

Analyzing the Economic Crisis in Venezuela: Causes, Effects, and Solutions

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Abstract

Venezuela in recent years has faced a severe decline in economic stability. Causes of the crisis can be attributed to economic mismanagement, over-reliance on oil, corruption and authoritarian rule. These factors have resulted in hyperinflation, poverty, collapsing public services and mass emigration. The effects of the crisis were profound, impacting the welfare of the Venezuelan people and creating a humanitarian emergency. In addition, the crisis has regional implications as neighboring countries grapple with accommodating Venezuela's migrants and refugees. To overcome the crisis, a comprehensive approach is needed, including fiscal discipline, economic diversification, strengthening democracy, and anti-corruption measures. Sound fiscal policies, structural reforms and international cooperation are critical to stabilizing the economy, attracting investment and driving sustainable growth. In addition, protecting vulnerable populations through targeted assistance programs and social safety nets is essential. However, effective solutions require a broader commitment to democratic governance, human rights and social cohesion. Rebuilding trust in institutions, promoting transparency and encouraging citizen participation are critical to long-term recovery.

Keywords: Crisis, Economy, Venezuela



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INTRODUCTION

Most of all human beings live in a country. The purpose of a State is a topic debated by many scientists from various fields and different timeframes. Political philosopher John Locke argued that the purpose of government is to protect citizens' natural rights to life, liberty, and property. He believed that people form societies and establish governments to better secure these rights, and governments derive their legitimacy from the consent of the governed. Political scientist Max Weber said that the goal of the state is to maintain a monopoly over the lawful use of force in a given territory. In this view, the state is responsible for enforcing the law, maintaining order, and protecting its citizens from external threats.

Economist Adam Smith argues that the goal of government is to provide the necessary legal and institutional framework for a market economy to function effectively. He believed that the state should maintain a stable currency, provide infrastructure such as roads and bridges, and ensure a level playing field for all economic actors. Philosopher Jean-Jacques Rousseau believed that the purpose of government is to promote the common good of society. He argued that the state should act in the interests of the general will, or the collective will of citizens, rather than the interests of particular individuals or groups.

Political scientist Harold Lasswell stated that the purpose of government is to allocate values in society. This includes distributing resources, regulating behavior, and making decisions about public policy. From the definitions put forward by the experts above, we can conclude that the purpose of a country is to create prosperity for all its people. But over the past few years, Venezuela has experienced a deepening economic and political crisis that has left its citizens scrambling just to meet basic needs such as food, medicine and security. The

crisis is so severe that it has caused one of the largest migrations in recent history, with millions of Venezuelans fleeing the country in search of a better life elsewhere. The crisis in Venezuela is a crisis that has many dimensions and has attracted the attention of the international community. Starting from 2013, there has been a drastic setback in the country, both from a humanitarian, political and economic perspective.

This paper aims to explore the causes, effects, and possible solutions to the crisis in Venezuela. To achieve this goal, we will first provide an overview of the political and economic situation in the country prior to the crisis, and then examine the key factors that contributed to its escalation. We will also examine the impact of the crisis on various aspects of Venezuelan society, including the economy, health, education and security. Next, we will discuss all possible solutions that can be implemented to improve Venezuela's economic conditions.

RESEARCH METHODS

This study uses a qualitative descriptive writing method with a literature study as its approach. This research seeks to describe how the Venezuelan economy is and what efforts can be made to improve the Venezuelan economy. The data source for this research is secondary data which comes from various scientific publications, books, articles, and from valid websites. Problem Formulation: Why is Venezuela's economic condition declining? How will Venezuela's economy be in 2023? What can the Venezuelan government do to improve its economy?

