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Frantic Schemes Can't Save Argentina's Unpayable Debt

by Gretchen Small

Argentina's $212 billion in foreign obligations—official foreign debt, both public and private, and other de facto foreign obligations—are non-performing. The country is bankrupt. These debts can never be paid.

Government officials and financiers of many countries are scurrying around, meeting, consulting, and issuing threats against Argentina, with the single-minded goal of achieving one thing only: to maintain the illusion, for one more day, that Argentina's non-performing $212 billion can still be kept on the global balance sheets.

It is not Argentina or its people which concern those engaged in this frenzied activity; they are driven to desperation by the fact that the Argentine crisis could bring down the entire international financial system, both economically and politically. Argentina's bankruptcy has exposed in gory detail, that "the whole damn system" is as bankrupt as Lyndon LaRouche has been saying it is—and the time has come to change course entirely.

Although Argentina's $212 billion in debts may seem insignificant in comparison to the $400 trillion-plus in financial paper swirling around the globe, that $212 billion is highly leveraged into the $400 trillion bubble. If the reality is acknowledged, that Argentina cannot pay its debts, the chain reaction from that default could set off a greater explosive charge under the system as a whole than the Russian moratorium of August 1998.

"Memories of that confounding set of chain reactions remain vivid," the *Washington Post* confessed, in a quietly hysterical July 14 article. The fall-out from Russia's default and devaluation of the ruble "triggered the collapse of a giant but little-known hedge fund, Long Term Capital Management, which had placed enormous bets that bonds would move in the opposite direction. The hedge funds' woes caused greater sell-offs of bonds with any sort of risk—even bonds of relatively sound U.S. corporations. For a couple of weeks, it appeared that the bond market . . . might cease functioning properly." (The whole $300 trillion derivatives bubble nearly blew.)

But the crisis extends far beyond Argentina's borders, and envelopes the entire system. As LaRouche emphasized in a July 18 interview which we report in our editorial, "the key thing is to compare Argentina *and* Turkey." That comparison makes it clear that the entire system has entered into "a hyperinflationary explosion analogous on a world scale to what happened in Weimar Germany in the Summer and Fall of 1923."

Physical Limits to Looting

Any person still capable of reason, comparing reality to the spectacle of those scurrying to cover up the Argentine bankruptcy, can only come to the conclusion that those attempting to save the global financial system have gone clinically insane.

The immediate crisis exploded on July 10, when the only bonds the government could sell at its biweekly auction, were 91-day paper at an unpayable 14.1% interest rate. The game was up. Economics Minister Domingo Cavallo admitted that, with international financial markets closed to Argentina, "we can't obtain financing to maintain the current level of expenditures."

The next day, at a joint press conference with the pathetic Fernando de la Rúa, whom he has effectively replaced as President, Cavallo announced he would "defend the financial system to the end." How? By making foreign debt payments the government's only priority, while adopting a zero-deficit policy for the government. That is, and he spelled this out explicitly: the amount the government will pay in wages, pensions, and payments to its suppliers, and what it will spend on investments, health, unemployment, etc., will vary, depending on what tax revenue is left over after debt pay-

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Argentine Economics Minister Domingo Cavallo (left): the short, fat man with egg on his face. Workers, enraged at his economic policies which have bankrupted the nation, pelted him with eggs on July 15, outside the church where his daughter was getting married. Here, he is with German Economics Minister Werner Müller, in April.

ments are met.

The cuts will apply to all pensioners who receive more than $300 a month—thus decreeing radical increases in starvation and death, given that Argentina is one of the most expensive countries in the world, because its currency is pegged to the dollar.

Cavallo first announced that wages, pensions, and supplier payments for July would be cut by 8-10%. Two days later, the cuts were increased to 13%, due to the "discovery" that the deficit was larger than thought.

And next month? Will they be cut by 20%? By 30%? The Argentine economy will *implode,* in a non-linear fashion, under these measures. Tax revenues were already dropping every month this year, as the economy, gutted by nearly three decades of policies which cannibalized the physical economy to pay for ever-increasing debts, collapsed into severe depression. Unemployment officially stands at 16.4%, and underemployment, at 14.9%. What will be the effect on tax revenues, to cut the State's role by another 13%, across the board?

Already, the Argentine Union of Suppliers to the State (UADPE) ordered a suspension of supplies to the State, until the government revises its plan. The federal government spends $27 billion a year on goods and services, which it purchases from 1,500 businesses, 85% of them small and medium-sized companies. Endangered immediately by the cut-off of supplies, are public health facilities.

And the social explosion has already begun: Two one-day national strikes and protests by labor unions have already been held.

If Not One Way, It Will Be Another

Since July 10, people in prominent places around the globe, the Chairman of the U.S. Federal Reserve and the President of the United States included, have insisted that Argentina can "settle and calm the situation down," if only its President and the provincial governors, including the opposition Peronists, would sign a political deal, committing the provinces, too, to implement zero-deficit budgets on Cavallo's principle.

Ignored is the fact that there are four factors, minimally, any one of which could, at any moment, blow apart any possibility of continuing the pretense that Argentina's debts are viable.

The first, is the fact that the "savior" political deal sought, cannot be implemented. It was signed on July 17, but no sooner had bond markets started rising upon the news that such a deal had been signed, than all parties involved began reneging on the agreement. The agreement was extracted from the governors, only after the federal government promised to pay the $1 billion it owes the provinces. Minutes after signing, Cabinet chief Chrystian Colombo added a qualifier: The federal government will pay the billion owed, "as long as there are funds." The governors came back: "We will do our best," but if we don't get the $1 billion, "all bets are off."

