

Debt, Dollars, Democracy and Dictatorships: Argentina and the Punishing Logic of Post-Global Markets

Text and photographs by David McIntosh

There is an integrated global capital network, whose movements and variable logic ultimately determine economies and influence societies. This network of networks of capital both unifies and commands specific centres of capitalist accumulation, structuring behaviour of capitalists around their submission to the global network.¹

For the last ten years, both Presidents Menem and de la Rúa have listened only to international finance capital and its powerful local representatives. Argentina needs a complete change of political regime. Institutions can no longer serve simply as executors of the orders of the minority capitalist sector, which has not hesitated to demand the cruelest of sacrifices of the people, and to portray their suffering as the only solution. Argentina needs a new kind of relation between politics and economy, between government and capitalism.²

In 2001, the world witnessed a financial catastrophe on an order not even considered possible since the creation of the International Monetary Fund, the World Bank and international currency exchange standards—the key institutions of the current global financial order—at Bretton Woods in 1946. In December 2001, Argentina suspended payments on its \$132 billion international debt, garnering the dubious distinction of unleashing the largest national debt default in history. In the preceding decade, several countries had teetered on the verge of bankruptcy—including Russia, Mexico, Brazil, Indonesia, Thailand and Malaysia—but all were brought back from the brink to at least temporary solvency by joint massive injections of cash from the International Monetary Fund, the World Bank, the US government and interested transnational private banks, largely to preserve the return on their capital already invested in these countries.

However, this time the International Monetary Fund refused to make its scheduled loan payment of \$1.8 billion to the Argentinean government, citing a lack of viable long term economic planning as a justification, despite the fact that the loan installment would have ended up back in the hands of international creditors as it would only have been used to service interest payments on Argentina's cumulative debt. (It is worth noting that most "developing" countries, including Argentina, are charged interest rates of between 16 and 25% for international loans, while the prime rate in most "developed" economies hovers around 2%). This refusal of even a self-interested rescue operation for Argentina by the international institutions of global finance capital regulation signalled a drastic change in their long established double mandate of emergency intervention to preserve short-term monetary stability and of financing long term growth. Their new millennium mandate, still not fully or overtly articulated and apparently increasingly influenced by US interests, seems to be a simplistic and moralistic one of punishment. As US Treasury Secretary Paul O'Neill stated in his assessment of the Argentina crisis "They've been in trouble on and off for 70 years or more. They don't have any export industry to speak of. And they like it that way. Nobody forced them to be what they are."³ As a result of this brutal new manifestation of neo-liberal free market ideology, an entire nation of over 37 million people fell into economic collapse and political chaos.

Even before Argentina was quarantined by and from international finance capital networks after defaulting on its debt payments, the Argentinean state had taken drastic internal measures in an attempt sustain itself as the value of its primary asset—debt—collapsed. In the months leading up to the December crisis, President de la Rúa, head of a Radical Party-led alliance, had appointed Domingo Cavallo as his Minister of the Economy in an attempt to salvage the looming economic disaster. Cavallo had been at the centre Argentina's financial structure for decades, serving as head of the Central Bank under the military dictatorship from 1976 to 1983 and then under President Menem from 1989 to 1999. Now in an even more powerful position, Cavallo developed and implemented sweeping banking system restrictions on December 3—including limits on bank withdrawals of \$500 per month and suspension of international asset transfers—to stem the flight of capital out of the country. It is estimated that \$1 billion in cash was squired out of Argentina the day before these controls were announced and that \$60 billion in liquid assets were expatriated in the three months prior to the collapse. The Argentinean economy was completely demonetized; there was no circulating cash, only circulating debt. The disappearance of hard currency quickly worked its way down to the most local and essential financial transactions, like buying

food, provoking panic in an already exasperated population where the unemployment rate was 18% and those who had jobs rarely if ever got paid.

