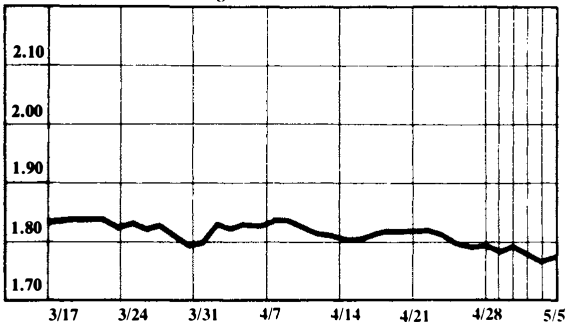
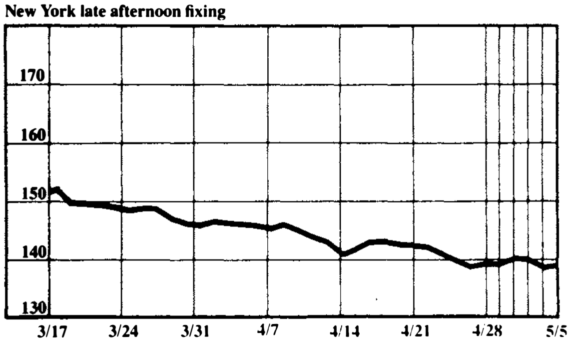
Currency Rates

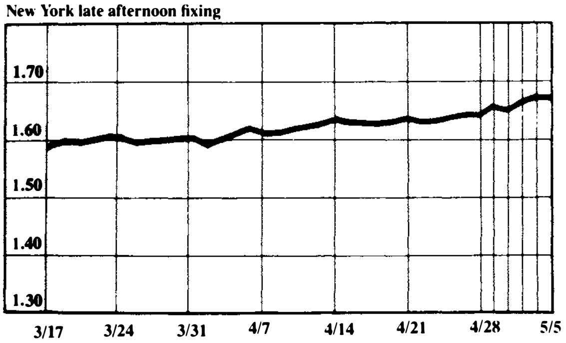
The dollar in deutschemarks
New York late afternoon fixing



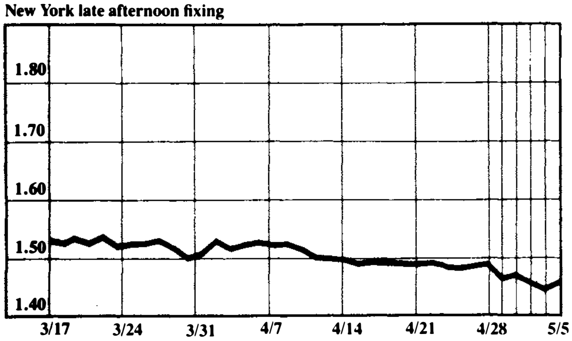
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Peru

Alan García gets the

by Gretchen Small

With Brazil's audacious finance minister, Dilson Funaro, forced out of government, the international banking community—with the active collusion of Moscow—has turned its sights on Peru's President Alan García, the other leader who has dared to challenge the West to radically reform the international financial system.

Events of May 4 exemplify the scope of the military, psychological, and economic war against García. At 8:45 p.m., terrorists blew up, simultaneously, 14 electrical towers, located in three different places in the country, cutting electricity to six departments, including nine cities, one of them the capital. As families sat by candlelight listening to the radio for news, Radio Programas del Peru, whose owners are close to former Peruvian Prime Minister Manuel Ulloa, broadcast a hysterical woman screaming that García was the problem: "Get that crazy man, García, out of here."

Local news agencies controlled by entrenched financial interests allied with foreign banks, have launched a propaganda campaign against García, labeling him "impetuous," "arbitrary," "arrogant," "crazy," a communist Mussolini who intends to break all of Peru's ties to the international world—on a whim. On May 4, someone within the government's own press agency, Andina, reported that García had threatened to stop all international sales of Peruvian oil and fishmeal—two of the country's largest export earners—because Peru was not paid enough for them. The President's office immediately issued a denial, providing the actual text of García's statement. García had simply reiterated his argument that the world financial system must be reordered, so that developing nations receive payments on the product of their labor, sufficient to allow the nations to develop.

The campaign to paint García as an isolated madman tilting at windmills repeats the strategy used against Brazil's Funaro, who had said upon resigning: "Not finding solid reasons to attack the Brazilian position, which they knew to be correct, they mounted against us a campaign of disinformation. This way, the presentation of the truth was characterized as arrogance; the defense of the legitimate interests of a sovereign country was labeled confrontation."

Stop that growth!

The press campaign has taken a toll in Peru, creating cynicism in the political and business elites. But García's

Funaro treatment

enemies have a problem: In his 21 months in office, Peru's economy has grown dramatically. On April 26, Peru's minister of industry and commerce, Manuel Romero Caro, released the statistics for the manufacturing sector for the first quarter of 1987. Manufacturing had grown by 20%, an acceleration of the 17% growth rate achieved in 1986. Within that sector, non-metallic industries grew by 41.4%, while metals manufacturing grew by 94.6%—a sharp contrast to the collapse registered in most other parts of the world.

These levels of growth, combined with a policy of increasing domestic buying power by increasing wages and salaries of all sectors by some 250% since July 1985, have gained García tremendous popular support, providing him the political power to withstand continuous efforts to remove—or eliminate—him.

No private interests will invest in Peru, as long as President Alan García maintains his policy of limiting payments on the foreign debt, Augusto Blacker, former president of Peru's Banco de la Nación, told Lima's *La República* on May 3. Blacker asserted that Peru faces an inflationary explosion and economic crisis, because the country has "a President who [has decided] as a political position, to break all ties with the international financial system."

