Andean Report by Valerie Rush

Who decides Venezuela's future?

With the oil price collapse, Venezuela faces hard times. Will the President challenge the financial "wizards"?

In the next few weeks, Venezuelan President Jaime Lusinchi will have to make a number of economic policy decisions upon which will depend the final years of his mandate and, in great measure, the future of the Venezuelan republic.

The President must present Congress with the 1987 national budget. He also must begin a new round of talks with Venezuela's creditor banks to try to win a modification in payment conditionalities to compensate for what is known as the "economic contingency": the collapse of oil prices upon which Venezuelan debt payment depends.

Official figures released by the finance minister on June 20 speak for themselves: The 1986 budget, of 122 billion bolivars, was elaborated on the basis of an average price of \$24.5 per barrel of oil (p/b). The real price in 1986 has officially been placed at \$13.5 p/b. The deficit in oil income for Venezuela has therefore been a whopping 45% (\$11 p/b), and will have to be absorbed by Treasury resources accumulated during 1984 and 1985.

The more serious problem lies in the years ahead. While calculating an increase in both volume and price of oil for the year 1987, official planners are admitting that even keeping the 1987 budget at the 1986 level, Venezuela will get hit with another deficit of between 25 and 30 billion bolivars.

Given this reality, the good monetarists doing the planning at the finance ministry have proposed the following options:

1) A devaluation of the bolivar to multiply the nominal value of the diminished national income. The result, of course, would be highly inflationary.

2) A drastic reduction of current public-sector expenditures, which would further aggravate already critical conditions of unemployment and misery.

3) A new leap in indebtedness, through issuance of state bonds, which would put off solving the problem by merely deferring it for explosion some time in the years ahead. This last option (with a good dose of each of the previous two) is what the economic cabinet has chosen, according to press reports.

As bad as the scenario looks, official projections published in *El Universal* on June 20 suggest that the reality is in fact a good deal worse. According to these projections, the balance-of-payments deficit will grow from a 1986 figure of \$2.5 billion to \$3.6 billion by 1990. Central bank reserves will fall from \$11.2 billion at the end of 1986 to \$6.8 billion (below the "security" limit imposed by the creditor banks) by 1989, and to a mere \$3.2 billion by 1990.

And, although oil prices are estimated at \$13.5 p/b for 1986, and at an optimistic \$16.2 p/b by 1990 (equaling approximately \$7-10 billion annually for Venezuela), total anticipated official income has been exaggerated tremendously: \$12.9 billion in 1986, and \$15.2 billion by 1990. The difference can be explained by "foreign investment." In other words, much of the national productive plant and equipment will have to be auctioned off to foreign investors, and state-sector companies will have to be "privatized"—and all to pay only interest on the foreign debt during these years, since amortization of principal on the debt has been postponed until 1989-2000.

These monetary calculations are terrifying in their implications, especially in view of the current social reality in Venezuela. According to current figures from Cordiplan (the planning ministry), of 6 million working-age Venezuelans, 3 million are currently in the "informal economy," that is, underemployed or unemployed. Five and a half million Venezuelans live in what has been characterized as "critical poverty," that is, with income below the minimal subsistence level established by Cordiplan.

A full 47% of the Caracas population has been "marginalized." Seventy percent of the national population has an income of from 0 to 5,000 bolivars (about \$250) a month. Some 4 million Venezuelans live in slums, and by the year 2000 the housing deficit will triple, reaching 2.2 million units. Put another way, by the year 2000 Venezuela will need to have developed a housing infrastructure and matching services equal to everything constructed from the last century to the present.

The option not offered by the "free-market wizards" of the finance ministry, but clearly the only path open to a government concerned to hand over a healthy nation to its successor, is to establish a limit on debt payments linked to a fixed percentage of its income. This would require establishing an alliance with countries like Peru and Mexico, which have been forced to exercise their sovereignty in defense of the national interest.