Andean Report by Manuel Hidalgo

'His Majesty' Camdessus gets his way

Peru's Fujimori has ordered a new tax "shock," on orders of the IMF director, including a barbaric tax on water and energy.

At the end of February, the price of basic necessities in Peru shot up again, as a result of a new package of tax measures decreed by Economics Minister Carlos Bologna, with the stated goal of collecting an additional $700 million in government revenue. Bologna announced an increase in the General Sales Tax (GST) from 16 to 18%, ordered that taxes now be paid on basic food necessities, and decreed an increase in taxes on sodas, beer, telephone service, and insurance. The minister had previously decreed a 20% tax on interest earned on dollar deposit accounts, and a 5% increase (making it a 10% tax) on the income tax for independent professionals.

Those measures will have only one result: to increase misery and death in Peru, where even the government acknowledges that 14 million people live in critical poverty. As one congressman angrily charged, to add a tax on sodas in a country devastated by cholera, which most people must drink because their drinking water is contaminated by the bacillus, is simply a means to spread the contagion.

Thus far, the measures have been successful only in sending inflation soaring. According to a private agency, inflation reached a 5.7% monthly rate in February (it had been 2-3% in the past months), and this was *before* the tax increases hit. According to *La República* of March 2, food prices have increased by as much as 30% in the markets.

The government put through this killer tax program on the express orders of Michel Camdessus, the International Monetary Fund managing director, who visited Peru Feb. 12-13. Camdessus demanded that Peru intensify its austerity program, specifying that the IMF wanted tax collection hiked from 7% to 18% of Gross National Product. Otherwise, Camdessus threatened, Peru's "reinsertion" into the international financial community would be called into question.

President Alberto Fujimori decorated Camdessus, and pledged to jail tax evaders. But such measures will add little to government coffers, since there is scarcely any productive economy left to tax under Fujimori's IMF program. What the new tax program *will* accomplish is the bankruptcy of what little remains.

Peru's business sector reacted with understandable outrage to the tax shock. On March 1, Luis Vega Monteferri, the president of the National Industrial Society (SNI), criticized the measures as "dangerous and negative," because they would "bring more poverty and recession." He pointed out that there is effectively a 35% tax on domestically produced goods, when the GST and other taxes on inputs are combined. Vega urged the government to reduce the GST to 5% of value.

The next day, the SNI put out a communiqué stating that "it is necessary to dump the vice of inventing new taxes overnight, or of raising the already very high rates of current taxes." The GST rate in Peru is now 18%; it stands between 10-12% in other Andean countries.

Augusto Baertl, president of the National Mining Society, told *La República* March 2 that "for an industry such as mining, which is almost on its deathbed, imposing these measures will prove fatal."

The business daily *Gestión* wrote the same day, "the measures . . . will not obtain the forecast tax revenues, but they will generate a significant contraction in demand, deepening the current recession, increasing inflation, worsening the exchange rate, and intensifying lack of confidence." One *Gestión* columnist asked bluntly, how many more taxes must be increased "to satifsy His Majesty Dr. Camdessus?"

In fact, the government's argument for its economic policy—the urgency of lowering inflation—has fallen flat, since government measures have generated a wild inflationary spiral. Even the ultra-monetarists at former finance minister Manuel Ulloa's *Expreso* admit this. A March 1 editorial denounced them as "absolutely unacceptable, as well as counterproductive."

Despite all of this, the government appears unwilling to abandon the program it promised the IMF. According to *Caretas* of Feb. 25, the economics minister budgeted $760 million for foreign debt payments this year. Such a policy, in the midst of a terrorist war and cholera epidemic, is criminal, charged economist Luis Vásquez, a frequent contributor to *EIR*, in a Feb. 22 interview with the popular Radioprogramas del Peru broadcast. Another *EIR* representative told Channel 11 television on Feb. 27, "There is no combination of greater taxes and cutting expenditures which can work in a depression like the current one. Here, the truth is that the IMF program doesn't work, and what we must discuss is a program of debt moratorium, regional integration, and emergency food, health and employment programs needed to save the nation."