

# How to Solve Argentina's Recurrent Foreign Debt Crises:

## Proposal for a Long-Term Solution

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### I. Executive Summary

This paper outlines an integrated, practical and definitive solution to Argentina's recurrent Internal and External Foreign Debt Crises, which is also potentially applicable by other heavily indebted countries.

Because of the importance of the issues it addresses, that have a potential impact on the entire global financial system, international public opinion should be made aware that a genuine structural solution to Argentina's Public Debt problem is possible and necessary.

For the time being, however, implementation of such a solution has been thwarted because in June 2005 Argentine President Néstor Kirchner and his then economy minister Roberto Lavagna, implemented what is to date the world's largest Sovereign Debt Bond Mega-Swap operation. They were able to do this thanks to the support of key international private and public institutions, notably the IMF (International Monetary Fund) and SEC (Securities & Exchange Commission of the US).

That operation involved swapping a maze of 152 different bond issues totaling almost u\$ 100 billion that had aggregated over the past three decades, for three new streamlined Sovereign Bonds with maturity periods of 30, 35 and 42 years (the so-called "Discount", "On-Par" and "Cuasi-Par" Bonds), which, in turn, implied writing off approximately 60% of those Bonds' nominal values. The unrealistic terms at which this Mega-Swap was done, however, deteriorated Argentina's position and, so far, the Government has not been able to show that the performance of this new Debt Bond issue is sustainable. The main effect of this Mega-Swap was to worsen and carry forward Argentina's Public Debt problem making future Financial Public Debt Crises inevitable with the ensuing risk of unleashing financial meltdowns even worse than the one Argentina suffered in 2001 and 2002. ([1])

Rather than hiding the real problem and promoting cosmetic short-term solutions heeding to politicians' election pressures - which is what Messrs. Kirchner & Lavagna did last year and, before them, Mr. Cavallo ([2]) -, a deep and far-reaching structural solution should be urgently implemented if such future financial crisis in our country, our region and in the global financial system are to be avoided or at least mitigated.

A coherent, consistent and sustainable Integrated Plan driven by a Government having the necessary political will, wisdom and expertise to ensure its proper implementation is needed. Regrettably, over the past thirty years, Argentina has had neither such a Plan nor

such a Government. Correspondingly, growing national decadence and more serious debt crises will, in all likelihood, continue in the future.

Resolving this matter is becoming increasingly important, considering that the implicit agenda of key organizations and players managing today's New World Order ([3]) can be inferred, whereby a sequence of severe medium- and long-term Foreign Debt Crises are to be engineered in years to come. They will end up dragging Argentina towards ever more extreme crises.

In the ensuing political, economic and social deterioration that they will cause over the next ten or fifteen years', these supranational Organizations will be able to achieve their main objective: to force Argentina into swapping Public Debt for large tracts of Territory, i.e., breaking Argentina apart geographically and politically, in line with the geopolitical interests and goals of key public and private New World Order players. ([4])

Accordingly, it is increasingly important to understand that the key issue to resolve Argentina's Foreign Debt problem lies in bringing all accountable parties to the negotiating table, in a balanced and transparent manner. However, because of the powerful resources that some of these parties and players wield, this will not be an easy task. To achieve it, the leverage of major international institutions, governing bodies and world public opinion will need to be brought to bear. This is why increased awareness of the problem is one of the initial key issues and the main purpose of this paper.

A suitable "Balanced ScoreCard"-type scheme identifying all responsible parties should therefore be designed. This would enable a better understanding and clearer determination of each party's respective accountabilities in generating, fueling and triggering the recurrent debt crises affecting Argentina and the Region. In turn, it would allow for proper quantification of their respective liabilities, allowing for a better understanding as to their true payment capabilities. This could then lead to a true "win-win" situation, whereby a comprehensive, fair, stable and sustainable medium- and long-term Multilateral Agreement could be achieved amongst all accountable parties, taking into account all their respective rights, obligations and interests.

Argentina still has a clear set of powerful instruments and tools at hand to achieve this. Additionally, a successful model of this sort would also serve as a precedent and example for other countries that are presently also mired in similar debt situations, thus promoting more precise predictability and reduced volatility in international financial markets.

