# Domingo Cavallo Means Certain Death for Argentina

by Gerardo Terán Canal and Cynthia Rush

Domingo Cavallo, Argentina's Finance Minister from 1991 to 1996, and close associate of global speculator and drug legalizer George Soros, has again taken over the Finance Ministry—and this time, possibly the country as well. On March 20, after 18 days of chaos, which saw the resignation of two finance ministers, José Luis Machinea and Ricardo López Murphy, and the crumbling of the ruling Alianza coalition of President Fernando de la Rúa, Cavallo staged a virtual coup on behalf of the international financial oligarchy, to finish off Argentina as a nation-state once and for all.

As Presidential pre-candidate Lyndon LaRouche told *EIR*'s March 21 seminar in Washington, D.C., putting Cavallo in as finance minister is part of a global plan, "very close to Henry Kissinger and George Bush, Sr.," in which all the nations of Central and South America "are doomed to disappear from the political map of the world in the early future." David Rockefeller and Citicorp Vice President William Rhodes immediately flew to Buenos Aires, as soon as Cavallo was named, to offer their full support.

In 1991, after Cavallo imposed his currency-board system, called "convertibility," which pegged the peso to the dollar in a one-to-one relationship, he was hailed by Wall Street for saving Argentina from hyperinflation and returning it to stability. In reality, he savaged the national economy, laying the basis for the current crisis.

Today, there is no guarantee that he will be able to carry out London and Wall Street's orders, because it means applying the same brutal measures his predecessors tried, and failed, to impose, in a totally volatile social environment. Free marketeer López Murphy only lasted 16 days in office. Popular rage against the government is so enormous, that attempts to ram through greater austerity could unleash unprecedented social upheaval. As soon as he was named to the post, Cavallo demanded "emergency powers"—for *himself,* not the President—aware that the policies he intends can only be imposed by dictatorial means.

Cavallo claims that his policies are supposed to make Argentina more "competitive," not by devaluing the overvalued peso, but by "cutting costs" by 20%—that is, further gouging living standards *and wages*. A few years back, he argued that Argentine wages were "too high," and had to be slashed by 20% to make the country more competitive. Otherwise, he demands the same deep cuts already endorsed by the International Monetary Fund (IMF): broad "reform" of the state, privatization of remaining state-sector companies; ripping up labor laws, and the laws regulating social programs, i.e., public health, social security, medical assistance, etc.; increasing the foreign debt; sabotaging the Common Market of the South (Mercosur), the customs union comprised of Brazil, Argentina, Uruguay, and Paraguay, and led by Brazil.

Most important, he plans to eliminate existing laws affecting economic activity, including those setting taxes and interest rates. Congressional deliberation on policy isn't intended to occur, and, as one Peronist legislator warned, Cavallo will probably try to shut down the Congress altogether.

## The Chaos Begins

Along with Turkey, Argentina is one of the weakest links in a world financial system that is disintegrating at breakneck speed. Out of fear that a default on its $200 billion in foreign debt might have immediate repercussions on neighboring giant Brazil, the IMF led a $39.7 billion bailout package, or financial "armor," for Argentina at the end of December, which was supposed to be the basis for an economic recovery. But the reality today is what the daily *Clarín*'s economist Daniel Muchnik told an audience on the March 19 TV program Memoria: "We're in default," he said, and there is only enough money to make interest payments until April 15.

Since the end of December, when the bailout was announced, the deepening of the international financial crisis has made it impossible for the De la Rúa government to come close to meeting any of the IMF targets established for the fiscal deficit, or any of the political demands for squeezing the bankrupt provinces, imposing pension and labor reforms, and cutting expenses. By the end of February, it was clear that the deficit for the first quarter would be at least $500 million, and perhaps more, over the target agreed upon with the IMF. Between early February and mid-March, $2.5 billion fled the country. So much for the bailout inspiring "investor confidence."

