Cauterization and Infection: Trying to Fix the Venezuelan Economy

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***Abstract**: In the past few months, the Bolivarian Republic of Venezuela has seen some of the greatest challenges to its democracy in a generation. Low oil prices and mismanagement of the state-run oil company PDVSA have sunk the country into an economic and political crisis. The downfall of the self-proclaimed "socialist" country has brought free-market economists out of the woodwork. The majority of their policy prescriptions boil down to a set of free-market oriented policies that have come to be called "neoliberal" policies. The problem with these policies is that they do not allow for the political and economic intricacies of individual countries to be accounted for. This paper is an attempt to set forth a set of economic suggestions for Venezuela based on its economic and political realities. Economic reforms will take a two-pronged approach; reforms that are set to address short term and long-term problems. The short-term reforms will be composed of three parts: (1) decreasing inflation through counter-inflationary policies, while introducing social programs to help poor Venezuelans survive the policies; (2) bringing in foreign human capital to increase productivity in the oil sector; and (3) decreasing Venezuela's sovereign debt. The long-term plan is centered on diversification of the Venezuelan economy.*

Introduction

In the past few months, the Bolivarian Republic of Venezuela has seen some of the greatest challenges to its democracy in a generation. The streets are lined with protesters, there are mass shortages of all basic necessities, and the National Assembly has been temporarily stripped of its powers by the Venezuelan Supreme Court. Furthermore, low oil prices and lack of economic diversification have left the economy in ruin. The Organization of American States encouraged President Nicolas Maduro to step down to no avail. In August 2017, Maduro used a referendum to replace the suspended national assembly with a new legislative body that has the power to change the constitution. Nicolas Maduro and other Venezuelan government officials have been sanctioned by the US Treasury Department for their involvement in the election and its potential to hinder democracy in Venezuela. In addition, sanctions imposed in August 2017 bar US persons from "engaging in specified dealings involving the government of Venezuela and its instrumentalities…includ[ing] state owned oil company PDVSA."[1] Recently, the questionable results of regional elections led the European Union to approve an arms embargo against

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[1] The White House Office of the Press Secretary. 2017. *Press Briefing by Press Secretary Sarah Sanders, et al., 8/25/2017, #7.* August 25. https://www.whitehouse.gov/the-press-office/2017/08/25/press-briefing-press-secretary-sarah-sanders-et-al-8252017-7.

Venezuela,[2] and Venezuela has begun the slow process of debt restructuring negotiations. By any measure, Venezuela is facing a political and economic crisis.

This paper will argue a specific set of economic reforms that are constructed to meet Venezuela's economic and political realities. The reforms will draw on elements of the preexisting schools of economic development, as well as pragmatic historical reforms by states that have experienced similar economic and political crises. While the reforms will only be economic, they will be made in anticipation of political obstacles and with the intention of lasting more than a single election cycle.

Defining the Problem

For the purposes of this paper, the primary short-term problems of the Venezuelan economy will be defined as follows: (1) inflation projected to rise as high as 2,350 percent by the end of 2018;[3] (2) decreased oil revenue resulting in a major loss in foreign currency reserves for the heavily oil dependent economy; and (3) a total foreign debt between $60 and $140 billion USD, divided between holders of sovereign Venezuelan and Petróleos de Venezuela S.A. (PDVSA: the state run oil company) bonds (depending on the source of the estimate).[4]

Given the interconnectedness of an economy, each of these problems feeds and exacerbates the others. As such, the more detailed explanations of each problem and their potential solutions will be interconnected.

Viable Treatments

Economic reforms will take a two-pronged approach, as they are set to address short-term and long-term problems. The short-term reforms will be composed of three parts: (1) decreasing inflation through counter-inflationary policies, while introducing social programs to help poor Venezuelans survive the policies; (2) bringing in foreign capital and human capital to increase productivity in the oil sector; and (3) decreasing Venezuela's debt. The long-term plan is centered on diversification of the Venezuelan economy via encouragement of infant industries using protectionist policies.

While the proposed policy solutions of this paper may seem sound, it is worth noting that they are based on past experiences in other countries, at different times or both. As such, the goal of this paper is not to fix the Venezuelan economy by providing perfect solutions. These policy suggestions are meant to start a dialogue on how to fix the Venezuelan economy in ways that fit its political and economic realities, rather than relying on the sort of one-size-fits-all policies that dominated economic development discourse in the international monetary institutions and in much

[2] European Council: Council of the European Union. 2018. *Venezuela: EU sanctions 7 individuals holding official positions.* January 22. Accessed April 25, 2018. http://www.consilium.europa.eu/en/press/press-releases/2018/01/22/venezuela-eu-sanctions-7-individuals-holding-official-positions/.

[3] International Monetary Fund. 2017. *World Economic Outlook (October 2017)- Inflation Rate, Average Consumer Prices.* October. https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD/VEN.

[4] Buitrago, Deisy, and Jack Stubbs. 2017. *Venezuela wins Russia and China backing as it says it is honoring debt.* November 15. https://www.reuters.com/article/us-venezuela-debt/venezuela-wins-russia-and-china-backing-as-it-says-it-is-honoring-debt-idUSKBN1DF2WC.

of the developed world's think tanks and schools during the 1980s and 90s, and arguably continue to lesser extent today.[5]

Short Term Solutions

Bringing Down Inflation

For the economy to be fixed, inflation must be brought back down before the other two steps can be attempted. There are two reasons for this: (1) low inflation will help attract desperately needed foreign human capital (the importance of which will be explored in the "low oil production" and "diversification" sections) and (2) lower inflation will help restore foreign currency reserves desperately needed to buy medicine, food, and other basic goods[6]. With high inflation, it is difficult to attract potential foreign talent (including Venezuelan emigrants in other countries) that needed to help reinvigorate Venezuelan oil production. These workers would need to be offered decent salaries, on a currency that can buy things, in a place where there are things to be bought. Inflation decreases buying power by making things require more of the currency to buy the same things.

Inflation in Venezuela has continued to spike according to external estimates (the Venezuelan government has ceased to report figures). The International Monetary Fund (IMF) estimates that inflation has reached 652.7 percent and estimated that it will reach 2.35 thousand percent by the end of 2018.[7] What is more, the World Bank has estimated that inflation reached 254.5 percent in 2016.[8] In either case, the consensus is that Venezuela has entered what economists call hyperinflation, meaning that inflation has risen over 50 percent per month.[9] Inflation of this magnitude is an impediment to economic growth because it leads to disruption of coordination in the economy,[10] may cause currency to "[cease to be] a useful medium of exchange, and leads to a bartering economy and breakdown of the country's financial system".[11]

Traditionally, during times of such great inflation, Latin American countries have taken two courses of action. The first is tying their currency to a stronger currency. This method usually takes one of two forms, "currency pegging" or "currency boarding." Currency pegging is tying the worth of one country's currency to another. All of the Latin American countries that have

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[5] Gerber, James. 2014. *International Economics.* Upper Saddle River, New Jersey: Pearson Education, Inc.

