The Looting of Argentina

Nurse in Buenos Aires protests against non-payment of wages

plus *Brazil on the brink of default*

by John Smith ***£2.00***

All proceeds from this pamphlet are to be donated to the Comedor Carasucias soup kitchen in Buenos Aires

Contents:

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Hunger

(from the Buenos Aires daily Clarín, by Sandra Russo, May 2002 Translated by Guillermo Rozenthuler)

There are many more of them now, but they were there before. Anyone who wanted to see them could see them, even when they were "invisible". They were there when we were kids and we were told that we should finish our food because in Africa children died of starvation. And in Argentina, lots of them were already dying. And the ones who didn't die, were permanently ruined by hunger. That was the other "brain drain". And I don't mean the migration towards foreign universities that thousands of middle-class youths had to go for in order to find a place where knowledge was more valued. I'm talking about a migration towards a plain extraordinarily empty of any thought at all.

Now they pile up and they are on television. But they were there when their own parents or grandparents were hungry. They are the princes of hunger, a lineage extended as if it were natural that people were hungry. Those children grew up or spoiled their destinies. They grew up to the fate of becoming idiots -clinical idiots- or they spoiled their destinies living shitty lives that were not interesting for anyone. Because that's what hunger does: either it makes an idiot of you or it ruins your life. And maybe their absent-eyed faces scare us now because they are starting to resemble ours more and more. Day after day, they become a distorting mirror in which recognising ourselves is not so difficult.

Now we start identifying ourselves with this object of our compassion because we can't tell whether it's them or us getting closer to the poverty line. These days, it's not so easy to sweep them under the carpet. They are there and they don't say anything at all. They don't denounce or cry or complain. They just suffer. Maybe it didn't cross their minds that life is anything else apart from suffering.

They have livers and blood vessels, spinal chords and shoulder blades, pelvis and sternums, they have a body like every body, bodies that are deteriorated already, but human bodies like ours. And nevertheless, since the dawn of time the hungry ones have seemed to be something else, another race that was doomed before, a bunch of to-be-sacrificed people that never shocks and horrifies the way it should. If this is not the case, how come that political systems and economic models that include the hungry ones as if they were an unavoidable hazard can carry on ruling?

When you talk about the hungry children, your mouth dries up, words become empty, all arguments turn out to be vulgar excuses. You feel that your own welfare bothers you, that you've never done anything of any value or fairness.

Because if you don't start with the hungry ones, nothing can start.
There is nothing to be said because in the face of a starving kid, language dies and shame is born.

Chapter 1:
The Looting of Argentina

Introduction

Argentina's economic disaster has been pushed into the background by violent conflicts on other continents. Yet, in its own way, Argentina's crisis is as central to world politics as Afghanistan, Palestine or Kashmir. This is because Argentina is today a testing ground – a place where rich and powerful nations, acting through the IMF, are carrying out an economic war, forcing the Argentinian government to impoverish its people so that Argentina may resume interest payments on its gigantic foreign debt.

The IMF has been doing this all around the world and for decades, of course. But it usually eased the pressure when a country reached breaking point, and stepped in with a large IMF

Argentina's debt crisis

Argentina's total public debt (owed by central and provincial governments), as of September 2001, stood at $160.2bn, as much as Brazil but with a fifth of the population (35 million).

According to Clarin, the Buenos Aires daily, public and private debt together amounts to more than $211bn, or $6000 for each person.

Argentina paid $12bn in debt servicing during 2001; from the fourth quarter of 2001 to the first quarter of 2003, Argentina is supposed to pay $75.3bn to foreign banks and bondholders.

Argentinian bonds can now be bought for 20% of their face value, implying losses of over $100bn spread across the world financial system.

"Once the maximum politically feasible pain has been imposed on residents, the rest of it must logically be borne by foreign creditors," said FT economist Martin Wolf. The problem is, the rival owners of capital do not behave logically when their assets are being destroyed.

loan in an attempt to get the stricken country back on its feet as soon as possible. And so, the IMF spent hundreds of billions of dollars of public money in bail-outs of Mexico in 1995, and Indonesia, Thailand and other countries once called ‘Asian tigers’ in 1997-8.

There were two big problems with the strategy. While the crisis-hit nations were able to avoid formal default, the only people actually being bailed out were the foreign private investors who were enabled to flee with all their wealth intact. This, it was realised, was enormously destabilising to the world economy since it encouraged private investors to take huge risks in the knowledge that the IMF would protect them in the event of crisis. The second problem was that the IMF was running out of money.

For the past few years, therefore, the leading imperialist nations have been steeling themselves to carry out a different and much more brutal policy the next time that private investors decided to stampede out of an indebted “emerging economy”. Argentina is that next time.

Six months after its default on its huge foreign debt, Argentina remains frozen out of international financial markets, its own banking system remains paralysed and its economy and the living standards of its people are in accelerated decline. So far, the IMF has spurned the increasingly desperate pleas of its government for an loan to help recovery to begin. The IMF (read: “the US administration”), is holding Argentina’s feet to the fire, forcing its national and provincial governments to dismantle health, education and social services in order to create conditions for debt-servicing to be resumed.

