If Peru's Fujimori is to be reelected, he needs to change his economic policy

by Luis Vásquez Medina

In late September, it was announced that, since mid-1998, the Peruvian government has been in a situation that could technically be considered "fiscal bankruptcy." Since that time, tax revenues have failed to cover government expenditures, among these, payment on the foreign debt. Last year, service on the public foreign debt alone cost $1.8 billion. This year, it will be $2 billion. To cover the deficit, the government has broken the promise made by President Alberto Fujimori in 1993, and has resorted to using money from privatizations. Of the $7.928 billion that the government has received from all privatized state assets since 1992, only $3.316 billion remains. The rest has evaporated, spent on exchanging one piece of debt paper for another, and on straight cash payments to pay down the debt.

After more than nine years of Peru's "reinsertion into the international financial community," promoted in 1990 by Hernando de Soto, Javier Pérez de Cuellar, and Mont Pelerin Society fanatic Carlos Boloña, what was true from the beginning is now evident to all—that "reinsertion" was a shameless fraud against the nation, which a President who was honest, but suffered from the disease of pragmatism, accepted at a moment when the very existence of the nation was in jeopardy due to Shining Path narco-terrorism.

Foreign debt is looting

The discrediting of nationalist measures against the International Monetary Fund (IMF), caused by the debacle of Alan García's schizophrenic and corrupt government of the mid-1980s, together with the widespread fear induced by the narco-terrorist rampages, facilitated the application of IMF measures, which were designed to assure the brutal looting of the Peruvian economy. The figures are chilling. Between 1990 and the first half of 1999, Peru serviced its public foreign debt to the tune of nearly $12 billion. That debt in 1990 was $13.361 billion, according to the Peruvian central bank. Despite having paid an amount nearly equal to the totality of the public foreign debt in that period, and taking into account the supposed reductions of the 1996 Brady Plan, the public foreign debt of Peru today stands officially at $19.190 billion. This same looting process through "bankers' arithmetic" has occurred in every Ibero-American country, as well as throughout the nations of the so-called Third World.

But that is by no means the entirety of the Peruvian economy's foreign debt. As seen in **Table 1,** to have even an approximation of the true amount of the foreign debt, one must add in the following categories:

TABLE 1
Peru: real foreign debt
(billions $)

	1990	1999*
Public foreign debt	13.4	19.2
Private foreign debt	3.9	9.7
Foreign portfolio investment	—	2.0
Dollar-denominated domestic debt	—	6.2
Total	**17.3**	**37.1**

* 2nd quarter
Source: Central Reserve Bank of Peru.

1. *The foreign debt of the national banks and companies.* The methods of the banking and financial "opening" produced the "privatization" of the foreign debt. The private foreign debt today is $9.703 billion, where in 1990 it was only $3.891 billion. This debt is the weakest link of the Peruvian financial system, because it is very short-term (12-month) debt and because it represents net outflows of capital of more than $2 billion a year.

2. *The misnamed "foreign portfolio investments,"* which in reality are short-term financial placements, do not represent genuine forms of investment which boost production by factories or other entities. Rather, it is flight capital that entered the stock exchange, attracted by high rates of profit. This capital began to leave the country in 1998; this year, more than $1.2 billion left the country. This continuous hemorrhage from the stock exchange is today estimated to be $1.960 billion per year.

3. *The internal debt denominated in dollars,* contracted from the subsidiaries of foreign banks by Peruvian nationals, primarily for consumer expenditures. This internal debt must be considered foreign debt since, given the way it was contracted. It has to be paid off in dollars, and, in the end, this capital will be repatriated. The total estimated amount of this kind of debt is $6.215 billion in 1999.

Considering all these categories, the real global debt of

TABLE 2
Peru: capital outflow in 1998
(billions $)

Public foreign debt service	1.7
Private foreign debt service	1.5
Foreign disinvestment in the stock market	1.2
Total	**4.4**

Source: Central Reserve Bank of Peru.

Peru surpasses $37 billion. In 1998, debt service represented a hemorrhage of $4.391 billion to the Peruvian economy (see **Table 2**); in 1999, it will surpass $5 billion. It is this looting, and not military expenses (which have been minimal: $1.2 billion total during 1992-1999), which is the cause of the employment, hunger, and misery afflicting the Peruvian people.

Presidential elections

When there is virtually nothing left to privatize, and when the fiscal measures sponsored by the World Bank have proven a total failure (the collapse of fiscal revenue by 11.2% between January and August of this year, and the 16% decline in custom tariffs this year, are revealing figures), the economic picture offers little good news for the reelection aspirations of President Fujimori. Today, more than ever, Fujimori needs to make an about-face in his management of the economy, if he truly wants to be reelected for a third term in May 2000.

The reelection of President Fujimori is, nonetheless, key to sustaining the victory that has been achieved in the war against narco-subversion. All the more so since, minor subtleties aside, the opposition's program is the globalist program to do away with the Peruvian nation-state.