[6] Venezuela imports the vast majority of its food, medicine, and other basic goods. In order to buy foreign goods, foreign currency is needed. By decreasing the quantity of Venezuelan Bolivars in circulation, the Venezuelan government will be able to buy foreign reserves on the open market. These reserves can then be used to further stabilize the currency by buying Venezuelan Bolivars from the open market, decreasing their quantity and increasing their value; Vera, Leonardo. 2017. "In Search of Stabilization and Recovery: Macro Policy and Reforms in Venezuela." *Jorunal of Post Keynesian Economics* 9-26.

[7] International Monetary Fund. 2017. *World Economic Outlook (October 2017)- Inflation Rate, Average Consumer Prices.* October. https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEOWORLD/VEN.

[8] World Bank. 2016. *Inflation, consumer prices (annual %) | Data.* Accessed April 10, 2018. https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=VE.

[9] Salemi, Michael. 2008. *Hyperinflation: the Concise Encyploedia of Economics.* Accessed February 11, 18. http://www.econlib.org/library/Enc/Hyperinflation.html.

[10] Selgin, George. 1988. *The Theory of Free Banking: Money Supply under Competitive Note Issue.* Lanham, Maryland: Rowman & Littlefield.

[11] Irwin, Neil. 2018. *The Stock Market Is Worried About Inflation. Should It Be?* February 8. Accessed February 11, 2018. https://www.nytimes.com/2018/02/07/upshot/the-stock-market-is-worried-about-inflation-should-it-be.html.

implemented this policy in the past have pegged their currencies to the American dollar, given the relative stability of the dollar and high levels of trade between Latin American countries and the United States. Similarly, in a currency boarding system, a central bank "issues notes and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange. It holds low-risk, interest-bearing bonds denominated in the anchor currency as reserves."[12] In addition, under an orthodox currency board, the state implementing it has no control over the state's monetary policy.[13] Currency boards and pegging have produced mixed results in Latin America and beyond. The currency boarding of the Argentinian peso to the American dollar in 1991 eventually led to an economic crisis in 2002.[14]

The second is a set of policies that have come to be called "neoliberal" economic policies, which aim to pull down inflation and encourage foreign investment. These policies typically include extreme reductions in government deficits and the removal of what economists call "trade barriers." This typically means slashing social programs, privatizing government-run enterprises (by selling them to private investors), eliminating subsidies, opening the country to foreign direct investment (when foreign companies open factories in a country), and eliminating tariffs/trade quotas (self-imposed limits on the amount of a good that a country can import). The logic is that by decreasing government expenditures, the need to print extra money to pay for such expenditures is reduced, thus decreasing the amount of that country's currency entering the economy, and by extension slowing inflation. The logic to reducing barriers to trade and foreign investment is that by reducing such barriers, the domestic economy will be better able to import the foreign machines and money it needs to build its industries and develop its economy. Usually, these policies are accompanied by an infusion of foreign capital (money) via one of the international monetary institutions: the International Monetary Fund (IMF). The infusion of money allows the countries to meet their short-term debt payments, fund day-to-day operations, and implement the aforementioned neoliberal economic policies.

For Venezuelan president Nicolas Maduro, both courses are political suicide. Over the course of Maduro's presidency and the presidency of his predecessor Hugo Chavez, their party, the Partido Socialista Unido de Venezuela (PSUV), thrived on galvanizing impoverished Venezuelans with anti-American/imperial rhetoric. In addition, he railed against the international monetary institutions that created the inflation countering "neoliberal" reforms mentioned earlier; the IMF and World Bank. Currently, despite Venezuela's deep economic crisis, a very sizable percentage of the population still supports Maduro because he continues to resist what is seen as an American-orchestrated push by the international community for Maduro to step down. As such, any attempt by Maduro to peg the Venezuelan Bolivar to the American dollar would be seen as nothing short of traitorous by the true "Chavistas" (supporters of Hugo Chavez's nationalist, social-capitalist ideology) in his support base.

In a similar vein, implementation of neoliberal economic reforms would likely be met with intense backlash, not only due to the sheer hypocrisy of it, but because of the negative disproportionate effect that such policies have had on the lowest sections of the socioeconomic

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[12] Hanke, Steve. 2017. *Venezuela's Maduro Flunks His Economic Literacy Test.* September 10. Accessed September 11, 2018. https://www.forbes.com/sites/stevehanke/2017/09/10/venezuelas-maduro-flunks-his-economic-literacy-test/#79c948457480.

[13] Ibid.

[14] Bloomberg News. 2002. *Dollar Peg Nearing End In Argentina.* January 3. Accessed February 11, 2018. http://www.nytimes.com/2002/01/03/business/dollar-peg-nearing-end-in-argentina.html.

ladder,[15] which makes up Maduro's largest support base. Neoliberal economic reform would likely include the slashing of social programs aimed at helping the poorest Venezuelans (implemented by Chavez and maintained by Maduro), privatization of many (if not all) assets of the state-run Venezuelan oil company PDVSA, and removal of price controls. For this reason, such reforms must be implemented with a safety net for the poorest Venezuelans, the money for which will be drawn from reinvigorated oil revenues (refer to "productivity through PDVSA reform" section).

Where to Go from Here

With all of the aforementioned limitations of borrowing options in mind, Venezuela must embark on counter-inflationary measures (including some elements of the neoliberal counter-inflation recipe) without the help of international monetary institutions or American banks — at first. Implementing counter-inflationary measures will serve several purposes at once. It will (1) signal to foreign banks that the government is taking steps to stabilize the economy, helping to decrease the reluctance of potential investors (both foreign and domestic), including the international monetary institutions; and (2) increase productivity in the oil sector for reasons that will be explained later on. The counter-inflationary measures include lifting price controls, partially privatizing the state oil company PDVSA, and floating the Venezuelan currency, the Bolivar. To compliment these reforms, a large portion of government expenditures will be temporarily shifted to bolster existing social programs and institute temporary new ones (part of the funding for which will explained in the "decreased oil revenue section").

