How debt and capital flight looted Venezuela

by the Venezuelan Labor Party

Below is the second chapter of the Venezuelan Labor Party's 1988 electoral platform.

Starting with Carlos Andrés Pérez's presidency, between 1974 and 1988, the nation of Venezuela has been financially looted of nearly $70 billion, by means of the hugest capital flight in human history, compounded by the usury of the international banks. Since the onset of the oil boom in 1974, over $100 billion in extra oil revenues has been squandered, most in pure theft, the rest in wasteful and inefficient "investments" and unneeded consumption. Only a small portion of the oil surplus was ever invested usefully. This sacking of the country was begun under the Democratic Action party (AD) administration of Carlos Andrés Pérez (CAP), accelerated to a fever pitch under the Copei party administration of Luis Herrera Campins, and continued, albeit more slowly, under the AD administration of Jaime Lusinchi. This looting was done at the behest of the international banks, and it was aided and abetted at every step of the way by the IMF.

Since 1974, some $35 billion has been paid in out in interest on the foreign debt—yet the nation's debt grew during this period to over $32 billion. At least $52 billion was stolen in pure flight capital by unpatriotic Venezuelans, who preferred to stow their wealth in Miami and Switzerland to using it to develop their country. Of this, $20 billion was stolen from the oil surplus, and when that did not slake the appetites of the speculators and looters, Venezuela needlessly borrowed $32 billion more, all of which was also stolen and exported. That is not the end of the story. By raising interest rates to levels above 14% by 1981, the banks sucked out an additional $15 billion in usurious interest overcharges over this period, for a total of at least $67 billion.

This $67 billion of stolen wealth is $67 billion in capital goods that Venezuela never imported, in factories that weren't built, in water projects that weren't constructed, in a railroad never built, in improvements in agricultural infrastructure that weren't made, in nuclear energy plants not begun, in schools not opened, in hospitals that don't exist, in facilities for advanced science that Venezuela desperately needs and doesn't have, in a much improved standard of living and working that Venezuelans will never see—unless this madness is stopped now, and stopped forever.

The criminals who designed and carried out this theft, the criminals who permitted it to go on, the criminals who rigged government policy to facilitate this looting, must be charged, tried, convicted, and sentenced for the crime of looting a nation. Fifteen years of looting have brought Venezuela to the edge of national destruction; it cannot continue in the next administration, or we will simply not survive as a nation.

The looting mechanism

Venezuela never needed to borrow a penny. The country was fortunate enough to have oil. After paying for all its imports, all of its imported services, and even all of its interest charges, the oil money still provided a surplus totaling $15 billion over the period from 1974-87. Nevertheless, the CAP administration began a borrowing binge in 1976 that was continued without let-up under Herrera. Under CAP, the debt increased from $1 billion to $16 billion, a 1,500% increase, and soared further to a high of $37 billion by 1983 under Herrera (see **Figure 1**). This debt was literally shoved on Venezuela by CAP's friends at Chase Manhattan and other New York banks, and avidly accepted by CAP's administration. Under CAP, $8 billion of the total was borrowed by public sector companies on a short-term basis in order to evade the law which required that all long-term (greater than one-year) borrowings by government entities be approved by the Congress.

What was the money used for? Some of it was borrowed to finance investment. Some of it was borrowed to finance operating losses because of gross mismanagement, which was insane—operating losses must be covered only in a country's own currency, by internal borrowing, never in debts payable in foreign currency. And some of it was borrowed to pay pure graft, multimillion-dollar salaries, and pure theft, deposited in numbered bank accounts in Switzerland.

CAP's defenders claim that the money borrowed under his administration was not a problem, because there were reserves of an equal or greater magnitude to counterbalance them. This is a baldfaced lie, because when CAP handed over the reins of government to Herrera in 1979, Venezuela's debts ($16.5 billion) were $5 billion greater than all foreign reserves ($11.5 billion) (Figure 1). Moreover, it was CAP's administration that laid the basis for the even greater looting that followed. Specifically, under CAP, the dollarization of the Venezuelan economy transformed our financial system into an appendage of Miami and New York, including in the laundering of narcodollars. One major way this was done was by refusing to make adequate, cheap domestic credit available for either the public or private sector, to properly finance legitimate investment. This drove them into the Miami or New York financial markets even to obtain operating cash, and the resulting growth of dollar debt led directly, and deliberately, to the documented dollar exodus.

