

Hernando de Soto and his institute's mission: organize Nazi shock troops

by Gretchen Small

Hailed internationally as the free trade economist who has discovered the program to "save" the developing sector, Swiss-Peruvian businessman Hernando de Soto now finds himself the subject of raging scandal and ethics investigations in Peru, the country which most suffers from his policies. In March, senators and deputies from various political parties called for the formation of parliamentary commissions to investigate foreign financing of De Soto and his base of operations, the Institute for Liberty and Democracy (ILD). The calls followed an exposé in *Oiga* magazine on March 18 which documented that De Soto, who brags that he is Peru's "informal President," is a paid agent of the United States government.

De Soto and his ILD are indeed agents of foreign powers, but that is only part of their sinister story. This economist, whose policies Presidents Ronald Reagan and George Bush publicly endorsed, has set out to apply the mob-rule methods tested by the Nazis in the 1930s, to destroy every institution, independent organization, or private business in Peru—for a test case for the entire Third World—for the benefit of the international financial institutions for whom this Swiss Nazi works.

ILD agents have been organizing in the *barrios* and rural communities of Peru for more than seven years, mobilizing the country's miserable poor into shock troops to be deployed in what the ILD openly declares is "class warfare" on behalf of the World Bank's "structural adjustment" program. The ILD has committed itself to thus eradicating from the globe all traces of the mercantilist policy upon which the United States was itself founded.

Less known is that the ILD is the culmination of a project to merge Adam Smith's "traditional libertarian theory," proclaimed as the "credo" of De Soto's gang, with the organizing apparatus of Moscow-aligned Liberation Theology, to constitute one of the most important strategic weapons to be deployed on behalf of the Anglo-American new world order against the sovereignty and very existence of Third World nations.

The ILD is rapidly extending its operations across the globe. Its agents have been trained for Kenya, the Philippines, and South Africa. The institute has signed accords for

the implementation of its "institutional reform" programs with the governments of Bolivia, El Salvador, Nicaragua, and Sri Lanka. Others are under negotiation with Cameroon, Honduras, and Guatemala.

These nations should first examine the conditions in Peru, created by ILD policies, which the institute claims as its showcase. There, the higher the death toll from cholera rises, the more fanatically the ILD forbids the government from making any expenditures—except, of course, for foreign debt payments. Thus far, it has helped keep the government from undertaking the sanitation and water improvement projects required to end the cholera epidemic now spreading out from Peru. The ILD has made itself into the executors of the decree by the international banking community that Peru be eliminated outright. "Peru and Bolivia will disappear," as Citibank chairman John Reed told Brazil's *Veja* magazine in August 1990.

Conditionality and Kant

The ILD agrees with the World Bank's thesis that "persistent poverty and lack of growth [in developing sector countries] are due more to a lack of appropriate policies than to a lack of capital investment or suitable technology," De Soto stated in his keynote address to a major ILD conference in Washington on Jan. 28, held to promote its policies among U.S. government bureaucrats and the international "development" mafia. De Soto's speech was a remarkably blunt outline of the real intent of the ILD program.

Citing Immanuel Kant as one of the spiritual fathers behind his libertarian "credo," De Soto declared that the ILD believes that the only acceptable policies for the developing sector are the "major structural adjustment programs" pushed by the World Bank. Those are the programs which outlaw large-scale infrastructure projects, technological and scientific centers, industrial projects or energy-intensive agriculture as too "expensive" for the majority of mankind and promote instead deindustrialization and depopulation. The key question which the ILD has always addressed, he went on, is how to crush the "powerful minority vested interests" that have resisted these "adjustments" for more than a decade. The problem lies with both business interests and "de-

veloping country authorities and technocrats [who] disagree with structural adjustment,” and therefore “often prefer highly visible, direct assistance projects, such as the construction of public housing units, to institutional reforms,” he said. “The ILD’s mission is specifically to address the contradictions which block sustainable structural reform.”

De Soto cited the ILD’s property titles program as an example of its work. By mobilizing shantytown dwellers to demand titles to their shacks—most built with only reed mats—the ILD kept them from organizing for better housing programs, which De Soto denounced as creating pockets of “privileged” few. Thus the ILD “defeated the vested interests of developers seeking to protect their capital-intensive construction projects,” he crowed.

