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EIR Economics

Argentina Backs Down the IMF, But Pulls the Knock-Out Punch

by Dennis Small and Cynthia Rush

Early on the afternoon of March 9, after several days of tense negotiations, the Argentine government and the International Monetary Fund (IMF) stepped away from a total showdown on the issue of Argentina's restructuring of $99 billion in public debt on which it defaulted in December 2001, and the two sides came to a time-buying agreement. Negotiations went down to the wire, with President Néstor Kirchner threatening to default on a $3.1 billion payment due the IMF that day, and refusing to bend to fierce international pressure to pay more on the defaulted public debt than the 25% of face value he announced months ago.

Under the terms of the accord, the IMF agreed to lend Argentina $3.1 billion, which will be used to cover Argentina's $3.1 billion payment back to the IMF—a straight debt rollover—*without* imposing major new austerity requirements on the country.

The Kirchner government thus backed down the once-mighty IMF, and won this round of the battle by threatening to use its "debt bomb" if forced to the wall. But Kirchner failed to deliver the knock-out punch to the entire IMF system, which in all likelihood would have resulted if Argentina had outright defaulted on its $3.1 billion payment.

It was, in fact, fear of such a financial chain-reaction which drove the U.S. Treasury to instruct the IMF bureaucrats to back off from the showdown. As U.S. Presidential candidate Lyndon LaRouche commented on hearing the news: "There was enough dynamite there, that the Argentine crisis could have been a detonator for all that explosive power. That's the secret of this thing: The U.S. Treasury and IMF had to side-step the confrontation, and try to buy time."

LaRouche was referring to the latest Bank for International Settlements quarterly report (which documents the multiple dangers of financial explosion internationally), and the looming bankruptcy of the U.S. giant Fannie Mae and Freddie Mac mortgage agencies (see article, p. 8).

LaRouche Youth Linking Brazil, Argentina

A particularly important stick of financial dynamite is the debt of Argentina's neighbor Brazil, which owes some $28 billion to the IMF. Together, Argentina and Brazil account for nearly 50% of all the debt owed the IMF. The London *Guardian*'s Larry Elliott noted in the paper's March 9 edition that Argentine defiance of the IMF "raises the ultimate spectre: a domino effect of defaulters that could bankrupt it."

The bankers' particular nightmare is an alliance of Argentina and Brazil to use this debt weapon to force a global financial reorganization around the specifications of LaRouche's New Bretton Woods proposal.

Precisely such action was called for by the international LaRouche Youth Movement, which issued an open letter to Brazilian President Lula da Silva March 8, and held rallies before the Brazilian and Argentine embasssies in a half-dozen countries. The letter, published in the March 11 edition of *Listin Diario*, the leading newspaper of the Dominican Republic, urged Lula to support Argentina, and work with it and other nations to bring about LaRouche's New Bretton Woods to displace the IMF (see box).

But President Lula, so far, is waffling. Lula proclaimed his "solidarity" with Argentina, but insisted that Brazil is in a "very different" situation from Argentina. Lula had originally agreed to meet with Kirchner on March 10—the day after the IMF payments deadline—but chose to postpone the meeting by a week, so as not to be too closely identified with Kirchner.

Just under the surface, there is a battle raging inside the

Lula government over economic policy. Lula is still trying to figure out a way to manage his country's own impossible debt situation within the framework of the IMF. According to Argentina's *La Nación*, Brazil's Foreign Ministry, Itamaraty, is particularly cool to the idea of a close alliance with Argentina; but others show enthusiasm for just such an approach.

José Botafogo Goncãtalves, Brazil's ambassador in Buenos Aires, reportedly reflects the Itamaraty line. In remarks that irked President Kirchner, he told *La Nación* that the agreement made at the Feb. 27-28 Group of 15 meeting in Caracas to define a "common strategy" toward the IMF, didn't mean that Brazil and Argentina were going to jointly negotiate their debt with the IMF. "The debts are different; we're not talking about negotiating together with our creditors. We're in very different situations," Botafogo said. He went on to stress the need to reform the IMF's lending criteria, which is what Lula is also discussing with European leaders such as France's Jacques Chirac and Germany's Gerhard Schröder. Lula is calling on the IMF to exclude public investments, particularly in infrastructure, from government calculation of their primary budget surplus—i.e., put that investment before debt payment. But he is not proposing radical changes in the IMF system as such.

But Kirchner's somewhat more aggressive strategy is popular inside Brazil, which is causing Lula headaches. According to the March 9 *Jornal do Brasil,* "As it is known that a wing of the Brazilian government is sympathetic to the stance on foreign capital defended by the neighboring country, an Argentine default could translate into greater pressure on Brazil's orthodox economic policies."

Near showdown with the IMF, Argentine President Kirchner (with Economics Minister Roberto Lavagna, left) spoke by phone with Brazilian President Lula da Silva. Argentina made the IMF blink; but Argentina and Brazil together could have forced a global monetary change.

Open Letter to Lula: Join Argentina

On March 8, the LaRouche Youth Movement issued an open letter to President Luiz Inacio Lula da Silva, of Brazil, which read in part:

Dear President Lula:

The LaRouche Youth Movement (LYM) in various countries around the world is issuing this open letter to urgently call on your government to:

1. Firmly support the sister republic of Argentina in its current life-and-death battle against the International Monetary Fund (IMF) and the so-called "vulture funds"; and

2. Join Argentina and other nations in promoting the call for a New Bretton Woods to replace the current bankrupt and genocidal IMF system, as issued by the renowed economist Lyndon LaRouche, currently a Presidential candidate running in the Democratic primaries in the United States. . . .

