

## Andean Report by Valerie Rush

### Cultural optimism and economic growth

*Peru's President García outlines a commitment to economic growth surpassing population growth.*

On Sept. 26, Peruvian delegates meeting in New York with 34 bankers representing its 280 international bank creditors, firmly but politely rejected their pleas that Peru pay them a few million dollars on its estimated \$603 million in arrears. The bankers demanded a "meaningful payment," to show that Peru was "serious" about negotiations with them. At first, they reportedly demanded \$50 million, but later dropped the price to \$35 million when resistance appeared.

The Peruvian delegates replied: "We are at the limit of our possibilities right now." They explained that Peru's export earnings have been significantly reduced by the fact that the same quantities of copper, oil, tin, and other products which last year sold for \$3 billion, would only bring in \$2.4 billion this year. The bankers were invited to visit Lima to see how money saved on debt payments had been spent in rescuing Peru from the worst depression in its history.

The bankers were not impressed. After the meeting, Citibank issued a nasty note saying, "Peru's making of a meaningful payment with respect to interest arrears in the very near future was essential as a first step to resume negotiations on a serious basis." It threatened that if Peru didn't perform soon, banks would "study other options."

What Citibank meant is that it would dissolve the 13-bank Peru steering committee, a go-ahead signal for lawsuits, embargoes, and seizures of Peruvian assets. This provoked

much discussion in Lima. Some officials noted that the banks now providing \$1.1 billion in short-term credit lines to Peru were making good profits on their services and being paid promptly.

Unconfirmed reports in the press held that the State Department was telling the banks that the time had not yet arrived for assaulting Peru. The outbreak of "gunboat diplomacy" against Peru would guarantee that the Oct. 13-17 meeting in Lima of the Latin American Economic System (SELA) could galvanize continental solidarity for Peru.

President García's response, as reported by leaders of his APRA party after a long meeting with him, was that Peru's \$1.15 billion foreign reserves were in good shape, and the banks could do what they pleased, but Peruvians should concentrate on increasing domestic production.

García went on national television on Sept. 26 to present an outline of his economic growth strategy, which is centered upon maintaining economic growth at double the 3% annual population growth rate.

García explained: "We inherited a regressive policy, producing less and less for two fundamental reasons: first, because so much was paid abroad on the foreign debt, and in the second place, because consumption was increasingly reduced by the poverty of the citizens. We propose an economy of growth. . . . The first question I want to pose to you is, 'How much do we want to grow, and at what speed?'

"We are not interested in growing 3%; what interests us is growing with greater speed than the growth of the population, so that we can get a better handle on the economy. . . . If we succeed in finishing December with a 6% annual growth, we will have grown at double the rate of the population; that is, production will reach each Peruvian the same as in 1986: to grow by at least 6% in 1987. Only in this way can we make a historic leap."

García pledged Peru that would achieve that goal, as long as "we do not yield to the fears of those who want to defend ill-gotten wealth, and if we do not lose faith in Peru's capacity to produce."

The Peruvian head of state announced generous wage increases, ranging from 25% to 100%. The minimum wage was raised by 50%, making it 150% higher than 14 months ago, an increase double the amount of inflation since then. While most Peruvians were happy enough with the wage increases, the exception was the communist-run union of government employees, which is threatening a strike for the week of the SELA meeting in Lima. At the same time, García introduced a flexibility in prices, ending a freeze.

Finally, García defined what he termed "a realistic exchange rate" policy. He said the freeze on exchange rates would end next year because, "if other products rose, eventually the dollar would end up the cheapest thing in the economy, and everybody again would think of buying cheap dollars." He promised there would be no "traumatic devaluations," and that buying dollars would be a losing proposition, because the devaluation rate would be far below the interest level paid on savings deposits in Peruvian institutions.