Soros threatens Argentina: 'Your life, or your money!'

by Gerardo Terán

On May 21, megaspeculator and prominent drug legalizer George Soros gave the green light for a speculative attack against the Argentine peso. Fully aware that his remarks would produce an effect, Soros launched his broadside in the middle of rumors that were already swirling around international financial markets that, in order to maintain the "competitiveness" of its exports in the face of Brazil's 30% devaluation in January of this year, Argentina would have to abandon its renowned "convertibility" or currency board system, and devalue the peso.

At a Chicago conference on "The Global Financial Crisis and Economic Development," Soros said: "Brazil and other countries have devalued. The fact that the Argentine peso is tied to the dollar has likely turned it into an overvalued currency, for which they will pay with a recession. . . . Argentina is paying a high price for the stability of the peso."

Ironically, the author of the "convertibility" plan, former Argentine Finance Minister and Soros associate Domingo Cavallo, had unleashed the storm a few days earlier, when he stated, according to the London *Financial Times,* that "Argentina should float the peso, rather than maintaining the current system, in which the peso maintains a one-to-one convertibility with the dollar."

After these two interventions, by the end of the week, the Buenos Aires stock market had plunged 9.83% for the week, and government bonds lost between 1 and 2% in a two-day period.

Argentina's main trading partner in the Mercosur bloc, Brazil, also felt the effects of the attack, and its Treasury bills fell by more than 3%. The Brazilian currency, the real, was devalued from R$1.65 to R$1.72 to the dollar, and the stock market dropped by 4.9%. The Mexican stock market also declined, as nervousness spread throughout the international markets. In a word, the Soros offensive had reawakened the slumbering international financial crisis in this part of the world.

The speculative war against Argentina had been planned well beforehand. At a January financial seminar in Tokyo, Barton Biggs, president of Morgan Stanley Dean Witter Investments, had warned: "I fear that the crisis will claim other victims in Latin America. The most obvious one is Argentina. . . . The effects of the crisis which began in Thailand in 1997 continue to play out. Brazil was the latest victim. . . . And Argentina could be the next. If Argentina ends up devaluing the peso, speculators could decide to attack other currencies."

Debt can't be paid

The interesting thing about the destabilizing duet of Soros and Cavallo, is that it runs totally contrary to the song that both of them have been singing for years: a fanatical defense of convertibility and the Argentine model. Some analysts explain this about-face as a typical speculative maneuver by Soros in order to profit personally. Although this may well be a factor, there is more to it than that. The international financial oligarchy is sending a clear and direct message to Argentina and the government of Carlos Menem: Popular resistance that has spread across the country against the policies of the International Monetary Fund—an opposition so vigorous that it can only be compared to that of 10 years ago, which led to the early demise of the Raúl Alfonsín government—has got to be smashed, and promptly. If not, Argentina could default on its debt obligations, both foreign and domestic.

An editorial in the April issue of the Economics Ministry's *Economic Report* admitted: "The Russian default, Brazil's serious fiscal problems, and the fall of international prices for export goods, led to a strong deceleration of the Argentine economy." This produced an increase of the 1998 trade deficit of $1.1 billion, despite the fact that the physical volume of goods exported was higher than 1997. This, in turn, led to the Menem government having great difficulties staying current on its foreign debt payments. For 1999, Argentina will be hit with $34 billion in foreign debt obligations coming due, of which $26 billion are private sector obligations, both of financial and non-financial companies. The non-financial companies, which are the ones that engage in export activities, have $11 billion coming due, of which $7 billion is short-term debt which was taken on to weather earlier financial crises. As for financial companies, they owe $13.8 billion in short-term debt, which they contracted over the last six months to deal with the crisis.

The Argentine government claims that it has locked in an arrangement to cover all of its foreign debt service for 1999, which is more than $7 billion, through a combination of loans from multilateral agencies, bonds placed on the commercial market, and by getting the IMF to agree to a larger budget deficit. But the problem of default looms largest over the private sector.

The problem here has been worsened by the profound crisis engulfing both the agricultural as well as the industrial sectors, whose output has plummeted significantly over the course of 1999 to date. Industrial production fell by 10.5% in April over the same month a year earlier; and the 30% devaluation of the Brazilian currency earlier this year has devastated innumerable areas of the Argentine economy, since about 40% of Argentina's total exports are sold to Brazil. This is where the argument comes in about making Argentine exports "more competitive," in order to obtain the foreign exchange needed to pay the private sector's foreign debt.

Even before Soros's provocative statements, economic consultant Ricardo López—a darling of the international banks an economic spokesman for the opposition coalition known as *Alianza*—had rattled the country by pronouncing that it was necessary to cut the country's wage bill by 10%, in order to maintain "competitiveness" without being forced to devalue and break the convertibility arrangement. Then, on April 25, the head of the Western Hemisphere division of the IMF, Claudio Losser, warned that, in order to achieve "competitiveness," "an economy has to make adjustments, and in a system such as Argentina's this somehow has to be accomplished through making prices and salaries flexible." And in early May, Cavallo himself had warned that the only way to maintain "competitiveness" without devaluing, was by reducing "costs" (i.e., wages) by 20%.

In May, the Menem government tried to move forward on this IMF policy, but this led to a wave of popular protests that showed that this approach was politically unfeasible, at least for the moment, when the country is in the middle of a Presidential election campaign. Facing an unprecedented explosion in the agricultural and education sectors, the government was forced to back down on important aspects of the austerity demanded by the IMF.

Opposition to austerity

For example, the announcement of cutbacks in the education budget has unleashed a political and social storm. On May 7, Education Minister Susana Decibe announced that she would not agree to the government reduction package, and presented her resignation because, she said, she could not accept cutbacks that would mean closings of universities and national colleges.

The day after the official announcement of cuts was made, thousands of university students mobilized en masse against the cutbacks, blocking the most important streets of the capital and peacefully seizing various buildings at Buenos Aires University and in other cities with public universities.

The mobilization continued with a May 11 teachers' strike called by different teachers' associations. Colleges and universities were totally paralyzed nationwide. In the province of Buenos Aires alone, the strike was 99% effective.

The protests eventually forced the government to retreat. On the day of the teachers' strike, by order of President Menem, Minister Roque Fernández held a telephone conference with IMF officials to beg a "new concession" from them. The situation of the education sector was nearly out of control. And so, the IMF—without even blinking—authorized the expansion of the fiscal deficit by $150 million, intended for the education sector, thereby defusing protests which were already winning the backing of the population and of every political sector in the country. The next day, the national Congress unanimously disapproved the education budget cutbacks.

In addition to the student and teacher demonstrations, the provincial governments—whose budgets are now threatened with $360 million in cutbacks—are also protesting. Fernández again tried to threaten his way through. At a May 18 meeting with 11 Peronist governors, Fernández warned that failure to make the cuts would "increase the country's risk classification as well as interest rates." But at a meeting the following day, which included Fernández, the Interior Minister, the cabinet chief of staff, and the governors, it was agreed that the $360 million would be restored to the provinces.

And so the situation became unmanageable, and threatened to become a central theme of the election campaign. For example, the Peronist party pre-candidate who heads the polls, Buenos Aires Gov. Eduardo Duhalde, proposed a regional renegotiation of the foreign debt, and a change of economic model.

Soros and company's speculative assault was targetting just such resistance. As the economist Miguel Bein told the daily *La Nación:* "Politicians get scared and become reasonable when the markets send them bad signals; otherwise, they spend their time fighting, without considering the repercussions that their remarks might have on the markets."