

# Will the bankers' strategy to isolate Argentina backfire?

by Susan Welsh

In the face of Argentina's refusal to accept the International Monetary Fund's (IMF) prescription for destroying its economy, the international banks are moving to isolate Argentina and make of it a brutal example of what happens to a country that defies the "creditors' club." The issue is not whether Buenos Aires defaults on its debt payments due June 30, but rather the creditors' determination to maintain the IMF dictates at all cost.

In so doing, the banking mafia has forced Argentine President Raul Alfonsín into a corner from which there is only one exit: to lead the brewing nationalist rebellion against IMF destruction of the country, committing the country instead to a course of booming high-technology industrial development. *EIR's* correspondents on the scene report that, without such dramatic actions, Argentina stands on the brink of social disintegration, and even dismemberment as a nation.

The drive to isolate Argentina was set into motion with U.S. Treasury Secretary Donald Regan's June 15 announcement that the United States had canceled a Treasury loan guarantee on loans by other Ibero-American nations to Argentina. U.S. commercial banks followed suit, as on June 18 the Argentina Bank Coordinating Committee, led by Citibank's senior vice-president William Rhodes, rescinded an expected \$125 million loan offer to Argentina, which was to have helped the country update its interest payments at the end of June.

Threatening to overthrow the government if Alfonsín does not yield to the IMF, Federal Reserve chairman Paul Volcker wrote in a commentary published in the *Journal of Commerce* June 19: "Democracy is not likely to flourish in the midst of accelerating inflation and economic isolation."

The threat was further spelled out by *New York Times* columnist Leonard Silk on June 20: "There is a growing recognition that what is economically required in Argentina may be politically impossible for the government to deliver." The IMF, he said, "is carefully avoiding any possible accusation that it is driving Argentina to the breaking point, but a breaking point could be approaching, for if the Alfonsín government does not restore order to its economy, the inflation may accelerate and itself cause a breakdown of the society."

These threats are aimed as much at the rest of Ibero-America as at Argentina. The key question for the continent now is whether the debtors will unite behind the Alfonsín government to prevent the realization of Volcker's scenario. Volcker and company in turn run the risk that too heavy-handed use of the creditors' club will backfire, forcing the debtors to band together and forging Argentine unity.

Indications are that this is exactly what is now occurring in Argentina. Alfonsín's response to the threat to Argentina's existence as a nation came in a television broadcast June 20. "We will not accept measures that affect the wages of the most needy," he said. "We do not want our economy managed with recessive methods; we will meet our commitments with effort and sacrifice proportional to the capacity of the different sectors. . . . *We will be severe with those who, from within or without, seek to disturb the march of democracy* [emphasis added]." He added, in a warning to restive military layers who may be thinking about a coup, that the armed forces are the "military power of the constitution" and are under the command of the presidency.

Volcker's statements also drew an angry reply from Peronist leaders in Argentina. "We have heard statements from a foreign official which sound to me like threats of destabilization," stated Juan Labake, a leading member of the newly-created Peronist Supreme Command, to the Buenos Aires daily *Clarín* on June 20. Argentina "will suffer very harsh pressures from the outside" because of its position against the IMF. "We must prepare ourselves to resist, united as a nation," Labake said. *Clarín* added that while Labake was careful not to mention any names, it was Volcker's declaration that he had in mind. Volcker was speaking of any nation which attempted to break with the "international institutions," the paper reported.

Labake was one of the architects of the June 7 Multiparty Statement, signed by the government and the heads of 17 opposition parties, which committed the government and opposition policies to combat the IMF jointly with the rest of Ibero-America so that Argentina could industrially develop and expand its population. The statement called for wage increases, strengthening the trade unions, demographic growth, and high-technology economic development.

## The choice confronting Alfonsín

President Alfonsín must stick by the principles of this Multiparty Statement, or the consensus achieved among political forces in the country will quickly evaporate. The international financial oligarchy and its local henchmen are pushing for just this to occur. On the morning of June 18, Alfonsín met with the head of the Club of Paris, Jean-Michel Camdessus, who arrived to deliver a letter from the heads of the 14 industrialized countries who make up the creditors' cartel. The letter demanded that Argentina go back to the program the IMF is demanding, which includes wage reductions and a halt in Argentina's once-ambitious full-cycle nuclear power program, in order to pay interest on the nation's \$44 billion foreign debt.

