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Peru's Alan García builds 'an economy of national defense'

by Mark Sonnenblick

"We need an economy of national defense in the face of the approaching crisis in order to bring together the forces and resources of the country for a single objective," Peruvian President Alan García alerted his countrymen July 28.

The first anniversary of his regime came amid U.S. government prompting of rumored military coup plots to eliminate him. "García keeps stomping all over our shoes and, frankly, the position here is to let him wallow in it [the coup rumors]," Reuters reported that "a senior U.S. official" stated on July 31, while complaining about García's economic program. "Everyone is waiting for him to fall on his ass," added an intelligence official. Intelligence and White House sources "said political stability in Peru was rapidly deteriorating and a military takeover could be possible in a year" unless García reversed course on the economy.

On the other side, encouraging García to stick to his guns, is Pope John Paul II. He deployed to Peru Joseph Cardinal Ratzinger, his chief aide in the struggle against Marxist "liberation theology" and other forms of Gnostic heresy. At the end of his week-long visit, July 24, Ratzinger told the press that García's polices "are based on the greatest Christian moral values."

The Pope took the unusual step of sending two messages in one week to encourage Peru's bishops to continue seeking "the unity of the nation, overcoming partisan antagonisms." He said he was following "with great concern . . . the intensifying of political and social tensions," and urged the military and police "to inspire the confidence of the population, thus helping strengthen coexistence with the law. . . ."

John Paul's own Peruvian visit in February 1985 shaped the climate of optimism which resulted in García's election a few months later. García's economic and social policies are extremely close to those advocated by the Pope and Ratzinger.

Rebuilding the economy

Though García astonished his enemies by the serene humility with which he spoke July 28, the economic accomplishments of his first year in office are quite impressive. Peru's industrial output was 14.2% higher in the first half of this year than last. "For the first time in 10 years, the people's income rose more than the increase in prices," while inflation was cut drastically, from a 250% rate when he took office to 68% during his first year. Peru made remarkable progress, despite the deepening world depression of commodity prices, causing a $500 million annual loss of export income.

García also began reversing the structural decay of the economy. This is shown by the fact that employment grew faster in productive sectors such as industry (by 4.8%) than in overhead sectors such as commerce (by 2.4%) and services (by 1.9%).

Garcia rededicated Peru to "the task of rebuilding the economy and reorienting our history." He outlined a method for marshaling all the nation's resources to do so, despite terrorism from within and despite an impending step-up of economic warfare from outside. His plan defends Peru's dollar reserves, channels private profits toward productive investment, and makes active defense of Peru's democracy "an obligatory commitment of all citizens."

García's unique determination to swim upstream against banker threats will be severely tested in August. The grand finale of Peru's showdown with the International Monetary Fund (IMF) is to take place on Aug. 15. The IMF backed off in March and accepted a $35.5
Peru, while issuing a formal ultimatum that Peru pay $186 million more due it by Aug. 15. The IMF's ultimatum swore that if Peru did not pay, it would be declared "ineligible" for further IMF "assistance," and thereby lose all credits from its sister institution, the World Bank, and other sources.

The would-be global financial cop will once again be defied by Peru. García's state-of-the-nation message confounded expectations repeatedly voiced to the press by IMF spokesmen since April. They were cock-sure he would give up his policy of limiting foreign debt payments on July 28, and crawl back into the IMF fold by Aug. 15.

Far from retreating, García extended for another year the allocation of only 10% of Peru's export earnings to service the government's $10 billion foreign debt. In addition, he announced that servicing the private sector's $2 billion foreign debt in whose name "hundreds of millions of dollars have left the country, without any justification," would be included in the 10%. Decrees issued after the speech forbid all private companies from holding foreign currency and mandated that their debt payments be channeled via the central bank. The central bank would then pay creditors on a discretionary basis, should dollars be available.

During the past year, multinational companies with investments in Peru have abused their freedom of foreign exchange to drain "over $1 billion" out of the country, García reported. He banned all such transfers for the next two years. Armand Hammer and other "foreign investors" will receive dollar-demoninated bonds due in two years or immediately usable for "productive investments" inside Peru.

