EIR Economics

International Usury Cannibalizes Argentina

by Gerardo Teŕan Canal and Gonzalo Huertas

On April 28, Domingo Cavallo, the newly appointed Economics Minister of Argentina and favorite of mega-speculator George Soros, and International Monetary Fund (IMF) Managing Director Horst Köhler announced the signing of a new letter of intent, for the purpose of putting an end to the uncertainty that has been generated on the international markets by the threat of a default in payments on the Argentine foreign debt. Argentina has more than $125 billion issued in debt bonds, which constitutes one-fourth of the total of the so-called emerging market debt, such that the mere hint of non-payment of any part of that debt endangers the entire world financial bubble.

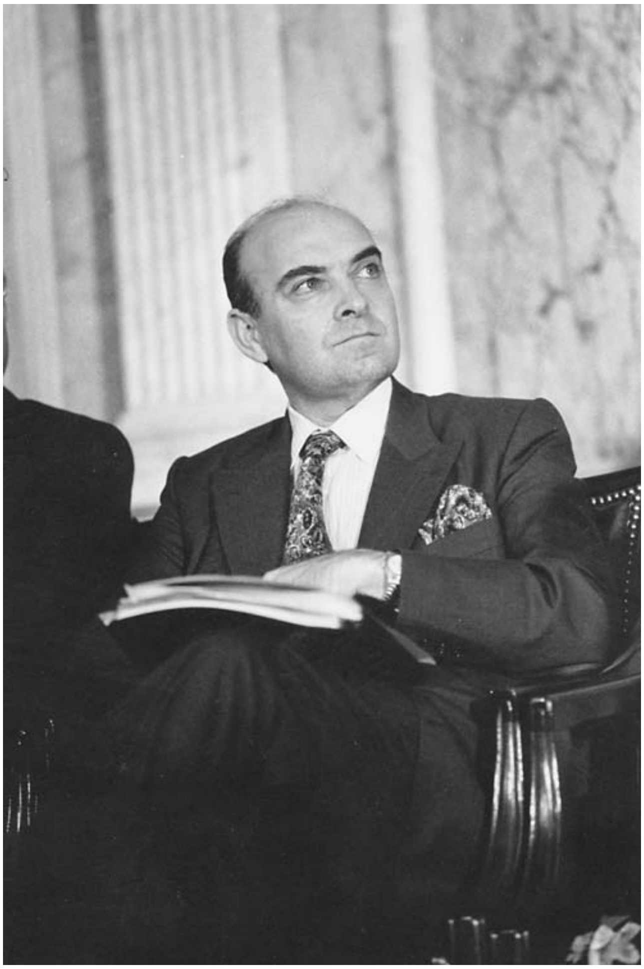
Cavallo, who was named Economics Minister as the final card that President Fernando de la Rúa's government could play to deal with the crisis, upon taking the post attempted to articulate an economic policy variant that would not produce another national revolt like the one that overthrew his predecessor, Ricardo López Murphy, just two short weeks after his nomination, when he tried to impose a $2 billion cut in the public budget. On the day of his own nomination, Cavallo announced a new plan, which he dubbed "Competitiveness," which he presented as a new, improved version of the "Convertibility Plan" he himself had imposed in 1991.

Further, alleging that he wanted to promote a reactivation of exports, Cavallo announced that he would broaden the convertibility of the peso-dollar, to become a peso-euro-dollar, which many specialists have already identified as a covert devaluation of the Argentine peso. Cavallo's presentation of the "new" plan apparently put the importance of the fiscal deficit on the back burner, as it assumes that, over time, the reactivation he is promising will take care of balancing the fiscal accounts.

Instead of the positive response that the Argentine government expected with Cavallo's nomination, the international markets reacted to the contrary. Argentina was subjected to an unprecedented war of financial pressures, reaching its worst point on April 25, when the government had to pay 15.38% interest on a bond issue worth $380 million. Further, between February and April of this year, the Central Bank (BCRA) lost a total of nearly $5 billion of its reserves. Between Feb. 28, when the crisis began, and April 23, the country-risk rating issued by the usurious rating agencies, rose from 720 to 1,303 points.

In the end, the signing of the agreement with the IMF demonstrates pure and simple, that Cavallo's intentions were rejected, and that he had to submit to the instructions he was given by the international financial community: This year's fiscal deficit must be kept to $6.5 billion, and the Argentine population will have to submit to yet another looting phase in order to meet that goal *and* punctual debt payments. Between January and April alone, the fiscal deficit has reached $4.16 billion, 64% of that anticipated for the entire year. This means that between May and December, the deficit cannot surpass $2.34 billion if Argentina is to meet the IMF's dictates, something which will be very difficult to achieve without unleashing similar, or worse, crises.

