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LADB Staff

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Venezuelan President Hugo Chavez Reshuffles Cabinet

by LADB Staff

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Venezuela's President Hugo Chavez reshuffled his Cabinet in January, shortly after a defeat at the ballot box where voters narrowly rejected constitutional reforms he supported (see NotiSur, 2007-12-07). Chavez changed his vice president and several other top Cabinet members and said he anticipated a "difficult" year ahead. His administration says it intends to reduce inflation and food shortages while more gradually advancing a socialist government.

New vice president: Ramon Carrizales

The Cabinet shuffle came on Jan. 3, with Chavez naming a retired military officer as vice president and making other changes aimed at tackling corruption and inefficiencies in his government. Ramon Carrizales, previously Venezuela’s housing minister, replaced outgoing Vice President Jorge Rodriguez, Chavez said in a telephone interview broadcast on state television. Rodriguez had run the 2007 campaign seeking support to rewrite 69 articles of the Constitution but now is charged with organizing the Partido Socialista Unido de Venezuela (PSUV). Rodriguez replaced Jose Vicente Rangel as vice president in January 2007 (see NotiSur, 2007-01-26).

In Venezuela, the vice president is appointed directly by the president rather than elected and is part of the Cabinet. The vice president does not wield much power but would take over the presidency if the sitting president died or was otherwise unable to fulfill duties. Chavez also appointed Andres Izarra, president of the Caracas-based TV network Telesur, to head the Information Ministry. Izarra held that post before he went to head Telesur (see NotiSur, 2005-08-12).

Other changes included naming Socorro Hernandez, president of Venezuela's state-run CANTV telecommunications company, to replace Telecommunications Minister Jesse Chacon, who became the secretariat minister. Chavez, who has vowed to transform Venezuela into a socialist state, said he plans to make at least 13 changes in his Cabinet. He said his government was seeking to tackle lingering problems such as corruption and inefficiency within state-run institutions.

Chavez generally overhauls his Cabinet once a year, reported The Associated Press, usually moving close political allies from one ministry to another while handpicking others from the military or state institutions. Venezuelan Finance Minister Rodrigo Cabezas resigned, Reuters reported on Jan. 4, citing unidentified government officials. Rafael Isea, a former lawmaker and president of Venezuela's state-owned Social and Economic Development Bank, replaced him. Difficult year ahead "We're preparing for a year that, as the opposition has said, will be difficult," Chavez said Jan. 3.

In his concession speech after the constitutional-reform vote, Chavez said that he would accept the defeat "for now" but that he planned to try to carry out the changes through other channels to implement socialism in Venezuela. The president said that, in addition to the Cabinet adjustments, he would be reviewing monetary, foreign-exchange, and budget policies to determine whether more
Chavez said on Jan. 6 he was putting the brakes on his drive for revolutionary change in Venezuela, shifting away from radical socialist reforms in favor of a pragmatic focus on everyday problems from soaring crime to trash-strewn streets. "I'm forced to reduce the speed of the march," Chavez said, telling new members of his Cabinet to "accept reality" and "put their feet on the ground." "This will be the year of the three R's—revision, rectification, and relaunching," Chavez said.

"The problem is not an abstract ideology, it's putting it to work," said Steve Ellner, a political science professor at Venezuela's Universidad de Oriente. "The ideologues have to demonstrate the ideology can work." Ellner expects Chavez to shelve "ambitious schemes that may be criticized as impractical," such as building offshore cities similar in design to oil platforms in the Caribbean Sea.

Instead, the government is turning its attention to entrenched problems such as high crime and rampant corruption, which some say Chavez has failed to correct in the nine years since he was first elected. Polls show that rising crime rates among the highest in the Western Hemisphere are a leading concern for Venezuelans. The Justice Ministry reported 9,402 homicides in the country of 23 million in 2005 but has yet to release complete figures for 2006 or 2007. "Insecurity and corruption, these are inherited evils that we must stop cold and not allow to continue expanding. If we don't stop them, they become the biggest enemy of our revolution," Chavez said during his weekly radio and TV show the first weekend of 2008. "I call for us to fight more successfully against these scourges."

