

Peru's Economic Measures against Free Trade Panic Wall Street

by Luis Vásquez Medina

During the second week of July, the Peruvian Congress approved 11 "urgent" economic measures which, taken together, constitute a dramatic turn away from the free-trade economic policies followed by the government of President Alberto Fujimori during the last decade. In announcing the measures, President Fujimori declared that they would establish a model of an "economy of social impact," although he was careful to clarify that this did not imply a move toward a "war economy."

The Peruvian President appears to have come to understand that the country cannot advance, and its grave social problems will only worsen, under the free-trade policies which have been applied until now. At the same time, as he showed in a speech he delivered in Malaysia last year, Fujimori has lost confidence in globalization, and his excellent political nose surely has recognized that the international financial system is not as stable as media propaganda would have it.

One of the most important measures adopted, eliminates existing tax exemptions for the profits of the large mining cartels. This measure represents a direct hit against the usurious global speculator and drug legalization advocate George Soros, owner of important mining interests in Peru, the greatest of which is the Yanacocha gold mine. In an article last autumn ("If Peru's Fujimori Is To Be Reelected, He Needs To Change His Economic Policy," *EIR* Nov. 5, 1999), this author warned that "this return of the economy to a 19th-century mining enclave, has not been good for the country. The Fujimori government must end this situation, and begin to implement a serious tax regimen for the mining multitis" (see **Table 1**).

From the looks of it, this is exactly what the Peruvian President has done.

Another key measure puts the brakes on the privatization of the Mantaro Hydroelectric Plant, the country's largest. The Mantaro plant is owned by the state electricity company, Electroperu. One of the 11 laws adopted transfers ownership of Electroperu to the state pension fund, the National Public Savings Fund (Fonahpu), which means that Electroperu's profits will increase the now-depressed pensions of retired

Peruvians. Víctor Joy Way, president of the Economics Committee of Congress, described this decision as a kind of privatization with "citizens' participation," contrary to what foreign investors sought, and favorable to the pensioners, who are owed a lot of money.

Free-Market Colonialism

It was no longer possible to hide reality: The free-market economic model, aggressively promoted by the International Monetary Fund and Wall Street, has brought nothing but misery to the great majority of the Peruvian people. The raw materials export model, while it appeared to produce a certain growth in Gross National Product, did not entail an increase in the well-being of society; it did not bring any notable increase in employment, nor did it contribute to the country's physical infrastructure. Based primarily on the export of minerals, this model had only benefitted usurers and speculators such as Soros, who have made fabulous profits under the protection of a very favorable tax scheme, which turned large-

TABLE 1
Peru: Mining Exports and Royalties
(millions \$)

	Royalty and mining rights payments	Exports
1992-94	59.8	5,263.2
1995	48.5	2,615.7
1996	53.9	2,654.4
1997	37.5	2,730.8
Total	199.7	13,264.1

Source: Ministry of Mines and Energy of Peru.

Between 1992 and 1997, total mineral exports surpassed \$13 billion, but what the multinationals paid for rights of exploitation in this period did not even reach \$200 million. This is the cold balance of nearly ten years of the export model promoted so heavily by Felipe Ortíz de Zevalos, disciple of Massachusetts Institute of Technology economist Rudiger Dornbusch and defender of Harvard "whiz kid" Jeffrey Sachs.

scale mining extraction into a tax haven. Soros owns Newmont Mining, which, together with the Benavides family interests, owns the enormous and very lucrative Yanacocha gold mine.

When the economic and political pressures against Peru worsened—in mid July, Prime Minister Alberto Bustamante accused the United States and other countries of having imposed an “economic boycott” and carrying out a “frankly colonial” intervention against Peru—President Fujimori decided to put an end to the mining cartel’s tax exemptions. As Minister of Economics and Finance Efraín Goldenberg Schreiber said, “Taxation is an instrument of the state, and must be used appropriately; conditions change, and we have to look for neutrality in our policies. We must not excessively reward some sectors, to the detriment of others.” Congressman Joy Way reported that, had the tax exemption on mining profits not been revoked, the losses would have been on the order of \$5.4 billion in tax revenue.

