

COUNTRY IN CRISIS

The oil-rich South American nation should be prospering. Instead it stands on the edge of an economic and humanitarian abyss

by

theguardian

Tuesday 11 October 2016 09.32 BST

1,198 Comments

The proud face of the revolutionary hero Simón Bolívar gazes from a stack of banknotes dumped in a grubby box on the floor of a supermarket that doubles as a foreign exchange bureau in a small border town in the Amazon.

No disrespect is intended: there is simply not enough space in the till for the thick wads of cash. Nor is it practical to treat the 100 bolivar bills with more care: they are worth barely more than the paper napkins stacked rather more attentively on the shelves.

This, however, is Venezuela's highest denomination, a note that once represented Latin America's most powerful petro-economy - but is now a near valueless symbol for one of the most dramatic reverses in a country's fortunes.

With greater oil reserves than Saudi Arabia, Venezuela should be at least moderately prosperous. Instead, it has the world's fastest contracting economy, the second highest murder rate, inflation heading towards 1,000% and shortages of food and medicine that have pushed the poorest members of its 30 million population to the edge of a humanitarian abyss.

To get a snapshot of the fast-changing - and sometimes tragically surreal - socio-economic landscape, the Guardian travelled 870 miles across the country from the Amazonian border with Brazil to the capital, Caracas.

Santa Elena de Uairen - where money comes in suitcases

For most of its history, the frontier town of Santa Elena de Uairen was considered an underdeveloped outpost deprived by distance of the goods and services available on the coast and the interior. Today, however, it is seen as a relatively safe and prosperous sanctuary from the crime and chaos found elsewhere. Thanks to the proximity of Brazil, food is not in short supply and there is a brisk border trade in grain.

It takes just five minutes to cross from the porous border at Pacaraima. Locals say the government in Caracas lifted food import tariffs from Brazil two months ago in a sign both of its desperation to ease shortages and its weakening control over the economy. There is now a steady stream of traders buying sacks of rice, sugar, wheat and spaghetti for resale in Venezuela.

People here rely on cash because Santa Elena is so far from the rest of the country that communication networks are too unreliable for debit or credit cards. That means they

probably spend more time and effort counting and carrying money here than anywhere else.

Life could be made easier if the authorities printed notes with higher denominations than 100 Bolivars, which is worth less than 8p, or 10 cents. But the central bank appears reluctant to make a move that would confirm a level of hyperinflation not seen in Latin America since the crises in Brazil and Argentina in the 1980s and 1990s. As a result, locals have to pay for everything in the equivalent of dimes. Even when made of paper, that can be cumbersome and heavy.

“When I go to the market I have to carry such a big bag of money that I get a backache,” said Carmen Ramirez, a local hotel manager. Her friend Wanda Wojtowicz, a lawyer, said she went shopping with her cash in a toiletry bag because it would not fit in her purse. “At the bank you see people with suitcases full of notes to deposit,” she says.

The increasingly secretive central bank does not reveal how much it costs to print each bill, but based on international parameters, José Manuel Puente, an economist and professor with the Institute of Higher Administration Studies, estimates that the cost of paper, ink and printing of each note is about 20% more than their face value. “They are not worth what they cost. It’s a joke. But that’s the way things are,” he said.

Gran Sabana - oil is cheaper than water

The government’s tendency to subsidise many products below the cost of production is a major reason why the economy is in such a mess. It is a habit formed by oil, which warps price perceptions like a psychotropic drug.

Historically, abundant supplies have made Venezuelans regard cheap petrol as a birthright, so for political reasons - and despite hyperinflation, collapsing government revenues, global markets and climate change - the current price for a litre of high-grade gasoline is just 6 bolivars (less than a penny or a cent) - more than 100 times cheaper than the same volume of mineral water. This meant the fuel bill for the entire 1,400km journey was less than a pound or dollar.

When Hugo Chávez came to power in 1999, he took this way of thinking a step further and used petrol dollars to subsidise essential products such as rice, sugar, toilet paper, sanitary towels and medicine.

