

**The Continuing Cost of Argentina's Debt Default and Restructuring  
For Bondholders, Taxpayers, and Investors  
In the United States and Worldwide**

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**American Task Force Argentina**

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## **I. Introduction and Summary**

For much of the last decade, Argentina has pursued debt policies which, if allowed to stand, will undermine current arrangements which have promoted large-scale foreign investment in developing countries. In 2001, the Argentine government defaulted on \$81.2 billion of sovereign debt, the largest sovereign debt default in history. Over the next three years, the government of Nestor Kirchner refused to negotiate terms for restructuring the defaulted debt with its bondholders. Finally, in 2005, the government issued a take-it-or-leave-it plan with the worst terms ever offered in a sovereign debt restructuring – a bond swap worth about 25-cents on the dollar and repudiation of all past due interest payments. When nearly one-quarter of the bondholders, holding \$19.4 billion in Argentine bonds, declined the offer, including U.S. lenders holding \$2.1 billion in Argentine debt, the Kirchner government repudiated all of its obligations to those lenders, an unprecedented act in sovereign finance.

The consequences of these steps are far-reaching. Argentina faces legal judgments over the repudiated debt in every money market capital in the world, effectively preventing the government of Christina Fernandez, Nestor Kirchner's successor and wife, from borrowing outside Argentina. Further, foreign direct investment has fallen sharply compared to other Latin American countries; and the need to finance government operations through domestic lending has forced the government to inflate the Argentine peso. Moreover, if Argentina is ever allowed to reenter foreign lending markets without first honoring its previous obligations, it will raise the risk of lending the developing countries and thereby reduce that lending.

Finally, Argentina's debt policies continue to impose billions of dollars in costs on bondholders, equity investors and taxpayers around the world. In October 2006, we assessed the direct economic costs of Argentina's default, restructuring plan and the repudiation for bondholders in the United States and worldwide, as well as the indirect economic costs for taxpayers and investors in the U.S. and worldwide, from the time of the default in December 2001 to the restructuring plan in January 2005.<sup>1</sup> We found that these events cost U.S. bondholders \$7.9 billion in capital losses, foregone interest payments and foregone investment returns, net of the tax benefits they received for their capital losses. We further found that the default's indirect economic effects cost U.S. taxpayers and equity investors with holdings in Argentina another \$10.4 billion. We also found that the default and its restructuring cost Argentina's worldwide bondholders \$73.6 billion, plus indirect costs to worldwide taxpayers and equity investors of \$63.4 billion (Appendix, Table B).

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<sup>1</sup> Robert J. Shapiro and Nam D. Pham, "Discredited – The Impact of Argentina's Sovereign Debt Default and Debt Restructuring on U.S. Taxpayers and Investors," American Task Force Argentina, October 2006.

The costs to those lenders who accepted the terms of the restructuring ended in January 2005, but the repudiation of the debts owed to foreign lenders who declined the terms of the restructuring imposed additional costs on those lenders from January 2005 to the present. This analysis extends our previous estimates to the December 2008, and further estimates the costs to bondholders, taxpayers and equity investors in New York State. We focus on New York, because it is the center of the American money market, and its citizens hold financial assets at higher rates than the American average. Our central findings:

*Costs to U.S. Bondholders, Taxpayers and Equity Investors*

- The net losses to U.S. lenders to Argentina from the time of the default in December 2001 to December 2008 total 9.5 billion. These costs include losses of \$3.8 billion by bondholders who declined the restructuring offer, comprised of net capital losses of \$1.2 billion, \$1.9 billion in foregone interest payments, and \$687 million in foregone investment returns. The net losses to U.S. bondholders who accepted the January 2005 restructuring plan totaled \$5.7 billion.
- In addition, U.S. taxpayers have incurred large indirect costs as the default and restructuring reduced the revenues that bondholders otherwise would have paid on their capital gains, interest income, and investment returns. These U.S. taxpayer costs total \$3.2 billion for the period from December 2001 to December 2008, including \$2.6 billion from December 2001 to the restructuring in January 2005, and another \$584 million from that restructuring to December 2008.
- U.S. shareholders also have incurred indirect costs of \$7.8 billion, because the peso devaluation triggered by the default reduced the value of the shares they held in companies with large direct investments in Argentina. We limit our estimates of these indirect costs to the period from the default to the restructuring, December 2001-January 2005, because the peso generally stabilized at that time.
- Over the period from December 2001 to December 2008, the Argentine default and restructuring have cost U.S. bondholders, taxpayers and investors some \$20.5 billion.

