



SCORCH EARTH SUICIDE IN VENEZUELA

By Carlos A Rossi

EnergyNomics de Venezuela



Nicolas Maduro has drawn the line in the sand: Either you are with me and stay here living precariously with Chavism, or you are against me and get out. If you choose none of the above: Starve.

Cornered by a hyperinflation over 33,000% and climbing, expected to reach a million% at year end by the IMF, a cumulative fall in the GNP of 50% since he took office in 2013, oil production to 1.2mmbd or 1947 levels despite harboring the largest oil reserves in the planet, plus a myriad of human miseries in education, medicine, scarcity, spontaneous protest all over and unprecedented exodus to near and far away nations and a long etc, not to mention the scourge of its neighbors and a standing military threat from the most powerful country in the World, Nicolas Maduro has had enough and on 17th of August, hereafter to be known as Red Friday, he announced a string of economic measures with the sole intent of what can only be interpreted as **“Scorch Earth Policy”**.

Defined: Scorch Earth Policy is “a military strategy of burning or destroying buildings, bridges, crops, water holes, or other resources in your homeland that might be of use to an invading enemy force”. Example, what Russia’s Red Army was forced to do when the Nazis invaded them in 1940. In Venezuela’s context the enemy is already here, the 82% of the people who oppose his ruling. Since the failure of Chavism in his mind can only be explained by “national and foreign economic war”, scorch earth is his only remaining option.

In his speech this fateful Red Friday Maduro defined many measures of which 3 stand out: 1) A sharp increase in the price of gasoline to international levels. 2) A unified exchange rate anchored to the governments “Petro” virtual currency. 3) a 3,500% increase in the minimum wage. Other measures like modest increases in income and





value added taxes are minor and will not be discussed here except to say that in an economy that is in clear depression mode the increase of any kind of taxes further deteriorates consumption demand, a prerequisite for recovery.

Lets start with the sharp rise in the price of gasoline. It is actually a step in the right direction and one that I have been urging over the years. As is, at U\$0.01 per liter is by far and away the cheapest in the World, second place Iran is 25 times more expensive; neighboring Colombia is 77 times more expensive and in the USA a motorist pays a full 83 times more than Venezuelans pay. This means that for what each American motorist pays to fill the gas tank of her sedan Venezuelans fill it 83 times! This is not only beyond ridiculous but detrimental to Venezuela in many fronts: First it is a regressive tax on the poor who don't own cars while the rich and middle class does. 2) It fuels conspicuous driving consumption leaving less for exports, which would fetch tons of more money for the government. 3) It provides irresistible incentives for contraband to neighboring Colombia and Brazil (114 times more expensive)¹. The estimate of revenue losses to the nation for this practice has been estimated by the Venezuelan government to be anywhere between \$18Billion and \$20Billion per year. In fact, I strongly suspect that a big reason for this price hike is a vengeance move from Maduro to Colombia's newly elected President Ivan Duque, who has taken a strong stance against the Venezuelan dictator. 4) Finally, in other countries sharp gasoline price increases have absorbed excess liquidity from the public thus contributing to lowering fiscal deficits and inflation to normal levels (eg. Bolivia in 1980s). I said as much when I urged this policy years ago; but now I strongly doubt it would have much effect because Venezuela's hyperinflation is foolishly fueled by the other policies of state production control, scarcity, and uncontrolled fiscal deficit of about 17% of GDP, all of which will surely exacerbate in the wake of Red Friday; even if the government successfully inoculates food transportation to the cities.

As I write these lines the government has not legally printed the new gas prices in the Gaceta Oficial, the official Gazzete that initiates the legality of any law or decree in Venezuela. To equate Venezuela's current gas price with the international level, now at \$1.16per Lt, it implies an increase of 11,500%. A much abrupt measure to be absorbed by anybody at once. But there is a caveat. Those citizens that own the "fatherland card"-the official identity card of chavism-will be exonerated from this increase by receiving at a "later date" a direct compensation into their bank accounts, or so they say, a clearly apartheid measure against most of us (>80%) that abhors what chavism has turned out to be. The experience of this plan in Iran has been reportedly good. The problem of course is that its hard to imagine any nation in the entire planet with a worst record of fulfilling a "Plan" than Venezuela.

