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Venezuela: the crisis of the socialist model

Abstract. Historically, Venezuela was one of the dynamically developing countries in Latin America, a major producer and exporter of oil, but internal social conflicts distracted the efficiency of the oil and cement industries, ferrous metallurgy, and telecommunications. Since the beginning 2014, the country has been in a state of the socio-economic and political crises, which resulted in a recession in the welfare of the country's citizens, the level of unemployment, poverty and social inequality rose sharply, and reached phenomenal record of negative indicators. The unstable situation in the oil market, economic sanctions of the US exert great pressure on the country's economy, creating obstacles to the restoration of the previous volumes of oil production, which was the main source of state budget.

Key words: Venezuela, socialism, political and economic default, hyperinflation, migration, and refugee crises.

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Introduction

Long-term socio-economic problems and political tensions in the 1980s and 1990s led to the victory of Hugo Chávez in the 1998 presidential elections with a left-wing populist reform program based on the ideas of socialism. One of the main changes during the leadership of Hugo Chavez was the nationalization of a part of industries and sectors of the economy (ferrous metallurgy, cement industry and telecommunications), because of which the state was able to significantly reduce unemployment. Since 2013, after the death of Hugo Chavez, his successor, Nicolas Maduro, took over the leadership of the country, later winning the presidential election. Immediately after his election, massive opposition demonstrations and protests began in the country, which became one of the first manifestations of the political crisis. On May 20, 2013, presidential elections were held in Venezuela, following which Nicolas Maduro was elected to the post of head of the state. Previous president Hugo Chávez, who died in 2013, left his successor with a host of problems - from public debt of 70% of GDP to extremely high dependence on oil exports. During the five years of Mr. Maduro's rule, the economic crisis in Venezuela has only deepened, and at the same time, a political crisis was added to it.

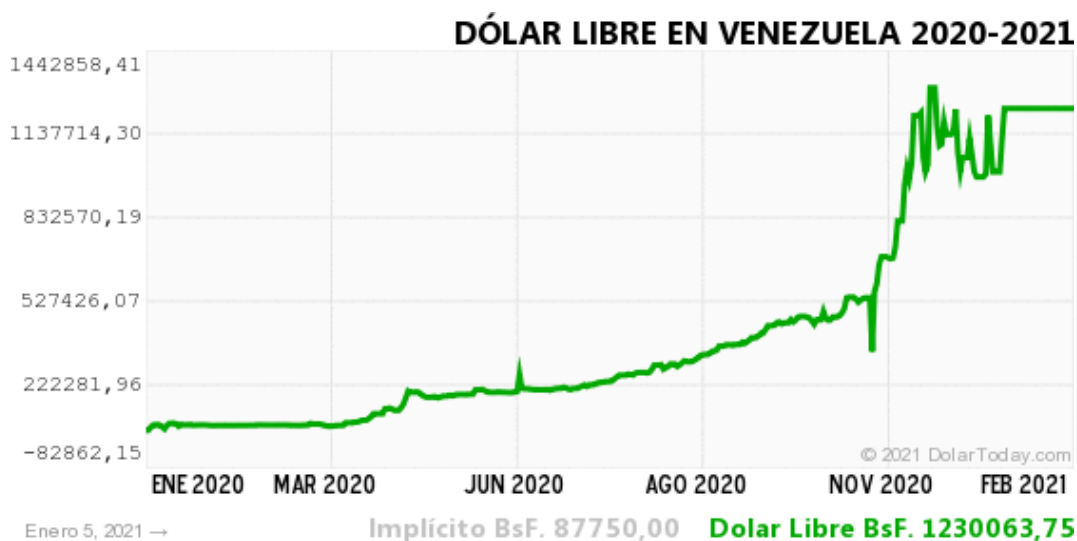
Methodology

To analyze the effect of how the situation changed in 2013–2020 in a country trying to unsuccessfully build socialism in the 21st century, I used a cross-sectional, descriptive study analysis that combined a mixed research approaches such as quantitative and qualitative analysis based on the following sectors as: 1. depreciation and hyperinflation of the national currency; 2. food and health care analysis; 3. migration and refugee population crises.

