Argentine Debt Crisis Unnerves Wall Street

by Gonzalo Huertas and Cynthia Rush

During the third week of October, panic erupted on Wall Street, in the City of London, and in various other international financial centers, as word spread that Argentina could default on its $150 billion in foreign debt. In the midst of a worsening economic recession, an internal political crisis, and ballooning current-account and fiscal deficits, Argentina has virtually been shut out of foreign borrowing markets, yet must somehow raise at least $19 billion to meet next year's financing needs, not including private-sector debt.

Foreign investors are unloading Argentine debt paper—fast. To sell $1.1 billion in Treasury notes on the domestic market on Nov. 7, the government had to pay a 16% yield, or double the 8.89% it paid last July. The credit rating agency Standard & Poor's recently announced that it is placing the country's sovereign debt on a "credit watch, with negative implications," for six months.

On Oct. 25, Argentina's debt paper crashed in New York, with sovereign bonds losing 1.3% of their value on a daily basis. Despite a package of economic measures to encourage foreign investment, announced by Finance Minister José Luis Machinea on Oct. 23, the Buenos Aires stock market (Merval) dropped 4.3%, while the most liquid of Argentine stocks fell 7% on the same day. The country's risk assessment shot up immediately.

Rumors were flying that U.S. Treasury Secretary Larry Summers was putting together a bailout package for the country. Summers denied this, and babbled that the decade of free-market "reforms" applied by the previous government of former President Carlos Menem, would stand it in good stead in the current situation. The Alianza government of President Fernando de la Rúa also denied that it was seeking a Treasury bailout, but did admit that it is talking to the International Monetary Fund (IMF) about a $7.2 billion "contingency credit line" on which it could draw immediately.

In the midst of this upheaval, word began to circulate in Buenos Aires that global speculator George Soros's friend Domingo Cavallo, who as Finance Minister (1991-96) imposed the currency-board system known as "convertibility," might be welcomed into the government to replace Machinea. Cavallo is not only committed to vicious austerity, but would likely opt for total dollarization of the economy.

De la Rúa's government, which took office in December 1999, has been loudly proclaiming that everything is under control. Finance Minister Machinea sent Finance Secretary Daniel Marx, who was attending the G-20 meeting in Montreal, to the United States on Oct. 27 to "reassure" investors that all was well. After groveling before the Inter-American Dialogue, a bankers' think-tank, in Washington, he flew to New York to do the same at the Council of the Americas.

Nothing Left To Loot

The reality is that Argentina, Ibero-America's biggest borrower, is barely holding together. The IMF austerity prescriptions imposed over the last decade have decimated the real economy and living standards, and laid the basis for social upheaval. The financial vultures of Wall Street and London are having nightmares over what an Argentine default would mean for the rest of the continent. The decline of the Brazilian currency, the real, in recent weeks, has been attributed, in part, to Argentina's crisis.

Even so, Wall Street is insanely demanding that the de la Rúa government show its "creditworthiness" by implementing even more ruthlessly the IMF dictates put through by Menem and his sidekick, Cavallo. As a J.P. Morgan analyst put it, Argentina will impose more austerity "no matter who the finance minister is . . . even if it's Elvis Presley." A desperate de la Rúa, who came into office claiming to represent more "human" economic policies, agrees. In a late-September cabinet meeting, de la Rúa announced full backing for the 2001 budget, largely crafted by Machinea, which, aside from other draconian austerity measures, includes specific IMF demands for punctual payment of foreign debt service, and keeping the fiscal deficit to $4.1 billion, by cutting public expenditures and downsizing the federal government and the Armed Forces.

De la Rúa's backing for the budget—Machinea had just returned from the IMF meeting in Prague where he consulted with Fund officials—predictably unleashed a political crisis. Discovering that his Ministry would disappear next year, Infrastructure Minister Nicolás Gallo resigned, as did the Education Minister and the Chief of Cabinet. De la Rúa then fired the Justice and Labor Ministers.

Most significant was the resignation of Vice President Carlos "Chacho" Alvarez. President of the Frepaso coalition which, together with the Radical Civic Union, makes up the governing Alianza coalition, Alvarez is an agent of Fidel Castro's São Paulo Forum. Unable to stay in the government and maintain his image as a defender of "social justice," Alvarez walked out of the government for one purpose only: to pick up the pieces from the worsening political and economic crisis, and to organize jacobin hordes against the institutions of the nation-state, just as the São Paulo Forum is doing continent-wide. There are plenty of poor Argentines enraged at what the IMF has done to them, ready to be mobilized. Alvarez has already announced he intends to form a new political movement for this purpose.