'Exchange controls saved Venezuela'

"Exchange Controls Saved Venezuela" was the front-page headline of the afternoon Caracas daily *El Mundo* on Jan. 7, referring to the fact that on June 27, 1994, after a bank collapse, Venezuelan President Rafael Caldera stepped outside the parameters of the International Monetary Fund (IMF) and the international banks to decree exchange and price controls, a suspension of constitutional guarantees, and to propose a series of national and regional development projects to resolve the country's economic crisis.

To be sure, the exchange controls halted the looting of the Venezuelan economy and prevented the bolivar from disintegrating against the dollar. Even more importantly, Venezuela established the precedent of an economic option outside the framework of the free-trade "neo-liberal" model. But, unhappily, the Caldera government stopped halfway in its march across the river: It put a halt to the looting, but, until now, has failed to take apart the corrupt financial mechanism that caused the banking crisis. In other words, it has yet to kill the cancer of usury; on the contrary, it has legitimized it. And of all the development projects proposed, it has yet to begin one. The result is an economic and political time bomb just waiting to explode.

But the international banks do not accept "rebels," whether all-out or only partial, and they consider what Caldera has already done to be a declaration of total war. In that sense, Venezuela is an example for the rest of Ibero-America, given that it is the only country that has dared to confront the International Monetary Fund. But with regard to the economic crisis, its halfway measures offer no solutions for the rest of the continent—not unless Venezuela crosses all the way to the other side of the river.

There are, in fact, only two alternatives for Venezuela: to wage all-out battle, extirpate the cancer of usury, break with the international sponsors of that cancer, and take the kinds of measures that Lyndon LaRouche has proposed, or succumb to the tremendous international and domestic pressure, go down on its knees to the IMF, and be destroyed. "Follow the example of Caracas," intones the Venezuelan national anthem. Now Venezuela has an historic opportunity to be an example for new Ibero-American independence, this time in economics.

Protective measures

On the evening of June 27, 1994, accompanied by representatives of each of the four military branches, President Caldera announced on national television and radio the following measures: exchange controls, price controls for first category goods and services (rent, gas consumption, telephone, electricity, medical services, and basic foods); he also announced the granting of a food bond and a transportation bond to compensate for eroded wages. At the same time, the President explained that "exchange controls pave the way for thinking in terms of reducing interest rates and the possibility of eliminating zero coupon bonds."

Already on June 24 of last year, during the commemorative celebration of the Battle of Carabobo (Army Day), President Caldera had broken protocol with a bold speech expressing his readiness to "halt the evil and criminal tendency to ruin our currency, which bears the glorious name of Bolívar, and to exhaust our operating reserves. . . . I want to ratify before all the sectors of Venezuela my solemn commitment: The republic shall not be lost in my hands."

At dawn on June 30, after a lengthy meeting of the Council of Ministers, information officer Guillermo Alvarez Bajares read Decree 248 to the national press corps, which detailed the measures through which control over the banking system would be exercised. The decree overturned laws that had guided the banking system, by creating a Financial Emergency Council to oversee the banking system and which would be presided over by the minister of finance. The council was given absolute control over deposits, over and above the bank directors themselves, to the extent that if one were to suffer a run, the deposits of another bank could be used by the council to meet the liquidity requirements of the troubled bank.

On Sept. 12, Finance Minister Julio Sosa Rodríguez officially presented the Caldera government's macroeconomic plan, baptized the Program for Economic Stabilization and Recovery (PERE). The most important aspect of PERE is that it returns to the state the responsibility for guiding and restoring harmony to the economy: "The market in itself does not guarantee the equilibrium of the economy nor socially equitable growth," for which reason the state is required to issue rules that guarantee social "harmony." If, for example, the state had not taken control over the financial system, the crisis caused by the criminal behavior of "the market" would have led to the disintegration of the country, as is demonstrated below.

The PERE basically gives permanence to what had been intended as temporary: The protectionist measures will remain in force, the state will continue to guide the economy, and the demands of the IMF, such as an increase in gasoline prices, will not be imposed.

The goal of PERE was to assume total control over the financial crisis and to restore the productive sectors of the economy "through actions that will induce reactivation centered in the agricultural, construction, and small and medium-sized industry sectors."

