Argentina Crisis Shows Global System Is Disintegrating

by Marivilia Carrasco, President of the MSIA in Mexico

This statement on the Argentina crisis, the sign of a blowout of the global financial system under way, was issued on Jan. 2, 2002 by the Ibero-American Solidarity Movement (MSIA), co-thinkers of Lyndon LaRouche in Ibero-America.

"A people cannot die to pay the debt."
—Msgr. Eduardo Mirás, Archbishop of Rosario, Argentina, Nov. 17, 2001

As the dramatic economic and political crisis exploded in Argentina in the final days of 2001, toppling a series of governments in succession, one stunned political leader after another across Ibero-America—from Mexico's Vicente Fox to Brazil's Fernando Henrique Cardoso—rushed to assure the world: "*We* are not Argentina. We will continue to apply the International Monetary Fund's austerity policies and pay our debt unquestioningly. It won't happen here."

What pathetic fools! The explosion of the debt bomb in Argentina is barely the beginning of what will soon sweep the continent and the world. It is a symptom—and a small one, at that—of the thunderous collapse of the entire global financial system, exactly as U.S. economist and 2004 Presidential pre-candidate Lyndon LaRouche has been warning for years would occur.

We are at the end of the system. The $400 trillion speculative bubble is disintegrating, and the IMF's policies will not work to restabilize the situation. Governments that capitulate to them will only produce more misery and death, and then go the way of De la Rúa in Argentina.

It's time to build an alternative.

The week-long Rodríguez Saá government in Argentina took steps in the right direction—such as declaring a foreign debt moratorium—but foundered on the crucial issue of *how to create national credit* to reactivate the domestic economy, and was then toppled by terrified Wall Street and City of London financial interests, operating through their local errand boys.

It is urgent that these lessons be learned fast, by Argentina and every nation in Ibero-America—lessons which LaRouche has been explaining for years.

The stark reality is that the entire global financial system is hopelessly bankrupt. Just look at *Japan*, where over a decade of hyperinflationary yen emission has created a speculative bubble that dwarfs Argentina's $220 billion in real foreign debt by an order of magnitude or more. As a result, the Japanese banking system is bankrupt: It is swimming in a sea of non-performing loans which can no longer be covered up by financial wizardry. A number of major Japanese banks are teetering at the edge of insolvency.

Prime Minister Junichiro Koizumi took advantage of a one-week banking holiday at the end of 2001, to convoke an extraordinary meeting of Japan's financial and political leaders to try to patch together emergency measures. After meeting with Koizumi, Liberal Democratic Party Secretary General Taku Yamasaki told the press, unconvincingly: "We will take every possible measure to prevent a run on the banks from ever happening. We will not let the people panic."

But the Japan crisis is actually a *U.S. dollar* crisis. The Japanese yen has been the major firewall for the dollar on world financial markets: When it disintegrates, the dollar will quickly follow. The $140 trillion Wall Street speculative bubble of U.S. debt and derivatives is balanced on top of a shrinking base of the U.S. productive economy, and could be toppled by a strong wind, or less. The 65% plunge of the Nasdaq stock index over the last 18 months is only the beginning. As of September 2001, U.S. industrial ouptut had declined by 5.8%, compared to a year earlier, and its manufacturing sub-sector fell even more rapidly, by 6.7%.

Look at *Poland;* look at *Turkey*—each is harboring a debt bomb at least as explosive as the one which just detonated in Argentina. Or look at *Mexico,* which is poised to undergo an Argentine-style economic and social explosion, probably in the first half of 2002—right on the U.S.'s southern border.

A Tidal Wave In Mexico

Like Argentina before it, Mexico is about to be overtaken by a "scissors crisis" of simultaneous hyper*inflationary* financial and hyper*deflationary* physical economic processes. In Argentina, the scissors took the form of the demented "zero deficit budget" implemented by Finance Minister Domingo Cavallo, at IMF insistence.

The concept is simple . . . and thoroughly incompetent. First, interest payments on the public debt are pronounced sacrosanct, and will always be paid, regardless of the consequences. Second, the government will only spend what it has left over from collecting taxes and other revenue, *after* subtracting out its debt payments. In other words, the government will not run a deficit and borrow money to cover that deficit: Its deficit must equal zero at all times.

