

Andean Report by Mark Sonnenblick

Peru drifts back to the IMF

The economic breakdown stems from Alan García's failure to destroy drug-money laundering and narco-terrorism.

The man who appeared on Peruvian television Dec. 29 to reveal that President Alan García had been meeting with a representative of the International Monetary Fund (IMF) was not Alan García. It was Economy Minister Carlos Rivas Dávila. García said not a word about it in public, neither before nor during the week after the announcement.

That led observers in Lima to conclude that he either maintained the staunch opposition to dealings with the IMF which he proclaimed at his July 28, 1985 inauguration, or that he was just continuing to refuse to take decisive leadership in any direction.

That leadership vacuum has turned a difficult economic situation into a desperate one. Peru's productive economy has been destroyed by narco-terrorist sabotage, by financial warfare from foreign creditors, and by García's own self-sabotage.

Every morning before dawn, long lines form at bakeries to get bread. It is also difficult to find rice, sugar, or milk. The shortages persisted even after Rivas Dávila raised bread and pasta prices by 50% and rice prices by 30% Dec. 27. With a series of such increases, "Over the past month we have reduced by nearly 50% the subsidies that were being granted on imported products. This is a great achievement in the government economic program for reduction of the fiscal deficit," he boasted.

He claimed that a \$15 monthly wage bonus would prevent the subsidy reductions from "affecting the consumption capacity of the population."

Peru had a record 1,772% inflation in 1988. That is, prices went up by 17 times, up by 41% in December alone. In reality, the intent of the price increases is to cut consumption to match the 8.4% decline in Peru's output this year.

Shining Path terrorists have been delivering death blows to the economy. Their dynamitings do hundreds of millions of dollars in damage. But the indirect effects add up to billions annually. The food shortages are partly due to the narco-terrorists having driven farmers out of the countryside by systematically murdering those who support the republic.

Their infiltration of a copper miners' strike dragged it out for 56 days, causing a loss of \$400 million in mineral exports. Just when the strike ended at New Year's, the terrorists blew up the three locomotives used to haul copper and zinc to the port.

Since October, the dynamiting of electrical towers has been so persistent that the country's industrial centers have barely been able to function. Lima industrialists ask how they can afford to pay \$8 million per day in wages to workers idled by the nonexistence of electricity to run the machinery. Amid such uncertainty, capital is fleeing the country, rather than being reinvested.

Prime Minister Luis Alva Castro, reputedly a prime mover of Peru's rapprochement with the IMF, on Jan. 2 ascribed Peru's crisis to Alan García's July 28, 1987 "disastrous" nationalization of the banking system. That move brought chaos, because

García did it as a socialist stunt to gain popularity, rather than single-mindedly prosecuting the bankers for the \$3 billion in cocaine money they launder each year. On the contrary, the government has step-by-step legalized drug-money laundering all over Lima.

The bank imbroglio was used by Washington's Project Democracy to undermine the government and by bankers to cut off Peru's remaining credit lines. Peru's inability to pay freight bills reportedly prevented many shiploads of foodstuffs from being unloaded in its ports.

Alan García, in an interview broadcast Dec. 23, denied Peru had exhausted its foreign reserves and shipped out all its gold. He said, "Yesterday, total assets amounted to \$639 million. . . . The total is now greater than on Sept. 30, 1988, when our reserves amounted to \$451 million." He posed the gradual cuts in food subsidies as an alternative "to the formidable impacts proposed by the international financial organizations," i.e., the IMF.

Alva Castro defended orthodox IMF shock measures as needed to "restore business confidence" and bring the investments needed to get the country producing again. The IMF invariably turns recessions into depressions, bankrupts industry, starves populations, and drives them into the arms of communist insurgents.

Alva Castro is right to insist that confidence must be restored. But there is, at this time, no way to do that short of a major war to wipe out the Shining Path narco-terrorist apparatus over the next 90-100 days. That is the only shock which could create conditions for Peru's survival.

García is straddling every fence and shows not a tinge of willingness to fight any battle. Thus, he is losing everything by default. And so is Peru.