

Fourteen Billions Between Friends

Introduction

2007 marked the thirty-first anniversary of Argentina's most recent military coup d'état. On the 24th of March 1976, President Isabel Péron was snatched in a military helicopter from the roof of the Presidential Palace in downtown Buenos Aires and sequestered in Bariloche.

Isabel had not been President for long. She was attempting to fill the shoes of her deceased husband Juan Péron. When they returned from exile, her husband Juan imposed various conditions including a "Péron and Péron" ticket. He was suspicious of vice-presidential nominees so he nominated Isabel, his third wife, as his vice-president. As luck would have Juan died of natural causes. Isabel took office but was forced from office by the military Junta of General Jorge Rafael Videla, Admiral Emilio Massera and Brigadier Orlando Agosti. March 24th 1976, "the longest night", plunged Argentine into terror and brutality of their worst dictatorship in recent times.

This coup in Argentina consolidated dictatorial control of the southern cone. Banzer ruled Bolivia, Pinochet Chile and in 1976 there was a right wing military coup in Uruguay. In Paraguay too, Stroessner was barely halfway through his 34-year dictatorship.

Videla's junta ruthlessly eliminated resistance. He expanded the role of the recently formed Triple-A, (Anti-communist Alliance of Argentina). The Triple-A coordinated their efforts to eliminate dissidents abroad with similar agencies in neighbouring states helping to eliminate dissidents who fled to neighbouring countries.

To facilitate cross-border repression the USA launched Operation Condor. Begun in Chile, by Pinochet's special Political Police Force, the DINA. Using CIA and US embassy support Condor provided a hotline between dictators out of Panama to help eliminate cross-border resistance. One of the many 'hits' was the 1976 assassination of former Bolivian president elect, Juan José Torres González in Palermo, Buenos Aires at the behest of Bolivian dictator Banzer.

The press covered few deaths and few were investigated by the police forces. Many military and police personnel played an active part in the death squads. During this dictatorship 30,000 people were 'disappeared'. So efficient were the Argentine counter-insurgent troops that they exported training in state terrorism to other US-backed right-wing military groups in Guatemala, Honduras, Bolivia and El Salvador.

After the dictatorship there were many unmarked graves requiring forensic expertise to recognise the remains. On side effect of this sad legacy is that Argentina now exports its forensic expertise to help identify the disappeared of some of the countries where its own forces were once active, including Guatemala.

While forensic scientists worked on human rights investigations sifting the bones of the disappeared, financial experts such as the late Professor Alejandro Olmos, used the crippled Argentine legal system to pick through the remains of the evidence of the disastrous debt accumulated by the junta.

Fiscal Impropriety

This article does not pretend to chronicle the social tragedy of the dictatorship, many books have been written on that subject already. Instead, the focus here is on Videla's Economics Minister, Mr José Martínez de Hoz and a small cadre of bankers/economists and lawyers and their role in the accumulation of Argentine foreign debt. Those same debts that lead to the economic collapse of 2001, which continue to have terrible consequences in the new Third World Argentina.

Many Argentines are familiar with the role of Mr. Martínez de Hoz and his accomplices Dr. Domingo Cavallo, Walter Klein¹, Daniel Marx, the aforementioned Junta and subsequent Presidents Alfonsín and Menem, but many too are unaware of the details of the fraud as it was quite complex and rarely covered in the economics section of the local newspapers.

The money did not just evaporate, though little remains in the country. In 2007 Argentine wealth abroad is approximately equal to the public national debt. Even when the debt was contracted in many cases the hard currency never came to Argentina. Eric Toussaint² explains this as follows:

"The [Argentine national] reserves [largely a result of debt] were neither administered nor controlled by the Central Bank. In general the loans albeit for fabulous sums which came from Western banks were immediately put on deposit in those

¹ Estudio Klein Mairal

² Toussaint, Eric. **Estudios de casos: Argentina, Ruanda, México, Irak y Brasil.** *En libro: La bolsa o la vida. Las finanzas contra los pueblos.* Eric Toussaint. 2ª.ed..CLACSO, Consejo Latinoamericano de Ciencias Sociales, Buenos Aires, Argentina. 2004. p. 448. ISBN: 987-1183-04-6 also available <http://bibliotecavirtual.clacso.org.ar/ar/libros/touss/cap15.rtf> (accessed Oct. 2007)

same banks or their competitors: for example 83% of these reserves in 1979 were deposited in banks outside of Argentina. ... In all cases the interest received on the deposits abroad was less than that paid for the debt."

