

A question of trust

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Last November I hoped that the Greek politicians could stop Zorba ending his dance before the economic tempo reached the limits of prestissimo (see *Dances of Destiny* – Issue 221). They did, although it remains to be seen whether the bouzoukis have been laid down just for the strings to be changed; so although the clocks in Greece moved forward in March, it's very uncertain whether the economy will follow suit.

When I wrote about Greece I drew comparisons with Argentina. In 2002 the South American country became infamous for the size of its sovereign debt default, a record at the time. Another example, of which there are countless, of a government committing a flagrant breach of public trust. If governments were treated in my profession as trustees, then the courts, on behalf of citizens, would find them criminally liable. It is most fortunate – and not just for Argentina – that the rules applying to fiduciaries do not have general application, both within and without government. The fact that they should, in my view, is a separate issue and one which strays from the subject matter of this month's column.

The demand for commodities produced by Argentina, the retention of its currency and its independence, unlike Greece's economic attachment to the rest of Europe, were most fortunate factors for its government at the time of the default. But if Argentina never lost its currency, it lost its credibility, an intangible that may be absent from its balance sheet but which has a potency that has since plagued successive governments in Buenos Aires. In 2008 the country's output stalled and shrank so the government balanced its books by nationalising private pensions. About USD24 billion was transferred from the private to the public sector, resulting in USD4 billion of annual contributions pouring into the government's coffers. These are funds that are held in trust, effectively, but for which, as I have already observed, there is no accountability similar to that applied to professional trustees. Argentina, in fairness, is not the only government that has dipped its fingers into private pensions and the chairman of the International Accounting Standards Board refers to public-sector accounting in general as being in a "stage of primitive anarchy".

One unquestionable similarity between Greece and Argentina has been the economic distress which has been inflicted. Ordinary Greeks have suffered greatly, but time, as it always does, has eroded the memory of what Argentina's middle class went through following the country's default. People faced financial calamity – and remember that the Argentine middle classes had lived better than the Europeans. I read about one former architect selling eggs, an elderly rich businessman who now earned USD120 a month as an exterminator and those needing urgent medical care for illnesses being no longer able to afford it and in some cases dying. Fingers were pointed at the International Monetary Fund which, it was claimed, was heading a conspiracy against the country; of course, the root causes were not as simple as that.

Now Argentina is ineligible for trade benefits under the Generalised System of Preferences established in terms of the United States of America's 1974 Trade Act. The programme is meant to assist developing countries expand their economies by permitting some of their goods to be imported into the US duty-free. Last year US imports from Argentina amounted to USD477 million and the value of the duties waived was just over USD17 million. But because Argentina has refused to comply with rulings from the International Centre for the Settlement of Investment Disputes, a part of the World Bank, which require it to compensate US firms in the aftermath of tortuous investment disputes, the US has suspended Argentina from the trade programme. The announcement came just weeks before President Obama attended the sixth Summit of the Americas in Colombia (a

subject I will be covering in next month's column). It is the first time that a country has become ineligible for not paying international arbitration awards and only three other countries are classified as being ineligible for trade benefits, namely, Syria, Belarus and Sudan. Whereas some 6.5% of Argentina's main exports go to the US (a similar percentage goes to China) more than 20% are destined for Brazil. If, together with the US, exports to Brazil and China also decline, as their economies slow down, it will not make things any easier for Argentina.

Back in 2002 I focused on Argentina ("The Land of Sorrow" – Issue 132) when half the population at that time was living below the poverty line and again in 2006 ("Less Sorrow" – Issue 172). This fertile land, where anything grows, is still a place where, unfortunately, anything goes. The country, suffering from fiscal, as opposed to physical, dystrophy, to my mind has now become even more, and not less, sorrowful.

The US has begun voting against loans to Argentina from international financial institutions, such as the World Bank and the Inter-American Development Bank, and the country is still shunned by the world's capital markets; even now it still owes around USD25 billion in old debts to bond holders and others. Since Argentina's debt default a decade ago, the US has been pressuring its government to settle with those investors holding bonds worth USD6 billion who would not participate in the debt swaps done in 2005 and last year which restructured around USD100 billion of debt.

None of this has helped with investment sentiment and economists estimate that perhaps USD6 billion in foreign direct investment has been lost each year since 2002. In 2010 approximately USD11 billion left the country from the private sector, being the fifth consecutive year of such losses due to capital flight. By all accounts Argentina, with foreign reserves topping USD48 billion, can meet its creditors claims (at 42.9% of Gross Domestic Product, its public sector debt is only just over half of what the United Kingdom's is) but it remains defiant.

The IMF will no longer accept the government's statistics on inflation (a case – and with apologies to Andrew Lloyd Webber and

Tim Rice – of don't lie for me Argentina). This is a country with three Nobel science prizes (the last awarded in 1984) and the president, like her predecessor and late husband, is eager to encourage young talent to pursue scientific careers. The government is actively encouraging this by raising researcher's salaries and providing tax breaks to software companies. What, however, it seems to me, the country needs is to have more of its undergraduates studying the social science of economics.

Certainly, Argentina should no longer study the science of war, which led to the Falklands Islands' fiasco 30 years ago. Ever since the first recorded landing in 1690 by an Englishman, Captain John Strong, sovereignty of the islands has been in dispute. Argentina has labelled the war's victor, the UK, as a former colonial power that is becoming increasingly insignificant on the world stage. Perhaps when it invaded, Argentina (which was once one of the world's ten richest countries before it began its own decline in the 1930s) was trying to regain some of its own former glory. Even so, I am reminded of a profound statement made by H. G. Wells: "A time will come when a politician who has wilfully made war and promoted international dissension will be as sure of the dock and much surer of the noose than a private homicide. It is not reasonable that those who gamble with men's lives should not stake their own".

The Falkland Islands featured prominently in last years' presidential elections in Argentina and the ghost of Dr. Samuel Johnson, if not Macbeth's Banquo, could have been present; the good doctor viewed mixing patriotism with politics as the last refuge of scoundrels. Whether or not you share his opinion, it is to be hoped that the country's war over sovereign debt will at least be won.

Juan Perón, the former Argentine president, had a stone plaque made marking the grave of his favourite dog which reads: "Canela – best and most faithful of friends". If the Argentinean economy does go to the dogs, and the country remains a pariah in capital markets, a dog may turn out to be the president's most faithful, and possibly best, friend.

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