

The effects of paying off the IMF

The Argentine government presented the early cancellation of debt to the IMF as a sovereign act of historic proportions. Kirchner stated that the country is recovering autonomy and freeing itself from IMF inspections. However, when it comes to facts it is blessing a privileged creditor.

Firstly, the IMF was exempted from the swap haircut applied to the rest of bondholders and now it is being granted the total and early payment of debt. Kirchner implements a basic right-wing principle – to comply with the Fund – intensifying the progressive discourse. Will his initiative increase the country's economic independence? Is the redistribution stage about to start?

Sovereignty and autonomy

In the last three years and a half the IMF collected 45 billion dollars from its large debtors. Russia settled its obligations, Turkey paid 40%, Mexico transferred large amounts and Brazil decided to cancel all its liabilities. Therefore, Argentina is not adopting neither an exclusive nor a surprising decision.

Kirchner insinuates that his action was coordinated with Lula, but is unable to explain the coincidence of sovereign impulses by so many different countries and governments. This simultaneity is due to the pressure exerted by the IMF in order to reduce its high financial exposure. Recent crises have forced it to replace the promotion of indebtedness with measures for the protection of its capital. This is the reason why Bush denied Kirchner a mediation to establish negotiations with the institution and returned to the traditional harshness towards the Argentine defaulter.

Those who present the debt cancellation to the IMF as an original move by Kirchner are forgetting that a high-ranked official from such institution (A. Singh) proposed a plan aimed at implementing the same decision last year. Therefore, the decision adopted is coincident with the Fund's explicit purposes.

It was not necessary to pay bankers in order to free the economic policy from their supervision. IMF reviews had been suspended two years ago when the institution started to collect debt maturities. The simple continuity of these payments ensured the same autonomy that is achieved by anticipating installments. Yet, officials argue that now there is greater degree of freedom in three areas: management of public accounts, macroeconomic strategy and income redistribution.

Fiscal sustainability and adjustment

In order to keep up with the early payment of 9.81 billion dollars, the Argentine state should increase its fiscal sustainability. No one has questioned this need, but government supporters conceal its relationship with the debt cancellation operation. They suggest that the forced public saving scheme prevailing in the country is a natural economic fact or a medicine to cure the lack of discipline of Argentine people.

Fiscal surplus will be increased by means of new contributions arising from the anti-cyclical fund projected by conservative Lavagna and currently being consolidated by progressive Micelli. Said surplus will serve to compensate for the decrease in reserves used to pay off the Fund. The immediate monetary effects of the reduction in foreign exchange backing for the local currency are uncertain. However, it is clear that an increased fiscal sustainability will be sought in order to counteract the decreased dollar coverage of pesos in circulation.

Most probably, the Central Bank will receive a new public title in exchange for the reserves granted to effect the mega-payment. Once such paper is put into the market it will give local bankers another chance in terms of speculative benefits. Their transactions with “pesified” titles encourage the increase of interest rates and turned out to be the most profitable financial investment in 2005.

Those IMF liabilities being cancelled barely account for 9% of the total debt and exclude similar commitments to the IADB and the World Bank. The mortgage faced by the country following this new operation exceeds the amount of 116 billion dollars (or 139 billion dollar as calculated). These obligations impose the continuation of fiscal distress, with or without IMF auditing.

Resources saved by the state behind people’s backs will also be kept to recompose reserves through the acquisition of foreign currency brought about by trade surplus. The same adjustment will be necessary to provide support to external credits being negotiated with Venezuela, Spain and other international lenders. It still remains to be seen whether the cost of these commitments is inferior to the credits that were paid to the Fund. For the time being, the one billion dollar saving being publicized by the government as a result of the operation is really doubtful. Some estimates reduce this amount to 300 million and others question it entirely.

Capitalists: winners and losers

The government’s decision benefits one capitalist sector to the detriment of another. The early cancellation of debt to the IMF favours exporters, manufacturers and local bankers in the conflict with external creditors and privatized companies. The Fund acted as lobbyist for the second group against the first one.