*Costs to Bondholders, Taxpayers and Equity Investors in New York State*

- New Yorkers bear a significant share of these U.S. costs. We estimate that New York State residents held \$834 million in the defaulted Argentine bonds or 9.6 percent of all U.S. holdings of those instruments. These holdings include \$635 million in debts that were restructured in January 2005 and \$199 million held by bondholders who rejected the restructuring and now hold repudiated paper.
- The direct net costs to New York holders of defaulted Argentine debt currently total an estimated \$903 million, including \$452 million in direct capital losses, nearly \$382 million in foregone interest payments, and more than \$180 million in foregone investment returns. (These total losses of \$1,014 million are partly offset by nearly \$112 million in tax benefits for those losses or lower taxes paid because of foregone income.)

- In addition to these direct costs, New York taxpayers have incurred significant indirect costs as the default and restructuring have reduced the revenues bondholders otherwise would have paid on capital income, interest income, and investment returns. These New York taxpayer costs total some \$329 million from December 2001 to December 2008.
- Furthermore, shareholders living in New York incurred indirect costs of \$749 million when the peso devaluation triggered by the default reduced the value of their shares in companies with large direct investments in Argentina.
- From December 2001 to December 2008, the Argentine default and restructuring have cost New York bondholders, taxpayers and investors an estimated \$1,981 million on a net basis, including \$903 million in direct costs to New York bondholders and \$1,078 million in indirect costs to New York taxpayers and shareholders.

#### *Costs to Bondholders, Taxpayers and Equity Investors Worldwide*

- We also have updated our estimates of worldwide costs. From December 2001 to December 2008, the default and restructuring have cost bondholders worldwide \$98.7 billion, including \$44.0 in direct capital losses, \$37.1 billion in foregone interest payments, and \$17.6 billion in foregone investment returns. Bondholders also received \$10.0 billion in tax benefits for their capital losses, leaving net losses of \$88.6 billion.
- In addition, worldwide taxpayers have incurred large indirect costs as the default and restructuring reduced the revenues their governments otherwise would have collected. These taxpayer costs total \$29.9 billion from December 2001 to December 2008.
- Shareholders around the world also incurred very large indirect costs, totaling some \$39.2 billion as the peso devaluation triggered by the default reduced the value of the shares of foreign companies with large direct investments in Argentina.
- Over the entire period, December 2001 to December 2008, Argentina's debt default and restructuring have cost bondholders, taxpayers and investors around the world, on a net basis, an estimated \$157.7 billion, \$88.6 billion in direct costs to worldwide bondholders and \$69.1 billion in indirect costs to worldwide taxpayers and shareholders.

## **II. The Costs for U.S. and Worldwide Bondholders, December 2001 - December 2008**

Calculating the direct costs to Argentina's lenders and the indirect costs to taxpayers and shareholders requires separate analysis of those who rejected the 2005 restructuring plan and those who accepted it. We start with those who declined the restructuring offer.

#### *The Costs to U.S. and Worldwide Lenders Who Rejected the Restructuring Offer*

The costs to investors who rejected the January 2005 restructuring include direct capital losses, foregone interest payments, and foregone investment returns. Since capital losses

generate tax deductions, the net capital losses to these investors are their total direct losses minus the tax benefits from claiming those capital losses.

*Capital Losses.* In our previous analysis, we found that in the three years before the default, foreign investors purchased Argentine bonds at an average price of 75-cents per-dollar of face value. Therefore, we estimated that American lenders who declined the restructuring had paid \$1.6 billion for \$2.1 billion in bonds (face value), and lenders worldwide who rejected the restructuring had paid \$14.5 billion for \$19.4 billion in bonds. In addition, we calculated that these capital losses generated tax benefits of \$355 million for the U.S. bondholders who rejected the offer and \$3.3 billion for bondholders worldwide who also declined the restructuring.

- Therefore, the repudiation of these obligations by the Argentine government generated net capital losses to U.S. lenders who had declined the restructuring offer of \$1.2 billion (\$1.6 billion in capital losses, minus \$0.4 billion in tax benefits for those losses); and investors worldwide who rejected the restructuring suffered net capital losses of \$11.2 billion (\$14.5 billion capital losses minus \$3.3 billion tax benefits for capital losses).

*Foregone Interest Payments.* The restructuring did not provide for the payment of any interest owed to bondholders from the time of the default in December 2001 to the restructuring offer in January 2005. The average annual interest rate for the defaulted bonds was 10.3 percent. We earlier calculated that from December 2001 to January 2005, the foregone interest payments owed to U.S. lenders who declined the offer totaled \$638 million; and over the same period, the foregone interest payments for investors worldwide totaled almost \$6 billion.

- Applying this implicit interest rate to the holdings of those who declined restructuring for the additional period from January 2005 to December 2008, we calculate that the foregone interest payments over the period of December 2001 to December 2008 for U.S. lenders who declined the restructuring offer totaled \$1.934 billion (\$638 million, plus \$1,296 million for January 2005 to December 2008). For investors worldwide who rejected the restructuring offer, foregone interest payments for December 2001 to December 2008 totaled nearly \$18.1 billion (\$5.96 billion for December 2001 to January 2005, plus \$12.1 billion for January 2005 to December 2008).

