16 Progressive Third World Central Banking and the case of Venezuela

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While neoliberalism was broadly adopted by capitalism around the world over the course of the 1980s, it did not clearly articulate its own Central Bank policy until the 1990s. By the 2000s progressives had responded by formulating an alternative approach to Central Bank policy. The government of Venezuela under Hugo Chavez provides an interesting case study of an attempt to implement an anti-neoliberal and progressive Central Bank policy. The second section of this chapter will discuss the nature of neoliberal Central Bank policy and the third section will outline a progressive alternative approach. The fourth section will then look at Central Bank policy in Venezuela following the abandonment of its largely neoliberal Central Bank policy in 2005.

Neoliberal Central Bank policy

Throughout history Central Banks had a dual role: economic development, and stabilization of the currency (in the past referred to as protection of its value). Central Banks were strongly influenced if not controlled by the government, had the goals of financing governments, managing exchange rates and promoting development, including sector-specific development, and used direct methods such as directed credit allocation to promote development. As the neoliberal model of capitalism has come to dominate capitalist ideology and practice over the last 30 years, it has brought with it a fundamentally new model of central banking. This neoliberal Central Bank model is characterized by Central Bank 'independence',[1] inflation suppression (with or without a formal inflation-targeting policy) as its central if not single goal,[2] and the use of short-term interest rates (an indirect and non sector-specific tool) as its dominant policy tool.[3]

Neoliberal Central Bank policy can be thought of in this framework in two different ways. These extensively overlap, but they are not equivalent. On the one hand, neoliberal Central Banks can be considered to have abandoned the goal of development in favour of the goal of monetary stabilization, which they take to mean low and stable inflation. This is the way heterodox critiques often present the present conduct of Central Banks, and they then call for Central Banks to reclaim their abandoned role of developing the economy. On the other hand, neoliberal Central Banks can be considered to have continued their policy of sector-specific development, while shifting their priority to the development of the financial sector.

Since the financial sector considers low and stable inflation its central concern, one could think of these two conceptualizations as equivalent. We would argue rather that the second way of thinking about Central Bank policy is broader than and includes the first. It thereby gives us a frame for thinking about all the neoliberal Central Bank behaviours considered by the first approach (its abandonment of concern with growth, employment, distribution and so on), and in addition the frame also allows us to consider other behaviours. Neoliberal Central Banks not only focus on inflation, they also do at least two other things centrally important to finance capital, which often get much less attention than inflation targeting in heterodox discussions of neoliberal central banking. First, they consistently work for the adoption by the government of laws and interpretations of laws favourable to finance capital. This important behaviour clearly fits better in the frame of 'shifted concern with what to develop' than 'abandoned concern with development'. Second, during crises they intervene massively to absorb potential losses by financial capital with public money, essentially making massive transfers of public money to financial capital. Again, this fits well into a framework that sees the goal of neoliberal Central Banks to promote the development of financial capital by whatever means are available and effective.

One could look at these neoliberal Central Bank behaviours as those of an agent of capital and in particular of financial capital and simply say, 'they have the political power to effect these behaviors, and so as self-interested agents they do'. While that would be consistent with their neoclassical theory, neoliberals in fact often argue that their desired Central Bank policy of financial sector development (or as they like to call it for obvious reasons, 'eliminating financial repression') is 'best for everyone'. Over the last ten years they have produced a number of works that support the claim that an inflation-targeting Central Bank policy is better than alternative monetary policies. A very small sample of such studies, including two by well-known neoclassical authors and a work reflecting the position of the IMF, which has played an important role in pressuring particularly Third World countries to adopt inflation targeting, is Bernanke *et al.* (1999: 275), Mishkin and Schmidt-Hebbel (2001: 11) and Batini *et al.* (2006: 11).

Their argument that inflation targeting is a 'better' policy than alternatives has two steps. First, neoliberals claim that inflation targeting yields what they refer to as 'better substantive outcomes' or 'a very successful new monetary framework' etc. By this they mean primarily, or often entirely, reduced inflation, reduced inflation shocks and reduced inflation expectations. A large part of their empirical work, as for example in the three works just cited, is restricted to testing some form of that claim. The second step consists of arguing that reduced inflation in the very low range they target, reduced inflation shocks and reduced inflation expectations actually improve growth.[4]

With this understood, two types of rejection of their claim that inflation targeting is a better policy than alternatives present themselves. The first type of rejection argues that empirical tests find that inflation targeting in fact does not significantly reduce inflation, inflation shocks or inflation expectations. The second type of rejection argues that lower inflation rates in the minimal range aimed at by inflation targeting, and even in the moderate range,[5] do not show empirical evidence of a higher (and in fact they often lead to a lower) rate of growth.