**Inflation, food shortage issues**

Concurring with Chavez, conventional analyses in the Latin American press and international outlets covering Venezuela have anticipated a difficult year ahead for the president. Inflation concerns have been intense in Venezuela, but unemployment and poverty levels have been declining. Venezuela's challenges include the 22.5% annual inflation rate last year the steepest in Latin America and shortages of staples like milk, eggs, sugar, and beef that have prompted consumers to question the government's economic policies, including price controls.

Grocers and food producers blame the price controls for causing shortages, while supporters of the government say decreased poverty and hoarding by companies have been the root of the problem. Other Venezuelans complain of bumper-to-bumper traffic that clogs the streets of Venezuela's increasingly chaotic capital, as well as ineffectual garbage collection in Caracas and other major cities. "In a socialist country the streets cannot be filled with trash," agreed Chavez.

The government intends to slash annual inflation by half to 11% in 2008, Finance Minister Isea announced on Jan. 7 a target many economists see as unreachable given high government spending. "We hope to achieve this objective without sacrificing the well-being of the Venezuelan people in any way," Isea told a press conference, without disclosing any specific anti-inflationary measures.

As record oil prices drove 8.4% economic growth, Chavez pumped billions of dollars into social programs for the poor, driving consumer prices higher despite state-imposed price controls on hundreds of products. But some analysts expect inflation to reach 30% in 2008, as high oil prices allow Chavez to continue spending, said Pedro Palma, an economist at the Instituto de Estudios
Superiores de Administracion (IESA) business school in Caracas. "It appears oil prices will continue rising, and that could generate additional revenue for the government that would allow it to maintain an expansive spending policy."

With oil prices settling near or above US$100 per barrel in mid-February, it appears that the central driving force of the Venezuelan economy the petroleum industry will remain extremely lucrative in 2008. On Feb. 20, prices declined somewhat, leading investment bank Goldman Sachs to advise investors to sell oil futures to lock in profits, although the investment bank said it expected oil to rise to US$105 a barrel by the end of the year.

Venezuela has long had problems with agricultural production, particularly with its excessively oil-focused economy. Chavez has sought to implement a land-reform program that he claims would decrease Venezuela's dependency on food imports (see NotiSur, 2005-03-18 and 2005-10-28). But, as production lags behind demand, shortages have continued.

Isea said producers "don't have the capacity to expand in the short term to meet increased demand." He said the government would address such shortages. Part of the solution would be strengthening state-owned banks and creating a "socialist financial system" that could offer credit to manufacturers and food producers, he said. The Finance Ministry's other goals for this year include ensuring dollars provided by the government at the official exchange rate are directed toward the country's priorities, which include food, medicine, and machinery imports, Isea said.

**New currency launched**

Other anti-inflationary options, such as adjusting currency-exchange restrictions or lifting price controls, could be counterproductive, said IESA economist Palma. Currency controls imposed in 2003 restrict access to US dollars, forcing many businesses to buy imports with black-market cash at more than twice the official exchange rate, which is fixed at 2.15 strong bolivares to US$1.00. Chavez's administration launched the new "strong bolivar" currency on Jan. 1, cutting three zeros off previous denominations to boost confidence in the currency. It has consistently denied any plans to devalue.

"The government is going to try to maintain the exchange rate at 2.15 not just to give the perception of the new currency’s strength but also because adjusting the rate would mean additional inflationary pressure," Palma said. While the strong bolivar's official exchange rate was fixed at the 2.15 to US$1.00 rate, the black-market rate hovered around the equivalent of 5.60 to US$1.00 during the New Year. Chavez's government said the new currency would make daily transactions easier and cure some accounting headaches. Officials also said it was part of a broader effort to contain rising prices and strengthen the economy. "We're ending a historical cycle of...price instability," then finance minister Rodrigo Cabezas said Dec. 31, adding that the change aims to "recover a bolivar that has significant buying capacity." Some Venezuelan critics dubbed the new currency the "weak bolivar," noting its predecessor, the bolivar, had seen its purchasing power suffer last year.

