Venezuela’s Economic Crisis: A Historical Perspective

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The current economic crisis

- Severe drop in real economic activity: a contraction of 48% since 2013 (5 years), −16% in each of last 3 years
  - In the United States, great depression 1929-33, 31% decline in 4 years; great recession 2008-09 5% decline, average post-war recession cycle ≈ −2.9%
  - Current oil production ≈ 0.9 million barrels/day, contraction of 70% relative to level in 1998 and 75% from peak in 1970
  - Cash flow aggravated by supply agreements with Cuba and other Caribbean countries; debt for oil

- Severe decline in imports and consumption:
  - Decline in production and exports mostly on imports and consumption...
  - Venezuela has continued paying foreign debt and shipping crude oil in supply arrangements
The current economic crisis

- Inflation rate has surpassed 1,000,000% (12 month rate to November 2018 ≈ 1.3 million percent according to study by National Assembly)
- Rising poverty, inequality, crime...
- Other social outcomes...
  - Alarming rising rates of (mostly eradicated) Malaria and other diseases
  - Out migration: According to UN International Organization for Migration, 1 million people just to Colombia, 3 million total since 2014 (population ≈ 30 million)
A HISTORICAL PERSPECTIVE

- Context of current situation: long history of poor economic policies, long before Chavez/Maduro regime

- Background:
  - Restuccia, “The Monetary and Fiscal History of Venezuela 1960-2016,” Becker Friedman Institute, University of Chicago, 2019
Crude oil production

- Current production estimates $\approx 300$ million barrels (0.9 million barrels/day), declining fast
Key take aways

- Unique growth experience: a “miracle” growth episode and a collapse within a short period of time

- Relative economic decline may have started earlier than first oil-price shock, much earlier than Chavez/Maduro regime

- Peak oil production 3.8 MM barrels/day in 1970, around the start of discussions for nationalization of the oil industry (formalized in 1976)

- Decline in oil production: 75% since peak in 1970, 70% since Chavez in 1998

- Paradoxically, under CAPII increase in oil production of almost 60%, plans underway to double peak production
Economic activity has moved with oil price cycles
- External debt increased substantially during boom times
- Current total debt $\approx$ US$ 150 billion, 5 times total total exports
Elimination of transfers would have resulted in a positive asset fund of the size of Norway’s today.
Conclusions

- No economic policies are viable today without a political regime change, but I am optimistic about the eventual recovery process.

- Transition will be difficult given social pressures and dire economic situation.

- Setting a different long-run path requires an understanding and correction of economic policies that lead to current situation.

- Venezuela is not a rich economy and will never be purely on natural resources, but the oil industry can be a stepping stone to development, as indeed it was before nationalization.

- This requires a stable and rational institutional setting and limited discretion of government in economic activity and allocations.