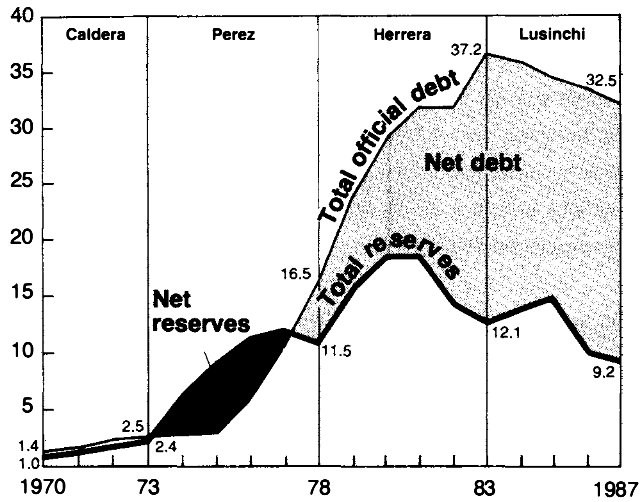
Once set in motion by the CAP administration, this process took on a life of its own under Herrera, who made no attempt until 1983 to stem the unrestricted outflow of capital. Herrera innovated on CAP's technique, continuing to unnecessarily borrow fabulous sums even as the balance of payments surplus soared, despite the more than doubling of the interest rates, from 6% in 1975 to 14.1% in 1982. Many of the short-term borrowings were at interest rates up to 18%. Then, beginning in the fall of 1982, when the banks decided to pull the plug, the Venezuelan oligarchy and impresarios and unpatriotic bureaucrats moved to send abroad, before the crisis hit, every bit of wealth that wasn't nailed down. In the space of eight months, from July 1982 to February 1983, more than $15 billion in flight capital was shoveled out of the country. The Central Bank of Venezuela (BCV) handed over billion after billion of its dollar reserves to the looters who came to the exchange window and requested dollars to be taken out of the country. When the reserves fell dangerously, the BCV revalued the price of its gold, "creating" an instant apparent increase of $3 billion in reserves in 1982, which was immediately sold to the speculators as well. Then, still running short of cash, the BCV turned to the state oil company PDVSA, and took its last remaining $7.5 billion in oil surplus revenues, and turned that over as well, down the last dollar, to be converted into flight capital.

When Herrera handed over the government to Lusinchi in 1984, debt had soared to over $37 billion, and reserves had plunged to about $12 billion. Furthermore, the country was in the midst of a deep recession, investment had plummeted and interest charges were phenomenal. Under the Lusinchi administration, the priority has remained that of meeting debt service payments faithfully. Investment has stagnated; real incomes have fallen; and inflation, never a major problem in Venezuela before, has now been unleashed. Today, the country is told that only a shock austerity program can rescue it from the mess. It is time to say enough of this madness. The only ones in need of a shock are the international banks and the IMF . . . and their Venezuelan errand boys.

The accompanying charts and tables show in more detail how this hideous looting operation was accomplished, what the mechanisms were, and when the worst of the looting took place. What we present below is the most accurate estimate of flight capital and other forms of looting yet published. While some people have estimated flight capital at up to $50 billion, we are able to prove that this is in reality a minimum figure, and we can show exactly when it took place, year by year.

The most obvious element of Venezuela's current financial picture, and the one that is used by the IMF as its club to enforce genocidal policies, is the external debt, now at about $32 billion. Debt is the opposite of reserves. Debt represents the country's foreign liabilities, while its reserves are its assets. If a country has both reserves and debts, one must be subtracted from the other to indicate whether on a net basis, the country has net worth or net debt. Figure 1 shows Venezuela's foreign net worth. Total debt between 1970 and 1987 is graphed against total foreign reserves.

FIGURE 1
Foreign debt and reserves, 1970–87
($ billion)



*Official reserves in Central Bank of Venezuela, Venezuelan Investment Fund and the national oil company PDVSA

Sources: IMF, Central Bank of Venezuela

Under normal circumstances, a country which has a current account surplus will build up its net reserves. This is because a current account surplus signifies that, after paying for everything bought by the country with foreign exchange, including all imports and services, there are still revenues left over from exports. There is no place for them to go but into reserves—unless they are stolen.

But in Venezuela's case, as shown in **Figure 2**, this didn't happen. The cumulative net reserves should be equal to the cumulative current account surplus, but they aren't. This difference is missing capital, capital that should be sitting in the vaults of the BCV, but isn't. It may have left the country legally; it may have gone into investments abroad; or it may have been taken out in suitcases or private jets, but one way or another, it has left the country. As line 3 of Figure 2 indicates, the total cumulative missing capital through 1987 is $38.6 billion.

