

THE BROOKINGS INSTITUTION

Crisis in Caracas, unrest in Venezuela

July 21, 2017

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DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews. As the political economic and social crisis in Venezuela deepens, I'm joined today by a scholar uniquely positioned to offer his analysis or recommendations on the situation. He is Dany Bahar a fellow in our global economy and development program and an Israeli and Venezuelan economist is also an associate at Harvard's Center for International Development. Stay tuned during the interview for a new installment of Molly Reynolds "What's Happening in Congress." Also the Brookings podcast network would love to get your feedback on our shows. So if you have a few minutes please visit surveyMonkey.com/r/brookingspodcasts or find the link in the show notes of this episode, and take our short survey. Since this episode was recorded over seven million Venezuelans voted in a non-binding referendum on President Nicolas Maduro's plan to rewrite the constitution. An overwhelming majority of them said no. Now on with the interview. Dany, welcome to the Brookings cafeteria.

BAHAR: Thank you, it's great to be with you Fred.

DEWS: In your bio and in my introduction reads that you are an Israeli and Venezuelan economist. Can you explain that?

BAHAR: Yeah it's a unique mix. I was born and raised in Venezuela and I lived there until after college when I moved to Israel, I immigrated to Israel lived there for many years, and then I came to the U.S. to complete grad school and do my Ph.D. here. And here I am.

DEWS: OK well let's get on with the situation in your home country. We are recording this on July 14th. I know it's a very fluid situation. A lot is happening. But let's address it as we see it on the ground. Can you give us a quick update on the situation in Venezuela, as of July 14th?

BAHAR: Right. Well the situation it's full of uncertainty and it's really changing by the minute. What's happening right now in Venezuela is a huge political crisis and humanitarian crisis that touches upon the very bad economics that is happening now, people are suffering from a scarcity of goods medicines basic things to consume. This has generated a lot of unhappiness with the government and a few of other measures that the government has taken has led to these more than 100 days of protests on the streets in which people are asking for a number of things, one of them is really to restore the democratic order in the country to free political prisoners and to really eventually have free and democratic elections.

DEWS: In a recent writing you call the situation in terms of the economy a catastrophe. So what are some of the economic indicators that tell you that this is a catastrophe?

BAHAR: Yeah it's like a catastrophe and I think it's the worst crisis that the hemisphere has seen in decades. And it's I think the worst crisis that you've seen in an oil exporting country that has not been going through a war. So the country has lost about 30 percent of its GDP in about four years. And I think one statistic that it's very scary but I think it summarizes a lot is that 75 percent of Venezuelans have lost up to 20 pounds.

DEWS: 20 pounds in weight?

BAHAR: In weight.

DEWS: Wow.

BAHAR: Because there's not enough food. A lot of people are dying from preventable diseases, completely preventable diseases. There was very good reporting by The New York Times really showing the state of their public hospitals and our people, our babies are dying. Infant mortality has gone up, and poverty has gone back to levels that they were 20 years ago.

DEWS: So how does this happen in the space of just a few years in a modern country that you know is a democracy as well?

BAHAR: Yeah. well it's not a democracy anymore. But these are manmade crises. The crisis really started or kicked off when the price of oil went down. Oil is more than 95 percent of Venezuelan exports. The real crisis started in 2014. But what I always say in my writings and when I talk to people is that this crisis is not because the price of oil went down. This crisis is because two decades of really mismanagement of our country. Just to make the story short for listeners, the country elected in 1999 Hugo Chavez and he stayed in power until he died in 2013, and then Maduro he's appointed here.

DEWS: Nicolas Maduro.