This was confirmed by U.S. Treasury Secretary Paul O'Neill, who revealed to the Bloomberg agency: "I have told the prime ministers and finance ministers of those countries [Argentina and Turkey] . . . that I am not going to promise



The IMF has put Argentine Finance Minister Domingo Cavallo to work doing what he does best: imposing harsher austerity.

that we will send money to countries that have major financial problems, because their political leaders have not wanted to take the steps that were clearly indicated to them. . . . These steps had been ratified last March 12 by IMF spokesman Thomas Dawson, when he warned that Argentina had to make adjustments, to get back on track the economic program that gave it access to a $39.7 billion bailout in late 2000. Non-compliance with the agreement, whose essential aspect is the fiscal deficit goal, unleashed the storm that lasted two months."

The Bankers Arrive

Parallel to the negotiation with the IMF, Cavallo and his team received the "advice" of a delegation of international usurers. The delegation to Buenos Aires was headed by the director of Crédit Suisse-First Boston, David Mulford, who offered the Argentine government a new plan to exchange public paper (which comes due between 2001 and 2005) worth approximately $20 billion, for new public paper with a due date of six years or longer. Obviously, Mulford made the bankers' "help" conditional on adherence to the new agreement with the IMF. This exchange is guaranteed by the recent hyperinflationary emission that the U.S. Federal Reserve System will lend to the banks at low interest, to avoid a global financial explosion.

Ultimately, Cavallo had to beg the pardon of his bosses for his daring. On May 6, speaking to David Rockefeller's Council of the Americas in New York, he assured the crème de la crème of Anglo-American finance that he is the same Cavallo as in 1991, and that he will not devalue the currency.

Thus, the IMF and Mulford's gang have put Cavallo to work doing what he does best, which is unleashing a new "tax package," to be imposed "at all cost," as he himself said. Last April 27, Cavallo explained in a hurried press conference, that the package includes: 1) an extension of the 21% Value Added Tax to every sector of the economy (leaving exempt only education and transportation over distances less than 100 kilometers); 2) an increase to 0.4% of the tax on current accounts transactions greater than 1,000 pesos, a measure which had already been inaugurated in early April, with a rate of 0.25%; and 3) cutbacks in public administration on the order of $900 million, falling primarily on Social Security.

An example of this last "adjustment" will be the payment in 12 separate outlays of money overdue to 130,000 new retirees, and elimination of the special family wage rates of the so-called Pymes, small and medium-sized companies (affecting some 23,000 workers), which was initiated during President Carlos Menem's Administration as part of a policy of support for the Pymes.

With this tax package, Cavallo hopes to collect "double the $2 billion" anticipated by his predecessor, the ultra-liberal Ricardo López Murphy, and "much more than the $890 million" of former Economics Minister José Luis Machinea.

The 'Alliance' Steals $10 Billion

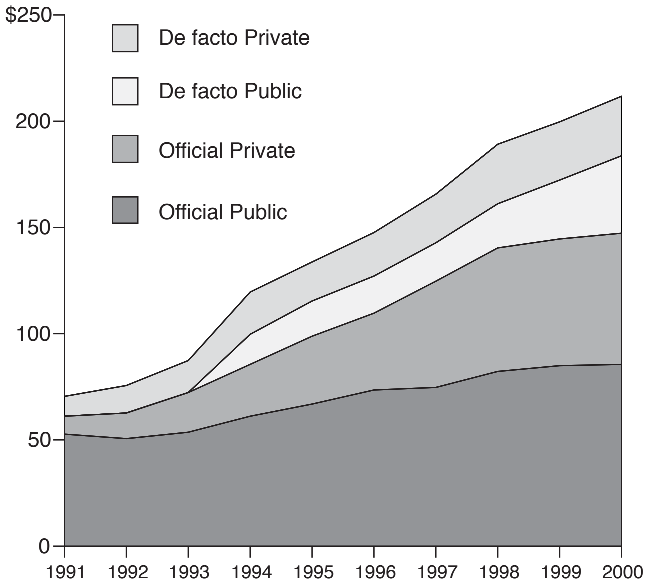
With this new assault by Cavallo and the governing coalition, the Alliance (comprised of De la Rúa's Radical Party and the São Paulo Forum's Frepaso), what the government has stolen from the population on IMF orders since coming to power in December 1999, has already reached $9.1 billion. Using the same argument that "fiscal balance must be achieved to escape economic recession": 1) the Alliance in December 1999 inaugurated its government with a shock package of tax hikes, designed to increase tax revenues by some $3.7 billion; 2) in May 2000, they cut the salaries of the public sector by 12-15%, to add another $600 million to the coffers; 3) in December 2000, a new public sector austerity drive yielded $700 million; and 4) now, with the latest tax package, the government hopes to collect $4 billion more.

