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Venezuela Alert:

# Chavez Landslide Leaves Unanswered Questions

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In public statements since his landslide election on December 6, Hugo Chavez Frias has raised more questions than he has answered about his plans for economic and political reform in Venezuela. He has gone out of his way to speak in a conciliatory tone, trying to soothe the fears of investors who were nervous that he would roll back even the tepid free market economic policies of the Caldera government.

**Overview**

- Chavez: 56 percent of the vote.
- Stunning defeat of two traditional political parties, *Accion Democratica* (AD) and *COPEI*.
- Ambitious political reform program raises potential questions of constitutionality.
- Little room to maneuver on economic front - dangers of growing recession, continuing low oil prices, budget deficit, probable devaluation of the Bolivar

Obviously aware of the nervous eyes of the financial markets, in his first comments immediately after the election Chavez stressed that his government would honor its foreign debt commitments, slash the public sector payroll, halve the number of ministries from 23 to 12 or 13, and clamp down on tax evasion. His calls for "magnanimity in victory" and "strict fiscal discipline" have been well received in the local business community and the thin local stock market has rallied. Talk is cheap, however, and few can claim to know much about Chavez or what he will do. He has taken contradictory positions on every issue except prosecuting those guilty of corruption.

**U.S. Stresses Democracy Theme**

In a congratulatory letter to the president-elect, President Clinton pledged to work closely with Chavez and his new administration. Mr. Clinton expressed confidence that reforms promised by Chavez during the campaign can be carried out in a democratic manner. U.S. officials remain concerned, however, with Chavez's promise to dissolve Congress and replace it with a constitutional assembly made up largely of his supporters. Addressing political leaders and top judges at an official ceremony marking his victory late last week, Chavez said that the people had spoken and that a constituent assembly was inevitable. He said that once in place, such an

assembly could dissolve Congress and the Supreme Court, and draw up a new constitution to replace the exiting 1961 version. Apart from questions of constitutionality, most observers believe this approach would create unnecessary problems for Chavez and delay consideration of badly needed economic changes.

Despite well-founded concerns about Chavez's commitment to democracy and free markets, the United States should accept his conciliatory, anti-corruption, pro-business statements at face value. The U.S. should also use the opportunity of an early visit to the United States to reinforce the message that relations between the two countries have to be based on a mutual commitment to democracy. In the meantime, the U.S. government needs to develop a well thought out strategy, based on U.S. interests in Venezuela and the region, and not on wishful thinking or on pressures from politically motivated interests to make early commitments which could be regretted later. Chavez was elected overwhelmingly in an open and fair election, and the United States should engage his administration early on, emphasizing Venezuela's historic role in defending democracy and human rights. Chavez should be judged on his current plans and actions, more than on his past rhetoric. He has announced plans to visit Brazil, Argentina and Colombia in the next few weeks. His next stop should be the United States.

**Victory: a Blow to Establishment**

Chavez won the election with 56 percent of the vote over his nearest challenger, Henrique Salas Romer, who received about 39 percent -- the largest winning margin since the democratic era began in Venezuela more than 40 years ago. His victory was a major blow to the economic and political establishment, including the two traditional political parties, Accion Democratica and COPEI, both of which in the end repudiated their own candidates and backed Salas Romer in a last-ditch attempt to defeat Chavez. Despite concerns about the possibility of violence and fraud, the election was orderly and calm. The single issue, which seemed to have the most resonance during the campaign, was Chavez's charge that the traditional political parties were responsible for the corruption and mismanagement of the country's oil wealth, and for catering to a small elite.

**At War with PDVSA**

The president-elect has reserved his harshest criticisms for one of the most powerful institutions in the country, the state-owned but fiercely autonomous oil company, Petroleos de Venezuela (PDVSA), which has been run like a private sector firm. During the campaign he denounced PDVSA, which fully generates 80 percent of Venezuela's exports, as a "state within a state". He has since stepped up his attack on the company, denouncing what he called its "Saudi-style use of airplanes, costs out of control and gold-card culture." "We have to subordinate PDVSA to the Venezuelan state," he said in a recent television interview, "today it is insubordinate." These attacks mirror his strong anti-corruption stance even though PDVSA has been relatively immune to scandal.

He harshly criticized the company for bringing forward its annual shareholder's meeting before the elections, and said its investment plan totaling some $11 billion ($5.8 billion of which is foreign investment) was unacceptable when universities and health care were not even getting $1 billion. "PDVSA in my government will come to depend truly on the national government. It should be put to the service of the country," he said. In an effort to avoid problems with the incoming president, PDVSA has already announced a cut of some 17 percent in its preliminary 1999 budget. Chavez has also suggested that PDVSA should sell off its subsidiary companies in the United States and Europe although he has received advice against such a move.

His attacks on PDVSA are in line with other promises to the country's have-nots, including proposals to increase the minimum wage by 50 percent, and creating a more egalitarian society. One of the more serious problems Chavez will face when he assumes office on February 2, is

that of fulfilling the unrealistic expectations of the 7 in 10 Venezuelans living in poverty who danced in the streets after his victory.

**Must Win Confidence of Investors**

Chavez will have very little room to maneuver given Venezuela's dire economic crisis, the worst in more than a decade. The country is plunging into recession, inflation is hovering around 65 percent as are interest rates, there is a $5 billion budget deficit caused by low world oil prices, and a devaluation of the Bolivar is almost inevitable. The country faces $5.7 billion in scheduled debt payments next year and the government will most likely have to go to the market to meet them. In spite of his early success, Chavez has a long way to go to win back the confidence of investors who were shaken by his early talk about reviewing privatizations and imposing a foreign debt payment moratorium.

Some of the questions about his political and economic reform plans may be answered soon as he appoints members of the cabinet. So far he has named only his Defense Minister, General Raul Salazar, who had been Venezuela's defense attaché in Washington. There is speculation that he will name Jose Ignacio Moreno Leon, Rector of Metropolitan University in Caracas, as his finance minister, although it is possible that he will keep the current finance minister, Maritza Izaguirre, on the job for a while to ensure continuity.

*About the Authors*

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