

Venezuela's Caldera vows: 'In my hands, the republic shall not be lost'

by David Ramonet

Venezuelan President Rafael Caldera on June 27 declared a national emergency and announced a series of extraordinary measures, including exchange controls, price controls, and the suspension of constitutional guarantees. In one sweeping action, taken in defense of national sovereignty, he restored to the nation-state control over its financial system, credit generation, and national currency. Caldera has brought Venezuela's banking system under state control in order to permit him to run the country's economy on behalf of its citizens, rather than a group of usurers and their foreign backers.

With these measures, Venezuela has become the only western nation prepared to face the imminent collapse of the international financial system forecast by American economist and statesman Lyndon H. LaRouche. Under the corrupt government of the deposed and jailed former President Carlos Andrés Pérez, almost the entirety of the Venezuelan financial system, and with it the ability to generate credit, had, in the name of "modernization" and "globalization" of the economy, been handed to a group of corrupt and unscrupulous bankers, characterized euphemistically by their groveling apologists as "emerging businessmen."

On June 24, during ceremonies held to commemorate the Battle of Carabobo in 1821, which crowned the victory of Simón Bolívar during Venezuela's Independence War, and which is also celebrated as Army Day, President Caldera broke with traditional protocol and indicated his willingness to "prevent the continuation of the unhealthy and criminal tendency to ruin our currency." He added that "the national government is prepared to take whatever steps are deemed necessary." Amidst thunderous applause, Caldera concluded that "the national government, with the absolute and decisive support of the Armed Forces, is willing to repress violence with all possible moderation, but also with all necessary energy. I wish to reaffirm before all sectors of Venezuelan society my solemn commitment: In my hands, the republic shall not be lost."

Then on June 27, accompanied by a representative of each of the four branches of the Armed Forces, Caldera announced the measures in a nationally televised address: exchange controls, price controls for the most important goods and services (rents, gas, phone, electricity, medical services, basic foods). He also announced the creation of a

food and transportation subsidy to compensate for the drop in real wages.

The President explained that "exchange controls allow us to think of a process of lowering interest rates and the possibility of eliminating the zero coupon bonds," the latter a mechanism used by the Central Bank to subsidize corrupt banks.

At the same time, Guillermo Alvarez Bajares, head of the Central Information Office, reported on the nationwide suspension of those constitutional guarantees which protect the privacy of the home, personal freedom, freedom of movement, economic freedom, private property, and expropriation of goods with compensation. Alvarez Bajares emphasized that the suspension of guarantees was not intended to respond to threats of public disorder, as leftists had charged, but rather to deal efficiently with the financial crisis and those corrupt bankers who had unleashed it.

By themselves, exchange controls won't solve Venezuela's crisis. But they will stop the bleeding of reserves which had been occurring as a result of agreements signed under the General Agreement on Tariffs and Trade (GATT) and other free-trade accords signed by the Pérez government. The free-trade agreement just signed with Mexico and Colombia suffered a still-birth.

Warfare against Caldera

Predictably, Venezuela's foreign creditors, as well as the U.S. State Department, are enraged at what Caldera has done, fearing especially that other Ibero-American nations might follow suit. The World Bank and the Inter-American Development Bank (IADB) retaliated by suspending \$1.3 billion in agreed-upon credit lines, using the excuse that exchange controls violate these agreements. Representatives of Chase Manhattan Bank and Chemical Bank made known at the recent annual convention of the Venezuelan-American Chamber of Commerce in Caracas that they were also prepared to cut credit lines. The International Monetary Fund, which had a delegation in Venezuela when Caldera announced his measures, issued a statement, obviously prepared before June 27, demanding that the government raise the gasoline price, and refrain from price controls and wage increases—precisely the opposite of what Caldera did.

The U.S. State Department demanded "clarification" of

the suspension of constitutional guarantees. President Caldera feistily responded to this by telling U.S. Ambassador Jeffrey Davidow, during an address to the Venezuelan-American Chamber of Commerce, that "you should do what I did if you really want to win the war on drugs." Taken aback by the President's remarks, Davidow then snubbed Caldera by failing to show up for the traditional Venezuelan Independence Day ceremonies on July 5. Representatives of the local banking and business associations did likewise.