Making the ‘informal revolution’

Like the Nazi recruits from demoralized, angry members of what Marx termed the *Lumpenproletariat*, De Soto explained that the political base of the ILD are “informals”—the ugly euphemism used by the ILD for the millions of unemployed and underemployed urban and rural poor, who have been relegated to living in garbage and who subsist off petty crime or by selling trinkets on the streets, because Peru lacks precisely the capital-intensive development which De Soto’s gang is determined to eradicate. The only way to “do away with vested interests and special privilege in Peru,” De Soto explained, was “if the informal sector were mobilized as a class. . . . This notion of class and class interests is at the core of every proposal developed by the ILD.”

De Soto’s program for revolution is to turn the impoverished against their only hope for advance. “The informal class is the majority,” he said. “The ILD has begun to mobilize that class toward structural change. . . . Our initiatives are based on a new form of class analysis which recognizes the informal sector as the emerging entrepreneurial and democratically inclined class in the developing world. . . . This represents a revolutionary departure from the old mercantilist systems.”

De Soto did not mention, however, that his ally in organizing the “informals” is his close friend, and his child’s godfather, Gustavo Gutiérrez, the Peruvian priest who is known as the father of Liberation Theology. De Soto was referring to Father Gutiérrez when he dedicated his book *The Other Path*, to “my Peruvian leftist friends whose goals I share,” ILD staff member Enrique Ghersi informed this author in a 1987 interview.

De Soto’s call for class warfare at the ILD conference was hailed by Assistant Secretary of State Bernard Aronson, who spoke next. De Soto is “an authentic Latin American revolutionary, not just in Peru, but throughout this hemisphere.” The Enterprise for the Americas Initiative of George Bush “seeks in a comprehensive way through new approaches to debt, investment and trade to further fuel this revolution”; this is the path to “authentic perestroika,” he said.

Thus far, wrecking national development in the name of the free market has been most successful in Chile, “under an authoritarian government structure,” Aronson acknowledged. He added that now “the real challenge . . . is whether or not these reforms which, as De Soto has said, challenge vested interests, can be conducted with the stresses and strains of a democratic process.”

Nobody bucks ‘Rasputin’ De Soto

After 11 years of operation, the ILD is now putting to the test whether or not it wields sufficient power in Peru to finally steamroll those “vested interests” which claim the right to form a nation-state.

The mistake many of ILD’s opponents made at the beginning was to treat the institute as simply a think tank. The think tank sheep’s skin provided the ILD a useful cover over the years, helping it shape a national consensus behind its radical libertarian economics, while ILD organizers quietly set about building a political machine of “informals,” recruiting street vendors, block association leaders, bus drivers, etc. into ILD “study groups” and campaigns. The institute entered the political arena directly around 1984, establishing itself as policy advisers to the group of bankers who inhabited the government of President Fernando Belaúnde Terry. The ILD’s next big advance came when they sold his successor, President Alan García, on part of their “reform” program, after he retreated from his initial battle for sovereignty against International Monetary Fund usury.

By 1990, the ILD controlled the political economic agenda in Peru. When ILD board member Mario Vargas Llosa, co-author of De Soto’s *The Other Path*, was roundly defeated in the presidential elections by voters outraged by his promises to implement harsh “adjustment” policies, the ILD never missed a beat. In the weeks between the first round and the runoff vote, the ILD wrote the program for the political novice who won the second round, Alberto Fujimori. Within a year, De Soto had earned himself the epithet, “the Rasputin of Lima,” the man who runs Fujimori. De Soto provided Fujimori with contacts in the international financial community; helped shape “shock therapy” austerity program which increased, within one week, the number of Peruvians living below the absolute poverty line from 7 to 12 million; advised Fujimori to hire two former U.S. State and Defense Department officials as “anti-drug” advisers; drafted a Peruvian-U.S. “anti-drug” accord which hands sovereignty over to U.S. forces; drafted decrees and bills weakening the judiciary, Parliament, and the presidency itself.

ILD staff were named to serve as economics minister (former ILD director of Economic Research Carlos Bolona), ambassador to the United States (Roberto MacLean, De Soto’s personal lawyer), and to head the state radio and television (José María Salcedo). When Fujimori’s cabinet modified one of De Soto’s proposed bills on “democratic rulemaking” in March, the ILD staffers announced they were pulling

out of the government. The split between De Soto and Fujimori "is likely to damage the international financial community's image of Peru," London's *Financial Times* warned. Fujimori backed down. On March 29, Fujimori invited De Soto to a meeting at the Presidential Palace, after which the two shook hands for the cameras. In addition to discussing the drug program, "the President also asked me to take charge of every one of the negotiations for Peru's reinsertion into the international financial system," said De Soto.

