Peru girds for war with international usurers

The Feb. 10 decision of the International Monetary Fund's executive board to cut Peru off from any further lending from the international money markets has met with continued defiance from the government of President Alan García. The IMF's ultimatum that Peru pay its $75 million in debt arrears to the Fund by April 14 or be declared ineligible for any new loans, prompted a furious García to respond that Peru will pay "when Peru wants and when Peru can." Prime Minister Luis Alva Castro, in Washington, D.C. to meet with Fund director Jacques de Larosière and World Bank head A.W. Clausen, among others, said that "Peru will not pay under threats. . . . We demand the right to decide our own destiny."

In a public address immediately following news of the IMF threat, the Peruvian President insisted that Peru would not subject itself to ultimatums from any country or institution, much less from one which has behaved like "a butcher of our people." Calling the IMF a "colonial ministry," García insisted that "the era of pressures on our country and tutelage from international financial institutions ended on July 28," the day García was inaugurated President in 1985.

The IMF's ultimatum, occurring at a moment of increased debtor ferment on the Ibero-American continent due to the collapse of oil and other commodity prices on the world market, reflects the rage of the international financiers at García's nearly single-handed effort to mobilize Ibero-America around a concept of moral economics vis-à-vis the debt, and in particular the fixed 10% limit García has imposed on export revenues allocated to servicing the foreign debt. His latest move, immediately following the IMF's ultimatum, was to order government representatives to organize throughout the continent for a Latin American Monetary Fund which could provide the region with its own financing source—and would enable hard-pressed debtors to bypass the IMF as Peru has done.

The IMF executive board deliberately chose to take a hard line with García. In fact, an IMF staff recommendation that a review of Peru's arrears be postponed for 90 days was rejected by the Fund executive, which hopes to teach Peru a lesson that the entire continent cannot ignore. Among the points the Fund executive raised to justify its ultimatum, is that Peru in the past six months has increased its foreign exchange reserves to nearly $1.5 billion, and therefore has ample funds to meet debt payments.

What the Fund chose to ignore is the fact that those reserves were built up as a result of García's 10% ceiling on debt payments. García noted: "We have now drawn a line of action, and despite the fact that the country has many reserves, approximately $1.416 billion—not counting gold and silver holdings—these are intended for economic reactivation."

García took two other steps which clearly enfuriated the Fund's directors. One was to reject the IMF's planned mission to Peru in March or April; García said his government was not disposed to receiving orders from abroad to accept surveillance missions, letters of conditions, or "recommendations" regarding its exchange rate; the IMF has been urging a substantial devaluation of the Peruvian sol.

García's other measure was to fire, on Feb. 3, the Peruvian representative to the IMF, Brian Jensen, who had been serving Fund director Jacques de Larosière as an IMF liaison to the U.S. government's Baker Plan. Jensen's forced "resignation," according to Peruvian press reports, followed a fierce debate in García's cabinet over whether to follow a conciliatory or a hard line with the IMF. President García evidently won.

Notwithstanding the threats of the IMF and an escalating sabotage campaign by García's domestic enemies, Peru under Alan García has made substantial strides on the basis of dirigism and sheer grit.

Since entering office, García has issued a series of economic emergency decrees premised on the belief that solving the hunger of the Peruvian population should take precedence over debt repayment. His most recent intervention was revealed Feb. 12, when Agriculture Minister Remigio Morales Bermúdez announced the first measures of a program to address the dramatic food shortages and collapse of production in the country.

"What we seek to create," said Morales Bermúdez, "is a system . . . permitting continuous supply [of food] at prices that would depress neither the profitability of the product nor the consumption capacity of the poorest sectors." Among the measures announced were: reduction of bank interest rates for growers, fixing guaranteed prices for various agricultural products, reduction of import tariffs for agricultural inputs, and elimination of various taxes on agro-companies. In addition, the government will buy between 10% and 30% of key crops to maintain stockpiles against speculation, especially rice, corn, chicken and milk products.

