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## An Argentinean "nightmare" US economic advisor to the White House explains



Interview with: Robert J. Shapiro  
31 January 2010 - Issue : 871

Robert J. Shapiro has watched the American economy rise and fall. As a former economic advisor to [Bill Clinton](#), he worked for a president during a time of relative economic growth and job creation. Now, with the world just emerging from one of the largest economic crises in history, he is active in advising the Obama administration under much different circumstances, and looking at the world stage for new regulatory issues.

New Europe's Alia Papageorgiou sat down with Dr Shapiro on a rainy Brussels day to tackle his latest economic crisis, Argentina's economic coffers being inadvertently "transferred" to Switzerland and how this could be setting a very complicated precedent. The interview follows.

### What brings you to Brussels on this rainy day?

The latest abuse by Argentina of mutual international financial institutions in order to evade the consequences of having illegally repudiated 20 billion dollars of debt.

### To the US or international institutions?

To individuals, to 200,000 pensioners in Italy, to financial institutions. In 2001, Argentina defaulted on 80 billion dollars in debt. Countries default, it wasn't the largest default in history, but they defaulted.

In 2005, instead of negotiating with its lenders, about the terms of restructuring the defaulted debt, they simply put out a take it or leave it offer. It was so far from the international norm, which is 40 to 50 cents on the dollar; it was 27 cents on the dollar, that half of their foreign lenders rejected the offer. When they did, the new government simply repudiated their debt.

Now, you're not allowed to do that. Nobody else has ever tried that. And unsurprisingly the creditors sued them, in every money market country in the world where they won all the suits. The problem of course has been to collect that.

### And what has happened since?

In an effort to evade attachment of their access Argentina has been moving its foreign currency funds into increasingly isolated places. The latest is they have moved \$40 billion in foreign currency holdings to The Bank of International Settlements in Basel, Switzerland.

Normally a country, the average country, keeps between 2 to 3% of their reserves at The Bank of International Settlements - for it's an administrative institution for relations transactions between central banks.

They have 80% of their reserves, in foreign currency, there. That's as if an African dictator who steals 200 million dollars in foreign aid declares it to be the reserves of his country and opens an account at The Bank of International Settlements. The Bank of International Settlements shouldn't allow this.



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But it's already done.

Well it's done but that doesn't mean that they can. It is governed, the governing board of the central banks, all of the major central banks of the world – the major central banks of the world -the US, Germany, Netherlands, Italy, and presumably the European Central Bank, have the ability to say this isn't appropriate, this institution can't be ill used in this way in order to shelter these funds from the legal process of all of our countries. Either these funds should be attachable or at a minimum the bank should set a standard in which only an appropriate level of foreign currency reserves can be held in there.

**And how does the situation of Argentina fit in?**

The importance of Argentina is that if she were to set a precedent, or if she gets away with hiding her assets in plain site, and repudiating debt, restructuring without negotiation, if this becomes the norm, you intensify the risk now, not just with private financial assets, but public financial assets which have always been the bedrock of national and global financial systems. So all of these circumstances argue very strongly for international action to call Argentina to account.

**Could US President Obama's economic record hurt the democrats in the upcoming elections?**

Could they? Yes. Should they? No. People don't appreciate the lags that occur between policy changes and economic results. They're always substantial, they always are. I think the president's policies pulled the United States, and consequently the world, back from potentially another great depression. Will the democrats pay a price for the fact that an economic recovery that will be in place at the second half of his year is not as robust as they hoped it will be? I'm sure they will. Do I think they'll pay a large price? No.

**How do we avoid another financial crisis?**

There are dynamics in globalization that lead to bubbles, which is one of the reasons we've had serial financial crises. One of the significant causes of this crisis was the trading of very large blocks of derivatives privately so that there were no transparency requirements. People didn't know what was in them. As soon as there was a crisis, it led to an instant panic because no one knew what anything was worth. Think hard about the way financial dysfunctions affect the rest of the economy and protect the rest of the economy.

Robert J. Shapiro, Ph.D., M.Sc., is a former U.S. Under Secretary of Commerce for Economic Affairs and the co-founder and chairman of Sonecon, LLC, a private firm that advises U.S. and foreign businesses, governments, and non-profit organizations on market conditions and economic policy. Dr. Shapiro and Sonecon have advised, among others, British Prime Minister [Tony Blair](#) and Senator John Kerry;

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