

Peru's 33 years of regression

by Luis Vásquez Medina

The leading international financial outlets have promoted the illusion of a "miraculous" recovery of the Peruvian economy, after the socialist government of Alan García left it in ruins in 1990. During his visit to Peru in mid-1994, International Monetary Fund (IMF) Managing Director Michel Camdessus described Peru's economic recovery as "extraordinary," which he claimed was due to the fact that "Peru is the country which in the least amount of time has implemented the most drastic economic reforms in the entire western hemisphere." Fraudulent statistics showing a high growth rate for the Gross Domestic Product (GDP)—over 10% for the past two years—and an annual inflation rate reduced to 16% are prompting the most feverish forecasts, like that of President Alberto Fujimori, who recently declared that "Peru is at the point of developing an economy similar to that of the Asian Tigers."

However, the poverty afflicting ever larger sectors of the population reveals the hollowness of these claims. The fact is that these so-called "high rates of growth" represent only a slight and still inadequate recovery from the abysmal crisis into which the economy plunged with the IMF-dictated "ad-

justment" of 1990. The 12% increase of the GDP cited for 1994 has only just brought growth back to 1981 levels, in absolute terms. In per capita terms, Peru is in worse shape than in 1981. And if the available national income per capita is considered—that is, if we subtract from this figure the net service costs on the foreign debt, the net repatriation of profits, the net effect of terms of trade, and the growth of the population itself—we can see the shocking reality that per capita income at the end of 1994 is equal to what it was in 1961. Thanks to the IMF's monetarist miracle, Peru has regressed 33 years, as can be seen in the following list of available national income per inhabitant, which is calculated on a base of 100 for 1950:

1950=100	
1960=151	1989=198
1961=158	1991=130
1970=201	1993=156
1980=210	1994=158

On average, Peruvians today ingest one-half the protein they ingested 20 years ago. Today, there are an official 12 million living in poverty, and health and sanitation have reached African levels. In 1992, the worst epidemic in 500 years lay waste to the country, and in 1994, there were 1,120 confirmed cases of bubonic plague reported (only India in 1994 suffered more deaths from the plague). The brutal policies of monetary and credit restriction, designed primarily to ensure payment on the foreign debt, have reduced production to impossible levels. This is the other thing that GDP growth statistics hide. The economy has shifted into the unproductive service sector, while imports have grown as production for the domestic market has con-



Peru's economy has shifted into the unproductive service sector, including the "informal economy" of street vendors and drug trafficking, while production of goods for the domestic market continues to fall.

TABLE 1
Peru's current account
(millions \$)

	1990	1991	1992	1993	1994*
1) Exports	\$ 3,231	\$ 3,329	\$ 3,484	\$ 3,435	\$ 4,387
2) Imports	-2,891	-3,494	-4,051	-3,998	-5,361
3) Trade balance (1+2)	340	-165	- 567	- 563	- 974
4) Financial services	-1,014	-1,011	- 901	-1,470	-1,570
5) Non-financial services	- 664	- 724	- 850	- 798	- 920
6) Transfers	247	316	298	261	305
7) Current account balance	-1,091	-1,584	-2,020	-2,570	-3,159

* Estimated.

Source: Central Reserve Bank, National Statistical Institute, Peru.

tinued to fall.

In Peru today, only 12.7% of the Economically Active Population (EAP) has employment worthy of the name. The rest of the EAP survives on occasional jobs, street vending, etc., squeezing out pitiful earnings. The index of manufacturing jobs in 1994 was 50% of what it was in 1950. According to the 1993 national census, more than 1 million Peruvians—among them the highest skilled of the labor force—left the country, seeking work they were unable to find at home.



Peruvian President Alberto Fujimori: The "adjustments" he has carried out on orders from the IMF have increased the nation's indebtedness.

Speculative bubble has begun to burst

The only ones deriving a profit from the misery of the population are the bankers and speculators. People like banker Pedro Pablo Kuczynski, currently executive president of West Field Capital, an employee of the Soros Group, and a member of the Inter-American Dialogue, or like Carlos Bologna, former economics minister and a partner of Chilean monetarist Herman Buchi, struck the business deal of the century by buying Peruvian debt paper at 5% of its value in 1990, and swapping it for up to 72% of the stocks in Peru's undersold public companies. It is estimated that the Soros Group alone earned nearly \$150 million in 1994 this way.

Also in 1994, the Peruvian stock exchange—playing host to speculative operations of all sorts—saw explosive growth when the number of transactions rose by 199% over 1993 levels, giving speculators—primarily foreign ones—profits of 52%, and even 72% in certain select operations. According to the International Finance Corp., the Lima Stock Exchange was the second most profitable in the world during the last two years. This exchange, whose annual volume of transactions is more than \$4 billion, lost 20% of its value in the first two weeks of 1995, offering a black picture for the immediate future of Peru's "neo-liberal miracle."

