

# 'A government that rules, directs, and guides the nation of Peru'

*The following is a slightly abridged version of Peruvian President Alan García's July 28, 1986 address to the Peruvian Congress, after one year in office.*

A year ago I outlined for you the policies of the new government, which we presented as a nationalist, democratic, and popular government. Today, 12 months later, in compliance with the Constitution, I am reporting to Congress to describe what has been achieved, the objectives that were fulfilled, and what the government plans to do in the future. I am addressing the representatives of the people with truth, which is the soundest reason, without arrogance, and with a humble attitude.

I will begin by saying that even though we have done something, there is still a lot to be done, that a lot more could have been done, and that if the government had taken stronger action and if it had demanded stronger support from the nation and its institutions, we would have had better results.

Yet we should admit that the task of reactivating the economy and reorienting our history is a gradual process that will be marked by setbacks and successes, which should neither exhaust our patience nor disappoint our spirit.

Therefore, today I am reporting to Congress to confirm the objectives of the government, which we will maintain despite the great economic and structural limitations that affect us, and despite the regressive influence of force and violence.

We intended and we still intend to overcome the crisis and improve the standard of living of our people, who have been hit by inflation, devaluation, and economic stagnation. We intended and we still intend to strengthen our independence by strengthening our historic, economic, and political autonomy. We intended and we still intend to improve the administration of justice by improving the distribution of wealth and by giving the people more decision-making power. We intended and we still intend to strengthen freedom, which is not a bourgeois delusion but an achievement for the spirit. We intended and we still intend to improve the moral standards of society by eradicating the idea that the state is something by which to profit and that social life is a way to promote selfishness.

We have achieved something in all these fields over the past 12 months, although not everything we wanted or everything we could have achieved, because we made several

mistakes and omitted several things. Therefore, despite the progress we made and despite the people's generous support, we do not have an overly triumphant attitude.

No one can be overly optimistic at the end of the first year of a five-year term, unless he is arrogant. Yet, no one can be overly pessimistic unless he is mean. The real assessment will be made later. Today, we must reflect carefully.

Mr. President: I would like to divide this message into four parts. First, I would like to report on the achievements in the work for the great national objectives. Second, I would like to explain to the country the scope of the situation we are experiencing. Third, I would like to reflect on the possibilities that we have for the future and, fourth, give a detailed explanation of the work done by each sector and of what we suggest for the immediate future.

I am using this approach because I believe that the annual address by the President, in his capacity as the representative of the people, should help the Nation reflect and should strengthen the people's will, so that we might all unite behind the same objectives. I believe that politics involves the art of teaching, because it must awaken the people's awareness. Nothing can persist without the people's awareness, because everything would be temporary. With the people's awareness, even the most difficult problems can be understood as phases leading to a better future.

This was a difficult year. Its restrictions and problems were overshadowed by the expectations, by the people's generosity, and by the fact that there was a new government putting forward its proposals. Yet, Mr. President, this was a very difficult year, just as the years to come will be.

The almost complete restriction on foreign credit, the bureaucratization and sluggishness of the state organization, the passiveness of great sectors of the population, the high inflation rate, the devaluation, and the paralysis of our economy were the negative factors we were facing, in addition to violence and lack of authority. During these past 12 months, however, we have made progress in the socioeconomic field, and more important, we have awakened the people's consciousness.

Faced with a chaotic situation in which prices increased at a higher rate than wages, in which lack of production and deterioration of our currency in relation to the dollar demanded urgent measures, we had to start by regaining control over our economy and stabilizing the situation before proposing

more far-reaching measures. However, to gain control over our economy in the first place, we needed to disengage from the vicious circle in which foreign theories and influences conditioned Peru's economic sovereignty. We needed to strengthen our anti-imperialist stance. We were aware that inflation could not be curbed and the country reactivated without changing Peru's relationship with the international economic circles because the economic chaos in which we

lived a year ago was caused by the fact that our country was a satellite of international interests. Therefore, we decided to implement a nationalist government to confront this problem and to be able to implement a different economic policy that was not dictated to us from abroad.

For this reason, the government adopted a radical decision regarding the foreign debt problem and restricted the import of foreign goods as a means to defend the national

## Republican leadership in the Americas: Lincoln and García

### On anti-government violence

*South Carolina's insurrectionists attacked Fort Sumter April 12, 1861, beginning the Civil War. Lincoln mobilized 75,000 volunteers for the Union army, then addressed Congress July 4, 1861:*

[This] issue embraces more than the fate of these United States. It presents to the whole family of man, the question, whether a constitutional republic, or a democracy—a government of the people, by the same people—can, or cannot, maintain its territorial integrity, against its own domestic foes. It presents the question, whether discontented individuals, too few in numbers to control administration, according to organic law . . . can always, upon . . . this . . . or on any other pretences, or arbitrarily, without any pretence, break up their Government, and thus practically put an end to free government upon the earth. It forces us to ask: "Is there, in all republics, this inherent, and fatal weakness?" "Must a government, of necessity, be too *strong* for the liberties of its own people, or too *weak* to maintain its own existence?" . . .

This is essentially a People's contest. On the side of the Union, it is a struggle for maintaining in the world, that form, and substance of government, whose leading object is, to elevate the condition of men—to lift artificial weights from all shoulders—to clear the paths of laudable pursuit for all—to afford all an unfettered start, and a fair chance, in the race of life. Yielding to partial, and temporary departures, from necessity, this is the leading object of the government for whose existence we contend.

### The American definition of liberty

*Lincoln freed slaves in the rebellious states by military proclamation of emancipation on Jan. 1, 1863. He asked the people of Maryland to approve the proposed abolition of slavery by state law (April 18, 1864):*

The world has never had a good definition of the word liberty, and the American people, just now, are much in

want of one. We all declare for liberty; but in using the same *word* we do not all mean the same *thing*. With some the word liberty may mean for each man to do as he pleases with himself, and the product of his labor; while with others the same word may mean for some men to do as they please with other men, and the product of other men's labor. Here are two, not only different, but incompatible things, called by the same name—liberty. And it follows that each of things is, by the respective parties, called by two different and incompatible names—liberty and tyranny.

