From riches to rags

In five years, Carlos Andrés Pérez and the IMF dismantled the Venezuelan economy. Jaime García dissects the “shock therapy” model.

As he assumed the presidency of Venezuela on Feb. 2, President Rafael Caldera received a timebomb in his hands. The electoral victory of last Dec. 5 opened a window of hope, a last chance in the midst of the worst crisis in the republican history of the country, a crisis which has included a social explosion against the International Monetary Fund (IMF), two military uprisings, and the impeachment and removal from office of the President of the republic. But the critical state of the national economy will require from the Caldera government the most daring measures to deal with it. Otherwise, the great expectations created by the new government will rapidly turn into violence and desperation.

The fiscal deficit

The immediate apparent problem is the fiscal deficit, even though this is only a derivative of the systematic destruction of the physical economy and the financial distortion carried out during the nearly five years of the economic “packet” of Carlos Andrés Pérez and the IMF. The interim government of Ramón J. Velásquez did nothing but a juggling act in order to close out the fiscal year with the minimal breakdown, following the previous guidelines. Among his fiscal measures, the worst for the population was the recent imposition of a value-added tax (VAT) which the incoming Caldera government has promised to eliminate.

During the Pérez years, the chronic gap between the state’s revenues and its expenditures was financed with new foreign debt, privatization of state-owned companies, bond issues, and particularly, with the systematic devaluation of the bolivar, which went during his term in office from a differential exchange rate of 14-27 bolivars to the U.S. dollar, to 105 bolivars to the dollar.

According to the year-end report of the Central Bank, at the end of 1993 the shortfall in the public sector ended up at 187 billion bolivars, plus the 200 billion bolivars in overdue payments postponed into the next period. This represents 7% of the Gross Domestic Product.

The national budget of 1994 approved by the Congress rose to 1.43 trillion bolivars, which in real values is 20% lower than that of 1984. Yet the fall in oil prices, the destruction of the productive plant, the growth in foreign and internal debt which Pérez left behind, and the deficit dragged forward from previous years means that only 50% of the national budget of 1994 is accounted for.

In fact, in formulating the 1994 budget, Congress calculated oil revenues at $15 per barrel. The more cautious oil industry calculated that it would pay 640 billion bolivars in taxes on the basis of a 1994 oil price of $13.50 a barrel. Nevertheless, in the middle of the 1993-94 winter, Venezuelan crude oil is priced on the world market at under $10 a barrel. Over one year, this means an overall petroleum revenue of $10 billion or 1 trillion bolivars.

Of course, the International Monetary Fund technocrats who designed the Pérez program already have their “packet” for the new government. The latest IMF report on Venezuela foresees that the 1994 fiscal deficit would be covered in the following manner: 271 billion bolivars with the privatization of state companies (including iron, aluminum, and electricity) and non-oil exports; 200 billion with the VAT; 100 billion by increasing domestic gasolite prices, and the rest, with “extraordinary income” such as bonds, Treasury letters, and direct indebtedness. Moreover, the IMF proposes reducing state expenditures, starting with the “bureaucracy,” up to 50%, i.e., by firing more than 600,000 public employees.

Given the serious social crisis (which we will analyze below), any measure in the direction indicated by the IMF will unleash a social explosion, which will make the bloody February 1989 Caracas riots look like child’s play.

What the IMF is not saying, is that 25-30% of the national budget goes to pay tribute to the external debt, which is the real problem of the chronic state deficits and looting of the economies all over Ibero-America.

Let us now look at the various aspects of the crisis to which the Venezuelan economy is being subjected as 1994 begins, after five years of the IMF “packet,” starting with the external debt.

The foreign debt

One of the worst crimes of the Pérez economic “packet” against Venezuela was the handling of the foreign debt. The Pérez administration—via agents of the banks like the late Pedro Tinoco, and Miguel Rodríguez—legitimized the illegitimate foreign debt, refinancing it in such a way as to mortgage the country’s future for 30 years, religiously paying
the banks one-third of the national budget and, on top of this, concealing the fiscal deficit with new foreign debts.

In fact, after 1983 when the Venezuelan debt crisis blew up, it was established that more than half the public external debt (at least $14 billion) corresponded to illegitimate debts which had been contracted without complying with the legal requisites to be assumed by the nation. In many cases, in complicity with the lender banks, the money never actually arrived in the country. The Jaime Lusinchi government—the President confessed at the end of his term that "the banks tricked me"—refinanced the total debt without bothering to carry out an audit of the illegal debt, as various national sectors were demanding.

