

Chávez win may leave Venezuela's economy vulnerable

Venezuela is experiencing a fast-paced economic boom, but some experts question whether the nation's policies are best for the long term.

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CARACAS - Venezuelans are swilling aged whiskey, snapping up luxury cars and treating themselves to plastic surgery in an oil-fueled spending spree worthy of one of the fastest-growing economies in Latin America.

The bonanza belies fears of radical economic changes if President Hugo Chávez wins another six-year term in elections Sunday and fulfills his pledge to begin a new, more profound phase of his self-styled socialist revolution.

Chávez has promised a sharper break with Venezuela's capitalist past and more drastic steps to help the poor. Clothing factory owner Noel Alvarez fears that could mean workers suddenly taking over his plant with the government's blessing.

"Investors are nervous and uneasy," said Alvarez, who heads the Consecomercio chamber representing some 200,000 small and medium-sized businesses.

A survey of those businesses last month showed that despite soaring sales, most are not hiring, expanding their businesses or making long-term investments. Alvarez said the reasons include high crime, a lack of confidence in the legal system and an anti-private sector "bias" in the Chávez government.

Chávez insists he's a friend of the private sector, but his government has taken actions that rattle investors, including seizing ranch lands it deems idle. In recent weeks, he has threatened to nationalize Venezuela's largest telecommunications firm for failing to pay out court-ordered pensions.

Since taking office in 1999, his government also has sharply increased control over the oil industry and redirected central bank reserves to finance social programs for the poor.

BOOM AND BUST

Critics call that a misguided approach that's hurting investment and is only sustainable while Venezuela, the world's fifth-largest exporter, rides out the oil boom. Venezuela has experienced a series of boom-and-bust cycles when high oil prices led to a surge in spending only to have the economy crash when prices fell.

Chávez inherited an enormous public debt from previous governments who struggled to pay salaries and benefits to a bloated state workforce during the oil crash of the late 1980s, but he has overseen a near doubling of the public sector to some 2 million state employees.

Mark Weisbrot, an economist at the Washington-based Center for Economic and Policy Research, said Chávez should be recognized for a robust economic recovery from Venezuela's worst recession in decades, caused in large part by a failed two-month opposition-led strike four years ago.

He noted inflation is below historical levels, tax revenue in both oil and non-oil sectors are up, while the government has budgeted conservatively to create a cushion against any decline in oil prices. It has based its 2007 budget on an average oil price of \$29 a barrel -- far below this year's average of \$58 a barrel.

Fears of more radical changes are probably also exaggerated, Weisbrot said.

"So far there's been a lot of rhetoric, but changes have been very gradual," he said.

Venezuela's economy is expected to expand at least 8 percent this year, the fastest growth in South America, according to the U.N. Economic Commission for Latin American and the Caribbean.

Multinational oil companies mostly appear willing to keep doing business despite tighter terms that have given the government a greater share of profits and control.

FLOWING WITH CASH

There are other signs of an economy surging with cash: Banks are offering loans for plastic surgery, property rentals in swanky parts of Caracas rival those in major U.S. cities and Venezuelans have imported more than half a billion dollars in cellular phones this year.

Chávez, however, bristles at Venezuela's consumption boom, which he calls a symptom of a society corrupted by capitalist values.

"There will be no socialism unless every one of us has . . . soaked ourselves to the marrow with socialist values," Chávez lectured in one televised speech.

"We have to reflect on the way we're consuming."

"I was looking at the costs of whiskey imports . . . exorbitant. We're one of the top consumers of whiskey in the world. What is this?" Chávez said, as he announced new tariffs on whiskey, pearls and other items.

BEWARE OF BARBIE

With Christmas shoppers packing Caracas malls, Chávez has even urged Venezuelans to steer clear of Barbie dolls, saying such American-made toys are "making our children stupid."

Beneath the spending extravaganza, however, there are signs of deeper problems. Government price controls have caused sporadic shortages of staples like milk and sugar. The U.S. dollar hit a record on Venezuela's black market last week -- the latest indication that strict currency controls imposed in 2003 have failed to stem capital flight or demand for the greenback.

One study shows Venezuelans are funneling their savings out of the country faster than in the previous four decades before Chávez came to power: Roughly \$66 billion fled abroad between 1999-2005 compared to \$112 billion -- adjusted for inflation -- between 1950-1999, according to Emilio Medina-Smith, an economist at Venezuela's University of Carabobo who used traditional World Bank methods for his calculations.

Venezuelans, Medina-Smith notes, have always been prone to taking their money abroad. But he adds: "Now there's an additional ingredient -- political insecurity. That's turned what was a small malaise into a pneumonia."