## **II. Background: a Timeline**

Over the past thirty years, Argentina's Public Debt was subjected to a complexly engineered artificial growth process reflecting the inner workings of what, in practice, can be construed to be a veritable "Public Debt Generation Machine". This "Machine" fueled Public Debt reflecting the specific geo-economic and geo-political medium- and long-term interests and goals of specific international players, although not the real interests and well-being of the Argentine people nor those of bonafide international investors.

For the benefit of readers unfamiliar with this aspect of Argentina's contemporary history, we describe below key milestones showing how this Public Debt Generation Machine evolved over the past thirty years:

· March 1976: An illegal and de facto military-civilian regime ousted the constitutionally elected government of president María Isabel Martínez de Perón ([5]), seizing power at a time when Argentina's Foreign Debt posed little or no problem. At just under u\$s 6 billion, it represented but a small portion of Gross Domestic Product. The Military Junta immediately named as economy minister, José Martínez de Hoz, who had close ties with, and the respect of, powerful international private banking interests. With the Junta's full backing, he systematically implemented a series of highly destructive, speculative, illegitimate – even illegal – economic and financial policies and legislation, which increased Public Debt almost eightfold to u\$s 46 billion in a few short years, This intimately tied-in to the interests of major international banking and oil circles which, at that time, needed to urgently re-cycle huge volumes of “Petrodollars” generated by the 1973 and 1979 Oil Crises. Those capital inflows were not invested in industrial production or infrastructure, but rather were used to fuel speculation in local financial markets by local and international banks and traders who were able to take advantage of very high local interest rates in Argentine Pesos tied to stable and unrealistic medium-term US Dollar exchange rates. This guaranteed insiders having the right connections enormous financial profits for their short and medium-term “investments”([6]).

· December 1983 – Seven and a half years later, the military-civilian regime, notoriously known for gross human rights violations and for generating unprecedented social, economic and political hardship for the Argentine people, were forced to hand power over to a constitutionally elected president: Raúl Alfonsín of the traditional Radical – UCR – Party([7]). By then, Argentina's Public Debt of u\$s 46 billion had become a scandalous public issue, for which reason during his election campaign, Mr. Alfonsín's promised to investigate the legitimacy of that huge debt left behind by the military-civilian regime. Once elected, Mr. Alfonsín quickly dropped this idea thanks to the political pressure brought to bear by organizations closely linked to the international financial community that had at first supported and later abandoned the then defunct military regime. Huge mistakes committed by the Alfonsin Administration led to mounting political, social and economic crises which came to a head in mid-1989 when the Argentine Peso went into a hyperinflationary spiral, that plunged the country into chaos. Mr. Alfonsín was forced to resign six months early bringing to office the newly-elected president Carlos Menem (of the Justicialista – Peronist – Party). By then, Argentina's Public Debt had climbed to around u\$s 65 billion.

· July 1989: President Menem named Harvard-trained economist Domingo Cavallo as his foreign minister and later, in 1991, as his economy minister. They completely opened up the economy to foreign investors, whilst a monetary reform was enacted based on virtual dollarization of the economy through a Hong Kong-like currency board scheme called “Convertibility”, that pegged the Argentine Peso to the US Dollar. In 1992, Cavallo renegotiated the Public Debt through the first of a series of Sovereign Debt Bond Swaps engineered with the US Treasury Secretary Nicholas Brady, i.e., the so-called “Brady Debt Restructuring Plan” ([8]). This re-engineered a very large chunk of the country's Public Debt which until then had been in the hands of not more than 25 major creditor banks, dispersing it into nominal “Brady Bonds” which those same banks traded in major global financial markets dumping them onto hundreds of thousands of mostly small and unknowing private investors. A sizeable portion of those Bonds, however, were soaked up by the major banks and corporations themselves, immediately recycling them to purchase various lucrative Argentine State Companies, all within the scope of Menem's and Cavallo's economic deregulation policies. Although the hyperinflation inherited from the Alfonsín Administration was curbed, over the following decade these policies would devastate the national economy

- albeit, in a “stable” manner - until in 2001 it led to yet another national financial and monetary meltdown. Thanks to a constitutional amendment passed in 1994, Menem was re-elected in 1995 and in 1999 finally handed power over to Fernando de la Rúa of the “Alianza” coalition made up of the UCR radical party and various left-wing offshoots. By then, in spite of all the privatizations of state-owned companies which were supposed to reduce Foreign Debt, Argentina’s Public Debt had increased to around u\$s 130 billion.

