The debt moratorium option is thrashed out in Venezuela

by Cynthia Rush

In the space of just two months, the nation of Venezuela has undergone a dramatic transformation. No longer is it the well-behaved debtor, boasting of its special status among other "less fortunate" Ibero-American neighbors, and promising to honorably meet its obligations to foreign creditors. Its operative foreign reserves have dropped to an all-time low as a result of the decline in oil prices; inflation this year is expected to top 30%, and popular unrest over declining living standards, high prices, and scarcity of basic food staples, has already led to violent protests in several cities.

At the highest levels of government, political parties, labor, and business circles, a heated and public debate is now occurring over whether the nation should declare a moratorium on its $38 billion foreign debt, and if so, when. This is the topic which has dominated the headlines in all of the daily press since early May, and more so since May 11, when a reporter from the Caracas daily *El Nacional* leaked the contents of a confidential Venezuelan central bank report revealing the depth of the nation's crisis.

The report documented that Venezuela's reserves have dropped to the critical level of $3.6 billion, "below the level advisable to meet pressing payments including a minimum period of three months of imports." If the "tendency toward deficits persists," the document warns, "operative reserves will approximate the levels set for non-compliance, according to the refinancing agreement, of $2 billion, a situation which could be reached by the third quarter of 1987."

In the face of declining reserves, and a growing fiscal deficit, the central bank rejected the idea of a moratorium, however. "Although [moratorium] would bring an immediate advantage in accounting terms," the central bank stated, it would close Venezuela's doors to new credits and endanger its foreign trade. The document proposed as alternatives making liquid Venezuela's "non-operative" reserves, that is, sell off its gold reserves, which still provide some backing for the national currency, the bolivar, or impose harsher domestic austerity while "resorting to foreign financing."

Finance Minister Manuel Azpúrua shares the central bank's view on debt moratorium. In a May 28 meeting with reporters, Azpúrua insisted, "Declaring a debt moratorium would mean a savings of only $250 million, and credit lines would not be re-established for financing imports." Azpúrua made these statements after returning from a trip to Japan, where he unsuccessfully attempted to place Venezuelan government bonds on the Tokyo market. The Japanese told him that they would accept the bonds only when the appropriate international agencies had restored the country's triple-A credit rating.

Even with no promises of new credit, both the finance minister and the central bank demand that the nation adhere to the onerous terms of the February 1986 refinancing agreement signed with foreign creditors. Venezuela paid $6 billion in debt service in 1986, and must pay almost $5 billion in 1987, as per that accord. Since 1984, Venezuela has made debt payments of over $20 billion, and, at most, it has received $2 billion in new credits during that same period. As one press commentator put it, "Manuel Azpúrua hasn't said where he will find the $5 billion with which we must pay our public and private debt for 1987."

Because Venezuela also renounced its rights to jurisdiction and immunity from embargo in that 1986 refinancing accord, its foreign creditors have the right to seize government assets abroad, should operative foreign reserves drop to below $2 billion, the level at which debt payment would become impossible.

'Sue the banks'

But even Henry Kissinger's worn threat of "making a horrible example" of those debtors who don't behave, isn't having much effect. Not only is Azpúrua's voice becoming an increasingly isolated one; there are rumors that he may soon be out of a job, as leaders from within the ruling Acción Democrática (AD), the opposition Copei, and labor and business representatives question a policy that so overtly violates national sovereignty and threatens to unleash greater political and economic instability.

On May 28, AD president and party patriarch Gonzalo Barrios, demanded that Venezuela sue foreign banks for "damages and harm to the nation. . . . They lent to us, and incited us to bribery, corruption, and definitely, drew us away from the true perspective of development." Barrios asserted that a portion of Venezuela's debt, in the range of $12 billion, is actually illegitimate, because it was lent to public entities in violation of strict juridical norms, a fact of which the banks were perfectly conscious.

Armando Sánchez Bueno, president of the finance commission of Venezuela's lower house and a leader of AD, told the daily *Universal* on May 31, that the private banks have been unnecessarily inflexible with Venezuela "because the government has not wanted to link its economic programs to the schemes of the International Monetary Fund. . . . If we had accepted [the IMF] . . . we would have had to open ourselves up to a regime of free [unrestricted] imports, which would harm the growth of our industry, and we would also have the regime of free [unregulated] prices, which the Fund demands as a basic requirement."