Predictably, the people of Argentina exploded in social protest. During the night of December 14, spontaneous looting of supermarkets broke out in various parts of Rosario, a provincial capital in the north. What was taken from the stores in this rebellion is revealing: essentials, such as vegetables, meat, soap. The province of Rosario was \$140 million in debt and financial transfers from Buenos Aires had ceased; provincial employees—nurses, teachers, police—had not been paid for months and now had no hope of receiving their wages. Antonio Bonfatti, head of Rosario’s municipal council, sounded a horrified historical alarm, recalling the military dictatorship: “This is just a continuation of what started in 1976. Only the people doing it have changed.”⁴ Political economist Atilio Boron expanded this perception in his visceral historical overview:

This is the end of the cycle of neo-liberal hegemony in Argentina’s public life. This quarter century long stage extends from the dying moments of Isabel Peron’s government to today. The principal ideologue of this project which launched the rise of speculative capital to a position of complete command of the economy was Jose Martinez de Hoz, “superminister” of the military dictatorship; his eager student and successor—Domingo Cavallo—has continued this effort for two decades under three different governments, starting with the military dictatorship.⁵

After the first incidents of looting on December 14, unrest peaked on the night of December 19, when demonstrations, riots and supermarket looting spread across Argentina. Millions of Argentineans poured into and stayed in the streets, despite de la Rúa’s declaration of a State of Emergency and a military enforced curfew. Those who had previously constituted the country’s substantial middle class joined the unemployed millions from the working class in their abject exclusion from any and all forms of economic relations. Suburban mothers and homemakers (the *caceroleros*) marched through the streets in the hundreds of thousands, banging their empty pots and pans, alongside the *piqueteros* (*picketers*), long term unemployed labourers from privatized national industries such as oil and sugar cane, who shut down commercial traffic on essential bridges and highways throughout the country to protest de-industrialization and indigence. The common cry of everyone in the street was “*Que se vayan todos!*” (Get rid of them all!), a call for the expulsion of usurious multinational banks and their own treacherous political class. On December 21, as banks were trashed and firebombed, and state repression of the people became vicious, de la Rúa resigned as President and fled by helicopter. By the end of December 21, 32



Men at Work, Graffiti Graphic, Buenos Aires, October 2002

people were dead and thousands were imprisoned, yet mass demonstrations in the streets continued, with the country on the brink of civil war.

By January 1, 2002, after three interim Presidents, all beleaguered by prolonged mass demonstrations and violent attacks on Congress itself, had come and gone in ten days, with some holding office for just hours, the Congress appointed Buenos Aires Peronist Senator Duhalde as president until new elections could be held in 2003. A member of the same party as former President Menem but diametrically opposed to Menem's free market ideology and practices, Duhalde managed to construct a fragile congressional consensus and has remained in power. Given the traditional concentrationist form of presidency in Argentina, as well as the specific condition of an undemocratic appointment during a state of emergency, enormous powers were centralized in this presidency. On the civil front, Duhalde attempted to defuse the violence by denouncing police repression and reining in the police to the extent possible, given that many of them were unpunished former torturers from the military dictatorship who moved to local police forces after the return to democracy fifteen years earlier and now operated as rogue vigilantes, kidnapping, beating and killing citizens as they saw fit. On the economic front, Duhalde was forced maintain to the severe banking and currency export restrictions imposed by Cavallo, collectively know as the *corralito* (playpen). Once in place, these

restrictions were next to impossible to get out of without provoking an even more devastating flight of capital.

The new president's major economic intervention related to currency and asset valuation, as he unlinked the peso from parity and convertibility with the US dollar and let it float freely. In 1991, President Menem and the ever-present Domingo Cavallo, then head of the Central Bank, instituted the Law of Convertibility, where the peso was officially pegged to the US dollar. To assure international investors and banks of the nation's liquidity, this law required that every peso in circulation be backed by a dollar held in reserve at the Central Bank, effectively dollarizing the economy. The dollar-pegged-peso initially produced the desired effect of bringing down an annual inflation rate of almost 5000%, but over time it produced serious economic downturns for Argentina. The US dollar continued to increase in value on international markets, increasing the value of the peso as well, and rendering Argentinean exports unaffordable abroad. The currency-driven drop in Argentinean exports was further exacerbated when Brazil, Argentina's largest trading partner, devalued its currency by 50% in 1998, making Brazilian imports even cheaper and more desirable for Argentinean consumers. By transferring rampant inflationary pressures onto the fixed value of an inflated peso, the Law of Convertibility produced an economic bubble that was bound to burst.

