

Peru: an IMF 'showcase' of poverty and terrorism

by Luis Vásquez

The impact on the Peruvian economy of nearly three years under a neo-liberal "adjustment" program—the "most drastic in the West," according to the World Bank—could not be more illustrative of the criminal nature of International Monetary Fund (IMF) dictates. Under the pretext of dealing with the waste and lack of productivity engendered by earlier populist policies, the Alberto Fujimori government as of late 1990 submitted to an IMF "structural adjustment" program that has reduced consumption levels of the population to near starvation and devastated the economy.

As we shall see, the sole objective of this IMF program has been to "reinsert" Peru into the international financial system, the result of which has been the looting of the treasury and the country's resources on an unprecedented scale, and at precisely the moment when Peru is embroiled in a costly and bloody war with narco-terrorism.

During the past 35 months, the amount of money used exclusively to pay off interest on the foreign debt has reached nearly \$3 billion. To achieve this, public investment by the central government has been reduced to practically zero. Prices and public services rates have been multiplied by 500, taxes by 350, subsidies of all kinds have been eliminated or reduced, and some 250,000 public workers laid off.

The other stated objectives of the IMF "packet" have not been reached, including the so-called stabilization of the economy. Prices in Peru are the highest in the hemisphere, with the exception of Argentina, giving the lie to Fujimori's anti-inflation claims. And the stabilization program designed for Peru by Jeffrey Sachs and Carlos Bologna failed, ironically enough, largely because of its own neo-liberal deregulation obsessions: It denied the government any control over the illegal parallel economy based on drugs and contraband. According to the Constituent Congress itself, the illegal economy provides 70% (some \$2.3 billion a year) of all the dollars that circulate in the Peruvian economy.

Poverty and terrorism

The recessive effects of the IMF's neo-liberal doctrine in Peru must certainly constitute an international "record." First, it has produced the "miracle" of reducing Peru's GNP by 25% over the past decade, reaching the same levels of

production Peru had in 1950, while the Peruvian population has doubled from that year to today. By the end of 1992, per capita annual income had fallen below \$1,000, placing Peru in the tragic "club" of Fourth World countries.

The result is that 87% of the economically active Peruvian population are unemployed or underemployed. According to United Nations' standards, 76% of the population fall below the poverty line, and nearly 32% of those are considered part of the "extreme poverty" category, facing death by starvation and disease.

Levels of mortality among infants (which borders on 7%) and among people over 60 years of age are today only comparable with Haiti and the poorest countries of Africa. In fact, the decline in the level of population growth from 3.2% to 2.2% over the past two years, which has the anti-natalist institutions ecstatic, is due less to the fall in birth rates than to an increase in death rates. Official figures today show a dramatic 0.9% death rate a year.

This calamitous situation, created by IMF policies, is one of the leading obstacles to a successful victory in the war against narco-terrorism. Notwithstanding the efforts of the Peruvian Armed Forces, which are fighting against communist subversion under the most difficult economic constraints, the high levels of social discontent in the country continue to feed into the terrorist campaigns of Shining Path which, despite the ongoing capture of its leading figures, manages to survive and reproduce in the impoverished countryside and in the shantytowns surrounding the country's main cities.

As Lyndon LaRouche stated in an April 12 interview (see *EIR*, June 4), "It is almost impossible to fight guerrillas and submit to the IMF at the same time. If you are carrying out an IMF program against your own population, which is what it is, or similar policies, and you are trying to fight guerrillas, you are facing a losing battle. Because the IMF is recruiting the guerrillas while the U.S. State Department will come in and threaten to cut you off from what little aid you're getting, if you kill any more of these guerrillas, and the Masons accuse you of being human rights violators.

"So a firm, determined policy, but a policy which is based on affirming the welfare of your people, is the way to fight; and if you do not do that, you may lose."

