

## Peru's García draws the line against international usury

by Valerie Rush

Citing holocaust conditions that are destroying his country, Peru's newly inaugurated President, Alan García Pérez, became the first Ibero-American head of state to take an unequivocal stand against the international usurers ravaging the Ibero-American continent.

"One of every two deaths [in Peru] is of a child under five years of age who dies of diseases which could be avoided through sanitation and immunization programs. For every 1,000 children born, 127 die before their first birthday. . . . Every 4 minutes a child under 2 dies in Peru, and almost half of them die without having had the opportunity to enter a medical treatment center. . . . Is this the democracy which we are all thinking about?" the President proclaimed in his July 28 inaugural speech.

Asserting that "the people have voted for economic emancipation," García declared the economy a national disaster, and ordered a preventive, temporary shutdown of the nation's banks, slapped on exchange controls, ordered a police sweep of Lima's black-market money changers, pledged to pay no more than 10% of the country's export earnings in debt payments, and formally rejected International Monetary Fund mediation in any and all future debt negotiations with Peru's creditors.

García summed up the scope of his actions: "Peru has only one great creditor: its own people, to whom this government will allocate those resources necessary for the reconstruction of its destiny. . . . All can be negotiated except sovereignty and the political destiny of my people."

The Peruvian President did not repudiate the debt, nor did he rant and rave against the capitalist system, as Fidel Castro had hoped. The debt crisis, said García, "is not a conflict between East and West. It is not a bipolar conflict

between the two hegemonies. . . . But it is a conflict between North and South . . . and thus, the response must come from Latin America itself.

In a post-inauguration press conference, García stated: "We need a collective position to solve our common problems, problems that each one is trying to solve on their own, but from a position of weakness. We must adopt a collective position to integrate our economies through a system of compensation. Who knows if also a common currency for trade and compensation for the region. . . . That is why it is urgent to convene a meeting of Presidents; such a meeting, without the supervision of the U.S., would by itself be a historic deed."

In place of the usual empty rhetoric of the Socialist International, to which he belongs, García's inaugural pledge to protect his nation's sovereignty took very concrete form. "We will conduct a dialogue with our creditors, without using the cold agency of the IMF as an intermediary. But during the next 12 months, unless the situation changes, we will allocate for servicing the foreign debt 10% of the total value of our exports, and not the 60% which is being asked for. . . ."

García went on to order a number of initiatives which left the international bankers gasping. All banks and exchange houses were shut for an indeterminate period to give the new government the chance to formulate its program without sabotage from the oligarchy. García declared that the dollarization of the economy would cease; from now on, "wages and profits will be measured in the national currency, and not in foreign coin."

On July 30, Lima's "Wall Street," el Girón Ocona, was raided and nearly 200 money changers arrested. The government announced that it is compiling a list for publication of

Peruvians suspected of orchestrating capital flight. The central bank has already requested names of dollar-account holders from all Peruvian banks, as well as the names of all those who have sent remittances abroad in the recent period.

The head of the homicide division of the Peruvian Investigative Police (PIP), Col. Leonel Zeballos, was fired Aug. 1, after his arrest for suspected black-market dealing in dollars turned up 870,000 dollars and 351 million Peruvian soles in his possession. Panic among financiers and others has soared, with the illegal dollar now selling for 20,000 soles, up from 12,000 one week ago.

Interest rates have been reduced by 50% while the minimum wage was raised 50% and public employee salaries 15%. The prices of all basic goods were frozen, while exchange policy—including a possible freeze of dollar accounts—is still under discussion in a ministerial council meeting as of this writing.

### A critical moment

García's "daring challenge to existing monetary rules," as the *New York Times* described the Peruvian head of state's inaugural pledge, comes at a critical moment for Ibero-America. In September of 1982, the Mexican government of President López Portillo stunned the financial world by nationalizing that country's banks, a move comparable to García's historic break with the IMF. Today, Mexico is on its knees before the Fund, virtually eliminating exchange controls, imposing new, drastic levels of austerity on the population; in effect, committing economic suicide on IMF orders.

Argentina, which dared to confront the Anglo-American neo-colonialists during the Malvinas war, is now busily slitting its own throat on IMF demand. Colombia, whose President Betancur sponsored the Cartagena Group in hope of forging a united front against the creditors, has just signed for IMF monitoring of its economy—without a penny of Fund lending in return!

The rout began when López Portillo's actions failed to receive adequate support from a terrified and divided continent. Alan García's bold assertion of economic independence from the IMF today offers the continent a second chance: It can either serve as a rallying-point for his besieged neighbors, or it can lead to murderous retaliation from the international banks.

