

Dr. Kirchner, Life Is Impossible With the IMF!

by Gerardo Terán Canal

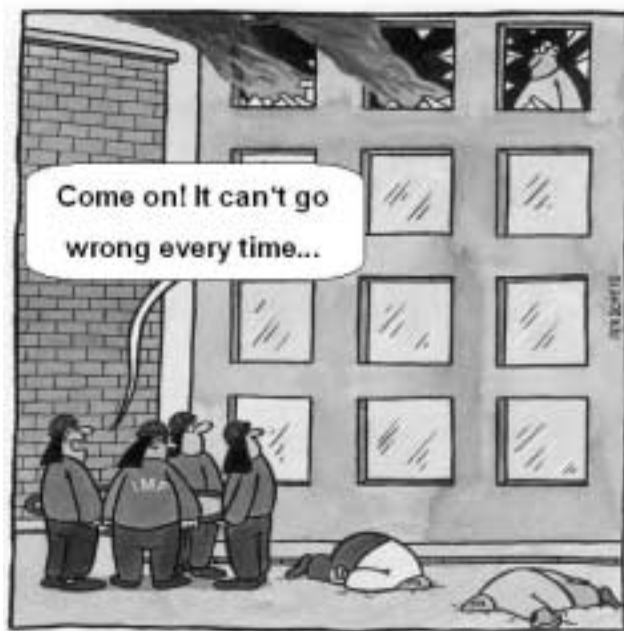
As of May 25, Argentina's Independence Day, Dr. Néstor Kirchner will be its new President. He will be its fifth since Dec. 20, 2001, when the pots-and-pans street demonstrations against the International Monetary Fund (IMF) and bankers' theft of their clients' deposits, forced the resignation of President Fernando de la Rúa, and his hated Finance Minister Domingo Cavallo.

Kirchner assumes the Presidency at a great disadvantage: He won the election by default, after former President Carlos Menem, who took first place in the April 27 primaries with 24% of the vote, suddenly withdrew from the final round of elections, scheduled for May 18. Kirchner, who won 22% of the April 27 vote with strong backing from the Peronist political machine controlled by incumbent President Eduardo Duhalde, was poised for what many predicted would be a landslide victory on May 18, with 60-70% of the vote. Menem's withdrawal denied Kirchner such a mandate to carry out the sweeping policy changes which Argentines so desperately seek.

Few shed any tears when Menem announced his withdrawal on May 14. The former President is widely despised for using his 1989-99 terms in office to impose the IMF's criminal free-market policies, in collusion with Cavallo, which plunged the country into an unparalleled crisis and wrenching poverty, from which it has yet to recover. Today, 58% of the Argentine population is officially classified as poor, in what was once the wealthiest nation of Ibero-America, with a large middle class, impressive scientific infrastructure, and highly skilled and literate labor force.

Kirchner, 54, is a member of the Justicialist, or Peronist Party. He has served for the past ten years as governor of the oil-rich Patagonian province of Santa Cruz, whose population barely exceeds 190,000 out of 37 Argentines. Thus, though reputed a good governor, his office has not necessarily given Kirchner the skill he will need to take on the problems of this ravaged nation.

Menem will make trouble, and has made clear he has no intention of disappearing from the political scene—he still greatly covets the Presidency. In his withdrawal speech, he predicted that the new President would immediately be faced with a “governability” crisis. And in a very carefully crafted article published in the May 15 establishment daily *La Nación*, the slick commentator José Claudio Escribano, who had supported the Mont Pelerin Society's preferred presidential



The IMF system looks the same in this view from Asia: bankrupt.

candidate Ricardo López Murphy, reported that “Washington sources” he consulted had concluded from the current situation that “Argentina has decided to give itself a government for one year.”

Good Intentions Aren't Enough

In the weeks leading up to his inauguration, the President-elect has given a number of indications that he wants to change direction away from the path of IMF policy that Argentina has followed for several decades. Whether he can or will do this remains to be seen.

A first hopeful sign was the visit he made to Brazil in the week following the election. Brazilian President Luiz Inácio Lula da Silva had already warned that, had Menem won the election, Lula would not even have attended his inauguration. As President, Menem's foreign policy was based on what he called “carnal relations” with the United States, and on a clear determination to sabotage the four-member Common Market of the South (Mercosur) along with any positive relationship with Brazil. During his visit, Kirchner confirmed with Lula what his predecessor Eduardo Duhalde had already proposed: a strategic alliance with Brazil to strengthen Mercosur, and to negotiate the Free Trade Area of the Americas (FTAA) from a position of strength. Said Lula, Argentina can play a key role in the physical integration of South America.

