Venezuelan Bolivar Is Stronger Than The Dollar

During the past four weeks, Venezuela has been jarred by factional turmoil around economic policy issues. President Carlos Andres Perez has enacted a series of measures to control inflation and curb speculation, which has erupted in widespread controversy. Rumors of impending devaluation, countered by reports of revaluation, have circulated in the press. Almost the entire economic cabinet has been revamped.

The real issue behind the apparent confusion, however, is not Venezuela's internal economy. Rather, it is a fight to determine whether Venezuela will use its financial and diplomatic resources to help engineer a European-OPEC break with the collapsing dollar, or whether it will side with the Carter Administration's planned theft of OPEC's petrodollars to pump some life into the IMF. It all boils down to how the Caracas government will use its money: the pro-IMF forces within the government, led by former finance minister Hector Hurtado and former president Romulo Betancourt, want to hold the country's existing foreign exchange accounts in New York-controlled financial institutions and funnel even larger amounts into the IMF. The Venezuelan nationalists around President Perez are committed to investing these reserves in reproductive industrial development, while moving to protect surplus oil revenues from the dollar's decay.

This issue was brought to the surface with the meeting between the Venezuelan and United Arab Emirates oil ministers, Valentin Hernandez Acosta and Mana Saeed Oteiba, in Caracas last week. According to the official Venezuelan communiqué, the principal topic was how to establish an "alternative" to the dollar as the basis for OPEC's oil receipts. The Saudi Arabian oil minister, Sheik Zaki Yamani, and a high representative of the Kuwaiti government are also scheduled to visit Caracas in coming weeks.

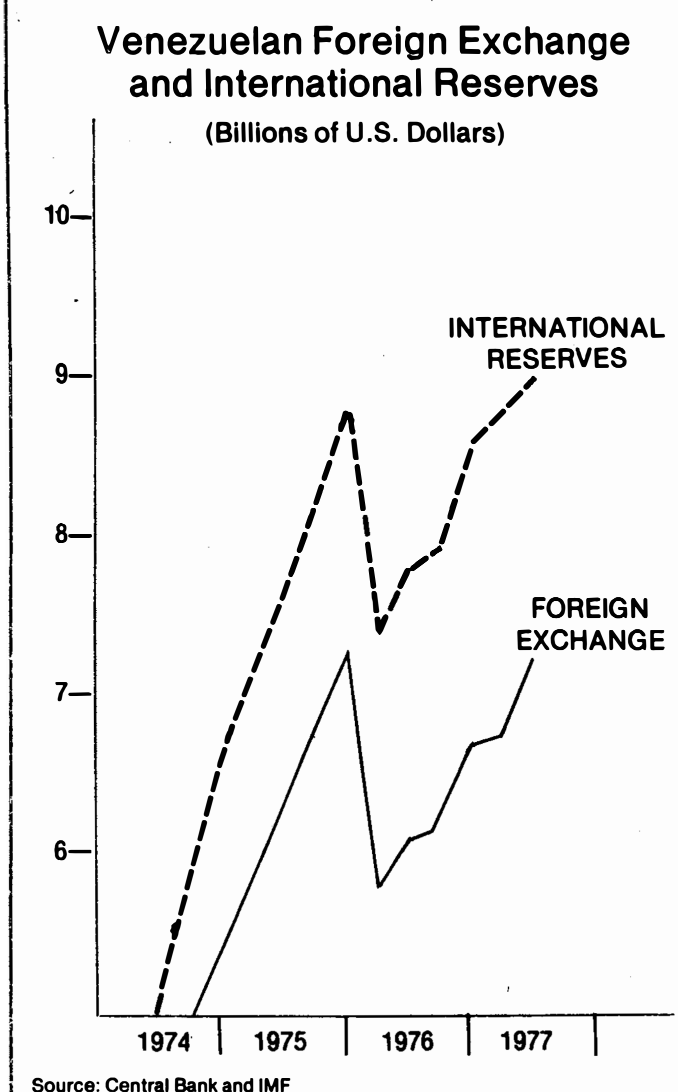
The Central Bank president, Benito Raul Losada, had already indicated increasing pressure within the government for a move from the dollar, when on July 26 he told reporters that Venezuela is "interested" in "diversifying" its foreign exchange holdings. One of Losada's predecessors, Machado Gomez, similarly hinted on July 29 that government financial authorities are "ready and very well prepared to protect our international reserves." Reinaldo Cervini, president of Pro-Venezuela, the nation's second-largest businessmen's association, was even more explicit this week, calling for "a policy of separation between the dollar and the bolivar. ...As long as our currency depends fundamentally on the dollar," he said, "we are tying our economy to the ups and downs of the U.S. economy." Cervini also praised the Central Bank for diversifying its reserves, and urged further investments in deutschmarks and yens as a means of guaranteeing future necessary capital goods imports and expanded trade.

