



Written by [Charles Scaliger](#) on June 17, 2014

## U.S. Supreme Court Rules Against Argentina in Debt Repayment Case

The U.S. Supreme Court [surprised](#) the financial world Monday by turning down Argentina's request to hear the bankrupt South American nation's case against its hedge fund creditors. Whereas many observers expected the Supreme Court to give Argentina more time by referring the case to the U.S. solicitor general for review, today's ruling effectively put an end to years of Argentine posturing and bluster. Her judicial options now exhausted, Argentina — a country notorious for decades for unwillingness to properly service the massive debts she has incurred as a result of several generations of financial profligacy — faces two options: pay her creditors or default once again on her obligations.



Argentina's latest financial crisis is the long-delayed consequence of her infamous default in 2001-2002. Then, her options for repayment exhausted, Argentina simply defaulted on her debt, which led to economic collapse and several years of crime, poverty, and civil unrest severe even by Argentine standards. Eventually, Argentina worked out an agreement with many of her creditors, who agreed to accept service of debts at a steep discount. But not all holders of Argentine debt were willing to take a haircut. After the default, a significant portion of the debt was sold to international hedge funds, who have been hounding and harassing Argentina ever since to force the deadbeat nation to pay up, in full.

Argentina's vitriolic populist president Cristina Kirchner (shown) has been fulminating for years against allegedly wicked plutocrats ("vultures," she calls them, in the best tradition of over-the-top Latin American political rhetoric) who have the temerity to require Argentina to pay her debts. Since Argentina, unlike Greece and other failed EU economies, cannot rely on stronger regional economies, such as Brazil or Chile, to bail her out of her misery, the unlucky citizens of the republic on the River Plate are staring into the abyss for the second time in little more than a decade. Since Argentina's addiction to a fiat-currency-and-debt-driven economy has enriched the few at the expense of the many, there is little political support for paying the American-based hedge funds their due. So desperate have been Argentina's legal and financial contortions to avoid repayment that, at one juncture, an Argentine military vessel was actually impounded in Ghana at the behest of her creditors.

Kirchner, meanwhile, has exploited the economic crisis in a massive seizure of new government power over the Argentine economy. Argentines — especially those who travel abroad — are now under close and constant scrutiny by Argentina's financial "police," who are authorized to hand down Draconian penalties for using credit cards abroad to acquire foreign currency and other tactics that desperate Argentines have to resort to in order to protect their assets from Argentina's never-ending inflation and rapacious government.



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If past is prelude, proud Argentina will default again and return to civil unrest and economic malaise. As happened a decade ago, the government will likely declare a bank holiday and seize savings and retirement accounts when international credit again runs dry; such are the priorities of politicians when they are forced to choose between the assets of the citizens they supposedly represent and their own privilege and power base.

Argentina's is a cautionary tale for Americans private citizens and politicians alike — who are tempted to believe that our own day of reckoning will never come. Argentina and the United States are alike in many ways. Both countries are “melting pots,” populated by a multi-ethnic immigrant stock. Both countries benefit from extremely favorable geography and climate, and both have large, wealthy agricultural sectors owing to vast expanses of fertile grasslands. And both countries are seemingly incurably addicted to public-sector debt, and regard any serious attempt to rein in public spending with contempt. Unlike the United States, though, Argentina does not issue the world's default currency, so her options are much fewer. The United States, thanks to the continued strength of the dollar (and the fact that so many of her own creditors are owed so much), has successfully bluffed and strong-armed her way through several decades of runaway deficit spending and debt monetization.

But as with Argentina, our creditors will not wait forever. While the United States has yet to brazenly default on current payments, our government has resorted to other, more underhanded ways to accomplish the same end — such as printing more money and repaying our obligations in devalued dollars. And creditors are starting to take notice.

Let us therefore learn from Argentina's lesson: Once the debt death spiral begins, the only remedy will be repayment. In the long run, countries are no more immune than individuals to the pangs of insolvency: credit will dry up, creditors will confiscate assets, and money stocks will be exhausted. As with Argentina, the U.S. government can be expected to declare a national financial emergency (as FDR did during the Great Depression) and raid the bank accounts, savings, and retirement funds of the frugal and the provident, as the political class tries desperately to cling to its power. And once the dollar collapses, the United States — like Argentina — will be in a financial prison of its own devising, from which it will not be able to escape until it pays “the uttermost farthing.”

*Photo of Cristina Kirchner: AP Images*



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