April 27th, 2015

Resisting the Austerity Option While Oil Prices Plunge: Venezuelan President Nicolas Maduro Rules Out Brusque Change

By Steve Ellner

It's a point of honour for the Venezuelan government that despite the sharp plunge in oil prices and acute shortages of goods, President Nicolas Maduro has ruled out austerity measures. In a recent TV interview conducted by former vice president Jos? Vicente Rangel, Central Bank president Nelson Merentes explained why, when he asked: 'Do you remember what happened on 27 February 1989?' On that date massive nationwide disturbances broke out after the government of Carlos Andr?s Perez announced sharp price hikes and negotiations with the IMF, setting the stage for the 1992 military uprising led by Hugo Chavez. The memory of 27 February and the decision of the formerly left-leaning Perez to come to terms with powerful economic groups as a way out of pressing economic difficulties undoubtedly weigh on Maduro's response to the current situation.

Since assuming the presidency following Hugo Chavez's death in March 2013, Maduro has faced intense economic and political problems. In the first place, he inherited a highly depreciated bolivar, the local currency, which began to lose value in late 2012, when Chavez was undoubtedly suffering intense pain from the cancer that killed him but when immediate government action was required. Any attempt by Maduro to devaluate the official exchange rate once he assumed the presidency would have run the risk of setting off an inflationary spiral.

Additionally, throughout Maduro's two years as president, opposition forces have engaged in numerous disruptive and sometimes violent protests with dozens of fatalities, including ten security force officers. The perpetrators have been abetted by an international media that minimises the gravity of their actions, and the US government, which has imposed sanctions on Venezuelan government officials for alleged violation of human rights. In March, President Obama issued an executive order that condemned Venezuelan human rights abuse and then declared the nation "an extraordinary threat" to U.S. "national security," a move that legally paves the way for economic sanctions, as was the case with countries such as Iran and Syria.

Taking the middle ground

In an economic policy announcement by the government on 10 February, Maduro took a middle ground between regulated prices that are completely out of sync with the market, or even production costs, and prices pegged to market conditions. On the one hand, in recognition of economic reality, the government legalised and regulated the open market for the purchase of foreign currency, transactions that had previously constituted a black market. On the other hand, in a deviation from market economics, Maduro retained the exchange rate at 6.3 bolivars to the dollar for the import of basic commodities. This rate was 27 times less than that of the open market.

The ever widening disparity between the official exchange rate and the unofficial one over the last two and a half years generated acute problems of contraband, hoarding and price speculation. In addition, the black market rate has undoubtedly been fertile ground for money laundering. The government sets artificially low prices not only on foreign currencies, but also basic commodities, a practice that also contributes to the problem of contraband and the black market for scarce goods. The most blatant example of artificial prices is gasoline which is the cheapest in the world. The policy of subsidized prices undermines the viability of state companies that are forced to sell below cost. In contrast, private firms are sometimes able to get around price regulation by altering the content of products in order to market them as non-regulated.

The recent legalization of the open market for the purchase of foreign currencies is designed to check speculation. The main service that quoted the price of the dollar on the black market was the vocally anti-Chavista on-line "Dollar Today" operating out of Miami, thus indicating that the bol?var's rapid depreciation may have been at least partly politically motivated. A second motive behind the new measure was the promotion of exports by allowing enterprises to repatriate profits legally at the open market rate.

The government has also avoided extremes in its enforcement of legislation prohibiting hoarding, contraband and price speculation. On the one hand, the government through the Just Price Superintendence (SUNDDE) has fined, confiscated merchandise and in some cases occupied hundreds of commercial establishments, including large ones. In recent months the government took over eight warehouses of Herrera C.A., exclusive distributors of the products of Kellogg's, Nestle, General Mills, Procter and Gamble and Pfizer, and detained leading executives of the oligopolistic pharmacy FARMATODO.

Large companies such as Herrera C.A. that engage in hoarding have more to lose than smaller ones, and thus political motives most likely enter into play. Their hoarding practices and probable complicity in the black market and contraband lend credibility to the government's claim that powerful groups are engaged in an "economic war."

On the other hand, the government has accepted the insistence of the nation's chamber of commerce FEDECAMARAS that the government proceed according to established legal channels. Consequently the government has ruled out a fast track, which may be justified in emergency situations, and at the same time has refrained from publicizing the judicial proceedings against accused businesspeople.

