



How to rescue Venezuela: A political economy adjustment plan

The Republican Pact
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Overview

- A new Republic requires a cure for rentism.
- Four bases for the recovery plan during transition:
 - Confidence
 - Solvency
 - Liquidity
 - Governatality

Rentism: main enemy

- While rent seeking is minimal in robust democracies, in Venezuela it captures the State and most of the opposition.
- The main symptom of the illness: a mafia cartel that captures:
 - Every government (even before Chávez).
 - The military leadership: to serve the mafias, not the nation.
 - All powers: Justice, Central Bank, regions, cities, even communities.
 - Democracy: rigged elections and populism.
 - Opposition, private sector leaders, media, with widespread corruption.
 - Culture of rentistic populism.

International implications

- While usually it gives much power to cartels, in Venezuela huge rent has had important international implications:
 - Cuban domination.
 - Important involvements of China, Russia, Iran, Syria.
 - Related to drug cartels to complement domination.
 - Related to arms traffic and other illegal businesses.
 - Safe heaven to Colombian guerrillas and other terrorists groups.
 - Worldwide and regional geopolitics: Sao Paulo Forum LA influence.

Why Maduro still in power

- In 2014, oil prices drop significantly.
- The artificial economy shows true colors. Trouble mounts as real salary evaporates with hyperinflation when government finances huge endemic deficits by printing money.
- Maduro, with the Cuban and military mafias, cling to power repressing widespread protests, rigging elections, buying opposition even more.
- After 2017 protests and historic civil society will resolution show (Consulta 16 of July, 2017) fail due to repression and opposition treason (false dialog, false elections), more than five millions Venezuelans emigrate to neighboring countries.
- In summary: **Repression** (Cuban terror) and **Treason** (opposition led by rent seeking mafias) explain why Maduro has not left like Bolivia was able to outs Evo Morales.

Getting rid of mafia cartel

- The solution is by force, no doubt:
 - In Bolivia it was by the force of the people in the streets.
 - But the military and the police there supported the people, and that additional force was determinant.
 - In Venezuela, meanwhile, widespread street protests have not been enough, since the regent mafias of the cartel are the corrupt armed forces command, on the one hand, and the Cuban regime, on the other. We have had more than 200 dead demonstrators, more than 500 political prisoners, generalized torture.
- Fortunately, we have an excellent rebel Bolivarian military and police leadership in state of readiness, acting within an alternative Political coalition, the **Republican Pact**, to restore the rule of law. They count with more than 80% of the active military, all of middle and low ranks, victims too of the same economic and social hardships, ready to follow that leadership against the regime to restore democracy.

The Republican Pact

- While a military action would get rid of Maduro in just a few hours, that would not be enough.
- On the other hand, the technical solution to rentism is easy: It takes away the meat that feeds the vultures, with a fund Norwegian style.
- In fact, a “solution” by force is being planned by the “moderate” rent seeker coalition: Some opposition leaders, in alliance with corrupt financiers, some of them from chavismo (Gorrín, Ramírez) want a “gray cat” change. If successful, it would leave all the described effects of rentism intact, including Cuban domination, Colombian and Hezbollah guerrillas, drug trafficking, economic underdevelopment, etc. In exchange for a moderate economic improvement to guarantee that their domination extends in time.
- In the meantime, we have been able to put together a Political alliance project (with capital P) to get a proper solution in favor of the people, and of the international community who seek restoration of democracy and state of law: so far we call it the **Republican Pact**.

Long term solution

- The **Republican Pact** is a long term Political alliance project with the following proposed players:
 - Main independent civil society representatives.
 - Our Bolivarian military.
 - The political parties and leaders not related to corruption.
 - An international coalition led by the USA.

Structural change dynamics

- Rentism is a “fixed point” stable equilibrium in a dynamic system:
 - Even if you get out of it, you come back to it in time. It is an attractor.
 - Even if you get rid of Maduro with honest people.
- We need a new fixed point stable equilibrium to which converge in time: a proper Republic established through institutional reform and the exercise of enough Political power.
 - The Norwegian kind of oil fund would be part of the reform.
 - The Republican Pact in power would guarantee what is needed: Confidence, Solvency, Liquidity and Governability.
 - Enough time is required to be able for the team set the proper basis: four years for the new transition government.

First basis: Confidence 1

- Confidence by the right social factors is the key element for the reform to make it viable, since the enemies of it, the rent seeking cartel of mafias, national and international, would be still very powerful, and would have the corrupt opposition as allied puppets in order to wage a war against the reform that represents the interest of the people, and an enemy for their interests.
- Private investors confidence is fundamental. But the confidence of the rest of Venezuelans, who have to interpret the changes in the right way, in their favor, in order to defend it in the political fights to come, will be determinant too.
- For all that we need a proper team, on the one hand, and a winning strategic plan, on the other.
- The relevant areas for the members of the team, and for the plan, are: economic, social, political, institutional, and security (military and police).
- Regarding the first element, a dream team would be set in place in every of those areas, requiring from all of them three conditions: Morals, Knowledge, and Love. The last condition is key, since we need willingness to sacrifice for their country, not only ethical standards and ability.