The shepherd drives the wolf from the sheep's throat, for which the sheep thanks the shepherd as a *liberator*, while the wolf denounces him for the same act as the destroyer of liberty, especially as the sheep was a black one. Plainly the sheep and the wolf are not agreed upon a definition of the word liberty; and precisely the same difference prevails to-day among us human creatures, even in the North, and all professing to love liberty. Hence we behold the processes by which thousands are daily passing from under the yoke of bondage, hailed by some as the advance of liberty, and bewailed by others as the destruction of all liberty. Recently, as it seems, the people of Maryland have been doing something to define liberty; and thanks to them that, in what they have done, the wolf's dictionary has been repudiated.

### National sovereignty=control over credit

*Lincoln signed the National Bank Act during the credit-starved days of the Civil War, on June 3, 1864, embracing principles for which he had fought all his life. Among its provisions:*

That every association may . . . charge on any loan . . . interest at the rate allowed by the laws of the state . . . where the bank is located. . . . And where no rate is fixed by the laws of the state . . . the bank may . . . charge a rate not exceeding seven per centum. . . . Knowingly . . . charging a rate of interest greater than the aforesaid shall be held . . . a forfeiture of the entire interest . . . which has been agreed to be paid thereon . . . the persons paying the same . . . may recover back . . . twice the amount of the interest thus paid. . . .

Every [bank] director shall, during his whole term of service, be a citizen of the United States. . . .

industry. A year ago, speaking before this Congress, and later before the Argentine and Uruguayan Congresses and other international organizations, I explained why the Peruvian government had decided to restrict payment of its foreign debt. I said that the low prices paid for our raw materials, the incredible prices the rich countries charge us for machinery and technology, and the profiteering interest rates they demand were the cause of our \$12 billion public debt. I said that to accept that would compel us to pay more than \$5 billion in 1986, when our export revenues only amounted to \$3 billion. Moreover, I recalled that during the past few years, we were granted new loans to meet our former debts, but to grant Peru these new loans, Peru was forced to comply with a series of conditions and an economic theory that impoverished our country even more. This theory imposed by the IMF as a condition for granting us further loans, forced the opening of our economy to foreign goods, prompted the devaluation of our currency, and made internal credit interest rates rise. It reduced public expenditures, and demanded the punctual payment of the foreign debt. In other words, the IMF theory demanded reducing growth and consumption to meet commitments to the international banking sector. We also noted that in the past 10 years, this biased policy had destroyed the economy of many Latin American countries.

In view of this situation, the government made a historic decision that has been recognized by several countries of the world. The foreign debt cannot be honored by sacrificing the people. New loans cannot be requested to cover former debts. One cannot surrender economic sovereignty and allow others to decide what to do with our economy. If each time we are paid less for our oil, our copper, our work, how do they expect us to obsequiously pay our debt under the terms they demand?

Peru has set a rule: We are paid so much for our work, we are paid so much for our exports, therefore, we will pay so much of our debt, but without sacrificing our development and consumption.

We audaciously set a limit of 10% of export revenues on our payments. In this way, an important portion of the budget that would have been destined for debt payment is now being used to support agriculture, to improve salaries, to undertake projects. Thus, Peru, which was obligated to pay \$2.2 billion for its medium- and long-term public debt over the August 1985-July 1986 period, limited that payment to \$350 million, which was broken down in the following way: \$28 million was paid to commercial banks; \$34 million to governments, \$69 million to the IMF; \$166 million to the World Bank and the IADB [Inter-American Development Bank]; and \$19 million for food and credits. This decision allowed us to increase by \$370 million our foreign reserves, and thus to consolidate the stability of our currency, which was spared the severe devaluations that occurred in other countries this year. In view of the speculative rumors and maneuvers that are rampant these days, I must note here that the government will maintain the official exchange rate during the current year,

as it promised it would in January. There will be no devaluations, but, on the contrary, considering the situation of 63,000 holders of small savings accounts of less than \$1,000, the government has decided to unfreeze their deposits, making available to them their savings in foreign currency. The government did so in recognition of their confidence.

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On this question of the foreign debt, to limit the amount of payment is not the most important aspect, which is, that such a limitation made it possible to obviate the need to ask the IMF for new loans. Consequently, we did not have to sign agreements or letters of intent with the IMF, which amount to documents of colonial concessions, which would have surrendered to that organization the administration of our economy. This made it possible to implement an independent and nationalistic economic policy, and this is the most important aspect of the Peruvian decision. We thus implemented a policy of non-devaluation, reduction of inflation, lowering interest on credits, limitation of imports, and stimulation of the state's social expenditures. This policy would not have been possible if we had not made the political decision to limit foreign payments and to discard the liberal and imperialistic economic theory of the IMF.

### **The resulting achievements**

As a result of that decision we can exhibit the following achievement: On July 28, 1985, the annual price increase or inflation rate was 250%, and it was reduced to less than 70% over the first 12 months of this government, thanks to the decision to suspend the devaluation of our currency for 18 months. We all know that when the price of the dollar rises, we have to pay more for the products we buy abroad in dollars. We also remember that in recent years, it was more convenient to save in dollars or to hold dollars, because the decline of the value of the Peruvian *sol* against the dollar was very steep. Every day, the Peruvian currency was losing

ground before the U.S. dollar. Rents were paid in dollars, economic transactions and accounts were stipulated in dollars.

In July 1985, only 38% of all the economic activities were conducted in Peruvian currency. Twelve months after we initiated the de-dollarization of the economy, 81%, not 38%, of economic activities are conducted in national currency.

This, gentlemen, is a key question: What kind of independence can a country have irrespective of its history, its anthem, and its flag, if its entire economy and its social life is controlled by a foreign currency, as is the case with the U.S. dollar? Thus, taking the economy off the dollar standard is a clearly anti-imperialist measure.

Inflation, however, has also declined because of the reduction of interest rates which constitute the price of money. In the past, interest rates were as high as 300% per year. For agricultural loans, the current interest rate was 180%; today, it is 40%. For mountain areas, the interest rate was 106%; today, it is 14%. In the 81 poorest Peruvian provinces, the interest rate was 81%; now it is zero. This means that in those provinces, we do not charge the peasants any interest rate so as to promote development.