Although it was not the first paper to make the first type of rejection by documenting the lack of support for the claim that inflation targeting gave better results even by their own inflation-focused definitions, Arestis and Sawyer (2003) carefully reviewed both the theory and empirical work that advocated inflation targeting up to that date. To begin with, they 'identified a number of weaknesses and reservations with [the theoretical foundations of inflation targeting]' (p. 24). Beyond that, their review of the empirical support for inflation targeting led them to reject as unfounded the then much cited claim by Mishkin that countries that adopted inflation targeting reduced inflation below what it would have been without those targets. They concluded, along with the neoclassical work by Ball and Sheridan (2003), that the general 'low inflation' environment in the world that had been in existence for a while at that time was not significantly different for inflation-targeting and noninflation-targeting countries. After four more years of attempts by advocates of inflation targeting to empirically establish that it at least lowered inflation, Epstein (2007: 39) could still safely claim that 'even the impact of these regimes [of formal or informal inflation targeting] on inflation itself is a matter of dispute'. The empirical evidence on the second type of rejection is divided, as it is on most politically controversial issues, but we find very persuasive the position that at least for middle- and low-income countries, moderate inflation countries do as well as, or better than, the minimal inflation countries. Pollin and Zhu (2005), for example, do a careful study of 80 countries over the period 1961–2000 that presents this conclusion. See also the mainstream studies by Bruno (1995) and Bruno and Easterly (1998).

While the inflation-targeting argument that lower inflation increases growth is the main neoliberal proposal for Central Bank policy, a secondary argument is that developing a stock market contributes to the growth of developing countries, and so Central Banks and governments together should promote the development of stock markets. Stock markets are centrally important to financial capital not simply because they create large profits for financial capital, but also for the broader reason that stock markets discipline productive capital to operate in a way beneficial to the (short-term) interests of financial capital.[6] Again, here we see the importance of adopting the broader view of neoliberal Central Bank policy as promoting the development of the financial sector, and not merely as abandoning development in favour of price stability. A careful empirical study by Zhu *et al.* (2002) found this neoliberal Central Bank behaviour of promoting stock markets also showed no significant empirical correlation with improved growth.

International financial capital continues to be successful in convincing an ever growing number of countries to adopt inflation targeting. New Zealand was the first country to adopt this policy in 1990. By November 2000 there were

19 inflation-targeting countries (Mishkin and Schmidt-Hebbel 2001: 1), and in March 2006 there were 23 (seven advanced industrial countries and 16 other countries),[7] with more than 44 indicating that they wanted to move to explicit or implicit inflation targeting (Batini *et al.* 2006: 4, 7).

If one accepts the general progressive position that under capitalism a high level of growth and employment (among other important conditions) are centrally important to the well-being of the majority of society, and one accepts the above evidence that rejects that the neoliberal inflation-targeting policy contributes to this outcome, this immediately poses for consideration the following question: what would constitute a more progressive Central Bank policy? Over the last decade, in response to the increasing hegemony in practice of neoliberal Central Bank policy and its failure in particular to provide an acceptable growth and employment combination, the general frame of a progressive alterative has emerged from the earlier work on the weaknesses of the neoliberal Central Bank policy.

A framework for a progressive Central Bank policy

The goal of a progressive Central Bank policy can be understood both as a rejection of the neoliberal policy, and at the same time in terms of the historical dual goal of Central Banks discussed above. Economic development is the central goal, understood broadly as improved social welfare. The second historical goal of limiting inflation, however, is not abandoned. It enters progressive Central Bank policy now no longer as a goal in itself, but rather in a fundamentally different way as a necessary constraint.

'Real targeting' is a common name for this progressive alternative frame that both indicates its direct focus on social welfare, and its opposition to neoliberal inflation targeting. As suggested by its name, the targets are some variables from the real economy which are important to social welfare. GDP growth and employment are the two leading candidates, but other real variables are possible, such as, for example, investment or distribution (Epstein 2003: 1). We will see that the Venezuelan variant of this progressive Central Bank policy has specified 'social inclusion' as its conceptual target, a real target that involves real sub-targets to specify what it means in concrete policy terms.

There are three important aspects beyond simply having real targets which contribute to making real targeting effective.

