Will IMF Get Its Way In Peru?

PERU

As Peru's foreign exchange reserves dwindle to zero, the Peruvian military is split down the middle on whether to accept the International Monetary Fund austerity program required for preventing a default on Peru's foreign debt this June. While U.S. government and banking circles express confidence that Peruvian President Francisco Morales Bermúdez has finally decided to make substantial concessions in the direction of the drastic "stabilization" conditions demanded by the IMF, there is room for grave doubts that he will be able to persuade his military government to carry out the measures. What UPI calls "some of the most powerful military men in the country" are not only resisting further austerity, but counterposing a moratorium on Peru's foreign debt obligations and an expansionary economic program to revive the flagging productive sector of the economy.

There is a broad consensus inside Peru that a debt moratorium of some sort will be required; but military decision-makers are holding back on such a declaration for fear of the economic reprisals the New York banks and the Carter Administration would come back with. The Administration's appointment of Harry Shlaudeman — internationally recognized as the organizer of the Chilean truckers' strike and other features of the 1973 coup d'état against Salvador Allende — as U.S. Ambassador to Peru is a clear warning to Morales to stay in line.

The pro-moratorium forces are depending on the generation of sufficient international support to be able to break the threatened U.S. blockade.

Wall Street's interest in Peru is to try to use that country — and whatever remaining influence Peru has within the Third World — against those forces currently resisting IMF demands for a bailout of the private banks and the dollar international monetary system. Morales Bermúdez's top economic advisors, recent *InterPress Service* interviews indicate, are hoping that the IMF will be "less rigid" in negotiations with Peru if only Venezuela and Saudi Arabia could be persuaded to channel their oil wealth into the proposed IMF "Witteveen Facility" for rolling over Third World debt. As co-chairman of the Commodities Committee of the Paris North-South Talks (Conference on International Economic Cooperation), Peru is in a position to forcefully promote both the Witteveen facility, and the "Common Fund" for raw materials inflation — both Wall street debt collection schemes.

If Peru's leaders prostitute themselves to the IMF, by attacking OPEC or organizing the Third World against European and Japanese commodity-importers on the pricing question, they will not only be delivering a setback to the world's pro-development forces, but will be alienating those nations capable of supporting Peru against U.S. economic warfare.

Peru and the Banks

Peru at the moment has no foreign exchange reserves, and requires on the order of $500 million in *net* inflow of foreign capital beyond that required to meet $700 million debt service payments due this year.

Early this year, Citibank began arranging a $200 million package to meet what the Peruvian Central Reserve Bank (BCR) estimated to be the year's minimum foreign exchange needs to avoid a default. Citibank found regional bankers throughout the U.S. generally unwilling to throw good money after bad, but preferring to write off previous loans to Peru. Citibank then told the Peruvians that they would not get a penny from the U.S. commercial banks until they have won solid approval from the IMF for their economic stabilization policy.

The IMF says it is negotiating with Peru for second and third tranche loans worth only $90-100 million. In return, the Fund is demanding conditions so severe that all Peru was shaken when they were first delivered by an IMF mission in mid-March. The Central Reserve Bank's letter urging rejection of the demands reflected the strong opposition of both Peruvian military men and government ministers to further sharp budget cuts. The BCR warned that "these measures would require an unacceptable level of political and economic repression."

An Interministerial Commission of nine ministers, headed by Industry Minister Gen. Gaston Ibañez O'Brien, was set up over the protests of pro-IMF Economic Minister Luis Barúa. In its May 6 report to the military cabinet, the Commission recommended a series of measures to expand the economy — measures which the bi-weekly *Caretas* characterized as "the position of Industries Minister Gaston Ibáñez O'Brien and of industrialists and merchants overwhelmed by the recession."

Peruvian Interministerial Commission Program

1. Stop the mini-devaluation system and stabilize the exchange rate to alleviate the growing cost of imported agricultural and manufacturing inputs, and restore the system of subsidizing such essential imports.
2. Substantially increase wages and salaries to stimulate consumption and introduce new cash into the monetary system of Peru.
3. Freeze gasoline prices for the present.
4. Stop payment on the foreign debt.

Source: points 1, 2, and 3, *Caretas*; point 4, *UPI*

These recommendations were seriously discussed, but not agreed upon, at an extraordinary cabinet session. In response to the rejection of the concept of monetarist "stabilization" by ministers representing the government bureaucracies — and fire power which would have to be used to enforce austerity — the monetarist "economic team" handed in their resignations. This grandstand play was intended to force Morales Bermúdez to accept — at least — a "compromise" version of the draconian IMF package.

BCR president Santisteban's resignation note lamented that, "on the basis of the various financial measures taken during 1976, and especially in June, we were about to achieve the objective of returning the country to its basic financial equilibrium...(but) that would require fortitude and coherence, especially when it was agreed that the government would negotiate with the (International Monetary) Fund..." Santisteban's May 11 note complained that implementation of new austerity measures "was being dangerously delayed."

Economic Minister Barúa's May 13 resignation note protested that the stabilization program imposed by Peru's New York banking creditors in June-July, 1976 worked well until December, but "is now menaced by death because of the refusal of other ministries to accept budget cuts and reduce their deficits to acceptable levels...There's no reason to object to negotiating with the IMF," Barúa complained.

After a weekend of feverish consultation, President Morales Bermúdez accepted Barúa's resignation, but allowed the BCR budget-cutters to stay on as a sop to their friends in the international banking community. As *Agence France Press* put it, "The IMF lost the skirmish, but won the battle."

