

Chávez changes bode ill for economy

President Hugo Chávez's proposed changes in Venezuela's constitution may have a negative impact on the country's economy, according to some financial experts.

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The constitutional reforms proposed by President Hugo Chávez will have a strong impact on Venezuela's economy and finances if approved in a Dec. 2 referendum, analysts say.

Many of the 69 proposed reforms deal directly with economic issues, such as abolishing the Central Bank's autonomy and giving the leftist Chávez the power to essentially set interest rates.

One of the main impacts will be to further increase government spending, which already stands at unprecedented levels because of its gusher of oil dollars and has catapulted inflation to the highest in Latin America, economists and financial analysts told El Nuevo Herald.

PUBLIC SPENDING

Increased public spending will lead to "the weakening of the Venezuelan economy, which has been based on government spending and consumerism, and not on production," said Robert Bottome, director of the Caracas newsletter Veneconomía.

Bottome added that no matter the result of the Dec. 2 vote, the economy will be negatively impacted by the overall sense of political uncertainty in Venezuela.

Chávez's supporters insist that the constitutional changes are intended to benefit the country's poor.

"The reforms have been directed towards the fast redistribution of the natural resources to those most in need," Bernardo Alvarez, Venezuela's ambassador in Washington, has said.

Alvarez cited a recent poll by Chile-based Latinobarómetro, in which Venezuelans ranked second in Latin America in terms of satisfaction with their democracy.

OPTIMISTIC

"The economy is still growing, for four consecutive years, at a rate of 11.9 percent, and the social programs have obtained important advances, like the decrease of the poverty rate from 55 percent in 2003 to 30 percent in 2006," Alvarez said.

Nevertheless, few analysts share the government's optimism.

Previous Chávez measures like price and currency controls already have generated sharp shortages of products of basic foods such as milk, eggs and meat.

The proposed reforms will have their hardest economic impact by creating new grass-roots "communal councils" that will need to be funded through increased government spending, said Luis Zambrano of the Andrés Bello Catholic university.

Another hit will come from a proposed requirement that private property owners, if challenged by authorities, "prove that said property has been legitimately acquired," said José Guerra, former chief economist at the Central Bank.

INSTABILITY

"This will create a huge economic instability," Guerra said, because many landowners would have to dig back through Spanish colonial-era archives to prove their ownership.

Guerra said other articles that would impact the economy proposed eliminating the Central Bank's autonomy and giving the president direct control over Venezuela's vast foreign reserves.

"These articles represent an extreme risk for the monetary and financial stability of Venezuela because the foreign reserves are the backing of the Venezuelan financial system, of all the accounts that people have in the banks," he said.

Yet another article proposes cutting the regular workweek from 40 to 36 hours at the same pay, a change that would lead to lowered worker productivity.

The proposed reforms also have sparked economic concerns abroad.

"Our perception of the market is generally more cautious in the face of the referendum" on Dec. 2, said Alejandro Cuadrado, a Merrill Lynch analyst in New York.

INVESTORS WARNED

A Nov. 4 analysis co-authored by Cuadrado warned "all investors [to] observe their Venezuelan portfolios with renewed cautiousness" because of the growing tensions surrounding ongoing student protests against the reforms.

And on Monday, Standard & Poor's announced it was maintaining its caution on Venezuelan bonds over the short and long term because the proposed reforms "could weaken the democratic controls that remain in the Venezuelan political system and damage the investments climate in the private sector."