Click here for Full Issue of EIR Volume 16, Number 8, February 17, 1989

EIR Feature

Carlos Andrés Pérez peddles snake-oil for debt crisis

by Peter Rush

The inauguration of Venezuela's new President Carlos Andrés Pérez—some commentators called it a "coronation"—on Feb. 2, marks the official beginning of a new effort to prevent the nations of Ibero-America from effectively combining to confront the developed sector banks and governments on the issue of paying their foreign debts. Carlos Andrés Pérez, known as CAP, has carefully groomed himself for much of the past decade, since his last stint as head of state from 1974-78, to become the leading spokesman for the continent vis-à-vis the foreign banks on issues of debt and integration, while actually serving as the point man for the International Monetary Fund's austerity policy. The attendance at his inauguration of over 20 heads of state and over 20 former heads of state, has further bolstered his international stature.

Behind the pomp and pomposity of the occasion lies a deadly reality: CAP is taking office at a point of the most serious financial and economic crisis that Ibero-America has ever faced, and even his own country, long insulated from the problems of inflation and falling incomes endemic in the rest of the region since the debt crisis of 1982, is now entering the same barrel. The perceived "danger," from the viewpoint of the international banks and the OECD nations (the U.S., Europe, and Japan), is that economic crisis may lead to the rise of nationalists—usually referred to as "populists"—who will break "the rules of the game" and declare unilateral debt moratoria and take other moves to protect and develop their economies, and who might succeed in creating a continental "debtors' cartel" to enforce this approach.

This situation has engendered a policy debate within the world's financial elite over whether to finally grant "debt relief," or to continue with what has come to be known as the "Baker Plan," after then-Secretary of the Treasury James Baker, of increasing debt loads to pay interest to the banks. CAP has injected himself into this debate on the side of those advocating debt relief. His role will be to organize the rest of Ibero-America behind the nostrum of an international facility to buy up Latin American debts at a sharp discount, while the International Monetary Fund "restructures" each nation's economy. Domestically, CAP has already proposed

© 1989 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Stuart Lewis, United Nations

Demagogues and snake-oil salesmen peddle their schemes for "solving" the debt crisis with austerity, and keeping the banks happy: Venezuela's Carlos Andrés Pérez (left), Cuba's Fidel Castro (center top), former U.S. President Jimmy Carter, Nicaragua's Daniel Ortega, and U.S. Secretary of State James Baker III (right).

just such an IMF-approved economic program for Venezuela. The only "catch" is that the collapse of the financial house of cards in Argentina, Brazil, and Mexico will probably outrun the implementation of any palliative schemes, and the facility won't work in any event.

The 'coronation'

Playing to an assemblage of 2,400 in a modern theater complex in downtown Caracas, Pérez delivered a speech long on rhetoric but short on substance. He hailed the new détente between the United States and the Soviet Union, and asked why the Central American conflicts cannot, like Afghanistan, Namibia, and Cambodia, be speedily resolved between the superpowers. He detailed the present economic and financial crisis of Venezuela, called for "discipline, productivity, and sacrifice" from its people to resolve it, and said his specific measures would be announced later. On the foreign debt, while he called the present strategy a failure, his choice of words to describe the debt crisis was among the mildest formulations of any Ibero-American leader in a long time, and he said his idea of a special "debt facility" was the best solution.

In addition to the ceremony itself, was the diplomacy that surrounded it. The heads of state of most nations of Ibero-America were gathered in Caracas for 1-3 days. Capturing the limelight was Cuba's Fidel Castro, Nicaragua's Daniel Ortega, and former U.S. President Jimmy Carter. Carter met with Ortega, upstaging an annoyed Vice-President Dan Quayle making his foreign policy debut. Quayle did make clear in a statement that the U.S. would use diplomacy toward Nicaragua, rather than back the "Contra" resistance, in reply to which Ortega effusively praised Quayle's "grasp of political reality."

Generally unreported, but undoubtedly more important than the public hoopla, were the host of private meetings that CAP had with visiting dignitaries. European Social Democratic leader and prime minister of Spain Felipe González, and Second International luminary Willy Brandt of West Germany, mingled with the heads of state of most nations of Central and South America. CAP himself is a former vice president of the Second International, and is now the leading social democratic head of state in the Western Hemisphere.

The day following the inauguration, the heads of state or their representatives from seven countries of the so-called Group of Eight (Panama has been suspended) met in an informal conference and endorsed the resolution of their respective finance ministers in Rio de Janeiro last December, which called for sharply reducing the debt of their countries by means of capturing the substantial discounts of their debts on the so-called "secondary market." Attending were Pérez,

Presidents José Sarney of Brazil, Virgilio Barco of Colombia, Alan García of Peru, and José Maria Sanguinetti of Uruguay, and foreign ministers of Mexico and Argentina, Fernando Solana and Dante Caputo.