BAHAR: Nicolas Maduro came into power. They really did a lot of mismanagement. They enjoyed the highest and longest oil boom in the history of the country. The price of oil was very high during the 2000s, but they did exactly the opposite of when any economics 101 textbook will tell you. So in the good times when a lot of money was flowing, instead of saving, they actually increased their expenditure

dramatically and they had to borrow a lot of money. So the external debt of Venezuela increased by a factor of five. Just to give you a sense back like 10 years ago Venezuela could have paid all of its external debt in four to five months of exports. Now it would need more than five years of exports to be able to pay its external debt. So nobody wants to lend money to Venezuela anymore and has been basically isolated from global financial markets. And when the price of oil went down, they just had no more money flowing in because of oil or much less money. And also they couldn't borrow any more money so they had no other option but to cut imports. And when you cut imports and you see the scarcity in food, and medicine, and so on. The one thing that you might think or at least what listeners might think is well what about the private sector in the country well the private sector in the country has been going through also tough years of tough regulation on price controls so they have basically destroyed most of the productive sector in the country. So the country has been reliant on imports all these time.

DEWS: So what is the government's reasoning for the kinds of policies that are driving the economy into a tailspin. I mean what is the government and Nicolas Maduro have to say?

BAHAR: Well you know if you ask them they will start blaming the imperialism and that there is an economic war against Venezuela. You know Venezuela has one of the highest inflations in the world because they have a huge fiscal deficit. The government is spending much more than what they're gathering with taxes and to cover that they started printing money. When that happens inflation goes up dramatically the highest in the nation Bill was a hundred bodies bill which is to say it's worth much less than the dollar. And at some point the president decided that he's going to put it out of circulation because they

say that some people out there in other countries are gathering all these bills as part of the economic war. I don't know why somebody in their right mind will be you know stockpiling bills of a currency that is over 1000 percent of hyperinflation. They keep saying all the things that the countries on there are an economic war and the United States and the imperialism are trying to rob them and the opposition and the oligarchy all these you know speech that we've seen in many of these dictatorial countries that don't take real responsibility for what's happening.

DEWS: So let's talk about politics for a few minutes and I'd like to ask you to start with just a brief overview of how the Venezuelan political system is supposed to work. You know the structure of government and how often the president gets elected those kinds of things.

BAHAR: Right. So Maduro was elected with a very narrow margin in 2014. Back then the popular unrest started very mainly because it wasn't very clear whether his victory was purely clean but according to the constitution he's term is a six-year term. Of course what the opposition is saying today is that given the crisis there should be another election pretty soon, an open election. So according to the Constitution you would have to wait until 2018 for a new presidential election. But there have been other things that the Constitution says that the government hasn't really complied with. So something that happened in terms of politics in December of 2015 there were elections for the National Assembly. Those were the last elections that happened in the country in which opposition one with a wide margin of about two thirds they got about two thirds of the seats in the national assembly. But ever since the Supreme Court which is completely controlled by the executive there is no independence of powers. They have been constantly diminishing

the power of the assembly. So everything the assembly has been trying to do the Supreme Court has been saying is unconstitutional is illegal. There should have been two things that didn't happen that I think they could have avoided this crisis. The first thing is that they should have been in 2016 regional elections for governors and majors in all the cities and states in the country. So all their governors and mayors who are now in office, their term has expired. But the government, some people claiming the thing is right, the government avoided doing that because they know they will lose. But the other thing that really is a fundamental part of the crisis that we're living today is that the Constitution that by the way was put on by Chavez when he got into power when Chavez got into power in 1999 his first thing when he became president is to really rewrite and create a new constitution which was democratically accepted by the people. This current constitution allows to call for a recall referendum. So after a certain time in the president's term it is legal to have a recall referendum in which people can decide whether the president should finish or should leave office in the middle of a term. The Libyan opposition they tried really to push that option in late only 16 with that option also was eliminated was put off the table by the judiciary in Venezuela. So really in terms of constitutions there could be many ways to you know get out of this crisis but the government has really closed all these doors.

DEWS: So you've mentioned that the government of Maduro controls the judiciary. What other ways does he have to stay in power, at least for now?