Monetarists, Speculators Howl

The reaction to these measures came swiftly. Soros himself, in a July 15 article in Spain’s *El País* daily, called for the overthrow of Fujimori, after comparing him with Malaysian Prime Minister Dr. Mahathir bin Mohamad (long a target of Soros’s wrath and financial warfare measures) and Zimbabwe’s President Robert Mugabe. The British news agency Reuters and the American Associated Press headlined their July 15 wire stories on the measures: “Is Fujimori Changing the Economic Rules in Peru?” Peruvian stocks traded on Wall Street have been put in the freezer, and the Lima stock exchange has almost disappeared, dropping to the lowest levels of the last five years.

On July 16, stepping off the plane which brought him from the United States, Soros’s buddy Pedro Pablo Kuczinski, formerly of First Boston bank and a former Finance Minister of Peru, gave interviews to Lima television, warning the government against any move to abandon the model of privatizations and looting of the mines which foreign financiers so love. In a threatening tone, he said that great catastrophes would befall Peru if it abandoned the free-market model which Kuczinski himself had promoted in the early 1990s, when he was in the Peruvian government.

The risk-rating agencies, always at the beck and call of the Wall Street speculators, have already begun dropping ratings for Peru’s companies, at the same time that they raise its “country risk” premium. The Goldman Sachs investment bank called the government’s change in mining legislation a “miscalculation,” threatening that “the damage which they are doing in the process of changing the law could bring very serious consequences. Wall Street investors see that the rules of the game for the country’s primary sectors, which are the backbone of the country’s economic development, are being changed.”

Spokesmen for the narco-terrorist São Paulo Forum in Peru have thrown their support behind Soros and Kuczinski’s threats. Mirko Lauer, from the pages of *La República* daily, has published three commentaries to date, complaining about the change in Fujimori’s economic policy. Describing the reforms as “hara-kiri,” Lauer asserted that he detected a certain “military” tenor to the measures, which, he said, “remind one greatly of the first phase of the Velasco Alvarado government,” a reference to the head of the military junta which seized power in Peru in 1968. Soros’s fears have been well stated by *La República*, which, in commenting on the measures which the Peruvian government might take against the Yanacocha mine, warns—half sardonically, half fearfully—that, so far, “there has been no announcement of troops being sent” to the Soros-owned mine.

No Looting, or Bailouts

In its effort to prove the supposed similarity between the Fujimori measures and those implemented during the “first phase” of the military government, *La República* argued that another measure proposed by the executive, new legislation governing forestry, has led to a direct confrontation with U.S. interests in Peru, of the kind that occurred when General Velasco nationalized International Petroleum Company. The new forestry law, which the Peruvian Congress has just approved, is designed to put an end to the indiscriminate exploitation of the forest reserves of the Peruvian Amazon region. Through this law, the government has prohibited, for a period of ten years, the exploitation of various kinds of fine lumber, which has directly affected the activities of some large U.S. companies which have been felling trees without any effort at reforestation. According to the Lima press, the Peruvian government recently sent troops to the jungles around Iñapari, in Madre de Dios state, near the border with Brazil and Bolivia, in order to seize lumber which had been illegally cut by the U.S. company Newman Lumber.

In a related development, the Peruvian government has announced that it will not bail out that part of the private banking sector, which has developed serious insolvency problems, as a result of the extremely high interest rates these banks have been charging, which today range from 30% to 60%. Kuczinski himself called on the government to bail out these banks, and J.P. Morgan bank spokesmen also called on the government to use the money left over from earlier privatizations, which amounts to about \$4 billion, for a “Mexican-style” or “Ecuadoran-style” bailout of the banks. In response, the general manager of the Central Reserve Bank of Peru, Javier de la Rocha, on July 12 publicly rejected this J.P. Morgan demand, saying that Peru’s foreign reserves would be used principally to give backing to the country’s currency, and would not be used to bail out banks that are on the brink of bankruptcy.