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## **After Chavez: The Maduro Government and the 'Economic War in Venezuela**

**By Steve Ellner**

Nearly two years after the death of Hugo Chávez, the key question that many on the left are debating, in Venezuela and elsewhere, is whether his successors have been true to his legacy, or whether the 'revolutionary process' initiated more than a decade ago has now stalled or even been thrown into reverse. The recent emergence of a number of pressing problems has convinced some Chavistas that the revolution has either been betrayed or, at best, that President Nicolás Maduro is severely lacking in Chávez's political acumen. High on the list of difficulties are the chronic shortages of numerous consumer goods and products, including basic ones, as well as an annual inflation rate of over 60 percent. Both of these, Maduro claims, are part of an 'economic war' being waged by powerful interests to destabilize Venezuela. The government's difficulties include the universally recognized problem of corruption.

Of course, these scourges were also prevalent under Chávez, but with less intensity, and in any case he faced them head on. His response to the shortages of basic commodities - which became particularly severe in 2007, influencing the outcome of the referendum on proposed constitutional reform - was to decree widespread expropriations. In 2009 he faced the problem of corruption that led to a major financial crisis by jailing at least 16 bankers, including the brother of a trusted cabinet minister, and ordering the arrest of over 40 others who fled the country, while at the same time nationalizing 13 banks.

Radical Chavistas point out that Maduro is lacking in audacity of this type. They criticize, for instance, the decision to replace the Chavista slogan 'Chávez Lives, the Struggle Continues!' with 'Chávez Lives, the Homeland Continues!' as indicative of political retreat and a lessening of the leadership's revolutionary fervour. One Chavista radical concluded that, given this type of rhetorical modification, 'Chávez is facing a second death.' [1] The radicals also questioned the rationale behind the proposed 'peace dialogue' with opposition leaders and the business sector, designed to control the violent protests that shook Venezuela in early 2014. They were convinced that underlying these conversations were concessions to the historical enemies of the Bolivarian revolution. Antonio Aponte and Toby Valderrama, an ex-guerrilla of the 1960s whom Maduro has attacked personally, wrote 'It's time for self-criticism: we wanted to avoid sacrifices and so we extended our hand to the bourgeoisie, the enemies of peace... we wanted to control the capitalist monster that is uncontrollable.' [2]

These critiques raise the question of how to evaluate a government committed to taking the gradual democratic road to far-reaching change in the context of extreme polarization and conflict. Is a period of lull in the deepening of change, including compromises with adversaries, necessarily a sign that all has been lost, as those who invoke the term 'permanent revolution' often argue? Certainly, history is replete with examples of governments committed to structural transformation that, after initial advances, begin to backslide and end up completely abandoning the struggle. On the other hand, Lenin's slogan of 'one step backwards to take two steps forward' (in reference to the New Economic Policy) may be applicable to Venezuela under Maduro, as some Chavista moderates suggest. Finally, what are the issues we should be looking at in evaluating the Maduro government's claim to have inherited Chávez's revolutionary mantle?

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And what are the issues that are not particularly germane to this discussion but that some on the left are raising in a misguided attempt to define the ideological orientation of the Maduro government?

What has the Maduro government done right and has it gone far enough?

One of the keys to Chávez's political success was his strategy of taking advantage of each electoral and non-electoral victory by immediately carrying out measures that deepened the process of change, initiating new stages in the transformation of the country, and weakening adversaries. Thus several electoral victories during Chávez's first two years in office set the stage for controversial anti-neoliberal legislation in November 2001, including an agrarian reform and nationalistic oil law. The defeat of the coup and general strike in 2002-2003 created conditions that made Chávez's announced commitment to combating imperialism politically feasible. Similarly his defeat of the recall election in 2004 led to Chávez's declaration of socialism as his principal goal. His re-election in 2006 with the highest percentage of votes in Venezuela's modern history paved the way for his nationalization of telecommunications, electricity, steel, cement and other strategic industries.

In 2014, Maduro broke with this radicalization strategy. In May, the government emerged victorious after three months of civil disobedience and urban violence (known as the 'guarimba') with the stated aim of overthrowing Maduro. In the aftermath, however, the government failed to seize the opportunity to initiate further change, and instead continued to call on the opposition to engage in dialogue in order to ensure stability.