*Foregone Investment Returns.* Argentina's lenders also forfeited investment returns when the Argentine government defaulted, and we can estimate these foregone returns using the increased value of other Latin American sovereign debt which had closely tracked Argentina's sovereign bond market until the default. For this calculation, we used the J. P. Morgan Emerging Markets Bond Index Plus (EMBI+) to calculate the returns for emerging market external debt instruments, which we used as the proxy for the foregone investment returns which Argentine bond holders would have earned in the absence of a default. In our earlier analysis, we estimated that the foregone investment returns for U.S. investors who had declined the restructuring offer totaled \$373 million from December 2001 to January 2005; and comparable losses for investors worldwide who rejected the restructuring offer totaled nearly \$3.5 billion.

These foregone returns continue to accumulate for lenders who declined the restructuring offer. To estimate their dimensions, we use the returns on the J. P. Morgan EMBI+ for Latin

America from January 2005 to December 2008: After declining nearly 9 percent in 2008 during the turmoil in global financial markets, these returns came to slightly more than 20 percent.

- Applying the investment return of the EMBI+ (Latin America) for the period of January 2005 to December 2008 to the purchase costs of the defaulted bonds, we estimate that U.S. bondholders who declined the restructuring absorbed additional losses in foregone investment returns of \$314 million on their principal. These foregone investment returns, combined with those for the period December 2001 to January 2005, total \$687 million for those U.S. bondholders from December 2001 to December 2008.
- Using the same approach, we estimate that the investors worldwide who declined the restructuring absorbed additional losses in foregone investment returns of more than \$2.9 billion from January 2005 to December 2008, in addition to the \$3.5 billion in foregone investment returns for December 2001 to January 2005. The total foregone investment returns for lenders worldwide who declined the restructuring offer, therefore, comes to more than \$6.4 billion over the period December 2001 to December 2008.

*Total Direct Costs and Net Losses.*

- The direct costs for U.S. bondholders who declined the restructuring offer, including their capital losses, foregone interest and foregone investment returns totaled nearly \$4.2 billion from December 2001 to December 2008 (\$1.5 billion capital losses, \$1.9 billion past due interest and \$687 million foregone investment returns). These investors also could claim some \$355 million in tax benefits for their capital losses, producing total net costs of approximately \$3.82 billion for U.S investors who declined the restructuring.
- The direct costs for bondholders worldwide who declined the restructuring offer, including their capital losses, foregone interest income and foregone investment returns totaled nearly \$39 billion from December 2001 to December 2008 (\$14.5 billion capital losses, \$18.1 billion past due interests, and \$6.4 billion foregone investment returns). Again, since these investors might be able to claim an estimated \$3.3 billion in tax benefits for their capital losses, their total net costs are an estimated \$35.7 billion.

**Table 1. Total Net Losses for Bondholders Who Declined the Restructuring Offer, U.S. and Worldwide, December 2001 to December 2008 (\$ millions)**

|   | <b>Worldwide</b> | <b>U.S.</b>    |
|---|------------------|----------------|
| <b>Gross Capital Losses</b>                           | <b>\$14,525</b>  | <b>\$1,554</b> |
| Tax Benefits  | -\$ 3,315        | -\$ 355        |
| <b>Net Capital Losses</b>                             | <b>\$11,210</b>  | <b>\$1,199</b> |
| <b>Total Foregone Interest Payments</b>               | <b>\$18,073</b>  | <b>\$1,934</b> |
| December 2001- January 2005                           | \$ 5,963         | \$ 638         |
| January 2005 – December 2008 (accrued and compounded) | \$12,111         | \$1,296        |
| <b>Total Foregone Investment Returns</b>              | <b>\$6,420</b>   | <b>\$ 687</b>  |
| On Capital Losses, December 2001 - January 2005       | \$ 3,486         | \$ 373         |
| On Capital Losses, January 2005 – December 2008       | \$ 2,934         | \$ 314         |
| <b>Total Net Losses</b>                               | <b>\$35,703</b>  | <b>\$3,820</b> |

### *The Costs to U.S. and Worldwide Lenders Who Accepted the Restructuring Plan*

In our previous analysis, we also estimated that the December 2001 default and January 2005 restructuring produced losses for U.S. bondholders who accepted the restructuring offer of some \$5.7 billion: \$3.2 billion in direct capital losses, \$2.0 billion in foregone interest payments from December 2001 to January 2005, and foregone investment returns of \$1.2 billion over the same period, less \$720 million in tax benefits for their direct capital losses (Appendix, Table B). These losses are unchanged from January 2005 to December 2008.

