Venezuelan Crisis of the 2010s

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Abstract

In this paper, I will argue that the actions and policies of the Chavez regime, defined by power consolidation and corruption disguised by populist ideals, weakened the economic infrastructure of Venezuela, leaving it vulnerable to the massive crisis caused by plummeting oil prices in 2014. I will also propose that the correct measures to reverse the descent of Venezuela begin with the deposition of Chavez's successor, Nicolas Maduro, whose establishment has initiated irresponsible and inflationary strategies that have only worsened the situation in the country.

History of Venezuela's Oil Economy (1914-1998)

The story of Venezuela's oil economy starts in 1914 with the discovery of Mene Grande, an oil field located in the northwestern part of the country besides Lake Maracaibo. The period after this discovery marks the biggest expansion of oil production in the country's history as Venezuela sought to take advantage of the value of oil and its proximity to the United States, a huge importer of the commodity. The importance of political stability in the country was realized early in the 20th century; the rise of Juan Vicente Gomez, a powerful dictator, in 1908 stabilized the country after a period of civil war, allowing it to take full advantage of their new economic uncovering. Oil production slowed in the 1930s and early 1940s as a period of political uncertainty in Venezuela arose, accompanied with the Great Depression affecting global markets. During this period, an important ideal arose in Venezuela, one that would be relevant years later in the leadup to the current crisis. The intellectual leaders in the country agreed that oil production would only be temporary, and the income gleaned from the commodity would need to be invested in other sectors of the economy to maximize its utility (Hausmann, 2014, p. 58-60).

A second guiding principle arose in the 1950s as other producers were establishing themselves in the market at lower costs. The Venezuelan braintrust agreed that they needed to slow their extraction of oil in order to save its income potential for the future. This policy led to the notion that the government should increase its claim on revenue from oil as the owners of the resource; it also led to the government announcing a "no concession" policy in trading to other countries (Hausmann, 2014, p. 61). The decades after 1950 were a prosperous time for Venezuela's economy; the GDP per capita of the country reached 80 percent of American levels in the latter part of the decade before slowly dropping to its current state (Restuccia, 2018, p. 9).

1974 brought a significant shock in the oil market, marking the start of the reversal of the growth trend. Betty Agnani and her fellow researchers claim that there is some consensus that the decline of oil rents since the 1970s negatively affected the activity in the non-oil sector through a low accumulation of physical capital, proving that the oil market had both substantial direct and indirect influence on Venezuela's economy (Agnani & Iza, 2011). In 1976, the government officially nationalized the oil industry, securing total control over the profits reaped from that commodity; this takeover led to a decrease in efficiency and total production of about 60 percent from 1970 to the mid 1980s, establishing a trend that would be relevant decades later (Restuccia, 2018, p. 12-13). As oil prices began to rise in 1974, Venezuela's government expenditures and public external debt holdings rose accordingly (Figure 1), establishing an interesting trend of pro-cyclical spending that flies in the face of the spending habits of many other economies (Restuccia, 2018, p. 14 & 18-19). At the same time, technology for oil extraction and refinement improved, leading to a decrease in demand and an increase in supply, which dropped prices in the 1980s, leaving Venezuela vulnerable to their reckless spending habits and large debt payments. Figure 2 shows that the drop in prices contributed to a sharp decline in Venezuela's GDP-per-capita, setting a precedent for the crisis that would occur 50 years later (Restuccia, 2018, p. 8). Oil production increased again starting in 1986 through the late 1990s; part of this increase can be attributed to reforms allowing private companies back into the petroleum sector, giving them access to fields that the state-owned giant PDVSA wouldn't exploit (Hausmann, 2014, p. 71). However, Venezuela failed to capitalize on this momentum and link the oil sector with the rest of the economy; Figure 3 shows that the ratio of non-oil components of government revenue to GDP did not significantly increase in the 1980s and 1990s (Hausmann, 2014, p.75 and Restuccia, 2018, p. 15).

The history of the Venezuelan oil economy reveals a few key principles and sets some precedents for the Hugo Chavez reign, the main topic of this paper. The guiding principles of reinvestment, patient extraction, and no-concession policies all played a role under his leadership. The procyclical and irresponsible spending and debt habits that characterized the government in the 1970s and 80s established a country with a history of poor financial practices. Most importantly, the close association of the economy with oil continued into the 21st century, setting the stage for a catastrophic meltdown under the weaker infrastructural circumstances created by the different actions and policies of the Hugo Chavez regime.

The Chavez Regime

Setting the Stage

Hugo Chavez rose to prominence in the mid 1990s in a time of political turmoil in Venezuela. When oil prices dropped in the 1980s, the country's economic standing dropped due to a lack of reinvestment and large fiscal deficits, and the stratification of its civilian base grew. In 1989, the sitting president, Carlos Andres Perez, had imposed a series of progressive macroeconomic measures encouraged by the IMF that lowered real income and rose unemployment for much of the civilian population. Angered and deceived by the government's role in their misfortune, the citizens took to the streets and began rioting; Perez, meanwhile, called on the military to control the population, an order which they resented. Among them was a lieutenant colonel Hugo Chavez, who was a member of a progressive sect in the military who wanted to overthrow the current "corrupt" regime . As conditions continued to get worse in the country, Chavez and his supporters attempted a few unsuccessful coups in the 1990s before finally gaining the presidency through electoral means in 1998, promising a populist government that would be a champion for the people instead of the elites (Sylvia & Danopoulos, 2010, p. 65-68).

