García: The IMF is just a 'paper tiger'

Peruvian President Alan García used a press briefing in Lima on Feb. 15 to urge fellow Ibero-American debtor governments to move quickly to confront the international banking community with the collective demand for reform of the world monetary system. He urged speedier progress toward an Ibero-American summit meeting in Panama, proposed the creation of a "Latin American Monetary Fund," and called the International Monetary Fund a mere "puppet" of the creditors and a "paper tiger."

García called the IMF a "broken" institution, and said that its inability to effectively penalize his country for placing a 10%-of-foreign-exchange limit on debt repayments would soon cause others to imitate Peru, and refuse further tribute to usury.

His call for a debtors' cartel to be formed quickly—although he did not use that particular term—came as oil price declines placed Ibero-American oil exporters in increasingly desperate straits, in particular Mexico and Venezuela. A $4-per-barrel price reduction by the state-owned oil company, Pemex, responsible for a very large component of Mexico's economy, was followed by a 30-day Pemex moratorium on payments to domestic vendors and creditors. Other government agencies could soon follow suit, toppling large chunks of Mexico's economy, and with it, foreign debt service.

This has made Mexico the immediate crisis point in the world debt situation, with American banks, in particular, heavily exposed. "We would not panic if Bank of America were to go the way of Continental Illinois. If this happened, for us, this would not be unexpected. We are fully aware of their situation." This was the assessment of one of the "big three" Swiss banks, on the likelihood of the collapse of the largest U.S. bank because of the Mexican crises.

In this circumstance, President García's call to action made front-page news in Mexico. He also made headline news in Argentina, which has just declared a limited foreign-debt moratorium. Press reports say that in economic and diplomatic circles there, García's powerful statements were greeted "with evasion and silence."

At the Feb. 15 briefing, García delivered an opening statement and then confidently fielded questions from assembled foreign correspondents. He told them that the inability of the creditors and IMF to impose sanctions against Peru for its debt policy would result in a "chain reaction" of other debtor nations, following suit. "I am sure there will be a chain reaction; once a neutron or an atom is detonated, it will begin. It may be delayed a while, but it will begin. Someone else will figure out, 'Nothing happened to them; why don't we do the same?' Then, history will begin anew."

García blamed the big debtor nations of the continent for the lack of progress toward the Ibero-American summit on debt which he originally proposed and Panamanian President Eric Delvalle agreed to host. "It is an unavoidable obligation and responsibility" to face the debt problem jointly, he stated. "The day when five or six countries give a hand on this, the IMF will be finished."

"To be a debtor is to have power now. According to the banks it is a malevolent and negative power, but it is the power to make them respect us, to change the rules of the game," he added.

Peru has taken the lead, acting unilaterally, because "somebody has to jump into the river and show you can swim across it."

A Latin American Monetary Fund

García proposed that the Andean Reserve Fund, to which Venezuela, Colombia, Peru, Ecuador, and Bolivia now belong, serve as the starting point for a new regional monetary system. The Fund is now capitalized at $500 million and has a lending capacity of $4 billion to the countries of the Andean region. Said García: "The day that Argentina or Brazil were to join the Andean Reserve Fund, that agency would have much more capacity to act than the IMF."

The fall in oil prices is "one more motive to restrict our payments," he stated. If Peru loses $200 million of oil export income, that will mean $20 million less for debt service"—his 10% formula. He thanked Canada and West Germany for giving credits to Peru.

Asked whether Peru would pay its arrears to the IMF by the April 14 date set by the Fund, García replied, "I'll tell you on the 13th. . . . Just as the Fund must have had its reasons for giving us a deadline, I have my political and

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historical reasons for answering whether or not I will pay. Asked if he would "defy" the IMF, he replied, "Why should I defy? I am not a bullfighter or a boxer."

He explained that leaving the IMF wouldn't result in Peru being any more isolated. "That is a fallacy, because under these conditions all the debtor countries are isolated; you don't get company inside the IMF."

