VII. ARGENTINA'S LAST TANGO

History in Argentina....is a process of forgetting.

-- V.S. Naipaul

….(She should) walk a mile in their moccasins

-- Ronald Reagan, commenting
on the Carter Administration
human rights coordinator's
criticisms of the Argentine military junta

Who knows what political system works best?
All we ask is, can they pay their bills?

-- Thomas C. Theobald,
Vice Chairman, Citibank,
1981

"Basta con el pasado."

-- President Raul Alfonsin's campaign slogan, 1983

Argentina presents an interesting set of contradictory tendencies to the historian of political and economic development. For decades it was widely regarded as Latin America's most developed country, with the highest per capita income and more skilled European immigrants than anywhere else in the Western Hemisphere except the US. On the basis of its rich farms, substantial early investments in railroads, roads, and ports, and all this "human capital," by the late l920s Argentina's income level had already reached the world's top ten, on a par with Canada's and well above Japan's.

Argentina was also the most cosmopolitan country in Latin America – transcending its Hispanic roots, many members of its elite spoke English with an Anglo accent, took afternoon tea, played polo, cricket, and golf, and sent their children off to finishing schools in England and Switzerland. World class artists like Borges and Mercedes Sosa made Buenos Aires their home. Even now, after three decades of economic upheaval, the city remains a slightly rundown combination of Paris and Madrid, with beautiful wide avenues, cafes, more than twenty theaters, and one of the world's best operas. Unfortunately, the opera also now has other associations – it is located right across from the plaza where Argentina death squads sometimes deposited their victims in the late 1970s, fresh from meat lockers, frozen solid in grotesque upright positions.

Just because its early achievements were so great and its prospects so bright, Argentina's deterioration since the 1970s has been even more striking than that of Venezuela, the Philippines, or Nicaragua. What happened? Many historians have focused almost exclusively on internal factors, especially the long-standing political stalemate between the radical left, the union-based Peronist movement, and the military, the landowners, ranchers, and well-protected industrialists on the right. This stalemate was rooted in the country's early success as an agricultural exporter. Originally commodity exports like beef and grain generated high dollar incomes. These, in turn, stimulated imports, and encouraged domestic industry – with support from the unions -- to pursue import substitution, seeking protection behind high government tariffs. Unlike Venezuela, much of the export income was captured initially by just a thousand or so large farmers, who, along with British investors, had provided most of Argentina's industrial capital in the 19th and early 20th centuries. The result was a classic case of "Junker" development, with weak liberal institutions, a militant labor movement, a heavily-protected, rather inefficient domestic industry, no impetus for land reform, and social polarization.[1]

However, all these domestic factors were reinforced by Argentina's long-standing, peculiarly incestuous relationship with foreign capital – especially international banks. In a nutshell, while Argentina's restrictions on foreign investment and trade were tighter than in Venezuela or the Philippines, right from the start, the country was extremely open and hospitable to foreign banks. In particular, both the government and its private sector came to rely heavily on foreign debt. Business elites, politicians and generals also all acquired a strong taste for foreign bank accounts, holding a substantial share of their wealth offshore, partly just to avoid taxes, but also as a safeguard against political turmoil. On a macroeconomic level, this discouraged the growth of domestic capital markets. It also made it more difficult for the state to finance development by taxing domestic private income or capital.

So without any minerals or oil to export, and with a chronically weak tax system, Argentina's developmental state came to rely heavily on a combination of inflationary finance – printing money -- and foreign borrowing. When the Peronists were in power, as in the 1950s, the early l970s and the late l980s, the bankers turned away, and the state relied more heavily on printing money, which boosted inflation. When the Right returned to power, as in the late l970s and early 1980s, and again in the 1990s under **Carlos Menem's** "neoliberal Peronism", the foreign bankers warmed up again, and the foreign debt soared. Regardless of who was in power, there was a chronic tendency to export wealth, because everyone expected these recurrent cycles of political instability to continue.

Leading international banks – mainly American and British -- contributed mightily to this process of <u>anti</u>-development. They not only provided a huge amount of finance for misguided government spending. They also provided private tutorials to Argentina's elites on how to move vast amounts of their "rich" country's wealth to New York, Miami, and Switzerland. In the case of the "neoliberal" military junta that ruled Argentina from 1976 to 1983, their excessively generous lending not only destabilized the economy and helped to provoke a war, but it also financed a brutal reign of terror that Argentina has not recovered from to this day. In the case of the neoliberal civilian regime that came to power in the 1990s, their behavior -- combined with unbelievable oscillations in policy on the part of the IMF -- eventually contrived to make things even worse. But we are getting ahead of our story, and the full force of this tragedy can only be appreciated by sitting through its many acts….

Financing Dirty Wars

One might have thought the Falkland Islands were scarcely worth fighting over – two hundred rather inhospitable, widely-dispersed islands, located 300 to 2000 miles off Argentina's coast in the chilly South Atlantic, amount to nothing more than 4000 square miles of steep impassable mountains, windswept tree-less fields, seals, wild foxes, 4 kinds of penguins, 65 species of sea birds, an abundant supply of illex squid, a few thousand reindeer, seventy thousand sheep, and about 1800 (2300 now) English-speaking "kelpers" most of whom make their living from squid and wool. Occasionally there have been claims that up to 60 billion barrels of oil might be located beneath the sea near the islands, but most of these claims have been made by oil exploration companies seeking investors, and after nearly a decade of drilling that started in 1994, no commercial quantities have yet been found.

The Falklands' hardy local residents, all of British descent, have always firmly supported continued British sovereignty, which has been in place since Britain first seized the islands in 1833. Argentina asserted its first rival claim in 1920, based on the islands' physical proximity, nationalism, and the 1494 Treaty of Tordesillas, by which Spain and Portugal purported to divvy up the New World – odd, since there was no recorded landing on the islands until 1690. But Argentina only began to press its rival claim to the islands seriously at the UN in the mid-1960s, during the heyday of anti-colonialism. Negotiations with the UK then moldered along peacefully until the 1980s. The Brits were not eager to make territorial concession that might encourage embarrassing questions about their more valuable colonial residues, like Gibraltar and (at the time) Hong Kong. But until Argentina's right-wing military junta seized power in March 1976, no one on either side imagined that it made sense to wage modern war over these desolate rocks and their basically contented, if somewhat daft, inhabitants.

Enter Argentina's new military junta, *circa* 1976. Adopting a policy of harsh repression at home and aggressive chauvinism abroad, the junta spent the next seven years waging a domestic war against purported "subversives," building up its military arsenal, engaging in an arms race with its rival fascists in General Pinochet's Chile, and preparing to grab the Falklands in the interests of Argentine nationalism.

Of course none of this behavior was completely unexpected – Argentina's military has had strong fascist traditions ever since the 1930s, and as has recently come to light, the country not only sympathized strongly with Hitler and Mussolini during World War II, but also provided shelter for more than 150 top Nazis thereafter.[2] But none of this bloody-minded activity could have been paid for without a great deal of help from foreign – mainly American, French, and British -- banks. From March 1976 to 1983, the junta increased Argentina's foreign debt from $7.2 billion to nearly $46 billion, raising their country's debt-income ratio from 10 percent to 50 percent and boosting the cost of debt service from 2 percent of national income to 7 percent, Argentina's highest ratio up to that point.[3] To pull this off, the junta required the active assistance of numerous major international banks, including **Chase Manhattan, Bank of Boston, "El Citibank,"** **Bankers Trust, Bank of America, Morgan, MHT, Lloyds, UBS/ SBC, Deutsche Bank, National Westminster, Morgan, Barclays Bank,** and **BNP.**

But its best friend by far was **David Rockefeller Sr.**, **Chase Manhattan's CEO and Chairman**. [4] **Chase** loaned the Argentina military junta more than $800 million directly, and syndicated billions more, becoming the leader in Argentine loan syndications during this period.[5] Moreover, the junta's key **Economy Minister, Jose Martinus De Hoz (a.k.a. "Joe, the Wizard of Hoz,"**) was a former senior advisor to Chase and a very close friend of Rockefeller's.

Meanwhile, on the other side of the balance sheet, **Chase, Citibank, UBS,** and **Bank of Boston,** took the lead in helping key members of the junta and its friends stash billions of their own dollars abroad during this period. According to a former senior Chase private banker, **David Rockefeller** himself was *personally* involved in servicing the Argentina generals' foreign accounts. [6] By the early l980s, Argentina was Latin America's second largest private banking market, second only to profligate Mexico. Of course this provided the junta a valuable insurance policy, against the day it was tossed from power. That did not encourage moderation.

For a while, the junta's neoliberal economic policies appeared to work – inflation declined, growth picked up, and investment recovered. While most of the benefits of the junta's policies were concentrated in the hands of the elites, by 1980, Argentina's real per capita income in dollars was its highest ever – almost $15,000.[7]

However, it soon turned out that these achievements were more apparent than real. In 1981, the cumulative effect of Argentina's massive foreign borrowing, on top of a global recession and the Latin America-wide debt crisis that started to develop that year, combined to produce a severe economic crisis in the country. Inflation topped 535 percent, per capita incomes fell 13 percent, unemployment soared, and real wages plummeted by more than a fifth.[8] While De Hoz's polices had been *enormously* profitable for the banks, they completely destroyed Argentina's competitiveness, bankrupted the government, and made the whole economy hostage to a debt crisis.

At the same time, the virulently anti-leftist junta had also implemented a policy of killing or "disappearing" at least 15,000 to 30,000 of its political opponents.[9] The military characterized these victims as "subversives," "urban guerillas," and "terrorists." But the vast majority appear in retrospect to have been completely innocent people who just happened to fit the profiles that the military considered suspicious: students, nuns, social workers, union leaders,[10] members of Argentina's liberal Jewish community, journalists, and university professors.

It was true that Argentina's urban guerillas, the Montoneros and the ERP, were no saints. In the 1970s they conducted numerous kidnappings, including one that extracted a $60 million ransom from one of David Rockefeller's favorite clients, the family that owned Bunge-Born, a leading commodity trader. They also killed a former Foreign Minister and several executives from GM, Ford, and Chrysler, blew up an Argentine naval vessel, and detonated a bomb at the Federal Intelligence Department that killed 18 people.

But the Army's own investigations later concluded that even at the peak of guerilla activity in the mid-1970s, the country had less than 1,500 armed guerillas. Instead of dealing with the threat surgically, the junta – dominated by people who were just no less extreme on the right than the guerillas were on the left – unleashed a wholesale campaign of terror and extermination. As one senior military officer later described the junta's repression strategy, "First we will kill the activists, then the supporters, and then the indifferent."[11] The introduction to the official report prepared by the Argentina's National Commission on the Disappeared in 1983 provides one concise ground-level view of how this reign of terror worked:

> *People were taken of the streets, from their homes at night, or from their workplace in broad daylight and driven blindfolded to detention camps. Their houses looted and their property stolen. Most of them lived the rest of their lives in the detention centers, hooded or blindfolded, forbidden to talk to one another, hungry, living in filth. The center of their lives - dominating the memories of those who survived - was torture. They were tortured, almost without exception, methodically, sadistically, sexually, with electric shocks and near-drowning, some buried to their necks and left in the sun and the rain for days. They were constantly beaten, in the most humiliating possible way, not to discover information - very few had any information to give - but just to break them spiritually as well as physically, and to give pleasure to their torturers. Most of those who survived the torture were killed. Disposing of the bodies presented a tactical problem. First they were burned in mass unmarked pits, but*

> *later, a more efficient final solution was discovered. The disappeared were loaded into planes with an open door, flown over the sea, and then thrown out. Most of them were first drugged or killed, but some were alive and conscious when they left the plane.*[12]

By early 1982, on top of the economic crisis, all these killings and disappearances of innocent people were beginning to undermine the regime's support among many ordinary middle-class Argentines. While the junta obviously didn't have to worry about winning elections, the rising discontent was affecting its ability to win cooperation from key unions, business organizations, and the Church. It was also hurting the junta's pocket book, by increasing tax resistance – tax collections as a share of national income declined from 15.5 percent in 1979 to an abysmal 8.2 percent in 1982.[13] Indeed, many unions and large sectors of the middle classes were starting to oppose the junta openly -- in March 1982, there were mass demonstrations against unemployment, inflation, and repression in Buenos Aires, led by the unions and **"Las Madres de Mayo,"** which represented the relatives of the disappeared.

Rosario I

So to marshal political support for the regime, the head of the junta, **President/Lt. General Leopoldo Fortunato Galtieri,** decided quite cynically that it was time to start a war. Analysis of the junta's decision to invade "Las Islas Malvinas" later revealed that it was made quite explicitly to divert the country's attention away from all its economic and political woes and unite the country around an aggressive nationalism.

Galtieri appeared to be the ideal leader for the job. Fit and good looking, with striking blue eyes, he was the son of Italian immigrants, a hard-drinking 1949 graduate of the US School of the Americas in Panama. He had served as commander of the Second Army Corps in **Rosario**, Argentina's second largest city, in the northeastern province of Santa Fe. He was perhaps best known for having set up a political prison and terror laboratory in an elegant home in Rosario, one of more than 340 secret detention centers opened by the military all over the country during this period. In Rosario, Galtieri had presided over a notorious personal reign of terror, arresting and torturing people for as little as donating books to the wrong libraries. As he told one female prisoner, "If I say you live, you live; if I say you die, you die. As it happens, you have the same Christian name as my daughter, and so you live."[14] When he became Commander in Chief of the Army, the chain of command for Battalion 601, the intelligence unit that ran the entire "dirty war," reported directly to him.[15]

In December 1981, this blue-eyed thug became the junta's third military President, pushing aside **General Roberto Viola**, who had proved unable to deal with the mounting political opposition and gathering economic crisis. Galtieri dusted off the military's invasion plan for the Falklands, which was codenamed **"Rosario."** Under that plan, the invasion was originally scheduled for July 9th, 1982, Argentina's National Independence Day. That was not just for ceremonial reasons -- July was winter in the South Atlantic, with stormy seas that would greatly complicate any British attempts to mount a counter-offensive by sea. By July, Britain was also scheduled to retire the HMS Endurance, its only military vessel near the Falklands. Furthermore, Argentina would have also received a new, much more lethal shipment of Exocet AM-39 missiles that it had ordered from France. So just waiting a few months might well have made a huge difference.[16]

However, just because of the mounting economic crisis – based, in turn, in large part on Argentina's excessive debts -- Galtieri made the fateful decision to accelerate the date for the invasion by three months, to April 2. He took this decision not only in the face of the disadvantages just considered, but also despite a clear warning delivered in person by **former Deputy CIA Director and US Ambassador-at-Large General Vernon A. Walters**. General Walters told a drunken General Galtieri late one night in March 1982 in Buenos Aires that Galtieri should "*have no doubt* the US will side with the UK if you invade."[17]

In addition to the economic crisis, another reason why Galtieri ignored Walter's advice was his firm belief that the UK didn't really care enough about the islands to fight hard for them. As he told a TV interviewer at the time, glass of Black Label Scotch in hand, the UK was "a country governed by two women" -- Queen Elizabeth and Margaret Thatcher. They would not be willing to sacrifice their children." More seriously, Galtieri knew that his only real war aim was to force the British the bargaining table as quickly as possible and negotiate a settlement. He thought this would follow quickly, without much bloodshed – as he later told an interviewer, "I expected them to send four ships, not a Task Force."

Equally important, even after General Walters' warning, Galtieri still firmly believed that the US would stay neutral, and also help pressure the UK for a quick settlement. This view was based in part on his analysis of US interests. After all, the US had long asserted the Monroe Doctrine with respect to European colonies in the Western Hemisphere. Since the 1960s, it had also developed a close working relationship with right-wing regimes like his all over Latin America, including Argentina, Brazil, Chile, Bolivia, El Salvador, Guatemala, and Uruguay – the so-called "Operation Condor" coalition, designed to combat Latin America's leftists.[18] And influential US banks like Chase and Citibank also had far more loans outstanding to the government of Argentina than they did to Britain, so he expected to be able to call in these chips.

