IMF 'shock' plan set to rip up Peru

by Gretchen Small

The Peruvian government's return to neo-liberal economics, begun this year in the hopes of returning to the good graces of the International Monetary Fund, has brought the country to the point of hyperinflationary breakdown. Inflation rose 23% in August alone, bringing inflation for the past 12 months to an unprecedented 440%. There are few optimists left who forecast that inflation will not reach the 1,000% annual rate by the end of 1988.

Peru's elites now appear committed to implementing that neo-liberal cure-all, economic "shock." Only the triple-digit currency devaluation and huge hikes in prices, taxes, and interest rates of a standard shock package can generate the revenues to let Peru meet debt payments, the argument goes.

Every country which has ever adopted "shock" therapy, suffered political upheaval of some degree as a result of the sudden, brutal drop in living standards which "shock" effects. In Peru 1988, however, the neo-liberals' shock may well prove the decisive factor in turning the country over to Soviet-run narco-terrorists.

Drug advocates' coup

In Peru today, those forces most vociferous in demanding a murderous shock package, are the economic and political interests most adamant that Peru unshackle the "wealth" of the narcotics trade, and legalize the narco-economy: the allied forces of the Inter-American Dialogue and Lima's Institute for Liberty and Democracy (ILD).

They know what results to expect, too. Industry Minister Guillermo Arteaga, a shock advocate who demands that Peru adopt the Hong Kong model and establish "free trade zones," stated bluntly on Aug. 25 that "if we adopt urgent, rapid and concrete economic measures"—as he himself insists—Peru will "head directly into the pit. . . . We already practically live in a tinderbox—but [this] brings the possibility again that democracy ends."

This crowd has been insisting that García not only name one of their own as economics minister, but give up all say over economic policy. Their first choice was Javier Silva Ruete, a member of the Aspen Institute's Inter-American Dialogue, close to the IMF, and a top advocate of legalizing narcotics and narcotics profits. When Silva Ruete met for four hours with García at the Palace on Aug. 19, the liberal press crowed that they had won the fight. *Expreso* asserted that García had agreed to Silva Ruete's conditions: a free hand in dealing with international creditors, and a freeze on García's attempted bank nationalization until the next government.

They were soon disappointed, as Silva Ruete told his press friends that he could not accept the post, because "García has. . . continued to insist on his mistaken economic policy."

In an Aug. 23 press conference, President García denied he had even offered Silva the post, but pleaded that his economic advisers must understand that the government either adopts a "measured" program, or faces disaster. "We must be prudent, in order to not resolve one problem, by complicating everything else in a worse manner," he pleaded. If we eliminate the cheaper Basic Exchange Rate, it is the price of bread and pasta that will rise, and we will end up by "killing the sick man."

ILD cofounder (and pornography writer), Mario Vargas Llosa responded immediately. "Unless a very radical, dramatic, readjustment in economic policy" is adopted by García, he will be overthrown in the wake of terrorism, hyperinflation, and "breakdown of constitutional order," Vargas Llosa told the press.

Next came the reports that socialist Prime Minister Armando Villanueva, a long-standing ally of *Expreso*'s owner, Wall Street banker Manuel Ulloa, was offering the economics post to one of the ILD's top ideologues, Felipe Ortiz de Zevallos. Famous for his 1987 call for Peru's businessmen to go to the black market to take their money out of Peru, Ortiz had just brought Harvard economist Jeffrey Sachs, the designer of the economic shock program implemented by Bolivia's President Víctor Paz Estenssoro to Peru, to campaign for a similar program here.

As *EIR* has documented, Sachs's Bolivia program succeeded in only one way: channeling narcotics revenues into debt payments, while destroying what little industrial and agricultural production remained.

Expreso was estatic: Ortiz will "apply a Bolivia-styled shock program, beginning with a brusque increase in the price of fuel," they wrote on Aug. 25.

With the liberal press running headlines screaming "Apocalypse!" and Prime Minister Villanueva issuing warnings that "harsh and unpopular" economic measures are imminent, panic swept Peru. On Aug. 28, Silva Ruete's paper, *La República*, ran a banner headline screaming "280% Devaluation Confirmed" on Aug. 28, and asserted that a consensus has been reached to raise the price of gasoline by more than 200%, within hours, stores and commercial centers in Lima were closed, as owners raised prices. Price-controlled items disappeared entirely from the shelves of those stores that remained open, as panicked citizens stocked up on necessities.

By the end of the month, however, García had capitulated. We must fight inflation, "at all costs," he stated Sept. 1.