It was an altruistic, populist move that allowed the poor to finally share in the nation’s oil wealth. But it also stifled incentives for producers and created a system of dependency and black-marketing that was already causing economic problems before Chávez died in 2013 and the global crude market collapsed the following year.

His successor, Nicolás Maduro, has tried to continue and even extend this policy, despite a 60% fall in crude prices since 2014. Even in the midst of crisis, the government still hands out free or massively discounted homes, cars, DVD players and microwave ovens.

Driving through the Gran Sabana region to its gateway San Isidro, also known as Kilometro 88, taxi driver José Lopez is conflicted about the consequences. He has benefited personally from these ad hoc policies: his one-year old Chevrolet was given to him on very generous credit terms as part of a government campaign. But even this loyal Chavista says people are now suffering. “Things turned bad towards the end of Chávez’s time, and it’s much worse now under Maduro,” he said.

El Tigre - fertile fields lie empty

Further north, the road crosses the Orinoco river into the state of Anzoátegui, which is home to many of Venezuela's biggest oil refineries and aluminium plants. Almost all have been run down. Output at the PDVSA state oil company has fallen by 450,000 barrels a day from its 2014 level of 2.7m barrels. Given that each barrel is also worth less than half its value two years ago, this has created an enormous hole in the state's finances.

Compared to agriculture, however, that is a relatively small decline. On the roadside are miles and miles of empty, fertile land, and relatively few crops. With prices of many vegetables kept low, there is little incentive for farmers. Between 2012 and 2015, domestic grain production fell by 80%, meat by 40% and vegetables by 18%, according to private sector analysts. Shortfalls were once covered by imports, but the state has to use its remaining petrodollars to service debts.

Private companies are also struggling as a result of the weak bolivar. At the Unicasa Supermercado in El Tigre, there are few customers and little variety. Today there is no rice, sugar, flour, jam, cooking oil, toilet paper, condensed milk, vinegar or baby products.

Yet the shelves are mostly full, thanks to single rows of the same few products - Royal brand paper towels, Zulia beer, Lina sardines, Heinz spaghetti sauce - which are repeated in aisle after aisle.

Anselm Suárez, who was shopping with his wife, said he was pleased there were more vegetables than usual and plenty of spaghetti for a change, but he sighed when asked about rice. "If you can find it, it's all Brazilian, which means it is more expensive," he said. While prices of rice and flour have more than doubled in recent months, he said his salary had increased by only a fraction. "It's getting very hard for us."

Alejandro Grisanti, an economist at EcoAnalitica, said the slump in purchasing power was what made this crisis the worst ever seen in Latin America. While Brazil and Argentina suffered appalling hyperinflation in the 1980s and 1990s, he said the current situation in Venezuela was harsher because - unlike in those two countries - wages are not index linked, so people are experiencing a devastating collapse in their ability to pay for goods.

As a result, demand is collapsing. In the past year, Grisanti estimates, beer sales are down by 75% and canned peas and corn by 90%. "They have become luxury items. This shows the level of crisis that Venezuela is suffering."

Barcelona - the Maduro diet

There is still abundant food if you have foreign currency. But up to a quarter of the population does not even earn the minimum wage of 22,500 bolivars (£18) a month. They rely on the subsidised grain, toiletries and medicine provided by the government - but there is no longer enough to go around, which leaves many not just hungry but unhealthy.

At the Luis Razetti hospital in Barcelona - a city close to the Caribbean coast - medical staff are having to cope with growing shortages of basic drugs, the re-emergence of long dormant diseases such as diphtheria, and increasing cases of malnutrition.

"We used to only read about malnutrition in medical books, but now we are seeing cases like those in Africa. Things have become far worse over the past year," said one doctor who asked to remain anonymous.

In the paediatric ward, a three-month old baby named Luís Alberto was being treated after his weight fell from 3.5kg to 3kg as a result of diarrhoea. "His mum was too weak to lactate and we

couldn't buy infant formula, so we used soya milk," said his grandmother Dámela Castellanos. The treatment ought to be simple - a drip and regular meals - but the hospital cannot provide either, so the family have to pay for their own stents and hope for donations of food.

