PANAM POST
News and Analysis of the Americas

Venezuela: There's only one way to fix the world's most miserable country

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March 4, 2018

Venezuela closed out February with an annual rate of inflation of almost 5,000%, still the highest in the world, according to Johns Hopkins University applied economics professor Steve Hanke, a leading expert on hyperinflation.

It is disorienting to live with such high levels of inflation. The spiraling prices, which double about every month, completely distort market signals.

"In a well-ordered market economy, what happens is you turn on the radio and you get a perfect signal," Hanke told the *PanAm Post*, "but in the case of hyperinflation, turning on the radio leads to massive static—you can't hear anything."

Private and public employers are hindered by the static as they try to set wages. In less than two months, the Venezuelan government has more than doubled the minimum wage to over 1.3 million bolivares (just over $6 dollars)–a number that also includes food stamps. That's enough to buy just two eggs a day. To afford a basic basket of goods, a family would need more than 20 minimum wage salaries.

The rapid deterioration of purchasing power is evident in the increasing number of deaths from starvation and the inability to pay for medical treatments. Basic goods have become difficult to pay for but also increasingly scarce due to stringent price controls. Rummaging through trashfor a meal or dying from diseases treatable with hard-to-find antibiotics are now commonplace occurrences. According to a recent study, venezuelans lost 24 pounds on average in 2017, and more than 87% of households live in poverty.

"Venezuela has got by far the biggest misery index in the world," Hanke told the *PanAm Post.* For the third year in a row, the country topped the list to become the saddest and most miserable country on earth in 2017.

This comes as no surprise to those who live under the crushing weight of Venezuela's economic crisis.

A world of chaos and instability engulfs countries with high inflation and lost price signals. Yet there have only been 58 reported cases of hyperinflation around the world—defined as 50% inflation per month for at least 30 consecutive days—according to the Hanke-Krus World

Hyperinflation Table. Venezuela became the 57th in December 2016 (Zimbabwe returned to the list in 2017 as the 58th case), and was welcomed thus:

"Venezuela, welcome to the record books. You have now entered the inglorious sphere of hyperinflation. It is a world of economic chaos, wrenching poverty and death. Its purveyors should be incarcerated, and the keys should be thrown away."

The Grim Reaper

The country's ravaging inflation came with the bolivar's collapse. "The Grim Reaper has taken his scythe to the Venezuelan bolivar" Hanke said in the report introducing Venezuela's hyperinflation.

"The start of [inflationary] processes are always the same," Hanke told the *PanAm Post*, "there's some reason why a big gap develops between government spending and revenues that they're bringing in, and what they do is go to the central bank and sell bonds."

"The fiscal authorities go to the central bank governor and put a gun to his head…and he turns on the printing presses," he explained.

In Venezuela, it's clear that 21st Century Socialism drove the bolivar to its death. The chavista revolution established a policy of unbridled and reckless government spending, coupled with the classic socialist recipe of industry nationalizations and confiscation of private property, the consequence of which for years was masked by high oil revenues. The government (and its cash cow PDVSA) is now broke, and facing a debt of more than $140 billion. Limited by growing international sanctions, and with the economy in freefall—GDP has declined by more than 30% since 2013, the year of Chavez's death—it is running out of ways to pay. The bankrupt state with a slew of social programs, subsidies, and corrupt practices to upkeep, sees only one solution: keep printing money.

Yet skyrocketing prices and funding limitations means they won't be able to keep the printing presses on forever.

Dollarize: "It solves the problem. End of story," said Hanke, who has helped implement the currency regime in countries like Ecuador and Montenegro, " it solves the problem, literally, from one day to the next."

As anyone surviving in the Venezuelan economy can acknowledge, the dollar is king. Everything from medical procedures to spare car parts are now quoted in the U.S.currency.

"Venezuela has essentially spontaneously dollarized," Hanke said, explaining the next logical step is for the government to make it official, like Ecuador did in 2001.

The economist emphasizes that dollarization must take place *before* any of the country's other problems can be fixed. Debt restructuring, PDVSA's financial troubles, and removing price controls must all take a backseat. Why? Because without stability the government will have no credibility, and without credibility no solution can stick.

“Stability might not be everything but everything is nothing without stability,” Hanke reiterated, “the only way you can get stability for sure in hyperinflation is to dollarize.”

In a country where the rule of law has disappeared, the currency regime provides discipline and brings back rules to the system of government.

“It makes the fiscal authorities behave,” Hanke explained, “it’s what we call the hard budget constraint in the system.”

There can be no more running to the central bank to turn on the printing press because with dollarization the government will have no fiscal authority. Of course, the current government is unlikely to accept such conditions.

“The current government wants no straight jacket on them. The hard budget constraint puts a straight jacket on the politicians, and that’s exactly why the dollarized system is so good; it confines them,” Hanke said.

Dollarizing–the overnight solution to hyperinflation–seems to be only possible in a post-socialist, post-dictatorship scenario, as it would it mean giving up the central bank coffers the chavista government has been looting for years.

Alternative Solutions

Some economists advocate for a currency board, where the bolivar would essentially be a clone of the U.S. Dollar with a fixed exchange rate 100% backed by a dollar reserve. Hanke hassupported and even helped to implement this system in several countries.

In fact, in 1995 he came to Venezuela as an advisor to president Rafael Caldera to advise on the possible implementation of such a currency regime.

“[Caldera] realized that you had to have some kind of a fixed exchange rate and discipline in the system,” Hanke says. His scheme proposed the currency board to be a legal entity in Switzerland with reserves kept in the European nation as well.

Unfortunately for Venezuela, Caldera couldn’t garner enough political support to put a bill before congress. And today, given the chavista government’s record of lawlessness, it now seems to be an inadequate solution.

“I don’t think at this stage it would be appropriate in Venezuela simply because that requires to have a currency board law and abide by the rules of the law,” Hanke told the *PanAm Post*.

The economist explains that Venezuela’s case relates more closely to that of post-communist nations, many of which he’s had first hand experience with.

“It’s not like a Latin American country that’s gone through one regime change after another, it’s not a Latin kind of case,” he said, “it’s a post-communist case where you have to have really quite a radical reform to get the country back in shape again, and stabilized.”

Therefore, dollarization is the only way out of the country’s misery: “All the other schemes are doomed to failure,” Hanke said.

“You must start with dollarization. If you don’t dollarize, all else will fail.”