· December 2001 - President Fernando de la Rúa was incapable of coping with the, by then, very severe monetary and financial distortions generated by the untenable “convertibility scheme”. As the crisis spun out of control, in March 2001 he decided to bring Mr Cavallo back as economy minister and “crisis manager”, however they both ended up being forced to resign from office in December 2001 amid a nationwide collapse of the banking system, widespread rioting and ever greater turmoil and hardship among the population. Before De la Rúa and Cavallo left, they managed to push through several Mega-Swaps of old Brady Bonds for new bond issues, the most notorious of which was the one they did in June 2001 which in just one month generated over 50 billion dollars of spurious additional new debt. By then, Argentina’s Public Debt had leapt to around u\$s 180 billion and in December 2001 the country defaulted on its debt with private bondholders and only continued making essential interest payments to the International Monetary Fund (IMF) and other multilateral institutions within the framework of the usual IMF/World Bank debt restructuring and re-engineering strategies.

· January 2002 - Amid tremendous political and social turmoil, acting president Eduardo Duhalde curbed violence and crisis-managed the economy after devaluing the Peso, which eventually stabilized at around 3 Pesos per Dollar (where it stands to this very day). This and other economic measures ended up dumping the bulk of the cost of the crisis on the lower and middle classes, whilst Banks and foreign Corporations were given preferential treatment. With the help of his economy minister Roberto Lavagna, Mr Duhalde staged presidential orderly elections in April 2003 that were won by Néstor Kirchner after Carlos Menem dropped out of the race.

· May 2003 - President Kirchner kept Mr Lavagna on as his economy minister for two and a half years. In June 2005 they implemented the new and potentially devastating “Mega-Swap” we indicate above. A few months later, Mr. Lavagna was forced to resign and Mr. Kirchner virtually took over as economy minister.

· January 2006 - Surprisingly and at a time when the IMF is being seriously questioned by all international circles the world over and even blamed for its key role in triggering Argentina’s 2001 crisis, instead of taking advantage of this factor to secure a good deal for Argentina, president Kirchner decided to pay the full amount owed by Argentina to the IMF in cash: all u\$s 10 billion of it.

### **III. A Fresh View**

Argentina’s debt situation is of a very complex nature, in that there exist key issues that show that over the past thirty years there was a high level of accountability amongst various key players, notably, international private banks, multilateral institutions such as the IMF and the World Bank, international risk rating agencies and, naturally, successive Argentine Governments. Acting in unison, they were able to generate today’s untenable public debt which, all factors considered, now adds up to over u\$s 200 billion (whilst our GDP is about 75% of that). Within the myriad of issues involved we point out a couple which, if properly

addressed, can serve to promote the concept of generating a “Balanced Score Card” scheme to assess and resolve Argentina’s Foreign Debt situation.

Foremost amongst these, is the legal concept involving “Odious Debts”, whereby a democratically-elected government can challenge Public Debtholders, if their credits were generated by a previous, illegitimate Government which illegally usurped power. In such cases, the onus is on the Debtor to prove that said debt was legitimately used for the benefit the Public Interest of the country, especially in those cases where the creditor was well aware of the illegitimate nature of the Regime it was lending funds to, something which was publicly known by international bankers when lending to Argentina’s Military-Civilian Government from 1976 to 1983.