Hugo Chavez and his supporters, known as *chavistas*, controlled the government from his ascension to president in 1998 until his death in 2013. Only a year after his death in 2014, oil prices began to plummet, leading Venezuela into chaos. I will now discuss the key economic and political actions of the Chavez administration that led to a weakening of the infrastructure of the country, exposing it to a massive shock in its one precious economic asset. I will also connect the consequences of Chavez's actions to the current economic crisis in Venezuela and establish the inadequacy and inefficiency of the solutions instituted by Chavez's chosen successor, Nicolas Maduro.

Power Consolidation

First, I'd like to briefly discuss the regime's ruthless campaign of power consolidation which protected and enabled Chavez's many ill-fated strategies. As previously mentioned, Hugo

Chavez was elected president on the back of a campaign centered around populist ideals. The people of Venezuela were dissatisfied with a political system they believed to be corrupt and dysfunctional, and Chavez promised to dismantle this system and institute a government that emphasized the well-being of the poor and middle-class at the expense of the elites (Hausmann, 2014, p. 305). In 1999, the year after his election, Chavez led an initiative to craft a new constitution, supported by a Supreme Court packed with his supporters. Among the key points of the document: an expansion of presidential term limits, the elimination of the Senate, and the elimination of public financing for political parties. This move was designed to centralize the balance of power in the country and weaken the ability of opposition to challenge the sitting president (Hausmann, 2014, p. 305-306).

The alteration of the structure of the government and the president's role within that structure has played an important role in the post-2014 crisis. As the people of the country have lost faith in the Maduro regime and its ability to deal with the country's struggles, different political groups have attempted to overthrow the current government and establish a new one. However, extended term limits decrease the frequency of elections, and thus, the chances of a shift in power. The elimination of public financing for political parties weaken the ability of alternative leaders to sufficiently spread their message and unite a voter base around the country. The result is a 20-year dictatorship at the head of a failing country with no real opportunity for new ideas and tenets to enter the political sphere and change their fortunes. This pattern of power consolidation has magnified the issues that I will discuss for much of this paper as the policies and the consequences that they have spawned continue to plague the country today.

Oil Prices

Before beginning to discuss these policies, it is valuable to look at the pattern of oil prices throughout the Chavez regime, as they dictated the economic climate that Chavez had to deal with in his time in power. Figure 4 shows that, other than a slight drop in the early 2000s due mainly to labor problems within the oil infrastructure, oil prices were steadily increasing throughout the majority of the Chavez presidency. A sudden drop in the late 2000s as a recession rocked the global economy was followed by a rapid recovery to relatively high prices before Chavez's death in 2013 (EIA).

Incompetence Within Oil Industry and Lack of Economic Diversification

One of the defining characteristics of the Chavez regime was his mismanagement of the oil industry and inability to diversify the economy to provide an alternative revenue stream. Chavez was elected in 1998 on the back of a brief oil boom; Figure 5 displays that oil production had actually reached its highest point in 20 years at this point, but revenue suffered from extremely low prices (Corrales, 2015, p. 55). In the early years of his presidency, Chavez continued the policies of his predecessor, honoring oil contracts with foreign countries and respecting PDVSA's current projects (Corrales, 2015, p.51) . However, as noted earlier, the Venezuelan economy continued to struggle as oil prices remained low from 1998-2001. Chavez's first significant act within the oil industry involved initiating adherence to OPEC policy. In previous years, Venezuela had agreed to limit production, but would then ignore those limits to maximize revenue (Sylvia & Danopoulos, 2010, p. 20). By adhering to this policy, Chavez may have been increasing international goodwill, but it was the first sign that he would not emphasize maximizing profit from oil as much as previous administrations. Chavez also began to offer concessions to foreign countries, particularly Cuba (Sylvia & Danopoulos, 2010, p. 20). Selling petroleum at discounted rates may have garnered him some favor across the world, but it also decreased revenue for Venezuela that could have been very valuable in reserve at different points in time over the past 15 years. We can also call back to one of the guiding principles established fifty years prior when Venezuelan officials agreed that oil was a valuable commodity that needed to be exploited to its fullest and thus, a "no-concession" policy needed to be established. Barely three years into his rule and Chavez had already defied the wisdom of his predecessors.

In 2002, Chavez faced a serious threat to his rule. The economy had not progressed as much as people had hoped, and various political disagreements had turned some members of the army against him. Among these disagreements included Chavez's push to bring PDVSA further under control. The current managers disagreed with his plans to cooperate with OPEC; they wanted to defy OPEC policy and increase production by reinvesting earnings into further development of oil fields. Chavez, meanwhile, needed those earnings to finance his administration's activity, so he passed through a series of directives that, among other things, removed the current board of PDVSA and replaced them with Chavez sympathizers (Johnson, 2018). This instance marked the first point of Chavez removing valuable human capital and flooding high-level positions with his own cronies, most of whom were uninformed and incapable of performing their appointed roles. Shortly ensuing these directives, a coup was attempted in April 2002, but Chavez was re-installed as president less than 72 hours after being removed (Corrales, 2015, p. 22). Although he continued to act as president, his popularity plummeted, and later that year, oil workers went on strike in hopes of pressuring him out of office. Domestic-owned oil production dropped massively, but Chavez was saved because the international oil companies refused to join the strike and kept producing; in retribution, Chavez fired thousands more skilled workers, and PDVSA has never recovered from the human capital drain that Chavez initiated (Johnson, 2018).