Pérez went much further. In the framework of the Brady Plan of 1990, he refinanced $21 billion of the old external debt with a "menu of options" which included trading Venezuelan debt for shares in the state-owned enterprises destined to be privatized (the plan of his adviser Henry Kissinger) and 30 year bonds at alluring interest rates, backed by the state, and negotiable on the secondary markets. Thus he made any later attempt at an audit and repudiation of the illegal debt, or even a subsequent renegotiation on less unfavorable terms, impossible. For this reason, when President-elect Rafael Caldera spoke this past December of taking the legitimacy of the foreign debt to the International Court of Justice at The Hague and renegotiating the payment terms, his main adviser, banker Julio Sosa Rodríguez, disagreed and indicated that only $4 billion of the Venezuelan debt could be refinanced, because the rest was already negotiated and in the hands of many bondholders.

As can be seen from the data in Table 1, the Pérez government religiously paid its tribute to international usury. Starting in 1989, when the Pérez government was inaugurated, the public foreign debt coordinated by the Finance Ministry amounted to $26,586,000. During this period a total of $15.112 billion (57% of the total initial debt) was paid to service the debt, almost entirely in interest. Yet in 1993, five years later, the total debt had increased to $27.652 billion.

The above figures correspond to the foreign debt centralized by the Public Credit Management of the Finance Ministry, which does not include the debts of the state oil company PDVSA and of the Central Bank of Venezuela. If the $5 billion of the recent debt assumed by the oil company are added, the external public debt which Pérez handed on, surpasses $32 million.

The new debt with multilateral institutions—apart from the money-laundering bonanza—is what explains the Venezuelan financial boom of 1990-92, which was so lauded by the IMF and Inter-American Development Bank (IADB) reports, and showed up in the accounting books as a successful "growth" of the Gross Domestic Product.

For being such a good boy, Pérez was "rewarded" with more than $4 billion from the IMF, IADB, and World Bank, besides the fact that the government issued bonds for $930,750,000 in 1991 and $3.36 billion in 1992, to be placed on the stock markets of Europe, the United States, and Colombia. Besides, $550 million in Treasury letters were placed in Austria and on the Eurodollar markets.

Both the Brady Plan refinancing and the expiration dates of the new debt with bilateral and multilateral institutions were programmed to fall on the nation especially between 1994 and 1999, so that, necessarily, the government taking office in 1994 would have to start out facing the biggest debt crisis in Venezuela's history.

IMF program drugs the economy

The fall of the Banco Latino [see EIR Vol. 21, No. 6, Feb. 4, 1994, "Venezuelan Financial Bubble Bursts in Banco Latino Crash"] is not only the beginning of the end of what President Caldera called "the financial mafia" around Carlos Andrés Pérez. It is also a break in the gigantic financial bubble which the Venezuelan economy has been turned onto, thanks to the IMF policies applied in recent years.

Looking back, during the five Pérez years, Venezuela became the laboratory for the purest application of the IMF model of how to dismantle a national economy and toss it into theroulette wheel of what has been called the "great world casino." Those in charge of carrying this out were the technocrats from the private IESA think-tank trained by the International Monetary Fund itself at Harvard and in Washington, and then rewarded with positions in those same international institutions to continue applying the model to other nations. We refer to people like Miguel Rodríguez, Moisés Naim, and Ricardo Haussman, among others. For its part, the interim government of Ramón J. Velásquez, after the ouster of Pérez, was a toned-down continuation of the IMF "packet," with measures such as the value-added tax and the opening to foreign banking.

The IMF model in itself encompasses a series of policies, seasoned with the necessary ideological justification to win the acceptance of the different sectors:
• Carry out an adjustment plan to assure above all that the country will comply with its obligations to international banks and have access to new credits.
• Free up prices to conform to the law of the market.
• Eliminate controls and tariffs to “modernize” the economy and gain access to the world free market.
• Devalue the currency to promote exports.
• Privatize state companies, which are inefficient by definition.
• Open to foreign capital to invest in the country by acquiring the devalued properties.
• Liberalize the financial sector, permitting more “creative” methods.
• Raise interest rates to attract capital.
• Dollarize the economy as part of “globalization.”
• Do all of the above in order to have access to bailout negotiations with more developed countries.

As we will see, in Venezuela as in other countries, the real effect of such measures is far from what is promised. Instead, the dismantling of real production and the impoverishment of the population under the Pérez regime were evident—so much so that at the same time in Venezuela, a growing movement of resistance to IMF policies sprouted, which created, one way or another, a series of popular revolts, two attempted military coups, the ouster of Pérez, and the election of Caldera, with the expectation that the new President would break with the IMF model and start a process of real national development based on the common good.