The message was clear: No one bucks Rasputin.

Foreign agents

Clearly much of De Soto's power comes from the international financial interests which have made his policies a conditionality for financial aid to Peru. This includes the U.S. government. The largest financier of the ILD is the U.S. State Department's Agency for International Development. The next largest source of funds is the Center for International Private Enterprise (CIPE), the business sector arm of the National Endowment for Democracy (NED)—itself financed by tax money through Congress—which became infamous in the Iran-Contra scandal as the core apparatus of the secret government's Project Democracy. Also providing major funding for the ILD is the Smith-Richardson Foundation, well-known as the foundation of the U.S. Central Intelligence Agency.

The AID champions the ILD program. Not only did it finance the ILD's first annual Program Review conference in January in Washington, but AID's Assistant Administrator for Latin America and the Caribbean, James Michel, gave the opening address, and no fewer than 37 other AID officials also attended. Some 200 U.S. government officials, representatives of think tanks, the U.N., IMF, World Bank, private U.S. banks and press turned out to hear De Soto's class warfare program.

Battering the institutions

With that backing, the ILD is proceeding steadily to put through the program it wrote for Fujimori. Its plans are built around a set of institutional reforms, establishing "democratic rulemaking," administrative simplification, property rights and popular mortgage, judicial reform, and anti-corruption programs. Each is designed to destroy specific institutions and business interests operating in the country. The anti-corruption program, for example, is designed to eliminate the enemies of deregulation within government and industry. De Soto was quite frank when speaking before his supporters in Washington. "We are engaging in this anti-corruption campaign because we have found that most people understand anti-corruption much better than they understand deregulation," he stated. "Our approach is basically to use an anti-corruption system to bring in deregulation."

ILD literature explains that its anti-corruption campaign aims to bring about "widespread reform of the country's

political and legal institutions," by creating a public complaint system, where individuals accused of corruption by the "public" will be investigated by an anti-corruption committee—run by the ILD, of course. "Corruption"—i.e., opposition to the ILD—in both the public and private sectors, is targeted.

The ILD is proud that its program is based on the Independent Commission against Corruption in Hong Kong, which the ILD says has been operating since 1974 with "success in combatting deeply entrenched corruption within the police force." If the drug trade is entrenched in Peru now, watch out after this program. The British Crown Colony of Hong Kong is widely acknowledged to be among the most drug-ridden economies, and its police force is notorious for being on the take from the drug trade!

What passes for the anti-drug program targets the Peruvian military and private business sector, in fact. In Washington, De Soto countered criticism that the ILD program would not cut coca cultivation, by explaining that the drug program had a different purpose in any case. The accord "entails an entire revamping of the Peruvian police force and Army," and "provides an opportunity to put the right reforms in place for the nation. The enemies of change in Peru are formidable," he stated. "The real opposition to our reforms has come from the Peruvian private sector, which hides behind protective legislation. These vested interests can be beaten with the reforms proposed for fighting drugs. People will rally around a program to fight terrorism and drugs and the dissolution of the Peruvian state."

No institution is exempt. ILD literature reports that the purpose of judiciary reform is "the creation of parallel systems of justice." The "democratic rulemaking" program aims to dictate policies to the Parliament and President, through referendums and "popular consultations," a form of mob rule—run by the ILD, of course. All law in the country should be based on "the extralegal norms of the informals (harking back to John Locke's state of nature)," ILD pamphlets state.

What can the purported beneficiaries of the ILD's concern, the "informals," hope to gain? A piece of paper granting them ownership of their existing misery, and new-found indebtedness to banks, according to ILD's property rights and popular mortgage programs. The institute's fanatics define "have-nots" as "those without property titles." Once they have those titles, "mortgages can be placed on property in one day with absolute security for the lender. Foreclosure can be carried out extrajudicially in a period of two weeks, in contrast to the three to four years needed, at best, to foreclose on a regular mortgage," another pamphlet states.

Under the ILD's program, Peru's resources are handed over to the foreign bankers, while Peruvians are "free" to hold a paper title to whatever tiny piece of dirt they have scraped together for their families' survival. Today, that is equivalent to holding title to cholera.