In April 1982, local lawyer Alejandro Olmos filed a law-suit leading to an initial investigation into the origin of Argentina’s Public Debt during that military regime ([9]), which went through several Federal Courts until a ruling was finally given by Federal Judge Jorge Ballesteros on 14th July 2000. His ruling proved that the bulk of the debt generated by that military-civilian de facto regime was illegitimate and illegal, however adding that no former government officers could be sentenced as by then this case had become time-barred (eighteen years had elapsed and the Plaintiff himself had passed away only months before).

Clearly, the bulk of those loans eventually found its way out of the country in the form of financial and others assets transferred to individuals, banks, corporations and other operators involved in various degrees of criminal activities. The debt itself, however, was left with the Argentine State; i.e., with the Argentine people.

In view of the highly political nature of the issue, Judge Ballesteros recommended that Argentina’s National Congress should investigate this matter under its constitutional jurisdiction and attributes ([10]). Congress, however, took only a small, token initial in that direction in August 2000, because the powers that be were able to put well-coordinated internal and external political and media pressure on Congress so that it quickly abandoned any action in respect of this key national issue.

In principle, large tranches of Argentina’s public debt dating back to that Military-Civilian Regime can be classified as “Odious Debts”, within the scope of the legal doctrine generated by Alexander Naum Sak at the beginning of the 20th Century. Legal precedent was based by cases involving The United States versus the Kingdom of Spain over Cuba’s colonial debt in 1903; and the United Kingdom versus the Republic of Costa Rica over an alleged debt claimed by the Royal Bank of Canada generated by former dictator Federico Tinaco. In the latter case, in October 1923 US Supreme Court Justice (and later president of the US) William Taft forthrightly judged in Costa Rica’s favor.

Even more recent and important, after the invasion of Iraq in March 2003 and the toppling of the Saddam Hussein Baathist Regime, the United States, the United Kingdom, Germany, France and Russia together considered Iraq’s foreign debt generated since 1979 by Saddam Hussein as “Odious Debt”, condoning around 85% of it. They were all very careful not to use the phrase “Odious Debt”, knowing full well that other countries such as Argentina could use exactly the same arguments, precisely because the bulk of its own Public Debt can be traced back – through various astutely engineering recycling processes – to the debt originally generated by the illegitimate Military-Civilian Regime which suppressed the Constitution and perpetrated crimes against our population. So, we too can, in principle,

declare that our Debt should be rightly re-classified as “Odious Debt”.

When this paper was first released in September 2004, we sought to alert international political and investor circles as well as public opinion at large, of the grave risks posed by the fact that Argentina’s Ministry of Economy was about to implement yet another re-cycling of that illegitimate and potentially odious debt through a new bond swap to the tune of over 100 billion dollars. In June 2004, Argentina filed with the SEC of the United States committing the Argentine State to pay new bond issues at highly detrimental conditions for our country and based on false and unsustainable economic and financial assumptions.

We tried to warn the SEC that the Argentine State would not have the economic and financial capacity to honor the new Bonds’ future yields and capital payments at their maturity dates and that this would inevitably lead to new and even greater debt defaults. Regrettably, the SEC officially replied that they declined to even look into this matter and ended up giving Mr. Lavagna and Mr. Kirchner the green light for this new potential fraud transacted in the US Bond markets. We consider that this was tantamount to permitting and promoting massive liability exposures on future Argentine Debt Bond defaults, the scale of which will dwarf such high profile scandals as Enron, WorldCom, Arthur Andersen, Tyco and Marsh & McLennan. Macroeconomic figures and projections submitted by Argentina’s Ministry of Economy are inconsistent and unsustainable ([11]) and the Mega-Swap finally pushed through in June 2005 will generate massive future defaults, even greater than the one in December 2001 when the Government defaulted on over 90 billion dollars worth of Public Debt Bonds with private investors.

Adding insult to injury, the Kirchner-Lavagna Mega-Swap incorporated around u\$s 54 billion of revamped interest and capital artificially generated during the last months of the catastrophic Fernando de la Rúa Administration in June 2001, when then economy minister Domingo Cavallo, Foreign Debt Negotiator Daniel Marx and key international bankers implemented an earlier Mega-Swap. Both former government officers have been indicted for fraud, negligence and conflict of interest because of their actions on this matter.

