

Maduro Causes a Stir with About-Face on Dollarisation

Venezuelan news outlet Supuesto Negado looks at reaction to the president's recent comments condoning dollarisation.

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Global Research, December 16, 2019

[Venezuelanalysis.com](#) 10 December 2019

Region: [Latin America & Caribbean](#)

Theme: [Global Economy](#)

Former Vice President, turned journalist and TV host José Vicente Rangel recently returned to the screen in a big way with an [interview](#) with President Nicolas Maduro, in which Maduro shook the hornet's nest with his comments concerning dollarisation.

Asked about the serious economic problems in the country, Maduro said he did not see the increasingly open presence of the US dollar in everyday transactions (1) as a bad thing, praising it as a mechanism which helps some people supplement their [Bolívar currency] incomes.

Following the interview, Troy began to burn, and continues to smoulder, albeit with low intensity given that news from neighbouring countries is dominating headlines.

Maduro's opinion received major criticism from both sides of the political spectrum. Some described this position as inconsistent and contradictory, while others deemed it improvised, heterodox and legitimising ever deeper inequalities.

Accuracy required

Chavista economist and National Constituent Assembly deputy Jesus Faría made some clarifications regarding what the president said.

"At no time did he hail dollarisation as an economic framework for our country nor did he say that promoting it is part of his economic policy. Likewise, he did not say that the deliberate and open incorporation of dollarisation is in the Bolivarian government's plans," Faria says.

The economist also explains that almost all opinions circulating regarding the president's comments stem from a misrepresentation of his statement, which merely said that this is a situation which exists, is quantifiable, and must be evaluated. According to Faria, the president was observing that the phenomenon has helped some sectors to alleviate their immediate economic situation.

"This has been positive when you consider the impact that [US sanctions](#) have had on the foreign exchange revenue generated by our oil industry." The president referred to a situation that already exists in our economy, which is the growing existence of international payment methods, not just the dollar, in everyday transactions. This has allowed some

consumer needs to be met in one way or another in certain sectors. In that context, dollarisation need not surprise anyone. It is normal for a [hard] currency to be incorporated into our economy in the face of the impact which [hyperinflation](#) (2) has had on our monetary system,” he continued.

Faría predicts that the dollarisation process is going to be reversed when the accelerated price rises are slowed, which must happen with the revival of the economy and [oil production](#).

“These are plans which are in place, but in the international context in which we are in, they are hampered by the blockade and sanctions,” he said.

He adds that dollarisation has always existed in Venezuela, because the economy depends on oil revenues, which has historically created income in US currency. Therefore, to a very high degree, the economic apparatus has always been determined by the amount of dollars entering the country.

“The incidence of the dollar is an old story. In the last forty years, the price of the [Bolívar] currency has had numerous cycles of peaks and troughs, of much speculation and currency flight. The economy has traditionally been affected by the administration of the foreign exchange systems,” he explained.

Discursive inconsistency

Many of those who have castigated the head of state for his comments point to a lack of coherence with his own discourse in the recent past.

Indeed, Maduro himself and some senior government and party officials have [criminalised the dollar](#), describing it as a factor which detracts from national sovereignty. They also point out that dollarisation is one of the quintessential mechanisms of economic warfare.

This contradiction is even more drastic when one remembers that the US currency has even been [outlawed](#) from official references and valuations, rather opting to use Venezuela’s [Petro](#) cryptocurrency or a collection of other foreign currencies, including the euro, the ruble or the yuan.

The president’s defenders claim, however, that this is a tactical change of approach and that it is up to official experts to better explain the importance of this shift.

A heterodox dollarisation

Stemming mainly from the opposition, this criticism relates more to the fact that, in Maduro’s words, dollarisation is not a government policy but a resultant phenomenon which the executive now considers positive.

Assessing this criticism, it is stated that the dollarisation phenomenon is not governed by any public institution nor, in reality, by the financial system. There are no rules of the game or financial requirements which, among other things, allow tax collection.

Pollster Luis Vicente Leon states that

“it does not represent a formal dollarisation of the economy, but a permit for a de facto dual monetary system,” adding that “it is not a process of formal, comprehensive, rational and efficient dollarisation, that helps restore a feeling of economic balance, but a de facto and disorderly generalisation of the use of foreign currencies to respond to the loss of value, confidence and liquidity of the Bolivar currency.”

Another opposition economist, Jose Toro Hardy, has compared what is happening to what he calls “a normal dollarisation.”

He explains that if a coherent policy were to be in place, the Central Bank (BCV) would deliver dollars in exchange for local currency, which would be automatically withdrawn from circulation.

“There are no dollars in the BCV. Atypical dollarisation is taking place, without anyone knowing the origin of most of the dollars circulating,” he says.

At the opinion of far-right opposition banker Oscar García Mendoza, the dollars which nourish the system and generate a certain sense of calm come from drug trafficking. He predicts that this bubble of prosperity will burst and the consequences will be catastrophic.

Inequality

In the revolutionary camp, there are many who cried out after the president’s statement. This criticism focuses on the fact that dollarisation is openly biased: it applies to prices, but not to workers’ wages, which makes it an aggravating factor in social inequalities.

“Corruption and prices are dollarised, the only things left to dollarise are the most important things: wages, pensions and retirement packages,” says a tweeter named Malayo, representing the opinion of a portion of those who depend on Bolivar currency income in the middle of an economy in which green paper reigns supreme.

The complaint comes mostly from public sector employees, given that the private sector has been [partially] imposing dollar wages as a mechanism to retain their workforce, particularly if they are skilled workers.

Sociologist [Luis Salas](#), who briefly served finance minister under Maduro’s first government, has emphasised the political component of the presidential about-face.

In his view, Maduro’s comments prove “how what only a real or imaginary crisis can make happen, how the politically impossible becomes politically ‘inevitable’: a Bolivarian government sympathetic to dollarisation.”

Other dollarisations

In the global context, dollarisation has, in some cases, been a public policy decision, while in others it is a phenomenon closer to the Venezuelan case, that is, a reality that imposes itself.

Officially in Latin America, Panama, Ecuador, El Salvador and the Bahamas are dollarized.

Each case has its specificities and peculiarities, but in general US money circulates as an internal currency.

In several other countries across the continent, dollarisation has been proposed, in particular as a possible way out of serious inflationary crises. In almost all of these cases there is already a real circulation of the US currency as a way of saving and preserving the international value of goods and services.

Another example of a country that became dollarised – and a very negative case – is Zimbabwe, which did so about a decade ago and has seen its economic situation deteriorate severely.

Other, non-dollar, foreign currencies are also used in the African country as domestic forms of payment, including the euro, UK sterling, the Australian dollar, as well as currencies of neighbouring countries such as the South African rand and the Batswana pula. This resembles Venezuela, as in the regions bordering Colombia there is a replacement of the Bolivar by the [Colombian] peso more than the US dollar.

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Notes

(1) Since August 2018, when the National Constituent Assembly overturned a law prohibiting foreign currency transactions in Venezuela and President Nicolas Maduro [pegged the minimum wage to the value of the Petro](#), legal dollar-based trade has taken off, especially in high-value markets, such as real estate, vehicles, or even phones. This has coincided with the opening up [legal exchange shops in some banks](#), and a 2018 decree enabling some wages to be dollarised.

(2) [Recent economic data](#) suggests that Venezuela has technically come out of “hyperinflation.” Nonetheless, inflation is still rampant, despite having slowed since the start of the year.

Featured image: Dollar bills are increasingly common in the Venezuelan economy as a form of payment. (Supuesto Negado)

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