

# Peruvian President Alan García declares war on the drug economy

by Sara Madueño

In a July 28 message to the Peruvian nation, celebrating the 166th anniversary of national independence, President Alan García announced the immediate intervention by the state into the country's financial institutions, for a 120-day period. During that time, Peru's Congress, a majority of which has already voiced its support for the measure, is expected to approve the President's proposal for nationalization of the banks.

García also announced his determination to establish a strict regimen of exchange controls, and to shut down street sales in dollars. The measures, made in the spirit of protecting industrial investment and doing away with the usury of the international financial system—which far from being a distributor of credit for productive use has become a huge laundry of drug dollars and conduit for flight capital—bring to mind the spirit of the founding fathers of the American System, who premised themselves on the same ethical principle, through which it was possible to turn the United States into a powerful industrial republic.

"From now on, only the banks will buy and sell dollars for permissible legal uses," said the President. "The financial system in Peru today is the most powerful instrument of concentrated economic power, and therefore of political influence, and the greatest obstacle to the democratization of production and the accumulation of surplus. . . . I propose to leave all credit, financial and insurance activities to the state, as the first step toward the real democratization of our economy," García said.

He continued: "The state should be the only allocator of credit and of liquidity, because this is a form of planning. . . ." The sovereign state "should be able to organize the financial system and place it at the service of growth, of industrial restructuring, and of economic decentralization. By proceeding in this way, the state fulfills an essentially democratizing function, because it opens up credit and liquidity to all those economic forces which . . . were systematically discriminated against by the private financial system. . . . The new public financial system, if the Congress

approves this bill, should thus become an instrument of development for all economic forces, and will extend its credit throughout the country, but especially to the poorest rural zones of the country," President García said.

With these measures, which have already won the backing of the vast majority of Peruvians, and of the Catholic Church of Peru and of other Ibero-American nations, García is answering the economic and narco-terrorist war which the international financial powers and the Soviets have declared against Peru. García's administration represents the only national model which, by basing itself on the Christian principle that "the economy is at the service of man, and not the reverse," achieved a record economic growth rate on the order of 8.5% for 1986.

## Total support from the Church

The day following announcement of the bank nationalization and the other measures, Cardinal Juan Landázuri Riquet expressed the Church's backing for García's initiative, emphasizing that the announcements by the President on economic matters are "very important points, for their social content and because they place emphasis on justice and morality."

According to a UPI wire, several Latin American prelates gathered in Bogota for the meeting of the Latin American Bishops Conference (CELAM), similarly expressed their full support, not only for the new measures taken by the García government, but in general for the President's economic policy, derived from his inauguration pledge to limit payment of the foreign debt to 10% of export earnings.

Particularly striking are the statements of the secretary of the Peruvian Bishops Conference, Monsignor Augusto Vargas Alzamora, who in backing the decision to nationalize Peru's banks, indicated that this measure would permit the proper administration of money. Vargas Alzamora also praised those governments which, like Peru, have sought an immediate solution to their foreign debt problem on the basis of "First live, then pay!"

The Brazilian bishop of San Luis, Domingo Pablo Eduardo de Andrade, also endorsed the Peruvian government initiative, energetically adding, "We must call a thief a thief, and we think that the creditor banks [holding] our enormous foreign debts are usurers." The bishop of Zacatecas, Mexico, Javier Lozano, spoke in similar terms, describing as "usurious" the international financial system, because "the collectors of the international debt service are usurers."

Leaders of different lay organizations as well as political personalities have given their backing to García's bold move. Such, for example, is the case of the organization of small and medium industrialists in Peru, who offered their unrestrained endorsement of the nationalization of the financial system, saying, "Democratizing credit awards productive efforts."

An EFE wire reported on other support from abroad, including the statements of the dean of Ecuador's central university, who said that García's measures "are a lesson in sovereignty, that require the unity of political forces favorable to more nationalist and progressive proposals."