Individuals, Argentine corporations and Multinationals who know benefit from these billions³ in tax-payer debt have much to gain by occluding their role in accumulating Argentina's debt. There is little funding for such research and even the recent populist government of President Nestor Kirchner was loath to touch this hot potato.

Absent also is a discussion of collusion. This crime is up there with the largest financial crime ever (at least by percentage of a national economy related to Argentina's economy). It would never have been possible without active collusion both in Argentina and abroad. A welcome antidote to silence on this matter is the excellent Jubilee Plus report by Pettifor, Cisneros and Olmos Gaona⁴. The call their report: "**It takes two to tango**"⁵.

From Riches to Rags

Argentina is a nation rich in natural resources. During the post-war period of Juan Péron, Argentina also built up a state industrial sector. Many industries, including strategic national resources: oil, water, power, nuclear and aviation, were part of a giant public sector of protected state industries. In the 70's Argentina still had considerable oil reserves to supplement its world-famous agricultural sector (mainly cattle and grains⁶). With a country the size of India, such a small population, and its generous supply of natural resources,

³ The term Billion is used here in the USA English context i.e. one thousand millions (1,000,000,000)

⁴ Son of Professor Alejandro Olmos, Alejandro junior is author of his own book on the matter: "Odious Debt: The value of jurisprudence as an instrument for political solutions." La deuda odiosa. El valor de una doctrina jurídica como instrumento de solución política." ISBN: 950-754-160-8. Mr. Olmos Gaona is also an invited expert on the President Correa's own commission to examine Ecuador's public debt.

⁵ It takes two to tango, Creditor co-responsibility for Argentina's crisis – and the need for independent resolution, A Jubilee Plus report by Ann Pettifor, Liana Cisneros and Alejandro Olmos Gaona, September 2001
http://www.jubileeusa.org/resources/reports/it_takes_two_to_tango.pdf (NEF: New Economics Foundation, UK)

⁶ It is now the world's second largest exporter of transgenic soy after the USA.

(many renewable⁷), one might suggest an alternative economy based on abundance but this was not to be, instead the population now faces the sad reality of scarcity and debt.

In the 19th Century there was a saying in Europe "Rich like an Argentinean". The Argentine people were famous for their ostentatious wealth⁸. Now in the early 21st Century Argentine is infamous for its battles with the IMF, for foreign debt⁹, the default, indigence and hunger.

This prompts the question what happened in between, why and (something rarely asked in Argentina): Who is responsible?

In 2001 and 2002 there was extensive international press coverage of the Argentine duel with the IMF; less frequently discussed is who benefited from the accumulation of this debt and how it was incurred. This article focuses on early debt accumulation in the 1970's and 1980's by the most recent Argentine dictatorship.

Thirty Years Later

Ismael Bermudez wrote a revealing piece in the commemorative supplement to Argentina's Clarín newspaper entitled: "30 years since the longest night". The story was entitled "Salary collapse and Petrodollars¹⁰". In his article Mr. Bermudez describes the shenanigans of President Videla's

⁷ If you can call genetically modified soy a renewable?

⁸ Of course those that had enough wealth to visit Europe in these times represented the higher echelons of the Argentine society of the day.

⁹ The IMF portion of Argentina's debt is now expunged thanks to the deep pockets of President Chavez of Venezuela but the joint BIS-IMF-OECD-WB reports that USD 80 Billions in public external debt remains.

¹⁰ The recycled petrodollars of the oils crisis in the early seventies lead to a worldwide supply-driven expansion of market liquidity seeking markets. In Spanish this petrodollar boom is called the "Plata Dulce" which could be translated as easy money, from a latin American perspective this refers to the easy loans pushed on local presidents/dictators from banks managing these external resources during this period. It was certainly a sweet deal to those who received it.
<http://www.clarin.com/suplementos/especiales/2006/03/24/l-01164108.htm>

⁵ A mega-chamber of commerce consisting of pretty much every industrial and rural group of business elites in the country at that time, with the notable exception of two: The General Confederation of Economists (CGE) and the Industrial Confederation.

infamous blue-blood economics minister, the shadowy Martínez de Hoz.