In our previous analysis, we further estimated that the default and restructuring plan produced losses for bondholders worldwide who accepted the restructuring offer of some \$52.9 billion: \$29.5 billion in direct capital losses, \$19.0 billion in foregone interest payments from December 2001 to January 2005, and foregone investment returns of \$11.1 billion over the same period, less an estimated \$6.7 billion in tax benefits for their direct capital losses.

#### *Summary: Total Costs to All U.S. and Worldwide Lenders*

- From December 2001 to December 2008, Argentina's default and restructuring cost all U.S. bondholders a total of \$9.5 billion (\$5.7 billion for U.S. investors who accepted the restructuring offer + \$3.8 billion for U.S. investors who declined the offer).
- From December 2001 to December 2008, the Argentine default and restructuring cost all bondholders worldwide a total of \$88.6 billion (\$52.9 billion for global investors who accepted the restructuring offer + \$35.7 billion for global investors who declined it).

### **III. The Indirect Costs to Taxpayers and Investors in the United States and Worldwide, December 2001 – December 2008**

In our previous analysis, we also calculated certain indirect costs arising from the default and restructuring program. These costs include losses by foreign investors with holdings in companies with large Argentine operations, as a result of the sharp devaluation of the peso which accompanied the default and its effect on the value of their Argentine operations. These indirect costs also include revenue losses from the capital losses and the foregone interest and investment income, which other taxpayers had to offset. We estimated that from December 2001 to January 2005, the U.S. shareholder losses totaled \$7.8 billion and the losses for shareholders worldwide came to \$39.2 billion. We also estimated that the associated revenue losses cost U.S. taxpayers \$2.6 billion and cost taxpayers worldwide some \$24.2 billion in foregone tax revenues (Appendix, Table B).

We do not attempt to estimate additional costs to foreign shareholders in companies with Argentine operations for the period from January 2005 to December 2008, because the peso has generally maintained its value since the sharp devaluation in December 2001. The foregone interest income and investment returns for U.S. and worldwide bondholders over this latter period, however, do create new costs for U.S. and worldwide taxpayers. Again, since foregone interest and investment income cannot be taxed, in principle taxpayers have to offset the implied lost revenues. Applying the same methodology used in our previous analysis, we estimate that

from January 2005 to December 2008, the default cost U.S. taxpayers \$470 million in revenues from foregone interest income and \$114 million in revenues from foregone investment returns (Table 2, below). The costs to taxpayers worldwide over this period total an estimated \$4.4 billion from uncollected revenues on foregone interest payments and \$1.1 billion in uncollected tax revenues on foregone investment returns.

Over the entire period from the default in December 2001 to December 2008, the revenue losses that taxpayers would have to offset total \$3.2 billion for U.S. taxpayers and nearly \$30 billion for taxpayers worldwide.

**Table 2: Taxpayer Costs Arising from the Argentine Debt Default, U.S. and Worldwide, December 2001 - December 2008, (\$ billion)**

| Source of Revenue Losses                                 | Worldwide       | U.S.           |
|--|-----------------|----------------|
| <b>Capital Losses</b>                                    | <b>\$10.044</b> | <b>\$1.075</b> |
| <b>Foregone Interest Payments (Dec. 2001-Dec. 2008)</b>  | <b>\$13.456</b> | <b>\$1.440</b> |
| December 2001-January 2005                               | \$9.065         | \$0.970        |
| January 2005-December 2008 (accrued and compounded)      | \$4.391         | \$0.470        |
| <b>Foregone Investment Returns (Dec. 2001-Dec. 2008)</b> | <b>\$6.364</b>  | <b>\$0.681</b> |
| On Capital Losses, December 2001-January 2005            | \$5.300         | \$0.567        |
| On Capital Losses, January 2005-December 2008            | \$1.064         | \$0.114        |
| <b>Total Costs to Taxpayers</b>                          | <b>\$29.864</b> | <b>\$3.196</b> |

#### **IV. Total Costs of the Argentine Default and Restructuring Program for Bondholders, Investors and Taxpayers, U.S. and Worldwide, December 2001 – December 2008**

Based on these additional estimates, we find that the Argentine default and restructuring:

- Cost U.S. bondholders, investors and taxpayers an estimated \$20.5 billion from December 2001 to December 2008: \$9.5 billion in direct net losses for U.S. bondholders, plus \$7.8 billion in shareholder losses from the currency effects on the value of foreign companies' direct investments in Argentina, plus \$3.2 billion in costs to U.S. taxpayers from revenue losses arising from the capital losses, foregone interest payments and foregone investment returns; (Appendix, Table A) and,
- Cost worldwide bondholders, investors and taxpayers an estimated \$157.7 billion from December 2001 to December 2008: \$88.6 billion in direct net losses for all bondholders, plus \$39.2 billion in worldwide shareholder losses from the currency effects on the value of foreign companies' direct investments in Argentina, plus \$29.9 billion in costs to worldwide taxpayers from revenue losses arising from the capital losses, foregone interest payments and foregone investment returns. (Appendix, Table B)

