

Chavez Threatens to Jail Price Control Violators

The New York Times
February 17, 2007

CARACAS, [Venezuela](#), Feb. 16 ♦ Faced with an accelerating inflation rate and shortages of basic foods like beef, chicken and milk, President [Hugo Chavez](#) has threatened to jail grocery store owners and nationalize their businesses if they violate the country is expanding price controls.

Food producers and economists say the measures announced late Thursday night, which include removing three zeroes from the denomination of Venezuela is currency, are likely to backfire and generate even more acute shortages and higher prices for consumers. Inflation climbed to an annual rate of 18.4 percent a year in January, the highest in Latin America and far above the official target of 10 to 12 percent.

Mr. Chavez, whose leftist populism remains highly popular among Venezuela its poor and working classes, seemed unfazed by criticism of his policies. Appearing live on national television, he called for the creation of ♦ committees of social control, ♦ essentially groups of his political supporters whose purpose would be to report on farmers, ranchers, supermarket owners and street vendors who circumvent the state's effort to control food prices.

"It is surreal that we've arrived at a point where we are in danger of squandering a major oil boom," said Jose Guerra, a former chief of economic research at Venezuela's central bank, who left Mr. Chavez's government in 2004. "If the government insists on sticking to policies that are clearly failing, we may be headed down the road of Zimbabwe."

For now, Venezuela remains far from any nightmarish economic meltdown. The country, which has the largest conventional oil reserves outside the Middle East, is still enjoying a revenue windfall from historically high oil prices, resulting in a surge in consumer spending and lavish government financing for an array of social welfare and infrastructure programs. Dollar reserves at the central bank total more than \$35 billion.

The economy grew by more than 10 percent last year, helping Mr. Chavez glide to a re-election victory in December with 63 percent of the vote. Yet economists who have worked with Mr. Chavez's government say that soaring public spending is overheating Venezuela's economy, generating imbalances in the distribution of products from sugar to basic construction materials like wallboard.

Public spending grew last year by more than 50 percent and has more than doubled since the start of 2004, as Mr. Chavez has channeled oil revenues into social programs and projects like bridges, highways, trains, subways, museums and, in a departure for a country where baseball reigns supreme, soccer stadiums.

In an indicator of concern with Mr. Chavez's economic policies, which included nationalizing companies in the telephone and electricity industries, foreign direct investment was negative in the first nine months of 2006. The last year Venezuela had a net investment outflow was in 1986.

Shortages of basic foods have been sporadic since the government strengthened price controls in 2003 after a debilitating strike by oil workers. But in recent weeks, the scarcity of items like meat and chicken has led to a panicked reaction by federal authorities as they try to understand how such shortages could develop in a seemingly flourishing economy.

Entering a supermarket here is a bizarre experience. Shelves are fully stocked with Scotch whiskey, Argentine wines and imported cheeses like brie and Camembert, but basic staples like black beans and desirable cuts of beef like sirloin are often absent. Customers, even those in the government's own Mercal chain of subsidized grocery stores, are left with choices like pork neck bones, rabbit and unusual cuts of lamb.

With shoppers limited to just two large packages of sugar, a black market in sugar has developed among street vendors in parts of Caracas. "This country is going to turn into Cuba, or Chavez will have to give in," said Candida de Gomez, 54, a shopper at a private supermarket in Los Palos Grandes, a district in the capital.

Jose Vielma Mora, the chief of Seniat, the government's tax agency, oversaw a raid this month on a warehouse here where officials seized about 165 tons of sugar. Mr. Vielma said the raid exposed hoarding by vendors who were unwilling to sell the sugar at official prices. He and other officials in Mr. Chavez's government have repeatedly blamed the shortages on producers, intermediaries and grocers.

Those in the food industry argue that the price controls prevented them from making a profit after inflation rose and the value of Venezuela's currency plunged in black market trading in recent weeks. The bolívar, the country's currency, fell more than 30 percent to about 4,400 to the dollar in unofficial trading following Mr. Chávez's nationalization of Venezuela's main telephone company, CANTV, and its largest electric utility, Electricidad de Caracas.

Fears that more private companies could be nationalized have put further pressure on the currency as rich Venezuelans try to take money out of the country. Concern over capital flight has made the government jittery, with vague threats issued to newspapers that publish unofficial currency rates (officially the bolívar is quoted at about 2,150 to the dollar).

Regardless of efforts to stop illicit currency trading, the weaker bolívar has made imported food, fertilizers and agricultural equipment more expensive. Venezuela, despite boasting some of South America's most fertile farmland, still imports more than half its food, largely from Argentina, Brazil, Colombia and the United States.

Supermarket owners expressed relief when the government this week cut value-added taxes on retail food sales and raised the prices on more than 100 staples in an effort to alleviate the shortages. The announcement included an average 32 percent increase in beef prices and a 45 percent increase in chicken prices.

Following Mr. Chávez's nationalization threat, supermarket owners were cautious in their public statements. "As long as we are complying with the regulations, I don't believe there will be any type of reprisal," said Luis Rodríguez, executive director of the National Supermarket Association.

But many were clearly torn, afraid that their stores could be seized if they complained, but at a loss as to how to continue operating. "If I don't sell at the regulated price they'll fine me, and if I don't sell meat I'll be out of business," said a butcher shop owner here.

During his television broadcast, Mr. Chávez said his measures would be laid out in a decree, a power that his rubber-stamp legislature just bestowed upon him. He acknowledged that removing taxes on food sales would deprive the government of more than \$3 billion in revenues, higher than the military budget, but he said tax increases on luxuries like beach homes and yachts would make up for part of the shortfall.

Mr. Chávez also said he would raise subsidies for state-owned grocery stores. Economists say such subsidies, together with hefty loans to farmers, have allowed the price controls to function relatively well until recent weeks.

But recent expropriations of farms and ranches, part of Mr. Chávez's effort to empower state-financed cooperatives, have also weighed on domestic food production as the new managers retool operations. So has the flood of petrodollars into the economy, easing food imports and making some domestic producers uncompetitive, an affliction common to oil economies.

“There seems to be a basic misunderstanding in Chávez's government of what is driving scarcity and inflation,” said Francisco Rodríguez, a former chief economist at Venezuela's National Assembly who teaches at [Wesleyan University](#).

“There are competent people in the government who know that Chávez needs to lower spending if he wants to defeat these problems,” Mr. Rodríguez said. “But there are few people in positions of power who are willing to risk telling him what he needs to hear.”