First, the targets themselves are country-specific. For example, in the post-2001 sluggish recovery in the United States, the rate of growth was more of a problem than unemployment, which would suggest the former to be the target.[8] On the other hand, two policy packages worked out under this approach for South Africa and Tanzania made unemployment the target, since in these countries this was a more direct problem than the rate of growth.[9] This ability to choose a target most appropriate for a given country constitutes a first aspect of the flexibility of this approach that does not exist in the inflation-targeting approach.

Second, there is no restriction as to the tools that the Central Bank can use to achieve the targets. This is contrary to the inflation-targeting approach that has the interest rate as its dominant tool, and precludes tools that would be harmful to the interests of financial capital. A good example of this type of Central Bank tool is currency conversion and other capital controls. These are often needed to prevent capital flight for the effectiveness of the entire progressive programme, but they would not be acceptable under a neoliberal Central Bank policy. They have been important to the anti-neoliberal orientation of Venezuela. For three good discussions on progressive capital controls, see Grabel (2004a), Epstein *et al.* (2004) and Grabel (2004b). Again, this aspect highlights the greater flexibility of the real targeting approach.

Third, the real target will generally be accompanied by an inflation constraint. This points back to the dual historical objectives of Central Banks discussed above, both real development and monetary stability. If real targeting were pursued without this concern, it could conceivably be carried out in such a way that inflation rose to a level that really was disruptive to the economy. An inflation constraint will prevent that. But the fundamental difference between a minimum inflation target and an inflation constraint must be stressed. As we noted above, the former aims for inflation levels no higher than 3 to 5 per cent, with lower levels always better, and such low inflation levels have not been shown empirically to yield growth better than levels up to around 15 per cent. An inflation constraint would allow social welfare enhancing policies to be actively perused even it they generated inflation, as long as it stayed below some level such as 15 per cent. This would not be possible under inflation targeting.[10]

Hence the strongest claim for the superiority of the real targeting approach over the inflation-targeting approach is exactly that it is more directly linked to social welfare than the assumed (and, as we argued above, empirically unsupported) indirect link of the inflation-targeting approach. To put this another way, one can note that to improve the social welfare the inflation-targeting approach has to indirectly affect some real variables, and since it has to do that anyway, one can ask why it does not simply directly target those variables. In addition, the much greater flexibility of the real targeting approach than the inflation-targeting approach means it is not subject to the sharp charge often directed at the latter, that it constitutes a 'one size fits all' policy.

With this understanding of the general frame of a progressive Central Bank policy as an alternative to the neoliberal recipe of inflation targeting, we now turn to look at the case study of Venezuela.

Venezuela: implementing a progressive Central Bank policy

It is not surprising that the Central Bank of Venezuela, embedded in the Venezuela's Bolivarian Revolution, would have a progressive Central Bank policy. Two things that we do find somewhat surprising, however, are that it did not come to have a progressive anti-neoliberal programme until 2005 (despite the Revolution becoming solidly and consciously anti-neoliberal at least by 2001[11]), and that the progressive anti-neoliberal orientation it developed resembles so strongly the theoretical considerations of a progressive Central Bank policy discussed above.

This section will have three parts. The first part will briefly document that the Central Bank under Chávez before 2005 was consciously, and publically, committed to the standard neoliberal Central Bank agenda. The second part will document the new progressive conceptual framework for its activity that the Central Bank established for itself in 2005. It is not possible to understand why the Central Bank took the particular concrete measures it did after 2005 if one does not understand its goals. The final section will document a number of the most important concrete progressive central banking activities that the Central Bank initiated after 2005 in pursuit of its new goals.

Pre-2005 Central Bank policies

At the end of the first year of the Chávez government, the president of the Central Bank, Antonio Casas González, wrote in his address on the Bank's performance that the Bank had been able to achieve the usual (neoliberal) goals, including in particular an inflation target. He stressed that this had been accomplished despite now being subjected to an expansionary fiscal policy that generated an expanded Treasury deficit as Chávez increased spending, especially on projects to help the poor:

> In 1999, the policies implemented by the Central Bank were framed by the effect of the economic direction taken by the new Administration. In this regard, coordination of monetary and exchange rate policies with fiscal policies has been achieved, which enabled the inflation target to be met. At the same time, financing of the deficit in the Treasury accounts has been facilitated. All this has been done in a stable environment in the foreign exchange market, an increase of international reserves, a reduction of interest rates and a timely servicing of the national debt. On the minus side, the trend of the economy was marked by recession during this period.
>
> (Casas 1999: 19)[12]

Even more interesting for the comparison to the post-2005 nature of the Central Bank was its clear statement of how it conceived of its role in the economy and society.