Floating the Bolivar

The most basic cause of inflation is the overprinting of money by governments[16] and Venezuela is no different. Record oil lows have robbed the Venezuelan government of its most valuable revenue stream. Rather than risk the "political dangers that increasing taxes can create, governments around the world… [resort] to inflation".[17] After the onset of the Venezuelan economic crisis, Maduro had little choice but to run the Venezuelan currency presses for all they were worth, until 2016, when the Venezuelan government became so broke that merely printing money became too much of a burden on the budget.[18] By then, the damage had already been done. The more money that is printed, the higher producers increase their prices, forcing governments to tighten price controls. The tighter price controls are implemented, the more money is needed to buy basic goods, prompting the government to print more money, and so on, until the currency is not worth the paper or the ink used to print it.

To stop this cycle, the Venezuelan government must remove the two sources of the inflation: shortages and an excessive money supply (more money is in circulation than is demanded to be held). For the sake of clarity, this paper will focus on food shortages.

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[15] Furceri, Davide, Prakash Loungani, and Jonathan D. Ostry. 2016. "Neoliberalism Oversold? --Fiance and Development." *Finance and Development* 53 (2). Accessed 11 2018, 2018. http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm; Gerber, James. 2014. *International Economics.* Upper Saddle River, New Jersey: Pearson Education, Inc. .

[16] Sowell, Thomas. 2004. *Basic Economics.* New York, New York: Basic Books.

[17] Ibid.

[18] Rosati, Andrew. 2016. *Venezuela Doesn't Have Enough Money to Pay for Its Money.* April 27. Accessed April 9, 2018. https://www.bloomberg.com/news/articles/2016-04-27/venezuela-faces-its-strangest-shortage-yet-as-inflation-explodes.

To fix the money supply, Venezuela must implement a "managed float" of its currency. A managed float is when a state allows the international currency market to determine the worth of its currency, within a range determined by that country's central bank. This style should seem familiar to many readers because that is currently what the United States, Europe, and most of the developed countries do. The central bank sets goals on the levels it wants for inflation, unemployment,[19] and sometimes economic growth. Then, the central bank uses a series of tools to influence the money supply in ways that pushes it closer to the desired target.[20] The goal of implementing a "managed float" in Venezuela is a stabilization of the Venezuelan Bolivar. Without the long held "fixed" exchange rate between the Bolivar and USD, the widely used black-market price of the Bolivar and the official price will eventually come closer together, leading to stable prices. With stable prices, investors will have more confidence to invest in Venezuela and the central bank will be better able to regulate the money supply.

Floating currencies after prolonged periods of price controls are often popular among the upper-middle and upper classes, and unpopular among the business class because while they do *eventually* stabilize currencies, they will lead to extreme disruptions in the short run. When currencies are floated, the black-market price of the currency falls to meet the official price and the official price rises to meet the black-market price. The problem is that this does not happen instantaneously, and the results are wildly different across the economy, leading to price discoordination across the economy in the short term. For individuals with larger incomes, this is easier to deal with because they have the income to afford different prices in different areas of the economy. For low income individuals, this may mean that they are not able to afford the prices of basic products that had previously been held down by price controls. To assure that the poor are able to at least feed themselves and have proper medical care, social programs are needed.

Social Programs

Fixing the Food

During the presidency of former Hugo Chavez, subsidized food programs and price controls were successfully implemented for years. As Rhoda Howard-Hassmann summarizes:

> Chávez established the *Mercals*, or special people's markets, where a large range of subsidized goods could be purchased. By 2007, about 9.3 million people (out of a total population of about 28 million) shopped for food at the *Mercals*. The missions also distributed free, ready to-eat foods to the very poor. The free food was distributed to groups of neighborhood women who cooked hot lunches for the extremely poor in their own kitchens.[21]

The problem with the *Mercals* is that they targeted individuals based on location rather than need. In effect, this allowed people to take advantage of the *Mercals* by buying food cheaply from the

[19] For Venezuela and the rest of Latin America, setting goals for unemployment is not valid because they have such large "informal sectors", i.e. individuals who do not have formal employment (such as street vendors).

[20] Howitz, Steven. 2013. "An Introduction to Us Monetary Policy." *Mercatus Research.*

[21] Howard-Hassmann, Rhoda E. 2015. "The Right to Food under Hugo Chavez." *Human Rights Quarterly* 37 (4): 1024-1045, 1120.

Mercals and selling it in other places for a profit.[22] Prior to the fall in oil prices, this was less of a problem because food was more plentiful, but today, shortages have caused such leakages to have devastating effects on the lives of poor Venezuelans.

To reform the food subsidies and replace the price controls, Venezuela must adopt a system that better targets beneficiaries. This system must make sure that only individuals that are in need can use them and that no one can take advantage of the system by buying up a large amount of the subsidized good and selling it elsewhere. To help better target beneficiaries, Venezuela can reform its food subsidy system in ways that have been successful in other countries.

One such example is a recent technological innovation in Egypt, called the smartcard. These electronic cards are used as identity cards that ensure that only eligible persons can purchase bread under Egypt's "baladi bread" food subsidy program. Each card permits participating families to purchase a limited amount of bread per day.[23] While the smartcard may prove too expensive for the exasperated government coffers of Venezuela, the program can be altered to still be effective. The cards serve as identification cards for beneficiaries. The Venezuelan government may be able to get by with just requiring beneficiaries to provide some other form of state-issued identification when purchasing subsidized food and limiting the amount of food that a family can buy from stores in their area. An obvious problem with this is that given the massive shortages in food in Venezuela, local stores may run out of food quickly. For the food subsidies to be effective, the food shortages must be addressed.

Price Controls and Shortages

Prior to the onset of the economic crisis, President Chavez began to rely increasingly on price controls as a means of ensuring the support of his low income political base. In April of 2012, "to contain inflation…price controls [were expanded] to include diapers, laundry detergent…bottled water," shampoo, and toilet paper among other items.[24]

Inflation had begun to put pressure on producers to increase their prices to continue to profit; however, with price controls, they could not raise prices. According to Jose Nino of the Mises Institute,

> When price ceilings are implemented… An artificially low price leads consumers to demand more of a good than producers are willing to supply. When demand outstrips supply, shortages emerge... [because] many businesses are forced to incur losses, especially if the legislated price falls below the natural market price that is needed to meet operational costs. Less fortunate enterprises will find themselves compelled to shut down their operations as they can no longer afford to supply goods to the market given the artificially low prices.[25]

Put more simply, when the government imposes price controls on an industry, producers often cannot make a profit from the price at which they are forced to sell. When sellers cannot make a

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[22] Ibid.

[23] EgyptSmartcards.com. 2016. *Smart Cards Applications.* Accessed April 6, 2018. http://www.egyptsmartcards.com/#portfolio.

[24] Associated Press. 2012. *Venezuela expands price controls to new products.* April 2. Accessed April 23, 2018.