But what happens if interest payments keep rising, and tax revenues keep dropping, *as has been occurring in Argentina?* For example, interest payments rose from 11% of the total budget in 1998, to 15% in 2000, and to 18% in 2001, while the tax base simultaneously contracted. In December 2001, tax revenues plummeted at a shocking annual rate of –33%. The parasite is rapidly growing bigger than the host.

In this fashion, a hyperinflationary debt payment process was unleashed in Argentina, along with a hyperdeflationary process of contraction of the real physical economy. The results are visible: Argentina's workforce is unemployed; its pensioners go hungry; its tax base has collapsed; its banking system has ground to a halt; and political chaos is the word of the day. Rosario Archbishop Msgr. Eduardo Mirás recently warned: "A people cannot die to pay the debt." But that is exactly what Argentina's creditors are demanding; and it is exactly what the last few governments had tried to do.

On its current trajectory, Mexico will face a similar explosion before the middle of 2002. The government of Vicente Fox has adopted a Mexican version of the same "zero deficit" lunacy: They have promised their international creditors that they will pay their debt service faithfully, and that they will not run a government budget deficit greater than 0.65% of Gross National Product. Interest payments on the public debt will be about $21 billion in the 2002 budget—15% of total expenditures, the same proportion Argentina had in 2000.

At the point that the financial oligarchy gives the signal, international credit rating agencies such as Moody's and Standard & Poor's will do to Mexico what they did to Argentina: unilaterally jack up their "country risk" premium, thereby raising interest costs by up to 100%.

The Mexican government's tax revenues have already begun to drop: In 2001 they fell by 3% on the value-added tax, by 6% from state-owned companies, and by a whopping 28% from imported goods. Mexico's Finance Minister, the University of Chicago-trained Francisco Gil Díaz, just like his Harvard colleague Domingo Cavallo of Argentina, has directly translated these revenue drops into $1.4 billion in cuts in government expenditures.

What is coming in Mexico is a *tidal wave* that will make Argentina pale by comparison, a tidal wave which is currently being generated by the earthquake shaking the U.S. economy.

Over the past two decades, Mexico developed an unhealthy dependence on the U.S. economy, and on its consumer credit bubble in particular. Mexico today ships 90% of its total exports to the United States, and about half of these come from the *maquiladora* sweat shops along the border with the United States. Over the course of 2001, the U.S. "importer of last resort" has begun to shut down, with devastating consequences for Mexico. Employment in the *maquiladoras,* for example, which had risen every year for the last two decades—even when manufacturing employment was shrinking in the rest of the Mexican economy—in 2001 fell by about 13%, down from 1.5 million to 1.3 million workers. These 200,000 newly unemployed joined the approximately 850,000 other newly unemployed in Mexico this year.

But that is only the beginning. Mexico's major export to the United States is not a product: It is its own labor force. Today, some 8 or 9 million Mexicans live and work in the United States—which amounts to more than 12% of its labor force. As the U.S. "importer of last resort" shuts down, large numbers of these (documented and undocumented) Mexican workers are being driven out of the United States and back to Mexico, swelling the ranks of the unemployed even more. This will also lead to a plunge in the $8 billion in remittances these workers send back to Mexico each year.

In short, we are about to witness a dramatic shift of the Mexican labor force out of the formal economy, and into the *informal* and unemployed economy, as millions desperately try to scratch out their survival. This will lead to an accelerating drop in Mexico's tax base, and in the government's tax revenues.

If the Fox administration remains wedded to the IMF's "zero deficit" mantra under these conditions, then Mexico will undergo a free fall of its economy that will be deeper, and more sudden, than what the world is today witnessing in Argentina.

But Mexico is only one example, among many. Look at your own nation, or your neighbor's. The fact is, *we are all Argentina*—because of the global financial crisis.

LaRouche Explains How To Create Credit

The week-long Presidency of Adolfo Rodríguez Saá was beginning to move Argentina in the right direction, before he was driven out of office by London and Wall Street.

