the Jerome Levy Economics Institute in the United States, the "implosion" has already started. The Levy Institute belongs among those institutions that themselves offer no solution to the crisis—other than perhaps a little bit of dollar devaluation coupled with a little bit of protectionism—but nonetheless present some useful analysis. In an 18-page investigation entitled "As the Implosion Begins . . .," the institute notes that its warnings have been circulating for years, that the expansion of the U.S. economy would sooner or later end up in disaster, "because it relied upon a continuing growth of private spending in excess of disposable income, and thus created an enormous growth of debt." At the same time, the U.S. economy has produced increasingly large balance-of-trade deficits, becoming increasingly dependent on net inflows of foreign capital. The institute has been cautious, so far, about estimating "when the turning point would come." But in the last six to nine months, "it has become pretty clear" that the "process of implosion . . . has now begun."

Many things are converging now, states the Levy Institute: Increasing numbers of households are no longer able to keep up debt payments. The bad loans in the banking system are growing, so that even Federal Reserve Board Chairman Greenspan had to acknowledge the "deteriorating" health of the U.S. banking system. The net inflow of foreign capital into the United States cannot be maintained. In sum, "all the ingredients are now present, including rising unemployment and reduced or stagnant asset prices, which normally characterize the inception of a self-reinforcing credit implosion."

Global Debt Bonfire Is Consuming Argentina

by Cynthia R. Rush

In the early 1960s, with a highly skilled labor force and significant industrial infrastructure, Argentina was poised to replicate Japan's economic achievements. Today, after three decades of free-market looting, which especially intensified after 1990 under the direction of then-Finance Minister Domingo Cavallo, who occupies the same post today, what stands out to the thoughtful observer is the country's human and economic devastation, and the fear and despair of its citizens who have seen their country's potential squandered in criminal fashion.

Today, Ibero-America's third-largest economy is bankrupt, and its $212 billion in real foreign debt is unpayable. Every single lunatic scheme applied over the past six months—right down to the most recent July 30 passage in the Argentine Senate of Domingo Cavallo's murderous "zero deficit" austerity plan, or the $1.3 billion debt swap concluded the following day—has failed to do anything except worsen the country's dramatic breakdown crisis.

National disintegration is such, that the province of Buenos Aires, the country's largest and most populous, has followed smaller and poorer provinces in creating a new currency—the "patacon"—to be used to pay a percentage of provincial workers' wages.

This breakdown is not, as the pathetic U.S. Treasury Secretary Paul O'Neill initially tried to explain to the London *Economist,* the result of "local conditions. . . and they like it that way." It is a microcosm of the financial blowout occurring globally, a systemic crisis deepening by the day. Argentina's disintegration is also the world's, if not today, then tomorrow, or next week or next month. Brazil, Mexico, Turkey, Poland, could all become the next Argentina, at any time.

The sanest thing to do in Argentina, Lyndon LaRouche recommends, is what he also proposes for the world: write off a large part of the unpayable debt and embark on an orderly bankruptcy reorganization of the economy, based on protectionist measures and respect for the sovereign nation-state.

'The New Vampires'

But the Anglo-American financial oligarchs who have dictated policy for this nation in recent months, are not sane. Terrified that Argentina will ignite Ibero-America's, or the world's fragile debt bubble, they are going to extraordinary lengths, to maintain the myth that Argentina's crisis is "fixable"—that the debt is performing and will be paid they insist—so long as the government agrees to sacrifice enough human lives.

Because Argentina is shut out of international lending markets, and must come up with funds to cover $8.8 billion in debt due this year, the Anglo-American oligarchy demanded that the de la Rúa government get congressional approval for the "zero deficit" plan Cavallo and de la Rúa announced July 15. The plan, which subordinates all payments to tax revenues collected, and prioritizes foreign debt payment above all, mandates 13% cuts in state sector wages and pensions, and provincial budgets, purportedly to eliminate a deficit for the second half of the year which is much larger than the $1.5 billion figure cited.

President de la Rúa had already put through the plan by decree, but needed the vote in Congress, not only to get around the problem of local courts contesting the decrees' constitutionality, but also to send a message to "the markets" that the bill had broad support—a lie.

Passed in the House of Deputies during the third week of July, the bill exempted from the 13% cut, all monthly pensions and wages of $500 and below, although opposition Peronists and others tried to raise the ceiling to $1000. In the Senate, where the Peronists hold a majority, it took ten hours of tortured debate over the evening of July 29 and early morning of July 30, to get it passed. The Peronists only showed up long enough to provide a quorum, then left the room, giving the Alianza legislators the majority it needed. Even so, the bill passed by only five votes. It kept in place the $500 figure for pensions exempt from cuts, although the government promised to try to raise that to $1,000 as soon as "we start bringing in more money." The cost of the average monthly market basket in Argentina, is $1,500.

