IMF Bailout Means Disaster for Argentina

by Cynthia R. Rush

For months, London and Wall Street have fretted over the possibility that Argentina, whose real foreign debt is at least \$200 billion, might not be able to meet its foreign debt obligations, some \$20 billion, coming due next year. But, in mid-November, when the country was effectively locked out of international lending markets—no "investor confidence" was the explanation—the International Monetary Fund (IMF) offered a bailout package, now estimated to be in the range of \$24-27 billion. In exchange, the Fund demanded that Argentine President Fernando de la Rúa impose even harsher austerity on a country already ripped apart by a decade of free market "reforms."

What forced the IMF's hand? Argentina was in a very precarious financial situation, but had not yet reached the depth of crisis that had earned Mexico, Brazil, or South Korea an IMF bailout. But at a moment when the world monetary system is itself barely holding together, letting an Argentine default set off an uncontrollable regional or even international crisis, was a risk the financial oligarchs couldn't take.

They feared that Argentina could detonate something far worse than what Russia unleashed when it defaulted on its GKO bonds two years ago. The regional situation is extremely volatile. In neighboring Brazil, with its actual \$500 billion foreign debt, the currency has plummeted in recent weeks, over concern that Argentina might default. The same is true in Mexico, and on Nov. 16, the government of Paraguay was forced to temporarily suspend payment on \$45 million in debt, because it simply has no money. Debt problems plague the Andean region as well. Under these conditions, ignoring Argentina's plight was not an option.

As of now, the bailout package consists of \$12-14 billion from the IMF, the World Bank, and Inter-American Development Bank combined, and another \$8-10 billion from domestic banks and pension funds, and possibly other governments. But, as both the IMF and the U.S. Treasury made clear, this financial assistance is contingent on President de la Rúa guaranteeing imposition of the austerity measures he announced on Nov. 10 to a businessmen's group in Mar del Plata, at the center of which is the demand that highly indebted provincial governments agree to a five-year spending freeze, affecting investments and funding for urgently needed anti-poverty and jobs programs. Also included are measures to privatize the pension system and trade union-controlled health insurance programs, and the demand that the 2001 austerity budget be immediately approved in Congress. Without a signed agreement by the governors, the IMF warned, there would be no money.

The imposition of these criminal measures is guaranteed to unleash social upheaval. A decade of monetarist reforms has gouged living standards and productive capabilities, producing a real unemployment rate estimated to be over 20%. In recent months, increasingly violent protest has occurred around the country, over demands for jobs and adequate housing. Aware of what further austerity measures could set off in the provinces, 14 governors from the opposition Justicialista Party (Peronists) balked at signing the austerity accord demanded by the IMF, instead demanding control over social spending, increased investment, and lowered taxes. Carlos Ruckauf, Governor of Buenos Aires, the country's most populous province, warned that the government's economic proposals "must have a clear message for Argentines . . . not just for Wall Street."

'This Is Not a Moral Path'

Argentina's Catholic Bishops Conference issued a sharp warning to the government on Nov. 11, stating that "we can't resign ourselves to passively accepting economic tyranny," reflected in the announced measures. The "negative aspects of globalization and tyranny of the markets" have produced grave social injustice and inequity, the bishops added. "It's not good enough just to meet demands from abroad." In a press conference to announce the Church's statement, Msgr. Eduardo Miras, the Archbishop of Rosario, told the government, "Let us leave behind this savage economy; let this [IMF package] not be the fundamental thinking of the state or the business sector. . . . This is not a moral path, but one built on the hunger of the people."

Moral considerations? In a week of tense negotiations, during which the governors refused to give in, the IMF's Stanley Fischer, U.S. Treasury Secretary Larry Summers, and a host of other heavyweights from the international financial community, including the ever opportunistic former Finance Minister Domingo Cavallo, pummeled the governors with threatening calls, telling them that they would be responsible for Argentina's economic demise, should they fail to sign. The IMF postponed the arrival of its mission which was to finalize the details of the bailout, until the government had a signed agreement in hand. The pressure finally worked, and on Nov. 20, after the government made a vague promise of providing additional funds "in the event of an emergency," the governors signed the accord.

But this accord solves neither the political nor the economic crisis. Should de la Rúa attempt to put through pension reform by decree, as expected, opposition from within the government's own ranks could split the ruling Alianza coalition. And the labor movement's 36-hour anti-IMF general strike scheduled for Nov. 23-24, is only the beginning of widespread social protest that will inevitably erupt.