'Pied Piper' Pérez plays IMF song

Venezuelans didn't have long to wait to learn the outlines of the sacrifices that CAP is calling on them to make. While many details are yet to be made public, it has already been announced that the Venezuelan economy will undergo what the press is referring to as a "shock" program intended to open the economy to "free market forces," and which conforms to standard IMF prescriptions. Its effect will be to drop real standards of living and make life more difficult for business. According to the *Financial Times* of London Feb. 7, the new measures include: relaxing price controls; gradually eliminating fixed interest rates on savings and loans; eliminating the two-tier exchange rate for the bolivar, effectively enforcing a sharp currency devaluation; reducing the government's budget deficit; and providing incentives for foreign investment in tourism and export industries.

Even before the inauguration, the core of this program was attacked by Elio Espinoza, president of the Corn Producers Association, who said that "the increase in interest rates is one of the most important inflationary factors, and therefore it is a stupidity to try to reduce inflation with inflationary measures," and cited the failure of high interest rates in Peru to stem inflation. And Venezuelan Labor Confederation head Juan José Delpino, emerging from a Jan. 30 meeting with CAP, commented, "There are measures that are going to impact very severely on the working class, less favored by that program. . . . We do not agree with freeing interest rates, nor with increases in public utility rates and fares." Moreover, while the government is expecting the bolivar to be devalued by 75%, many analysts fear it could fall much farther. Such a sudden devaluation is bound to be highly inflationary, especially since it means that the government and private debtors with dollar debt must now pay 75% more bolivars (or more) to service the same dollar value of debt.

In a press conference on Jan. 29, CAP himself confessed that "we have to stop living fictions and confront the genuine reality of Venezuela's economic situation, and its relation with the IMF. . . . We cannot be thinking about whether it is good or bad; what is important is to negotiate with it as head of the international financial world. . . . We will agree with many of their proposals." Bankers have already responded favorably. According to *Diario de Caracas* of Jan. 27, Citicorp President John Reed, briefed in advance on CAP's program, called it "a very conventional and orthodox plan, which we could support. . . . It is also a plan with which the IMF should feel comfortable."

Should any doubt remain on the true nature of CAP's economic policy, his appointment of Pedro Tinoco, one of Venezuela's top bankers and a rabid "free market" advocate, as his top economic adviser, and of Harvard's Jeffrey Sachs, whose "shock" program decimated the Bolivian economy as the price for ending hyperinflation, as an adviser on economic program, should dispel it.

For most of the past five years, at every gathering of Ibero-American leaders, the devastating effect of paying tens of billions in interest payments on the foreign debt has been denounced, and the IMF strongly criticized. Last summer, when the heads of state of the seven remaining nations of the "Group of Eight" met in Punte del Este, Uruguay, the customary rhetoric was strangely toned down. It is now clear that the major nations have resolved on "dialogue" with the creditor banks and the IMF, to try to obtain a reduction of their interest payments. CAP has assumed the mantle of leading spokesman for such a "dialogue."

Not waiting for his inauguration to outline his major proposal, CAP proposed to the World Economic Forum meeting in Davos, Switzerland on Jan. 28 the formation of a new "multilateral agency" that would buy developing country loans from the creditor banks, at a sharp discount, and would pass the discount on to the debtor countries. The banks would receive what CAP called "risk-free" bonds bearing a market-rate of interest from the agency, which the agency would service by collecting interest payments from the debtor countries at rates bearing the same discount wrung from the banks. The effect would be to reduce the total interest payments due from the debtor countries by the amount of the discount. The day after his inauguration, CAP specified that the discount must be at least 50%, and as close to the present value of the debts on the secondary market as possible (only Colombia and Chile have discounts above 50%; Mexico's is 38.5%, Venezuela's 37%, Brazil's 34.5%, and Argentina's 20%, according to Salomon Brothers' latest estimate).

The loss, apparently, is to be borne mainly by the banks, though CAP has argued that regulatory changes should allow the banks to pass along at least some of their losses to the taxpayers. Also, the new bonds are to be guaranteed by the World Bank and/or the IMF, which in turn must obtain their funds, should a bailout be required, from the taxpayers in the industrialized countries as well.

Who is to run Pérez's agency? "Such an agency could be set up by the IMF and the World Bank," CAP said at Davos. Unspoken, but implicit, is that in return, participating countries must adopt the austerity and "restructuring" programs approved by the IMF.

On cue, the foreign press, especially in the United States, has published numerous articles praising CAP as the new spokesman for Latin American nations on the debt issue. The *Washington Post* heralded the inauguration in a Feb. 1 article that said, CAP "advocates an aggressive foreign policy aimed at uniting Latin America's debtor nations to demand a better deal from their creditors. Evidence that Pérez is taken seriously is the blue-ribbon audience that will watch the inauguration ceremony." The article reported that CAP does not favor unilateral debt moratorium, but a united alliance for

"coordinated action" on the debt question.