Throughout the 1990s, national consumption of imported goods grew dramatically, while national industries—many of which were established in the 1950s under Peron in his drive for economic independence through import substitution and nationalization of industry—collapsed in bankruptcy or were sold off to multinational interests. The Argentinean economy stagnated and then began shrinking; the number of unemployed as well as the number of people living below the poverty line doubled between 1995 and 2000. During this same period of stagnation and collapse, the International Monetary Fund demanded drastic reductions to Argentina's public spending in return for additional loans to maintain dollarization measures. The September 5, 2000 "Technical Memorandum of Understanding" between Argentina's Central Bank and the International Monetary Fund required Argentina to cut the government budget deficit from US \$5.3 billion in 2000 to \$4.1 billion in 2001, provoking an even deeper recession by shrinking the key role of the state in maintaining consumer spending. In return, the IMF would loan Argentina just enough to pay the interest on its foreign debt, a promise that in the end the IMF did not keep. This was the unsustainable shape of the dollar and debt cycle that finally imploded in December 2001.

Duhalde's termination of the creeping dollarization policy set up by the convertibility law deepened national economic recession as Argentina

struggled to pry itself from the clutches of global finance networks. As the newly floated peso rapidly devalued to 30% of its former convertible value, the battle began over which currency—dollar or devalued peso—would be assigned to financial obligations contracted under the prior dollar-peso parity regime. With peso devaluation, Argentines holding dollar-denominated debts (a commonplace, given that real estate was only sold and mortgaged in dollars and that dollar-denominated bank loans were offered at lower interest rates than peso-denominated loans) would be forced to continue paying that debt at a dollarized rate, while their peso incomes (the currency salaries were paid in even under convertibility) were worth 70% less. Multinational banks insisted that dollar-denominated deposits they held (savings and term deposits) would only be paid back in pesos at the convertible one-to-one rate, thus reducing deposit holders' assets by 70% and giving the banks an instant and massive windfall profit in the same amount. Claiming hard currency reserve depletion, multinational banks refused to recapitalize local operations with parent company assets, threatened bankruptcy and demanded hard currency at discount rates from the Argentine Central Bank. (Several banks, including Canadian owned Scotiabank Quilmes, were shut down by the state for exporting their reserves and liquid assets in contravention of the new banking restrictions.)⁶ Consumer costs spiralled out of control as foreign-owned private companies providing essential public services—water, electricity, gas, telephone—continued to bill at a dollarized rate. Imported goods and services, which consumers had come to rely on, became prohibitively expensive, while potential national suppliers had gone bankrupt or were sold to foreign multinationals who now expected to be paid dollarized rates. The Argentine state's international debt of \$132 billion, held mostly in dollar denominated bonds by foreign banks, also increased by the amount of the peso devaluation. For over a year now, Duhalde's economic de-globalization and re-nationalization project has teetered along, attempting to clean up the debris from the ruinous global finance network model of debt capitalization, privatization and transnational integration as he extricated two currencies and a myriad of debtors and creditors from each other, while balancing the brute power of multinational banks with the immediate needs of a volatile public.

In addition to the international implications of the debt and currency crisis, Duhalde and his successor, expected to be chosen in elections in May 2003, face an internal form of this crisis which is unique to Argentinean economics and debt structures. Throughout the 1990s, as Menem's brutal privatization and state shrinking program produced deindustrialization and massive unemployment, already indebted provincial governments faced increased demands for services as their revenues disappeared.