### **Drug-bankers wounded**

The only ones really hurting from García's decision are, obviously, the drug traffickers, who suddenly find shut down those financial channels which, under the banking liberalization laws of "the man from the Bahamas," Manuel Ulloa, when he was finance minister, were turned into drug-money laundromats. In no way do García's measures affect small, medium, or large industries since, for the first time, they are now guaranteed access to productive credit.

On July 30, Channel 7 television—a state-owned station—broadcast an editorial replying to the attacks against García's measures pouring from shady bankers and "businessmen" who lie that the measures are unconstitutional. The editorial simply described the case of the Banco de Crédito, a private bank which, through merely one of its branches in the jungle city of Uchita—the recent scene of a bloody assault on the part of the Sendero Luminoso narco-terrorists—"deposited \$600,000 a day from the drug trade, the same dollars that went on to the Grand Cayman Islands."

The London-based *Andean Report*, in April 1985, had already commented on "a surge in prices and export of coca paste from the Upper Huallaga valley. The world's top producing region looks set to further boost bank profits in Lima and to bolster the country's international reserves during a particularly tricky period. . . ."

"A manager at the Banco de Crédito, the Huallaga's most aggressive bank, reported that as of the beginning of March its purchasing had 'dried up.' In Lima the Crédito also said that as of the beginning of March it was no longer exporting the substantial quantities of cash dollars back to the United States that it had been sending, at the rate, staffers say, of between US\$3 million and US\$5 million a week for the previous three or four months. Management says the amounts

were much less: Official figures don't exist as no reporting on this as in most dollar dealing is required. . . ."

The "commercial banks compete for coca-dollars and have been opening and expanding their operations along the Huallaga in one-horse towns like Tocache, Uchiza, Aucayacu, Progreso, and Juanjui where, today, the only bankable business is coca paste. . . ."

"The Crédito, Peru's biggest bank, with its expanding network of associates, branches, and subsidiaries in New York, California, Nassau, the Cayman Islands, and Panama—where the bank opened a branch in March—has about half the banking market in the Upper Huallaga, its figures indicate."

It is thus clear why President García's repeated appeals for productive investment fell on deaf ears, since the same powerful bankers whose institutions functioned as the pin-striped fronts for the drug czars, are part of that small number of businessmen who, disguised as friends, had conditioned their support for the García government on being allowed to operate with impunity. When the García government finally moved to clip their wings, they surfaced with cries and groans, revealing who they really worked for. In fact, the word on the streets of Lima today is that "whoever protests the bank nationalization, surely has interests with the drug trade," an allusion to the popular refrain, "Tell me who you travel with and I'll tell you who you are."

The chairman of the Peruvian banking association, Francisco Pardo Mesones, declared July 30 that the bankers "are deeply disappointed by the proposal of nationalization of the private banks, and are in total disagreement with the measure of intervention in the banks. . . . Therefore, we will fight with all the legitimate means at our disposal to prevent the nationalization from being consummated."

The National Association of Financial Companies announced, for its part, that it would be seeking a writ of habeas corpus from the courts, to halt the government's decision to nationalize the banks.

The president of the Confederation of Private Businesses and Institutions, Ricardo Vega, announced that his institution rejected and protested the "arrogant and arbitrary" intervention of the government against banking, financial, and insurance companies. Dionisio Romero, one of the majority stockholders of the notorious Banco de Crédito, threatened to leave the country, while Ernesto Lanata, majority stockholder in the obscure Banco Mercantil, could only stutter with rage in response, according to the Ulloa-owned newspaper *Expreso*.

Within the APRA ruling party itself, there are some who have opposed the measure, such as the octogenarian vice president of Peru, Luis Alberto Sánchez, who was a lone voice telling the television media, "I don't think the moment was the most propitious" for García's measures. Sánchez added that while García's nationalization proposal, as such, was constitutional, it might not remain so if rejected by Congress.

