Documentation

Peru: Bretton Woods system is bankrupt

Excerpts from the text of Peruvian Finance Minister Luis Alva Castro's address to the annual meeting of the International Monetary Fund/World Bank in Seoul, South Korea, delivered on Oct. 10.

Delegates:

In attending this yearly meeting of the International Monetary Fund and the World Bank, we are not simply complying with the ritual all governments have been compelled to observe for the last 40 years. We come with the purpose of having our say in this annual assembly, which through the action of all must become a landmark in the course of this organization. We are not moved by arrogance when we express our will that this assembly mark a decisive moment in our history; we are moved by the urgency of a people which has been severely hit by the world crisis.

We believe the seriousness of this crisis has impressed upon the rulers of all countries the need to undertake without delay a profound change in the international economic order. In our view, this leads necessarily to a fundamental change of the operating conditions of an organization such as the IMF, as has been proposed by the Group of 24 and the Non-Aligned group. Therefore, as the President of Peru anticipated in the General Assembly of the United Nations, we have come to Seoul to urge you to take decisive steps toward changing and reforming the international monetary system. We have come to tell you that the government of Peru wants to participate actively in the task of building a new international economic order, and commits itself here and now to pulling together the task forces this assembly may consider necessary to create toward that end.

The declaration of non-convertibility of the dollar in August 1971 marked the end of the international monetary system as it was sanctioned in 1944 at the Bretton Woods conference. . . .

It so happens that the financing of the U.S. economy, concretely its projection as a world power, was realized under the balance-of-payments deficit Jacques Rueff called a "tearless deficit." In 1971, the non-convertibility of the dollar theoretically put all currencies at the same level. Nonetheless, the U.S. economy's strength allowed it to continue accumulating "tearless deficits," but, unlike previous years, these deficits were not associated in any way with a loss of its gold reserves. The lack of a convertible currency left the Bretton Woods accords contentless, thus demanding the reconstitution of the international monetary system. But the United States, which should have led the reform of the system and the creation of a true international monetary pool, did nothing of the sort.

. . . The floating rates which resulted from the declaration of non-convertibility of the dollar brought about a permanent instability of the international monetary system. . . .

The imbalance created by the oil surplus of the Mideast oil-producing nations added to the disturbances already mentioned. . . .

Since the 1974-76 recession limited the international purchasing power of Third World countries, the only way they could continue buying was through receiving the money necessary to maintain and even expand their imports. These purchases were financed by oil surpluses, which from 1974 until 1978 amounted to $180 billion. This is when the commercial banks, apparently successfully, ran a gigantic recycling of financial resources through Third World countries, both producers and non-producers of oil. Third World debt, naturally, increased in a like proportion. . . . The IMF evaded its responsibilities and became the accomplice of Third World countries' over-indebtedness.

The crisis of the '80s

Towards the end of the '70s, the United States decided to radically change its economic policy.

. . . Thus, the United States engaged in a restrictive monetary policy, with the ostensible purpose of fighting inflation. The immediate consequence of this policy was a massive capital influx to the United States, and the ensuing international recession. At any rate, the essential point is that the new monetary policy of the United States triggered an international recession. . . .

The massive influx of capital into the United States enabled it to suffer a relatively less severe recession than other countries. It also allowed it to follow a policy of expanding public spending while reducing taxation of the rich. The rest of the world financed their budget and trade deficits.

The industrial restructuring policy the United States had been following for years was carried out in the framework of a new international division of labor. The oldest industries—steel, for example—were hard hit and forced into transformation due to imports from countries with more competitive industries. Advanced industries, mainly the weapons industries, were not affected by the competition, but rather were favored by state demand—that is, by foreign financing. It is important to note that the U.S. budget deficit can only be reduced if there is a dramatic change in its economic policy. Even so, the volume of the public debt is so great that the mere maintenance of its service makes the reduction of the deficit difficult, even if there were an extreme limitation on defense spending. . . .

