

## Andean Report by Peter Rush

### Mercantilism surfaces in Peru

*A group of businessmen is challenging the idiocy of the liberal economists, and demanding industrial development.*

**A**t a moment when the “free-market” ideology peddled by the International Monetary Fund (IMF) and the governments of the developed countries has seemed to conquer the thinking of businessmen even in the Third World, a strong current opposing it has sprung up unexpectedly within the business community of Peru.

A 5,000 word, two-page ad appearing in *El Comercio* of Lima on April 3, signed by almost a score of Peruvian businessmen, tore apart the liberal, anti-protectionist ideology of the Liberty and Democracy Institute (ILD), the darling of the IMF circuit, and raised the banner of “mercantilism,” as the only viable route for Peru and other underdeveloped countries, to ever develop and industrialize.

The ILD, under its head Hernando de Soto, has for years been promoting total deregulation of industry and total elimination of tariffs, and has championed what it calls the “informal economy.” This is the economy of “microproducers” and cottage industry, the street vendors and dope pushers, whom de Soto and the ILD consider the true entrepreneurs of Peru. Because his attack on real industry suits their purposes of preventing development of the Third World, the IMF and its backers in the United States and Europe have made a hero out of de Soto, and have widely promoted his book *The Other Path*.

In their ad, the businessmen, members of the Research Institute for National Economic Development, called the ILD’s bluff. The ad showed that the ILD case against industry boils down to a demand that domestic in-

dustry must compete, without benefit of tariff protection, in international markets, and must go out of business if it cannot match the “operating efficiency” of others. The ad demonstrated that this is a hoax, and that operating efficiencies of Peruvian industries were often the same as in foreign countries, or even higher.

The difference, the ad pointed out, is in the fact that overall productivity is not only dependent on operating efficiency, but on levels of physical and social capitalization, including such factors as capital intensity, level of technology, infrastructure, ability to use economies of scale, and other factors. The improvement of productivity can only grow with overall development of the economy; it cannot come overnight, nor by sheer act of will. “Obtaining high productivity is not a precondition for development, but a goal of overall development, since improving productivity is development itself.”

The ad then demolishes the ILD case, pointing out that every developed country today, from Britain to the United States to the nations of Europe to Japan and South Korea, has employed the so-called “mercantilist” or “neo-mercantilist” policies associated with U.S. Treasury Secretary Alexander Hamilton and with the German economist Friedrich List, often called the political economy of the nation-state. The opposing, liberal argument, draws its inspiration from the discredited and nowhere successfully applied Physiocratic notions that only primary production of agriculture should be developed.

The appearance of the ad has sparked a furious debate within Peru. The April 12 edition of the daily *Hoy* published a commentary, “Mercantilism and Industrial Development,” by Manuel Hidalgo, defending the viewpoint of the ad, and pointing out that ILD head De Soto is not only working with the IMF, but also recently met with Henry Kissinger. The article said that the ad “may now make it possible, outside of electoral politics, to unify a common national will for accelerated development.”

The day before, the daily *La República* had also covered at some length the debate between the faction of industrialists who had signed the ad, and the liberals of both the ILD (which is backing the left in next year’s elections) and the right-wing coalition the Fredemo. A survey just taken of industrialists revealed that 43% call themselves mercantilists, as against only 34% identifying themselves as liberals.

To help sharpen the terms of the debate, *EIR*’s office in Lima quickly organized a seminar on the subject, which drew 30 people on April 20, including many managers and executives of companies, to hear author Luis Vásquez speak on “The Battle for Integration: Mercantilism versus Liberalism.” Vásquez identified liberalism with the rule of usury and the suppression of industrial development, and made the case for why a backward economy must be protected if it is to develop.

The debate may also be a factor influencing Peru’s President Alan García. On April 22, following a meeting in Colombia to celebrate 20 years of the Andean Pact, García gave a speech in which he reiterated that the only path to economic development for Ibero-America is a full-fledged common market, a notably “mercantilist” proposal.