> [In a new Central Bank Act] we will be able to clarify and spell out the standards that will strengthen the Bank's nature as a fundamentally technical body, separating the sensitive duty of managing the nation's money supply from Venezuela's political concerns.
>
> (Ibid.)

From 2000 to 2004 Diego Luis Castellanos E. was president of the Central Bank, and while like his predecessor he had to adapt to Chávez's fiscal policies,[13] he continued the neoliberal Central Bank orientation. The Central Bank Law of 2001 reinforced the neoliberal orientation of the Bank in two ways. First, it re-emphasized the centrality of an anti-inflation focus to the Bank's activities which had been established with the 1992 Central Bank law, which had been written with IMF assistance: 'The main purpose of the Central Bank of Venezuela is to achieve price stability and preserve the currency value.' Second, it maintained the neoliberal goal of autonomy of the Central Bank, which paradoxically had been established by the progressive new 1999 Constitution under Chávez.

Venezuela's conceptual framework for its post-2005 Central Bank policies

Given the Central Bank autonomy just indicated, Chávez could not remove the existing director in the early 2000s even if he was conducting a Central Bank policy contradictory to Venezuela's overall progressive policy. But by the end of 2004 Castellanos felt so at odds with the general economic orientation of the Chávez government that he chose to resign. Gastón Parra Luzardo became president of the Central Bank of Venezuela in January 2005.[14] It is enough to read the introductory 'General Outlook' section of his first Year-End Address of 2005 to observe the change in the Central Bank policies connected to and represented by his appointment (Parra 2005: 7–12).

Parra posed the central choice between the neoliberal and progressive Central Bank orientations we discussed above as follows: 'Should the Central Bank of Venezuela be only a witness to growth and respond passively to the economy's demands for liquidity? Or should it, on the other hand, become an engine of development?' (ibid.: 7). He answers this in line with the progressive orientation that it must directly address development.

The Central Bank of Venezuela executes multiple policies intended to serve this goal of economic and social development. They include direct support for the economic development of the productive sector, maintaining a low interest rate and direct regulation of bank interest rates, control of international capital flows and the exchange rate, and promotion of economic democracy. In the next section we will discuss concrete results in these areas, but our concern here is to indicate how the Central Bank conceptualizes its relation to these issues. A particular formulation used extensively in Venezuela today in discussions of their progressive social and economic policies is *universal social inclusion*. José Félix Rivas Alvardo, a member of the Board of Directors of the Central Bank, has an extensive discussion of Venezuela's progressive Central Bank policy using this idea, with the above targets as concrete attempts to address this overall concept (Rivas 2006).[15] Here the concern again is to stress the direct targeting of social development and universal social inclusion, contrary to the neoliberal Central Bank approach, that are expressed by the conceptual framework used by the Central Bank of Venezuela for determining its activities.

The inflation constraint that is a part of the real targeting approach has not been forgotten. Parra stresses that a sound and sustainable progressive Central

Bank policy must execute appropriate 'monetary and exchange rate functions', not only at the same time that it carries out its progressive programmes for social and economic development, but as an integral part of those progressive programmes (Parra 2005: 8).

This new orientation established in 2005 has been consistently reasserted since then. It continues to be the framework for the Year-End Addresses of 2006 and 2007 (Parra 2006, 2007), and all current declarations of purpose by the Central Bank.[16]

Concrete results from Venezuela's post-2005 progressive Central Bank policies

There is an inherent difficulty in recording all the positive real economic results attributable to Central Bank policies. For example, two standard real targets are growth and employment. Real GDP growth was 10.3 per cent, 10.3 per cent, 8.4 per cent and 5.6 per cent from 2005 to 2008.[17] Unemployment dropped from 13.3 per cent the year the Central Bank began its progressive polices to 7.8 per cent in 2008 (Weisbrot *et al.* 2009). But as progressive Central Bank policy emphasizes, and Parra argued specifically for the new Central Bank orientation in Venezuela (Parra 2005: 7), Central Bank policy is intended and designed to work together with all other government polices. Hence there is no way of ascribing which 'marginal contribution' to these positive results came from Central Bank policies such as its development activity or the low real interest rate, and which came from the extensive fiscal spending, the high oil prices, government polices to stimulate production and employment through creating cooperatives, and so on.