Mario Rappaport in his book: “Economic, political and Social History of Argentina (1880-2003)” reveals that Mr. De Hoz was by no means merely focused on the numbers. He was very willing to stand up for the state terror tactics practised by his junta:

“... Martínez de Hoz, in June of 1977, argued as to the necessity of Repression to counter terrorism (in front of the US Council of National Security).”

Bermudez’ subtitle alludes to how this Minister purchased the allegiance of Argentine business leaders to bolster his none-too-popular regime.

The tactic was more than successful.

Martínez de Hoz targeted the hearts and minds, but more especially, the pockets, of the association of Argentine chambers of commerce (the APEGA¹¹). He began by suppressing the Unions, (an attack that included disappearing many union leaders), freezing wages while devaluing the currency he quickly reduced the cost of labour leading to a relative impoverishment of the working and lower middle classes which reversed the gains under Juan Péron.

In parallel Minister Martínez De Hoz loaded debt, often unnecessarily, onto state companies as well. Every loan was an opportunity¹² and there was lots of money to be had.

These latter two actions and their consequences are the subject matter of this article. To fund these payments he took advantage of the liquidity of the post oil-crisis 1970’s awash in petrodollars seeking borrowers.

Bermudez adds: “Between 1975 and 1982, the [Argentine national public] external debt rose from \$8bn. to \$43bn. By 1981 the interest alone was 10% of the GNP.”

This article discusses two sources of this debt:

¹¹ As a point of comparison the debt in Brazil at the time was 106 Billion dollars of which 92 Billion was still circulating in the country. In Venezuela it was 31 billion dollars of debt but 12 Billion extra dollars had been repatriated. This is relevant as money circulating within the country is often used for internal investment, which in turn can lead to national growth.

¹² Not all loans were received at optimal rates, many paid commissions, the loans were in hard currencies but paid out in pesos, Martínez de Hoz’s control of the Central Bank made this venture quite profitable.

- **First:** Piling onto the Argentine taxpayers more than USD14bn. in private corporate foreign debt (some real and some imaginary). This conversion of private sector debt to “public” external debt is a kind of perverse financial form of reverse privatization, was denoted “The ‘nationalization’ of private debt.”¹³
- **And Second:** The indebtedness loaded onto Argentine public state companies in the same period.

Not only was much of this debt not necessary, but it also became a major factor in the privatizations of these companies at discount rates¹⁴ by President Menem in the 90’s.

Fraud on a Massive Scale

Martínez de Hoz pulled off one of the world’s great frauds by agreeing, in the name of the Argentine nation (being held at the time by his own military junta), to take on the debt of private firms. In this one act he incurred a cost of a little over 14 billion US dollars (\$14bn.), a tidy supplement to his own interests and to those of his friends.

In a jubilee plus report published in September 2001 (just before the Argentine economy finally collapsed under the weight of its debt obligations), British and Argentine economists calculated that the effect of the debt accumulated by the dictatorship amounted to approximately 20% of the then Argentine national debt (public and private) of \$211bn.

That extraordinary sum is equivalent to about five months of the 2005 Argentine GNP.

State Investment in the Private Sector?

Supporting private companies with public funds can have positive affects on the local economy if the debt is provided for the right reasons. Although nowadays such investments are technically considered to be subsidies and thus subject to WTO restrictions they are still widely practised.

¹³ “La estatilización de la deuda privada.”

¹⁴ In many cases the privatizations brought no money to Menem’s government at all. The companies were privatized for the debt that they owed, which could be bought on the derivatives markets for pennies on the dollar.

It could be argued that the actions of Mr. Martínez de Hoz were intended to be a positive subsidy to spur Argentinean industrial growth. In an effort to deconstruct such an argument one can compare his policies of government loan guarantees with the much-studied example in the USA of the Loans and Long-Term Guarantees Authorizations if the Export-Import Bank (Ex-Im)¹⁵.

The theory goes that state assurances on private corporate debt encourages investment in the private sector, in much the same way as export credits are often used in other economies (the government shares the risk so that the corporations make the deals). This leads to more international business and encourages more private sector, Foreign, Direct Investment (FDI) and therewith growth and employment.

Consider the example of the Ex-Im's "Loans and long-term guarantees authorizations". Like most national export credit agencies the US government expects the Ex-Im Bank to judiciously apply public (US taxpayer) funds to encourage US exports *where appropriate*.