In the third place, inflation has been going down due to the joint national effort to control prices. This effort was made jointly by government, the municipalities, and all social organizations because in this way we could prevent speculation and abuses. Although control has been weakening over these last few months, its effects are still being felt because, as we said before, our inflation rate is only a third of what it used to be.

In the case of certain large enterprises, the price control helped us to lower the prices of noodles, flour, and oil—so necessary for the people at large—below the level of July 1985 because as soon as we took over the government, we managed to obtain price reductions that are still in effect today.

The same thing happened with the bread that costs 250 soles per unit; the same price it cost 12 months ago. I would like to remind the skeptics that in 1980 bread cost 3 soles per unit, and in 1985 its price had risen to 250 soles. This means that in five years the price of bread increased 80 times. Today, we are supplying the people with bread at the same price at which it was being sold 12 months ago, when we took over. [passage omitted]

### **What Peru will pay**

Messrs. Legislators:

I have made this review to note that the political decision regarding the payment of the foreign debt has allowed us to enforce an economic policy that better suits the needs of the people and the national development. Therefore, I hereby announce that we shall continue to uphold this decision and that in the next 12 months, we shall only allot 10% of our export revenues to the payment of the foreign debt.

The revenue situation of a year ago remains unchanged. In fact, it has deteriorated in view of the decrease in prices for oil and other products. This is why Peru will receive almost \$500 million less for its exports.

Peru will have less income. This situation has turned the currency reserve into a strategic national resource. Consequently, we must add that our intention to use 10% of our export revenues for the payment of the foreign debt will be made on the condition that those resources used to pay our foreign debt are matched by a similar inflow of credits.

Gentlemen, it would be suicidal to become exporters of net capital if no new credits come in and the prices of our raw materials continue to fall.

I must acknowledge that friendly countries have been granting us cooperation loans at low interest rates and long terms of payment. Payments to them must be given priority. There are also international organizations whose disbursements or new loans to Peru surpass the payments received from our country. They too will be granted priority.

I hereby announce our decision and willingness to negotiate with creditor governments and banks. However, I warn that Peru can accept neither the present terms nor interest rates that have been established. We shall hold a dialogue, but based on conditions regarding interest rates, terms, and years of non-payment within the framework of our decision to pay 10% of our export revenues.

### **Restricting private payments**

Two major decisions should be added to the foreign debt issue. In the first place, the government has decided to limit the payment of the foreign debts contracted by private individuals and enterprises with foreign banks and suppliers, the payment of which has caused millions of dollars to leave the country during the past 12 months, often in an unjustified manner. This situation cannot continue because, as I have already stated, the foreign currencies represent for our country a strategic resource the state must safeguard. The state has decided to limit payment of the private foreign debt. But I must add that, in view of this decision, the government will have to guarantee the resources for investments or projects currently under way, which are necessary for national development. In the second place, the government has decided to restrict for two years the remittances of dollars by foreign companies as profits, depreciation, or private debt.

We welcome and defend foreign investments in our country, but we are also aware that every national or foreign enterprise must share the situation which the country faces because, during the past 12 months, while the government limited the payment of its public debt to \$300 million, no less than \$1 billion left the country to cover private debts of Peruvian companies and as profits of foreign enterprises. Therefore, it is only appropriate for the government, in controlling the economy, to limit the flow of money that leaves the country, weakening our country's strategic resources, that is, the reserves. These two measures are not taken with

a statist and bureaucratic purpose that will cancel or affect private property. They entail neither expropriation nor confiscation. They are a limitation so that resources generated within the country may be kept in the country and used by their owners in productive investments, which the country requires in these difficult times.

## **Social injustices**

Messrs. Representatives:

This first sovereign and nationalistic conception of the government has also allowed us to start the democratization of the society and the state apparatus. We stated 12 months ago that democracy is not only the representative nature of the government or basic liberties as a whole. It is much more. Democracy should be a social and economic model capable of solving social injustice and the differences in regional development, and safeguarding the participation of all citizens. To us the reactivation of our economy and the curbing of inflation represent deeply democratic measures only if they are complemented by a fairer distribution of wealth. The greater the inflation, the greater the concentration of wealth among a few persons.

The liberal theory that was implemented in the past maintained that if the people's income is limited there is less demand and, as a consequence, the price of goods will drop because of lack of demand.

We believe that this is an inhuman theory, and we maintain that the greater the purchasing power, the greater the production of the sectors that used to be idle, and as a consequence prices will not increase.

Therefore, our appeal to industrialists has been to tell them that it is not a matter of producing little and charging a high price for each product, but rather of producing more products and charging less for them. However, the government also believes that democracy is a process of a progressive redistribution that should not be hasty or imprudent, thus causing greater economic problems.

Our tax program has substantively reduced sales taxes from 11% to 6% and has avoided increasing fuel prices, because these two are indirect taxes that tax the rich and the poor equally and, as a consequence, are unjust. In keeping with our principle of making those who have or who earn most pay the most, we have reorganized the tax exemption regulations through which a sizable quantity of resources was lost. Moreover, price controls in many cases prevent speculation or fear from affecting prices. These are measures designed to bring about redistribution, and we will continue to carry them out. [passage omitted]

## **Terrorism and repressive excesses**

The nationalist and popular government is facing two urgent problems: subversive violence and the limitations stemming from our economic structure. I ask the nation to reflect on these two problems with me.

Twelve months ago, cruel violence ravaged the moun-

tains. Inspired by violent terrorist ideas, armed groups seized and subdued peasant towns, taking advantage of their poverty. This dramatic situation claimed thousands of lives on both sides. Many excesses were committed during the repressive actions, because of the anonymous character of terrorism. We proposed an emergency policy for the poorer areas, the budgetary allocation of which we doubled. . . .

Micro-regions were organized in the poorer provinces to allow the state to render its services in the agricultural, housing, and health sectors. Aid programs were designed to help peasant communities. The state established direct links to the towns that have remained historically neglected and that could become the easy prey of subversion.

We also said that the law was to be enforced to the fullest, because the state could not allow the presence of armed groups. However, we gave precise instructions to concentrate surveillance and repression in specific actions. In the first month of our administration, with two dramatic events marked by abuses and excesses, we immediately ordered sanctions and an investigation.