The debt agency called for by CAP at Davos is in itself nothing new: The Japanese proposed such an institution over two years ago, and the Omnibus Trade Act of 1988 of the U.S. Congress calls for establishing an International Debt Management Authority which is indistinguishable from CAP's proposed agency. What is new, is that CAP has become the point man in the Third World for a scheme being pushed most vigorously by financial and political leaders in Europe and the United States, against the resistance of, in particular, the U.S. money center banks and the U.S. Treasury.

Attacks on the 'Baker Plan'

The documentation which follows in this *Feature* is representative of the arguments being presented in Congress and in the U.S. and British press, to the effect that the plan put forth by then Treasury Secretary James Baker in 1985, to manage the debt crisis by increasing the flow of new debt money somewhat, has failed utterly. So far, despite several statements that he is "open" to new approaches, President George Bush has in practice backed up now-Secretary of State Baker in maintaining this plan, with only minor modifications, and rejecting all forms of "debt relief," that is, anything which discounts the value of the banks' debts down toward their secondary market values.

The Baker Plan has been a dismal failure, for all the reasons indicated. The problem is that none of the indicated solutions, certainly not CAP's proposed debt agency, represents any kind of real solution. Under the debt agency proposal, the countries will still pay out large (if somewhat smaller than under current arrangements) amounts of net capital exports, when growth can only take place if there is a substantial net capital inflow—a policy which finds no advocates from these circles. And the *quid pro quo* for debt relief is even tighter control by the incompetent and corrupt International Monetary Fund, recently exposed by former senior official Davison Budhoo for faking its statistics to justify its "conditionalities" policy. The so-called "free market" policy being universally touted will not restore economic health to Ibero-America, but will only accomplish what top supporters of Mexico's President Carlos Salinas de Gortari have openly called for: turning Ibero-America into one huge "export free zone," where runaway U.S. shops get super cheap labor to produce items for reexport, while the domestic population sinks deeper and deeper into poverty.

Will CAP be successful in leading Latin American governments into an IMF-run debt agency? The likelihood is that impending financial crises will detonate in Argentina, Brazil, and possibly Mexico, long before the arrangements are in place. At that time, events will be determined by whether nationalists take power who can guide their countries into an alliance to demand a new world monetary order, or whether the countries descend into chaos, repression, and coups. CAP's phony "pressure bloc" will not bring any positive results.

Venezuela to get the 'Bolivia treatment'

by Mark Sonnenblick

Venezuelan President Carlos Andrés Pérez has contracted 31-year-old Harvard monetarist Jeffrey Sachs to design what he called in his Feb. 2 inaugural address the "progressive liberalization of the economy." Sure enough, the terminology which Pérez uses to describe his economic plans mimics the way Sachs portrays the "successful stabilization program" which he prescribed for Bolivia. The outcome was the rapid demise of Bolivia's agro-industrial economy and a concurrent expansion of the cocaine industry.

Jimmy Carter is correct in promoting Sachs as "the man who defeated inflation in Bolivia." When his "shock" program was adopted there on Aug. 29, 1985 by Pérez's fellow Social Democrat, Víctor Paz Estenssoro, inflation was running at 25,000%. By 1987, it was down to 25%.

Sachs accomplished this by devaluing the peso by 93%, to the "parallel market price" set by those who trade in dollars from cocaine exports. The government began buying dollars from the suppliers of 40% of America's raw cocaine, with no questions asked. The dollar became legal tender. Banks, free to charge what they pleased, raised interest rates to 35-45% above inflation. That did encourage some traffickers to put their dollars into Bolivian banks, but none of these dollars went into productive investments. By 1987, a full 35% of the debt owed local banks was uncollectable, and the banks were technically bankrupt.

Bolivian industry was also ravaged by the kind of tariff reductions Pérez promises Venezuela. Imports increased 30% in 1986, as cocaine dollars returned in the form of consumer products. Commerce became nothing but money laundering. Sachs's "tax overhaul proposal" imposed a heavy burden on cattle-growers and industrialists, while easing the burden on money markets. In a May 1987 article in *American Economic Review,* "The Bolivian Hyperinflation and Stabilization," Sachs boasts that the step "with the most important short-run effect was the rise in public sector prices, which raised government revenues immediately by several percent of GNP." The tenfold increase in fuel prices helped paralyze industrial activity.

Sachs writes, "The policy package had the desired effect of closing the flow budget deficit of the central government. With the combination of higher public sector prices, the virtual halt to all public investment, a tight freeze on public sector wages at very depressed levels, and a moratorium on foreign debt servicing, government revenues jumped above