Within this context, a strategic link between Venezuela and Brazil was created which could serve as the first step in a more ambitious Ibero-American integration process. On Sept. 8, 1994, in a press conference given in the Brazilian capital of Brasilia, Caldera declared that "an old idea is being reborn, which is the possibility of making communication and maritime navigation through an interconnection of the Orinoco and Amazonas rivers viable. . . . The idea of linking up the Orinoco, Amazonas, Paraná, and Plata rivers is one of the great ideas for the future of Latin America and, without doubt, it is no longer a chimera to think in these terms, but something toward which steps may be taken."

Ministerial level talks have also been launched to link up the state oil companies Petróleos de Venezuela S.A. (PDVSA) and Petrobras, to create a mixed company (PetroAmérica) which would be in charge of assuring energy supply to the hemisphere. Venezuelan Foreign Minister Miguel Angel Burelli Rivas announced that joint projects would soon be launched between Venezuela and Brazil, to include a highway connecting northern Brazil (Manaus) with southern Venezuela (Ciudad Bolívar), and an electrical grid that could export electricity from Venezuela to energy-deficient northern Brazil.

The PERE also announced a substitution of zero coupon bonds for long-term papers issued by the government, treasury letters and dollar-denominated bonds.

Why exchange controls?

On May 20, 1993, the Supreme Court suspended the mandate of then-Venezuelan President Carlos Andrés Pérez (known by all as CAP), who was beyond a doubt the most despised President in Ibero-America. His rule left behind the infamous "Caracazo" of Feb. 27, 1989, when CAP ordered the massacre of thousands of Venezuelans who had rebelled against the International Monetary Fund austerity dictates he had imposed; his rule also left behind two coup attempts, carried out Feb. 4 and Nov. 27, 1992. However, CAP also left behind a time bomb in the economy, which would explode months later.

CAP destroyed industry and agriculture, while encouraging usury and speculation; he religiously paid the foreign debt, dedicating a third of the national budget for that purpose; and during his government, the chronic difference between state income and expenses was financed with new foreign indebtedness, privatization of state companies, issuing bonds and, particularly, with the systematic devaluation of the bolivar, which went from 14 to 37 bolivars to the dollar (a differential exchange rate), to 105 bolivars to the dollar under CAP's rule.

During the five years that CAP hung onto power, and under his protection, the offshore operations of Venezuela's private banks, together with speculative activities on the money markets and other off-balance-sheet operations, made up an entire parallel and unregulated banking system, of dimensions equivalent to the banking system itself and whose activities did not appear on the banks' monthly accounts. That parallel financial system became a vast "black hole." Many have alleged that it also served to wash billions of narco-dollars each year. All of this was carried out under the baton of Pedro Tinoco, who simultaneously held the position of president of the Venezuelan Central Bank (BCV), representative of Chase Manhattan Bank, negotiator of the Venezuelan foreign debt (coordinated by Chase!), and president of Banco Latino.

The leading beneficiaries of the bank fraud were, of course, CAP's partners, known as "the twelve apostles," including Pedro Tinoco; Gustavo and Ricardo Cisneros; Siro Febres Cordero (Banco Latino, Banco Maracaibo); and Grupo Di Mase (Banco Construcción). New partners were also brought in, such as José Alvarez Stelling (Banco de Venezuela, Banco Consolidado) and Orlando Castro (Banco Progreso, Banco República).

On Jan. 13, 1994, just three weeks before Caldera was to assume the presidency of Venezuela, the time bomb exploded: The second largest bank in Venezuela, Banco Latino, collapsed into bankruptcy. This was an alarm bell for the entire Venezuelan banking system, and shortly thereafter, eight more banks went under. In combination, the affected banks held no less than 44% of the country's deposits. It was also an alarm bell for the rest of Ibero-America.

The greatest bank fraud in Venezuelan history

When the government intervened against Banco Latino, its deposits were 130 billion bolivars (some \$1.2 billion at the exchange rate at the time), nearly 10% of all the deposits in the private banking system, estimated at some \$14 billion. But in the money markets, there was an additional 95 billion bolivars, the equivalent of 7% of the banking system's total deposits.

