

## Argentina's Cavallo dumped: Will his economics be next?

by Cynthia Rush

When Argentine President Carlos Menem unceremoniously dumped his finance minister, Domingo Cavallo, on July 26, it sent shock waves through Wall Street and the City of London, where Cavallo is cherished as the chief architect and defender of the country's "convertibility plan," implemented in April 1991. A version of the British colonial policy of a currency board, which pegs the dollar to the peso in a one-to-one parity, the convertibility plan has been hailed internationally as the mechanism which not only saved Argentina from hyperinflation and restored its economic stability, but offers a successful alternative model to the Mexican "economic miracle," which collapsed in the wake of the late-1994 peso devaluation.

What foreign bankers most love about convertibility, is not the one-to-one dollar-peso relationship per se, but the fact that *by law*, it prohibits sovereign national control over currency and credit issuance. Currency can only be issued if it is backed up 100% by dollar reserves, thus effectively making Argentina's financial system a branch of the U.S. Federal Reserve. The model isn't as "pure" as that described by Mont Pelerin Society member Steve Hanke in his 1994 book, *Currency Boards for Developing Countries*, in that it doesn't have a board of foreign directors designated by the International Monetary Fund, nor does it abolish the central bank's role as lender of last resort. But it came close enough. As the *Washington Post* wistfully pointed out on July 27, Cavallo's management of Argentina's economy since 1991, made him "a kind of *parallel President*, and conferred on him power and prestige."

As the international financial and banking system disintegrates, Wall Street and London need "knuckle-draggers" like Cavallo who will act brutally to "tighten the screws," as International Monetary Fund (IMF) Managing Director Michel Camdessus called for during a seminar prior to the recent

Group of Seven meeting in Lyons, France. That is why, over the past year, when Cavallo's tenure in office more than once appeared precarious, due to clashes with the President or other cabinet members, leading personalities of the international banking community flocked to his defense, arguing that Argentina's economic stability, and "investor confidence" would vanish overnight, were the minister to leave office.

Former U.S. Federal Reserve Chairman Paul Volcker, the IMF's Camdessus, World Bank President James Wolfensohn, former Bush administration officials David Mulford and Nicholas Brady, and, more recently, speculator and drug legalization advocate George Soros (now one of Argentina's most powerful landowners) are among Cavallo's strongest defenders.

But this time around, international support didn't save Cavallo, known for his temper tantrums and loud mouth. Two days after he and Menem held a shouting match in the presence of other cabinet members, Menem asked Cavallo to resign. Immediately he named central bank president Roque Fernández, a University of Chicago graduate, as the new finance minister.

### The 'model' is leaking

If the convertibility model were as successful as international bankers claim, why did Domingo Cavallo have to go? The truth is that his plan is unsustainable, and the financial oligarchy knows it. In the few weeks prior to Cavallo's ouster, Menem was rattled by serious political problems. In early July, Justice Minister Rodolfo Barra resigned, followed shortly afterwards by Defense Minister Oscar Camilión, who tendered his resignation over a scandal involving the secret sales of weapons to Ecuador last year. The loss particularly of Camilión and Cavallo, both top agents of globalism and

demilitarization, combined with an anti-IMF rebellion spanning the political and economic spectrum, was a serious blow to “the Argentine model.”

For five years, Cavallo oversaw a ruthless gouging of living standards, destruction of industrial capacity, and looting of physical and human resources, which earned him Wall Street’s adulation, but the hatred of the Argentine people. Unemployment now stands at over 17%, with only 46% of the country’s employees receiving a stable wage. In 1995, Gross Domestic Product fell by 3%, and industrial production by 5%. In 1995, some 25,000 businesses closed their doors. African-style infant mortality rates can be found in some of the poorer provinces, in a country which once enjoyed a high standard of living, an excellent public health system, and abundance of cheap beef and grains for a nutritious diet.

Not only did this savage looting not produce the tax revenues the IMF demanded to cover Argentina’s budget deficit, but the international bankers had to pour money into the country to maintain the illusion of stability. In the first five months of 1996 alone, Cavallo had already borrowed abroad \$6.2 billion of the \$6.6 billion which the government had intended to borrow *for all of 1996*. By June of this year, Argentina was out of compliance with the IMF, with a whopping \$2.5 billion deficit, and some economists were predicting an annual deficit as high as \$4 or \$5 billion.

