# Will Venezuela join the rest of the continent under IMF dictates?

by Gretchen Small

*I returned on Feb. 28 from a five-week visit to Caracas. The day I arrived in Caracas, the afternoon daily* El Mundo *had run a front-page editorial by editor Miguel Angel Capriles calling upon the Venezuelan government to organize an Ibero-American heads of state summit to discuss the possibility of declaring a joint debt moratorium against the "usurers" of the North. I left the day Finance Minister Arturo Sosa announced the government's emergency economic package, after numerous discussions with Venezuelan leaders on* EIR*'s evaluation of the situation, and* EIR *founder Lyndon H. LaRouche's proposed solutions.*

Venezuela, the only Latin American country not yet under direct International Monetary Fund rule, is now within weeks of knocking, or kneeling, at the door of that institution in an appeal for aid—whatever the conditions. If the government continues its present defensive strategies in the face of the economic warfare to which the country is being subjected by its international creditors, Venezuela will find itself with no other alternative in a far shorter time than perhaps any of its leaders presently acknowledge.

A month ago, *EIR* warned that Venezuela had only a short time to confront the choice of organizing a debtors' cartel in the continent, or turning its economic sovereignty over to the IMF. The speed at which that warning has been brought home to Venezuela has been astonishing, and it is escalating:

At one a.m. on Feb. 28, Finance Minister Arturo Sosa went on national television to announce the final details of an emergency economic package for the country which had been hammered out during a marathon, 10-hour cabinet meeting that had just ended. The main features of the emergency package—a partial devaluation, the establishment of a three-tier exchange rate system, and two-month freeze on all prices—are dramatic for Venezuela; the bolivar had been freely convertible for two decades and its value had held steady for that time.

Some 20 hours later, Sosa announced that Venezuela was also declaring a 90-day moratorium on principal payments on its foreign debt—a measure he described as a minor "technicality" to allow the overall refinancing package to be worked out with the banks. The next morning, Sosa was on the early flight to New York to begin another round of negotiations with the country's international creditors.

Venpress, the government's news agency, had quietly issued a wire a few days before reporting that an IMF team of experts was soon expected to arrive.

The government's decision to accept the political costs of exchange controls was taken in urgent economic self-defense. Capital flight was officially recognized to have reached the record of an estimated $1.2 billion leaving the country in January 1983—surpassing the levels of 1982 which had already bled the country of an (unofficial) estimated $14 to $16 billion! The week of Carnaval, Feb. 14-18, was celebrated by sending January's figures higher. At the close of the week, Finance Minister Sosa abruptly cut short an international mission in search of refinancing to return to Caracas with a message from the international bankers for President Herrera Campins, and to participate in the preparations for the emergency measures.

The following Monday, Feb. 21, a two-day freeze on all trading of the bolivar was announced to give the government time to put together a new package. Those two days stretched out over the week, as Venezuela's equivalent of Paul Volcker, Swiss-trained central banker Leopoldo Díaz Bruzual, refused to accept the imposition of exchange controls, and argued for a 50 percent across-the-board devaluation of the bolivar instead. With the central bank nominally "independent" of government controls, in similar fashion to the Federal Reserve system in the United States, Díaz Bruzual's veto held the country paralyzed for the week—despite an unprecedented unity of national opposition to his plans.

Sales of almost all products stopped for the week, as storeowners waiting for the new value of the bolivar claimed their products were "in inventory" for the week. Traffic out of the country slowed to a fraction and banking transactions dropped dramatically. Private businessmen, bankers, and others began non-stop lobbying efforts to defend "their" interests.

In the middle of the week, television viewers were startled by an interruption of their evening television broadcasts with a short message from Finance Minister Sosa urging the population to maintain confidence about the stability of the domestic banking system. Sosa denounced a systematic campaign of rumors that the government was about to take over several banks in the country, which had led to a dangerous run on several of those banks.