Money market operations consist of a trust operation through which the investor gives a certain amount of money for the bank to place in another company, which the bank chooses (in many cases, companies of the bank owners or directors). The bank does not enter this money as a normal deposit, nor does the investor receive a certificate of deposit, but rather a letter of credit or some other note from the bank. These are overnight deposits, in banking lingo, since they are placed for 1, 5, 10, or 15 days. That is why the bank does not include them in its monthly balance sheets, but rather in a parallel ledger that does not legally need to be registered. Further, the bank does not have to put aside reserves against these funds, and therefore they do not have the backing of the Bank Deposit Guarantee Fund (Fogade), the state agency which guarantees bank deposits.

Normal banking practice is to use these funds in short-term speculative ventures; a large amount was sent to offshore branches (which nearly all medium-sized and large Venezuelan banks hold in Curaçao and other Caribbean and Antilles sites). In the case of Banco Latino, some $1.2 billion was transferred from the money markets to Curaçao, an amount equal to the regular deposits of the bank.

Sometimes these funds were used to speculate on the stock exchange, with foreign exchange or with other kinds of financial derivatives and interbank loans, whose interest rates reached 700% at one point in 1993, ten times the interest rates of the private banks. According to congressional sources, this money was also used to finance the illegal drug trade. One must also consider that the Banco Latino bought a large number of Venezuelan banks along the border with Colombia, just at the time that the authorities had detected widespread money-laundering operations.

In February 1994, eight more banks fell (Maracaibo, Construcción, Barinas, La Guaira, Metropolitano, Fiveca, Bancor, and Amazonas). The collapse of these banks had the same cause as that of Banco Latino. La Guaira, for example, had losses of 46 billion bolivars, of which at least 41,000 corresponded to the operations of its offshore branch in Curaçao. Bancor had registered losses of 8 billion bolivars, but it also had 16.5 billion in offshore operations, of which there had been no information. And so with all the rest.

The losses of those eight banks, according to the bank superintendent, added up to 316.5 billion bolivars (not counting Banco Latino's losses, which also surpassed 300 billion). The total capital of these banks equalled 29 billion bolivars; that is, they lost 11 times their capital.

Who pays: Venezuela or the thieves?

On Feb. 2, 1994, Alejandro Peña Esclusa, secretary general of the Venezuelan Labor Party (PLV) and an associate of Lyndon LaRouche, demanded that it be the banker-thieves and their international masters, not the Venezuelan government, who pays for the fraud with their own assets. Peña demanded the immediate confiscation of the personal holdings of magnates Gustavo and Ricardo Cisneros, the latter an important stockholder and director of Banco Latino. "I believe that the Cisneros-Latino group is leaving the country," said Peña Esclusa. "They want to sell all their assets and skedaddle, leaving Latino's depositors without a dime; I think that the Cisneroses will use their friends in the United States, like David Rockefeller and Henry Kissinger, to pressure the government so that it is the state—and not they and their fortunes—which pays the depositors; also, the passports of the Cisneros brothers should be confiscated. It must be done before it is too late."

In fact, when a judge issued an arrest warrant against Ricardo Cisneros for theft, swindling, conspiracy, and falsification of documents, he had already "skedaddled," and was directing the sale of his assets from Miami. His multimillion-dollar mansion, for example, was fraudulently sold to brother Gustavo's secretary.

On March 10, the Cisneros Group contrived false charges against Peña Esclusa. According to *El Diario de Caracas,* the Cisneroses paid $600,000 to a corrupt judge to jail Peña Esclusa. In mid-April 1994, temporary judge Guillermo Heredia issued an arrest warrant against Peña, and the PLV told the media at the time: "The case against Peña must be seen on two levels; on the one hand, they want to silence anyone who dares to call for confiscating the assets of the corrupt bankers; on the other, they want to prevent the PLV from presenting its economic program as an answer to the ongoing banking and financial crisis."

On May 5, 1994, Peña Esclusa was released on bail, and at a press conference he warned of an international scheme to destabilize and ultimately overthrow the Caldera government (months later, the defense minister confirmed these warnings). He proposed that a decree be issued to include: impose exchange controls, annul agreements with the International Monetary Fund, suspend payment on the foreign debt, carry out financial and monetary reform, eliminate Central Bank autonomy, lower interest rates to below 10%, and issue credit only to finance major development and infrastructure projects.

In the end, Peña Esclusa won his case with Cisneros, but only some of the PLV proposals were implemented by the Venezuelan government.

The country pays the price

By May 1994, financial authorities had already given 310 billion bolivars to Banco Latino, supposedly to satisfy the bank's angry depositors (later that figure was to grow). But even that quantity of money represented 150% of its assets, which at the moment of government intervention equalled 202 billion bolivars. That is, the aid injected into Latino was nearly triple its registered deposits. Not only were the depositors being saved, but so were the usurious owners of Banco Latino.

Also in May, the state agency Fogade revealed that it had given assistance to the other eight bankrupt banks with an injection of another 470 billion bolivars, in exchange for taking the banks' stocks as collateral. That is, they were practically taken over by the state, a fact which was formalized at stockholder meetings held May 23-25. In total, the BCV had injected 780 billion newly printed bolivars in one month to plug the hole in the parallel and regular banking system. This amount was equal to more than 50% of all deposits in the entire banking system, and to 70% of the government's total annual budget!

From the Jan. 13 intervention in Banco Latino to the abrupt resignation on April 27 of BCV President Ruth de Krivoy (linked to CAP but who, thanks to the independence of the BCV from the Executive branch, managed to stay in her post for three months after Caldera assumed the presidency), the Central Bank forked over to Banco Latino and the other banks as much money as was requested by the then-president of Fogade, Esperanza Martinó (also linked to CAP; she stayed in her post for the same reasons as Krivoy). One BCV director, Carlos Hernández Delfino, confessed that the money provided by the BCV came from a "broadening of the monetary base," that is, from newly printed money. He also admitted that the liquidity thus generated ended up being used to buy dollars.

The depositors pulled out their money and put it in other banks or bought dollars. The BCV was providing all the dollars that the banks and exchange houses were requesting; that is, the BCV brazenly permitted this capital flight. Through late April 1994, international reserves—which in the beginning of the year had equalled some $12 billion—fell by $2.5 billion. During May and June, reserves continued to fall, with estimates of the decline varying from $3 to $4 billion. Before exchange controls were imposed, reserves had fallen by nearly $5 billion, representing "legal" flight capital of some $7 billion.

The rest of the funds went to swell the deposits of the "healthy" banks, deposits which were placed in the identical activities which had already done away with one-fifth of the banking system. To reduce the risk involved, the Venezuelan Central Bank continued to employ Pedro Tinoco's method of "sterilizing" bank funds through sale of "zero coupon bonds." The BCV withdrew deposits from the banks and gave them these bonds in their place, with the highest rates on the market. Through March 1994, the BCV issued some 200 billion bolivars worth of three- and six-month zero coupon bonds, at average rates of 55%. This led to a rise in banking interest rates to 70%, keyed over the zero coupon base rate.

A few days after Ruth de Krivoy resigned as BCV president on April 27, 1994, she was replaced by Antonio Casas, who continued the same policy through May and June, with even more devastating results. With new emissions of zero coupon bonds, the BCV paid 60% interest, which automatically raised bank interest rates to 75%!

The government insisted that the funds being used to rescue the financial system were not to help the bankers, but the depositors. However, the troubled banks returned only a portion of the money to their angry depositors, and continued to place the rest in money markets, or similar investments; that is, they continued to steal the money and send it abroad!

Instead of extirpating the cancer of speculative and usurious banking, the government provided the funds that fed the cancer. Instead of carrying out a bankruptcy reorganization of the national banking system, as the PLV had proposed, the government "saved the system." As we shall see, more banks were soon to fall.

A direct result of the above policy was the tremendous

Myth and reality

1) It is said that the main problem with the Venezuelan economy is the growth in public expenditures. This is untrue. The planned budget for 1995 is approximately 2.8 trillion bolivars. If the 70% inflation rate is taken into account, this budget is smaller than the one for 1994.

2) It is said that the foreign debt is only $27 billion, and that service on the debt is included in this calculation. This is untrue. Venezuela's debt is, in fact, an official $27 billion, but if one adds to this the debt of the state oil company Petróleos de Venezuela, S.A. ($5.5 billion), the debt of the Venezuelan Corp. of Guayana ($4.8 billion), and the private debt (conservatively estimated at $7 billion), one arrives at a total foreign debt of $44.3 billion. It is on the basis of this figure that the debt service that the nation will be paying must be calculated.

3) It is said that there is a public sector deficit. This is untrue. According to a report presented by the president of the Venezuelan Central Bank (BCV), Antonio Casas, the total "deficit" of the public sector in 1994 was equal to 15.2% of the Gross National Product. But the deficit due to expenses of the national government was a mere 1.2% of the GNP. What's more, PDVSA produced a surplus in 1994 equivalent to 0.8% of the GNP. The rest of the public sector companies also yielded a surplus, equivalent to 0.3% of the GNP.

The problem is that the BCV sends money that it prints to the government to capitalize the Bank Deposit Guarantee Fund (Fogade), and thus to save the banks, which represents a deficit (a debt, really) equivalent to 7.3% of the GNP. Further, what is called the "quasi-fiscal effect of the BCV" (which is nothing but the net cost of the zero coupon bonds to the BCV, which has already reached 745 billion bolivars), adds a deficit equivalent to 3.6% of the GNP. On top of this, the financial aid given to the bankrupt banks (loans to Fogade apart from the capitalization) adds a deficit equivalent to 9.0% of the GNP. The sum of all this is a "deficit" of 15.2% of the GNP. That is, the entirety of the deficit stems from the bad policies and mismanagement by the BCV.

Nevertheless, the BCV president shamelessly boasts of "the importance of the institutional autonomy of the BCV and the independent handling of monetary policy."

In sum, the problem is not one of public expenditures, nor of state deficits. The problem lies with the financial bailouts, the zero coupon bonds, and the foreign debt.

devaluation of the bolivar. From 116 to the dollar in April, the bolivar in early May was going for 135 to the dollar. By the last week in May, it reached 180 to the dollar. The week prior to June 24, it reached 210 to the dollar, a 100% loss since January. The result was that inflation was projected at an annualized rate of 80%.

President Caldera had tried nearly everything to reach a "solidarity pact" with the bankers that could halt the collapse of the financial system. The bankers, headed by José Alvarez Stelling and his captains—José Bouza Izquierdo and Orlando Castro—not only rejected any such pact, but launched financial and political warfare against the Caldera government. Months later, the banks of Alvarez Stelling (Venezuela, Consolidado) and of Castro (Progreso, República) also fell, and shocking levels of fraud were uncovered. According to the "word on the street" in Venezuela, Alvarez Stelling ordered a Banco de Venezuela employee to transfer billions of bolivars which he simply stole, while Orlando Castro embezzled an incredible 300 billion bolivars ($1.7 billion) from the relatively small Banco Progreso.

Before exchange controls were imposed, Venezuela's international reserves had fallen from $12 billion to $5 billion. After controls were imposed in June 1994, reserves returned to nearly $12 billion. It is undeniable that Caldera has saved Venezuela from bankruptcy. But there still exist tremendous vulnerabilities. For example, the Emergency Financial Board (JEF) has yet to assume total control over the BCV, the Banking Superintendency, and Fogade (the government has preferred to negotiate with the parties), although the decree establishing the JEF gives it full power to do precisely that.

The emergency measure suspending constitutional guarantees was intended to allow for confiscating the assets of the corrupt bankers but, although Attorney General Jesús Petit Da Costa has been given the task of confiscating assets from certain corrupt bankers, there have been no actions taken against the "big fish," like Cisneros, Alvarez Stelling, and others. Instead, the aid has continued. Although the figures vary according to the source, *El Universal* on Dec. 17 of last year reported that financial assistance to the banks through Dec. 15 was the following (in billions of bolivars and millions of dollars):

Banco Latino	Bs. 504,000	$3,360
Intervened Banks	Bs. 300,000	$2,000
Banco de Venezuela	Bs. 80,000	$ 533
Banco Consolidado	Bs. 96,000	$ 640
Total aid	**Bs. 980,000**	**$6,533**

(Note: The dollar calculation is our own, and is based on an exchange rate of 150 bolivars to the dollar. In January 1994, the exchange rate was 108 bolivars to the dollar; in February it rose to 111; in March to 114; in April to 117; in May, after the resignation of Ruth de Krivoy from the BCV presidency, it rose to 168, and by late May it had reached 180. After exchange controls were imposed in June, the exchange rate has remained stable at 170 bolivars to the dollar.)