Faced with these developments, which significantly limit the possibilities of European recovery and have put the Third World in dire straits, the IMF has done nothing, other than to contribute to the concentration of all capital in a single country, and imposing adjustment policies whose only purpose—in the case of Third World countries—is to generate trade surpluses to enable them to pay their foreign debt.

The crisis of the '80s has hit Third World countries with uncommon violence, firstly affecting the price of our countries' export products. . . .

In the second place, the prices of industrial products have continued to rise, reduced inflation notwithstanding, so that from 1981 to 1984 alone we can see a deterioration of terms of trade on the order of 25% for Latin America.

In the

substantial increase of Third World payments in that area. . . .

In the fourth place, protectionism in industrialized countries—in the United States, particularly—has seriously affected Third World countries. . . .

The IMF, instead of automatically providing resources to the affected countries, has been exclusively interested in imposing adjustment policies oriented toward deepening the recession and thereby freeing up resources earmarked for payment of the foreign debt.

Thus the IMF, by becoming a watchdog for the international banks, adds a covert conditionality to the severe conditionalities attached to its loans. Consequently, we declare that the conceptual basis on which the Bretton Woods System was built is bankrupt, and the IMF, therefore, has lost its legitimacy.

Our conclusions are two.

First: We maintain that the IMF does not adjust its proposals to scientific criteria, because it ignores the structural nature of the unbalanced balances of payments; and because it isn't consistent in the application of its own criteria, since it uses different formulas for similar situations, depending on whether it is dealing with a Third World country or the most industrialized country, and because it is a political institution which reproduces old-fashioned colonialism in its purpose of containing national efforts towards structural transformation.

Second: We believe that, for all practical purposes, the monetary system agreed to at Bretton Woods has already collapsed and has proven unacceptable to the South, inefficient for the North, and anachronistic for all.

The case of Peru

The reduction of Peru's purchasing power in the world market has been truly dramatic in the '80s. Our export earnings have dropped by more than 25% between 1980 and 1984. Cheapening raw materials, but also protectionism in the industrialized countries, explain this result. During this period, the prices for our raw materials dropped by nearly 40%, and our manufactured exports dropped by approximately 20%.

The evolution of our terms of trade, which limits the real purchasing power of each dollar generated by our economy, was also unfavorable. We lost approximately one-third of the purchasing power of our dollars during this same period. But our imports also fell by approximately one-third between 1980 and 1984, and by around 50% between 1981 and 1984. Despite this, and reflecting both the increase in interest rates as well as massive capital flight, our total debt increased by approximately 50%. In a word, an economic absurdity which translated into a catastrophe, of which the IMF is not innocent—something which can be readily seen if one evaluates the economic policy adopted in our country in the past few years, and the pathetic results achieved.

Therefore, we do not want to forget the IMF's letters of intent, which in his speech to the United Nations Assembly, the President of Peru called "letters of colonial submission to injustice." And when an organization responds solely to the interests of the eldest of its members, it is clear that we are faced with an imperial policy. The letters of intent imposed on different governments of Peru have served in effect as genuine instruments of submission. They have contained demands for devaluing our money, contracting our money supply, and reducing public expenditure, as if the imbalances of the Peruvian economy originated in excessive internal demand.

But the IMF has gone much further, assaulting our very sovereignty by conditioning the signing of the letters of intent to the application of economic policies which in effect have nothing to do with the reestablishment of a balanced balance of payments. On the contrary, the IMF forced Peru to "open up" its economy even to the point that this adversely affected—as in 1973—the balance of payments. . . .

In addition, we should remember that the stand-by agreement signed in April of 1984 indicated that Peru should introduce "changes in land-holding regulations." This, of course, means a complete change in the spirit of the agrarian-reform law. The letter of intent also indicated that Peru should make its labor legislation more flexible, which means nothing less than putting an end to the stability of labor upheld in Peru's Constitution.

We cannot fail to mention the establishment of untouchable blocked accounts in the central reserve bank under the stipulations of successive agreements with the IMF. Thanks to them, the central government and the state companies continued paying service on foreign debt that had been rescheduled with the creditors. Thanks to them, resources in the central reserve bank were sterilized, thus serving as an additional factor of economic depression. In this same regard (tying the hands of the public sector), the thesis that net domestic credit should go only to the private sector was inscribed.