The opposition candidates are: Alberto Andrade, the mayor of Lima, linked to the oligarchy's Inter-American Dialogue; the ineffable Castañeda Losio; Jaime Salinas Sedo, a retired general and self-proclaimed emulator of the Jacobin Venezuelan President, Hugo Chávez; Alejandro Toledo, chief economist of the CLAE organization (a speculative pyramid that led to the impoverishment, and in some cases suicide, of thousands of small savings depositors in 1995); and the APRA party, with Alan García at the head, who has become the number-one admirer of Margaret Thatcher's lapdog, British Prime Minister Tony Blair, whose increasingly discredited "Third Way" is a "liberal" approach to enforcing bankers' austerity. Amidst all the verbiage, they have one program in common, the same program dictated by the human rights non-governmental organizations and such international financial institutions as the IMF. That program can be summarized in two points:

First, dismantle the victorious anti-subversion policy of the Fujimori government, put the military and civilian figures who led the war against Shining Path and the MRTA narco-terrorists in the dock of the accused on trumped-up accusations of "human rights violations," and begin thus to dismantle the Armed Forces and other national institutions which are preserving Peru as a sovereign nation-state.

Second, they all propose to continue, under various cosmetic guises, the current free trade economic program imposed by the international banks. In the case of Andrade, with his economic adviser Javier Silva Ruete, a prominent member of the Inter-American Dialogue, this means reducing taxes by means of accelerated privatizations. In the case of Alan García, he hopes—in the "Third Way" style of Tony Blair—to impose a small tax on privatized companies and to "intensively attack corruption." In the case of Toledo, he has been the candidate who has been least concerned with hiding his servility to the usurious banks. His call for handing over the money from privatization to the private banks, supposedly to "reactivate" the economy, has turned him into the favorite candidate of the usurers, both within and outside the country.

There are indications that President Fujimori, with his excellent political nose, has begun to realize the fraud implied by the IMF measures. In early September, speaking to the Asia-Pacific Economic Cooperation summit in New Zealand, Fujimori spoke a truth that surprised many, and alarmed the bankers: "Liberalism created an ephemeral illusion of well-being, in view of the fact that the opening of the markets was taken advantage of by short-term capital with purely speculative intentions," he said. He asked that "financial globalization not end in frustrations for the poor nations." The nervousness of the major international banks was revealed by the immediate reaction of Carlos Boloña, agent of the fascist Mont Pelerin Society in Peru, who said that, with such comments, "Fujimori is [only] doing a favor for his friend, the Prime Minister of Malaysia," Dr. Mahathir bin Mohamad, "in his confrontation with mega-speculator George Soros."

Economic, political suicide

However, the Fujimori government's reaction to its own near-bankruptcy has been both absurd and counterproductive, especially for its own reelection aspirations. Before stepping down from his post in mid-October, Economics Minister Joy Way increased the selective tax on sale of gasoline and its derivatives, raising Peru's gasoline prices to European levels. He also announced that, before the end of the year, the government would be launching the sale of public bonds on the market (initially for 1 billion sols, Peru's currency), to stabilize the fiscal accounts. Rather than resolving problems, these measures will cause the President to lose the support of the population, won primarily by his successful policy against the narco-terrorist threat.

It is time for the President to do what frightens Boloña, and to take up the example of Malaysian Prime Minister Mahathir: Call a halt to the looting represented by the foreign debt, and defend the Peruvian currency with exchange controls. Given

President Fujimori in the Japanese Embassy compound after a terrorist takeover had been ended. His successful war against narco-terrorism, and a third Presidential term, are threatened by his failure to break with neo-liberal economic policies which are destroying Peru.

the ongoing disintegration of the international financial system, Fujimori must not only implement immediate measures to defend the national economy, but also should associate Peru with other nations, such as Mahathir's Malaysia, China, India, and others, to forge a new international financial system, a New Bretton Woods—as U.S. Democratic Party Presidential pre-candidate Lyndon LaRouche has designed.

Among other defensive measures against international usury, it is urgent that Fujimori seize the vast resources of the mining cartels, thereby resolving Peru's fiscal problem and obtaining the capital necessary for the great infrastructure projects the country needs, which in turn would resolve the serious unemployment problem. Also, the government should rescind the extensive privileges of the large mining companies, the majority of which are owned by companies of the British Commonwealth, which exploit Peru's mineral wealth without contributing anything to national development.

Thanks to the infamous exploitation contracts, the mineral export companies have a tax-exception status that places them above all other national companies. Thanks to the World Bank-designed fiscal reforms, Peru's own companies pay an 18% general sales tax, 2% a year of the total fixed assets of the company, a 30% income tax, and a 5% payroll tax, which is paid as an "extraordinary solidarity tax," to which must be added another 22% of payroll as contributions to social security, which in practice provides very limited services.

