U.S., Argentina Are Economic Crisis Centers

by Richard Freeman

On June 1, leading Wall Street and City of London bankers, and the International Monetary Fund (IMF), in league with Argentina's monetarist Economics Minister Domingo Cavallo, forced a high-risk venture on the government of Argentina: The country agreed to swap $29.5 billion of old, mostly short-term bonds, for an equal amount of new, long-term bonds, at a stunning 15.3% average rate of interest.

The plan will *temporarily* reduce Argentina's debt service payments and, the bankers hope, prevent Argentina from missing payments on—and blowing out—its $211 billion in foreign debt, as well as the debt and dollar obligations of its neighbor, Brazil, which are conservatively put at $450 billion.

Combined, such a blowout would take down the world financial system. The swap will assuredly devastate the people and economy of Argentina—and it won't stop the world financial system from blowing anyway.

Argentina's Mega-Swap

The Argentine newspaper *Clarín* on June 4 called the debt swap a "degraded version of the Brady Plan," which refers to the plan put together in the late 1980s by George I's Treasury Secretary Nicholas Brady. Under the Brady Plan, Mexico, Argentina, and Brazil swapped a certain portion of their debt for a new category of bonds called "Brady bonds." The plan promised to reduce those nations' debt: At first, their debts did fall, but eventually they spiralled out of control, destroying those countries' economies.

The present high-risk activity of the bankers, represents their desperate attempt to halt the disintegration of the global financial-economic system. But in spite, or perhaps because of their efforts, the disintegration has deepened, especially in the United States, where in May, durable goods orders collapsed, and manufacturing unemployment zoomed, as did corporate bankruptcies.

The crisis in Argentina, and the breakdown in the United States, point to a deeper problem, which cannot be solved with dangerous schemes like the failed Brady Plan.

Democratic Presidential pre-candidate Lyndon LaRouche has called for putting the irreparably bankrupt world financial system through Chapter 11 bankruptcy reorganization, while creating a new monetary system to generate credit for Eurasian Land-Bridge high-tech development. This departure in policy-thinking is how a crisis is conquered.

Clarín's characterization of Argentina's debt swap as a "degraded version of the Brady Plan," is precise. In the 1980s, it was Brady's assistant at the Treasury, David Mulford, who devised the plan and did most of the implementation. Today, it is Mulford—now a top executive at the powerful and dirty Crédit Suisse First Boston investment bank—who devised and instigated the mega-swap.

In December of last year, the IMF advanced Argentina a "rescue package" of nearly $40 billion, with conditionalities attached. Already this year, it has advanced another $2.5 billion.

Predictably, this did not work. Argentina's economy officially shrank 3.2% in 1999 and 0.7% last year. The fall was actually larger. This year, exports are falling, and its unemployment rate is officially 14.7%.

While Argentina won't have to make interest payments on the newly issued bonds until 2005, the interest will nonetheless accumulate and be capitalized, necessitating huge interest payments: Beginning in 2005, the interest will jump to over $20 billion that year. The swap will multiply the debt and destroy the economy; but banks such as Crédit Suisse and J.P. Morgan Chase stand to earn a cool $140 million in fees for having "managed" the swap.

U.S. Breakdown

Meanwhile, the breakdown of America's physical economy continues to accelerate:

- In April, new orders for manufactured durable goods plunged 5.0%; for the first four months of 2001, new durable goods orders have fallen by 9.2% compared to the same period last year.
- In May, the National Association of Purchasing Management index of manufacturing fell to 42.1%; according to the NAPM, an index below 50 indicates the manfacturing sector is in decline. This is the tenth month in a row that the index has fallen below 50. (The NAPM index actually understates the severity of decline.)
- While the Bureau of Labor Statistics of the U.S. Department of Labor claimed that, officially, U.S. unemployment fell to 4.4% in May, from 4.5% in April, in fact, during May, 124,000 manufacturing jobs disappeared from the economy, of which 78,000 were in manufacturing production. Since last July, the manufacturing production sector has lost more than 600,000 jobs—an accurate indicator of the breakdown of the physical economy.
- The June 5 Swiss financial daily, *Neue Zürcher Zeitung* reported that for the first four months of this year, companies worldwide defaulted on a record $33 billion worth of corporate bonds. The total in bond defaults for the entire year 2000 was "only" $28 billion. Of the $33 billion in defaults from January to April, 2001, $11 billion worth occurred in April alone, indicating that the pace of the blowout is accelerating.

American corporations accounted for more than half of these defaults.