Destruction of the physical economy

The economic policies of the current Fujimori government have effectively paralyzed the country's productive apparatus. National industry is suffocating under an avalanche of cheap imported products and under stratospheric energy costs (Peruvian gasoline costs twice as much as U.S. gasoline). Levels of idle capacity in 41 branches of national industry are significant; only in 19 branches is more than half of installed capacity in use. The most recent statement of the National Society of Industries demands restoration of protective tariffs. In addition to high energy costs, foreign competition, and total lack of protection, Peruvian industry is also facing tremendously high financing and security costs.

As if this weren't enough, Peruvian industry is also unable, under the current IMF model, to set itself up even as an export sector, given that the dollar is, de facto, undervalued, thanks to the drug trade which effectively sets the price of the U.S. currency on the Peruvian market. This situation of a "cheap" dollar has also undermined the traditional mining activity of Peru, which is largely one of export of primary products. Mining, that in the past was the leading economic sector of the country which provided employment to nearly 1 million Peruvians, today is totally paralyzed. The number of closed mines is nearly 75% of the total which produced through the 1970s.

So far in 1993, the tendency of the economy to self-destruct has worsened. Only fishing, for seasonal reasons, has shown some recovery. Agriculture, which encompasses the poorest section of the Peruvian population, has shrunk by more than 25% during the past three years of drought. To this natural disaster can be added a nearly total disappearance of rural credit and, of course, the competition of the illegal coca crops. Peru today produces less than half of the food it produced in 1960. Since that date, the country has lost 40% of its land under cultivation. This deficit of Peruvian food production has been partially made up, with its own devastating consequences, by imports, which are growing exponentially. In 1992, more than 2.2 million tons of food were imported, largely rice, wheat, corn, sugar, and milk. That is, nearly double what was imported during the last year of the Apra party's government in 1990.

The government's incapacity to stimulate productive activity is demonstrated by the recent scandal that came to light regarding the construction and rehabilitation of Peru's highway system. Recently, the daily *Expreso* editorially charged that only \$25 million of a total \$250 million credit granted Peru by the Inter-American Development Bank had been used. This, it turned out, was due to the fact that such a large number of engineers and skilled technicians had been laid off from the public sector and forced to go abroad for jobs, that the country actually lacks the technical capacity to get such projects under way. The situation is especially grave at a time when, according to the president of the National Association of Roadways, nearly \$300 million is lost each



Carlos Bologna, Peru's former finance minister and the architect, along with Harvard's Jeffrey Sachs, of Peru's disastrous "stabilization" program.

year because of the bad state of Peru's highways.

The Hong Kong model

As a particularly cruel paradox, alongside the collapse of productive activity in the country, there has been an explosion of purely financial profit. According to Kenneth Berry, vice president of the Lima stock exchange, which was reportedly the fastest-growing exchange in the world between 1991 and 1992, during that period, the average yield on the Lima exchange more than doubled, going from a 62% growth rate in 1991 to a 138% growth rate in 1992.

This other "miracle" of the Peruvian economic model has been recognized abroad. In April, the Brazilian daily *Gazeta Mercantil* named Peru the "new star in the international financial market." Citing sources from New York and London, the Brazilian financial mouthpiece said that Peru was the best financial arena to emerge in the world today.

The obscene spectacle of soaring speculative profits against the backdrop of a starving nation surfaced during the recent financial scandal of the CLAE group. This illegal "parallel" institution was the largest laundry of narco-dollars in the country until the government's recent intervention. It paid interest rates that surpassed 250% a year to its more than 200,000 depositors. The total profits of CLAE's depositors were higher than the earnings of the five largest economic groups in the country.

What the CLAE scandal clearly demonstrated is that the economic system inherited from former finance minister and IMF favorite Carlos Bologna is a totally speculative one,

based on the drug-backed Hong Kong model.

However, President Fujimori's "self-coup" on April 5 of last year undermined this model by causing a decline in "confidence" of the flight capitalists who had been "investing" in Peru. With less of this capital coming into the country, the balance of payments situation has considerably worsened. Without any possibility of expanding exports under the current economic model, Peru's balance of payments deficit by the end of 1993 is expected to surpass \$1.45 billion.