Despite having left the population exhausted at the end of

FIGURE 1

Argentina: Real Foreign Debt

(Billions $)



last year, the government has not yet met its fiscal goals for 2001, and surely never will. In April, notwithstanding the 2.5% transactions tax, revenues collapsed by 9.1%. One accountant commented to Radio 10 that "all his clients" this year have decided "not to pay their taxes," because they don't even have enough to eat.

This growing tax pressure has driven a general increase in prices, which has only intensified the recession under way. For the automobile sector, a study by the Association of Automobile Dealers published on April 16, reveals that 47.2% of an automobile's final retail price in Argentina, is now taxes!

According to statistics prepared by the National Institute of Statistics and Census (INDEC), industrial activity with respect to the same month last year, fell in January 2001 by 0.8%; in February, 3.8%; and in March, 6%. Construction fell in January by 1.8%; in February, 7.3%; and in March, 13.9%. An INDEC forecast, made public on April 17, specified that in March 2001, compared to March 2000, textile products manufacturing fell 31%, automobile parts 27.7%, and machine products 21.6%. A recent report by the Association of Automobile Factories reveals that in April, car sales fell 37.3% compared to the same month last year.

Usury: The Main Problem

There is no doubt that Argentina's main problem is its real foreign debt, which in December 2000 reached $211.757 billion (see **Figure 1**), which this year will cost $36.356 billion in service charges, from both the public and private sectors, according to the Economics Ministry. Further, payments due on the Argentine public debt between 2001 and 2005 will cost $81 billion, without counting short-term debt amounting to another $5.108 billion: in 2001, $19.676 billion will come due; in 2002, $16.547 billion; in 2003, $17.278; in 2004, $15.121 billion; and in 2005, $12.347 billion.

During the first four months of the year, according to an Economics Ministry report, Argentina had already issued new public debt paper for $13.332 billion: in short-term Treasury Letters (Letes), $4.053 billion; in medium-term Treasury Bonds (Bontes), $2.208 billion; in long-term dollar-denominated bonds of various sorts, another $3.013 billion; and in Global Bonds in both dollars and euros, $3.239 billion.

But to meet the demands of Mulford and the IMF, Cavallo's package doesn't stop here. It also includes mechanisms that will allow the government to appropriate liquidity from local bank deposits and from pension funds (AFJP). On April 17, by means of special powers granted by Congress, Presidential Decree #439 was issued, authorizing the use of public paper as part of the guarantee of bank deposits. According to Javier Blanco, of the newspaper *La Nación,* "the key to this, is that the decree will produce a monetary expansion of some $3 billion." Also on April 17, Cavallo authorized the Argentine Banco de la Nación to allow its small investors to "save" in public debt paper, instead of in cash.

At the same time, local private financial entities and the AFJP have had to sell some of their stock positions, to be able to buy the new public debt paper to help the government. As the investment head of the AFJP *Orígenes,* Ricardo Obludgen, explained to *La Nación* on April 20, "we had to liquidate a part of our bond positions, in order to make room for the [Global Bond] 2031, because, just like the vast majority of the AFJP, we are at the upper limit of what we are permitted to hold in government paper."

Even the Central Bank itself was forced to finance the government with $500 million, to acquire a new Treasury Bond. The head of the Central Bank, Pedro Pou, was sacked because of his opposition to this measure.

Col. Mohamed Alí Seineldín, unjustly imprisoned in the Campo de Mayo military prison, forecast in a November 2000 interview with the magazine *Hablar* that "the military coups ended [in Argentina] because the Armed Forces no longer exist. . . . However, the country will continue to march, hand in hand, with the globalized economy that is controlled by the United States. . . . Therefore, at any moment, De la Rúa is going to hit the wall and, if nothing changes, he will have to go. This suggests that Argentina is inaugurating the economic coup. . . . From here on out, there will only be financial coups, until the President himself becomes a corporation man. In the final analysis, Cavallo will join the Alliance government because he is Wall Street and Washington's man in Argentina, virtually the principal U.S. ambassador to the country."