#### **V. Estimated Costs to Bondholders, Investors and Taxpayers in New York State**

The costs of the Argentina's debt policies for American bondholders, investors and taxpayers are broadly distributed across the country. Residents of New York State, however,

bear higher than average costs, based on their relatively high investment holdings and tax burdens. Since direct data on investors in the defaulted Argentine bonds are not available by state, we use Internal Revenue Service (IRS) data on total financial asset holdings by state as a proxy for holdings of the Argentine bonds defaulted in 2001.<sup>2</sup> The Internal Revenue Service estimates that New York State residents held \$636.24 billion in financial assets in 2004, or 9.6 percent of all U.S. financial assets totaling \$6.6 trillion in that year. Using these data, we estimate that New York State residents held Argentine defaulted bonds with a face value of \$834 million. We also assume that 76.15 percent of those holdings were included in the restructuring program of 2005, reflecting the global average accepting the offer. Therefore, we estimate that New York State residents held defaulted Argentine bonds with a face value of \$635 million which were restructured in 2005 and \$199 million in bonds held by lenders who declined the offer and subsequently were repudiated by the Argentine government. (Table 3, below)

Applying the same methodology used to estimate losses for all American and worldwide bondholders, we calculate that New York bondholders who accepted the offer to restructure incurred direct losses of \$613 million from December 2001 to December 2008, including \$303 million in capital losses, \$196 million in foregone interest payments from December 2001 to January 2005, and \$114 million in foregone investment returns over the same period. However, those investors also claimed tax benefits for their capital losses. In our previous analysis, we found that U.S. investors who accepted the restructuring offer claimed \$720 million in tax benefits for their capital losses, or a 22.8 percent weighted average federal, state and local capital gains tax rate. State and local capital gains tax rates in New York, however, are almost 2 percentage points higher than the U.S. average. Therefore, we estimate that the weighted average capital gains tax rate for New York State residents was 24.7 percent, and New York bondholders who accepted the restructuring offer claimed about \$75 million in tax benefits for their capital losses. As a result, the net direct losses for New York State bondholders who accepted the restructuring offer totaled \$538 million (\$613 million – \$75 million).

As noted earlier, we assume that 23.86 percent of New York bondholders declined the restructuring offer and suffered repudiation of their holdings by the Argentine government, the same percentage estimated for the United States and the world. Again applying the same methodology used to calculate the losses of bondholders who accepted the restructuring offer, we estimate that New York State bondholders who rejected the January 2005 restructuring plan incurred direct capital losses of \$149 million. In addition, we estimate that the default and repudiation cost these New York bondholders interest income of \$186 million from December 2001 to December 2008, or 9.6 percent of all of the interest payments forfeited by U.S. bondholders who decline the offer. We further estimate that these New York State bondholders sacrificed \$66 million in foregone investment returns on their bonds from December 2001 to December 2008. The IRS reports that state and local income tax rates are approximately 2 percentage-points higher in New York State than the U.S. average. Using these data, we estimate that New York State bondholders who rejected the restructuring offer claimed \$36.8 million in tax benefits for their capital losses. Therefore, New York State bondholders who declined the restructuring incurred direct net losses of \$364.3 million from December 2001 to December 2008: \$149 million capital losses + \$186 million foregone interest payments + \$66

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<sup>2</sup> Statistics of Income Division, Internal Revenue Service, July 2008.

million foregone investment returns = \$401 million total direct costs - \$36.8 million tax benefits = \$364.2 million net direct costs.

All told, Argentina's 2001 sovereign debt default and 2005 restructuring plan have cost bondholders in New York State nearly \$903 million.

**Table 3: Costs of Argentina's 2001 Debt Default and 2005 Restructuring Plan For Bondholders in New York State, December 2001 – December 2008 (\$ millions)**

|   | <b>U.S.</b>    | <b>New York</b> |
|---|----------------|-----------------|
| <b>Defaulted Debt Eligible for Restructuring, January 2005</b>        | <b>\$8,688</b> | <b>\$834</b>    |
| Face Value of Bonds Restructured                                      | 6,616          | 635             |
| Face Value of Bonds Still Outstanding                                 | 2,072          | 199             |
| <b>Direct Costs for Bondholders Who Accepted Restructuring</b>        |                |                 |
| Capital losses  | \$3,154        | \$303.0         |
| Foregone Interest Payments, December 2001 – January 2005              | 2,037          | 195.7           |
| Foregone Investment Returns   | 1,191          | 114.4           |
| <b>Total Direct Costs</b>   | <b>6,382</b>   | <b>613.1</b>    |
| Tax Benefits for Capital Losses                                       | 720            | 74.8            |
| <b>Total Net Losses of Bondholders Who Accepted Restructuring</b>     | <b>5,662</b>   | <b>538.3</b>    |
| <b>Direct Costs for Investors Who Declined the Restructuring</b>      |                |                 |
| Capital losses  | 1,554          | 149.3           |
| Foregone Interest Payments  | 1,934          | 185.8           |
| December 2001 – January 2005  | 638            | 61.3            |
| January 2005 – December 2008  | 1,296          | 124.5           |
| Foregone Investment Returns   | 687            | 66.0            |
| December 2001 – January 2005  | 373            | 35.8            |
| January 2005 – December 2008  | 314            | 30.2            |
| <b>Total Direct Costs</b>   | <b>4,175</b>   | <b>401.1</b>    |
| Tax benefits for capital losses                                       | 355            | 36.8            |
| <b>Total Net Losses of Bondholders Who Declined the Restructuring</b> | <b>3,820</b>   | <b>364.3</b>    |
| <b>Total Net Losses of All U.S. and New York Bondholders</b>          | <b>\$9,482</b> | <b>\$902.6</b>  |