Enter the Chilean model

President Fujimori is now hoping to revive Peru by implementing the so-called Chile model. With the same utopian and futile hope it had held out for winning foreign credits if it "behaved itself," the Fujimori government now seems to be placing all its hopes in attracting direct foreign investment from, primarily, Asia. President Fujimori apparently believes he can reproduce in Peru what happened in Chile after the Malvinas War, when money poured into that country as payment for the turncoat role Chile had played against Argentina at the time.

However, these hopes are sheer illusion, especially since the U.S. Eastern Establishment has already explicitly warned, through both George Bush's Enterprise for the Americas initiative and the North American Free Trade Agreement (NAFTA), that Ibero-America constitutes its *own* personal strategic reserve of raw materials and cheap labor.

Fujimori's recent, fourth trip to Asia is illustrative: In response to the Peruvian President's repeated appeals for aid and investment, Japan has given a mere \$250,000 in grants and \$50 million in new credits. In Korea, on the other hand, Fujimori met with discreet enthusiasm for his proposal to grant a free-trade zone—with lucrative exemptions—to Korean capital. The Peruvian offer was made at the same time that denunciations surfaced in Argentina accusing Korean capitalists of running their factories like virtual concentration camps with slave labor.

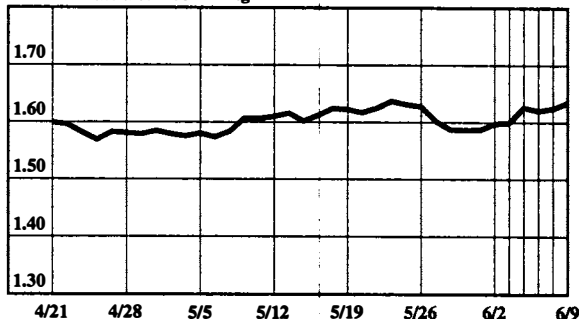
Another element of the Chilean model Fujimori hopes to copy is getting access to workers' pension funds, through the creation of numerous Associations of Pension Funds. The market for these funds moves nearly \$13 billion in Chile at the present time. The AFPs would receive pension funds from Peruvian workers and would channel them into profitable activities which would permit both their capitalization and the payment of pensions to retirees. It is estimated that this system would prove successful if it produced an annual yield of 18% or more.

However, given the depth of recession of the Peruvian economy, which is unlikely to be reversed unless and until President Fujimori abandons his anti-productive IMF policies, one is led to believe that both his Chile model dreams, and those of former Finance Minister Bologna (today president of Peru's first AFP), will suffer a sharp reverse as reality asserts itself.

Currency Rates

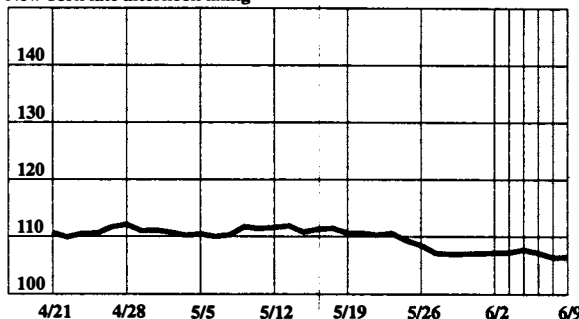
The dollar in deutschemarks

New York late afternoon fixing



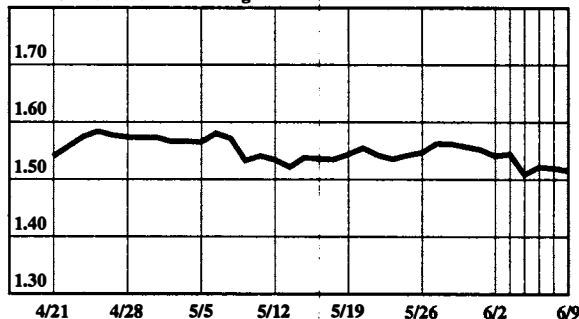
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