For example in the case of US-based Boeing Inc., which is often the Ex-Im bank's largest client, by providing publicly guaranteed loans (export credits) to Boeing's international customers, Boeing's corporate risk is lessened by cross-border business. The Ex-Im guarantee for purchases of Boeing's jets help Boeing sell more aeroplanes. If the foreign customer entity can't pay for the jets, the US taxpayer will. Ex-Im bank is tasked with increasing US exports, which in turn help to buoy the US economy, thereby increasing the US tax base and raising employment which is good for the US economy and replenishes the funds for the Ex-Im bank.

Now let's try to apply this logic to Martínez de Hoz nationalizing of private corporate debt in Argentina beginning 2002.

The flaws are more than obvious. In many cases the loans never entered the country and so benefits from foreign exchange were a moot point. The loans were in hard currency but the payments made in pesos. Also the debt assumed by the Argentine public government already existed and so any encouragement of new investment was negligible. The private debt was often nationalised unnecessarily and in some cases

¹⁵ Example of recent Ex-Im loan guarantees to Boeing corporation for foreign sales of aircraft can be found on the following Web page: <http://www.exim.gov/about/reports/ar/ar2006/Auth.pdf> (accessed Oct 2007)

the debt itself guaranteed by the government under Martínez De Hoz never existed in the first place¹⁶!

Evidence suggests that supporting Argentine exports was far from his mind. In fact, in the case of Argentina at the time what was actually "exported" were the dollars that the government had borrowed.

The Morgan Guaranty Trust of New York 1986¹⁷ conducted a study of various Latin American Countries to ascertain the percentage of the debt that remained in the respective countries. Argentina had the lowest percentage of debt remaining within its borders. Of the fifty billion dollars only one billion was still in the country, the rest had been "exported". They should know, they were part of the group that helped the government of Martínez de Hoz organize the nationalisation of private debt. Again from Alejandro Olms Gaona:

"... the private debt that was to be made public, was also administered by a committee of banks headed up by City Bank¹⁸ and including Bank Of America, The Bank of Tokyo, The Chase Manhattan Bank¹⁹, Chemical Banking Corporation, Credit Lyonnais, Credit Suisse, Dresdner Bank, Lloyds Bank, Midland Bank, Morgan Guaranty Trust, The Royal Bank Of Canada, The Sanwa Bank, who established the exact amounts of the private debt existent and how that should be paid, all of whom under the auspices of the IMF, the World Bank and the IADB"²⁰

As the Argentine joke goes: One Swiss banker turns to another asking incredulously: "What exactly is all the bother about Argentina's foreign debt?" The other nods his head in agreement. "Why don't they just make a withdrawal and pay back their loans?"

¹⁶ See Portnoy below.

¹⁷ Cited in Alfred & Erik Calcagno's book entitled: "The national debt explained (to those who have to pay it back)." (1999) CALCAGNO, Alfredo & Eric: La deuda externa explicada a todos, Catálogos, Bs. Aires, 1999.

¹⁸ See below.

¹⁹ Speaking of revolving doors Martínez De Hoz himself was a director of Chase Manhattan Bank who later received themselves \$60mn in Argentine state guarantees for their own nationalised private debt.

²⁰ From <http://www.neweconomics.org/> accessed Oct 2007

Macroeconomic Rationale

Economic studies examine the macroeconomic rationale of injecting this volume of capital into a relatively small national stock market especially when the country is being run by an illegitimate group of unelected dictators.

The rational, (however unpatriotic) reaction of happy shareholders is to thank the government, realise their profits and send their money abroad before the damage is done. However exporting profits aggravates the problem and can be a powerful stimulant of national inflation.

In the words of Messrs. Calcagno:

“The flight of capital from the country happens when the upper classes shift their money to a safer place into a hard currency, particularly when they expect a devaluation of the currency.”

“The consequences are grave for the country in question: reducing taxes and money for investment, possibly causing more debt and can sometimes lead to a devaluation.”

There is strong evidence to the fact that it did just that.

Another economic argument is that some of the use of this debt had some positive side effects on the national economy, which is certainly the case. However the degree of growth caused by an injection of public capital into a private stock market has a marked correlation with the use to which these finances are put. Again, unfortunately even World Bank studies of the Argentine debt reveal the following non-too-positive results:

- 44% leaves the country in flight of capital (most of this to the USA where more than 50% of the debt originated)
- 33% more went to pay interest on the debt
- 23% went to the purchase of arms and other “non-registered” imports

We are left with the hard reality that, whatever the original intention of Mr. Martínez De Hoz, empirical evidence suggest that he and his friends had no intention of rebuilding the Argentine economy. On the contrary, rather than stimulate the economy they seemed more intent on stimulating the balances of their foreign bank accounts and buying favours for their bosses the Junta.