Discussion

Hugo Chavez ruled Venezuela for over ten years. In the period from 2003 to 2013, the bolivar (national currency) became almost 14 times cheaper in relation to the dollar: if in March 2003 you could buy 1.6 bolivars for \$ 1, then in March 2013 (at the time of the death of Hugo Chavez) - 22. With the death of the Venezuelan president, this process accelerated, and the country's leadership began a series of experiments with the exchange rate. For example, there is an official course in the country, which is set by the Central Bank of Venezuela, and a black-market course: it is not recognized by the authorities, but that is what the street money changers are guided by. These two courses differ significantly in favor of the black market.

At the black-market rate, over the five years of Nicolas Maduro's rule, the bolívar has fallen in price by more than 14 thousand times. In March 2018, \$ 1 could be exchanged for 325,000 bolivars. By May of this year, according to the DolarToday.com portal, which is used by individuals and companies to buy currency on the black market, the exchange rate reached 662 thousand bolivars. From January 2020 to January 2021, the exchange rate of 1 dollar reached a phenomenal height - 1230063, 75 bolivars [1].



Picture 1. Economy Indicators in Venezuela

Source: <https://dolartoday.com/indicadores/>

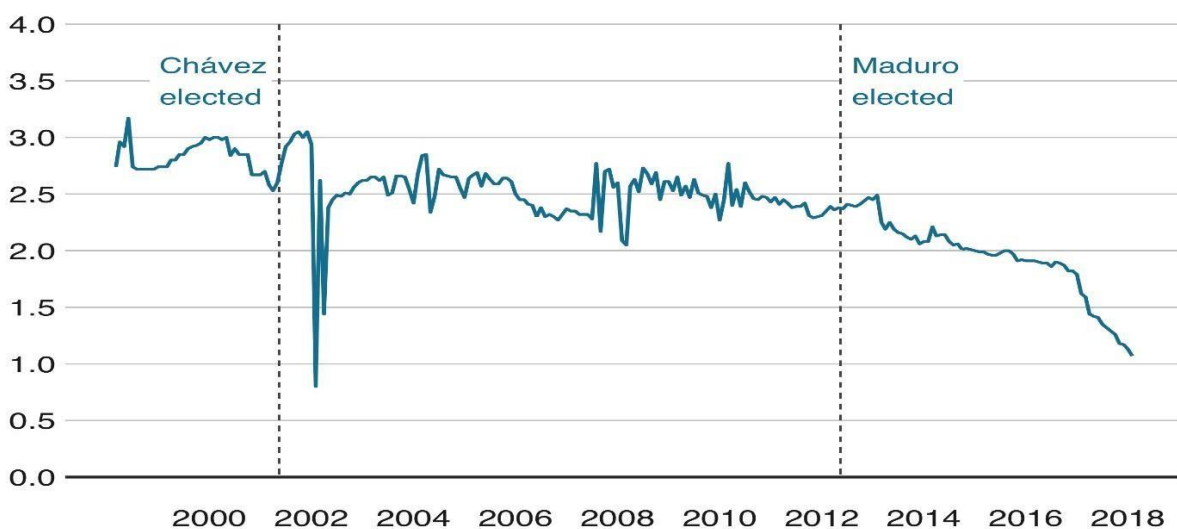
The official Bolivar course from 2016 to January 2018 was divided into two types: Dipro and Dicom. Dipro became a fixed rate, which for two years was equal to 10 bolivars for \$ 1. It was used by travelers and diplomats. Also, based on this rate, the cost of imported essential goods was estimated. Dicom is a floating rate, which in May 2016 was 400 bolivars for \$ 1. It has been used, for example, by oil companies that export their products and make a profit in dollars. In January 2018, Nicolas Maduro announced the liquidation of Dipro, now all government purchases and official transactions with currencies are carried out at the Dicom rate.

In 2014, there was a drop in oil prices on the world market. Accordingly, oil revenues have also declined, which account for 95% of Venezuela's total export revenues. In addition, the equipment of the oil industry is outdated, there are often accidents, and the qualifications of management personnel have decreased. The state-owned oil and gas company PDVSA does not have enough funds to pay foreign service companies. This leads to a decrease in oil production, and hence to a decrease in foreign exchange earnings.

There was not enough money for necessities, including food and medicines, a significant part of which were imported. Venezuela began to print money not backed by gold and foreign exchange reserves. The money supply is increasing, prices are constantly rising. [2]

Oil production is falling

Millions of barrels per day



Source: OPEC

BBC

Picture 2. Oil production indicators

Source: OPEC BBC

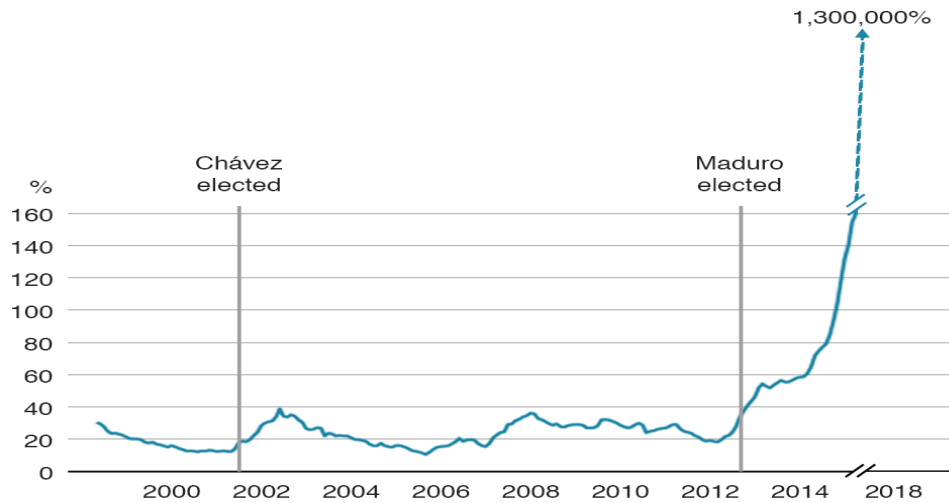
To adapt to the rapid depreciation of the national currency and hyperinflation, in recent years, the Venezuelan authorities have been introducing more and more banknotes: at the beginning of 2017, banknotes in denominations of 500, 5 thousand and 20 thousand bolivars appeared in the country. In November 2017, Nicolas Maduro announced the introduction of a 100,000 bolivar note. And in the spring of 2018, he announced the upcoming denomination: five zeros will be removed from the banknotes.

So, until now, the largest bill was 500 bolivars. Currently, the minimum wage

(minimum wage) in Venezuela is 40,000 bolivars. This amount can buy two kilograms of meat, and 500 bolivars can be enough for only one egg. The deep economic crisis in Venezuela has led to huge inflation. In 2018, its figure exceeded 130 thousand percent. According to the International Monetary Fund, in 2018, inflation in the country was 1.37 million percent [3].

Venezuela's inflation spiked after Maduro's election

Estimate for 2018 is off the scale



Source: Bloomberg/Reuters estimate for 2018

BBC

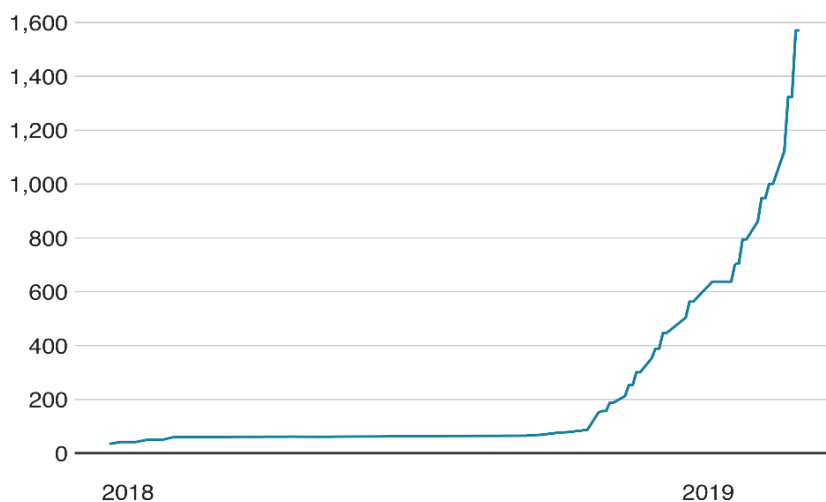
Picture 3. Economy Indicators in Venezuela