García stated flatly that the international monetary system represented by the IMF was dead, regardless of what Peru did: When President Nixon declared the inconvertibility of the dollar in relation to gold in 1971, all discipline over monetary expansion ended. "Since then we have been only in the hands of the creditors, no longer in relation to a parity. Thus the Bretton Woods accords, the system on which the IMF depends, have been broken; the IMF has been broken."

"What we have done is to banish the debt issue as far as possible from the national budget. . . . The central bank has a goodly quantity of dollars which has grown substantially, but we are not going to use them, because they are the country's reserves, its security. That is, national defense."

He hinted at a link between domestic terrorism and destabilization efforts in Peru and his policy on debt, saying: "The Europeans often don't understand, nor do our neighbors to the north, that we do not govern for the sake of our international image. . . . The Peruvian government cannot be attacked for its conduct of international affairs, nor for the problem of the economic crisis, nor for inflation, nor for devaluation. But it can be attacked on issues of internal security, which is fundamental . . . but which anybody can use to ruin the image of the government. That is obvious. But could they put up posters saying there is more hunger in Peru than before? They can't. Could they put up posters saying that Peru owes more abroad than before? They can't. That the currency is devalued? They can't.

"But what they can do is plant bombs to say that this government does not enforce its orders. And those of you who have said that the emergency law was decreed . . . as a psychological measure to impose public security are right."

He was asked: "What would happen if the Peruvian position, making debt payments a function of a percentage of exports, were to thrive? If it did, tomorrow, the rest of the Latin American countries would follow the example and this may be the IMF's biggest worry. . . ."

García answered: "It is already thriving. The decision has been made. I did not go to the United Nations to consult with the banks on whether to pay them the 10%. . . . Did they consult me before raising interest rates? Then, why should I consult with them? We had already decided it, and, in addition, seven months have gone by.

"There are some who say, 'But, when will you reach an agreement?' Listen: If we have already decided, the others have to accept it; that's the way it is. That is the absolute and frank truth. . . . We made an agreement with the countries which won the Second World War to maintain an international system of liquidity. The condiditions have changed radically, and we yet we act as though nothing had happened. That is called inertia.

"We have to cross the river. That is a proposal which means uniting the Presidents of Latin America to deal with the debt problem. It is something urgent. . . . The basic idea is to set a date for a joint decision and put an end to the theories of the IMF, which is merely a paper tiger. The meeting is not a circus; four or five countries which came to an agreement would be sufficent to provide the requisite force."

Peru indicts associate of Don Regan

When Peruvian President Alan García announced his rejection of the International Monetary Fund's program for Peru and any role for the Fund in talks with creditors, on his inauguration day, July 28, 1985, he also announced a major crackdown on drug traffickers and related corruption in the police, army, and government, firing hundreds of bureaucrats and police and military officers. It quickly became evident that the fight against international usury, drug traffic, and government corruption were one and the same fight.

Take the case of Pedro-Pablo Kuczynski, an old financial associate of White House Chief of Staff Don Regan. Kuczynski is currently in New York, positioned as the president of First Boston International. But three years ago, he was minister of energy and mines in the Peruvian government.

He has just been indicted in absentia in Peru on charges of corruption, in league with foreign oil companies, notably, Armand Hammer's Occidental Petroleum, which he allowed to abscond with millions.

Kuczynski's First Boston International also has strong ties to dope money-laundering. Don Regan's connections to him go through First Boston/Crédit Suisse, which combine dominates the Eurobond market. Crédit Suisse is one of Switzerland's leading dirty-money laundries. Back in 1978, a rather complicated series of transactions saw Crédit Suisse buy up a controlling 31% of the White, Weld investment bank, and shortly thereafter, Merrill Lynch chairman Don Regan bought up White, Weld, bringing the old White, Weld executive team, as well as the new Crédit Suisse personnel, into top positions at Merrill Lynch. Kuczynski's First Boston, Regan's Merrill Lynch, and Crédit Suisse have been doing their laundry together for years.