First basis: Confidence 2

- Regarding the plan, we need:
 - Institutional reform, including a new Constitution, a new electoral system, and democratic elections in a timely manner. Special care will be given to transparency and citizen participation from below, to monitor and control, using a continuous evaluation mechanism, the transitional public officials, elected or not. Empowering the communities too, in a democratic manner.
 - Market oriented economic measures, including floating exchange rate regime and Central Bank independence.
 - Emergency economic, social, political and security measures, to cope with widespread hunger.
 - Direct subsidy indexed in dollars for all citizens, getting rid of CLAP system, to instantly restore purchasing power for the people and compensate for coming important increases of public services and gasoline prices.
 - Political and economic long term alliance with the USA, and a strong relationship with the IMF and other multilateral agencies, like World Bank and IDB.

Second basis: Solvency

- Fiscal solvency is a basic required policy:
 - To stop the printing money machine, the source of inflation.
 - To give confidence to private investors and international public agencies, like the IMF.
 - To establish the basis for proper debt restructuring, guaranteeing sustainability and long term viability.
 - To avoid contractive and unfair measures like tax increases and real expenditures cuts affecting public employment and salaries.
 - To guarantee a transition to reduce size of government, privatization of public firms.
 - To recover funds from corrupt officials; use them to finance the mentioned direct transfers in dollars to citizens, and to finance the initial emergency measures.

Third basis: Liquidity

- In order to recover the finances and the economy, new external debt is required. About \$60bn.
- Fiscal solvency can not be reached immediately without this, since the new sources of income (services) would take time to work. A sudden drop in real expenditures would not be advisable, both, for economic, and political reasons. And continue to print money is out of the question.
- Fortunately, Venezuela has huge potential, and a good plan and a good team would give enough confidence to get those funds, both, from the IMF, which knows our situation and our prospects, and from private investors.
- Required for imports of goods and inputs for economic recovery.
- Required to sustain a very strong and profitable debt restructuring, including recanting from odious debt with the Cubans, Chinese and Russians.

Fourth basis: Governability1

- Paradoxically, Venezuela has gone through such a deranged administration, that a minimum of sanity produces miracles, including a good social and political basis for governability.
 - We do not have to invent the wheel regarding economic, social, institutional, political, and security measures. We need liberal economic and political measures together with center oriented social policy, ensuring that both private investors, and also the poor and the middle class, as well as the public workers, are taken care of, to promote their well being using their new opportunities to work and produce.
 - Citizens decentralized empowerment, beginning at the community level, is crucial in what is to come, including the security issues of self defense against all kind of irregular elements who have taken the country for them in the absence of the state of law, justice and service.
 - The measures will not imply tightening the belt, as in countries like Greece. But to drop ship moorings, and let it sail freely, getting rid of such a big amount of controls and attacks on the private sector we have had so far, that only benefit the corrupt, the mafia cartel, and hurt the people. The vast majority of people will see it, even though it will affect the rent seekers, and the corrupt politicians, very negatively. That is the key of the political adjustment matter, instead of the usual classical kind of measures.
 - We have the resources to do it. Venezuelan private citizens alone have more than \$300bn abroad, waiting for conditions to come back home. Same with Venezuelan, well trained, emigrates, and private foreign investors wanting to come to a virgin land full of opportunities.

Fourth basis: Governability2

- On top, regarding the internal and international politics and interests, we will purposely make sure that we reach a broad spectrum of sectors and ideologies, within the limits of the three basic requirements for all: Morals, Knowledge, and Love. Zero tolerance to corruption and corrupt deals, including rentistic populism, and ideological confusion, since transparency will let people see the truth, and not be fooled, like it is going on in Latin America.
- Institutional reform, including the Norwegian kind of fund, guarantee stability, and governability because of that. In particular, the fund acts as a cushion facing exogenous commodity price volatility. Exchange rate volatility, and overvaluation, other symptoms of rentism, are also precluded, since rent dollars do not make it to the country, but stay abroad, strengthening the prospects of manufacturing and agricultural endogenous development, which will benefit investors, workers and consumers of a wide social spectrum.
- We foresee strong attacks from the rent seeking mafias, both internal and international, starting the first day, because the listed measures affect negatively their interests and their way of living. But with this team, and with this strategic plan, we are sure to win the war, not only the first battle of toppling Maduro like a Sun Tzu's kind of successful warrior, who wins the war first and then deploys to battle.
- That is what the Republican Pact is prepared to do with the support of
 - The vast majority of Venezuelans who will benefit from the measures.
 - The Bolivarian military, who, by doctrine, would come to liberate the people away from slavery of the Cubans and of the corrupt military traitors.
 - A strong geopolitical, long term alliance, with the USA.