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## CAPITALIST CRISIS AND CORPORATE CRIME

By Walden Bello\*

The unraveling of the reputations of firms that were once the toast of Wall Street continues and the end is not in sight. But one thing is certain: already fragile prior to Enron, the legitimacy of global capitalism as the dominant system of production, distribution, and exchange will be eroded even further, even in the heartland of the system. During the halcyon days of the so-called "New Economy" in 2000, a Business Week survey found that 72 per cent of Americans felt that corporations had too much power over their lives. That figure is likely to be much higher now.

Like the massive overvaluation of stocks that led to the dot.com collapse on Wall Street in 2000-2001, corporate fraud was an essential feature of the "New Economy." To understand this, one must begin with two developments that were central to the dynamics of global capitalism in the 1980s and 1990s: finance capital's becoming the driving force of the global economy and the crisis of overcapacity or overproduction in the real economy.

The last two decades saw the deregulation of financial markets, with barriers to the movement of capital across borders and across sectors—e.g., the US Glass-Steagall Act banning financial institutions from engaging in both investment banking and commercial banking—being progressively eliminated. The result was a tremendous burst of speculative activity that made finance the most profitable sector of the global economy. So profitable was speculation that in addition to traditional activities like lending and dealing in

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equities and bonds, the eighties and nineties witnessed the development of ever more sophisticated financial instruments such as futures, swaps, options—the so-called trade in derivatives, where profits came not from trading assets but from speculation on the expectations of the risk of underlying assets.

The attractiveness of finance relative to other sectors of the economy, like trade and industry, was underlined by the fact that in the late 1990s, the volume of transactions per day in foreign exchange markets came to over \$1.2 trillion, which was equal to the value of trade in goods and services in an entire quarter.

With the speculative sector awash in cash, much of it from outside the US, industrial firms became more and more dependent on massive credit and the sale of shares for financing instead of on retained earnings. This dependence became even more marked in the late 1990's, as the boom of the Clinton years began to taper off. This boom had resulted in a burst of global investment activity that led to tremendous overcapacity all around. By the late 1990's, the indicators were stark. The US computer industry's capacity was rising at 40 per cent annually, far above projected increases in demand. The world auto industry was selling just 74 per cent of the 70.1 million cars it built each year. So much investment took place in global telecommunications infrastructure that traffic carried over fiber-optic networks was reported to be only 2.5 per cent of capacity. Retailers suffered as well, with giants like K-Mart and Wal-Mart hit with a tremendous surfeit of floor capacity. There was, as economist Gary Shilling put it, an "oversupply of nearly everything."

Profits apparently stopped growing in the US corporate sector after 1997, leading firms to a wave of mergers, some

motivated by the elimination of competition, others by the hope to extract renewed profitability from some mystical process called "synergy." The most prominent of these were the Daimler Benz-Chrysler-Mitsubishi union, the Renault takeover of Nissan, the Mobil-Exxon merger, the BP-Amoco-Arco deal, the blockbuster "Star Alliance" in the airline industry, the AOL Time Warner deal, Worldcom's takeover of long distance carrier MCI. In fact, many mergers ended up consolidating costs without adding to profitability, as was the case, for instance, with the much-ballyhooed AOL Time Warner deal.

Where mergers could not be effected, cutthroat competition ruled, resulting in bankruptcies such as that of giant retailer K-Mart.

With profit margins slim or nonexistent, survival increasingly meant greater and greater dependence on Wall Street financing, which increasingly came under the sway of hybrid investment-commercial bankers like JP Morgan Chase, Salomon Smith Barney, and Merrill Lynch, which aggressively competed to put together deals. With little to show in terms of an attractive bottom line, some firms took the route of trading future promise for hard cash in the present, something that creative investment managers were especially good at in the high tech sector. It was this seemingly innovative technique of trading on illusion that resulted in the stratospheric rise of share values in the high technology sector, where they lost all relation to the real state of companies. Amazon.Com, for instance, saw a constant rise in its share values even as it had yet to turn a profit. Other start-ups lost all connection to production and served mainly as mechanisms to inflate share prices to enable venture capitalists and managers with stock options to make a killing from an early

sale, after which the firm was left to languish and eventually collapse.

