



# The Economic Hit on Venezuela

Jason Unruhe ★ MRN Publishing



# THE ECONOMIC HIT ON VENEZUELA

JASON UNRUHE

MRN PUBLISHING  NIAGARA FALLS

The Economic Hit on Venezuela  
ISBN 5-800110-277317  
Published in 2016 by MRN Publishing  
Copyright © MRN Publishing  
This edition © MRN Publishing  
All rights reserved



*Dedicated to the citizens of Venezuela and all other nations  
oppressed by imperialism*

## Acknowledgements

I'd like to thank a friend for his work in formulating ideas for repairing the Venezuelan economy.

## CONTENTS

Reality and Economic Policy						
The Reality of the Crisis	.	.	.	.	.	. 9
Rice	.	.	.	.	.	. 12
Minimum Wage	.	.	.	.	.	. 13
\$4.5 Billion Mining Deal	.	.	.	.	.	. 14
Economic War						
Imperialism	.	.	.	.	.	. 16
Monetary Manipulation	.	.	.	.	.	. 18
What is to be Done?	.	.	.	.	.	. 24
Foreign Debt						
Mounting Foreign Debt	.	.	.	.	.	. 27
Eliminating the Debt	.	.	.	.	.	. 28
The Enemy Within	.	.	.	.	.	. 31
Sources	.	.	.	.	.	. 34

## Reality and Economic Policy

---

### **The Reality of the Crisis**

If we were to believe the media in the imperialist countries, we'd have the perception that Venezuela was about to collapse at any moment. This claim is not a new one as it has been made against many countries. Since the Korean War it has been stated that the DPRK was on the verge of collapse<sup>1</sup>; a collapse that has never taken place. Daily the media is making the claims that "the country has run out of money", or that they're a "failed state."<sup>2</sup> Some hyperbolic headlines include: "McDonald's, empty of customers because runaway inflation means a Happy Meal costs nearly a third of an average monthly wage." And, "the Country With No Coke,"<sup>3</sup> (implying, of course, that's a bad thing). Like the DPRK, Washington and others have been calling for foreign intervention<sup>4</sup> in the country to stave off a crisis of starvation.<sup>5</sup>

Despite the rhetoric thrown around by U.S. media outlets, the situation is far from an apocalyptic scenario. Statements by regular everyday people on the ground paint a picture of hardship, not death. Triple digit inflation has wracked the country's economy. Shortages of necessary goods and food have caused political unrest and social instability. There is no doubt of this. The seriousness of this should not be trivialised, but we

should not see this as the four horsemen coming over the horizon.

A real danger is posed by making these false reports of imminent collapse. This image is used to justify U.S. interference in the country. It has the goal of destabilising the government and causing it to collapse. The hope is that the country will fall into the hands of the right wing neo-liberals, which will return Venezuela to its subordinate position. One of the larger claims is a lack of democracy in the country, a lack of democratic reforms. The claim is simply nonsense given that Venezuela has democratised the economy to a great degree. Bottom level planning in communities is considered a right. If this was really the case, then why would the government have allowed a recall vote to remove Maduro from office? Instead of acknowledging this, regional countries under direction by U.S. imperialism have invoked the Inter-American Democratic Charter against Venezuela. Their hope is that these claims of dictatorship (despite repeated fair and democratic elections of the United Socialist party) will be sufficient to have Venezuela kicked out of the Organization of American States. Such an act would cause a great deal of damage to the economy. The U.S. imperialist nature of the actions can be viewed quite starkly when we see how the organisation has not even bothered applying such rules to Brazil; when the country has recently suffered a coup. Despite all claims to the contrary, the subway is running, and free public-health clinics are functioning normally.

One visitor noticed the following:

"Within days of my arrival to Caracas a few weeks ago it became clear that while life in Venezuela is far from normal, and many are suffering from the crisis, mainstream media images of a country in utter disarray are clearly overstated. Far from being empty, Caracas's streets and highways exhibit the

same pattern of heavy car and foot traffic found in other large Latin American cities. The metro feels as crowded as ever. Restaurants in the affluent neighborhood of Las Mercedes are jam-packed and have been for weeks, according to friends who live in the neighborhood. The shelves of private supermarkets in Las Mercedes and other affluent neighborhoods are full, with plentiful chicken, cheese, and fresh produce. The Wendy's down the block from the apartment I'm staying in has been full most times I've passed it, including on a rainy Sunday night when a steady stream of customers passed through. Beer has not disappeared (and will be available for at least the rest of this year). And I've even had multiple Coca-Cola sightings."<sup>6</sup>

A lack of electricity is also a common claim made against the government. The reality is much different. There has been an electricity crisis while the country was undergoing its worst drought in forty-seven years. Despite this, Venezuela still has the highest consumption of electricity per capita of any country in the region.<sup>7</sup> The world is said to be on average 3,104 kWh per capita, while Venezuela is 3,245.<sup>8</sup> This has mostly been caused by falling water levels in the country as Global Warming increases. In spite of their oil production, domestic electricity is generated through hydro dams. The Guri dam has seen a drastic drop in water levels. The government, however, has carried out a successful policy to help alleviate the situation.