In this section we will discuss four concrete progressive, anti-neoliberal, sets of policies conducted by the Central Bank of Venezuela since its reorientation in 2005. These four sets of policies include three different types of Central Bank functions. A first type consists of functions still considered Central Bank responsibilities by everyone, although the neoliberals would conduct them completely differently. Controlling the domestic interest rate and influencing the foreign exchange rate are examples of this type. The second consists of functions that used to be commonly exercised by Central Banks, but are now rejected as appropriate Central Bank activities by the dominant neoliberal paradigm. Direct support of economic development and direct control of bank interest rates are examples of this type. The final type consists of a function that has never been seriously undertaken by Central Banks in the past. It is a conscious role by the Central Bank in contributing to an expansion of economic democracy. Such a policy would be appropriate for supporting either a left populist or pro-socialist government orientation.

1 The Optimum Reserve Policy: Creating, and Contributing to the Funding of, the National Development Fund.

In 2004 prior to the Central Bank reorientation, Chávez had asked the Central Bank to invest US$1 billion from its large reserves into the agricultural sector. This was a request for the Central Bank to directly fund 'strengthening and diversifying the domestic production structure' (Parra 2005: 8). In line with the neoliberal orientation of the Central Bank at that time, it refused. A top priority for Parra from the day he assumed the Central Bank presidency was to create a structure for the Central Bank to directly fund development, working with the National Assembly and the Chávez administration. The Board of Directors of the Central Bank conducted a detailed study of how to do this in accord with article 331 of the Constitution of the Bolivarian Republic of Venezuela[18] and article 5 of the Organic Law of Hydrocarbons.[19] In July the National Assembly used this study to pass the 2005 Partial Reform of the Law of the Central Bank of Venezuela.[20] The most important change included in this 2005 law was the creation of FONDEN (The National Development Fund). FONDEN's purpose was to stop the build-up of 'excess reserves' in accord with an 'optimum reserves policy' developed by the Central Bank, and transfer them to this fund to be used directly for economic development projects.[21] A little less than two years after its formation, the Venezuelan Finance Minister Rodrigo Cabezas reported in May 2007 that FONDEN had received a total of US$27.3 billion from the Central Bank and PDVSA[22] (the state oil company), of which US$20.2 billion had been invested in public projects. He detailed 130 development projects in such areas as infrastructure, energy, defence, housing and health. Cabezas argued that FONDEN had become the main source for the increased investment that had been a necessary part of Venezuela's strong economic performance since the fund's birth (Carlson 2007).[23]

2 Maintaining Low Real Interest Rates, Including in the Face of Inflation Concerns.

The neoliberal inflation-targeting formula calls for a monetary policy that raises interest rates to slow the economy in the face of inflation above 4 or 5 per cent. Even the inflation constraint on a progressive real targeting programme will often cause a move to reduce inflation if it rises above 15 or 20 per cent. The Venezuelan Central Bank has not moved to raise interest rates and has maintained its loose monetary[24] and pro-growth polices even as inflation has climbed above those levels. The nominal inflation rate from 2002 to 2008 has been 31 per cent, 27 per cent, 19 per cent, 14 per cent, 16 per cent, 22 per cent and 32 per cent, respectively.[25] Yet there has been no Central Bank action to drive up the real interest rates on bank lending (we will see next that they in fact have capped the nominal rates), and these rates have in fact been negative under the post 2005 orientation: 1 per cent, –2.3 per cent, –5.7 per cent and –9.1 per cent from 2005 to 2008, respectively.[26] As of the writing of this chapter, the Central Bank has just declared again that its monetary policy will continue to be oriented to assuring sufficient liquidity and credit in the system, with no mention of inflation (BCV 2009).[27]

The first major anti-neoliberal policy from the reoriented Central Bank was its intervention to legally limit lending and deposit rates in the economy, a practice it continues to this day. It established a minimum interest rate that banks could pay savers, and the maximum rate they could charge on loans to both businesses and consumers.[28] The Central Bank has given great importance to this bank interest rate control policy for four real target reasons: it maintains that this will have an immediate effect on people's level of consumption, it maintains it will stimulate production particularly by small producers, it maintains it will increase employment, and it maintains it will reduce inequality[29] (Rivas 2006: 396–9, 412–21; Parra 2005: 8; 2006: 8).

3 Capital Controls.

As indicated above, capital flight can undermine a country's entire progressive programme. This is particularly true for Third World countries, though it was also a central weapon used to destroy Mitterrand's brief 'socialist' experiment in France in 1981. The prevention of a capital outflow haemorrhage by the Central Bank has been one essential contribution to the economic success of Venezuela since the controls were adopted. Weisbrot and Sandoval (2007) concluded that 'the government's currency controls, originally enacted in February 2003 as a means of limiting capital flight from the country, have enabled it to pursue expansionary fiscal and monetary policies while maintaining a fixed exchange rate' (p. 18).