Neither does the IMF show any interest in pretending that they are dealing with a sovereign and independent government. They have ordered Argentina’s elected representatives to rescind laws which make it difficult for creditors to seize debtors’s assets. Most controversially, they have demanded the repeal of the “economic subversion” law. This law was enacted in the 1980s to crack down on money-laundering, but has recently been used to prosecute bankers for their role in organising the capital flight which robbed small investors of their savings and which precipitated the crisis.

The Looting of Argentina shows that Argentina did not just fall of the cliff, it was pushed. It tries to explain what happened when Argentina defaulted on its debts and devalued its currency, laying bare the class conflicts within Argentina and its status as an oppressed, imperialist-dominated nation.

Further developments in Argentina, and the growing signs that Brazil is set to follow Argentina over the cliff are analysed in chapter 2, which takes the story up to the beginning of September 2002.

The looting of Argentina

During the "December Days" at the end of 2001, Argentina was convulsed by strikes and street protests which brought down two governments in one week.

Outside Argentina, the liberal media focussed on the participation of wide layers of the middle class in these protests, yet this important development should not hide the even bigger and more sustained mobilisation of workers and farmers, with youth and unemployed workers often at the forefront. This reached a crescendo in December, but has been on a rising curve for the past half-decade, and has featured highway blockades, occupied factories and government buildings, and eight one-day nationwide general strikes since autumn 1999.

This article discusses the background to the crisis, attempting to bring into focus the economic implosion that set off the political explosion. In the four months since Argentina was pushed off the cliff, the peso has lost 75% of its value. But even this accelerating freefall is just a prelude to the approaching cataclysmic collision with the abyss floor.

This is now imminent. At the time of writing – April 20 – the Argentine government has just announced the complete suspension of all banking activities. This extreme measure is

aimed at averting a banking collapse, hyperinflation, and the disappearance of the peso, symbol of Argentina's national sovereignty. Duhalde's problem, or rather one of them, is that Argentinians do not want to hold declining pesos, they want dollars. Having failed to turn this around, it looks increasingly likely that Argentina will be forced to abandon the peso and adopt the dollar as its national currency.

Collapsing currencies, exploding debt

Effects of a Third World currency collapse:

- ☆it magnifies all debts denominated in hard currency.
- ☆it makes all assets in the devaluing country cheaper to possessors of hard currency.
- ☆it results in an export boom, as exporters purchase labour and materials at local prices while selling for dollars...
- ☆... and a collapse in imports, all of which become suddenly much more expensive. This helps produce a positive trade balance, essential if the debt is to be serviced.

A period of price inflation caused by the increase in the cost of imports partially reverses the effect of the devaluation.

The ultimate success of devaluation is determined by how far real wages and farmers' incomes have been left behind once this process works through. As a Financial Times editorial on 26 December put it: *"The chief aim of a new currency must be to permit a ... reduction in the dollar value of wages and salaries."*

The aim is to enforce an increase in the rate of exploitation, to the point where foreign investors and flight capital decide that they can resume their extraction of super-profits.

The collapse of the peso – now the real looting can begin!

This is why the story of the looting of Argentinian the months leading up to the crash described in this article was just an episode. Once "order has been restored" and the victims have been buried, the real plunder – of Argentina's living labour and natural resources – can resume even more intensively than before.

Even if devaluation does create the conditions for an export-led boom, Argentina will succeed only in exporting deflation to competitors like Brazil. If an imperialist country were to counter recession in this way, its rivals would accuse it of an act of war!

The impact of dollarisation on workers' living standards and middle class savings will make the savage austerity of the past few months seem like small beer. It will also force foreign capitalists to write off tens of billions of dollars in investments.

After initial relief that Argentina's crash hadn't spark panic in world markets, alarm is now growing in Washington and other imperialist capitals at the speed and intractability of the crisis. Fears are growing of "behavioural contagion" – that the ferment amongst the dispossessed of Argentina could spread throughout Latin America.

Argentina's economy didn't just collapse, it was pushed. In early December 2001, the US government decided the IMF should block delivery of an already-scheduled loan – in the full knowledge that this would force Argentina into default. (The stated reason: Argentina's government had failed to cut a further $4bn from public spending. The IMF is now demanding cuts of $8bn!)

Withdrawing Argentina's lines of credit was like stopping blood transfusion to a patient, while doing nothing to staunch the hæmorrhage.

Argentina's government hung on to the dollar-peso peg for four more weeks, taking extreme measures such as seizing the pension funds of millions of workers and freezing the deposits of small investors. These actions brought millions of enraged citizens into the streets, but they also bought time for foreign and local capitalists to turn more of their capital into cash and whisk it out of the country.

On January 6th, Argentina's missed its first debt repayment. The biggest debt default in history became formal. The sundering of the dollar peg and a huge devaluation of the peso followed a few days later. The economy suffered a double heart attack, brought on by local capitalists and foreign investors moving their private wealth out en masse.

Before hungry mobs smashed the first shop window, Argentina had already been looted on an awesome scale. But when *they* go on a looting spree, capitalists have access to more sophisticated tools than sledgehammers and shopping trolleys. Many were dumbfounded by the reaction of Argentina's stock market to Washington's decision to cut off credit: it shot upwards! But there was a simple explanation: unable to withdraw their deposits as cash, owners of savings accounts (the big money had already gone) purchased shares in Buenos Aires' Merval market and simultaneously sold them in New York.

Foreign and local capitalists used these and other techniques to transfer colossal quantities of wealth out of Argentina. Imperialist banks like the UK's HSBC and Lloyds helped organise the theft.

The IMF played a vital role: in the year up to the default, it disbursed around $30bn of a $48bn rescue package (the rest was due to be delivered in 2002). This enabled Argentina to pay its debts and replace flight capital. In other words, none of this money ever went to Argentina, it was just transferred from a public bank account (the IMF's, funded by G7 taxpayers) to the private bank accounts of fleeing investors.

Despite this largesse, by 2 January – the eve of the default – Argentina's banks had only $14bn to cover $66bn in small savers' bank deposits.[1]

Argentina is the biggest-ever sovereign default. A few weeks earlier saw the biggest-ever corporate debt default, with the collapse of Enron, the US energy conglomerate. These two bomb-blasts, each causing immense destruction to widening sectors of the world economy, are a sign that the whole stockpile of accumulated wealth – all of it derived from the exploitation of living labour – is becoming unstable.

The two record-breaking defaulters share some common features.

[1] Thursday January 3, 2002 The Guardian

Enron's top executives drained the company of removable assets while its employees – whose pension funds were invested in Enron's own shares – were prevented from moving their money somewhere safe. The same in Argentina: while the big money left the country, workers' pension funds were plundered and Argentina's small account holders found – to their incandescent rage – that the government had frozen their deposits.

The looting frenzy of the past few months merely accelerated a long-running trend. During the 1990s, wealthy Argentinians removed an estimated $130bn to the care of the banks in the US and other imperialist countries.[2] An even larger fortune was harvested by foreign investors lending money to the Argentinian

Debt and the Generals

During the military dictatorship, from 1976 to 1983, the national debt increased from £7.8bn to $46. Before the generals slunk back to their barracks, they destroyed all records and documents concerning the debt.

An eighteen-year court case, (led by the late Alejandro Olmos), has helped to reveal how Argentina's military rulers and European and US investors stole tens of billions of dollars from the Argentinian people, with Barclays Bank and other western banks providing the getaway cars.

Foreign subsidiaries of European and North American companies borrowed money from western banks, debts that were then – clandestinely - nationalised and merged into the public debt. Among the household names that benefited from such swindles were IBM, Ford, Mercedes, Deutsche Bank, Chase Manhattan, and all four of the UK's High Street banks.

In July 2000, the court decided 'criminal court case 14.467' to be proved, and ordered Argentina's legislature to "adopt appropriate measures" to renegotiate fraudulent and illegitimate public debt.

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[2] See "It takes two to tango – Creditor co-responsibility for Argentina's crisis", a research paper published by Jubilee Plus, the successor to Jubilee 2000"

government or from investments in newly-privatised state assets.

Meanwhile, unemployment and poverty has increased rapidly among the working population; and the ranks of the dispossessed have grown rapidly. Half of those defined as poor *on the eve of* the December crash were classified as middle class just five years ago.

Argentina: an oppressed, exploited, Third World nation

Washington used to parade Argentina as a model pupil that had gone the furthest of any country in implementing IMF doctrine—wholesale privatisation, and the removal of all restrictions on the two-way flow of commodities and capital. However, Argentina's foreign trade remained stagnant at 10% of GDP, not enough to support its huge public debt. Between 1994 and 1998 Argentina's debt service ratio (principal and interest payments vs. total exports) rose from 25.4% to 58.2%[3].

The US government and IMF are now seeking to shift the blame. Argentina's stagnant exports, they say, is due to its failure to sufficiently reduce wages and cut social spending. It's a *"home grown"* problem, says IMF director Horst Köhler. Argentina *"must get her house in order... they've got a lot of work to do"* said President Bush.

Argentina is famed for its beef industry. The presence of foot and mouth disease in Argentina's cattle flock is used as a pretext to ban all beef imports into the US and EU. This is despite there being no evidence that a single Argentinian adult or child has suffered death or illness because of the presence of this mild ailment.

Argentina's crisis gives us an inkling into the suppressed truth behind the UK's foot and mouth crisis: it had nothing to do with

[3] (FT 1 November 2001)

public health and everything to do with protecting the UK's capitalist beef export industry against competition from countries like Argentina.

A blocked highway used as a temporary kitchen during protests demanding work and more social security benefits

Argentina faces discrimination in international markets for wheat, steel and other products; not only this, but to comply with the IMF's policies, it has obediently removed restrictions on imports into its domestic market!

Debt, trade and the events of the past few weeks provide many insights into what imperialist economic domination means in today's world.