*The Wall Street Journal* summed up the thinking of the latter on Aug. 1: "Perhaps Peru is at the point where its long-term interest lies in learning what does not work, and would be served by an open break with the IMF, and perhaps something as close to foreclosure as banks can manage internationally [emphasis added]." Federal Reserve chief Paul A. Volcker coldly commented on García's declarations: "That kind of approach contains some arbitrary elements that are not conducive to progress on this problem." He added that Peru's chances for improving its financial situation will be hurt by García's "unrealistic" proposals.

Peru's new government has, in addition, been snubbed

by its erstwhile socialist brothers. Socialist International head Willy Brandt did not even bother to attend García's inauguration. Fidel Castro, enraged at García's refusal to send a delegation to his debt conference, sent what one diplomat in

## García vows to fight drugs, terrorism

President Alan García's strong denunciation of the twin evils of drugs and terrorism disappointed many of Peru's pro-terrorist left who had hoped for an indiscriminate amnesty for the Shining Path (*Sendero Luminoso*) terrorists and drug mafiosi. His denunciation probably disappointed the IMF even more, since it is drug money which the IMF has promoted ("incorporating the informal economy into foreign exchange flows") as the means for Peruvian debt payment.

In his inaugural speech, he declared: "Democracy must have authority and energy, and must not allow subversion and much less death, because we will not withdraw one single step in the face of terrorism, whatever its origin or inspiration, whether leftist or rightist. . . ."

García called for the formation of a peace commission, similar to that created by his Colombian colleague Belisario Betancur, to "do the groundwork for dialogue to persuade the misguided to return to democracy and abide by its principles."

He was equally forceful on drugs: "A historic scourge threatens our country: drug-trafficking, whose prospects of sudden fortune corrupt people and has destroyed many Peruvian institutions. Neither Peru nor any other country can permit itself to be identified as an exporter of poison. To the President of our fraternal Colombian nation, I propose that we strengthen our coordinated action to improve our bilateral police action in order to totally eradicate drug trafficking."

The Peruvian daily *Marka*, a vehicle of pro-terrorist factions in the Peruvian left, was so angered by García's refusal to exonerate the Shining Path butchers that it condemned the entirety of the speech. Lima Mayor Alfonso Barrantes, head of the United Left coalition, stated after the speech that he "had no opinion on it yet," and "needed to study it."

Some of the bases of the United Left, however, gave support to the García program. The speech thus split the nationalist left away from the pro-terror, pro-drug apparatus that has served as the IMF's protection racket in the country.

Havana described as "the most insulting message I have ever seen." Castro elaborated on all of Peru's serious social ills and added, "If you really decide to fight seriously, firmly, and responsibly against this Dantesque panorama of social calamities and to free your country, as you have publicly pledged, from imperialist domination, you will get the support of the Cuban people."

To judge from the early reactions of Peru's neighbors, President García thus far stands very much alone in his challenge to the IMF. Argentine President Alfonsín stated, "What Peru has done seems interesting . . . but each country has its own peculiarities [which] force it to take measures which may be in their interest, but not appropriate to others." Panama's Barletta echoed him: "Each country has the right to face its international economic situation and its foreign debt problems in a way that is appropriate to its own economic and political condition." Brazilian Foreign Minister Olavo Setubal returned from the inauguration in Lima with the dry conclusion: "The debt must be paid."

Even Colombia's Betancur, believed to be one of García's closest colleagues, issued what appears to be a counterproposal to García's call for an Ibero-American presidential summit, urging the creation of an Inter-American Task Force to work with Henry Kissinger on formulating a "Marshall Plan" for the continent, the same Kissinger who has been a leading adviser to the usurious creditor banks for years. Sixteen Ibero-American nations signed the "Declaration of Lima" which, while urging more flexibility on the part of the creditors, fails to endorse García's declared limit on debt payments.

Moving into the breach, however, are democratic trade union forces on the continent. On the day of García's inauguration, a "manifesto" was published in the semi-official Peruvian daily *Hoy* by the Trade Union Commission of the Schiller Institute, which declared: "We back the recent public declaration of the President-elect of Peru, Dr. Alan García, to not pay the foreign debt with the hunger of the people; to reject the efforts to convert the problem of the foreign debt of Ibero-America into an East-West conflict, because it is not a question of leaving one imperialism to fall into another; and to launch total war against drug trafficking. . . . We commit ourselves to organize the needed popular backing on the continent to assure that these statements by Dr. García become reality."

The Schiller Institute, founded by Helga Zepp-La-Rouche, has undertaken to mobilize forces worldwide to back García in his fight to defend the principle of national sovereignty. The Institute sponsored a conference on the debt problem in Mexico City on July 15-17, at which 45 Ibero-American labor leaders, representing the majority of the continent's democratic unions, called for "an end to IMF genocide" and "for the integration and development of Ibero-America. . . . The illegitimate foreign debt imposed on us as a looting mechanism cannot, and should not, be paid."