But in the end, trading on illusion could only get you so far. Reality intervened in 2000, resulting in the wiping out of \$4.6 trillion in investor wealth in Wall Street, a sum that, as Business Week pointed out, was half of the US Gross Domestic Product and four times the wealth wiped out in the 1987 crash. Its boom extended artificially for three or four years by the dot.com craze, the US economy entered into recession in 2001. And precisely because reality was masked so long by the illusion of prosperity, the longer it would take to rectify the massive structural imbalances that had built up, if at all.

In the end, there was no getting around the fact that your balance sheet had to show an excess of revenue over costs to continue to attract investors. This was the simple but harsh reality that led to the proliferation of fancy accounting techniques such as that of Enron finance officer Andrew Fastow's "partnerships," which were mechanisms to keep major costs and liabilities off the balance sheet, as well as cruder methods like Worldcom's masking of current costs as capital expenditures. In the context of deregulation and the benign approach to the private sector that accompanied the reigning neoliberal, "hands-off-business" outlook, it was easy for such pressures to erode the so-called "firewalls"—between management and board, stock analyst and stockbroker, auditor and audited. Faced with the common specter of an economy on the downspin and slimmer pickings for all, the watchdogs and the watched threw off the pretense of being governed by a system of checks and balances and united to promote the illusion of prosperity—and thus maintain the financial lifeline to unsuspecting investors—as long as possible.

## REVOLUTION AND COUNTERREVOLUTION IN VENEZUELA

By Walden Bello\*

This united front could not be maintained for long, however, since it was very tempting for those who knew the real score to sell before the mass of investors got wise to what was happening. In the end, business acumen was reduced to figuring out when to sell, take the money, and run...and avoid prosecution. Enron CEO Jeffrey Skilling read the handwriting on the wall, resigned, and made off with \$112 million in the sale of his stock options a few months before the fall. Not so lucky was Tyco's Dennis Kozlowski, who was not content with raking off \$240 million and was still trying to milk his cash cow when his company went under; he is currently under prosecution for tax evasion.

More culprits will be unmasked no doubt, and who knows, the cast of odious characters may ultimately even include George W. Bush and Dick Cheney. But it is worthwhile to remember that while there are villains aplenty, it is the dynamics of the system of deregulated, finance-driven global capitalism that is the central problem, and this is not something that can be banished by Georgian pieties like "There is no capitalism without conscience," or addressed with quaint solutions like "good corporate governance."

In the meantime, foreign investors are fleeing the US, the dollar is on a downspin, and the overhang of overcapacity is greater than ever. The mixture of this deepening structural crisis of the economy with the crisis of legitimacy of neoliberal capitalism promises a volatile future indeed.

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The political reality of Venezuela hits me as soon as I arrive, like a blast of hot Caribbean air. A friendly question triggers a torrent of anti-Chavez denunciations from the young professional serving as my driver from the airport that only ends when he deposits me at the Hilton.

"We used to be a tolerant country," he claims. "Now Chavez has set the lower class against the middle class, the black people against the whites. Sure, there are a few abusive rich people, but it's not just them he's targeted. It's people like me. You know, middle class people, with an apartment, two cars, maybe a vacation outside the country once a year."

"But beware," he cautions me as he drives off. "You'll meet him tomorrow night, and he can really be charming."

### A SECOND BOLIVAR?

Indeed he is. At a banquet for participants at an international conference the next evening, Hugo Chavez, president of the Bolivarian Republic of Venezuela, is at his social, disarming best. Upon being introduced to me, he takes me by the hand, , pretending to lead me in the Filipino bamboo dance "tinikling," which he says he learned during a state visit to the Philippines. And far into the evening, he talks expansively on a wide range of topics, from his being saved and reinstated by the poor in Miraflores, the presidential palace, during the failed coup of April 11-13, to his dream of integrating the petroleum industries of Venezuela, Brazil, and other oil producers in Latin America.

Chavez' effusiveness is remarkable given the fact that Venezuela is on the brink of civil

war. In this, he resembles his hero, Simon Bolivar, the larger-than-life Venezuelan who led the liberation of Spanish America in the early 19th century, who is said to have maintained an enthusiastic disposition even in the midst of the most trying political and personal crisis.

A second coup attempt is said to be brewing among the "anti-Chavistas," which include the elite and middle class, the media, the hierarchy of the Catholic Church, and parts of the army. Caracas is filled with rumors—with two dates frequently cited as D-Day, July 5 and July 11.

Gilberto Jimenez, a young Chavez partisan, discounts the rumors as the product of the middle class' "scaring itself." "It's like the talk about the "Bolivarian circles" arming themselves," he remarks, referring to the grassroots institutions that Chavez' people have set up in the barrios or popular districts. "There's no truth to it. But they email this to one another, and pretty soon, they [the middle class] are talking about arming themselves."

