Argentina wields its $5 billion debt bomb

by Christian Curtis

The Argentine central bank on Nov. 18 took $5.5 billion worth of imminently due debts previously held by local private companies, printed new bonds guaranteed by the central government, and presented them to the country's international creditors, saying Argentina will begin paying off the bonds five years from now—take it or leave it. The banks, having no choice, took it.

Although many developing nations have been forced haphazardly into default by the deepening world financial crisis, Argentina becomes the first country to institutionalize the reality the banks have been trying to avoid: there is no way Argentina or any other Third World nation is going to meet debt payments under the present monetary system.

No matter what anyone says, no matter how elaborate the "scenarios" on how to maintain the system in one piece, reality is asserting itself with a vengeance. The only question remaining is whether the coming rash of non-payments is handled on the terms of the debtors, or exacted on terms dictated by the creditors and their cartel, the International Monetary Fund.

From the IMF's point of view, the danger now is that other governments will follow Argentina's precedent. "If they do this with one category of their debt," one senior U.S banker commented, "what's to prevent them from doing it with all categories?

"If this is a portent of things to come, life will be very difficult. You just can't do this to us bankers. What Argentina has done could become commonplace. Mexico is rumored to be doing the same thing."

Such possibilities have not escaped the notice of Buenos Aires observers. The Sunday edition of the daily *Clarín* of Oct. 14, foreseeing the central bank's action, had an entire section devoted to "swaps"—the procedure by which the government bought out a chunk of the private sector's foreign debt and then unilaterally imposed a moratorium on it. On the cover of the pullout section is a nefarious-looking character carrying a bomb with George Washington's face on it—implying a dollar bill. The headline reads: "The Year-End Hiroshima."

Financial Hiroshima

The Argentine "Hiroshima" introduces, on a limited scale, the "debt bomb" policy recommended by American economist and *EIR* founder Lyndon LaRouche three months ago, in a document titled *Operation Juarez*. Ibero-America can't pay its debts, states LaRouche; it's a simple fact of life. It therefore has two choices: either fall into default chaotically, triggering bank collapses around the world, since no alternative sources of credit exist; or deliberately manage the non-payment by reorganizing the debt into long-term instruments as a first step toward creating a new, gold-based international monetary system in which credit flows serve industrial production.

Should the banks refuse to listen, LaRouche concludes, the Ibero-American debtors must bring them to their senses by unilaterally imposing moratoria.

The Argentine case poses this question: Will other nations cooperate to provide an orderly international reorganization, or will Argentina's action be a signal of an impending avalanche of chaotic defaults and bankruptcies? Either way, the impossibility of carrying these debts is about to rudely impose itself on the international banking system.

There is a faction among Ibero-American leaders that is considering the "debt bomb" option as a means of forcing a breakthrough to a new world economic order. Colombia's leading economic daily, *La República,* editorially noted Nov. 17 that "the debt bomb has joined the arsenal of the world's countries" and is "rapidly taking form in diplomatic circles." *La República* is viewed as the mouthpiece of the Betancur government, perhaps the strongest proponent of joint Ibero-American renegotiation of foreign debt. The editorial also pointed out that debt moratoria were a central plank in the electoral platform of 1970 presidential candidate Gustavo Rojas Pinilla, adding that his "audacious thesis" was proposed at a time when the country's foreign debt was considerably less than it is today.

At the same time, in Quito, Ecuador former Venezuelan president Carlos Andrés Pérez chaired a continental human-rights conference, where he stated that unless Ibero-American states united to jointly renegotiate their debts, the region's "human rights" will not be fulfilled.

Yet, the momentum toward such collaboration has slowed in recent weeks. The call by Bolivian President Hernán Siles Suazo for an Andean Pact heads-of-state meeting in La Paz to work out a joint renegotiation strategy was allowed to fade away. At regional gatherings, such as the Organization of American States, there has been plenty of talk, but no concrete action.

Repudiation 'deterred'

It is the bankers who seem to be taking the situation most seriously. What they fear is that imminent non-payments will force one nation after another to adopt an expanded version of Argentina's "rescheduling," even if the leaders of these nations have cold feet.

The Carnegie Endowment for International Peace recently published a "study," reported in the *Washington Post* Nov. 14, which states that the possibility of Ibero-America dropping the debt bomb must be taken seriously. Since this summer, confirms Carnegie researcher Karen Lissaker, Brazil, Argentina, and Mexico have been on the verge of repudiating their debts outright. The three nations, which together hold more than $200 billion of the continent's foreign debt, were "deterred" from doing so, she said, only when their international creditors convinced them that European governments and the United States would seize every Ibero-American asset they could get their hands on—bank accounts, real estate, company branch offices, airlines.

Battening down the hatches

Although such threats worked in the short run, it may not be long until Ibero-American governments realize they really have nothing to lose. Many are already taking initial steps designed to shelter their economies from capital flight, extortion, and international banking collapse. In short, they are battening down the hatches for an expected blowout.

Throughout the continent, private-sector debt is being put under the control of central governments. Argentina started doing this last year, and most recently decreed that no private firms can use foreign exchange to amortize their own debts as long as talks are under way with the IMF for new loans.

In Mexico, where the government has already negotiated limited moratoria on debt principal, a similar process led up to the Sept. 1 nationalization of the banking system. Debts and new loans of autonomous state agencies were centralized under the central bank. The central bank now has a monopoly on supplying dollars to domestic customers—which has led to a curious situation. Because of this monopoly, the central government has set priorities concerning how Mexico's extremely scarce dollars are to be used, and repaying debts is not high on the list. As a result, private firms asking for dollars in order to meet private foreign obligations have not obtained them. It is estimated that between August—the month before the nationalization—and the end of this year, $1 billion of this private debt will have come due. But with the central bank's clampdown, Mexico's creditors are about to lose $1 billion, and the government will have prevented another $1 billion from leaving the country.

The Brazilians and Venezuelans, who pride themselves on good behavior with their creditors, are indicating they may have to use central-government controls in a similar manner. The Venezuelan central bank has caused an uproar by taking over all state sector finances, including those of the sacred cow, the state oil industry. Many officials are toying with the idea of exchange controls, and, as in other countries, the central bank has a monopoly over the sale of dollars to private customers. One official confided recently that it may begin exercising this power in order to stop the capital drain.

Capital flight, of course, is the biggest threat the banks can wield against exchange controls. For example, before they were nationalized, Mexico's private banks collaborated with international creditors to move more than $50 billion in assets out of the country and into speculative ventures, especially American real estate. President José López Portillo indicated how this problem might be counteracted by submitting legislation two weeks before leaving office that would throw a 3 percent tax on all assets held abroad by Mexican citizens. The measure would put capital smugglers in a bind, since they must either identify themselves as de facto traitors, or else decline to declare such holdings and face the possibility of conviction for tax evasion.

The measure, if enacted, will make capital flight practically illegal for the first time, and will be scrutinized by other governments suffering outflows promoted by the same institutions that lent them their dollars in the first place.