



President Carlos Andres Perez

Debt bomb explodes in 'rich' Venezuela

By Merrill Collett

CARACAS

After the dead were buried and the broken glass had been swept off the streets of a dozen cities, Venezuela was still trying to size up the damage done by three days of national riots against the government's economic austerity program. The riots, which left at least 250 dead and thousands injured, were sparked by government mandated gasoline price hikes on February 26 that caused bus owners to double their fares on the next morning. Furious passengers responded by barricading streets and burning buses. The protesters then turned to looting stores. A wave of uncontrolled violence rolled over Venezuela from the Andes to the Amazon Basin.

How could South America's most stable democracy dissolve into anarchy overnight? Latin America lives on a volcano of popular discontent heated red hot by the re-

gion's debt crisis. The fact that the volcano exploded in oil-rich Venezuela says just how bad things have become. Adding to the irony is the fact that the country's current president, 66-year-old Carlos Andres Perez, is so well-liked that voters just re-elected him by a wide margin after 10 years out of office.

Perez is a social democrat, and poor and working-class Venezuelans have fond memories of his first term, from 1974 to 1979. Those were the "good old days" of high prices for petroleum. In just one year \$10 billion in windfall oil profits dropped into government coffers. CAP, as Perez is known in Venezuela, ran a free-spending regime that built pharaonic aluminum and steel plants, imposed new controls on foreign investment and launched expensive social welfare programs.

How times have changed: World prices for oil, which provides 87 percent of Venezuela's hard currency, have been in decline for years. But in 1986 they dropped sharply just as former President Jaime Lusinchi opted to increase government spending to keep his popularity high. The result was a \$3 billion drop in the Central Bank's foreign exchange reserves in the last two years.

Trapped between the hammer of low oil prices and the anvil of Venezuela's \$35 billion foreign debt, Perez has turned in an unexpected direction for escape. Re-elected as a left-leaning populist who opposed "the economic totalitarianism of the International Monetary Fund (IMF)," Perez promptly set out to meet the hard times with an IMF-style austerity program.

Even as looters were tearing into stores in a dozen Venezuelan cities, Central Bank President Pedro Tinoco and Finance Minister Eglee Iturbe de Blanco were in Washington to sign an IMF economic adjustment program. Under the terms of the agreement, the IMF will loan Venezuela \$4.7 billion over the next three years and the Venezuelan government will increase charges for public services, raise bank interest rates, eliminate foreign exchange controls and cut public spending.

Even the most optimistic economists say the plan will produce a devaluation of at least 75 percent, but some are predicting a much sharper drop. In any case the falling value of the *bolivar* is bound to push up the rate of inflation. Estimates range from a 40 to a 90 percent rise this year—historic highs for Venezuela. Venezuelans are worried.

Living on the edge: The poor and working-class Venezuelans who did most of the looting share with the rest of the country the problem of holding their own against rising inflation and falling wages. But the residents of the squatter settlements that ring all the cities in the country have far fewer resources to balance against the shock of economic adjustment. The receding wave of oil affluence has left stranded on the hills of Caracas some 2 million squatters struggling to survive in what are called "marginal zones." Living conditions vary from zone to zone. In old, established communities like Petare, which overlooks the valley's eastern end, decades of civic action has pushed the government to provide minimal social services. In others, such as New Tacagua, residents perch on treeless hillsides without garbage collection, health care, telephones, reliable electricity or plumbing. They have to defecate in childrens' potties and fling the contents down the hill. But wherever they live, the squatters live outside legitimate society. And they resent it.

"They call us the 'marginal ones,'" said Petare resident Hector Garcia. "But we aren't the corrupt politicians or the business speculators."

The enduring nightmare of the Venezuelan middle class was that resentful *marginados* would come down from the hills. Two weeks ago it happened.

"When we heard that the students were protesting in Caracas and the freeway was blocked, we decided to take action," said Jose Ramon Diaz, a 38-year-old resident of the barrio of Antimano.