However, the radicals expressing disillusionment with Maduro's alleged inertia overstate their case. Maduro's 'peace dialogue' meetings - regardless of whether they resulted in concessions to the private sector (as the radicals claim) or failed to produce concrete agreements (as the opposition claims) - created a climate conducive to the reestablishment of order. In addition, the initiative opened up divisions in the enemy camp by pitting the private sector (which agreed to participate) and many opposition followers (who were repulsed by the disorders) against an intransigent opposition, which included nearly all anti-government leaders (the only important exception being Lara's governor Henri Falcón). As a result, the opposition found itself deeply divided, demoralized, lacking capacity for mobilization, and without any spokesperson who could represent a unified anti-government bloc.

Maduro's efforts to combat price speculation, hoarding, contraband and corruption, in spite of shortcomings and limitations, help define his administration as leftist and differentiate it from pre-Chávez governments prior to 1998. Underpinning the campaign is a definition of private property, first put forward by Chávez, which amounts to a rejection of the concept of the sacred, unconditional rights of property holders, a fundamental precept of capitalist ideology dating back to the eighteenth century. In his agrarian reform known as the Land Law enacted in 2001 and his decision to expropriate idle companies in 2005, Chávez made clear that private enterprises had well-defined responsibilities and would be subject to state intervention and eventual takeover if these obligations were not fulfilled.

Maduro has reinforced this principle at the level of discourse, legislation and concrete actions in an effort to counter the 'economic war.' In November 2013, his government initiated a campaign to check hoarding and sharp price increases by slapping commercial establishments with fines, obliging them to sell

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products at lower prices and in some cases jailing managers. The campaign struck a responsive chord among voters who gave the Chavistas an 11.5 percentage point margin over the opposition in municipal elections the following month. The polling firm Hinterlaces indicated that only 28 percent opposed the economic measures taken immediately prior to the elections. The positive electoral impact of the government's crackdown undoubtedly sent chills up the spine of the business organization Fedecámaras, which viewed the actions as tantamount to bullying.

Following the December 2013 elections, the government established new mechanisms to combat the 'economic war.' Until then, commercial establishments were sanctioned due to non-payment of taxes and non-compliance with price regulation, as well as for selling at exorbitant prices goods that received preferential state treatment facilitating their importation. Beginning in 2014, the Law of Just Prices created the Superintendence Sundde, which limited the profit margin of all business transactions to 30 percent. In addition, the law established stiff prison terms in cases of contraband (up to 14 years), hoarding and price speculation. By mid-2014, Sundde announced that it was inspecting over 4,000 businesses each month, of which over 900 were subjected to sanctions. While in some cases Sundde forced businesses to lower their prices, in others it took possession of merchandise and turned it over to community councils for sale or, in the case of medicine, gave it to hospitals. Another radical measure was the confiscation of semi-trucks involved in the transportation of contraband to neighbouring Colombia and the jailing of the truck drivers.

Sundde depends on the active participation of the general population. Each one of Sundde's inspectors (fiscales) works with two or three 'popular inspectors' chosen by community councils or the cells of the governing United Socialist Party of Venezuela (PSUV). Some of the inspections are responses to tip-offs from the community. Informal networks also help inform the public about the sale of goods sold at a lower price under the supervision of Sundde.

In addition to regulating prices and profits, the Maduro government retained Chávez's insistence on the obligation of the private sector to maintain acceptable levels of production. In September, the government responded positively to a union request to guarantee production in two plants of the U.S.-based chemical giant Clorox, which several weeks earlier had closed down and been taken over by their workers. The Maduro government announced that the state chemical company Pequiven would supply needed components to the two plants. Vice President Jorge Arreaza, who toured one of them, pointed out that the government's action should serve as a warning to other companies. The move was particularly bold because Clorox, unlike the companies that had shut down and been taken over by Chávez in 2005, is a multinational corporation and could therefore seek legal redress in international tribunals.

Those who characterize Maduro's rule as one of retrenchment fail to recognize that the government strategy initiated by Chávez and recently escalated in response to the 'economic war' has little or no precedent in Venezuela. Governments in the past never confronted the business sector by temporarily occupying commercial establishments and warehouses, confiscating trucks running contraband operations, encouraging community involvement in the denunciation of business abuses, or placing limits on profits.