RESEARCH RESULTS AND DISCUSSION

Post-World War Venezuelan Economy

Venezuela has been a strong economy for a long time. Dependent on oil since 1922, influence over Venezuela was an important agenda that was contested by both sides in World War 2. Even at the start of WW2, Venezuela was the world's largest oil exporter. In 1948 Marcos Pérez Jiménez seized power in a Venezuelan military coup by imposing a repressive regime marked by censorship, human rights abuses, and corruption. By the late 1950s, however, the mounting opposition and popular discontent caused a coalition of political parties, trade unions, military officers, and civil society organizations to join forces to challenge the Pérez Jiménez regime. On January 23, 1958, mass protests erupted in Caracas, the capital of Venezuela, demanding an end to the dictatorship. The military, facing increasing pressure and growing divisions within its ranks, withdrew its support from Pérez Jiménez. As a result, he left the country on January 23, effectively ending his regime.

Post-Revolution Venezuelan Economic Development

Following the fall of Pérez Jiménez, a transitional government was installed, and democratic elections were held in December 1958. These elections brought a coalition of political parties known as the Democratic Action party (Accion Democrática) to power. The new government implemented a series of political and social reforms, including the establishment of democratic institutions, respect for civil liberties, and the introduction of social welfare programs. The 1958 coup and subsequent transition to democracy in Venezuela marked a significant turning point in the country's history. This ended a long period of dictatorship and laid the foundation for democratic government, shaping Venezuelan politics for decades to come. The Venezuelan government establishes the state-owned oil company *Petróleos de Venezuela S.A. (PDVSA)* in 1976. PDVSA became a key player in the global oil market, allowing the Venezuelan government to exercise greater control over oil production and revenues.

The successful oil sector led to significant economic growth and modernization in Venezuela. Revenue from oil exports allows the government to invest in infrastructure projects,

such as roads, schools, hospitals, and housing, raising the standard of living for many Venezuelans. The country is experiencing rapid urbanization, with significant migration of rural residents to cities in search of employment opportunities. The Venezuelan government implements various social programs and uses oil revenues to fund social welfare programs, including subsidized food, education, health care, and housing. These programs aim to reduce poverty and inequality, which results in improving the country's social indicators.

But Venezuela's success in its economy eventually became a dependency on its oil revenues, and Venezuela was unable to diversify its sources of income either. This was the source of the main problems that Venezuela faced in the 1980s. When the price of oil was at its peak, at US\$35 per drum in 1980, but within 6 years, the price of oil dropped dramatically to US\$10 per drum. The economic infrastructure and large funds that have already been invested into it have become a huge source of debt for Venezuela. Deeply in debt, the Venezuelan Government turned to the IMF (International Monetary Fund) for Financial assistance. To get help from the International Monetary Fund, state leaders pursued market-oriented neoliberal solutions—governments reduced social programs, removed price controls on gas and other consumer goods, and privatized state-owned enterprises. It's all done to try and make the economy run more efficiently. It didn't work.

"One theory is that the drug given is the wrong drug. So you make the patient worse," Corrales said. "An alternative argument is that they don't have enough time to use the drug." When the government cut fuel subsidies, the cost of taking the bus immediately went up 30% and people quickly took to the streets in 1989. (Margolis, 2019). With the aim of helping its economy, the Venezuelan government created a fixed foreign exchange rate that was priced high. Basically, it makes the Venezuelan bolivar artificially strong. What was expected with the artificially high foreign exchange rate was that imported goods, which were urgently needed by the Venezuelan people at that time, could be obtained at low prices. However, in reality, what happened was not as expected. Two very detrimental things happened.

1. With a high foreign exchange rate, high-income Venezuelans buy the United States Dollar, which provides them with security from domestic financial instability. This also means that their wealth cannot be circulated domestically, thus creating a state of stagnation.
2. The cheap price of imported goods has made the domestic industry, which is basically not very strong because the state has not succeeded in diversifying its economy, becomes dead because it cannot compete.

To compound the dissatisfaction with the government, there is a lot of corruption in Venezuelan politics. The budgets that should have been used to strengthen the economy were embezzled by the political elites. Social and economic inequality has become much worse than in previous years. In 1998, Hugo Chavez, a former lieutenant colonel, was no stranger to Venezuelan politics. He had even launched a coup 6 years before, but failed. By taking advantage of the Venezuelan people's dissatisfaction with their country's leader, Chavez was finally elected president. After being elected President of Venezuela in 1998, Hugo Chavez implemented a series of policies that involved significant government spending in various fields. Chavez's presidency was marked by his commitment to carrying out a socialist agenda and redistributing the country's wealth to tackle social inequality and poverty.

One of the main areas of increasing government spending under Chavez was social programs. These programs, known as "Misiones" (missions), aim to provide education, health care, housing and other services to the Venezuelan population, particularly low-income people. Examples of these missions include Mission Barrio Adentro (health care), Mission Robinson

(literacy), and Mission Vivienda (housing). The implementation of these programs involves substantial investment in infrastructure, personnel and social services.

Chavez also prioritized investment in the oil sector. He sought to increase state control over the oil sector and divert oil revenues into social programs and development projects. This includes expropriating key oil assets into state ownership and implementing policies that support government-funded initiatives from the state-owned oil company PDVSA. Although Chavez wants to diversify Venezuela's economy, his expensive strategy has only increased dependence on export oil. Chavez has also sought to build Venezuelan influence, providing subsidized oil to Cuba in exchange for the services of Cuban doctors and teachers. He sells oil to other South American countries and China at below market prices. At the same time, however, Chavez neglected to spend money on maintaining the oil facilities, and production declined. Increased government spending under Chavez was partly funded by high oil prices during the early years of his presidency. Venezuela, as an oil-rich country, benefits from the surge in world oil prices which provide significant revenue for the government. However, as oil prices fluctuate and the economy faces challenges, maintaining high spending levels is becoming increasingly difficult.

In the short term, the policies in the Chavez government are beneficial for the poor. For example, the poverty rate decreased by 20% from 2002 to 2008. However, the weaknesses in the government began to emerge slowly. Although Chavez is spending money to create an oil-dependent economy, he is not spending money to renovate or even maintain oil production facilities. This causes oil production to slow down.

The Era of the Government of Nicolas Maduro

Nicolas Maduro, the successor to Hugo Chavez won the next election, with only a 1.6% advantage over his political opponent Henrique Capriles, who unsuccessfully requested a recount of the votes, after Hugo Chavez died of cancer. Maduro immediately set about consolidating his power, using the powers given to him by the National Assembly to rule by decree. But he was unable to stop the plunge in oil prices that had ravaged Venezuela's economy. Nicolas Maduro, who is now leading a heavily indebted country, prints money with the aim of paying off its debts. But this of course led to very high inflation, making any effort to create a productive business impossible. The hyperinflation that Venezuela has experienced since 2013 has had dire consequences for its population. Surviving hyperinflation has been a major challenge for many Venezuelans, and individuals have used a variety of strategies to overcome the economic crisis. Here are some of the ways people are trying to navigate hyperinflation:

- Venezuelans are forced to exchange their rapidly devalued currency, the bolivar, for a more stable currency such as the US dollar or other cryptocurrency. This allows them to hedge their savings and make transactions in a more stable medium of exchange.
- Many people turn to the informal economy as a means of earning a living. This includes engaging in small-scale trading, street vendors, offering services, or participating in black markets. Informal economic activity has provided some Venezuelans with opportunities to earn income and access goods and services.
- Venezuelans living abroad have played an important role in supporting their families at home through remittances. These financial transfers from family members living in more stable economic environments have been a lifesaver for many people, helping them meet basic needs and navigate hyperinflationary environments.

- Barter and direct exchange of goods and services instead of relying on a rapidly devaluing currency. Barter enabled people to obtain necessary goods without relying on traditional monetary transactions.
- Communities and families come together to support each other during crises. Sharing resources, raising funds and supporting each other through mutual assistance networks is critical to survival and mitigating the effects of hyperinflation.
- Rely on government subsidy programs for essential goods and services. This includes accessing heavily subsidized food through the Local Committees for Supply and Production (CLAP) program and making use of public healthcare facilities.
- Many Venezuelans choose to leave the country in search of better economic opportunities and better living conditions. Migration has provided a way out of the hyperinflationary crisis for some individuals, as they seek jobs and stability in other countries.

Solutions that can improve the Venezuelan Economy

Venezuela's economy faces complex challenges, and there are no simple solutions to fix them. However, there are several key areas that could be addressed to help improve the economic situation in Venezuela:

- **Economic Diversification:** Venezuela needs to reduce its heavy dependence on oil exports by diversifying its economy. Promoting sectors such as agriculture, manufacturing, tourism and technology can help create new sources of income and employment opportunities.
- **Fiscal Discipline and Economic Reform:** Implementing sound fiscal policies, reducing government spending, and tackling corruption and mismanagement are critical to restoring economic stability. Economic reforms, such as trade and investment liberalization, improving the business environment, and boosting private sector growth, can attract both domestic and foreign investment.
- **Overcoming Hyperinflation:** Addressing hyperinflation is critical to stabilizing the Venezuelan economy. This may involve implementing responsible monetary policies, controlling the money supply, and restoring confidence in the local currency. Seeking help from international financial institutions and experts in managing hyperinflation can be beneficial.
- **Social Safety Nets:** Implementing effective social safety nets to protect vulnerable populations and reduce poverty is critical. Targeted welfare programs that ensure access to basic needs such as food, health care and education can help mitigate humanitarian crises and provide a foundation for economic recovery.
- **International Cooperation:** Engaging in constructive dialogue with the international community and seeking assistance from multilateral organizations can provide valuable support. Collaborating with other countries and accessing resources, expertise and investment can help address economic challenges more effectively.
- **Long Term Planning and Sustainable Development:** Developing a comprehensive and sustainable long term economic plan is essential. This plan should prioritize investments in infrastructure, education, research and development, and renewable energy to drive economic growth and prepare for the future.

It is important to know that the steps mentioned above are not easy to do. Therefore, it is important for the Venezuelan people to elect political representatives who prioritize personal interests, so as not to abuse their power for their respective political agendas.

CONCLUSION

In conclusion, the crisis in Venezuela has been characterized by a complex interaction of political, economic and social factors that have had severe consequences for the country and its people. The causes of the crisis can be traced back to a combination of economic mismanagement, over-reliance on oil, corruption and authoritarian rule. These factors have led to hyperinflation, widespread poverty, deteriorating public services and mass emigration. The effects of the crisis were far-reaching, with significant declines in living standards, social unrest and a humanitarian emergency. Venezuelans face shortages of food, medicine and basic necessities, and struggle to access quality health and education services. The crisis also has regional implications, with neighboring countries having difficulty accommodating Venezuelan migrants and refugees. Addressing crises requires a comprehensive approach that addresses root causes and provides sustainable solutions. Key strategies include implementing sound fiscal policies, promoting economic diversification, strengthening democratic institutions, and fighting corruption. Fiscal discipline, budget reform, and tax reform are needed to stabilize the economy, attract investment, and rebuild confidence. Structural reforms aimed at diversifying the economy, increasing productivity and encouraging private sector growth are essential for long-term sustainability.

International cooperation and support is essential in providing financial assistance, technical expertise and humanitarian assistance to alleviate the suffering of the Venezuelan people. Debt restructuring, external assistance and collaboration with multilateral organizations can help create fiscal space and facilitate economic recovery. Additionally, promoting social inclusion through targeted assistance programs and social safety nets is essential to protect vulnerable populations and ensure a more equitable society. However, it is important to recognize that resolving the crisis requires not only economic reforms but also a commitment to democratic governance, respect for human rights and social cohesion. Rebuilding trust in institutions, promoting transparency and encouraging citizen participation are fundamental pillars for a sustainable recovery.

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