The action Diaz and the other Antimano residents took was against the blue and white Ronco pasta factory, which butts up against one of the hills on which Antimano is built. "The people took over," said Diaz. "We disarmed the guards and went in. There was no army or police to stop us."

They weren't sure they would find food inside. In the days prior to the riots, pasta, a basic element in the Venezuelan diet, had disappeared from the shelves of grocery

stores. Rumors held that pasta-makers were hoarding their products to pressure the government to grant price hikes. Diaz and the others found evidence that the rumors were true.

"When we went in, we found tons of pasta, even though there hasn't been any in the stores," he said.

The community streamed through the smashed factory gates and stocked up. "It was a family affair," said Diaz. There were men, women, children. Even disabled people took part. "We loaded up their wheel chairs with pasta," Diaz said.

Similar scenes were repeated hundreds of times across the country. When the looting continued for a second day the government called out the army, but even army tanks couldn't stop the poor from laying waste to businesses. The sacking of Venezuela was systematic and often joyful. For three days everything was free. In the Anaco Shopping Center in the Caracas district of San Bernardino, smiling TV reporters followed hundreds of people as they casually wheeled off shopping carts full of goods "purchased" with a 100 percent discount.

Out of control: But the big street party was also a dance of death. Police and soldiers battled looters, some of them armed. Snipers opened fire from public housing projects in poor districts. If the looters were uncontrolled, so were the security forces. Some, especially army soldiers, allowed looting to continue under their noses. Others, particularly the Metropolitan Police, opened fire directly into crowds. Death was random and rapid.

Fifteen-year-old Jose Luis Naranjo and members of his "Los Futuros" baseball team were crossing Lecuna Avenue in Caracas on February 28 when looting broke out nearby and a private security guard opened fire, according to a newspaper report. Jose Luis fell dead, one of 10 to 15 children reported killed. The dead and wounded jammed the hospitals. Doctors issued an urgent call for blood. By that afternoon the government had declared martial law

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and imposed a 6 p.m. to 6 a.m. curfew.

That, and 10,000 troops airlifted into Caracas on March 1, reasserted government control. By the next day the convulsion was over. Caraqueños woke up to long lines everywhere: at the few undamaged grocery stores that dared to open, at gas stations, at pharmacies and at the municipal morgue, where family members looked for their missing loved ones.

The official toll for all deaths in the riots is 250, but medical sources say the actual number is at least twice as high. In poor barrios, people say they are saddened by the deaths, but they are proud of what they did.

"It's too bad that it took the deaths to do it," said Rosa Herrera, a 42-year-old mother of nine and a resident of the sprawling squatter settlement of Petare. "But at least now the government is afraid of us," she said with a small smile.

If the number of casualties may never be known, it is also difficult to calculate the political damage. *Turba*, the Spanish word for mob, has entered into popular discourse for the first time in memory. Observers wonder if *turba* spells trouble for Venezuelan democracy. If so, the problems will come far down the road. At this point there is no threat from the extreme left. The revolutionary movement was thoroughly discredited in the '60s, when it opted for armed struggle against democratic elections. Nor is there a danger of military coup. As Defense Minister Italo del Valle Alliegro said on March 1, the Venezuelan armed forces are "structurally democratic."

The riots, and the martial law that followed, jolted Venezuelans with unpleasant memories of the military regimes that have ruled the country for most of this century. But Venezuela's democracy is not in danger, at least not for now.

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(ISSN 0160-5992)

Published 41 times a year: weekly except the first week of January, first week of March, last week of November, last week of December; bi-weekly in June through the first week in September by Institute for Public Affairs, 1300 W. Belmont, Chicago, IL 60657, (312) 472-5700. The entire contents of *In These Times* are copyright ©1989 by Institute for Public Affairs, and may not be reproduced in any manner, either in whole or in part, without permission of the publisher. Second-class postage paid at Chicago, IL, and at additional mailing offices. Postmaster: Send address changes to *In These Times*, 1912 Debs Ave., Mt. Morris, IL 61054. This issue (Vol. 13, No. 16) published March 15, 1989, for newsstand sales March 15-21, 1989.

By David Moberg

WITH ITS STUNNING SUCCESS IN THE first week of the Eastern Airlines strike, the labor movement rediscovered the power of its oldest weapon: solidarity.

In an unprecedented display of unity among unions in the airline industry, pilots and flight attendants overwhelmingly respected the picket lines established by mechanics and ramp-service employees who were prompted to strike by the wage-cuts demands of Frank Lorenzo, chairman of Eastern's parent, Texas Air. Many laid-off, non-union Eastern workers joined the picket lines established by the International Association of Machinists (IAM), and in the wings Teamsters, rail workers and workers on other airlines were ready to take action to support the strikers.

The strike's power was quickly evident. With only 4 percent of its flights in the air, and losing \$4 million a day, Eastern declared Chapter 11 bankruptcy on March 9. "We almost look forward to bankruptcy," IAM spokesman Wally Haber said. "We think we'll get a better shake from a judge than from Lorenzo."

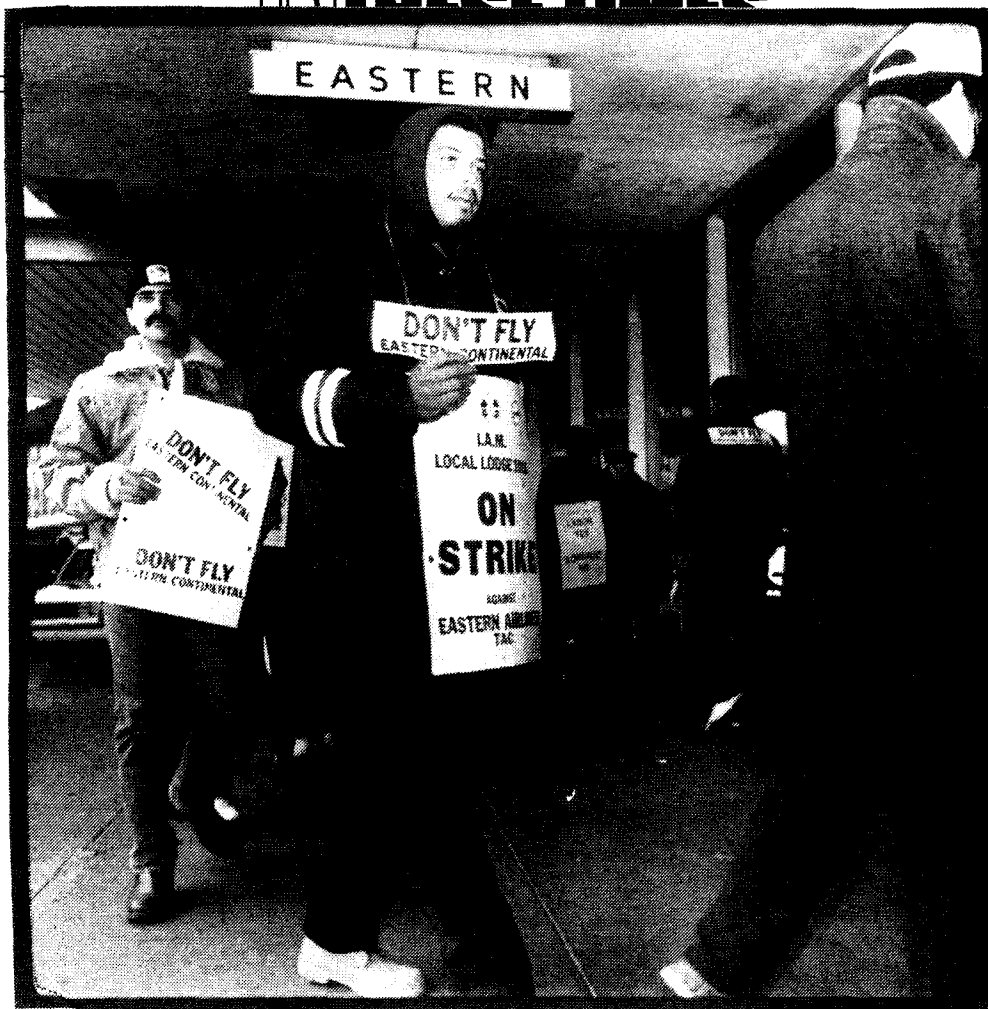
Lorenzo's financial vampire: The Eastern strike is a watershed for organized labor. Lorenzo epitomizes in a crude fashion a popular management strategy. He is not just a union-buster who ruthlessly cuts workers' pay and undermines working conditions, but he also shuffles corporate assets in clever and complex schemes to maximize pressure on employees.