Of the total figure (not including Banco Progreso), 80% of the funds were given to officials linked to CAP. However, the other 20%—200 billion bolivars—went to Banco de Venezuela and Banco Consolidado, which were taken over after June 27. The funds were handed over by new financial authorities who, although nominally independent of the Executive, could have been prevented from doing so through Decree 248. Ironically, all that Venezuela's small and medium-sized industries required to refinance their debts was 50 billion bolivars. A similar figure would have sufficed to cover the agricultural debt. However, this was not done.

Another serious error has been the attempt to replace zero coupon bonds with other instruments, as the PERE announced; such a move can only legitimize the speculative bubble that is destroying the national economy. Instead, the zero coupon bonds must be frozen completely, while the monetary system is reorganized, and while the origin, validity, and legality of the zero coupon bonds is determined. To

Caldera vs. the IMF

During a trip to Brazil during his 1993 electoral campaign, Venezuelan President Rafael Caldera explained that the Ibero-American foreign debt is illegal and proposed a review of the issue at the International Court at The Hague. Then, as President, on May 2, 1994, Caldera published an article in the Mexican daily *Reforma,* using language that hadn't been heard since the beginning of the 1980s, to urge Ibero-American governments to take "joint action" against usury. He told the story of a very honorable gentleman who lived in Carúpano, Venezuela, and who used to tell his children that his epitaph would read: "He lived paying and died owing." Caldera pointed to the example of the conditions in the Versailles Treaty which the British imposed on Germany in 1919 and which ordered that nation to pay "3% of its Gross National Product for war reparations," with consequences the world still regrets today: depression, Hitler's rise to power, and the Second World War. "It would be a mistake to ignore that lesson," Caldera warned.

Since becoming President, Caldera and several government officials have intensified their attacks on the destructive effects of debt collection measures and on the International Monetary Fund's free-market policies. Not only is Caldera dealing conceptually with the farce of neoliberalism and usury, he is explaining this to the citizenry. In a July 12, 1994 speech before the Fedecámaras business recognize the zero coupon bonds is to legitimize usury and is the best way to assure hyperinflation. The idea of issuing treasury letters is fine, but not as substitutes for the zero coupon bonds. Instead, they must be exclusively channeled into the financing of productive works (which, as we have noted, have not been initiated).

With regard to dollar-denominated bonds, this would not only fall into the game of encouraging speculation against the national currency, but would mean—as the sad experience of Mexico with its *Tesobonos* demonstrates—a dramatic increase in Venezuela's foreign debt.

Bankers declare war

Even with all the government's errors (which are easily corrected), the international bankers have declared war against Caldera. During his term, which has been scarcely a year thus far, the Caldera government has been brutally attacked by the British and American press, the most vicious being the London *Financial Times*, the *Wall Street Journal*, and the *Miami Herald*. There has also been financial warfare against Venezuela and serious threats of a coup d'état from the usurious bankers.

There can be no doubt: The bankers want to force Venezuela to return to CAP's neo-liberal policies, and to get their hands on the oil company PDVSA. The case of Mexico is very clear: After looting the country and forcing it to its knees, they now want to force it to "privatize" (hand over) Petróleos Mexicanos (Pemex).

Until now, Venezuela has been partially protected from this financial warfare with exchange controls, but the truth is that Venezuela remains terribly vulnerable on the food front, has a growing unemployment problem and, although Caldera remains highly popular, there is still evident and growing social discontent. So, in the face of the world financial crash that draws near, Venezuela should begin construction of great projects and encourage economic activities that can

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federation, he said: "Countries which have achieved economic progress have done so because of the harmony existing between the public and private sectors. Neither Japan nor the four Asian Tigers have achieved economic progress solely through the private sector. Freedom yes, and we feel the obligation of guaranteeing it, and we are willing to do so. But if there is no harmonious relationship, if neither sector is willing to adopt the indispensable measures to attain success, then everything is lost."

"Why these interest rates?" Caldera asked, and then responded: "Because the banks increased interest rates unduly in order to attract deposits and then use them in their own businesses. Organized mafias which attracted Venezuelans' money, tricking them by offering high interest rates, which led many people to believe that their money would be better off in the banks earning high interest rather than invested in a productive venture which would have brought wealth and benefit for the nation."

