

---

## The Root Cause Of The Venezuelan Crisis

Due to its massive oil wealth, Venezuela was South America's richest country. In 2014, it now lags behind Argentina, Chile, and Uruguay. Venezuela's economy is in tatters and the country is on the brink of collapse. How could the outrageously oil rich country go south this quickly? Many point to the oil price collapse that occurred in 2014 as the beginning of the downfall of Venezuela. While it is true that the drop in oil price hurt Venezuela badly, the seeds of collapse were planted long before the summer of 2014. The sources of trouble that led to the downfall of Venezuela are plenty, but as far as recent history is concerned, we can draw a direct line to 1999, the year Hugo Chavez became the president of Venezuela. It is estimated that since 1999, the Venezuelan government has collected over a trillion dollars in oil revenues. The country's wealth allowed it to pay its bills and keep the economy afloat. Up until about 2006, Venezuela's government revenues matched its expenditure. Then its revenue took a nose dive while expenditure continued to increase. It only got worse with the oil price collapse in 2014. The main cause of the nosedive in 2006 was the drop in oil production. Venezuela sits on top of a seemingly never ending reserve of oil.

The problem was extracting this oil and that is where Hugo Chavez walks in. Chavez's nationalization of various industries, including the country's fantastically rich oil industry, was the beginning of the end. Many critics point to the lack of innovation, after Chavez nationalized the oil companies, led to the lack of technology to extract the untapped oil reserves Venezuela sits on. Furthermore, the nationalization of other industries stifled growth in those industries, further growing the country's reliance on oil revenue. Oil revenues accounted for 96% of Venezuela's export earnings. You can now guess why the drop in oil prices was so catastrophic. The one resource economy became Venezuela's version of "too big to fail," well except it did fail and the country is now on the brink of economic collapse. Only adding to Venezuela's problems, Chavez's successor Nicolas Maduro has implemented many of the same disastrous economic policies his predecessor used to stop inflation. Printing more money and controlling prices has only caused inflation to skyrocket.

Inflation is expected to hit 500% by the end of 2016. The worthless Venezuela currency prevents local companies or the government from purchasing basic necessities. Things like toilet paper and milk are luxury items at the moment. Chavez and Maduro failed to create a rainy day fund, further exacerbated by the alleged embezzlement of \$300 billion by Venezuelan officials. The resource curse is largely to blame in regards to Venezuela. It's over reliance on oil revenues, while neglecting the rest of the economy, was the beginning of the end. Despite that, Chavez, Maduro and the Venezuelan leadership still had opportunities to lessen impact of an oil price crash. The impending doom of Venezuela is largely connected to the oil price collapse, but the bigger picture tells us that wildly incompetent governance was the real destroyer of Venezuela.