"To restore water levels in the Guri dam, which supplies roughly 70 percent of Venezuela's power, the Maduro administration closed select government offices for one, and then three, days a week; closed schools on Fridays; and rationed electricity in most the country outside Caracas. As of last week, government offices are again open five days a week,

albeit on a reduced schedule (8 am-1 pm). Schools are again open on Fridays. Electricity rationing, which occurs for three hours a day on a rotating schedule in interior states (meaning electricity is and has been available for twenty-one hours a day in these areas), remains in effect during the week but no longer on weekends, and may soon end altogether."<sup>9</sup>

Of course, there are difficulties, but the government and its people have been quite resourceful in coming up with ways to deal with the problems that arise. Even as the U.S. has carried out inhumane sabotage actions against the country; they have remained firm and have continued to carve out their independence.

### **Rice**

One of the largest staple foods in Venezuela is Rice. But due to economic problems, it is one of the hardest food items to obtain in the country. This is true of other staples as well, including milk, meat, and beans. As a result, many people have been looking outside the traditional staple foods for a source of nutrition. One such source is cow lung, known as *bofe*. Another is empty carbohydrates from the traditional *arepa* cornmeal cake. They serve the purpose of filling the stomach, but contain almost no protein, and the viscera are high in fat.

All of this has been a huge negative effect on the U.S. led economic war against Venezuela. Noted private intelligence gathering company and front group for the CIA, Stratfor, showed two satellite images that displayed how imports had dropped significantly.<sup>10</sup>

In 2016 the Bolivarian government announced that it wanted people to grow their own food to as a great a degree as they can, citing the impact of U.S. imperialism.<sup>11</sup> From this "rooftop gardens" were created. With space at a premium in urban areas,

it is only logical to place them on the roof where they can absorb sunlight and rainwater. Such programs have been marginally successful, but very necessary to carry out.

One particularly interesting innovation has been the increase in rice production at the Piritu Becerra commune in Guarico state. This communal farm has massively increased their production of rice to 2,000 hectares. Their goal this year is to double production to 20,000 tonnes of rice. They're hindered by a lack of fertilisers forcing them to resort to using natural ones. Such a yield would constitute about 2% of the country's rice consumption.

Despite the difficulties faced by the country, the Bolivarian revolution is certainly capable of coming up with innovating ways to combat problems. But while they strive to come up with community-level activism and innovation to tackle problems, these shortages are a national problem. To rectify the situation there needs to be a country-wide policy change. Production of rice domestically must be undertaken on a large scale, not just a handful of possible communes. The number one problem is Venezuela being depended on food imports due to their oil based economy. A diversification of the economy is sorely needed. It's something the president Nicholas Maduro has been fighting for in recent months.

### **Minimum Wage**

Due to the inflation brought upon by the money expansion from importers who were acting in as agents for U.S. imperialism (see above), it has been necessary to increase the minimum wage in the country. In mid-2015, Maduro announced that the minimum wage was going to be increased by 50%.<sup>12</sup> During a press conference, he announced that the minimum wage will increase from 15,000 Bolivares to more than 22,000 Bolivares beginning Sept. 1, 2016. At the same time food stamps which are used to purchase food will be increased from 3.5 to 8 points

"The total minimum income including both the minimum wage and food stamp rate set was about 33,000 bolivares. Now the food stamp system, which has increased to around 42,000, means the total minimum income will be set at 65,000 bolivares."<sup>13</sup>

This inflation has been a great effort to deal with. The drastic drop in the price of oil has had serious consequences for the Venezuelan people. Not only are there fewer wages going around for people, but, there's also less to tax to fund the social programs that the country has. This affects everything from health care to food, to education, and all manner of 'missions' that the government has carried out over the years. Without a taxable income, there's a real threat to the country not being able to pay its debts. Public spending is highly important for the country which is currently underfunded due to the crisis.

Maduro has called on the OPEC and non-OPEC countries to achieve an oil price of 70\$ per barrel. Such a measure would do wonders for the economy and go a long way towards restoring it.

#### **\$4.5 Billion Mining Deal**

In an effort to diversify the economy Maduro has signed a \$4.5 billion mining deal with several foreign companies. In total, there are eight agreements. This mega deal will see an open-pit mining operation 112 square kilometres of the mineral-rich southeastern state of Bolivar; which is about 12% of the nation's territory. The primary target will be copper and gold exploration and mining projects. A Canadian mining firm, Gold Reserve, is engaging in this joint venture. However, Gold Reserve is not new to the country.

"Gold Reserve was active in the South American country until 2009 when then President Hugo Chávez suspended the company's Las Brisas concession over ecological concerns, sparking a seven-year legal

battle in international arbitration bodies. In February, the Maduro government signed a \$5 billion deal with the transnational firm, settling the dispute."<sup>14</sup>

The contract has a 27-year life-span. It's estimated that it will bring \$14 billion in revenue to the country. This estimate was made by the newly created Ministry of Ecological Mining. Another deal was struck with Faox Corporation to extract 5,000 tonnes of coltan. The estimated yield is expected to reach \$10,225,000.

The deal that was struck was highly advantageous for the Venezuelan government. The country is entitled to 55% of all profits on top of any taxes and royalties they'll be taking. Some have criticised the move saying that the use of foreign companies surrenders a degree of sovereignty. In the eyes of critics, they're allowing a foreign capitalist firm to enrich themselves off the resources of the Venezuelan people. There is some validity to this argument. However, I would argue that it's necessary to seek outside help. Mining is very heavily capital intensive in machinery. The industry is very reliant on people with experience. It's not something someone can just jump into and learn along the way. It requires a great deal of expertise. This fact alone makes it outside help obligatory. Regardless, Venezuela has managed to strike a good deal with just 55% of profits, never mind adding in taxes and royalties.

This massive project is set to bring in great revenues and payouts in wages. This is one of the measures Venezuela needs to tackle U.S. sabotage efforts.

## Economic War

---

### **Imperialism**

Venezuela has been in the crosshairs of U.S. imperialism since the day Hugo Chavez was elected the president of the country. Since that very day there has been a non-stop effort to destabilize the country in an effort to bring it under U.S. control once again. Venezuela has historically been a colony of the U.S. who served the purpose of supplying oil to the country. It's also an OPEC member which grants it a certain power in the world via oil prices.

Immediately following his election, the U.S. began a campaign to paint Chavez as a dictator who is the most dangerous man in Latin America. In terms of a threat to U.S. imperialism in the region, he certainly was. His democratic "Bolivarian Revolution" set an example for other countries to resist U.S. hegemony. As history records, he was one big pain in the backside for the U.S. and its believe that it should control what happens in "its own backyard."<sup>15</sup>

Chavez came into power with the goal of transforming the country along the lines of human need, not human greed.

Almost immediately he nationalized more of the oil industry into the state company, *Petróleos de Venezuela, S.A. (PDVSA)*. With the new oil revenue, he and his party, *United Socialist Party of Venezuela*, began producing alternatives to U.S. owned corporations, and domestic oligarchies. Radical efforts were undertaken to mobilize the poor. Entire *barrios* (shanty towns) were made into mini-enclaves and given loans to begin infrastructure development. These semi-communes gave a new autonomy to the poor. Slumlords that brutalized their tenants had their buildings confiscated and handed over to a council of tenants, with the option of taking a loan to improve their collective home.

This example of self-determination and empowerment of the masses was too much for the U.S. to bear. It had to be put to a stop. Their example of what could be achieved if the people united against U.S. imperialism is dangerous. Money began flowing from the CIA to Non-governmental Organizations in Venezuela. The National Endowment for Democracy began operations to destabilize the country via disinformation campaigns.<sup>16</sup> As the success of the Bolivarian Revolution continued, the U.S. resorted to using terrorist attacks against the oil industry in an effort to destroy the economy.<sup>17 18 19</sup>

This effort to bring the country to ruin continues to this day with the economic sabotage by Citibank. Just recently the bank announced that it was closing the Venezuelan government's foreign currency accounts within a month.<sup>20</sup> President Nicholas Maduro denounced the move as part of an economic blockade. *"With no warning, Citibank says that in 30 days it will close the Central Bank and the Bank of Venezuela's accounts,"* Maduro said in a speech, adding that the government used the U.S. bank for transactions in the United States and globally.<sup>21</sup>

This chapter of Venezuelan history is long and complicated, and covered in blood. But, it's just another day for the global capitalist system and its desire to keep profits.

### **Monetary Manipulation**

During late 2015 to mid 2016 there was a crisis of food shortages in Venezuela. The pro-imperialist media hailed this as proof of the failure of "socialism." Important to note is that Venezuela isn't socialist, it's social democratic. Images of long lines are posted in the media by U.S. outlets claiming that people are starving in the country and that there is soon going to be mass starvation.<sup>22</sup> U.S. think tanks are on a war path producing disinformation aimed manipulating public opinion.<sup>23</sup> The goal is to collapse the Bolivarian Revolution and allow U.S. imperialism to gain a firm footing in the country (and the oil reserves) once again.

No doubt there is a food crisis in the country. But, it is not, however, being reported honestly. The causes are far from what is being claimed. Simple mindedly, socialism as a system in general is being blamed. Low brow explanations given are basically "they always run out of other people's money."<sup>24</sup> Those that bother to look for an actual explanation are met with claims such as: "a significant portion of the oil revenues was simply stolen." Of course, Cato Institute's Juan Carlos Hidalgo gives no actual explanation of how this caused food shortages.

Other sources claim that the government just let the production of food fall. Interestingly, they don't provide anything to demonstrate this.<sup>25</sup> The reason is because they can't. The majority of food is actually imported from other countries. There's a very good reason why this is the case. Venezuela has been held as a "single commodity economy." Their whole thing is dependent upon oil, not much else is actually produced in the country - instead it's imported. This is the way the country was set up by U.S. imperialism. If at any point the country tries to get

out from under U.S. control, they can simply embargo them, or ruin the price of their single commodity export. This allows the U.S. to discipline the country, forcing it to serve the interests of imperialism. This is not uncommon for many developing countries placed under imperialist pressure. This is particularly the case for Caribbean and Latin American countries.<sup>26</sup>

These falsehoods are produced deliberately to slander the Bolivarian Revolution. It should be noted that these shortages only affect the poorer areas. Wealthier areas of Venezuela are fully stocked and customers are happy. This has come to light from a man, Agustin Otxotorena, a Basque executive living in Caracas. He showed pictures of his wealthy area with plenty of food.<sup>27</sup> His photos which were published on various social media were instantly denounced as "fake" by the anti-Venezuela online community. The pictures were outright ignored in the imperialist media.

Since the history of imperialism in Venezuela has forced a neglect of other industry, it's exacerbating the problems it faces now. The current president Nicholas Maduro has already called for changes in the economy to include necessary goods. *"The Bolivarian Economic Agenda has several branches, the first is urgently address the crisis, another one is lay the foundations for the new economy, our country must find the accurate road to national development, looking for exits in complicated times and searching ways out of the pit where we fell due to the neoliberal model,"*<sup>28</sup> he said. The new policy involves a "special centralized plan, which favors domestic production and stimulate[sic] both national small and medium industry, and the social economy."<sup>29</sup> This move could take quite a while to bring into full swing.

So what's causing the shortage itself? The culprits are the large grocery chains and importers which remain in the hands of the capitalist class. The weapon they are using is the multiple exchange rates. Essentially, this conversion of Bolívares into USD

facilitates the great import scam by the bourgeoisie. Currency manipulation is being used side-by-side with falsehoods about the importation of food.

The scam works like this:

There are multiple exchange rates in Venezuela that convert the Bolívar to U.S. dollars. The idea was to give a preferential exchange rate to importers so that they could purchase imports more easily. This preferential exchange rate, and the growing gap in exchange rates, is what is allowing large retail businesses and importers to cause the shortage.

When a company wants to import essential goods, i.e. food, in this case, they're required to go to the central bank to purchase U.S. dollars at the "preferential rate for necessary imports." The rate is about 6.3 Bolívares to the U.S. dollar. (Current figures put it around 10 Bolívares.) The company then gives those USDs to whomever they wish to import from. Alongside this exchange rate is the "illegal parallel market rate." This rate is set at 500 Bolívares to the U.S. dollar. This difference is where the scam takes place.

A private importer goes to the central bank and requests to exchange Bolivars for USD.

To do this, he claims he purchased 100 cases of groceries for 1000\$ USD.

In actuality, he purchased only 50 of them.

The 50 he did import, he sells to businesses at the "illegal parallel market rate." Each case cost him 10\$ USD or 63 Bolivars, but he can sell each one at 5000 Bolivars due to the parallel rate. This massively inflates the price of necessary goods, while allowing the importer to pocket a gigantic profit. So what about

the other 500 USD? Usually the importer will exchange those U.S. dollars at the "illegal parallel market rate" for 250,000.

In many cases the importer doesn't exchange the left over Bolívares into USD. Instead, they take the money overseas for investment, or they place it in a hidden account. In other cases, they take the whole \$1,000 USD and move it to an offshore account.<sup>30</sup> Doing this on a large scale has caused a currency flight from the country. The amount estimated for this loss is around 300 billion Bolívares between 2003 and 2016. Pro-imperialist media claim that this money has been stolen by corrupt officials.<sup>31</sup> However, it is far more plausible that this money has been taken out of the country by the economic elite of the country who have been allowed to remain. How much is \$300 billion? It's greater than the GDP of many countries around the world.

<i>Country</i>	<i>GDP (Millions of US\$)<sup>32</sup></i>
Finland	272,217
Pakistan	243,632
Ireland	238,020
Greece	235,574
Portugal	230,117
Iraq	223,500
New Zealand	199,970

This is the kind of economic sabotage that Venezuela is facing from the actions of the capitalist class. Not only are the economic elite siphoning vast amounts money out of the economy, but they're inflating the prices of essential goods well beyond what they should be.<sup>33</sup> Next time this subject comes up, ask an opponent of the Bolívarian government to explain why prices are so high, and supply is so low. Almost always they won't give you an answer, other than to say that it's the fault of socialism.

It is only possible to carry out this scam because there are multiple exchange rates. The policy is absolutely wrong. I'm not even sure what they were trying to accomplish with it. In this case, I blame the Venezuelan government for not having nationalized the import industry and grocery stores; and I blame them for having an ineffective exchange rate policy.

In response to this problem the government opened up the boarder. Citizens were free to cross into Colombia to purchase the essentials that were being hindered by economic sabotage.<sup>34</sup> Unfortunately, they were met with exorbitant prices.<sup>35</sup> Colombia is facing its own price problems which are going relatively unreported in the media. *"Goods like flour and sugar are scarce now, so the supply is limited,"* said Pedro, a Colombian grocery store owner.<sup>36</sup> Many of the stores placed a limit on how much a single customer could purchase.

It should be noted that Venezuela was listed as having almost abolished hunger by the UN Food and Agriculture Organization (FAO) in 2015.<sup>37</sup>

Opening the boarder is not the only measure they've taken. Since the shortages started the government has accelerated existing food programs that supply much needed groceries to the public. Along with the acceleration they've implemented a few modifications to their programs and approaching problems in new ways. More specifically, there is a program that creates a synergy between local grassroots organizations and the government. A new one that carries out such cooperation is the Local Provisioning and Production Committees, known as CLAPs. They organize an alternative food distribution network in all 24 states.<sup>38</sup> It's really quite innovative.

"CLAPs have a twofold purpose. In the immediate term, they are working to combat lines, shortages, and speculation by delivering basic food products directly to people. The government purchases goods

directly from both private and state enterprises, which the CLAPs distribute house to house based on community censuses. The project is seen as a temporary stop-gap solution to the current shortages, aimed at the most vulnerable fifth of the population. In the longer term, CLAPs are also intended to engage in local food production and processing. In tandem is a major push for urban agriculture, overseen by a newly formed Ministry of Urban Agriculture. A recent hundred-day planting campaign involving 29,000 urban productive spaces throughout the country aims to increase the amount of fresh produce, eggs, fish, and animal protein available locally.<sup>39</sup> These efforts are complemented by a renewed push for production in the countryside."<sup>40</sup>

Citizen participation in agriculture has exploded. People are engaging in backyard farming, bartering vegetables, exchanging seeds, and carrying out their own cooperatives. Many are creating their own small food businesses. As it stands right now, agriculture represents 3% of GDP, 10% of the labor force.<sup>41</sup> *"A reduced supply of industrial agriculture inputs is also driving a transition toward organic practices and agroecology, in what some are likening to Cuba's special period. The shortages are also causing a shift from processed foods and a renewed appreciation of local foods and traditional foodways. Many activists see these developments as elements of a new food system, a project they have been trying to advance for many years."*<sup>42</sup>

In July the government seized a large U.S. producer of goods in the country, Kimberly Clark.<sup>43</sup> About a month earlier the company fired 900 workers claiming that they lacked the raw materials necessary to continue production. The factory was seized by the government and handed over to the workers who

were previously employed there. Once the factory had been handed over, President Nicholas Maduro authorized 22 million to be loaned to the enterprise to purchase the raw materials they needed to begin operations again. Its products are certainly essential: *"The factory can produce, every month, 25 million diapers, 18 million sanitary napkins and 33 million rolls of toilet paper – products that have been in short supply throughout Venezuela."*<sup>44</sup>

### **What is to be Done?**

The big question remains: what do they do now? What measures would be necessary to repair the economy and allow Venezuela to exercise self-determination; while minimizing interference by the imperialists. For this answer I spoke with a friend who has a background in economics. A few good ideas came out of our discussion that we both feel would do the job. Here I'll go into a bit of detail about what he thinks needs to be done.

Immediate economic reform is vital. The multiple exchange rates should be abolished without delay. One moderate exchange rate should be established.

The price of Venezuelan oil should be raised and subsidies for domestic oil consumption should be eliminated. The subsidy generally only benefits the middle and upper classes due to the fact that the lower classes don't consume much in the way of oil. The reduced domestic rate mostly serves to help the upper classes who can afford the oil anyway. Government revenues would increase significantly, allowing funds to be transferred into much more important social programs. Revenue from petroleum exports accounts for more than 50% of the country's GDP and roughly 95% of total exports.<sup>45</sup> Raising the price of oil for export a small percent would also help alleviate the drop in revenue from the global oil price decrease.

Manufacturing in the county should be increased as well. Already it produces heavy industry products such as steel, aluminium, and cement. The actual means of production need to be added to the manufacturing sector, not just the circulating constant capital. More specifically, they should invest in the production of Department 1 commodities. This category is made up of constant capital, machinery, software, basically the means of production that other capitalists purchase for carrying out production. The benefit of producing these is that Venezuela will insulate itself from the global price system for the oil industry constant capital. Embargoes and sanctions against them for oil industry technology won't work on them. They're vulnerable here due to their oil based economy. Plus, it will benefit from it when they export. This will free up the necessary capital for food imports.

One of the mistakes Venezuela has made is not reinvesting enough of the oil profits back into production. Some of their technology is falling behind as a result.<sup>46</sup> A significant reinvestment of capital would increase the efficiency of the industry leading to a lower cost of production in the long run, leading to more oil based revenue. With oil as their primary national industry, it is nothing short of neglectful to do otherwise.

In Marxism we divide commodities into two departments:

- Department 1: contains the means of production. Capital invested in producing materials, machinery, and anything else a capitalist would need for carrying out production, including inputs like steel.
- Department 2: contains the means of living, the consumer goods of society for workers and capitalists. This also includes luxury items.

We differentiate between these two groups for a reason. In traditional Keynesianism you spend state funds on public projects in order to stimulate demand for goods and services. But, since Marxists make a differentiation between these two types of commodities - we build up the productive forces first, which can produce the consumer goods that will enter into demand as a result of the wages. In this way, you build up the productive forces necessary to facilitate the production of the new consumer goods that will be in demand. This is the path the Soviets took which proved to be correct. It built up the necessary means of production to carry out the industrialization process.

## Foreign Debt

---

### **Mounting Foreign Debt**

Since the prices of oil and other raw materials have collapsed, Venezuela (and others) has been left with huge budget shortfalls. National income from oil used to account for 96% foreign currency earnings. After the collapse, it represents only 75%. This makes it difficult to pay foreign debt. Instead of using foreign currencies of a higher value, they're using their own lower currency to pay those debts. This means they have to use much more of it to pay it down. For example, at the time of this writing the Bolivar is worth ¢10 of the U.S. dollar. In order to pay back a loan in their own currency, Venezuela has to pay back ten times as much.

In this situation, their ability to pay foreign debt is severely hindered. The Venezuelan government must keep dipping into their reserves of foreign currency in order to continue to service the debt. At other moments they carry out monetary gold swaps. Many will recall how they called in all of their international gold holdings to be kept in the central bank back in 2014. The foresight of this move was brilliant. Selling off gold reserves in foreign currencies to be used to pay foreign debts is a necessary and smart move.

The debt problem in Venezuela is much worse than it seems. This is due to incorrect ideas about its ability to pay them. It is viewed as possible to pay the debts because it is compared to the GDP converted into USD. This is being done at the current Dipro rate of 1 Bolivar to .10 USD. When you divide the contracted GDP by such an exchange rate, you create an overestimation of the value of that GDP. As a result, you get a distorted picture of the foreign debt as a percentage of GDP. This is an underestimate and makes it look like it's manageable.

Others have a false idea that the debt can be paid by the idea that oil prices will increase. They're looking at an artificial increase created by the OPEC countries by restricting the supply of it. The idea is that if they restrict the supply, the market will raise the price. These attempts have failed. They also ineffective at recovering liquified foreign currency.

The reality of the situation in Venezuela is quite dismal. Their foreign currency reserves have been reduced to a mere \$12 billion USD. Something must be done to rectify the situation immediately. This foreign currency is absolutely necessary to carrying out import needs and paying down foreign debt. The other noose around their neck is the compensation cases that have been placed upon them by the International Center for Settlement of Investment Disputes. Companies that have been refusing to produce have been appropriated and put back to work. Those companies are demanding compensation for their lost enterprises. In the context of revolution, these companies shouldn't even be given anything, considering that they were trying to carry out economic sabotage. The revolution shouldn't have pity for the international bourgeoisie.

### **Eliminating the Debt**

Something needs to be done soon or there will be a total collapse of the Bolivarian government and economy. The dangers are very real and require careful action and strong

leadership if they are to be handled. As many see it, there are really only two options to take at this point:

1. Eliminate the multiple exchange rates and create a higher one to begin paying down debts in a more valuable currency.
2. Create a moratorium on debts while payments are restructured.

The most effective course would be to go with the latter. Venezuela should tell its creditors that they will be paying back less than what is called for. Less money should be given to the creditors and instead steered towards industrial production, the creation of commodities for export. This could also include raw materials as with the aforementioned mining deal. The point would be to use that money for investment in expanding the GDP and creating more employment. But production and wages are taxable which would give the state the revenue necessary to pay off the debts more quickly. A reduction in the debt paid today could save an astronomical amount of interest in the future. Even worse, a total economic collapse.

Certainly, there's going to be a political backlash against the country for taking such a route. Creditors don't like it when you don't pay back the money they loaned you. The biggest such threat is the possibility of asset and property seizures. Most devastating would be for it to happen to the state oil company (PDVSA). Right now the PDVSA has 44 oil tankers, 13 refineries and bank accounts around the world. The freezing of such assets would hurt the Venezuelan economy greatly, given that it is dependent on oil exports. This could also create an embargo situation.

It wouldn't be in the interest of creditors to seize such assets because it would only make it harder for Venezuela to pay back its debts. Essentially, if you sabotage a person's ability to pay back a loan, you won't get the money. They'd be much better off

allowing them to reduce the debts and letting them continue on with value creation enabling them to pay the money they owe. The problem in this situation is that some creditors want Venezuela to collapse so they can bring in a right-wing government and bury the country under neo-liberal economic policies. So, it's a gamble.

It could be argued that if a country defaults on some or all of its loans, no one will loan to them again in the future. This is not a likely scenario for a very important reason. No one will exclude Venezuela from the financial markets long term because it has something to pay back loans with: Oil. So long as oil and minerals exist, there will always be an ability to pay and a reason to invest. No one is going to pass up such investment in the long term. Venezuela doesn't have a long-term solvency crisis, it has an immediate liquidity problem. The debt held by their creditors isn't being sold off to other investors because they know the price of oil will rise again, leading to an ability to pay off those debts eventually. There's low risk of default in the future once oil and raw materials cost rise.

Some actions could be taken to try to lessen the debt pressure without defaulting on them. The government could purchase some of the debt back from the creditors. This would eliminate payments on capital and interest. This would create some breathing room for the government to manoeuvre. An alteration of the deal with Petrocarbide to begin charging a higher rate for energy would boost revenue. Currently, Petrocarbide provides a subsidised oil program to Caribbean nations. The price comes in at a low rate and then increases over time. If they adjusted the price to its intended full price it would provide important funds.

Domestic production of commodities currently imported is an absolute necessity. Many who produce domestically are refusing to produce out of protest. Just recently Kimberly-Clark was seized by the Venezuelan government and handed over to its

workers with a loan to begin production again. Within a short period of time, two million sanitary pads were back on the market. Freed up money to be spent on investment in domestic production of goods would solve two problems. First, it would reduce the need of foreign currency for imports, freeing it up to pay foreign debt. Secondly, it would produce industry and wages that can be taxed as the economy expands. Physical capital creation, commodities, is something that is just plain forgotten about in today's financialized economy.

Venezuela could also restructure payments coming in from other countries into USD. For example, Venezuela currently is paid for infrastructure projects in China, Brazil, Iran, and others. The re-profiling due dates are scheduled to take place this year and some next year. Asking for USD would inflate their reserves of foreign currency. Bonds that are about to expire can be substituted for the issuance of new ones that are longer term. Finally, there could be a reduction in military spending, and an effort made in the financial markets to rehabilitate their reputation by correcting mistaken ideas about their situation.

Defaulting on some debt while reorientating economy policy could be of tremendous benefit to the country. These large creditors can get some if not most of their money back, or none of it at all. What's it going to be? Creditors are being much harder on Venezuela than is necessary. The financial markets are making Venezuela look worse than they are in regards to debt. This, no doubt, part of U.S. foreign policy to attack the nation which is struggling to live free of their imperialist tyranny.

### **The Enemy Within**

Venezuela has a history of its capitalist class abusing the oil system in the country. The economic oil rentier gains have always been a target of the capitalist class. Today it is no different. The former minister, Jorge Giordani, denounced the theft of more than \$20 billion in just one year. This fact shows

that there is a great potential for corruption inside the government. Those working on behalf of the bourgeoisie and U.S. imperialism has infiltrated the government and seek to carry out actions capable of causing destabilisation, or at the very least, call into question the legitimacy of the Bolivarian government. This defrauding of the nation is a terrible cancer that the Public Attorney's Office and the National Audit Office don't have the necessary resources to investigate.

As this problem continued the government founded the Platform for Public and Citizen Auditing, based on rights and protections that are ingrained in the Bolivarian constitution. This program puts forward funds to carry out investigations against those would sabotage the people and their country by embezzling funds. A new layer of checks and balances with a focus on criminal activity has been created. The largest area of investigation is the application of public finances for the contracting and management of public debt.

Right now there is a great deal of capital flight in the country being carried out by crooked officials and private businesses. An auditing of public and private enterprises, transnational companies and banking institutions is absolutely necessary to halt this economically destructive activity. What is the main problem? Fictitious foreign debt is being created by businesses which import goods and other such enterprises. This wealth is being syphoned off by the bourgeoisie in an attempt to enrich themselves at the expense of the oil revenue needed to fund the people.

Determining how much foreign debt there is should be a priority of the government. This can be determined via an auditing process which looks at public and private business finances. The correct information is needed in order to ascertain the real situation around foreign currency income, the amount of

current foreign currency reserves, and the commercial and financial situations the central bank must manage.

Economic data is a must. The government needs to know when and how much foreign currency is entering and leaving the country. The foreign currency revenue from oil must be steered in the right direction, not embezzled into the pockets of the bourgeoisie and their agents. This kind of intensive investigation is needed to determine the extent of the corruption. Most importantly, how to put a stop to it, and punish those involved.

---

## Sources

- <sup>1</sup> Cegarra, A. "Harrowing scenes of Venezuela on the brink of collapse". *The Washington Post*. 25 May 2016. Retrieved 14 August 2016.
- <sup>2</sup> Editorial Board. "The agony of Venezuela continues". *The Washington Post*. 24 May 2016. Retrieved 14 August 2016.
- <sup>3</sup> Worstall, T. "Congratulations To Bolivarian Socialism: Venezuela Is Now The Country With No Coke". *Forbes*. 21 May 2016. Retrieved 14 August 2016.
- <sup>4</sup> Editorial Board. "Venezuela is in desperate need of a political intervention". *The Washington Post*. 12 April 2016. Retrieved 14 August 2016.
- <sup>5</sup> Forero, J. "Venezuelans, Facing Food Shortages, Rally Behind Vilified Conglomerate" *Wall Street Journal*. 3 June 2016. Retrieved 14 August 2016.
- <sup>6</sup> Hetland, G. "How Severe Is Venezuela's Crisis?" *venezuelanalysis.com*. 23 June 2016. Retrieved 14 August 2016.
- <sup>7</sup> IEA Statistics © OECD/IEA 2014. Electric power consumption (kWh per capita)  
<http://data.worldbank.org/indicator/EG.USE.ELEC.KH.PC>
- <sup>8</sup> Ibid.
- <sup>9</sup> Hetland, G. "How Severe Is Venezuela's Crisis?" *venezuelanalysis.com*. 23 June 2016. Retrieved 14 August 2016.
- <sup>10</sup> "Bringing Venezuela's Economic Crisis Into Focus". *Stratfor*. Retrieved 13 August 2016.
- <sup>11</sup> Sonneland, Holly K. "Update: Venezuela Is Running Short of Everything". *Americas Society/Council of the Americas*. Retrieved 13 August 2016.
- <sup>12</sup> "Venezuela's Maduro Announces 50% Minimum Wage Increase". *Telesur*. 12 August 2016. Retrieved 14 August 2016.
- <sup>13</sup> Ibid.

<sup>14</sup> Koerner, L. "Venezuela's Maduro Signs \$4.5 Billion Mega-Mining Deal". *venezuelanalysis.com*. 8 August 2016. Retrieved 13 August 2016.

<sup>15</sup> America's backyard is a concept often used in political science and international relations contexts to refer to the sphere of influence of the United States... The term "America's Backyard" started in reference to Central and South America. "America's Backyard" is about the United States' traditional area of dominance and major sphere of influence, which was Central and South America for a long time. (Wikipedia)

<sup>16</sup> Golinger, E. (April 25 2014) "The Dirty Hand of the National Endowment for Democracy in Venezuela". *Counter Punch*. Web. Accessed July 24 2016

<sup>17</sup> Ellis, E. (January 21 2011)"Arrests Made in Arson of Venezuelan Government Building, Opposition Involvement". *Correo Del Orinoco International*. Accessed July 24 2016.

<sup>18</sup> "Continuation of Terrorist Plans from the US" *Cuba Debate*. October 7 2010

<sup>19</sup> Person, T. (September 16 2010) "U.S. Government and CNN Openly Protect and Support Venezuelan Terrorist". *Venezuelanalysis.com*. Accessed July 24 2016

<sup>20</sup> "Citibank Closing Venezuela's Accounts as Part of 'Blockade'" *TeleSUR*. N.p., July 12 2016. Web. 24 July 2016.

<sup>21</sup> Ibid.

<sup>22</sup> Gladstone, R. (2016, May 27). How Venezuela Fell Into Crisis, and What Could Happen Next. *New York Times*. Retrieved July 19, 2016, from <http://www.nytimes.com/2016/05/28/world/americas/venezuela-crisis-what-next.html>

<sup>23</sup> Hidalgo, J.C. (2016, February 29.) Socialism Has Created a Humanitarian Disaster in Venezuela. *Cato Institute*. Retrieved July 19, 2016, from <http://www.cato.org/publications/commentary/socialism-has-created-humanitarian-disaster-venezuela>

<sup>24</sup> Ibid.

---

<sup>25</sup> Worstall, T. (2016, July 17.) Congratulations To Bolivarian Socialism - 35,000 Venezuelans Leave The Country To Feed Themselves. *Forbes Online*. 20 July 2016, from <http://www.forbes.com/sites/timworstall/2016/07/17/congratulations-to-bolivarian-socialism-35000-venezuelans-leave-the-country-to-feed-themselves/>

<sup>26</sup> "Dependence on Single Agricultural Commodity Exports in Developing Countries: Magnitude and Trends." *Food and Agriculture Organization of the United Nations*. Retrieved 11 Feb. 2002. Web. 20 July 2016.

<sup>27</sup> "Rich Eating Well in Venezuela, Basque Executive Shows." *TeleSUR*. N.p., 31 May 2016. Web. 20 July 2016.

<sup>28</sup> "President Maduro: Economic actions taken by the nation should have the human being as center". *AVN/ Prensa-Embajada de la República Bolivariana de Venezuela*. (21 January 2016)

<sup>29</sup> *Ibid.*

<sup>30</sup> "Venezuela's currency: The not-so-strong bolívar". *The Economist*. 11 February 2013. Retrieved 18 February 2013.

<sup>31</sup> Hidalgo, J.C. (2016, February 29.)

<sup>32</sup> "GDP (current US\$)" *World Development Indicators*. World Bank. Retrieved 21 July 2016.

<http://databank.worldbank.org/data/download/GDP.pdf>

<sup>33</sup> "Venezuela: Seized Factory Was Well Stocked but Wasn't Producing". *WSJ-La Iguana. Telesur*. 16 July 2016. Accessed July 22 2016

<sup>34</sup> *Ibid.*

<sup>35</sup> *Telesur English*. "Venezuela Opens Border Again but Many Return Empty Handed". *Venezuela Analysis*. (July 18 2016)

<sup>36</sup> "Venezuela: Seized Factory Was Well Stocked but Wasn't Producing". *WSJ-La Iguana. Telesur*. 16 July 2016. Accessed July 22 2016

<sup>37</sup> *FAO (2015) 'Venezuela and FAO create SANA, a new cooperation programme to eliminate hunger.'*

<<http://www.fao.org/americas/noticias/ver/en/c/283757/>

<sup>38</sup> Schiavoni C, Camacaro. W. (July 14 2016) Special Report: Hunger in Venezuela? A Look Beyond the Spin. *Venezuela Analysis*. Retrieved July 22, 2016, from <http://venezuelanalysis.com/analysis/12084>

<sup>39</sup> 100 días Agricultura Urbana en Venezuela apostando a un nuevo modelo productivo. MultimedioVTV. Published on YouTube on 7 Jun 2016. Accessed July 22 2016. <https://www.youtube.com/watch?v=BFWfx9jutjs>

<sup>40</sup> Schiavoni C, Camacaro. W. (July 14 2016)

<sup>41</sup> "Venezuela's currency: The not-so-strong bolívar". *The Economist*. 11 February 2013. Retrieved 18 February 2013.

<sup>42</sup> Schiavoni C, Camacaro. W. (July 14 2016)

<sup>43</sup> "Venezuela's Maduro Commits Funds to Seized Factory". *Telesur*. Telesur. 22 July 2016. Web. 22 July 2016

<sup>44</sup> Ibid.

<sup>45</sup> World Economic Outlook Database. International Monetary Fund. October 2015

<sup>46</sup> Hausmann, Ricardo, and Francisco Rodríguez. "Venezuela after a Century of Oil Exploration." *Venezuela before Chávez: Anatomy of an Economic Collapse*. N.p.: n.p., n.d. N. pag. Print.