New shock program in Venezuela threatens more social explosions

by Alfonso Rodríguez

Venezuelan President Carlos Andrés Pérez presented a draconian austerity program to the nation Aug. 23, which promises to yield the same results as his shock program of 1989: economic devastation and violent social protests. The most stunning aspect of Pérez's pronouncement is that it was made in the midst of a heated national debate challenging the very legitimacy of the government itself. Only days earlier, Col. Hugo Chávez, the imprisoned leader of the Revolutionary Bolivarian Movement, told the Argentine daily *El Cronista* that there was imminent threat of civil war in Venezuela.

The new "anti-inflationary" package consists of a wage freeze; elimination of vacant posts in the public sector; raising taxes; and accelerating privatization, beginning with sale of stocks of Pequiven, the state petrochemicals company; Alcasa, Venezuela's first aluminum company; and portions of the state steel complex Sidor.

With his austerity program, President Pérez hopes to win the political backing of the Social Christian Party (COPEI), whose leader Eduardo Fernández has insisted on such measures as the condition for COPEI's support in Congress for Pérez's tax and financial reform. The reform, in turn, involves creating a value-added tax and a tax on company profits which will supposedly help to resolve this year's enormous fiscal deficit as well as that projected for 1993.

The worst impact of the new measures will fall on Venezuela's growing army of unemployed who, at least as far as the state is concerned, are to remain unemployed. The private sector, too, has halted all hiring, since private investment has also been frozen. The new degree of social crisis that Pérez's "package" will open up raises the question of whether the state and municipal elections scheduled for December will come off.

Along with his economic measures, Pérez is preparing for any eventuality. According to observers, if military force is required to implement his austerity plan, Pérez will attempt to take another step in the direction he began June 11, when he passed several sinecures in his cabinet to the military. However, it remains to be seen whether the Armed Forces will support the austerity plan should the looting and other social explosions of Feb. 27, 1989 recur.

In honor of usury

In his nationally televised addresss, Pérez spoke of a country which no one recognized as Venezuela. "Since this constitutional period began, we have resolved the foreign debt crisis we inherited in 1989," said Pérez. The Aug. 25 editorial of *El Diario de Caracas* observed that Pérez "didn't even talk about reducing the burden of foreign debt payments," whose annual servicing is the real cause of the fiscal deficit. Thus, comments the editorial, while refusing to embrace "any of the recommendations for an international discussion of the impossibility of continuing to pay that debt," the new austerity package leaves "two major subsidies intact: that which we pay the international banks" and "that which we pay to maintain a pseudo-democracy." In the nearly four years of Pérez's government, Venezuela has spent one out of every three bolívars in servicing the domestic or foreign public debt.

De facto, should the new taxes be approved, all new revenues will go directly to the country's creditors. In 1992, debt service will be approximately $5.642 billion, about $2.239 billion more than in 1991. As *El Universal* director Carlos Croes said Aug. 24, "This last figure is what the government hopes to collect with the new taxes. Conclusion: We are going to pay taxes to pay the debt that neither you nor I contracted."

The fact is that the 1992 budget crisis is the direct consequence of the absolute ineptitude of those who prepared the budget. So enraptured were these financial geniuses with the restructuring of two-thirds of Venezuela's debt (which left a payment schedule more onerous than before the restructuring!), that they forgot that the remaining third of the debt began to come due this year. Thus it happened that by mid-year, the government had to increase public expenditure by $1.341 billion to meet part of this debt payment. To keep the money flowing, the government sought authorization from Congress to issue treasury letters for this amount, with which the already-inflated internal debt rose still further.

According to Planning Minister Ricardo Haussman, the increase in this year's internal indebtedness will cost the government nearly $1 billion more in interest payments for 1993.

The foreign trade fiasco

"We opened the economy to foreign trade, and this has given Venezuelans access to more and better products, while the world will buy more and more Venezuelan products," was another of the exotic pearls President Pérez offered in his televised message. The truth is that Venezuela's nontraditional exports have constantly fallen since 1990, when it was discovered that their supposed increase that year was in fact due to the fraudulent use of "export bonds." In mid-1990, the subsidy was suspended when it was learned that some wise-guy "neo-exporters" were collecting the bonds for nonexistent exports.

