Venezuelan President Announces Economic Policy Changes In Response To Political Crisis

Barbara Khol
Venezuelan President Announces Economic Policy Changes In Response To Political Crisis

by Barbara Khol
Category/Department: General
Published: Tuesday, March 10, 1992

On March 6, President Carlos Andres Perez announced changes in his government's economic policies, after failing in attempts to form a coalition government with the COPEI (Christian Democrat) and MAS (socialist) parties. The new economic package was elaborated after a presidential commission met to discuss solutions to economic and political problems. Perez said the 4% per month gasoline price hike planned for the next four months was suspended, and price controls on selected foodstuffs and medicines were reinstated. The current price on gasoline is equivalent to US$0.34 per gallon. Nearly 80% of Venezuelan workers earn the minimum wage of US$120 per month or less. On March 5, Spanish news service EFE reported that the government was willing to suspend economic adjustments expected under an agreement with the International Monetary Fund (IMF) in order to forestall further political upheaval. Caracas finalized a three-year US$5.245 extended facility agreement in March 1990. Of the total amount, US$2.517 billion are yet to be disbursed. The letter of intent included pledges to raise fuel prices, and eliminate domestic price controls. EFE pointed out that 80% of the population lives in poverty. US banks recently reported that Venezuelan deposits in US financial institutions currently total about US$60 billion.

The presidential advisory commission, created the previous week, proposed emergency economic and social welfare measures to "correct" the adjustment program, and beefed up campaigns against corruption. The proposals included annulment of gasoline price hikes, price controls on subsistence products, and expansion of social welfare programs. The price index on the wage goods basket has increased by 300% over the past three years. Development Minister Imelda Cisneros announced price freezes for selected foodstuffs and medicines on Thursday. The food product list includes flour, rice, milk, pasta, and cooking oil. Price controls will not be applied to beef and pork products, fish products, eggs, bread, vegetables, tubers, and fruit. In Washington, Planning Minister Ricardo Haussman said the government's general economic policy orientation has not changed despite modification of certain "secondary aspects." Unidentified observers cited by EFE on March 6 said the suspension of gasoline price hikes will cost the government US$220 million this year. The 1992 federal budget projects about US$400 million in fiscal revenue from fuel taxes. Since 1991, funds from the fuel tax have been put aside to finance agriculture and transport feasibility studies. Also on March 6, an editorial by Mexican daily newspaper El Dia said Perez's break with IMF policy recommendations provides cause for "reflection" by government officials throughout Latin America. El Dia stated that the policy changes in response to popular protests represent a de facto critique of IMF recommendations, and the neoliberal approach underlying such prescriptions. Ecuadoran daily newspaper Expreso said the Venezuelan case "shows us the failure of monetarist economic measures" applied by Caracas which are "similar to" policies applied by the Ecuadoran government. In La Paz (Bolivia), politicians from President Jaime Paz Zamora's party, the Revolutionary Left Movement (MIR), told EFE that the World Bank and the IMF should interpret the policy shift announced by Perez as a warning. The two institutions, they said, must understand that such policies put democracy at risk in many Latin American countries. The politicians predicted economic policy "revisions," read more emphasis on social welfare requirements, on the part of
several governments in the region aimed at avoiding political uprisings a la Venezuela. Colombian Agriculture Minister Alfonso Lopez Caballero said the new policies adopted by Caracas will lead to more contraband with neighboring countries. Consequently, he added, progress obtained thus far in the establishment of the Andean Common Market is expected to be eroded. Guatemalan Central Bank president Federico Linares said he did not believe repercussions from the Venezuelan policy shift throughout Latin America are likely. However, he added, the IMF must recognize that in political factors should be taken into account alongside economic criteria. (Basic data from Associated Press, 03/06/92; Spanish news service EFE, 03/05/92, 03/06/92)

-- End --