

Testimony of Dr. Robert Shapiro
Chairman, American Task Force Argentina
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I am Robert J. Shapiro, and I chair the America Task Force Argentina (ATFA). I am also an advisor the International Monetary Fund (IMF) for the Western Hemisphere, the chairman of Sonecon LLC, an economic advisory firm in Washington, D.C., a senior fellow of the McDonough School of Business at Georgetown University, the chairman of the U.S. Climate Task Force, and a long-time analyst of U.S. and global financial markets. Previous to my service at ATFA and Sonecon, I served as the U.S. Under Secretary of Commerce for Economic Affairs, from 1998 to 2001, and before that, as the Vice President and co-founder of the Progressive Policy Institute and the Progressive Foundation, and Legislative Director and economic counsel to Senator Daniel Patrick Moynihan. I was also the principal economic advisor to Bill Clinton in the 1991-1992 presidential campaign, and a senior economic advisor to Al Gore and John Kerry in their presidential campaigns. In 2008, I advised the campaign and presidential transition of Barack Obama. I have been a fellow of Harvard University, the National Bureau of Economic Research, and the Brookings Institution; and I hold a Ph.D. from Harvard University, a M.Sc. from the London School of Economics, and an A.B, from the University of Chicago.

I greatly appreciate this opportunity to offer my analysis and views regarding the failure of the Argentine Government to honor its obligations to American creditors who provided billions of dollars to that government. Since Argentina's 2001 debt default, the largest sovereign debt default ever, its inadequate efforts in 2005 to restructure the defaulted bonds, and finally the Argentine Government's unprecedented decision to unilaterally repudiate its obligations to those lenders who declined the 2005 restructuring offer, American lenders, investors and taxpayers have paid a substantial price. Through its conduct in these affairs, Argentina has turned its back on all international norms for lending to developing nations, lost the trust and confidence of international investors and jeopardized the country's economic stability and prospects. The Argentine Government must move forward with a credible plan to repay its debts to all of its creditors.

We should recall that the financial crisis that triggered the 2001 default on more than \$81 billion in outstanding obligations came after the Argentine government denounced the IMF's recommendations for economic reform, despite the fact that the IMF had already bailed out the government once that year. Similarly, when Argentina finally restructured its debt in early 2005, the government of Nestor Kirchner did so without negotiating or consulting with its major creditors. The restructuring was organized around an unprecedentedly-low offer of 27 cents on the dollar – barely half the international norm for sovereign debt restructurings – and then unilaterally repudiated its debts to those who declined the low-ball offer, including one-quarter of its bondholders and half of all of its foreign loans. Those caught in this illegal debt repudiation held obligations totally \$19.4 billion, including more than \$2 billion lent by American creditors. Since then, claims by these creditors have been upheld in more than 100 lawsuits, all of which the Argentine Government has ignored; and the prospect that any money raised by future borrowing in international markets would be seized, to meet the judgments in those cases, has effectively barred Argentina from foreign capital markets. Even so, Argentina's

intransigence around this issue does not reflect an inability to pay: Thanks to the commodity price boom of 2002-2007, the Central Bank of Argentina now holds more than \$48 billion in foreign currency reserves.

This past week, the Argentine government issued a new offer to those holding the repudiated debts. We are still studying the terms; but once again, Argentina has made an offer without negotiating with many of its major creditors, the normal course in sovereign debt defaults. Until all of its major creditors agree to a new offer, the legal judgment will stay in place and Argentina will continue to be unable to access foreign credit. As a result, foreign direct investment in Argentina will continue to be depressed – by own estimate, its levels have been two-thirds below what they would otherwise have been if Argentina had not repudiated billions in foreign debts. In addition, the need to finance all lending domestically has forced the government to inflate its money supply, producing high inflation even in the midst of the recent global downturn.

Since 2006, I have carried out, along with my colleague Professor Nam D. Pham, a series of analyses to fully understand the impact of Argentine debt policies on the United States and the international community. We found that the costs of these policies reaches far beyond those who lent the Argentine governments tens of billions of dollars in good faith, affecting taxpayers and other investors as well. Our most recent latest analysis, *“The Continuing Cost of Argentina’s Debt Default and Restructuring for Bondholders, Taxpayers, and Investors in the United States and Worldwide,”* details the impact from the default in December 2001 to December 2008, for Americans, the rest of the world, and for New Yorkers.

To start, Argentina continues to owe foreign lenders worldwide some \$35.7 billion, including principal and interest. Some \$3.82 billion of that total is owed to American lenders. In addition, American lenders who accepted the 2005 restructuring offer incurred losses of another \$5.7 billion. On top of that, U.S. taxpayers have borne costs totaling another \$3.2 billion, reflecting the loss of revenues from foregone capital gains and interest income. In addition, U.S. investors in companies with large foreign direct investments in Argentina also suffered significant losses from the economic turmoil surrounding the default, restructuring and repudiation, totaling an estimated \$7.8 billion. All told, the Argentine default and restructuring have cost American bondholders, taxpayers and investors some \$20.5 billion since 2001.

Citizens and entities in New York State have borne a very significant share of these losses. As the financial capital of the United States – and the world – New York is home to investors who held nearly 10 percent of the Argentine bonds held by all Americans, and therefore have incurred nearly 10 percent of the losses. The direct net costs to New York holders of Argentine bonds – including their foregone capital gains, interest payments, and investment returns – total an estimated \$903 million. On top of that, the indirect costs to New York taxpayers total some \$329 million, and indirect losses to New York investors in companies with large investment in Argentina come to another \$749 million. All told, the Argentine debt default, restructuring and repudiation have New Yorkers more than \$1.9 billion.

Argentina must take responsibility for its actions by promptly resolving all outstanding debts to American and New York lenders. I further urge you to take clear action: As a matter of

law, any government which repudiates debt held by American should be legally barred from future access to U.S. capital markets, until those debts are honored. In this way, you can discourage other countries from following Argentina's example and imposing new costs on American lenders, taxpayers and investors.