### **Nazi-style economics**

Increasingly, the image of Argentina’s economic “miracle” has been one associated with the inhuman treatment of its people, especially the poor, the young, and the elderly. In May, international headlines blared out the shocking story of slum dwellers in the once-industrialized port city of Rosario, who were reduced to eating cat and turtle meat. Looting of supermarkets by former members of the middle class, or hungry pensioners, has occurred at several locations around the country. Catholic clergy are attacking peso convertibility as “savage capitalism,” and in a special Te Deum mass on Argentina’s independence day, July 9, the auxiliary bishop of Buenos Aires, Msgr. Hector Aguer, warned that globalism and usury would lead to the disintegration of the nation-state (see *Documentation*).

On July 12, when Cavallo announced that even deeper austerity measures would be applied in order to satisfy the IMF’s budget-balancing guidelines, it was the last straw for many Argentines. The IMF is coming in August, Cavallo shrieked, “and we need an urgent solution” to cover the deficit.

The “urgent solution” he devised to save between \$800 million and \$1 billion, was to eliminate subsidies to families, and abolish tax-free food vouchers that are part of the country’s wages system. Cavallo decreed that families earning over \$1,000 a month would lose all benefits, a measure affecting 1.1 million workers. Another 850,000 workers who earn in the \$500 to \$1,000 range, will lose between 17% to 100% of

their current benefits. Labor Minister Armando Caro Figueroa stated that workers who earn only \$300 a month—far below the cost of the minimum monthly market basket—will have their benefits restricted to 20% of their wage, or a measly \$60!

Elimination of the tax-free food voucher program, known by the English term “luncheon tickets,” will hit another 1.2 million people who currently receive 10-20%—or more—of their salaries in vouchers, and depend on them to pay for their weekly marketing. Despite Cavallo’s enlistment of former U.S. Federal Reserve Board Chairman Paul Volcker to rally business support for the measures, most business leaders know that this policy will blow out the already virtually non-existent internal market.

The government’s decrees are no different than the Nazi-style cuts in medical assistance made by Republican Gov. Tom Ridge in the state of Pennsylvania, on whom the Presidential campaign of Lyndon LaRouche has cast an international spotlight: *They will kill people*. Especially vulnerable are Argentina’s 4 million retirees, whose access to medicine and medical insurance, and to an array of special services and emergency assistance, will be restricted or eliminated by the new decrees.

On July 18, the archbishopric of Santa Fé, under the leadership of Archbishop Edgar Gabriel Storni, issued a sharply worded press release, charging that the decrees dictated by Cavallo are “anti-life,” and represent a decision to “sacrifice the family entity to balance the books, as per the demands of international banks.”

The Peronist-run General Confederation of Labor (CGT) has called a general strike for Aug. 8, and its secretary-general, Gerardo Martínez, warned that the federation will challenge the decrees in court. Seven governors announced that they will not implement the new cuts in their provinces. Ten opposition congressmen have drafted a bill which would annul the decrees implementing the cuts.

### **Fingers in the dike**

Over the weekend of July 27-28, the same international figures who backed Cavallo, rallied in support of the new finance minister, Roque Fernández, and the convertibility plan. Foreign Minister Guido Di Tella, a rabid Anglophile, traveled to London, New York, and Washington to “explain” the ministerial change to financial authorities, but especially to Henry Kissinger, with whom he met at a private dinner July 30. Although there was a brief run on the banks on July 26, by July 29, the Buenos Aires stock market had rallied by 3%, and the word went out that Argentina had successfully made the transition to the new minister without jeopardizing convertibility. Roque Fernández announced there would be no change in policy, and promised that he would concentrate on dealing with tax evasion, and privatizing those assets still belonging to the state sector, namely the nuclear industry and the giant bi-national Yacuyretá hydroelectric complex.