Historical Macroeconomic Analysis

The national debt of Argentina (as a percentage of its GDP) remained fairly stable in the eight years between 1976 and 1980. It rose, but only by 18.2% to 23.1% of GDP. In 1983 however, as a percentage of GDP it was already 44.6% and inflation was running rampant.

In their catchily entitled tome: “Fiscal Deficit, External Debt & Financial Imbalance.”²¹, Damill, Fanelli, Frenkel and Rozenwurcel tried in vain to reason this debt privatization as a macroeconomic stimulus.

Their conclusions were:

“... the unintentional variations in wealth introduced by inflation can ... be very powerful...”, “[as can the effects on those] who suffer from the losses and benefit from the gains ...”.

“... empirical evidence from the period of the ‘liquidation’ of [private] debt in the second quarter of 1982 ... inexplicable [for a political economics point of view] that the private sector [found their debt] ‘liquidated’ on an ad hoc basis ...”.

“In short the [only] reason for this was to eliminate the debt of the private sector [which had negative consequences].”

In less economic terms this loan guarantee was a gift, sometimes known in the crime world as a “bribe” or “pay-off”.

Follow the Money

So who received this generous state aid and why?

The following table shows the largest Argentine recipients of the Martínez De Hoz largesse but these were by no means the only corporations to be sponsored by public taxation.

²¹ DEFECIT FISCAL, DEUDA EXTERNA Y DESEQUILIBRIO FINANCIERO.

In his humorously entitled book²²: “That which you should know about the external debt, but which was always kept from you.” Mr Alejandro Olmos (Sr.) quotes from the 1990 trials of Mr. Martínez de Hoz and his accomplice, the “Secretary for Economic Programs”, a lawyer named William Walter Klein:

“until 1980 [Argentine investors] had confidence in the future. This period resulted a strong injection of private as well as public investment.”

One wonders how many of these patriotic private investors knew, even then, that they were going to get a free ride on the backs of the Argentine taxpayers?

Mr Olmos continues, quoting Klein (using the polite but blameless language of an Argentine lawyer):

“From 1981 onwards, this situation changed, ... [Argentine investors] systematically shifted their investment out of the country because they had serious doubts over the future of that capital”.

An empirical review of the career of this auspicious public servant indicates that Klein couldn't care less whether the funds stayed in Argentina. Having helped to create the public external debt working for the dictatorship, Klein moved into private practice working for the British Barclay's Bank (just after the British occupation of the Malvinas). In 1983 Klein was hired by Argentina's external creditors (thus working for the same banks he helped Argentina borrow from). His task was promotion of loan repayment during the Alfonsín government.

This full-service agreement saw his role change from the creation of debt to pushing for its repayment.

Revealing Analysis of this Debt

Mr. Olmos adds:

“... Mr. Martínez de Hoz was a company director of Acindar SA. He also adds that the ‘Bridas Group’ owners of ‘Papel de Tucuman’ [were expert at] manipulating and influencing the [junta] government...”

²² “All that you would like to know about the External Debt, (subtitle: but which they have always kept from you).” Olmos, Alejandro, Sr. “Todo lo que usted quería saber sobre la deuda externa.” Ed. De los Argentinos, Bs. As. 1989

Company Name	Debt (1982 USD)
Austral Lineas Aereas	1,025,000,000
Autopistas Urbanas	1,239,000,000
Alto Parana, SA	643,000,000
Papel de Tucuman, SA (Bridas Grp.)	513,000,000
Covimet SA	512,000,000
Polisur, SA	182,000,000
Indupa SA	141,000,000
Celulosa Puerto Piray	308,000,000
Parques Interama	167,000,000
Acindar SA	149,000,000
Siderca (Dalmine) (Techint Grp.)	67,000,000

An analysis has also been made as to what value (computable capital) these loans represent in terms of the value of the company to which the loan was made? Some startling ratios are found and predictably Acindar's debt-to-capital ratio was the highest on the list. The effective government subsidy to Acindar represented 59.76% of its computable capital. That's a lot of foreign debt.

To the victor his spoils.

What were these nationalized debts?