The mirage of the Venezuelan miracle
During the first year of Pérez’s government, 1989, the IMF-prescribed shock therapy was applied. Prices were

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War against the banks—or civil war!

*This statement was issued by Alejandro Peña Esclusa, the secretary general of the Venezuelan Labor Party (PLV).*

Dr. Rafael Caldera’s inaugural address as he assumed the presidency on Feb. 2, omitted fundamental issues. He omitted to say that one bolivar out of every three in the national budget is earmarked for paying interest on the external debt; that the international banks—as bankrupt as the Banco Latino, and for the same reasons—are putting pressure on us to pay this usurious debt at all costs; and that it is not possible to simultaneously attend to the very urgent necessities of the Venezuelans, and the demands of the banks. In his zeal to be an optimist, Dr. Caldera omitted, thus, to present the cruel reality such as it is. As so, once again, it is our responsibility to do so.

We are on the verge of a civil war. The causes which led to the “jolt” of Feb. 27 [1989] and the military uprisings of 1992 are still there: Venezuela, once a rich country, in only 20 years was sacked and indebted by the international banks and by their domestic stooges, driving 80% of the Venezuelans into misery. Twenty years of materialism and hedonism, 20 years of counterculture, pornography, rock, drugs, and so forth, have destroyed the moral values based on family, based on the love of God and one’s native land. The country has practically been dismantled.

It is true that, fortunately, Carlos Andrés Pérez fell. It is also true that this created a wave of optimism, but the problems of an economic order and the problems of a moral order are still there, and it will not suffice to solve them by putting an honest citizen in the presidency.

Are the millions of individuals affected by the misappropriation of funds by Banco Latino perhaps going to remain unharmed? Is it enough to tweak the ears of the bankers to make sure that there won’t be another such misappropriation? Will the mortgage debtors hurt by the elimination of their subsidy remain silent? Will the very high interest rates, which are ravaging productive activity, come down without strict exchange controls? We also wonder: Can the economy be reactivated while we pay one bolivar out of every three for foreign debt?

Let us be realists! We need a strong nationalist government, which undertakes a head-on war with usurious international banking, which declares a moratorium on the foreign debt, which establishes strict exchange controls—and which builds Ibero-American integration with the other nations of the continent on these same points. We need a government which calls the corrupt by their full names and ruthlessly prosecutes them. It is not enough to say that we will do our best to make sure that the depositors of Banco Latino get their savings back; the Cisneros-Latino group directly has to be fingered, and made to answer, with their personal property, to pay for their crimes.

The country is in flames. If the government does not take up the nationalist flag and put an end to the IMF packet, if it does not face down the creditor banks, then it will have to stop the protests with arms. Meanwhile, the Causa R party, which is part of the narco-terrorist international—the São Paulo Forum—is destabilizing from within the Congress and only awaits the failure of Caldera to send its hordes into the streets.

Either there will be a war on the banks, or there will be a civil war!
freed, interest rates raised, the currency devalued, subsidies were wiped out, trade was opened up, etc. The effect was that hardly had this begun, than the population perceived that Pérez had betrayed them—he had campaigned by attacking the IMF—and launched the popular revolt in Caracas known as the *caracazo*, in which more than 1,000 people died. The “therapy” caused an unheard-of drop in the Gross Domestic Product (GDP) in 1989, down 8.6%.

During 1990, 1991, and 1992, the GDP of Venezuela grew at rates of 6.5%, 9.7%, and 6.8%—the highest in Ibero-America. International banking institutions started raving about the Venezuelan miracle. This was a hoax, as any normal Venezuelan, producer or consumer, knows. Besides the fact that the “growth” was in comparison with the collapse in 1989, the figures show how fictitious the miracle was in each of these years: a spectacular rise in speculative values based on the currency devaluation, higher interest rates, enormous profits in the financial sector, an inflow from abroad of flight capital and “laundered” money, the buyout of privatized companies, and a boom on the stock market. In short, all the telltale signs of a financial bubble which started to shrink when the IMF “packet” was suspended because of political resistance and the exit of Pérez in May 1993, and threatens to explode with the demise of one of its major kingpins, Banco Latino.

Table 2 shows the Central Bank figures which allow us to observe better the speculative “miracle” during the Pérez years (1989-93). The year 1988 is included for comparison purposes.

