

# The Paradox of Plenty Revisited: Venezuela's Plight from Petroleum



By. Rhianna Lightle  
Advisor. Jonathan Kriekhaus

# Abstract

The country of Venezuela is in political, economic, and social chaos. Despite having one of the largest oil reserves in the world, a lucrative resource, Venezuela has experienced extreme hyperinflation and has the lowest world freedom rating in South America.

This phenomenon was studied by Professor Terry Karl *The Paradox of Plenty: Oil Booms and Petro-States* 1997 Venezuela, and other countries like it, have suffered from *Dutch Disease* they have become dependent on a singular natural resource and the effects of that economic decision are so astronomical that it trickles into the rest of the state's functions. This study aims to reexamine Karl's explanation for Venezuela's plight to determine if the same logic applies today.

The results showed that the rates of inflation and lack of freedom in Venezuela have remained poor and exponentially higher than other countries in South America that have remained constant or improved.

# How is Venezuela Cursed?

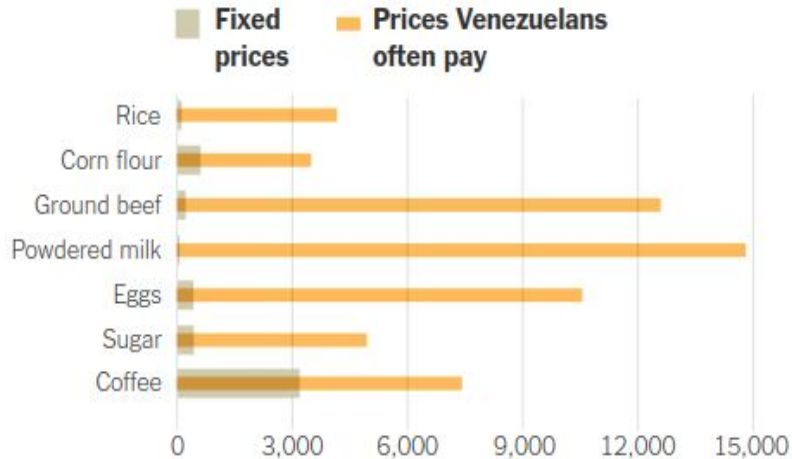
Venezuela has one of the largest oil reserves in the country.

*“The U.S. Geological Survey estimated a mean volume of 513 billion barrels of technically recoverable heavy oil in the Orinoco Oil Belt Assessment Unit of the East Venezuela Basin Province; the range is 380 to 652 billion barrels. The Orinoco Oil Belt Assessment Unit thus contains one of the largest recoverable oil accumulations in the world”* (Schenk C.J., Cook, T.A., Charpentier, R.R., Pollastro, R.M., Klett, T.R., Tennyson, M.E., Kirschbaum, M.A., Brownfield, M.E., and Pitman, J.K., 2009, An estimate of recoverable heavy oil resources of the Orinoco Oil Belt, Venezuela: U.S. Geological Survey Fact Sheet 2009–3028, 4 p.).