Thieves, Graffiti on boarded up Citibank, Buenos Aires, November 2002

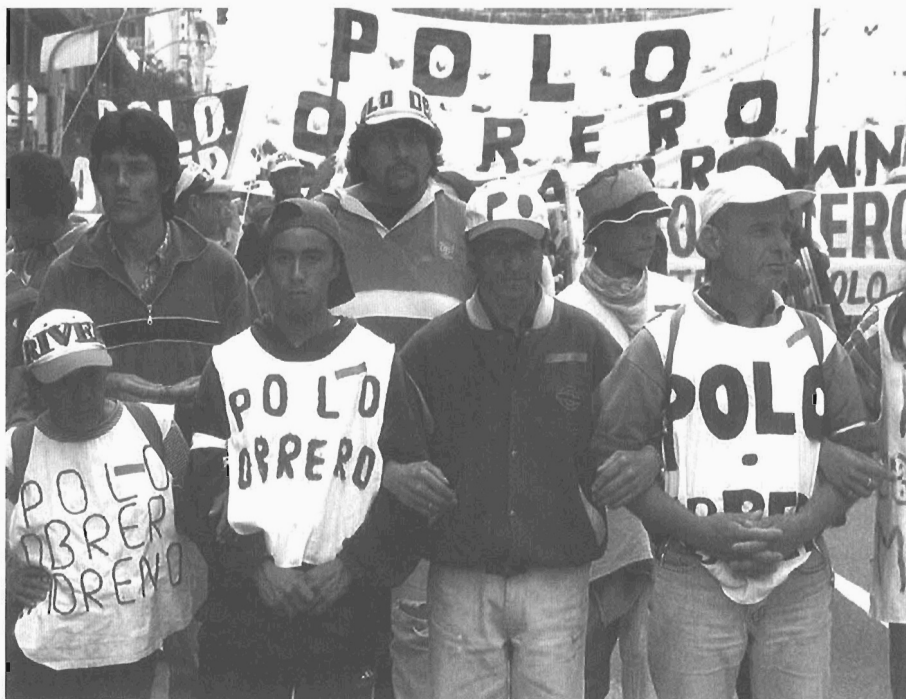
Almost every Argentinean provincial government issued its own currency —vouchers, parallel money, funny money, promissory notes, essentially circulating debt instruments not convertible to either dollars or pesos—as payment for employee salaries and government contractor bills. In July 2001, there were 10 such parallel currencies circulating in Argentina, with a total face value of \$1.5 billion. Depending on the terms negotiated between the issuer and local businesses, some vouchers were honoured at 100% of face value, others at 30%; some supermarkets would accept them as payment, others would not. Until peso devaluation, most stores had three tills— one for dollars (almost always empty), one for pesos (increasingly empty) and one for the provincial voucher (the fullest). Some stores even issued their own parallel currency. After devaluation and an only partially successful effort to stem capital flight, the federal state faced severe hard currency shortages— both in dollar reserves and circulating pesos— and so issued the Lecopí, its own debt voucher to sustain economic exchange relations at a minimal survival level. When the face value of this third internal class of non-guaranteed pseudo-currencies is added to the international debt, Argentina's amassed debt (internal, external, provincial and private) rises to \$211 billion.

A macro periodization of this astounding and crushing debt is revealing. When the military dictatorship seized power in 1976 and launched a set of