Prior to June 27, President Caldera had done everything possible to reach a "Solidarity Pact" with the banking community in order to deal with the collapse of the financial system. The bankers, led by José Alvarez Stelling and his lieutenants José Bouza Izquierdo and Orlando Castro—members of the corrupt banking entourage linked to Carlos Andrés Pérez—not only rejected the agreement, but launched intense financial and political warfare against the government.

In the week prior to June 24, speculation against the national currency, the bolivar, had escalated, causing it to plunge to a rate of 210 to the dollar—a 100% drop from last January's rate. The dirty war against the government by these "emerging bankers" also intensified, with a rumor campaign that resulted in a run on the banks. Among this grouping were the owners of the nine banks which recently collapsed due to fraudulent practices which cost the state close to \$6 billion and the loss of \$4 billion in foreign reserves.

Defense Minister Gen. Rafael Montero Revette announced that he was investigating "personalities from the left and the right, as well as some financiers" who could be linked to the rumor campaign. President Caldera himself later said that these rumors originated with "people who still think they can regain their lost power."

A few days prior to the announcement of the emergency measures, the Radical Cause (Causa R) party, a member of Fidel Castro's narco-terrorist São Paulo Forum, had called for a no-confidence vote against and removal of Finance Minister Julio Sosa Rodríguez, Caldera's right-hand man. Banker Carmelo Lauría, president of the Chamber of Deputies and leader of the Democratic Action (AD) party, who is very close to former President Pérez, lamented that he couldn't request a no-confidence vote against the President himself. As a destabilizing tactic, the terrorist Red Flag (Bandera Roja) group had called for a national "pots-and-pans" demonstration for June 28, but this became a dead letter after Caldera's June 27 announcement.

On June 23, the daily *Diario de Caracas* reported that "the Venezuelan Labor Party (PLV) called on the national Armed Forces and the citizenry in general to reject the destabilization operation which, in its view, is led by the Venezuelan banking lobby on behalf of foreign financial interests against President Rafael Caldera." The daily noted that for the PLV (Venezuelan friends of Lyndon LaRouche), the interrogation of the finance minister in the Congress "is a ploy,

a trap, whose final goal is to overthrow President Rafael Caldera."

Both civilian and military security forces confirmed this to be the case with a series of raids and arrests carried out on the evening of June 30 and the morning of July 1, against militants of the Red Flag as well as bankers and intellectuals linked to the former president of the failed Banco Latino, Gustavo Gómez López—a fugitive from justice—and former Defense Minister Radamás Muñoz León. Upon taking power, Caldera had removed Muñoz León from his post. Among those questioned was mafioso banker Orlando Castro, closely linked to the Radical Cause party. On July 2, the defense minister announced that his forces had successfully thwarted the destabilization efforts.

Control of the banking system

On June 30, following a lengthy cabinet meeting, Information Director Alvarez Bajares issued Public Decree 248, outlining the means by which the banking system will be controlled. By creating a Financial Emergency Board, which will manage the banking system under the supervision of the finance minister, the decree makes existing banking laws obsolete. The board will also include the president of the Venezuelan Central Bank (BCV), the banking superintendent, the director of the federal deposit insurance agency Fogade, and three other members to be named by the President. It will take on the responsibilities of the old Superior Council of the Banking Superintendency and the Central Bank, effectively eliminating the law which made the BCV an autonomous institution.

The board will exercise total control over deposits, beyond the authority of bank directors, such that if any bank suffers a run on its deposits, the board can authorize use of another bank's deposits to cover the affected bank's liquidity. It is this aspect of the reform which some critics have used to charge that Caldera has "practically" nationalized bank deposits. But according to Gustavo Tarre Briceño, a member of the social-Christian Copei party who heads the Finance Commission of the lower house, with this measure "no one should have to take his money out of the bank for fear that it will be intervened on."