There are many ways to slice and dice these nationalized private loans. One study looks at the loans in terms of why the companies said they borrowed the money.

This analysis also revealed some interesting facts. Of the \$14bn. allegedly borrowed from foreign banks, over \$11.5bn. was “financial” foreign debt as against “commercial” foreign debt.

Commercial loans represent debt incurred in the purchase of plant and raw materials. State subsidy for such productive use can, arguably, promote growth in the Argentine economy by increasing the productivity of their plants.

But what was the majority of the debt? What was the other 85% of the loans?

The former president of the Argentine Central Bank, Dr. Leopoldo Portnoy, has questioned the legitimacy of the “financial loans” (the other 85%) noting that it was impossible to verify these loans with the foreign banks that held the debt. Unsurprisingly the banks refused to divulge information citing bank secrecy laws.

Dr. Portnoy also mentioned that some of the “indebted” organizations simply transferred money out of the country to make it look like they were in debt, hence they were really

only in debt to themselves²³. This had a secondary consequence of exporting the money abroad adding to capital flight from the country.

By receiving state guarantees of their own private debt in the forms created by Mr. Martínez de Hoz, Argentine private companies received protection from currency risks, a side effect of the 'paper' used by the state to refinance that debt.

This currency risk was further extended into Alfonsín's presidency effectively carrying on the subsidy into 1985. In times of high inflation and fluctuating currency rates this proved a very expensive subsidy to the Argentine taxpayer.

Tax-payers subsidizing foreign Multinationals

One company singled out by Dr. Portnoy in court was Cogasco S.A., a Dutch subsidiary that built gas pipelines between Mendoza and Buenos Aires.

Cogasco claimed a full \$1bn. in foreign debt. In an investigation, the Central Bank found serious financial irregularities (i.e. much less debt than stated). The central bank imposed a minimum fine of \$335mn. No problem! The Alfonsín government subsequently cancelled this fine in an amnesty.

The case of Codasco was not unique. Curiously many of the companies whose debt was guaranteed by the use of Argentine tax funds were not even Argentine, but subsidiaries of foreign multinationals.

In many cases their paper debt often consisted of the money invested by the parent firm to develop their business in Argentina (a typically investment cost). In other words the state sponsored loans went to subsidize multinationals that were already doing business in Argentina paying them for investments already made.

Many of these subsidized multinationals were banks. They were in debt to their own head offices (e.g. Citibank, \$213Mn).

This led to the perverse situation that in many cases the banks were their own creditors. By nationalizing this debt Martínez de Hoz paid the banks back their investment costs. Simply put, he repaid the banks for entering the Argentine market using Argentine taxes.

²³ In Argentine Spanish this is referred to by the ingenious term "Autoprestamos", literally "loans to oneself".

This is something the board of the US Ex-Im bank would never allow because it does not encourage investment. The investment has already been made.

Sleeping with the Enemy

More curious still, Citibank's New York operations were also lending to the Argentine people. Worse still, Citibank went on to represent the interests of all of the international creditor banks of the national debt of Argentina against the Argentine government.

At the time of the 2001 crisis, the public debt amounted to some \$142bn. For Citibank it made good business sense to encourage the Argentine government to pay their public debt (thereby protecting its own loans to Argentina) and, perversely paying themselves the loans made to the 1982 Argentine dictatorship (plus interest).

Alexander Olmos Gaona adds that:

"Dr. Domingo Cavallo [worked for the Ministry of the Interior during the dictatorship, Harvard 1977, and later head of the Central Bank at various key times, also responsible for the Convertability Law under Menem pegging of the Argentine peso 1:1 to the US Dollar] removed control of private debt from the Central Bank and handed it over to City Bank as closing agent. City Bank in turn designated as banking agents for debt reconciliation: J.P. Morgan, Banque Nationale de Paris, The Royal Bank Of Canada, Bank Of New York, Crédit Lyonnais, Midland Bank and Chemical Investment Bank."

In most countries Citibank would be forbidden from having such influence for reason of the glaring and obvious conflict of interest.

An attempt to correct the problem quashed

After the Junta lost power with the disaster of the war with the UK, President Alfonsín took over and tried to restore democracy. After Alfonsín came President Menem. Both presidents inherited a huge and non-maintainable debt.

Alfonsín's government made an effort to examine some of the debt he inherited from the Junta but this was short-lived.