In addition to capital that is simply missing, we can identify one other category of flight capital, namely, money taken out in the guise of "travel expenses." The current account figures for Venezuela reveal a truly extraordinary pattern, manifested in the accounts of almost no other country on Earth. Between 1970 and 1976, Venezuelans spent $400-500 million a year in foreign travel. Again, between 1984 and 1987, they spent no more than $600 million a year. Clearly, $400-600 million per year is adequate for all legitimate travel

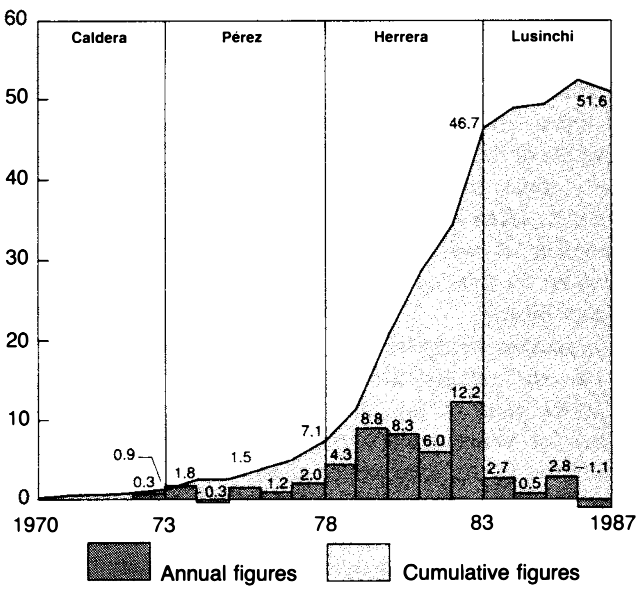
FIGURE 2
Cumulative flight capital, 1970–87
($ billion)

	1970	1971	1972	1973
1. Current account surplus (cumulative)	0	0	0.1	0.8
2. Net reserves (cumulative)*	−0.3	−0.3	−0.5	−0.1
3. Missing capital (cumulative) [1 − 2]	0.3	0.3	0.6	0.9
4. Fictitious tourism (cumulative)	0	0	0	0
5. Revaluation of gold**	—	—	—	—
6. Flight capital (cumulative) [3+4+5]	**0.3**	**0.3**	**0.6**	**0.9**
	Under Caldera (4 years):			

*Total reserves minus total official debt
**Revaluation of the official gold reserves
Sources: IMF, Central Bank of Venzuela, PLV

and tourism requirements. But between 1977 and 1982, declared "travel" expenses rose to $2.9 billion per year. During these years, the excess travel expenses, above the $500-600 limit, total $9.88 billion, all of which is manifestly flight capital, either in the form of money taken out for deposit in numbered accounts abroad, for purchasing Miami condominiums, or for other so-called "investments." So this annual total of excess "travel" expenses, of "false tourism," has been

FIGURE 3
Flight capital, annual and cumulative 1970–87
($ billion)



added to our calculations (see line 4, Figure 2). Finally, as mentioned above, the revaluation of the price of gold in 1982 by $3 billion was translated into flight capital, so it appears as an item in Figure 2 from 1982 on.

As can be seen, $6.2 billion in capital vanished under CAP, $39.6 billion under Herrera, and an additional $4.9 billion under Lusinchi. The total and annual flight capital is graphed in **Figure 3.** By 1987, total accumulated flight capital reached about $52 billion.

It should be emphasized that this is a conservative estimate of the amount actually stolen. It is well-known that at least since the imposition of exchange restrictions in 1983, several billions more have been looted by over-invoicing imports, with some sources estimating this form of looting at about $1 billion a year, which would add $5-6 billion to the total. There are also other unidentified categories in the balance of payments figures that probably represent flight capital, but these cannot be quantified with presently available data.

In **Figure 4** we document a second way, entirely apart from flight capital, in which Venezuela has also been looted by the banks. This is through usurious interest payments caused by interest rates that rose from 6% in 1975 to 14.1% in 1982. We have calculated what the debt would have been had interest rates stayed at a reasonable level throughout, and all other factors had remained the same. As shown in Figure 4, Venezuela paid $31.2 billion in interest; while if rates had not increased beyond 6.8% (the average of 1976-78), it would have paid only $15.9 billion. Thus, $15.8 billion was paid in excess interest charges, a surcharge of pure looting.)

