Argentina, Brazil Pay Off Debt To IMF; Bankers Nervous

by Cynthia R. Rush

During the week of Dec. 11-17, the governments of Brazil and Argentina unexpectedly announced that they would pay off the balances owed the International Monetary Fund (IMF) before the end of this year. On Dec. 13, Brazilian Finance Minister Antonio Palocci told reporters that the Lula da Silva government would dip into its sizable $63 billion in reserves to pay the $15.56 billion it owed, noting this would save $900 million in interest payments. Two days later, Argentine President Néstor Kirchner announced that he would also use Central Bank reserves to pay an outstanding balance of $9.8 billion, saving $1 billion in interest payments.

While IMF Managing Director Rodrigo Rato nominally "welcomed" both actions, he was decidedly unenthusiastic about Argentina's decision. President Kirchner's Dec. 15 speech at the Presidential palace was a strong nationalist attack on IMF policies for plunging Argentina into poverty and indigence. His denunciation of the Fund, and assertion that by paying off the $9.8 billion, "we are burying a good portion of the ominous past of infinite indebtedness and eternal adjustment," brought the audience of business leaders, provincial governors, legislators, trade unionists, and human rights activists to their feet in an ovation.

Two members of the LaRouche Youth Movement were also present and were able to hand out copies of *EIR* and several of Lyndon LaRouche's strategic writings to Cabinet members and other attendees.

Rato said on Dec. 16 that he was pleased with Argentina's repayment plan, but that the country faces "important challenges and opportunities," and that the Fund stands ready to come to its assistance in meeting those challenges. In his year-end press conference a few days later, he made a point of saying that Argentina still has many "pending reforms" to be carried out, and that it would do well to follow Brazil's example of a "prudent" and "coherent" fiscal and monetary policy.

In contrast, Rato exuberantly declared that Brazil's announcement reflected the "growing strength of its external position" and "excellent track record of policy management by Brazilian authorities." The Fund, he said, "looks forward to continuing a close and constructive relationship with the Brazilian authorities."

What's the Difference?

There is no big mystery behind Rato's quite different responses to what were, on the surface, similar decisions by the two governments. As soon as he took office on Jan. 1, 2002, President Lula abandoned the anti-IMF pledges of his campaign, and with typically Brazilian pragmatism, accepted the IMF's policy dictates.

In his Dec. 13 announcement, Wall Street agent Palocci, along with fellow financial predator Henrique Meirelles, president of Brazil's Central Bank, attributed the government's ability to make this prepayment to the success of the orthodox IMF policies they have enforced for the last three years.

Not so with Kirchner. The debt owed the IMF "has been a constant vehicle for interference, because it is subject to periodic review and is a source of demands and more demands," he said. "The International Monetary Fund has acted toward our country as a promotor of, and vehicle for, policies which provoked poverty and pain among the Argentine people, at the hand of governments that were lauded as exemplary students of permanent adjustment. Our people can corroborate that."

The experience of Argentina's Dec. 23, 2001 default on $88 billion in public debt, and the devastating crisis that ensued, is sufficient proof, he noted, "that that international agency first backed real political failures"—the currency board policies of the 1990s—and then "wouldn't give one penny of aid to [help us] overcome the crisis or to restructure the debt."

For a long time, Kirchner explained, "we have been instructed in impotence and told that we can't do anything. . . . They wanted to instill in our soul the certainty that reality is untouchable. . . . They wanted to make us believe that not to do anything new is the only realistic option." But now, he warned, the Argentine President will use his "popular mandate" to act as a protagonist, in the best interests of Argentina's people.

It's the Global System

Despite their economic policy differences, the process involving Argentina and Brazil is complex, precisely because of the existing conditions of *global* financial meltdown, combined with the political upheaval taking place in Washington, D.C.

