

# VENEZUELAN AND CUBAN CRISES: POLITICAL CONTROL, ECONOMICS AND SOCIAL WELFARE

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These comments on the Venezuelan and Cuban crises are structured as follows. First, I will describe political considerations pertinent to Venezuela and Cuba. Second, I will set out the current characteristics of the economic and social environment. And finally, I will present my views regarding what the future may look like.

## POLITICAL CONSIDERATIONS

Unstable political processes have major impacts over the economic dynamics and social context of nations. In many cases, economic changes and social improvements are not possible until political solutions are achieved and implemented.

It seems that Venezuela may be a specific example of the above and that it may also apply to Cuba. As described by Pedraza and Romero, Venezuela after Chávez's death in 2013 and the government of Nicolás Maduro, has experienced increased political polarization, expansion of the military's participation in the governance of the state, and escalating anti-democratic behavior in a context of institutional weakness.

This became evident when the opposition parties won the National Assembly elections in December 2015. From that moment on, the Maduro Administration started a process to reduce the role of the National Assembly. By the end of 2020, more than 100 Supreme Court decisions limited the National Assembly responsibilities.

As it is known, political opposition parties won 112 seats (out of 167) in 2015, which represented a su-

per-majority (2/3 of the total members). It implied that no political negotiations were required with official parties to reach a decision. On December 30, 2015 (6 days before the new National Assembly was installed), the Supreme Court suspended the victory of three of 3 of the members of the opposition parties (under a bogus fraud suspicion) to eliminate the super-majority.

The new National Assembly, however, accepted those members and three days later, the National Assembly "as a whole" was declared to be in contempt (*declarada en desacato*) by the Supreme Court. Therefore, its responsibilities were suspended and its budget, salaries and control over its headquarters were suppressed. In addition, some National Assembly members were put in jail.

In January 2016, a 60-day State of Exception and Economic Emergency was also decreed by the Maduro Administration. Based on the 1999 Constitution, this action allows the administration to implement economic, fiscal and exchange rate decisions without National Assembly approval. The decree was extended 26 times.

In that political environment, the Maduro administration organized Constituent National Assembly elections in July 2017 in which the opposition parties did not participate. That new entity was supposed to write a new Constitution but it never did. In fact, that new entity basically approved a waiver of parliamentary immunity of National Assembly members, appointments to other public positions and some economic and tax laws. Its activities ended recently,

in December 2020, because the new National Assembly was installed on January 5, 2021.

Although the Constituent National Assembly mainly helped the Maduro Administration to implement several political decisions against the opposition groups and with respect to local administrative issues, it was not recognized locally or internationally even by Venezuela's closest allies, like China and Russia. Major agreements in the energy and financial sectors with these nations that could have been supportive in the context of U.S. sanctions were not possible.

The 2020 National Assembly elections were a significant political event for the Maduro Administration. A political strategy was implemented to regain the needed public support despite its minority situation. First, the Supreme Court named the new "friendly" Electoral National Council. As anticipated, fair electoral conditions were not met and opposition groups did not participate. Then, a "not-competitive, tailor-made, Maduro-friendly" political opposition was constructed and the number of Assembly seats was increased (to 277 from 167). Credible international observers were not involved. The Maduro Administration rejected the European Commission's proposal to postpone the elections and design a fair political scenario.

The National Assembly election outcome was as expected. The PSUV (Maduro's political organization) got 69% of the votes. The Maduro-friendly opposition (Alianza Democrática) obtained 19% percent of the votes, and other minor political groups obtained 12%. Only 30% of eligible voters participated in the election. That is the lowest participation rate in any electoral process in Venezuela since 1958. It was lower than the 2018 Presidential election (47%) and 2017 Constituent National Assembly election (46%). The 2015 National Assembly election participation was 74%. Moreover, the National Assembly election was considered "illegitimate" by the international community, as was also Maduro's 2018 Presidential election.

This political outcome may represent the rejection of the Maduro Administration. At the same time, it reflects the difficulties of the divided and fragmented opposition groups to maintain a political presence in

an unfair environment. These political organizations now have to wait for a possible 2022 Revocatory Referendum.

This situation clearly shows, as mentioned by Pedraza and Romero, the violation of the full electoral and institutional process in a democratic environment and the loss of separation of powers. As anticipated, problems of representation will also surface.

In contrast, the former National Assembly called for a Public Consultation (referendum) between December 5 and 12. The participation was relevant (6,466,791 people) and tried to fulfill the new political environment starting in January 2021.

This political framework will continue to have significant economic and social consequences in Venezuela. Changes in the current trend may only be possible with a political transition. However, different views regarding political transition may be held by both political groups. The former (Maduro group) may see political transition among themselves (with the full support of the military) when the latter (opposition) may be expecting a complete political substitution. Therefore, political transition, led by domestic actors, seems unlikely.