As oil prices rebounded in the mid 2000s, Chavez was left with a productive source of revenue which he proceeded to mismanage wildly. PDVSA was now mostly under his control, and he proceeded to vastly increase direct funding from the oil company to the government through his use of the National Development Fund, or Fonden. Corrales describes how he funnelled money into Fonden by systematically underestimating the price of oil when preparing the national budget (Corrales, 2015, p. 57). Similarly, Figure 6 shows how PDVSA contributions to investment increased throughout the mid 2000s; funding for Chavez's infamous *misiones* stayed somewhat constant over time while contributions to Fonden increased massively. These funds that Chavez was redirecting could have been used to invest in other industries to diversify the economy, or to re-invest into PDVSA and other oil sources to continue to improve production.

As time went on, Chavez began to drive away foreign oil firms by raising their royalties and limiting their ability to operate inside Venezuela, further reducing investment into the country. In 2006 and 2007, he fully nationalized oil production by forcibly seizing assets of foreign companies like Exxon Mobil (Rajagopal, 2017). In 2007, he began to use PDVSA to produce and import food and other basic goods, reducing its ability to focus on expanding oil production (Johnson, 2018).

Now we can look at some data to support the assertions made above. First, we establish the continued dependence on oil. Figure 7 compares the percentage of GDP coming from oil rents in Venezuela to other countries in the region, showing that it has continued to rely disproportionately on oil revenue in the 21st century. However, even as oil revenue increased throughout the 2000s, oil production itself did not increase accordingly. The Central Bank of Venezuela states that, after a 13.7 percent increase in real oil production in 2004 following the oil strike the year before, the real average annual growth rate of the oil sector stood at -1.7 percent from 2005 to 2012. Similarly, the Central Bank of Venezuela reports an unimpressive 5.6 percent real average annual growth rate in non-petroleum sectors, and said growth rate peaked in 2004 at 16.1 percent before steadily tanking to -1.6 percent in 2010. Thus, little of the earnings stemming from the oil boom were reinvested into the production economy, leaving a massive opportunity to strengthen the country's infrastructure by the wayside (Weisbrot & Johnston, 2012).

Connection to the Current Crisis and Maduro Regime (2013-present)

Thus, when Chavez died in 2013, he left his successors with an unproductive and hopeless oil industry and no other economic sector to fall back on. When oil prices tanked in 2014, the flagging yield of the industry was exposed, and oil revenue dropped off a cliff. With little reserves to spend on boosting oil production and incompetent managers in place at the highest levels, oil production dropped as well. OPEC contends that Venezuela was producing 2.4 million barrels of oil per day in 2015 and is now producing only 1.38 million barrels of oil per day (Labrador, 2019). The IMF reports that real GDP has dropped from around $325 billion in 2015 to around $75 billion in 2019 (https://fas.org/sgp/crs/row/R44841.pdf).

Maduro's administration has tried various different policies and measures to deal with these issues. It has prioritized debt payments on some debt in order to avoid seizure of Citgo and a loss of access to American oil markets; however, servicing this debt has taken up much of the country's income, leading to a drop in imports and a massive humanitarian crisis (https://fas.org/sgp/crs/row/R44841.pdf). Still, the government missed payments on PDVSA bonds in 2017, leading to default notices, and the restructuring of this debt is expected to be a long and tedious procedure (Nelson, 2018, p. 6). Maduro has also continued Chavez's misguided policy of borrowing from allies Russia and China against future oil exports, even though his infrastructure has no hope of producing revenue even slightly resembling the funds Chavez possessed (Nelson, 2018, p. 4).

I argue that removing Maduro would be a positive step towards a better outlook for the oil industry and general economy in Venezuela. First, the deposition of his administration could allow the US to remove some of its sanctions on the country, leading to easier access to American and international markets (Johnson, 2018). The primary alternative regime led by Juan Gauido has declared its selections for the board positions at PDVSA, and they allegedly include industry veterans who could improve the human capital deficiency and attract foreign investment (Martin, 2019). Additionally, the rise in oil production in the late 1980s and early 1990s showed that steps towards privatization of the industry could provide an avenue for improvement.

Irresponsible and Unchecked Government Spending

After discussing incompetence within the oil industry, we will explore a second facet of the Chavez administration: exorbitant government expenditure. A key point of Chavez's campaign in 1998 was raising the middle and lower class out of their poverty and instituting a populist government. Accordingly, social spending increased from 8.2 percent of GDP in 1998 to 11.2 percent of GDP in 2004 (Weisbrot & Sandoval, 2007). Also, public spending increased from 23.7 percent to 29.4 percent in the same time period. However, various sources report that GDP and consumption were not increasing between 1998 and 2002 due to a variety of factors, including a still reeling economy and series of civil uprisings and attempted coups (Santos, 2017, p. 2). An article from the Institutional Investor in July 2002 mentions the negative effect this increase in spending in an uncertain political atmosphere imposed on Venezuela's economy; the government deficit skyrocketed, which increased interest rates on Venezuela's bonds and the overall cost of borrowing for the country, which incited fear that the government would have to print money to pay its debts and spur possible inflation (Keaveny, 2002, p. 51). As we can see in

Figure 8, real GDP per capita shrinkage and interest rate growths towards the end of 2002 predicted an ominous time for Venezuela(Weisbrot & Sandoval, 2007). Thus, the Chavez administration's shortsighted and untenable spending habits established a pattern of reckless financial decisions throughout his administration, and eventually, his successor's as well.

However, the Chavez regime was struck with a hint of good fortune in 2003 when oil prices began to rise across the globe, breathing new life into Venezuela's economy. From 2004 to 2008, the average price for Venezuela's oil was more than double the price from 1998 to 2003. The massive inflow of revenue provided by this oil boom had an immediate impact on Venezuela's government expenditures. The administration immediately enacted procyclical spending to counteract the economic downturn that had occurred in the years prior, attempting to increase aggregate demand and stimulate the economy. They arguably succeeded as GDP steadily increased throughout mid 2000s (Corrales, 2015, p. 55-56).

