

How the Change in Presidency Affected the Venezuelan Economic Crisis

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Literature Review

Introduction

For the past four years, the economic state of Venezuela has been heavily deteriorating. Correspondingly, the country's political and economic institutions have been manipulated by powerful individuals that are inadvertently perpetuating the worsening of the economy. My research project examines the current economic situation in Venezuela. In this essay, I am going to explain how the change in presidency from Hugo Chávez to Nicolás Maduro affected the economic crisis that is currently occurring.

Background Information

Venezuela used to be one of the fastest growing economies in Latin America thanks to its plentiful oil reserves (Third Way 2019). According to economic consultant Johnathon Cowan, Venezuela has the biggest oil supply in the world (Gonzalez 2019). In fact, Venezuela has earned a majority of its revenue from oil sales. Therefore, at one point the country had so much money that the previous president Hugo Chávez was able to finance many social programs that benefitted his citizens. These benefits were called 'Bolivarian missions', and they were a series of programs in Venezuela that intended to target important societal facets such as social welfare, popular empowerment, education, and poverty (Lilly 2021). Chavez even provided free heating for some poor citizens in New York City. There was a branch of the Citgo Petroleum Corporation that was owned by Venezuela back in 2007, and Chavez sent a free truck of heating oil to some of the citizens in need (Toro 2018).

Regardless, in 2014, the price of oil fell drastically. This caused Venezuela's GDP to rapidly decrease. Further, some citizens lost their jobs and consequently no reliable source of income. The middle class turned into the lower class, and poverty levels grew exponentially (Arconada et al. 2019). All of the factors discussed in this section are what ultimately caused the current economic crisis to begin.

Overview

First, I will explain what happened before the Venezuelan economic crisis began. After that, I will describe the corruption that has been occurring within the federal government and military. Finally, I will delineate the current economic problems that Venezuela is facing under Maduro's leadership.

What Happened Before the Economic Crisis

There were many factors that caused Venezuela's economy to worsen, but there seem to be three things in particular that contributed to the crisis. For my first point, I am going to explain in detail what happened before the economic crisis. From 1967-1974 and 1994 to 1999, Rafael Caldera Rodríguez was Venezuela's president. His first term marked the first peaceful transfer of power in Venezuela's history (Arconada & Third Way 2019). Rodríguez led the country for 10 years and had many successes. His most notable achievements are that he established Venezuela as a stable democracy and that he ended the corrupt actions of the guerrillas, also known as 'The Bolivarian Forces of Liberation' (Gonzalez 2019). Thus, most of the citizens felt safe while Rodriguez was president.

Nevertheless, in 1999, Hugo Chávez was elected as the new president. Immediately, he adopted a new constitution that renamed Venezuela as the 'Bolivarian

Republic of Venezuela' (Arconada 2019). He also decided that he was going to change many aspects of the country during the time he called the Bolivarian Revolution. First, he fired many government workers and replaced them with his friends and political allies. As a matter of fact, his supporters constituted 95% of all government positions (Gonzalez 2019; GRUPO DE TRABAJO DEL AEI SOBRE EL CRIMEN ORGANIZADO TRANSNACIONAL EN LAS AMÉRICAS 2017) . Second, he got rid of all the existing social programs that Rodriguez implemented. Chávez proposed a new plan instead called Chavismo. Chavismo is a hybrid regiment that used a combination of democratic and autocratic practices to determine who could access government positions (Third Way 2019).

When Chávez died in 2013, Nicolás Maduro was elected president. Unfortunately, Maduro inherited many of the problems caused during Chávez's presidency. This means that Maduro had the burden of correcting the plethora of issues that already existed throughout Venezuela.