In direct opposition to these policies, Hector Hurtado, now the minister of the Venezuelan Investment Fund (FIV), the nation's special petrodollar account, took a major step to cement the bolivar to the bankrupt dollar system when he pledged $500 million of Venezuela's reserves to the IMF at a meeting of IMF ministers in Paris last week. According to Hurtado, his action represents a commitment to the "new world economic order."

The "Economic Measures"

In a July 11 policy address before Fedecamaras, the nation's largest businessmen's federation, President Perez outlined an anti-inflation package that has become

Graph 1



Source: Central Bank and IMF

known as "the economic measures." The principle features, designed to tighten domestic credit, are as follows:

1) The current expenses component of the 1978 budget is to be held at the 1977 level.

2) The reserve ratio on all government deposits in private banks will be progressively increased from 50 to 75 percent by the end of the year. The net effect will be to reduce the credit supply by about 4 percent.

3) Profits in real estate construction, which are usually of windfall proportions, will be limited to 30 percent. In addition, credit incentives will be provided for low-cost housing, while credit ceilings are placed on luxury buildings and apartments.

4) Reserve ratios on foreign deposits in Venezuelan banks, traditionally a major source of funds for real estate speculation, will also be increased to as much as 50 percent.

5) Amortization periods on certain categories of consumer credit, particularly auto loans and credit cards, will be reduced.

Since they were made public, the ensuing battle has been over how the measures are to be used. Hurtado, who was finance minister at the time, sought to use them to implement across-the-board austerity, which would have forced cutbacks in industrial credits, restricted imports, and placed a ceiling on federal investment. Hurtado and his anti-Perez allies have consistently complained that the goverment's industrial development program is too "ambitious" and that the economy is growing ""too fast," in order to justify the freezing of Venezuela's reserves in New York banks and the IMF. Last year, Hurtado tried to impose austerity by freezing the entire budget, a constraint Perez circumvented by authorizing a record amount of "additional" credits.

Immediately upon the announcement of the measures, the President's opponents in the Copei party denounced the government for failing to comply with its alleged promise to curb the economy's "unrestrained growth." The Copei leadership around former falangist Rafael Caldera is linked to Hurtado's circles through Romulo Betancourt, the aging chieftain of Perez' own Accion Democratica (AD) party.

President Perez, however, is well aware of his opposition's intentions. He therefore included a stinging attack in his July 11 address against "the traditional satellite mentality" of "stashing resources in foreign banks in immense quantities." Perez' objective is clearly to direct the credit squeeze against speculative capital, and direct the remaining credit to the productive sectors of the economy. As Juan Jose Oropeza, one of Perez' former agriculture ministers, stated this week, the goal is "to detain the inflationary effects of the available surplusses of the financial sector, which are not compatible with the possibilities for response from the real economy."

The initial reaction from the business community was a series of outcries. The Camara de Propiedad Horizontal y Bienes Raices, a real estate federation, charged on July 14 that the measures would "paralyze" the construction industry. Fedecamaras simultaneously warned of a generalized credit squeeze. The Association of Contractors and Subcontractors met with the Chamber of Construction Industry, claiming that small and medium construction firms were in "immediate danger" of going bankrupt.

