



## Argentina, the World's Biggest Deadbeat Economy

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Borrow, spend, default; lather, rinse, repeat.

On May 22, Argentina failed to meet interest payments on its sovereign debt. With that, the country tipped into default on its \$65 billion mountain of foreign debt. If that's not enough, Argentina's provinces are addicted to debt and are buried in it, too. The province of Buenos Aires is already in default, and Cordoba, La Rioja, Salta, Rio Negro, and Chubut have also indicated that they plan to restructure their debt as well.

This is not the first time that Argentina has stiffed its creditors. No, it's the ninth time. And it's not Argentina's largest default, either. Indeed, Argentina set the world's default record when it defaulted on \$95 billion in external debt in 2001. The bottom line is clear: Argentina is hands down the world's biggest deadbeat.

It hasn't always been that way. Argentina, with a landmass five times as large as France's, was, once upon a time, relatively rich. When the Central Bank of Argentina (BCRA) was established in 1935, the nation's income per capita was roughly the same as that of the United States. By 1946, when Juan Peron first became president of the republic, the per capita income gap between the U.S. and Argentina had widened, with the U.S. putting distance between itself and Argentina.

With Peron came Peronism (in many ways a variant of fascism), the pursuit of economic autarky, and a clientelist welfare state, a combination that even a rich country could not afford, and which, even after Peron was driven out of office, left a legacy of economic populism that Argentina has never been able to escape. The result was that the country tumbled down the economic standings. Today, per capita income in the U.S. is over three times as high as Argentina's.

When we speak of the world's biggest deadbeat, we don't speak or write about economic development. Instead, it's economic regression. Argentina is one of those rare countries that were once rich but have become poor.

At the heart of Argentina's calamitous economy is its central bank and the currency it produces. Indeed, the peso is venomous. The instances of the poison delivered by the peso are almost too numerous to count. To list but a few of Argentina's major peso collapses: 1952, 1958, 1967, 1975, 1985, 1989, 2001, and 2018/19.

Major peso devaluations have, of course, been associated with each crisis. And with those devaluations, the burden of Argentina's debt load explodes, and defaults follow.

To put out the fires associated with these defaults, Buenos Aires has regularly rung the alarm at the International Monetary Fund's (IMF) firehouse. But this has been to no avail. It's often made

things worse, because the IMF always fails to understand that the BCRA and the peso are what ignite and fuel the infernos in Argentina.

As Harvard University's Robert Barro put it, the IMF reminds him of Ray Bradbury's Fahrenheit 451, "in which the fire department's mission is to start fires." Barro's basis for that conclusion is his own extensive research. His damning evidence finds that:

A higher IMF-loan participation rate reduces economic growth.

IMF lending lowers investment.

A greater involvement in IMF programs lowers the level of the rule of law and democracy.

And, if that's not bad enough, countries that participate in IMF programs tend to be recidivists. The IMF programs don't provide cures but instead create addicts. Just consider Argentina. Since joining the IMF in 1956, it has called in the IMF's firemen 22 times.

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When and how will Argentina's most recent debt fiasco end? On Tuesday, Argentina and its creditors agreed to extend negotiations for another ten days, and further extensions may be in the cards. As for how those negotiations might end, the net present recovery value being offered to creditors by Buenos Aires is 46 cents on the dollar. Smart money thinks that figure might end up closer to 50 cents. That's what incorrigible deadbeats do; they give creditors haircuts.

To end Argentina's never-ending monetary nightmare, the Central Bank of Argentina, along with the peso, should be mothballed and put in a museum. The peso should be replaced with the U.S. dollar. Argentina's government should do officially what all Argentines do in times of trouble: dollarize.

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