**The trick of privatization**

Supposedly, the currency devaluation, high interest rates, and in general, the policy of adjustments and opening, were going to attract a huge volume of foreign capital. This did happen. Tight money and foreign competition were a blow to productive businesses, many of which shut down or converted to trade and financial speculation in order not to go bankrupt. The same occurred with the state enterprises, with the aggravating factor of chronic managerial corruption and, in many cases, the deliberate intention of bankrupting them to force their privatization.

Foreign investment, despite the opening of the Pérez government, was limited to the buyout of privatized companies and to a large extent consisted of the exchange of Venezuelan debt bonds for national stocks. The rest of foreign capital went into stock market and exchange speculation. It is significant that, according to the Superintendent of Foreign Investments (SIEX), the principal “countries of origin” of the capital which entered Venezuela in the most recent years are, besides the United States: the Netherlands Antilles, the Cayman Islands, Panama, Switzerland, and Bermuda, known centers of money laundering.

Table 3 shows the SIEX figures on the amounts of registered foreign investment, in billions of U.S. dollars.

The abrupt growth in 1992 corresponds to payment for the privatizations of the previous year, including the telephone company Cantv and the airline Viasa, the only major privatizations which the Pérez government managed to bring off, since the others were suspended on account of political and military opposition, which is particularly sensitive in this regard.

The IMF and particularly the IADB reports, hold privatization to be one of the key tasks of the next government, so
as to overcome the fiscal deficit; i.e., trading off investments for current spending. The timeline of privatizations, suspended in the last months, include, among others, the major electrical companies Planta Centro, Enelbar, and Enelven; the race tracks and ports of the central coast—totaling more than $2 billion.

The fraud of bankrupting state companies to sell them at bargain-basement prices to private groups, was exposed in Paralysis of the industrial sector. The Central Bank figures on non-oil imports and exports (Table 4). To sum up, whereas non-oil exports did not grow, imports had a 70% increase during these five years.

**Rural ruin**

The situation of the agricultural sector as a result of the IMF “packet” is even worse. A report by the congressional Agriculture Committee at the end of 1993 summarizes it this way: “We have increased imports, decreased exports, and national production has fallen. We are going back to the levels of the 1960s and at present, Venezuela imports 60% of the food it consumes.” It attributes the main cause to “the fatal financial policy . . . [and] the maintenance of parasitical and usurious interest rates, which in no way contribute to the reactivation of the sector and which have caused collective ruin among the country’s producers.”

Indeed, the report says, between 1989 and 1993, farm jobs decreased drastically, as a result of the “brutal contraction of farming activity.” Whereas in the 1980s a trade equilibrium had been achieved and there was self-sufficiency in some food categories, the deficit of the agricultural trade balance for 1992 climbed to $900 million and in 1993 it passed $1 billion. Products which used to be exported, like maize, now have to be 50% imported in order to cover national demand.

The status of the infrastructure and equipment for farming is also eloquent. Even though the hike in gasoline prices promoted by the IMF under Pérez was done with the pretext of implementing a rural highway plan, “not one kilometer was ever built.” Until 1990, some 7,500 tractors were imported every year; today, fewer than 300.

**Social impact**

The social consequences of the IMF “packet” applied under the Pérez government are dramatic. The figures from such economics think-tanks as Fundacresida, Cendes, the National College of Economists, the National Institute of Nutrition, and the OCEI, on the drop in living standards (Table 5), reveal, with varying methodologies, similar results: We are facing the biggest social-economic crisis in the modern history of Venezuela. A few indicators give us an idea of the level of deepening poverty.

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**TABLE 4**

**Venezuela’s imports and exports**

(millions of $)

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<tbody>
<tr>
<td>Exports</td>
<td>12,992</td>
<td>17,278</td>
<td>15,127</td>
<td>13,995</td>
<td>13,600</td>
</tr>
<tr>
<td>petroleum</td>
<td>—</td>
<td>13,938</td>
<td>12,627</td>
<td>11,255</td>
<td>10,400</td>
</tr>
<tr>
<td>non-petroleum</td>
<td>—</td>
<td>3,340</td>
<td>2,500</td>
<td>2,700</td>
<td>3,200</td>
</tr>
<tr>
<td>Imports</td>
<td>7,134</td>
<td>6,534</td>
<td>10,181</td>
<td>12,266</td>
<td>11,950</td>
</tr>
</tbody>
</table>