Blacker's threats were but the latest delivered by members of a powerful circle of local financial interests, centered around former Prime Minister Manuel Ulloa, and Lima's Institute for Liberty and Democracy (ILD). The latter, leading advocates of legalizing the narcotics-financed "black economy," are financed by U.S. taxpayer dollars channeled through the National Endowment for Democracy.

In an interview with *Visión* magazine, released on April 12, Ulloa asserted that "everyone says, inside and outside of Peru, that we can forget any idea of receiving any foreign resources for the next five years . . . neither credits nor investments [will come]. No investment from private interests should be expected either, under current government policies," the former Wall Street banker stated. "Tell me who is going to deposit money so that through the banking system, the development of production can be aided."

Any attempt by the government to attempt to force the private sector to reinvest its capital, will be "totalitarian" and "unconstitutional," Ulloa added. Sooner or later, the government will be forced to "rectify" its policies, and agree to "streamline the economy," a euphemism for a return to the austerity policies which he implemented in Peru as economics minister and premier in 1980-82.

The same day, Ulloa's newspaper, *Expreso*, ran an interview with a leading ILD ideologue, Felipe Ortiz de Zevallos, which went further. Not only should the private sector not invest, but the time has come to take their money and run, Ortiz de Zevallos declared. The private sector finds itself "in the situation of going tomorrow to Ocaña Street [Lima's "informal Wall Street"], converting their businesses into dollars, and beginning again some place outside of Peru."

This crowd is now churning out the line that domestic growth policies such as that adopted by García's government, can work only in the short term. The "Peruvian model" has reached its end, they argue. To avoid the "inevitable" collapse, they propose a return to the "free market" policies of the last government, which left only the narcotics industry standing in Peru!

Blacker complains bitterly that the problem with the current economic team of the government, is that "it seems it has opted to prioritize economic growth. . . . The Peruvian economy will show signs of stagnation during this year," Blacker insists. Why? "In 1986, the growth of GNP went from a 4% annualized rate in the first quarter, to a 7% rate in the second, 13% in the third, and 19% in the fourth. That is to say, the takeoff of growth was brutal between the first and the fourth quarter!"

On March 11, Lima's *El Comercio*, "leaked" a private World Bank study which purported to *prove* that "the Peruvian plan will wear itself out in the short term." If the government does not devalue its currency and control the public deficit by cutting back investments in infrastructure, "the probability grows daily that the government will have to take recourse to drastic limits on internal demand, and apply either a large devaluation or establish even greater controls on imports, with the aim of containing inflation, and backing up the balance of payments," the World Bank argued. While acknowledging that Peru's economy grew on unprecedented 8.9% in 1986, World Bank specialists have been busy informing local "economists" that Peru should "put more emphasis on preserving its export potential, its ties abroad, and the general efficiency of the economy, instead of seeking autonomous development and the use of investments and direct investment as fundamental instruments of economic policy, as the government has preferred," *El Comercio* reported.

Putting capital to work

García met with leaders of the Small and Medium Textile and Shoe Industries Association on April 29, to urge them to help unite the country behind the "experiment" with growth. "Capital in movement, capital generating work, capital generating production—this capital is defended by the state. Inert capital, rentier capital, this must gradually disappear from our country. We want people who work, true industrialists, not rentier industrialists . . . great promoters," the President said.

The first week in April, Economics Minister Luis Alva Castro (whose head Ulloa has been demanding as the first sign of a change in government economic policy), announced that a new National Investment and Employment Fund would be created by the government, for priority industrial projects. The private sector, including domestic financial interests, is asked to provide two-thirds of the Fund's projected $450 million, while one-third will be generated from the sale of government bonds to the private sector, which are required to invest 20% of their 1987 earnings (spread out throughout the year) in the Fund's bonds. As an incentive, companies will be guaranteed 50% earnings on the bonds, which will also worth 3 intis, for every 2 intis invested. In turn, those who invest in priority projects, especially in provinces, will be exonerated from taxes, the minister announced.

At the same time, Alva Castro announced that new exchange controls had been set up, to stop the bleeding of the country's resources through capital flight. A license is now required for anyone seeking to bring in, or send out, foreign currency out of the country, while the government prepares a "budget" allocating foreign exchange by sectors of the economy, to insure sufficient currency is available for priority sectors. The government had detected significant instances of companies receiving tens of millions of dollars for "imports," which were then simply deposited abroad in private accounts.

The free market crowd screamed "dictatorship," and demanded the government cancel the exchange controls and the proposed Fund. Private business opposition to the proposed bonds forced Alva Castro to announce a 30-day extension on the sale of bonds.

Not all, by any means, oppose the government's experiment in growth. Jaime Crosby Russo, president of the National Association of Financial Companies, told *EIR* correspondent Liliana Pazos in early May that the national financial sector which he heads, had not only benefited greatly from the government's growth strategy, but has already communicated to the government willingness to participate in the proposed fund. The *financieras* sector which he heads, provides most medium- and long-term financing in the country. Under the previous government (whose economic policies were set by Ulloa), savings dropped from 12% to 5%, from 1980-85, and the *financieras* almost disappeared, Crosby Russo explained. Now, the savings rate has risen to 13%, despite the fact that inflation is higher than earnings. Our business is to capitalize credit, he said, and the government measures will help us.

For all the talk of disinvestment, thus far, investment has continued to grow, Luis Alva Castro reported in a May 3 interview with *El Comercio*. He said that in the first quarter of 1987, imports of capital goods had doubled over last year's average, reaching a record $88 million in the month of March.