

Argentina President Kirchner: ‘There Is Life After the IMF’

by Cynthia R. Rush

On the final day of his five-day state visit to Germany, Argentine President Néstor Kirchner delivered a pointed warning to the International Monetary Fund and its allied financial beast-men who are determined to crush Argentina for daring to defy them. “There is life after the IMF, and it’s a very good life,” Kirchner said from Munich on April 15. And remember, he added, that “being in the embrace of the IMF isn’t exactly like being in heaven.”

EIR readers who have followed founder Lyndon LaRouche’s writings for some time, would have recognized in the Argentine President’s words an echo of *EIR*’s 1995 Special Report entitled “Yes, There Is Life After the Death of the IMF,” which included some of LaRouche’s crucial writings on economics and defense of national sovereignty.

Now, in an international environment shaped by LaRouche’s fight to create a New Bretton Woods, Kirchner chose these words to respond to the IMF’s blackmail threat not to negotiate a new agreement unless the government agrees to reopen the bond swap concluded on Feb. 25 to restructure \$82 billion in defaulted debt. Although 76.6% of bondholders participated in the restructuring, the Fund is demanding that Kirchner now show “good faith” by allowing the remaining 24.4% who initially rejected the government’s offer, and who hold some \$20 billion in defaulted debt, to join in. A sizable portion of that 24.4% are the vulture funds that speculated on Argentine debt prior to the 2001 default.

At the same time, the IMF is demanding deeper “structural reform” (more austerity), a higher primary budget surplus (the amount set aside to pay debt), and respect for the “property rights” of those foreign-owned utility and oil companies that have already savagely looted this nation.

No ‘Privileged Creditor’ Status

During his April 11 flight to Berlin, Kirchner reportedly told his closest aides that he would consider pulling the plug on the Fund altogether, revoking its status as a “privileged creditor,” unless the blackmail stopped. Since its December 2001 default, Argentina has paid \$12 billion to the IMF, prioritizing payments to that institution above any other creditor. To other bondholders, the Kirchner government offered a 60% writedown of the debt, underscoring that this was the most it could pay without jeopardizing the physical well-being of a population exhausted by years of looting.

As he told an audience at the Friedrich Ebert Foundation in Berlin on April 14, the IMF model which had been “imported and imposed” on Argentina unleashed the “worst social-economic catastrophe in our history, which exploded at the end of 2001.” This catastrophe, he said, was the product of “a political-economic model at the service of interests alien to the common good, which favored the proliferation of the corrupt, genocidalists, and thieves.”

“I received an Argentina devastated by an economic program supported by the International Monetary Fund,” Kirchner said. The country’s rulers at that time were put on display by the IMF as an example to follow, “saying ‘here, this is the path the countries of the world have to follow.’ ” Yet dozens of governments have fallen, he added, because they imposed these failed IMF prescriptions, whose priority was collecting debt instead of promoting economic development.

“The placing of private interests over the general interest was the expression of a specific model of society which led to generalized poverty, uncertainty, isolation, and impoverishment of life at all levels” in Argentina, President Kirchner warned. Today, he said, it is the IMF that needs to be “restructured,” because it is not serving the purpose for which it was

originally intended. "As it operates today, it has no future, and the developed world has to understand this." As for Argentina, he added, it is prepared to work "actively and constructively on behalf of a new world economic order," without renouncing the "autonomy of its decision-making."

From Germany, where he held a warm personal meeting with Chancellor Gerhard Schröder, Kirchner announced that the bond swap "will not be touched." In a statement issued April 16 in Washington, Finance Minister Roberto Lavagna affirmed that the Argentine government "fully ratifies the fact that the swap of public debt which concluded successfully on Feb. 25 will not be reopened." Moreover, he added, "the Republic of Argentina doesn't accept discriminatory treatment, or unusual demands regarding sovereign restructuring."

A 'Moral Hazard'?

The problem Kirchner's defiance poses for the international financial predators is that the demise of the global monetary system is imminent. The U.S. auto industry, the world's largest, is on the brink of bankruptcy, and the plunging value of the dollar could unleash global financial catastrophe, if not stopped in an orderly fashion.