On top of this, the junta also believed that it had many powerful friends inside the Reagan Administration. The junta had worked hard to spruce up Argentina's image in the US after the 1976 coup. In 1976 it hired the leading US public relations firm **Burson-Marsteller** to work on Argentina's "international image...projecting an aura of stability for the nation, its government and its economy."[19] In 1979 the junta had retained the influential D.C.-based lobbying firm of **Deaver and Hannalord**, the firm led by **Michael Deaver**, Reagan's campaign advisor and **White House Deputy Chief of Staff** from 1981 to 1985. In addition to Ronald Reagan and Argentina, Deaver's other clients included **Guatemala** and **Taiwan**, both of which also had serious image problems in the US. To launder Argentina's image, among other things, **Deaver** saw to it that **Economics Minister de Hoz** was referenced on several of President Reagan's national radio broadcasts. In one of them, Reagan described the last six years under the junta as "one of the most remarkable economic recoveries in modern history," and added:

> *Today, Argentina is at peace, the terrorist threat nearly eliminated. Martinez de Hoz.....points out that in the process of bringing stability to a terrorized nation of 25 million, a small number were caught in the cross-fire, among them a few innocents...If you ask the average Argentine-in-the-street what he thinks about the state of his country's economy, chances are you'll find him pleased, not seething, about the way things are going.*[20]

Apparently all these lobbying efforts were helpful. When General Galtieri and **General Roberto Viola** visited Washington in early 1981, they got a warm reception from **Richard Allen, Reagan's National Security Advisor**, who called Galtieri a "majestic general." In addition to Deaver's lobbying work, this reception may have also been due to Reagan's gratitude for the fact that Argentina had kindly offered to send trainers to Central America to advise the *contras* in Nicaragua and army officers in Guatemala and El Salvador on anti-guerilla military tactics and interrogation techniques – based on their own rich experience. In fact, the aid provided by Argentina junta to the *contras* before the junta fell in 1983 – compensated by various favors that the USG and US banks provided to Argentina -- appears to have been an early version of the Iran-*contra* gambit used later by the Reagan Administration to provide off-the-books aid to the *contras,* beyond that sanctioned by the US Congress.

These high-level connections were also reinforced by other conversations, even closer to events in question. On March 8, 1982, shortly before the invasion, Galtieri met with **U.S. Under Secretary of State Thomas O. Enders** in Buenos Aires. Enders, a career diplomat, had some military experience – he helped to choose bombing targets for the US Air Force in Cambodia in 1973. He assured Galtieri that the US had "no interest in the Malvinas," and would maintain a "hands off" position. [21]

On Friday, April 2, the *same day* that General Galtieri sent 2500 troops to storm Port Stanley, the Falklands' main city, **UN Ambassador Jeane J. Kirkpatrick**, was the guest of honor at a dinner sponsored by **Estaban Takacs**, Argentina's Ambassador to the US, and attended by several leading members of the Argentine military. From Argentina's standpoint, Kirkpatrick richly deserved the honor. She was a "neocon" professor at Georgetown and a former aide to the hawkish Democrat, Senator Henry Jackson, who had lost out to Jimmy Carter in his bid for the 1976 Democratic Party Presidential nomination. In 1979, she wrote a pugnacious piece that attacked Carter's human rights policy and tried to distinguish "moderately repressive" authoritarian regimes -- like the Argentine junta, as well as those of the Shah, Somoza, and Pinochet – from "totalitarian" states. [22] The actual victims of these regimes probably did not find much solace in this theoretical distinction. But it captured Reagan's attention when he ran against Carter in 1980.

So in 1981, Kirkpatrick was rewarded with the UN job. Once in office, behind the scenes, she lobbied very hard for a neutral US stance on the Falklands. In her view, it was far more important to work closely with the Argentine junta and the other "Condor coalition" members, no matter how bloodthirsty, to defeat global communism than to help Britain defend its obscure, anachronistic colonial outposts.

The April 1982 dinner for Kirkpatrick was also attended by **US General Richard B. Meyers**, **US Secretary of the Army John O. Marsh**, and **Frank Carlucci,** the **US Under Secretary for Defense**. All these senior US officials knew full well that the invasion was in progress even as they munched and toasted, because the night before, the UK's Ambassador had addressed the Security Council about the situation, and President Reagan, briefed by British intelligence, had called General Galtieri. The General refused to back off. The invasion proceeded.

Another interesting guest at the April 1982 Kirkpatrick veneration was **Wenceslao Bunge**, an Argentine business man, Harvard Business School graduate, and long-time Kirkpatrick friend. British intelligence also described him as "the unofficial diplomatic representative" of **Brigadier General Basilio Lami-Dozo**, **Commander-in-Chief of the Argentine Air Force and junta member**, whose air force was right then launching the invasion. In the next few weeks, **Bunge** actively pressed Argentina's case with Kirkpatrick, the State Department, the White House, the UN and the UK. He and General Lami-Dozo hoped for a quick diplomatic victory, getting the US to convince Britain's Margaret Thatcher to accept a truce. [23] As we will see, he also continued to play a colorful, influential role in Argentina long after the junta and its fellow-travelers were an ugly memory.

Needless to say, this **"April Glaspie"** [24]**- like** behavior on the part of senior US officials like Kirkpatrick, Thomas Enders, and the top US military brass did not exactly discourage Argentine aggressions. Apparently the junta was very surprised to learn, therefore, that when push came to shove, as Argentina's UN Ambassador later reported, "…Señora Kirkpatrick has good will toward our country, but her capacity for action is very limited because of the promises made to the UK, and her differences with the Secretary of State."

In the interim, **Margaret Thatcher, the UK's Prime Minister**, was not at all pleased by Kirkpatrick's behavior. She might call herself a fellow "neo-conservative," but rather than siding with the UK, America's oldest and most democratic ally, she had chosen to take sides with uniformed thugs from a country that had not only launched premeditated invasions, but also imprisoned, tortured, and murdered thousands of its political opponents, persecuted Jews, and sheltered top-shelf Nazis.

Immediately after the invasion, all ten European Common Market countries had sided with the UK, banning all Argentine imports. The US, in contrast, responded meekly at first, while the policy battle raged among Kirkpatrick, her nominal boss **Secretary of State Al Haig**, and quietly behind the scenes, Michael Deaver. Reagan dispatched Haig to London and Buenos Aires for ten days of shuttle diplomacy. In London, Thatcher told him in no uncertain terms that the war would continue until Britain recovered the islands or Argentina withdrew – American neocon might wink and nod at "authoritarianism," but there would be no appeasement of blatant fascist aggression on her watch. Haig agreed, and continued to argue forcefully for a pro-UK stance over the next two months, right up until the war's end. He found his efforts repeatedly undermined by Kirkpatrick and White House Deputy Chief of Staff Deaver, who were also pushing the *contra* agenda, and wanted Argentina's help with that. On June 25, shortly after the war's conclusion, Haig resigned. The Falklands crisis, on top of differences over Israel's invasion of Lebanon, was one of the key reasons. As Haig said later,

> *There were contacts made with Argentine officials by the White House which were neither discussed with me nor cleared with me and which had the practical effect of confusing the issue...This helped confirm that the outcome [the war] would be inevitable.*[25]

In any case, on April 3, the UN Security Council passed Resolution 502, which demanded an immediate Argentine withdrawal and cessation of hostilities. Argentina, with the support of most other Latin American countries, refused to withdraw, while Britain refused to cease hostilities. So the war continued on until the UK decisively defeated Argentina in June.

For a very brief time, the invasion did produce the political effects that Galtieri had been seeking. In early April, less than two weeks after his police had broken up huge union protests against the junta's economic policies in the Plaza de Mayo, he stood on the balcony of the Casa Rosada overlooking the same Plaza, now filled to capacity, and heard the crowd cheer when he promised to give Thatcher a bloody nose.

But this support proved to be as fleeting as the Argentine military's willingness to put up a fight. By June, when the invasion had proved to be a fiasco and the dead and wounded were coming home, the support was replaced by revulsion. On June 17, Galtieri resigned in disgrace. In 1986, he was court-martialed and convicted of "negligence" for mismanagement of the war, and sentenced to 12 years in jail. In December 1989, after serving just four years, he was pardoned by President Carlos Menem.

All told, Argentina lost 649 men to Britain's 272, plus 10,000 prisoners, plus all the islands, plus more than $2 billion of direct war costs, and many billions more in the costs of military preparations. The war also rattled the nerves of foreign bankers, and greatly exacerbated the 1982 Latin American debt panic. But things could easily have been worse -- with a little better planning, and a delay until summer, most military analysts now agree that Argentina might easily have <u>won</u> the war. And that, in turn, would have been a disaster for the demilitarization and democratization efforts of countries like Chile and Brazil, as well as Argentina.[26] Whether or not any particular regime was more or less "authoritarian," Kirkpatrick had forgotten, was much less important than the total amount of democracy generated by the international system over time.

Ironically, the main political beneficiary of the Falklands War was not the junta, but the UK's Prime Minister, Margaret Thatcher. Until the war, her popularity had plummeted to record lows in the face of rising unemployment. But from March 1982 on her approval ratings soared. Most political analysts believed that the Falklands was *the* key factor in her decisive victory in the June 1983 British general elections, which gave her a large majority and helped her stay in power until 1990. As one astute New York Times editor commented, at least from her standpoint, "Had Argentina's invasion...not happened, it would had to have been invented." [27]

As for Argentina, ironically, the junta's invasion and defeat ultimately did help to bring about a return to popular government and increased human rights – in the words of some junta critics, "Margaret Thatcher won us our freedom back." The defeat pretty much discredited

Argentina's arrogant, repressive brand of militarism for all time. After all, in the midst of a deep economic crisis, the junta had launched a costly war for a worthless bunch of islands where, even had it won, Argentina would only become – at best -- a detested colonialist. It had also completely botched wartime diplomacy. Finally, from a technical standpoint, it had managed to lose an almost sure thing, despite the fact that the Falklands was virtually undefended, 8,000 miles from Britain and just a few hundred miles from Argentina, and the junta had had years to prepare its surprise attack. Among other things, this put paid to the junta's adventures with the contras in Nicaragua, as well as its aid to El Salvador and Guatemala. This forced the US to revise its whole strategy for aiding those right-wing allies.

In the wake of the sudden defeat, Galtieri resigned on June 17, 1982. But that didn't fix the problem – over the next six months, the junta faced mounting protests from war veterans, unions, and human rights groups, on top of the economic crisis, which continued to worsen. Finally, demoralized, exhausted, and out of ideas, in February 1983 the military announced that it was relinquishing power, and scheduled elections for the fall. In **October 1983**, in the country's first elections since the 1976 military coup, **Dr. Raul Alfonsin,** a medical doctor, won an upset victory for the **Radical Civic Union (UCR)**, defeating a Peronist candidate to become the country's first freely-elected non-Peronist president since l916.

So, in an odd way, by destabilizing the junta's economic base and inducing it to launch a premature invasion that ultimately led to its defeat, Argentina's excessive foreign borrowing had actually end up, ironically, helping to restore democracy. But if the banks and the USG had simply refused to coddle the dictators in the first place, this salutary result – which, as we've seen, was a very close thing – might have been achieved by a much less circuitous, deadly route.

Peace Crimes – The Anatomy of "Moderate" Repression

In the wake of Argentina's defeat, and the junta's demise, Argentina gradually began to learn about the depths to which its "moderately repressive" rulers had sunk. It is worthwhile for us to review a few highlights of this sordid record, because of the heavy responsibility that the junta's foreign patrons, especially its private bankers, bear for it. Twenty years after the junta's fall, while some senior leaders are finally being brought to justice, hundreds of other military officers who were waste-deep in gore have avoided all punishment. And the vital role played by the regime's foreign sponsors has been largely forgotten.

It may well have been that waging armed combat with opponents who are not entirely helpless was just not the Argentine military's long suit. On April 26, **Alfredo Astiz**, a young Argentine lieutenant, surrendered his entire company to British commandos on South Georgia, the largest Falkland island, without firing a single shot. Astiz' profile provides a good example of the kind of "moderately repressive" regime that David Rockefeller financed and Jeane Kirkpatrick apologized for in advance. It turned out that by the late 1970s, the handsome young Lt. Astiz, while not much of a fighter, had established a solid reputation on fronts. He was a notorious military torturer, who specialized in brutalizing young women. At the time of his surrender to the British, he was wanted by Interpol on charges of kidnapping and murdering two French nuns, **Alice Domon** and **Léonie Duquet.** He was also reportedly involved in the murders of at least eight other women, including a 17-year old Swedish girl, **Dagmar Hagelin**, whom, according to the Swedish extradition request, he allegedly shot in the neck from behind while she was walking down the street.[28]

Because Astiz was a prisoner of war, the British did not hand him over to the French at the war's end, but returned him safe and sound to Buenos Aires. In 1987 he was arrested and held for five months in Argentina, and then released under the "Due Obedience" amnesty law that was signed by **President Raúl Alfonsin**. The law pardoned all those who had been "following orders," regardless of what they had done.[29] In 1990, a French court indicted Astiz *in absentia* and sentenced him to life in prison. In July 2001, he surrendered to an Argentine court, which considered the extradition requests from France, Sweden, and Italy. In January 2002, these requests were rejected once again, and he was released freedom in Buenos Aires – the only restriction being his inability to travel outside the country. [30] As one woman who had experienced Astiz' handiwork firsthand recalled, "He was very brave, when he all he had to do was murder unarmed women....."[31]

Many other Argentine military officers demonstrated similar talents, for crimes ranging from pushing prisoners out of airplanes to stealing and selling babies taken from pregnant political prisoners, raiding their victims' bank deposits, and latching on to their farms and homes. For example, former **Army commander General Jorge Rafael Videla,** the junta's **first President** from 1976 to 1981, was a dapper, mustached, urbane fellow who had a taste for English-tailored suits. He also took a professional interest in perfecting the fine art of torture. His particular interest was in understanding how long different victims could out under alternative forms of suffering. In 1985, **General Videla** was sentenced to life in prison for his role in the death squads.[32] In 1990 he was also pardoned by **President Carlos Menem**. But in 1998, an Argentine judge ruled that Videla could be charged for **infant trafficking.** It turned out that more than 500 babies had been seized by the military from their imprisoned mothers shortly after delivery, often by forced Caesarean sections. Senior officers like Videla had been directly involved. The children were issued new identities and sold to couples who were seeking adoptions and had friends in the military. Apparently the motivation for this weird baby trade – in addition to greed – was political: the junta feared that if the children were allowed to grow up knowing what had become of their parents, they would automatically become diehard opponents of the military. So it was not enough for this "moderately repressive" regime to disappear adults -- they also needed to rob their descendants of their identities.

Because Videla was over the age of 70 by the time of the baby charges, he was permitted to remain under house arrest. In July 2001, then 75, he was indicted again for conspiring to eliminate political opponents in the 1970s, after an Argentine judge invalidated the two amnesty laws that were adopted in the late 1980s. [33]

In 1985, the junta's second President, **Roberto Viola**, a 1971 graduate of the US military's School of the Americas in Panama, was convicted of murder, kidnapping and torture, and sentenced to 17 years.[34] In 1998-2000, baby-stealing charges were brought against junta members **Admiral Emilio Eduardo Massera** and **General Renaldo Bignone**, the junta's fourth and final President, and several other senior officers.[35] In late 1983, shortly before the restoration of democracy, General Bignone ordered the burning of all documents regarding the disappeared, condemning their relatives to a lifetime of not knowing what precisely what had happened to them. **Admiral Massera,** who also reportedly ran the 1978 World Cup soccer franchise, was convicted in 1985 of murdering three Argentines, including **Hector Hidalgo Sola,** Argentina's Ambassador to Venezuela. He was sentenced to prison, but he was also freed by President Menem in 1990. However, he was convicted in the baby-stealing case and confined to house arrest. In October 2001, he was also charged with being part of a ring that had stolen the property of three business people who had disappeared.[36]

Even now, a quarter century later, the truth about this period is woefully incomplete. Bits and pieces of the brutal, bank-sponsored regime's story have continued to come to the surface, however. For example, in the mid-1990s, **Adolfo Scilingo,** a former naval officer, decided that he could no longer remain silent. In 1997 he testified in a Spanish court that **1,500 Argentine naval officers** had participated in the so-called "death flights," where political prisoners were flown out to sea, drugged, and dropped into the ocean. He himself confessed to having pushed 30 prisoners out the door.[37] In 1998, Spanish prosecutors identified four other officers, including the courageous **Lt. Astiz** and **General Antonio Bussi**, the Governor of Tucumán Province and former head of the Argentina's Third Army.[38] In 2000, a court in Italy convicted seven other officers in absentia of kidnapping and killing Italian citizens.[39]

As for General Galtieri, in November 1999, a Spanish court indicted him and 95 other military officers on charges relating to the disappearance of 600 Spanish citizens during the 1976-83 "dirty war."[40] As noted above, Galtieri had already been court-martialed and sentenced to 12 years in jail in 1986, not for human rights crimes, but for incompetence. But he, too, was pardoned by Menem after serving four years. However, in March 2001, in the midst of Argentina's deepest economic crisis ever, a courageous **Federal Judge**, **Gabriel Cavallo,** finally struck down the amnesty laws that had protected thousands of Argentine military officers and "soldiers" who were accused of torture, kidnapping, murder, and other crimes during the dirty war. In July 2002, another judge, agreeing with Gabriel Cavallo's ruling, charged Galtieri and 28 other senior officers with human rights violations. Galtieri, by then 76 years old, frail and suffering from pancreatic cancer, but still with those striking blue eyes, was placed under house arrest on charges related to the abductions and killing of 19 Montoneros members while he was Rosario's regional army commander. Unfortunately the only justice Galtieri would ever receive, if any, would have to be divine. In January 2003, still awaiting trial on these charges, he died of a heart attack.