Venezuelan economist and pollster Luis Vicente Leon said that, while the new currency may provide "the perception of stability," for some, it is largely a "cosmetic change." Government officials say the change is overdue to bring Venezuelan denominations into line with those of other
countries in the region. Instead of denominations in the thousands, the largest new Venezuelan note will be 100 strong bolivares. "It was necessary to leave behind the consequences of a history of high inflation," Central Bank president Gaston Parra said in a televised year-end speech. He said officials aimed "to reinforce confidence in the monetary symbol."

The new money was distributed to banks and automated teller machines nationwide ahead of the Jan. 1 launch and was set to be phased in during the next six months. Venezuelans will be able to use both old and new bolivares during the transition. Chavez claims Colombia, US plan to attack Venezuela Even as he rearranged his administration and said he was scaling back the radicalism of his domestic policies, Chavez made strong claims about Venezuela's western neighbor Colombia and the US, saying there were plans for military "aggression" against Venezuela.

On Jan. 26, Chavez charged that the US and Colombia were plotting an incident that would set off a war with Venezuela. "I alert the world of the following," said Chavez, speaking at the Alternativa Bolivariana para las Americas (ALBA) summit. "The US empire is creating conditions to generate an armed conflict between Colombia and Venezuela."

Chavez, who made a similar accusation on Jan. 25, did not offer proof, but did point to January visits to Colombia by US Secretary of State Condoleezza Rice, Adm. Michael Mullen, chair of the US Joint Chiefs of Staff, and US drug czar John Walters. "Colombia is already taken over by the US empire," argued Chavez. Chavez has many times said the US is planning to kill him or topple his leftist government.

The Venezuelan leader also blasted Colombian Defense Minister Juan Manuel Santos, who said on Jan. 25, without offering proof, that at least three leaders of the leftist Fuerzas Armadas Revolucionarias de Colombia (FARC) guerrillas were living in Venezuela.

Chavez also referred to an "adulterated video" in which the mayor of the Venezuelan city of Maracaibo is seen delivering weapons and supplies to another Colombian rebel group, the Ejercito de Liberacion Nacional (ELN). "In a gesture of madness of that rancid oligarchy," Chavez said, Colombian Vice President Francisco Santos Calderon "has said that, since that mayor is supporting the guerrillas, they are going to capture him and take him to Colombia. For that, war then."

Ties between Bogota and Caracas are at their lowest point in years, after Uribe asked Chavez in November to stop his mediating role in the release of FARC hostages (see NotiSur, 2007-12-07, 2008-02-01 and 2008-02-08). Chavez responded by freezing contacts with Uribe and calling home the Venezuelan ambassador in Bogota for consultations. That ambassador has yet to return. Chavez's talk is designed to rally the nation around him at a time that he is losing political support, alleged a former top Venezuelan official turned Chavez opponent in Colombia's El Tiempo newspaper.

"I plead with the Colombian people to ignore this, ignore all this verbiage and lack of respect," said Venezuelan Gen. Raul Baduel, a former defense minister under Chavez who led in the campaign against the constitutional reforms. At their summit, the ALBA group Venezuela, Cuba, Nicaragua, and Bolivia welcomed a new member, Dominica.
The like-minded nations are, according to Chavez, determined to counter the "dictatorship of global capitalism." Chavez warned Colombia not to attempt a "provocation," warning that it would trigger a decision by Venezuela to cut off all oil exports. "In that scenario, write it down. The price of oil would reach US$300, because there wouldn't be oil for anyone," Chavez said. "The invaders would have to step over our dead bodies."

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