

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

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 sectors' 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."