In August 1997, President Menem announced that Argentina would issue $3 billion of government bonds to pay compensation to relatives of the disappeared. Many families refused to apply for the payments. As one "Las Madres de Mayo" member who had lost her 19-year old son to the terror commented, "Life does not have a price." But more than 8000 families did apply, at $200,000 of bond face value per victim.[41] Unfortunately, because of its renewed debt crisis, soon after these bonds were distributed, Argentina became virtually bankrupt again, so the market value of these "victim bonds" went to zero. Like all the dictatorship's other debts, this one remains unpaid to this day.

Argentina's Funny Numbers

Raul Alfonsin's campaign slogan in the October 1983 elections had been ***"Basta con el pasado"--*** " Let's be done with the past." Unfortunately, another key event that month revealed that that the past's burden might not be so easy to escape. That was the completion of Argentina's first foreign debt survey ever. To date, this October 1983 survey is still the only solid evidence that we have on how much foreign debt the military junta actually compiled and wasted -- along with the junta's victims, most of Argentina's debt history for the period form l976 to l983 has also been "disappeared."

Until Argentina's October l983 debt survey, the total size of its foreign debt was a closely-guarded state secret. **Jose Maria Dagnino Pastore,** Economy Minister after Galtieri's fall, finally admitted in July l982 that "the debt is now over $35 billion," and declared that "the time has come to explain without hypocrisy what the money was used for." A few weeks later, **Domingo Cavallo**, the junta's **Under-Secretary of the Interior in 1981**, **and its last Governor of the Central Bank in 1982**, (as well as my Harvard graduate school classmate), produced a larger estimate. This kicked off a bewildering debate. [42] Then in September 1982, Argentina finally admitted that it was $2 billion behind on interest payments, and asked for the IMF's help.

Throughout the fall of 1982, a team of IMF technicians and bankers poured over the Central Bank's debt records in Buenos Aires to get a handle on the precise size of the foreign debt.[43] One Morgan banker recalled their frustration:

> The Argentines would sit across from us and present different numbers every time we met. And none of the foreign banks knew, either. It took Morgan, which was one of the better-organized banks, four months to know what our loans were. Bank of America and Citibank took a lot longer. Meanwhile, the British and the French bankers were not even talking to each other. They were at each others' throats over the Falkland Islands -- we almost had fistfights in Advisory Committee meetings. [44]

There were also recurrent rumors -- which ultimately proved to be accurate -- that the IMF had found more than $11 billion of debt that was simply missing from the official accounts. [45]

So the pressures for a more rigorous debt audit were increasing. Political events made them even stronger. As noted, in February 1983 the military had scheduled new elections for the fall. The foreign banks and the IMF knew that popular opposition to repaying the junta's huge debts was mounting, so they were racing to sign a new debt rescheduling agreement with the junta before a new civilian-led government took office.[46] Unfortunately, the military kept missing the IMF's economic targets by a mile, which delayed the debt restructuring negotiations and the debt audit. [47]

In September 1983, with the foreign banks rushing to conclude a debt settlement in the junta's final days, an Argentine judge suddenly ordered Domingo Cavallo, the junta's Central Bank Governor, jailed on treason charges. The judge, an ardent nationalist, accused Cavallo of striking an unconstitutional deal with the foreign banks to nationalize private sector debts and refinance **Aerolinas,** Argentina's national airline. The judge added that "the debt of all firms is in question until we know its overall size."[48] His ruling was eventually reversed, but it precipitated a sharp run on Argentina's peso.

In the midst of all this chaos, the debt survey finally got started in October 1983. Bankers and former officials agree that Argentina's debt numbers were, if anything, in even worse shape than Venezuela's had been -- in Argentina, there was no foreign debt registration program even for loans to the central government, much less for loans to state companies or the private sector! [49]

There was also the peculiar little problem of the Argentine military's own foreign debt. As noted, this was kept entirely off the books, so there is still no precise estimate of how much it was – after the junta lost the war, few banks were willing to step forward and admit to having helped finance it. But most experts agree that the military had borrowed at least $10-$12 billion from foreign banks.[50] Most of this disappeared into arms purchases, and quite a bit also ended up in the junta's personal offshore accounts.

Ironically, because of Argentina's close historical ties to the UK, it turns out that a large chunk of this military debt was actually arranged by ***British banks***. In fact, during the year prior to the Falklands invasion, **Lloyds, National Westminster, and Barclays Bank** had packaged more than $2.4 billion of syndications for Argentina, much of it provided to finance the Argentine military by way of state-owned conduits like **YPF,** the state oil company. [51] As noted, all this unprincipled lending helped to finance key arms imports, and the economic strains caused Argentina's unmanaged debts were a key factor behind Galtieri's decision to invade. This was not unique – excessive foreign debts have often played a role in precipitating military interventions, as in Saddam Hussein's 1990 invasion of Kuwait, the 1862 invasion of Mexico by France, Spain, and the UK, the UK's intervention in Egypt in 1882, and the US invasions of the Dominican Republic in 1904, Nicaragua in 1909-10, and Haiti in 1915. [52]

Argentina's October 1983 debt survey turned up just $2 billion of official unreported military debt. But there really was a great deal more. Some consisted of supplier credits from French companies like **Dassault-Breguet** and **Aerospatiale** for Super Etenard and Mirage fighters and Exocet missiles. When Argentina halted debt service in l982, all these loans were quietly written off and have never appeared in any official statistics. Other secret loans were obtained by Army-owned companies like **SOMISA,** a steel company, and **Fabricationes Militares,** or by state banks and non-military state companies that diverted them to arms projects. For example, two German submarines were purchased by the Argentine Navy in l979, funded by a $406 million **Deutsche Bank** syndication that was *officially* made to **Banco de la Nacion**, a state-owned bank. [53] Other key conduits included **Aerolinas Argentina** and **YPF**, which absorbed $6 billion. Aerolinas' lead bank was **JP Morgan**; YPF's creditors included **Chase, Lloyds, Barclays, Deutsche Bank**, **Citibank, SBC**, and **Bankers Trust**. **YPF** was a military preserve -- its chairman from l981 to 1983 was **Guillermo Suarez Mesa**, **Commander of the First Army Corp**, who was later convicted of being personally involved in torturing and "disappearing" people.[54] On March 12, 1982, just two weeks before the invasion, two syndicated loans to YPF totaling $242 million were signed in Paris, led by **Chase Manhattan** and **Bankers Trust**. So even as US officials like Secretary Haig and General Walters were trying to deter Argentine aggression, US banks and their UK counterparts were quietly financing it.

As in Venezuela, undisciplined borrowing by Argentine's 350 state companies also financed a great deal of funny money. Nearly $11 billion of foreign loans went to unprofitable state entities whose losses totaled more than $2 billion a year. [55] Another large chunk financed military honey pots like the **July 1978 World Cup championships.** As noted in Chapter II, the junta spent more than $700 million on this little party. It had other costs -- to win the championship Argentina needed a four-point spread over Peru in the semifinals. It won 6-0. Shortly thereafter, **Peru** received an entire nuclear research facility, courtesy of Argentina.

A substantial share of Argentina's debt also ended up in the generals' private accounts.[56] One Buenos Aires money manager who had strong ties to the military and got "a piece of the action" during the soccer games recalled the spirit of the times:

> Every General had his pet projects. For Jorge Videla, it was the World Cup; for Roberto Viola it was a huge Argentine power dam at Yacyreta; for Galtieri, it was the Malvinas War contracts. The Navy, under Admiral LaCoste, the Minister of Social Security, and Admiral Massera, ran the Soccer Cup franchise. They ran the kickbacks on the construction. It was standard -- "The country needs it, but everybody's making a dime, so why not? " We called it "butter on the ceiling" -- you throw it up and a little bit sticks.
>
> There used to be a barber in Buenos Aires, "Alfredo," who was famous for introducing people to do these deals. I remember one deal with O.S.N, the public water works, in 1976. The head of the company was a retired military guy. He wanted a $120 million loan, so he went to Chase, Bank of Boston, and Morgan. The "haircut" was ten percent; Chase got the loan. Alfredo's piece was $50,000. [57]

Riding Bicycles

As for Argentina's private debts, while Venezuela had *implicitly* encouraged its private sector to borrow and send money abroad, under the leadership of "the Wizard de Hoz," Argentina's Central Bank had *explicitly* provided strong incentives to do so.

De Hoz was a colorful figure. A patrician Eton graduate, cattle breeder, professor of Agrarian Law, and the chairman of Argentina's largest private steel company, he was a fanatical disciple of **Milton Friedman's** brand of free-market economics. The generals were a bit less concerned with doctrinal purity, so long as the Wiz took care of their soccer games, salaries, bank accounts, and arms imports. But De Hoz also took care of De Hoz -- within days of his father's death, for example, he abolished death duties, reportedly avoiding estate taxes on one of Argentina's largest fortunes.[58]

Of course, one reason why such right-wing ideologues rose to power in the first place was that many of their predecessors among the Peronists had been equally mad. De Hoz's inheritance from the Peronists in 1976 included high inflation and huge deficits. He responded with a curious mixture of decontrol and increased intervention. On the one hand, he eliminated ceilings on interest rates and exchange rates and restrictions on foreign investment. Banks that had been nationalized by the Peronists were quietly returned to their former owners, including Chase and Morgan. [59]

On the other hand, De Hoz instituted free insurance for bank deposits. After l978, he also interfered with the peso's free fall, permitting it to become sharply overvalued. His landowner/ monetarist prejudice was that Argentine industry was doomed to be noncompetitive anyway, and that a strong peso would increase import competition and help curtail inflation. Of course, an overvalued peso also pleased the military, the country's largest single importer – and one of its largest exporters of dollars to offshore accounts.[60]

In the state sector, which accounted for almost a third of Argentina's national income, De Hoz privatized a few state enterprises and tried to cut spending. But many of these reforms were blocked by the military or the state bureaucracy. So to finance his continuing government and trade deficits, De Hoz relied on bankers like Rockefeller. The resulting combination of high interest rates and guarantees against exchange risk encouraged everyone who knew a friendly foreign banker to borrow abroad.[61]

The outcome was a huge surge in foreign debt, interest rates, and imports, on top of a crushing recession in the regular economy. Contrary to President Reagan's glowing appraisal of De Hoz's policies noted earlier, the only sectors of the Argentine economy that performed well during this period were banking, arms imports, luxury imports, large export-oriented farms, the construction of soccer stadiums, and the market for stolen babies. Imports grew by 40 percent in l979-81, even as domestic bankruptcies and unemployment rose sharply. Meanwhile, strikes were outlawed and wages were forced to lag behind inflation. Despite these anti-labor policies and the surge in imports, inflation never fell below 80 percent.

But for the banks, it was party time. The exodus of capital flight from the country raged side-by-side with all the foreign borrowing. Any old *gaucho* could see that the junta's economic policies, on top of the repression, were approaching a dead end. Financial deregulation, combined with the new deposit insurance program, also provided bankers irresistible opportunities to seek new deposits by promising exorbitant interest rates. So domestic banks levered themselves to the hilt and made risky loans, not infrequently to their owners' companies. The whole situation became a merry-go-round, which ignored the elementary fact that even a "free market economy" requires honest bank inspectors. But the Argentine Central Bank's poorly-paid inspectors were for sale to the highest bidder. As one Buenos Aires banker recalled,

> You had a situation where, overnight, our bank would increase its interest rates by, say, 15 percent. The staff would work until 11 p.m. handing out coffee and biscuits to people who queued up to put their money in. We were promising 84 percent, adjusting our rates once a day. And nobody was looking over our shoulder -- or if they, did they got paid to look elsewhere. Everyone was doing it. It was a great time to be a bank inspector. [62]

In March 1980, this Ponzi scheme of high-risk loans, combined with government- insured deposits and astronomical interest rates, finally cratered. The country's largest private bank, **Banco de Intercambio Regional (BIR)**, failed and had to be taken over by the Central Bank. It turned out that BIR had made numerous loans to Panama shell companies that were controlled by its owner, **Jose Rafael Trozzo**, who fled to Mexico. He had delayed the day of reckoning by borrowing from foreign banks like **JP Morgan,** bribing De Hoz's bank inspectors, and losing all his bank's records in a suspicious fire. (Bank fires are a useful leading economic indicator in many developing countries.) Asked about his extensive credit lines to Trozzo, **Tony Gebauer, Morgan's Senior Vice President for Latin American** at the time, explained, "That was soon stopped despite plenty of outside pressure. We didn't like what was going on at that bank." (See Chapter VI for Gebauer's own malpractice.) The next three largest private domestic banks in Argentina also went under, and their owners went to jail. Eventually 70 others needed to be propped up. As in Chile, Mexico, Indonesia, Thailand, and many other countries, the bankruptcy of Argentina's domestic banking system was a leading indicator for the bankruptcy of the country as a whole.

But before that collapse occurred, wealthy Argentine investors and their bankers got caught up in an incredible spiral of debt and flight. Indeed, financial chicanery really became Argentina's most successful non-arms industry. From l979 to l981, under the amazing **"Seguro de Cambio"** program, the Wizard de Hoz *intentionally* created a situation where knowledgeable insiders could earn risk-free, tax-free returns of more than 1 percent a month, paid abroad *in dollars,* through an arbitrage scheme that coupled increased debt with flight.[63] As one American banker stationed in Buenos Aires at the time recalled,

> We didn't need any credit analysis to justify those Seguro loans. De Hoz and the Argentine government was guaranteeing high returns to its friends, so why not lend? The idea that Argentina itself might stop paying was just too theoretical. De Hoz wanted the dollars to finance the military -- he didn't give a shit who brought the loans in or who took them out so long as the money kept flowing. And, quite frankly, neither did we. [64]

Sophisticated investors took advantage of De Hoz's Seguro de Cambio program to construct **"bicicletas."** To **"ride the bicycle"** you simply borrowed dollars abroad, registered your new dollar loan with the Central Bank, and then traded the dollars for pesos. Then the fun began. You repaid the loan to your offshore bank under the table, usually from your own account -- in fact, most of the "loans" were not true loans, but "back-to-backs" transactions that leveraged deposits you had already stashed offshore.[65] But you and your banker conspired to tell Argentina's Central Bank that the loans were genuine. Once registered with the Central Bank, the bogus loans entitled you to buy dollars at very favorable exchange rates, in order to "repay" them under the Seguro de Cambio program. Given soaring inflation, the gap between the peso's value when the loans were registered and when they came due was huge. So the program became a license for the insider elites and their private bankers to coin money.

