
Adam Smith and Karl Marx

The Liberty and Democracy Institute: liberation theology's 'other path'

by Gretchen Small

For six months, millions of dollars have been spent to promote Peru's Liberty and Democracy Institute (ILD), and its book *El Otro Sendero (The Other Path)*, as the leaders, and bible, of a new businessmen's lobby in Ibero-America. ILD founder Hernando de Soto, for years a banking and business executive in Switzerland, is hailed as the ideologue of a "new right" movement, which has "a Latin American strategy destined to limit the powers of our states." In May, U.S. leaders joined the chorus, as President Reagan, Sen. Bill Bradley, and Assistant Secretary of State Elliott Abrams all hailed De Soto's *El Otro Sendero*, for providing an approach which can solve Ibero-America's debt and economic crisis, and thus stop Soviet subversion in the area.

The ILD's argument is simple: Ibero-America's largest source of untapped wealth lies in the "informal economy"; if this underground economy is legalized, Ibero-America can both "grow," and pay its foreign debts. The "traditional right" and "traditional left" have not only ignored the economic potential of the underground, but also have failed to notice that Ibero-America's true revolution has already begun, in the institutions of "popular participation" found in the underground, they state.

The ILD brags that it has remedied that failure, by recruiting both committed Marxists and right-wingers to its staff. We, they claim, can unify the right and left behind a commitment to freedom for the underground. Moscow is enjoying this one. The underground economy in Ibero-America, dominated by the narcotics trade, stands at the center of Soviet irregular warfare against the Western hemisphere. Yet, with funding provided by Rockefeller's Council of the Americas and Project Democracy's National Endowment for Democracy, the ILD is recruiting Western Hemisphere leaders blinded by the mythology of "free enterprise," to take to the barricades in defense of that Soviet warfare against the Hemisphere!

Moscow is not merely watching the ILD. *EIR* investigations have established that De Soto and the ILD are one of the most sophisticated penetration operations against Western institutions ever run by the Soviet-allied theology of

liberation movement in Ibero-America. Through the ILD, the creators of the tyrannical "popular church" which rules Nicaragua today, are now organizing "the popular businessman," the new name for their insurgency against the "ubiquitous state and the exclusivist power of big business."

Which 'other' path?

Throughout *El Otro Sendero*, the language of those advocating the "option of the poor" is mixed with the most rabid anarchism. "We must imbibe the norms of extra-legality," *El Otro Sendero* cries. Liberty is defined as "the resolute election of the poor against the elites." Laws which defend the "traditional order" are made to be broken, *El Otro Sendero* argues. Contraband is declared a liberating act, "a revenge taken against the State." It is the "legal businessmen" which are most often in the way, ILD board member Mario Vargas Llosa wrote in his prologue to *El Otro Sendero*; the underground economy is "in many respects, more authentically hardworking and creative than that which usurps the title of 'legitimate.'"

Economically, *El Otro Sendero* is a wild scientific fraud. The book asserts that the key to generating economic growth, is the legalization of the non-criminal portion of the underground economy—the street vendors, microbus drivers, piecework, handicrafts, etc.—those who are "underground" because they do not pay taxes, or register their "businesses" legally. But this sector of the economy is nothing but disguised unemployment: Its labor productivity is so low that its total tangible output is negligible from a macroeconomic standpoint. Its only real importance, like that of any pool of unemployed, is as a *potential* labor force for the industrialization of the continent. The effect of the ILD's proposal to turn the least productive sector of Ibero-America's economy, into the foundation of the entire economy, would be to collapse productivity in Ibero-America back to the levels suffered by Europe during the Middle Ages!

The ILD's actual economic program, is to tap the largest section of the underground economy—narcotics trafficking—as the source of funds to pay the debt. De Soto and

other top staff members of the ILD in Peru, still insist publicly that that is not the case, but there are indications this pretense may not be maintained for long. Peru's ILD has started an investigation into "informal capital markets," top ILD staff member Enrique Gherzi Silva reported in a recent interview with this author in Lima. He admitted that illegal capital markets, are almost 100% fed by the drug trade. Other members of the ILD network on the continent have been more open on the drug-money legalization plan.

Carlos Ball, board member of the newly established sister institute in Venezuela (also named ILD) initiated a campaign for the legalization of drugs in February with a signed editorial in *Diario de Caracas*. In Colombia, the ILD works closely with Ernesto Samper Pizano, Fidel Castro's friend who has headed the drug legalization lobby in Colombia for almost 10 years. Samper Pizano was campaign manager in the 1982 elections for Alfonso López Michelsen, one of the first politicians on the continent to call for legalizing the drug mob, so Colombia could use their "earnings" to pay its debts.

