García's Peru grows by 22.5% in manufactures

by Mark Sonnenblick

Peru's manufacturing output was 22.5% higher during the first 10 months of this year than during the same period last year, Manuel Romero, the minister of industry, trade, tourism, and integration, proudly announced on Nov. 29. Romero correctly observed that that was the highest growth rate which that key sector had ever experienced.

Overall economic growth is running at an equally impressive 7.8%, the highest rate for Peru since 1974, before the economy was wrecked by the International Monetary Fund (IMF) and its allies in the cocaine business. All this was achieved amidst continuous erosion of the prices Peru is paid for its exports—its petroleum, its copper, and its iron ore. Peru's terms of trade are close to half their 1979 levels.

Romero attributed the dramatic recovery, led by metalworking and cement, to President Alan García's economic policy based on the recovery of consumer demand, tariff protection for domestic markets, and increased state activity in purchasing goods and providing credit support.

The facts show that García's heterodox economic model *works,* while the orthodox monetarist policies being applied by his Ibero-American neighbors have plunged them deeper into economic disaster. García made that clear in an interview broadcast on Mexico's private sector television network, Televisa, Nov. 27.

García documented a success story which must have made Mexicans envious. "When we took office [on July 28, 1985], inflation was more than 200%; now it is 60% annually. In the second place, the Peruvian currency was rapidly losing its buying power in relation to the dollar. It was devaluing at 250% annually. Incredible. We, by a virtual act of economic will, have preserved the same exchange rate for the past 15 months, without any change, and this seems heretical, absurd, to the monetarists. But there we are; you can see it. As a result of this cutting of inflation, we have achieved an increase in the population's consumption. We have improved wages; we have kept many products at the same price as last year: bread, oil, flours. Thanks to this, the population could consume more. And, since the population consumes more, industry and the economy came to be reactivated."

García's political economy starts by improving the well-being of the present and future labor force. He continued, "Peru's population grows 3% annually. We had been growing economically 1 or 2%. That is, always regressing in relation to the population. We have moved onto the scene this year a fundamental element of the economy which had been forgotten: the masses' consumption capacity, generalized social well-being."

He drew the obvious conclusion, "Many economists under the influence of ideologies proper to the developed countries or the International Monetary Fund, say that this is dangerous, transitory, etc. But, the truth is that during a year and a half, it has been working. The worst thing is for one to sit on his doorstep and cry that it is impossible to do anything, condemn oneself to impotence and not dare to do something different. That is terrible for the peoples, not for the rulers. Sure, what we are doing has risks; but so far, things are going better than before; and that is just what we want."

On Dec. 3, García announced the end of freezes of prices and exchange rates, without changing the essence of his policy at all. He promised wages would rise in 1987 by at least 6% more than prices. Internal demand would still provoke increased production. Nor "should we fall into either extremism, either a policy of completely fixed prices or totally free prices," he admonished.

Given the 60% inflation, Peru had to devalue to prevent exports from drying up. Peru's exporters complained that the *inti* (Peru's currency) was 22% overvalued, in marked contrast to Mexico, for example, whose peso has been battered so far as to be 30% undervalued. García declared on Dec. 3, "Some have said that there would be a 30% devaluation on

Jan. 1 and bought dollars to profit at the expense of the country. I want to announce that the official and financial dollar will be kept at the same rate until Dec. 31 and that there will not be any traumatic devaluation next year; but the price of the dollar will be adjusted by 2% monthly."

To provide immediate relief for a trade balance which became negative in September, the García government shifted most products on Dec. 1 from a lower to a higher exchange rate. Importers complained of this as a "25% disguised devaluation," but 360 of the top priority imports—food, medicine, and certain machinery—were kept at the lower rate.

On his first day in office, García decreed measures to stem capital flight, revive moribund industrial and agricultural sectors, and feed his people, 80% of whom were undernourished, according to a 1985 Food and Agricultural Organization survey.

The keystone of his entire program was his unilaterally limiting payments on Peru's $14 billion foreign debt to 10% of export income. In response to a curve ball about Peru not paying its debts, thrown at him by the Mexican journalist Jacobo Zabludovsky, García replied, "I never said that I would not pay, because the day I say I am not going to pay, they could immediately embargo and sue me and claim that I stated I would not pay. What I have said is: One, I recognize I owe because it is part of my historic error; number two, I am not going to sacrifice my people paying. . . . So, we are now teaching the Peruvian people to eat more, to consume more. We'll pay later . . . because we have to pay something, so nobody says that we are, pardon me, cheats; we said, we will pay a quantity, 10% of the total value of our exports. . . . And we have complied. . . . I think that is a position any U.S. senator would share with me if he were in Peru's shoes."

The comprehensive package of measures by which the state promoted economic recovery has had its effect. Credit, which formerly went to dollar speculators and narcotics traffickers, was redirected to productive investments at interest rates far below inflation, even zero interest in the most backward regions. State banks increased their loan volume by 17% in real terms.