Governments in the imperialist countries are now attempting to counter recession by stimulating the economy with lower interest rates, reducing taxes and expanding deficit spending. But these options are not available to the government of Argentina, facing a recession now in its fourth year. In fact, it has been forced, by economic circumstance and IMF decree, to implement diametrically opposite policies.

Diverting ever more money to debt servicing, the government has increased taxes and savagely cut public spending.

In a vain attempt to persuade private capital to stay, it has permitted interest rates to rise to astronomical levels.

Intensifying Argentina's recession and touching off a popular rebellion were just unfortunate side effects of policies designed to please foreign investors and the wealthy Argentinians who have joined them in New York, London and Madrid.

Imperialists blame Argentina, demand even more austerity

The January devaluation and default dealt paralysing blows to an already-shrinking economy. In the last three months of 2001, Argentina's economy contracted at an annualised rate of 22 per cent. Large swathes of the economy have been bankrupted or have come to a halt because the banks and the whole system of payments has ceased to function. Unemployment – officially 20% - is expected to double. Argentina's GDP per head - $7,100 before last month's devaluation – is forecast to decline to $3,500 by the year end. Default means that Argentinian companies can no longer get credit from suppliers, so imports have come to a halt, and items from medicines to nappies to corks for Argentinian winemakers are running out. Diabetics survive thanks to emergency supplies of insulin from Brazil.

The patina of prosperity, which helped the middle class and elite to pretend that Argentina was not part of the Third World, that it was a sovereign nation not a neo-colony, has been swept away.

The newly installed Duhalde regime initially attempted to cushion the devastating effects of the economic implosion on the middle classes and on the upper layers of the working class. It instituted a two-tier exchange rate in an attempt to limit the

effect on small businesses of the peso's fall. It proposed a new bankruptcy law to partially protect enterprises from their creditors. It promised to cushion the effects of devaluation on the middle class and small businesses by devaluing debts but not deposits. Implementing the last of these would mean that no bank could survive unless it received an injection of capital from the parent company, government or IMF.

Intense pressure from foreign companies, banks and governments has forced Duhalde to back down. Speaking for them all, the IMF demands the reversal of each of these measures before it will restore Argentina's lines of credit. Duhalde is now cooperating with the IMF in drawing up a 'stabilisation plan', due to be announced in early February.

Meanwhile, people have nothing to eat, millions of workers haven't received their wages, and bank accounts remain frozen.

It was left to the government of Cuba to say what needed to be said. In a January 10, 2001 statement to the people of Argentina, it denounced *"the governments of certain developed countries that are now pressuring in defence of the interests of enterprises and banks that obtained juicy profits from the sweat and sacrifice from the people of Argentina, of the speculators and thieves who plundered that nation's heritage and brought the country to bankruptcy... At this difficult time, and as always, Cuba stands solidly with the Argentine people."*

Why no contagion?

> ***"The biggest sovereign debt default in history [is] an odd occasion for celebration... but insiders talk of 'a chorus of high-fives' in Washington because they believe Argentina's crisis has not caused a wider financial collapse." Observer, January 13 2002***

Why hasn't Argentina's crash yet had the same contagious effects as previous crises in Mexico, Thailand etc? Why no panic stampede of investors from "emerging markets" around the

world? Because the stampede has already happened! As the FT reported on 21 December, total net lending to Latin America had already fallen from $144bn between 1996 and 1998 to just $10bn between 1999 and 2001 – and within this total, net lending by banks was minus $13bn.

Private investors have heeded repeated statements by US and IMF officials that they can no longer expect the IMF to bail them out whenever an "emerging market" stops emerging. The IMF has recently refused bailout finance to a series of severely debt-distressed countries. Ecuador first, in September 1999, then Pakistan, Romania and the Ivory Coast were forced into default.

For countries forced into bankruptcy, the result is even higher interest rates, as lenders demand a much greater risk premium. This deepens the recession and accelerates the falls in living standards. This policy, which until Argentina had been applied only to countries marginal to the global economy, is aimed at curbing flows of hot money to the riskiest markets, considered a prime cause of contagion. The IMF has no policy for providing deeply indebted countries with alternative sources of finance.

Virtually the only source of capital now available to most oppressed nations are receipts from "privatisation" – the continuing worldwide fire sale of publicly owned assets. Growing popular rejection of privatisation and other IMF policies is deterring even these investments, as entrepreneurs come to doubt the ability of governments to enforce their property rights.

Meanwhile, imperialist creditors continue collecting on their debts. The FT reported on 2nd Jan 2002:

> ***2001 was actually one of the best ... most emerging markets produced returns of about 20 per cent ... This compares with 6 per cent returns on JP Morgan's US high-yield index, 5 per cent returns of the US Treasuries and the loss on Nasdaq of 21 per cent.***

A glimpse of the global picture was provided by this report (FT, 17 August 2001):

"the returns [from "emerging bond markets"] over the past decade have been excellent. According to Invesco, over the past 10 years to 31 July 2001, on an annualised basis, emerging market bonds returned investors 23.8 per cent, compared with 21.23 per cent on the S&P500 index of US equities."

In other words, emerging-market bonds out-performed even the great 1990s share-price bubble!