The point being made here is not that these controls do not also have problems connected to them, or even that they are being conducted optimally. Weisbrot *et al.* (2009) argue that the peg to the dollar has not been adjusted appropriately since it was adopted. It is therefore now 50 per cent overvalued in comparison to the dollar, which seriously harms Venezuela's project of diversifying its revenue sources away from oil and into manufactured goods, or services such as tourism. The point being made here is rather that this is another important anti-neoliberal Central Bank policy, in that the expansionary monetary and fiscal policies that have to date successfully contributed to the real targets of improved growth, employment, investment and distribution, could not have been maintained without this policy.

4 Building Economic Democracy.

The centrality of the progressive and anti-neoliberal goal of active popular participation to the vision of socialism promoted in Venezuela implies two goals that should be embraced by all institutions in the country – transparency,[30] and skill-building for participation. Since 2005 the Central Bank has promoted the following programmes that serve these ends. Note these are consciously envisioned as 'stimulating development and supporting qualitative change' (Parra 2005: 8). While these programs are clearly very small contributions to the huge task of building economic democracy, the point here is not a discussion of the path to economic democracy in Venezuela, but rather again the nature of the Central Bank. They are the contributions to building economic democracy currently being consciously pursued by the Central Bank, and as such they are concrete programs that reflect its progressive and anti-neoliberal orientation:

- 'The Central Bank of Venezuela uses diverse means to inform the public concerning economic statistics, its resolutions, and actions and events of a public nature that it considers to be useful for the formation of a documented, critical and participative public opinion' (Rivas 2006: 411). The information system in place before 2005, which was good, has been dramatically improved. The main vehicle for presenting this massive information is the website of the Central Bank: www.bcv.org.ve. This effort which requires the commitment of Central Bank resources includes a continual expansion of the information collected and disseminated (Parra 2007: 10).
- Through its publications and related public seminar series of economics texts and broader socio-economic works, the Central Bank simultaneously addresses two goals. First is its goal of building economic analytical skills in broader circles of the population, a necessary part of economic democracy. The economics texts are introductory in nature, and written by Venezuelans concerning the Venezuelan economic reality. The broader socio-economic series draws more widely on Latin American authors, and is focused on addressing the intersection of Latin America's social, political and economic dimensions, including in particular works with a political-economic focus. The second goal is to combat the neoliberal paradigm that is so powerful throughout the world, including in many economics departments in Venezuelan universities (Parra 2005: 9).
- Related to the last point, the Central Bank has developed and is actively engaged in a programme with teachers, Children Learn Economics with the Central Bank of Venezuela (Parra 2005: 8). Again the two goals are to equip children with the economic tools to enable them to participate actively in economic issues and institutions when they are adults, and to inoculate them against neoliberal economics which are still so widely promoted in Venezuela through newspapers, television and private enterprises.

5 The Southern Bank.

The attempt to create the Southern Bank was not included in this section in the list of four sets of concrete policies reflecting Venezuela's progressive Central Bank orientation, because as of this writing its initial proposed incarnation appears to be dead. At present Ecuador is the major proponent of building a new regional progressive financial architecture, while Venezuela has drawn back slightly (though it supports Ecuador's efforts) to focus on building the ALBA Bank and joint banks with China, Russia and Iran. But the concern here is not the specifics of what international financial structure Venezuela is trying to adopt at this moment. Rather, the point is that the original efforts by Venezuela to create the Southern Bank involved a significant investment of Central Bank human resources (Parra 2006: 9). The attempt to create the Southern Bank deserves a brief mention in this section because despite its fate it reflected the anti-neoliberal orientation of the Central Bank of Venezuela. It was exactly the inability to harmonize this progressive vision with the neoliberal vision, particularly of Brazil, but also of Argentina and Chile, that led to its failure.

Conclusion

A neoliberal model of Central Banking, inflation targeting, has been imposed on much of the world, and continues to be adopted by ever more countries. The social/political/economic reaction against neoliberalism has included the development of a well articulated but flexible alternative, which is referred to by some authors as real targeting. The very different technical aspects of the two approaches are just the surface manifestation of their essential difference: Central Bank policy serving society's social, economic and human development versus serving the development of financial capital. Beginning in 2005 the Central Bank of Venezuela switched from a predominantly neoliberal to a progressive orientation, in line with the Bolivarian Revolution that had been unfolding and deepening there since 1999. Central Bank policy in Venezuela continues to attempt to develop appropriate new progressive policies to this day. It is arguably one of the, if not the, most progressive Central Banks in the world today, and should be carefully studied by all advocates of progressive Central Bank policies. Careful investigation beyond the introductory level of this work is needed of both the effectiveness of what has already been attempted, and what new progressive policies it could develop to support Venezuela's social/political/economic transformation.