The Cabinet Change

Perez made his bid to bring the situation under control on July 15, when he bounced Hurtado from the finance ministry and installed a new Minister of the Presidency, Carmelo Lauria, a key figure from the business community and one of the prime architects of Venezuela's development policies. Although Hurtado remains in the cabinet as head of the FIV, his ability to carry out sabotage within the cabinet has been curtailed. His replacement, Silva Luongo, soon went after Hurtado's budget austerity. When asked by a reporter July 28 if there would be a reduction in public spending — Hurtado's war cry — he replied, "I keep my feet firmly on the ground. I cannot say such a thing." In fact, he added, there are certain projects still on the drawing boards that merit "special consideration."

The Lauria coup over Hurtado evoked hysteria among Perez' opposition. The weekly *Resumen* of July 31 charged Perez with ruling by decree... like Fidel Castro! On Lauria in particular, *Resumen* warned that his "days are numbered" as Betancourt moves to drive him out of the cabinet. In the daily *El Nacional* of July 29, columnist Tarre Murzi ("Sanin"), an unabashed supporter of Betancourt and Caldera, devoted his whole column to Lauria, calling him "The Czar". Sanin also conveyed the threat that Betancourt will "pulverize" Lauria. But the wildest reaction came from Eloy Anzola, a prominent lawyer and Copei sympathizer, who screamed in an *El Nacional* op-ed of Aug. 1 that Perez was trying to set up an "economic dictatorship." Without mentioning Lauria's name, he wrote that Perez is also attempting to install another "Hjalmar Schacht" (Hitler's finance minister) in the government.

The Devaluation Rumors

In response to the cabinet setback, the pro-IMF circles during the following week began to prepare a second front. By Friday, July 22, the line had gone out that the "confusion" and "uncertainty" caused by the government's economic policies were leading to capital flight and an eventual devaluation. This operation was to be a replay of the rumors that wrecked the Mexican economy under former President Luis Echeverria last year, when in the course of mere days, more than $4 billion fled the country, forcing a devaluation. Perez, like Echeverria last fall, is now nearing the end of his term, and the Wall Street hirelings within his party, led by Betancourt, succeeded in foisting their candidate, Luis Pinerua Ordaz, upon the AD during the party's primary election July 17. By provoking a stampede against the bolivar, Wall Street hoped to discredit Perez' development policies and thus relegate him to lame duck status until the 1978 general elections.

Wall Street began setting the stage for this scenario last January, when Wall Street economic analyst Eliot Janeway circulated the line that the bolivar would soon be "worthless". Janeway at that time was also writing articles suggesting oil-starved Brazil invade Venezuela, as "Hitler overran Alsace-Lorraine." *Money Manager* magazine followed with an article on April 11 replete with stories of capital flight, "unprecedented corruption," and a general "unfolding economic horror story."

On June 26, *Resumen* reprinted a recent article from the *International Currency Review* pushing devaluation. Venezuela's "bonanza," says *ICR*, "is rapidly coming to an end," and outrageously accuses the Venezuelan government of "covering up the true nature of its financial situation" from foreign investors. A month later, *Business Week* wrote that "Venezuelan businessmen" are "worried" about a devaluation.

With this backing, the destabilization campaign went into full swing on Monday, July 25. According to *El Nacional*, stories circulated to the effect that "nervous" holders of bolivars pushed dollar purchases four times above their normal level. Another story claimed that two banks were forced to shut down their exchange windows when they supposedly ran out of dollars. The rumor campaign of a devaluation was so intense that Central Bank head Benito Raul Losada was forced to appear before the press three times that week to deny it. Even more extraordinarily, Interior Minister Octavio Lepage went on national television to help quash the campaign.