Alarmed by the unrest occurring through the first few years of his presidency, Chavez took advantage of the new revenue stream by starting on his *misiones*, a series of social spending programs designed to increase his goodwill with the people and secure his political standing. Within a few months of passing the legislation, the administration passed 4 percent of GDP into funding the *misiones* (Corrales, 2015, p. 26). The programs were targeted at initiatives like increasing adult literacy rate, subsidizing food, and providing free community health care; it cannot be argued that they were at least somewhat successful at lowering societal indicators like unemployment rate and malnutrition, but they were founded on unsustainable spending practices (Rajagopal, 2017) . Public spending grew to 31 percent of GDP by 2006, and the share of public expenditure represented by social spending grew from 39 percent in 2003 to 44 percent in 2006; thus, although total domestic investment by the government was being increased, more of it was going to social welfare programs, decreasing the amount of funds being invested in economic, political, and societal infrastructure (Weisbrot & Sandoval, 2007). The lack of investment in this area would cost Venezuela greatly in the future.

Oil prices continued to rise until 2008 when a recession hit the global economy. Unfortunately for Venezuela, the Chavez administration's lavish financial habits would come back to haunt them, and a preview for the current financial crisis would occur. By this point, government expenditure had surpassed Venezuela's revenue stream, creating fiscal pressure on the government to continue the growth of the prior half-decade. The Chavez regime decided against reducing spending in favor of tightening price, exchange rate, and interest rate controls (Corrales, 2015, p. 62). The World Bank reports that annual government spending in Venezuela actually grew by around 3 percent on average from 2008 to 2011(World Bank). Stricter controls led to decreased production and greater capital flight out of the country, and these phenomena combined with continued rising inflation led to one of the worst economic crises in the world in the late 2000s and early 2010s (Corrales, 2015, p. 62).

As oil prices recovered in the latter stages of Chavez's reign, the usual patterns of increased spending and higher debt accumulation returned. At this point, the amount of debt the country owed was beginning to affect its finances. Data from the World Bank shows that Venezuela's external debt rose from about $94 billion in 2009 to $154 billion in 2013 (Figure 9). Thus, when Chavez died and gave way to Nicolas Maduro, he left a country spending massive amounts on social welfare programs with limited return and levered up to the brim with debt that it struggled to repay even in good times.

Connection to the Current Crisis and Maduro Regime (2013-present)

Having established the irresponsible and unchecked nature of spending in the Chavez administration, we now connect his financial policies to the crisis in 2014 and the Maduro regime that had to deal with the aftermath. Maduro took charge in 2013 and he continued the status quo that Chavez had enacted before his death. However, when oil prices dropped precipitously in 2014, Venezuela's GDP tanked, and the country was inundated in debt that it could not afford to repay and running programs that it could not afford to service. Data from the IMF says that GDP dropped by 3.9 percent in 2014 and continued to drop at an increasing pace, bottoming out at a drop of 17 percent in 2016.

The logical step to counteract this drop in revenue would involve cutting spending. However, government spending in Venezuela actually increased by about 180 percent from 2013 to 2015 (United Nations Statistics Division). Instead, the Maduro administration decided to prioritize monetizing its debt and financing its spending by instead printing large amounts of money (Santos, 2017, p.4). Predictably, this course of action led to massive inflation, starting a vicious cycle that has rendered the currency essentially worthless. Meanwhile, in order to repay the accumulation of debt inherited from the Chavez regime, Maduro was forced to slash imports by 20 percent. However, the country relies heavily on imports for its consumer goods, meaning that this reduction led to food and medicine shortages, triggering a huge humanitarian crisis (Nelson, 2018, p. 3-4). As revenue continued to drop over time in the mid 2010s, Venezuela tried many desperate measures to avoid defaulting on its debt, including borrowing from China and Russia in exchange for future oil exports, essentially copying Chavez's strategy for financing his debt in the decade prior. It also sold bonds of its state-owned oil conglomerate PDVSA to Goldman Sachs at a steep discount. In late 2017, Maduro announced that Venezuela would be seeking to completely restructure and refinance its debt, a plan that is expected to take years to fully come to fruition (Nelson, 2018, p. 4-5).

Thus, we can see how the irresponsible spending of the Chavez administration set the stage for a massive economic and humanitarian crisis in Venezuela after oil prices dropped in 2014. After years of justifying an increase of low-return public spending and foreign and domestic debt purchases with high revenues from a rather fortunate oil boom, Venezuela finally paid the price when the oil revenue ran out. Meanwhile, instead of responsibly cutting spending, the Maduro regime indiscriminately printed money, creating a pattern of hyperinflation that the IMF reports reached 10 million percent in 2018 (Sanchez, 2019). However, if Maduro were to be deposed and replaced by a new administration, potentially run by Juan Guaido, who claims the rightful presidency, some measures could potentially be taken to alleviate these economic issues. First, a new administration may be more open to help from the International Monetary Fund, whose help Maduro steadfastly refuses (Campos, 2019). Additionally, the next political power could choose to implement austerity measures that the country has resisted for twenty years, such as raising taxes or reducing government spending by cutting government salaries or social program expenditures. These policies would reduce the strain on the Venezuelan economy and put the country in a better position moving forward.

Misguided Economic Policy Decisions, Particularly in Regards to Crisis Response

The last part of my paper will focus on many fundamentally poor economic decisions made by the Chavez administration, especially in response to the different periods of economic crisis during his reign. We can focus specifically on two periods during his time as president: the difficult years early in his presidency preceding the spike in oil prices in 2003 and the recession felt by the entire world in the late 2000s.

As previously established, Chavez came into power in a period of economic recession. Thus, at first, his economic policies were relatively conservative and open to foreign investment (Corrales, 2015, p. 47). However, he struggled to improve the economy over the first few years, and this led to a few problems. First, the Venezuelan bolivar was overvalued, which led to relatively lower foreign investment. Venezuela has long suffered from Dutch Disease, in which one economic sector thrives at the expense of the rest. In this case, Venezuela's emphasis on the lucrative oil business meant that demand for its currency increased as foreigners used it to tap into the oil market, and this high demand for currency has led to a persistent overvaluation of the bolivar over time (Fletcher, 2004, p. 14). Also, political turmoil and the aforementioned economic struggles had led to capital flight. Historically, Venezuela had been on a crawling rate for the previous decade or so, but, in response to pressure from domestic businesses and the capital flight, Chavez let the currency float in February 2002. At the time, various experts were skeptical about the move to a floating rate, predicting inflation that the country's lower class could not afford and also emphasizing that a more substantial devaluation was necessary (Associated Press, 2002). The bolivar dropped by 30 percent almost immediately, fueling inflation and causing speculative attacks (Sylvia & Danopoulos, 2010, p. 69). The floating rate collapsed almost immediately when the oil strike hit later that year and exports tanked.

In 2003, Chavez instituted a fixed exchange rate and foreign exchange controls to attempt to remedy the massive depreciation of the currency and the ongoing problem of capital flight; he pegged the bolivar at 1600 bolivares to the dollar (Weisbrot & Sandoval, 2007). At the same time, he established strict capital controls to stem capital flight (Restuccia, 2018, p. 23). The exchange rate peg was not a huge problem once the oil prices started to spike, and the country actually succeeded in aiding businesses in increasing exports and investor confidence in the short-term; data from the Central Bank of Venezuela claims that exports jumped 13.7 and 3.8

percent in 2004 and 2005 respectively (Weisbrot, Ray, & Sandoval, 2009). However, the peg also led to a slow, but significant overvaluation in the bolivar. A report written by the Center for Economic and Policy Research in 2008 before the recession says natural inflation due to the influx of oil revenue led the currency to an accurate valuation of about 4,200 bolivares to the dollar while the fixed exchange rate was set at 2,150 bolivares to the dollar. The report summarizes the negatives of this situation, saying that the overvalued currency discourages the development of non-oil sectors and made exports more expensive in the foreign market (Weisbrot, Ray, & Sandoval, 2009). Long-term foreign investment continued to lag due to nationalizations and government takeovers. Currency controls allowed government officials to siphon off money whenever they felt like it, increasing corruption in the government. Price controls established by Chavez that were designed to keep prices down as inflation rose and the currency could not adjust led to a stifling of the public sector (Nelson, 2018, p. 3). Additionally, the establishment of a fixed exchange rate led to the creation of a parallel exchange rate, which would become significant in 2008 when the oil boom ran out and a recession hit.

By the end of 2008, the Venezuelan economy was in flux. Oil prices had begun to drop around the world, diminishing the country's main source of income. Inflation and capital flight began to accelerate. The parallel exchange had diverged greatly from the official exchange rate, leading to huge price distortions and economic disorganization and corruption(Figure 10). In response to this incoming crisis, Chavez decided to tighten price and exchange controls in order to avoid austerity measures such as cutting spending and devaluing currency; the World Bank reports that annual government spending in Venezuela actually grew by around 3 percent on average from 2008 to 2011(World Bank). These policies had disastrous consequences, inducing consumer good shortages and greater capital flight, which hurt the economy even more. Corrales establishes Venezuela's crisis from 2008 to 2010 as one of the worst in the world, showing that Chavez's actions did not help, and even actively harmed his country (Corrales, 2015, p. 62).

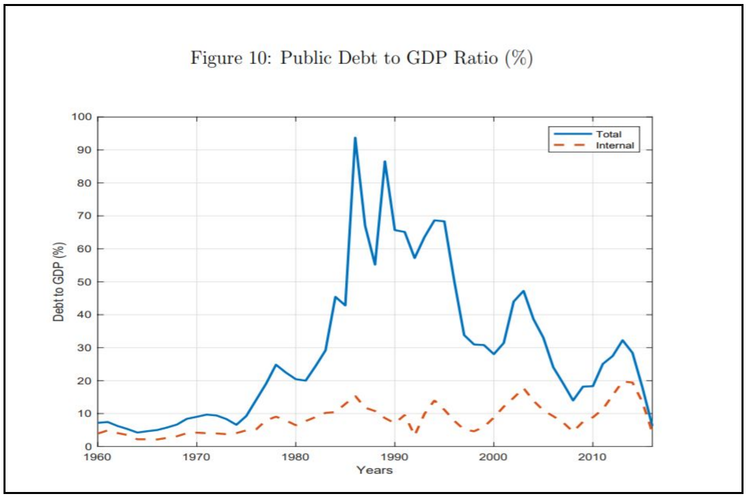
Connection to the Current Crisis and Maduro Regime (2013-present)