After the action of the state in the poorer areas, however, subversion moved to the cities, particularly to Lima, where there were murders and terrorist attacks. In addition, disregarding the nation and its laws, terrorists sought to turn the prisons into battlefields. When mutinies broke out in three prisons, the government decided to take strong action to restore order and authority. Unfortunately, as the country knows and as I personally reported, there were excesses, the worst of which was the murder of more than 100 inmates. This incident, or for that matter any other incident, cannot be concealed in a civilized country. Investigations are under way and will soon be concluded. The responsibility of those who are involved will be established and they will be duly punished.

These terrible facts should make us reflect on the situation of violence in which we are living.

Violence is no longer the exclusive tool of subversive totalitarianism, because at times it is also used by state organizations that fight subversion. I believe that the entire nation should reflect on this and ask why we have reached a point at which our daily awareness of death is becoming more intense as we witness subversive action, excesses, crimes, and a violent ideology that fills our minds. This ideology reaches us through press reports and even appears on entertainment programs, which negatively train our children to become witnesses to, or authors of, death in the future.

This is why our democracy is precarious and weak when faced with the dangers of the brutal regressive situations we experienced, in which we forgot that hatred, is not to be met with hatred but with the firmness and fairness of the law.

Thus, subversive violence is the main obstacle for our democracy. However, the spreading of violence to those who combat subversion is also an obstacle. This imposes on us the task of re-education, in which barbaric actions like the ones we have experienced are duly punished.

I am encouraging and asking the Congress to conduct the necessary investigations on this and other actions to prevent repetitions in the future.

I am repeating, however, that those investigations of excesses will never justify criminal subversive violence or its contempt for human lives and the law.

The state will firmly and energetically continue combatting subversion to guarantee the nation's security and, if necessary, it will defend democracy with arms.

Here I want to express my greetings and full support to the Armed Forces, who are acting in loyal respect and subordination to the constitutional government; and to the police institutions, whose self-sacrificing task cannot and must not be confused or harmed by individual or group excesses or atrocities.

Aside from violence, the democratic and popular program faces yet a more serious obstacle, which is the main issue of this address.

### **Obstacle: the economic structure**

I am asking the nation to join me and to reflect on the nation's future. I have not come here just to give a detailed account of government's accomplishments, but to warn you about our economic structure and its possibilities, and to tell you what we can do.

Our economic structure itself is and has been the greatest obstacle to the efforts made over the past months. That structure cannot be changed by a decree. It is an economy in which industry is essentially based in Lima and controlled from abroad. It is an economy that produces raw materials with increasingly depressed international prices. It is an economy whose agriculture, which has been led into misery, will be reconstructed very slowly. It is an economy involving acute injustice among human groups and regions.

Thus, everything that will be or has been done with good will concerning economic policy will have great limitations unless that structure is decisively changed under the aegis of a revolutionary state.

For instance, we all know that our national industry is concentrated in Lima and that its technology and equipment provide few jobs to the people.

The most serious problem, however, is that the centralist industry is basically oriented toward assembling foreign parts and unfinished products. This means that most goods produced in the country are being manufactured by assembling parts purchased abroad. Thus, as we have more industrial production under the current conditions, we will also have more demand for foreign parts and more dollars will be required for the economy to work.

As I have already explained, over the past 12 months, the reduction of interest rates, currency stability, price control, and wage increases have increased demand and consumption and stimulated economic reactivation.

This means that in the medium term our purchases from abroad will have to be increased to enable the industry to

grow, and we will need many more dollars for this.

We all know that Peru is not receiving foreign credits because of its nationalistic position. We all know that we are being paid less and less for copper, silver, and oil.

The economic reactivation of the industrial sector can cause strangulation due to the lack of dollars. This causes us to lose ground in the crisis and limits increases of consumption and production, which we have promoted through an emergency policy over the past 12 months. This policy has achieved good results but has limits in the nation's economic structure. This truth must be realized and understood by the nation, because we now have to make a historical and qualitative jump toward a better-planned and more rational management of our economy if we are to continue to grow.

### **The role of the state**

This imposes the obligation of interpreting the nationalist role of the state in depth.

Here, nationalism means that the state must have preeminence in conducting the nation, because the state is the synthesis of the national will, because the people elect their government to provide guidance and orientation, and not to be a passive witness to disorder and selfishness. Today, it is fundamental and necessary to put an end to the satellite status of our economy, which affects not only the area of the foreign debt, but also the dependency of our industrial structure. The change must be carried out gradually, through productively investing a greater portion of our economic surplus in the country. We must point out national objectives for the large economic groups that have taken hold in our economy, so that they will cease to be centers of accumulation of wealth and power or accomplices in our dependency, and become centers of support and impetus for national development.

We need an economy that can resist the inroads of imperialism in the near future. We need an economy of national defense against the crisis, concentrating the efforts and resources of Peru on a single objective. We need the state to measure initiatives and efforts, without lapsing into bureaucratization. This is the model of the state we do not yet have. In its absence, great entrepreneurial conglomerates have been formed, without goals relevant to the interests of the people.

In the previous government, which regulated credits, we had banks that attracted public savings to assist the groups that own the banks. In a state with a directed economy, industry grew in disorder, in many cases importing machinery which the country no longer needed. In the first year of our government, we have tried to stabilize the economic situation and, by recovering control over it, lowering inflation, and improving salaries, we have managed to reactivate the country's economy.

This has been an achievement, but it poses two risks, two limitations. First, as I have already said, the economy will be needing more and more dollars that we do not have. Second, as the economy is reactivated and consumption grows, business and industrial sectors, both large and medi-

um-sized enterprises, now have a larger amount of profits in *soles*. These profits grow in keeping with the productivity of the enterprises. These profits constitute a threat unless they are invested productively in areas that receive state support and are necessary for development.

If these profits are not invested properly, they might be used to purchase dollars on the black market, thus driving up the value of the U.S. dollar suddenly and fueling once again the inflation that will make us lose ground.

