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Progressive Third World Central Banking and the Case of Venezuela

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I. Introduction

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. Historically, Central Banks i) were strongly influenced if not controlled by the government, ii) had the goals of financing governments, managing exchange rates, and (later) promoting development, including sector-specific development, and iii) used direct methods such as directed credit allocation to promote development.[1] The neoliberal model to the contrary is characterized by i) Central Bank "independence",[2] ii) inflation suppression (with or without a formal inflation targeting policy) as its central if not single goal,[3] and iii) the use of short-term interest rates (an indirect and non sector-specific tool) as its dominant policy tool. (Epstein, 2006: 1)

International financial capital continues as of this writing 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 nineteen inflation targeting countries, (Mishkin and Schmidt-Hebbel, 2001: 1) and in March 2006 there were twenty three,[4] (seven industrial countries and sixteen non-industrial countries) with more than forty four more indicating they wanted to move to explicit or implicit inflation targeting. (Batini *et al*, 2006: 4, 7)

Neoliberals of course claim that their inflation targeting Central Bank policy is better than alternative monetary policies. They have been turning out a large number of studies to support that claim for over 10 years now. A very small sample of such studies, including two by big-name neoclassical authors and a work reflecting the position of the IMF (which is one central institution that pressures 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).

To consider their claims of inflation targeting being a "better" policy, one first has to note the somewhat deceptive way they generally use the term "better." Neoliberals define "better substantive outcomes" or "a very successful new monetary framework," etc., primarily, or often entirely, in terms of reduced inflation, reduced inflation shocks, and reduced inflation expectations. But even in a neoclassical framework it is output growth, which these supposedly enhance, that is ultimately important to any claim of "improved macroeconomic performance."[5] Hence that (and possibly distribution) should be their central criterion as opposed to the monetary "proxies" they use. Of course most defenders of inflation targeting accept as self-evident that a reduced inflation rate will increase growth and so therefore the latter need not be directly investigated. With this understood, two types of rejection of their claim that inflation targeting is a better policy present themselves. The first operates within their concept of better and argues that empirical tests find that inflation targeting in fact does not significantly reduce inflation, inflation shocks or inflation expectations. The second argues that even if inflation targeting did in fact lead to a lower inflation rate than alterative monetary policies, that would not lead to a higher (and in fact generally leads to a lower) rate of growth, both in the low inflation range that inflation targeting operates in, and in medium inflation rate alternatives.

Historically, the argument against inflation targeting first took the former approach. Although it was not the first paper to thoroughly document the lack of support for the claim that inflation targeting gave better results even by their own inflation-focused definitions of what constituted "better," 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]." (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 non inflation targeting countries. After four more years of attempts by inflation targeting advocates 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 rise of the rejection of inflation targeting as being better on the second grounds, because of its failure to address what progressives consider centrally important to macroeconomic performance (growth, distribution and employment), went hand in hand with the development of a clearly articulated alternative. As noted above, both the theory and practice of inflation targeting had solidly established themselves by the end of the 1990s, and so the coherent rejection of this piece of neoliberal theory and practice naturally followed soon thereafter.[6]

If one accepts, as do most progressive opponents of inflation targeting, that the central criteria used by its advocates fail to measure what is important for social welfare, then of course the first consideration of their failure by their own standards becomes no more than a pleasant observation to embarrass them with. Hence in this chapter we will stay focused on the second grounds for rejecting inflation targeting, and from that on the alternative monetary policies that are connected to those issues.

Progressives have always clearly argued that the real issue of concern with an inflation targeting monetary policy is not whether inflation targeting lowers inflation rates or their variability. Rather, the important issue is whether having lower inflation rates (from inflation targeting or any other reason) really improves growth and employment.[7] This calls for a direct test of the growth and job generation of moderate inflation countries against very low inflation countries[8] (with the usual controlling for confounding factors as much as possible). While there are contradictory empirical studies on this as on all politically controversial issues, we find 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) do a careful study of 80 countries over the period 1961 - 2000 that presents this conclusion.

If we now accept the general progressive assumption (and the implied goal, which of course is strongly rejected by neoliberals) that under capitalism full employment is centrally important to the well-being of the majority of society, and accept the above evidence that rejects that the neoliberal Central Bank inflation targeting policy optimally fosters full employment, 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 of neoliberal Central Bank policy in practice 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.