Starting with tiny Texas Air, Lorenzo has built an empire representing one-fifth of the U.S. airline industry. After taking over Continental in the early '80s, he demanded labor concessions, then took the company into bankruptcy and abrogated all union contracts. Since buying Eastern in 1986 Lorenzo has mounted a relentless attack on employees and the airline's own assets.

Stopping Lorenzo's assault thus becomes important not only for Eastern's machinist, pilot and flight attendant unions, all of whose contracts have expired, but also for all airline workers and unions in general.

With George Bush's refusal to invoke a presidential emergency fact-finding board, as requested by the IAM and opposed by Lorenzo, the conflict became political as well, just like the air controllers strike early in Ronald Reagan's tenure. Reeling from the John Tower controversy, the White House—where a former Texas Air vice president is the top assistant for legislative affairs—clearly saw fighting the unions as a way to appear in command. But when Transportation Secretary Sam Skinner angrily rebuked Lorenzo last week for failing to understand Eastern employees, it suggested that the Bush administration felt snookered: having backed Lorenzo, it found itself on the losing side. Unlike the air traffic controllers' strike, organized labor was ready, and AFL-CIO President Lane Kirkland emphasized that this was not an intra-company dispute but a conflict between labor and corporate America.

Wages have been generally stabilizing in the airline industry, and a labor victory at Eastern would reinforce that trend. But more important, it would give labor a psychological and political boost. Demonstrating the



Eastern employees walk the picket lines at New York's LaGuardia Airport.

Eastern strike could help labor movement take off

power of solidarity would encourage other unions to link efforts in future disputes. Labor's struggle at Eastern also demonstrates the importance—and the difficulty—of combatting management strategies of capital deployment in addition to bargaining or traditional contract concerns.

Blaming the blameworthy: The Eastern strike could represent a turning point—a shift in the public's perception of who's the real culprit at troubled companies. Management failures, not workers' wages, have often prompted conflicts involving worker concessions. But labor has rarely succeeded—and not often even tried—to pin the blame on management. At Eastern unions can claim to represent not only their own interests but also the company's and the public's need for reliable, safe, good-quality service. For once workers—even well-paid workers—are coming off as the good guys, even while on strike. The union has continually proposed mediation, even binding arbitration, of the dispute. That strategy makes labor appear to be the reasonable party in the dispute, although it risks an unfavorable arbitrator's settlement.

Although Eastern machinists have opposed concessions, they have in the past accepted stock in the company in exchange for wage cuts and saved the airline more than \$137 million with suggestions for better operations. When former Eastern Chairman Frank Borman scuttled the union's efforts at cooperation, the IAM tried unsuccessfully to buy the airline and dump Borman. But in 1986 Eastern's board of directors accepted Frank Lorenzo's inferior bid—after paying Lorenzo a non-refundable \$20 million simply to make an offer and giving Borman a \$10 million golden parachute. Besides paying far less than what many regarded as Eastern's

fair market value, Lorenzo got Eastern to finance more than half his takeover payment.

Ever since, Lorenzo has been trying to slash wages and break their unions, much as he did by taking Continental Airlines into bankruptcy in 1983. Now Lorenzo wants an average 28 percent wage cut for mechanics and ramp-service employees, with far deeper cuts for future workers. The IAM has offered a one-year wage freeze, work-rule changes and a lowered starting rate with modest wage increases in later years.

