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Written by **Bob Adelmann** on October 11, 2011

Why Doesn’t Greece Pull an Argentina and Default?

Reality began to settle in, however, when it became apparent that details of the master plan to save the Eurozone were missing or, as the U.K. *Telegraph* expressed it, “full of rhetoric but devoid of detail.” And the additional bailout of Greece in the amount of $11 billion will barely be enough to keep that country afloat for another month. The “troika” of internationalists (the European Union, the International Monetary Fund, and the European Central Bank — the EU, the IMF, and the ECB) who have been pressuring Greece to increase its austerity measures in order to “qualify” for the money noted that Greece simply won’t be able to meet its 2011 objectives: Its targets are “no longer within reach” due to “slippages” in the Greek economy, but things ought to be just fine by 2012.

Observers of the Eurozone’s rolling crises have concluded that Greece is insolvent and that default on its nearly $500 billion of sovereign debt is just a matter of time. Inevitable parallels are being drawn to Argentina’s default in December of 2001 on most of its $132 billion sovereign debt, and the question being asked of Greece is, Why delay the inevitable? Why not just admit the reality, declare your solvency, and get on with life? Just like Argentina?

There are significant parallels between the crises. The Argentine crisis had been brewing for years (some say as far back as 1913 when the welfare state began to be installed) but came to a head when a new government was elected in December, 1999 and found itself facing years of mismanagement and fraud left over from the previous administration, including much higher debts and deficits than had been claimed. In December of 2000, Argentina fell for the siren song of the IMF (“we’re here to help you”) and received its first bailout. IMF aid made the problem worse. The Argentine currency, the peso, was tied one-to-one to the American dollar and had become grossly overvalued. With foreign trade declining and interest payments to the IMF increasing, the government couldn’t continue supporting the peso. An overnight devaluation of the currency took place, dropping the peso’s purchasing power by 40 percent over one weekend, and beginning an inflationary spiral that reached an annual rate of 5,000 percent by the summer of 2002. The continued decline of the peso to 4 pesos per dollar reduced the standard of living of the average citizen drastically. By October 2002 nearly 60 percent of the population was living under the poverty line (defined as not having enough to eat). At the worst, some 30 to 40,000 people scavenged the streets for cardboard to eke out a living by selling it to recycling plants.

Under continued pressure by the IMF to pay up, the government defaulted on its debt. The 500,000 foreign holders of Argentina’s debt took “haircuts” of 65 percent, but the IMF was paid back in full. Argentine President Nestor Kirchner told the United Nations Assembly that the IMF had revealed its true colors, "which took it from being a lender for development to a creditor demanding privileges."

Once the financial pressure had been lifted, Argentina took advantage of its agricultural resources, especially soybeans, and began selling its crops to China in exchange for currency that could be converted to dollars. The recovery was dramatic, with gains in its Gross Domestic Product between 2003 and 2007 averaging nine percent annually. Wages increased sharply as well, pulling down the number in poverty from over 50 percent to under 12 percent.

Casual observers might be quick to suggest that Greece do the same thing: to yank the bandage off the wound in one quick swipe rather than pulling it off an inch at a time, but the situation in Greece is different in some substantial ways, including the degree to which the Greeks have succumbed to the welfare state, with more than a quarter of its working citizens holding government jobs, usually with union support. Although Greece has some specialization in chemicals and petrochemicals, and its other mineral wealth has been depleted.

As noted by Floyd Norris in the *New York Times,*

> The Argentine experience was not pretty, but it may well be more attractive than the seemingly endless rounds of austerity, strikes and missed fiscal targets that seem to be leaving the Greek economy in a permanent recession. From the Greek perspective, the course [of declaring default] could seem attractive.

While ignoring any mention of regaining its national sovereignty from the clutches of the "troika" and the resultant negative implications for the Eurozone itself, Norris suggests that Greece would benefit from being on its own once again. It could reinstate its own currency, the drachma, in place of the Euro, it could declare that it won't be honoring foreign holders of its debt, and it could begin the hard road back to independence and self-sufficiency.

It would be a hard road. It would mean that, without continuing support from supranational financial interests, it would have to live within its means. That would be a major adjustment for those attached to and dependent upon the welfare state. Realistically, the drachma would soon be seriously devalued in the process, meaning that the citizens would again be paying the bill for their freedom. At least, as Norris puts it, it's not likely that foreign troops would invade Greek soil to enforce Eurozone agreements. He notes, "In other words, Greece would fare poorly if it tried the Argentine strategy, but would have hope for recovery."

Ansgar Belke, a professor at the German Institute for Economic Research in Berlin, agrees with Norris: "What happened in Argentina proves that it is possible for a country to come back after bankruptcy and once again play an important role in international financial markets." He concluded,

> I always supported a restructure of debt in Greece. The damage would not be as grave as is commonly feared. Greece is a relatively small country. A restructure would stagger a few German and French banks … but this scenario is more sensible than the massive credit that we're currently giving.