BAHAR: Well according to the current constitution there should be some sort of elections at some point at least in 2018 but Maduro and his people they know that this is the case. That's why they're move right now, their response to these crises was to say

well we should create a new constitution. So now Maduro one month into the protest he said Well I think the solution to give peace to the country is to rewrite the constitution which is their plan right now. These are a very dangerous thing because this would really convert Maduro to a full-fledged dictator if he's not one already. At the end of this month there's supposed to be elections to elect the members of this constitutional assembly which is a super powerful body that can rule over the National Assembly can eliminate the national assembly if they want to they can rule over the Supreme Court they can do pretty much whatever they want. They could change the name of the country. They really could do whatever they want. It is possible in the Constitution to call and to create a new constitution but this government they skipped one very small but very important step which is to have before electing the members of the constitutional assembly is to ask the people through a referendum if they want the new constitution and they are skipping the step because they know that they will lose it.

DEWS: You've talked about the opposition; I want to talk more about that in a minute. But is the opposition party, are people in Venezuela saying to the government wait a minute you're skipping this really important step and we need to have that vote before you can put together a new constitutional assembly?

BAHAR: They are but the very sad part of the story and I think that that is where I hope lessons will be drawn for the future because these like really how a small group of people have really kept power of all different institutions in the country and they really control the executive authority, they control the judicial system they control the electoral power and they control the military. So there's really not a lot of room for the opposition to institutionally do things that will be effective.

DEWS: So let's talk about the opposition. Who are the opposition leaders and what kinds of people in society are now aligned with the opposition forces?

BAHAR: The opposition has gone through a lot of transformations and today the opposition is working on their one umbrella which is called mesa union democratica when you have Democratic which is the unity Democratic group that really gathers all the different parties that are not government parties. I think that there are four or five big parties and many other smaller parties and each one of these parties have their own leader. But they've been very good in really trying to coordinate everything. So I think that the biggest leaders nowadays in that position are one of them Henrique Capriles Radonski, who was the presidential candidate for this umbrella group in the last election. So again Nicolas Maduro and he narrowly lost. And there is this other person who really has quite a lot of hope for many Venezuelans. His name is Leopoldo López who was until very recently a few days ago a political prisoner. He's still a political prisoner but he was released to house arrest but he was really in a military jail for three years and a half. The reason he was there was because he incited some protests in 2014 and some people died. But it was clear that he's a political prisoner he's not really a crime to protest he's not a crime and he was released to house arrest so probably if there are elections eventually these two people would be the ones who have the biggest chance of becoming the next president of Venezuela. And they play a big role in leading the opposition nowadays.

DEWS: OK. Well broadening our scope from Venezuela to the region and even the hemisphere, what are the dangers to the surrounding countries about this unrest in Venezuela?

BAHAR: Well look Venezuela is not a huge economy in the continent you know compared to Brazil, Argentina, Mexico, it is not a small economy either but it's not one of the biggest economies and also Venezuela is an exporter of oil. It's its main export. And of course that many countries in the region they benefit from the oil as well exports. But at the end of the story, sadly a collapse in Venezuela doesn't really have a lot of repercussions in other countries because in terms of supply chains Venezuela is not a big part of supply chains. Because otherwise maybe the story would be different. But on the political side I think that is an important moment because it really sets a precedent on whether the institutions that they Latino-American people have sense from themselves to really avoid these situations from happening are really working. And I think that you'll see a lot of efforts of really living up to that in the organization of American States who is led by Luis Almagro and why and he's the secretary general of the organization of American States. Oh yes. And he has really become a leader on trying to gather enough votes and consensus from the countries in the hemisphere including the United States, Canada, and all the Latin American countries and the Caribbean islands to really condemn what's happening in Venezuela and to pressure from outside and I think that is the big challenge whether we have the institutions in the hemisphere to really avoid these happening again and again. And so far the answer it's like we don't really know because in spite of the fact that Almagro has played a big role and tried to push. And in spite of the fact that many countries, most of the big countries in the continent have really condemn Venezuela. They haven't been able to be very effective because a few small Caribbean countries that you know in the OAS as you have one country one vote so very few small Caribbean countries

has benefited from many years from Venezuelan oil. They haven't been as strong as the government they shoot so it's yet to be seen.