For example, in l979, someone who borrowed $1 million could trade them for 130,000 pesos from the Central Bank. Without de Hoz's program he would have needed 180,000 pesos to repay the loan a year later. The guarantee allowed him to buy $1 million for the original 130,000 pesos. Instead of repaying the loan, he strolled down the street to his friendly neighborhood black market dealer and traded the $1 million for 180,000 pesos, for an immediate 38 percent profit. Interest on the "loan" also qualified for special exchange rates and tax deductions. Furthermore, the "loan" provided a convenient explanation, if anyone asked where the dollars came from. With creative backdating of documents and still more borrowing, endless variations on this basic scheme were possible. All of them were out-and-out **frauds** on Argentina's Treasury that added significantly to the country's foreign debt, even as they **simultaneously** stimulated capital flight.[66]

Of course, ultimately, Argentina's own economic czars were responsible for this horseplay. Indeed, most of them profited from it. For example, **Roberto F. Alemann**, who succeeded De Hoz as Economy Minister from December 1981 to July 1982, went on to become UBS's private banking representative in Buenos Aires. [67] But none of this bicycle round tripping would have been possible without the *active* collusion of Argentina's largest creditors, including **Citibank, Chase, Morgan, The First National Bank of Boston ("Banco de Boston,"** long a leading player in Argentina)**, the major Swiss banks, and MHT.** *All* these members of the global banking *cupola* were deeply involved in such crooked deals, just as they were lending heavily to Argentina's government and delivering patronizing lectures about the need for "free-market-oriented" policies in Argentina. Indeed, they all sat on **Argentina's Advisory Committee of Banks,** in charge of restructuring its debt! And two of Argentina's largest *government-owned* banks, **Banco de la Nacion** and **Banco de la Provincia de Buenos Aires**, also got deeply involved in facilitating this kind of round-tripping. [68]

All told, the foreign debt generated by this Seguro de Cambio program totaled **$9.3 billion**. Most of this simply disappeared into private pockets. All of it was later assumed by the Government of Argentina.[69] In December 1983, the Alfonsin government asked major banks like Chase Manhattan to report on whether specific loans under this program had been backed up by "borrower guarantees" -- e.g., by foreign deposits, which would have indicated the existence of back-to-back loans. As in the case of a similar request made by Venezuela, the banks simply refused to answer. Another **$5.5 billion of private foreign debt** was also nationalized by the government at the behest of foreign banks and leading multinationals.[70] Among the main beneficiaries of that program were **Citibank, The First National Bank of Boston, Deere & Co., Ford, Chase, IBM, and Bank of America.** All told, Argentina **nationalized nearly $15 billion** of private debt, most of which was completely fraudulent.

So in December 1983, on his first day in office, President Raul Alfonsin got several doses of bad news. First, he learned that Argentina's heroic generals had absconded with more than $1 billion of the Central Bank's reserves. Like Nicaragua after Somoza, Peru after Alan Garcia, and the Philippines after Marcos, and Indonesia after Suharto -- Argentina's coffers were almost empty when Alfonsin took office -- only $200 million remained.

Second, the October debt survey had identified $44.8 billion of regular foreign debt and $1.2 billion of interest arrears, for a grand total of **$46 billion** -- twenty-five percent above the highest previous estimate. [71] Relative to exports, as of 1983, Argentina had the highest debt burden of any country in Latin America except Bolivia -- whose debt had just been restructured by Argentina's Central Bank![72] And fully $20 billion of this Argentine debt was due in less than a year!

The new debt survey also told Alfonsin what we learned earlier -- that speculative private borrowing and the junta's arms buildup accounted for nearly half of this debt, including **$20 billion** that De Hoz had borrowed from l979 to l982.

Armed with all this, one might have expected Alfonsin to have requested and obtained a little leniency from the foreign banks. After all, in the next five years, his new civilian government stubbornly continued to service all the foreign debt, signing IMF agreements and cutting back sharply on spending and growth. Despite all these sacrifices, after the junta left power in 1983, all of Argentina's leading foreign creditors, including **Chase, Morgan, UBS, Bank of Boston, and "El Citibank**" basically stopped lending to the country. They claimed that this was because of Latin America's overall debt crisis. But many Argentines knew better – the bankers secretly pined for the generals, who had been so much more lucrative to deal with. When **David Rockefeller Sr.**, Chase Manhattan's CEO, visited Buenos Aires for the first time in several years in January 1986, he was greeted by thousands of angry demonstrators. They might not know precisely where the bodies were buried, or even how many bodies there were, but they knew who had helped to pay for the burials.

As in Venezuela and the Philippines, therefore, Argentina's heavy debt burden wasn't simply a question of the absolute size of its debt. The same policies that accounted for the debt had also ruined the economy and fostered a costly war. By 1983, in addition to the debt, the junta's short-term legacy included average incomes that were 25 percent below their l975 levels, a sharp fall in investment, high inflation, and a huge amount of private wealth that was permanently outside the country -- not to mention all the disappearances and an undemocratic "state within a state" that is still to this day not completely subject to the rule of law.

The Sequel

Most of the key foreign patrons of Argentina's junta readily shifted their concerns to other targets once it lost power, without even pausing to wash the blood off their hands. Among the key principals in our story, Chase's David Rockefeller Sr. retired as its Chairman in 1981, and then focused his attention on numerous private foundations. With respect to Latin America, his most important roles were as Honorary Chairman of the Council on Foreign Relations; the chief benefactor of Harvard's David Rockefeller Center for Latin American Studies, which he founded in 1994; and founder and International Co-Chairman of the Americas Society, a post he shared with ex-Citibanker William V. Rhodes.

Jeane J. Kirkpatrick continued to serve as Reagan's UN Ambassador and a White House cabinet member until 1985, staunchly supporting the Administration's other Latin American ventures in countries like Nicaragua, El Salvador, and Guatemala. She then became a Professor at Georgetown and a Senior Fellow at the American Enterprise Institute. Michael Deaver continued to serve as Reagan's Deputy Chief of Staff, played a major role in his 1984 campaign, and then left in 1985 to join the leading D.C. PR firm, Edelman Worldwide, as its Vice Chairman.

In Argentina, one of the more interesting career paths was that of junta lobbyist and Kirkpatrick friend **Wenceslao Bunge.** In 1983 he turned up as the founder of an organization called the Argentine-American Forum.[73] By the 1990s, he had become the key advisor, "confidant, intermediary," and principal spokesperson for **Alfredo Yabrán**, a 53-

year Syrian émigré and Argentine billionaire who was very close to **Carlos Menem, Argentina's President from 1989 to 1999**. In August 1995, **Yabrán** was described by **Finance Minister Domingo Cavallo** in testimony before Argentina's Congress as Argentina's **"head of the mafia"** and **"Public Enemy No. 1."** According to Cavallo, Yabrán, who ran a huge courier-service business, and had benefited greatly from Argentina's privatization program, employed a larger number of ex-military *torturados* who were veterans of the "dirty war" as security guards and couriers. As Cavallo told a TV interviewer,

> Yabrán is no ordinary businessman. He uses front men and is the head of a criminal association that controls the postal service and aims to control the issue of passports and identity documents – everything that has to do with the movement of people and goods.[74]

At the time, Argentina's Congress was voting on a bill to privatize the postal system, and Yabrán was the leading candidate to acquire the entire system. Indeed, his companies were among the leading beneficiaries of Argentina's entire privatization program in the 1990s. Yabrán also reportedly had close ties to former members of the junta itself like **Admiral Emilio Massera.** [75] Investigative journalists described him as "Menem's PC Farias," [76] a busy beaver who allegedly played a key role in arranging a triangular trade in drugs, arms, and money laundering that involved supplying arms and Condor II missile technology to **Syria's President Hafez al Assad,** Croatia, and Ecuador in the 1990s. Argentine journalists determined that many calls were placed between the Presidential Palace and Yabrán's office telephones during this period. [77]

In July 1996, Domingo Cavallo lost his job for while over these accusations, and in August 2002, right after his own release from prison (see below), he retracted them, under strong pressure.[78] However, in 1998, an Argentine judge ordered Yabrán's arrest on charges of having ordered the murder of **José Luis Cabezas**, a photojournalist who had dared to take Yabrán's picture – the first ever published. In May 1998, Yabrán was found dead with a gunshot wound to his head. The case was ruled a "suicide," but as Alfredo Castañon, a former aid to Menem, commented, " It is important to know whether he committed suicide himself, or was *forced* to commit suicide. [79]

Cavallo's Folly – De Hoz II

Meanwhile, on the economic front, the Alfonsin government labored through its five year term under the burden of the heavy debts it inherited from the military. With no debt capacity, a weak tax base, little foreign investment, and renewed demands for social spending from Argentina's militant working classes, his government had increasingly relied on the Central Bank to finance its government deficit by printing money. By the end of the 1980s, not only was inflation out of control, but most state enterprises were completely starved for finance, long-term credit had disappeared, and most businesses and consumers were living from day to day.

To get out of this situatin, in the 1990s Argentina chose to follow the global trend toward neoliberalism. The experiment lasted a decade, and ultimately ended up in a debt crisis that was even more profound that the one that had developed under the junta. And, sadly enough, it occurred with the help of the very same foreign banks that had been so influential back then -- plus the IMF, the World Bank, and the IDB. This time around, as then, only the banks made money on the experience.

President Carlos Menem was elected on a Peronist party ticket in May 1989. He took power in the midst of the hyperinflation that Alfonsin's government had struggled with, with prices rising more than 1000 percent a year. To deal with it, Menem – otherwise known as a populist and a Peronist – took a hard right turn, following in the footsteps of Venezuela's Carlos Andres Perez and Mexico's Carlos Salinas de Gortari. His key appointment on the economic front was **Domingo Cavallo**, **the junta's last Central Bank Governor**. To everyone's surprise, Menem made Cavallo his Foreign Minister in 1989-90, and then his **Finance Minister from 1990 to 1996**.

Cavallo, a well-connected Argentine with a Harvard Ph.D. in Economics, proceeded to design a package of neoliberal reforms that included all the usual elements -- rapid privatization of state enterprises, sharp budget cuts, the liberalization of trade and capital markets, privatization of the social security system, and deregulation.

But his most unique contribution was the ultra-neoliberal **April 1991 "Plan de Convertibilidad."** This was essentially an attempt to put the Central Bank and Argentina's inept political classes in a monetarist straightjacket, to end hyperinflation once and for all. The plan created a currency board that pegged the peso's value at one peso per US dollar, ostensibly forever. Adopted by Argentina's Congress, the plan required another act of Congress to undue it. The purpose of this was to guarantee that anyone who held pesos could count on being able to convert them to dollars if he wanted to. The idea was that that guaranteed, if believed, would actuallly encourage people to hold more pesos. It would also automatically help to control inflation -- since the Central Bank was required to meet any selling pressure on the peso by automaticallly sellling foreign reserves, and since reserves are a key component of the money supply, such a demand would automatically cut inflation – which was always the product, in monetarism's simple-minded view, of "too much money chasing too few goods." Furthermore, key economic interests, knowing the peg was there, and that Argentina would collapse if it were abandoned, would supposedly believe the peg would last forever, and be more willing to trade, invest, lend, and maintain deposits in Argentina.

In effect, the plan was a bootstrap, an attempt to substitute a rigid rule for good government and for Argentina's total lack of financial credibility. The plan placed several huge bets – first, that Argentina's economy would be able to generate enough *dollar exports* to service all the foreign investment and new debts encouraged by liberalization and privatization; second, that global credit markets would finance Argentina until it did so; third, that the *dollar* would maintain a stable relationship against the currencies of other key Argentine trading partners in Europe and Asia, like the Euro and the yen; and fourth, that the process of globalization going on all over the developing world at once would not interfere with Argentina's exports or its financing. Unfortunately, all of these assumptions eventually proved to be problematic.

For a time being, however, Carvallo's jerry-rigged scheme created the appearance of success, just as De Hoz's first round of "neoliberal chemotherapy" had done back in 1970s. From

1991 to 1994, inflation fell sharply, deposits returned to the banking system, credit markets surged, and foreign capital rushed in – especially foreign bonds and bank loans, since many privatizations were financed with debt. Buoyed by the surge in investment, cheap imports, and a return to normalcy after hyperinflation, the economy picked up. Real per capita incomes averaged 2.9 percent a year from 1992 to 1998, and real consumption increased, while inflation fell sharply. The entire economy became "dollarized" – contracts for everything from utility bills to loans and bank accounts were denominated in dollars, as if the peso were almost a functionless appendix. Argentines, never reluctant to spend money, and easily persuaded that they really did have a First World country after all, started to borrow and buy again as if they had already attained the permanently higher real incomes that they so obviously deserved.

Politically, from Menem's standpoint, this quick fix was a huge success – it was the main factor in his reelection to a second 5-year term in May 1994. It commanded widespread support despite the fact that – as would become more evident over time -- most of its benefits inured to the very top tier of the wealth distribution, and to foreign creditors. While all classes benefitted from lower inflation, the harmful effects on unemployment, poverty, social spending, and the country's financial stability took much longer to become apparent, and their connection to the "peg" was not transparent to most ordinary people. Indeed, as late as December 2001, the same month that Argentina declared a default on all its debts, opinion polls still showed that a majority of Argentinians supporting convertibility.[80] The fact that very few Argentines understood the link between convertibility and the country's ruinous situation only underscored the difficulty of designing complex policies on the basis of opinion polls.

Up to this point, most of Cavallo's neoliberal adjustment program resembled that of De Hoz. But unlike him, Cavallo did try harder to attack Argentina's state sector with a vengeance, by privatizing most of Argentina's largest state enterprises, especially during Menem's first term. He sold off most of the crown jewels, including **YPF,** the state-owned oil company, which **CSFB** helped to privatize for $3 billion, Latin America's largest privatization at the time; **ENTEL**, the state telephone company, which was divided in half and sold to a consortium of banks and two state-owned European telephone companies; **Telefonica de Espana** and **France Telecom**; **Aerolineas Argentina**, the national airline; the national railroad system; **SOMISA**, the steel company; **Obras Sanitarias de la Nación (OSN)**, the military's favorite water and sanitation company, whose operations in Buenas Aires were bundled into a 30-year concession that was awarded to a consortium of foreign companies led by **Suez Lyonnaise des Eaux,** a Belgian-French company, the **World Bank/IFC, Vivendi,** and **Aguas de Barcelona**, a Spanish water company; another sanitation company in La Plata and Bahia Blanca, which was concessioned to **Azurix Corporation**, an affliate of **Enron**; toll roads, TV and radio stations, power plants and gas companies, and some 20 out of 35 state-owned banks, whose acquirers included many foreign banks, like **Citigroup, FleetBoston, HSBC, Banco Bilbao,** and **Lloyds TSB.** [81]

Many of these privatization opportunities were state-owned monopolies that just needed capital to succeed. With help from the World Bank/ IFC, Cavallo cleaned up their balance sheets, and offered them at incredible prices to private investors. The deals also provided opportunities for generous fees and lending to foreign banks, plus some enormous corruption payoffs for leading members of the government.[82] Needless to say, all this was wildly popular with Argentina's elites, foreign investors like Telefonica, and the major banks that structured and financed most of these deals. By 1994, Menem and Cavallo had become neoliberalism's poster boys, lionized by the IMF, the World Bank, Wall Street in general, and Argentina's traditional lead bankers – now more or less consolidated into **JPMorganChase (formerly Chase, JP Morgan, MHT, and Chemical Bank), FleetBoston (formerly the National Bank of Boston and Fleet Bank), CSFB, Bank of America,** and **Citigroup**. In the 1990s, these banks issued more than $88 billion of Argentine-backed dollar bonds. By the end of Menem's second term, 154 state enterprises had new private owners.

Cul de Sac

Despite its early successes, by the late 1990s this neoliberal strategy had run into a brick wall, much as De Hoz's had done in the early 1980s, but on an even grander scale. By then Argentina had exhausted all the easy reforms -- new sources of revenue, politically-acceptable spending cuts, and other quick fixes were getting harder and harder to come by. On the other hand, it seemed that doing the hard work of genuine product/market innovation, *microeconomic* strategy, and productivity improvement did not receive nearly as much attention from Argentina's government or its business elites. One is reminded of story of the blushing undergraduate who says to her teacher, "Oh, Professor, I would do anything to get an A in your class." "Anything?" "*Anything.*" "Would you……*study*?"

On the revenue side, stiffer tax enforcement, which had never been Argentina's strong suit, was bitterly resisted by its elites. While tax collection did increase somewhat from its miserably low level of the 1980s, it remained stuck at a modest 12-13 percent of national income. Indeed, the national tax take was even lower, once the flourishing underground economy was taken into account. And less than a fifth of all tax revenue came from income taxes.