While the state has directed the economy, the legitimate private sector bankrupted under previous "free-enterprise" regimes has profited handily. One indication is that the percentage of loans in the state banks' overdue portfolio has been reduced from 19.4% to 13.5%. Industry thrived thanks to tax cuts, electricity price cuts, cheap and abundant credit, tariff protection, and especially because the people had the cash to increase capacity utilization and reduce per unit costs.

Next step: resuming private investment

García announced on Dec. 3, "We have begun a harmonizing process with business so that profits made with the reactivation of 1986 are invested in the areas of interest to national development. For example, food, textiles, and in the provinces." García has held weekly meetings with industrial leaders to work out investment policies. Next year, those of each sector will decide where increased capacity is needed. Income invested in those areas will receive tax freedom, if some fresh capital is also invested. García told a business convention on Nov. 16, "An industrialist is not a speculator. . . . An industrialist is someone who takes risks for himself and for Peru."

With a little help from governments such as West Germany, Italy, and France, García is bringing on-line infrastructure projects and beginning others. He plans to turn a dozen smaller cities into major industrial centers, to decentralize growth out of Lima. To prevent Lima from choking in its own traffic, he plans a rail mass-transit system.

Peru's model must spread . . . or fail

García once said he intended to serve "as a model of leadership for other countries of the world." He has proved it possible to set a sovereign path, ignore the IMF, and thrive, compared to those who "behave."

But, Peru's model must spread—first continentally and then globally—or fail. During November, Zaire limited debt payments to 10% of exports; and there are voices in Brazil for doing the same. But, by and large, Peru's path has not yet been followed.

In his Mexican interview, García hit that problem with a devastating attack on the "pettiness" and "little jealousies" of Ibero-American leaders who have prevented the integration of a powerful economic and political force on the continent: "Gentlemen rulers of Latin America; our peoples all have grave problems of growth, health, welfare, problems of historic unsatisfaction [of needs]. What are we, the rulers of Latin America, doing if we don't unite and show the world that we are not cheats, but that we do have the right to impel our societies to develop without insecurity, without violence, without misery? A country cannot be developed if it does not make an economy of national defense. . . . Latin America has to take the step of historic unity . . . has to be integrationist. No country by itself, could be successful in the struggle against financial imperialism if it is not united and protected by other countries."

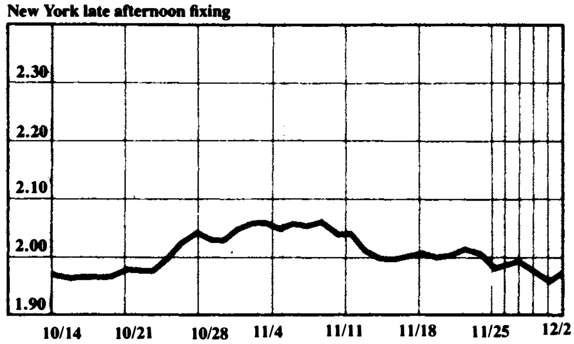
He explained that the Ibero-American economy "has enormous agricultural, mining, and industrial capacities, and what is most important, has an enormous population which if we use it to consume adequately would oblige our industries to work properly. So, foreign credit is not a problem for us. We have paid more in recent years than they have loaned.

"Not even Mexico which is a much bigger and more solid country needs that much money from outside. What it needs is for its economy to produce and its population to consume. . . . If we united all the Latin American countries, just think of the enormous sum of demand and social consumption and productive capacity we would have. Right now, any of our countries with small foreign resources . . . could, by ordering its economy and applying a new economic theory, put its society to work and allow its people to consume."

Currency Rates

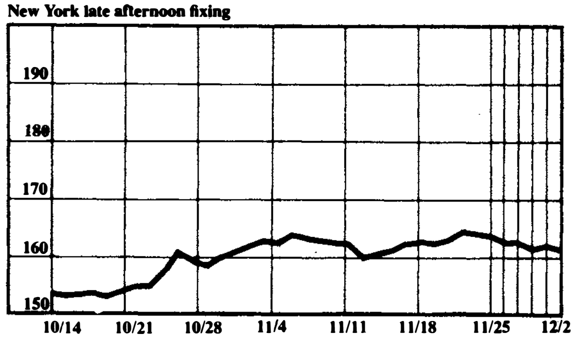
The dollar in deutschemarks

New York late afternoon fixing



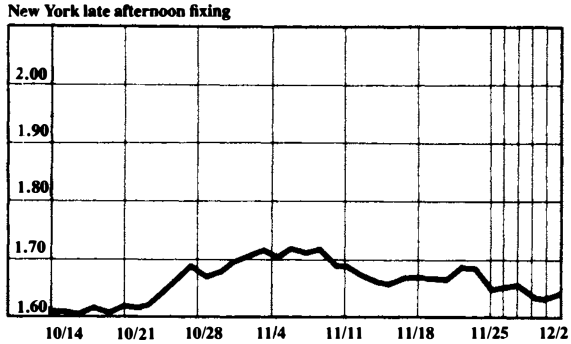
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing