Bankers' boy CAP in Venezuela feels the heat, as battle rages over economy

by Alfonso Rodríguez

More evidence and new charges could be added to the case the Venezuelan Supreme Court is pursuing against former President Carlos Andrés Pérez. CAP, as he is known, was forced to step down from the presidency on May 21, to face trial on charges of corruption. He was Ibero-America's most faithful enforcer of the International Monetary Fund's austerity demands, and his economic policies left his nation a shambles. As the new evidence of his misdeeds comes to light, the real policy fight raging in the corridors of power is over the economy.

Sen. Cristobal Fernández Dalo, president of the Senate subcommittee investigating drug money-laundering, presented the prosecutor's office with abundant documentation, including bank account deposits in Republic National Bank in New York and the National Bank of Paris in Geneva, Switzerland, in the names of Pérez and Mrs. Cecilia Matos, with whom the former President has maintained "close relations" for years.

A year ago, Matos was investigated for "unaccountable profit-making," but the judge found insufficient cause to charge her, given that she was not a public official. At the time, her lawyer said that it would be more appropriate to investigate who gave Matos her vast fortune. Precisely such an investigation might be launched in the next weeks.

The investigations are also tied into reports from the U.S. Congress, to the effect that the Bank of Credit and Commerce International (BCCI), the so-called "drug bank," had financed Pérez's electoral campaign in 1988-89. Among the documents presented by Senator Fernández Dalo were checks written to the notorious arms trafficker Anthony Perosch. Perosch had already been investigated during the Jaime Lusinchi government, after he was accused of overpricing by $23 million a contract to sell munitions to the Venezuelan Armed Forces.

The documentation also includes a payment to Venezuelan clothing merchant Carlos Sultan, who is currently being sued over millions of dollars' worth of imports of questionable origin. Then there are checks written by Matos and made out to fashion designer Carolina Herrera, a fact which has drawn much attention, because when Herrera gave testimony in the earlier investigation of Matos, she assured the court that Matos was *her* employee, which is how Matos obtained her U.S. residence.

One day after the news came out, an enraged Pérez claimed that the documents "were possibly forged," as he claimed to have no bank accounts abroad. "I don't care to speak of this and you know why," he told reporters who asked about his relations with Matos. However, to Senator Fernández, the relationship between Pérez and Matos is no longer a personal question, but a possible "partnership in crime" against the state.

It is not only Pérez who must now face the music. Air Force Gen. Eutimio Fuguett Borregales, who had to face two separate military rebellions last year as general commander of the Venezuelan Air Force, was forced to abruptly resign his post on June 5 to face a court martial on embezzlement charges.

Economic crisis hasn't gone away

But while the war against corruption is being waged in the courts, a more decisive battle is under way inside the cabinet recently formed by President Ramón J. Velásquez, around the economic crisis that Pérez left behind. An immediate problem concerns a $1 billion payment due for servicing the foreign debt. The Pérez government had not saved sufficient funds to make the debt payment, despite the fact that the public budget did not cover the payroll for teachers, nor such basic services as the public hospitals. As commentator Román Rojas Cabot wrote in the June 12 *El Diario de Caracas,* Pérez "religiously dedicated one-third of public monies to the creditors." The $1 billion debt payment was due on June 18, and no one yet knows what the government decision was.

According to the new finance minister, Carlos Rafael Silva, "the genesis of our problems" is the foreign indebtedness unleashed upon the country by the IMF. However, the new planning minister, Hernán Anzola, thinks that "if the [IMF] packet had not existed, we would have had to invent it." It was necessary for President Velásquez himself to intervene, confirming that the head of the economic cabinet was Minister Silva.

But such an intervention is proving insufficient. The agricultural producers and the small and medium-sized industries, in particular the shoe, clothing, and textile manufacturers, are pushing hard for a total revamping of the policy of "opening up" to foreign trade as dictated by the World Bank.

At the same time, they are appealing for a refinancing of their debts contracted with the national banking system, as well as for a new financial policy that will enable them to continue producing. In response, Miguel Rodríguez Mendoza, director of the Foreign Trade Institute (ICE), which has just been elevated to a cabinet-level ministry, is militantly opposed to any changes in the tariff regimen set up by Pérez.

