Venezuela's austerity plan puts it on the road to a 'Mexican' explosion

by David Ramonet

A chill is sweeping over Venezuelans, as they see the government's "Agenda Venezuela"—the austerity agreement struck with the International Monetary Fund in April—turning more and more into an imitation of the IMF's "Mexican miracle." In Mexico, the illusion of imminent prosperity through financial speculation, even as the vast majority of people sank into misery and unemployment, burst in December 1994, when the peso fell through the floor, and investments evaporated overnight.

Six months of the International Monetary Fund's (IMF) "miracle cure" have apparently changed the opinions of several financial advisers, and even some press commentators, who, during the period in which Venezuela's economic sovereignty was protected from the assaults of international usury, were the fiercest critics of President Caldera. Now, they can see for themselves the consequences of having ignored the "Ninth Forecast" warning of Lyndon LaRouche, that the international monetary system was heading for a crash (see *EIR,* June 24, 1994).

Opening the speculative spigot

On April 15 of this year, President Caldera announced a program of economic adjustment based on IMF demands. Within weeks of lifting the exchange controls Caldera had imposed earlier in his administration to defend the financial system from looting, flight capital began pouring back into Venezuela, headed by the funds of speculator George Soros, who has made headlines with his financial backing for campaigns for drug legalization.

Immediately after the recent annual IMF assembly, at which IMF Managing Director Michel Camdessus stressed the "achievements" of Venezuela's adjustment program, a speculative wave hit the Caracas stock exchange, driving it to over 6,000 points, with a 10% jump in the first week of October.

This, in turn, unleashed euphoria within certain media, with the announcement that bolívar investments in the stock exchange had yielded 150% profit during the first nine months of 1996, and that dollar investments had yielded up to 80% profit. During the last week of September and the first week of October alone, more than $120 million entered the stock market which, in addition to inflating the prices of existing stocks, helped the Central Bank withdraw from the exchange market, producing a "revaluation" of the bolívar, from 475, to 469 to the dollar.

According to economist Francisco Vivanco, Venezuela has begun to experience "an unconcealable economic bonanza," given the fact that "inflation is receding, the stock market breaking records, and the national currency appreciating against the dollar." However, Vivanco warns that "these improvements are not being felt by the vast impoverished majority of the country," because, even though inflation is receding, it has still been running at 115% for the past 12 months and at 84% for the first nine months of 1996. Vivanco acknowledges that these signs of "improvement" could reverse at any moment, and "provoke an economic collapse."

Financial adviser Ignacio Oberto comments on the Central Bank's strategy:

"It is surprising to see how those responsible for financial and monetary policy could end up fooled by this speculative 'bonanza,' in which it looks like more flight capital is coming into the country every day, whose only purpose is to obtain disproportionate yields in dollars." Oberto concludes that if things continue this way, "in the long run we are going to have to swallow a bitter dose of 'tequila,' and suffer the effects of a Mexico-style situation, in which reserves dissolved in a split second."

When President Caldera announced his list of neo-liberal (free trade) economic measures on April 15, *El Nuevo País* editor and television commentator Rafael Poleo warned that, from that moment onward, "the IMF's occupation of the Venezuelan economy is a fact." He said that discussing the benefits of such an occupation would be comparable to "the Czechs and Poles discussing the benefits of Hitler's invasion in 1940."

The great reversal

On Oct. 13, President Caldera convened a press conference at La Casono, his official residence, on the ostensible pretext of denying rumors of imminent changes in his economic cabinet, rumors which had caused capital withdrawals from the stock exchange. "I want to declare categorically that I have not planned, nor am I planning, to make any changes of my economic ministers," he stated. "Agenda Venezuela" is moving forward, he insisted, with "international reserves of $13 billion, the highest figure in recent years; the bolívar is stabilized, and inflationary pressure is lessening, as can be verified month by month."

Finance Minister Luis Raúl Matos Azócar declared at that press conference that various strategies are being considered for changing "the profile" of foreign debt coming due, on the Mexican or Philippine model. In particular, he said that one approach under consideration was that of issuing bonds on the international markets, in order to buy back restructured (Brady Bond) debt, or to pay off internal debt. That is, to convert internal debt, subject to national conditionalities, into foreign debt, subject to foreign conditionalities. According to the minister, this is possible because the country's international creditors and speculators already see Venezuela as another Argentina or Mexico. "It is impressive to note how the spread of the Venezuelan debt has been approaching that of the rest of Latin America, where only two years ago it was the highest of all. . . . At this point, it is comparable to that of Argentina. . . . These are the most important changes that can be presented . . . to demonstrate the return of international confidence," declared Matos Azócar.

