

VENEZUELA'S ECONOMIC BOOM BUOYS CHÁVEZ

The New York Times
December 3, 2006

CARACAS, [Venezuela](#), Dec. 2 — To understand why Hugo Chávez seems set for victory in Sunday's presidential election and a strengthened mandate for what he calls a socialist revolution, consider the vigor here of that most capitalist of institutions: the stock exchange.

Housed in El Rosal, an upscale district with new skyscrapers and hotels, the 59-year-old Caracas stock exchange was the site of frenzied trading this week. Its main index climbed to a record high of 46,741, topping off a 129.2 percent rise this year that has made it one of the best performing markets in the world. On Friday, the index climbed 8 percent for its biggest daily gain in four years.

“For all of Chávez's faults, his government has been extremely pragmatic in economic terms,” said José Guerra, a former chief of economic research at Venezuela's central bank. “State-supported capitalism isn't just surviving under Chávez,” he said. “It is thriving.”

Often lost in the campaigning between Mr. Chávez and his electoral challenger, Manuel Rosales, is that Venezuela, with the largest conventional petroleum reserves outside the Middle East, is having one of the most significant oil booms in its history. Economic growth this year is set to pass 10 percent, making Venezuela the fastest-growing economy in the Americas.

The Chávez government, while wrapping itself in socialist imagery — like red clothing — and deepening its alliance with [Fidel Castro's](#) Cuba, has made this expansion possible by quietly working with Venezuela's banking system. The rush of petrodollars into the economy has led bank deposits to climb 84 percent in the past 12 months, according to Softline Consultores, a financial consulting business here.

The boom is evident in an economy that has put financial speculation and conspicuous consumption ahead of domestic manufacturing. For instance, foreign automobile companies Ford and General Motors will sell 300,000 cars in the country this year. Economists describe Venezuela as a “harbor economy” because of its lust for imported goods.

“Many people say we’re in a profound political and social crisis,” said Michael Penfold-Becerra, an economist at the Institute of Higher Administrative Studies, a Caracas business school. “On the contrary, we’ve returned to a temporary period of harmony. Oil is buying us a certain social peace and stability.”

Neither candidate in Sunday’s election seems to acknowledge the growing consumerism in rich and poor households as one of the main reasons Mr. Chávez has resilient popularity ratings after eight years as president. Most opinion polls give him a double-digit lead over Mr. Rosales, governor of the oil-producing Zulia State in the west.

Mr. Chávez makes frequent exhortations in favor of socialism, sometimes describing Jesus Christ as the first socialist and Judas as the first capitalist. Mr. Rosales said in an interview that Mr. Chávez, who has deepened ties with Cuba by bringing thousands of Cuban doctors to Venezuela in exchange for subsidized oil, was “implementing a Castro-style system of autocratic rule in Venezuela.”

While Mr. Chávez promises socialism, historians say that in effect he is delivering old-fashioned populism. He is often compared to Carlos Andrés Pérez, the populist president who oversaw economic expansion in the 1970s when Venezuela also benefited from higher oil prices.

“Chávez has a problem in that what he calls his socialist revolution never involved the overthrow of a dictator like Batista or Somoza,” said Alberto Barrera Tyszka, who co-wrote an acclaimed biography of Mr. Chávez. “He’s redefining socialism as a concept that could exist only in Venezuela, where it is characterized by hatred of George Bush and an excess of BMWs and Audis.”

Some Chávez economic policies draw inspiration from formulas used with mixed results by countries in the developing and industrialized worlds the 1960s and 1970s. These include price controls for food and gasoline, strict limits on buying and selling foreign currency and caps on everything from lending rates at banks to hourly fees at parking lots.

At the same time, the government has channeled billions of dollars in oil revenues into social welfare programs and small cooperatives intended to produce goods to replace imports on the domestic market. The government says these efforts are moving Venezuela toward a vaguely defined “21st-century socialism.”

Oil is at the heart of this development model. Venezuela, in contrast to oil-exporting countries like Mexico or Saudi Arabia that tightly circumscribe the operations of foreign oil companies, still produces oil in ventures with some of the largest private energy companies, including Chevron and Royal Dutch Shell. And the government works closely with Venezuelan and foreign banks to maintain economic stability.

Unlike Rafael Correa, the newly elected president of Ecuador, who plans to renegotiate the foreign debt, Mr. Chávez has made every effort to meet Venezuela's obligations with foreign lenders. As a result, markets still consider Venezuelan bonds about as safe an investment as bonds issued by Brazil, a neighboring industrial powerhouse.

The Finance Ministry, meanwhile, has tolerated loopholes for the moneyed classes to circumvent foreign exchange controls by allowing them to buy stocks and bonds that can be exchanged for securities denominated in dollars. Critics of this system say it has allowed a new elite to emerge through opaque dealings with the government.

Fernando Coronil, a Venezuelan historian at the [University of Michigan](#), said Mr. Chávez's policies were reminiscent of the heady years after World War II when Democratic Action, a social democratic party, swept into power on a platform that emphasized distributing oil wealth to the poor. Leaders even called their movement the October Revolution, though populist rule in Venezuela eventually became characterized by a lack of transparency in the distribution of favors through the state.

While earlier booms revolved around huge investments in industrial projects like aluminum smelters, analysts say the latest expansion is especially risky because it focuses mainly on consumption.

Despite boasting of some of South America's most fertile land in an area the size of Texas and Oklahoma combined, Venezuela still imports more than half its food, largely from the United States and Colombia. An overvalued currency, meanwhile, has been disastrous for Venezuelan industry with the number of manufacturing companies falling to about 8,000 today from 17,000 in 1998, according to Mr. Guerra, the former economist at the central bank.