But in conclusion, on balance this move is actually a plus, although it was done belatedly, much abruptly, and with clear intentions of apartheid.

¹ Gas petrol stats from GlobalPetroPrices.com





Moving on, the unified exchange rate anchored to the Petro-Cryptocurrency has a so-so part and a terrible part. The unified part is good because as it stands, the complexity of 3 official levels far distant from each other plus a black parallel market exchange rate reported by a Miami private web site, where the vast majority of the transactions take place since the others are inaccessible and impractical². This time Nicolas Maduro did it, although again much belatedly, under much pressure, and surrendering to the Miami Web site; the level he put is almost exactly at the parallel market rate that they reported. But it is also, as my college and National Assembly member Jose Guerra reported, the single worst devaluation this country has ever experience in terms of magnitude. Maduro's official rate devaluation this Red Friday was over 2,311%, by far dwarfing the previous 1989 mega devaluation of 134%. These sky high figures are dwarfed by the more deep space numbers of the parallel black market exchange rate: In 2018 alone this parallel exchange rate has devalued 2,332% and if you go back when Maduro started his administration, it has devaluated over 23,300,000%.

I call it so-so, a euphemism for mediocre, because it is good that Venezuela has a unified exchange rate that reflects the now market value of a strongly deteriorated exchange rate. However, what this is going to do to import costs of everything from food seeds to pharmacies, auto parts, PDVSA equipment and a long etc is downright horrible. The government has since announced that they will not auction dollars to the public because, as everyone knows, they don't have any to offer (Venezuela's external reserves are down to about \$9.3Billion, about \$1.5 of which is liquid and the rest are in Gold Bars that only the government is sure where they are-Middle East?). What they will auction is Petros. This leads us to the surreal and terrible part of this plan.

The anchoring of the exchange rate to a cryptocurrency Petro. The idea is for the State to link the Bolivar to the Petro and link that to the Price of Oil of 5,342mm of certified barrels of crude oil in the oil rich Orinoco Oil Belt (set at \$60). So far so good because as opposed to Bitcoin that only depend on blockchain technology, the Venezuelan government is the only one allowed to mine this cryptocurrency that is linked to a tangible wanted energy source. But this is were the problem lies. First it breaks not 1 but 2 constitutional laws. The only currency that the Venezuelan Constitution allows to circulate in any form of exchange is the Venezuelan Bolivar which is also supposed to be anchored to oil exports and we already explained how the government managed that. Second, the only institution that can change this is the legitimate National Assembly which is majority controlled by the opposition, and since Maduro bulldozed

² Throught Chavez-Maduro's terms in office this official rates have been called, at various times, Cadivi; Sicad; Sitme and Ditcom. All of them failed for the same reason; none of them could have enough foreign currency to meet demand or deliver it quickly enough. So people were left with no choice but to deal at the much more expensive private black parallel market rate. The ultimate humiliation: that was controlled by a Miami based web page called DolarToday who daily set its official price from the daily average transaction of Vzla. Bolivar-US\$ in Cucuta (a border Colombian city in the Andes).





their legality and ran most of them to exile, including its President Julio Borges, its hard to imagine any of them vouching for the Petro, let alone the required majority.

The second law that the Petro breaks is the guarantee, because again by constitutional law all mineral underground resources belong to the Venezuelan State, not the Government, and any deal that involves oil not yet produced must be agreed by the National Assembly, which will, again, never do. This means that if the government welsches on their commitment, as they have done numerous times, there is no way any Petro holder would be able to execute any guarantee. There is a further problem. The United States Treasury Department has formally announced direct sanctions on anyone dealing the Petro. So the Venezuelan government anchored its exchange rate on something that does not legally exist, that cant exist, and even if it does exists it will be quelled by international sanctions. This government is of course knowledgeable of all of these misfortunes but they went and did it anyway. This is Scorch Earth Policy, pure and simple.