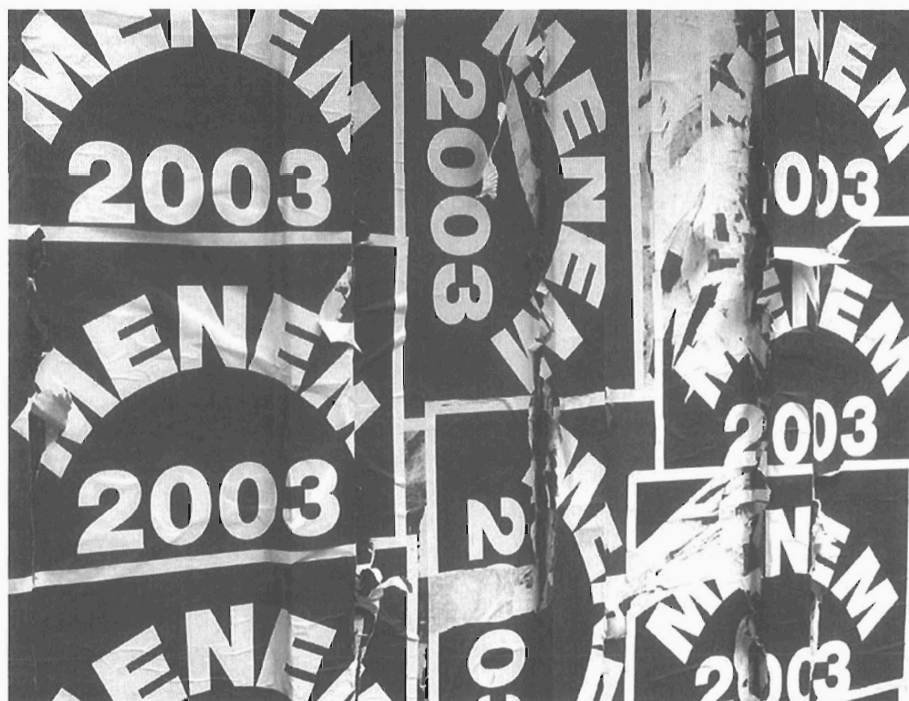
neo-liberal reforms to Argentina's highly nationalized economy — economic reforms accompanied by a vicious social engineering plan whereby almost 40,000 opponents of the regime were murdered — Argentina's foreign debt amounted to \$8 billion. The dictatorship borrowed freely from the IMF, the World Bank, and private multinational banks, institutions that promoted neo-liberal ideology and economic practices apparently without concern for the heinous human rights abuses. By the time the junta was defeated in 1983, the national foreign debt had ballooned to \$44 billion. The Central Bank, recipient of all foreign loans and headed by the ubiquitous Domingo Cavallo, maintained no records of where or how these monies were spent; however, \$11 billion in national capital is known to have fled the country during this same period. In seven years of institutionally sanctioned free market reforms and military dictatorship, Argentina's debt increased by 550%. Equally importantly, an almost insurmountable democratic deficit was left behind. The democratic election of President Alfonsín in 1984 slowed further neo-liberal economic reforms, due largely to the new government's economic incompetence rather than any coherent political-economic plan to reassert the role of the state. Frustration of the economic agenda of global finance capital networks prompted international lending agencies to assess the country as a high-risk investment and to impose extreme interest rates on loans to the Argentina, setting off an insane inflationary spiral which reached levels of 500% per month and eventually brought down the Alfonsín government. When President Menem assumed power in 1989, he inherited the existing \$44 billion external debt incurred by the military dictatorship. In response to Argentina's economic situation, Menem implemented the Law of Convertibility to establish dollar-peso parity while assuming sweeping emergency powers and embarking on a radical program of privatization of national industries and slashing government spending, exceeding the demands of the IMF and the World Bank for neo-liberal reform. During his ten-year tenure as president, Menem privatized virtually all of Argentina's state enterprises for an approximate total revenue of \$20 billion, received two IMF bailouts totalling approximately \$60 billion, slashed government expenditures by over \$1 billion each year, and increased taxes dramatically. Nonetheless, by the end of Menem's first five-year term the external debt had doubled to \$88 billion and by the end of his second term it had reached \$120 billion. The entropic massiveness of this black hole of debt alone caused it to bloat to \$132 billion by the time of de la Rúa's default in 2001. It is clear from this overview that Argentina's most dramatic foreign debt increases occurred in periods of brutal free market reform and minimal democracy, and in the replacement of the military dictatorship by a dictatorship of global finance capital networks.