Corruption Within the Federal Government

One of the largest concerns about the corruption in Venezuela is the corruption within the federal government. Instead of eliminating all this corruption, Maduro allowed it to continue. This is the most important factor that led to the economic crisis. Similar to how Chávez behaved, Maduro replaced government workers with his friends and supporters (GRUPO DE TRABAJO DEL AEI SOBRE EL CRIMEN ORGANIZADO TRANSNACIONAL EN LAS AMÉRICAS 2017). This made it easy for him to do whatever he wanted and to control Venezuela's entire money supply. Maduro allowed his friends that worked in the financial sector of the government to take some extra

money for themselves. In fact, former finance minister Jorge Giordani reported in 2016 that more than three hundred billion dollars was embezzled in the last ten years (Chinea 2016). This state corruption caused an intensification of social conflicts, a shortage of essential goods, and increase in inflation.

To add, the president eliminated the freedom of press and assembly for his citizens (Third Way 2019). This prevented them from protesting Maduro's policies. Now, since Maduro's friends and supporters are in charge, there is a lot of corruption in the news and on social media platforms. Additionally, anyone who does not support Maduro can be fined or arrested (Arconada & Third Way 2019). Even though many citizens know about the money laundering and embezzlement that is occurring, they cannot punish the criminals since these individuals are supported by both the government and President Maduro himself. Therefore, it is practically impossible to stop Maduro and his corruption.

Finally, the Venezuelan economy and government have been militarized. Some military members are trafficking drugs and illegally extracting gold. A cohort of anonymous sources from the political group Third Way clarifies that these criminals are obviously keeping all the profits from these illegal activities. This same source adds that some of these same criminals also illegally extract oil and take the profits, even though that money should rightfully belong to the country of Venezuela and its citizens. In addition, Maduro politicized the military (GRUPO DE TRABAJO DEL AEI SOBRE EL CRIMEN ORGANIZADO TRANSNACIONAL EN LAS AMÉRICAS 2017). In doing so, he assured that his supporters would be promoted and control all aspects of the economy.

There is so much corruption inside the federal government that it is inconceivable for the economy to recover unless Maduro completely changes his economic policies.

Current Economic Problems

The corruption that occurred during Maduro's presidency coupled with the global decrease in the price of oil caused many economic problems. When Chávez died, he left Venezuela with hyperinflation, a shortage of essential goods, extreme poverty, and a collapsing oil industry (Arconada & Third Way 2019). Maduro inherited these problems and did not make new laws or programs to solve them.

To discuss hyperinflation, it began when Maduro noted that the country was losing money. To fix this issue, he decided to print more money (Lilly 2021). However, instead of closing the budget deficit, this actually caused the inflation that still exists today. According to Seana Davis from EuroNews (2019), a gallon of milk in Venezuela cost around 4,000 bolivars. This is nearly 10% of the average Venezuelan's monthly salary!

