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The Socialist Accidents of Natural Resource Dependency

On July 19, 2011, *Reuters* published a critical highlight from OPEC's Annual Statistical Bulletin: Venezuela "surpassed Saudi Arabia as [OPEC's] largest reserves holder" (Lawler). On July 19, 2017, *Reuters* reported that about 10,000 Venezuelan protestors faced government "security forces' water cannons and volleys of teargas," and "threw rocks, petrol bombs and powerful fireworks from behind crude wooden shields" (Daniel). When OPEC, or the Organization of the Petroleum Exporting Countries, announced that Venezuela surpassed Saudi Arabia in number of domestic oil reserves, world leaders turned their ears toward the small South American country. All of the economic turmoil Venezuela went through in the 6 years between OPEC's announcement, and massive Venezuelan protest is rooted in the framework established by Venezuela's Constitution. In 1999, Venezuela was recovering from a revolution. According to Rafael Betencourt, in the *Portuguese Journal of Social Science*, the people of Venezuela went through a revolution because they were a "marginalized people excluded from the progress of modern capitalism" (462). In 1999, the revolution's leader, Hugo Chavez, drafted the 26th version of the Venezuelan Constitution to mark the beginning of a new age of Venezuela - with Socialism as its core philosophy. The people of Venezuela did not know that the very leader who brought them such wonderful social reform would bring devastating economic catastrophe. The 1999 Venezuelan Constitution enabled the socialist government of Venezuela to establish

multiple oil-backed lines of credit with foreign countries and banks, constrained Venezuelan spending to non-wealth generating social projects, and subsequently caused resource shortages and social insurrection amongst the Venezuelan populace.

The current humanitarian crisis in Venezuela could be considered tertiary fallout, rather than a primary effect, of the Constitutional articles that socialize Venezuelan resources. Leaders often times consider Constitutions as semi-flexible guidelines rather than rigid instruction manuals. Critics will blame the leaders and institutions in charge of writing and implementing the Venezuelan Constitution instead of the Constitution itself. There is, however, a utilitarian imperative to blame a Constitution itself, rather than the writers of a Constitution, for the effects that it has on a country. Early civilizations went through an ideological transformation of first placing responsibility on leaders to next placing responsibility on written law. Around the time of the Roman Empire, ancient civilizations had the common “belief that fairness in law demands that it be in written form” (“Law”). Written law acts as an external force from which rule is generated, to the people that law governs. The natural objectivity of written law creates a scapegoat for leaders to place responsibility and accountability, and it ought to be this way. Leaders need to be able to serve in office at their prime years of service, and gracefully leave the position they held, without bringing the responsibility of their decisions with them. Without written law to blame, the Germans born after WWII may have been thought to have inherited the ideologies of their ancestors. According to Paul Rozin, and a team of peace psychology researchers, part of the reason why some modern day jews are averted to Germans is they think the traits of being German are “inherent, indelible, uniform, and transmitted across generations” (Rozin et al. 412). Just as it takes only one generation to rewrite a personal

constitution, or disposition, so also does it take only one successful revolution to rewrite a governmental Constitution. He who does not change his constitution agrees to his constitution. When the Venezuelan Constitution of 1999 was published, with the approval of the country of Venezuela, responsibility for the effects of the articles was shifted from the Constituent Assembly and President to the entire population - a priori. When everyone is responsible, it is as if no one is responsible. The Constitution of a country needs to be considered the root cause of economic and social effects because it lays a framework for permitted action. The 1999 Constitution of Venezuela marked the beginning of an era of fraud, crisis, and other accidental effects for the people of Venezuela.

The 1999 Venezuelan Constitution demanded that oil be nationalized, that revenue generated from oil be invested in social projects, and that debt be accrued using a special procedure. The leaders of Venezuela exactly followed these instructions. Venezuela is known as a Socialist government, and uses a language of Socialism in its Constitution. When a product or service is owned by the "State," it means that the general public is meant to have voting power over how resources should be spent. Article 302 of the 1999 Venezuelan Constitution said: "[t]he State reserves to itself... the petroleum industry and other industries, operations and goods and services which are in the public interest and of a strategic nature" (82). The State of Venezuela, which is made up of people, owns the products and services that make up the life cycle of petroleum. Bargaining power is in the hands of the masses. The true test of if the masses have the greater good in mind is how the masses choose to spend the revenue of petroleum products and services. If a child chooses how to spend money, he/she will buy candy; if a young adult chooses how to spend money, he/she will buy happiness; if an elderly person chooses how to spend