Fly-by-night operator: In order to keep deeply troubled Continental aloft and increase pressure on Eastern employees, Lorenzo began stripping Eastern's valuable assets, shrinking the airline by 30 percent (thus increasing the burden of fixed costs). He shifted airplanes, routes and gates to Continental, and loaned \$40 million of Eastern's money to Continental. He transferred Eastern's valuable reservation system to Continental at far less—perhaps one-fifth—of its market value, paying for it with a low-interest note due in 25 years. Then he turned around and charged Eastern \$120 million a year for a service that had been earning the airline a profit. Eastern pays cash to Continental, but receives largely unpaid IOUs for its assets.

Lorenzo also sold Eastern's most profitable division, the New York shuttle, to Donald Trump, despite a court battle by the machinists that was scuttled by the rulings of three Reagan-appointed judges. That \$365 million deal is now on hold due to the strike.

While carrying on a 17-month battle to win \$150 million in concessions from the IAM, Lorenzo has reportedly spent \$70 million in strike preparations, including shuffling tens of millions to Continental for standby scab pilots.

The list of Lorenzo's abuses goes on—pro-

viding a lesson in creative accounting that rivals some of the great financial scams of all time. But the basic strategy is clear: Lorenzo is bleeding and shrinking Eastern, deliberately creating huge losses to prop up Continental and to break Eastern's unions.

Lorenzo insists he needs lower wages and no union restrictions to "save" Eastern, but Eastern's wages are in the low-to-middle range among U.S. airlines, and competitors paying more are making healthy profits. Even more telling, Lorenzo lost more money in

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the last two years at Continental than he did at Eastern, even though the slightly smaller Continental has the lowest wages in the industry, no unions and enjoys continual subsidy of infusions from already-drained Eastern. Meanwhile, Lorenzo and a few friends own a holding company, Jet Capital Corp., that controls the Texas Air empire and siphons off lucrative management fees from its debt-ridden subsidiaries.

"Wage rates are not bringing Eastern and Continental down," said IAM spokesman Haber. "Mr. Lorenzo, the robber baron, is bringing Eastern and Continental down. He's doing very well with Jet Capital. If we gave him everything he wanted, he'd still lose \$200 million a year [on Eastern]. There's no point in giving concessions to a man who can't run an airline."

A different kind of mandate: The IAM hoped that Bush would be forced to enter the fray—either because of congressional action or a national transportation emergency, such as legal secondary picketing of commuter rail lines. The union wanted the president to appoint an emergency board, which would end the strike for 60 days while the panel investigated and presented a non-binding proposal for settlement. Such emergency boards were once regularly appointed, but have been used only once since 1966. Then-Secretary of Labor George Shultz abandoned the emergency-boards policy in 1969.

The unions don't expect Lorenzo to settle. They think that, in the aftermath of the bankruptcy, he will try to sell Eastern—in parts or as an entity. Last week Eastern sold some of its lines to U.S. Air, and the bankruptcy filing may be the first step toward further sales. Eastern Chairman Phil Bakes said a reorganized Eastern would be smaller. He also threatened to hire new pilots to get Eastern flying if he could not win a back-to-work agreement with the pilots.

The unions ultimately hope that someone else, even the unions themselves if necessary, will buy Eastern. "I'd love to see him sell this airline to another viable airline," Eastern pilot spokesman Dan Ashby said. "Whoever would take the chance would find he'd have the most motivated professional employees in the industry." But some possible buyers, like TWA Chairman Carl Icahn, are hardly good news for unions.

Meanwhile, the machinists see Continental as key to the battle. If picketing, boycotts and other pressure on Continental can cut passenger loads, Lorenzo won't be able to dump Eastern and shift its routes and passengers to Continental. Lorenzo was defeated in the first round, when Eastern pilots refused to cross picket lines, but he will not give up easily. Inevitably, the conflict will spread—and labor seems prepared to raise the stakes as necessary. □

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