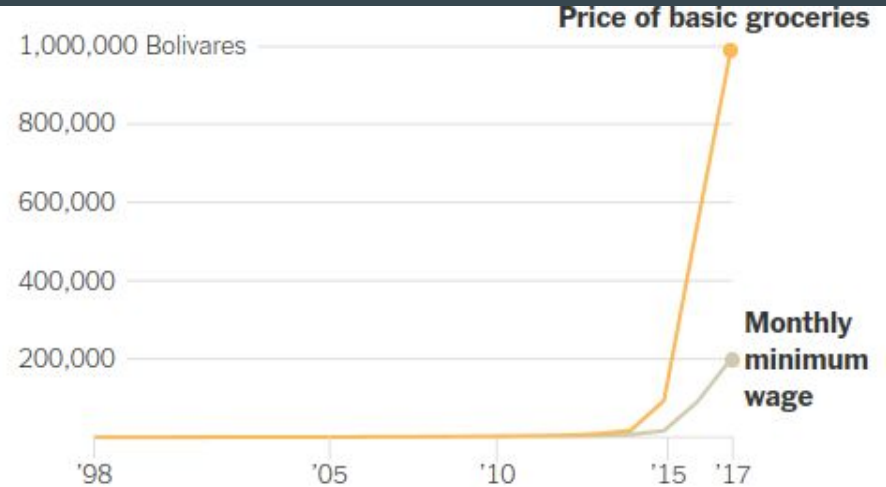
But despite having such a lucrative resource Venezuela is in turmoil. It is a country plagued with economic instability, comically high inflation, violence, political corruption, and extreme inequality. The last two decades have been some of the most hard-hitting in all of these factions of instability. Following a series of poor economic leadership, the hyperinflation rate has now reached an estimated **10,000,000%** and the ways of combating this problem are only getting worse.

# Venezuela Inflation Prices-The New York Times April and May 2017

Food prices in Bolivares



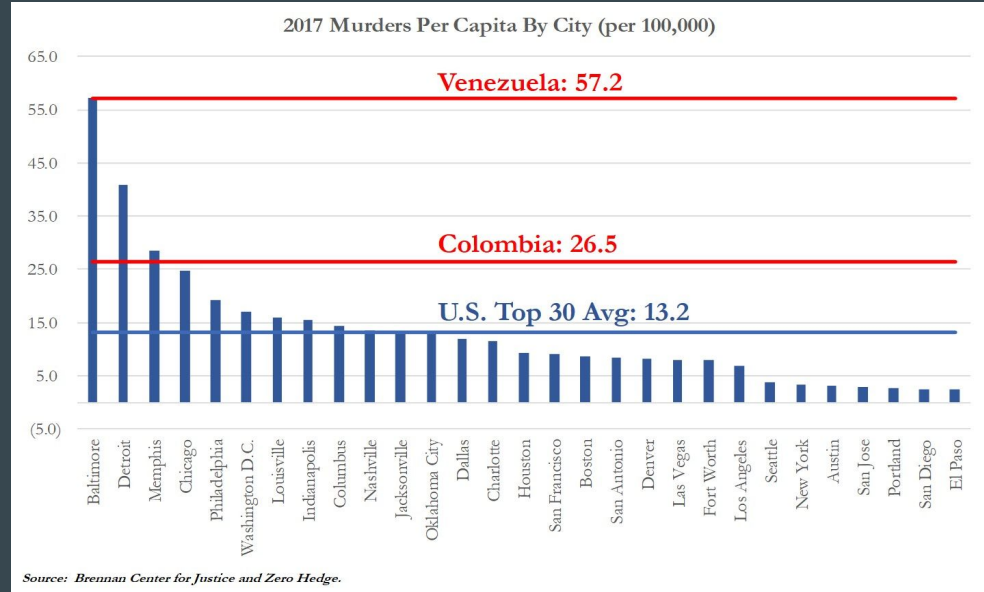
By The New York Times | Sources: CENDAS-FVM, National Superintendence for Defense of Socioeconomic Rights | Prices for 1 kilogram, except for eggs (30 units) and coffee (0.5 kilogram) | As of April 2017



By The New York Times | Sources: CENDAS-FVM, Sary Levy, professor at the Central University of Venezuela | Minimum wage includes monthly food ticket | Measure for basic groceries based on the National Institute of Statistics' monthly nutritional requirement for a family of five | As of May 2017

