

‘Vulture Funds’ Descend On Dying Third World Economies

by Dennis Small

vulture—*n* 1: any of various large raptorial birds . . . that subsist chiefly or entirely on carrion 2: a rapacious or predatory person.

—*Webster's Ninth New Collegiate Dictionary*

Argentine Finance Minister Roberto Lavagna used the high-profile forum of the annual meeting of the International Monetary Fund (IMF) and World Bank in Dubai, United Arab Emirates, to unveil on Sept. 22 Argentina's long-awaited proposal to restructure some \$94.3 billion in public debt, on which the government had defaulted in December 2001. Lavagna's proposed "solution" to the world's longest-running and biggest public debt default, was to write off 75% of the debt's face value, and service the remaining 25% somewhere down the line.

Howls of outraged protest exploded from spokesmen for Argentina's international creditors, especially the speculators widely referred to as "vulture funds," which now hold most of the defaulted bonds. "This is not a serious offer," blustered Christian Stracke, head of emerging market research at CreditSights. "Scandalous, offensive, morally unacceptable," fumed Italian bondholder and lawyer Mauro Sandri, without a trace of irony.

Then came the threats of legal action. "There is no way Argentina will avoid going to court with this offer," warned Stracke. London's *Financial Times* reported that "frustrated Japanese investors are trying to seize government land in Argentina's Patagonia, and German investors are trying to appropriate Argentine-embassy assets to recoup losses." Rumors even began to swirl that the Argentine Presidential jet would shortly be seized.

In fact, one vulture holding defaulted Argentine bonds

has already succeeded in winning just such a judgment. On Sept. 12, a New York court ruled in favor of Kenneth Dart, of Dart Container Corp., granting him a \$700 million judgment. Dart will have the right to start seizing Argentine assets at the end of October.

Finance Minister Lavagna told a TV interviewer: "In this particular case, it's a vulture fund for \$700 million. . . . These funds that buy the bonds do it for no other reason than to sue governments." And Argentine President Néstor Kirchner told his advisors, according to the daily *Clarín*, that most of the defaulted Argentine bonds have in fact been bought up by the vulture funds, and that they paid an average 20 cents on the dollar for them.

In other words, their fulminations notwithstanding, the vultures stand to make a killing, even with Argentina paying on only 25% of face value—let alone if they are able to collect dollar-for-dollar.

LaRouche: This Is Fascism

Informed of the Argentine developments, U.S. Presidential pre-candidate Lyndon LaRouche denounced the vulture funds—which typify a very large part of the global financial system today—as being "fascists, just like those who put Hitler in power. These bastards," LaRouche elaborated, "care even less than President Bush for the stability of the system. Now you're looking at fascism in the face. And if you want to characterize it, you would say about the vulture funds' reaction, this gives you the mentality of the same kind of fascists who sacrificed the human race, including all those who died eventually in Auschwitz. This is why people died in Auschwitz: because these vulture funds had to have a government which would do the kind of job they demand."



The LaRouche Youth Movement organizes at the Economics Department of Buenos Aires University; one sign reads, "The IMF is a poison, LaRouche is the antidote."

As for the New York court finding in favor of Dart, LaRouche noted that it clearly goes beyond the court's jurisdiction and competence, to assess the value of debts owed by a sovereign state. This stinks of Teddy Roosevelt's "Gunboat Diplomacy" to collect the debt, LaRouche concluded.

The Argentina case is in fact typical of the entire global financial bubble: None of the debt can actually be paid, and the only real policy issue is whether to put people's welfare before the debt—as LaRouche demands—or to try desperately to maintain the *illusion* that the debt is somehow still performing, no matter what the human cost. In that latter camp, the vultures are gaining ground against those who are still trying to maintain "stability," and revive the corpse of the world financial system, if need be by swallowing sizeable debt write-downs. The vultures prefer to descend on the body *now*, and be first to pick over the bones. For them, it's every vulture for himself, and the devil take the hindmost.

Argentina, of course, had a choice: to go the LaRouche route, or to become an economic cadaver. The country reached that fork in the road back in December 2001, when interim President Adolfo Rodríguez Saa announced to a cheering Congress that he would stand up to the country's creditors, and declared a foreign debt moratorium on the spot. But Rodríguez Saa was unable to rally sufficient support, domestically and internationally, for this courageous approach, and Argentina's frightened political class and other institutions allowed him to be toppled on Jan. 1, 2002. This

set Argentina on the course of submission to vulture economics that it remains wedded to, to this day.