money, he/she will buy candy and happiness for his/her loved ones. Luckily, the 1999 Venezuelan Constitution outlines how revenue should be spent. Article 311 says: “[a]ny revenues generated by exploiting underground wealth and minerals, in general, shall be used to finance real productive investment, education and health” (84). Health and education are very traditional welfare projects that are known to benefit society. “Real productive investment,” on the other hand, is a very abstract outlet for revenue to be spent. A Constitution needs to be strict enough to prevent leaders from spending revenue in non-constructive ways, and flexible enough to account for possible un-anticipated needs; on the surface, this does both. There lies an issue in the fact that Venezuelan oil exports account for 41.8% of Venezuela’s revenue, and social spending account for 49.8% of Venezuela’s expenditure (Venezuela 18). When nearly half of Venezuela’s expenditures are on social welfare revenue, and nearly half of revenue is from oil, the country’s general well-being is non-renewable. Furthermore, allocating revenue on social projects means that money is not going towards the products and services required to extract oil. The 1999 Venezuelan Constitution set up a non-sustainable economic cycle rooted in socialized petroleum.

The U.S. Geological Survey research of Venezuelan oil reserves allowed the leader of Venezuela, Hugo Chavez, to use potential oil - not yet extracted - as collateral for lines of credit with major countries and banks. The 1999 Constitution required revenues to be spent on social welfare. With little spent on wealth-generating projects, Chavez had to turn to foreign banks for the money required to support social spending. The 1999 Constitution had loop holes that allowed Chavez to generate public debt without stretching the limits of his power. Article 312 of the 1999 Venezuelan Constitution supported Chavez by allowing him to accrue “public credit transactions” as long as he created a “special law authorizing them” (84). The “special law”

clause required Chavez to have some sort of justification for creating public debt. Chavez was an elderly person with a limitless credit card who only wanted to buy candy and happiness for the people of Venezuela. In order to have the scientific and economical rationalization for the lines of credit he wanted to open, Chavez hired the U.S. Geological Survey to determine how much oil reserves Venezuela actually had. In 2009, the USGS found that Venezuela had about 513 billion barrels of oil on reserve, which made up “one of the world’s largest recoverable oil accumulations” (“An Estimate of Recoverable Heavy Oil”). The USGS can make or break economies because it announces to the world the natural resource wealth that a region has. It was not until a few years later that OPEC announced Venezuela to be the world leader in oil reserves (Lawler). In the mean time, economic communications must have started, between country leaders, with the goal of manipulating the potential wealth of Venezuela, because foreign banks began to open their doors to Chavez.

Venezuela built up a huge amount of debt using the results of the USGS survey, and sent the country on an irrecoverable economic and social course. “[F]rom 2006 to 2013, net consolidated external debt of Venezuela rose from U.S. \$26.9 to U.S. \$104.3 billion” (Reinhart and Santos 256). Venezuela took out more and more loans with foreign banks to spend money the way they were instructed to in their Constitution - on social programs. One of the first lines of credit established was with the US oil services company Schlumberger, on March 24, 2013, for the amount of \$1 billion (Buitrago). Other companies and banks caught wind of the opportunity that Venezuelan debt was. Very soon after the deal with Schlumberger, China Development Bank set a permanent line of credit for Venezuela with the promise of future oil reserves (Reinhart and Santos 256). Regardless of where the revenue of oil was being spent, the

oil products and services were not being maintained. On January 18, 2016, *Reuters* reported that “[a]n agreement to build oil tankers in Iran for Venezuela ha[d] been left in limbo years after it was announced” (Saul and Parraga). The postponed Iranian tanker was just one example of many oil projects that were put on the back burner. Very soon after accepting money from banks around the world, Venezuela was forced to abide by international law. On April 5, 2016, *Reuters* published that “[a] World Bank tribunal ha[d] ordered Venezuela to pay damages of nearly \$1.4 billion to Crystallex International Corp, a Canadian mining company, as compensation for expropriating the miner's Las Cristinas mining project” (Mordant). Venezuela set up lines of credit with Iran and Canada, and did not generate enough revenue to maintain them. Chavez went all-in at a card table of players who all called his bet. Instead of looking at his cards, Chavez kept eating, drinking, and buying rounds for his friends. Rather than to have seen his hand out, Chavez passed away on March 5, 2013, and named Nicolas Maduro as his successor (Cawthorne and Wallis).