Following this introductory discussion of the nature of neoliberal Central Bank policy, the remainder of this chapter will consist of two parts. Part II will outline the progressive alternative frame for a progressive Central Bank policy. Part III will then look at Central Bank policy in Venezuela following the abandonment of a largely neoliberal Central Bank policy in 2005.

II. A Framework for a Progressive Central Bank Policy

Throughout history Central Banks have had a dual role - economic development, and stabilization of the currency (in the past referred to as protection of its value). (Epstein, 2006). Economic development projects were historically generally sector-specific;[9] the Central Bank (as one part of an overall government economic policy) pursued economic policies favorable to one or a number of sectors. The sectors that benefitted were generally those with the most political power. Sometimes this occurred at the expense of other sectors of the economy, and sometimes it supported a broad economic development of the country. The long fight over the Corn Laws in England is a famous example of such policies that is well known to all economists.

Neoliberal Central Bank policy can be expressed in this framework in two different ways. The two ways extensively overlap, but they are not quite equivalent. On the one hand, neoliberal Central Banks can be said to have abandoned one of these two roles, development, in favor of the other, monetary stabilization, meaning low and stable inflation. This is the way heterodox critiques often present the present functioning of Central Banks, and they then call for Central Banks to reclaim their abandoned role of developing the economy.

On the other hand, Central Banks can be said to have continued their policy of sector-specific development, while shifting their priority (in line with what class or subclass has political power, as noted above) to the development of the financial sector.

Since the financial sector considers low and stable inflation as 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 behaviors that the first approach gives us (specifically its abandonment of concern with growth, employment, investment, and so on), but the frame allows us to consider other behaviors as well. Neoliberal Central Banks not only focus on inflation, they also do at least two other things centrally important to finance capital that sometime 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 favorable to finance capital. This important behavior clearly fits better in the frame of “shifted development concerns” than “abandoned development concerns.” Second, during crises they intervene massively to absorb potential losses by financial capital with public money - essentially massive transfers of public money to financial capital. Again, this fits well into a framework that sees the goal of neoliberal Central Banks to work by whatever means are available and effective to promote the development of financial capital.

One could look at these Central Bank behaviors 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 behavior is "best for everyone." They argue broadly that financial development (or as they like to call it for obvious reasons, "eliminating financial repression") promotes real-sector economic growth. Above we have already referred to the study by Ball and Sheridan (2003) that shows that there is no evidence that the low interest rates that are a central concern of financial capital promote more rapid growth. More specifically, neoliberals also like to argue 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 not centrally important to financial capital because they in themselves create large profits for financial capital (though they usually do), but rather for the broader reason that stock markets discipline productive capital to operate in a way beneficial to the (short term) interests of financial capital.[10] A careful empirical study by Zhu *et al*. (2002) found this neoliberal Central Bank behavior[11] of promoting stock markets also showed no significant empirical correlation with improved growth.

While we find the second conceptualization of neoliberal central banking necessary for understanding many of its aspects, either is adequate as a basis for understanding the essence of the alternative approach to central banking - a return to a focus on the development of the real (as opposed to financial) economy.

Broadly speaking, the progressive alternative frame to inflation targeting is "real targeting." As suggested by its name, the target is some variable from the real economy. GDP growth and employment are the two leading candidates, but other real variables are possible, such as for example investment. (Epstein, 2003; 1)

There are three important additional aspects beyond its having real targets that contribute to making real targeting effective.

First, the objective itself is 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 be the target.[12] On the other hand, two polices worked out under this approach for South Africa and Tanzania found unemployment there to be a more direct problem than the rate of growth, and so made that the target.[13] So here we see a first aspect of the flexibility of this approach that one does not find in the inflation targeting approach.

Second, there is no restriction as to the tool, or tools, that the Central Bank can use to achieve the targets, unlike the inflation targeting approach that has the interest rate as its dominant or exclusive tool. Again, this point 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 an economy. An inflation constraint will prevent that.