President Lula: Those who today attack Argentina, will tomorrow do the same to Brazil. Do not repeat the mistakes made in 1982 by the governments of Brazil and Argentina, when they did not support the heroic battle waged against the IMF and the voracious speculators by then-Mexican President José López Portillo, who had adopted the proposals of Lyndon LaRouche for the reorganization of the international financial architecture.

A decade earlier, LaRouche had a public debate in New York City with the most famous "Keynesian" economist of the time, Abba Lerner, in which LaRouche denounced those forces in the United States who were imposing fascist policies on Brazil, modeled on the policies of Hjalmar Schacht, Adolf Hitler's Economics Minister. Lerner defended Schacht, saying that, had he succeeded, "Hitler would not have been necessary." LaRouche defended Brazil. Today, those same fascist interests are assaulting Argentina. . . .

President Lula: As Lyndon LaRouche said, the key issue is: "Who are the leading personalities" who will make the necessary decisions?

—The LaRouche Youth Movement

Vulture Economics

In their crazed attempt to prop up the crumbling global financial system, the IMF and the Group of Seven industrialized nations are determined to squeeze more blood out of every economy on the planet, and thus tried to make of Argentina a bloody example. They stepped in as collection agents for the vulture funds, and threatened that unless Kirchner capitulated to their demands, they would not approve the IMF performance review or reimburse the $3.1 billion payment.

But Kirchner stood firm. Argentina's people and national interests must come before the banks, he said. To pay more than 25% would mean a "new genocide" against the country.

The bondholders were outraged that they didn't get their way. A Standard & Poor's director snarled, after the announcement of the 11th-hour deal, "The bondholders have every right to be disappointed." The *Financial Times* reported unhappily that Argentina remained "defiant towards private creditors." And Scott Grannis at Western Asset Management Co. bemoaned "the government's lack of respect for global capital markets."

Aware that even more brutal pressures will come in June, when the IMF accord comes up for review, Kirchner told his closest collaborators not to rest on their laurels, because "We're in a minute-by-minute, hand-to-hand combat."

He's right. Speaking at a March 10 U.S. Senate subcommittee hearing in Washington, U.S. Assistant Secretary of Treasury for International Affairs, Randal Quarles, stated unambiguously that Argentina must tighten its belt still further: "It is the responsibility of Argentina to work with its creditors to achieve a debt restructuring deal that will define the increase in primary surplus above [the current level of] 3%, that is needed to cover debt service on performing and restructured debt."

And speaking for the vultures themselves, Adam Lerrick, of the steering committee of the Global Committee of Argentina Bondholders, addressed the same Senate hearing, and bemoaned the fact that "we no longer live in an era where the governments of private sector lenders send the navy to collect on their bad loans." And he went on to express outrage at the very idea of putting the people and their survival ahead of speculative paper: "Argentina has made a pre-emptive decision. Payments to the country's lenders are now deemed discretionary expenditure, not fixed obligations. Government-sponsored posters of ragged children crystallize a new concept: The 'social debt' to provide a better quality of life for citizens takes priority over the financial debt to the nation's creditors. If Argentina even comes close to imposing the 90% debt reduction"—the vultures call it 90% by adding in unpaid interest charges—"how can Latin American leaders, or any developing-country politician, justify to their electorates stringent fiscal efforts to honor obligations to foreign lenders? Why not schools and hospitals instead of repaying rich foreigners? The resulting defaults will cascade through the international capital markets." This is the angry voice of fascism.

Hyperinflationary Rise Spreads Worldwide

by Richard Freeman

During the past 8 months, a wide array of goods, from raw materials, to intermediate goods, in addition to some final goods, have undergone price explosions not experienced, in some cases, in more than two decades. A leading example of this is the case of gasoline. By the end of the week of March 1-5, at self-service gasoline pumps throughout California, the average price of gasoline had risen to $2.11 per gallon, according to the Energy Information Agency (EIA) of the U.S. Department of Energy. The EIA reports that during the past 10 weeks, the price of gasoline in California has climbed 51.7 cents per gallon—or 32%. The price is within pennies of its all-time record of $2.145 reached during the Summer of last year, and some analysts predict that the price will shoot to $2.50 or higher by the Summer of this year.

On March 4, U.S. Energy Secretary Spencer Abraham said that the Bush Administration is "extremely concerned" about the impact of high gasoline prices. One of the reasons cited for the oil price rise is the sharp increase in the price of crude oil, the raw stock from which gasoline is made. On March 5, at the close of trading on the NYMEX (New York Mercantile Exchange), the price of crude oil jumped to above $37 per barrel. But ascribing the increase in the gasoline price to the rise in the price of crude explains nothing. Why has the crude oil price spiked upward? Heavy speculation and geopolitical factors can account for some of the price increase, but there is much that they do not account for.

The same is true for dozens of commodities. Each has a particular explanation for its price increase, but this does not explain why all of these prices are shooting up simultaneously. Did the particular alleged trigger for each commodity's price increase, get activated at the same time 8 months ago?

The problem with economists' explanations is that they are desperately seeking to conceal what is going on. 2004 Presidential candidate Lyndon LaRouche has uniquely explained the deeper process that governs what is currently happening. Over the recent period, the disintegration of the hopelessly bankrupt world financial system has accelerated. In response, Federal Reserve Board chairman Alan Greenspan attempted to prolong the system: wildly increasing the emission of monetary stock to prevent the speculative financial aggregates—stocks, bonds, derivatives et. al—from collapsing. This process set off an hyperinflationary explosion in asset prices, led by real estate; and it has now spread to commodity and intermediate goods prices in general. It is proceed-