We must ask ourselves which roads we can take to deal with this problem. The first possibility is to pay the accumulated foreign debt so we can request new loans. This, however, is the liberal model that makes development dependent on external credits, and it has been quite negative for the country.

If we choose the road of paying so that we can ask for more credits, we would have to pay out larger quantities than those that will flow into the country as new credits. More importantly, if we followed that road we would have to bow to the IMF and accept its theory, thus submitting Peru once again to the economic policy of devaluation, inflation, reduction of state expenditures, and opening our markets to foreign goods. This means we would have to retreat from the position we have gained this year.

The second possibility, which is proposed by some sectors, is to have the government take control of the economic activities and entrepreneurial groups. The consequences would be to generate mistrust and fear among the middle class and the economic agents. It would also bring about the unavoidable bureaucratization of our social life. This bureaucratic and statist model would, as it does in other places, promote the flight of economic and human resources, as well as promote intolerance and passivity in our social life. The entire country can attest that bureaucracy is not the best way to manage social resources. The country knows that socialism today is not synonymous with statism and bureaucratization.

We proposed a different alternative that is neither liberal nor statist. For the first time, we are proposing the need to guide the actions of the economic agents, both in the private and the state sectors, toward the attainment of national objectives, by defining the course and noting the limitations of a national project.

These are the potential threats the whole country must be aware of. They make it necessary to implement an economic policy that will not allow us to lose ground or plunge us into a quagmire of economic bureaucracy. Rather, it should control, channel, and enforce the productive investment of these resources.

We do not want speculation or idle wealth. We want work, initiative, and fresh capital that can be used for national independence. If we fail to do that, whatever has been achieved in these 12 months is just a cure for symptoms and a cosmetic solution, because devaluation, inflation, and unemployment are merely the outward signs of a poor economic framework. They are analogous to fever and headache in someone who is

seriously ill.

Curing symptoms makes one feel better, but the proper course is to deal with the root of the problem. My government could take the easy path, doing over the next three or four years what it has been doing these last 12 months, trying to get to the end of the five-year term with higher incomes and more production.

However, if we fail to deal with the true problem in an historical manner, we will deceive the country and leave it on the brink of a much more critical situation. It will have more production and more consumption, but no more dollars or funds to maintain this situation for much longer.

The people have not elected us to deceive them but to address the historical and structural problems that affect their fate. The economy we propose is aimed at defending the nation within the framework of democracy while strengthening democracy. This economy is based on certain basic guidelines I will now outline.

### **An economy of national defense**

An economy of national resistance against imperialism can only be possible if the nation is aware that it is necessary. First, the use and flight of foreign currency must be restricted, and this currency must be used very carefully.

At the beginning of my speech, I said that in this regard we will maintain our decision to use only 10% of our export revenues to pay the public foreign debt, and we will do so only as long as our reserves are not jeopardized.

Furthermore, the state will have to restrict the remittances of currency as private foreign debt payments, profits, depreciation, trademark payments, and royalties to both national and foreign companies.

Thus, we will defend our reserves and stimulate domestic investments of these resources by temporarily restricting their flight and using them to fuel the process of national economic reconstruction.

Peru has defended its reserves during the first year of my term in office by cutting down weapons expenditures, whose size was out of proportion to the nation's poverty. [passage omitted]

Moreover, we must make the people aware that, in view of these decisions, national defense is not the exclusive duty of the Armed Forces, It is a compulsory commitment for all Peruvian citizens. Nobody can be a passive and dutiful spectator of national defense, believing that it is only the duty of those who wear the sacred uniform of the Fatherland. Therefore, I hereby announce that, within the democratization program of our Fatherland, the government will shortly propose a law for active participation in the national defense.

The purpose of this bill is to eliminate deferments, exemptions, and privileges so that all the citizens of Peru, regardless of their economic situation, of the job they have, or the position they occupy in a family, will be subject to selection for compulsory military service.

But the safeguarding of the reserves and resources that

originate in Peru must be accompanied by the rechanneling of investments toward decentralized productive sectors that offer job opportunities and consume fewer dollars. Moreover, our industries must start to focus on national objectives, working to produce goods and not just to assemble them; that is, they must reduce their imports. In view of the current situation, this is not just a theory, this is an urgent need, which must be fulfilled through a joint action of the state and the enterprises. It is up to the industries and enterprises to come up with the initiative and imagination to meet the current challenge.

### **A government that rules, directs, and guides**

But our economy, which for many years operated with no regulations, has ended up forming great economic groups whose concentrated power is dangerous if it does not have a social or national purpose. As I have just explained, the result of the reactivation is the growth of profits, which may have harmful effects if they are not used in a productive manner. We cannot declare the owners of the great economic groups guilty of this situation, because the natural logic of capitalism calls for profit and expansion.

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*We intended and we still intend to strengthen freedom, which is not a bourgeois delusion, but an achievement for the spirit. We intended and we still intend to improve the moral standards of society by eradicating the idea that the state is something by which to profit and that social life is a way to promote selfishness.*

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Our economy lacks government guidance to make growth serve national purposes. This is why we do not believe that ordering the nationalization of the economic groups is a solution. What they need is government regulation, a democratic regulation of costs and prices. If this regulation is not practiced, our national economy may be subjected to monopolies and to speculation by financial groups.

Our nationalist government cannot and will not allow monopolies, because they are specifically forbidden by our Constitution. Our nationalist government must correct that situation wherever it occurs. [passage omitted]

We have said that a national economy requires a maximum of foreign currency savings and the investment of profits in productive projects. These measures, however, must be backed by the careful use of credits. We must solve many defects within the credit sector. The state and private banks

share these defects. Credits in Peru are mainly concentrated in the hands of the same large economic groups and monopolies. Credits are concentrated mainly among the large companies, which set prices, that is, companies that can easily transfer the cost of interests to the prices of their finished products. Besides, the remaining private-sector credits are sometimes siphoned off by the large economic groups, which use these public resources for their own activities.

Nationalization is not a solution in this case, as some people suggest, because the bureaucratization of the state banks does not guarantee the efficient use of credits. We need what we do not have in Peru: a government that rules, directs, and guides, because that is what it has been elected by the people to do.