DEWS” So what role should other organizations and governments beyond the OAS such as the International Monetary Fund or the United States government play in responding to the crisis there?

DEWS: There are things that can be done and I think that some of them have been done already. The current administration President Trump I'm not a big fan in general but President Trump, but in terms of these I think there have been a few steps that I think are positive. They for instance have sanctioned the justices in the Supreme Court in Venezuela. So I think that they're keeping the system in which are really giving the carrot and stick to the right people. It could be a game changer. So I think that really creating the incentives for people that are keeping the country hostage to really change sides and to bring back the country to constitutional order which goes by promising somehow some sort of amnesty that if the country changes they won't be punished if the crimes that they committed were not as bad. Of course that there are many crimes and a lot of corruption happening in Venezuela. I'm talking also about the military for instance, military Supreme Court, people who are with the government, if some of them are involved in drug dealing and stuff like that you know that's something that you cannot forgive. But I think that there should be a path for people that decide to really bring democracy back to help them. So I think that the U.S. can play a bigger role in the current system. And I think that they're being thoughtful about it and I think that that will continue and I think all the countries in the hemisphere should join that.

DEWS: And how important is it for Venezuela that you get help for its external debt problem?

BAHAR: That is crucial. That is crucial and I think that that will happen is probably not going to happen with this government. This government is not only unwilling to even accept that the economy is going bad. They're not willing to allow humanitarian aid to come in which is something else that the international community could do. And I think that they're willing to do what the government hasn't allowed them to do create on humanitarian channels to bring in food and medicines. So I think that it is going to be a very important conversation that is happening already in the circles of the opposition both in Venezuela and Venezuelans in the Diaspora trying to think how these reconstruction is going to look. And I think that when there is a new government there is going to be the need to rely a lot on the international community in terms of finances. Probably Venezuela is going to need a bailout from the IMF or other multilateral organizations and it's going to need to restructure the data.

DEWS: Final question then on the economy and you mentioned this earlier it's so dependent on oil exports and I read with a lot of surprise that Venezuela sits on top of one of the largest oil deposits anywhere. What steps could Venezuela do to wean itself from this dependence on oil?

BAHAR: Well that's a great question and that's actually a lot of the research I do on my day today about how can I verify and the research that and I think that it's it's a big challenge and I think that if we've seen in part of the research I've done that in countries that are reaching natural resources for them even harder to really diversify into other industries. We should save a lot of these for another podcast if the listeners are interested

but I think it goes a lot by doing right public policy and try to find what are they in the that make more sense in which Venezuela has some Latin comparative advantage saying that Venezuela could be competitive in those industries and some of it could be about really putting together a correct structure of incentives to bring foreign investment and perhaps the government to play a role in some public private partnerships and so on. So it is a difficult question but it's a very very important task that the next government will have to look at.

DEWS: Well Dany, we will certainly be following you to try to understand what's happening in Venezuela in the weeks and months to come. And I appreciate you sharing your time and expertise today.

BAHAR: Thank you so much, thank you for having me.

DEWS: You can learn more about Dany Bahar and his research on our website, including a recent piece on our order from chaos blog, at [Brookings.edu](https://www.brookings.edu).

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DEWS: And now, here's a new installment of "What's Happening in Congress," on the failure so far of the Senate's Affordable Care Act replacement bill, and what could happen next.

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REYNOLDS: My name is Molly Reynolds. I'm a fellow in governance studies at the Brookings Institution. With a late night press release, Senate Majority Leader Mitch McConnell halted congressional Republicans efforts to pass a bill repealing and replacing