Argentina Still Can't Pay

Rhetoric aside, President Kirchner has, in fact, never seriously considered breaking with the IMF. On Sept. 10, his government struck an 11th hour deal with the Fund, under which Argentina agreed to pay \$2.9 billion it owed the IMF. That amount had come due on Sept. 9, and for one day, Kirchner went into technical default against the IMF, in search of more "lenient" terms under which Argentina was to be raped by its creditors.

"We were in default for more than 24 hours," Kirchner reportedly told his closest advisors during a plane ride to New York on Sept. 22. "I could have fallen, but had that happened, the whole IMF

would have fallen with me," he blustered.

Kirchner was referring to the widely known fact that a default against the IMF or the World Bank, as opposed to a mere private lender, is capable of bringing down the entire international financial system. Such a default could prove contagious with other countries, including neighboring Brazil, which has a public debt about twice the size of Argentina's. As an Argentine Finance Ministry source told *La Nación* newspaper, the possibility of an eventual Brazilian debt default "is on a lot of people's minds." Any such sovereign default against the IMF would likely lead to a downgrading of its credit rating, and that could mean the effective bankruptcy of the IMF itself, and of the entire IMF system.

On Sept. 10, Kirchner chose to defend that system, and struck a deal with the IMF, which, he was told, was a prerequisite for negotiating a write-down of the \$94.3 billion in privately held government bonds. The IMF, in turn, was pressured by the Bush Administration to be "lenient" with Argentina, since the stability of the entire global system was considered a higher priority than collecting every penny—at least for now. As an unnamed Bush Administration source soberly told the daily *Clarín*: "Nobody wanted Argentina to again go into default with an international institution."

The IMF thus agreed to Argentina producing a 2004 Primary Budget Surplus, or PBS (with which to pay the public debt) of "only" 3% of GDP—whereas the country's more rapacious creditors had been demanding Brazil-style levels

of 5%. The international financial media then ridiculously characterized the deal by saying that “the IMF blinked” in the face of Kirchner’s “tough” negotiating stance. A manic George Bush further stroked the Argentine President’s ego at a Sept. 23 reception at the United Nations, by greeting him from across the room in a loud voice: “Here comes the man who conquered the IMF!”

The vulture funds, for their part, were furious at how “lenient” the IMF had been with Argentina. As a Bloomberg wire reported, the Italian Mauro Sandri and other vulture bondholders “said they were outraged after Argentina reached an accord with the IMF two weeks ago, that ensures the government pays back multinational lenders while forcing losses on investors.”

IMF spokesman Thomas Dawson defended their deal with Argentina by arguing that it “will lead to a sustainable debt position”—which is a lie. As one Buenos Aires economist told the *Financial Times*: “It’s doubtful Argentina can even service its performing debt with that [a 3% PBS], let alone defaulted loans.”

The reality is that Argentina is not going to be able to service its public debt, even after the 75% write-down. On top of the \$94.3 billion in defaulted bonds—now to be written down to some \$24 billion face value—Argentina has another \$85 billion in supposedly performing public debt. Of that, about \$70 billion is classified as “Senior debt,” meaning that it is paid first, before the renegotiated defaulted debt. This “Senior debt” includes some \$25 billion in *new* government bonds, that were issued after the December 2001 default.

So, even with massive write-offs, Argentina is staring down the barrel of a gun at well over \$100 billion in public debt that it has to pay—an impossibility, given the ongoing destruction of its physical economy.

To achieve even a “low” PBS of 3% in 2004, the government is going to have to impose further massive cuts in government spending on wages for teachers, doctors, and others, as well as in pension payments. This is on top of the 11% plunge in national economic activity in 2002, which, coupled with a 70% forced devaluation of the peso that year, has meant that Argentina’s dollar-denominated GDP plummeted from \$264 billion in 2001, to \$120 billion in 2002—a 55% drop! As a result, over half of Argentina’s 38 million people now live below the poverty line, and unemployment is over 20%.

There is *no* amount of achievable looting that can make Argentina’s debt perform. Analysts estimate that, for Argentina to be able to pay, even after a 75% write-off, it would have to generate a PBS not of 3%, but of 4.5%; and not for one year or two, but for the next 15 years!

This is fascism and lunacy, as LaRouche stated. If adopted, such policies will leave Argentina, and the rest of the developing sector economies that follow it, as a carcass picked over by vultures. And then the debt will be defaulted on, anyway.