We need a clear, legal, and administrative regulation to forbid the state or private banks from concentrating their loans on a small number of groups or companies. We need a regulation to democratize credits and to grant loans to agriculture and handicrafts. We must prevent credits and loans from simply being used as a powerful tool by the large economic groups.

To this end, the government today issued six supreme decrees, regulating credit concentration and fund allocations to groups related to each other or to financial entities, and forcing the decentralization of selective credits. These decrees involve the state's using domestic savings and granting the bank superintendency and the Central Reserve Bank the necessary powers to regulate and channel credits to avoid abuses, monopolies, and concentrations, and to take advantage of the initiatives of all the institutions related to the state.

### **The exasperating bureaucracy**

Foreign currency savings, the orientation and direction of economic groups and industry toward social goals, and the reorientation of state-run financial activities, will remain just a theory if the Peruvian state continues as it is today—that is, slow, bureaucratic, centralist, Lima-centered. An economy of national resistance and growth requires a bold and revolutionary transformation of the state itself.

The national administrative apparatus itself is one of the greatest obstacles facing the government and history. Orders and regulations proceed with exasperating slowness. Change is not taking place among those who see administration just as a means of making a living with no social meaning. The centralist passivity stalls the best efforts and causes decisions to be made with no consideration for the opinions of those who are directly involved.

The solution does not lie in coercion or in threatening the bureaucracy. The solution will only be achieved by delegating responsibilities which thus far have been concentrated in Lima. Therefore, I am announcing to the country the government's decision to immediately initiate a regionalization process by which territorial limits or regions, comprising one or more departments, administer, govern, and take the helm of their own destinies.



To begin this historic process, I will propose to Congress a bill on the creation of the Altiplano region in Puno. . . . I will propose a bill on the creation of the region made up of Tumbes and Piura Departments, which have been called the Grau region, and I will propose a bill on the creation of the Amazon region.

These first three regions [applause, shouts] will be the vanguard of a process that for the first time places in the

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*Nationalism means that the state must have preeminence in conducting the nation, because the state is the synthesis of the national will, because the people elect their government to provide guidance and orientation and not to be a passive witness to disorder and selfishness.*

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hands of the people the full administration and determination of their destinies.

Contrary to a statist and bureaucratic system, regionalization means a democratic revolution, whose implementation I am passing on to the people as the greatest responsibility of their history. [passage omitted]

To prepare this new and democratic system of public administration, which is not only supported by the Constitution, but by my absolute confidence in the people's maturity, I am also announcing the full economic and administrative independence of the state-owned corporations so they can decide what investments to make and how to spend their funds.

Nowadays, every state-owned corporation is feeling a pinch. This is just a result of the centralist power which, as President of the Republic, I am repudiating.

As things are now, the corporation's meeting raises a proposal. This proposal then must be submitted to the Planning Institute. Next, it must be submitted to the presidential and economic ministries. Finally, it must be submitted for discussion by the Bicameral Budgetary Commission. At each stage, it undergoes changes, delays, and the distortion of its original purpose.

To overcome this insanity, I am announcing that in the yearly budget bill, we will propose a resolution to fully implement the administrative independence of the state-owned corporations as the initial step for the thorough decentralization of the regions. In addition, we will maintain our goal of decentralizing economic activities and relocating some state-owned enterprises like the State Petroleum Agency [Petro-

peru], the national Coca Producing Enterprise, and Pesca-peru [State Fishmeal and Fish Oil Production Agency] to areas and departments more closely linked to their activities. [passage omitted]

### **A constructive revolution**

Messrs. Congressmen, these are the goals I am reasserting in your presence; this is what we have accomplished; and these are the historic limitations we are facing, along with proposals for an anti-imperialist but democratic national economy, in which we call for the productive investment of the largest possible amount of funds so that we do not return to speculative activities, which are contrary to the nation's interests. In the economy, we are proposing the state will be the best guarantee for a productive, democratic, and decentralized operation of the national wealth.

I want to tell you that these goals and these bills will meet many difficulties and obstacles, but we will implement them with the greatest and most absolute liberty. We will show the world that we do not need to resort to totalitarianism or to shameful excesses to change our country. A revolution can be carried out through persuasion. A revolution should not be something that generates fear, revenge, or hatred. It should be prudent, constructive, and great. A revolution can be carried out by making good use of private initiative.

Contrary to some people's beliefs, one does not need to be a communist to believe in change. We respect the communists and their ideas, but our path is different. It is the path of nationalism and democracy. It is the bread-and-freedom path of Haya de la Torre.

### **The people must mobilize**

Before finishing this exposition about the concrete works of each sector, let me add something. I must request the people's help for our great objectives. I will not ask them to go to the streets. I will not ask for government-supporting crowds. Instead, I will ask each individual to rule his own destiny in his own field, to help me rule Peru. If that individual knows much, he must teach; if he knows little, he must learn.

If he is a businessman, he must invest in Peru what he is earning. If he is a professional, he must return to society what it gave him in the university. If he is a craftsman, he must improve his work. If he is a peasant, he must plow 110 furrows instead of 100. If he is a worker, he must remember that the object he is manufacturing is necessary for another worker, and it must be well made. If he is a teacher, he must teach optimism. If he lost his way, he must recover it. If he is an artist, he must dedicate himself to his art. If he is a politician, he must not hate, he must be understanding and patient. Only thus will a torch light the end of the road, bringing us faith and strengthening us to build our nationalist and popular model. [passage omitted]

Agrarian reform has been carried out without carefully considering the relationships between the city and the coun-

tryside. Agrarian reform was confused with the concession of land deeds. In some cases, agrarian reform endorsed injustice. For instance, in Puno, where hundreds of peasant communities existed, the latifundia emerged centuries ago to conquer and to wrest the land from the peasants. Following this the agrarian reform created associative enterprises on the foundation laid by the latifundia that pushed the peasant communities onto small parcels of land, from which they looked, as from a balcony, upon what used to be their property.

Thus poorly implemented, agrarian reform served only to seal the historical despoliation of our peasants.

