Venezuelan economy continues to deteriorate

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Made worse by the ongoing decline in oil prices, Venezuela's economic situation continues to worsen. With wages deteriorating and basic necessities in short supply, conditions for the working class are more grim by the day, while the government of Nicolás Maduro prepares crackdowns on protests and strikes.

Among the more recent indications of the severe problems facing the working class are announcements that the workday for public sector workers would be reduced to six hours from eight in order to save electricity, while the minimum wage will be increased by 30 percent. Inflation is expected to be well over 150 percent for the year, and the economy is expected to shrink by 7 percent in 2015. Further, it is estimated that the country's fiscal deficit will amount to 20 percent of GDP.

Extremely high inflation and other economic problems were already developing in Venezuela well before the OPEC decision keep oil production at high levels relative to world demand, but that decision has had a drastic effect on a country that relies on oil for 96 percent of its export earnings. It has been estimated that barrels of oil must fetch approximately $120 in order for the country to balance its budget, and Venezuelan heavy crude has only averaged about $47 per barrel this year compared to $88 per barrel last year.

The fall in oil export earnings has led to a sharp decline in Venezuela's foreign exchange reserves, the money used to purchase imports, on which the country is heavily reliant. Already at their lowest level since 2003, foreign reserves fell an additional $507 million on May 7. Reserves now stand at $18.2 billion, among the lowest of major economies in the region, and have fallen by $4.1 billion since the beginning of the year alone, as Venezuela burns through its reserves in order to fund the import of needed goods.

The fall in oil exports, and thus of foreign exchange, is one of the primary drivers of the endemic shortages witnessed throughout the economy. Imports for last year were estimated to have decreased by 22 percent and are expected fall a further 31 percent in 2015. This has led to widespread problems beyond the lack of certain foodstuffs and basic consumer goods. On May Day, the Maduro administration announced it would move toward nationalization of the food distribution system through the creation of a closed transport system intended to prevent hoarding or rerouting of goods outside the country, where they can be sold for higher prices.

Among the more horrifying of the shortages are those affecting medical care. Imported medicines and medical equipment are now in short supply. In response, the government has announced a scheme to ration pharmaceuticals, known as SIAMED, with patients required to submit fingerprints at the pharmacist, and given only limited amounts at a time.

Aside from drugs, medical equipment including X-ray machines, defibrillators, and ultrasound machines have now become scarce, as replacements parts and supplies have dried up. There have been reports of increased mortality in Venezuelan hospitals, and the Associated Press reported that doctors are resorting to decades-old treatments for fairly routine procedures. At one clinic, radical mastectomies are now used to treat 70 percent of breast cancer cases because radiotherapy machines are unavailable.

Foreign corporations are also abandoning the country, citing the volatile currency or the inability to ensure a steady stream of imports for production. GM has announced it will cease production in the country by July, firing its 446 workers. Ford has already ceased production due to lack of parts and will likely let go of its workers soon as well. Other factories assembling vehicles for Toyota, Chrysler and other manufacturers are also operating at minimum capacities, according to a report published by Reuters.

The lack of currency for imports is exacerbated by the existence of several exchange rates, a source of widespread distortions in the economy. There are currently three official exchange rates. Under the first two exchange rate mechanisms, which are available for the most economically necessary categories of imports, the rate is 6.3 and 12 bolivars to the dollar, while under the third, it is over 190 bolivars to the dollar. Even so, the black market rate is even higher, with a dollar bringing in around 275 bolivars.

This has opened up opportunities for massive fraud and corruption throughout the economy, not least of all in the import sector. Edmeé Betancourt, a former president of the Central Bank of Venezuela, was reported by the *New York Times* to have said that $20 billion out of the $59 billion allocated for imports in 2012 disappeared through fraud. With the increasing divergence of exchange rates, the opportunity for arbitrage has only increased. Datanálisis, a Venezuelan polling firm, estimates that 70 percent of customers at state stores are selling goods on the black market because it is possible to make a substantial profit on the difference in exchange rates.

Among the biggest beneficiaries are the *boliburguesía*, those with close ties to the regime and the military. According to a report in the *Financial Times*, the former Finance Minister and chief economic advisor to Hugo Chavez, Jorge Giordani, estimated that insider access to hard currency cost the country 15 percent of GDP. Giordani stated that the “regime does not favour the needy, but rather the powerful and corrupt,” and compared it to a “mafia cartel.”

On the other hand, the working class is seeing its purchasing power evaporate in the face of high inflation. Even though the government announced a 30 percent minimum wage increase, following a 15 percent increase in January, the newly announced minimum wage of 7,421 bolivars per month is worth only around $37 at the weakest of the three official exchange rates, and less than $30 on the black market. This led to a 24-hour strike by faculty at the Central University of Venezuela on May 4 in protest over low pay.

Meanwhile, the Maduro government has increasingly put its trust in the military to clamp down on worker unrest and anger. The Venezuelan armed forces are to receive salary increases of 75 percent for the year, even after increases of 45 percent announced in October. At the end of January the government published new regulations explicitly allowing the use of deadly force to maintain public order at public protests and demonstrations.

The continued crisis has seriously eroded support for the ruling United Socialist Party of Venezuela (PSUV), which is facing legislative elections this year. A poll in February indicated that 48 percent of those polled would vote for any opposition candidate, but only 24 percent would vote for a PSUV candidate.

Intending to get ahead of the crisis and perpetuate the fraud that Venezuela is undergoing some kind of socialist revolution, a dissident group within the PSUV known as Socialist Tide (Marea Socialista) has left the party and plans to stand its own candidates in the election. A spokesman for the group, Nicmer Evans, offered excuses for Maduro, blaming the OPEC decision for the country’s problems saying, “No system in the world, capitalist or socialist, could cope with such an oil price drop.”

Nonetheless, the main goal of Socialist Tide is to provide a “left” cover for the PSUV under conditions in which the ruling party is preparing to send the military out against protesting workers. Evans alluded to this, noting that the government’s “biggest challenge is what happens if people come down from the slums.”