García vs. the oligarchy

The International Monetary Fund and sabotage from powerful economic interests at home are not all President García has to contend with. A media campaign of villification and threats has joined the cause of the Shining Path (Sendero Luminoso) narco-terrorists in seeking the overthrow—or murder—of Alan García.

The leftist Peruvian weekly *Oiga* carried a letter Feb. 12 from the brother of former President Fernando Morales Bermúdez, which compared García to Hitler's Interior Minister Hermann Goering. Like García, asserts Francisco Morales Bermúdez, "Goering . . . immediately began a police 'reorganization'. . . . This was part of a larger *Gleichschaltung* designed to hand over the entirety of state and bureaucratic apparatus to Hitler's party." *Oiga* made sure the letter was accompanied by a photo of Adolf Hitler.

Only slightly more subtle was the magazine *Caretas*, owned by García's enemy, former Prime Minister Manuel Ulloa, which characterized García as "hyperactive" and a would-be "superman," and described his economic measures as "economically costly and risky from a budgetary standpoint."

The Shining Path narco-terrorists have issued an open death threat against the Peruvian President, "should he touch foot in Ayacucho" province, to which an upcoming presidential visit is planned. In the past few weeks, the terrorists have launched a bloody rampage of bombings and murders across the capital city of Lima. Chemical bombs exploded in four large stores in the central commercial district, triggering a fire that raged uncontrolled for two days. On Feb. 3, twenty synchronized assaults were carried out against seven APRA (ruling party) headquarters, eight bank branches, and government offices. Three high-tension electricity towers were toppled by dynamite charges.

The terrorism, it is now believed, is coming not only from the "leftist" narco-terrorist gangs, but from a newly resurfaced "right" as well. Peruvian War Minister Gen. Flores Torres recently suggested that behind the Lima violence lies "not only groups from the extreme left like Sendero Luminoso and Tupac Amaru, but also other elements seeking to destabilize the government" from the right. Police sources report that a new terror gang calling itself "Sendero Verde," believed to be made up of police officers fired by García last year, is responsible for the latest sophisticated terror bombings in Lima. Those police were fired for "corruption," in many cases due to collaboration with the drug mafia.

García has responded to the terrorism with characteristic swiftness and boldness. First, he imposed a state of emergency in Lima and the nearby port city of Callao, with a strict curfew and military patrols to enforce it, the yelps of the "human rights" lobby notwithstanding. Second, he fired over 900 police officers from the three rival police forces—in one unprecedented sweep designed to clean out mafia infestations and unify the forces under a centralized command. Third, he launched Stage IV of Operation Condor, the anti-drug offensive which he began in July. Two major clandestine airfields in the jungle region of the Huallaga River were discovered and dynamited, and over 1,000 kilos of coca paste seized.

Documentation

The following are excerpts from President Alan García's nationally televised address to the Peruvian people on Feb. 7:

At the conclusion of this government's first six months in office, I want to address myself to the nation by indicating certain proposals of the Executive Branch regarding the economic situation and internal order, so that the citizenry can know and participate in them. . . .

We want a nationalist government to defend Peru's right as a nation to development, in the face of the foreign debt, a world economy which forces its products upon us, and the monopolies and multinational companies which, aided by bad governments, have reaped excessive profits.

We want a government of the people to overcome the unjust, centralized economic model under which we have suffered, and to put in its place an economy different from that which has been imposed on us during the last few years under the tutelage of the International Monetary Fund. . . .

When we accepted power on July 28, inflation was threatening to exceed 250% in 1985. That is, a product which in January of 1985 cost 100 soles, would have cost 350 in December. Besides, the Peruvian currency lost value against the dollar by more than 200%, and with it the people's purchasing power declined rapidly.