Therefore, we no longer speak of agrarian reform. We proposed an agrarian revolution in Puno through Decree 006, which restructures agriculture throughout the department, so that large portions of land that are now idle can be distributed and returned to the true heroes of the Andean saga. In this way, the communities have been historically vindicated. At the same time, we have promoted the development of production, which is now small or nonexistent because of the poor organization of the enterprises and the large size of the properties.

We have already expropriated 744,000 hectares of land and will continue to expropriate up to 1 million hectares. This land belonged to 43 agricultural enterprises of social interest. In a few more days, we will begin to distribute this land to more than 400 peasant communities, thus confirming their right to the land that was taken from them during the conquest. In addition, because of reduced bank interest rates, formerly bankrupt enterprises have been able to resume their payments to the Industrial Bank and to other financial institutions, which are becoming increasingly overextended in their loans.

At the Industry Ministry, which has been the most bureaucratic sector, efforts have been made to simplify paperwork, and 1,170 enterprises were created in the past 12 months.

As a result of these measures, in the first half of 1986 the manufacturing industry has grown by more than 14% compared to the first half of 1985. Yet, even if we consider that the price of fishmeal and oil has dropped by one-third, industry has grown by 7% and the employment rate derived from it has increased by almost 5%.

## Take risks for Peru

However, we still have idle capacity. We still have unused industrial facilities, so we can continue growing. As I have already announced, however, we must urgently begin to change the centralized industrial system based on assembly plants. This is a challenge for the so-called industrialists and businessmen. An industrialist is not a speculator. An industrialist is not someone who seeks complete security. An industrialist is someone who takes risks for himself and for Peru.

In the future, therefore, our industry should not use many

dollars, and the factories should make better use of the nation's manpower and work more closely with the country's agriculture and mining.

With this pressing goal in mind, the state will begin active negotiations, to which I invite all Peruvian industrialists, to achieve a productive domestic reinvestment of the funds generated by reactivation over the past 12 months. [passage omitted]

In the fishing sector, the situation turned dramatic when fishing agreements with the Soviet Union were canceled because of charges made, paradoxically, by the same politicians who made the agreements or maintained them in recent years. Twelve months later, however, we are able to demonstrate that in the first half of 1986, fishing activities have increased by 44% compared to the first half of 1985, as a result of an effort to increase consumption by Peruvians, especially by the low-income groups. [passage omitted]

## The oil sector

Yet another sector important for development is energy and mines, and in this sector oil is the key issue, it is also a controversial issue.

The situation we found 12 months ago was that Petroperu exploited only 36% of all the petroleum produced in Peru. Furthermore, Law 22123, issued in 1981, had reduced the taxes paid by oil companies from 68% to 41%, without making them invest in new prospecting projects. Several supreme decrees issued illegally granted tax exemptions to foreign companies.

Firmly but prudently, the government abrogated Law 22123 and raised taxes from 41% back to 68%. The government also annulled the illegal decrees, and made foreign companies pay taxes from which they had been exempt before. Finally, the government began negotiating with the two foreign companies operating in the country, to make them invest fresh money in risk prospecting contracts as repayment of the profits they made within the framework of Law 22123.

The government signed a contract with only one of the companies that agreed to the new conditions, and Petroperu took over the operation of the other company. Under the new contract, the foreign company agreed to provide the appropriate guarantees that will invest \$277 million over the next six years. Furthermore, the rate of 50% of the price obtained for a barrel of oil, which the companies formerly received, has been reduced to 47%.

We must bear in mind that when the contract was signed, a barrel of oil cost \$24 on the international market. In view of this, the company was to receive \$11.50 per barrel of oil it produced—that is, 47% of the price of the barrel of oil. Over the last few months the world has had to deal with a serious problem. The price of oil dropped from \$24 per barrel to less than \$10 per barrel. This situation has serious consequences for Peru because it undermines our foreign currency revenues. Thanks to the contract, however, the amount that the company receives has been reduced as well. This is some-

thing that certain people have failed to understand.

When the price of oil was \$24 per barrel, it was agreed to pay the enterprise \$11.50, that is, 47% of the international price per barrel, taking into account that the extraction and labor costs per barrel amounted to over \$8. However, with the drop of the oil price, the amount paid to the company has dropped in proportion, and it now gets approximately \$5 per barrel, or 47% of the international price.

As a consequence, the company obtains less than what it costs to produce per barrel, and it has no chance of making any profit. In other words, for a barrel of oil that would cost Petroperu more than \$8 to produce, Peru pays the Occidental Petroleum Enterprise approximately \$5. This same barrel can then be sold for approximately \$9 to \$10. In keeping with the terms of the contract, however, and under the risk of losing all its assets, the company is compelled to continue its exploration program, for which it must invest fresh capital.

In sum, Petroperu, which in July 1985 exploited only 36% of all the oil produced in Peru, now exploits and handles 52% of it and has engaged in exploiting activities. [passage omitted]

## The justice sector

I would like to refer now to the justice sector. In the justice sector, a number of important projects have been implemented and a number of important proposals have been made.

Unfortunately, in this sector a dramatic riot occurred, and during its repression, unforgivable excesses occurred, which the government is not concealing and will not conceal, and which must be punished as an example. The goals set forth by the justice minister last year still hold. [passage omitted]

Tribute should be paid, however, to the job fulfilled by the policemen who place their lives at stake. In the past few years, 500 policemen have been the victims of terrorism and delinquency. Institutions that have specified so much in carrying out poorly rewarded efforts and jobs cannot be stained by incidents perpetrated by individuals or groups. Therefore, we have substantially improved their salaries and are currently re-equipping them so that they can struggle against crime. In July 1985, there were only 16 patrol cars in Lima. This year, we have acquired 282 new patrol cars and one helicopter and, during the next few months, we will incorporate 385 new vehicles throughout the country.

As a result of the anti-terrorist operations, more than 200 weapons and 51,000 sticks of dynamite have been seized, 15 terrorist cells have been dismantled; and 736 persons suspected of being engaged in subversive activities have been handed over to the courts.

In the drug-trafficking field, the government has acted with determination to break up important drug rings; destroying 270 cocaine-base-paste-manufacturing plants; arresting 1,200 drug-trafficking suspects, and 1,900 drug consumers. A total of 46 tons of cocaine base paste has been seized.