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## Documentation

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# 'We will talk, but not to the IMF'

*The following are excerpts from President Alan García Pérez's inaugural address to the Peruvian Congress and people, delivered on July 28, 1985.*

### Economic reactivation

My proposal is to promote agriculture in those areas where the living standards of millions of Peruvians has remained unchanged for centuries. Thus, those neglected lands, in which no seeds, fertilizers, or tractors have ever been used, lands that are cultivated once every eight years, will produce the food we are now buying abroad. We will then attain the social reactivation for production.

My proposal is also to give jobs or a chance to earn a living to the hundreds of thousands of unemployed and underemployed people in shantytowns. We will thus attain the social reactivation of consumption. We will be building a new nation if our agricultural production can meet the consumption needs of those who now have nothing to eat because they have no jobs. This process must take place at the foundations of society, at the lowest level in the social pyramid. The local market will then buy Lima's industrial production, which is slowly dying because of vanishing demand.

. . . Our objective is to stop using fish for industrial purposes. Our objective is for fish to become the nutritional base of Peruvians. Therefore, I have instructed the minister of fisheries to immediately channel the products of our fishing industry toward the freezers and the canneries and to reduce the import taxes on tinsheet so that fish can be made an immediate resource for our people. . . .

. . . I urge you all to work to turn a speculative state into a productive state. . . .

### On economic sovereignty

We need a new nationalist and democratic state . . . a nationalist state that should defend our economic sovereignty and our industry and production from unfair competition with foreign goods . . . a nationalist state that should defend our national resources, doing away with tax exemptions which, as in the case of the oil sector, have seriously affected our economy. I am hereby submitting to Congress a draft law abolishing Law 23,231, which established an oil-tax exemption. I will make it clear, though, that we need trade and call

upon foreign investors to negotiate specific and mutually beneficial dealings. . . .

The nationalist state must raise the value of its presence through our own currency, because a currency that is the sign of world capitalism has flooded our economy, thus making it dependent on the dollar. I say that to renounce the national currency is to renounce our sovereignty, and I pledge that from now on, the economy, salaries, and profits, will be measured in national currency.

The 2% of the population who are at the top of the pyramid reap the largest income through their monopolistic enterprises and thanks to the ownership of the productive apparatus. Quite often, that wealth, amassed at the expense of Peruvians, was achieved by leaving Peruvians hungry. What is worse, that wealth has served to fatten bank accounts abroad, leaving Peru without resources. . . .

I want to announce that from now on the state will revise and restrict the remittance of profits, which, quite often, were excessive and unfair. . . .

We believe in private property that is linked to the common good. We believe in free creative initiative. We reject dogmatic egalitarianism and sterile statism. . . .

### Foreign debt

The foreign debt problem is our priority issue right now. From our point of view, the foreign debt reveals the relationship between the poor and the rich of the world. It is the result of the unfair exchange of our raw materials for the manufactured goods of the richest countries. It is also the result of the overvaluation of the dollar in relation to other currencies. The situation has worsened even more because of the arbitrary and unjust increase in interest rates that increases the foreign debt, and, what is worse, because of the protectionist measures of the nations that now refuse to purchase our raw materials.

For our part, we must accept that the foreign debt has often been handled in an irresponsible way, incurred to finance unproductive investments and to favor, almost exclusively, 30% of the population. . . .

If we must denounce the unjust origins of the debt, we must also accept that as a people, we have not had sufficient power or courage to change the path of our history. For that reason, we tell the agencies of international financial control that are now trying to rule our economy, speaking of austerity and of spending cuts, that they were accomplices of the waste and unproductive use of those resources, that they were accomplices during the past decade in the injection of unproductive credits whenever the international bankers wanted. They did not then use the theory of state austerity. . . . That is why Peru today owes \$14 billion, and in this year of 1985, must pay \$3.7 billion, while its exports only reach \$3 billion.

I want to refer to some essential concepts regarding this fundamental issue. First, we want to repay our debt because we are honest. Despite the fact that we are aware of its unfair

origin, our people will assume their responsibility because they recognize their own mistakes.

Second, we maintain that the historical and final solution to this problem lies in the political treatment that a united Latin American continent should give to the issue. . . . A united Latin American continent will succeed in making the wealthy countries recognize that they are also responsible for this crisis, and that they must lower interest rates, extend repayment periods, and maintain our exports' prices. . . .

Third, we reaffirm our proposal: We want to deal with our creditor countries and banks; we want them to know our reality, our decision to reactivate our economy and to attend to our people's social needs, because we will not be able to honor our commitments, without the people's help. But we want to talk without intermediaries. . . . President Alan García is an elected President and only must report to 20 million Peruvians and not to the officials of an international organization. . . .