IV. Towards a “Balanced Score Card” Argentina’s structural public debt crisis is a very complex matter, both in its present structure as well as its history and evolution. Key issues need to be urgently addressed. All players must stop playing “make believe” pretending that Argentina will be able to honor payment of massive amounts of capital and interest in a timely manner. That will not be possible and the ensuing future grave Public Debt Bond Crises will no doubt lead to more “new” Mega-Swaps for much higher amounts and at far worse conditions for Argentina. We envision that those future Mega-Swap Bonds will include innovative clauses whereby the Argentine Government will guarantee payment with Public Land Rights or Long-term Territorial Concessions which will, in practice, be tantamount to “Debt for Territory” swaps. This will mean breaking up the territorial integrity of Argentina, with the ensuing far-reaching political, social, economic and legal implications and consequences that this will have.

Accordingly, properly addressing this matter is a first step towards achieving a comprehensive solution for all parties, which involves designing and negotiating some sort of “Balanced Score Card” scheme identifying all parties having some level of responsibility for the present morass, in order to then be able to determine, quantify and agree their respective accountabilities. Such a process should be supervised by a credible and neutral public supranational body – the International Court of Justice, for example – so as to ensure an equitable and fair approach regarding all the parties’ interests and not just some of

them. Such a body should also act as Arbitrator.

Each and every accountable party and player should be identified. We consider that would include, though not be limited to, the following:

- The Argentine State - I.e., the public institutions of the Republic of Argentina which mainly through its Ministry of Economy and Central Bank accepted the terms of loan contracts and agreements entered into with public and banking institutions, the International Monetary Fund (IMF), the World Bank (WB), the Inter-American Development Bank (IDB) and others.

- Successive Argentine Governments - In many cases, former public officers have been and are being investigated and indicted by our Courts for misdemeanors, collusion, fraud and various other public crimes, which means they have potential personal liabilities which could even lead to collective interest group liability ([12]). No doubt, our Proposal would surely trigger further criminal proceedings against other former government officers in the Executive, Legislative and Judicial branches, as well as impeachment procedures against present Government Officers, based on their respective degrees of accountability.

- Private Lendor Banks - Based on their credit risk assessments, most major international private banking institutions lent funds to Argentina in the seventies and eighties. After the debt crises of the late eighties, starting in 1992 they traded the so-called "Brady Bonds" knowing full well that the origin of that debt could potentially be classified as "Odious Debt" ([13]). When trading Brady Bonds in successive debt bond swaps and "mega-swaps" from 1992 onwards, those banks systematically omitted to inform their investors key background and risk exposure information mentioned above. It is a well-known fact that all major banks - including CitiGroup, Goldman Sachs, Merrill Lynch, HSBC, JPMorgan Chase, Credit Suisse, UBS, Deutsche Bank, Fleet Boston, Lloyds and Barclays amongst others, and their previously merged and acquired institutions -, all carried various types of insurance coverage to protect their liabilities against claims arising from misinformation incidents, and that these are for very sizeable amounts. Such insurance coverage and their respective reinsurance supports were placed into major insurance markets - Lloyds of London being the oldest and best known -, and could thus be brought to bear as a major source of financial contribution, as it would spread risk amongst numerous insurers, reinsurers and retrocessionaires around the world. Basically, the main risks protected by such Financial Institutions Insurance Programmes include, amongst others, the following:

- o Professional Liability Insurance - This covers a Bank's lack of proper "Due Diligence" and professional integrity in their dealings with investors; i.e., behaviour that can be classified as Voluntary Misconduct. This is a crucial factor that is being increasingly voiced in different circles. (see for example, a detailed article published in The Washington Post on 3rd August 2003 - "Argentina Didn't Fall on Its Own: Wall Street Pushed Debt Till the Last" by Paul Blustein - Page A01)

- o Errors & Omissions Insurance - This covers involuntary Errors and Omissions which may have been incurred by the banks' traders when placing packages and tranches of Argentine Debt Bonds with retail traders, brokers, agents, banks and investors.