Moreover, the board will strictly supervise the banks to ensure that they rigorously comply with all the regulations regarding solvency so as to protect deposits. This significantly reduces the powers of the Banking Superintendency, thus correcting one of the most serious flaws of the old system, by which the fraud which brought down one-fifth of the system occurred. Among the board's powers is the authority to remove any bank director involved in illicit or fraudulent activity. Deputy Tarre Briceño reported that there will be an immediate effort to completely reform banking laws to make them coherent with the functions of the Emergency Financial Board, after which the government can restore constitutional guarantees.

Caldera announces exchange controls

The following excerpts are translated from President Rafael Caldera's speech on June 27, 1994:

The cabinet, after meeting this morning and this afternoon, made a definitive pronouncement in favor of establishing exchange controls. Long and laborious discussions were held on this with the directors of the Central Bank of Venezuela. The Central Bank, for very respectable reasons, had been maintaining—throughout many meetings—the need to try other routes, other formulas which unfortunately did not achieve the hoped-for results.

I said in my inaugural address on Feb. 2 that exchange controls would not be established, and I said it in all sincerity. That was my aim and I maintained it down to the present day. But the truth is, that the gravity of the financial system, the persistent wave of rumors, the speculative movements which have tried to bring the bolivar to the ground, have forced us to take this measure, of which we know the inconveniences, we know the problems and risks, but which has been inevitable. We cannot allow our international reserves to be dried up, we cannot allow a devaluation of our currency to continue which has no justification. And when I say it has no justification, it is because Venezuela produces the currency necessary for its legitimate commercial interchange.

The pressure on the exchange market is due to speculative movements or to the distrust sown by a series of rumors which have been bewildering the Venezuelans over the decisions which had to be taken to intervene into eight financial institutions, in which all possible ways had been tried to save them, and at last the conclusion was reached that it was practically impossible to recover them.

To establish exchange controls, of course in agreement with the Venezuelan Central Bank directors, another series of indispensable steps was taken. One of these was the suspension of constitutional guarantees. We have to appeal to this extreme recourse so that the government had the means, the appropriate instruments to be able to achieve the objectives which are being pursued.

We take full responsibility for this measure; we will carry it out with prudence, as we have done throughout our five months in government, but at the same time we will enforce it with all necessary energy to save the country, to get it out of this crisis in which it finds itself. A crisis which we did not create, a crisis which is the product of the long phase of corruption, a long phase of serious errors committed in the

life of the country and which we have tried by all ordinary means to deal with, and which has led us to a point in which we feel the unpostponable need to take the extraordinary means which the Constitution and the laws prescribe for us. . . .

Hence the fight against speculation is in the government's hands. We feel the deep pain of our people, and especially of the masses and the middle classes, over this savage scarcity which has been set up and we are going to fight at the people's side so that in some way this frightful error can be corrected. . . .

Moreover, at the same time as the exchange controls and price controls, measures will be adopted to control the financial institutions. We are ready to rigorously enforce all the laws which are indispensable to make the banking institutions proceed as they ought to, so that these crises don't get repeated. . . .

I must say in this regard that the exchange controls open a hopeful way to be able to think about a process of lowering interest rates, which have reached levels absolutely incompatible with the possibilities of the productive sectors; at the same time they are going to open the possibility of eliminating the zero coupon, which is a mechanism we have come out against many times, and which, beyond any doubt, in trying to relieve the situation of the country has instead produced grave consequences. . . .

Within a general economic policy context, Venezuela is a good country for investment; every day, investors show up, and we are ready to offer them all the guarantees. Some may say—because they criticize everything—that the policy we are adopting could somehow hobble investment.

Just the opposite. Investors need a stable currency, investors need the security that the country's international reserves not be drained; investors need a regime which they can trust in, and it is precisely trust that we want to give them, as well as to all the inhabitants of this country. . . .