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Fourth . . . I want to repeat that there is an extremely large internal debt that we have to pay and that we will first make a great effort in this direction. This does not mean that we will overlook our responsibilities to our foreign creditors. We want to pay under better conditions and acting together with other countries.

Yet, as long as the Latin American countries do not adopt a united position on this subject, and keeping in mind the spirit of Cartagena, and aware of the need to move from words to actions, I announce that we will engage in a dialogue with our creditors without using a cold agency such as the International Monetary Fund as an intermediary, and that in the next 12 months, as long as the situation does not change, we will allot for the servicing of our foreign debt no more than 10% of the total value of our exports, not 60% as is being asked of us.

I am thus reasserting Peruvian economic sovereignty and the right of each people to decide its destiny without the hated mediation of organizations that are only at the service of large international interests.

## The world reacts to García speech

*Federal Reserve Chairman Paul Volcker, speaking to the House Banking Subcommittee July 30, 1985.*

That kind of approach contains some arbitrary elements that are not conducive to progress on this problem. . . . [García's plan] may hurt Lima's prospects for improving its financial plight. [I'm not sure] what he means, we will just have to see how the situation develops over time. [Peru] will certainly be on the agenda of the next U.S. bank regulators' meeting, in September or October.

*U.S. Treasury Secretary James Baker III, in Guatemala on his way back from attending the García inauguration as the head of the U.S. delegation.*

To talk about so-called 'political solutions' to the debt problem, is counterproductive, and would only reduce banks' willingness to make new loans.

*New York Times lead editorial, Aug. 1, 1985.*

His desire to link interest payments to export earnings sounds reasonable; debtor nations cannot hope to grow their way to solvency if all foreign earnings are drained off by debt payments. But Peru's creditors will not accept arbitrary below-cost returns on their loans. Nor will they let Peru proclaim a principle of export linkage that other nations would quickly exploit to reduce their promised repayments. If Peru's terms are to be relaxed, Mr. García will have to back off this linkage *and* show his creditors a serious plan for growth.

*Penelope Hartland-Thunberg, economist for the Georgetown Center for Strategic and International Studies (CSIS).*

An ominous development, [especially] if the U.S. economy continues to weaken. If Latin American debtor countries find they can't get enough export earnings, because of a declining world economy, they will be far more tempted to joint Alan García's initiative. . . . The threat of a debtors cabal has been around since Cartagena [meeting of June,

1984]. We were able to buy off some of the Latin American countries then by giving them goodies. We might have to try to do that again, if other countries decide to go along with García. But we're in a real quandary, because there's no way you'll get taxpayers in the U.S. or Europe to bail out the banks.

*Die Welt, West Germany, Aug. 1.*

All of Latin America thinks the time has come to have a new approach to the debt problem. It is a fact that under present circumstances, no country is able to repay its debt. The debt problem has turned into a political rather than an economic problem. The sooner this is recognized in the U.S.A., the better the future will look for the countries of Latin America which have just returned to democratic rule. Continued intransigency, however, could turn the mountain of debt into a volcano, the eruption of which could shake up the whole Western world.

*Tom Wicker, New York Times, July 30.*

With the most imaginative idea yet offered by the leader of a debt-ridden Latin American nation, Peru's new president has pointed a possible way out of the region's dangerous debt crisis, one that avoids both extremes—default or years of extreme economic austerity threatening political upheaval.

*Carlos Andrés Pérez, former President of Venezuela.*

The day before García's speech, he told the Peruvian press: "Kissinger . . . has shown in his latest speeches that he is getting closer to, and is tuned into, our positions, demanding that the United States transact a development plan for Latin America like the Marshall Plan."

Pérez was pinned down by *EIR* the day after the García speech, on whether Pérez's support for Kissinger, a backer of IMF austerity, did not conflict with García's declaration of independence from the IMF. Pérez's response:

"No, no. What I am saying is that, while the current financial system exists, the IMF is the head of the financial system which we attack, and Henry Kissinger is its maximum defender. When I refer to Kissinger, it is [to say] that even a gentleman like he, the maximum defender of the system, even he has recognized that there is a problem of the debt."

**EIR:** In regard to the example of integration of the European Economic Community which was referred to earlier, what do you think of the programmatic proposal of Operation Juárez by Lyndon LaRouche, which besides proposing joint renegotiation of debt and burial of the IMF, proposes the adoption of political and economic measures for the building of an Ibero-American Common Market?

**CAP:** Well, that is the ideal proposal, that is where we are going, that is what we are working for. Now, things are not always so easy. The path is slow, painful, but that is where we are headed.