The application of these policies—which in fact violate the political constitution of Peru—can only depress our economy and impoverish our people further. Thus, levels of production per capita in Peru are today equivalent to those of 20 years ago, and less, by around 17%, than what we had 10 years ago. Regarding agricultural production per capita, the evolution has been still more dramatic. Production of potatos, a native tuber of Peru and the basic food for millions of Peruvians, has been reduced by half in the past 20 years. And if we take the decade of the '80s as a period of reference, we find that the collapse has been by one-third—that is, 66% of the last 20 years' decline. While less dramatic, a similar situation has occurred with corn production, also an essential food in the old Inca diet. We produce about one-third less per capita than 20 years ago.

We will pay no more because we cannot pay more, and because if we did, we would endanger the very existence of our society, not to speak of the survival of the democratic system. We also want to tell our creditors that we are ready to talk directly with them, but will not tolerate IMF mediation.

Certainly, within this general picture of deterioration, the wages and salaries of our scarce labor force that has a permanent job have been affected. Between 1980 and 1985, the average workers' wage has fallen by 40%, with the public employees the worst affected.

Foreign debt

Regarding foreign debt . . . Peru reaffirms the position it has been following since July 28 of this year. In the first place, Peru feels that, in view of the origin of the foreign debt, it is indispensable that both debtors and creditors accept the principle of co-responsibility. It is impossible that creditors consider the debt problem to be mainly a problem of the debtor nations. This is a joint problem of creditors and debtors, and perhaps even more of the first, who continued to offer credits knowing full well they could never be repaid.

In any case, we assume our responsibility and we say to our creditors that, while we recognize the existence of the debt, we also maintain that we are in no condition to pay it, at least not until the world economic situation is radically altered. Nor do we seek to overturn the chessboard by our own force, we reaffirm our decision to pay a maximum 10% of the value of our exports in debt service.

Naturally, we do not expect other countries to adopt this same decision. Ten percent is not a magical figure; it is merely a figure compatible with our current possibilities, but it is important inasmuch as it is linked to the value of our exports, that is, to our purchasing power on the world market and, above all, because it expresses the sovereign decision of a poor nation and rescues thereby its right to decide its own destiny.

We have said before the United Nations that we do not fear the inevitable repercussions that having adopted such a decision may bring us. We know that the creditors of the Third World, and in particular, the United States, have shown no flexibility on the question up until now. We also know that they are prepared to respond with sanctions of all sorts against anyone who dares to make a sovereign decision. But at the same time, we are also convinced that the time of reason must arrive.

Our decision expresses above all a vital necessity of our economy. We will pay no more because we cannot pay more, and because, if we did, we would endanger the very existence of our society, not to speak of the survival of the democratic system; that is, the system of universal suffrage and balance of powers that characterizes our civilization.

We also want to tell our creditors that we are ready to talk directly with them, that we are not willing to tolerate the mediation of the IMF, plainly and simply because the policies recommended by that organization have served the interests of only one nation. They have been useful in making Third World countries generate surpluses which enable them to pay the debt, no matter what happens to their peoples. We demand, therefore, direct dealing, but also a prompt meeting of the United Nations on the debt problem. Peru is applying an economic emergency program for the medium term, intended to overcome the structural ills that our nation has suffered. This program contains the following fundamental elements:

A) To battle the recessive inflation that is severely assaulting the neediest layers of our population.

B) To reactivate the national productive apparatus, generating more employment and productivity, and channeling financial resources and internal savings toward production.

C) To reduce the budget deficit through increased income, effective austerity in public expenditures, and a voluntary and responsible reduction of the defense budget.

D) Determined action against terrorism and the drug trade, evils which have joined together in the undermining of our society. On the one hand, terrorism takes advantage of misery that has been aggravated by the application of recessive adjustments, which we have criticized for destabilizing our democratic system. And, on the other, the illicit and immoral drug trade, which has evolved to satisfy the growing consumer demand in the great country to the North.