Sánchez Bueno ruled out the possibility of a debtors' cartel, but favorably discussed the idea of establishing a fixed percentage of export income for payment of debt, along the lines of what Peru's President Alan García has done. "I think that here we could seek a formula, because even the banks of the industrialized nations have realized that the developing countries cannot pay their debt," Sánchez said.

The leader of the opposition Copei's parliamentary faction, Abdón Vivas Terán, was more explicit. On May 31, he called on the government to declare a full debt moratorium and also impose strict exchange controls to stem growing capital flight. Godofredo González, Copei's president, charged that Azpúrua was "obsessed" with paying the debt, adding, "The debt should be paid, not by sacrificing the country, but under conditions which permit us to pay and to cover our economic needs."

The chorus of voices demanding a change in debt policy has become so loud that the executive committee of AD has asked Azpúrua to appear at their next meeting on June 8, to explain "contradictions" in his statements and policy. It was rumored that at that meeting, Azpúrua would be ousted.

President Jaime Lusinchi publicly asserts his confidence in his finance minister, but one of the President's closest and most trusted advisers, Umberto Celli, recently stated publicly, "What we have to do is strongly and categorically tell the banks that we can pay neither capital nor interest this year, and perhaps not in the following years either."

Lusinchi's government is also indicating that it will seek greater cooperation and discussion with other Ibero-American debtors, especially if the banks insist on maintaining a hard line.

Prior to departing on an official visit to Brazil on May 30, Foreign Minister Simón Alberto Consalvi, told reporters, "We are all convinced that, in the medium term, the countries of Latin America will have to develop a common [debt] position, so that their negotiating power can be truly effective. . . ." In Brazil, Consalvi discussed increasing bilateral trade between the two countries, emphasizing Venezuela's desire to sell more oil to Brazil, and extended a personal invitation to President José Sarney to visit Venezuela in the near future. Lusinchi will soon to travel to Mexico at the invitation of President Miguel de la Madrid, where the debt issue will undoubtedly be discussed.

Enter Project Democracy

What remains to be seen on the domestic level is whether anyone inside or outside the government will put forward and economic program for the development of Venezuela's industry and its integration with the rest of the continent. Outside of the Venezuelan Labor Party, which supports the debt reorganization and development proposals of U.S. presidential candidate Lyndon LaRouche, no one has yet come forward with a coherent programmatic alternative.

The absence of a serious programmatic debate, has encouraged the friends of the U.S.-based Project Democracy apparatus, whose sordid activities in the Iran-Contra scandal are under such furious attack. In Caracas, associates of Peruvian Hernando de Soto, whose Lima-based Institute for Liberty and Democracy is heavily financed by Project Democracy, have surfaced to propose that Venezuela generate foreign exchange by becoming a Hong Kong-style tourist paradise, where such activities as drug-trafficking and money-laundering can go on unchecked in the name of "free enterprise."

On June 2, the daily *El Universal,* linked politically to Project Democracy networks in the country, argued editorially against a debt moratorium, and proposed instead that Venezuela embrace tourism to guarantee economic growth. Venezuela "should activate hotel construction and tourist sites, and facilitate investment by foreigners in this area, who have more experience than we do in how to attract tourism. In the extreme case, we could sell more oil. Less serious would be OPEC's protest than the consequence of a moratorium," *El Universal* stated.

Ugo Fonseca Biso, president of the newly created Venezuelan Institute for Liberty and Democracy, shares *El Universal*'s view. Fonseca Biso is hoping to become the next president of the national industrial association, from which post he hopes to impose these anti-capitalist policies.

Venezuela's population is not going to sit around much longer to see what the nation's leaders decide to do, however For the first quarter of 1987, inflation reached 9.3%, with price increases of 2.8% for April alone. In an effort to control the inflationary spiral and stem popular protest, the government announced a general wage increase of between 20% and 30% on May 1, and imposed a 120-day price freeze. But with no plan for reactivating the economy, these measures have proved ineffectual. Prices for such essential items as milk, meat, chicken, and sugar have shot up, causing severe shortages, hoarding, and speculation. A recent study showed that the average Venezuelan now consumes less than 1 kilo of meat per month.