- o Directors' & Officers' Liability Insurance - This covers the Personal Legal Liability of banks' and other players' Directors and Top Officers and Managers in respect of any lack of proper supervision, control and auditing of the Bank's operations, business ethics and conduct. Again, cases involving flagrant breach of professional ethics by such major corporations as

Enron, WorldCom, Parmalat, Tyco, Marsh & McLennan, AIG and Arthur Andersen serve as prime examples which in the US led to the Sarbanes-Oxley Act which today places stringent controls on Corporate behaviour. Although Sarbanes-Oxley cannot be brought to bear, it does, however, indicate that gross misconduct by major corporations and banks has been rampant in the US and elsewhere for many years, thus reinforcing the need for Corporations and Banks to answer financially for their wrong-doing or lack of professionalism if that is adequately ascertained.

- Risk Rating Agencies – Much of the Argentine Bond trading was based on the economic, financial and political analyses rendered by major rating agencies – particularly Standard & Poor, Fitch and Moody’s – which are also accountable for the insufficiently and/or improperly researched information they fed markets and generated to potential investors, regarding these successive debt bond issues. Additionally, the influence, leverage and accountability of specialized journals was such that they should at least pay a political price, considering that for years they promoted false expectations amongst investors regarding the alleged “wonders” of investing in “miraculous” Argentine Public Bonds when Mr Cavallo was at the helm of the economy ministry. This includes such influential publications as The Wall Street Journal (Dow Jones Group), Financial Times, Business Week, and other local and international publications.

- International Monetary Fund – This key institution was instrumental in promoting and auditing the macroeconomic policies of the Argentine Government for decades. They agreed to continue lending, thus instigating further investment in Argentine Bonds by international investors, especially after 1994 and further indebtedness by Argentina. By that time, the whole “debt trap” had been set, debt increased exponentially and there was clearly no way out for our country. A recent report by the Independent Evaluation Office concluded that IMF top management – notably during the period led first by Michel Camdessus (President) and Stanley Fischer (Executive Director) and, later, by Horst Köhler (President) and Anne Kruger (Executive Director) – committed serious professional and technical errors and omissions. Many analysts consider that, in a way, as auditors, the IMF was to Argentina what Arthur Andersen was to Enron, the difference being the Andersen was dissolved and closed down, whilst the IMF continues preaching its misconceived doctrines and exerts leverage. It goes without saying that we fully appreciate the fact that the IMF’s primary purpose is to exert political pressure on indebted governments, acting as a veritable coercing agency on behalf of major international banks. These, in turn, also wield enormous influence in the US Government through Treasury Dept.([14])

- Other Multilateral Agencies – The World Bank and the Inter-American Development Bank which also continued lending to Argentina even though they knew (and know) that there were incorrect and improper assessments regarding the investment-grade of Argentine debt bonds.

In short, the Argentine State, successive Argentine governments, major lending banks and risk rating agencies, the IMF, and other multilateral financial institutions are and have been the major players involved in the case of Argentina’s foreign debt.

It is therefore grossly unfair to place the full weight of this complex problem solely on the Argentine State (and circumstantially on the Kirchner Administration), which does not seem to be able to envision any options other than last year’s Mega-Swap deal indicated above, which will crush Argentina’s future for generations to come.



No doubt, Argentina must pay... but only its true share in all of this. All key players in this drama must be brought to the negotiating table, their accountabilities assessed, their liabilities quantified and together they must contribute their respective shares to resolving a common problem that was created by all of them, considering that they were all aware of the potential risks their respective actions entailed.

Need major international banks be reminded that high yield investment opportunities also carry higher risks and that that is what financial risk management is all about?

Making the Argentine State - i.e., the people of Argentina - weather the full brunt of this storm is tantamount to financial genocide and terrorism. It represents a gross violation of basic legitimacy, lawfulness and an abuse of basic human rights. The people of Argentina are presently undergoing severe hardship with over 50% of the population submerged in poverty, whilst present economic and political policies do little to resolve these matters. Basic universal law gives the Argentine people the right to legitimately defend their interests against the various multinational and supranational players which, abusing the huge power that they wield, directly and/or indirectly imposed complex actions and strategies leading to the Public Debt problem.