Banks and others have spent the past year offloading Argentinian debt. So what happens to it? It doesn't disappear, it just gets dispersed. It turns out the banks have been packaged up their debts, giving them fancy names like "credit derivatives" and "collateralised debt obligations" and selling them to other parts of the financial system, in particular to the insurance industry. This transferred risk is a big factor in the collapse of a record 34 insurance companies in the US last year.

So, if you don't understand why your insurance premiums have risen so much, here is part of the answer.

The debacle of bourgeois democracy in Argentina

The Peronists and other bourgeois political parties have lost legitimacy and may prove too weak to impose the extreme austerity measures that are being demanded by the imperialists.

President Duhalde assumed office despite being the trounced Peronist candidate the last time there was an election for President. He is widely despised as an epitome of corruption and thuggery, as he himself admitted in what the FT described on 2nd Jan as *"an unusually candid statement"*: *"The political leadership [of Argentina] is shit and, of course, I include myself in that,"* he said.

★★★

The debacle of bourgeois democracy threatens the return of military dictatorship. However, the recent experience of military rule has dispelled illusions in the neutrality of Argentina's armed forces. Between March 1976, when the generals seized power,

and October 1983, when they abandoned it, 30,000 Argentines were brutally murdered, and many tortured to death, in an operation closely supervised by the US government. Before the generals slunk back to their barracks, they decreed an amnesty covering all of their actions while in power. They also destroyed all records and documents relating to the national debt, which had increased from £7.8bn at the time of the coup d'état to $46bn when they left.

In marked contrast to establishment political parties, the Mothers of the Plaza de Mayo have enormous respect amongst the youth and have been a key link between relatives of the disappeared and the new generation of popular resistance.

Many youth are also drawn to Che Guevara, the most famous Argentinian-born person, a symbol of selflessness, struggle and revolution. Lack of access to his ideas feeds a misconception that Che was simply a heroic guerrilla fighter rather than the political leader of working people that he was.

★★★

Examination of the looting of Argentina reveals the close and hugely powerful alliance, which exists between Argentina's seriously rich people and banks and multinational corporations in the imperialist countries. Judging by their behaviour in this time of crisis, Argentinian big capital functions more as part of imperialist finance capital than as the power behind an independent sovereign nation.

The Latin American revolutionary movement has a term for the national bourgeoisie – *la vendepatria* – 'those who sell out the nation'. It perfectly describes Argentina's big capitalists. Yet, whether military dictatorship or liberal democracy, all Argentina's governments since Peron have been dominated by the vendepatria and their imperialist allies. Whatever they may have promised or even intended, Argentina's governments have served the interests of big capital and bent to their will.

Peronism – still a powerful ideological force even if the Peronists themselves are widely despised – is the myth that this need not necessarily be so.

In his famous last message "Vietnam and the world struggle for freedom" (1967), Che Guevara gave his verdict:

"The indigenous bourgeoisies have lost all capacity to oppose imperialism—if they ever had any—and are only dragged along behind it like a caboose. There are no other alternatives. Either a socialist revolution or a caricature of a revolution"

April 20 2002

★ ★ ★

Chapter 2:

Latin America: *end of the capitalist road*

This chapter continues the story told in "The Looting of Argentina". It deals with the opening of the latest dramatic chapter in Latin America's debt crisis: the fight which is now on to avert a default on Brazil's $250bn-plus foreign debt. It also updates the story of Argentina's economic crisis. For reasons of space, the regional dimension of the crisis – in particular, the spread of economic depression from Argentina to neighbouring Uruguay and Paraguay – will not be considered here

Introduction

In a decision made at the highest level of the US government, on 7 August 2002 the IMF announced a £30bn billion bailout for Brazil.

This is Brazil's third big bailout package in four years – the most recent was granted in autumn of 2001, and was designed to prevent Argentina's then-impending default from spreading. The stakes could not be higher.

- ☆ **A Brazilian default threatens to deal a fatal blow to a number of US banks, already weakened by record levels of corporate bankruptcies and defaults in the US. The collapse of one or several US banks would mark a new stage in the unfolding world depression.**
- ☆ **In Brazil, the IMF has reached the end of the road. Everyone agrees that Brazil's government has followed IMF prescriptions to the letter (as a result, it faces annihilation in October's elections). If the $30bn bail-out fails to avert a Brazilian default, so an FT editorial argued, *"the International Monetary Fund's raison d'être would be destroyed: its backing for Brazil's economy would be shown to be worthless. ... "***
- ☆ **Brazil is the largest Latin American country, with more than five times Argentina's population, and accounts for 40% of the continental economy. A Brazilian default would deal a**

gigantic blow to a continent, which has already experienced a 2% decline in GDP since 1997.

☆ The whole of Latin America is being swept up in economic crisis and popular struggles. Washington's response to the challenge of the Nicaraguan revolution in the 1980s was to withdraw support for military dictatorships and encourage a return to electoral democracy. But the elected regimes were powerless: neo-liberalism has robbed Latin American nations of their economic sovereignty. "Democracy" has turned out to be a fraud. Across Latin America, long-established bourgeois parties are being thrown out of office and are even breaking up and disappearing in the face of public hostility and a sea of corruption scandals. The return of Latin America's debt crisis is a sign that both the neo-liberal economic order and the bourgeois-democratic political order have reached the end of the road.