That "confidence" can be measured in the unusual flood of speculative dollars into the country, which Matos Azócar disingenuously referred to one week earlier, during a Washington, D.C. press conference with the IMF's Camdessus, as "not flight capital, but investment capital." Perhaps he felt obliged to issue such a clarification, because a year and a half ago, President Caldera had told a forum of international speculators organized by the *Economist,* the British magazine, that foreign investment would be welcome in Venezuela, "but not flight capital, which doesn't come to share the risk with us."

Not present at the press conference was Cordiplan (Planning) Minister Teodoro Petkoff, the Marxist terrorist converted into an existentialist neo-liberal. Petkoff was in Brussels, praising "Agenda Venezuela" at a forum organized by Venezuela's National Council to Promote Investment. Before an audience composed of representatives of Unilever, Heineken, Makro, Phillips, and others, Petkoff offered his assurances that the Venezuelan government would stick to its plan for "restructuring" (read, "deconstruction") of the state, starting with a dismantling of the social security system. Petkoff said that "entitlements have become a problem both for workers and for businessmen," because the latter will not raise salaries if workers don't agree to reform the system. "Privatizations constitute the first structural reform of a sluggish, inefficient, costly, and corrupt state," Petkoff intoned. Petkoff also pledged a "reform" of the Venezuelan judicial system, the better to protect the rights of foreign "investors."

'Worst is still to come'

Notwithstanding all of the government's assurances, the latest assessment of the *Economist Intelligence Unit* is that that President Caldera has yet to pass the test of fire, virtually insisting that he commit hara-kiri to prove his sincerity. Says the *Economist Intelligence Unit's* report, published in the Caracas daily *El Nacional* of Oct. 13, "The government began its plan with the easiest reforms," such as elimination of price and exchange controls, increasing gasoline prices 500%, and so on. Such measures, says the *Economist Intelligence Unit,* "were accompanied by painful effects on the population," but the population acquiesced. "However, the greatest test [to] which the government must subject itself will be to continue with reform of the public sector. . . . It is critical that the fundamental causes of the permanent fiscal deficit be eliminated: the hypertrophy of the public sector and the costly system of entitlements."

Such reforms will mean, in practice, the reduction of the public payroll from 1.3 million to 500,000 employees; the halving of the Education Ministry's payroll; and the privatization of state industrial complexes of steel and aluminum, at the cost of some 13,000 layoffs. The *Economist Intelligence Unit* warns that such measures will cause a social explosion:

"The population will not likely be so docile with this next phase of the program, when eliminating public jobs and changing labor laws hits directly at the image of the paternalistic state." In particular, it says that there are fears that the organized labor movement, primarily in the public sector, but with the backing of the Venezuelan Labor Federation (CTV), will begin organizing an opposition that could grow rapidly. Although the British bulletin doesn't mention it, the CTV has until now blocked the dismantling by decree of entitlements, as the investors have been demanding.

Usurers and narco-terrorists join forces

Strangely enough, the *Economist Intelligence Unit* promotes the Causa R (Radical Cause) party, a member of Fidel Castro's narco-terrorist São Paulo Forum, describing it as the leading opposition movement in the country. In fact, Causa R's leading trade union figure, the former governor of the state of Bolívar, Andrés Velásquez, *has* objected to the government's plan to privatize the Orinoco steel complex (Sidor) as a whole, in order to pull in some $2 billion. But what Velásquez proposes is not a defense of Sidor, but rather to cut it into pieces, so as to garner $7 billion. With such a creative accounting approach, it's no wonder the *Economist* loves Causa R!

The truth is that there is a rush to loot Venezuela while there is yet time. Perhaps most telling is the fact that the investment brokerage house Bear Sterns is currently recommending Venezuela as a place to invest to all and sundry. It was Bear Stearns' David Goldman who had given similar high marks to Mexico, just two weeks before the December 1994 collapse from which that country has yet to emerge.