which can be privatized, so that the "primary surplus" must be generated by increasing taxes, and cutting the diminishing areas not swallowed up by interest payments.

Public education, for example, is now on the chopping block. Not only are school teachers on strike because of wage cutbacks, but union leaders are warning that cutbacks in school lunch programs and so forth, now threaten the very existence of the public schools. The situation with the military is, if anything, worse. After drastic cutbacks in personnel and procurement in previous years, the government recently announced that soldiers would only be present at their units four days a week, six hours a day—by which it intends to eliminate almost entirely the meals served to the soldiers and officers.

Such "cut, cut, cut" policies are being implemented in other Ibero-American nations, just as in Argentina, to similarly disastrous effect. Take Brazil, where the central conditionality of their accord with the IMF is that the government must generate a primary budget surplus in 2001 equal to 3.35% of GNP, and 3.5% of GNP in 2002. (It was 3% of GNP in 2000.) The surplus is then used to pay the debt. Any drop in revenue, and the Treasury Ministry cuts expenditures—but not interest payments. In the first half of 2001, the Treasury Ministry disbursed so little, that it surpassed its primary surplus goal.

According to *Correio do Povo,* since 1998, only 40% of the budgeted funds approved by Congress have actually been disbursed. Between 1998 and the end of 2000, the Treasury Ministry did not disburse 16.4 billion reals out of the total 36.9 billion reals in social expenditures and infrastructure projects approved by Congress—a cut equal to about $6.6 billion, almost half of the approved budgets. Basic sanitation programs, and anti-malaria, -dengue, and -tuberculosis programs, for example, received practically no resources for three years.

And yet the cuts were even more drastic in 2001. By July 27, the Treasury Ministry had released only $560 million of the $7.6 billion approved in the 2001 budget for social programs and infrastructure.

The cuts guaranteed record primary budget surpluses with which to pay the debt. In 1999, the primary surplus was 30 billion reals (about $15 billion, at the then-existing exchange rate). In 2001, a surplus of 40 billion reals (over $16 billion, at today's exchange rate) is projected. And for 2002, the IMF is demanding that Brazil generate a primary budget surplus of 45.7 billion reals, over $18 billion—a sum equal to two and a half times the size of the Health Ministry's 2001 budget.

Shock Policies

Now that Argentine Economy Minister Cavallo's zero-deficit fraud has been imposed upon Argentina, an indication of just how dramatic the shock impact of that policy will be,

Colonel Seineldín's Call For A New System

Argentina's Malvinas War hero Col. Mohamed Alí Seineldín issued the following "political declaration" on Aug. 4, from Campo de Mayo military prison:

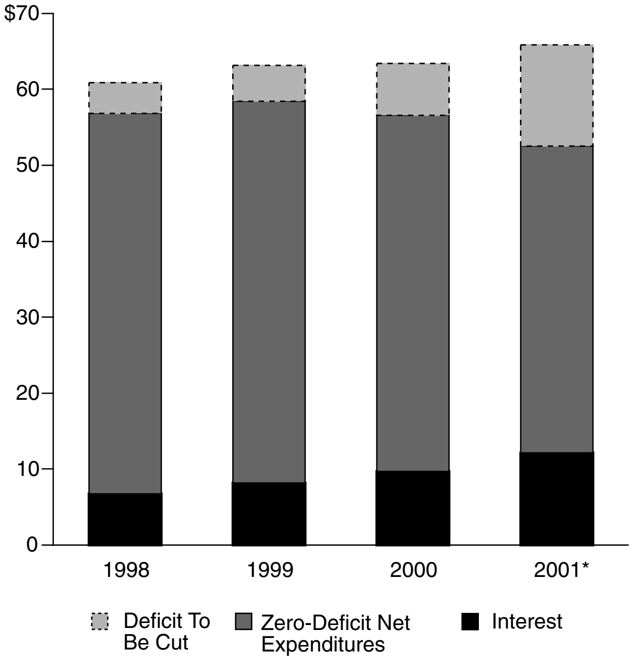
The dramatic economic events in which our beloved Fatherland Argentina is sinking, are not only a product of a national crisis, as the representatives of Anglo-American imperialism—who now presumptuously present themselves to us as the saviors of our Nation—would like us to believe. Their solutions, such as the so-called "zero deficit" program, are nothing but an effort to postpone the inevitable national financial bankruptcy by deepening the social crisis which, through Jacobin revolts, now threatens to complete the demolition of the sovereign nation-state, a job begun with the 1982 Malvinas War.