García explained the principle of equity on which he has structured Peru's economic relationships with foreign creditors: "If we are paid ever less for our oil, copper, silver, for our labor, how are we going to servilely pay the debt under the conditions they want. Peru set a principle. As much as they pay us for our work . . . that much will we pay for the debt, but without sacrificing development and consumption."

A corollary of this doctrine is that the 10% of exports ($320 million during the past year and probably less this year) is allocated to creditors according to their willingness to work with Peru. "It would be suicide to turn ourselves into net exporters of capital, in a situation in which new credits are not granted and the prices of our raw materials fall," García declared.

Peru will present its 280 private bank creditors with a plan for a moratorium on both interest and principal, Deputy Economy Minister Gustavo Saberbein announced July 30. He told Reuters, "Let's say that there [would be] a non-payment period for five to seven years, of which there would be no payment of anything during the first two or three years." Then, interest would be repaid at a reduced rate, with principal stretched out over many years. In his July 28 speech, García said, "Peru cannot accept either the interest nor the terms established for payment." For him, a 30-year loan from the Federal Republic of Germany at 2% interest is an example of "non-usurious" lending.

Hamiltonian economics

García's policy more and more resembles that which Alexander Hamilton, the first treasury secretary of the United States, put into effect when the new republic was born, saddled with debts. Hamilton also postponed, without repudiating, payment of the foreign debt. Hamilton knew the new government would have to use its powers to promote "the progress of manufactures," or be overpowered by the British.

García called on industrialists to exercise their "capacity for initiative and imagination" to find ways of producing more, using fewer imported materials. He said the Swiss firm Nestlé, with a near-monopoly on milk-processing in Peru, would face government action for insisting upon selling milk in imported cans, rather than powdered in plastic bags—at two-thirds the cost.

"The nationalist state cannot permit, will not permit, the formation of monopolies." García announced that the monopoly of credit would be broken by laws which forbid banks from lending to their own associates or from continuing to be "used as suction or as a lever by big groups to obtain public resources for their own activities."

Mexican 'tigers' eaten by IMF

Mexico's subjecting itself to a "stand-by agreement" with the International Monetary Fund (IMF) July 21, deprives Peru of the continental solidarity which would have virtually guaranteed its victory. It is precisely for that reason that Washington strategists James Baker III and Paul Volcker pushed the IMF to make a deal, any deal, with Mexico. And it is for that reason that the stolid monetarists of the IMF accepted getting egg on their face with a Mexican agreement which does not require the genocidal "economic shock" which is their institutional trade mark.

Mexican Finance Minister Gustavo Petricioli boasted July 27 that the novel gimmicks incorporated in his deal with the IMF came because his "tigers" waged a bloody battle for every concession.

García is going in the opposite direction, trying to reestablish the principle of "state rectorship" of the economy by curbing the power of private monopolies and foreign interests, while "rescuing in business and industry the capacity for initiative and imagination as a response to the present challenge."

In a series of three feisty interviews run as the lead stories in Mexico's *Excelsior* July 28-30, García offered a dramatic counterpoint to the demoralization brought to the millions in Mexico's labor movement and the ruling Institutional Revolutionary Party (PRI), by President Miguel de la Madrid's choice to take the IMF path.

Inside Peru, the old "Dope, Inc." apparatus displaced and stomped on by García, demands García "walk through the hole put in the IMF's wall by Mexico," as former Prime Minister Manuel Ulloa's daily *Expreso* put it. Outside Peru, the *Wall Street Journal*'s editorial,
men like Mexican President de la Madrid know that going into the tank would mean the seizure of Mexican assets abroad by creditors and most likely a loss of U.S. markets."

Excelsior asked García whether his confrontation with the IMF would lead to a military coup. He responded, "I don't think that the military in my country would be representatives of the International Monetary Fund. That's for sure. . . ." García poked fun at Presidents who fear to impose their nations' needs on their creditors: "An objective coup d'état takes place when a group of soldiers or civilians gets into a tank to take the National Palace; but an occult and subjective coup takes place when a ruler ceases to rule for his country, and turns himself into a peon of foreign agencies. That is where democracy is lost. . . ."