Throughout February, the crisis worsened. As the Nasdaq and Dow Jones plunged, the Buenos Aires Merval stock index also plummetted, and interest rates shot up to as high as 60% from an average of 10%. Rating agencies such as Moody's and Standard & Poor's threatened to downgrade Argentina's debt, and the country risk rate (the spread between U.S. Treasury notes and Argentine bonds) returned to the 9% it had reached last November, before the bailout. By early March, London and Wall Street made known to De la Rúa that Finance Minister Machinea no longer enjoyed their "confidence," and that "the markets" would prefer someone else. Machinea resigned on March 2.

Even before Machinea left, the fragile ruling Alianza coalition, made up of the Radical Civic Union (UCR) and the São Paulo Forum's asset, Frepaso, was crumbling. Reflecting the São Paulo Forum's bogus "anti-globalization" strategy, Frepaso's cabinet members and congressmen, led by its president, Carlos "Chacho" Alvarez, who had resigned as Vice President in October of last year over disagreement with government economic policy, became increasingly vocal about the IMF's austerity demands. Under the guise of opposing neo-liberalism (free trade), Frepaso and affiliated groups are positioning themselves to steer legitimate protest into the Jacobin, anti-industry "Mindless Movement," which the São Paulo Forum is organizing continentwide.

On March 3, De la Rúa named ultra-monetarist López Murphy, then his defense minister, as finance minister. Even at that point, it was being rumored that Cavallo might also enter the government, possibly as Central Bank president or Chief of Cabinet.

López Murphy's appointment was greeted with euphoria by Wall Street and the IMF. A longtime leader of the FIEL think-tank, López is a University of Chicago-trained economist who has also worked as an adviser and consultant to the IMF and World Bank. He was expected to take an axe to the federal budget, to the size of the government itself, and especially to funds allocated to the bankrupt provinces. He brought with him to his new post a team of FIEL hatchetmen, prepared to "reform" the state out of existence, threatening as many as 95,000 state-sector jobs.

Anticipating opposition to López's plans, President De la Rúa announced he would rule by decree, and bypass the Congress altogether, in order to get the necessary measures through. On March 16, López announced an austerity program of $2 billion in cuts, $1 billion of which were to come from provincial budgets.

The country exploded, and the Alianza coalition dissolved, as three cabinet members affiliated with the UCR and four from Frepaso, resigned. The 14 governors of the opposition Peronist party publicly rejected the package. Buenos Aires Gov. Carlos Ruckauf warned De la Rúa that unless the President repudiated the measures within 48 hours, the country would go up in flames. The "rebel" faction of the CGT labor federation and the teachers' federation, CTERA, announced national strikes, while university students, professors, and unemployed around the country staged mass protests.

## Enter Cavallo

Thus the stage was set for Cavallo to appear as a savior. De la Rúa used the pretext of setting up a "national unity government" to bring in Cavallo in an undefined role, calling him back from London where he was attending a meeting of the Trilateral Commission, together with David Rockefeller. When López Murphy resigned on March 19, citing "lack of support" for his program, De la Rúa immediately named Cavallo. The Soros clone's chief backer was "Chacho" Alvarez's Frepaso.

Cavallo lost no time in getting down to work. On March 21, he sent a "Competitiveness Law" to Congress demanding broad dictatorial powers over all economic activity, and warned that he would report no more details on what he intends to do, until Congress approved it.

The law argues that Argentines must make even greater sacrifices, to join the "modern," globalized world. The nation must "respect the rules demanded by modernity" and honor its international "commitments"—i.e., pay its foreign debt—or risk total isolation, it demands.

While offering some tax relief and investment incentives for businesses, and promising to eliminate the 10-15% tariffs on capital goods, Cavallo's plan is premised on intensified looting of a population which has reached the limits of toleration for such measures. To cut costs by 20%, he proposes that company contributions to worker pension and benefit funds be reduced, and that employment be generated by ramming through the IMF's "labor flexibility" and pension reform laws, which do away with union benefits and long-term job stability. To date, opposition to these measures has prevented their implementation.

A 0.6% tax on all bank transactions greater than $1,000 is intended to pull in funds quickly, in the range of $5 billion, while "reform of the state" will eliminate jobs, and sell off any remaining assets of value, probably to foreign interests. The law states explicitly that greater indebtedness is necessary to comply with commitments "to international banks."