Immediately, President Perez met with business leaders to strongarm them into line behind the government. On Monday, he met with Carlos Vogeler, the new president of Fedecamaras. According to reliable sources in Caracas, Perez told the association that he would not stomach more anti-state sector nonsense of the type peddled by Vogeler's predecessor, Diaz Martinez, and that if the businessmen wanted a confrontation, he would give it to them. The following day, in response to a reporter's question on rumored threats to create a black market, Perez was unequivocal: "If there occurs such a maneuver against the interests of the country ... the government will take the most severe measures against the infractors."

By Wednesday, Diaz Martinez and Reinaldo Cervini, of Pro-Venezuela, had issued public statements denouncing the entire rumor operation as "dangerous" and "unfounded" and calling on the private sector to "make these rumors fail." The next day, Vogeler sent a telegram to the President praising the government for his "broad receptivity" toward the positions of the business community. At the same time, Gonzalo Barrios, secretary general of AD party, sensing which way the wind was blowing, condemned the rumor mongering as "criminal maneuvers."

By the end of the week, Perez had defeated the onslaught. Losada of the Central Bank thanked Diaz and Cervini for helping to return the situation to "normal."

Critical in forcing Wall Street's hasty retreat was the British break with the dollar on Wednesday, July 27. Realizing how absurd devaluation stories sounded under conditions of an almost vertical collapse of the dollar, the IMFers also feared Venezuela might well follow Britain's lead and cause an entire OPEC breakaway. Even the exchange traders and desk personnel on Wall Street wouldn't be caught peddling this stuff.

With Perez again in control, the Central Bank seized the reins on the economic measures and aimed them straight at the speculative capital sector, while favoring "the real economy." On July 28, Losada doused hysterical stories of "paralysis" of the construction sector by guaranteeing that the Central Bank would buy all mortgage guarantees left unsold on the market, thus giving the state sector greater control over real estate credit, and, consequently, speculation. He added that to further curb speculation, property assessment would be limited to the value of the property when credits were first provided for construction. On Aug. 2, Losada further specified that credit will be eased for the productive sectors of the economy through special rediscounting facilities at the Central Bank. Excluded, he said, are insurance companies, financial institutions, exchange houses, and "intermediaries in stock market and personal credit transactions."

Since the beginning of this month, the pro-dollar forces have had no choice but to resort to sabotage, with veiled threats to shut down the economy. The president of the Consejo Nacional del Comercio y los Servicios, Eddo Polesel, charged Aug. 2 that private banks were shutting off credit to the commerce sector, particularly to merchants and importers.

A week later, Simon Lavieri Hernandez, the acting

'Devaluation Of The Bolivar? Nonsense!'

Queries to Wall Street bank officers and exchange traders last week revealed a sudden silence on the allegedly imminent devaluation of the bolivar and related capital — even from sources that had previously published the phony rumors.

A leading investment house: "I heard rumors mentioned a couple of weeks ago... It doesn't make sense... But then again, rumors are all you need to get something like this going."

Money Manager magazine, which four months ago ran a story on devaluation and capital flight: "I haven't heard a thing."

Business Week magazine, which only two weeks ago reported devaluation rumors sweeping the Caracas business community: "Are you sure you don't mean *re*valuation? There have been a lot of rumors, but devaluation doesn't make sense. Buying dollars in Venezuela? Who the hell would want to buy dollars? Who wrote that (*Business Week*) article? Well, he shouldn't be saying these things. ...I know there is growing pressure by the Arabs to get OPEC to break with the dollar and go for some gold-backed currency, like you suggest, but I don't think they'll do it. You're talking about a whole new monetary system...The U.S. would scream bloody murder."

Morgan Guaranty: "There's absolutely no substance to these rumors. I don't know where they're coming from."

Schroeder Bank: "The bolivar's as solid as a rock."