The ILD, however, is not merely engaged in an academic exchange of ideas on economic solutions. *El Otro Sendero* stresses that the enemy in Ibero-America is mercantilism, the concept that a government's job is to regulate the economy, to assure the greatest possibilities for development of both the individual and the general good. Neither morality, nor national interest, are legitimate grounds for interfering with the "laws of the marketplace," *El Otro Sendero* insists, and any state which attempts to do so, can and must be resisted—by any means necessary.

Unless the "mercantilist governments" of Ibero-America willingly legalize the underground, terrorism like Shining Path's savage war against Peru will spread across the continent, De Soto argues. Is this mere "prophecy"? De Soto and other ILD members warn they have excellent contacts with "the underground." Gherzi reported the ILD is organizing "workshops" in Lima's peripheral shanty-towns to study *El Otro Sendero*, and its program to defend the underground.

Lima's *Caretas* magazine challenged De Soto in a November 1986 interview that "the title of his book seems to suggest that Shining Path seems to be a real and important pathway and not simply a psychopathic and terrorist expression of our time." De Soto answered: "I do not believe that [Shining] Path proposes a program, and if it has one I don't know it. But historically the solution to the problems of many countries has been so-called 'purifying' violence, violence which has been undertaken by an active part of the population, giving way to a change in things . . . in Peru the revolution has begun. The status quo will not persist." On May 14, 1987, Shining Path's newspaper, *Nuevo Diario*, identified the "informal economy" as providing "the bases for a new economic system [which] is gestating in the very innards of our economic system. . . . There is a real possibility that these forces may liberate themselves in the future." The newspaper of this "Path" titled its article, "Lima, final

terrain of the class struggle? The contraband and illicit traffic market." Does De Soto reject this meeting of the two Paths? *El Otro Sendero* is definitive. "The informal institutions and the protected space they have created, now permit anyone to face the mercantilist state instead of succumbing to its yoke."

Liberalism plus liberationism

The parallel in language between organizers of the "popular church" and the "popular businessman" is not accidental. *El Otro Sendero* is dedicated to Gustavo Gutiérrez, the father of liberation theology, Gherzi revealed in his interview. De Soto dedicated his book "to the competitive workers and businessmen of Latin America, formal and informal, who with their efforts are tracing the other path. And to be sure, to my left-wing friends, whose ideals I share, with the hope that we shall also coincide in the means to achieve them." Asked to whom De Soto was referring, Gherzi answered: to Gustavo Gutiérrez, San Marcos psychology professor Max Hernández, and Christian Democrat Héctor Cornejo Chávez. De Soto is closest to Gutiérrez, Gherzi reported. Gutiérrez is the "spiritual father" of De Soto's children, and a regular visitor to his home. Gherzi is "my closest collaborator," De Soto wrote in *El Otro Sendero*, "All my ideas have been discussed with him before being written." Gherzi described himself as a committed Marxist, when he met with *EIR* reporters three years ago. This time, Gherzi preferred to call himself "a liberal." Is the alliance between the Peruvian-Swiss banker and the liberationist merely personal?

An answer is found elsewhere, in Michael Novak's book, *Will It Liberate? Questions About Liberation Theology*, released a few months before *El Otro Sendero*. Like De Soto, Novak works closely with Project Democracy and the National Endowment for Democracy in the U.S. A "lay theologian" based at the American Enterprise Institute in Washington, D.C., Novak dedicated his book to two leading members of the ILD network, Mario Vargas Llosa and Venezuela's Carlos Rangel, and praises De Soto's proposals. *Will It Liberate?* proposes a dialogue between Latin American liberationists, and proponents of "North American liberation theology." The latter he defines as those, like himself, committed to implementing the "liberal society."

Adam Smith, says Novak, is the father of "North American liberation theology." Little difference in conception of man and God exists between these two "theologies," he argues. The difference in economic strategies between Smith's and the Sandinistas' theology, "should not blind the unwary to a powerful unity of aim. . . . The theology of both the Americas is 'an option for the poor.'" In the ILD, the two "theologies" have joined forces. De Soto explains in *El Otro Sendero*: "For being a system that consisted in the government of a regulatory State depending on private elites which based themselves on state privilege, *mercantilism was vigorously opposed by both Karl Marx, the father of communism, and Adam Smith, the father of economic liberalism.*"