### FAILED COUP

The class divisions in this country showed itself to the world as an ugly wound during the events of April 11-13. During a confrontation between opposition and government demonstrators on April 11, still unidentified gunmen fired into the crowd, killing 18, mostly pro-Chavez people. A few hours later, after army chief Gen. Efraim Vasquez demands Chavez' resignation, rebel officers and soldiers seize him at Miraflores and bring him, first to the Venezuelan army headquarters at Fort Tiuna, then to an island off the Venezuelan coast. A junta headed by Pedro Carmona Estanga, head of the Venezuelan

Chamber of Commerce and backed by key generals and admirals, installs itself in power and unilaterally dissolves the National Assembly, Supreme Court, National Electoral Council, and all state and municipal governments. It also nullifies a package of 48 laws approved by the National Assembly that the right regards as a threat to the existing property system.

It is a classic case of overreach. Angered by the brazen moves and refusing to believe that Chavez has “resigned,” many military units declare for Chavez even as hundreds of thousands of poor people descend on central Caracas from the ranchos, or slums, surrounding the city, creating a critical mass that scatters the pro-coup forces.

Recalling the events, Chavez tells us over dinner, “The government was weak, we were weak, but in our moment of need, the people came out to the streets and saved us.” The event, says Peruvian sociologist Anibal Quijano, has significance beyond Venezuela, being “the first victory of the masses in the Americas and the world in a long, long time.”

In 48 hours, Chavez is back in power. Meanwhile, not a few institutions have egg on their face. The New York Times, for instance, editorializes in favor of the coup on Saturday, April 13, then retracts on Tuesday, April 16. Like the Times, the Bush administration blames Chavez for bringing the coup on himself, then begins to fudge as soon as he is back in power. But the damage is done. Many European and Latin American governments criticize the US for tolerating the overthrow of a democratically elected government. Indeed, many people, in Venezuela and outside, suspect the US had a hand in the coup, claiming that two US Navy officers were seen with coup leaders at Fort Tiuna on the night of April 11 and 12.

The question is critical, but whether or not the US had a hand in developments, some sort of social confrontation was inevitable.

## TWO NATIONS, ONE COUNTRY

Venezuela is one of Latin America’s most class-divided countries. It is estimated that 80 per cent of the people live in poverty, with the World Bank estimating that the share of the national income going to the lowest 20 per cent of the population is only 3.7 per cent, while that of the highest 10 per cent is 37 per cent. The vast wealth differentials were to some extent mitigated during the halcyon days of OPEC in the early 1980’s, when some of the oil money did trickle down in a country that was then known as “Latin America’s Saudi Arabia.” But with the collapse of oil prices and the initiation of a wrenching structural adjustment program, Venezuela entered into permanent constant economic crisis since the mid-eighties. “It was spectacular,” says Neils Liberani, a small businessman. “Per capita fell from nearly \$2000 in the eighties to \$110 today.”

The “Caricazo” of 1989, when people from the barrios descended on and rioted in the center and rich districts of Caracas in protest against fuel price increases demanded by the International Monetary Fund, is said to have been a determining event in Chavez’ political evolution. Three years later, in February 1992, the young idealistic colonel led a failed coup in the name of the poor masses which was styled as a “Bolivarian military uprising.”

The coup failed, but it catapulted Chavez into the center of Venezuelan politics, and when he ran for president in 1998 on a platform of ending corruption and subordination to foreign powers and beginning a social revolution, he won handily, with some 56 per

cent of the vote, drawing support even from sectors of the middle class that now oppose him bitterly.

The last three years have indeed been revolutionary. Chavez pushed through a new constitution that was approved in a popular referendum. He formed a political coalition that won control of the National Assembly. The Assembly passed the famous package of 49 laws that included an agrarian reform law, a law to protect small fishermen, and a law limiting the role of the private sector in exploiting Venezuela’s vast oil reserves.

“Many people in the media at first criticized him for being merely rhetorical in his promises. But when he moved to create and implement revolutionary measures, these same people started to oppose him,” says Jimenez.

In foreign policy, Chavez’ moves were equally bold. He was effusive in his admiration for Fidel Castro. He broke the embargo against state visits to Saddam Hussein. And he played a key role in uniting OPEC to manage oil production in order to stabilize the price of oil. These moves did not endear him to the United States.

