

# Argentina's Debt Restructuring: 'The Dead Do Not Pay'

*The real history of Argentina's debt restructuring, on the basis of American System principles of national sovereignty and a commitment to economic growth for the general welfare, has been featured in EIR for many years. The following review comes primarily from an article by Cynthia Rush in the Oct. 7, 2011 edition, available, along with other coverage, at [www.larouchepub.com](http://www.larouchepub.com). It contains lessons all nations, including the United States, would do well to learn today.*

In December 2001, Argentina, then in the throes of a massive economic and social catastrophe driven by IMF conditionalities, defaulted on \$88 billion foreign debt, the largest sovereign default in history. A year and a half later, Argentina elected Néstor Kirchner as President. Kirchner defied the IMF economic "experts" and successfully restructured the defaulted debt in February 2005, with a 75% writedown. In the wake of that restructuring—according to which Argentina has continued to pay its debts to the 93% of the creditors who agreed to the deal—Argentina has entered into a period of sustained economic growth.

## IMF 'Not Exactly Like Heaven'

What Argentina went through to get to that point is worth examining in more detail. As Kirchner told his German audience during that 2005 visit, "Remember, being in the IMF's embrace is not exactly like Heaven." In fact, as he would say repeatedly throughout his Presidency, the IMF drove his nation "into Hell": The Fund demanded the same genocidal austerity measures demanded of Greece today. That Argentina eventually emerged from that process to become the world's second-fastest-growing economy today, after China, with a renewed sense of its national identity grounded in a commitment to scientific and technological advance, was only possible because a political leader had the guts to tell the IMF and its oligarchical allies that killing Argentine citizens was no longer on the agenda.

Consider the following important inflection points in this process:

**March 20, 2001:** Against a backdrop of growing

social and political crisis—official unemployment hovered near 20%, while the official poverty rate stood at an unprecedented 40%—Domingo Cavallo, the Harvard-trained "Rasputin" who served as President Carlos Menem's Finance Minister from 1989-96, returned to the same post under President Fernando De La Rúa, whose government was disintegrating at breakneck speed.

Under Menem, Cavallo had not only overseen the dismantling of the country's industrial economy through brutal IMF-dictated austerity and privatizations. He also set up a British-style currency board, pegging the peso to the dollar in a one-to-one relationship, thus effectively handing over the country's economic sovereignty to the U.S. Federal Reserve.

From March, until his political demise on Dec. 19, Cavallo subjected the country to more barbaric austerity, including a "zero deficit" program that gutted living standards to ensure the servicing of the foreign debt. Yet the destruction of the economy caused by his policies made it impossible for the country to pay the debt.

The previous December's \$40 billion IMF bailout had failed to produce any economic relief or political stability. So, under the tutelege of his mentor David Mulford, then head of Credit Suisse-First Boston's international division and former Deputy Treasury Secretary under George H.W. Bush, Cavallo orchestrated the scandalous \$30 billion "mega-swap" in June, which was also supposed to provide some debt relief. But, Mulford chortled at the time, "people will have to pay dearly for that little favor."

Pay they did. Cavallo and Mulford ended up offering bondholders usurious interest rates, as high as 16%, while handing over \$140 million in commissions to the foreign banks that served as intermediaries in the deal. Bankers publicly laughed at how easy it was to steal from Argentina.

**Dec. 1, 2001:** As ever greater economic and social instability wracked the country, thanks to Cavallo's continuous budget slashing and other austerity measures, he announced a package of emergency measures in a frantic attempt to stop the hemorrhaging of the banking system. That year, almost 25% of the banking

system's total deposits was withdrawn, mostly after Cavallo took office.

The measures partially froze bank accounts, giving rise to the hated *corralito* (little corral), which allowed only \$1,000 in cash to be withdrawn monthly, no more than \$250 weekly. The program also prohibited any loans in pesos, and imposed exchange controls, among other things.

The impoverished population exploded in rage, taking to the streets over the next ten days, looting supermarkets and engaging in other violent actions, often egged on by provocateurs. A psychotic Cavallo nevertheless announced on Dec. 8, from an IMF meeting in Washington, that he would cut \$4 billion more from the 2002 budget, because “the country’s problem is that there isn’t enough austerity.”