Despite the hype, Wall Street and London are nervous

about Argentina's near-term future, fearing that Roque Fernández doesn't have what it takes to outdo Cavallo. In a July 31 editorial which described Cavallo as "a god," the *Wall Street Journal* warned that Menem himself must insure vigorous application of austerity policies. The "need for bold reform is more critical than ever . . . anything more than standard austerity measures will require *political skills* that the mild-mannered Mr. Fernández does not have." For now, "the Southern Cone is calm," the *Journal* concluded. But Menem "must resist the ever-present temptation of anything-goes populism, and become a genuine, deep reformer."

## Documentation

*The following are excerpts from the July 29 homily delivered by Msgr. Hector Aguer, the auxiliary bishop of Buenos Aires, on the occasion of Argentina's independence day. President Carlos Menem was present at the Te Deum mass when it was delivered.*

The [nation-state] implies the will to continue being a nation, overcoming the tendency to place personal interests above the common good, cultivating the open and generous ability to heal divisions, overcome resentments, and close the wounds of the past. Without that consciousness, and that will, the nation could end up in dissolution, breaking down into ideological tribes or economic groups which would eventually establish a precarious unity of convenience, based on pragmatic agreements, or the distribution of occasional booty.

A national community worthy of the name, cannot decline, such that it is reduced to being a mere conglomeration of material interests. . . . What good is it for the nation to boast of impressive economic statistics, if it loses its soul, if it alienates its very essence, and renounces those great and indispensable sovereign decisions?

The "temporal task" won't preserve liberty, strengthen independence, and allow us to grow as a nation, if we do not overcome the temptation of materialist efficiency which is frequently proposed as a model in today's world. Such tasks would be stripped of the sense of those transcendent values, which are expressed in respect for human dignity. . . .

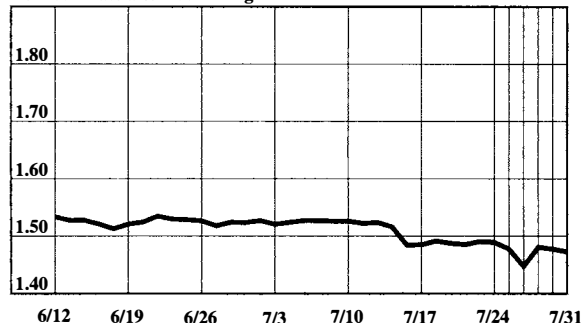
One loves the Fatherland, without patriotic posturing or narrowness of spirit, without xenophobic hostility, but also without forgetting the magnanimous and loyal honor, piety and service, which it is due. . . .

Only if we love our country in this sense, can we live in independence, and deal with the task of incorporating ourselves . . . into a world defined by globalized interchange and information, where there is no room for illusory autarchies, but in which the powerful continue to abuse the weak, and rather than the harmony which binds together identities and abundance, interdependence tends to be a disguised dependence, a new version of colonialism.

# Currency Rates

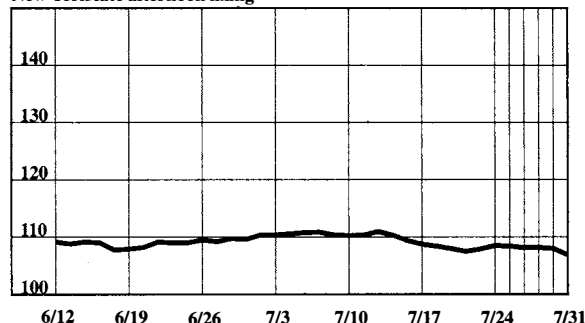
## The dollar in deutschemarks

New York late afternoon fixing



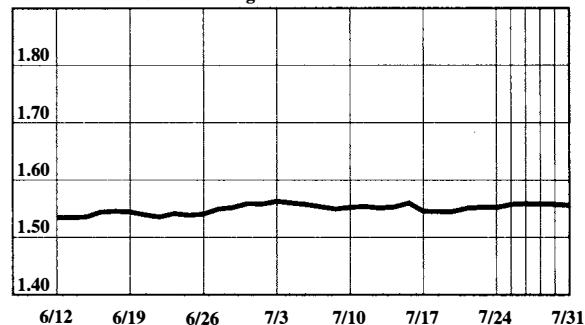
## The dollar in yen

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



## The dollar in Swiss francs

New York late afternoon fixing