In addition to these direct costs for bondholders in New York, the default and restructuring program also have imposed indirect costs of nearly \$1.1 billion on the State's equity investors and taxpayers. To calculate these indirect costs, we note again that New Yorkers hold 9.6 percent of all American financial assets, and therefore we can assume that New Yorkers account for at least 9.6 percent of the losses of all U.S. shareholders associated with the debt default. Again, those losses are derived from the impact of the sharp peso devaluation, triggered by the default, on the value of the foreign direct investments in Argentina by U.S. public companies. Our previous analysis derived these total equity losses; and based on that analysis, we estimate that these currency effects cost New York equity investors \$749 million from December 2001 to January 2005, or 9.6 percent of \$7.8 billion in associated losses for all U.S. shareholders. (Table 4, below)

We further estimate that the default and restructuring program have cost New York taxpayers nearly \$329 million from December 2001 to December 2008, including foregone state

and local tax revenues of \$111 million from New York bondholders' capital losses, \$148 million from those bondholders' reduced interest income, and \$70 million from the foregone investment returns of those bondholders. (Table 4, below) Therefore, the indirect costs of the default and restructuring for New York taxpayers and equity investors total \$1,078 million.

In addition, we further note that New York taxpayers contributed an estimated \$256 million of the \$4 billion provided by the International Monetary Fund and funded by U.S. taxpayers to bail out Argentina during the economic crisis that included the debt default.

**Table 4: Total Costs of the Argentine Default and Restructuring Plan for Bondholders, Equity Investors and Taxpayers in New York State, December 2001-December 2008, (\$ million)**

|  | <b>U.S.</b>     | <b>New York</b>  |
|--|-----------------|------------------|
| <b>Direct Costs for Bondholders</b>                      |                 |                  |
| Capital losses   | \$4,708         | \$452.4          |
| Forgone Interest Payments                                | 3,971           | 381.5            |
| Foregone Investment Returns                              | 1,878           | 180.4            |
| <b>Total Direct Costs</b>                                | <b>10,557</b>   | <b>1,014.3</b>   |
| Tax benefits for capital losses                          | 1,075           | 111.6            |
| <b>Total Net Direct Costs for Bondholders</b>            | <b>9,482</b>    | <b>902.6</b>     |
|  |                 |                  |
| <b>Indirect Costs for Equity Investors and Taxpayers</b> |                 |                  |
| Shareholder losses from currency effects                 | \$7,800         | \$749.4          |
| Revenues losses for taxpayers to offset                  | 3,195           | 328.9            |
| <b>Total Indirect Costs</b>                              | <b>10,995</b>   | <b>1,078.3</b>   |
| <b>Total Net Direct and Indirect Costs</b>               | <b>\$20,477</b> | <b>\$1,980.9</b> |
|  |                 |                  |
| <b>Taxpayer Funds for IMF Bailouts of Argentina</b>      | <b>\$4,037</b>  | <b>\$256.4</b>   |

All told, the 2001 default and 2005 restructuring program have cost New York bondholders, investors and taxpayers nearly \$2 billion.

## **VI. Conclusion**

Argentina's sovereign debt default and unprecedented restructuring program have imposed very large costs on lenders, taxpayers and shareholders in the United States and around the world. This analysis has calculated these costs from the time of the December 2001 default to December 2008. All told, the 2001 default and 2005 restructuring program have cost New York bondholders, investors and taxpayers nearly \$2 billion; all U.S. bondholders, investors and taxpayers nearly \$20.5 billion; and worldwide bondholders, investors and taxpayers nearly \$158 billion. Moreover, these costs continue to rise, because the Argentine government refuses to reopen negotiations with investors holding Argentine bonds which the government arbitrarily repudiated. This unprecedented and ultimately unsustainable policy has isolated Argentina from global capital markets, driven down new foreign direct investment, and contributed substantially to the country's current economic problems. The international community has a responsibility to

persuade the Argentine government to reverse these destructive policies, in the vital interest of the international system of lending to developing countries, the people of Argentina, and taxpayers and shareholders around the world.