Rodríguez Mendoza was Pérez's negotiator for the General Agreement on Tariffs and Trade (GATT) talks, and was also the main negotiator involved in the push to transform the Andean Pact into a free-trade zone. Rodríguez is currently in a pitched battle with Agriculture Minister Hiram Gaviria, an agricultural leader committed to restoring a sovereign economic policy.

"As a result of the adjustment measures implemented by the [Pérez] government since 1989, the internal agricultural output has been in steady decline for four years," declared Gaviria in his first meeting with the Agrarian Advisory Council, formed by various former agriculture ministers and all the leaders of the agricultural producers' associations. Because the producers are reducing their cultivation, it is expected that this year will see a continued decline in agricultural production in virtually every sector.

For example, in 1991, some 1.24 million tons of corn were harvested; in 1982, that fell to 852,000 tons, and this year it is estimated to reach only 700,000 tons. In 1988, an historic high was reached in sorghum, which came in at 819,000 tons. Last year, that fell to 513,000 tons and this year is expected to be half that figure. In food oils, dependency on foreign imports has gone from 65% in 1988 to 92% in 1992. According to Gaviria, the national problem is that "one cannot keep one's food in a neighbor's refrigerator since, in case of a fight, we will simply be left without food."

Apart from the credit shortage and the elimination of subsidies for fertilizer, the trade opening has inundated the national market with imported grains at prices far below the national cost of production. It is even suspected that in some cases, these imports are being used to launder drug money, at least in the judgment of several agricultural leaders. Take the case of the tomatoes brought from Chile, which in Caracas are priced at the equivalent of their transport cost, that is, as if the product cost nothing at all.

To halt these practices, Gaviria has resorted to using sanitary regulations to prevent the dumping of chicken, pork, and some grains that were competing unfairly with national production. These measures, according to Gaviria, do not go beyond the framework of GATT, and, more importantly, succeed in protecting national production in the same way as the industrialized countries. This has provoked the fury of ICE director Miguel Rodríguez, who is demanding that measures which endanger existing trade agreements immediately cease.

Zeilah Carrasco, the president of the National Cattlemen's Federation, has published an ad in all the Venezuelan newspapers, calling on the government to use those deposits which the Venezuelan Central Bank has "dammed up" through the reserve ratio and zero-coupon bonds, to refinance the $1.5 billion worth of agricultural debt. Until now, the Velásquez government has promised to issue a decree seeking some means of financing that debt, but it has thus far given no signal that it will implement any practical measures—such as exchange controls—to lower interest rates.

A united front of business and labor

The president of the Federation of Small and Medium Industry (Fedeindustria), Angel Gutiérrez, announced on June 23 that, along with the Venezuelan Labor Federation (CTV), "we have decided to join in a single voice to present the national Executive with a picture of the critical state of the productive sector." He explained that "there are more than 400 companies which have shut their doors and more than 20,000 workers out of jobs or in the process of being laid off, because the companies have no way of keeping up a cash flow while simultaneously paying the high interest rates on their loans." Angel Zerpa Mirabal, acting president of the CTV, left open the possibility of "a united front" between sectors.

This potential for unity has already revealed itself in the actions of the business and labor federations of the shoe and textile industries, whose spokesmen have made clear the urgency of cutting off imports of these goods. According to the unions, the "open skies policy" Venezuela has with the Andean Pact, coupled with longstanding corruption in the customs houses, allows imports to come in at declared values lower than their real worth, which has facilitated drug money-laundering and other illegal practices.

There is little doubt inside Venezuela that the entire anticorruption drive and generalized rejection of Pérez's economic measures on the part of both business and labor—as well as the trial of Pérez himself—would not have been possible were it not for last year's military rebellions of Feb. 4 and Nov. 27. "The release of the previous government's political prisoners will be the first step toward achieving the atmosphere of calm and harmony for which the nation clamors. [It would be] a pertinent and valid initiative, especially if one considers that the Supreme Court ruling in favor of trying Carlos Andrés Pérez gives grounds to the arguments of the rebel officers," read a declaration issued by a group from the Venezuelan Academy of Sciences on July 3.

The declaration, signed by economist Domingo Maza Zavala and former central bank director Tomás Enrique Carrillo Batalla, among others, proposes measures for confronting the economic crisis. The statement stresses the urgency of establishing appropriate administration of foreign reserves to allow price controls and a reduction in interest rates. Issuing a new series of bonds is proposed, to replace bonds of the renegotiated foreign debt, an action which could reduce the current debt service burden.