After 1998, economic growth also slowed to a crawl, as the economy became increasingly constrained by the need to maintain tight money to support the vaunted peso. The strong peso made imports (and foreign loans) artificially cheap, even as it stifled exports. So export growth slowed and the trade deficit increased. The country struggled to maintain the dollar peg under the impact of 1995 Mexico crisis and the sharp 1998-99 devaluations by Asia, Russia, and especially Brazil, Argentina's largest customer and competitor. The dollar – artificially strengthened by the "Internet bubble" in the US stock market -- also rose against most other currences. Since Argentina's peso was tied to it, that made everything it produced more expensive, except for its exports to the US. For the majority of Argentine exports that were sold elsewhere, the combination of its rigid peg and the sharp devaluations by its competitors made its exports much less competitive

So, despite all its reforms, Argentina's competitiveness and productivity did not improve nearly enough to offset this stronger peso. The result was that from 1990 to 2000, exports as a share of GDP averaged just 9.2 percent, about the same as in 1980-89, and well below the 15 percent export share achieved by Latin America as a whole and 24 percent for all developing countries during the 1990s. And from 1991 on, Argentina's external balance – exports minus imports – was consistently negative.

Despite mounting evidence that convertibility was a dead-end policy and that the peso was overvalued, Argentina refused to devalue until it was far too late. There were several reasons. For Cavallo and other technocrats, including the IMF's top economists, convertibility had become a kind of *idee fixe* – even more so than in Russia, Chile, and Indonesia, where similar "hell or highwater" exchange rate policies also proved costly. Given Argentina's peculiar experience with hyperinflation, this obsession was partly understandable. But eventually any such peg needs to have some flexibility. On the contrary, Cavallo and his successors decided to "double down," taking on even more foreign debt, on the bizarre assumption that this would somehow make investors more confident that the policy would never be abandoned – perhaps because the costs of doing so would then so clearly be astronomical.

Once again, as with De Hoz and the junta, Argentina had entrusted its future to doctrinaire authoritarian personalities whose egos were wrapped up in half-baked theories and visions. As Keynes wrote in 1936,

> *"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggereated compared with the gradual encroachment of ideas…. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.* [83]

But the convertibility policy was not designed in a vacuum -- there were also powerful interests at stake. These included local companies and banks whose revenues were received in pesos, but had borrowed heavily abroad in dollars; anyone who had loaned such companies money; middle-class consumers, who enjoyed the benefits of artificially-cheap imports; those who didn't care, because they traded in commodity markets that were priced in dollars, or in markets where demand was not price-sensitive; and private bankers and speculators who made a good living out of moving dollars in and out of Argentina freely, often running the same kind of "roundtrip" schemes that had surfaced in the late 1970s. As its elites and bankers speculated against the peg's lifespan, in the late 1990s Argentina once again become a major capital flight supplier, just as in the early 1980s. It also became a leading money-laundering center – including among its clients, for example, the senior members of Mexico's largest drug cartel in Juarez, who starting moving money through Citibank accounts to Argentina.[84]

Argentina's increasingly unsavory financial situation was also complicated by that fact that by the late 1990s, most of the large privatizations had already been completed – there was not much family silver left to sell off. And the results of privatization had been mixed. At the micro level, many privatizations -- at least those outside the banking sector – increased efficiency and profits, and reduced government spending, removing loss-making state enterprises from the budget. At the macro level, however, by rushing through all the privatizations at once, the government may have reduced the average prices obtained for the deals, since the world only had so much demand for Argentine risk. Furthermore, the congestion also increased unemployment levels dramatically. No longer protected by public-sector unions, an average of 40 percent of all workers at privatized companies lost their jobs. With so many were laid off at once, the labor market had trouble absorbing these workers. Not surprisingly, 60 percent of them reported that their earnings fell sharply after dismissal. On top of the general slump that was fostered by the strong peso and tight money, this added significantly to prolonged unemployment and poverty – by 2000, after a decade of neoliberal reforms, only the top ten percent of the population had experienced any increase in real per capita income since the early 1990s.

Many of the gains from privatization were also pocketed by the new owners. As noted earlier, in sectors like sanitation and telephony where competition was weak, they acquired virtual *private cartels*. Since Cavallo's neoliberal government had little patience with anti-trust laws, price controls, or other regulations, in the absence of effective competition, there was nothing to compel these companies to share their efficiency gains with the public, by way of lower prices or better service. In fact *regulation*, neoliberal doctrine notwithstanding, was actually an important condition for successful privatization. Otherwise, while many privatizations did increase efficiency, they often just raised profits, increased unemployment, and worsened the distribution of income and wealth.

Furthermore, while Argentina's privatizations brought in some foreign investment, many of them were financed by foreign loans, so they actually added to Argentina's foreign debt burden. Except for YPF, the oil company, few privatizations added anything to exports. As in Brazil, Argentina's privatizations may have also artificially postponed the day of reckoning for its overvalued currency, making the 150 percent real devaluation that ultimately did occur in January 2002 that much more dramatic.

Finally, whatever the merits of Argentina's other privatization efforts, the 1993-94 privatization of its social security system proved to be an absolute disaster. Not only did it aggravate the budget deficit by reducing government revenues, forcing the government to take on more debt. It also provided a pool of pension fund assets that desperate officials like Cavallo, in the final hours of his struggle to maintain convertibility in 2001, could latch on to and direct to be invested in worthless government bonds. When these bonds were declared worthless in 2002, Argentina's hapless working class lost much of its life savings.

Overall, therefore, Carvallo's neoliberal program soon proved to be a maze of contradictions – as one post mortem by leading Argentine economists concluded, "It seemed as if the system was overdetermined."[85] Tight money, the strong peso, and high real interest rates conflicted with the need for higher growth, lower unemployment, increased tax collections, and a lower budget deficit. Rapid privatization conflicted with the need for a more competitive exchange rate, an improved trade deficit, and lower unemployment. Social security privatization conflicted with the need for government revenues and a reduced debt. Over time, convertibility conflicted with the need to generate exports, improve the trade balance, and control the debt. The rapid liberalization of financial markets ultimately conflicted with the need to generate a stable environment for free trade. Overall, the neoliberal insistence on implementing all these reforms at once meant that they collided in the hallway, and left almost everyone worse off – except officials, bankers, and key segments of the business and government elites.

Bailouts and "Silent Retreats"

As the financial noose began to tighten around Argentina's neck in the late 1990s, it came to rely increasingly on two of its most vocal neoliberal cheerleaders, the IMF and the World Bank. The IMF, in particular, was consistently overoptimistic about the country's policies during this period. In 1998, Argentina arranged a $2.8 billion IMF standby credit. At the time, the IMF predicted that Argentina's economy might dip a little in 1998-99, but would then "recover potential output by 2000"– implying 3-4 percent real GDP growth. Supposedly unemployment would "decline gradually."[86] In March 2000, the IMF's standby line of credit was expanded to $7.2 billion, and the IMF projected 3.5 percent real GDP growth in 2000, "which would accelerate to 4 percent in subsequent years."[87] In fact, real growth turned out to be *minus* 3.4 percent in 1999 and *minus* .5 percent in 2000, and unemployment soared to 15 percent.

In January 2001, the IMF raised its standby commitment again to $14 billion, as part of a $39.7 bilion package for Argentina that it arranged with help from the World Bank, the IDB, Spain, and private banks. The IMF projected that Argentina's real GDP growth in 2001 would be 2.5 percent. **US Treasury Secretary Lawrence Summers,** another strong supporter of Argentina's neoliberal strategy throughout the Clinton Administration, commented at the time that "Argentina is a country that has a strong record of reform during the 1990s, and that should serve it well."[88] **Stanley Fischer**, the **IMF's Acting Managing Director,** was also extremely bullish:

> *The new Argentine government has embarked on a strong economic program aimed at promoting the recovery and sustained growth of the economy, with continued price stability, and an external current account maintained within financeable limits. The program contains a significant fiscal consolidation, which will permit a gradual increase in national savings to finance the recovery of investment and reduce the external debt burden over time. The macroeconomic adjustment is underpinned by comprehensive structural reforms....Market reactions to the program have been positive....These developments bode well for a recovery of confidence in the period ahead.* [89]

In September 2001, just three months before Argentina defaulted on its entire foreign debt, the IMF expanded its standby credit to $21.6 billion, and increased Argentina's actual use of this money to $8.3 billion. The IMF predicted that if neoliberal policies were continued, real growth in 2002 should be 2.5 percent – despite the fact that its own estimates showed that Argentina's 2001 growth rate would be negative again. [90]

In fact, Argentina's actual real GDP growth rate turned out to be *minus 3.4* percent in 2001, and an incredible *minus 10.9* percent in 2002, the lowest growth rates in Latin America, and Argentina's worst performance in the entire post-war era.

Throughout all these over-predictions, the IMF continued to insist that Argentina stick religiously to Cavallo's original neoliberal script. Indeed, the farther Argentina departed from the IMF's rosy projections, the more bloodletting the IMF demanded of it. A secret September 2000 "Technical Memorandum of Understanding" between the IMF and **Pedro Pau, Argentina's Central Bank Governor** at the time, disclosed by a British journalist in 2001, indicates the kind of harsh regimen that the IMF demanded in exchange for all these credits. Even in the midst of a deep recession, with unemployment and poverty at record levels, the IMF's MOU demanded that Argentina continue slashing its budget deficit from \$5.3 billion to \$4.1 billion in 2001, cut emergency unemployment benefits from \$200 per month to \$160, cut civil servant salaries another 12 to 15 percent, and slash pension benefits -- all the while maintaining Cavallo's coffin nail of the peso the dollar. [91]

The IMF also demanded the privatization of the nation's largest remaining state-owned bank, **Banco de la Nacion** – a move that was especially controversial because BN held the mortgages on more than 14 million hectares of prime Argentine farm land. In effect, as Argentina's nationalistic farmers quickly noted, this would amount to turning over most of the country's best land to foreign bankers.

So by early 2001, after a decade of high real interest rates, a rigid peso, slow growth, and increased import competition, Argentina's economy was knee-deep in bankruptcies, unemployment, and poverty. Tax collections and export earnings were plummeting, adding to the government's deficit blues. Despite the IMF's generosity, the country was on the brink of exhausting its capacity to take on any new foreign loans to defend the peso. By early 2001, Argentina's \$280 billion economy had accumulated a **\$146.2 billion** foreign debt. This was more than twice the \$65.2 billion that Cavallo and Menem had started with in 1989, and more than three times the \$46 billion debt that was inherited from the junta in 1983. Just like then, the cost of servicing all this debt was eating the country alive. Debt service was once again by far the largest single item in the government's budget, accounting for more than 41 percent of all government spending and 10 percent of national income, surpassing even the junta's 1982-83 record.

In fact, but for debt service, Argentina's government, having followed the IMF's prescriptions by ruthlessly slashing all *non-interest* government spending, would have actually run a \$10 billion budget *surplus* in 2001. But its \$16 billion debt service bill more than offset this surplus, forcing it back in the red. That year alone, debt service cost the country fifty percent more than it spent on education, and almost as much as it earned from all foreign trade.

Meanwhile, even as the IMF and the World Bank were putting more of their public money at risk in Argentina, sophisticated private investors and banks were heading for the exits – insuring themselves against the possibility that Argentina's iron peg policy would fail. This was a rather odd spectacle, with *public money* being liberally applied, in effect, to subsidize a policy was ostensibly designed to promote free markets, even as private money voting with its feet.

Capital flight, which Cavallo had proudly claimed to have squelched, took off again in the late 1990s. By 2001, an estimated \$130 billion had left the country, more than half of it flowing to foreign bank accounts.[92] The cumulative value of all this privately-owned "flight wealth" outside the country was almost certainly much greater than the value of Argentina's foreign debt, but there was no way for the government to tax the dollar earnings that it generated.

To stem the tide, the government was compelled, in effect, to bribe foreign bondholders and banks to continue to hold Argentina bonds. Yields surged to more than 17 points over LIBOR by July 2001, and by November 2001, just before default, to 61 percent.[93] At those interest rates, default risk was clearly on everyone's mind. And the high rates implied that every single penny of the $40 billion public bailout arranged by the IMF, the World Bank, and other public lenders effectively went right out the back door, to pay interest costs to private lenders and finance private capital flight. And the Central Bank's reserves continued to fall throughout the year.

Since the banks owned a large share of Argentina's bonds, the growing perception that the government might default spooked many private depositors, and eventually led to a run on the banks. Indeed, Argentina's government later blamed small savers for decapitalizing the banks, in an attempt to justify the *"corralito bancario"* measure *of* late November 2001, which barred more than 12 million small depositors from withdrawing more than $1000 per month from their accounts, forcing many of them into hardship and even bankruptcy.

But a closer analysis reveals that the worst – and first-moving -- "asset strippers" and flight artists of all were not these small savers, but our old friends the private banks themselves. From February 2001 to November 2001, they quietly reduced their credits to Argentina's financial system by more than $25 billion. During this period, deposits from individuals fell just $18.6 billlion, mostly just after July, by which time most of the "big bank" flight had already occurred. [94] At the same time, the banks also reduced their assets outstanding – mainly loans -- by $37.4 billion. More than 60 percent of these reductions were accounted for by Argentina's top 10 foreign banks, including **Citibank, FleetBoston, BBVA, JPMorganChase, and HSBC.** These foreign banks also arranged to swap most of the unguaranteed Argentine bonds in their portfolios for $40 billion billion of government-guaranteed loans, and to convert other liabilities back into domestic peso debt at favorable exchange rates.[95]

As one Argentina legislator later noted, long before small savers in Argentina decided that it was time to take their savings out of shaky banking system, the world's most sophisticated banks, armed with their extensive inside knowledge about what was reallyl going on, decided it was time to beat an "orderly, silent retreat" – under the cover of the IMF's glowing forecasts and increased public lending.[96]

Mega-Swaps and Mega-Defaults

In March 2001, the nine-lived **Dr. Domingo Carvallo** returned to office as Economy Minister – De Hoz' old job - under **President Fernando de la Rua.** His predecessor, Economy Minister **Lopez Murphy,** had tried and failed to implement an orthodox program of revenue increases and budget cuts, and had missed all the IMF's targets. But the global financial community was convinced that Cavallo could work his old magic, at least for them, especially since to get him to return, Argentina's Congress had given him special emergency powers to change economic policy by decree.

Cavallo's return was the occasion for a euphoric celebration on the part of the First World banking establishment. Amazingly, David Rockefeller, Citibank's William Rhodes, CSFB's David Mulford, and ex-World Bank President Robert McNamara – all fellow members of the Americas Society -- all travelled to see him inaugurated in person in Buenos Aires, where they declared themselves to be in "profound sympathy" with the new Economy Minister.[97]

This was no accident -- just like De Hoz twenty years earlier, Carvallo's most important priorities appear to have been defend the peso, and, barring that, find ways to help foreign banks and bondholders get their money back. On March 20, his first day in office, Cavallo called his old friend **Dr. David C. Mulford,** who had served as **Under Secretary and Assistant Secretary of the US Treasury** from 1984 to 1992 under the Bush and Reagan Adminstrations. In that capacity, Dr. Mulford had managed the US Government's entire foreign debt strategy. In the late 1980s, Mulford had been in charge of managing the implementation of the Treasury's **Baker/Brady Plans** for restructuring Third World debt. As we've seen, those plans ultimately did little to reduce Third World debt, which was 66 percent higher in the year 2000 than it was when Mulford left public service in 1992.

But at least the contacts and experience that he gained at the US Treasury had permitted Mulford to reduce his *own* debt burdens. After the Treasury, Dr. Mulford became **Chairman of Credit Suisse First Boston (CSFB)'s International Group,** in charge of brokering debt swaps and privatization deals for developing countries. As Argentina's debt woes mounted in 2000-2001, Mulford saw a golden opportunity. When the anxious Cavallo called him for ideas, he suggested that the time was ripe for an unprecedented debt swap, substituting Argentine bonds that were about to come due for an even more massive amount of new, longer-term foreign debt.