[25] Nino, Jose. 2016. *Price Controls Are Disastrous for Venezuela, and Everywhere Else.* November 16. Accessed April 5, 2018. https://mises.org/wire/price-controls-are-disastrous-venezuela-and-everywhere-else.

profit, they either reduce costs by selling less or cease to produce entirely.[26] When all the sellers in an industry are faced with this choice, shortages spring up.

One of the most commonly cited examples of price controls leading to shortages is the effect that rent controls had on the American housing market following World War II. Although the number of houses and population of the United States had both risen by ten percent, the rent control laws introduced during the war made housing more affordable for many people, resulting in less houses than people wanting to live in them. The result was that people had to wait for months to find an affordable apartment, if they could find one at all. Once the rent controls were removed, prices rose, thus decreasing the amount of people demanding houses and eliminating the shortages.[27]

As such, in order to eliminate the food shortages in Venezuela, price controls must be removed. While this may seem to pose a political risk, as it will make the price of food skyrocket, the aforementioned food subsidies will help to ease the burden on poor families until the shortages are eliminated and prices return to normal.

Decreased Oil Revenue

Since the onset of the Venezuelan economic crisis in 2014, Venezuelan oil production has fallen from around 2,700 barrels per day to 1,769 barrels a day in February.[28] This decrease only tells half of the story. After the oil is produced, it is not always sold for immediate cash. As the economic crisis began to worsen, foreign governments demanded more concrete payments for their loans than the Bolivar (which is virtually worthless outside of Venezuela) or USD (that the government was starting to run short on). These concrete payments were oil. China and Russia agreed to give Venezuela advanced loans in exchange for oil to be sent at a later date, and now, almost 500,000 barrels per day are committed to paying them back.[29] With Venezuela falling behind in payments during 2017,[30] Russia negotiated licenses to develop two offshore Venezuelan oil fields in December of 2017.[31]

In addition to using oil to pay off debts, the Venezuelan government also gives Cuba and Nicaragua a considerable amount of oil with a discount.[32] According to PDVSA documents seen by Reuters, as recently as March 2017, 88,000 barrels per day were still being sent "to Cuba,

[26]Neuman, William. 2012. *With Venezuelan Food Shortages, Some Blame Price Controls.* New York Times. April 20. Accessed April 23, 2018. https://www.nytimes.com/2012/04/21/world/americas/venezuela-faces-shortages-in-grocery-staples.html.

[27] Sowell, Thomas. 2004. *Basic Economics.* New York, New York: Basic Books.

[28] Trading Economies. 2018. *Venezuela Crude Oil Production.* February. https://tradingeconomics.com/venezuela/crude-oil-production.

[29] Baker Institute. 2018. *The Death Spiral of Venezuela's Oil Sector and What Can Be Done About It.* January 24. https://www.forbes.com/sites/thebakersinstitute/2018/01/24/the-death-spiral-of-venezuelas-oil-sector-what-if-anything-can-be-done-about-it/#163a75077e60.

[30] Reuters. 2017. *Venezuela falls behind on oil-for-loan deals with China, Russia.* February 10. https://www.cnbc.com/2017/02/10/venezuela-falls-behind-on-oil-for-loan-deals-with-china-russia.html.

[31] Reuters Staff. 2017. *Venezuela gives Russia's Rosneft gas field concessions: Rosneft.* December 17. https://www.reuters.com/article/us-russia-venezuela-rosneft-pdvsa/venezuela-gives-russias-rosneft-gas-field-concessions-rosneft-idUSKBN1EB0JN.

[32] Ulmer, Alexandra, and Deisy Buitrago. 2017. *Maduro taps major general to lead Venezuela's deteriorating oil industry.* November 26. https://www.reuters.com/article/us-venezuela-politics-pdvsa/maduro-taps-major-general-to-lead-venezuelas-deteriorating-oil-industry-idUSKBN1DQ0R9.

Nicaragua and other countries...equivalent to a fifth of domestic consumption."[33] Finally, if the aforementioned drain of production was not enough, the government of Venezuela heavily subsidized domestic sales of petroleum at a consistent rate for 20 years, until February of 2016, when the subsidy was slightly decreased.[34] With oil debts to China/Russia, the already low production levels of PDVSA, and the large oil subsidies given to the Venezuelan people and Venezuelan socialist allies, oil production (and, by extension, government revenue from oil sales) is in desperate need of change.

Productivity through PDVSA Reform

The needed change is twofold: (1) partial privatization of PDVSA and (2) the return of former Venezuelan oil managers from outside of the country. The purpose of these changes is to give the Venezuelan oil industry the two things that any industry needs to increase productivity, human capital, investment, and up-to-data technology in that sector. Privatization of PDVSA will bring human capital, foreign investment, and technology. The return of Venezuelan emigrant human capital will bring human capital.

Human capital is "the skills the labor force possesses and is regarded as a resource or asset."[35] It is necessary for the functioning of a company because without the managerial and technical skills needed to extract and transport oil efficiently, production and revenue suffers. In the Venezuelan case, this reality is illustrated by the impact of Hugo Chavez's firing of 22,000 workers following a general strike that lasted from 2002-2003.[36] Since their firing, Venezuelan oil production levels in terms of barrels per day have not exceeded pre-strike levels.[37]

Partial Privatization

National ownership of any company has long been criticized by free market advocates as a recipe for inefficiency and corruption. In the case of PDVSA, the argument is accurate. In February 2018, three former employees of PDVSA were accused of embezzling more than $60 million USD between 2008 and 2014.[38] In November of 2017, Major General Manuel Quevedo of the Venezuelan National Guard was appointed president of PDVSA,[39] despite having no

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[33] Ibid.

[34] Brodzinsky, Sibylla. 2016. *Venezuela president raises fuel price by 6,000% and devalues bolivar to tackle crisis.* February 17. https://www.theguardian.com/world/2016/feb/18/venezuela-president-raises-fuel-price-by-1300-and-devalues-bolivar-to-tackle-crisis.

[35] Oxford Dictionaries. n.d. *Human Capital |Definition of Human Capital in English by Oxford Dictionaries.* Accessed March 21, 2018.

[36] Al Jazeera. 2012. *Timeline: Venezuela's Tumultuous History.* Semptember 20. Accessed May 2, 2018. (Al Jazeera 2012)https://www.aljazeera.com/indepth/features/2012/09/201292121430533264.html.

[37] Trading Economies. 2018. *Venezuelan Crude Oil Production.* May 2. Accessed May 2, 2018. https://tradingeconomics.com/venezuela/crude-oil-production.