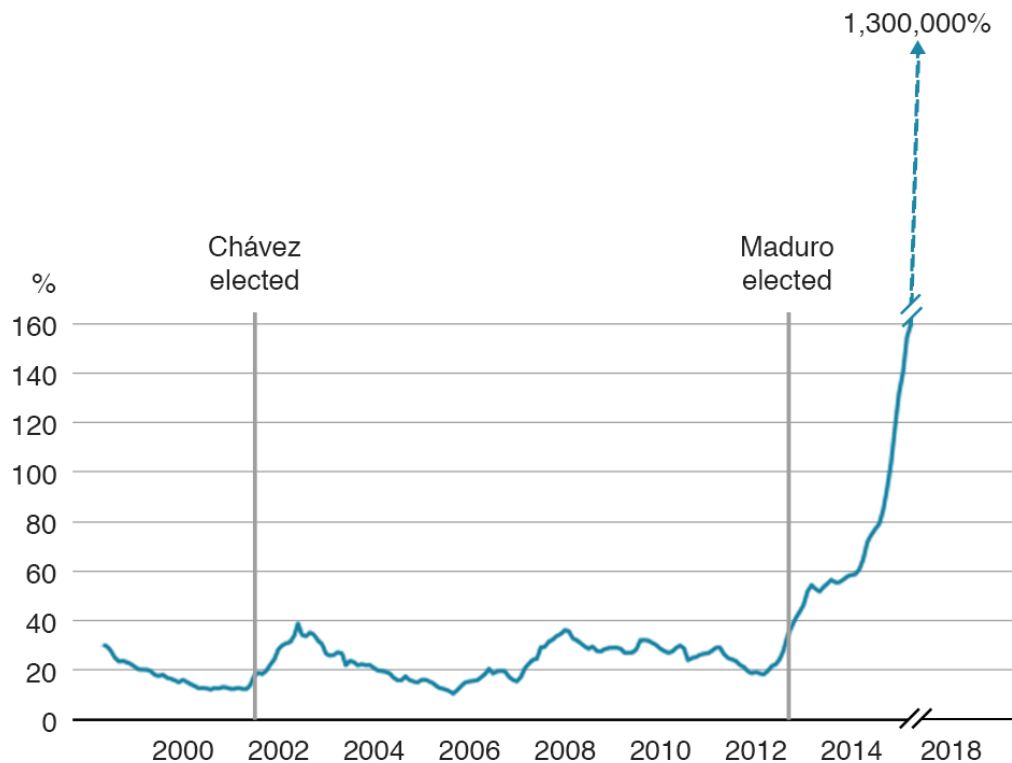
Since the government did not have enough money to buy goods, Venezuelan citizens were faced with a national shortage of food, fresh water, and medicine. There have been protests related to these shortages since 2016, but in 2019 they became much more frequent (Gonzalez 2019; GRUPO DE TRABAJO DEL AEI SOBRE EL CRIMEN ORGANIZADO TRANSNACIONAL EN LAS AMÉRICAS 2017). The public is fed up with the lack of economic assistance from the government. Along with the shortage of essential goods, many people lost their jobs when the global price of oil fell. As a result, the amount of poverty in Venezuela skyrocketed and many citizens fell into

extreme poverty. According to Boris Saavedra from the Ministry of National Defense in Venezuela, approximately 94% of the population was poor in 2018 (Third Way 2019).

Finally, the three current economic problems that I have discussed in this section have been perpetuated by the collapsing oil industry. Since Venezuela is so dependent on oil exports, even if corruption were not an issue, it would still be difficult for the economy to recover. It has been corrupted and poorly managed for so long that only new financial laws can help reverse the effects of the current economic stressors.

Venezuela's inflation spiked after Maduro's election

Estimate for 2018 is off the scale



Source: Bloomberg/Reuters estimate for 2018

BBC

Here is a graph by Bloomberg and Reuters to illustrate how drastically Venezuela's inflation has increased in the recent years. As you can see, the inflation

rate remained relatively stable until the year 2014 (Laya 2018). If you are just looking at the graph, it can be easy to assume that Maduro is the reason why inflation rates increased so steeply. However, once you learn all of the background information that I have given you in this essay, you can understand that the corrupt individuals Chávez hired along with the decrease in the global price of oil are what ultimately caused the inflation rate to spike.

Results

Conclusions

Up to this point, I have discussed what happened before the economic crisis, the corruption within the federal government, and the current economic problems under Maduro's leadership. In essence, the economic crisis did not start with current president Nicolás Maduro; it truly began with former president Hugo Chávez. Therefore, Maduro did not explicitly cause the crisis to occur. However, he did sustain the crisis and did not take actions to fix it when he became president. The mandates that Maduro has passed in Venezuela are not working, and the people do not agree with the government rules. It will be difficult for the country to improve as a whole if the citizens do not trust in the laws.

Implications

It is important to note the implications of Venezuela's economic crisis. The first implication of the economic crisis is that many refugees have fled the country. According to the University of Buenos Aires's professor Hernan Ouviaña, as of March 1st, 2019, more than 10% of the country's citizens have fled. So, despite the fact that Venezuela's population is still rising, it is only rising by around one percent per year.

Another implication of the economic crisis is that the public is politically divided about who the real president is. There is a large controversy regarding the transition of power from Nicolás Maduro to a man named Juan Guaido. Some people support and believe that Guaido is the president, while others believe that Maduro is still the president. The public is divided because although Maduro won on paper, Guaido claims that the last election was fraudulent. Since December 1, 2020, Guaido has been leading a boycott of all elections.

Appendix

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