



## MYTHS AND FACTS ABOUT VENEZUELA'S FAIR PRICES LAW

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Venezuela's new Fair Prices Law took effect on November 22, 2011. Its stated aim is to contribute to "the implementation of policies to democratize access to goods and services among all Venezuelans, in an equitable manner."<sup>1</sup> Some political sectors and businesspeople have criticized the law, attempting to discredit it while using arguments that do not correspond to reality. Here are some of the myths and facts about the law:

**MYTH: Speculation is an invention of the government and there is no reason to regulate prices.**

**FACT: Speculation is real and requires a response.**

The Food and Agriculture Organization of the United Nations (FAO) has denounced speculation as one of the factors contributing to a drastic rise in global food prices in recent years. This led the FAO to suggest that food markets may need some regulation to lessen the negative impacts of speculative trading.<sup>2</sup> Indeed, food prices have an enormous impact on household economies, especially among vulnerable populations. The Economic Commission for Latin America (ECLAC) predicted in its 2011 report that rising food prices would cause increased rates of extreme poverty throughout the region this year. In Venezuela, a country which according to ECLAC statistics has already reduced extreme poverty by over 10 percentage points since 2002, the government remains dedicated to enacting policies to assist vulnerable populations.<sup>3</sup>

**MYTH: There is no hoarding in Venezuela.**

**FACT: Hoarding does exist.**

It is a practice which creates artificial shortages, driving up food prices and contributing to informal markets which producers and middlemen can exploit to make profits. In a recent example, on November 25th, 2011, the government seized 201,000 kilos of powdered milk that were being withheld from the market by the company Parmalat. Days later, Parmalat released an official apology, saying "in no way did we intend to minimize the effort your honorable government and other public bodies make in favor of food supplies on a national level and the protection of consumers."<sup>4</sup>

**MYTH: The Fair Prices Law will destroy the economy and create food shortages.**

**FACT: The law will boost the economy and food supply.**

Agricultural production in Venezuela has not declined during the administration of President Chávez, even when price control mechanisms were employed to reduce speculation in the past.<sup>5</sup> However, the political opposition has consistently spread the myth of scarcity while denying the problems of hoarding and speculation. In contrast, the FAO has noted the great progress made by the current government on agricultural production. Between 1999 and 2009, Venezuela's per capita agricultural production index rose by five points and its production of cereal crops nearly doubled. In that same period, milk production went from 1.3 million tons to 2.2 million tons, while sugar production grew by eight percent even as the total hectares used for that crop fell by six percent, suggesting greater land use efficiency.<sup>6</sup>

**MYTH: Regulating prices causes businesses to operate at a loss.**

**FACT: The law makes proper considerations for businesses.**

As the Venezuelan economist Victor Alvarez of the Miranda Research Center explained in an article by EFE, this is because price regulations under the new law are based on costs throughout the entire value chain. Alvarez recalled that during the government of Jaime Lusinchi (1984-89) which approved the National Commission of Costs and Salaries, "the price of the final sale was controlled without taking into account the costs involved in raw materials, machines or equipment." Under these conditions, Alvarez said, "nobody had the incentive to produce," which led to "a surge in hoarding." Now, this will no longer be the case, because "the whole chain will be monitored and the proper adjustments made."<sup>7</sup>

**MYTH: The private sector is against the Fair Prices Law.**

**FACT: Many private sector players support the law.**



The President of Venezuela's Federation of Farmers and Ranchers (Confagan), which includes a great number of organizations from these sectors, called the Fair Prices Law "absolutely necessary." He said "it is going to bring equilibrium to sectors that had become unbalanced due to the way [some businesspeople] indiscriminately manage prices."<sup>8</sup>

**87% of Venezuelans agree that "the state should intervene to guarantee all basic food prices."**

**MYTH: Venezuelans are against the fair prices law.**

**FACT: The law enjoys popular support.**

Recent studies show that the majority of Venezuelans trust their government to solve social problems, and that they believe food prices should be controlled and speculators should be punished. According to the 2011 report by the Chilean polling firm Latinobarómetro, Venezuela has the fourth-highest rate of citizen confidence in the government, with 51 percent approval. The same report finds that 86 percent of Venezuelans believe the state has the means to resolve problems in society.<sup>9</sup> This data coincides with the findings of a domestic polling firm known as the 21st Century Social Investigation Group, which found that 87 percent of the population agrees that "the state should intervene to guarantee all basic food prices." Similarly, 78 percent of citizens agree that the law should establish some prices, while 87 percent believe the state should "fine businesspeople that unjustly increase prices."<sup>10</sup>

#### NOTES:

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