Source: Bloomberg/Reuters estimate for 2018

To compensate for the ever-increasing prices, Venezuela raises the minimum wage five to six times a year. For example, the minimum wage in March 2018 was 392.5 thousand bolivars (about \$ 2 at the black-market rate and about \$ 9 at the official rate). In April, it was raised to 1 million bolivars (still about \$ 2 at the black-market rate and about \$ 20 at the official rate). In addition to the basic salary, working Venezuelans are allocated monthly money for food products, and the total minimum income since April this year is 2.55 million bolivars [4].

How many bolivars you need for one US dollar

Exchange rate



Source: Bloomberg

BBC

Picture 4. How many bolivars you need for one US dollar

Source: Bloomberg BBC

The constant rise in prices leads to the fact that fewer and fewer Venezuelans can afford to buy goods - including necessities. According to the Venezuelan National Living Standards Survey, in 2014, 96.3% of families bought cornmeal every week, a staple in the diet of Venezuelans. In 2017, 73% of the population already allowed themselves this product every week.

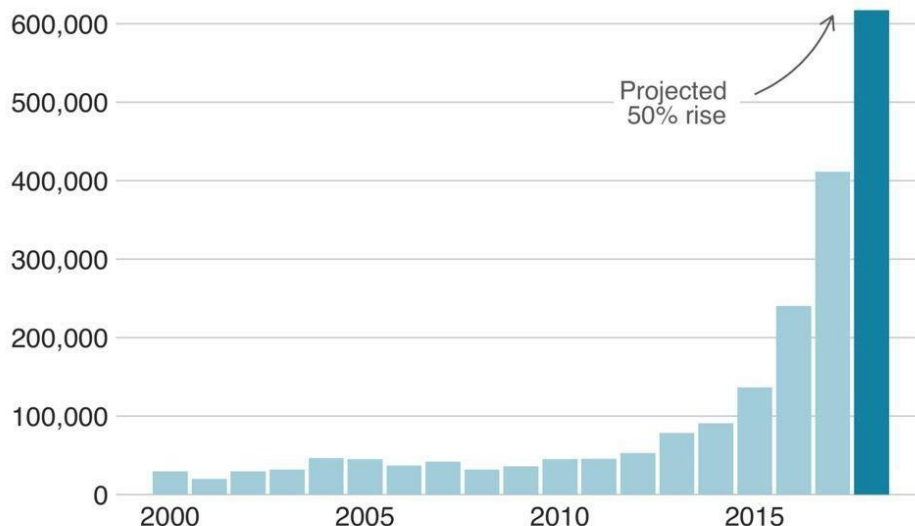
Within three to four years, the weekly consumption of meat and poultry became a luxury for most of the population. So, in 2014, 79.5% of families bought chicken every week, and 74.8% - meat, in 2017 - 34% and 39.9%, respectively. An even greater deficit is represented by dairy products: in 2014 47.2% of families could afford it, in 2017 - 19.2%. In 2014, 32.4% of families bought coffee, in 2017 - 13.7%.

There is a conflict between two models: the national production model, which is moving towards socialism, and the second - the unproductive, rental, speculative, chaotic, and neoliberal. The authorities have long tried to tackle the issue in a variety of ways, from subsidizing food to working Venezuelans to forceful methods.

Lack of food and medicine negatively affects the health of Venezuelans. Since 2013, the number of cases of malaria has been constantly increasing in the country, and the level of child and maternal mortality is growing. So, if in 2013 7.3 thousand children under the age of one year died in the country, then in 2016 - already 11.4 thousand.

In April 2018, Venezuela ranked first in the world for the incidence of malaria, according to the World Health Organization (WHO). In January-March 2018 alone, more than 175 thousand Venezuelans were infected with malaria, and WHO experts believe that by the end of the year 2020 this figure may rise to half a million cases [5].