As you can see, we have a program of structural adjustment that is coherent with our reality, that appeals to our own internal efforts, and that has received the support of all Peruvians, despite the sacrifice it entails. We are convinced that an effort of this sort, which is already yielding its first fruits, can rely on the resolute support of the entire world community, and should not be labeled with such a hurried and mistaken classification as a "vain, isolated effort," which could damage projections for its future growth.

International monetary reform

Obviously, solving the problem of the debt would ease the path towards reforming the international monetary system. However, it is not an indispensable condition for setting the reform in motion. Rather, the reform of the international monetary system would eventually incorporate the problem of the debt and perhaps provide a more rational solution. In any case, profound changes in the international monetary system are indispensable. They are indispensable because commercial and financial relations between nations can no longer function within the old system. Indeed, this system has already ceased to exist, and it is the United States which now governs international financial relations and the world economy itself. Therefore, we demand that reform of the system be initiated without further delay.

We affirm that the IMF has not fulfilled the role that was assigned to it at the time of its founding. In principle, that organization should encourage the balanced expansion of international trade within the framework of exchange stability. Nonetheless, never since the day of its creation has trade expansion been balanced. On the contrary, imbalances have been the essential characteristic of world trade as it has developed in the postwar era. And it is the unbalanced development of trade and international finance which has permitted the vast expansion of exchanges which finally led to the inconvertibility of the dollar. . . .

We therefore insist on the need to convoke a conference of the United Nations on international money and finances. To arrive at this conference, it is evident that we should hold a series of preliminary events and, above, all, create a task force which can prepare the documents to be discussed along the lines of what we are presenting to this assembly.

Above all, we must say that we seek to create a new international monetary order and, in case the reform of the IMF does not adequately advance, an organization to supersede it. That organization, unlike the IMF, would be made up of all nations and maintain a better balance among its members to permit a more democratic functioning. In fact, no one country should have the possibility of a veto. . . .

In relation to the task force that we propose to this assembly . . . we feel that this task force should be given a maximum deadline of six months to prepare a proposal for the total reform of the international monetary system. In this sense, we understand that—on the basis of the outline indicated—the task force should address the following themes:

1) The nature of the international currency to be created.

2) Guidelines for distributing international liquidity.

3) The assignment of international liquidity to the countries of the Third World.

4) The functions of the new international monetary institution.

5) The operational guidelines of the international monetary institution.

6) The possibilities of absorbing the foreign debt of Third World countries in the context of the new international institution.

In concluding its report, the task force would deliver it to the Secretary General of the United Nations, who would convoke the international conference that we have proposed within a period no greater than four months.

Delegates: We have come to this annual meeting to have our say and to communicate the urgency of a nation fighting for its survival which believes that affirming its sovereignty is a necessary condition for its development. We have come for no other purpose than to demand an end to the era in which a single country can impose upon the rest the conditions of their existence. We do not accept that a country should exist independent of any controls, while the countries of the Third World are condemned to starvation in the name of re-establishing economic equilibrium.

We affirm that the international imbalances and, therefore, our own imbalance, will only be corrected when certain nations agree to pay the price of their excesses in every area. Nonetheless, we are not prepared to wait for this to happen. We have decided to take our destiny into our own hands, to sweep aside to the extent possible the obstacles to our progress. In this sense, we reaffirm our readiness to pay a maximum of 10% of the value of our exports to service our foreign debt. But we have come to demand a total reform of the international monetary system. A reform that has as its guiding principle equality of distribution of resources and the safeguarding of the sovereignty of states.

In conclusion, we consider it appropriate to reiterate before this assembly the message that the President of Peru left with the United Nations: "Let the United Nations representatives here gathered know that we are neither interested nor find it convenient to belong to an institution which serves for the benefit of one nation. . . . Therefore, we reiterate that the IMF shall not be an intermediary between us and our creditors. In dialogue with our creditors, we will accept no conditions that mortgage our economic sovereignty, nor will we accept the imposition of political conditions, signing letters of intent as instruments against our people."

Thank you.