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The IMF makes Venezuela bleed

by David Ramonet

In his New Year's message, Venezuelan President Rafael Caldera restated that he is confident that he will reach an accord with the International Monetary Fund, but on his own terms, the so-called "Venezuela Agenda," instead of the standard IMF shock therapy. To those who have been urging him to borrow a page from Winston Churchill and call on the people to give their "blood, sweat, and tears," Caldera replied that since its war of independence in the 19th century, too much blood and too many tears have been shed in Venezuela. What he would ask, he stressed, is for everybody to give their "sweat," as the book of Genesis prescribes man must earn his bread.

While Caldera's intentions may have been good, the devaluation of the bolivar in December is subjecting poor Venezuelans to shock therapy, which the government is attempting to ease by expanding social welfare programs.

Meanwhile, the opposition—both the free-traders and their São Paulo Forum communist rivals—is trying to use the public discontent to force Caldera out of office before Pope John Paul II arrives in February and lends his support to the Venezuelan President's stance against international usury.

Since June 1994, when Caldera used dirigist measures, including imposing exchange controls, to deal with the systemic crisis of Venezuela's banking system, his government has been under fire from Wall Street and the City of London for challenging the "free trade revolution," in the words of the *Wall Street Journal.* Venezuela's business leadership, which has a cult-like devotion to the "free trade revolution," has withheld its support from Caldera and kept him from fully overcoming the financial disaster caused by the same "free trade revolutionaries." Now, they are not only demanding "blood, sweat, and tears," but using their financial muscle to subject the economy to shock therapy.

The opposition daily *El Nacional* has been printing one destabilization scenario after another, which it gets from the British publication *The Economist Intelligence Unit* (TEIU). The last such TEIU report, in the Dec. 5 issue of *El Nacional,* claims that "the government headed by Rafael Caldera is headed toward a crisis, although it is less clear when the moment of truth will arrive." It adds, "there are still enormous possibilities for a social uprising. There are frequent demonstrations in the country's larger cities. There is increasing unrest, as basic staples become less accessible and many are become notably scarce. . . . A large increase in their prices, could be the spark that ignites the social explosion in January." The British mouthpiece insisted that Caldera impose draconian austerity measures to reduce public spending.

The potential for a social explosion intensified with the devaluation of the bolivar in December, from 170 to 290 bolivars to the dollar. This merely made official, the de facto devaluation that the speculators had imposed.

The Brady bond swindle

Everything started in the middle of 1995, when the financial authorities opened a loophole in their policy of exchange controls by agreeing to demands to allow foreign debt bonds, also known as Brady bonds, to be traded on the local stock market. Speculation has since driven up the price of Brady bonds in Venezuela to over 100% of their face value, when the same bonds are trading in New York at no more than 50% of par. Through arbitrage, those dollar-denominated bonds can be exchanged for bolivars in Caracas, a mechanism that has allowed Wall Street, with the support of powerful Venezuelan financial groups, to sink the currency.

In the Nov. 6 issue of the *Wall Street Journal,* Matt Moffett complained that Caldera's exchange controls made it virtually impossible for many companies to obtain the dollars they needed. However, he added, an increasing number of companies were getting dollars from the parallel market created when Venezuela lifted the restriction on the Brady bonds last summer. The Brady market, wrote Moffet, sets the real value of the bolivar, because the bonds are sold for bolivars inside Venezuela itself, and they can also be sold for dollars abroad.

Brady bond transactions have nothing to do with businesses' "needs" for dollars, but with the speculative profits that can be made by selling and reselling the same paper several times in a day. In 1995, imports purchased with controlled dollars increased by 40%, but this was not reflected in the national economy because speculators were building up inventory in anticipation of the devaluation. In fact, many reexported the commodities to Colombia, getting a double advantage from their "controlled" dollars.

The mere announcement of the devaluation prompted merchants and producers to raise prices, using the pretext that "rebuilding their inventory" would cost more under the new, devalued rates. For its part, the Ministry of Finance announced that the controlled prices of 12 basic staples, including powdered milk, would be increased by 26 to 57%. Other goods not subject to price control, such as cheese, went up by 80%. The resulting shrinkage in national consumption will worsen as wages are kept from keeping apace of the price increases. Venezuelans are now consuming 160 liters of milk, per capita, per year, the lowest level in 25 years. And this was before the price of milk was hiked another 60% on Jan. 2.

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