- He announced a unilateral moratorium on the foreign debt, and called for a full investigation of the legitimacy of the debt nominally still owed.
- He developed his own version of a "zero-deficit budget," under which necessary social expenditures would be fully maintained, but debt service would be sharply curtailed in order to balance the budget. Debt payments were to be slashed by more than two-thirds, from $12 billion in 2001 to $3.5 billion in 2002.
- And he announced the creation of a new currency, the argentino, to help lift the country out of depression, including by creating 1 million new jobs.

All of that is good, but not sufficient—for Argentina, and for every nation across Ibero-America. As LaRouche explained in a Dec. 21 statement, additional urgent measures include the creation of a sovereign, national currency, which would be decoupled from international currencies such as the dollar. And Argentina has to use the double-edged sword of its large foreign debt, to help bring about the bankruptcy reorganization of the global financial system.

As far back as his 1982 report, *Operation Juárez*, LaRouche has repeatedly explained that national economic development requires a sovereign currency, which must be made inconvertible with international currencies and protected with full exchange controls and capital controls. Credit emission in the new currency can be quite large, so long as it is restricted to financing *domestic* production, by activating what would otherwise be idle *domestic* labor and capital resources.

The new currency cannot be placed on the international markets, which in any event are in their death throes—i.e., it must remain totally inconvertible. Nor is there any need to go to the international speculative markets to obtain credit—nor to their domestic branches, for that matter. Any sovereign nation-state can simply *issue* such credit as it requires, through a national bank created for that purpose.

This approach was fully explained in the late 18th Century by Alexander Hamilton, the first Treasury Secretary of the United States. And this American System of economy was proven right in practice by the subsequent industrial development of the United States, and of all other countries that have adopted it, including the creation of the German customs union and of Japan's Meiji Restoration, during the 19th Century.

Argentina—and every nation of Ibero-America—can and must reorganize its domestic banking and monetary structure along these Hamiltonian lines. In fact, it is the only way to deal with the total bankruptcy of every national banking system, while preserving their essential functions in serving people's needs. Paper and banks may come and go, but people come first and have to be protected.

International credit is also needed—not from the dying IMF system, but from a new world monetary order. LaRouche has called for the creation of a New Bretton Woods system to replace the IMF, based on agreements reached among principal sovereign nations, and whose mission would be to issue long-term development credits for the financing of major global infrastructure development programs, such as the Eurasian Land-Bridge. LaRouche has recently been engaged in intensive personal diplomacy—in Russia, India, Italy, and elsewhere—to bring this project into existence in the immediate future.

Argentina and the rest of Ibero-America, if we are to survive, must join in this effort. Argentina should build an alliance first and foremost with Brazil, and from there help organize Ibero-American integration region-wide, to join in this global effort. The IMF system is dead; we cannot allow our nations to be buried with it. The moment of truth has arrived.

New Deals With The IMF Will Kill Argentina

by Cynthia R. Rush

"In observing Argentina today, one is reminded of 1917 Russia, after the removal of the czar," *EIR* founding editor Lyndon LaRouche commented on Jan. 2. "As with the recent resignation of President de la Rúa in Argentina, the czar was followed by a parade of successions. When does it end? In the case of 1917 Russia, it ended with the Bolshevik Revolution; here, in Argentina, chaos and revolution will be perpetual, if the crisis is not solved along the lines I have indicated."

The czar in this case was President Fernando de la Rúa who, together with his hated Finance Minister Domingo Cavallo, was forced to resign, after mob lootings of supermarkets and shops, and a stunning mass protest in the nation's capital, made clear that the International Monetary Fund's genocidal free-market model was unsustainable (see *EIR*, Dec. 28, 2001). Applied for over more than a decade, these policies ripped Argentina's once-developed physical economy to shreds, caused its foreign debt to balloon to $225 billion, and drove its highly skilled, literate population into misery and despair.

The last straw for Argentines was Cavallo's return as Finance Minister in March of this year—the devastation he wrought in his early 1990s stint as Finance Minister laid the basis for the current disaster—to push the country into its