March in Cordoba, Argentina on 29 May 2002, on the anniversary of the 1969 Cordobazo –an insurrectionary general strike.

Brazil on the edge of default

Brazil has been pushed towards default by three months of capital flight, as private investors have taken fright that its stagnant economy, crippled by US protectionism against trade in steel, textiles and food, cannot support its gigantic $250 billion debt.

Since 1994, Brazil's net public debt as a share of gross domestic product has almost doubled, to 58% - and this is despite significant privatisation revenues. The build-up of debt is accelerating, mainly because the economy has stopped growing, and because the Brazilian currency, the Real is, falling. The Real has lost 25% of its value since the beginning of 2002. As it falls, so the dollar-denominated portion of Brazil's debt loom ever larger.

Brazil's ratio of external debt - public and private - to exports now stands at more than 400 per cent. This ratio is sky-high because its export sector, like Argentina's, is a mere 10 per cent of GDP – for Mexico and Chile, this ratio is over 20%; while the average "Asian tiger" exports more than half of its production (see FT 26 August 2002 for these figures).

Foreign direct investment into Brazil has collapsed to around a third of the level of just two years ago. Next year, Brazil will need to borrow between $45bn and $50bn just in order to meet interest payments and to refinance loans becoming due. Significant capital flight could easily double or triple this requirement.

The largest single IMF bailout ever was the $43bn paid to avert default in South Korea in 1997. It could cost several times this amount to shore up Brazil. Such sums vastly exceed the ability of the US and IMF to provide funds. Since the last major round of the Third World debt crisis, the United States itself has become the world's largest debtor. So much money has it had to borrow from European, Japanese and other capitalists, that the net sovereign debt of the USA now equals the total amount owed by the entire Third World – approximately $2.5 trillion.

If, in the current circumstances, the US government tried to bail out a Brazil in default, this could be, for the dollar, the straw that breaks the camel's back. This is another indication of how Brazil's

debt crisis is intertwined with the crisis threatening the imperialist economies themselves.

It follows that, unless one believes that both Brazil's and the world economy will suddenly shake off their malaise and that private investors will forget their fears, a Brazilian default is inevitable before the next year is out.

So, for how long can Brazil hold on before it follows Argentina into the abyss? Early indications are that the bailout is failing. $30 billion was enough to sweeten the markets for just two days before they resumed their downward slide. George Soros, the well-known tycoon and investor, explained why financial markets had reacted so adversely to the IMF rescue package. He said that after an initial rally, bond interest rates had '*settled at levels incompatible with long-term solvency...*" The IMF programme requires Brazil's government to maintain a primary surplus of 3.75 per cent (*i.e.* government's income must exceed its expenditure, before interest payments, by this amount, requiring savage cuts in social spending). This, says Soros, *"is not sufficient to prevent a significant further deterioration in the ratio of debt to GDP, especially as high interest rates are pushing Brazil into recession.*"

Brazil's capitalists and citizens face a credit crunch, unemployment is rising, the whole economy is being crippled by high interest rates. There's not much left to privatise and in any case there's no buyers except at distress prices. For the moment, greed for Brazil's astronomical interest rates and the prospect of a piece of the IMF bailout keeps the outward flow from turning into a Gadarene rush.

Much turns on the outcome of elections in October, where left-wing and populist candidates – Luiz Inácio da Silva (Lula), of the Worker's Party and Ciro Gomes of the Workers' Front – have a huge lead over José Serra, the investor's favourite. The Bush administration has already expressed disquiet over the possibility that Lula could win the presidential elections in October. It fears Brazil's workers and poor would see this as an opening to fight for land reform, jobs, and other burning social issues.

Brazil bail-out: Bush blinks

Why has Brazil's crisis forced the Bush administration to so abruptly reverse its hard-line policy towards defaulting nations? A big part of the answer is that US banks like JP Morgan Chase and Citicorp have been severely damaged by the collapse of the new technology bubble. So far this year, $155 billion of loans to US corporations have been downgraded from investment grade to junk, and there is much more bad news to come. Hundreds of billions of dollars of uncollectable loans now threaten a banking crisis.

These same private US banks are owed tens of billions by Brazil; not only this, they have invested billions more dollars in buying up Brazilian banks, pension funds, mines, tracts of rain forest, assets of every kind. They cannot afford to take big losses in Brazil, so the US government has instructed the IMF to put up $30bn in public money, contributed largely by G7 taxpayers, in an attempt to save them. The influential Lex column in the Financial Times summed up the bailout in a single sentence: *"US and European banks with Brazilian exposure have effectively won a get out of jail free card." (FT, 2/8/02)*

Yet again, the IMF is bailing out not the people of the debt-distressed country, nor even its capitalists. Instead, it is US banks and other private imperialist investors who are being rescued, who are being indemnified against losses by the IMF, using G7 taxpayers' money. These bailouts are scandalous acts of injustice and thievery! They have to be committed behind the backs of the people, obliging politicians, monetary officials and the media to construct a wall of deception. The candid comment from Lex quoted above was virtually the only place in the entire bourgeois media where the real nature and purpose of the IMF loan was explained.