Finally, the real target can be accompanied by other techniques if necessary. An obvious candidate would be capital controls[14] to prevent the flight of domestic capital in search of a country where it was not restricted by a progressive Central Bank (and accompanying government) policy.[15]

The strongest claim for the superiority of the real targeting approach over the inflation targeting approach is that it is more relevant. That is, the real targeting approach requires the Central Bank to achieve some target that is more directly linked to the population's welfare than the assumed (and as we argued above, empirically unsupported) 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, one can ask why it does not simply directly target those variables.

One can argue that both this greater flexibility of real targeting and its direct addressing of its goals are advantages. If the two frames had the same goal, these would seem to support a logical case for real targeting instead of inflation targeting. But given that the two frames have fundamentally different objectives, the advantage of the one over the other really lies in which objective one supports. That is exactly why neoliberals, whose goal is to support the development of financial capital, support inflation targeting, because it is more beneficial to financial capital than real targeting. Conversely, that is why progressives, whose goal is to improve social welfare, support real targeting, because it is more beneficial to improving social welfare than inflation targeting. In many presentations of inflation targeting its advocates obfuscate what their real goal is, because it is politically unacceptable in many public forums to acknowledge that one's goals are to aid the rich at the expense of the poor. Progressives will never convince the people who presently are implementing inflation targeting that real targeting is superior because it will improve social welfare more than inflation targeting, because that is not the goal of inflation targeters. The real issue is a power conflict over whether Central Bank policy should serve general social welfare or the welfare of financial capital.

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

III. 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 1) that it did not come to have a progressive anti-neoliberal program until 2005 (despite the Revolution becoming solidly and consciously anti-neoliberal at least by 2001[16]), and 2) that the progressive anti-neoliberal orientation it developed resembles so strongly the theoretical considerations of a progressive Central Bank policy discussed above.

A. Pre-2005 Central Bank Policies

Our concern in section III is the post-2005 Central Bank policies. It is illuminating, however, concerning the meaning and essence of a progressive Central Bank policy that this chapter has been about, to briefly observe how fundamental are the reversals these policies represent from the neoliberal policies that preceded them. And while the changes in the technical policies are interesting and important to understand, we are even more concerned with the fundamental change in the view by the Central Bank of its role in the economy and even in society as a whole. In line with the discussion above, the post-2005 Central Bank has come to see itself as one of the engines of social development. We will see that this concept has taken a particular form in Venezuela, a fight for universal “social inclusion.”

At the end of the first year of the Chávez government, the president of the Central Bank, Antonio Casas González, wrote in his year end address on the Bank’s performance that the Bank had been able to achieve the usual neoliberal goals (including in particular an inflation target), despite being now 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)[17]

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,[18] he continued the neoliberal Central Bank orientation. [19]

B. Post-2005 Central Bank Policies

In January, 2005, Gastón Parra Luzardo became president of the Central Bank of Venezuela. It is enough to read the introductory “General Outlook” section of his first Year-End Address at the end of 2005 to observe the change in the Central Bank policies connected to and represented by his appointment. Here we will highlight eight points made in that first report (Parra, 2005: 7-12) that indicate various aspects of the new progressive Central Bank polices adopted.

1) The General Outlook begins its considerations of the changes in polices by the Central Bank by considering them as part of the process of the Bolivarian Revolution’s transformation of Venezuelan society (and that in turn as part of the social/political/economic changes going on throughout the world at the end of the 20th and beginning of the 21st centuries). Specifically, it argues that the new policies must be understood as complimentary to the changes in its “constitutional framework, its legislative, judicial, tax, financial and banking systems, its strategy in international relations, the organization of ministries, and the areas of health, education and

culture" and the various social assistance missions created by the executive. (7) We will return below to discuss further some of these changes that have occurred since 2005 and that have contributed to changing the nature of the Central Bank.

2) Parra poses 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?" (7) He answers this in line with the progressive orientation both as to the goal of development, and as to the understanding that it can serve that goal only by fully coordinating its actions with other economic actors.

3) As we discussed above concerning an inflation constraint as part of real targeting, Parra stresses that a sound and sustainable progressive Central Bank conceptualization must execute appropriate "monetary and exchange rate functions," not only at the same time that it carries out its progressive programs for social and economic development, but as integral parts of those progressive programs. (8)

4) The General Outlook refers to the goal of "self-sustaining and independent" social and economic development more concretely through many specific goals scattered throughout the section. Among these are equitable growth, improving consumers' purchasing power (below we will consider a particular interesting and not common application of this concept), and strengthening and diversifying the domestic production structure including supplying the resources it needs. (8) Note in particular the anti neoliberal assumption built into this whole approach, not only that the government has a crucial role to play in development, but less widely accepted (though in line with our discussion on progressive central banking above), that the Central Bank has an important role to play in *directly* supporting and participating in the development of the productive capacity of the country.