Indeed, Chavez’ foreign policy is breathtakingly Bolivarian. Not only does he dream of a regionally integrated oil industry. He also speaks about a South Atlantic Treaty Organization that would have only Latin American and African members and would be geared to preserve the common security of the Southern countries. He has not hidden his skepticism about the Bush administration’s Free Trade Area of the Americas proposal, and his aides say that it will not win approval in a referendum in Venezuela.

Yet Chavez has his critics on the left as well. Some say he is too aggressive in personal style and

too quick to brand those with legitimate criticism as “enemies of the people.” Others say that he is too dependent on support on loyalist groups within the military, and this will be difficult to maintain given the middle-class origins of most officers. “These people have to live day to day in the midst of middle class people who hate Chavez,” says a Chavez supporter who requested anonymity. Still others say that that he has not gone beyond charismatic populism to have a well-articulated program of change. As Anibal Quijano puts it, “‘Chavismo’ needs to be converted quickly into a genuine democratic process liberated from the mystical relationship of the dispersed and disorganized masses with a caudillo with the peculiar style of Chavez.” Some say that while Chavez and his allies have begun to depersonalize and institutionalize the revolution via the formation of the Bolivarian circles, this comes rather late in the game.

## REVOLUTION AND COUNTERREVOLUTION

Whether late or not, the government is moving to organize popular power. The Bolivarian circles are seen as institutions of self-government, which are given exceptional latitude in determining projects and priorities. “People have to stop waiting for government to do things for them. They have to start doing things for themselves, with local government in a support role,” says Freddie Bernal, the mayor of large low-income district Libertador and one of Chavez’ most trusted aides.

The revolution is real, but so is the counterrevolution. The atmosphere of high tension in Caracas reminds one of Santiago in 1973, when the elite and the middle class were massing in the streets demanding the ouster of the “dictatorial” government of Salvador Allende which had allegedly introduced “the politics of hate” in a once pacific country.

The democratic rhetoric is the same, but then as now, in 1973 Chile and in 2002 Venezuela, the problem the right faces is that the revolutionary leader has been popularly elected. Moreover, the revolutionary constitution has been democratically approved. And the laws addressing the social inequalities have been passed by a democratic parliament.

Then as now as well, the right is on strike economically, withholding hundreds of millions of dollars worth of investment or moving it offshore, thus worsening the economic crisis that Chavez inherited from previous administrations. “It’s a self-fulfilling prophecy,” says one pro-Chavez partisan who requested anonymity. “They refuse to invest, and when the crisis worsens, they blame it on Chavez. This is not to say that Chavez has not made mistakes. Some of his measures come across as being thought up by the IMF.”

Will there be another coup attempt? Martin Lopez, an anti-Chavez small businessman, says that the dominant tendency on both sides is to turn away from violence and towards negotiation. He is cautiously hopeful that a coming mission to promote dialogue headed by former US President Jimmy Carter will succeed.

Many are less optimistic, noting that the opposition’s main condition for starting dialogue—Chavez’ stepping down—is a non-starter.

What if there is another attempt by the opposition to violently seize power, I ask some people in the lower-class community of Nazareno, high up on one of the mountain slopes towering over downtown Caracas. Rosa Quintero, a woman of around 40 years of age, answers: “Look, we went down on April 12, not

because we were looking for food or money,” referring to the lower class mobilizations that reinstated Chavez. “We went because we were fighting for our future. And we are prepared to do it again.”

The right’s dilemma is that to reimpose control over Venezuela, it will have to do it over the dead bodies of thousands of poor people, including possibly that of Quintero. And that of Chavez, who, like his role model, is playing not only for the present but for history. “The mistake they made on April 11,” he is reported to have remarked, “is that they did not kill me. They won’t make it again. And I am prepared to die rather than betray our Bolivarian principles.”

And the US? The dilemma of Washington’s ruling unilateralists is that while there is no easy, “non-messy” way of getting rid of a democratically elected president, they cannot afford to have another Fidel Castro in the region, especially a Fidel that reigns in a country that is the US’s second biggest foreign oil supplier.