Notes

1 This standard term is ideologically misleading and actually means 'independence from the government'. Neoliberal Central Banks are typically not 'independent', but rather are controlled by private finance capital.
2 In theoretically describing the objectives of monetary policy after he had just left the US Federal Reserve (Fed), in his carefully thought-out Robbins Lectures, Alan Blinder wrote: 'Monetary policy makers have certain objectives – such as low inflation, output stability and perhaps external balance' (Blinder 1998: 3). The complete omission of either growth or employment, when employment is even an official objective of the Fed, is revealing as to the real Fed policy.
3 For a short but insightful overview of the history of central banking practice that develops and expands this position, see Epstein (2006).
4 Real economic development is much more than output growth, which neoclassicals almost universally reduce it to. Here, however, we consider only an immanent critique of their claims because they are so weak even on their own terms.
5 Minimal inflation countries would be those near the typical range of inflation targeting, 3 to 5 per cent, while moderate inflation might be in the range above that to around 15 per cent.
6 There is a large literature on this. To mention just three good works: Lazonick and O'Sullivan (1996), Jacoby (2005a and a popularized abbreviated version of that, 2005b), and Duménil and Lévy (2004).

7 From the IMF:

> Under inflation targeting, low inflation is the stated primary goal of monetary policy, and the only one for which a numerical target is announced, although other goals like full employment or low exchange rate volatility may be pursued on a secondary basis. In contrast, other monetary frameworks attempt to influence inflation indirectly by targeting exchange rates or monetary aggregates, or include inflation as only one of a number of policy objectives.
>
> (Batini *et al* 2006: 4)

It is important to note both that the number of official inflation targeters is much lower than the number of countries whose Central Bank makes very low inflation its top priority ('implicit inflation targeters'), and that the IMF and/or national and international financial capital do not consider implicit inflation targeting sufficient and therefore push even these countries to become explicit inflation targeters.

8 Specifically, the recovery was the absolute weakest of the ten post-1949 recoveries as far as growth of GDP, investment, employee compensation and employment (while corporate profits were the second strongest) (Bivens and Irons 2008). Unemployment, however, was kept at relatively healthy levels despite poor employment growth because many workers left the formal employment sector, and so to target unemployment in this case would very much miss the problem.

9 Epstein (2002) (and in more detail, Pollin *et al.* (2006)) and Pollin *et al.* (2007).

10 Epstein (2003: 2) lists four other advantages of real targeting, but they all refer to various ways that under real targeting the Central Bank will be pressured to carry out policies that are socially beneficial which inflation targeting does not promote.

11 Almost all works written on the evolution of the revolutionary process under Chávez note that in the very beginning it was largely anti-neoliberal, and it then went on from there to develop step-by-step the more radical domestic as well as international positions associated with it today. See for example Lander and Navarrete (2007) and Wilpert (2007).

12 A few more details on this typical neoliberal scenario will make clear some of the results Casas referred to in this quote. In 1997 the consumer price index increased by 38.2 per cent, which of course was the central concern of the neoliberal Central Bank policy. So they tightened the growth of the money supply in 1998 and further in 1999 (measured either by the monetary base (79.3 per cent to 23.7 per cent to 21.2 per cent) or M2 (62.5 per cent to 18.6 per cent to 13.8 per cent)). This could have caused interest rates to rise if the economy had kept growing at the same rate. But it induced a recession, with GDP growth dropping from 6.4 per cent to –0.1 per cent to –7.2 per cent. This of course was the cause of the fall in the interest rates in 1999 that Casas referred to. Lending rates at commercial and universal banks first went up with the tightening and then dropped as the economy went into recession, going from 31.7 per cent to 52.1 per cent and then down to 33 per cent. As noted, the Central Bank was successful in its central goal – inflation as measured by the CPI dropped from 38.2 per cent to 31 per cent and then, as targeted for 1999, to 20.1 per cent (Casas 1999: table 'Principal Macroeconomic Indicators', no page number).

13 One rich source of information in English on the Central Bank policies in the different years 1999 to 2007, including the policies during the five years by Diego Luis Castellanos E., is the year-end addresses by the president of the Central Bank. From the opening page of www.bcv.org.ve select 'English Version', and then 'Publications'.

14 The Law of the Central Banking 2001, Article 9, had changed the procedure for selecting a new head of the Central Bank so that he was appointed by the president, subject to confirmation by a majority of the National Assembly.