The government decided to raise the $1 billion, by getting the big banks and Spanish companies which have bought up much of Argentina, to prepay taxes owed *for the next three years*—through 2004! With what tax revenues, pray, will the government operate in 2002? No matter!

Yet, even as that insanity proceeded, on the evening of July 18, less than 36 hours after the deal had been signed, Presidential aspirant Carlos Ruckauf, Governor of Buenos Aires, the most populous and most indebted province (almost half of Argentina's 36 million citizens reside there, and it has $5 billion in debts), announced that his province will enter into a "default situation" by early August. The provincial Supreme Court struck down his decree for $500 million in wage and pension cuts, and his proposal to pay part of wages in bonds or IOUs, because the state legislature had not passed it. In Buenos Aires, it is the government-affiliated deputies who hold the majority, and who refuse to pass the cuts.

Second, there is the problem of the banking system. Nervous Argentines are pulling their money out. While a general panic has yet to begin, withdrawals are mounting. Because Argentina pegged its peso to the dollar under its currency board system, the Central Bank cannot print money, and money in circulation cannot exceed the foreign reserves held

by the Central Bank. On July 11, government spokesmen had to issue statements throughout the day, denying that a run on the banks had begun. By July 12, dollars were so scarce, that a delay in the arrival of a United Airlines plane carrying greenbacks from the United States forced several banks to restrict bank withdrawals to $1,000 dollars per person.

On July 14, Moody's Investors Service downgraded three categories of Argentine debt, including its rating on the foreign currency bank deposit ceiling. The latter dropped from B3, to Caa1. A Commerzbank Securities analyst told Bloomberg wire service that the "C" rating on bank deposits "tells you that bank deposits are flying out of the window, and there are only so many reserves around to back M1 (money that can be converted to cash)." By July 16, foreign reserves were $19.75 billion, a drop of 13% in July alone.

Third, there is the $8.8 billion in government debt which comes due in 2001. Financiers are calculating: The $4.1 billion in non-Treasury bills which come due this year, can be covered by $4.7 billion which Argentina is to receive under the International Monetary Fund bailout signed in December 2000; that leaves $600 million towards the $4.3 billion in Argentina's Treasury notes, *Letes,* which come due this year. The focus is to get banks and private pension funds to swap enough of their *Letes* for one-year paper, to be able to cancel, at least for a few months, the biweekly auctions used to roll them over. The auctions make it so public that no one is willing to buy Argentine government paper; they have become "a flashpoint for investors' fears about the country's solvency," as the *Wall Street Journal* put it on July 18.

Should Argentina and its creditors be able to fake it past big payments due in August and September (as far ahead as anybody is thinking right now), there is the fourth factor ticking away: the nightmare of Brazil, and its $500 billion in foreign obligations.

Turkey in Hyperinflation

A new crisis of much greater intensity has broken out in Turkey, a NATO member and a candidate to join the European Union. On July 17, the Turkish lira went into a free fall and panic erupted in financial markets after a government bond auction failed to raise funds, even though it offered 105% interest rates. The bond auction failure signalled a full-blown crisis of confidence, with the lira plunging 13% overnight as Turks sold lira for foreign currency at panic levels. By end of the day, the lira stood at 1.6 million to one U.S. dollar. The day before, it had been 1.3 million, and a month earlier it had been 900,000 lira to a dollar.

"Turkey is at the end of the road unless she can stop the lira free fall," warned City of London banker S.J. Lewis. "The country is in hyperinflation. The real problem is in the domestic lira debt held by Turkish banks. The total cost to the government to service this bond debt is now greater than the total estimated annual tax receipts of the government. Were Turkey a private company, it would be de facto bankrupt. Instead, it is going into hyperinflation." On July 16, Finance Minister Sumer Oral reported that the government spent 92% of its entire tax revenues in the first six months of the year on interest payments on state debt.

According to Lewis, "If you take the official rate of inflation of the past three months, and annualize that, inflation now is running at an 1,800%. The country was teetering on the brink of just such a hyperinflation crisis when events exploded last February, with the government crisis. Now the lira has been destroyed and hyperinflation is here." Since the crisis last February, the lira has floated freely against foreign currencies.

On July 17, a day after the lira crisis broke, financial markets rejoiced on news that Transport Minister Enis Oksuz, the leading opponent of International Monetary Fund-dictated austerity and privatization "reforms," had resigned. The lira recovered 8% and interest rates fell by 14%. That hardly means a return to normal, as rates are still 100%.

The joy will be short-lived however. The "winner" from the Oksuz resignation is the savage IMF austerity plan and its chief architect, former World Bank technocrat, Kemal Dervis. Dervis was brought in by the Ecevit coalition government after the February crisis, in a bid to regain the confidence of the IMF and international investors. The IMF in return pledged $15.7 billion to Turkey on the implementation of its austerity demands. Oksuz had had repeated open clashes with Dervis over IMF demands to privatize the state telecom company to cut the budget deficit.

Already the Turkish economy is in a deep depression as a result of the long banking crisis, soaring interest rates, and earlier IMF austerity demands. For June, manufacturing industries operated at only 71.7% of capacity. Shortages of raw materials and soaring prices have been a major factor in the industrial depression.

In the latest crisis, Turkish companies simply stopped paying their bills and invested in the rising dollar with their lira as the currency weakened. Bedrettin Karaboga, head of the Turkish industrialists association, GUNSIAD, remarked, "As an industrialist, I could not collect my checks and deeds. People invest in foreign currencies rather than pay their debts." He warned, "Turkey will be seized by social explosions if measures are not taken to save the real sector from depression."—*William Engdahl*