Monetary and fiscal policy: moratorium and exchange controls

by the Venezuelan Labor Party

We reprint here Chapter 8 of the Venezuelan Labor Party's (PLV) 1988 national election platform. The other chapters, in addition to the analysis of how Venezuela's debt had ballooned (see page 18), mapped out the programs to create 5 million new jobs by the year 2000; to attain food self-sufficiency; to industrialize the country; and to undertake large-scale infrastructure projects.

It was this program that the Venezuelan Labor Party, with Alejandro Peña Esclusa as its presidential candidate, placed before the electorate as the alternative to the disaster it predicted Carlos Andrés Pérez would bring down.

The logical question arises here as to whether Venezuela will have the money to finance this development effort.

Yes, we do have it, as long as we stop the currency bloodletting we are suffering and correctly reinvest our surplus. This requires a series of monetary and fiscal measures, both in foreign and domestic policy.

First, the foreign side.

1) Venezuela must *declare a debt moratorium,* for the simple reason that it cannot keep paying the debt under the present terms and conditions without destroying the nation. It is likely that in the coming months the world oil price will plunge to $10 a barrel or less, because the world economy is sinking into a deep economic depression. This will translate into the loss of $2-3 billion more per year, which in turn will impede, to that same extent, continued debt service payment. According to the PLV plan, debt payment shall resume only under the conditions and at the time that it can be done without endangering either the welfare of the Venezuelan people or our national sovereignty.

2) We must *do a complete audit of the foreign debt,* public and private, to determine what portion of it is really legitimate. The PLV's hypothesis is that a large portion of it is illegitimate from any standpoint, economic or moral (as explained in Chapter 2). The full extent of the law should be applied to whoever turns out to be responsible for this.

3) Meanwhile, Venezuela must *issue a new series of government bonds backed by gold,* which will be used to "buy up" our external debt from the creditors; i.e., they will be exchanged for the old debt at his nominal value. They will mature over a long term (30 years) at 2% interest, which will drastically cut our annual interest payments, from some $3 billion at present to about $650 million. The creditors will be given a choice between taking these bonds in exchange for the present debt instruments, or not getting anything and waiting for the full audit of the debt to be concluded. Obviously, Venezuela would only pay off the legitimate debt.

4) *Full exchange controls must be instituted,* in order to keep the country from being looted as it has been in the last 15 years. Thus, the use of dollars in overseas operations for purposes that the government has not declared as top priority for national development, will be strictly prohibited. Any banker, exporter, or drug trafficker who tries to violate these rules will be severely penalized. This will put an end to the devaluations of the bolivar induced by the creditor banks and the International Monetary Fund (IMF), which are the result of speculative operations against our currency.

5) *A stable exchange rate for the bolivar must be set,* and defended by exchange controls, to prevent dollarization. The PLV maintains that there is no justification for the bolivar to be subject to the value of a foreign currency. Our bolivar's value stands for what we produce and for our future productive capacity. Hence its value must be fixed according to its buying capacity in the domestic market, instead of being set by the speculators and international usurers. Based on these criteria, we probably have to *re*value the bolivar upward, to undo the damage done by the forced and excessive devaluations of the past few years.

Timid souls may perhaps be asking themselves whether Venezuela can survive such sovereign actions, given that there is no doubt that the IMF and the banks will take reprisals. Some argue that the international banks are strong and mighty, and they have all the negotiating power in their hands; the debtors, they add, are weak, and should not try to get too much.

Such arguments are cowards' excuses. The banks are *not* strong; they are bankrupt. They are collapsing in the United States at a rate not seen since the Great Depression. Of course, like any wounded beast, they are still dangerous; but whenever there is a political will to undertake resolute actions against them, it has been seen that victory is possible.

Venezuela must head up the formation of a debtors' club and a Common Market among the Ibero-American nations. The bankrupt and immoral institutions of the postwar era—the IMF and World Bank—have to be replaced with a new and just world economic orer. The PLV expresses its support for the proposal for world monetary reform presented by U.S. economist and political figure Lyndon H. LaRouche in his study, *Operation Juárez,* and rejects the contrary proposals of the Baker Plan and the Bradley Plan, neither of which would resolve the debt crisis or create favorable conditions for the sovereignty and growth of Venezuela.

Domestically, two sets of measures are urgently needed.

1) *We must found a Central Development Bank,* owned by the State, which takes on the functions of the present Central Bank of Venezuela, but will act to guide credit and monetary policy according to the national interests and not those of private banking groups.

In this point the PLV maintains—and history proves this—that no nation can be a truly sovereign State if it does not govern fully its own national credit and currency through a central bank directed by the national government. Whoever holds the capacity to regulate the creation of national credit, to determine in what conditions and to whom credit will be granted, has life and death power over the nation's economy. Today, for example, this power is held by the Wall Street bankers and the IMF. The PLV maintains that this option has to return to the hands of the Venezuelan State, precisely as Article 98 of the Constitution stipulates:

> The State shall protect private initiative without prejudice to the faculty of dictating measures to plan, rationalize, and encourage production, and to regulate the circulation, distribution, and consumption of wealth to the end of stimulating the country's economic development.

In the PLV proposal, the private banks should guide their lending activities according to the order of national priority dictated by the Central Development Bank. Speculative activities will be vigorously discouraged; drug-money laundering will be combatted to the full extent of the law, including confiscation of all property, etc. To make this effective, it will be necessary to institute full banking transparency.

The Central Development Bank's goal will be to finance *future production* and not speculation and usury. It will encourage agricultural and livestock production (including forestry, fishing, etc.), as well as mining, the manufacture of capital and consumer goods, construction of infrastructure and housing, transportation, and scientific and technological investigation related to production, transport, and energy.

With this goal, the credits earmarked for these productive areas will be issued at an effective interest rate of 2-4% and with payment schedules consonant with the period of maturation of each type of project.

At the same time, credits solicited for speculative-type investments or simply luxuries (such as unnecessary tourism or luxury buildings) will be discouraged by high interest rates even up to 80-100%.

The rate and amount of currency issues—which will be done exclusively for the indicated goals—shall be fixed in accordance with the results sought from the projects that are selected and according to their order of priority. Thus the "Keynesian multiplier" will be eliminated, and a gold-reserve system will be established.

By encouraging and protecting the productive economy, and discouraging speculation and usury, the State will effectively defeat inflation. If currency issues are directed to productive investment, such as are indicated above, they are not inflationary.

2) *We must carry out a series of tax reforms as quickly as possible.* Like our credit and monetary policy, our tax policy has to be an instrument to stimulate production and to tax speculation and usury. Some of these steps were already explained in Chapter 6, with respect to industrialization. The PLV further maintains that the consumption of families must in no way be taxed. The PLV maintains that surplus income (savings) must be taxed selectively:

a) low taxes for those who direct their savings into productive reinvestment;

b) high taxes for those who prefer easy, speculative investment with no value for national production.

The renovation of machinery and the incorporation of new technology into the productive process will be given tax incentives. Likewise, tax incentives will be given for scientific-technical research which contributes to the progress of basic science (physics, biology, etc.) and industrial and productive technology in general.

Finally, the entire government budget has to be reorganized. It is unacceptable that our government is making no effort to pay for its activities on the basis of the economic activity of the country; i.e., via adequate taxes. Up to now, the State has preferred to live only off oil revenues. Under the conditions of growth sketched out here, there is no reason why in a few years Venezuela would not be capable of covering the costs of the government with tax revenues, without imposing any privation on the people or blocking industrial growth.

This will free up the income the government obtains by petroleum sales, for capital investment, and will provide all the necessary funds for our ambitious development program.