Officers from Wells Fargo, Eximbank, Citibank, and the U.S. Treasury all said they had either not heard the rumors or did not consider them serious. "It's no big deal," said one. "It's just being blown up out of proportion for political reasons, probably by Copei (the major opposition party — ed.)."

head of the Confederacion Rural, an association of small growers, claimed that both public and private credit has been shut off for agriculture, threatening the upcoming harvest in the western plains, the largest harvest in the country. Lavieri particularly cites the Banco Italo-Venezolano and the Banco de Fomento Comercial, both with heavy government deposits, for having completely shut off all loans. What Lavieri and the banks have not yet explained is how this can occur when all banks are required by law to devote 20 percent of their activities to agriculture.

The same day, Luis Perez Barreto, executive secretary of the Federacion de Entidades de Ahorro y Prestamo (savings and loans), alleged that the reserve restriction on foreign deposits in Venezuela will actually impair the construction of low-cost housing, despite the government's intentions. Simultaneously, the head of the Camara del Urbanismo y la Construccion in the state of Merida reported that the entire construction industry in that area is supposedly "on the verge of paralysis" and threatened with bankruptcy. Lujano explained that regional bankers told him that in order to meet the government's new reserve ratios (which will only increase by 5 percent in August), they are shutting off credit and calling in outstanding debts.

The Political Strength Of the Bolivar

The irony of the sundry efforts to portray the bolivar as being on the verge of a devaluation is that it is stronger than the dollar, and, if anything, it should revalue. First, despite the enormous growth of imports under the Perez administration, international reserves and foreign exchange holdings have risen to record levels. (See graph.) Secondly, these imports, 60 percent of which are capital goods and industrial inputs, have generated an average real industrial growth rate of 11 percent per year since 1974.

But most importantly, the real strength of the bolivar is President Perez' political commitment to a new world economic order. Exemplary is his government's break with the Malthusian energy policy of the Carter Administration, made explicit by Hernandez Acosta's announcement upon returning from Europe two weeks ago. Hernandez, who visited West German nuclear power installations, stated that Caracas seeks to reach a technology transfer agreement with the Bonn government for the development of nuclear energy in Venezuela. "It is in our interest to be prepared for the alternatives which obviously should be chosen in the future," he said, "above all because throughout the world the need for nuclear specialization is being recognized as a proven alternative."

What remains to be accomplished to consolidate Perez' objectives is a total break with the dollar. Not only must the bolivar abandon its fixed parity with the dollar, following the British example, but the Central Bank's moves into European currencies must be vastly accelerated. Further, as part of the European-Arab-Comecon coordinated steps toward an independent gold-backed currency system, Venezuela must rapidly purchase gold — a move it has been avoiding. With these types of "buffer" procedures under way, the Perez government will be in a position to play a major leadership role in bringing the new monetary system into practice, either on the basis of a gold-backed OPEC-wide currency as a first step, or with a broader European-Comecon-OPEC arrangement. But gold backing is the key.

The only immediate danger to the bolivar would be a reversal of Perez' policies. Therefore, the most serious threats to the integrity of the Venezuelan currency are Romulo Betancourt, Hector Hurtado, and Co. Within the AD, Betancourt is personally heading a campaign to destroy Perez' political base and drive anti-IMF ministers out of the cabinet and even out of the country. *Zeta* magazine, published by Cuban exiles led by Betancourt, recently lied that Gumersindo Rodriguez, Perez' former planning minister and still a major influence on government policy, was about to go live in France to get away from "dirty politics." Rodriguez wasted no words in identifying Betancourt's employers; this slander, he said, is the work of "imperialist circles and their political destabilization operatives and agencies, such as the CIA," in an effort to undermine the nationalist economic policies of the President. As previously mentioned, a similar campaign is being mounted against Carmelo Lauria.

In short, if Betancourt gains control over the government, the bolivar will go up in smoke along with the dollar. If he and his friends are stopped, and the government proceeds to assume its rightful international responsibilities, the bolivar will be as good as gold.