Faced with this situation, we put in effect an emergency program, whose results we can now evaluate six months later. For example: If in the last seven months of the previous government inflation was 165%, in the first six months of the APRA [ruling party] government it has only been 30%; if in the last seven months of the previous government devaluation was at 170%; in the first six months of this government it has only been 12%; and if on July 28 we received a country with a dollar reserve of 894 million, I can say that now we have net reserves of $1.416 billion. . . .

I am not saying that the crisis has been overcome; I am not saying that inflation has been halted. It is a crisis stemming from many years—perhaps centuries—of destruction of our economy, and it will take years to overcome it. . . .

Another major problem is the shortage of potatoes that began at the start of this year, due to climatic problems that affected the harvest, which also provoked speculation. At the same time, by increasing the consumption capacity of the poorest sectors, the volume of demand and purchase of chicken increased by more than half, also causing a problem of shortage.

These are problems due to errors, and also the coincidence of fate; but, insistently spread by all the communications media, the conclusion has been drawn that these are due to the failure of the economic emergency program. . . .

What is important, is to make clear that these are specific problems, problems that will pass, and that despite these inconveniences, the substance of the economic program continues to go forward and will be maintained. We have taken the first step to halt inflation, and now it is time to take the second step to encourage production, to encourage growth, which means work and well-being, and also just distribution. . . .

Voices of discontent

Because the first obstacles and first signs of discontent have presented themselves, voices have emerged to advise us to retract the entire economic program and return to the foreign recipes and colonial tutelage of the International Monetary Fund, whose program was what led us to the extremely severe economic crisis that we are currently seeking to resolve. . . .

Thus, taking advantage of the potato scarcity, those standard bearers of foreign theories who were defeated in the past elections, seek to recover their lost positions. They tell us, for example, that increasing the consumption capacity of the neediest classes causes shortages, and they advise us to reduce the income of the poorest and middle classes, so that

> *"A revolution is the national and social control of wealth, but it is also growth and the development of resources and goods. A revolution is not made by proclaiming the distribution of misery in an arrested economy."*

products will sit without buyers, and thus without shortages. They tell us that control and regulation of prices, by limiting profits, discourages production. They demand that we not intervene in the economy and instead leave prices to rise uncontrolled, after increasing interest rates, which are the cost of money, and then devaluing the currency and meeting payments on the unjust foreign debt according to the formulas of the International Monetary Fund.

Simply because of the passing obstacles we have suffered, we will not fall for this smuggling in of an ideology which would have us return to the past. The International Monetary Fund is an institution created to govern the economy of the poor countries and thus to guarantee payment of debts to the international banks. Since July 28, Peru has maintained a clear position with the International Monetary Fund on the question of the debt. Our decision to limit payments is recognized and followed by other nations. We also have an economic program made by Peruvians and for Peru; we shall not therefore accept new low conditions of economic policy, nor the viceregal tutelage of the International Monetary Fund, which is the expression of modern imperialism. . . .

Four months ago, before the U.N. General Assembly, I declared that we shared nothing in common with the economic theory of the International Monetary Fund, since that theory in recent years has led us into bankruptcy. . . . I also said that to guarantee new loans, the International Monetary Fund was demanding intervention in the internal economy; I warned that in case this situation did not change, we would reconsider our membership in that institution. Today, four months later, we feel that our presence in the International Monetary Fund is increasingly contrary to the national and social objectives of the government. And if we have remained members until now, it is so that from that vantage point, we could continue to present our doctrine and urge other countries to take up a new position, proving the invalidity of the Monetary Fund's theories and its uselessness as an intermediary of the world economy. . . .

A revolution is the national and social control of wealth, but it is also growth and the development of resources and goods. A revolution is not made by proclaiming the distribution of misery in an arrested economy. . . .

In the first place, to have a growth economy, we need to increase demand and the people's consumption capacity, because the increased production of the factories and of idle lands depends on the consumer's purchasing power. Therefore I am announcing to the country this government's decision to dictate a general increase in wages and salaries, whose first stage will go into effect this month. This increase will not be a passing illusion, but rather the first increase that will allow us to surpass the growth in prices such that if inflation for this year were, for example, to be 50%, the wage increase would surpass that figure. . . .

