EIR Economics

International Monetary Fund has invaded Venezuela

by Javier Almario

After two years of resisting pressures, both domestic and foreign, for his government to accept a severe "adjustment" program which would reduce Venezuelans to generalized poverty, Venezuelan President Rafael Caldera reluctantly announced on April 15 a package of measures negotiated with the International Monetary Fund. Caldera said that his government is about to sign a formal accord with the IMF, supposedly to stabilize the Venezuela economy.

Caldera announced a 1,000% increase in the price of gasoline, jacking up the price from 5, 10, and 14 bolivars to 50, 55, and 60 bolivars (effective April 15); the elimination of all currency exchange controls (effective April 22), causing the bolivar to immediately fall from 290 to the dollar to nearly 500; a lifting of any ceiling on interest rates, both for lenders and borrowers; and an increase in the Value-Added Tax (VAT) from 12.5% to 16.5%, which will automatically boost an inflation rate which had already reached 28% in the first three months of this year. Experts are already predicting an inflation rate of 100% by year's end, as a result of the new measures.

In explaining why Caldera agreed to sign an accord with the IMF that he has repeatedly rebuffed since coming to power in 1994, Finance Minister Luis Raúl Matos Azocar stated that it was "like kissing a very cold face."

As the only hold-out in a continent that has been beggared by the British free-trade system known as "neo-liberalism," Venezuela had been under brutal pressure from the international financial elites to follow the Mexican model of debt repayment: devaluation, dollarization, privatization, starvation. Lack of support from elsewhere in Ibero-America, and from the Clinton administration—combined with cowardice, even treason, from Venezuela's political class—has finally forced the Caldera government, after 25 months of resistance, to knuckle under.

The most significant impact of the announced IMF measures may well be spelled out in blood. Terrorist forces inside the country are poised to exploit the nation's outrage over the new austerity plan. In a radio interview on April 18, U.S. Presidential pre-candidate Lyndon LaRouche stated: "Caldera was courageous in holding up as long as he did. The minute that he made this concession, the response from the Castroites—that is, this former Colonel Chávez, who is part of the São Paulo Forum, which is the major terrorist organization in the Western Hemisphere, came out saying that this is the beginning of their revolution."

LaRouche added, "This undoubtedly came, in part, under pressure *from the United States itself* . . . so this could be a disaster for the Clinton administration during the election period, because this could lead to an upheaval in Venezuela even in this period, before the elections."

Dire impact on prices

After Caldera's announcement, freight rates went up more than 100%, and retail prices began to climb accordingly. At least an 80% rise in the prices of imported goods is also expected, in a country where most articles are imported. Although various government studies claim that the inflation caused by the measures will only be 15% in the first month, the combination of increased gasoline prices with the devaluation could produce an inflation rate of 80% in just one month.

The situation could get even worse, considering that the government itself expects capital flight to push the dollar up

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to 700 bolivars in a matter of days. Planning Minister Teodoro Petkoff has declared that the central bank of Venezuela will sell dollars on the market to defend the price of the national currency. He suggested that in the first months of the IMF plan, Venezuela could lose at least $3 billion, a figure much higher than the $1.5 billion which the IMF is going to loan to help "stabilize" the economy.

This capital flight will be paid for directly by Venezuelans via the increase in gasoline prices. Since the oil industry is still basically a state enterprise, any increase in the price of fuel means added revenues to help reduce the fiscal deficit. But in the pact with the IMF, it has been established that the domestic price of a liter of gasoline must be equivalent to 85% of the price paid abroad for a liter of gasoline exported by Venezuela, i.e., that the internal price has to continue to be 14¢ in U.S. currency. Thus, if capital flight pushes the exchange rate up to 900 bolivars per dollar, for example, the 14¢ will no longer be 55 bolivars, but 110, with the result that the internal price of gasoline will double.

To keep up the supply of dollars on the market, the State oil industry (grouped under Petroleos de Venezuela, PDVSA) has made a commitment to sell to the central bank all the currency it earns abroad through oil sales, so that the central bank can sell the currency on the free market to speculators.

