

The Washington Post

How a sensible economic policy might have sparked Venezuela's protests

*By Adam Taylor
February 27, 2014*

While much of the world was focused on the dramatic scenes in Ukraine over the past few weeks, a situation much closer to home (geographically at least) exploded: Weeks of [anti-government protests in Venezuela that have left at least 14 dead](#).

What was it that brought so many people out against Nicholas Maduro's United Socialist Party? There's no simple answer for that, but this week [we discussed one idea](#): That the personal economic gains many of Venezuela's poorer people had seen under Maduro's predecessor and mentor, the late Hugo Chavez, were eroding due to rampant inflation and a lack of basic goods. The theory is backed up by dramatic data [from Gallup](#) that appeared to show people were beginning to feel the pinch.

However, perhaps there's more to it than that. Juan Cristobal Nagel, [editor of the blog Caracas Chronicles](#) (which tends to support the opposition), looked into it and found a more nuanced explanation, something which had created what he referred to as the "Cadivi Barricades." It's a very persuasive theory.

If you are not living in Venezuela, you probably haven't heard of "CADIVI" (I certainly hadn't). The acronym stands for Comisión de Administración de Divisas, or the Commission for the Administration of Currency Exchange, a state-run exchange that could grant a limited number of dollars at a low official rate (6.30 Bolivars to a dollar) for a number of reasons, including travel abroad, to citizens from 2003.

For the middle or upper classes, there were plenty of reasons to like CADIVI. For example, they could go abroad and get money out on a credit card at the lower rate, a practice that has become known as el raspapito or "scraping." These dollars could then be taken back to Venezuela and sold on the black market, where their value might be 48 Bolivars a dollar, according [an article in the Guardian this year](#). The money might also be used to buy luxury goods abroad at artificially low prices. The situation was easy to exploit: Those with access to the cheap dollars might even just keep the money in Venezuela, buying plane tickets to satisfy CADIVI, but never actually bothering to make the trip.

Such a system was clearly not ideal for the Venezuelan economy, and helps to explain why official inflation levels have been at 56 percent (and have been estimated by the CATO Institute to really be at [more than 300 percent](#)). Maduro's government, hoping to tame this inflation, recently implemented a new set of laws that were at least in part designed to end this exploitation of CADIVI.

Now, under the new system, known as Sigid 2, only state-owned companies will have access to the low official exchange rate, and for other purposes [a third exchange rate will be set up](#) where the price of dollars will be set every day using a form of supply and demand. Economists at Bank of America Merrill Lynch believe this new exchange could result in an [average exchange rate of 25 to 40 Bolívares to the dollar](#).

On the surface, at least, this seems like a sensible idea for the wider Venezuelan economy. In effect, however, this means that the glory days of CADIVI have come to an end, and that isn't good for the middle class. "There is an increased sense that the days of free Cadivi cash are gone forever," a friend of Nagel [quoted by Caracas Chronicles told him](#). "The end of this bubble ... is really difficult for many middle-class Venezuelans to accept."

As much as Venezuela's middle class might disagree with Maduro's government, CADIVI had allowed many of them to make personal gains at the expense of politics. "The result is that, in socialist Venezuela, those with access to foreign currency can propel themselves into the one percent, flying around the world and living in five-star hotels," Time Magazine's Girish Gupta [wrote last month](#) of CADIVI, "while locals earning in Bolívares battle one of the most expensive economies on the planet, struggling to find and afford basics such as cooking oil, chicken and toilet paper."

It's perhaps ironic that Maduro's seemingly sensible attempt to control the Venezuelan economy – clearly one of the country's biggest problems and a threat to the poorer people who make up his base – might have sparked the biggest protests of his short time in office. Without CADIVI, an unspoken agreement between Venezuela's middle-class the Socialist government could be over.