The clash between both groups has dominated the economic scene since the devaluation. The IMF demanded a decrease in the exchange rate in order to increase the surplus of foreign exchange being drafted overseas while, in contrast, exporters prefer to maintain a high dollar exchange rate in order to receive more pesos for the goods they sell overseas. The Fund also acted as spokesperson of foreign privatized companies which demand immediate tariff rises, in contrast to industrial groups that have profited from the relative cheapening of public services. Besides, the IMF demanded the need to negotiate and pay off those foreign creditors who did not enter the swap (holdouts), against the convenience of local banks which monopolize large Treasury payments.

Kirchner decided to hold up the revaluationist pressure channelled by the IMF because he defends the interests of the local bourgeoisie. But his decision does not erase tariff increases from the horizon, nor closes future dealings with holdouts. It strongly aims at maintaining a high exchange rate, forgetting about the inflationary pressures brought about by such pillar of the export model.

In the conflict that opposes favoured capitalists to those affected by the dollar exchange rate no people's interest is at stake. The official discourse identifies "national autonomy" with the interests of bankers, manufacturers and agro-exporters, as if the bulk of society belonged to that group. By eliminating the IMF's periodic revisions this sector will have more power to adjust the decisions of the Economy Ministry to their needs. But will workers, the middle class or unemployed people have more influence in any field?

The blockade on redistribution

The payment to the IMF is not launching a redistribution stage. Centre-left wing people themselves have always stated that such path is opposed to improving people's income ("it is either complying with the IMF or with the people", "it is either paying the external or the internal debt"). Besides, there is no evidence of improvements for the bulk of the population.

The moment to start redistribution is when there are resources available. At the present time, these resources abound as a result of the reactivation and high international prices of Argentine exports. If the amounts thus generated within this framework are used to cancel liabilities to the IMF, there is no money left for the oppressed people. Until now the government trimmed social spending, stating that reserves were needed to confront the IMF. However, it has used these resources to pay off the Fund.

Minister Micelli opens in fact her period in office with this measure. This course of action confirms that in spite of the differences separating her from Lavagna in terms of style and antecedents, she is strengthening the administration of her predecessor. This path prevents redistribution since it implies reinforcing fiscal sustainability, which in Argentina is used as a synonym for adjustment. Felisa has eliminated this term from her vocabulary, although not from her practical action.

The continuation of the adjustment is evidenced by frozen salaries. Those improvements that were determined in a dropwise manner by official decrees have vanished. At the height of the inflation upsurge, there are neither pension increases for 63% of retired people with extremely low income, nor Christmas bonus for unemployed people who receive 150 pesos. This validation of poverty was justified in recent weeks as an action aimed at stopping the climbing of prices, as if people's income were the main cause of inflation. No government official publicly acknowledges that IMF payments in fact consolidate poverty. They all conceal this link and promote the impression that debt cancellation will bear no cost.

The amount of 9.81 billion dollars the government is allocating to the IMF is withdrawn from salaries, education, health care and public works. Said amount was preceded by three years of payments to the institution which broadly exceeded the sums paid during the

administrations of Duhalde, De la Rúa, Menem and Alfonsín. If we add up to this the amounts paid to the IADB and the World Bank, Kirchner will end up transferring to these institutions about 25 billion dollars. How many improvements for the people, social expenditures and public investment undertakings could have been made possible with such a huge amount?.

The IMF payment is repeating the unequal pattern that prevailed during the debt swap. Small creditors (bondholders, pensioners, savers) are relegated to favour large bankers. Given the fact that this decision cannot be sustained with progressive arguments, government followers have started to bring back to life the old neo-liberal proposals. Several ministers talk about “showing the world that Argentina is a credible country” and “respectful of its contracts”. The same message that stunned the population during the 1990s (“to recover external confidence”) surreptitiously appears again, together with a new version of the trickle-down theory (“investments will bring about employment and salary increases”). They all seem to forget that by complying with bankers no redistribution is possible.