Just a few weeks later, in May 2001, Cavallo announced that Mulford's **CSFB,** had assembled a syndicate of six other banks, including **JPMorganChase, CSFB, Citigroup's Schroder Salomen Smith Barney (SSSB), Hongkong Shanghai Bank (HSBC),** and the Spanish banks **Banco Santander, Banco Popular/ Banco de Galicia, and BBV/Banco Frances,** had indeed agreed to handle what later became known as the **"Megacanje" ("Mega-swap")** the largest and certainly one of the most *irresponsible* debt swaps in developing country history.

This was Argentina's second record-setting debt swap. The first, in February 2001, had involved just $4.2 billion. Before that, the previous record was held by Venezuela's July 1998 $500 million swap, which exchanged shorter-term debt for 20-year bonds with a 14 percent yield Cavallo's new June 2001 mega-swap dwarfed both these predecessors. He offered to exchange **$29.5 billion** of Argentine bonds, including about $13 billion maturing between 2001 and 2005, [98] for **$63.8 billion of new bonds** that would only come due in 2005- 2013. The swap package also included about $2.3 billion of entirely new debt.

At first glance, almost all Wall Street analysts pronounced this deal a home run, a brilliant scheme that would buy Argentina the time it needed to get its house in order. [99] Cavallo predicted that it would restore growth to *six percent* or more (!) and eventually reduce Argentina's debt burden. Mulford described it as "essential to long-term success in restoring Argentine growth."[100] The IMF issued a statement saluting "the successful conclusion of the debt swap offer...which should permit a substantial reduction of the gross financial requirements through 2005." It was overscribed by eager holders of existing bonds, including many foreign investors – less than six months before Argentina went belly-up. (So much for "rational expectations.")

Whatever the merits of the mega-swap for Argentina, Mulford's little syndicate of foreign banks clearly made a killing on it. The seven banks split a 0.55% commission on the deal -- $140 million – just for placing the new bonds. They also got a windfall in the form of the bonuses that Argentina paid bondholders to convert, including higher interest payments, since most of them had old bonds to exchange.[101] And as was later revealed in a charges filed against Cavallo and the banks in Argentina's federal court in 2002, they also pocketed an additional $150 million by secretly revising the terms that had already been approved by Argentina on the eve of the swap.[102]

As several more careful observers noted at the time, however, the swap's fine print contained much cause for concern. The new debt introduced by the swap carried much higher yields.The tradeoff was unusally unfavorable -- compared with the 12.1 percent yields that Argentine debt maturing in 2010 carried in February 2001, for example, the new debt promised yields of 15 to 17 percent. It also promised to increase Argentina's long-term debt burden significantly in exchange for a rather modest near-term debt reduction. So by 2005, unless economic growth absolutely exploded in response to the swap, the swap would dramatically increase Argentina's already astronomical debt service burden, not lower it.

Just as Venezuela's debt swap had done in 1998, Argentina's mega-swap also sent a strong signal to sophisticated investors that the country was so close to default that its officials were spending all their time dressing windows. Indeed, from a slight distance, the notion that a country already up to its eyeballs in debt could fix its problems by going even deeper into hock was counterintuitive, to say the least.

Perhaps most important, the transaction distracted Cavallo's attention from more serious policy alternatives for debt reduction, like negotiating tougher terms with Argentina's creditors, to slash debts to a more sustainable level, or – dios mio – even abandoning the IMF's sacred cow of fixed exchange rates altogether, and devaluing the peso.

Far from deferring default, therefore, as these side-effects and complications came to be appreciated, the swap may have actually made default more likely. That was certainly consistent with the quiet exodus of the big banks from the market. In the wake of the swap, a growing chorus of high-caliber critics gradually started to poke holes in the pro-swap propaganda put out by the IMF, Argentina's government, and the syndicating banks. One leading Columbia finance professor described the transaction as "jumping out of a 30-story building." [103] Another leading Wall Street banker described it as "a bit of near-term debt service relief for a huge increase in the debt burden.... If they weren't insolvent before the swap, they almost certainly will be insolvent in three to four years." [104] Even Michael Mussa, the IMF's former Chief Economist, later admitted that the mega-swap was "an act of desperation by a debtor who can promise anything in the long run, in exchange for relatively modest short-run relief."[105]

Apparently the leading international credit agencies agreed with these criticisms. On May 6, two days after the debt swap was announced, Standard & Poor's Corp. downgraded Argentina's long-term foreign debt to "B." This was the third downgrade in six months, and placed it on the same dismal, sub-investment par level as Nicaragua, Venezuela, and Paraguay.[106] Moody's and Fitch later followed suit.

In June 2001, just as this swap was unfolding, Cavallo's main political sponsor, **former President Carlos Menem,** was arrested and charged with leading a conspiracy to ship $100 million of illicit weapons to Croatia in 1991 and Ecuador in 1995, in violation of various international embargoes on arms sales to both countries.[107] According to the charges, Menem had signed three presidential decrees authorizing the sales by **Fabricaciones Militares**, officially to Panama and Venezuela, but in fact to these other destinations, with the support of the Army Chief of Staff General Martin Balza, Defense Minister Antonio Erman González, and key Presidential Advisor Emir Yoma.[108] Menem was also being investigated on charges of allegedly taking a $10 million bribe to help cover up the Iranian roots of a 1994 bombing that killed 85 people at a Jewish community center in Buenos Aires.[109] In the course of the inquiries, it was also determined that Menem had at least $10 million in two **Swiss banks accounts at UBS (Geneva) and Banque du Gotthard (Zurich),** in the names of his ex-wife and daughter, and Ramon Hernandez, Menem's personal assistant. [110] Eventually, in November 2001, Menem was released, when Argentina's Supreme Court – several of whose members he had appointed – dismissed the charges. But the case sent an untimely shock through Argentina's already-shaky financial system.

So despite the initial "success" of the mega- swap, by July 2001, yields on Argentine debt had climbed another 50 percent, capital flight was surging again, and people were beginning to speculate openly about the prospects for default. At this point Cavallo persuaded his friends at the IMF to provide one more bailout, releasing $8 billion from its standby lines in August. He also appointed **Mario Blejer**, **a senior IMF economist** who had worked for the IMF for twenty years, to become **Governor of the Central Bank**. But these measures failed to stem the tide. In September 2001, **Stanley Fischer**, one of Cavallo's best friends at the IMF, gave his farewell address, and left….to become Vice Chairman at one of the few clear beneficiaries of the IMF's lending to Argentina -- **Citigroup!**[111]

With the owls of Minerva fluttering in the background, and yields on Argentine bonds soaring above 29 percent, Cavallo grew increasingly desperate. He flailed at academic economists who criticized his debt swap, calling them "mad intellectuals."[112] He tinkered with taxes and pension fund contributions, introducing a tax on financial transactions – a belated recognition that perhaps financial markets had become a little too perfect. He also tried another mega-swap, this time involving more than $60 billion of government bonds. Designed by **Merrill Lynch's Jacob Frenkel,** it pressured pension funds, banks, and insurance companies to exchange their existing bonds for new one backed by future tax revenues, but promising a maximum yield of only 7 percent, with repayment delayed an extra three years. Cavallo rationalized this last-ditch measure on the grounds of equity and affordibility:

> *Any reasonable person knows that Argentina cannot grow if it has to pay interest on its debt that ranges between 11 per cent to 25 per cent - and in the case of some provinces, up to 30 per cent a year. We . . . seek to ensure payment on the basis that Argentina is viable and to stop trying to pay [interest rates] that only reflect the march of Argentina towards default. It's a question of telling the truth.*

But banks were not noted for responding to such appeals. From their perspective, given Argentina's incredibly risky situation, the terms of Carvallo's new swap were among the most refusable offers ever made. Conspicuously absent from the offer was any Brady Plan-like debt guarantee by the US Treasury, the IMF, or the World Bank. By then, in fact, the IMF had probably already decided to cut its Argentine losses. With Stanley Fischer gone, and Argentina continuing to miss its IMF's targets by a mile, US Treasury Secretary Paul O'Neil was looking askance at further generosity. And, as noted earlier, by the fall of 2001, US bank exposure to Argentina had already been substantially reduced. So the IMF refused to disburse any more loans. Indeed, there were even reports that it was thinking seriously about recommending that Argentina devalue! In a last ditch effort, Cavallo dispatch de la Rua to Washington D.C. to meet with President Bush, who gave his "backing" to the crazed debt swap plan, but didn't offer any financial aid. The only achievement of this last debt swap was that it prompted credit rating agencies like Fitch to classify it as a "distressed exchange" that technically put Argentina in default.[113]

As all these other measures failed to produce results, Cavallo desperately turned his back on his free-market roots. At the end of November he implemented the *corralito,* freezing all private bank deposits. In effect, by establishing exchange controls, that put an end to convertibility. In early December he confiscated the assets of all pension funds – including those that had been created by his social security reform! – and forced them to invest their cash in Argentine bonds. And he tried to slash the salaries of public employees, which had already been sharply reduced over the past decade, by another 13 percent.[114]

As usual, however, Cavallo, the banks, and the "mad intellectuals" at the IMF and the World Bank had underestimated the popular opposition to such policies. These measures only succeeded in provoking a full-scale uprising, including riots and looting throughout Buenos Aires on December 20-21 that left at least 27 people dead, 1000 injured, and more than 2000 in jail. Argentina had not seen such popular opposition to its government since June 1982, after the Falklands debacle.

On December 20, Cavallo resigned. President de la Rua followed him into retirement on December 21, fleeing the country in a helicopter. On December 23, his interim replacement, President Adolfo Rodriguez Saa, announced that, just as the critics of the massive debt swap had predicted, Argentina would default on $95 billion of commercial foreign debt. This was the largest debt default in developing country history. It amounted to more than sixty percent of Argentina's entire foreign debt, which by then had reached **$155**

billion. Eventually the country also halted debt service on most of the rest of the debt, for more than a year.

Two weeks and three more Presidents later, on January 1, 2002, Eduardo Duhalde, another Peronist, was sworn in as the fifth President in less than a month. One of his first acts was to officially abolish Cavallo's peg, permitting the peso to float freely for the first time since April 1991. Free at last to seek its own value, the peso suffering a real depreciation of 150 percent in one month, as investors continued to run for the hills, trade collapsed, and unemployment soared. This might have included an overreaction to all the bad news, but it undoubtedly validated all those who had long maintained that the currency was greatly overvalued. To stem the outflows and prevent even more banks from failing, Duhalde introduced a policy called "pesofication," which forcibly converted more than $60 billion of dollar deposits in Argentine banks into pesos, and further strengthened exchange controls. The forced exchange was mandated at 1.4 pesos per dollar, well below the black market rate. A year later, the peso was trading at 3.15 per dollar.

So by the time Cavallo and his clever friends in the international banking community were through, Argentina's banking system had collapsed, its pension system was worthless, the political system was in chaos, leading privatized enterprises like YPF, the telephone companies, and domestic banks had been delisted by the stock exchange, free capital markets were out the window, those foreign investors who could remove their money had disappeared, and domestic elites had also moved even more of their liquid wealth outside the country. This time around, Argentina had not needed the junta to destroy its economy – its intransigent neoliberals and their allies in the international banking community had been quite sufficient for the task.

Rosario II

All these developments had enormous social costs. In the town of **Rosario**, General Galtieri's old stomping ground, a wig maker advertised in February 2002 that because of the peso's collapse, he could no longer afford to import raw materials, and would buy hair locally. The response was overwhelming. More than 400 people showed up in two days, including several who peddled 20 miles on bicycles just to collect $3-$4 dollars for their hair. "We paid for some hair of poor quality," the factory owner commented, "But we did it because people were desperate. They didn't have money to buy food, and they even offered

us their children's hair." Nearby, when a truck carrying two dozen cattle to a local meatpacking plant overturned, a crowd of 400 people quickly gathered and butchered the animals on the spot, to get meat for their hungry families.

By April 2002, official unemployment in Argentina had reached 24 percent and the widely-detested Carvallo was (temporarily) in jail, charged with helping President Menem facilitate the illicit arms sales to Croatia and Ecuador in the 1990s. Only half of those still employed had full-time jobs; sixty percent of the population had fallen below Argentina's $110/ month poverty line. For those still lucky enough to have jobs, wage cuts and involuntary increases in work hours became standard. Consumption of food and medicines fell sharply, and an estimated 20 percent of Argentine children – some 2.3 million of them -- experienced malnutrition, with scores dying. In **Buenos Aires,** Latin America's "Paris," it became common to see whole families begging together. Each night up to 100,000 "cartoneros" prowled the streets searching for food in garbage cans and trying to earn a few dollars by recycling waste materials. Ordinary middle class Argentines were reduced to selling their furniture and other household goods to make ends meet. Aid workers told heart-rending stories about fastidious older gentlemen, carefully dressed in suits and ties, waiting patiently in breadlines each morning. In June 2002, Telecom Argentina, one of the privatization program's proudest achievements, announced that its net equity value had fallen to $30m, less than 2% of its value in January 2002. Apparently most Argentines were having so much trouble affording necessities that basic phone service, not to mention cell phones and Internet service, had once again become a dispensable luxury.[115] Those who could afford to emigrate, or were able to move their money abroad, did so – in 2002-3, Argentina continued to experience an exodus of both financial capital and skilled labor. In late 2002, the country also defaulted on all its debts to the World Bank and the IMF, joining the ranks of Iraq and Zimbawe as countries that had also defaulted on loans from these august institutions. In March 2003, Argentina's Supreme Court ruled that Duhalde's "pesofication" decree had been illegal, and that the domestic banks owed Argentina's depositors at least $10 billion in compensation. But there was no money to pay them. [116]

As for the architects of this disaster, from April to June 2002, Domingo Cavallo remained in jail on the illegal weapon sales charges, and was then released. In September 2002, to help him escape the heat back home, New York University's Stern School of Business appointed him a a Distinguished Visiting Professor. David Mulford and Jacob Frenkel returned to their respective well-paid posts at CSFB and Merrill Lynch, and, as noted, Stanley Fischer joined Citigroup, where he served alongside former Treasury Secretary Robert Rubin, now the Chairman of Citigroup's Executive Committee. Lawrence Summers had become the President of Cavallo's alma mater, Harvard University. Released from prison in November 2001, the 70 year-old Carlos Menem and his new 36-year old beauty-queen wife immediately began to prepare for the April 2003 Presidential elections, which he was expected to win.

All this, in a country that is still the world's fourth largest food exporter, with 50 million cattle and 37 million people, and Latin America's cultural capital, which once boasted that it was continent's most developed country. Most observers agree that it could take Argentina decades to recover from this latest debacle. As Hans Tietmayer, head of Germany's Bundesbank, remarked in 2002, "Argentina is condemned to insignificance, probably forever." [28]

Herr Tietmayer may well be wrong – after all they have been through, Argentines are certainly now among the world's most resilient people. But it is true that far from being "done with the past," this rich-poor country continues to be haunted by it. And this is not only because of its own leaders' admittedly gargantuan mistakes, but also because of its long-standing, incestuous, and ultimately quite *toxic* relationship with people like Rockefeller, Kirkpatrick, Fischer, and Mulford, and institutions like Chase, Citibank, UBS, and CSFB. [117]

In February 2003, a Gallup poll interviewed 30,000 people in 41 key countries, including most of those in the Middle East, Africa, and Latin America. It found that Argentina was the country most opposed to US plans for invading Iraq.[118]

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NOTES TO CHAPTER VII

[1].For the classic study of comparative political development, see Barrington Moore, Social Origins of Dictatorship and Democracy. (Boston: Beacon Press, 1965).

[2] In June 2000, Argentina's President Fernando de la Rua, on a visit to Holocaust Museum in Washington, D.C., issued a formal apology for the fact that his country had sheltered more than 150 senior Nazis after World War II, including Adolf Eichmann, Josef Mengele, Klaus Barbie, and SS Captain Erich Priebke. Many of the Nazis travelled to Argentina on false travel documents issued by the International Red Cross. See "Argentina 'Sorry' Over Nazis," BBC, June 13, 2000; "Red Cross Admits It Helped Mengele and Other Nazis Flee," BBC, February 17, 1999.

[3] Argentina's foreign debt at yearend 1975 was $7.23 billion, and its ratio to national income was about 10 percent. By yearend 1982, under the junta's guidance, the foreign debt had increased to $43.6 billion, and the ratio of debt to income was more than 50 percent. Source: World Bank (WDI data), 2003).