According to Sosa, numerous people were receiving phone calls from anonymous individuals who asked for them by name, identified accurately the amount they held at a specified bank, usually in Certificates of Deposit, and the date they came due, and then warned the listeners to pull their money out now, before the bank collapsed. The callers were operating with stolen lists of bank depositors, Sosa charged, and a full-scale national investigation into the situation was under way.

## The Mexico treatment

The events of that week, and most particularly the degree of sophistication involved in the latter attempt to create a banking panic in the country, led many Venezuelan government officials to finally recognize that the country is on the receiving end of the "Mexico treatment"—a coordinated campaign of internal and external pressures to bleed the nation of resources, wreck its creditworthiness in the eyes of the government banks, and leave the country with no defense of its economic sovereignty.

Opposition figures and government officials alike have refused until recently to even consider the Mexico parallel, echoing the line of the other big debtors of the continent as each faced the same international economic warfare: "Venezuela is different;" its basic financial situation is solvent and its productive apparatus intact, and debt payments will be met without problem. Many argued, with hysterical amnesia regarding the "friendship" Ibero-America encountered during the recent Malvinas War, that Venezuela's friends in the United States—George Shultz? David Rockefeller?—would ensure a smooth and problem-free refinancing of Venezuela's debt.

For months, Venezuelan financial officials have been trying to refinance some $8.5 billion in short-term debts coming due over this year, hoping to negotiate a credit package which would stretch out payments over the next three years *before* Venezuela ran down its reserves completely and thus landed in the same day-to-day financing crisis as Mexico and Brazil. But whatthey ignored is that, as *EIR* has reported, international financiers in the Ditchley Group's creditors' cartel have picked Venezuela as the test case for a new principle in world lending: no country is to get refinancing without an explicit IMF surveillance program, even though that country may still be far from the kind of collapse conditions in which the IMF usually takes over.

To force Venezuela to recognize that principle, the country has faced for the past few months a campaign of financial warfare in the international credit markets; coordinated, massive capital flight; and insulting "bad press" in the world's financial papers.

Capital flight operations provided another example of the coordination against Venezuela. The proverbial "lack of confidence" was not the primary motor of the hemorrhage; it was organized. An Ibero-American diplomat in Caracas provided the following anecdote about one primary mechanism through which the capital flight was fomented in Venezuela, and other countries:

An international banker, say from Morgan Guaranty, contacts a Venezuelan businessman with a dollar debt maturing in 1985. A devaluation is imminent, the banker warns the businessman. If you wait until the debt comes due to pay it off, it will cost you double, possibly triple, with your devalued bolivars; it is to your advantage to pay off the debt now. The Venezuelan businessman protests he has no way to come up with the money now. No problem, replies the banker from Morgan: Go see Sr. Fulano in Banco X in Caracas; mention my name, and he will take care of you. Sure enough, Sr. Fulano approves a new credit line with which Sr. Businessman pays his debts—sending money once again out of the country.

## The next phase

International creditors have no intention of easing the economic warfare against the country, despite the adoption of exchange controls.

The British Broadcasting Corporation has been broadcasting nightly that Venezuela will have to enact a full-scale devaluation—New York's *Journal of Commerce* greeted Finance Minister Sosa in New York March 3 with a summary of bankers' responses to his 90-day "technical" halt in payments: "When principal payments are stopped, one in fact is in a state of moratorium. . . . Many foreign bankers predicted negative consequences for Venezuela over the medium term." As one banker stated, "There is no guarantee at this point that we will refinance." On March 4, the *Journal* followed with an even more vicious warning, reporting that many bankers foresee a "disruption" in international trade with Venezuela, as bankers refuse to issue international trade credits, and the consequent bankrupting of many Venezuelan firms. The *Journal* article issued a de facto argument for capital flight to continue, with its report that "many bankers" will also be calling in their debts, demanding payment now rather than later, when the bolivar will be further devalued.