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## “DON'T MULTIPLY THE LOAVES AND FISHES, JUST DISTRIBUTE THEM”

What should be on the Brazilian election agenda  
Frei (Brother) Betto\*

They talk about the “Brasil Risk” as if this country wasn’t already shipwrecked amidst the most alarming social indexes. The real risk is to continue going in the same direction, increasing social inequality and the exclusion of the majority of the population. We are not the ones that should be afraid of tomorrow becoming the Argentina of today. It is Argentina that is afraid of tomorrow becoming the Brazil of today. It’s worth keeping in mind that the Argentinean population (approximately 36 million) is less than the number of Brazilians that live below the poverty line. Both nations can no longer tolerate governments indifferent to the social sphere. In Argentina those with savings accounts can not withdraw their deposits. In Brazil the Central Bank reduced the interest on savings. There, the people take to the streets. Here they prepare to go to ballot box.

Brazil is the world’s tenth largest economy. But due to our high level of poverty, we are a rich nation out of tune with the others. Of the Brazilian population, how many live in absolute poverty? According to the World Bank 15 million. The Institute of Applied Economic Research (Ipea) estimates 22 million, while the Citizenship Institute says 44 million and the Getúlio Vargas Foundation 50 million. Statistics apart, you only have to open the window to see the sad sight under the bridges.

Above the absolute poverty line, 30 million people survive on a monthly income of less than 80 reales (about US \$25 or 25 euros). In all there are 53 million Brazilians living under the poverty line.

This contradiction is a result of an

economic model adopted by the federal government over the last eight years which has accentuated income concentration. Of the Brazilian Gross Domestic Product (GDP) today almost one billion *reales* – 21 per cent - is dedicated to social spending. No other Latin American country, with the exception of Cuba, spends so much in the social area - 6 of every 10 *reales* collected.

However, the poor end up with the smallest portion of the money. Of the money paid to pensioners, almost half goes to the richest 10 per cent of the population. Only 7 per cent goes to the poorest 20 per cent. Of the education budget, the public universities training the country’s elite gobble up close to 60 per cent. And only two per cent of the social spending is dedicated, for example, to basic sanitation, which is indispensable for reducing infant mortality and the spread of infectious diseases such as yellow fever and *mal de chagas*. As Oded Grajew says, it’s not much use drying the floor if the roof is full of holes.

One of the indexes used for measuring poverty is that of the World Health Organization, which considers indigence as the condition of those who don’t have the resources to consume the 2000 calories a day they need in order to be a productive person. That implies the daily consumption of one and a half bread rolls, margarine, five tablespoons of rice, half a ladle of beans, a glass of milk, 100 grams of meat, half an egg, three tablespoons of sugar, soya oil, wheat flours and yucca.

That is not very much. Better said, it is absolutely nothing in a country that has food to spare;

this year’s basic grain crop will probably exceed 99 million tons! As Amartya Sen, economist and Nobel Prize winner has noted, there are nations in which poverty is due to lack of food, and others in which its the lack of money in people’s pockets, such as our case in Brasil. Income distribution and land reform are two challenges that no government in the history of Brazil has confronted.

Everything is outrageous in a snapshot of the poverty in Brazil. However, there is something even more worrying: according to the Getúlio Vargas Foundation, almost half of the people living in absolute poverty (45%) are children and young people that have still not reached 15 years of age. Seventeen percent are between 16 and 25 years old. What kind of future awaits those that do manage to escape an early death?

As President Fernando Henrique Cardoso himself has admitted, we are an unjust nation. Of the people living in absolute poverty in the world, i.e. approximately 830 million people, three per cent live in Brazil. It wouldn’t be so much if our external trade didn’t represent almost one per cent of the world trade. Just as a comparison: In 1990, Switzerland represented six per cent.

It has been shown that the higher the level of studies of the parents, the higher the level of learning of their children. To invest in basic education would be one in the ways of dismantling those mechanisms which lead to income concentration in Brazil, where one per cent of the population holds the same amount of resources as the poorest 50 per cent! According to IPEA, in India the income of the richest 20 per cent is five times that of the poorest 20 per cent; in the United States eight times; in Mexico 13; in Chile 18; and in Brazil 33.

Besides the lack of effective land reform, the problem of housing affects twelve per cent of the population (20.2 million people). According to João Pinheiro Foundation, Brazil has 44.9 million homes: 6.6 million more are needed.

The Brazil Risk will be that much the greater if the country does not make an effort to remove politicians that don't have programs for the reduction of poverty and social exclusion from this year's electoral map. While on the topic, the Brazilian National Conference of Bishops (CNBB) is launching a national mutirão (community collective action) against misery and hunger. But, in the case of Brazil, it's not even necessary to multiply the loaves and fishes, just to distribute them.

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