Legitimacy, solidarity and moves

The government always considered the debt that is now paying to the IMF as pernicious. The legitimacy of said liability was overwhelmingly questioned since part of the loans supported the financial aid package (known as “blindaje”) and the debt mega-swap negotiated by Cavallo. It is well known that the capital drain that prompted the 2001 collapse was funded with that money and that other IMF credits were used to conceal the financial “bicycles” of local financiers.

Instead of erasing traces of those crimes by cancelling such a doubtful debt, the government should investigate how those loans were both generated and distributed. Kirchner states that the IMF is jointly responsible for the regression model of the 1990s, but rewards the one being accused. His attitude is completely schizophrenic. He both denounces and benefits the main architect of the financial disaster suffered by the country.

That which allows to sustain such hypocrisy is the duplicity of Justicialist party politicians, who applauded default and now praise the early cancellation. And yet, more outstanding is the coverage provided by many progressive supporters to the President’s moves. Although they previously objected to the attitude of those governments that promised “to pay off the debt with dignity”, they later turned into advocates of the “dis-indebtedness with dignity”. They will now argue that the cancellation of liabilities to the IMF is a supreme act of patriotism.

As expected, Kirchner’s decision was praised by Lula who is embarked on the same operation. Chávez has also expressed his support and promised to acquire more Argentine public titles. He has already absorbed 1 billion dollars and may be subscribing another 3 billion. The purchase of these bonds is not an act of solidarity with the Argentine people, since it is contributing to a government action that uses these resources to compensate for the money transferred to the IMF. Venezuela is in fact participating in a triangulation that recycles the country’s general indebtedness.

The IMF used to lend money tied to anti-popular fiscal adjustment conditions that are neither demanded nor objected to by Venezuela. The market value of purchased bonds depends implicitly on the continuity of surplus. These loans are not promoting any redistribution measure in Argentina and pose serious questions for Venezuela. Are they by any chance the most proper and priority investment? Do they favour the social changes required to strengthen the Bolivarian process?.

The financial triangulation in progress bears no resemblance to the project aimed at creating a debtors front against the IMF. Likewise, Chávez believes that progress is being made towards the creation of a regional bank (Bansur) which would bring together all South American reserves. In this way, he proposes to compete with the IMF for the role of strategic lender in the region. However, these purposes are contradicting a payment that legitimizes the Fund's greatest fraud.

The decision to make early payments to the IMF bears more political than economic significance. It aims at strengthening Kirchner's authority and reinforcing his "do without Congress" and executive ruling style. The measure will be implemented through an emergency session in both chambers, which brings to mind Cavallo's year-end ultimatums.

Legislators who have just approved the budget will now have to modify it. Besides, they will have to vote without warning several very delicate changes in terms of Central Bank powers. These amendments restore the regulation aspects of convertibility that are required to effect payment to the IMF. A decision of great importance for the country is being materialized without making any popular consultation.

The local "right" has remained at a loss to face a centre-left government that robs it of its "to comply with the creditors" banner. This is the reason why it tries to disguise its approval of the measure in shallow criticism. In turn, progressive people – who always questioned the transfer of resources to the IMF – are now faced with the dilemma of either clinging to their convictions or joining the official move. A division between both attitudes can already be vaguely seen, although many avoid taking sides and suggest that "now it will be seen whether there is redistribution or not".

Those who choose to ignore convictions neglect the fact that to pay off the Fund is neither as neutral nor as undefinable. There are enough elements to determine whether this measure either promotes or blocks up the redistribution path. Kirchner kept at a distance from the economic policy promoted by the IMF in order to support the project of the local bourgeoisie. And this capitalist sector is opposed to any social improvement that may favour workers, unemployed people and the middle class.

There is no need to mask conclusions. The effects of paying off the IMF are negative for most part of the population. And the government has favourable expectations, truth be said, without avoiding opinions or moderating the tone of discrepancies. Social equality and popular well-being cannot be built on fear and complicity.

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