Argentine Default Brings Collapse A Step Closer

Call it what you will, Argentina has defaulted on its foreign debt. The country was brought to default by a long and painful policy of looting and destroying Argentines' living conditions—supposedly to generate debt payments and avoid default! Argentina's real foreign debt (including domestic debt denominated in dollars, and therefore really foreign debt) is approximately $222 billion, making this the largest sovereign default in history.

President Fernando de la Rúa and his Finance Minister Domingo Cavallo are jabbering about the "voluntary" restructuring they announced in late October, to exchange $95 billion in public debt bonds, bearing interest rates above 20%, for longer-term ones at rates of no more than 7%.

Combined with deeper austerity—Cavallo intends to shut down the entire federal government in December—the duo say they will save $4-5 billion annually on interest payments and thus be able to meet their foreign obligations.

Not a chance. In comments made Nov. 2, U.S. 2004 Presidential pre-candidate Lyndon LaRouche said the real story here, is that Wall Street and the Anglo-American financial vultures are doing the same thing with the Argentine "restructuring" that the U.S. Treasury tried to do the week before, when it announced it would stop issuing 30-year Treasury bonds. It's a desperate ploy to postpone a blowout. "It won't work in Argentina, and it won't work in the United States either," LaRouche warned.

Even former Israeli Central Bank Governor Jacob Frenkel, now the president of Merrill Lynch International, who is advising Argentina on the restructuring plan, admits that while he wouldn't call the scheme compulsory, it really is a deal bondholders don't have the option of refusing. "If you have a tree that only grows fruit at the rate of 5%, the option of 10% is not feasible. So you take the 5% voluntarily," he told London's *Financial Times*.

On Nov. 6, Standard & Poor's called the Argentine debt-swap plan a "selective default." Fitch, Inc. followed suit, calling the plan a "default event," and dropped ratings on Argentine bonds to junk bond status.—*Cynthia R. Rush*

11, 2001. "By contrast, commercial banks provided nearly two-thirds of private flows to these economies in the early 1980s. Emerging market [loan] exposures of U.S. banks, for example, dropped from 12% of assets at end 1982, to about 2.5% by March 2000."

While bank loans ("cash you can use") were being shut off, as described at the outset of this article, the IIF statistics show instead an enormous influx of equity investment ("we buy you") from the banks into the Third World. **Figure 4** shows that equity in the Third World now dwarfs private credit such as bank loans. But note the line marked "Resident lending and other" in Figure 4. This "flight capital" is *an outflow, back into global financial markets, as large as the equity inflow*.

In the latest phase of the financial collapse, even equity sales are drying up, and prices for Third World equity are collapsing. Korea's giant Daewoo Motor Co., which would have sold for $2 billion in 1997, brought under $500 million in a recent sale to General Motors after GM waited three years for the stock to drop. "Many countries don't want to sell their industries at today's low prices," a U.S. Treasury official told *EIR* in late October, "but we say, 'Better to sell it now at 20¢ on the dollar, than later at 10¢ on the dollar,' because the longer they wait, the less they will get."

Even the IMF at a recent internal conference said it would ease up on its standard poison—pressuring nations to privatize all their national assets. The reason? There are no buyers now for these assets.

Now, Are You Ready To Learn Economics?

The economy is crashing, as LaRouche warned. What should you do now?

Read this book and find out.

ORDER NOW FROM
Ben Franklin Booksellers
P.O. Box 1707
Leesburg, VA 20177

We accept MasterCard, VISA, Discover and American Express

OR Order by phone:
toll-free **800-453-4108**

OR 703-777-3661 fax: 703-777-8287

$10 plus shipping and handling. Virginia residents add 4.5% sales tax.

Shipping and handling: $4.00 for first book, $.50 each additional book.

© 2001 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.