Any political negotiation may need a non-domestic third party. The exercises implemented by Norway and the European Union have been unsuccessful so far. New approaches will be required.

The Maduro administration is raising again the possibility of new political dialogue starting in 2021. In the past, those initiatives head nowhere. Opposition groups will have to find new political grounds, means and messages in a framework with limited civil liberties and political rights. It will not be an easy task with huge risks. "A vision about the Venezuela's future" is indispensable to motivate young people to participate in the political process instead of migrating to another country.

Cuba is in a situation not very different from Venezuela's. The Cuban Communist Party (headed by Fidel and now by Raúl) maintains its unlimited power, controls all economic decisions in a highly centralized context and directs all domestic politics.

Economic decisions in Cuba, based on a central planning framework (including collective ownership of production means, centralize decision-making process, progressive redistribution, among others), has resulted in a major economic and social failure. Following Mesa-Lago, Cuba has heavily depended on substantial aid and subsidies first from the Soviet Union and now from Venezuela. Raúl's economic reforms did not change the economic trends.

According to Pedraza and Romero, President Miguel Díaz-Canel, Raúl Castro's successor, has only promised "continuity" with regard to the existing economic model despite its well known failures. And the new Cuban Constitution (approved in February 2019) does not introduce any significant changes to the model of centralized planning and state dominance over the economy.

Cuba does not have separation of powers and electoral and institutional process as main components of a democratic system. This political scheme has had and will continue to have significant economic and social consequences. Political transition is not expected soon.

As Pedraza and Romero mentioned, "young people have known only poverty and want, as well as the wish to be free... Most of them seek to leave, as the island's economic and social deterioration means they have lost hope, cannot see a better future ..."

#### **ECONOMIC AND SOCIAL ENVIRONMENT**

Venezuela's political process has generated major economic and social impacts. Under the Maduro Administration, Venezuela's annual GDP on average during 2013–2020 dropped 12% and inflation averaged over 1,900% per year (excluding the 2018 hyperinflation of 130,000%). Open unemployment reached 24% in 2020. The Central Bank's international financial reserves position fell to only US\$6 billion in 2020 from almost US\$30 billion at the end of 2012. Just in 2020, GDP might have fallen by 20% and inflation reached over 2,600%. All this happened without a natural disaster or a war.

As mentioned by one of the discussants in this panel, those dramatic Venezuelan macroeconomic results occurred even though Venezuela's proven oil reserves

may be over 300 billion barrels, representing almost 25% of the world's proven oil reserves, according to OPEC's 2017 Annual Report.

The current weak financial position was generated by the deterioration of the oil industry. Venezuela's oil production plunged 83% in the last eight years (from 2.8 million BPD in 2013 to 0.4 million BPD in 2020). This situation was mainly caused by reduced capital expenditures (US\$1.0 billion in 2020, compared to US\$13.0 billion in 2013), massive corruption, general mismanagement and high social expenses.

It is important to mention that the U.S. sanctions on Venezuela did not create these dynamics, but they accelerated them. The 2017 sanctions eliminated financial flows to Venezuela and PDVSA, and the 2019 sanctions affected Venezuela's oil exports and oil-related imports (diluent to produce gasoline) and also blocked Venezuela financially. The former (2017 sanctions) brought up external debt arrears to US\$29 billion at the end of 2020 while the latter (2019 sanctions) pushed oil and gasoline production down (because of lack of buyers and limited inputs) and forced the Maduro Administration to open the currency market.

This new adverse international environment pressed Venezuela to make structural changes. At this time, fiscal policy can only generate price volatility – higher inflation and currency depreciation—instead of economic growth, as in the past, because government financing can only occur through the Central Bank since there is no fiscal space available. It has opened opportunities to the private sector. However, it has to work with poorer segments of society given reduced demand of goods and services.

It has to be emphasized that those changes have happened but no one in the Maduro Administration or at the United Socialist Party of Venezuela (PSUV) has changed their views on economic matters. The current circumstances have forced them to implement some actions to maintain political control.

This situation implies that Venezuela will have problems to grow in the future because the interconnection of oil with other economic sectors is still relevant. The oil sector has close ties to several sectors

(such as services, transportation, construction, electricity and manufacturing). The oil-related sectors plus the oil sector represent about 40% of the total GDP. The economic activity will not improve, on a sustainable basis, until oil investment recovers. It means that economic growth and social well-being directly depends on a political transition or will not happen until a political transition is in place.

The social consequences of Venezuela's economic situation have been huge. Per capita GDP has dropped 66% in the last eight years (to US\$2,200 per year in 2020 from US\$6,500 per year in 2013) because the size of the economy was reduced by 69% during the same period. These calculations included migration, which represented 12% of total population in 2020. The impact of COVID-19 in Venezuela was devastating in 2020.

Pedraza and Romero presented the Venezuela's situation as "... in a state of pre-collapse: hyperinflation, lack of food and medicines, breakdown of public services (power shortages, lack of water and waste collection), crumbling communication channels, insufficient transportation, together with hunger, emigration, and social unrest. The situation is extreme."

The situation of Venezuela has led to the reduction of Venezuela's oil exports to Cuba and exported services and oil products from Cuba to Venezuela. This supply shock has generated negative GDP growth with high inflation. It also implies lower per capita income and real wages, together with balance of payment problems. The impact of COVID-19 has also been significant.

As mentioned by Mesa-Lago, Cuba's economic situation represents "the failure of the inefficient economic model of centralized planning, state enterprises and agricultural collectivization." In addition, "there have been too many restrictions, disincentives, and taxes, which impeded the growth of the private sector. Domestic capital accumulation has been insufficient, an obstacle for economic growth." In fact, "the Cuban leadership aborted the market-oriented reforms because they were concerned that they would weaken their political control."

The ways to deal with a depressed environment may bring conflicts between the economic reality and ideological views. The central planning model may have no way to deal with external shocks (such as total cut-offs of oil imports, commodities market volatility, international sanctions, among others) in order to reduce economic and social deterioration.

Cuba's economic model—like Venezuela's—seems to be financially unsustainable at this time. Price volatility will accelerate, and society's well-being will be deeply affected.

Cuba now has two extreme policy options: One, to implement only-quantity adjustment (without the price system) via rationing, as it has done in the past. Or two, to implement a market-friendly strategy (price and quantity adjustments) with the private sector leading the economic process. The former will generate lower per capita income and more adverse social indicators. The latter may represent a better scheme in economic and social terms. It seems clear that a political process with non-democratic trajectory may not be able to generate a stimulating economic scenario which improve social welfare.

Are Cuba and Venezuela at a crossroads? The answer is obviously No. They are standing at the edge of a precipice. Venezuelan and Cuban authorities have to avoid taking a step forward. How is it possible for their governments to continue to hold on to power in the face of these deep-seated crises? They should not be able to hold on in a continuous deteriorating economic and social environment.

## LOOKING TO THE FUTURE

A second scenario that has been put forth suggests as an option "structural changes in the economy without changes in the political institutions." However, changes with the same institutional structure (with major reputational problems) may not generate the necessary credibility to stimulate investment, growth and social welfare soon enough. In this context, political instability and social deterioration may continue. Therefore, that scenario may not be long-lasting. In fact, improvements in economic and social conditions require a transitional political period. In any case, it has to be a difficult process in a context where institutional structure has been deeply affected like in

Venezuela and in Cuba with the unlimited power of Cuba's Communist Party.

For the Venezuelan case, political transition implies lifting U.S. sanctions, obtaining multilateral financing (mainly through the IMF), recovery of oil production, and increase in fiscal revenues. That would mean economic growth, lower inflation and social improvement. In Venezuela's current political scenario, the multilateral approach may be the way to go, involving international actors close to Maduro (such as Norway, Spain, the Lima Group and Turkey, Russia and China). They should bring new acceptable ideas instead of asking, like other actors, for surrender.

There is the mid-80s Contadora-Esquipulas experience which brought positive proposals to solve the violent Central America conflict. Contadora was an initiative launched by Colombia, Mexico, Panama and Venezuela, with the initial support of Sweden, to deal with the military conflict in El Salvador, Nicaragua and Guatemala and, at the same time, reduce involvement by the U.S. military.

The new U.S. administration will have to be relevant in dealing with the current political instability in

Venezuela and Cuba (and even Nicaragua), starting with the participation of now-President Biden and a reconsideration of former President Obama's strategy toward Cuba. However, it may be a slow process.

The new structure of the Democrat-led U.S. Senate, and the possible design of the new U.S. administration's foreign policy in a context of new political movements in the region are now extremely relevant. Moreover, future events such as the Summit of Americas, which will be held in the United States in April 2021, and the VIII Congress of the Cuban Communist Party, coincidentally also scheduled for April 2021, will be key events defining the future political environment.

Finally, it should be noted that short-term political solutions are not anticipated. Therefore, it seems that economic and social deterioration will continue. The expected political transition may be a long process with unknown path, characteristics and timing. Meanwhile, Venezuela and Cuba need to build domestic consensus and re-establish institutions to guarantee their long-term success in a democratic framework.