### Foreign Debt Payment ‘Is Suspended’

**Dec. 19, 2001:** First Cavallo, and then De La Rúa, were forced to resign, De La Rúa fleeing ignominiously in a helicopter from atop the Presidential Palace. Protests, which had initially been Jacobin in nature, took on a patriotic character, in response to De La Rúa’s nationally televised message pathetically urging people to be “patient.” Tens of thousands of citizens in Buenos Aires spontaneously poured onto the streets and walked toward the historic Plaza de Mayo, carrying only the Argentine flag, symbol of the national upsurge that was quickly taking shape. Upon hearing that Cavallo had resigned, they began to sing the national anthem.

Senate President Ramón Puerta, a Peronist, briefly became the “transitional” President, but was replaced on Dec. 22 by legislator Adolfo Rodríguez Saá, of San Luis province.

**Dec. 23, 2001:** In an address to the Congress, Rodríguez Saá announced that payment on the foreign debt “is suspended,” and emphasized that “today, we begin the transformation of our beloved country.... We are perfectly conscious that today, a new republic has been born.” His statement that the debt moratorium is the “first act of a government of rational character, to deal with the foreign debt correctly,” brought legislators to



[www.presidencia.gov.ar](http://www.presidencia.gov.ar)

*Argentine President Néstor Kirchner, shown here in San Martín de los Andes, announced two days before his inauguration in 2003, “We can live without the IMF.” If any institution needed restructuring, he later said, it was the IMF.*

their feet, applauding wildly and chanting, “Argentina! Argentina! Argentina!” The new President concluded by appealing to a sense of Argentine nationhood, telling the Congress, “I believe it is possible to have an Argentina without poor, without unemployed, without hunger and misery. I believe in social justice.” He vowed to create a million new jobs.

Rodríguez Saá lasted seven days. Some legislative power-brokers feared that his proposed new, non-convertible currency, the *argentino*, backed by physical goods, might lead to a National Banking system, or even breaking with the IMF altogether. That would be going too far! Subjected to enormous pressure and citing threats against him, Rodríguez Saá resigned.

**Jan. 2, 2002:** Eduardo Duhalde was sworn in as President, and moved immediately to end the peso-dollar peg, the British colonial currency board system that Cavallo had established in 1991, followed by a massive devaluation of the peso. Any hopes that Duhalde would stand up to the IMF, however, were quickly dashed, as he continued to impose austerity and refused to end the hated *corralito*. His Presidency was characterized by financial chaos, including continued hemorrhaging of the banking system. By the time the first round of Presidential elections occurred in April 2003, an unprecedented 57% of the population was living in poverty, with an unemployment rate of over 25%. Hunger stalked the country historically known as “the granary

to the world,” with its plentiful food and nutritious diet.

## A Revolt ‘Down on the Farm’

**May 25, 2003:** Néstor Kirchner was sworn in as President, having won just 22% of the vote. He vowed to put an end to the model of “permanent adjustment,” announcing two days before his inauguration, “We can live without the IMF.” At his swearing-in, he emphasized that creditors will only be paid if “Argentina is doing well,” and policies will be judged by whether they “approximate the goal of concretizing the common good.”

Internal consumption “will be at the center of our strategy of expansion,” and the state will be an active agent in national development.

Kirchner announced that the centerpiece of his policy would be an aggressive public works program. Countering the British neoliberal argument that investment in big infrastructure projects is “unproductive,” Kirchner responded that “we aren’t inventing anything new. In the decade of the 1930s, the United States overcame the deepest economic-financial crisis in a century by such means,” under Franklin Roosevelt’s New Deal.

**Jan. 14-March 2, 2005:** Provoking hysteria among foreign creditors and their allied speculative vulture funds, Finance Minister Roberto Lavagna announced the government’s proposal to restructure \$88 billion in defaulted debt, with a 75% “haircut.” To creditor protests that Argentina was “not playing by the rules,” Lavagna responded that the nation would not repeat the “errors of the past, when the government ignored its own limited ability to pay in order to secure rapid bondholder acceptance.”

Disproving creditor warnings that the restructuring would fail, on Feb. 25, the government announced the successful conclusion of the bond swap, with bondholder participation of 76.07%. Kirchner emphasized that the writedown, which had been slightly reduced to about 60%, wasn’t an attempt to steal anything from anyone. “It was rather the ultimate will of the Argentine



EIRNS/Carlos Galindo

*Huge demonstrations were organized against IMF austerity; here, the CTA (Confederation of Argentine Workers) holds a rally in Buenos Aires, May 29, 2002.*

people, to try to meet their [debt] obligation—one which was created, built, and structured to *loot* them” (emphasis added).