When Maduro took the reins in 2013, he inherited a tiered exchange rate system established by Chavez in the early 2010s (Boothroyd-Rojas, 2018). When oil prices fell in 2014, Maduro had the opportunity to learn from his predecessor's mistakes and have a positive effect on the economy. He did not. He added more tiers to the exchange rate system dictating the value of currency when purchasing different goods; the official one is meant only for importing food and medicine while the others dictate the imports of other goods and transactions of currency (Bajpai, 2018). All of these different exchange rates only opened the door for further corruption and disorganization, and they have become increasingly irrelevant as the black market for currency and consumer goods has grown rampantly (Martin, 2019). As the value of the bolivar dropped along with oil prices, Maduro followed Chavez's example and tried to slow inflation through price controls; these were ineffective and only discouraged domestic production and increased the prominence of black market transactions (Nelson, 2018, p.3). Imports fell as the government stopped subsidizing them due to the devaluation of the currency and necessary redistribution of income to debt payments and oil maintenance; the Observatory of Economic Complexity asserts that imports decreased from $58.7 billion in 2012 to $9.1 billion in 2017 (OEC). By this point, Venezuela had become dependent on imports, especially for consumer goods; the overvaluation of the bolivar meant that imports from international markets were relatively cheap compared to domestic prices. Thus, the decrease in imports has led to a massive humanitarian crisis where people do not have access to basic goods like food or medicine. Hyperinflation has soared to an annual rate of 373,000 percent as of March 2019 according to Bloomberg Businessweek (Martin, 2019). Nowadays, people buy gas with cigarettes instead of bothering with currency (Smith, 2019).

Many of the previously discussed benefits to deposing Maduro would apply to help remedy inflation and other currency issues. The new regime may be more willing to accept help from the IMF, which would likely be a necessity with a crisis of this magnitude. Eric Martin proposes dollarization as a potential solution in order to utilize a more stable currency (Martin, 2019). I think finding a way to bridge the gap between the official exchange rate and parallel exchange rate is a necessity; that may involve eliminating some tiers in the current system and shifting the official exchange rate to account for the bolivar's almost non-existent value.

In this paper, I discussed the actions and policies of the Chavez administration and their negative ramifications for the present and future of Venezuela's economy. I examined the impact of the fall of oil prices in 2014 on the country and dissected the Maduro administration's response to the resulting slide in the economy. I concluded that the misguided and irresponsible decisions made by the Chavez and Maduro regimes have placed Venezuela in a terrible position economically and politically and raised some ideas about how to reverse the nation's descent. For the sake of my family, friends, and all the people who love Venezuela, I hope for a brighter future for the country.

Appendix



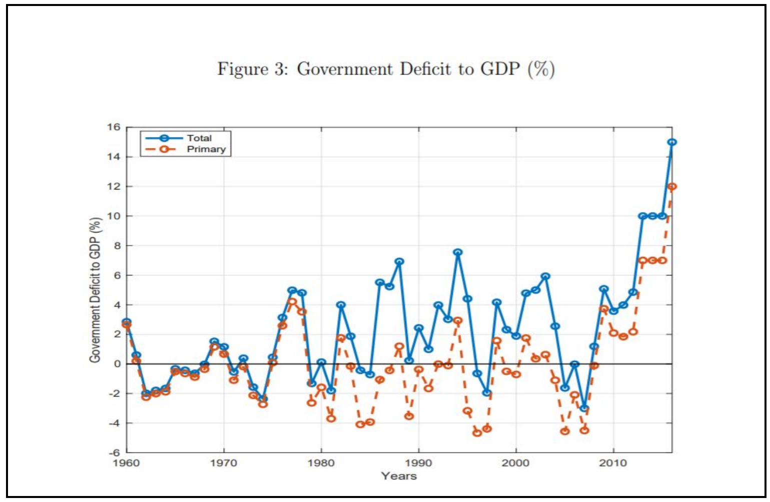


Figure 1: Public Debt to GDP and Government Revenue

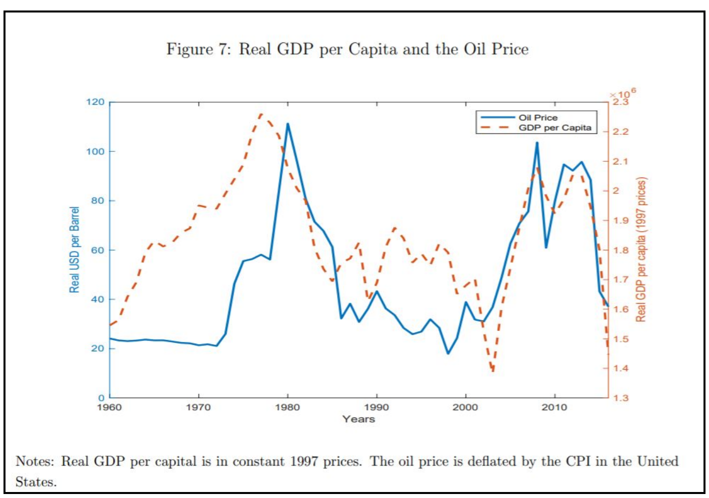


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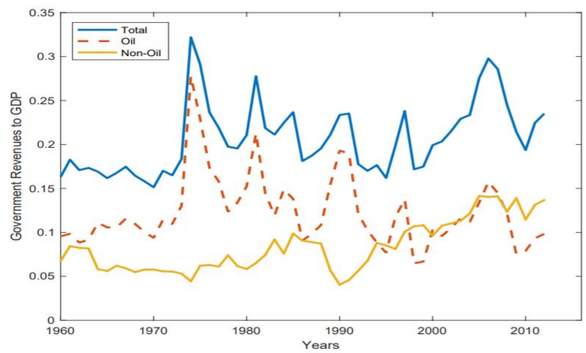
Figure 2: Relationship between Real GDP per Capita and Oil Price in Venezuela

Figure 8: Government Revenue to GDP



Notes: Revenues of the central government expressed as a percentage of GDP.