The New Economics Foundation report, "It takes two to tango" reveals the following:

"When Raúl Alfonsín came to power on December 10, 1983, the new government ruled that it would not repay

that debt which had been negotiated by the military dictatorship, until a commission of enquiry had investigated. Soon after the election, the Central Bank issued Circular 340, calling for an Audit of the private debts nationalised under the military.

A team of 18 external auditors was contracted for the task. With very little support and few resources they began to carry out what was to be exhaustive work. Although they managed to analyse only 50% of the [then] \$17bn of "nationalised" private debts, they unearthed many devious stratagems committed by companies like Selva Oil (California); Fiat (Italy); Suchard (Switzerland); Renault (France); Cogasco (a Dutch consortium); Petrolera Perez Companac (Argentina); Cargill (USA).

In June 1998, Central Bank Governor Jose Luis Machinea and Central Bank Director, Daniel Marx, resolved to annul circular 340, and passed resolution 298, by which the audit was stripped of its effectiveness, and all investigations were ordered to be halted."

Next Step: The Payoff

Then came President Carlos Menem.

Menem is famous in Argentina as the President who privatized 90% of Argentina's public industry including the water, the national oil company, the national airline and even the national pension and postal services.

In order to explain the connection between debt accumulation under the dictatorship, and the privatization of Argentine state resources under Menem, one has to consider the role of the Washington-based World Bank, and more especially the International Monetary Fund, the IMF.

The IMF was an arbiter of loans to the dictatorship from the very beginning. The IMF offered the Junta a loan of \$100mn just three days after the 1976 coup to "stabilise the situation".

The IMF was also instrumental in floating the increased debt inherited by the government of Alfonsín. Its influence was further enhanced during Menem's Presidency when the IMF was intimately involved in writing Argentine internal government policy and orchestrating foreign debt repayments.

The IMF (with its sister organization The World Bank) worked very closely with Menem in the privatization of Argentina's last war chest: the Argentine state sector and the resources that sector commanded.

The neoliberal rationale was that there was very little left to enable Argentina to pay to their debtors. By selling the national industries they would directly encourage Foreign Direct Investment (FDI), in non-IMF speak they could sell off Argentina's national industries, making some money from the sale to pay off some debt.

Many authors, this one included, argue that privatizing Argentine industries, rather than being part of the process of eradicating debt (which it did not do), was in fact the final step in the process and the reason the debt was facilitated in the first place.

The whole point of pushing the unnecessary debt on the Argentine people was to force them to sell off their resources to private multinationals.

In criminal terminology the nationalisation was part of the pay-off!

The Argentine Garage Sale

The jewel in the Argentine state industries was its oil company, Yacimientos Petroliferos Fiscales (YPF). Alejandro Olmos (Sr.) reveals that YPF, at that time a state-owned oil company, had foreign debts in 1976 amounting to \$372mn. By 1983, at the end of the dictatorship, the company's foreign debt had risen to \$6,000mn.

The purposeful loading of debt onto national industries during the dictatorship occurred when Martínez de Hoz assumed the \$14bn. in private debt discussed above but was additional to this debt.

Worse still, much of the debt taken on by public industries (including YPF) did not benefit those public industries. The money was borrowed in dollars and paid in pesos, intercepted by the regime when it reached the Central Bank

(BCRA)²⁴. The debt, however, remained on the books of the state companies.

When these public assets were sold under Menem the once-off sale income received by the government did little to alleviate Argentina's national debt. It simply helped forestall the national economic collapse. Worse still the privatizations were not carried out to the shareholder's (The Argentine Tax Payers) best interests.

As a point of reference we can take a look at a parallel study made by The Bonn International Centre for Conversion (BICC) of another sale by Menem of public assets. The BICC has documented²⁵ how Argentina's military assets were disposed of at this time.

Their report stated:

"the military-run privatization effort netted a mere \$820mn, one-seventh of the asset book value."

Of this only \$589mn. entered Argentina in cash, the rest, \$231mn., was covered by Argentine debt paper, which had been circulating in secondary debt-paper markets valuing as little as 12 cents on the dollar.

Furthermore the public bidding process was weakened by the fact that very few potential purchasers took part. This tended —intentionally some suggest— to depress the bidding prices of the enterprises being privatized.