In a revealing episode, the careful stage-managing of the Brazil bailout was jeopardised by loose talk from US Treasury Secretary Paul O'Neill. In remarks made a few days before the unveiling of the IMF rescue package, O'Neill provoked considerable anger in

Brazil and elsewhere when he said that Brazil and other countries need to "*put in place policies that would assure that as assistance money comes, it does some good and it doesn't just go out of the country to Swiss bank accounts.*"

Latin America's ruling elites bridled at the implication that they would steal the "assistance money", yet of course they will—if they can get their hands on it. However, they were either too polite or too obsequious to point out that much more of the IMF money will end up in US bank accounts and will be used to bail out US banks and investors. Brazil's elite was angry because Paul O'Neill violated the code of silence. He quickly learned that deception is called for, not plain speaking, and reverted to praising the excellent moral character of his junior partners in crime.

Debt vs. national sovereignty

Each successive wave of debt crisis reveals ever more clearly how Latin America's debt burden, like those borne by African and Asian nations, negates national sovereignty and nullifies democracy. $24bn of the IMF's $30bn is to be released in the period following October's elections. US and IMF officials have made it clear that this money will only be released if the new government continues the policies of the current one.

What's the point of Brazil's election if the IMF has already dictated the policy of the future government? Should he be elected, Lula will find that there is no room for measures to alleviate the effect of economic crisis on the workers and poor of a country which, according to the United Nations Development Programme, ranks with Pakistan and South Africa as the most unequal on earth.

What's more, for fear of upsetting billionaire investors, the two leading anti-establishment candidates both feel obliged to give mute ascent to the terms of the IMF bailout, to forget any idea of debt cancellation, and to avoid any mention of "restructuring" (another way of saying "partial default") Brazil's debt to make it more manageable.

The Brazilian people are discovering that it is far more important to avoid ruffling the feathers of private investors than it is to allow a public debate, amid a general election, of the burning issue of the day. Brazil's crisis reveals that it is imperialist investors and the local vendepatria who rule Brazil, not the Brazilian people. "Elections" are nothing more than a means to manufacture popular consent for whatever policies they demand.

Argentina's agony

The battle is on to win back private investor confidence in Brazil and avert a default, which would be the financial equivalent of Krakatoa. Meanwhile, neighbouring Argentina is in default, all foreign private investors have deserted, and economic collapse and impoverishment intensify day by day.

An August 2002 report described the current scene:

"More than 40 percent of the working-age population is unemployed or underemployed, while the government admits that more than half the population of 36 million falls below the official poverty line. According to official figures, more than 11,000 people fall daily into that number, defined by a daily income of less than $3.

"The average per capita income--a figure that obscures the deep class divisions and inequalities that mark all capitalist societies--stands today at $2,500, and falling. Before the country's long-lasting recession began in 1999, it was almost $9,000." (from #33 of The Militant, published weekly in New York.)

Seven months of formal discussions with the IMF have so far (early September 2002) failed to result in an agreed economic recovery package and financial help. Following policy dictated by Washington, the IMF is holding Argentina's feet to the fire, showing no mercy in its demand for savage cuts in public sector spending and the cancellation of small savers' deposits. Another source of public uproar and politicians' humiliation is the IMF's demand that laws which make it difficult for foreign creditors to seize the assets of bankrupt enterprises, and which penalise

bankers for money-laundering and facilitating capital flight, be annulled.

In mid-August 2002, while negotiations with the IMF inched towards a deal, the FT reported:

Anti-privatisation protest in Arequipo, Peru, in June 2002

"Foreign banks operating in Argentina are demanding that the country's crucial agreement with the International Monetary Fund be delayed... They are furious about a batch of new government proposals that could [result in] hundreds of millions of dollars in fresh losses.

The Association of Argentine Banks - which represents the local subsidiaries of such major international banking groups as Citibank, HSBC, BSCH and BBVA - has met ambassadors from the Group of Seven industrialised nations to press them to delay the IMF deal until the government backs down....

Last December, the government of Fernando de la Rúa was swept from office amid nationwide rioting after decreeing a freeze on bank deposit withdrawals. Seeking to assuage popular anger, Mr Duhalde's interim government then tried in January to force foreign banks and investors to shoulder much of the losses from the currency devaluation and debt default....

As part of its seven-month negotiations for a new deal, the IMF persuaded Argentina to scrap the bankruptcy bill and several other measures that hurt the banks. But now foreign bankers are complaining that congress is quietly resurrecting many of its provisions through the back door.... If the government fails to act on the foreign banks' concerns, analysts fear the IMF agreement with the Argentine government could be called into question."