But Argentina is not the crisis; it is part of a world crisis, a crisis of a system of globalization which is reeling like an empire unable to consolidate itself, living at the mercy of fluctuations of the world casino of financial speculation. All national leaders who remain tied to this world system will inexorably sink, and will soon fall into disgrace, hated by their own people.

New leaders, arising from among common people, will have to assume the responsibility of undertaking national reconstruction, of setting a new mission for the Nation. It is urgent to understand that Argentina cannot pay its foreign debt, and that it is necessary that the Nation declare a moratorium which sets an example for many other nations around the world which find themselves in a similar situation. In particular, Argentina should promote an alliance for security and economic development with its sister nation Brazil, and together lead the consolidation of a bloc of Ibero-American nations against the imperial intentions of the Free Trade Accord of the Americas, which seeks to turn the continent into an enormous dollarized protectorate.

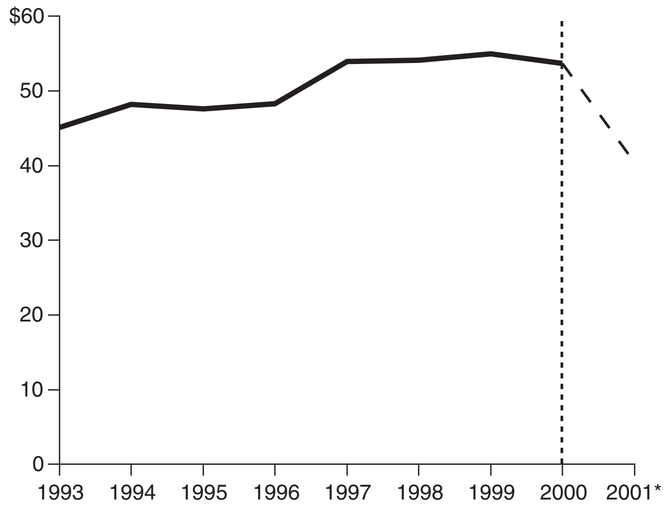
This economic bloc, led by Argentina and Brazil, should promote the formation of a new international monetary system, like that proposed by Lyndon LaRouche, to rebuild the world economy on the basis of the same reconstruction policies carried out after the 1929 crisis and the Second World War.

FIGURE 5
Argentina: Total Government Expenditures Under a Zero-Deficit Scenario
(Billions $)



*EIR projection.
Sources: Ministry of Economics, Argentina; *EIR*.

FIGURE 6
Argentina: Non-Interest Expenditures
(Billions $)



*EIR projection.
Sources: Ministry of Economics, Argentina; *EIR*.

is given by **Figure 5.** Here the total height of the bar diagram represents government expenditures in 1998, 1999, and 2000. The bottom portion reflects total interest payments—the part that is not to be touched, no matter what. The two upper segments are therefore net expenditures (the amount left after interest payments). Of these, the uppermost segment corresponds to the budget deficit in that year—the part that would have been cut from expenditures, under a zero-deficit scenario. Thus, the remaining middle segment is what we have called zero-deficit net expenditures—the remaining "discretionary" budget available after interest has been paid and the deficit cut. **Table 1** breaks out the corresponding numbers.

This scenario may have been hypothetical in 1998, 1999, and 2000; but it is becoming reality in 2001. This year, interest payments will be about $12 billion; and the projected deficit to be cut is over $13 billion—a quarter of the remaining net expenditures.

Thus, whereas total non-interest expenditures were $53.7 billion in 2000, they are slated to plummet to just over $40 billion in 2001—a 25% drop in a single year, as **Figure 6** shows these expenditures falling off the cliff. This is guaranteed to trigger a further contraction in economic activity in the country, and with it, a further plunge in tax revenues collected by the government.

This brings us full circle back to **Figure 2.** The process thus unleashed will produce a drop in tax revenues even greater than what is otherwise linearly projected in that graphic—a deflationary implosion of the productive economy. Similarly, each new round of the debt negotiation process has ushered in greater interest payments and a rising total debt, in an inflationary explosion of Argentina's unpayable debt bubble.

If Argentina—like the global financial system which it typifies—is to survive, the game must stop.

TABLE 1
Argentina: Zero-Deficit Scenarios
(Billions $)

	1998	1999	2000	2001*
1) Total Expenditures	60.8	63.2	63.4	65.9
2) Net Expenditures (Total – Interest)	54.1	55.0	53.7	53.8
3) Budget Deficit	–4.1	–4.8	–6.8	–13.4
4) Zero-Deficit Net Expenditures (2 – 3)	50.1	50.2	46.9	40.4
5) Cuts as % of Net Expenditures (3 ÷ 2)	8%	9%	13%	25%

*EIR projection.
Source: Ministry of Economics, Argentina; *EIR*.