24 On 13 July, 2000, in the matter of case no. 14.467 entitled "Olmos, Alejandro S/dcia" – File No. 7.723/98, in Criminal Court No. 2 in Buenos Aires, Criminal and Correctional Judge Dr. Jorge Ballesterro, ruled that:

"managers and directors of various public and private companies (showed) no scruples when it came to contravening the Argentine Central Bank Charter...Legal instruments were amended and promulgated so as to facilitate foreign judges' jurisdiction over Argentine courts...Accounts of the debt were non-existent...Public companies were obliged to get into debt to obtain foreign exchange which remained at the Central Bank, to later be diverted on to the exchange market.....there was a lack of control over the debt contracted with State guarantees by state companies."

25 Thomas Scheetz, in a paper "Military Business in Argentina" submitted to "The International Conference on Soldiers in Business: Military as an Economic Actor" Jakarta, October 17-19 2000.

Does this still matter?

Some might argue that all of this is ancient history. Why dig up the past when a portion of Argentina's debt is now paid off, and much more written off in the default? The Junta has been out of power since the 80's, when they stepped down after the Malvinas/Falklands defeat.

Furthermore Mr. Martínez de Hoz has been tried with many of the other leaders in 1990, and further investigated in the first Olmos (Sr.), another case has been filed by his son, Alejandro Olmos Gaona, after his father's untimely death.

Mr. Martínez de Hoz is not under arrest; he lives in Argentina. Mr. Cavallo teaches Latin American studies in the US.

So why not close this chapter in Argentina's sad past and let bygones be bygones?

Recompense or Repeat Corruption

One argument postulated against this 'forgive and forget' approach is that it is not in the best interest of Argentina.

The cost to the country in debt is still felt by Argentina people both rich and poor. Since the debt crisis in December 2001 Argentine citizens have starved to death. Argentina has the capacity to feed five times its own population but continues to export food helping to pay off debt. This situation, reminiscent of the Irish famine in the 1850's, would have been considered unimaginable before the dictatorship in the 1970's. Furthermore it could also be argued that ignoring such damages would be likely to prolong the legacy of corruption far into the future.

Also from a fiscal perspective there is precedent to suggest that write-offs are not necessarily the most prudent action, they lead to the risk of "moral hazard"; i.e. it worked once, why not do it again?

An alternative punitive action against individuals and companies could help to alleviate some of the lasting negative financial affects of this debt and provide some interesting symmetry by paying something back into the public coffers.

When it comes to precedent the German Nazi government sent Polish slave laborers to work in their Volkswagen in the 1940's during the third Reich (to produce armaments during WWII). The effect of this government action was to increase the profits of Volkswagen. Volkswagen eventually paid recompense for this unfair subsidy of their production. The economic collapse of Germany was a result of attacks by other nations and its losing WWII. The Argentine economic

collapse, on the other hand, was mainly caused by its foreign debt, even more reason to seek reparations. Surely there is even more reason to suggest retribution might be appropriate by those companies which received illegal industrial subsidies in the form of loans from the Junta.

One could further argue that it was the crippling debt incurred by the Argentine economy that forced the hand of the Menem government to relinquish control of its economy to the IMF which in turn lead to the sell-off of the Argentine public sector.

Reclaiming some of this debt from the beneficiaries might be seen by foreign investors as a mark of fiscal maturity, a move against corruption, maybe even a mark of national recovery?

Conclusions

There is a strong argument that there is a direct link between the collapse of the Argentine economy and the profit taking of the shareholders of those companies that were illegally subsidized in the early '80s. An argument could also be made that the shareholders of the then Argentine public companies (now privatized) also benefited from Argentine dictatorial largesse.

The mishandling of the Argentine economy did not end with the dictatorship in 1983, the influence of certain individuals particularly Mr. Cavallo, continued to guarantee the credits received by the private companies and prevent prosecutions from being effective. Many of these individuals and companies are still around and a strong argument can be made that their shareholders have a national debt to repay. One-way to participate in an active way in the reconstruction of the Argentine economy (which they helped to destroy) is to return adequate reparations to the Argentine people.

Allowing criminals to live comfortably at home under "house arrest", their profits intact, is hardly the deterrent that will prevent such fiscal impropriety in the future. In the spirit of "Never Again"²⁶ the Argentine government should finance an investigation of this willful misuse of public funds and punish the guilty. They should also endeavor to get their pound of flesh from those who are convicted of embezzling these public funds.

²⁶ "Never Again" is the government slogan for the memorial campaign of the 30-year commemoration of the Argentine coup d'État in 1976.