On March 2, in Montevideo, Foreign Minister Rafael Bielsa said in more colorful terms that “the Monetary Fund has ceased to be a corral, and the little animals are beginning to escape.... It’s like a revolt down on the farm.”

## It’s the IMF that Needs Restructuring

**April-September 2005:** During his mid-April trip to Germany, Kirchner used strong language to condemn IMF policies, reportedly confiding to some of his closest aides that he would consider pulling the plug on the Fund altogether, revoking its status as a “privileged creditor.” Speaking at the Friedrich Ebert Foundation in Berlin on April 14, he stated that the IMF model which had been “imported and imposed” on Argentina unleashed the “worst social-economic catastrophe in our history, which exploded at the end of 2001.” That catastrophe, he said was the product of “a political-economic model at the service of interests alien to the common good, which favored the proliferation of the corrupt, the genocidalists, and thieves.”

If any institution needed restructuring, Kirchner said, it was the IMF, because it was not serving the purpose for which it was originally intended. “As it oper-

ates today, it has no future, and the developed world has to understand this.” As for Argentina, he said, it is prepared to work “actively and constructively on behalf of a new world economic order,” without renouncing the “autonomy of its decision-making.”

Taking this a step further, Kirchner authorized Bielsa to call for the convening of a New Bretton Woods conference of international heads of state, when Bielsa addressed a development conference sponsored by the UN General Assembly on Sept. 19 in New York City. Bielsa was speaking on behalf of the 19-nation Rio Group, of which Argentina was a member.

Rio Group members “raise the necessity of reforming the international financial architecture [which is] anachronistic and inefficient,” Bielsa said, because the international system “places concrete obstacles in the way of building the necessary favorable economic environment” for development, job creation, and ending world hunger.

The Argentine President thus joined a growing chorus of voices internationally, including that of the Italian Parliament, which were echoing Lyndon LaRouche’s call for a New Bretton Woods. This was a substantive step beyond Kirchner’s earlier useful, and ongoing sharp criticism of the IMF and its allied global speculators, for their role in destroying Third World nations’ efforts to develop.

**Dec. 13-15:** Two days after the Brazilian government announced it would use Central Bank reserves to pay off its \$15.56 billion debt to the IMF, President Kirchner followed suit and announced that he would also use Argentina’s Central Bank reserves to pay the \$9.8 billion owed the IMF. Brazil’s monetarist Finance Minister Antonio Palocci attributed his government’s ability to make this prepayment to the Fund to the success of the orthodox IMF policies Brazil had enforced for the previous three years.

Kirchner explained it differently. The debt owed to the IMF, he said, “has been a constant vehicle for interference, because it is subject to periodic review and is a source of demands and more demands. The International Monetary Fund has acted toward our country as a promotor of, and vehicle for, policies which provoked poverty and pain among the Argentine people at the hand of governments that were lauded as exemplary students of permanent adjustment.”

The experience of Argentina’s Dec. 23, 2001 default on \$88 billion in public debt, and the devastating crisis that ensued, is sufficient proof, he noted, that “that in-

ternational agency first backed real political failures”—Cavallo’s insane currency board policies of the 1990s—and then “wouldn’t give one penny of aid to [help us] overcome the crisis or to restructure the debt.”

For a long time, Kirchner explained, “we have been instructed in impotence and told that we can’t do anything. . . . They wanted to instill in our soul the certainty that *reality is untouchable*. . . . They wanted to make us believe that not to do anything new is the only realistic option.”

But now, he warned, the Argentine President will use his “popular mandate” to act as a protagonist in the best interests of the Argentine people.”

**Postscript:** In December 2007, President Kirchner was succeeded by his wife Cristina Fernández de Kirchner, who has continued his policies. Particularly notable has been Fernández’s pursuit of Argentina’s nuclear energy program, in combination with an explicit policy to develop the scientific capabilities of the population and the nation, for ongoing progress. To this approach can be attributed the virulent hostility of the British Empire, its Obama Administration, and the vulture funds, who are seeking to destroy Argentina today.

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—Lyndon LaRouche, Feb. 11, 2013

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