It remains to be seen, however, who will win the war.

The Battle Ahead

Evidence over the week since the dismissal of Economic Minister Barúa seems to bear out the *Caretas* and U.S. Agency for International Development judgements that Morales Bermúdez will inevitably buckle under to increased austerity rather than face a blockade should Peru officially default or declare moratorium on payments due next month. Yesterday, Peruvian Foreign Minister De la Puente announced that Peru would oppose Third World declaration of debt moratoria at the upcoming North-South talks. And Finance Minister Barúas's replacement, Walter Piazza Tanguis — chosen to divert the dangerous private sector panic about tight liquidity into a desireable focus on dismantling the state sector and further depressing working class wages — is widely thought to be a more committed monetarist than Barúa himself. *Caretas* expects Piazza Tanguis to impose a program "acceptable" to the IMF in late May "if all goes well."

Squared off against the IMF and its Peruvian supporters are a sizable section of the military and bureaucracy. The popular-based Revolutionary Socialist Party (PSR) — partisans of the "Third Worldist," pro-development policies embodied in the "Peruvian Revolution" initiated by former president Gen. Velasco Alvarado in 1968 — are organizing for debt moratorium and the international support needed to face economic warfare.

The cabinet shakeup by no means resolves the crisis: the biggest battle still lies ahead. While the monetarist forces might control monetary policy — as they have for the last two years — they face extremely strong bureaucratic and military resistance to the proposed fiscal and state sector industry budget cutbacks. The Banco Continental reports that real levels of government spending were constant in 1976 and capital-spending was down only slightly — despite the cutback goals outlined in July. The Interministerial Commission's insistence on raising wages and preventing IMF-mandated cuts in arms and other budgets indicates that the monetarists will continue to have tough sledding in the immediate future. The 1976 budget deficit closed at 30 percent of expenditures, and current projections indicate at least as much for 1977.

Although the "stabilization" measures adopted with increasing vigor since June-July of 1976 have achieved none of their goals of reducing budgetary and balance of payments defecits, the social and economic cost to Peru has been tremendous. Central Reserve Bank figures show that money supply (M3) was slashed by a full 17 percent last year, after adjustment for the official 40 percent inflation. The result is widespread bankruptcies in the productive sector, growing unemployment (on top of already grave levels of unemployment and underemployment), and sharply reduced consumption levels. Official statistics show that the real buying-power of the minimum wage was cut by 27 percent during 1976, according to the Revolutionary Socialist Party.

Reduced demand has led to requests by hundreds of firms for government permission for mass layoffs — a demand which was resisted by Labor Minister Galindo Chapman until his ouster last week. While the government claims to have raised "non-traditional exports" by

Central Reserve Bank Program

Measures "acceptable" to the IMF which are ready for implementation in late May.

1. Raise gasoline price from 60 to 65 soles per gallon
2. Raise interest rates from the present 17 percent to a rate closer to the inflation rate to stimulate internal savings.
3. Cut public spending.
4. Create a "parallel market" (i.e., free exchange market) — to encourage return of dollar deposits abroad.
5. Accelerated mini-devaluation of the sole to 85 soles per dollar by the end of May (a 10 percent devaluation).

Source: *Caretas*

85 percent in the first quarter of 1977 a close look shows that the increase is due primarily to coffee earnings, with only about $2 million worth of textiles and $5 million worth of shipbuilding coming out of manufacturing.

This real economic situation of Peru is bound to worsen. First quarter exports ran at $362 million, only 6 percent above the 1975 and 1976 yearly rates. The present drop-off of mineral and coffee prices on the world market, plus the total failure of the anchovy fishmeal season due to overfishing, will result in declining exports rather than the 60 percent increase required to keep up with burgeoning debt-service costs.

The IMF-monetarist "solutions" will totally destroy the Peruvian national economy. The only concrete alternative on the table is that proposed by the PSR — debt moratorium in order to clear the way for the industrial and agricultural development of Peru.

PSR Program: Debt Moratorium

The following are excerpts from an interview published in Caretas *magazine, with Peruvian Revolutionary Socialist Party (PSR) representative Dr. Antonio Meza Cuadra.*

Q: What measures would stop the possibility of an inflationary spiral after the increase of wages (demanded by the PSR -ed.)?
PSR: We have called for a moratorium on the foreign debt. This is not only an economic measure. It is a political measure. It needn't be global, but could be selectively applied to those sectors which could progressively enter into the moratoria.

Q: What would happen if Peru didn't find international support. Should we persist in this and decree a unilateral moratoria?
PSR: The conditions have been defined in various international forums and at one time Peru was within the group which led this thesis (for debt moratorium -ed.). This should be done according to a strategy which permits all the countries in similar situations to participate (in the moratoria).

Q: Do you think that the socialist countries, whose foreign debt is $40 billion, will accompany Peru in this thesis?
PSR: I think that rather than be concerned about whether we are accompanied or not, it is necessary to identify a sovereign position on our part and gain the greatest support of various countries which are in similar situations.

Q: Have you taken cognizance of the repercussions which a unilateral moratoria would cause?
PSR: Yes, we know that it is not an easy measure. It is evident that this could bring as a consequence an imperialist blockade, in which our products would be boycotted — as was our iron ore — but I think that is a calculated risk which must be taken. Surely it would be a sacrifice. But I am sure that our people could face it if that sacrifice were collectively shared and not excluding the eternally privileged.