US court forces Argentina into default

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Argentina was declared in technical default late Wednesday. The designation came as a result of actions taken by a US court that has sided with Wall Street hedge funds demanding full payment plus interest on bonds that the vast majority of the country's creditors agreed to downgrade some 70 percent as part of the debt restructuring following the Argentine financial meltdown of 2001-2002.

The Argentine government of President Cristina Kirchner heatedly denounced the United States as being responsible for the development, while denying that it was in a default in any sense approaching the country's catastrophic situation of 13 years ago.

"The credit rating agencies, the financial agents and opinionators who are trying to say that Argentina is in a supposed technical default are playing an absurd hoax that is aimed at destroying the restructuring process of Argentina debt," said Fernandez's cabinet chief Jorge Capitanich.

He went on to ridicule US claims that the judiciary is acting independently of the US government. "It is independent of rationality," he said, "but it is not independent of the vulture funds."

At the center of the controversy is a so-called "vulture" hedge fund—a term coined not by Argentina but by the fund's Wall Street admirers—Elliot Management, owned by US billionaire and prominent contributor to the Republican Party Paul Singer.

Singer's hedge fund, which specializes in buying "distressed debt" at fire sale prices and then employing lawsuits to extort full face value plus interest from impoverished governments, is among the 7 percent of bondholders who refused to accept conditions negotiated with the other 93 percent in 2005 and 2010.

Singer's tactics have succeeded in extorting $90 million from the Republic of the Congo, the poorest country on the planet, for bonds that Elliot Management bought for less than $20 million. Similar windfalls have been taken from Panama and Peru. More recently it succeeded in carrying out a similar operation in the Greek bailout deal.

In Argentina's case, the vulture fund bought up bonds at the depth of the debt crisis for $48 million, or about 22 cents on the dollar. It is demanding that Argentina pay $832 million—a 1,608 percent profit—out of the total of $1.3 billion sought together with other creditors in the suit. They have refused to accept the terms offered in the restructuring, which have guaranteed those who accepted them some 300 percent profit.

In his ruling supporting the hedge funds, US Judge Thomas Griesa barred Argentina from making payments to bondholders who had accepted the restructuring deals, unless the vulture fund holdouts received full payment as well.

Last month, Argentina deposited $539 million owed in interest payments with the Bank of New York Mellon, the bondholders' trustee, but Judge Griesa has forbidden the bank from paying out the funds to the bondholders, triggering what the rating agency Standard & Poor's classified as a "selective default."

An appeals court upheld Griesa's ruling, and last month the US Supreme Court refused to consider Argentina's appeal.

Unlike the 2001 default, Argentina has the reserves to pay its creditors and to meet the demands of the vulture funds. Attempts to reach a settlement with these predators, however, have been stymied by a so-called RUFO (Right Upon Future Offers) clause in the deals negotiated with the creditors who agreed to take the "haircut." This allows them to demand the same terms offered to any other creditor.

Thus, instead of confronting just the $1.3 billion involved in the "vultures'" lawsuit, Argentina could not only confront $15 billion more in claims from other "holdout" creditors, but be swamped with demands for

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full value plus interest on its bonds from those who agreed to the restructuring. These claims would total more than $120 billion, far exceeding the country's current $29 billion in foreign reserves.

The RUFO clause expires at the end of this year, and most financial analysts expect that a settlement will be reached then, which was reflected in the relatively modest impact of the technical default. The Argentine stock index was down 8.4 percent, which failed to wipe out all of the gains from Wednesday, when the market surged on the belief that a deal involving private banks buying up the holdouts' bonds was imminent.

Nonetheless, the default rating is expected to have an impact on the Argentine economy, driving up borrowing costs for private companies as well, in particular, for provincial governments that are heavily dependent upon bond sales.

The country's economy is already falling into recession for the first time since the recovery from the 2001-2002 crisis, and the inflation rate is expected to reach 40 percent by the end of this year. An exacerbation of these conditions will spell a growth in poverty and social inequality, together with a sharpening of the class struggle and an inevitable confrontation between Fernandez's Peronist government and the Argentine working class.

The impasse may have broader implications for the world economy, with the court decision substantially increasing the power of creditors and encouraging them to hold out from accepting restructuring arrangements in the next major sovereign debt crisis.

Joseph Stiglitz, the former World Bank chief economist and adviser to the Clinton administration, warned that the way in which the Argentine debt dispute has been handled could contribute to the unraveling of the global capitalist economy.

"We've had a lot of bombs being thrown around the world, and this is America throwing a bomb into the global economic system," Stiglitz, currently a professor at Columbia University, told the *New York Times*. "We don't know how big the explosion will be—and it's not just about Argentina."

Much of Argentina's debt was accumulated under the US-backed military dictatorship that ruled the country between 1976 and 1983, when international capital saw the savage repression of the working class through the murder and "disappearance" of some 30,000 Argentines as creating ideal conditions for profit. Argentine debt increased from 13.2 percent of gross domestic product (GDP) in 1975, the year before the military seized power, to 60 percent of GDP in 1982, the year before it ceded power to a civilian government.

Conditions were only exacerbated by policies pursued by successive governments in collaboration with the International Monetary Fund, particularly under the right-wing Peronist administration of Carlos Menem, who introduced a "convertibility plan" of peso-dollar convertibility at a one-to-one fixed rate.

Between 1989 and 1999, the country's debt rose by 123 per cent, while interest payments on this debt soared by 253 per cent. Caught up in the international financial shocks of the late '90s, Buenos Aires carried out a series of IMF-dictated fiscal adjustment packages, entailing deep cuts in public spending, wages and jobs, that only served to increase debt, while deepening poverty and inequality.

Amid a deepening recession, by mid-2001, Argentina was unable to borrow on the international credit markets, even as capital flight sent foreign exchange pouring out of the country, leading to an inevitable default in December 2001. The price paid by the working class was catastrophic, with the official unemployment rate rising to 21 percent (the real one was significantly higher), real wages falling by over 23 percent and 53 percent of the population falling into poverty.

Despite the attempt by President Fernandez and other officials to cloak their policies in nationalist demagogy, the current government has maintained the subordination of the Argentine economy to Wall Street and has maintained the policy of its predecessors in accepting the jurisdiction of the US courts.

The government's s 2014 national budget allocated 9 percent of total spending to servicing the country's debt, more than it spends on education, health care or any other essential needs of Argentine working people.

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