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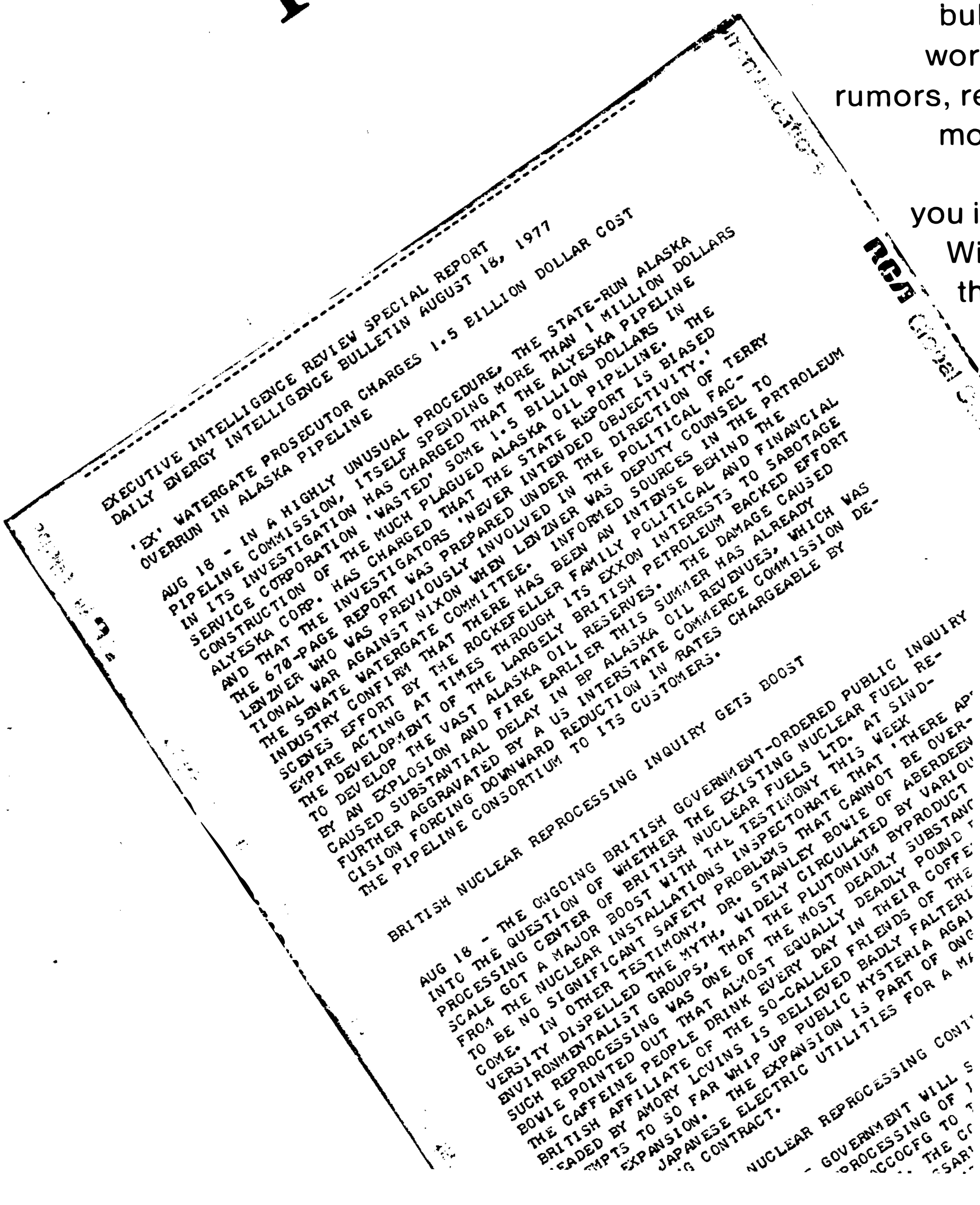
EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT
DAILY ENERGY INTELLIGENCE BULLETIN AUGUST 18, 1977

