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Andean Report by Jaime Ramírez

Starving an economy

Venezuela appears prepared to sacrifice its currency, its economy, its national sovereignty, to the bankers' cause.

What does a nation with an expected annual income of $9.4 billion do, if it must allocate $5 billion to servicing its foreign debt, and $8 billion for indispensable imports to maintain production and consumption, while sustaining operating reserves in the central bank, and assigning millions to keep its currency afloat?

A sovereign republic, which were not merely a colony for private financial empires, would defend the basis of its sovereignty, which is the productive potential of its citizens, their consumption levels and their capacity to create wealth. It would also defend its currency, which is the expression of the value of the citizens' labor.

"A handful of bankers is not going to die of malnutrition or dysentery if payment of their debt is delayed, as would indeed happen with thousands of our compatriots," said Peruvian President Alan García, during a visit to Venezuela last February. In effect, García was also elaborating the social doctrine of the Catholic Church, reiterated in numerous recent documents.

The other alternative is to force governments, through threat or blackmail (financial, commercial, political, whatever) to accept a drastic reduction in production and domestic consumption, via successive devaluations of their currencies, so as to meet debt payments. This is the primary goal of recommendations made by such "technical" instruments of the creditor community, as the World Bank and International Monetary Fund.

It is essential to understand these alternatives to clarify what is currently occurring in Venezuela. In a central bank document, leaked to the press last June following a series of visits by "technicians" of the IMF and World Bank, the data on income and expenditures referred to at the beginning of this column were subjected to careful analysis. The conclusion: A debt moratorium or some other unilateral action like that of Peru or Brazil was not recommended. Further, it was concluded that the production and consumption of Venezuelans needed to be squeezed still further as a means of paying the debt. The carrot offered was abundant future credit.

Functioning as a virtual state within a state, the Venezuelan central bank and finance ministry are carrying out these recommendations step by step, to the detriment of other economic reactivation plans already under way and under the charge of other official agencies. For example, in June, the central bank decided to create a *mesa de dinero*, where interest rates are offered at 30-35%, instead of the usual 12%, in order to "capture currency" under the pretext of easing pressures on the foreign exchange market. The net effect is that the national banking system delivers itself over to a speculative orgy organized by the central bank itself, while drastically restricting credit for production and trade. Naturally, the hardest hit are the medium and small businessmen, who do not have access to their own banks, as do the major economic groups.

The illiquidity problem has reached the point at which business associations like Conindustria, Consecomercio, and Fedecámaras, whose directors generally share Finance Minister Azpúrua's policy viewpoint, were forced during the first week of September to demand a policy change on the part of the monetary authorities, urging a minimum increase in liquidity of 20%. In response, Minister Azpúrua has used the office of imports to shamelessly stall approval and delivery of preferential dollars to companies in urgent need of imported materials and replacement parts.

The president of the Venezuelan Industry Council, Jorge Chapellín, declared Sept. 8 that "between 28 and 30% of private sector imports, equal to $2 billion, have had to be conducted through the free market, due to the government's lack of flexibility in making foreign exchange available, which in turn has caused the rise of the dollar with respect to the bolívar." The dollar went from 28 to 36 bolívars to the dollar in the first 15 days of September alone.

This situation has paralyzed construction and trade, and has driven numerous producers, unable to import at nearly triple the nominal value of their money, to the brink of bankruptcy. At the same time, strict measures taken in the border regions, presumably to halt the flow of contraband out of the country, have paralyzed 90% of trade in the region, causing enormous losses to border industry and commerce.

Unfortunately, the aggravated crisis notwithstanding, many Venezuelan businessmen and industrialists have yet to understand that the economic policies which are deliberately destroying national industry in order to reduce the demand for foreign exchange for imports, are precisely those recommended by the International Monetary Fund and creditor banks to facilitate debt repayment.

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