15 The article includes a discussion of both the usefulness of this concept and its weaknesses. The latter includes both the tremendous elasticity in the use of the concept and the ideological limitations as the concept was developed by its best known proponent,

Amartya Sen. The concern here is not to enter the debate concerning the strengths and weakness of this term, but rather to note how widely this term with all its associated connotations is used in the debates in Venezuela on progressive social policies.

16 Three current reflections in policy statements of this Central Bank framework are the '2008 Annual Agreement on Economic Policies' (BCV 2008a), 'Social Responsibility for Human Development' (BCV 2008b) and 'Social Responsibility' (BCV 2008c).

17 When this was written in February 2009 the final quarter growth for 2008 was not yet available, so 5.6 per cent is the growth to the third quarter from a year before.

18 Available in English at www.misionvenezuela.org/ingles/ConstitutionoftheBolivariangles.pdf.

19 For a short but somewhat detailed discussion of the existing Liquid Hydrocarbons and Gas Hydrocarbons laws as of 2007, see CONAPRI (no date).

20 The currently effective Central Bank Law in Venezuela is from 2001, with its modifications in 2002 and 2005. The full law and all its modifications are at www.bcv.org.ve/c3/legislacion.asp.

21 www.bcv.org.ve/blanksite/c4/Conferencias.asp?Codigo=88&Operacion=2&Sec=False gives the speech by the Central Bank president at the creation of FONDEN. Wilpert (2005) gives a good short explanation of the policy in English at the time it was initiated. The law specifically indicated the funds were to be used in projects in the three areas most progressives argue are central for economic development: the real economy, education and health. The law also basically allowed that funds given to FONDEN could be used as reserves if the calculations for the optimum reserves were inadequate due to unexpected circumstances: it specifically allowed them to be used 'for improving the profile and reducing outstanding foreign public debt and attending to special situations' (Parra 2005: 11). To prevent this large-scale government spending for development from fuelling inflation, the funds could only be spent outside the country, that is, buying foreign inputs for development projects (Wilpert 2005).

22 The National Development Fund was set up to be funded by two sources, the excess reserves and a direct contribution from the state oil company.

23 As this chapter was being finished, Venezuela announced on 9 February 2009, 209 public investment projects funded by FONDEN, and that FONDEN has received US$57.75 billion since 2005 (Pearson 2009).

24 It is worth recalling that despite this refusal to date to induce a standard monetary induced economic slowdown to reduce inflation, the Central Bank has indicated its attention to inflation through a non-restrictive monetary policy means, the mandating that the huge development expenditures by FONDEN could only be spent outside the domestic economy. Without this step inflation would have become a crisis.

25 This is the year-over-year December inflation rate calculated from the monthly General Consumer Price Index Metropolitan Area of Caracas. Data available at www.bcv.org.ve/EnglishVersion/c2/index.asp?secc=statistinf. We need to stress that the point being made here is not that this is good progressive Central Bank policy, since this violates the inflation constraint. Rather, the point of this section of the chapter is the clear rejection of neoliberal Central Bank policy, and this certainly supports that claim. It happens that inflation has dropped in 2008 from a first half year average of 2.4 per cent per month, at which level it was becoming a serious political problem for the Chávez government, to a second half year average of 1.7 per cent per month. That has been due, however, to the economic slowdown in Venezuela and the world and not due to specific Central Bank policies.

26 Nominal lending rates are the yearly average of the weighted average of the data for the six largest commercial and universal banks in Venezuela. Data at www.bcv.org.ve/EnglishVersion/c2/index.asp?secc=statistinf. This was then converted to real values using the inflation data just discussed, which being year over year December data is also the yearly average.

27 This is not to claim the government is not concerned with and discussing inflation, which it is, but rather to stress the very anti-neoliberal position that at 30 per cent inflation their public declarations still stress the need for growth and do not qualify that with inflation considerations.

28 www.bcv.org.ve/Upload/Comunicados/tasasdeinteres010905.pdf gives the 26 April 2005, initial declaration of this policy by the Central Bank.

29 In addition to increased consumption, employment and production by small producers reducing inequality, the Central Bank argues that savings by small savers was discouraged by banks offering them only half the interest rate it offered to large savers. The Central Bank maintains that increased saving by small savers, particularly at increased savings rates, will also contribute to reducing inequality (Rivas 2006: 398).

30 It should be noted that transparency of government institutions is a shared goal of neoliberalism and progressive economists, despite the different reasons for the goal. In the first case it is so that capital owners can be assured that the government serves their interests, while in the second case it is a prerequisite for broad popular participation.

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