Figure 3: Non-Oil Government Revenue to GDP

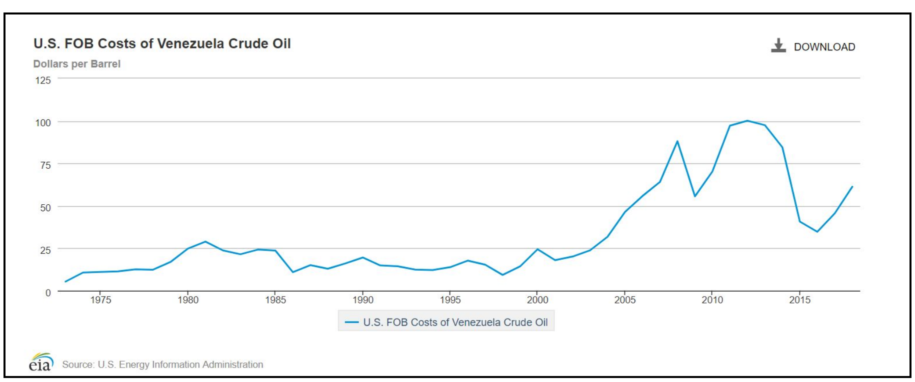


Figure 4: Oil Prices Over Time

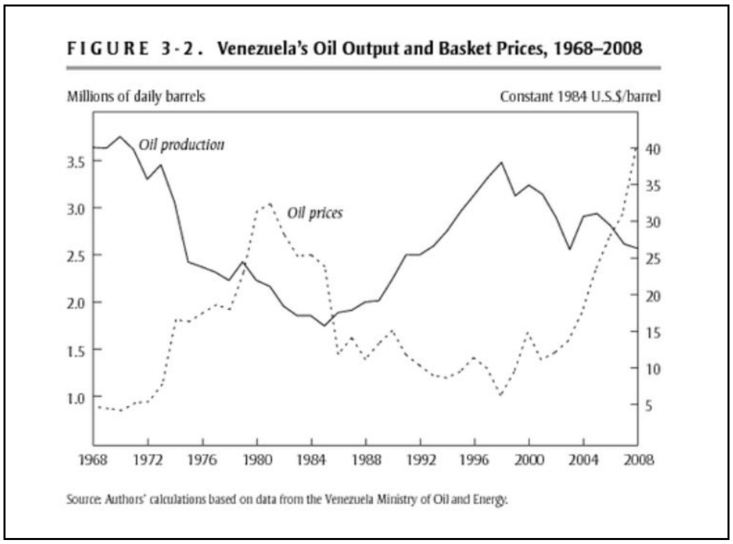


Figure 5: Oil Production and Prices Over Time

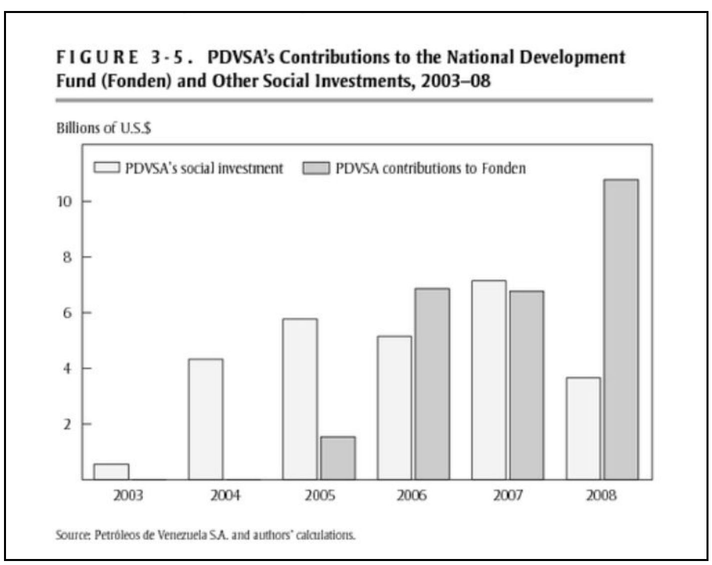


Figure 6: PDVSA Contribution to National Development Fund

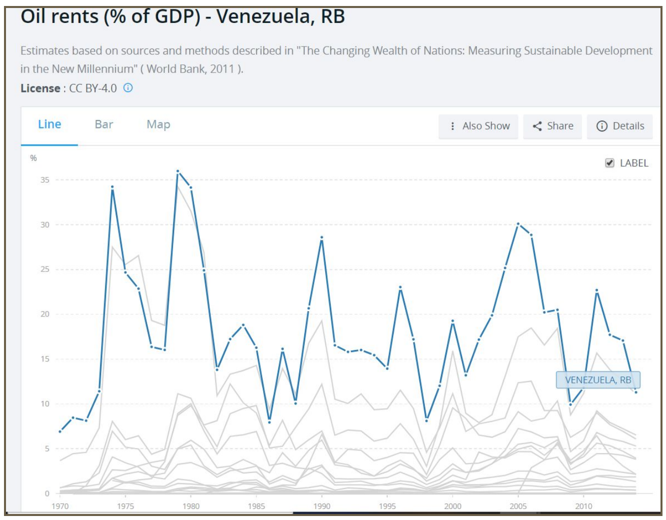
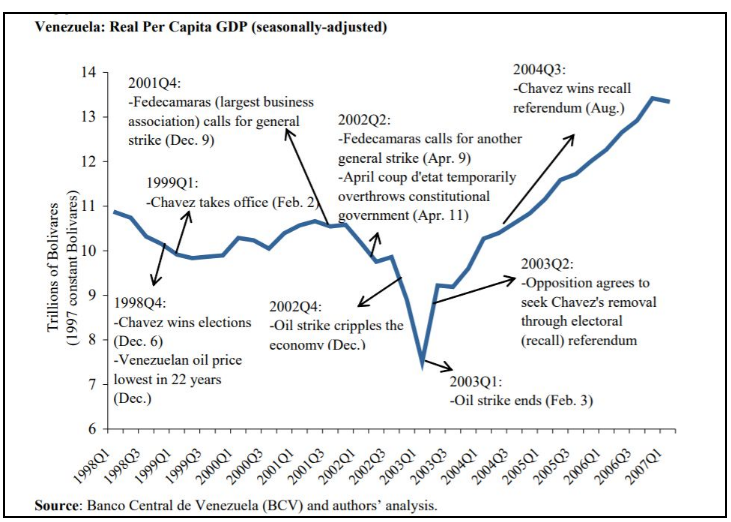


