IMF Blinks in Argentina Showdown, All Eyes on Brazil

by Cynthia R. Rush

After almost a year of negotiations with Argentina, the International Monetary Fund announced on Jan. 16 that it had decided to grant a "transitional" agreement to that government—not to include any fresh funds, but to simply roll over the $6.6 billion it has coming due through August of this year (plus another $5 billion already paid in 2002). Acrimonious talks between the two teams of negotiators had gone down to the wire. The government of Eduardo Duhalde had a $1 billion payment to the Fund due on Jan. 17, and threatened to default on it, just as it had defaulted on earlier payments to the World Bank and the Inter-American Development Bank (IADB) in November and December.

Finance Minister Roberto Lavagna had warned that Argentina wouldn't touch any of its $10 billion in reserves to pay multilateral lenders, unless the Fund publicly announced that an agreement had been reached to let Argentina "repay" the IMF and others with money it would immediately be "lent" by the same creditors. Hardly a model of the leader Argentina needs in this crisis, President Eduardo Duhalde nonetheless stuck to his guns, taking advantage of the fact that the IMF's credit rating—and its very existence—might have been jeopardized had his country defaulted. He insisted that taking the reserves would place it in an untenable situation, depriving it of funds for more pressing needs.

Why did the IMF blink? Its farcical attempt to maintain the fiction that Argentina's $220 billion in non-performing foreign obligations is really performing—i.e., a creditors' asset—is related entirely to the bankrupt status of the world monetary system, and most immediately, to neighboring Brazil's gigantic, and highly unstable, $500 billion debt bubble. The fear was that an Argentine default to the IMF, and subsequent damage to the financially precarious World Bank and IADB, would have set off an uncontrollable chain reaction that could have brought down the whole system.

Had the decision been up to IMF Managing Director Horst Köhler, there would have been no announcement. Together with Deputy Managing Director Anne Krueger and Western Hemisphere Division Chief Anoop Singh, Köhler had ruthlessly badgered Argentina for a year, demanding a "sustainable economic program," a "political consensus" for deeper austerity measures, greater "fiscal responsibility" from provincial governments, and a host of other policies impossible to impose. Their demands coincided with the horrific news of children dying of starvation—because of IMF policies already implemented—in one of the world's premier agricultural producers; a tragedy which continues to occur. As late as Jan. 13, when the Argentines were expecting an announcement at any moment, Krueger—"Iron Lady" to the Argentines—delayed it, demanding "review" of monetary provisions which Lavagna said had already been resolved.

Higher Stakes

But ultimately, the decision didn't rest with Köhler, Krueger, or the IMF's top managers, but with the governments of the Group of Seven industrialized nations, whose leaders decided that the implications of a showdown were too risky. Ibero-America is wracked by ever-expanding political and financial volatility. Venezuela's "left-right" political turbulence threatens to spread to other countries, Bolivia most immediately. The Mexican, Venezuelan, and Chilean currencies are plummeting vis à vis the dollar, which is itself plunging on international markets. Uruguay and Paraguay face probable debt defaults. There is already talk that Mexico will soon be "another Argentina." So, a tight-lipped Horst Köhler issued his Jan. 16 statement recommending approval of the transitional program for Argentina, while warning that the

President Eduardo Duhalde (third from right) meets with leaders of the CGT, the Argentine trade union federation. Neither he nor the next President can impose more austerity on the desperate country, as the IMF demanded for a year. The battle now shifts to Brazil.

program "involves exceptional risks to the Fund," whose implications "for Argentina, the region, and for the Fund itself," should be weighed "carefully."

Immediately, Argentina paid the $1 billion to the Fund—a day before the deadline—and has since paid another $1.5 billion to the World Bank and IADB together. The payments have all come out of its reserves, with the expectation they will be reimbursed when the IMF Board approves the program within a few days.

The announcement was greeted with howls of rage from various corners of Wall Street and London, as creditors, speculators, and other financial sharks screamed "blackmail." How could the IMF make such an agreement, without obtaining a commitment to impose a "serious economic reform plan?" cried the *Washington Post* in its Jan. 20 editorial. Crédit Suisse-First Boston executive Lacey Gallagher complained that Argentina hadn't offered a "sustainable program. . . . I don't think it helps the Fund or Argentina, to get a program without a clear purpose other than to roll over the Fund's own credits." The *Wall Street Journal*'s Mary Anastasia O'Grady, foaming at the mouth as is her style, called her Jan. 17 article "After This Week, Why Would Anyone Trust Argentina?" The Duhalde government has "cheated" the system, broken "the rule of law," and "jerked around" the IMF. Until it follows the "rules," she raved, Argentina "is doomed to underdeveloped-country mediocrity."

A few analysts came closer to admitting that the real worry was the future of the global financial system. London's *Financial Times* noted on Jan. 23 that some of the G-7 countries had backed the Argentina deal "out of fear for the health of the international financial institutions, and the knock-on effects on other borrowers if Argentina defaulted." The military-linked Stratfor news agency reported that both the IMF and Argentina were spared "the specter of another default. . . . That's a point not lost on the IMF. It's one thing for private investors to have to write down their assets; quite another when the world's banker of last resort is forced to do so."

But none dared agree with Democratic Presidential pre-candidate Lyndon LaRouche, that this global financial meltdown is so advanced that the IMF loses either way. If it succeeds in imposing its austerity policies on Argentina and Brazil, LaRouche has noted, those nations will collapse and bring down the IMF with them. But if Argentina and Brazil repudiate IMF policies, that will also bring down the IMF, and that is the simple reality.

There Is No 'Stability'

Meanwhile, the deal that the G-7 rammed through for Argentina may be much more "transitional" than anyone thought. The IMF's expressed hope is that the program will get the country through April's scheduled Presidential elections and the installation of a new President on May 25. Then, a different kind of agreement will supposedly be possible with a more "stable" Argentina, in which the austerity dictates that the Duhalde government can't impose today can be rammed through.

But Argentina's economy may not make it to April or May. There is nothing in the IMF deal that addresses the destruction of its physical economy or the desperate poverty of its population; nor is there any basis for the "recovery" the government is stupidly predicting.

As for Brazil, its "stability" is equally fictional. New President Luiz Inácio Lula da Silva is attempting to do the impossible, by simultaneously maintaining IMF austerity policies—to keep his promise of paying the foreign debt on time—and vowing to address his country's vast social needs, which means repudiating IMF policy. The pressures from both sides are building very rapidly, and will come to a head in April and May of this year, when Brazil must make enormous debt payments, and Lula must produce positive results for the large majority of Brazilians who voted for him.

The insanity of this policy course is seen in the ridiculous spectacle of Lula traveling to Davos, Switzerland to speak at the annual meeting of the world's top financial oligarchs, the World Economic Forum, right after speaking at the meeting of the World Social Forum in Pôrto Alegre, Brazil, the Jacobin "anti-globalization" movement run by the same Davos oligarchy. He will quickly discover that he can't have one foot in each camp and also survive as President of Brazil.