[38] Telesur. 2018. *Venezuela: Former PDVSA Execs Accused of Siphoning Off US$60m.* February 3. https://www.telesurtv.net/english/news/Former-Venezuelan-State-Executives-Suspected-of-Corruption-20180203-0031.html.

[39] BBC. 2017. *PDVSA: Maduro names general to head Venezuela oil firm.* November 26. http://www.bbc.com/news/world-latin-america-42132694.

experience in the energy sector.[40] On March 9, a "trust linked to Venezuela's state oil company PDVSA…filed a lawsuit against major international energy trading firms for their alleged role funneling bribes to corrupt company officials in exchange for rigged oil purchase contracts."[41] The lawsuit alleges "billions in lost revenue since 2004."[42] To address the problems with corruption while maintaining revenue flow from the oil sector to state coffers, and subsequently to the Venezuelan people, a combination of two extra-national case studies is needed: Chile and Bolivia. After the military coup in Chile in 1973, an authoritarian military junta rose to power in Chile under the leadership of General Augusto Pinochet. Under junta's leadership, the Chilean economy was recrafted by a group of Chilean "free market" economists.[43] In 1980, Pinochet added a provision to the newly created Chilean constitution which ensured that ten percent of the revenue from Chilean copper exports would go directly to the Chilean military.[44] According to data from Cochilco, Chile's copper regulatory agency, during the two decades following privatization, copper production rose by approximately 244 percent (in the decade before privatization, it only rose approximately 50 percent).[45] During the commodity boom of the early-to-mid 2000s, "the substantial increase in international copper prices, [gave] the armed forces…important sums from this source, which were mostly spent on modernizing their military equipment."[46] By taking ten percent of revenue from Chilean copper exports, the Chilean military was able to take full advantage of the efficiency brought on by private ownership.

In a similar vein, the socialist government of Bolivia has been able to harness the efficiency of the private sector for the benefit of Bolivians. On May first, 2006, newly elected president Evo Morales nationalized Bolivia's oil and natural gas reserves. The decree gave foreign companies 180 days to renegotiate contracts with the state[47] and compensated the foreign companies by the value of their shares.[48] While the Bolivian government does officially own the natural gas deposits and production, the foreign companies, who renegotiated contracts, are allowed to sell the natural gas and oil in the international market.[49] In turn, Morales has used the revenue from taxes on the companies to "deploy a set of social policies designed to alleviate poverty, inequality and shortcomings in the areas of health and education."[50] Between 2006 and December 2011, Bolivian

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[40] Ulmer, Alexandra, and Deisy Buitrago. 2017. *Maduro taps major general to lead Venezuela's deteriorating oil industry.* November 26. https://www.reuters.com/article/us-venezuela-politics-pdvsa/maduro-taps-major-general-to-lead-venezuelas-deteriorating-oil-industry-idUSKBN1DQ0R9.

[41] Goodman, Joshua. 2018. *Venezuela-linked trust sues foreign oil traders for bribes.* March 9. https://www.washingtonpost.com/world/the_americas/us-lawsuit-venezuela-cheated-of-billions-by-rigged-oil-bids/2018/03/08/fe336a60-2332-11e8-946c-9420060cb7bd_story.html?utm_term=.55e2dfe324e6.

[42] Ibid.

[43] Dávila, Jerry. 2013. *Dictatorship in South America.* Chichester, West Sussex, United Kingdom: Wiley-Blackwell.

[44] Cambero, Fabian, and Dave Sherwood. 2017. *Whoever wins election, Chile state copper giant may get boost.* November 22. https://uk.reuters.com/article/us-chile-codelco/whoever-wins-election-chile-state-copper-giant-may-get-boost-idUSKBN1DM1DZ.

[45] Cochilco. 2011. *Mining Production | Cochilco.* Accessed April 23, 2018. https://www.cochilco.cl/Paginas/English/Statistics/Data%20Base/Mining-Production.aspx.

[46] Fainboim, Israel. 2009. *Changing the Financial Management of the Defense Sector in Chile: Leaving Expenditure Earmarks Behind.* November 25. https://archive.is/yNEu#selection-543.267-543.452.

[47] Zissis, Carin. 2006. *Bolvia's Nationalization of Oil and Gas.* May 12. https://www.cfr.org/backgrounder/bolivias-nationalization-oil-and-gas.

[48] Ceppi, Natalia. 2015. "Energy on the Public Agenda: Changes in Bolivia with Impact on Adjoining Countries." *Journal of International Relations.*

[49] Ibid.

[50] Ibid.

natural gas barrels per day increased[51] and between 2006 and 2016, economic inequality in Bolivia (as measured by the GINI coefficient) decreased.[52]

The success of the Bolivia's loose-nationalization and Chilean copper revenue appropriation created the possibility of implementing similar policies in Venezuela. Furthermore, the implementation of a mere partial privatization, which was done by Bolivia, may allow President Maduro to save face in the eyes of his hardened nationalist supporters.

Buyers

The most daunting obstacle to partial privatization of PDVSA is finding a buyer. A buyer must have enough money to buy PDVSA and finance the PDVSA's debts. The latter of the aforementioned responsibilities brings up another concern. In March 2018, the United States Treasury Department announced new sanctions that forbade American commercial entities from buying debts connected to the Venezuelan government, like PDVSA debt.[53] As such, the buyer cannot be American (which severely limits the number of buyers). Similarly, finding a buyer in the European Union may be difficult because potential buyers may fear that the European Union may place sanctions on Venezuela that will mirror American sanctions. In addition, it may be difficult to attract a Middle Eastern, Russian, or Chinese buyer for reasons that will be explained in the following section. With these limitations, there may be one potential buyer with the money and freedom from politics to purchase PDVSA, an English oil company.

Besides the process of elimination, there are more reasons that English companies are more likely to buy PDVSA. In 2016, citizens of the United Kingdom voted to leave the European Union (EU). In the aftermath, many saw the potential for omelets to be made of the broken eggs. One such omelet was the diversification of England's economic ties beyond what the politics of the European Union would allow. Prime Minister Theresa May has made clear that in the aftermath of the British exit from the European Union (Brexit), her government would push for Europe to become a leader of global free trade.[54] One form of this is the pursuit of trade agreements that would have been impossible had England stayed in the EU.

An example of this is Dr. Nile Gardiner's testimony before the Subcommittee on Terrorism, Nonproliferation, and Trade and the Subcommittee on Europe, Eurasia, and Emerging Threats of the Committee on Foreign Affairs in February 2015. When asked if Brexit would make it easier to "resolve some of the perennial issues of GMOs and other aspects that often make it impossible for U.S. agricultural products to have a fair opportunity to enter those markets?":

> I would say, you know, firstly, that with regard to TTIP that you mentioned earlier, there were major problems in terms of U.S.-EU discussions because of the EU's common agricultural policy, which some in Britain would describe as a vast

[51]Yacimientos Petroliferos Fiscales Bolivianos. 2011. *Technical Reports.* December. Accessed April 25, 2018. file:///C:/Users/hnitzb1/Downloads/produccioncertificadadehidrocarburos.pdf.