The ministry has acted with the same determination to

combat kidnaping which, due to the novelty it represents has shaken the country during the past few months, spreading fear and uncertainty in the business community. Of a total of 54 kidnap cases, 41 have been solved, the perpetrators identified and captured, and a total of 85 delinquents placed in the hands of the judicial branch.

## The international arena

These, Messrs. Representatives, are some of the actions carried out with the purpose of fulfilling the objectives that will allow us to implement the nationalist and popular democracy we referred to 12 months ago, in our first address to the nation. This is the internal effort, but it would be limited if it were not extended to Peru's presence in the international arena.

The government has promoted a nationalist and anti-imperialist foreign policy whose guidelines are based on integration and non-alignment. The international policy promotes fair Peruvian participation in the international economic system, allows Peru to take advantage of other countries' cooperation, seeks autonomy for internal development, and promotes, together with other nations, a new international economic order.

With these objectives, we unfurl the flag against the arms race, to put an end to distrust and fear with neighboring countries. We did this by inaugurating a direct dialogue and signing border integration projects like the Duyango-Tumbes agreement with the Republic of Ecuador, and the important bilateral talks in which military commanders of the republic of Chile took part together with high-ranking officers of our Armed Forces.

Likewise, we have given our links with Colombia, Bolivia, and Brazil a renewed impetus, within the framework of a new and more dynamic policy with our neighbors.

Upholding these principles, we have come before the United Nations, the FAO, and the beloved sister nations of Argentina and Uruguay, strengthening our bilateral relations with them and always proposing a continental consensus for decision to face imperialism and the pressing foreign-debt problem. Peru has supported the need for Latin American unity in the face of the Central American crisis which, in our opinion, has threatened the right to self-determination because of the growing intervention taking place in that region.

A year ago, from this same forum, I proposed the idea of creating a support group for the Contadora Group, to seek a negotiated solution to the Central American conflict and to avert foreign intervention in Nicaragua. I said then that Latin American problems must be solved by Latin Americans.

We have actively participated in the efforts and proposals made by the Contadora Support Group. We will always uphold the idea that Latin American countries should solve their own problems without the arbitration, the dictates, or the arrogance of any big country.

We are not in solidarity with foreign ideologies or mistaken domestic policies. We cannot be. We do state, how-

ever, that no mistaken domestic policy can justify the intervention in, or the invasion of, a Latin American country. As a government of the people we are firmly convinced and determined to express our solidarity with and to support that sister country in Central America that might be attacked by a great power.

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*We will show the world that we do not need to resort to totalitarianism or to shameful excesses to change our country. A revolution can be carried out through persuasion. A revolution should not be something that generates fear, revenge, or hatred. It should be prudent, constructive, and great.*

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We reiterate the need to strengthen the Andean Group and to promote the creation of a Latin American community. We have sponsored and signed the Rodrigo Lara Bonilla agreement to carry out a continental struggle against drug trafficking. We have proposed the restructuring and renewal of the OAS objectives, which must become more free and Latin American. [passage omitted]

### **After one year in power**

In this manner, Peru will continue facing its difficult economic limitations, the dramatic world crisis, and the selfishness of the rich and powerful. However, we will face these situations with a single objective: to start a prudent democratic process that will be firm and revolutionary, and to build a society that will enjoy a different quality of life, where misery, injustice, and pain will be banished by the efforts of all Peruvians.

In the last 12 months, we have learned much from the limitations of power, from bureaucratic indolence, from the intolerance of those who want everything done immediately, from the selfishness of those who wish a change but one that does not affect their wealth.

In the last 12 months we have not only tried to help save the country from an apparently irreversible situation, but we also have managed to attain something very important: We recovered the people's confidence and faith. Those people, who for centuries have very little or nothing at all, know that despite the government's good intentions, things cannot be solved from one day to the next. That is why these people are generous and patient. When I listen to disorderly claims, demands, and shouts, I also listen to the silence of those who are patient and who, I know, now have new optimism, faith,

and trust in the future.

As the head of this nation, I thank the political parties and the different ideologies, some in the opposition, for their contribution to maintaining this democratic test despite difficulties. I thank the social and cultural institutions, particularly the Church, which represents a hope we will never lose. I thank all the political parties, but I especially thank my party, which has never before had the responsibility it now has. Despite this and despite our mistakes and our learning, we are demonstrating that where there is a will, something important can be done for Peru.

Once again I thank the Peruvian people, because their faith fuels my enthusiasm, because during the hardest times, the economic crisis, and the pain of sudden death, I just had to walk among the people to feel their cordial presence to again take the helm and firmly maintain our course. I appeal to each citizen for unity and patriotism.

This is the concrete result of a year in power, but we still have something far greater to do: the moral task of faith that will make each one of us grow before adversity, to be as great as history demands that we be.

There are some circumstances in which the people must be collectively aware of the difficulties and their destiny. In dramatic circumstances such as war, we must understand that we are not likely to get a respite from adversities and difficulties.

Restructuring our economy and society, transforming the state to give it the necessary energy and inspiration, eliminating the passiveness and the selfishness from our nature, are very difficult tasks that demand time, perseverance, and patience. Nothing will be achieved in a short time. Those who expect to feel the satisfaction of immediate accomplishments are mistaken and are bound to be disappointed. We do not want or need this kind of by-stander. What we need are Peruvians who are aware of the complexities of Peruvian problems and who are able to understand that every process is bound to go forward and backward.

We must comprehend that as far as Peruvian history is concerned, time goes beyond momentary enthusiasms and disappointments.

For this we must recall the [Inca] empire, the powerful thrust of Pachacutec [Inca emperor in 1417, a main builder of the Inca empire], the pride of having been the capital of the New World, the memory of our heroes of the tragic war, the voices of the masses who have fought for justice.

Taking our strength from all this, driven by our willpower and awareness, we shall not be stopped by either violence or lack of tolerance, pettiness or hatred, difficulties or selfishness. We will not lose our illusions when faced with obstacles, because we know that time is on our side, and because we will have the faith of a victorious people.

Once again, I want to reaffirm before the nation, my commitment and my decision to continue struggling forever in life or in the deep sleep of death, until I do my duty for the poor, the humble, the nation of Peru.