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Wall Street Hedge Fund Fraud Upheld by US Court: Argentina to Pay "Vulture" Fund $832 Million for Bonds Bought for $49 Million

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Paul Singer, the billionaire hedge fund manager, has claimed victory in a lawsuit to force Argentina to fork out almost 17 times more than he paid to buy bonds issued by the country.

After Argentina's economy crashed in 2001 and it defaulted on $80 billion in bonds, Singer's Elliott Capital Management paid $49 million to buy $220 million in Argentine debt. Over the last 13 years, the value of these bonds has risen to $832 million which Singer wants paid off in full. Singer has been joined by several other Wall Street speculators such as Aurelius Capital Management and Blue Angel who together hold a total of $1.3 billion in Argentine debt.

In the meantime, after extensive negotiations, almost all other holders of Argentina's total $93 billion in debt agreed to forgive as much as 70 percent of what they were owed, recognizing that the country was in dire financial straits.

"Society needs a way to allow people to start over again. This is why we have bankruptcy," writes Martin Wolf in the Financial Times. "Indeed, we allow the most important private actors in our economies – companies – to enjoy limited liability. The ease with which US corporations can walk away from their creditors is breathtaking. A similar logic applies to countries."

Image: Protest outside Elliott Capital Management offices in New York. Photo: Jubilee Debt Campaign. Used under Creative Commons license.

But there is no international bankruptcy court for countries. Instead, beginning in 2009, Singer and his friends took advantage of the fact that much of the debt was issued under New York laws and went after Argentina in U.S. courts.

This is not the first time that Singer, a lawyer trained at Harvard, has taken advantage of governments in dire straits. The Democratic Republic of the Congo was forced to pay him $90 million for $20 million in debt in 2002 and Peru had to pay him $58 million for debt he bought for $11 million in 1995.

But Argentina has refused to play ball so far. "We will not reward loan sharks who bought defaulted bonds for next to nothing and have refused a deal that would have represented a clear profit, asking much more, even several times the amount they spent," wrote Hector

Timerman, the Argentine minister of foreign affairs in the Huffington Post.

> "If Argentina beats Paul Singer and others, the consequence may well be a world where vulture funds' actions against developing countries are history. A place free of these scavengers would benefit not only my country, but also other poor nations in Africa and Latin America."

It has been an uphill struggle for Argentina, however. In November 2012, a U.S. court ruled that the country to pay all the bondholders at the same time. The problem with this ruling that if Argentina paid Singer and his friends the full amount they want, other creditors could well want to be paid in full also, making the country liable for as much as $15 billion immediately, more than half the country's reserves. All told Argentina might face a total debt of some $120 billion.

Argentina appealed the decision at the U.S. Supreme Court but the judges refused to hear the case last week. Now Argentina faces a June 30 deadline when it is supposed to pay the next installment of interest to all bondholders.

Other countries have waded into this battle. Brazil, France and Mexico supported Argentina in its losing bid at the U.S. Supreme Court while a Ghanian court allowed Singer's group to seize an Argentine vessel ARA Libertad last October.

Despite Argentina's court losses, progressives say that its citizens are vastly better off today because of the country's hard-nosed negotiations with bond holders to date and its refusal to cut social spending to pay off its debt back in 2001.

"For comparison, look at Greece," writes Mark Weisbrot, the co-director of the Center for Economic and Policy Research.

> "After six years of austerity-driven recession, which included a 40 percent cut in health care spending, the unemployment rate stands at 26.8 percent (and more than double that rate for youth) and the net public debt has grown to 169 percent of the country's gross domestic product."

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