The massive fraud of the CLAE investment house, which was exposed in 1994, is another good example of where free-trade policies, which consider any kind of business valid, can lead. More than 160,000 Peruvian families—the majority of whose breadwinners had lost their jobs following the shock of 1990—watched their meager savings go up in smoke in an investment house directly tied to the Peruvian drug cartel. Relying on the advice of a former economics minister of the Fujimori government, as well as of economists Blacker Miller and Alejandro Toledo (of Harvard, today a presidential candidate), CLAE managed to perpetrate a swindle involving more than \$800 million, in full

view of the Fujimori government.

Payment of the foreign debt comes first

In late 1994, the head of the steering committee of Peru's creditors, William Rhodes of Citibank, withdrew the 33 charges he had filed against Peru in the mid-1980s for defaulting on its foreign debt. The debt arrears that the creditor banks were demanding from Peru amounted to \$10 billion, and constituted approximately one-third of Peru's total foreign debt. To achieve this pardon, the Peruvian Congress had to issue a special law recognizing the debt, including \$72 million demanded by American Express Bank and Chemical Bank which had been disavowed by a Peruvian court.

The hope of Peruvian Finance Minister Jorge Camet was that the negotiations with the banks would conclude with the application of the Brady Plan to Peru, including a significant reduction in the nominal debt owed. However, according to Peruvian press reports, during the round of talks held in Spain in October 1994 on the occasion of the meeting of IMF-World Bank governors, Peru's Committee of Bank Creditors informed Camet that it was not going to permit any reduction in Peru's commercial debt. A spokesman for the committee told the astonished minister: "Peru should enter through the front door of 'reinsertion' [into the IMF-run financial system] and honor the entirety of its debt."

The ultimate purpose of all the "adjustments" which the Fujimori government has implemented at the demand of the international banks is to increase the looting of the nation through a foreign debt which, despite the payments that have been made at great sacrifice, continues to grow and grow. From 1990 to 1994, the period during which the country faced one of the worst wars in its history against the narco-terrorist Shining Path, the net outflow of debt service payments surpassed \$3 billion. In 1993, approximately \$1.75 billion was paid out, representing more than half of that year's export earnings. In 1994, it is estimated that another \$1.96 billion was paid. Despite this, the total amount of Peru's debt grew from \$22.3 billion to \$25.4 billion in that same period.

The weakness of the free market

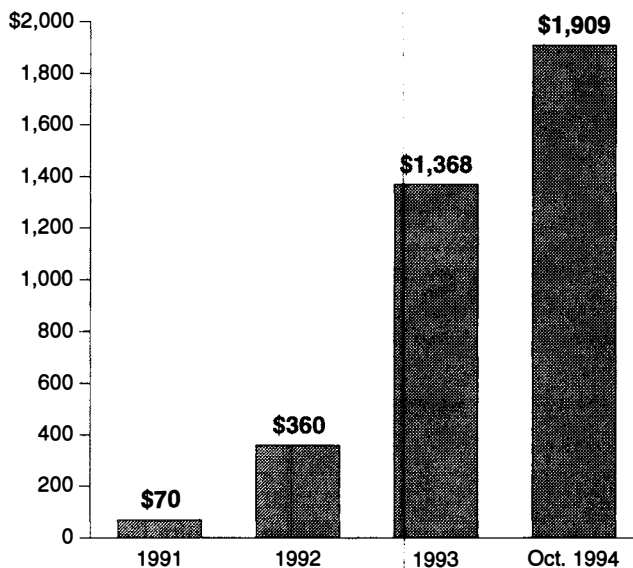
Neo-liberal fundamentalism—with its monetary and credit restrictions, its opening to mass imports, its dizzying increases in public service rates, and its virtually nil investment in industrial infrastructure—has led to the near paralysis of national production for the domestic market. Today in Peru everything is imported. In 1994, imports were double what they were in 1990. In fact, an "historic record" was reached in the trade deficit, despite the fact that it was an exceptionally good year for Peruvian exports (Table 1) due to incidental factors such as good fishing and farming weather and exceptional minerals prices on the world market.

But the trade deficit, added to profit remittances and to the service payments deficit—which is showing increasingly

FIGURE 1

Foreign investment in Lima, Peru Stock Exchange

(millions \$)



Source: Lima Stock Exchange.

negative values because of service payments on the foreign debt—has led to a current account deficit of \$3.159 billion, the highest in the country's history.

As has happened in Mexico and in all the other countries which have accepted IMF prescriptions and orthodox free-trade dogma, this deficit has been covered by short-term speculative capital attracted by stratospheric rates of profit on a national financial market heated by drug dollars.

Potentially productive direct foreign investment has been slim. The annual flow of direct investment in 1994 was \$2.236 billion, according to statistics of the Central Reserve Bank, but this investment was largely made up of money garnered through the sale of state-owned companies, and therefore in no case represents new investment that expands productive capacity. Equally serious is the fact that, at the demand of the IMF, the Peruvian government has increased its foreign reserves by freezing nearly all extraordinary income from the sale of public companies, to avoid—according to Minister Camet—a rise in inflation.

Figure 1 shows the increase in income of speculative capital on the Peruvian financial market.

The fact is that today the Peruvian economy is suffering the same monetarist cancer that is killing Mexico. Once the disease is out of control, which will surely occur this year, everything gained in the battle against narco-terrorist subversion could be lost, unless the government decides to defend the nation and reverse its current economic policies.