Dear Venezuelans, dear countrymen, dear friends; we are going to fight together to get past the crisis. You know that this crisis was not invented by the government. If any criticism can be made of this government, it is as I said in my inauguration speech: We would exhaust all the ordinary recourses to deal with the situation. We have reached a time in which we have to resort to the extraordinary recourses, but those recourses are within the Constitution, within the democratic institutions. To maintain such democratic institutions, we must adopt measures which can be harsh, rigorous, but which are oriented in a healthy, honest, fervid way toward the good of the country, for the good of Venezuela. For the good of Venezuela I repeat my confidence, my absolute certainty that we will have the understanding and the backing of the Venezuelans, who are undergoing this moment so full of anxieties and contradictions, but that we are going to get over it to attain the destiny that belongs to this beloved Venezuelan homeland.

Reactions to Caldera's emergency measures

The emergency measures adopted by Venezuela's President Rafael Caldera have drawn praise as well as brickbats, at home and abroad. The governments of Brazil and Peru signalled their support, as did Arturo Frondizi, the former President of Argentina, while popular Dominican Republic television commentator Consuelo Despradel enthusiastically exclaimed during her June 30 program, "I am now a Calderista!" That opinion was not shared by Rockefeller's Chase Manhattan Bank, one of whose spokesmen complained that the measures were "improvised," a stance shared by such odd bedfellows as the terrorist group Red Flag and leftist rebel Col. Hugo Chávez, who has joined with the pro-Castroite and State Department-supported Radical Cause party against Caldera.

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"Total support for Caldera" from the people of Venezuela, reported Spain's *El País* on June 30, based on man-in-the-street interviews by its Caracas correspondent, who also probed the views of the CTV, Venezuela's national labor federation. "We know that these measures affect powerful national and international interests who will intensify their attacks against your government," wrote Alejandro Peña, the secretary general of the Venezuelan Labor Party, in a June 28 letter to Caldera. "Be informed, Mr. President, that we will unconditionally stand at your side to defend the country from those corrupt interests."

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"I have no fear that you will ever yield," wrote former Argentine President Arturo Frondizi to President Caldera, an old friend, in a letter dated June 28, which has been covered by the Ibero-American media. Frondizi, who was a personal friend and collaborator of John F. Kennedy, told Caldera:

"Esteemed President and friend,

"I am prompted to send you this expression of solidarity, which springs from the heart of a former President of a Latin American country, because of your actions in the face of the sufferings of the Ibero-American people and out of admiration for the courage you have recently shown in announcing emergency measures to confront the financial crisis your nation is undergoing.

"The terrible socio-economic legacy you received upon

assuming the presidency, the result of the strict and unconditional application of International Monetary Fund directives and international usury, has given you the imperative mission of recovering the dignity of your homeland and the peace and well-being of your people.

"I have no fear that you will ever yield, or that the powerful enemies you must face will ever intimidate you, because you hold in your hand the banner of Bolívar and San Martín. You expressed it well in your last letter to me on May 5: 'I will try to do my part alongside the Venezuelan people, who are selfless, noble, and kind precisely because they feel a part of our continental nation.'

"On June 3, I emphasized in a message I had prepared to be read at an event in the brother country of Ecuador, that you have contributed a share of optimism and hope to Ibero-America, by deciding to confront the neo-liberalism that is subjecting the continent to slavery and destroying its national identities.

"Your recent decision follows the road indicated by His Holiness John Paul II, when he told the world that the foreign debt of a country must never be paid at the expense of the hunger and poverty of the people.

"I have reason to hope that the changes you are instituting for the benefit of human beings will be correctly interpreted by your people and by the Armed and Security Forces, as well as by economic sectors which still strive for prosperity with social justice through development and moral public administration.

"Please accept my affection, and may God assist you in this crusade for freedom."