[4] David Rockefeller Sr., the son of John D. Rockefeller Jr., served as President of Chase Manhattan Bank in 1961-69, its CEO from 1969 to 1980, and its Chairman in 1969-81. He also served as Chairman of Council on Foreign Relations in 1970-85.

[5] The $800 million figure for Chase's loans to Argentina is as of 1983, and is from the bank's l984 Annual Report. Chase also arranged many syndicated loans for Argentina. In l977, for example, it was lead manager for a $500 million loan to the Argentine Central Bank. Chase, Citibank and MHT also managed the Central Bank's reserves.

[6] Josephine Hunolt, Chase Private Banker, May 1989, Miami.

[7] For a comparison of Argentina's real per capita incomes over time, and its 1980 peak at $15,000, see Sebastian Galliani, Daniel Heymann, and Mariano Tommasi, "Missed Expectations: The Argentine Convertibility." (Argentina: Universidad de Buenos Aires/ CEPAL, November 2002).

[8] Source: WB (WDI Online Database, 2003).

[9] Estimates of the number of political killings and disappearances during Argentina's "dirty war" vary widely, as they usually do for such reigns of terror. The 1983 National Commission on the Disappeared (CONADEP) established by President Raul Alfonsin provided the first admittedly conservative estimate of 8960 disappearance cases – excluding cases where killings were done and the bodies actually turned up. See Professor Ronald Dworkin, Introduction, Nunca Mas. (New York: Faber & Faber, December 1986.) Since then, cases have continued to be reported, so that the official tally for the 1976-83 period is now about 12,000. However, this figure is probably an underestimate of the total number of the junta's victims, because it omits those who were killed by paramilitary groups like the Argentine Anti-Communist Alliance, and the significant number killed in "confrontations" with the military.The best estimate is probably 20,000-30,000. See "How many Desaparecidos were there?" available at http://www.yendor.com/vanished/index.html.

[10] For example, the disappearance 14 trade union members who had been working at the Mercedes-Benz factory -- now owned by DaimlerChrysler -- at González Catán in Buenos Aires Province in 1976-77.

[11] See the account of Galtieri by Andrew Graham-Yooll, "The look of utter hatred in Galtieri's blue eyes seemed to say 'I'll get the lot of you," Daily Telegraph, January 1, 2003.

[12] See Professor Ronald Dworkin, Introduction, Nunca Mas. (New York: Faber & Faber, December 1986.)

[13] World Bank (WDI Online), 2003.

[14] See Andrew Graham-Yooll, supra.

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[15] For Galtieri's career, see "Leopoldo Galtieri," TG, January 13, 2003.

[16] See the analysis of these critical logistical problems by Ignacio Fernandez, "The Falklands War," January, 1999, available at http://guest.xinet.com/ignacio/polsi342/falklands.html.

[17]"If you invade:" " US Officer," Rio, February 14, 1989. One of the few officials in the US Government who took a pro-Argentine position was UN Ambassador Jeane Kirkpatrick. For a discussion of how Argentina might have won the war with better timing, see Gladys D. Ganley and Oswald H. Ganley," Unexpected War in the Information Age. Communications and Information in the Falklands Conflict." Harvard University Publication P-84-3, 1984, 105: "The decision by the Argentines finally to invade at this particular time seemed ill-advised, and is still rather a puzzle. After all, winter -- when no British fleet could approach the Falklands -- was just two months off......However, with three and one-half months in office, President Galtieri was under tremendous political pressure, and in great need of unifying his people. Inflation was rampant and discontent was rising rapidly. Just two days before the Falklands invasion there was severe rioting in Buenos Aires, the worst since the Junta had come to power. ....(T)he Argentines obviously gambled that the British would neither be willing nor able to do much about a Falklands takeover. But Argentina lost her bet."

[18] For more about Operation Condor, see Chapter VI.

[19] For the Burson-Marsteller relationship with the Argentine junta, see "What's Wrong with: Burson-Marsteller?" Corporate Watch Magazine, Issue 2, Winter 1996.

[20] Quoted in Jonathan Marshall, Peter Dale Scott, and Jane Hunter, The Iran-Contra Connection. (Boston: South End Press, 1987), except available at http://www.thirdworldtraveler.com/Ronald_Reagan/ReaganContraCommit_TICC.html.

[21] For Ender's March 8 1982 assurances, see Argentina's Informe Rattenbach. (December 1982), a post-action analysis of the Malvinas conflict, available at http://www.nuncamas.org/document/militar/rattenbach/rattenbach12.htm,

[22] See Jeane J. Kirkpatrick, "Dictatorships and Double Standards," Commentary, Nov. 1979.

[23] For more about Wenceslao Bunge's role during this period, see www.nuncamas.org/document/militar/rattenbach/rattenbach33.htm - 59k In April 1984. He also served an intermediary between Brig. General Basilio Lami-Dozo, junta member and Commander-in-Chief of the Argentine Air Force, and Ms. Kirkpatrick, For Bunge, see King's College – London: Liddell Hart Centre for Military Archives: Woolly Al walks the kitty back television documentary archive, Archive 3/2/1991, available at http://www.kcl.ac.uk/lhcma/cats/woollyal/xw77-01-.htm#xw77S05. Bunge is listed as a Harvard graduate with a degree from the Business School by the Harvard Club of Argentina (2003), though not a member. In 1983, Bunge, reportedly also a lawyer, founded the Argentine-American Forum, and "established himself as a informal bridge between the US and Argentina."

[24] April Glaspie was the hapless US Ambassador to Iraq who met with Saddam Hussein in July 1990, shortly before he invaded Kuwait, and told Hussein that Washington had "no opinion on Arab-Arab conflicts, like your border disagreement with Kuwait.". For Argentine UN Ambassador Ros's assessment of Kirkpatrick in a May 18, 1982, to his government, see Informe Rattenbach. (December 1982), supra, at paragraph 520.

For more about the Falklands crisis, see The Economist, May 22, 1982; November 12, 1983; March 3, 1984; Newsweek, June 7, 1982; Time, April-June 1982; Alexander M. Haig, Caveat: Realism, Reagan, and Foreign Policy. New York: Macmillan, 1984; The Sunday Times Insight Team, War in the Falklands: The Full Story. (London: Times Newspapers Ltd., 1982.)

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[25] Haig, quoted in Jonathan Marshall, Peter Dale Scott, and Jane Hunter, op. cit. Haig later said that his other key reason for resigning was his disagreement with the Reagan Adminstration's weak response to 1982 Israel's invasion of Lebanon.

[26] Chile reacted to the war by mobilizing her reserves, on the theory that she would be next. "Chilean Military Analyst," Sao Paulo, 2.21.89. Brazil also feared an Argentine victory.

[27] The Times' comment is from R.A. ("Johnny") Apple, May 2, 1982. See the post-hoc analysis of the factors responsible for Thatcher's June 1983 victory in I. Crew, "How to Win a Landslide Without Really Trying: Why the Conservatives Won in 1983," in A. Ranney, ed. Britain at the Polls 1983. (New York: Duke University Press, 1985). See also Patrick Dunleavy and Cristopher T. Husbands. British Democracy at the Crossroads: Voting and Party Competition in the 1980s. (London: George Allen & Unwin, 1985).

[28] For a Swedish report on the case, see Social Democratic Students Organization, " Argentina måste utlämna Alfredo Astiz," Pressmeddelande 2002-01-14 http://studentforbundet.com/ssf/media/pressmeddelanden/hagelin.asp.

[29] See Reuters, "The Promotion of Captain Alfredo Astiz," May 7, 1995.

[30] See AFP, "Remise en liberté d'Alfredo Astiz, ancien militaire de la dictature," January 30, 2002.

[31] Nora Cortiñas, member of a group that Alfredo Astiz had infiltrated in the 1970s, at http://www.yendor.com/vanished/junta.html#astiz.

[32] For Videla, see SFC, June 10, 1998, A10; July 15, 1998, C12.

[33] For Videla's 2001 indictment, see SFC, July 11, 2001, A8.
[34] NYT, October 8, 1989.

[35] For the baby-selling case, see WSJ, November 25, 1998, A1; SFC, January 21, 1999, A14; SFC, March 17, 2000, D2.
[36] See BBC Mundo, "Massera Dice Que Es Persequido," September 7, 2001.

[37] For Adolfo Scilingo's testimony, see SFC, January 1, 1998, .A18 His story was the basis for a book about the death flights by leading Argentine journalist Horatio Verbitsky that was a best-seller in Argentina. See Horatio Verbitsky, El Vuelo. (Buenos Aires: Planeta, 1995).

[38] For the Argentine military bank accounts case, see SFC, February 24, 1998, A 11.

[39] See SFC, October 10, 1997, D2; SFC, July 1, 1998, A8; WSJ, December 7, 2000, A1.

[40] For the Galtieri indictment, see SFC, January 23, 1999; October 3, 1999, C3.

[41] For the Argentine bond compensation program, see Axel Bugge, "Argentina to compensate ``Dirty War'' victims with bonds," Reuters, August 19, 1997; Jack Epstein, "Argentina's 'Dirty War' Laundry May Get a Public Airing," CSM, December 4, 1997.

[42]."Were used for:" Jose Maria Dagnino Pastore, El Cronista Comercial, 7.6.82. The candid Dagnino Pastore survived less than two months as Economy Minister. In early l983 Pastore's successor Jorge Wehbe raised the foreign debt estimate to $43 billion, but when this was disputed by economists for the Argentine Air Force, he lowered it $37.8 billion, only to be corrected again by the Central Bank to $38.7 billion. These were estimates for gross debt at yearend l982. See The Economist, Economic Intelligence Unit, " Argentina Report," 12.6.83, 16. See also WJS, 8.9.82, and Argentine Central Bank, " External Debt as of December 31, 1982," unpublished l983 circular.

[43] Argentina's foreign creditors wanted to know each others' loans so they could up assessments for the new loans included in a restructuring agreement. In late l982 Argentina sought a $1.1 billion "bridge" loan to avoid having its debt declared "nonperforming." One New York banker recalls spending New Year's Eve working on the loan, which had to be finished by January 1 -- one major bank even had to stop its clocks. The first $600 million never left New York -- it was used to repay the banks. In January 1983 Argentina negotiated a $2.15 billion IMF standby that committed it to specific economic targets. It also sought a $400 million 4-month credit from the BIS and another $1.5 billion from the banks, plus a rescheduling of $8 billion due in l983. By March l983 it was already clear that Argentina would miss the targets just agreed to.

[44]."Fistfights:" "NY Banker # 10," 1.5.89, NYC. France supplied Argentina with missiles and planes that proved effective against the British fleet in the l982 war. The French denied that they armed the missiles -- they blamed that on the Israelis.

[45] For the missing $11 billion, Clovis Rossi, " Instabilidade Politica, um Obstaculo," FSP, 11.9. 82, 15.

[46] Rundt's Weekly, a private newsletter available to major corporations, reported on 10.10.83 that " Both of the leading (Argentine) political parties contesting the elections, the two most powerful labor organizations, virtually all business organizations of scope, a preponderance of local newspapers, and -- within the military -- the Air Force brass as well as segments of the Army, have expressed bitter resentment at the debt rescheduling agreements reached for the country so far, and want the pacts renegotiated by the incoming civilian government...the clamoring for a temporary moratorium is growing louder every day." NYT, 10.4.83, also reported "growing pressures to renounce the debt... the bankers have been eager to complete renegotiations of the debts before the elections." The article quoted an Alfonsin campaign speech: " We want to meet our obligations, but we are not going to accept recessive formulas." Of course that was precisely what he did do just one year later.

[47] Argentina had agreed with the IMF to hold 1983 inflation to 160 percent; in fact it exceeded 570 percent. NYT, 10.4.83. Another factor behind the delay of the debt negotiations was the war-related freeze of British assets that persisted until August 1983. British banks refused to participate in a new $1.5 billion loan until this was lifted. Yet another factor was an Argentine law that gave domestic creditors priority over foreigners with respect to repayment. At the foreign banks' request Argentina removed this provision in September 1983.

[48]"Overall size:" NYT, 10.4.83. The Argentine judge who issued the finding of unconstitutionality, Frederico Pinto Kramer, was encouraged to issue his order by a disgruntled Argentine general, Air Force Commander Brigadier Augusto Hughes, who expressed " profound displeasure" with the Aerolinas settlement. For the run on the peso, USDepartment of Commerce, " Foreign Economic Trends: Argentina," 3.84, 6-7.

[49] For Venezuela's foreign debt measurement problems, see Chapter V. Jim Nash, a Morgan debt expert who was active in l982-84 restructurings all over Latin America, described Argentina's debt numbers as " flaky...the worst in Latin America. A lot of borrowing went on that was unapproved or illegal. The Central Government had very weak controls... There's no debt registration survey since an update in September 1986, and before that, October 1983." Jim Nash, 7.11. 88, NYC. Alma Conte, who estimated the size Argentina's foreign debt for the World Bank, also described Argentina's debt management system as "terrible. It was all on paper, and only they tracked disbursements of loans. Unlike Brazil, they had no idea of when a loan had been signed." Alma Conte, The World Bank, Washington, D.C., 12.28.88. Contrast this with Brazil, which installed a computerized debt registration system in l975 to complement exchange controls.

[50]. The $10 billion for missing debt was supported by "Argentine Central Banker," NYC, 6.6.88, and by Jim Nash and Alma Conte, supra. Rundt's Weekly, 11.7.83, 4, estimated that there was " $9 to $11 billion of hidden military debt." The military spent $13 billion on arms in l980-81 alone. Rabat and Lorenzano, op. cit., 93. Venezuela's entire military debt, in contrast, was only $2.5 billion.

[51] The data on UK syndications to Argentina are from Euromoney. In l981-82 British banks were lead managers in Argentine syndicated loans totaling $2.352 billion, including $312 directly to the Republic, $200

million to the National Development Bank, $107 million to the Argentina National Airline, and $875 million for a YPF "gas pipeline."

[52] The 1862 debt-collection invasion of Mexico by France, Spain, and the UK is especially interesting. It took place on May 5, the anniversary of which is now celebrated each year as Cinco de Mayo. It was precipitated by the July 17, 1861 decision of Mexico's President, Benito Juarez, to place a two-year moratirum on all foreign debt service, to help the country recover from its economic woes, civil war, and the aftermat h of the 1846-48 war with the US. France, Spain, and England were Mexico's key lenders at that point, and they decided to overturn the moratorium by force. Ordinarly, the Monroe Doctrine might have led them to anticipate a US response to such a move, but the US was distracted by its Civil War. So all three countries invaded. Initially a garrison of a garrison of 5,000 Mestizo and Zapotec Indians, commanded by General Ignacio Zaragoza, handed the French and their Mexican monarchist supporters a surprising defeat – with future Mexican President Porfirio Dias leading a cavalry charge against them. Among other things, this defeat helped to deter French aid to the South in the American Civil War. But eventually the foreign debt-collectors prevailed. The Spanish and English were the first to withdraw, but the French stayed until 1867, when Maximilian, their client dictator, was captured by rebel forces and killed. Before that, the US, with its own Civil War concluded, had threatened the French emperor Napoleon III with war unless it withdrew support for Maximilian. See Raoul Contreras, "Why We Celebrate Cinco de Mayo," North Country Times, May 4, 2002, available at http://www.nctimes.net/news/2002/20020504/62153.html. For the US' 1910 invasion of Nicaragua, see Chapter VII.

[53]The official $2 billion for newly-discovered military debt is from a banker who did the survey. "NY Banker #7," supra. For the informal write-offs of military debt, Paul Beckermann, The World Bank, 12.22.88. The conduit loans to the military were described by "NY Banker # 10," 1.5.89, NYC, and " NY Banker # 7," op. cit. Euromoney lists two loans to Banco de la Nacion in l979, one for $300 million in February, managed by MHT, and another in March by Deutsche Bank and Dresdner Bank for $406.6 million. Several generals were rumored to have foreign accounts at Dresdner. "Argentine Central Banker," 6.6.88, NYC. There was also a $350 million loan to Banco de la Nacion in August 1980, managed by Morgan.

[54] Suarez Meza was later convicted of crimes. "Argentine Central Banker," 6.6.88, NYC. On December 9, 1985, General Jorge Rafael Videla and Admiral Emilio Eduardo Massera were sentenced to life in prison, while General Roberto Eduardo Viola received 17 years. They were released in l990 by President Menem, as part of a general amnesty. For the YPF funnel role, Peter Beckermann, The World Bank, 12.22.88.