*Source: Venezuelan Central Bank.*
TABLE 5
Inflation erodes living standards

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<tbody>
<tr>
<td>Cumulative inflation (%)</td>
<td>—</td>
<td>84.5</td>
<td>125.2</td>
<td>159.4</td>
<td>190.8</td>
<td>236.7</td>
</tr>
<tr>
<td>Minimum monthly wage (bolivars)</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>9,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Minimum wage in dollars</td>
<td>88.2</td>
<td>76.9</td>
<td>58.8</td>
<td>48.3</td>
<td>112.5</td>
<td>84.9</td>
</tr>
</tbody>
</table>

The famous Venezuelan “miracle” of 1990-91 was based, among other things, on the most brutal robbing of labor and the standard of living of the Venezuelan people, comparable in Ibero-America with Bolivia and Haiti in terms of wages. This is totally incompatible with an oil-producing nation which received $60 billion in petrodollars during these five years.

It should be observed that the minimum wage was tripled in 1992, one month after the military crisis of Feb. 4, and with the people taking to the streets to demonstrate. But if the minimum wage nominally went up by 200%, the basic food basket went up 528% in the same timeframe, from 428 to 2,689 bolivars—i.e., 300% more than the cost-of-living wage increase.

The situation is more serious if one compares it with a decade ago. In a forum on poverty in Venezuela, on Aug. 12, 1993, Rafael Caldera (now President) drew this comparison: In 1983, the minimum wage was 900-1,200 bolivars ($250-300 in U.S. dollars). In 1987 “the percentage of households without sufficient income to buy the food market basket was 23%. In 1992, 51%; and right now it may be more than 65%.”

According to Fundacredesa, for 1992 the poverty level in Venezuela reached 81% of the population and critical poverty—below the line of survival—reached 45%.

“Average family income,” Dr. Caldera said in his report, “for 1987 was 1.7 times the cost of the family market basket. . . . In 1992 this national average dropped to 0.9%; in other words, the average income of all families was less than one unit, the indispensable amount to cover the family market basket.” He went on, “As for the number of calories necessary to live, between 1980 and 1992 consumption went down by 18.5%. These things are frightening wherever you may see them.”

In fact, according to the National Institute of Nutrition (October 1993 data), the Venezuelan’s average consumption has gone down from 2,300 calories per day to only 1,700. “Chronic infantile malnutrition, which before reached 10% as an upper limit, is now at 30% in some states.” More than 3 million children are malnourished. “Children in strata IV and V—critical and extreme poverty—who are more than half of the Venezuelans, have been getting smaller in stature. They are born weighing less than 2.5 kilos, because the mothers are underfed.”

Another consequence is unemployment, disguised as some form of “informal employment” or buffoonery to survive. Dr. Caldera cited a study of the Mendoza Foundation according to which the informal sector, which in 1980 was 33.4% of total jobs in the country, by 1991 was 37%. Other studies place it around 50% of the employed population. Moreover, 46% of the informal sector works for less than the minimum wage and does not have the protection of the social security system.

Especially serious is youth unemployment, since youths between 15 and 24 years of age represent 25% of the country’s population. Of this total, one-third are outside the labor market and the education system. That means that more than 1.7 million young people have neither jobs nor schooling. This explains in part, the unprecedented boom in criminality in Venezuela, which includes arms and drug trafficking, and shootouts almost every day, especially in marginal zones. In recent years, murder has claimed more than 40 lives each week in the city of Caracas. De facto, a situation of war.

Correction to China program

As a result of a freak production problem experienced by our typesetter when the recent severe winter storms wreaked havoc in northern Virginia, the line or two of copy was dropped at the top of pages 29, 31, and 33 in our Feature for Feb. 11, “An Emergency Plan for China for the Next 100 Years.” In addition, lines were inadvertently repeated on pages 30 and 32, The missing copy is supplied below.

On p. 29, the sentence should have read: “This kind of ‘Big Bang’ expansion is characteristic of war economy mobilization, but it becomes more difficult to sustain as time goes on.”

On p. 31, the sentences should have read: “The most suitable nuclear technology for this purpose, available today, is the high-temperature reactor (HTR), incorporating the advantages of absolute, inherent safety, high efficiency, and simplicity of construction and operation. Later, various forms of fusion energy will be added.”

On p. 33, the sentence should have read: “Using the high-temperature so-called ‘potato reactor,’ it is now possible to construct nuclear sources of power, that . . .”

“3) are available in flexible, modular form in a wide range of power ratings, from a few tens of megawatts to gigawatt capacities;”

We apologize for the inconvenience to readers.