Moreover, as shown in Figure 4, total interest payments totaled $31.7 billion between 1977 and 1987, greater than the total new debt acquired during the same period, and barely less than the total outstanding debt of $32.5 billion in 1987. Venezuelans should ask their officials how it is possi-

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
6.5	8.7	8.9	5.8	0	0.4	5.1	9.1	4.9	9.2	14.7	17.8	15.8	15.4
3.8	6.4	5.3	1.7	−5.1	−7.9	−10.5	−12.9	−17.7	−25.1	−21.9	−19.2	−24.0	−23.2
2.7	2.3	3.6	4.1	5.1	8.3	15.6	22.0	22.6	34.3	36.6	37.0	39.8	38.6
0	0.1	0.3	1.0	2.0	3.1	4.6	6.5	8.9	9.4	9.9	10.0	10.0	10.0
—	—	—	—	—	—	—	—	3.0	3.0	3.0	3.0	3.0	3.0
2.7	**2.4**	**3.9**	**5.1**	**7.1**	**11.4**	**20.2**	**28.5**	**34.5**	**46.7**	**49.5**	**50.0**	**52.8**	**51.6**
Under Pérez:					Under Herrera:					Under Lusinchi (4 years):			

FIGURE 4

Overpayment of interest, 1977–87

($ billion)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1977-87
1. Interest paid	0.5	1.0	1.7	3.5	3.8	4.6	4.7	3.5	2.9	2.9	2.5	31.5
2. Interest due if calculated at 6.8%	0.5	0.9	1.3	1.7	1.8	1.8	1.8	1.8	1.6	1.4	1.2	15.9
3. Overpayment of interest [1 − 2]	—	0.1	0.4	1.8	1.9	2.8	2.9	1.7	1.3	1.5	1.3	15.8

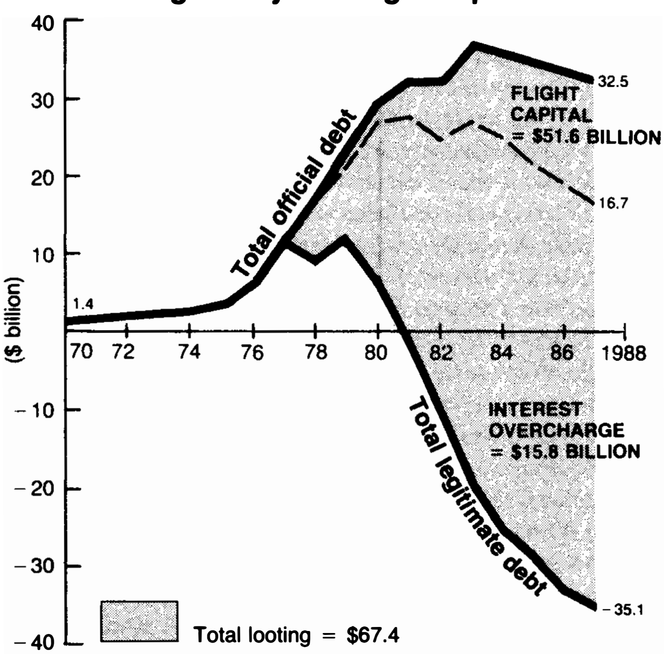
ble to pay off a sum equivalent to the entire debt, and still owe an undiminished amount of debt.

Summarizing the entire picture, **Figure 5** shows the combined financial looting of the country through both flight capital and interest surcharge. The bottom line shows what the country's reserves should be today, had there been no looting: $35 billion, and with not one dollar of foreign debt. Instead, we have not one dollar of these reserves, and have $32 billion in debts instead. The margin of lost money is thus a staggering $67.4 billion.

We have clearly shown that Venezuela doesn't owe anybody anything. Venezuela has already repaid the banks their loans—which should never have been contracted in the first place—in interest charges alone, half of which are usury. And Venezuela paid it again, in the form of massive capital flight, which went into the creditor banks as new, secret deposits. If the banks wish to be repaid a third time, the Venezuelan Labor Party proposes that they should simply attach the numbered bank accounts and seize the deposits in their own vaults belonging to the Venezuelan thieves who have upwards of $30 billion deposited abroad. But under no circumstances is the nation of Venezuela or its government under any obligation to yet again pay these debts under the present terms and amounts, and at the cost of the destruction of our own economy, and the hunger of our people. . . .

FIGURE 5

Total looting: usury and flight capital 1970–87



Sources: IMF, Central Bank of Venezuela, PLV