

Revolution that Failed

The Statesman

September 07 2018

“Revolutions are the locomotives of history”, so said Marx. For Venezuela, that locomotive has now stopped moving altogether. Characterized by extreme inequality, destitute living conditions, endemic corruption and political disenfranchisement, it has been close to a failed state for quite some time. Now with inflation about to touch a million percent according to IMF estimates and chronic shortages of food, water, electricity and medicines turning life into a tale of misery and privation for millions, it seems that another leftist revolution has ended in failure.

Venezuela was the richest country in Latin America in the 1970s, with a GDP higher than that of Spain, once its colonial master. But during the 1980s, falling oil prices driven by global oil glut sent the country's economy into freefall. Ruled by a corrupt and degenerate oligarchy for decades, Venezuela was convulsed by prolonged economic woes and stinking political corruption during the 1980s and 1990s. The Caracao uprising of 27 February 1989, when the country erupted in protest against a new hike on public transportation prices, was brutally put down by the government of Carlos Andres Perez, whose troops killed more than 3000 protesters, leading to widespread resentment even among the army. Hugo Chávez, then a Lieutenant Colonel in the army, attempted a coup to overthrow the government in 1992. The coup failed and Chávez was imprisoned, but this failed attempt captured the imaginations of *El pueblo*- the people - and sparked the Bolivarian revolution which would ultimately bring Chávez to power six years later, when he won the first of his four Presidential elections.

The oligarchy, in a last attempt to recapture power, captured the Presidential Palace of Miraflores and kidnapped Chavez In April 2002, but was itself overthrown within 48 hours by spontaneous mass uprising. I visited Venezuela during those turbulent days, and electrifying emotions of the people were too overpowering to be missed. The succeeding decades saw oil revenues subsidizing welfare for the poor which ensured successive election victories of Chávez, who failed to utilise the huge popular support to radically transform the economy by pushing serious structural reforms. Instead, he continued using national resources for doling out subsidies, something which the UPA-II was doing in India, and the Venezuelans are today paying the price. With the richest reserves of oil and gas in the world, Venezuela today is the world's worst-performing economy. The country is in deep recession with economy having contracted by more than a third between since 2013. More than 2 million Venezuelans have already fled the flailing economy and the fading state, in an exodus that rivals those of war-ravaged Syria, Afghanistan and South Sudan.

Chávez did initiate several programs to redistribute wealth, provide necessities, build infrastructure and to create jobs. They did improve the lot of the poor - unemployment rate halved, per capita income more than doubled, the poverty rate fell by more than half and infant mortality rates declined. But they did not address the entrenched social and economic issues that needed structural reforms to make these programmes economically sustainable. Besides, these were solely dependent upon the country's oil wealth and soaring international oil prices that closely followed Chávez's ascendance to and consolidation

of power, which rose from \$10 per barrel when he took office, to over \$100 when he died in 2013. Oil is the mainstay of Venezuela's economy, accounting for 40% of government revenues, 50% of GDP, and 95% of exports. Chávez nationalised private oil companies and merged them into the state owned PDVSA, besides nationalising telecom and banking sectors, thus crippling industrial competition. While the oil profits continued to subsidize his welfare programmes, corruption and cronyism ballooned, and productivity and profit nosedived. As assets of oil companies like Exxon Mobil and Conoco Philips were seized and foreign companies were expelled, the nationalisation choked the industry by depriving it of much-needed foreign capital and technology.

Naturally, when the oil prices started plummeting, the economy tanked, and by the time Chávez's protégé and hand-picked successor Nicolás Maduro took over as President in 2013, oil prices had plunged by more than 50%, leaving him with few options. Fiscal deficit had reached 20% in 2015, and the growing fiscal deficit pushed the country deeper and deeper into debt, to repay which it needed revenue from oil that was tumbling. Restricted access to external financing owing partly to US sanctions meant monetisation of this huge fiscal deficit, which combined with the socialist agenda of price and currency controls and the collapse of the private sector led to huge shortages of basic goods like food and medicine, to import which the country did not have enough forex. The market value of the bolivar became worthless, with the country being unable to service its foreign debt. All these factors cumulatively led to the spiral of hyperinflation and recession as there was no capacity created in the economy to sustain such a shock. IMF expects the Venezuelan economy to contract by 15% this year, leading to a cumulative GDP decline of nearly 50% since 2013. Price of the dollar on the black market reached 3.5 million bolivars in June. Venezuela was on the verge of turning into an "absolute disaster of unprecedented proportions", as an UN official said.

As people started scavenging for food at garbage dumps and queuing up to buy rotten food at a discount, protests erupted in the streets, to quell which dozens were killed by the State, hundreds injured and thousands arrested. To stick to power, democracy had to be strangled, and a heavily rigged election, boycotted by the main opposition whose candidates were barred from contesting saw Maduro returning to power in May 2018. It was a *deja-vu* moment for those who saw hope and resurgence in the Bolivarian revolution. As The Independent commented, Venezuela's descent into a failed state "eclipses anything witnessed in decades". Poverty has reached an estimated 87% and extreme poverty 61%. Basic services like electricity, water, electricity and transport have collapsed and daily demonstrations and social unrest have become the order of the day. Salaries have become worthless, with a single burger worth US\$ 1.5 costing five million bolivars, equivalent to the minimum monthly wage, which is itself partly paid in food vouchers. Like all dictators, Maduro is bent on clinging to power at any cost—only the loss of support from the armed forces might weaken his iron grip on power. Or a social revolution has to force his ouster.

As "a really impressive magic formula" to end the economic woes, he has now announced the removal of five zeroes from the country's worthless currency (*Bolívar fuerte*) and to switch over to a new currency – the "sovereign bolívar" (*Bolívar soberano*). The bolivar will also be devalued from the official rate of 250,000 "old" bolívares to a dollar to the current market rate of 6 million. A sharp increase in the price of fuel has also been announced, besides a rise in the minimum wage by more than 3,000%. These measures

which Maduro calls the *paquetazo rojo* (big red package) are unlikely to end the people's woes and rescue the pulverized economy. But of late some realism must have dawned, as Maduro acknowledged that the unchecked printing of currency to finance the fiscal deficit had caused the hyperinflation. The fiscal deficit is estimated to reach 30% this year and Maduro wants to reduce fuel subsidies drastically and increase taxes to have a "zero deficit", which is extremely unlikely. As the Economist points out, the new *Bolívar soberano* is pegged to the Petro, a new unit of account backed by oil reserves, which inspires little confidence. The assurance of eliminating the budget deficit is also suspect in view of the tax break given to the oil industry, besides the 3000% rise in minimum wages, which is likely to stoke further inflation and undermine the finances of already bleeding firms. The Government is thinking of imposing tougher price controls, which would only discourage further production and create more shortage.

The revolution has already played out its full course, bringing the country to ruin and bankruptcy. Now the economy needs reconstruction for which it must to be freed from the controls, backed by an independent Central Bank to decide the monetary policy and perhaps a dollarisation of the economy. The worthlessness of the bolivar cannot be reversed by such gimmicks as chopping of some zeroes from its falling value. The country should also start negotiations with international lending institutions like the IMF and World Bank for restructuring its debt; they would in return demand harsh measures that might cause pain enough to dislodge Maduro from power. It is perhaps the fear of the loss of power that is keeping the incompetent President from embarking on any serious reforms to rescue the economy and the country.