5) The Central Bank began to actively regulate the minimum interest rate that banks could pay savers, and the maximum rate they could charge on loans to both businesses and consumers.[20] The Central Bank has continued this process of adjustments of rates regulation in 2006 and 2007. It has given great importance to this because it believes that this will have an immediate effect on both people's level of consumption and the level of national production (and hence employment) by small enterprises (see also Parra, 2006, 2007).

Note in particular how this type of action is understood by the Central Bank, in line with our discussion on the nature of progressive central banking: "The Central Bank of Venezuela assumed more direct participation in people's daily life …" The Central Bank's conscious approach is to use whatever tools are available to it to participate with other institutions in a coordinated effort for the general economic development of the country. The investment aspect of this interest rates policy, for example, is understood as contributing to the policies "being carried out by the Executive in order to increase real productive investment and to revitalize public financing for small and medium sized businesses." (10)

6) This point is particularly important because it shows so clearly how completely different are the visions of neoliberal and progressive central banking, and again how the center of the latter is human development. "Its activities were not limited to the area of economics; as a citizens' entity and with the responsibility of a public institution, it participated in the creation, support and endowment of spiritual goods and knowledge." (8) Parra then lists a number of such activities,

such as for example popular cultural events and art exhibitions. Of particular importance to them was their editorial work. The goal is to expand knowledge by the members of society of how the Central Bank works, but beyond that, of the nature of the economic and even social structure of society. On their web site one will find not only extensive statistics (the "transparency goal" that even neoliberal central banking claims it aspires to), but beyond that a lot of material explaining the Central Bank, Economics and Political Economy. They have a program for the schools, "Children learn economics with the BCV [Central Bank of Venezuela]." Two new series started in 2005 are "Reports on the Venezuelan Economy" and the "Collection of Latin American Social Scientists." The second one is particularly interesting as far as reflecting the Central Bank's understanding of its mission. The contributions come from public forums organized by the Central Bank. Its purpose is to "pay homage to illustrious social scientists who have generated a homegrown doctrine that is nearer [than the world dominant neoliberal and neoclassical vision], both theoretically and conceptually, to an accurate perception, understanding and explanation of the phenomena and processes of our America [that is, Latin America] …. where we are living today and constructing the future." (9)

7) The Central Bank has participated actively in the long-term project of promoting "the dream of the liberator, Simon Bolivar, that of creating a great regional block with world presence and bargaining power that can fortify the sub-continent's sovereignty and autonomy." (10) The Declaration of Cartagena in April 2005 represented an increased (progressive – having targets of sustained growth through regional financing and expanded employment through workforce training programs in advanced skills) coordination in the Central Bank policies of Argentina, Brazil and Venezuela. In addition, the Central Bank has been the central Venezuelan agent (again coordinating its activities with a number of other Venezuelan agencies) in the project to build a Bank of the South.

8) A major change in the Venezuelan economy that could only have occurred with a progressive Central Bank orientation was the change in the distribution and hence use of oil revenue. The Board of Directors of the Central Bank made a detailed study of how the oil revenues could be used better for Venezuela's social as well as economic development, in accord with article 331 of the Constitution of the Bolivarian Republic of Venezuela[21] and article 5 of the Organic Law of Hydrocarbons.[22]

The result of this effort was the July 2005 "Partial Reform of the Law of the Central Bank of Venezuela" revision of the 2001 "Law of the Central Bank of Venezuela."[23] While there were other changes, the most important change in 2005 was the creation of FONDEN (The National Development Fund). The central concept in the creation of FONDEN was to stop building up "excess reserves" with the Central Bank and transfer that money to this fund to be used directly for social and economic development projects.[24] 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 (the state oil company), of which US $20.2 billion had been invested in public projects. The real target of investment here has been accomplished in cooperation with the Central Bank by transferring amounts of money from the Central Bank to FONDEN[25] sufficient to make it the principal vehicle for the development goal of increasing investment in the country. (Carlson, 2007)