In the absence of electoral democracy, shut out of both reassertion of national sovereignty by the political class and global market relations by multinational finance capital institutions, the people of Argentina transformed their united call of “*Que se vayan todos*” into new forms of local organization, resistance, survival and empowerment. Every neighbourhood, every workplace, every classroom, instituted its own *asamblea popular* (people’s assembly) where the principle of direct democracy prevailed. Local initiatives ranged from establishing neighbourhood watches to protect residents against police vigilantes to pooling food resources for collective kitchens to feed anyone in need. Looting of stores for food was curtailed by negotiating a scheme with store owners whereby the *asamblea* would simply be given food by the owners for redistribution. Barter exchange became a commonplace replacement for currency based exchange and some neighbourhood *asambleas* even organized medical barter clinics where people would bring unused medicines from home for unemployed doctors to prescribe to those who couldn’t afford them. In other instances, unemployed workers’ *asambleas* organized take-overs of factories abandoned by multinational capital and established collective self-management structures to get them working and producing again. In conjunction with this local direct democracy survival strategy, public resistance to the political class and capital networks continued. Banks and the Congress were the object of regular demonstrations of all kinds, from performances to firebombings to suicide attempts. Mass marches of *piqueteros* became such a regular feature of daily life in Buenos Aires that new traffic lanes and signals were installed to accommodate demonstrators. On occasion, marches have boiled over into violence and repression, as in April of 2002, when *piqueteros* and students blocked the Pueyredon bridge between a working class Buenos Aires suburb and the city’s commercial core; riot police shot and killed two student demonstrators, provoking the people to mass riots for several days following.

Full out civil war has miraculously been kept at bay for almost a year and a half, and despite the popular call to rid the country of its entire political class, traditional electoral politics have returned to the fore. The expected election of a new president in May 2003—the current appointed president, Duhalde, is not running—is turning into a replay of the political-economic ideologies deployed in Argentina over the last five decades. The two leading candidates are from opposing wings of the Peronist party. Nestor Kirchner, a former provincial governor and skilled consensus builder committed to reviving the role of the state in national economic development, resource redistribution, and renegotiation of multinational market relations, occupies the progressive position in the Peronist party. Former President Menem, architect of the ruinous privatization and globalization bubble that burst in



Workers Alliance, demonstration, Buenos Aires, October 2002



Menem Election Posters, Buenos Aires, November 2002

2001, was required constitutionally to limit his first tenure to two terms in office, but he has now returned to assume control of the Peronist party's ultra-free market right wing. Menem is running on a repressive program of law and order and a promise to reinstate and complete his program of privatization and globalization. A convicted illegal arms dealer, and a pawn of US financial and political interests, Menem epitomizes the treachery of politicians.

In the polarized and volatile Argentinean landscape, it might seem ludicrous that anyone would vote for Menem, but elections are clearly subject to undemocratic influence, as witnessed in the 2000 US presidential elections. In fact, Menem has a longstanding relationship with the Bush dynasty.⁷ In 1988, George W. Bush tried unsuccessfully to persuade outgoing President Alfonsín to award a gas pipeline contract to Enron; when Menem assumed office in 1989, one of his first acts was to award Enron a \$300 million deal for the pipeline. Enron subsequently contributed hundreds of thousands of dollars to George W. Bush's election campaign. Menem was the only Latin American politician in attendance at George W. Bush's inauguration. Another of George W. Bush's major campaign contributors was Tom Hicks, Texas Ranger owner and president of Hicks Muse Tate & Furst, a holding company involved in Citibank's Argentina operations and with \$10 billion in assets world-wide, including majority ownership of much of Argentina's formerly public telephone and telecommunications systems which Menem privatized and sold under monopoly terms which obliged the Argentinean state to guarantee the new owner a fixed and elevated rate of return on investment. Hicks and Menem are also implicated in a broad range of drug money laundering and off-shore banking scams. Menem's reglobalization program and his possible electoral success rest on his own integration into what another Argentinean presidential candidate, Elita Carrío, has referred to as a transnational "mafia state." Menem may well prevail in the planned 2003 elections, and if he does, civil war is a certainty.