## Appendix

**Table A: The Argentine Sovereign Debt Default and Restructuring:  
U.S., State of New York and Worldwide Direct and Indirect Costs,  
December 2001 – December 2008 (\$ millions)**

|   | Worldwide        | U.S.            | New York       |
|---|------------------|-----------------|----------------|
| <b>Direct Costs to Bondholders</b>                          |                  |                 |                |
| Total Direct Losses   | 98,665           | 10,557          | 1,014.3        |
| Capital losses  | 44,004           | 4,708           | 452.4          |
| For those who accepted restructuring offer                  | 29,479           | 3,154           | 303.0          |
| For those who rejected restructuring offer                  | 14,525           | 1,554           | 149.3          |
| Foregone Interest   | 37,111           | 3,971           | 381.5          |
| For those who accepted restructuring (12/2001- 1/2005)      | 19,038           | 2,037           | 195.7          |
| For those who rejected restructuring                        | 18,073           | 1,934           | 185.8          |
| 12/2001 – 1/2005  | 5,963            | 638             | 61.3           |
| 1/2005 – 12/2008  | 12,111           | 1,296           | 124.5          |
| Foregone Investment Returns                                 | 17,550           | 1,878           | 180.4          |
| For those who accepted restructuring (12/2001- 1/2005)      | 11,130           | 1,191           | 114.4          |
| For those who rejected restructuring                        | 6,420            | 687             | 66.0           |
| 12/2001 – 1/2005  | 3,486            | 373             | 35.8           |
| 1/2005 – 12/2008  | 2,934            | 314             | 30.2           |
| Offset: Tax benefits for capital losses                     | - 10,044         | - 1,075         | - 111.6        |
| <b>Net Direct Losses to Bondholders</b>                     | <b>\$88,621</b>  | <b>\$9,482</b>  | <b>\$902.6</b> |
|   |                  |                 |                |
| <b>Losses to Shareholders with Argentine holdings</b>       | <b>39,200</b>    | <b>7,800</b>    | <b>749.4</b>   |
| <b>Costs to taxpayers</b>                                   |                  |                 |                |
| Revenues costs from capital losses                          | 10,044           | 1,075           | 111.6          |
| From those who accepted restructuring offer                 | 6,729            | 720             | 74.8           |
| From those who rejected restructuring offer                 | 3,315            | 355             | 36.8           |
| Revenues losses from foregone interest                      | 13,456           | 1,440           | 147.5          |
| From those accepting restructuring (12/2001 – 1/2005)       | 6,903            | 739             | 75.7           |
| From those rejecting restructuring                          | 6,553            | 701             | 71.8           |
| 12/2001 – 1/2005  | 2,162            | 231             | 23.7           |
| 1/2005 – 12/2008  | 4,391            | 470             | 48.1           |
| Revenue losses from foregone investment returns             | 6,364            | 681             | 69.8           |
| From those accepting restructuring (12/2001 – 1/2005)       | 4,036            | 432             | 44.2           |
| From those rejecting restructuring                          | 2,328            | 249             | 25.5           |
| 12/2001 – 1/2005  | 1,264            | 135             | 13.9           |
| 1/2005 – 12/2008  | 1,064            | 114             | 11.7           |
| <b>Total Costs to Taxpayers</b>                             | <b>29,864</b>    | <b>3,195</b>    | <b>328.9</b>   |
| <b>Total Costs to Bondholders, Investors, and Taxpayers</b> | <b>\$157,685</b> | <b>\$20,477</b> | <b>\$1,981</b> |
| <b>Addendum: Taxpayer Funds At Risk in IMF Bailouts</b>     | <b>\$23,200</b>  | <b>\$4,037</b>  | <b>\$256.4</b> |

**Table B: The Argentine Sovereign Debt Default and Restructuring:  
U.S. and Worldwide Direct and Indirect Costs, December 2001 – January 2005 (\$ billions)<sup>3</sup>**