The 2005 Year End Address by the President of the Central Bank of Venezuela concisely indicated many new goals as discussed above. The Year End Addresses of 2006 and 2007 continued with the same themes. One can also see the same goals repeated throughout the current declarations of purpose by the Central Bank. Three convenient and current reflections of the same goals by the Central Bank are presented in “Acuerdo Anual de Políticas Económicas 2008” (2008 Annual Agreement on Economic Policies), “Responsabilidad Social para el Desarrollo Humano” (Social Responsibility for Human Development) and “Responsabilidad Social” (Social Responsibility).[26]

A particular formulation used extensively in Venezuela today to express a key component 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 of Venezuela, discusses Venezuela’s progressive Central Bank policy using this concept[27] in the article “El BCV y la inclusión social” (The Central Bank of Venezuela and Social Inclusion). (Rivas, 2006) The second part of the article consists of factual material concerning the Central Bank’s progressive polices concerning in particular the structures of the distribution of income, the productive sector, the financial sector, the Central Bank, and the Central Bank policies concerning interest rates. It is important to note again that lying behind these discussions is the anti neoliberal assumption about the role of a Central Bank - that it should be directly concerned with income distribution and the structure of the productive and financial sectors.

For reasons of space, here we want to only briefly indicate the content of the first part of Rivas’ article, the discussion of the concept of social inclusion, which is put forward as an important concern of the Central Bank and therefore an important determinant of its policies. “The first part of this work addresses the concept of social inclusion, with the purpose of exploring its theoretical and analytical usefulness for understanding the structural conditions that confront the role of a Central Bank in a country in the process of development.” (386)[28]

Social exclusion exists when “a part of the population encounters obstacles to its enjoying economic, social, cultural and political opportunities that are offered by a model of development.” Examples of this are “a) inequality in access to work, finance and goods markets; b) limitations on full access to social and cultural institutions; c) discrimination in regards to the benefits of the mechanisms of social protection; and d) inequity in political participation, in the elaboration, execution and evaluation of public policies or in the enjoyment of fundamental political rights, among which civil rights and human rights are central.” (387) Rivas then expands the discussion on the three conditions that are perhaps the most common causes of social exclusion in the developing (and developed) world: poverty, inequality and exclusion from political power. The important point for us of this rich discussion by Rivas is exactly the central point of this article: contrary to the neoliberal and even neoclassical concept of central banking, all of these issues which concern broad human social and economic development are considered to be *direct* concerns of the Central Bank, and the Central Bank’s policies should hence *directly* address these issues, *directly* seek to eliminate these barriers to human development.

IV. 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.

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1 For a short but insightful overview of the history of central banking practice that develops this position, see Epstein (2006).

2 This standard term is ideologically misleading and actually means Aindependence from the government.@ Central Banks are typically not Aindependent,@ but rather are controlled by private Finance Capital.

3 In theoretically describing the objectives of monetary policy after he had just left the U.S. Federal Reserve (Fed), in his carefully thought-out Robbins Lectures, Alan Blinder wrote: AMonetary 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.