Rising cases of malaria in Venezuela



Note: Projected figure for 2018 - Sociedad Venezolana de Salud Publica

Source: Pan American Health Organisation, Icaso

BBC

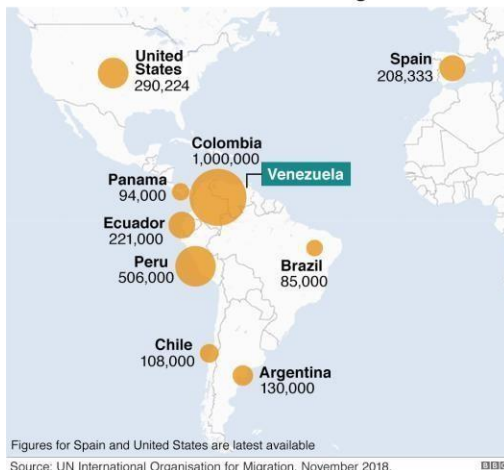
Picture 5. Rising cases of malaria in Venezuela

Source: Pan American Health Organization, Icaso BBC

The deteriorating economic situation is forcing many Venezuelans to leave the country. According to the International Organization for Migration (IOM), between 2015 and 2017, the number of migrants from Venezuela in the world more than doubled. If in 2015 there were about 700 thousand people, then in 2017 - 1.6 million.

About 300 thousand migrants left the Western Hemisphere, while the rest remained in America. The most serious burden falls on neighboring Colombia: the number of migrants to this country increased from 48.7 thousand in 2015 to 600 thousand in 2017. In 2018, 230 thousand Venezuelans entered the country in the first quarter alone: this is more than in the entire 2017 [6].

Main destinations for Venezuelan migrants in 2018



Figures for Spain and United States are latest available

Source: UN International Organisation for Migration, November 2018.

Picture 6. Main destinations for Venezuelan migrants in 2018

Source: UN International Organization for Migration, November 2018 BBC

Results

There are several countries in the modern world that cannot ensure sustainable growth of their economies for a long time, but the case of Venezuela looks like the most difficult- the country's GDP in 2019 amounted to a third of the level of 2013. Historically, Venezuela was one of the most dynamically developed countries in the South America, a tycoon of producing and exporting of oil, but internal social conflicts neutralized the efficiency of the oil industry.

Populist experiments and imbalances in the state budget, characteristic of some Latin American countries caused a new round of instability and led to mass hyperinflation. It was the large oil reserves that became the "curse" for the country after decades of its prosperity that was associated with the production of generally moderate volumes of oil. Unfortunately, the nature of world politics in the past decade has exacerbated the situation due to significant US sanctions against the country and its oil business. It will take years and collective efforts of all parties to avoid aggravating conflicts and gradually stabilize the socio-economic situation in the country.

Will Venezuela recover from its political, social, and economic crises? It will take a while to rebuild this country. The best path the government could take would be to position themselves as a caring government and to prepare transparently the country for a new, fair elections. The elected new government should also prepare critical industries for a transition and perhaps placing themselves in a collective trust managed by experienced outsiders. It should seriously refrain from taking retributive action. If removing N. Maduro and Chistas followers would not be a panacea from all the illness. To recover from the current crises, it would take more than 20 years, as Chavism has been in power for almost 20 years, and it cannot be changed overnight.

President Chavez has successfully forged relations with the left-wing presidents of Latin America: Evo Morales in Bolivia (2006 - present), Nestor and Cristina Kirchner in Argentina (2003-2007 and 2007-2015, respectively), Fernando Lugo in Paraguay (2008- 2012), Inacio Lula da Silva in Brazil (2003-2011), Rafael Correa in Ecuador (2007-2017), Fidel and Raul Castro in Cuba (1959-2008, 2008-2018). However, by the beginning of the reign of Nicolas Maduro, the governments in these countries began to change to the right, and by the end of the first term, only Bolivia and Cuba remained on the list of Venezuela's Latin American friends. The rest of the countries began to declare the infringement of human rights in Venezuela and the lack of democracy in the country.