Documentation

García's interview in Mexican press

The following are excerpts from the lengthy interview with Peruvian President Alan García which the Mexican daily Excelsior *made its lead story July 28-30, shortly after Mexico committed itself to the International Monetary Fund.*

The International Monetary Fund is an obsolete institution, whose theory is inapplicable in Latin America and which only serves to maintain the injustice and asymmetry of the world economic system. . . .

To comply with that agency, we have signed letters of intent, devalued our currency, suffered agency, we have signed letters of intent, devalued our currency, suffered extremely high inflation and social conflicts. . . .

We are co-responsible for the debt for having permitted sell-out and colonialist governments to dominate our countries, and for not having done anything to prevent a handful of Latin American rich from having taken the dollars to Zurich, Miami, or New York. . . .

To receive new loans to pay old ones is a merry-go-round, in which we are poorer each time around. The loans are a myth because they are used to pay the previous ones. . . .

I have gotten tired of speeches, of great pronouncements, of slick characters who belch harranges in all directions. . . . The countries of Latin America [must] act today, or else we will not be independent; we must begin to unite ourselves today, or we will be mere slaves to our own incapacity. . . .

I know that it is a risk to act and say what I just said, but the risk must be taken; it is an imperious necessity. Actions are needed now.

For the first time, we are not making a demand, as has been done many times, for a new world economic order or on interest rates. Latin America and its history are plagued with demands. We cannot live in forums sending letters to the richest rulers on earth which nobody reads. . . .

The immense weakness which is the foreign debt, is, paradoxically, Latin America's greatest power. . . . If we don't know how to use that great power at this moment, we are going to lose one of the greatest opportunities Latin America has to be independent. You ask me if unity is possible; I answer you with a phrase from the Caribbean: Things are good because they are getting so bad. That is, it is a question of sitting down to wait, because we have already seen bilateral accords be signed many times and we know that all them have a trap inside, the trap of liberal economic theory, the trap of the financial merry-go-round, the trap of their not being complied with later, but the profound truth is that the peoples no longer tolerate them. . . .

Would you propose a meeting of Latin American Presidents?

What Latin America needs is a new political orientation, because if you put names on it and if you call it somebody's theory or doctrine, you are betraying it, because, as we know well and is very human, resentments, rivalries, and emulations, could eliminate that possibility. I would not go so fast to a President's meeting. What I would say is that we put our decisions, not our physical presences, into harmony.

The following is from Garcia's July 28 state of the nation message.

During the past 12 months, while the government limited payments of its debt to $320 million, on the other hand, under the rubrics of private debt of national companies and remittances of foreign companies, no less than $1 billion left the country. These two measures [limiting remittances] . . . mean neither expropriation nor confiscation, but only a temporary limitation so that the resources generated inside the country are retained here and used by their own owners for the productive investment the nation requires in these critical circumstances.

The entire country is witness and knows that bureaucracy is not the best manager of social resources. . . . We posed a different alternative which is neither liberal nor statist. We posed for the first time the need to direct the action of state and private economic agents towards national objectives. . . . This demands that we deepen the nationalist role of the state. Nationalism means that the state has authority and rectorship, since it is the synthesis of the national will, because the people elect their government to direct and orient, and not to be a passive spectator of disorder and egoism. What has to be done today is to break the satellization of our economy, which happens not only in the area of the foreign debt, but also in the dependency of our industrial structure. . . . We need an economy of national defense in the face of the crisis to harmonize the forces and resources of the country towards a single objective. We need the state to regulate initiatives and efforts, without falling into bureaucratism. That is the kind of state we have not had up to now. . . . Without a state which regulates credit, we have had banks which take in public savings to put them at the service of the groups which own the same banks. . . .

We don't want speculation, nor idle rents; we want work, initiative, and capital put at the service of national independence. . . .