

Argentina economic policy up in the air

by Cynthia Rush

While Vernon Walters was in Brazil plotting a coup last week, his and Henry Kissinger's friends in Buenos Aires carried out a little coup of their own.

In the three days between Aug. 23 and Aug. 25, control over Argentina's economic policy shifted from the hands of Finance Minister José M. Dagnino Pastore and central bank president Domingo Cavallo to the pro-British monetarist faction around former Finance Minister José Martínez de Hoz. At the same time, the faction within the military that favors a rapid rapprochement with the United States and Great Britain removed the head of the Seventh Infantry Brigade in Corrientes, Lt. Gen. Ricardo Flouret, from his command, because of his outspoken criticism of their policies.

While an effort is being made to portray the new Finance Minister Jorge Wehbe as a "moderate," who has even attacked Milton Friedman and the Chicago School from time to time, the truth is that the hardline monetarists responsible for dismantling Argentina's economy over the past 15 years have attempted a comeback in order to determine the direction of Argentina's economic policy. Archmonetarists Adalbert Krieger Vasena, Finance Minister from 1967-69, and David Rockefeller's friend "Joe" Martínez de Hoz, are both planning to attend the IMF meeting in Toronto, although neither currently holds a position in the government.

Why now?

Since the end of the Malvinas conflict, the situation inside Argentina has grown increasingly volatile. The factional brawl inside the armed forces, over such issues as how the South Atlantic war was managed, the direction of economic policy, and especially over how to deal with the country's \$40 billion foreign debt, is reaching pitched levels. The pro-British monetarists have demanded that Argentina agree to a freeing of British assets, frozen since the Malvinas war, and accept the International Monetary Fund's austerity recommendations, so as to appear creditworthy in the eyes of the international banking community.

While resistance from nationalists has made such a course impossible, the degree of confusion and disarray among their ranks is such that they have been unable to force through any coherent alternative. As one press source in Buenos Aires

told *EIR*, the nation remains in a "state of continual indefinición."

But the international banks, and Washington policymakers *are* worried about Argentina. They are worried that with \$40 billion in unpayable foreign debt, Argentina could link up with other Ibero-American nations in a much-feared "debtors' cartel." That threat loomed during the last week in August when press sources in Buenos Aires and Caracas reported that a high-level Venezuelan mission scheduled to arrive in Buenos Aires on Aug. 28 would be discussing the "formation of a common front for the renegotiation of the foreign debt" at the IMF meeting in Toronto. The Venezuelan mission was scheduled to continue on to Brazil and Mexico, but after the Aug. 24 cabinet shifts in Argentina, Venezuelan president Herrera Campins ordered it postponed.

Vernon Walters's presence in Brazil on Aug. 23, together with a signal of U.S. backing in the form of an Aug. 24 phone call from national security adviser William Clark to the outgoing Argentine ambassador in Washington, gave the monetarists in Buenos Aires the confidence to make their power play during this same week. Clark's phone call, reported by two Buenos Aires dailies, and confirmed independently by *EIR*, was particularly revealing. It reportedly offered U.S. support for the renegotiation of Argentina's debt on the same terms given to Mexico if Argentina would make a deal with the British banks before the IMF meeting began on Sept. 6.

- Aug. 23: with Walters still in Brazil, the Army high-command ordered the arrest and "retirement" of nationalist Gen. Ricardo Flouret, whose demands that Argentina play a more active role in the Nonaligned movement and withhold debt payment from those nations who collaborated with Britain during the Malvinas conflict, caused embarrassment to the proponents of mending relations with both the United States and Britain.

- Aug. 24: Finance Minister Dagnino Pastore, a proponent of making a deal with the IMF, resigned; he was reportedly forced out by the nationalist military who oppose his views on the foreign debt. Central bank president and dirigist economist Domingo Cavallo was mooted as his successor.

- Aug. 24: Cavallo resigned as central bank president, prevented from taking the Finance Ministry by the advisers of President Bignone who are close to Martínez de Hoz. This group simultaneously imposed Jorge Wehbe as the new minister, and monetarist Julio González del Solar as the new president of the Central Bank.