[52] World Bank. 2016. *Inflation, consumer prices (annual %) | Data.* Accessed April 10, 2018. https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=VE.

[53] Department of the Treasury. 2017. *Venezuela-Related Sanctions.* August 24. Accessed April 25, 2018. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13808.pdf.

[54] Blanchard, Ben, and William James. 2018. *China's Li says ties with Britain to stay unchanged through Brexit.* January 30. https://www.reuters.com/article/us-china-britain/chinas-li-says-ties-with-britain-to-stay-unchanged-through-brexit-idUSKBN1FK023.

> protectionist racket basically…And once Britain leaves the European Union, it will not be subject to the common agricultural policy.[55]

Another example is Britain's desire to create a free trade agreement with Australia.[56] Today, the European Union does not have an all-encompassing trade agreement with Australia.[57] Similarly to the US case, trade between the European Union and Australia has been strained for decades due the EU's agricultural protectionist policies, which blocked access of many Australian agricultural products from the EU market.[58]

Based on British expansion of economic relations with countries that EU politics have delayed, it is possible that a British company would be more able to buy PDVSA than its counterparts in the EU, the United States, the Middle East, or China. After an official Brexit in March of 2019, British companies may no longer be bound to sanctions initiated by the European Union. As such, British companies would not have to fear impending sanctions by the European Union that could derail such a deal or dampen their profits once a deal to purchase PDVSA was made.

Debt Management

Of all of Venezuela's economic troubles, this is by far the hardest to tackle. As previously mentioned, Venezuela's foreign debt has reached $60 billion by conservative estimates and Venezuela has had to resort to selling off licenses to oil fields to pay back loans to Russia. While $60 billion dollars in debt may not seem high by American standards, keep a few things in mind: (1) much of this debt is in the form of government and PDVSA bonds, which are all coming due (or "maturing") around the same time, and (2) these bonds are maturing at a time when oil revenue is at the lowest point that Venezuela has seen while governed by Chavez's party.

The maturation of Venezuelan bonds and demands for repayment by Russia and China have left Venezuela in dire need of immediate cash. Recently risen obstacles have limited potential sources of said cash. China has ceased to give new loans to Venezuela.[59] Sanctions issued in the aftermath of the election of representatives for the newly created "Constituent Assembly" forbid American businesses from buying new debt from PDVSA or the Venezuelan government.[60] Worse

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[55] 2017. *Next steps in the "special relationship"-impact of a U.S.-U.K. free trade agreement: joint hearing before the Subcommittee on Terrorism, Nonproliferation, and Trade and the Subcommittee on Europe, Eurasia, and Emerging Threats of the Committee on Foreign Affairs, House of Representatives, One Hundred Fifteenth Congress, first session, February 1, 2017*. n.p.: Washington: U.S. Government Publishing Office, 2017., 2017. *USMAI Catalog*, EBSCO*host* (accessed May 2, 2018).

[56] Swinford, Steven, and Neil Connor. 2016. *Britain and Australia talk up free trade deal at G20.* September 5. Accessed May 2, 2018. https://www.telegraph.co.uk/news/2016/09/05/britain-and-australia-talk-up-free-trade-deal-at-g20/.

[57] The European Commision. 2018. *Australia-Trade-European Commision.* April 16. Accessed May 2, 2018. http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia/.

[58] Zolin, Bruna, and Philomena Murray. 2012. "Australia and the European Union: conflict, competition or engagement in agricultural and agri-food trade?" *Australia Journal of International Affairs* 66 (2): 186-205. Accessed 2018.

[59] Gillespie, Patrick. 2016. *China is Cutting Off Cash to Venezuela.* September 30.

[60] US Treasury. 2018. *OFAC FAQs: Other Sanctions Programs.* https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#venezuela.

yet, the international financial institutions that usually provide cash to countries in economic or financial crises are not politically viable for Maduro's government or for the United States.

Studies have found that IMF lending is often "systematically biased" with preferential treatment being "largely driven by the degree of similarity between beliefs held by IMF officials and key economic policy makers in the borrowing countries."[61] Given the democratic socialist nature of the Venezuelan government and the well-known free-market ideology of the IMF, loans are unlikely. Conversely,, the government of Nicolas Maduro would not be inclined to accept a loan. As mentioned previously, Maduro and his predecessor, Hugo Chavez, thrive on the use of anti-American and anti-international financial institution rhetoric. The acceptance of any loan deal between the IMF and the Maduro government would be seen by Maduro's political base as a betrayal of the late Hugo Chavez.

With these limited options, Maduro must find alternative means to finance the most immediate payments of Venezuela's debt. This alternative cannot include the United States, China, Russia, or the IMF. This seemingly leaves two major potential sources, Europe and the Middle East. Unfortunately, the only states in the Middle East with large enough economies to provide such funds are states whose economies are heavily dependent on oil, which have already been forced to cut government expenditures immensely in response to the global fall in oil prices.[62] On the other end of the spectrum, Europe has faced weak economic growth since the 2008 financial crisis and subsequent Euro crisis. As a result of these two crises, European GDP has not yet returning to pre-2008 levels.[63]

This debt burden and limitation of access to credit gives the Venezuelan government further incentive to partially privatize PDVSA. In the next year, of the $9 billion dollars in payments that will become due, $2.9 billion dollars will be from PDVSA. By privatizing PDVSA while maintaining government revenue from it (as suggested in the previous section), Venezuela may effectively be able to dump some of its debt burden onto PDVSA's new owner (who would probably have more access to the credit needed to finance the debt). This buys the Venezuelan government some breathing room to focus on paying off its sovereign debt; a debt that the Venezuelan government itself owes to bondholders.

In addition to offloading some debt by privatizing PDVSA, as mentioned earlier, the Venezuelan government may be able to regain access to foreign banks after it has initiated counter-inflation measures. To do this, investor confidence in the economy must be restored. Investor confidence can be boosted by a change of government leadership and from the managed float of the Venezuelan Bolivar.

As previously noted, Maduro and the United Socialist Party, to which he belongs, cannot afford to lose their base by seeking help from the IMF. As such, in any other situation, the opposing political coalition would be the optimal choice to step into power. In any other situation, a change to a ruling party of the center-right would be a good signal to foreign banks and investors; it would mean that Venezuela would be willing to accept help from the IMF and that the IMF would be willing to give it. However, the main opposition coalition in Venezuela, the Mesa de la Unidad Democrática (MUD), has been fractured since the creation of the Constituent Assembly in August,

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[61] Nelson, Stephen C. 2014. "Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions." *International Organization* 297-328.