What has been growing are imports, which could cause a current account deficit this year and force the use of international reserves to cover the difference. Indeed, it is the fall in Venezuela's oil income which has finally unveiled the deficit. In 1993, the approximately $7.5 billion in oil revenues for the state "will only manage to cover current expenses of public administration and to meet foreign debt service payments higher than the $2.5 billion disbursed this year," according to Marcos Morales, director of the office of the budget.

Non-oil exports, which Pérez's policy is intended to encourage, are far from meeting the increase in imports. The imbalances of $3.267 billion in 1990 and of $7.321 billion in 1991 have been covered by oil income, after paying debt service. Oil earnings in 1992 will be insufficient to cover the anticipated deficit of $9.080 billion. Already, in mid-year, it is estimated that reserves have fallen $3.5 billion.

It is an open secret that there is a huge quantity of drug money being "laundered" as imports. In late 1991, the U.S. Drug Enforcement Administration (DEA) seized 12 tons of cocaine in New York and in Houston, which had left Venezuela on the boat *Mercadian Continent*. In following the paper trail in Venezuela, it was discovered that the owners of the cocaine had a network of export and import companies. Through the first, they sent out the drug, and, through the second, brought in the profit in the form of home appliances and other such products. In 1991 alone, some $700 million in estimated drug profits entered the country.

Liquidating state assets

To begin with, announced Pérez, the petrochemical company Pequiven "should open itself up to private capital, and place its stocks on the world's major exchanges." Pérez also ordered the privatization of Caronía Aluminum (Alcasa), and of the tube and pellet plant of Orinoco Steel (Sidor); it has yet to be decided whether this will be through the stock exchange or on the auction block. Both companies, administered by the Venezuelan Corporation of Guayana (CVG), are among the state's most solid assets aside from oil. The liquidation of these companies will in no way reduce the "tax burden," but rather will eliminate one of the state's most important sources of income. From Pérez's standpoint, of course, they represent immediate liquidity with which to honor the debt.

The word out is that one of those most interested in buying up both Pequiven and Alcasa could be investor Gustavo Cisneros, an intimate of Carlos Andrés Pérez. Cisneros had promised to open a petrochemical and aluminum plant through a debt-for-equity conversion scheme, but the program had run out. For Cisneros, direct privatization could prove to be more "efficient."

Another coup attempt in store?

On Aug. 20, the daily *El Universal* reproduced a UPI news story reporting on the statements of Col. Hugo Chávez to the Argentine newspaper *El Cronista*. "Everything appears to be ready for a confrontation of incalculable proportions, that could degenerate into a civil war," Chávez said. The Pérez government "meanwhile refuses to carry out the profound changes that the current state of affairs demands, reaching the extreme of hiring foreigners and equipping paramilitary forces with sophisticated war matériel," the note added. "They have constructed virtual fortresses where they think they will be able to resist what we consider inevitable: a new civil-military offensive," Chávez concluded.

Chávez is not the only one issuing such warnings. Venezuelan Foreign Minister Gen. Fernando Ochoa Antich, the country's former defense minister, also warned on an Aug. 19 television program of the danger entailed in the constant confrontation between the government and members of the Revolutionary Bolivarian Movement within the Armed Forces. If a policy aimed at achieving harmony within the Armed Forces is not pursued, and if the changes the population awaits are not forthcoming, democracy will not survive, concluded General Ochoa.

A similar warning, but of still greater significance, was given during a meeting on "The Potential Venezuela," held Aug. 15 at the Hotel Melia Caribe in Caracas. Attending the gathering were figures from various political tendencies as well as representatives of several popular associations, all meeting to formulate a common program. Prominent among the gathering was author and politician Arturo Uslar Pietri, who reiterated that the solution to Venezuela's problems must begin with the resignation of Carlos Andrés Pérez.

Also addressing the forum on achieving a solution not only to Venezuela problems, but to those of the continent as a whole, was Alejandro Peña Esclusa, leader of the Venezuelan chapter of the Ibero-American Solidarity Movement (MSI). Peña warned that the Anglo-American financial system was undergoing a dramatic collapse, and of the dangers posed by those who would try to maintain it at any and all cost. Peña stressed that the moment for Ibero-America to explode the debt bomb and to proceed with the business of constructing genuine Ibero-American economic integration was never more propitious.