4 From the IMF: AUnder 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*: 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.
5 That is, while real social development is much more than output growth, since that is the yardstick that neoclassicals usually use to measure Adevelopment@ one would expect them to address it directly and centrally.
6 As always, precedents and even pieces of an alterative existed before this, often long before this, because many of the issues are the same ones that have been fought over in economics for decades. The point here is only that a coherent alternative frame, (fairly) widely recognized as such, only arose in the early 2000s.
7 Progressives are also concerned with distribution, but for verbal simplicity and because many of the applied progressive Central Bank works talk primarily about growth or employment, we will generally refer to these two goals.
8 Minimal inflation countries would be those near the typical range of inflation targeting, 3 to 5%, while moderate inflation might be in the range above that to around 15%.
9 The attempt to protect the value of the currency was in itself not sector-specific, of course, but as it was often approached through trade and capital controls, even that often had a sector-specific aspect.
10 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).
11 Again, this Central Bank behavior of promoting the development of stock markets does not fit directly into a frame that sees Central Banks as simply abandoning development concerns in favor of a concern with price stability.
12 Specifically, the recovery was the absolute weakest of the 10 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.
13 Epstein (2002) (and in more detail, Pollin *et al.* (2006)) and Pollin *et al.* (2007).
14 For reasons of the length of this chapter and because it is only an associated concern of the central theme, we will not discuss capital controls here, beyond stressing that in many cases it will not be possible to maintain a progressive Central Bank policy unless one designs sufficiently effective capital controls. For three good discussions on progressive capital controls, see Grabel (2004a), Epstein *et al.* (2004) and Grabel (2004b).
15 Epstein (2003; 2) lists four other advantages of real targeting, but they all boil down 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.
16 This paper does not have space, nor is it its focus, to describe the continual process of deepening radicalization of the Bolivarian Revolution from Chavez=s first election in 1999 to the present. A relatively short presentation is given by Lander and Navarrete (2007). Note they consider the process to have three phases: the ending of the 1990s-consolidated neo-liberal approach from February 1999 to November 2001, the fight between the Revolution and its (neoliberal oriented) opponents for control of the state from December 2001 to June, 2003, and the subsequent beginning of the government=s social offense that continues to the present. Some people (including us) would argue that a new phase opened after Chavez=s public declaration at the World Social Forum in January 2005 that Socialism of the 21st Century was the Revolution=s goal. Others on the left argue that no substantial socialist transformations have occurred to date to indicate a new more radical phase. For a rich book-length description of the first nine years of the process of radicalization of the Revolution, see Wilpert (2007).
17 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%, 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% to 23.7% to 21.2%) or M2 (62.5% to 18.6% to 13.8%)). 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% to -0.1% to -7.2%. This of course was the cause of the fall in the interest rates in 1999 that Casas referred to, with lending rates at commercial and universal banks first going up with the tightening and then dropping as the economy went into recession, going from 31.7% to 52.1% and then down to 33.0%. As noted, the Central Bank was successful in its central goal - inflation as measured by the CPI dropped from 38.2% to 31.0% and then, as targeted for 1999, to 20.1%. (Casas, 1990; table labeled APrincipal Macroeconomic Indicators,@ no page number)

18 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 AEnglish Version,@ and then APublications.@

19 The reorientation in 2005 was dramatic as we argue, but should not be understood as night to day. One can find numerous precursors in the reports from 2000 to 2004 of the social policies which were to be much more fully developed after 2005, especially toward the end of that period. A change from early dawn to day would be a better analogy.

[20] www.bcv.org.ve/Upload/Comunicados/tasasdeinteres010905.pdf gives the April 26, 2005, initial declaration of this policy by the Central Bank (in Spanish).

[21] Available in English at www.misionvenezuela.org/ingles/ConstitutionoftheBolivarianingles.pdf.

[22] On November 13, 2001, Chávez, acting under the enabling law then in force authorized by the National Assembly, enacted a new Organic Law of Hydrocarbons, which went into effect the following January (replacing the Hydrocarbons Law of 1943 and the Nationalization Law of 1975). It is article 5 of that law that is referred to here. This was replaced by a new Organic Law of Hydrocarbons dated May 24, 2006. For a short but somewhat detailed discussion of the existing Liquid Hydrocarbons and Gas Hydrocarbons laws as of 2007, see CONAPRI (no date).

[23] 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/c3/legislacion.asp (when you pull up the 2001 law it offers an English version, but does not for either modification).

[24] 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 (in Spanish). Wilpert (2005) gives a good short explanation of the policy in English at the time it was initiated.

[25] And money directly from PDVSA to FONDEN that otherwise would have gone to the Central Bank and become part of the foreign reserves.

[26] Accessed June 13, 2008. The first at www.bcv.org.ve/c6/AAP2008.pdf. To get the second go to www.bcv.org.ve then to “¿Qué es el Banco Central de Venezuela?” then to “Una Actuación Responsable con el País” and then to “Responsabilidad Social para el Desarrollo Humano.” To get the third one go to “¿Qué es el Banco Central de Venezuela?” then to “Responsabilidad Pública y Social” and then to “Responsabilidad Social.”

[27] The article includes a very nicely balanced discussion on both the usefulness of this concept which is widely used in Venezuela today in discussions on its Bolivarian Revolution, and its weaknesses. The latter include 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. That discussion, however, goes beyond our concern in this article.

[28] All translations from Rivas’ work are by A.C..