

Venezuela's Default Disaster

Socialism always promises heaven and gives hell.

In the early hours of Thursday, November 2, the Maduro regime certified its latest failure with what they promised would never happen: technical default. With his usual arrogance, Maduro issued a "decree" demanding "the refinancing and restructuring of the debt as of November 3." That is, default.

The bad news for investors or high-yield hunters is that the likelihood of being swindled again is almost 100%.

Chavez once said "put me oil at zero and Venezuela will not suffer," and Maduro stated that "a revolutionary government with economic power as the one I preside has plans to surpass any situation arising from any price of oil." Reality has now kicked in.

Venezuela was not destroyed by low oil prices, but by high socialism.

Socialism has led Venezuela to an unparalleled economic disaster. No, it's not "the price of oil." Venezuela is the only OPEC country that has fallen into default, depression, and hyperinflation. It's not oil, it's socialism.

The management disaster is spectacular and the greatest example of the devastating effect of socialism is the state-owned oil company. PdVSA, the national oil company, has gone from being one of the most efficient and profitable twenty years ago, to end up importing oil.

Although Venezuela has the largest reserves of crude oil in the world – 296 billion barrels – the country began importing oil last year. Its production is less than 2.7 million barrels per day, a drop of 20% in less than two decades, while the Chavez Maduro regime multiplied its workforce by five, to

175,000 “workers”.

Brutal cost increases, spectacular worsening of production, collapse in margins and plundering of the cash to pay for subsidies led the company from being one of the most profitable and with the best balance sheet in the world to [borrow more than 43 billion US dollars](#).

During the presidency of Maduro, the regime has led the country to [hyperinflation, which already exceeds 2000%](#) and a [shortage of more than 80% in goods](#), while foreign currency reserves have plummeted 64%, [the worst level in forty years](#).

This disaster is not because of low oil prices, it is a reflection of the reality of what socialism does. No oil producing country shows such atrocious figures, not even close.

In fact, if anything can be said about the fall in oil prices is that the vast majority of producing countries have managed it admirably, with GDP drops that ended being much lower than feared, keeping their reserves in foreign currency at comfortable levels, and adapting to the new reality quickly and efficiently. Almost all, except Venezuela.

The True Economic War in Venezuela: the Chavez-Maduro Regime Against the People

Venezuela had 12,700 private companies when Chávez took power, according to Conindustria. Today there is less than one-third of that figure. To the economic destruction, the regime added the assault on private property with expropriations of more than 690 companies in twelve years. Today, those expropriated companies are technically bankrupt and those that survive are zombies producing less than half of the figures prior to the confiscation.

As always happens in socialism, the first thing was to deny reality. “Investors should not worry about the debt repayments

of 2017 and 2018,” said Rafael Ramírez. And indeed, they should not have worried. They should have panicked. One of the largest investment banks in the world, which bought \$ 2.8 billion of bonds is now facing the false “restructuring” decreed by Maduro.

Maduro “decrees” restructuring as if it were a miracle. But it is another nail in the coffin of the regime. Economic destruction is not only not changing, it is getting worse.

The restructuring simply has no solution. Correa, in Ecuador, has already experienced the “success” of default.

Ecuador, the “example” that populists used on how to “confront the IMF” and encourage default, has doubled its debt, mortgaged the country with China at much higher rates than those of the IMF and finally had to ask for help to... the IMF. This is “success.”

Correa in Ecuador defaulted on 3.2 billion US dollars to finish depending on China at a much higher cost (7.5%) and shorter maturities (8 years). And Ecuador now discovers that its real debt is more than 41.8 billion dollars instead of the 27.8 billion that Correa left as “official.” That hole will cost billions in adjustments. This is the reality of default and re-structuring. Things get worse.

But Ecuador at least had an economy with growth possibilities. Maduro now seeks to refinance with ... what? He has devastated the country. Between 1999 and 2014, Venezuela received 960.5 billion US dollars of oil revenues, 56.5 billion annually for 17 years, five times more than the average annual real income of previous governments between 1993 and 1998, according to the BBC quoting Ecoanalítica.

That huge oil revenue was squandered and at the same time the economy was destroyed by assaulting legal security and investment initiative with savage expropriations. Who is going to lend to such disastrous managers, even at higher rates and

different terms? Now the string of litigation and complaints about breach of contracts will begin. And the credit tap closes.

This restructuring is not going to be a relief nor the beginning of the solution. It is the verification of an absolute failure of the Venezuelan government and it will cost a lot, as always, to the poorest citizens. Because there has *never* been a story of default that is accompanied by higher real public spending. Never.

The lesson of this new example of socialist failure is that it is a system based on lies that ignores the most basic principles of the economy and destroys even the richest country.

In the end, the socialist promise of free money is very expensive for all. Let's learn the lesson.

—

Daniel Lacalle has a PhD in Economics and is author of [Escape from the Central Bank Trap](#), [Life In The Financial Markets](#) and [The Energy World Is Flat](#).

This [article](#) has been republished with permission from The Mises Institute.

Image Credit: Flickr-Diariocritico de Venezuela ([CC BY 2.0](#))