IMF: Political factors stand in way of austerity

An IMF mission visted Venezuela April 12-29, 1988, and recommended virtually identical harsh measures to those now being implemented by President Carlos Andrés Pérez. An internal memo sent to IMF head Michel Camdessus, excerpted below, also shows that Pérez's predecessor, Jaime Lusinchi, was stalling on effecting the "shock" measures. Lusinchi refused to begin them, even after the elections.

An interoffice memo, "Mission to Venezuela," by Western Hemisphere director Sterie T. Beza, reports:

Venezuela's total debt service payments will remain large over the next several years (around US$5.5 billion a year). . . . A substantial change in economic policies is required in order to achieve low inflation and external balance. . . . There may be a reluctance to make significant changes in economic policy at this time, given that presidential elections are scheduled for early December 1988. . . .

[Their] program should include substantial progress toward exchange rate unification, restrained financial and incomes policies, and the implementation of structural reforms, especially in the area of trade policy. . . . In the staff's view, the best approach would be to unify the exchange rate system promptly, perhaps with a temporary float of the exchange rate to determine an equilibrium level. However, the authorities have rejected this proposal. . . . [To curb inflation] would require a substantial upward adjustment in the structure of interest rates . . . full liberalization of the interest rate structure . . . [and] an increase in legal reserve requirements to curtail the expansion in overall bank credit.

In the area of structural reforms, the mission urges . . . a rationalization of the tariff structure, a reduction in quantitative import restrictions, and a rationalization of export incentives. The mission will also urge a significant reduction of price controls. . . .

An irreversible change

Lyndon LaRouche told *Jornal do Brasil* in his interview, "Carlos Andrés Pérez was selected by the Bush administration and the Socialist International as the fair-haired boy for the coming period throughout Central and South America; he was selected to push through, as a model, exactly the kind of measures he pushed through on IMF conditions.

"What happened immediately was a reaction: The country blew up. The blow-up was not merely the kind of reaction, in which, after it subsides, the country can go back to normal. The country will never go back to normal. What happened is irreversible; it is irreversible immediately in Venezuela, and also irreversible in its effects on the internal life of the continent.

"There will be new efforts, probably, by Washington and elsewhere, to push this through. That will cause new explosions. Any country . . . in Central and South America, that attempts to imitate what CAP did, will find their own countries blowing up, because of what happened in Venezuela."

Sure enough, on March 8, a 3,000% increase in bus fares for students in the tranquil and relatively well-off Brazilian city of Londrina led to riots that left 30 people injured and 47 buses and the bus station burned. Brazil blacked out Venezuelan looting from its television coverage, in order to avoid giving any ideas to its 130 million poor.

The bankers sense they are about to lose control. The resale value of Brazilian debt, for example, has fallen to 20¢ on the dollar, half what it was two months ago. Bush, the banks, and the IMF are scrambling to rig up a "Rube Goldberg" financing scheme to reinforce Pérez's tough behavior. IMF Managing Director Michel Camdessus wrote Pérez March 8, "It is clear that Venezuela cannot face the present situation alone, if it doesn't have the security of counting on sufficient support on the part of the international financial community."

The City of London's *Financial Times* on March 7 praised Pérez for having "rightly resisted the temptation to exploit the rioting as an excuse to retract the austerity measures. It would be quite wrong for him or other Latin leaders to hide behind fear of a repetition of such events and duck their economic responsibilities." It insisted that the lame-duck Presidents of Brazil and Argentina immediately imitate the draconian policies of Venezuela and Mexico: "If Presidents Raúl Alfonsín of Argentina and José Sarney of Brazil continue to pursue their self-protective economic policies, they are storing up worse problems for their successors."

But, the whole region is a tinderbox. Nowhere can IMF measures be applied by democratic means.

The conservative editor of Caracas's *El Universal* daily, Luis Teófilo Núñez Arismendi, summed it up March 8: "Venezuela has lost its war of independence because it is falling into . . . economic dependency. If we have to submit to the IMF's impositions, Venezuela will have lost its independence, and we are going to experience extremely difficult moments. We don't know how we will be able to pull through."