Once all these players sit down at the negotiating table on an equitable and just basis, then and only then can a suitable model be generated whereby each party's accountability is defined and liabilities are quantified. This must also taken into account their true payment possibilities, especially on the part of banking institutions and their respective insurers and reinsurers. Such negotiations would have the objective of generating a suitable and more comprehensive "Balanced Score Card" to address the entire problem.

This would represent a final, long-term, achievable solution whereby all players would tread a common road leading to a common goal, for the good of creditors, debtors, financial institutions and the global financial system, in a more transparent, "win-win"-inspired environment. Thus, the first question is how such a scheme can be put in place. This will also require an honest effort on the part of the media so that global public opinion may become aware of these key issues.

## **V. Conclusion**

A key first step would be for one or several prestigious, world-recognized bodies to promote such a scheme. The European Parliament, would no doubt be a key player; also perhaps, the International Court of Justice. To a lesser extent, the United Nations and the Organization of American States (OAS). Urgency is clearly a key issue as financial crises originating in Argentina will soon again loom on the horizon as the Kirchner government lapses into increasing political problems and social crises.

Over recent years, Argentina's Foreign Debt situation has worsened with each successive debt cycle. The latest 2005 Mega-Swap represents yet another "turn of the screw" that will with time lead to further suffering for millions of our people, future defaults for international investors and future bankruptcy for small long-term investors, pensioners and enterprises. As has repeatedly occurred in the past, the sole beneficiaries of such crises who reap quick profits, will be international bankers and traders quickly pocketing their commissions, fees and interests.

Conventional Wisdom and Common Sense clearly dictate that if a country has a catastrophic

debt situation, it cannot resolve it by incurring even more and greater debt.

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## Notes

([1]) One of the prime investigations on the present status of Argentina's Foreign Debt can be found in Héctor Giuliano, "Problemática de la Deuda Pública Argentina: la Deuda bajo la Administración Kirchner" (Grupo Editor del Encuentro, Buenos Aires, 2006) which assesses the weaknesses and inconsistencies of the Kirchner-Lavagna 2005 Debt Bond Mega-Swap. Among the structural factors weakening Argentina's position for the future are: (1) Argentina waives its right to investigate the legitimacy of the Debt itself (much of it dating back to the illegitimate Military-Civilian Government that usurped power between 24-March-1976 and 10-December-1983), which also includes previous scandalous Sovereign Debt Bond Mega-Swaps of 1992/93 (made by former economy minister Domingo Cavallo and his foreign debt advisor Daniel Marx under President Carlos Menem; i.e., the so-called "Brady Bonds"), and of June 2001 again made by Domingo Cavallo and Daniel Marx under president Fernando de la Rúa, which led directly to 2001's and 2002's financial meltdown in our country and which is being investigated in our Criminal Courts.

([2]) Domingo Cavallo, economy minister to former presidents Carlos Menem (1991-1996) and Fernando de la Rúa (2001) until both forced out of office by the national crisis they helped to unleash. Mr. Cavallo has very strong connections with international banking circles, notably Credit Boston First Suisse and is a member of the Group of Thirty and the Trilateral Commission.

([3]) Amongst them, the Council on Foreign Relations, Trilateral Commission, Bilderberg Group, Royal Institute of International Affairs and regional off-shoots as the Americas Society/Council of the Americas and the CARI - Consejo Argentino para las Relaciones Internacionales. This is extensively described by the author elsewhere, notably in his book "El Cerebro del Mundo: la Cara Oculta de la Globalización" (Córdoba, Argentina, 4th Edition, 2003).