Maduro has insisted that political conditions are not suitable for the implementation of drastic economic measures which an intransigent and aggressive opposition could exploit. In addition, Maduro told Jos? Vicente Rangel that the issue of gasoline prices "is always a delicate one with regard to the sensibilities of Venezuelans." He added that given the existence of "mafia speculators in Venezuela a decision like this may add fire to the flame" and thus the government needs to wait for the right moment to act.

Leftist hardliners and dogmatists ignore the importance of the market and thus write off the black market as the creation of speculators that could be eliminated by efficient government policing. At the opposite extreme, some pro-Chavista economists call for the discontinuance of the 6.3 exchange rate and its fusion with others so that the official rate would be pegged and close to the open market one. The plan, while logical in the abstract, ignores the ensuing detrimental social effects. The elimination of highly subsidized prices (which are made possible by an overvalued currency for the importation of basic products), in order to stimulate production and commerce, will disproportionately hit the popular sectors of the population.

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Although the Chavistas have managed to win elections held during the last two and a half years, solving the problem of scarcities, or at least getting it under control, is an urgent political imperative. According to the respectable polling firm Hinterlaces, the nation's pressing economic problems and specifically shortages now surpass other issues as the principle source of concern for eight out of ten Venezuelans. Furthermore, the pro-opposition polling company Datan?lisis reports that 51 percent of government supporters consider the situation in the country "negative." Hinterlaces president Oscar Schemel maintains that the main Chavista challenge does not come from the camp of the opposition, which lacks a viable program for the nation, but rather undecided voters and the likelihood of a "punishment vote" in future elections.

Elections for the General Assembly are slated for the end of the year. Just as opposition standard-bearer Henrique Capriles called the previous 2013 municipal elections a "plebiscite," opposition leaders now announce that a triumph in the upcoming elections will pave the way for regime change and that the appalling scarcity of goods will guarantee such an outcome. (This strategy is ironic: political scientists - such as the anti-leftist Mexican, Jorge Casta?eda - who questioned Chavez's democratic credentials accused him of establishing what they pejoratively call a "plebiscitary democracy," in which all attention is focused on the nation's head of state, rather than those running for office.)
Furthermore, the government has denounced the radical opposition's plans to parlay agitation on the long and slow-moving lines outside of stores into violent disruptions leading to regime change. Shortly after the beginning of the new year, Federal District head Ernesto Villegas warned Chavistas of provocations, saying "when you are on line and see an infiltrator calling on people to loot, respond with the symbol of peace." The danger of disruptions of this type comes from an opposition that for more than a decade has kept open the possibility of the non-democratic road to power; in February Maduro presented alleged evidence of a coup plot for which it jailed the mayor of the greater Caracas area, Antonio Ledezma.

Venezuela finds itself in uncharted waters with a sharp political polarization without parallel among governments committed to democratic socialism that have lasted as long as 16 years - the length of time the Chavistas have been in power. Nevertheless, the challenges generated by shortages and the inconveniences associated with the awkward distribution of goods, as well as the knotty issue of the role of the market, hold implications for all governments committed to socialism. The Soviet Union, for instance, was plagued by corruption stemming from an extensive black market, a problem that had much to do with its demise, while Cuba is currently grappling with similar predicaments.
Maduro's recent measures were a step in the right direction in that he recognized that market conditions must enter into the equation, even while the government cannot renounce its strong interventionist role which includes the regulation of exchange rates and prices of basic commodities. At the same time he announced social initiatives and made clear that the decline of oil prices cannot be a prelude for austerity measures that fall on the backs of the non-privileged.

Nevertheless, until the government reduces the colossal disparity between official prices for goods and for foreign currency and the going value on the open market, contraband and corruption will be virtually inevitable, a problem exacerbated by unscrupulous and politically motivated powerful members of the private sector. Subsidized prices both for currency and merchandise are perfectly legitimate correctives to neoliberalism, but the Chavista government needs to avoid extremes by staking out a middle ground between production costs and market prices. Otherwise the consequences may be the same as those faced by socialist regimes in the past.

Radical measures on the left side of the ideological spectrum, such as expropriations of large companies, may have to wait until the government has delivered heavy blows against an enemy that refuses to recognize its legitimacy. Maduro is following a strategy of attempting to gain breathing space in the context of extensive discontent and well-organized insurgent tactics, and has thus pushed for a "peace dialogue" to achieve stability, which the political opposition has rejected. Maduro also prioritizes political objectives out of fear of further destabilization if the opposition were to gain control of the National Assembly in the elections later this year. In light of these political and social considerations a middle ground between radical devaluation, on the one hand, and highly subsidized prices for basic commodities and currency, on the other, represents the most viable formula for the Chavistas at this critical juncture.

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