García shows that breaking with the IMF is very good for business

by Mark Sonnenblick

Two proofs emerged in 1986 that the best thing a developing country can do is break with the International Monetary Fund (IMF):

1) President Alan García's Peru was declared "ineligible" by the formidible IMF Aug. 15. He not only survived its wrath, but led his country to the fastest industrial growth since 1974, in the midst of generalized depression.

2) A study written by the Schiller Institute, *Ibero-American Integration; 100 Million New Jobs by the Year 2000*, proved scientifically that Ibero-America can develop only if it puts aside its $370 billion foreign debt.

García and the Schiller Institute both showed that there is no excuse for the looting of the region's economic infrastructure and human potentials which is making it into a cauldron of disease and death. Both showed that successful economic policy begins with the fact that the creative and productive potential of expanding populations is the source of all wealth.. This is the same precept expressed in moral terms by Joseph Cardinal Ratzinger in November 1985 and increasingly echoed by Catholic bishops throughout Ibero-America.

García offered a simple explanation for his success to the Mexican people, whose nation is on the brink of dissolution, thanks to its rulers' fears of breaking with international usury:

"Peru's population grows 3% annually. We had been growing economically 1 or 2%. That is, always regressing in relation to the population. We have moved onto the scene this year a fundamental element of the economy which had been forgotten: the masses' consumption capacity, generalized social well-being."

He continued with a success story which not even his bitterest enemies deny: "When we took office [on July 28, 1985], inflation was more than 200%; now it is 60% annually. In the second place, the Peruvian currency was rapidly losing its buying power in relation to the dollar. It was devaluing at 250% annually. Incredible. We, by a virtual act of economic will, have preserved the same exchange rate for the past 15 months, without any change, and this seems heretical, absurd, to the monetarists. But there we are; you can see it. As a result of this cutting of inflation, we have achieved an increase in the population's consumption. We have improved wages; we have kept many products at the same price as last year: bread, oil, flours. And thanks to this, the population could consume more. And, since the population consumes more, industry and the economy came to be reactivated."

Peru is achieving a 7.8% economic growth rate this year—despite the collapse in prices for its exported oil, copper, iron ore, and fishmeal. Manufacturing output was 22.5% higher during the first 10 months than during the previous year, Industry Minister Manuel Romero boasted. This is the best performance in that crucial sector on record.

Integrate or disintegrate

While planning for another 6% growth in real incomes next year, García is aware that there are severe constraints on what Peru, one of the continent's smaller and poorer countries, can do on its own. "The isolated paths of all our countries lead nowhere." García challenged Mexico like he challenged every country his voice could reach:

"Not even Mexico, which is a bigger and more solid country, needs so much money from abroad. What it needs to do is make its economy produce and its people consume. . . . If we united all the Latin American countries, just think of the enormous sum of demand and social consumption and the productive capacity we would have. But this is a dream of the future. This very day, any of our countries . . . by ordering its economy and applying a new economic theory, could make its society produce and its people consume."

The narco-bankers are aware of García's potential to swing Ibero-America out of their grip. They, and their confederates in Washington, have devoted incredible resources to making sure García's policies are not replicated elsewhere. After García won the minds and hearts of the Argentine people and completely upstaged President Raúl Alfonsín with his joyous honesty during an April visit, all doors were closed to him. A trip to Mexico, rumored since last year, was repeatedly postponed. Only Uruguay and Costa Rica let him visit.

The Schiller Institute study *Ibero-American Integration* fleshed out the economic outline of how to put García's lucid political vision into practice. It starts from the premise that it is absurd for an "underpopulated continent" to have 25% of its labor force unemployed and a much larger percentage misemployed. It demonstrates that if the region integrates into one economic entity, it could achieve 10% annual growth over the next 15-30 years. By the year 2000, it could have created 100 million additional productive jobs, and could bring its entire population up to living standards comparable to those of Spain today. By 2015, its people could enjoy consumption standards equal to the average of Europe, North America, and Japan today.

The continent would be physically linked through great infrastructure projects and economically through a common market. Everything would be oriented toward multiplying the productivity of the labor force.