The current President of Venezuela, Nicolas Maduro, is not to blame for the economic crisis left by his predecessor, Hugo Chavez. Chavez built non-sustainable, oil-backed lines of credit, died, and left crippling debt to Maduro. The world prices of oil dramatically dropped in the fourth quarter of 2014, because of over-production (“Crude Oil Prices”). The low oil prices came at a terrible time for Venezuela. According to *Reuters*, on October 16, 2014, Venezuela was inflating at over 60% - leading to food shortages (Pons). Having an inflation of 60% meant that the value of Venezuelan currency was rapidly dropping. The people of Venezuela started to feel the effects of their poor economic situation. A Venezuelan citizen suffering from 60% inflation can expect to quickly expend their small income, and spend “hours in lines to buy scarce flour or

medicines” (Ulmer). As a result, the people of Venezuela began to resent their leader, Maduro, for the state of their country. Tensions increased until, in late 2014, 4 months of protests broke out against Maduro’s regime, resulting in 43 deaths (Cawthorne and Farias). Strikes and protests were only a minor part of the economical and social hardships that ensued in Venezuela from late 2014 onwards. Maduro was the scapegoat for many people to blame for the misfortune they went through, due to poverty and debt. Brian J. Goode, and a team of social scientists, argues that people protest not only due to structural problems, but also due to “societal pressure, alignment of individual interests with broader causes, and perception of expected benefits” (Goode et al. 1). A Venezuelan youth may protest with structural change as a goal, but a person only knows how good it can be from the example of others. For instance, American freedom, portrayed on Social Media, may seem like a better situation than Venezuelan poverty. Despite the way it seems, the green grass on the other side has to be maintained just like the green grass on this side of the hill. Maduro was blamed for not maintaining the grass on his side of the hill.

The most recent move Maduro is trying to make is to rewrite the 1999 Venezuelan Constitution. According to *Associated Press*, the U.S. sanctioned 13 Venezuelan officials because the Maduro regime had not held up democratic values (Spetalnick and Ulmer). The non-democratic event referred to was when Maduro did not acknowledge results from a Venezuelan mock election. 7 million Venezuelan people - out of 30 million - held a mock election, voting against a Constitutional rewrite - a democratic vote that Maduro did not recognize (Pons and Ellsworth). Sanctions for Venezuela is to evaporation for a person dying of thirst. Not only did Venezuela stretch itself thin by opening multiple lines of credit, it made a social fopaux by insulting democracy. The philosophical blow hurt the US as well. According to the *Office of the*

US Trade Representative, in 2016, over 40 percent of US exports were shipped to countries in the Western Hemisphere (“Western Hemisphere”). The US is trading with South America. South America is closer to the US than the Eastern Hemisphere, and therefore costs less to reach by ship. In theory, poor US relations with Venezuela means less resource trade deals for the US. Maduro was dealt a bad hand by his predecessor, Hugo Chavez. Now, Maduro is blamed for the poor state of the Venezuelan economy. Maduro thinks that rewriting the 1999 Constitution will help end current problems. Regardless of the alterations that may be made to the Constitution, positive change will take a while to set in place. Many, many countries have their straws in Venezuelan oil.

The people of Venezuela suffered because the Constitution mandated that spending be socialist in nature, that natural resources be state-owned, and that debt be accrued as long as it is justified by a “special law.” With the accredited valuation of their oil reserves, by the United States Geological Survey, Venezuelan officials took out lines of credit with many foreign countries and banks. As it became more and more difficult to pay off their debts, Venezuelan social welfare crumbled. The current President of Venezuela wants to rewrite his Constitution. The cyclical nature of the events that followed the drafting of the 1999 Venezuelan constitution, up until now, should reveal what will happen after the next rewrite of the Constitution. The effects of the 1999 Constitution have not totally rolled out, but they are about to reach an apex. A country can only be in tremendous debt for so long before it goes bankrupt or gets acquired. It is strange to think that the 1999 Constitution is the 26th version. It is even stranger to think that the 27th version of the Venezuelan Constitution may be written within 25 years of the previous draft.

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