Andean Report by Gretchen Small

Drugs and debt meet in Venezuela

A free market for dollars may shore up the value of the bolivar—but it gives the drug-traders the means to launder funds.

The drug problem is "a national one, and is diminishing our sovereignty," Venezuela's new Minister of Justice Jose Manzo González told a press conference Feb. 26. Venezuela, population 14.7 million, not only has the unfortunate problem of some half-million addicts, but now "plays the sad role of bridge for the transshipment of drugs to the U.S. and Europe," he added.

Legislative and judicial programs are being revamped to deal with the drug emergency, and as a Center for Drug Information under the Ministry of Justice has been mandated to centralize the anti-narcotics fight of military and civilian agencies. "Narco-zones," needing special attention, have been designated, including the capital city Caracas and border areas.

In office less than a month, the Acción Democratica government of Jaime Lusinchi has come face-to-face with a drug problem government officials characterize a matter of national defense.

Not everyone has liked facing the truth. On Feb. 19, the former head of Venezuela's Judicial Technical Police (PTJ) Fermin Marmol Leon, admitted that Venezuela has a drug problem, but protested to reporters that Venezuela does not yet have the "very grave drug problem" of its neighbors, and thus need not "tutearse"—that is, use the familiar Spanish form of "you"—with Peru, Bolivia and Colombia, the three major drug producers in Ibero-America.

Many of Venezuela's political leaders spent last year protesting how "different" Venezuela's economy was from its neighbors', allowing it to "tutearse" with foreign creditors instead of Venezuela's "poorer" cousins next door.

But it was that foreign indebtedness which proved itself "the great equalizer" of the region. As the conditionalities of the IMF and international financiers shut down productive sectors of the region's economy wholesale, the "narco-economy" filled the gap in *all* countries in Ibero-America.

The "addiction" to the narco-economy exploded in Argentina in 1983, when the collapse of international markets and credits forced the government to impose exchange controls to defend foreign reserves. By January 1984, it was known that only an inflow of "narco-dollars" kept the bolivar from soaring above its average rate of 13 to the dollar on the "free market" last year.

In his press conference, even Marmol Leon admitted that when, "two to three weeks ago, the dollar fluctuated and dropped to 12.05 to the bolivar, we knew that there had been an inflow of drug-related Colombian dollars."

To date, the Lusinchi government has left itself open to disaster on the drug front, despite the decided commitment of its interior, justice, defense, and other ministries to confront the problem. Concessions to international financial interests has been the downfall of any serious war on drugs. One loophole in the new government's economic program has already been identified by drug interests as their big opening.

The government's economic program announced Feb. 24, although sharply austere, is not all that creditors and the IMF have been demanding. Interest rates and allocations of most foreign exchange was put under tight government control. A protected 4.3 bolivars to the dollar exchange rate for essential imports—food and medicine—was kept, while the bolivar was devalued to 7.5 to the dollar for most transactions. In those categories the central bank kept control of all transactions.

The loophole: a free market to allow private buying and selling of dollars. Caracas sources report the government may throw a few dollars into the free market to calm the financial environment and keep the exchange rate at close to 13 bolivars to the dollar, but no government dollars are budgeted for the free market. Officials know well, "a dollar traded on the free market is a dollar that leaves the country." If the government were to attempt to meet the free market demand for dollars, Venezuela's current $5 billion in liquid reserves could be lost overnight—which the Lusinchi administration will not allow.

The government faces the dilemma of chosing between its anti-drug and economic commitments: if there are no dollars for the free market, the bolivar's value will plummet, and pressure will increase for more devaluations.

That devaluation cycle is a given "unless Colombian interests decide to funnel money into Venezuela's free market," as the Latin American intelligence chief of a large London-based multinational was quick to point out in a recent discussion with *EIR*.

"You mean laundering of narco-dollars?" *EIR* specified. "Of course," was the answer.