Meanwhile, because interest rates have been freed from all controls, the cost of some money has already gone from an interest rate of 40% to 75%, for example, on credit cards. It is expected that this will cause an epidemic of credit card defaults. The interest rates on loans increased by 15%, from 40% to 55%. Deposits will likely increase, because of the flashy rates, but the receivers of credit will diminish. In fact, the waning middle class is canceling loan applications, especially in the housing sector, as are small and middle-sized industrialists, today considered an endangered species.

The government and the IMF know very well that this poses a risk to the banking system, but this is already worked out with the government, through the Banking Emergency Guarantees Fund (Fogade), the agency that picks up the pieces. At present, 12 of the 35 national banks are hopelessly bankrupt, and there are four which only remain to be officially liquidated.

The last attempt at saving the banks, in 1994, when the Fogade injected 800 billion bolivars, merely let the bankers take money from the state, buy dollars, and flee the country with them—leaving millions of depositors holding the bag. Meanwhile, Fogade ran up a debt that now amounts to more than a trillion bolivars ($12 billion at the exchange rates then, and $3.2 billion at today's exchange rate). The debt is with the central bank, which printed up the bolivars with which the bankers bought their dollars, to then run off with them. The World Bank credits that arrive in Venezuela under the new accord are earmarked for saving and restructuring the national financial system. Now, the government will not go into debt with the central bank of Venezuela to save the banks—but with the World Bank.

One of the excuses for the package is the alleged need to reduce the fiscal deficit. However, the biggest item in the national budget is debt service payments, which take up 40% of the budget. Alejandro Peña Esclusa, secretary general of the Venezuelan Labor Party, pointed out in a recent column published in the daily *Ultimas Noticias*, that the package is "doubly useless and immoral. . . . It is picking the pockets of the neediest with the sole aim of paying the external debt." This is completely useless, because, he says, "the international financial system is bankrupt; thus, it is doubly stupid to sacrifice our people in order to sink together with the banks."

Fear of renewed chaos

The mere announcement of Caldera's speech set off a spree of panic buying. Between April 15 and 16, people poured into the shops, fearing, on the one hand, that the deal would provoke looting and riots like those that occurred in 1989 when then-President Carlos Andrés Pérez announced a similar program, and, on the other hand, wanting to use a their savings to make their last purchases of food, clothing, and other goods "at the old prices." It was as if Venezuela were on the verge of being bombed by an enemy and the people were stocking up in fear of being unable to leave their homes.

The director of the daily *El Nuevo País*, Rafael Poleo, compared the accord with the IMF to the Nazis' invasion of Poland in 1940. "The occupation of the Venezuelan economy by the Fund [IMF] is now a fact. To discuss whether what happened is bad or good makes as much sense as if the Czechs or Poles of 1940 debated whether the measures imposed by the Nazi invaders were any good," wrote Poleo in his column of April 16.

The accord's secret clauses are even worse. The director of the Mont Pelerinite Institute of Higher Administration Studies (IESA), Hugo Farías, has demanded that the government sell PDVSA, the state oil holding, and pay the debt with the proceeds. He also demanded the free circulation of the dollar so that it can replace the bolivar, and that the central bank be eliminated or reformed, since it would no longer have any purpose, once the legal currency is the dollar. Farías's call was supported by Arturo Uslar Pietri, who also demanded Caldera's resignation because the President does not fully believe in the IMF package.

Col. Hugo Chávez (ret.), who headed up the coup attempt of Jan. 27, 1990, and whom Fidel Castro anointed chief of the revolution in Ibero-America, said that the accord is the signal he was waiting for, to launch an insurrection against Caldera and the ruling institutions. As Peña Esclusa has stated, "I greatly fear that these measures will strip away all popular support for the government, and will give credence to the arguments of both the ultraleftists of the São Paulo Forum and of the corrupt bankers, to destabilize the country."