Figure 7: Oil Rents to GDP of Venezuela compared to other South American countries



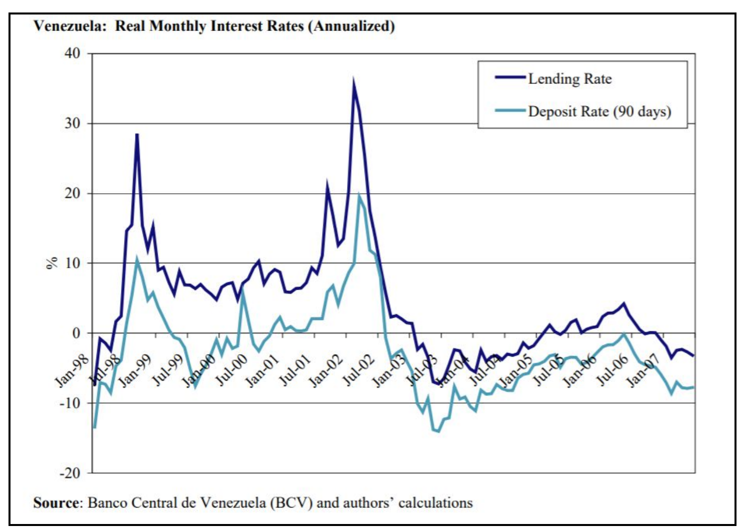


Figure 8: GDP Per Capita Decrease and Interest Rate Increase Around 2002

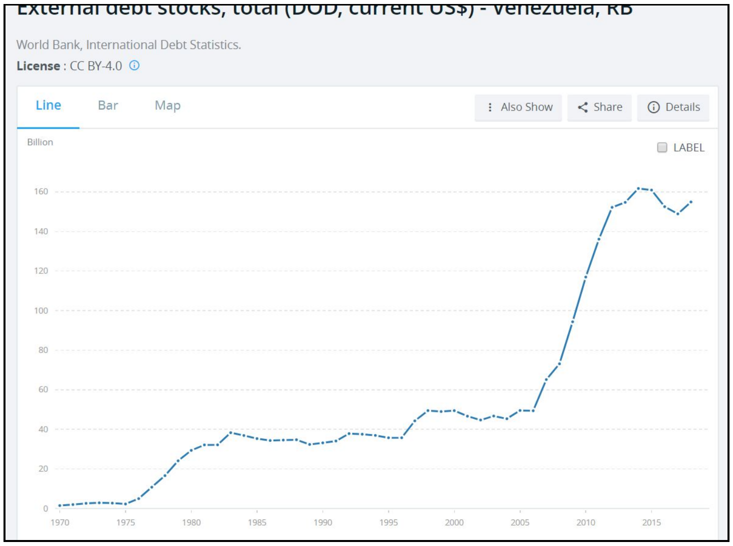


Figure 9: External Debt Stock of Venezuela

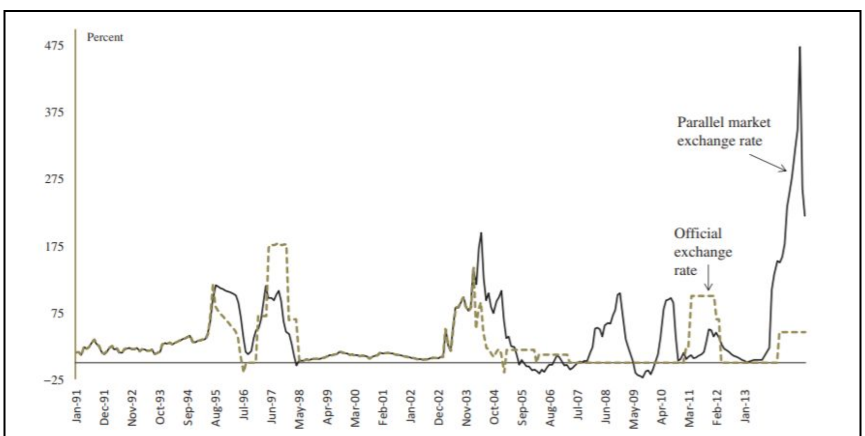


Figure 7. Official and parallel market exchange rates: January 1991–December 2013. Twelve month percent change.
Sources: International Monetary Fund, *International Financial Statistics*, and Thompson Reuters.

Figure 10: Official and Parallel Exchange Rate Annual Percent Growth in Venezuela

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