But even if the monetarist crowd temporarily has control of the Finance Ministry, there is no guarantee they will hold onto it for long. Argentina is in the midst of a devastating economic crisis, and Buenos Aires is rife with rumors of a coup by anti-monetarist forces who would repudiate the foreign debt and follow Mexico's example of nationalizing the banking system. In this environment no amount of "preventive" cabinet shuffling and removal of troublesome military officers will keep the lid on the volatile domestic situation for long.

Combating interest rates, seeking unity

The 50 delegates to the annual meeting of the Latin American Parliament, representing all major political parties in Latin America, convened in Bogotá the week of Aug. 23, passing a number of resolutions, among them the following:

Resolution 1

Whereas, present high interest rates on the international capital markets are a factor of special concern given the battered condition of the world economy, which has caused grave difficulties to the internal economic and financial management of many countries; *Whereas*, the high interest rates have caused massive capital flight and have increased upward pressures on prices and wages, especially in those countries in which currency depreciates rapidly, and have cut into the competitiveness of the products of some nations whose currency is devalued; *Whereas*, the high interest rates discourage investments, since few highly profitable opportunities exist;

Whereas, the high interest rates also have a harmful effect on the public debt of the developing countries; *Whereas*, the U.S. government has the power to manage its economic policy as it wishes; however, that country should recognize how much the raising of interest rates has affected all Latin America, and should therefore make a healthy change in them; one of the main objectives of the Latin American Parliament is to fight to eliminate the obstacles which slow the development of our peoples; *Whereas*, interest rates have been raised, among other reasons, to control inflation in the U.S. without stopping its arms buildup.

Therefore, it is agreed:

- 1) To tell the U.S. government that its high-interest monetary policy is causing a financial crisis of unforeseeable results which could in some cases lead to genuine collapse.
- 2) To support all measures to avert such dangers which are taken by the Latin American governments.
- 3) To declare that the present conjuncture as well as other permanent conditions show the need to advance under the protection of a solid Latin American Community of Nations.

Resolution 4

Whereas, the developing countries are faced with grave problems which weigh down on their economic and financial condition; *Whereas* these countries, among them many Latin

American nations, are being harmed by large foreign public debts; *Whereas*, the foreign public debts are so high that their debt service eats up 20 or more percent of annual budgets.

Therefore, it is agreed:

1. To request that developed countries offer longer repayment terms on the public debt of the Latin American countries and reduced interest rates, in order to thereby lower the cost of debt service.
- 2) To propose that the debts be renegotiated in such a way as to facilitate the recuperation of the developing countries, which in turn is a guarantee that such debts will be paid to the lending countries.

Resolution 7

Whereas, Argentina was the target of measures by the European Community [EC] and other industrialized countries which harmed its trade and foreign economic relations; *Whereas*, said measures were taken in violation of every international norm, violating the charter of the United Nations which sets specific norms and procedures on sanctions questions; *Whereas*, the economic blockade imposed on Argentina shows what Latin America can expect from the EC when, in cases like these, it tries to make its rights respected.

Therefore, it is agreed:

- 1) To ratify the solidarity which the Latin American countries repeatedly offered their sister Argentine republic.
- 2) To alert the Latin American nations about the results of measures such as those taken by the EC.
- 3) To urge the Latin American governments to put into operation the mechanisms sought by the Latin American Economic System (SELA), in which specific foreign-trade responses would be taken against actions such as those taken by the EC.

- 4) To exhort the Latin American governments to set up consultation organisms which would take prompt response measures to economic aggression.

Resolution 9

Having seen the document prepared by the Permanent Secretariat of the Latin American Economic System, titled, "Bases for a Latin American Strategy for Security and Economic Independence," and considering that said study merits the support of the Latin American Parliament, *it is agreed:*

- 1) To embrace said document as an important basis for analysis, treatment and planning for short, medium and long term action in search of Latin American unity and economic integration;
- 2) To request the Latin American governments to make the SELA document known through their educational systems, labor unions and business association;
- 3) To exhort the presidents of the Latin American countries, in the event of that they hold a summit meeting, to decide to create an energetic and effective organism capable of promoting and reaching the dreamed-of economic integration, as outlined in the conclusion of said SELA report, understanding that said proposed organism would, within a reasonable time, make viable the highest aspiration of the institutionalization of the Latin American Economic Community.