Ibero-American Integration is dedicated to García and Argentine President Juan Domingo Peron, whose fight for integration still inspires most of the Argentine people. The book, currently being serialized in *EIR*, was presented in nine Ibero-American countries during the September to November 1986 period, and has by now circulated to all leading layers of the continent. It has become an underground manual for all political fighters who know that their government's debt servitude is bringing disaster. Even bankers' think-tanks, which most abhor the book's thesis, will privately admit that it is technically feasible.

Why has Peru not yet been hit by the lawsuits and economic embargoes the *Wall Street Journal, Financial Times,* and *Economist* have been predicting all year? While there is no guarantee that total economic warfare won't be unleashed against García's government at any moment, his enemies fear the backlash it would create throughout the continent. Were Peru to fall victim to Teddy Roosevelt's "gunboat diplomacy," every country in the region would be compelled by its own people to offer concrete solidarity. Ibero-American integration would become a fact overnight. The strength of pro-García sentiment is measured by the fact that at every regional meeting, Peru's right to a sovereign debt policy was defended. Even its traditional enemy, Chile, strongly condemned the IMF for blacklisting Peru.

Since even before the debt crisis became apparent in 1982, *EIR* has called that political shockwave a "financial Malvinas." García developed the concept during his visit to Argentina in April. In December, Brazilian President José Sarney tried to kill it by commenting, "A moratorium would be like the Malvinas war, with everbody applauding at first, and then the people would suffer." He was responding to pressures for García-style proposals which erupted for the first time in Brazil in November. They are stronger than ever in Mexican political and labor circles, and just below the surface elsewhere.

Peru, acting unilaterally, has achieved the debt relief which no country has won by playing what García aptly terms the "financial merry-go-round" of taking new loans to pay old debts. The last round of miserable bilateral deals made by major debtors collapsed in the 1986 depression and have yet to be put back together. Nobody has seen the magical "new money" promised by Treasury Secretary James Baker III in September 1985.

The Hong Kong route

Those who dare not act like García have turned their ravaged nations into junk yards in which creditors can pick up whatever pieces of industry or labor force they desire at scrap prices.

This phase of the looting process was systematized during 1986 under the title of "capitalization" of debt or conversion of debt into equity. The pioneer was Gen. Augusto Pinochet's Chile, which exchanged $600 million of its industries for debt paper. But it was overtaken by Brazil, which denationalized, via the stock market, a major share of its $22 billion Petrobras oil company and several other state companies holding most of its vast mineral reserves. Argentina has put the 13 largest state sector complexes into liquidation, by placing them under the management of the same international asset strippers who sold part of Italy's FIAT to Libya. Argentina is, however, contesting Citibank's demand for 100% on its debt paper. Mexico turned over the flagship of its private industry, the Alfa Group, to 50 foreign banks.

Washington monetarists rejoiced. In a speech to American businessmen Nov. 1, Assistant Secretary of State Elliot Abrams lauded Chile, Mexico, and Argentina for their "structural reforms," which he called a "revolution" toward a "more market economy."

The pathetic overseers of the looting claim they are getting a bargain, since they pay 80% of face value on debts which hot-money houses pick up from banks at 50 or 60% of nominal value. They also boast that the unpayable debt is being turned into foreign investment. Such "investments," however, are those appropriate to this phase of world economic breakdown: tourist complexes to launder narcotics dollars and runaway sweat-shops to exploit the labor force under Hong Kong-style conditions.

Henry Kissinger could not by-pass meddling with the debt. On Feb. 17, while a wave of moratorium fever swept Mexico, he turned up for a "two-hour working session" with President Miguel de la Madrid. At the airport, Henry oozed, "My government is studying how it can best help Mexico." Mexico's negotiators called themselves "tigers" and said they would rip 6% flat interest rates from their creditors. When all was said and done, they got a 1/16th of 1% reduction from what Mexico is paying now.

Alexandre Kafka, the Brazilian IMF executive director who makes the IMF's Third World policy, assured the World Bank annual meeting Sept. 22, "The current international economic conditions will prevent Latin America from emerging from its deep recession, at least until 1991." In 1986, García and the Schiller Institute put on the table the alternative.