[62] The Gulf Times. 2018. *IMF chief urges Arab states to cut spending.* February 10. http://www.gulf-times.com/story/581201/IMF-chief-urges-Arab-states-to-cut-spending.

[63] World Bank. 2016. *GDP (current US$) | Data.* https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=EU.

with some members accepting the Constituent Assembly as the new rules of the Venezuelan political game and others refusing to accept it as a legitimate institution.[64] Furthermore, MUD has announced that it will be boycotting elections in May on the grounds that the election will be fraudulent, despite the presence of United Nations observers.[65]

With a fractured and weak opposition, Venezuela must do the best that it can with the political party that it has, but not necessarily with the current face of that party. Contrary to popular belief, there is a sea of difference between the leadership of Nicolas Maduro and that of his predecessor Hugo Chavez. In contrast to Chavez, "who often managed to resolve social tension or make unexpected alliances at key moments, Maduro easily falls for provocations."[66] In the words of *The Nation* reporter Greg Grandin, "Maduro has responded to extremists in the opposition by assuming everyone in the opposition is an extremist, presiding over an ineffective and incoherent mix of distributivist carrots and repressive sticks, aimed not so much at consolidating his personal power as at digging in a besieged and out-of-touch revolutionary bureaucracy."[67] For a more concrete look at the difference in public support between the Maduro and Chavez, consider their electoral successes. Prior to the massive downturn of the economy, Maduro only won the presidency by 1.5 percent of the votes cast,[68] while Chavez consistently won by huge majorities in 1999, 2001, and 2007.[69]

Having established Maduro's poor political skills and the MUD's impotence, only one option remains: the replacement of Maduro with another member of his own party. Currently, such an individual has not presented themselves yet.

Policies for Economic Sustainability

Once inflation has been decreased and government revenues have been refilled by reinvigorated oil production, the Venezuelan government will not have much time to celebrate their short-term victory, they must focus on sustainability. Under the umbrella of sustainable economic growth is one necessity, economic diversification. In the case of Venezuela, economic diversification would entail a decrease in the percentage of GDP that can be tied back to the oil sector. To put the dependence of the Venezuelan oil exports in perspective, 95 percent of Venezuela's export earnings and 25 percent of Venezuela's GDP are from oil and gas exports.[70]

With Venezuela's large amount of oil reserves, should oil prices continue to steadily rise, Maduro's government may be tempted to just ride the wave of growth that would surely follow—directly into an economic trough when prices fall again. This is what economists call a "resource

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[64] Deutsche Welle. 2017. *Venezuela opposition MUD fractures after Constituent Assembly loyalty oaths.* October 25. Accessed April 4, 2018. http://www.dw.com/en/venezuela-opposition-mud-fractures-after-constituent-assembly-loyalty-oaths/a-41099061.

[65] BBC. 2018. *Venezuela Presidential Election Postponed to May.* March 2. Accessed April 4, 2018. http://www.bbc.com/news/world-latin-america-43241884.

[66] Zabala, Santiago. 2017. *Maduro Is Not Chavez.* May 16. Accessed April 4, 2018. https://www.aljazeera.com/indepth/opinion/2017/05/maduro-chavez-170513145531916.html.

[67] Grandin, Greg. 2017. *What Is to Be Done in Venezuela?* May 1. Accessed April 4, 2018. https://www.thenation.com/article/what-is-to-be-done-in-venezuela/.

[68] Neuman, William. 2013. *Venezuela Gives Chávez Protégé Narrow Victory.* April 14. Accessed April 4, 2018. https://www.nytimes.com/2013/04/15/world/americas/venezuelans-vote-for-successor-to-chavez.html.

[69] Carter Center. 2018. *Venezuela.* Accessed April 4, 2018. https://www.cartercenter.org/countries/venezuela.html.

[70] Organization of Petroleum Exporting Countries. 2018. *OPEC: Venezuela.* http://www.opec.org/opec_web/en/about_us/171.htm.

curse" or stagnation in economic development that accompanies booms and busts in the price of the product that an economy overly depends on.[71] When the price of the main export is high, the value of the country's currency rises. When a country's currency becomes stronger, that country's exports become more expensive. As the other industries' prices rise, their ability to compete in international markets is decreased.[72] Without the ability to compete, these firms die off.[73] When the domestic firms that are needed for technological development die off, economic development is hindered.[74]

Rather than wholeheartedly throwing the percentage of oil revenue that the government would receive on social programs and in oil production investment (extraction related machines/labor or land surveying), the Venezuelan government can attempt to counteract the "resource curse" by reinvesting a portion of the revenue in what economists call "infant industries."

An infant industry is a group of new companies in a country that cannot sell their product at a price that is competitive in the international market for that good. To help these infant industries compete and grow, governments often give them some sort of help, whether it be in the form of subsidies, tax credits, money to foreign firms to buy domestic goods (as the American Import/Export Bank does), tariffs on imports of the good that the foreign firm is selling, etc. The use of any of these strategies is called "protectionism."

In the case of Venezuela, the temptation to rely on oil is so great that government protectionism is necessary to develop infant industries. Without the aforementioned protectionist measures, Venezuelans will continue to rely on the import of basic necessities, which become scarce in times of crisis. The main industry to be developed in the meanwhile is agriculture, an industry that former president Hugo Chavez passively attempted to grow during his presidency.[75] As the current crisis in Venezuela is showing, food production infrastructure is vital to sustain the Venezuelan population during sustained periods of low oil prices. With protectionist policies to protect the infant agricultural industry and removal of price controls on food, Venezuela may be able to better sustain downturns in oil prices in the future and become less reliant on oil revenue at the same time.

Human Rights

It is no secret that the Venezuelan government has been violating human rights during the economic and political crisis. Freedom of the press is virtually non-existent, protesters have been killed and many people that have opposed Maduro's government are jailed for their dissent.[76] In regards to fixing the economy, the human rights abuses create three obstacles to the aforementioned policy suggestions: (1) human rights violations scare off potential foreign direct

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[71] Collier, Paul. 2007. *The Bottom Billion.* New York, New York: Oxford University Press.
[72] Ibid.
[73] Ibid.
[74] Ibid.
[75] Newman, Simeon J., and J. Laura Enriquez. 2016. "The Conflicted State and Agrarian Transformation in Pink Tide Venezuela." *Journal of Agrarian Change* 16 (4): 594-626.
[76] Human Rights Watch. 2017. *Crackdown on Dissent: Brutality, Torture, and Political Persecution in Venezuela.* Accessed April 25, 2018. https://www.hrw.org/report/2017/11/29/crackdown-dissent/brutality-torture-and-political-persecution-venezuela.

investment (FDI)[77,78] (2) they cause the flight of human capital[79] from Venezuela,[80] and (3) they have led to economic sanctions.[81] In order to remove these obstacles, the Venezuelan government must (at the very least) cease the violation of the opposition's human rights.

