Bankers worrying about Venezuela

by Mark Sonnenblick

The International Monetary Fund (IMF) is concerned about one of new Venezuelan President Jaime Lusinchi's first acts of office, the signing of a joint comuniqué with Argentine President Raul Alfonsin. The Feb. 5 comuniqué states, "debt service must conform to the real possibilities of its payment in the long term, and whatever austerity and rationalization measures are necessary must not significantly affect economic development plans nor social policies benefiting the population."

The two presidents pointed out that grinding austerity forced by creditors on all the Ibero-American countries has threatened democracy itself in a way not understood by the countries of the North. Since the creditor countries are equally responsible for the problem, they should sit down and discuss it with Latin America, the two newly elected presidents insisted. Until then, Venezuela and Argentina "will harmonize the policies of our governments for greater protection and defense of our respective interests."

The statement echoed the commitments for coordination made by Ibero-American leaders at the end of their Jan. 9-15 economic summit in Quito, Ecuador. The IMF is warning that Argentina and Venezuela might become the first countries to coordinate their debt strategies. A senior congressional staffer specializing in finances noted that "nobody in Washington knows what to expect from Venezuela—"They have real power sometimes. They did form OPEC, you know. They could get this debtors' cartel going. . . ."

A New Orleans banker observed, "If they get together, they could dictate terms to the New York banks, which would not have much of a choice but to accept them." The repeated failures of the Ibero-Americans to show the courage needed to break the austerity stranglehold, however, have bred widespread skepticism about their doing it now. A Pennsylvania bank analyst told *EIR*, "Venezuela talks a lot but tends to act very little, as they showed last year. Unless they can get a majority of Latin America, they won't do anything."

Venezuela could have considerable political weight with its $43 billion debt. Last year it simply refused to pay $8 billion in debts coming due. Practically nothing owed abroad by the private sector has been paid, or even rescheduled, since Feb. 18, 1983. And Venezuela is "a couple of months in arrears on interest," according to New York banking sources.

Lusinchi promised to announce his economic program within the first nine days of his term, and "everyone is sitting back and waiting for the new government to make its move," a banker declared. Speculations—and wishful thinking—abound. The real uncertainty is how Venezuela will respond to creditor efforts to convert worthless debt paper into control over its internal economy. Such battles over the terms of bankruptcy liquidation are going on throughout Ibero-America. Venezuela and its creditors could not agree on renegotiation terms last year precisely because its two-party democratic political structure would not abandon national sovereignty as easily as the more dictatorial countries of the region.

The *Wall Street Journal* of Feb. 9 insisted on starting with a sharp devaluation of the currency. A devaluation would have no effect on Venezuela's exports, which are almost entirely oil, nor on imports, which were halved last year to below survival levels by making dollars unavailable to importers. Devaluation would just give foreign creditors an opportunity to snap up domestic assets pegged in bolivars at give-away prices.

There is an open fight in Venezuela over whether such denationalization will be tolerated. The Caracas press suggested Feb. 10 that Lusinchi might punch a hole in the present laws restricting foreign ownership of national industry according to the common standards set a dozen years ago by Decision 24 of the five-nation Andean Pact. If Venezuela yielded on this point, it probably would lead each of the five competing nations to sell off its properties to prospective asset-strippers.

During the presidential campaign Lusinchi pledged austerity without the IMF surveillance usually required by the private bankers. Rather than confront a united polity on this point, the banks' advisory committee has agreed to renegotiate Venezuela's debts without the IMF. These negotiations will drag out until September, according to several U.S. banking sources. In the meantime, the banks will compel Venezuela to burn up its $5.5 billion in foreign reserves by withholding new credits. Venezuela's presently strong negotiating position will evaporate along with the reserves, its creditors hope.

In testimony before the House Banking Committee Feb. 8, Federal Reserve chairman Paul Volcker singled out Venezuela for condemnation for its reluctance to submit to "necessary reforms" under the surveillance of the IMF. Volcker did not reveal how Venezuela would be muscled into line.