Caldera has chastised the hypocrisy practiced by international lending organizations. For example, during his speech before the United Nations 49th General Assembly on Sept. 30, 1994, he said: "We can only say that on more than one occasion, the ecological fight for a clean environment has been used hypocritically to prevent developing nations from having access to the advanced sector nations' markets. We maintain that technology transfer must be broad and genuine, because otherwise, the gap which separates us from the industrialized nations eventually becomes so large that it can't be breached and leads to a sharp and bitter division between two segments of humanity with deadly and unpredictable consequences."

In fact, right now in Venezuela there is a public debate, sponsored by the office of the President, on the issue of economic liberalism versus dirigism. Last November, on the occasion of the 50th anniversary of the 1944 debate organized by the Venezuelan Democratic Party on the same topic, the Chief of Advisers to the President, Ramón Illarramendi, emphasized that it was of crucial importance to revive the polemic directed by the United States' Founding Fathers and the German-American economist Friedrich List against the liberalism of Adam Smith.

On Dec. 5, 1994, the Caracas daily *El Globo* published an article by Venezuelan banker Luis Vallenilla of the Cavendes business group, entitled "The Importance of Friedrich List," in which he discussed the real history of the economic development of the United States and Germany during the last century. He explained how the first treasury secretary of the United States, Alexander Hamilton, converted the debts of the U.S. government into instruments of internal credit to finance infrastructure projects. "In the end," Vallenilla emphasized, "the credit wasn't inorganic, because the monetary mass generated was backed by the tangible goods produced."

On Jan. 9, columnist Alfredo Schael of the Caracas daily *El Universal*, published an article under the headline "Caldera and the Mexican Crisis," in which he explained that "Caldera [is] thinking along the lines of a man whose books are being read again. Those who are debating liberalism versus interventionism are turning their attention to Friedrich List (1789-1846). . . . [List warned] about the risks of total [economic] opening, and of renouncing protectionism or other mechanisms of state control."

quickly generate jobs and production. And none of this can occur without a complete reorganization of the financial and banking system.

Majority of banks are bankrupt

The great majority of the remaining Venezuelan banks that have been dubbed "healthy" are in fact also bankrupt, given that all of them to one degree or another have engaged in the same speculative games. The BCV is keeping them alive, at the cost of inflation and high interest rates which are destroying production and causing social discontent. And although President Caldera—as he himself has said—implemented his dirigist economic measures not for ideological reasons, but rather under the force of circumstances, it is now time for the government to reshape the national banking system to meet the needs of the country's producers and consumers, and not those of the international banks. Only thus will PERE be successful. Legalizing the cancer instead of destroying it can only lead to economic and social problems of unforeseeable consequences.

For example, there is Col. Hugo Chávez (leader of the failed coup attempt of Feb. 4, 1992, now a Marxist leader), who hopes that social discontent will increase to the point of an insurrection like that in the Mexican state of Chiapas. In an interview published on Oct. 6, 1994 by the Argentine magazine *Gente*, Chávez said that he would soon be coordinating with the Zapatista National Liberation Front (EZLN) now fomenting rebellion and violence in Chiapas, Mexico. Later, in early December 1994, Chávez went to Cuba, where he was feted by Fidel Castro himself.

There is also the Radical Cause (Causa R) Party, a group which belongs to the narco-terrorist São Paulo Forum and which stands accused of plotting to lead an armed uprising when social discontent intensifies.

Chávez and Causa R take as their banner the fact that Caldera has poured billions of bolivars into the coffers of corrupt bankers and has done nothing for the hungry. Given enough time and inaction by the government, their arguments could convince the 80% of the poor who are growing steadily more impoverished by the inflation triggered by the bank bailouts.

Chávez and Causa R are not alone. Former Defense Minister Rafael Angel Montero Revette charged that leftist subversive groups were financed by the same corrupt banks that stole money from their depositors. In fact, Congressman Oscar Alvarez Beria was expelled from Causa R for making accusations against Gustavo Cisneros; his former party associates told him they couldn't bite the hand that fed them! Worse still, Causa R has connections to the same international bankers that want to see Caldera on his knees.

Clearly, the only answer is for Venezuela to finish crossing the river.