To achieve a historic leap forward, we need to increase the people's consumption capacity; but a policy of growth also has to achieve two objectives: to increase production and to prevent salary increases from being translated into price increases.

We already know by experience that if prices rise significantly, fewer products are sold, and as a result the economy is paralyzed. We also know that without an increase in the population's wages, there is neither consumption capacity nor production increase. Then it is appropriate to ask: How does one increase salaries and prevent prices from rising proportionately? To achieve this, we should reduce the other components of the price of a product. Thus, the government has decided to reduce the general sales tax from 11% to 6%; in addition, a new 5% reduction in the interest rates to lower the cost of production; a 10% reduction in electricity rates for industry; a 20% reduction in electricity rates for agriculture; and a 10% reduction in the cost of diesel oil to lower the cost of transportation.

Naturally, these measures will not automatically control the pressure for price increases. To this end, the state will maintain its goal of regulating prices in those cases in which, despite these measures, the cost of production proves greater than the sales price. . . .

In all the districts and provinces . . . I always hear the same cry for work. Peru does not want a hand-out; it wants work, to earn a living with dignity. As the head of a popular and nationalist government, I must present possibilities for creating that work and satisfying the needs of the people.

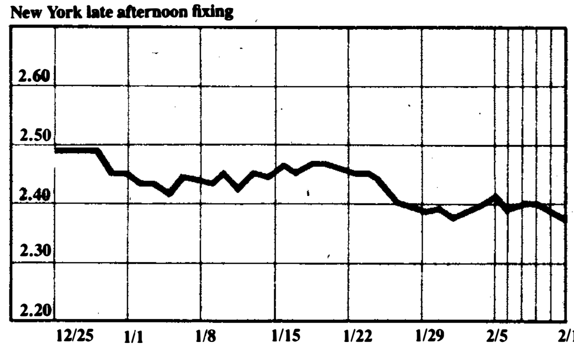
Hundreds of thousands of Peruvians need work, and to create this work cannot be solely the responsibility of the state. . . . We are going to launch a campaign for great infrastructural projects to create work, but the primary source of employment . . . must come from the unused capacity of our industry and the expansion of agricultural production. That expansion and that production cannot be imposed by the state, because for this it would have to appropriate all property and all small and large businesses in Peru.

We require the participation of national businessmen and of patriotic industrialists who have confidence in Peru, to uphold the efforts of the government. . . .

Currency Rates

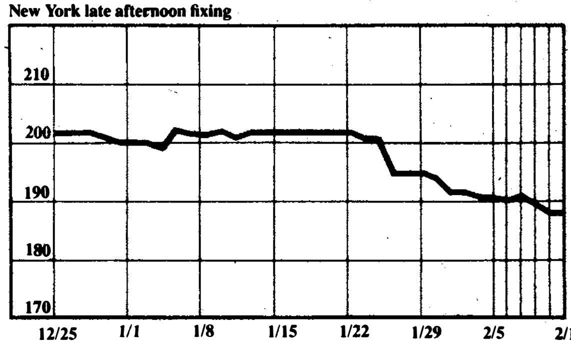
The dollar in deutschemarks

New York late afternoon fixing



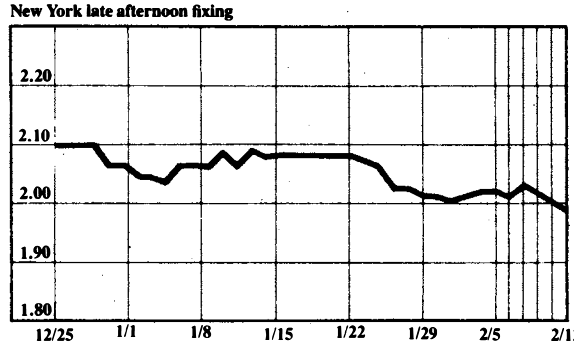
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing