EIR Economics

Peru hurls challenge to IMF at Seoul meeting

by David Goldman

Peruvian Finance Minister Luis Alva Castro's refusal to let the International Monetary Fund near its debt renegotiations with commercial banks, announced Oct. 10 before the IMF's annual meeting, has called the question on the Fund's 41 years of neo-colonial control over the Third World. Alva Castro warned the IMF's plenary session in Seoul, South Korea, "Peru has every intention of paying its debt to commercial banks and we are having talks with them now. But be it known to representatives of nations gathered here that Peru has no interest in nor is it convenient to belong to an organization that serves to benefit only one country."

Peru's challenge to the IMF has begun to spark a debtors' revolt throughout the developing sector. Peru's President Alan García, in his address to the United Nations General Assembly on Sept. 23, declared, "I hereby announce that at the next meeting of [the IMF] in Seoul, we will demand decisions on the reform of the monetary system and the distribution of world liquidity in a fair manner. Otherwise, we are not interested, nor is it to our advantage, to belong to an agency which only benefits a single country."

This is the first time a debtor country has faced down the threat of excommunication from international financial circles; only a day before Alva Castro spoke at Seoul, U.S. Treasury Secretary James Baker III threatened, in a less-than-oblique reference to Peru, that countries which "attempt to go it alone" in resolving their debt problems would not get new loans from governments, the IMF, or commercial banks.

Alva Castro did not merely reject the IMF's ruinous policy, but called for a "new world order" that would include a new international organization to replace the IMF, a new international currency to replace the IMF's Special Drawing Rights, and a plan under which the new organization would absorb the foreign debt of the developing sector. Peru's stance corresponds to the recommendations of *EIR* Contributing Editor Lyndon H. LaRouche, in his 1982 book, *Operation Juárez*.

All indications are that the banking cartel, which has had nightmares about something like this for a decade, was taken entirely unawares. At least the London *Financial Times* did not believe Peru's nerve would hold. In its Oct. 10 edition, the morning of Alva Castro 's IMF address, the newspaper claimed that he had adopted a "low profile" at the IMF meeting, "in marked contrast to the vehement way in which President Garcia lashed into the IMF and its policies in a speech to the U.N. last month."

The article was entitled, "Peru Shunned For Adopting Hardline Payments Policy." It ranted, "Peru's hardline policy of withholding interest payments on its $14 bn foreign debt has left it deeply isolated at the IMF annual meeting." Bankers, the *Financial Times* continued, denounce Peru as a "pariah," and express "disappointment" that Treasury Secretary Baker did not "single out Peru specifically when announcing his initiative on the debt problem on Tuesday."

Now the fight is on, not least due to Baker's dismal intervention. Baker's grim demand for "economic restructuring"—that the developing nations sell off national assets at bargain-basement prices—followed weeks of media buildup for a plan to provide new loans for the debtors, a plan which never materialized.

Baker's 'structural adjustment'

Reports before the IMF meeting of a $50 billion U.S. lending plan designed to head off the debtors' revolt, suggested that the United States wanted to buy time before the international banking system blew up. Apart from demanding wholesale "structural adjustment" for the debtor countries, Baker proposed (with no timetable for a decision) $9 billion in World Bank lending over the next three years—negligibly more than the World Bank would lend in any event. He also said the big American commercial banks, which now hold perhaps a quarter-trillion dollars of non-paying Third World paper, should lend another $20 billion. But the chairmen of Citibank, Chase Manhattan, Morgan, and other big U.S. banks boycotted the IMF annual meeting for the first time in over a decade, saying they didn't want to even talk about more loans.

It appears the IMF steered the United States into confrontation with the debtors, ridiculing Baker's plan to use the World Bank, the IMF's sister institution, as a source of bail-out money. The World Bank's treasurer told the *Financial Times* Oct. 7 that it would "never be so cute or so naive" as to guarantee bank loans to bankrupt debtors, as Baker had suggested.

