

Andean Report by Mark Sonnenblick

Bulls in glass houses . . .

Venezuelan leaders are outraged at Merrill Lynch's rather transparent blackmail efforts.

When Venezuelan Foreign Minister Simon Alberto Consalvi responded Jan. 2 to Merrill Lynch's latest anti-Venezuela spoutings with the threat that his country would not finance "the paradise of tricksters composed of speculative companies," he was putting the brokerage house on notice that people who live in glass houses shouldn't throw stones.

In particular, he was referring to a Jan. 2 *Wall Street Journal* feature that cited Merrill Lynch's Latin America economist Paul Levy calling Venezuela "a fool's paradise," where constituency-minded politicians threatened to win out over the bankers.

Were Consalvi to give a public airing to Merrill Lynch's dirty laundry, for example, *EIR's* exposure of the firm's links to drug-money laundering, it could prove quite embarrassing to the firm, whose former president is White House Chief of Staff Donald Regan.

Consalvi also stated Jan. 5, "For several weeks the *Wall Street Journal* has been systematically carrying out a negative campaign against Venezuela. . . ." The Levy article, in fact, got a furious reaction from Venezuela's political leaders. Interior Minister José Angel Ciliberto called it "a kind of softening-up operation" designed to block Venezuela's efforts to negotiate better conditions on its \$21.2 billion foreign debt. The banks were trying to "shore up" their position, he asserted.

Minister Consalvi's statement that Merrill Lynch is "a company whose speculative objectives we know," was no exaggeration. As the *Journal* itself admitted, the company has a division

devoted to managing the capital which "tricksters" have sucked out of Latin America. Venezuela has been looted of \$35 billion in flight capital.

What concerns all players in the Venezuelan finance game, is that the days are over when oil revenues were there for the grabbing. Foreign reserves have been spirited away by capital-flight artists and wily creditors. Venezuela paid \$6.326 billion in debt service in 1986, while its exports fell to a mere \$8.7 billion, from \$14.1 billion the previous year. No other Latin American debtor amortized over \$5 billion in foreign debt during the 1984-86 period, Finance Minister Manuel Azpúrua boasted Dec. 30.

Azpúrua claimed that by paying all debts on time and by reducing imports during the past year by 12%, he had won Venezuela the "moral right" to debt relief.

When Merrill Lynch's Levy pressed a Venezuelan central bank economist for more austerity, she responded that there are "a lot of political forces" at work. As paraphrased by the *Journal*, Levy concluded, "The central bank thinks austerity should be the order of the day, but the politicians want to spend to fuel economic growth; severe austerity measures are unlikely. . . . The last time I was here, politics was not such an issue. It's a more important variable."

Is budget-cutting what Merrill Lynch is really after? No. The *Journal* reports that Levy "wants to learn of any signs that Venezuela, like Mexico, plans to allow creditors to swap debt for equity in Venezuelan entities to reduce the country's \$35 billion debt

burden." With the oil money gone, the leeches want to take possession of the state companies which own Venezuela's fabulous underground resources, its oil, its Cerro Bolívar mountain of iron ore, its bauxite, and the facilities which process them.

As with Mexico, austerity enforced under International Monetary Fund conditionalities is designed to decapitalize productive enterprises and engender so much political desperation that surrendering the nation's patrimony appears to be a "pragmatic" solution.

To propitiate its creditors, Venezuela has started on such an austerity path. On Dec. 6, President Jaime Lusinchi announced a new exchange-rate structure which will decapitalize the state oil company. It will receive 7.5 bolívares for each dollar it makes on oil exports, but will have to pay 14.5 bolívares for each dollar worth of services and inputs it contracts. Venezuelan Petroleum Council president, Romero Nava, observed Dec. 30, that this would "negatively affect its cash flow, affecting, sooner or later, its capacity and autonomy to finance all of its projects and programs. . . ."

"The government preferred to grab bolívares from Venezuelans, instead of grabbing dollars from the creditor banks with a new strategy for paying the debt," charged an opposition economist.

On Dec. 29, the creditor advisory committee headed by Chase Manhattan awarded Venezuela a 90-day moratorium on public sector principal payments. The debt is to be renegotiated within that period. To further please the banks, Azpúrua announced that Venezuela is dismantling the agencies which keep tabs on foreign investments and would give foreign speculators wider latitude in its domestic market.