The icing on the cake is the last policy, the outrageous and humongous 3,364+% wage hike of the minimum wage to what is today 180million bolívares per month, or in next month parlance, 1,800 Bolívares (1/2Petro) since the government also erased 5 zeros from its bills. This of course would create massive unemployment but since firing anyone is illegal here, what in all certainty will happen is massive private company closures thus creating massive unemployment. As companies shut down so will banks because they will not be able to recover their outstanding loans and will not be able to pay their own loans. As they collapse, a domino effect occurs were all privately owned pharmacies, clinics, insurance companies, food outlets, entire industrial and agricultural sectors will close shops, then the State will capture them and will thus nail down what it has always wanted, a full **Communist nation**. Judging from how the government has ran its already owned production and distribution facilities, its not hard to phantom what the only possible result of this will be.

The implications of this move to the fiscal deficit are clear. The government has about 3million employees working in the Central Government plus an additional 3million retired people that earn the minimum wage and add a possible 600,000 people that work on contractual basis, including police in the nations municipalities etc, that also earn minimum wages. Where are they going to get the money to pay all these people? The only answer is the printing machine. But when they do this, they are either going to kill what's left of the international reserves or destroy the Petro anchoring strategy in a month and create a black-markets for everyything. In addition, the government has said that they will cover the PYMES (small and medium sized companies) payroll for 90 days. Are they really? Is a pharmacy in a far-out post in Delta Macuro State going to get this every fortnight? I don't think so. And what about the large companies like Polar, how are they going to pay their people whom they need to produce the little people eat here?. **The government is imposing price freezes in their products and raising their payroll 35 times!. GDP collapse and Scarcity galore. There is but one interpretation of this. "I am taking over everything"**





The final implication being, as stated above: *“I know you are after me USA, Europe, Latin America, Canada, but if I am going down this ship is going down with me.”*

CONCLUSIONS:

So what are Venezuelan’s supposed to do?: Submit themselves to this hellhole quietly? Unlikely. Leave the country by sparking up what is already an enormous exodus? More Likely. Wait for a Pinochet style military coup? Possibly but only if an international threat is real. Worthwhile mentioning, these economic measures were announced the day before the legitimate National Assembly voted unanimously to uphold the ruling of Venezuela’s legitimate Supreme Court (in exile) to oust Nicolas Maduro and jail him for 18 years+ on charges of corruption. The importance of this measure cannot be overstated; for it means that a military push on Maduro cannot be seen as a constitutional break down or “coup”, since they would be fulfilling the mandate of the legitimate constitutional institutions, the National Assembly and the Supreme Court. On the contrary, if the military decides (as it looks like they are) to maintain Nicolas Maduro in power, that would be seen as a military coup by international observers.

What about an spontaneous social implosion? Likely too except that if history is any guidance the words spontaneous and successful do not go together in political movements. The memories of the 140 killed in last year’s uprisings are still fresh and create understandable fear. As it happened in India with Gandhi, South Africa with Mandela, Poland with Walesa and here in Venezuela with Betancourt in the late 1950’s and others **Unified leadership and a Plan for the Day After** is required; because the first identifies people with the movement and the latter assures them that they will not jump the plane without a parachute. But today given the disgraceful behavior and inflated egos of the Venezuela’s opposition parties any unity amongst them would be a miracle³. They even abstained from voting in the Constitutionally mandated Presidential Elections last May when they had Maduro on the ropes with 22% polling popularity and, at the time, over 100.000% inflation!⁴. What about creating destabilizing atmosphere through workers and owners strikes to breed the ground for a foreign coalition of humanitarian intervention, knowing well that whatever its results will be better than Chavism? Maybe. **All of the Above? YES, Certainly, You Bet!!**

Yes, the announced economic policies of Nicolas Maduro are **scorched earth suicidal**, just not for Venezuela.

“Tyranny cannot possibly reign but over the ignorance of the people”

Francisco de Miranda

³ EnergyNomics, in my person, has such a plan in the Venezuelan economic sectors that matter most. Including foremost Energy. The works of Albert Hirschman highly influenced this work, among others.

⁴ Please read this firm’s a detailed account of that fateful event here:

<http://www.energynomics.com.ve/wp-content/uploads/2013/04/Que-paso-20Mayo.pdf> (in Spanish).