Any attempt at isolation or separation will mean only a more brutal kind of domination by the global system, a reduction to powerlessness and poverty.⁸

Argentina's devastating experience of entering and exiting the inherently unequal and predatory logic of global capital networks points to a paradigm shift in progress, where the globalist logic of debt, dollarization, democracy and dictatorships is being reshaped. Argentina was one of the most "globalized" national political-economies in the world, but was isolated from global network logic with supreme ease—the global readily becomes its inverse. With Argentinean society privatized to such an extreme

that the only things held in common were the marketplace and the modalities of exchange — lynchpin tenets of the “consumption as democracy” theory of successful globalization — the collapse of the marketplace produced complete societal collapse. And in many ways, the global marketplace planned for, expected, and dictated Argentina’s default, devaluation and collapse, almost as a perverse resuscitation of and experiment with the antique Hobbesian notion of “the war of all against all.”

In stark contrast to this new phase of brutal global market triumphalism, the collective construction of resistance and self-management by the millions of *caceroleros*, the *piqueteros* and the *asambleas populares* points to an equally new scale and scope of response to this shifting global logic. Entrenched authoritarian concentrations of power (global and national) have and will continue to deploy the overwhelming power to exclude, disempower and impoverish, but from the debris of this devastation a newly defined collectivity musters its own emergent, self-organizing powers. Embodied resistance in Argentina offers us hope as the contradictions, paradoxes and ephemerality of global finance networks rapidly resolve into unambiguous reality.



The Solution – Self-Management, Peoples Assemblies, Graffiti Graphic, Buenos Aires, November 2002

Notes

1 Manuel Castells, *The Rise of Network Society* (Oxford: Blackwell Publishers, 1996), 78-79.

2 Beatriz Sarlo, "La disolución de la Argentina y sus remedios," *Página 12*, [Buenos Aires] 23 December, 2001: 25.

3 Paul Knox, "Protests Spark Argentine Crackdown," *The Globe and Mail*, [Toronto] 20 December, 2001, Section A1.

4 Eduardo Tagliaferro, "Antes por la hiper, ahora por la recesión," *Página 12*, [Buenos Aires] 15 December, 2001: 3.

5 Atilio Boron, "Requiem para el neoliberalismo," *Página 12*, 23 December, 2001: 25.

6 Scotiabank, with banking investments and ownerships in Argentina valued at just over \$1 billion, was prepared to "walk away from its investment," an acceptable loss which would amount to no more than one-quarter's profits. See John Partridge, "Scotiabank monitors crashing Argentina," *The Globe and Mail*, 21 December, 2001, Section. B8. As long ago as July 21 2001, CIBC World Markets Chief Economist Jeffrey Rubin claimed that Argentinean default and devaluation had already been discounted by international financial markets and that the 1998 global debt crisis, when the trading programs of hedge funds over-exposed to emerging market debt "were overwhelmed by the movement in credit spreads" had reduced the appeal of such collapse uncontrollable "credit products." See Jeffrey Rubin, "Are Argentina's problems contagious?" *The Globe and Mail*, 21 July, 2001, Section B8. Merrill Lynch Chief Economist David Rosenberg said "It was a matter of when, not if, and Argentina's debt was already trading at levels reflecting the measures announced." See Steven Chase, "Argentina defaults on loans," *The Globe and Mail*, 24 December, 2001, Section B1.

7 A complete account of the Bush-Enron-Menem relationship was published in the March 2000 issue of *Mother Jones* and can be found at http://www.motherjones.com/mother_jones/MA00/argentina.html

8 Michael Hardt and Antonio Negri, *Empire* (Cambridge, MA: Harvard University Press, 2000), 284.