[55] Loans to unprofitable state agencies: William R. Cline and Riordan Roett, Latin American Economic Outlook. (Washington: IEA, Inc., 1986), 21.

.One glaring example of the military's foreign accounts was provided in l980, during a divorce trial in Buenos Aires -- the wife of General Harguindegy, Minister of the Interior under President-General Jorge Videla, testified that her husband had a Swiss bank account that contained more than $5 million. "Argentine Central Banker," 6.6.88, NYC.

[56].One glaring example of the military's foreign accounts was provided in l980, during a divorce trial in Buenos Aires -- the wife of General Harguindegy, Minister of the Interior under President-General Jorge Videla, testified that her husband had a Swiss bank account that contained more than $5 million. "Argentine Central Banker," 6.6.88, NYC

Note that Admiral Emilio Massera, the soccer franchise boss and junta member, was later convicted of murdering three Argentines, including Hector Hidalgo Sola, Argentina's Ambassador to Venezuela.

[57]."Alfredo's piece:" " Argentine Businessmen," 12.2.87, NYC.

[58] For de Hoz's tax avoidance gambit, see John Simpson and Jana Bennett, The Disappeared: Voices from a Secret War. (London: Robson Books, 1985).

[59] When de Hoz took over Chase recovered Banco de Comercio and Morgan regained Banco Frances.

[60] As in Chile, the regime's fixed exchange rate policy was based on the Hayekian notion of tying prices to international inflation. It was a miserable failure.

[61] .In l982 Argentina's income tax yielded only 5.65 billion pesos, out of an official state budget -- which left out most military spending -- of 121.7 billion pesos. Europa Statistical Survey, 1983, p. 1128.

[62]Paid to look elsewhere:" Euromoney," The Amazing Career of Jose Rafael Trozzo," 6.80, 14-15; 21 (Gebauer's comments). In June 1979, just as BIR was undergoing an inspection a fire destroyed its headquarters in Buenos Aires. Nine months later it failed. BIR had credit lines with 25 foreign banks, including Morgan, when it sank in March 1980. For more about Gebauer's own misbehavior, see Chapter V. Other countries where the domestic banking industry cratered included Chile, Colombia, Ecuador, the Philippines, and Venezuela.

[63].In December 1978 de Hoz announced a pre-fixed schedule for future devaluations. He also dropped the minimum reserves on foreign loans, reduced their minimum terms to a year, and extended the Central Bank's forward exchange cover for them to a year. This was the essence of his Seguro de Cambio program.

[64]"Quite frankly:" "NY Banker #7," Supra. Many of the Seguro de Cambio loans went to companies owned by individuals who guaranteed them with foreign deposits. "Chase Private Banker," 1.10.89. Eventually about $3.7 billion of Seguro de Cambio debt was underwritten with government-backed " bonod" bonds and notes.

[65].In the "double bicycle" an investor took a new foreign loan to retire his original debt, registered it with the Central Bank, and arbitraged both interest rates and exchange rates. Such schemes also expanded the domestic debt because the Central Bank printed local currency to finance purchases of foreign debt.

[66] For Minister Roberto F. Alemann's later role as a UBS private banker, " Argentine Central Banker," 6.6.88. Argentina's leading banks were MHT, Citibank, Chase, Morgan, and Bank of Boston. They all accumulated flight assets from Argentina that more than equaled their loans to the country. " NY Banker #7," supra; " Argentine Central Banker," 6.6.88 . An Argentine executive with $2 million in a New York account at Morgan told me how his Morgan private banker helped arrange such a scheme for him. "Argentine Businessmen," 12.2.87, NYC.

[67] Of the $1.6 billion of Seguro de Cambio debt later disallowed by the Central Bank because it was clearly attributable to fictitious debts, $843 million was contracted by domestic banks. " NY Banker #7," supra. Thus it is wrong to assume, as some researchers have done, that foreign assets of domestic banks should necessarily be excluded from flight estimates.

[68].The $9.3 billion total for Seguro de Cambio debt included $4.6 billion covered by Central Government bonds (" bonods") and $4.7 of Seguro de Cambio debt with an exchange guarantee under Central Bank Circulars A31 and A137. Ministry of the Economy, " Argentine Economic Program 1984/85," Table 30. The $4.6 billion figure was later revised to $3.8 billion because of back-to-back charge offs. " NY Banker # 7," supra. About $1.6 billion was charged off by the Central Bank because it involved very obvious frauds. Most of the rest was also dubious, but this was hard to prove in individual cases. The court investigating the debt in September 1983 found that " a portion of the amounts in dispute consist of loans owed by private companies that were quietly repaid in l980-81 without notification of the Central Bank. Subsequent payments by the debtors, at preferential exchange rates, then may have gone into various foreign investments and deposits. Another source of " bogus debt" is said to have been so-called loans to self, arranged between foreign banks and Argentine companies able to use dollar accounts abroad as collateral." Rundt's Weekly, 10.10.83,6.

[69] A 1983 decree by the Central Bank (BCRA Decree A-429, December 29, 1983) asked foreign banks to report whether "any guarantees were given for private debts," and requested the guarantor's name. The banks refused to comply on bank secrecy grounds. " NY Banker # 9," 1.5.88, NYC. Most of the $5.5 billion assumed was supplier credit. The original figure for private sector loans with a public guarantee was $1.9 billion. " Argentine Economic Program," supra. The revised figure of $ 5.5 billion, and the report of the reserve theft by the generals is from a member of the Advisory Committee's auditing team: " NY Banker # 7," supra. Argentina's reserves fell by $1.062 billion from 1982 to 1983. IMF, (IFS), 63.

[70] Since 1983 the foreign debt figure has been revised upwards again. In l990 the World Bank estimated that Argentina's foreign debt at the end of l983 was $45.1 billion. Adding interest arrears yielded $46.3 billion.

[71].The Argentine military helped put General Garcia Meza in power in Bolivia in July 1980, and provided staff and financing. Alejandro Debat and Luis Lorenzano, Argentina: The Malvinas and the End of Military Rule. (London: Verso Press, 1983), 80.

[72] The $20 billion due in just a year included $6 billion of principal from l982-83, $9 billion of principal due in l984, and $4.8 billion of interest due in l984. President Alfonsin's initial response was to refuse an IMF accord. He held out until September 1984, and then relented in return for a $1.6 billion IMF loan, all of which went immediately to pay the banks. Over the next five years his government oscillated between belt-tightening and deficit spending. The IMF accord undermined his party's base, strengthened the Peronists, and contributed to five coup attempts. Alfonsin considered a debt moratorium in conjunction with Brazil in late l987, but he lacked the stomach for confrontation. By l989 his centrist Radial Party had been done in by these policies.

[73] For Bunge's Argentine-American Forum, see SFC, February 28, 1998, A7.

[74] Uki Goñi, op. cit. See also SFC, October 2, 1997, A13, and February 28, 1998, A7, regarding Cavallo's accumations.

[75] See the study of Yabran by Jesus Antonio Serrano Sanchez, "Expediente Yabran! (Universidad Nacional Autonoma de Mexico, Facultad de Ciencias Poltiicas y Sociales, June 1998), 8.

[76] For Alfredo Yabrán, and Bunge's role as his advisor and spokesperson in the 1990s, see SFC, February 28, 1998, .A7; Uki Goñi, "Cavallo's Crusade,"December 8, 1996, at ukinet.com/media/text/cavallo.htm, http://www.coha.org/opeds/111397.html; Martín Kanenguiser, Como um rato acuado – Alfred Yabrán, amigo de Carlos e suspeito de mandar matar jornalista, suicida-se para não ser preso," Isto É, May 27, 1998;

[77] For the telephone calls by Yabrán to the Presidential Palace, including 35 to the office of Ramón Hernández, one of Menem's close aids, see "Yabrán al desnudo," Que Pasa, May 14, 2000;

[78] In August 2002, Cavallo apologizd to a federal judge for his accusations seven years earlier against Yabran, saying he could not prove them. He was facing several law suits in Argentina over these and other matters, which required him to post bond each time he travelled outside the country. See "Cavallo pidio discuplas a un juez federal," Clarin, August 27, 2002. Meanwhile, a journalist, Miguel Bonosso, wrote a book that presented the results of a prolonged investigation into Yabran, which concluded that "Yabran was a key man in the strategy of the Syrian Hafez el Assad, to triangulate arms, drugs, and money laundering, by way of Argentina. See Miguel Bonosso, Don Alfredo. (Editorial Planeta, 2000).

[79] Martín Kanenguiser, Como um rato acuado – Alfred Yabrán, amigo de Carlos e suspeito de mandar matar jornalista, suicida-se para não ser preso," Isto É, May 27, 1998.

[80] A January 2001 poll by Graciela Romer & Associates found that 67 percent of Argentine adults still favored convertibility. As late as November 22, 2001, in his meeting with President Bush, President de la Rua was still promising to maintain convertibility.

[81] HSBC acquired 60 Argentine branches; Lloyds TSB acquired 40. For more details on Argentina's 1990s privatization program, see Sebastián Galiani, et al, "The Benefits and Costs of Privatization in Argentina: A

Microeconomic Analysis," University de San Andrés, December 2001, available at http://www.utdt.edu/~fsturzen/ArgentinePrivatization.pdf.

[82] See Chapter IX below for examples of Argentina's privatization excesses in the 1990s.

[83] John Maynard Keynes, The General Theory of Employment, Interest, and Money. (1936).

[84] In 2000, it was reported that members of Mexico's Juarez drug cartel had channeled at least $4 million from accounts at Bank of America in California through accounts at Citibank in New York to Argentina, in order to buy land and ranches. See Andres Oppenheimer, "Argentine linked to Mexican drug cash," MH, March 1, 2000.

[85] This quote is from Sebastian Galliani, et al, (2002), op. cit.

[86] See IMF Press Release 98/1, February 4, 1998.

[87] See IMF Press Release 00/17, March 10, 2000.

[88] Lawrence Summers, US Secretary of the Treasury, quoted in Jane Bussey, "A Tale of Two Bailouts," MH, October 20, 2002.

[89] Stanley Fischer, quoted in IMF Press Release 01/3, January 12, 2001.

[90] The September 2001 IMF forecast for Argentina's real GDP growth rate for the whole year in 2001 was *minus* 2.6 percent. See IMF Press Release, 01/37, September 7, 2001.

[91] See the IMF Technical Memorandum of Understanding with Argentina, September 5, 2000, summarized in Greg Palast, "Who Shot Argentina?," TG, August 12, 2001. For the controversy over Banco de la Nacion's privatization, see Maria Soledad Casasola, "Producers defend Argentina's national banks," Agriculture Online, October 3, 2002., available at http://www.agriculture.com.

[92] For the $130 billion capital flight estimate, see TG, January 15, 2002.

[93] In November 2001, the yield on 2005 Argentine bonds was 60.7 percent, more than three times their June level.

[94] For the details on the composition of these changes in the banking system's assets and liabilities during this period, see Javier Llorens and Mario Cafiero, "El Vaciamiento Del Sistema Financiero Argentino en El 2001," April 2002.

[95] See Llorens and Cafiero, op. cit., 18-23.

[96] The term "silent retreat" was used by Llorens and Cafiero (2002), op. cit.

[97] See "Rockefeller & Cia están eufóricos con Cavallo," Página 12, March 23, 2001.

[98] The debt rescheduled under the swap was $3.3 billion in 2001, $4.6 billion in 2002, $3.1 billion in 2003, $2.5 billion in 2004 and $2.5 billion in 2005.

[99] One notable exception was Bloomberg's Thomas Vogel, Jr. See his "Don't Cheer for the Argentine Bond Swap." Bloomberg, June 4, 2001, available at http://quote.bloomberg.com.
[100] Mulford is quoted in FT, May 17, 2001.

[101] The local affiliates of the banks in this syndicate reportedly had about 25 percent of their assets in Argentine government bonds.

[102] The charges, filed by Deputy Mario Cafiero in federal court, alleged that Cavallo and the banks met on June 2, 2001, and agreed to change the terms of the swap, raising the banks' profits by $150 million. See Jules Evans, "Bankers accused of dirty tricks in Argentina," Euromoney, January 28, 2002.

[103] Professor Charles W. Calomiris of Colombia University's Business School is quoted in "Argentina Buys Some Breathing Room, May 5, 2001.

[104] Michael Pettis, former head of Capital Markets, Bear, Stearns, quoted in Vogel, op. cit.

[105] See Michael Mussa, Argentina and the IMF: From Triumph to Tragedy. (2002).
[106] See Bloomberg, May 8, 2001.

[107] The UN had embargoed arms sales to Balkan countries, and Ecuador was subject to a similar embargo during its conflict with Peru.

[108] For Menem's 2001 arrest, see Clarin, June 7, 2001; La Nacion, June 5, 2001.

[109] See "Swiss to probe alleged Menem bribe," www.swissinfo.ch, November 8, 2002.

[110] See "Menem's Swiss Accounts 'Hold $10 million," BBC, January 21, 2002; "Des documents bancaires suisses pourraient être remis á la justice argentine avant avril," www.lecourrier.ch, January 24, 2003.

[111] Fischer was appointed Vice Chairman of Citigroup in January 2002, shortly after Argentina's default. He reportedly played a key role in winning IMF support for its massive bailout of Brazil in August 2002. At Citigroup, Fischer joined Robert Rubin, who had served as US Treasury Secretary in the Clinton Administration, and had also been a strong Cavallo supporter.

[112] This was the term Cavallo used for Charles Calomiris, a finance professor at Columbia University Business School. See Thomas Vogel, Jr. "Don't Cheer for the Argentine Bond Swap." Bloomberg, June 4, 2001. available at http://quote.bloomberg.com.

[113] See Thomas Catán, "Bush Backs Debt Restructuring Plan," FT, November 12, 2001; "Argentine Debt Swap 'Constitutes Default,'" FT, November 6, 2001.

[114] BBC, December 19, 2001.

[115] See "IMF praises Argentina reforms," BBC, June 6, 2002.

[116] See Paul Waldie, "Argentina's Top Court Rules Forced 'Pesofication' Illegal," Toronto Globe and Mail, March 6, 2003.

[28] The Hans Tietmeyer quote is from Die Welt, Sept. 16, 2002. For more about social reality in Argentina during the 2001-2002 economic crisis, see Marcela Valente, "Argentina: Images of a Shipwrecked Nation," March 27, 2002 (IPS News Service); TG, "Child hunger deaths shock Argentina," November 25, 2002; Reuters, "Poor Eat Garbage as Argentina Descends Into Hell," June 20,2002; Anthony Faiola, "Despair in Once-Proud Argentina," WP, August 6, 2002. For the cartoteros of Buenas Aires, see Rafael Azul, "The Social Costs of Argentina's Crisis," August 2002, www.wsws.org. For poverty estimates, see AFP, May 11, 2002. May For an analysis of the sources of increases in poverty in Argentina since the 1990s, which basically attributes it to rising unemployment, see Alicia Menendez and Martýn Gonzalez-Rozada, Why have poverty and inequality increased so much? Argentina 1991-2002. Princeton (August 2002), available at http://www.grade.org.pe/eventos/ nip_conference/ papers/Gonzalez%20Rozada-ineqpov2.pdf. For Argentina's immigration history, see Arthur P. Whitaker. Argentina. (NJ: Prentice Hall, Inc., 19640, 54 –55. More than 6 million Europeans, mainly from Italy and Spain, emigrated to Argentina up to 1932, assisted by the country's "open door" policy, established in the 1970s after it completed the liquidation of the Patagonian Indians on the "conquest of the desert." The country also now has about 1 million immigrants from poorer neighboring countries like Bolivia.

[117].The Peronists' candidate, Carlos Saul Menem, won the presidential election easily. Menem, in turn, ran through four Economy Ministers in his first year, and cancelled all the Government's domestic debts. He also came close to declaring the dollar Argentina's official currency. In a sense it already was. Finally, the appointment of a new conservative Finance Minister, Domingo Carvallo, in l991 provided the economy some increased stability and renewed growth.

[118] See Mayra Pertossi, "Thousands march in Argentina to oppose U.S. invasion of Iraq," AP, March 15, 2003.

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