During Kirchner's visit to Brazil, the two heads of state discussed plans for a common currency—although this will not occur immediately—a \$1 billion credit line from the Brazilian National Economic and Social Development Bank (BNDES) to Argentina, and the strengthening of Mercosur

through the construction of infrastructure projects. This agenda was confirmed a week later in Buenos Aires, during a joint conference held between the Argentine Finance Minister Roberto Lavagna and Brazil's Development minister.

Very interesting is the report that Brazil is preparing the launching of a mechanism for trade within Mercosur *without using the dollar*. The idea would be for BNDES to reestablish the Reciprocal Credit Convention (see *International Intelligence*, page 54). BNDES Vice President Darc Costa reported that Brazil wants to make the CCR the primary mechanism for Brazilian-Argentine trade, and identifies it as "the best instrument for economic integration we could have in South America."

Kirchner offered another such signal in response to the question of how the government intends to deal with foreign debt negotiations. In an interview with the daily *Clarín* on May 21, Kirchner said, "One mustn't forget that Argentina has already proven that it can live without an IMF agreement. It is a negotiation that shouldn't be dramatic; not everything is black or white. . . it's not 'do this, or you'll get chaos.'"

He added that he had already told Finance Minister Roberto Lavagna "to get to work on the refinancing [of the debt]. If we can achieve a writeoff of the [private] debt and interest charges and a refinancing—not like the eight-year Brady Plan, but rather one over several decades, that will allow Argentina to achieve a viable level of functioning once again—then we will have a workable refinancing internationally." Otherwise, he said, he did not want to return to the practice of accepting measures with which the country cannot comply.

Kirchner's third signal, was to announce a "neo-Keynesian" infrastructure program that will require a \$3 billion start-up investment, with a further expansion within two years. The goal is to create jobs, and resolve one of the worst legacies of the Menem era, an official unemployment rate close to 20%. Important media like *La Nación* and *Clarín*, have stressed that this plan was inspired by Franklin Delano Roosevelt's New Deal.

IMF Expects 'Letter' of Austerity

However good the new President's intentions, there is no way that Argentina can coexist with the IMF. To attempt to do so, rules out the best strategic alliances, postponements of debt repayment, and infrastructure plans.

Despite his positive initiatives on South American integration, Kirchner's leading ally, Brazilian President Lula, is himself committing political suicide by continuing to submit to the IMF's domestic austerity program for Brazil. The Anglo-American financial community is hoping that Kirchner will do the same. As one Argentine financial consultant confidently told the *New York Times*, don't worry. "Kirchner will turn out to be someone like Lula, who frightens people during the campaign, but once victorious, begins to moderate his views, and ends up being more Catholic than the Pope."

There is no doubt that Brazil's drive to establish regional integration on the basis of large infrastructure projects, is the correct path to take for genuine Ibero-American integration. However, that strategy will prove successful only if the nations involved adopt the programmatic solutions that economist and U.S. Presidential candidate Lyndon LaRouche has been proposing for years. Only in the context of an international monetary reform—a New Bretton Woods agreement—and the continental Eurasian Land-Bridge, can a policy of such magnitude succeed.

To attempt such policy changes within the strictures of the IMF will doom them to failure.

In August of this year, the letter of intent that the Eduardo Duhalde government signed with the IMF will expire. In that agreement, Argentina was permitted a postponement in repayment on the public and private foreign debt. But banker pressures on Argentina are enormous, and will intensify, as they will also on neighboring Brazil. The IMF, U.S. Treasury, and various media outlets for London and Wall Street have made clear that they expect Kirchner to continue—and accelerate—the austerity-based "structural reforms" of the Duhalde government, so that the foreign debt can be paid.

Between August and December of this year, Argentina must pay more than \$3.2 billion to multilateral lenders, and by mid-2004, that figure will reach \$6 billion. The Fund has issued a list of demands it wants implemented, as conditionalities for any new agreement for financial assistance. These include raising utility rates, restructuring the public banking sector, and concluding talks on restructuring the \$60 billion in private debt on which Argentina defaulted in December 2001. The government has hired Lazard Frères, one of the most usurious financial houses in history, to help it begin negotiating with private creditors. It is worth remembering that Argentine reserves are barely \$9 billion.

If Kirchner truly wants a plan like Roosevelt's New Deal, he will have to forget "neo-Keynesianism." Roosevelt's plan was not Keynesian, but based on American System Economics, founded by the first U.S. Treasury Secretary, Alexander Hamilton: a system of national banking able to issue long-term, low-interest credits for industrial and economic development. The task of the new Argentine President will certainly not be easy. If he has the requisite courage and will, he will be able to seize upon the new opportunity now offered Argentina—and Brazil. But that only if he learns from his predecessors' sins, that there can be no life under the IMF.

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