([4]) See various works by the author, most recently the English-language article "War in the Middle East: a Warning for Argentina"

([5]) Mrs. Perón became president of Argentina in July 1974 when her husband, president Juan Domingo Perón, died in office. As vicepresident, she succeeded him. Although she did not govern well, she did however resist maneuvers by international banking circles to force Argentina to accept unneeded loans and she did order the Armed Forces to destroy then rampant and highly violent left-wing guerrilla groups. With only nine months to go before next general elections, a group of right-wing officers ousted her with the clear support of major international organizations, in an operation reminiscent of Henry Kissinger's CIA

operation to oust Chilean president Salvador Allende in September 1973

([6]) Basically, the operations were quick “In-Out” financial dealings engineered by international banks and their local partners. Highly liberal local financial legislation and rules were enacted allowing large US Dollar amounts to enter and then leave the country, backed by Government Bonds, changed into Pesos at stable and predictable Exchange Rates, deposited with local banks at enormous interest rates for, say, one year, and then finally changed back into US Dollars and immediately expatriated. The banker’s huge profits were paid by creaming off the entire economy and a false “Government Debt” was left behind as Sovereign Debt Bonds. It was a profitable and quick “In-Out” for international and local speculators; but a very heavy and destructive “Eternal Debt” for the Argentine State – and thus its people – which represents an unbearable weight to this very day...

[7] The Military handed power over after their Regime practically collapsed in the wake of the outcome of the April to June 1992 Malvinas-Falklands War where Argentine forces were beaten by the United Kingdom.

[8] Engineered by Mr. Cavallo and his advisor Daniel Marx with then US secretary of the treasury Nicholas Brady during the George H W Bush Administration.

([9]) Case No. 14.467, heard with the Buenos Aires Federal Economic Criminal Court No 2; “Olmos Gaona, Alejandro versus/ Various former government officers”

([10]) Article 75, section 7 of Argentina’s Constitution clearly states that “Congress shall do all necessary to arrange for payment of the internal and external National Debt”.

[11] This is described in great deal in a paper released on 15-Sept-04 by National Deputy Mario Cafiero, “¡O juremos con deuda morir!” a copy of which was distributed to major political and media figures, including president Kirchner, to no avail.

[12] Two cases may illustrate what we say:

- Former Finance Secretary Guillermo Walter Klein serving under Economy Minister José Martínez de Hoz during the military regime from 1976 to 1981, negotiated loans on behalf of the Government with around twenty major international banks. At the same time, he represented and promoted those same banks’ legal and business interests in Argentina.

- Former official “Foreign Debt Negotiator” Daniel Marx served under presidents Menem and De la Rúa and was a key figure in arranging and negotiating the so-called “Brady Debt Bond Plan”, whilst at the same time in 1993 he became a founding partner in Darby Investments, Inc., together with its chairman Nicholas Brady, former US secretary of the treasury under George H W Bush.

Clear conflicts of interest abound and also include former economy minister Cavallo, a key figure in engineering the Argentine debt crisis, strongly linked with Credit Suisse First Boston Bank chairman David Mulford. Cavallo presently sits on the Trilateral Commission and teaches economics at the Robert F Kennedy School of Economics at Harvard University.

[13] In 1982, an internal legal document at The First National Bank of Chicago, recommended investment bankers to be particularly careful with the consequences of potential changes in sovereignty regarding loan agreements which could depend on the use made of funds by a previous government because, if the debt were to be considered as

“odious” – i.e., a debt incurred against the interests of the local population, – then such debt would not be payable by a successor state. Commercial banks were warned to be on the alert as to the implicit dangers of this because a successor government could very well invoke the “odious debt” doctrine alleging the “hostile” use of funds, in order to reject payment outright. The document concluded suggesting that bankers take fullest preventive measures when making loans to de facto regimes. This is described in Patricia Adams, “Odious Debts: Loose Lending, Corruption and the Third World’s Environmental Legacy”, Chapter on “The Doctrine of Odious Debts”.

[14] An eloquent example is that of banker Robert Rubin, who was Chairman of Goldman Sachs Investment Bank, then became Bill Clinton’s second Treasury Secretary and, at the end of that Administration in 2001, again went through the public-private “revolving door” to become a top executive director at CitiGroup. No doubt major bankers have special leverage in the US Government and the IMF. Mr. Rubin is a member of the powerful Council on Foreign Relations as are Mr. Stanley Fischer (IMF / CitiBank) and Ms. Anne Krueger (IMF).

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