parts of the Affordable Care Act yet again. Despite several months of efforts to thread the needle between the demands of conservative and pragmatic members of his caucus, McConnell lacked sufficient support from Senate Republicans to even start a legislative debate that would eventually culminate in a vote on his proposal. Why has it been so hard for Senate Republicans to get to yes on health care bill? On one hand many elite Republicans clearly share a rhetorical goal: repealing Obamacare. They've campaigned on the issue since the Affordable Care Act was enacted in 2010, repeatedly promising their base voters that if they control the House, Senate, and presidency, they would accomplish this long held goal. When it came time to write a piece of legislation that actually embodied that promise, it proved to be exceedingly difficult. Some individual House members and especially senators found themselves cross pressured what was best for their party. Being able to finally point to something anything that repealed Obamacare put them in one direction. But what was best for them individually in some cases steered them differently. This was true on both sides of the ideological spectrum for legislators who thought these years' efforts didn't go far enough, and for those who thought they went too far. The challenges of this cross pressuring were especially acute in the Senate or McConnell's small majority for only 52 seats left him with very little room for error. He could only lose two of his co partisans and once Rand Paul and Susan Collins announced early that they would not vote to start debate he had no additional votes to spare. In the end the two senators whose opposition doomed the effort came from the conservative end of the caucus illustrating the challenges of a narrow majority aren't just about losing the support of relatively more moderate members. Because congressional Republicans embraced a procedural strategy known as budget reconciliation that

prevented the possibility of a filibuster. The small size of McConnell's majority didn't need to lead to the bill's failure. The reconciliation came with its drawbacks. The process has rules meant that there were limitations on what could be in the bill which potentially restricted exactly how McConnell tried to thread his tricky legislative needle. With no Democratic votes required for passage in the Senate, Republicans lost one possible source of the ability to blame their partisan opponents for their lack of cooperation. So what happens next? McConnell reportedly plans to hold a vote to bring up the House bill for debate in the Senate. But the promise of the First Amendment that the Senate would consider to the measure would be one replacing the House's proposal with the bill that the Senate passed in 2015 to partially repeal but not replace the affordable care act. Of the currently serving Republican senators, only Susan Collins of Maine voted against that bill. But its prospects for success at this point are much shakier. The 2015 bill was what political scientists call veto bait. A bill that legislators know the president will veto but want to pass anyway in order to send a message about where the two parties stand. In addition, getting to the point where the Senate would vote on that 2015 bill again would require at least 50 senators there to support bringing up the House bill. At least Collins, Lisa Murkowski of Alaska, and Shelley Moore Capito of West Virginia have all said they oppose such a move, but their opposition potentially due in part to the uncertainty about how exactly things would proceed on the floor even in the face of McConnell's promise. We've seen the health care bill declared dead before this year only to have it be resurrected. Well this week's events may finally shut the lid on its coffin, the underlying issue of Obamacare, its winners and losers, and what to do going forward isn't going anywhere anytime soon. Uncertainty about certain payments to insurers under the law

remains, and the issue could play a role in next year's midterm elections. But with a number of other important issues with actual deadlines, like the appropriations bills and the debt ceiling on the congressional agenda, Congress may finally move on at least for now. That's what's happening in Congress.

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DEWS: Molly Reynolds is the author of a new book from the Brookings Institution press titled "Exceptions to the Rule: The Politics of Filibuster Limitations in the U.S. Senate.

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DEWS: Hey listeners, want to ask an expert a question? You can by sending an email to me at BCP@brookings.edu. If you attach an audio file, I'll play it on the air, and I'll get an expert to answer and include it in an upcoming episode. Thanks to all of you who have sent in questions already. And that does it for this edition of The Brookings Cafeteria, brought to you by the Brookings Podcast Network. Follow us on Twitter @policypodcasts. My thanks to audio engineer and producer Gastón Reboredo, with assistance from Mark Hoelscher. Vanessa Sauter is the producer. Bill Finan does the book interviews. Our interns are Sam Dart, Chynna Holmes, and Brian Harrington. Design and web support comes from Jessica Pavone, Eric Abalahin and Rebecca Viser. And thanks to David Nassar for his support. You can subscribe to the Brookings Cafeteria on Apple podcasts or wherever you get podcasts and listen to it in all the usual places. Visit us online at Brookings.edu. Until next time, I'm Fred Dews.