Castellanos too has lost weight. "I'm on the Maduro diet," she laughed grimly, echoing a popular phrase that blames the president for the nationwide lack of calories.

The nutrition crisis is not on the scale of sub-Saharan Africa or North Korea. On the streets, people do not look evidently malnourished and there are many roadside food hawkers for those who can pay. Imports from Brazil and Colombia have also eased some of the pressure. Yet the situation is moving in an alarming direction.

The average weight loss in Venezuela over the past five months is between 5kg and 15kg, according to the Bengoa Foundation for Food and Nutrition, which estimates that 25% of children are malnourished.

"We have enough data to show that we are between a crisis and an emergency," said Pablo Hernandez, a Bengoa representative and professor of nutrition at the Central University of Venezuela. "Thanks to the lack of medicine and food and the increase of violence, this young generation will die younger than their parents."

The government admits there is a problem, but claims opposition supporters in academia and the NGO sector exaggerate the numbers to stir up social unrest. The lack of official statistics, however, prompts many to assume the worst.

Caracas - the world's most murderous city

The final stretch of the journey followed the Caribbean coast and then cut inland near Rio Chico, where a long line of frustrated shoppers had formed outside the Abastos Mario E supermarket. A handwritten sign taped to the door said the first 50 people in the queue would receive priority for any supplies that arrive the next day.

Latecomers would get a lottery number for a draw to decide who gets the leftovers. "It's very complicated," sighed one woman, who had been waiting for several hours. "Very complicated and very hard."

Waiting in line is no longer just a way of life, it has become a profession. The middle class pay people to queue on their behalf. Black-marketeers - known as *bachaqueros* - line up wherever there are subsidised products, buy what they can, and then sell it illegally at 10 to 30 times the price they paid. This is supposed to be illegal, but it is one of the few growth industries left in the country.

According to the research company Datanalysis, half of those in any given line are working in this shady arbitrage business. Some are doctors or teachers, who can make more from lining up and selling on than the few cents an hour they are paid in the public system

The queues have added to the social tension in the world's most murderous city, where residents are more than 100 times more likely to die a violent death than in London, and 25 times more likely than in New York. Crime has worsened in line with the economy. September was the capital's most violent month in six years with 474 killings, according to the National Forensic Medicine Service.

Looting and food riots have become commonplace. According to the Venezuela Conflict Observatory, there were 139 food-related protests in the country in August.

All of which has helped fuel political instability. Last month, a million people took to the streets of Caracas to demand the recall of the government, and another big rally has been called for this Wednesday.

Although the opposition is weak and divided, Maduro is on the ropes. His approval ratings have plunged to 15% and his PSUV party has lost control of the legislature. Meanwhile the army - a powerful political force throughout Venezuela's history - is growing increasingly influential. In July, General Padrino López was placed in charge of food production and distribution. As chief of the "great mission of sovereign supply", all other ministers must answer to him.

A militarisation of food supply would be consistent with the government's insistence that Venezuela is the victim of an "economic war" waged by Colombian gangs, multinational corporations and financial institutions, who hoard goods, manipulate currency rates and smuggle contraband oil across the border.

Certainly, corruption - both in the government and the private sector - has played a major part in the crisis. But whatever forces are egging on the downfall of Maduro, they are unlikely to have caused as much chaos as the government's maverick policies: Venezuela was moving towards recession even before the oil price crash.

Damningly, many economists believe poverty levels in Venezuela are now higher than they were when Chávez won power 18 years ago.

The government would dispute this, but in Caracas it is easy to see who is suffering the consequences. For the wealthy, it is still possible to buy champagne, Belgian chocolates and US pharmaceuticals. The poor, meanwhile, have to spend more hours in lines waiting for rice, sanitary towels and antibiotics.

"The Chavistas had good intentions. At first, they helped the poor more than any government had ever done before" said the taxi driver Lopez. "The problem is, good intentions are not enough."

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