Cavallo targets Mercosur, whose cohesion Brazil is counting on for negotiations with the United States on the

Free Trade Area of the Americas (FTAA). He threatened that were Brazil to oppose his proposed tariff changes, he would go ahead and implement them anyway, thus violating any notion of regional cooperation on tariffs.

But the Argentine people aren't buying Cavallo's wares. On March 21, the dissident CGT paralyzed much of the country in a general strike, and brought 50,000 people to the Plaza de Mayo in Buenos Aires to demonstrate against the IMF and Cavallo. The head of the official CGT, Rodolfo Daer, warned that Cavallo's "reform of the state" is an assault on pensions and social security, and will result in mass layoffs. Hugo Moyano, head of the "rebel" wing of the CGT, said that Cavallo is so insistent on being granted extraordinary powers, that "it would appear he wants to take us back to 1976," the year in which the military staged a coup against then-President Isabel Perón.

# Who's Bringing on the Crash of 2001? Japan Criticizes IMF in Washington

by Kathy Wolfe

Following Japanese Finance Minister Kiichi Miyazawa's March 8 warning against a financial "collapse," the March 17-20 U.S. tour of Prime Minister Yoshiro Mori and his entourage brought further insights into the growing anger in Tokyo. After reporters at one March 17 Washington event insisted, in questions to a Japanese official, that Japan is to blame for today's global financial crisis, *EIR* pointed out that when the crisis hit in 1997, Japan, Malaysia, and others proposed to create an Asian Monetary Fund (AMF) to protect and develop the region. Instead, the opposite policy of the International Monetary Fund (IMF) was enforced, so doesn't the IMF bear some responsibility? *EIR* asked.

One Japanese official said, that of course the IMF is to blame! It is well known that the IMF policies are to blame for the current downturn. He pointed out that the way the IMF imposed its program in Indonesia in 1997, was a disaster. It was too categorical, neglecting all the background and history of Indonesia and the other countries, as well as being too hasty. Every country has its own history and culture, and so the solution for each country should be different, but the IMF always imposes the same prescription, he said.

Also, the United States crushed the AMF idea, he said. Everyone also knows that the main cause of the crisis was the hedge funds—which were coming from the United States. This was the main reason Malaysian Prime Minister Dr. Mahathir bin Mohamad wanted to protect the region from the predatory practices of the hedge funds.

"You can't quote any Japanese on this," one source said later on, "but the [U.S.] Treasury and State Department were quite unhappy with what was said." "However," the source also pointed out, what the official said "was not retracted."

Not a single article on the incident appeared, other than in *EIR,* despite the presence of reporters who publish frequently on Japanese financial affairs in the *New York Times, Washington Post,* and so on. The sequence gives the lie to media reports that all was sugar and cream between Premier Mori and President George W. Bush at their March 19 meeting. As statements by Minister Miyazawa and Bank of Japan circles also imply, Tokyo is not happy with the role it has played, and the Japanese are aware of their potential financial power in today's crisis situation.

## 'Imposed by the United States'

The policies of the United States, at root, and not policies originating in Japan, have caused today's global crisis, *EIR* Editor Lyndon H. LaRouche told a Washington webcast seminar on March 21, noting that one must go back to the 1970s and '80s to understand reality. Japan had sought to industrially develop least-developed countries (LDCs) such as Iran and Mexico as markets in the 1970s, he said, but Henry Kissinger and Zbigniew Brzezinski said, "No." (Brzezinski, famously, said that the United States did not want more new Japans springing up around the world.) "The United States," LaRouche said, "through the 1980s, said to Japan, 'Don't export to Third World countries. We are against that. You will now concentrate on markets in Europe and, especially, the United States.' So, Japan concentrated on the consumer and related markets in the United States."

More recently, especially since Washington forced the yen's upvaluation in the 1985 Plaza Accords, Japan has been loaning yen at zero interest rates to "speculators" under pressure from Washington, LaRouche said. "They borrow the yen; they turn around and use the yen to buy European currencies and dollars, especially. So, therefore, what's happened, is that Japan has been driving itself into bankruptcy, with a financial policy *imposed by the United States,* but imposed so that Japan would *subsidize* the United States" and pay for the U.S. current account deficit.