Reuters reported that day, "Major industrial nations are angry at the lack of consultation over U.S. initiatives to boost the role of the World Bank in the debt crisis and warn that the bank should not relax its lending policies. U.S. Treasury Secretary James Baker came in for 'diplomatic but firm' criticism last night when he unveiled proposals to a closed-door meeting of the five leading industrial nations."

Even before Baker's speech, "criticism from the industrial countries had already forced Baker to withdraw another part of the plan, a proposal to juggle IMF and World Bank funds to create a new lending pool for the poorest countries of Africa," according to one wire report from Seoul.

Brazil's Finance Minister Dilson Funaro, whose country stands at the top of the Third World debt list with $100 billion in unpayable loans, dismissed Baker's plan as "timid." Commercial bankers at the meeting ridiculed Baker's demand that commercial banks cough up another $20 billion.

The U.S. budget deficit

Perhaps the bankers stayed home in the knowledge that Baker, the morning after his threats against the debtors, might not be able to write a valid check on the account of the U.S. Treasury. In the absence of congressional approval of an increased U.S. debt ceiling, the Treasury borrowed $5 billion through an "off-budget" vehicle, the Federal Financing Bank, in a move it had earlier described as "unprecedented and dubious." This emergency measure covered Federal finances for a few days, but tipped the applecart in Congress. A chagrined House of Representatives decided Oct. 10 to let the Treasury stew in its own juice, arguing that if it could borrow without approval, it need not pass any emergency legislation.

The disruption of government finances, however brief, will further what IMF Managing Director Jacques de Larosière demanded in the closed Interim Committee meeting: swift, brutal, drastic action to cut U.S. government spending.

The IMF says that the U.S. budget deficit, financed by almost $150 billion per year in borrowing from abroad, is the big problem in the world economy, since it sucks up the world's available cash, leaving Third World debtors unable to borrow. That is a hypocritical lie: IMF austerity, which wiped out at least 8 million jobs in the industrial nations by shutting down exports to developing countries, is the cause of the U.S. budget deficit in the first place.

De Larosière's lie has, nonetheless, an element of truth: The American economy now depends on a subsidy from the rest of the world, its trade deficit, equivalent to more than 15% of all goods consumed internally. The subsidy is financed, on the one hand, by debt-service collection from the developing sector, and, increasingly, by foreign borrowing, such that the United States is now a net debtor nation, borrowing $130 billion per year.

A forthcoming study by *EIR* will show that in the crucial area of American trade with Ibero-America, i.e., in intermediate durable goods such as steel, chemicals, cement, and non-ferrous metals, the United States is now buying at *half* of the 1980-81 price of the same goods.

That is what Peruvian Finance Minister Alva Castro referred to in his charge that the IMF benefited only one country—meaning the United States. The sharp increase in U.S. interest rates in the late 1970s, he argued before the IMF meeting, forced up the value of the dollar, destroyed the developing sector's terms of trade, and opened these countries to IMF takeover.

All this demonstrates the idiocy of Baker's position: As the world's major borrower, and major dependent on concessional terms in international trade, the United States has every interest in a new monetary system and expanded export markets for capital goods.

A week before the South Korea meeting, America's delegation to a meeting of the General Agreement on Trade and Tariffs, the IMF sister-institution handling world trade, had already shown the instruments of torture to the debtors. U.S. Deputy Ambassador Michael Smith told the developing nations that protectionist barriers would go up against their trade with the United States, unless they agreed to let American banks move into their countries. Since most developing-sector countries have, under IMF orders, devalued their currencies against the dollar by 50-90%, giving U.S. banks the run of the place, this would amount to selling off their economies a dime on the dollar.

Yet, Ibero-America is no longer making the bulk of its money by selling raw materials to the United States, but rather the core components of an industrial economy, as well as consumer goods. The continent could live much better off what it produces, even under conditions of a virtual trade boycott, than now, when it must yield huge portions of its agricultural and industrial product to its creditors.

The bankers are not so stupid as to imagine they will avoid a debt crisis: Their failure to show up in Seoul proves they do not even want to talk about avoiding it. Their concern is to grab any national assets available—Mexican oil, Chilean copper, Colombian coal—before the debt bomb goes off.