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Similarly, the government's prosecution and jailing of Chavistas on charges of corruption is without precedent, even while these actions evidently have not thus far served as an effective deterrent to unethical practices. Most recently, former minister and governor Rafael Isea fled the country after being charged with misuse of funds allocated to public works projects. The opposition typically claims, though without proof, that the government's actions are reprisals against Chavista dissidents. In fact, Isea, as well as several other high-level Chavistas who have faced arrest under the Maduro government, had been closely associated with the PSUV leadership. According to attorney general Luisa Ortega Díaz, 493 Venezuelans were jailed on corruption charges during the first half of 2014.

Nevertheless, there are clear limitations and shortcomings in the government's response to the 'economic war' currently being waged against the revolution. Most importantly, the government has failed to provide the public with detailed information about probes and judicial proceedings following the well-publicized operations against contraband, hoarding and price speculation. This failure has produced scepticism among some rank-and-file Chavistas regarding the government's commitment to facing down powerful economic interests, as opposed to truck drivers, smaller merchants and members of the informal economy - although certainly sanctions have been imposed on large commercial establishments as well. The Maduro government has evidently given in to Fedecámaras' insistence - expressed at the peace dialogue talks - on traditional legal channels and the right to defence prior to being sanctioned, rather than the fast-track process justified in situations of crisis.

Maduro's leftist critics call the government's response to the 'economic war' 'defensive' and 'reactive.' In contrast, government advisor and university professor Judith Valencia says she prefers to view the government's campaign as a 'counter-offensive.' [3] Regardless of which term best describes Maduro's actions, his measures defining and restricting the decision-making prerogatives of the private sector contradict the view that the government is merely passive and devoid of an alternative agenda.

#### Exchange controls out of control

The Maduro government's inability to halt the ongoing increase in the open-market exchange rate, which by December 2014 reached 160 bolívares to the dollar (a more than two-fold increase in twelve months), has generated severe criticism from both sides of the political spectrum. Most critics, however, fail to recognize the complexity of the 'economic war.' In addition, they tend to attach ideological tags to a problem that demands practical reasoning free from dogmatic mindsets of either the neoliberal or Marxist variety.

The ratio between the official exchange rate and the open-market one is now over ten to one, a disparity that is a recipe for contraband activity and corruption. The Venezuelan economy (sometimes referred to as an 'economy of ports') is highly dependent on imports and, lacking sufficient official (or 'preferential') dollars to cover all needs, the upward trend of the open-market rate drives inflation. Retailers who sell imported merchandise, regardless of whether the item was imported with preferential dollars, tend to set prices on the basis of the open-market rate rather than the official one. In addition, the greater the disparity between the open-market and official exchange rates, the greater the illicit profit derived from fraudulent requests for preferential dollars - supposedly needed to pay for imports - which are then sold on the open market for an enormous profit.

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True to their neoliberal beliefs, opposition leaders attribute these problems to the Chavista original sin of having established exchange controls in the first place in 2003. [4] The opposition's leading economist José Guerra places the blame on the 'model in which the state is the central axis of the economy and that has not functioned anywhere in the world.' [5]

The system of exchange controls, however, functioned relatively well for nearly a decade, during which time the disparity between the open-market exchange rate and the official rate remained a manageable two to one. When in late 2012 the open-market rate more than doubled, the government refrained from taking action, either by increasing the official rate, or clamping down on price manipulation, or both. At the time, Chávez's physical condition was subject to much speculation, and in fact it turned out that he was only months away from dying. Undoubtedly, physical and psychological distress impeded his capacity to take immediate and decisive action. Maduro inherited the dilemma: once a large disparity existed between the two rates, any devaluation of the official rate to re-establish the two to one ratio of previous years ran the risk of triggering rampant inflation. Needless to say, for Maduro to have blamed the late and much-venerated Chávez for allowing the exchange rate to spiral out of control would have been considered virtually sacrilegious.

