, 2010.

[6] Indeed one of the conditions set by the IMF when it helps a country about to default is that it raise local interest rates. If a country is free not to comply with IMF conditions, it can lower its interest rates so as to prevent bankruptcies.

[7] *Journal of Development Economics* 94 (2011), 95-105.