The mining multinationals have an entirely different tax framework, according to contracts they signed with the Peruvian government. Also, they are covered by MIGA, an international insurance that anticipates possible changes in conditions contracted by foreign investors. These companies are given a special tax incentive that reimburses them for any general sales taxes they pay, supposedly in return for their investments; they are allowed to stretch out their losses over an eight-year period, thereby reducing profits reported (and taxes paid) in any given year; and, they are authorized to write down up to 80% of their income tax payments, as an investment tax credit. In other words, these measures provide a paradise for the British Empire's mining cartels, which are already exploiting mines for their colossal profit yields.

The case of gold

Take a look at the case of gold in Peru.

The Canadian company Newmont, which belongs to Soros and is associated with the Peruvian group Buenaventura, of the Benavides family, the same which brought George Bush to Lima a couple of years back, owns the Yanacocha mine in the department of Cajamarca. This mine, the most profitable in the world, is practically a mountain of gold (whose exploitation is carried out with the open pit method, and which uses a technology which applies sulfuric acid as a reducer). Operating costs are on the order of $107 per troy ounce. Newmont exploits mines in Nevada, with operating costs of $209 per troy ounce; in Minahasa, Indonesia, with costs of $130 per troy ounce; and in Russia, with costs of $172 per troy ounce. One can already imagine Soros's fabulous profits with the rise in gold prices on the international market, which are already above $300 per ounce, and which could surpass $400-500 in the near future. Gold production in Peru is growing at 10% a year, and it is expected that with the recently opened Pirina Mina—a mine even more fabulous

TABLE 3
Peru: production of the principal gold mines
(tons)

	1997	1998
Yanacocha		
(Newmont, Canada)	32.8	41.3
Misquichica		
(Barrick Gold, Canada)	—	1.8
BHP Tintaya		
(BHP, Great Britain)	1.0	1.2
Others	13.8	20.6
Total	**47.6**	**64.9**

Source: Ministry of Energy and Mines of Peru.

than Yanacocha, owned by the Canadian firm Barrick Gold, which is associated with George Bush—gold production in Peru could grow by 25% by the end of the year. Costs of production in the new Pirina mine are not expected to be more than $60 per troy ounce (see **Table 3**).

Between 1992 and 1997, total mineral exports surpassed $13 billion, but what the multinationals paid for rights of exploitation in this period did not even reach $200 million (see **Table 4**). This is the cold balance of nearly ten years of the export model promoted so heavily by Felipe Ortíz de Zevalos, disciple of Massachusetts Institute of Technology economist Rudiger Dornbusch and defender of Harvard "whiz kid" Jeffrey Sachs.

This return of the economy to a 19th-century mining enclave, has not been good for the country. The Fujimori government must end this situation, and begin to implement a serious tax regimen for the mining multis. This would not only easily resolve the country's fiscal problem, but would provide sufficient capital to initiate construction of great infrastructure works capable of reducing the country's unemployment and launching the real development of the country. This is the only way to go about winning reelection.

TABLE 4
Peru: mining exports and royalties
(millions $)

	Royalty and mining rights payments	Exports
1992–94	59.8	5,263.2
1995	48.5	2,615.7
1996	53.9	2,654.4
1997	37.5	2,730.8
Total	**199.7**	**13,264.1**

Source: Ministry of Mines and Energy of Peru.

Robert Mundell wins Nobel Prize for supply-side quackery

by Richard Freeman

On Oct. 13, the Bank of Sweden awarded the Nobel Prize in Economics to Robert A. Mundell. The Columbia University economics professor is the intellectual author of the magician's brew called supply-side economics, which policy destroyed the U.S. physical economy and helped build up the world's biggest speculative bubble. It also created Federal budget deficits larger than any in the history of the United States.

Thus, in making its 1999 selection, the Bank of Sweden and the Royal Swedish Academy (the Bank selects the recipient, and the Academy presents the award on behalf of the Bank) have shown, if nothing else, a remarkable degree of consistency in maintaining the criteria by which they cull Nobel Prize winners in economics from the ordinary dullards in the profession.

In an Oct. 12, 1994 statement, the world's foremost economist, Lyndon LaRouche, commented on the Nobel committee's criteria: "The notorious perversity of the Swedish Royal Academy's views on economics are attested by the fact, that excepting the case of Maurice Allais [1988], no economist has been awarded the Nobel Prize for economics who has not either personally caused a major economic catastrophe for at least one nation, or concocted a theory in defense of such a ruinous delusion."

Some readers may dismiss this statement as an "exaggeration," but consider just two of the recent winners:

1997: Robert Merton and Myron Scholes. Merton, Scholes, and Fischer Black developed the Black-Scholes model, an unintelligible, linearized mathematical formula for making money on the pricing of derivatives and stock options. The Long Term Capital Management hedge fund utilized this model in the highly volatile world of derivatives. In September 1998, on a derivatives position of $1.25 trillion, LTCM failed, and nearly brought down the world financial system.

1993: Robert Fogel and Douglas North. Fogel's 1974 book, *Time on the Cross,* defended black chattel slavery. Using statistics, Fogel attempted to show that the ante-bellum South's use of slave-labor in agriculture, produced a higher output per dollar invested, than the agriculture of the free, technology-proud American farmer.