In the face of the steady weakening of the bolívar and other financial difficulties, the Maduro government has failed to take difficult but necessary measures, such as a series of mini-devaluations and increases in the price of gasoline (currently the cheapest in the world). Several factors explain the government's immobility. In the first instance, some ministers (including Planning Minister Jorge Giordani before his angry exit from the movement in mid-2014) adhered to a dogmatic Marxist view of the market as antithetical to socialist goals and thus largely irrelevant to the formulation of economic policy. In the second instance, some Chavista leaders consider Venezuela's dual economy acceptable from a political viewpoint: on the one hand, members of the popular classes wait in long lines at chain stores for products at artificially low prices; on the other hand, more affluent Venezuelans pay much higher prices for merchandise often in violation of 'just price' criteria and in some cases sold illegally. [6] In light of the precariousness of the political situation during the guarimba and looking ahead to the congressional elections slated for December 2015, Maduro chose not to pay the political price of a major devaluation and gasoline price increase, and more recently has indicated that he prefers to wait for more favourable economic circumstances in which to act. The ideal time to have done so, however, was on the heels of the defeat of the guarimba in mid-2014, when the government had the upper hand - as may well have occurred had Chávez not passed away.

The debate on devaluation and gasoline prices in Venezuela does not directly correlate with positions on the political spectrum. In some cases, conservatives concur with leftists (although, needless to say they employ different arguments). Leftist factions such as Marea Socialista oppose the implementation of both measures, at least for a period of time. Marea Socialista argues that prior to devaluation a study needs to be undertaken of the public debt, and that gasoline prices should only be increased through a national referendum. Meanwhile, opposition standard-bearer Henrique Capriles, in a display of the populism that he constantly rails against, also puts up resistance to devaluation and gasoline price increases.

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On the other hand, the much-respected Chavista economist Victor Alvarez calls for a major devaluation in which the official rate would approximate the true market rate. Fedecámaras, in accordance with its neoliberal principles, goes even further by supporting elimination of exchange controls altogether. Foreign Minister Rafael Ramírez, for his part, calls for complementary measures to soften the impact of adjustments on the popular sectors. It seems obvious that in addition to compensatory programs, devaluation should not be too precipitous lest it run the risk of triggering either mass protests (as neoliberal 'shock therapy' did in the 1980s and 1990s) or steep inflation, or both.

A mixed scorecard

In summary, while Maduro has sometimes lacked Chávez's political instincts and his actions have not been successful in checking inflation, he has demonstrated a firm commitment to confronting business abuses unmatched by the governments of more advanced capitalist nations in recent decades. Nevertheless, the Maduro government can be faulted for slowness in responding to the exchange rate problem that has reached crisis proportions. Within the Chavista movement, the debate around various proposals designed to get the exchange rate under control is largely devoid of broader ideological significance.

Criticism of the government from those supportive of the process of change in Venezuela comes from diverse quarters, particularly Chavista intellectuals and left-wing factions such as Marea Socialista, but their opinions reflect the real frustration of much of the rank and file. This erosion of enthusiasm is perhaps natural given the Chavistas' sixteen years in power, aggravated by the urgency of the mounting economic problems and the corruption that is recognized even by the government as extensive.

The PSUV leadership frequently employs a favourite Chávez slogan, 'Unity, Unity and more Unity,' against its critics on the left. Washington's unyielding hostility to Chavista rule, which was most recently demonstrated by sanctions imposed by the Obama administration on Venezuelan government officials, bolsters the argument for toning down criticism and closing ranks. Another term used by PSUV leaders to discredit leftist critics is 'izquierdistas trasnochados' (the equivalent of 'armchair generals').

More worrisome, and indicative of a growing intolerance, is the significant number of critical Chavistas who have had their programs removed from state-run radio and television. One such example is Vanessa Davies, a long-time leftist who often formulated tough questions on her popular TV interview program 'Contragolpe.' Some cabinet ministers considered her a thorn in their side and were reluctant to appear on her show, but had previously been pressured into doing so by Chávez himself. [7] Much of the Chavista leadership is reluctant to accept open criticism on this front because they consider the private media to be an opposition stronghold, which has played an ongoing role in destabilization efforts ever since the beginning of Chávez's rule.

Given the government's mixed performance, the Chavista leadership should expect and tolerate sharp criticism from within their movement's ranks. A first step in the direction of a much-needed pluralism would be to separate at least part of the leadership of the PSUV from the state, that is, the cabinet ministers and governors who currently control the party. Indeed, social movement leaders do not currently occupy top party positions. Correcting this imbalance would provide venues for 'self-criticism' from

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below. Most important, Chavista leaders should recognize both in discourse and actions that criticism from within the movement is not part of the problem but rather part of the solution. At the same time, the radical Chavistas, regardless of the veracity of their criticisms, exaggerate when they point to the government's errors and the problems the country faces as proof that revolutionary goals have been abandoned and claim the process of change is fully in reverse.

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