The conflict entered an acute phase in December 2016, when the founding countries of the MERCOSUR trade and economic association (Argentina, Paraguay, Brazil, and Uruguay) decided to suspend Venezuela's membership in the union. Venezuela was an associate member of MERCOSUR along with Chile, Colombia, Ecuador, Peru, Guyana, and Suriname. The association was created for the development of free trade on the continent, but at the same time it assumed the ratification of an agreement on the protection of human rights, as well as several other documents. The founders of MERCOSUR decided that human rights are being violated in Venezuela and the political crisis does not allow the country to participate in the union.

Conclusion

The long-standing socio-economic crisis in Venezuela has significantly worsened the welfare of the country's citizens because of hyperinflation, we can notice a significant increase of unemployment and deteriorating problems of social inequality. Despite the nationalization of some sectors of the economy, which in the pre-crisis years contributed to a decrease of unemployment to 7-8%, the drastic fall in oil prices in 2015 again significantly reduced the level of employment. By 2018, the share of the unemployed population, according to IMF estimates, increased to 35.5%. The increase in unemployment had a negative impact on the material situation of Venezuelans. According to some estimates, in view of the ongoing recession, the poverty rate in the country increased several times, which was especially manifested in the increase of absolute poverty rates. The socio-economic crisis in Venezuela has also been characterized by the high outflow of the country's population due to political instability and a significant decline in well-being.

According to the UN Department of Economic and Social Affairs, Venezuela was characterized by emigration processes even before the recession, but after the crisis began, the number of residents leaving for permanent residence in other countries increased sharply. In 2015-2020 years, the net outflow of migrants from the country amounted to 3.3 million people annually, while in the past the value of the indicator did not exceed half a million people per year. Thus, since the beginning of 2014, Venezuela has been in a state of protracted socio-economic recession and political crisis, which primarily affects the welfare of its citizens and is manifested in deteriorating already unfavorable conditions, such as unemployment, poverty and social inequality. Unstable conditions in the oil market and economic sanctions by the United States put great pressure on the country's economy, preventing it from restoring the previous volumes of oil production and export, which have long been the main source of state budget revenues.

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Венесуэла: кризис социалистической модели

Аннотация. Исторически Венесуэла являлась одной из динамично развивающихся стран Латинской Америки, крупным производителем и экспортером нефти, однако внутренние социальные конфликты нивелировали эффективность нефтяной промышленности, черной металлургии, цементной промышленности и телекоммуникаций. С начала 2014 года страна находится в состоянии социально-экономического и политического кризиса, что привело к рецессии благосостояния граждан страны, резко вырос уровень безработицы, бедности и социального неравенства и достиг феноменально рекордных негативных показателей. Нестабильная конъюнктура на нефтяном рынке и экономические санкции со стороны США оказывают большое давление на экономику страны, создавая препятствия в восстановлении прежних объемов добычи и экспорта нефти и нефтепродуктов, которые долгое время являлись основным источником доходов государственного бюджета.

Ключевые слова: Венесуэла, социализм, политический и экономический дефолт, гиперинфляция, миграция и кризис беженцев.

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Венесуэла: социалистік модель дағдарысы

Андатпа. Тарихи тұрғыдан алғанда, Венесуэла Латын Америкасының қарқынды дамып келе жатқан елдерінің бірі, мұнай өндіруші және экспорттаушы болған, бірақ ішкі әлеуметтік қақтығыстар мұнай өнеркәсібі, қара металлургия, цемент өнеркәсібі және телекоммуникация тиімділігін бейтараптандырды. 2014 жылдың басынан бастап ел ұзақ уақытқа созылған дефолт жағдайында болды, соның салдарынан ел азаматтарының әл-ауқатының құлдырауы орын алды, жұмыссыздық, кедейлік және әлеуметтік теңсіздік деңгейі күрт өсті, жағымсыз көрсеткіштерге қол жеткізді. Мұнай нарығындағы тұрақсыз жағдай мен АҚШ-тың экономикалық санкциялары ел экономикасына үлкен қысым көрсетіп, ұзақ уақыт бойы негізгі көз болып саналған мұнай мен мұнай өнімдерін өндірудің және экспорттаудың бұрынғы көлемдерін қалпына келтіруге кедергілер туғызды.

Түйін сөздер: Венесуэла, социализм, саяси және экономикалық дефолт, гиперинфляция, көші-қон және босқындар дағдарысы.

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