It Won't Work

"As soon as we start bringing in money?" The bill became irrelevant almost as soon as it passed the Senate. The economy is contracting so rapidly—July tax revenues dropped by 8.7% compared to July of 2000, and dropped 15.9% compared to June—that Cavallo would have to cut far more than the 13% his bill calls for, in pursuit of a goal that is financially and politically unattainable. In fact, Chief of Cabinet Chrystian Colombo admitted on July 30 that "there is no limit" to the cuts that can be made in state-sector wages.

On July 31, fourteen banks that had conditioned their participation in a new debt swap on passage of the zero deficit bill, did swap $1.3 billion in Treasury bills for longer-term paper, at a variable rate of between 17% and 21.5%. Local pension funds also agreed to refinance $2.3 billion in government securities, which together with the swap, covers $3.6 billion of the $4.3 bn. coming due this year. The government expects mutual funds and small investors will buy the remaining $1.02 billion.

Whatever signal this deal was supposed to send, "the markets" didn't get it. On August 1, all hell broke loose. The country "risk rate," the percentage above comparable U.S. Treasury notes Argentina must pay in interest when it borrows abroad, jumped to an unprecedented 17.5%. The Merval stock index dropped 4.3%. Bonds dropped by an average of 5.1%, and bank deposits and foreign reserves continued to flee the financial system unabated. A desperate Cavallo pleaded at an Aug. 1 press conference to "give us a chance" to show that his genocidal policies can revive the economy.

Since early March, foreign reserves have dropped by $11.6 billion. In a single day, Friday, July 27, they dropped by $965 million, while bank deposits dropped $291 million. In July alone, bank deposits dropped by almost $9 billion—the amount that left the banking system during a three-month period at the height of the 1995 "Tequila" crisis unleashed by the Mexican peso devaluation.

Fuelling panic, on July 30 Moody's rating service called for a further run on the banks, when one of its executives told Bloomberg wire service: "We believe that the authorities would probably have to impose a bank holiday or deposit freeze, in order to avert further drains on bank deposits." Terrified citizens, who recall the Carlos Menem government's seizure of bank deposits in 1989, continued to exchange their pesos for dollars and withdraw them from the banks.

Since according to the "convertibility" law Cavallo instituted in 1991, every peso in circulation must be backed by a dollar held in the Central Bank, the fear is that the continued outflow of foreign reserves would undo the one-to-one peso-dollar peg, leading to devaluation and certain default.

Jumping Into the Abyss

The evidence that Cavallo's strategy can only lead to further disaster is staring world leaders in the face, and some international bankers have drawn the correct conclusions from it. On July 28, the *Neue Zuercher Zeitung,* which reflects the thinking of Switzerland's conservative bankers, editorialized that a default were unavoidable, since Cavallo's zero deficit plan can't possibly work. Even were the federal and provincial governments to attain the zero deficit goal, the *NZZ* warned, deeper austerity would further undermine consumer spending in an already wrecked economy, where official unemployment is now at 16.4% and the potential for social conflict is great. A debt moratorium, although "painful," might be a "healthy step," the daily added, particularly were it accompanied by necessary reforms.

Other banking factions recognize that some form of default is inevitable, but are looking for ways to still "make a buck." JP Morgan is proposing a six-month "restructuring" scheme, consisting of a 35% debt writeoff by international creditors, but new pounds of flesh in exchange—application of deep austerity, and interest rates of 18-19% on restructured debt. Columbia University's Charles Calomiris, who runs in Mont Pelerin Society circles, proposes something similar, but demands that Argentina "do away with all protectionism" and impose "profound," nation-wrecking reforms.

But as we go to press, and Argentina's unravelling continues unabated, U.S. President George W. Bush, British Prime Minister Tony Blair, and former U.S. Treasury Secretary Nicholas Brady, among others, are engaged in frenetic, high-profile efforts to purportedly help Argentina avoid default, by demanding that it continue to kill people.

Bush put in a phone call to de la Rúa on Aug. 1, while the Argentine President was lunching with Brazilian President Fernando Henrique Cardoso and British Prime Minister Tony Blair in the city of Foz do Iguazú. Bush praised de la Rúa's "courage" and determination "to stay the course," reassuring him that the "reforms" embedded in the "zero deficit" plan would prove to the world that Argentina can "meet its foreign obligations"! He reported he was sending Treasury Undersecretary John Taylor to Buenos Aires on Aug. 3, to discuss possibly moving up some International Monetary Fund disbursements now scheduled for September.