Meanwhile, hundreds of bondholders in the US, Italy and other imperialist countries have begun legal action in an attempt to seize Argentina's assets. What a tangle Argentina is in! Agreement with the IMF must be reached before negotiations with private creditors can begin. The protracted delay in achieving this agreement has now caused Argentina's creditors to break ranks, further complicating talks with the IMF.

Why does the US/IMF continue to refuse assistance to Argentina?

Part of the answer is that US banks and investors have already moved their movable assets out of Argentina. When this process has been completed in Brazil, there'll be no more IMF money there either.

Another reason is that the Bush administration has used Argentina to signal a new tough line to debtor nations. The FT reported (March 8) *"with the change of government in the US and a new team at the IMF, led by managing director Horst Köhler, the attitude towards Argentina was replaced by one of extraordinary toughness."* A later report (2 August) added *"a senior IMF official says there is particular symbolism in the IMF's insistence on the repeal of 'economic subversion' laws it says were used to harass foreign investors. '[We have] used Argentina to send a very clear message around the world: that international investors' rights will be protected,' he says."*

For years, Argentina was fêted as the IMF's model pupil. Now, we are told, its demise is all its own doing. Last summer, as Argentina slid towards default, Paul O'Neill said: *'they've been off and on in trouble for 70 years or more. They don't have any export*

industry to speak of at all [Argentina is in fact a major exporter of beef and other agricultural products - JS]. And they like it that way. Nobody forced them to be what they are." This summer, as Brazil slid towards default, O'Neill justified his support for a bail-out of Brazil while refusing a single cent for Argentina: *"Every country is different...even countries that are very close together can be very different."*

The intellectual level of these comments shows that O'Neill is fully the equal of his boss, George W Bush. Argentina's political leaders have no choice but to swallow all this sordid blame-shifting; to answer back would upset the markets and harm their increasingly desperate efforts to secure an IMF loan.

What's next for Argentina?

In late August 2002, Transparency International, a research group that campaigns against corruption, announced that Argentina had dropped from 57th to 70th place in its annual ranking of clean countries. *"Clearly, we see a significant deterioration,"* said Frank Vogl, vice chairman of TI. *"A deterioration in the score clearly is not going to assist Argentina's efforts to restore international confidence as a place to invest."* The TI report said the Argentine state had been *"captured by a network of leaders which misuse it in the service of their business and political interests"*. In its commentary on the TI report, the FT talked of an *"outbreak of rampant corruption and political thuggery"*.

This story highlights the utter dissolution and decay of Argentina's political establishment. Politicians, judges, military officers, police chiefs, arouse derision and disgust. Like its economy, Argentina's fraudulent capitalist democracy has reached the end of the road. It is remarkable how Argentina's bourgeois politicians have been abandoned by their friends in Washington. For the past decade, Argentina's governments have slavishly supported US economic and foreign policy. They have done whatever they were told to do. They have cut, privatised and deregulated. They have stood out amongst Latin America's leaders in their support for Washington's anti-Cuba crusade. They were the only Latin American country to send troops to fight Iraq in 1991. Yet they have been unceremoniously dropped in the shit.

All of this has fired nationalist and anti-US government sentiments amongst the population, and is one reason why proposals for the abandonment of the peso and the adoption of the dollar are now rarely heard. The imperialists' policy seems to let Argentina stew in its own juice.

A process of polarisation and of radicalisation is taking place. Defensive struggles demanding jobs, for the payment unpaid wages, against increasingly savage cuts in health and education, and against police violence are continuous. The spirit of intransigent revolutionary struggle is being displayed by unemployed workers' organisations and by parts of the organised working class, who have in some instances occupied their workplaces and begun reaching out to the rest of the working population. Little progress, however, has been made in resting control of the trade unions from their corrupt misleaders or in forging a coherent nationwide anti-capitalist political leadership. These necessary developments will not happen straight away, or in a straight line. No one knows what is over the horizon, and the horizon is very close!

Conclusion

During the great debt crisis of the 1980s, Latin America's governments failed to heed the call from revolutionary Cuba and from their own peoples to unite into a debtors' cartel and demand the cancellation of the unjust and unpayable debt.

The inevitable consequence was the surrender of control over their economy, as one by one they submitted to IMF conditions for debt "restructuring". The results were a dramatic widening of already obscene levels of social inequality; a partial recolonisation as powerful consortia of capitalists from the former colonial powers established greater control over the supposedly 'emerging' economies; accelerated destruction of the

environment, rising crime and drug addiction; and a worsening of every other social ill you can think of.

All the time, working people were told to be patient, that the foundations for future prosperity were being laid, that one day some of the wealth that they themselves have created would eventually trickle back to them.

And so the peoples of Latin America were force-marched down this capitalist road. But now they have reached the end of the road. It is not merely blocked, it has been washed away by the spreading world depression. The dramatic return of the continent-wide debt crisis is just a symptom of this underlying reality.

How long the peoples of Latin America remain stuck at this dead end before they discover that there is another way forward is an open question. The signposts may have been almost obliterated and the path may be overgrown and bumpy – treacherous, even – but the road marked out by Cuba, of workers and farmers taking power out of the hands of the exploiters and using it to transform their economy and society, remains the only way forward.

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