'EX' WATERGATE PROSECUTOR CHARGES 1.5 BILLION DOLLAR COST OVERRUN IN ALASKA PIPELINE

AUG 18 - IN A HIGHLY UNUSUAL PROCEDURE, THE STATE-RUN ALASKA PIPELINE COMMISSION, ITSELF SPENDING MORE THAN 1 MILLION DOLLARS IN ITS INVESTIGATION HAS CHARGED THAT THE ALYESKA PIPELINE SERVICE CORPORATION 'WASTED' SOME 1.5 BILLION DOLLARS IN CONSTRUCTION OF THE MUCH PLAGUED ALASKA OIL PIPELINE. THE ALYESKA CORP. HAS CHARGED THAT THE STATE REPORT IS BIASED AND THAT THE INVESTIGATORS 'NEVER INTENDED OBJECTIVITY.' THE 670-PAGE REPORT WAS PREPARED UNDER THE DIRECTION OF TERRY LENZNER WHO WAS PREVIOUSLY INVOLVED IN THE POLITICAL FAC-TIONAL WAR AGAINST NIXON WHEN LENZNER WAS DEPUTY COUNSEL TO THE SENATE WATERGATE COMMITTEE. INFORMED SOURCES IN THE PRTROLEUM INDUSTRY CONFIRM THAT THERE HAS BEEN AN INTENSE BEHIND THE SCENES EFFORT BY THE ROCKEFELLER FAMILY POLITICAL AND FINANCIAL EMPIRE ACTING AT TIMES THROUGH ITS EXXON INTERESTS TO SABOTAGE THE DEVELOPMENT OF THE LARGELY BRITISH PETROLEUM BACKED EFFORT TO DEVELOP THE VAST ALASKA OIL RESERVES. THE DAMAGE CAUSED BY AN EXPLOSION AND FIRE EARLIER THIS SUMMER HAS ALREADY CAUSED SUBSTANTIAL DELAY IN BP ALASKA OIL REVENUES, WHICH WAS FURTHER AGGRAVATED BY A US INTERSTATE COMMERCE COMMISSION DE-CISION FORCING DOWNWARD REDUCTION IN RATES CHARGEABLE BY THE PIPELINE CONSORTIUM TO ITS CUSTOMERS.

BRITISH NUCLEAR REPROCESSING INQUIRY GETS BOOST

AUG 18 - THE ONGOING BRITISH GOVERNMENT-ORDERED PUBLIC INQUIRY INTO THE QUESTION OF WHETHER THE EXISTING NUCLEAR FUEL RE-PROCESSING CENTER OF BRITISH NUCLEAR FUELS LTD. AT SIND-SCALE GOT A MAJOR BOOST WITH THE TESTIMONY THIS WEEK FROM THE NUCLEAR INSTALLATIONS INSPECTORATE THAT 'THERE AP[illegible] TO BE NO SIGNIFICANT SAFETY PROBLEMS THAT CANNOT BE OVER-COME.' IN OTHER TESTIMONY, DR. STANLEY BOWIE OF ABERDEEN [illegible]VERSITY DISPELLED THE MYTH, WIDELY CIRCULATED BY VARIOU[illegible] ENVIRONMENTALIST GROUPS, THAT THE PLUTONIUM BYPRODUCT [illegible] SUCH REPROCESSING WAS ONE OF THE MOST DEADLY SUBSTANC[illegible] BOWIE POINTED OUT THAT ALMOST EQUALLY DEADLY POUND [illegible] THE CAFFEINE PEOPLE DRINK EVERY DAY IN THEIR COFFE[illegible] BRITISH AFFILIATE OF THE SO-CALLED FRIENDS OF THE [illegible] [illegible]EADED BY AMORY LOVINS IS BELIEVED BADLY FALTERI[illegible] [illegible]MPTS TO SO FAR WHIP UP PUBLIC HYSTERIA AGAI[illegible] EXPANSION. THE EXPANSION IS PART OF ONG[illegible] JAPANESE ELECTRIC UTILITIES FOR A M[illegible] [illegible]G CONTRACT.

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