Specifically, the Venezuelan government must cease the arrest of political opponents. This serves to alleviate all three obstacles. Ceasing to arrest political opponents may encourage the return of educated Venezuelans, who have left the country, by making them less fearful that they would be arrested if they were to return. Should the human capital return, it may increase the likelihood the Venezuela may receive more (desperately needed) foreign direct investment, because studies have shown that multinational corporations (MNCs) may be more reluctant to invest in an country if they fear that its human rights record may have a negative impact on the company's image, even if that country has a large amount of human capital.[82] Finally, the cessation of politically motivated arrests may lead to the removal—or at least avoidance—of future sanctions. In the announcement of sanctions by the European Union in January 2018[83] and in the announcement of American sanctions in August 2017 and March 2018,[84] the motivations of the sanctions were explicitly stated to be human rights violations. As previously mentioned, the presence of existing sanctions and the threat of further sanctions makes potential buyers of PDVSA and Venezuelan debt, reluctant to buy debt or PDVSA. Hopefully, if human rights violations were to be ceased, the sanctions would be removed and probability of future sanctions will be reduced.

Conclusions

This paper took a two-pronged approach in trying to reduce Venezuela's economic crisis. Short term reforms sought to decrease inflation by floating the Bolivar and removing price controls, while reforming existing social programs to better target at-risk populations. The point of reforming these social programs was to reduce waste and help poor Venezuelans deal with the further economic downturn that floating the currency and removing price controls will do in the

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[77] Foreign Direct Investment is when a company moves some of its operations into a country rather than contracting work to a foreign company.

[78]Blanton, Shannon Lindsey, and Robert G. Blanton. 2007. "What Attracts Foreign Investors? An Examination of Human Rights and Foreign Direct Investment." *The Journal of Politics* 143-155.: Vadlamannati, Chaitanya Krishna, Nicole Janz, and Isachsen Oyvind Bertsen. 2018. "Human Rights Shaming and FDI: Effects of the UN Human Rights Commission and Council." *World Development* 222-237.

[79]Barry, Colin M., Clay K. Chad, and Michael E. Flynn. 2013. "Avoiding the Spotlight: Human Rights Shaming and Foreign Direct Investment." *International Studies Quarterly* 57 (3): 532-544.

[80] Paez, Thomas, and Leonardo Vivas Penalver. 2017. "The Venezuelan Diaspora, Another Impending Crisis?" *Freedom House* 2-32.

[81] European Council: Council of the European Union. 2018. *Venezuela: EU sanctions 7 individuals holding official positions.* January 22. Accessed April 25, 2018. http://www.consilium.europa.eu/en/press/press-releases/2018/01/22/venezuela-eu-sanctions-7-individuals-holding-official-positions/; Department of the Treasury. 2017. *Venezuela-Related Sanctions.* August 24. Accessed April 25, 2018. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13808.pdf.

[82] Blanton, Shannon Lindsey, and Robert G. Blanton. 2007. "What Attracts Foreign Investors? An Examination of Human Rights and Foreign Direct Investment." *The Journal of Politics* 143-155.

[83] European Council: Council of the European Union. 2018. *Venezuela: EU sanctions 7 individuals holding official positions.* January 22. Accessed April 25, 2018. http://www.consilium.europa.eu/en/press/press-releases/2018/01/22/venezuela-eu-sanctions-7-individuals-holding-official-positions/.

[84] Department of the Treasury. 2017. *Venezuela-Related Sanctions.* August 24. Accessed April 25, 2018. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13808.pdf.

short run. To increase oil production from current record lows, it was suggested Venezuela try to encourage the return of educated Venezuelan emigrants and encourage foreign investment by partially privatizing the Venezuelan state-run oil company PDVSA. Partial privatization of PDVSA also aims to increase government revenue that can be used to help pay off Venezuela's short debt and help fund the aforementioned social programs. Long term reforms sought to diversify the Venezuelan economy by encouraging the growth of industries that were unprofitable during the oil boom years due to an oil-driven increase in the value of the Venezuelan Bolivar currency. Finally, both short-term and long-term reforms must be complemented by the protection of the political opposition's human rights. Arguably, violations of human rights will decrease the likelihood that the aforementioned economic reforms will be successful.

To reiterate the disclaimer in the introduction, these policy suggestions are solely meant to be a means of generating discussion on how to fix the Venezuelan economy in ways that fit Venezuela's political and economic realities. Many of these ideas are drawn from the economic experiences of other countries, and as such may not work in Venezuela.

Future Economic Concerns

It is worth noting that should Venezuela somehow be able to find the funds to finance its debt repayments, it may face more obstacles down the road. One of the most fearsome potential concerns is the threat of foreign bondholders suing in foreign courts. The most prevalent regional precedent is the case of Argentina. After Argentina exited its economic crisis that lasted from 1998-2002 by re-negotiating with debt holders, it left a time bomb in the form of foreign vulture funds that refused the terms offered by the Argentinian government.[85] In 2014, the Supreme Court of the United States confirmed a lower ruling by a lower American court that said that Argentina had to pay back all of the holdout bondholders in full. Two years later, after grueling negotiations, Argentina made a precedent-setting deal with foreign vulture funds that rewarded the funds with $2.4 billion dollars for bonds bought for $117 million during the Argentine economic crisis of 2001.[86] Should the Venezuelan economy show signs of returning to stability, many of the vulture funds that observed or participated in the outcome of the Argentinian debt negotiations may swoop down and pick at the bones of Venezuela (if they have not begun to already). Should the same thing that happened to Argentina happen to Venezuela in the future, it would prove to be a great drag on the economy.

[85] Vernengo, Matías. 2014. "Argentina, Vulture Funds, and the American Justice System." *Challenge (05775132)* 57, no. 6: 46-55. *Business Source Premier*, EBSCO*host* (accessed May 7, 2018).
[86] Merle, Renae. 2016. *How one hedge fund made $2 billion from Argentina's economic collapse.* March 29. https://www.washingtonpost.com/news/business/wp/2016/03/29/how-one-hedge-fund-made-2-billion-from-argentinas-economic-collapse/?utm_term=.1785f0a65e0c.

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