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"Brazil stands in solidarity with Venezuela," said Cloal-do Huguene, the Brazilian ambassador, after a briefing for the diplomatic corps given by the Venezuelan government in Caracas on July 1. The envoy announced that Brazil's foreign minister will soon visit Venezuela. Not long ago, Brazilian President Itamar Franco paid an unannounced visit to President Caldera in Caracas, and on June 29 the Ibero-American Solidarity Movement (MSIA) in Brazil had called on Franco to support Venezuela, which now "faces the risk of reprisals on the part of the international financial community." The MSIA warned the Brazilian leader that "Venezuela's current financial situation cannot be isolated from the global crisis of the world's financial system," and urged an alliance with the neighboring country around the joint development of railways and other larger infrastructural projects.

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Peru is ready to help Venezuela any way it can, said Peruvian Ambassador Eduardo Reigada, after being briefed on the measures on July 1. The Peruvian envoy welcomed the emergency measures, saying they would "allow Vene-



Venezuelan President Rafael Caldera: His emergency measures to save the nation have evoked enthusiastic support from some quarters, and expressions of outrage from the international bankers.

zuela to recover the stability, development, and economic bonanza" that it has traditionally had.

. . . and the nays

"He really doesn't have a well-defined economic plan," moaned a spokesman for Rockefeller's Chase Manhattan Bank, who described Caldera's measures as "improvised." The spokesman was quoted in a generally unfavorable article in the June 29 issue of London's *Financial Times*, which complained that the emergency measures were the "strongest set of interventionist policies in Venezuela since the late 1980s," when then now-jailed former President Carlos Andrés Pérez imposed the International Monetary Fund's free-market reforms.

The June 29 *Wall Street Journal* also expressed dismay at Caldera's measures, complaining that they were not "the more profound structural changes that the country really needs." Instead, said the *Journal*, Venezuela needs higher gasoline prices, a quick sell-off of all state companies, and across-the-board government spending cuts.

This view was echoed by the editorials of Venezuela's *Diario de Caracas*, which subscribes to the ultra-liberal

economic views of the Austrian monetarist Friedrich von Hayek. It warned that Caldera is turning his back on the free-market policies that have been "so successful elsewhere" in Ibero-America, and returning to the "interventionism and paternalism of the past," which will undermine the "confidence" of foreign investors.

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The measures are "insufficient and incoherent," and they will not generate enough "confidence" to stem the crisis, said Gabriel Puerta, a leader of Venezuela's Red Flag, a pro-terrorist Marxist grouping, parroting the views of the *Wall Street Journal* and *Financial Times*. He added that the moves will generate more inflation.

"These measures are not going anywhere," said rebel Col. Hugo Chávez, the jacobin leader of the MBR-200, who complained that the suspension of constitutional guarantees was aimed against the lower classes, "who continue to be buffeted by the blows of critical poverty."

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Caldera "deserves to be censured," said Carmelo Lauría, president of the Chamber of Deputies of the Congress of Venezuela and leader of the AD party of impeached President Carlos Andrés Pérez, who is now in jail on charges of corruption. Himself a banker, Lauría complained on the eve of a congressional session on June 27, where it was mooted that a vote of no-confidence would be taken against Treasury Minister Julio Sosa Rodríguez, that it was a pity that the Constitution didn't allow for a similar vote to be taken against the President. In the end, Congress did not take the no-confidence vote against Sosa, who was accused by Lauría of not knowing what he was talking about and who reminded him of Carlos Andrés Pérez's former minister Miguel Rodríguez, only "fatter, balder, and older."

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"Private property must be respected," said Venezuela's bankers in a communiqué made public on July 2 by the National Banking Council and the Venezuelan Banking Association. The bankers, whose looting of billions of dollars in supports from the public trough precipitated the emergency measures, expressed their "consternation in the face of the threat of statization contained in the decree that suspends the constitutional guarantees with the purpose, among other restrictions, of denying and cutting of the right to property consecrated in the National Constitution." The bankers threatened that "without private property, there will be no confidence nor privatizations, no exchange stability, nor monetary equilibrium. A persecuted private sector can never be capable of generating the necessary wealth to pay the taxes needed by the National Treasury." A similar statement demanding that the government respect private property was issued by the business association, Fedecamaras.