|  | <b>Worldwide</b> | <b>U.S.</b>   |
|--|------------------|---------------|
| <b>Defaulted Debt Eligible for Restructuring, January 2005</b> |                  |               |
| Principal (face value) restructured to new securities          | \$61.8           | \$6.6         |
| Principal (face value) still outstanding                       | \$19.4           | \$2.1         |
| <b>Total</b>   | <b>\$81.2</b>    | <b>\$8.7</b>  |
| <b>Past Due Interest at Restructuring, January 2005</b>        |                  |               |
| Interest owed on securities that were restructured             | \$19.0           | \$2.0         |
| Interest owed on securities that have not been restructured    | \$ 6.0           | \$0.6         |
| <b>Total</b>   | <b>\$25.0</b>    | <b>\$2.7</b>  |
| <b>Direct Costs for Investors Accepting the Restructuring</b>  |                  |               |
| Capital losses   | \$29.5           | \$3.2         |
| Past due interest payments, December 2001-January 2005         | \$19.0           | \$2.0         |
| Foregone investment returns                                    | \$11.1           | \$1.2         |
| <b>Total Direct Costs</b>                                      | <b>\$59.6</b>    | <b>\$6.4</b>  |
| Tax benefits for capital losses                                | -\$6.7 *         | -\$0.7        |
| <b>Total Net Losses</b>  | <b>\$52.9</b>    | <b>\$5.8</b>  |
| <b>Direct Costs for Investors Rejecting the Restructuring</b>  |                  |               |
| Capital losses   | \$14.5           | \$1.6         |
| Past due interest payments, December 2001-January 2005         | \$ 6.0           | \$0.6         |
| Foregone investment returns                                    | \$ 3.5           | \$0.4         |
| <b>Total Direct Costs</b>                                      | <b>\$24.0</b>    | <b>\$2.6</b>  |
| Tax benefits for capital losses                                | -\$ 3.3 *        | -\$0.4        |
| <b>Total Net Losses</b>  | <b>\$20.7</b>    | <b>\$2.2</b>  |
| <b>Direct Costs for All Bond Investors</b>                     |                  |               |
| Capital losses   | \$44.0           | \$4.7         |
| Past due interest payments, December 2001–January 2005         | \$25.0           | \$2.7         |
| Foregone investment returns                                    | \$14.6           | \$1.6         |
| <b>Total Direct Costs</b>                                      | <b>\$83.6</b>    | <b>\$9.0</b>  |
| Tax benefits for capital losses                                | -\$10.0 *        | -\$1.1        |
| <b>Total Net Costs</b>   | <b>\$73.6</b>    | <b>\$7.9</b>  |
| <b>Indirect Costs for Equity Investors and Taxpayers</b>       |                  |               |
| Shareholder losses - currency effects on foreign investment    | \$39.2           | \$7.8         |
| Revenues losses for other taxpayers to offset                  | \$24.2 *         | \$2.6         |
| <b>Total</b>   | <b>\$63.4</b>    | <b>\$10.4</b> |
| <b>Taxpayer Funds At Risk in IMF Bailouts of Argentina</b>     | <b>\$23.2</b>    | <b>\$4.0</b>  |

\* Global estimates of foregone investment returns, tax benefits for capital losses, and total revenue losses calculated by applying American returns and tax treatment globally, and therefore can provide only a rough estimate.

<sup>3</sup> Robert J. Shapiro and Nam D. Pham, “Discredited – The Impact of Argentina’s Sovereign Debt Default and Debt Restructuring on U.S. Taxpayers and Investors,” American Task Force Argentina, October 2006.

### *About the Authors*

**Robert J. Shapiro** is the co-founder and chairman of Sonecon, LLC, a private firm that advises U.S. and foreign businesses, governments and non-profit organizations. Dr. Shapiro has advised, among others, U.S. President Bill Clinton, British Prime Minister Tony Blair, Vice President Albert Gore, Jr., and Senators Barack Obama, Hillary Clinton and Evan Bayh; private firms such as AT&T, Amgen, Gilead Sciences, Google, MCI, Inc., Exxon-Mobil, Nordstjernan of Sweden, and Fujitsu of Japan, and non-profit organizations including the American Public Transportation Association and the U.S. Chamber of Commerce. In addition to his role as co-chair of American Task Force Argentina, Dr. Shapiro is also a Senior Policy Fellow of the Georgetown University Center for Business and Public Policy, chair of the U.S. Climate task Force, director of the Globalization Initiative of the NDN, and a board member of the Ax:son-Johnson Foundation in Sweden. From 1997 to 2001, he was U.S. Under Secretary of Commerce for Economic Affairs. In that position, he directed economic policy for the Department of Commerce and oversaw the nation's major statistical agencies. Prior to that appointment, he was co-founder and vice president of the Progressive Policy Institute and the Progressive Foundation. He also was the principal economic advisor to Governor Bill Clinton in his 1991-1992 presidential campaign and an economic advisor to the presidential campaigns of Vice President Albert Gore and Senator John Kerry. In 2008, he advised the campaign and transition of Barack Obama. Dr. Shapiro also served as Legislative Director for Senator Daniel P. Moynihan and Associate Editor of *U.S. News & World Report*. He has been a fellow of Harvard University, the Brookings Institution, and the National Bureau of Economic Research. He holds a Ph.D. and M.A. from Harvard University, a M.Sc. from the London School of Economics, and an A.B. from the University of Chicago. Dr. Shapiro is widely published. His most recent book is *Futurecast: How Superpowers, Populations and Globalization Will Change the Way You Live and Work* (St. Martins' Press, April 2008).

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