Lyndon LaRouche remarked on Dec. 16 that Ibero-American governments all know that the Bush Administration is not in the greatest shape, and they are taking steps to free themselves of as many sources of threat as possible, and get some degree of management over their own affairs. While prepayment to the IMF may take the form of a concession, he said, these are concessions to *end* concessions. "They are saying, 'We did this nice thing by paying you. You demanded it; now why don't you be reasonable?' "

Moreover, LaRouche explained, the very interesting aspect to this is that the IMF is no longer the creditor. There is a fiduciary relationship between the IMF and these countries, but no such relationship exists between debtors and *private* interests, many of whose alleged debts are of very dubious character. So, the ability to impose regulation on these countries' internal balances is ended, LaRouche underscored. "None of these creditors has the power to demand—that is, with the force of regulatory authority—that the debtors obey." They have no judicial authority.

This makes synarchist financier interests very nervous. They don't like the reports that the Brazilian and Argentine Presidents discussed their actions beforehand, first at their bilateral meeting Nov. 30 in Puerto Iguazú, Brazil, and then with Venezuelan President Hugo Chávez during the Dec. 8-9 Mercosur (Southern Cone Common Market) summit in Uruguay. Chávez's role in this decision was to agree to substantially increase his purchase of Argentina's public debt bonds, for which Kirchner thanked him in his Dec. 15 speech.

Reflecting the concerns of the synarchists, London's *Financial Times* fretted in its Dec. 16 edition that repayment by "two large borrowers" like Brazil and Argentina "raises fresh questions about how the Fund will pay for its operations at a time of low demand for its loans."

'Harmonization of Interests'

In the current global context, financiers are fearful that the "heterodox" policy path that President Kirchner has outlined, especially in the wake of his solid victory in the Oct. 23 mid-term elections, could affect developments in Brazil, where there is a raging brawl taking place over IMF policy. Members of Lula's own Cabinet—Vice President José Alencar, Chief of Staff Dilma Rouseff, and Industry and Trade Minister Luiz Furlan, among others—have publicly attacked the Palocci/Meirelles duo for savaging real production and living standards, with their lunatic policies of 18.75% interest rates and a primary budget surplus equivalent to 4.25% of Gross Domestic Product.

When the Argentine President fired Finance Minister Roberto Lavagna on Nov. 28 and replaced him with economist Felisa Miceli, president since 2003 of the state-run Banco de la Nación, it set off alarm bells at the IMF and among allied banking circles. Miceli had experience in devising state financing programs for public development projects, and unlike Lavagna, didn't buy the idea that orthodox austerity measures were the only way to combat Argentina's increasing inflation.

The Cabinet change was scrutinized carefully in Brazil. According to the Dec. 3 Brazilian daily *O Globo,* when IMF Deputy Managing Director Anne Krueger visited Brasilia on Dec. 1, she worriedly asked everyone she met, "Do you know anything about Felisa Miceli? Where she came from, and where she's going?" *O Globo's* columnist asked whether Miceli would become "the Dilma Roussef of the land of Kirchner," alluding to the firestorm that Lula's Chief of Staff set off on Nov. 9, with her barrage against her government's economic policy.

Argentina's state press agency Télam published on its website this author's article from *EIR* of Dec. 9, which includes LaRouche's analysis of, and support for, Kirchner's dumping of Lavagna.

To the horror of foreign bankers and free-marketeers, Kirchner and Miceli have not only become "interventionist," but have echoed the "harmony of interests" concept most identified with the great 19th-Century American System economist Henry C. Carey. Miceli used the term "harmonization of interests" on Dec. 2 in discussing price-reduction agreements reached with representatives of different economic sectors.

On Dec. 7, Kirchner told business leaders that he would fight growing inflation, not by imposing the IMF's recommended austerity measures, but by issuing a $1.5 billion credit line through the Banco de la Nación, for productive investment in purchase of capital goods for industry and agriculture. The ten-year loans carry subsidized interest rates.

But he also told the businessmen that they had a great "social responsibility" to ensure that their profit levels are balanced with protecting the General Welfare. "There are methodologies," he said, "that will allow us to reconcile interests, such that those who stay at home, those who work hard, will absolutely be protected by a responsible State," and by business, "with the responsible support" of workers and their organizations.