# What García said

*Excerpts from Peruvian President Alan García's July 28 speech to the nation:*

Had we no historical ambition for change, we would lose the direction of our path. Our identity has a great goal in the future: the emancipation of man and society from all domination and misery. Thus I ratify as the government's first objective the strengthening of the nation's economic and political sovereignty, as we assert its independent development with social justice. . . .

We know things are changing in the world. Other countries are halting or limiting debt payments. The world's major banks now concede they've lost their loans to countries rich and poor, and are beginning to understand, little by little, that solutions will have to come through political dialogue. We cannot lower the flag of anti-imperialism in this matter. We will not lower it. Anything can happen, but the IMF and its starvation policies . . . shall not happen.

There are politicians who say that you cannot grow without foreign loans. We recall that during recent years, the dollars that have left the country have exceeded those that have come in. In other words, the rich countries haven't been the lenders; Peru was a capital lender and exporter.

The government establishes from this moment forward, as a sovereign decision, a strict regimen of exchange controls, declaring that the use of foreign exchange should have a social purpose and should be decided upon solely by the state. Therefore, the government decrees the immediate and definitive closing of the exchange houses, the suspension and severe penalization of street dollar sales, and establishes that from now on, only the banks can buy and sell dollars for permissible legal uses. This decision is necessary and unavoidable, to be able to put an end to the outflow of surplus and resources which belong to all of Peru, and especially to the poorest, and to prevent those who should invest, from comparing the speculative profits from buying dollars, with what they might earn from an investment inside Peru, where it was obtained.

The government defends the wages of the majorities, the government defends productive investment, of patriotic industrialists, but cannot and should not protect speculative rentierism. Neither, as some have proposed in defense of that

rentierism, can we offer greater interest rate profits in national currency, to convince those who want to buy dollars not to do so, because this would be to use resources created by the efforts of all Peruvians, granting excessive benefits to privileged minority groups.

One of these mechanisms, the most important, is the financial system, still to a large degree in private hands. The financial system in Peru today is the most powerful instrument of concentrated economic power, and therefore of political influence, and the greatest obstacle to the democratization of production and the accumulation of surplus. Therefore, at this time, I propose to Congress its nationalization and statization. I propose to leave all credit, financial, and insurance activities to the state, as the first step toward the real democratization of our economy.

According to our thinking . . . the state should be the only allocator of credit and of liquidity, because this is a form of planning, and therefore, in use of its sovereignty, [the state] should be able to organize the financial system and place it at the service of growth, of industrial restructuring and of economic decentralization. By proceeding in this way, the state fulfills an essentially democratizing function, because it opens up credit and liquidity to all those economic forces which . . . were systematically discriminated against by the private financial system. . . . The new public financial system, if the Congress approves this bill, should thus become an instrument of development for all the economic forces, and will extend its credit throughout the country, but especially to the poorest rural zones of the country.

*President García was interviewed on Mexican TV by Jacobo Zaludovsky on July 31. In response to a question as to whether some of the interests affected by his measures might run a plot to destabilize him, he said:*

Of course. It is clear that many things have to be feared, and he who stops fearing the consequences of his acts is irresponsible; but he who limits himself to fearing those consequences is only a wimp. So, you have to be able to balance the need to act and the need to foresee what could happen.

Clearly, a great journalistic campaign has already been prepared to say we are communists, that we have harmed the interests of the international banks because we are communists. They are also preparing a series of business or juridical arguments to block this decision a bit. And, I am sure, that in a less public way some products will be hidden. They will have to put the government up against the wall. . . .

Peru and its people should know that there are consequences to taking essential measures for justice. If we want to pay the price of those consequences, we have the right to be free. If we don't want to pay the consequences and pass through headaches and problems, we will remain chained to the International Monetary Fund, we will keep paying the foreign debt, we will remain submissive to great power groups inside the country. We will remain submissive to injustice and domination.