Back in April, those in the government who were listening to special debt adviser Raul Prebisch appeared willing to accept a tough IMF austerity program. Prebisch owes his career and allegiance to the British banking establishment in particular, and while demanding lower interest rates, was quite willing to trade off the sovereignty of the nation for a stretchout in debt payments. He held up Lazard Frères' Felix Rohatyn's reorganization of New York City finances, which stripped the city of essential services to pay the banks, as a model for Ibero-America. New York was placed under rule of a bankers' committee which still rules to this day, nearly 10 years after the "temporary financial crisis."

A secret "progress report" on talks between Prebisch and IMF boss Jacques de Larosière that was leaked April 5 said that both sides had agreed to cut Argentina's fiscal deficit from 18% to 6% of Gross National Product, to implement an exchange rate policy that would "stimulate exports" (meaning accelerated currency devaluation), to hike domestic interest rates to "stimulate savings," to scale back scheduled wage increases, and so on. But massive popular resistance to cuts in living standards and the IMF, getting institutional support from the principal opposition party, the Peronists, aborted that deal.

## Near the breaking point

By late April, the Radical government faced a serious loss of power. The collapse of the economy and attempts to break labor's resistance to that, the attacks on Argentina's independent nuclear program in the attempt to satisfy international pressures, the spread of pornography in a permissive atmosphere defended by some Socialists within the government—all had placed the government on a confrontation course with the Catholic Church, military, and labor.

The effects of economic collapse have been felt in every institution. Budget cuts which left the military without the means to provide food to all the nation's soldiers increased military restiveness against the democratic government. In some provinces, soldiers are sent off base at 11 a.m., and return to base only in the evening, because there is no food

to feed them. Some 3,000 non-commissioned officers have reportedly asked for retirement, because their salaries are not enough to live on. The Army is stalling on letting them leave! Engineers and technicians at the military's national industries are being replaced by incompetent economists and sociologists.

Cuts in federal support for the provinces have led to talk of secession from the republic in both the north and south. The Soviet Union is feeding this movement with offers to make separate credit and trade deals with provincial oligarchical interests. The government has spent more on TV extravaganzas for the province of Buenos Aires than it has budgeted for the provinces, one representative of a southern state reported.

The visit of Mrs. Isabel Peron in late May halted the slide towards disintegration. Pulling together a new leadership command within the Peronist Party, Mrs. Peron offered the government Peronist support—if it accepted the nationalist program for developing the country and its population which the Peronists put forward. That initiative led to the signing of the Multiparty Pact June 7, establishing the programmatic basis upon which national unity could be preserved.

Now positive steps to reactivate the economy are desperately needed. A mass strike wave is sweeping the country which even the union leadership is not fully able to control. On June 18, the Peronist-run opposition CGT labor federation announced that it would call a general strike within a week if President Alfonsín did not grant further wage concessions and protection to labor by June 22. The central demand, in addition to local issues affecting each union, is an increase in the basic minimum wage, which is now below that necessary to cover family food costs.

The CGT put forward a broad program to reverse the economic decline as the basis for negotiations with the government on reversing the looming government-labor confrontation, including 1) expansion of the domestic economic program, 2) lowering of interest rates, 3) nationalizing of banking deposits, and 4) resisting the International Monetary Fund. On that basis, negotiations began which have postponed the immediate threat of a strike. The June 22 plenary of the national and regional organizations of the CGT ended without a strike vote.

But while no strike was decided upon, approximately 2.7 million workers are already on strike slowdown, or pre-strike alert in the greater Buenos Aires region alone—some 63% of the workforce in the area where most of the Argentine population is concentrated. Now in motion are the metalworkers, commercial workers, textile workers, construction workers, and the oil workers, and several labor federations of state-sector workers.

But as CGT leader Saul Ubaldini stated June 19, "a dramatic shift in economic and social policy" is needed for the government to be able to meet the needs of its population.