Under these precarious conditions, Argentina's refusal to submit to IMF dictates, sets what Japanese Finance Minister Sadakazu Tanigaki described as a "bad precedent," that might be emulated by other indebted nations. Speaking at the annual meeting of the Inter-American Development Bank (IADB) April 9-10 in Okinawa, Tanigaki said that the way that Argentina dealt with its debt crisis and restructuring shouldn't be tolerated, as it could otherwise "constitute a moral hazard."

The reality is, that were other debt-strapped nations to follow Argentina's lead in defying the IMF, they could bring down the whole system. Brazil, whose \$500 billion debt bubble dwarfs Argentina's, is on everyone's mind, as participants at the IADB meeting readily admitted. Even though Brazil is so far the "good boy" on the block, in terms of applying IMF policies domestically, there is nothing stable about its overall financial situation.

Argentine Finance Ministry officials who participated in talks with the IMF in Washington over the weekend of April 16-17 reported that IMF and G-7 pressures on Argentina over its debt restructuring are intimately tied to fears over Brazil. "No one wants to say it, but they're all thinking about Brazil." They're worried that at some point, President Lula "might break the vicious cycle of high interest rates and increased indebtedness and go with a solution similar to ours," one official told the daily *Página 12*.

This is the context in which the threats against Argentina to reopen the bond swap have intensified. IMF Managing Director Rodrigo Rato warned in an April 14 press conference that Argentina had to adopt a "realistic" strategy toward the \$20 billion in "unrestructured debt." Otherwise, he hypocritically lectured, any future loans or agreement would be a violation of the Fund's "lending into arrears" policy.

During other press conferences the same day, Rato's associates delivered the same message. Outgoing World Bank President James Wolfensohn, outgoing Treasury Undersecretary John Taylor, and Secretary of the Treasury John Snow all threatened that any future agreement with the IMF would be contingent on Argentina finding a "solution" for those "holdout" bondholders. Especially outrageous was the unconfirmed report that the Fund expected Argentina to annul legislation passed last February that makes any reopening of the bond swap illegal.

'A Fighting Position'

There has reportedly been some Argentine commitment to the IMF—no timeframe has been announced—to allow for a "differentiated" approach toward those bondholders who didn't participate in the swap. There will be no reopening of the bond swap, but as one Finance Ministry official put it, "one thing is the vulture funds and the other are the small Italian investors." There are 450,000 in the latter group who were swindled out of their savings by Italian banks, which sold them high-risk Argentine bonds in 2001, knowing that a debt default was imminent. Italian legislators have called this operation by the banks illegal.

Argentina was counting on a new agreement with the Fund in order to roll over debt coming due this year, which it would otherwise have to scrounge to produce. The agreement to deal with the holdouts in some unspecified fashion is a way to buy time, in a situation Kirchner knows will be filled with tension and continued bludgeoning. He has been heard to tell close associates, "as the Gospel says, we have to be as docile as the dove and as astute as the serpent" in dealing with the Fund.

But as LaRouche emphasized in his April 7 webcast in Washington, D.C., President Kirchner is now also in a "extremely interesting strategic situation" as a result of recent Ibero-American moves toward South American physical integration discussed by the Presidents of Brazil, Colombia, and Venezuela with Spanish Prime Minister Rodríguez Zapatero during their historic March 29 conference in Ciudad Guayana, Venezuela.

Responding to an e-mail question sent from a meeting in the Annex of the Argentine Congress, organized to listen to the webcast, LaRouche underscored that the Argentine situation must be viewed "strategically," rather than from the inside out. The commitment to forge the continent's physical integration, which the four heads of state discussed at their March 29 meeting [see *EIR* April 15, 2005] "makes a change in the entirety of the situation of South America," and provides Kirchner with a crucial opportunity to flank the financial warfare waged against him by the IMF and vulture funds.

While the government's debt restructuring bond swap is "not desirable in terms of its effect," LaRouche said, it puts President Kirchner "in a fighting position . . . and then maybe he'll get a victory because he's got a fighting position."