# How is Venezuela Cursed?

Not only is Venezuela suffering economically, but they have also seen a spike in their crime rate. *“Under operation ‘Safe Homeland’, 3,000 soldiers will patrol the streets of the capital Caracas and other cities. President Maduro said the plan would bring peace to Venezuela, which has one of the highest homicide rates in South America. The opposition has long criticized the government’s record on crime and used it as a campaign issue in recent polls. The government says more than 16,000 people were killed in crimes in 2012, a rate of 54 per 100,000. However, the Venezuela Violence Observatory, a campaign group, put last year’s murder rate much higher - at 73 per 100,000 people”*( BBC News, Latin America, *Venezuela Launches Massive Street Security Operation*, May 13, 2013). It was reported that this initiative reduced homicides by 55%, but those numbers were released by Interior Affairs Minister Miguel Rodriguez Torress and only a week after the “Safe Homeland” Act was enacted, so it is easy to be skeptical of their sincerity, especially since in 2014 Venezuela was reported by a non-governmental crime tracking group to have the second-highest number of homicides in the world.



Source: Brennan Center for Justice and Zero Hedge

# Theory

In short “they [economists] argue that the so-called Dutch Disease, a process whereby discoveries or favorable price changes in one sector of the economy- for example, petroleum- cause distress in other sectors-for examples, agriculture or manufacturing- provides a powerful explanation for the poor performance of oil exporters. Persistent Dutch Disease provokes a rapid, even distorted, growth of services, transportation, and other non-tradeable while simultaneously discouraging industrialization and agriculture- a dynamic that policymakers seem incapable of counteracting” (Corden 1982, Timer 1982, Roemer 1983, Neary and van Wijnbergen 1986, the paradox of plenty, 5). While this theory is plausible it is under Terry Karl’s belief that the Dutch Disease alone is not an automatic cause for economic dishevelment, but the extent of it is determined by decision-making in the public realm. Karl argues that her theory on why petroleum states, like Venezuela, is in essence that “commodity-led growth induces changes in prevailing notions of property rights, the relative power of interest groups and organizations, and the role and character of the state vis-a-vis the market. These institutional changes subsequently define the revenue basis of the state, especially its tax structure. How these states collect and distribute taxes, in turn, creates economic life and shapes government preferences concerning public economic life, and shapes government preferences for public policies. In this manner, long-term efficiency in the allocation of resources is either helped or hindered, and the diverse development trajectories of nations are initiated, modified, or sustained”.

# Methodology

To test Terry Karl's theory, it was important to collect quantitative data from recent years that show how Venezuela is performing both economically and politically. Social comparisons may be difficult to collect in quantitative form, but it can be generally assumed that if a state is performing poorly politically and economically that there is social unrest as well. Two quantifiable assessments were made for hyperinflation and global freedom. In this context, hyperinflation is defined as rapid, excessive, and out-of-control general price increases in an economy. And Global Freedom will be defined by Freedom House as “an annual global report on political rights and civil liberties, composed of numerical ratings and descriptive texts for each country and a select group of territories.” This was collected as secondary data through outside sources.

# World Bank Findings-

The chart shows the individual numerical inflation percentage for each country in South America.

Inflation, Consumer Prices (annual %) - World Bank- 2016	
Country	Inflation % (lower number=lower inflation rate)
Argentina	N/A
Boliva	3.623
Brazil	8.739
Chile	3.786
Colombia	7.514
Ecuador	1.728
Guyana	0.836
Paraguay	4.087
Peru	3.592
Suriname	55.412
Uruguay	9.639
Venezuela	254.939

# World Freedom House-

The chart shows the Global Freedom status of Venezuela and the other countries in South America.

Freedom in South America- <i>World Freedom House-2020</i>		
Country	Status	Score out of 100
Argentina	<b>Free</b>	84
Bolivia	<b>Partly Free</b>	66
Brazil	<b>Free</b>	74
Chile	<b>Free</b>	93
Colombia	<b>Partly Free</b>	65
Ecuador	<b>Partly Free</b>	67
Guyana	<b>Free</b>	73
Paraguay	<b>Partly Free</b>	65
Peru	<b>Partly Free</b>	71
Suriname	<b>Free</b>	79
Uruguay	<b>Free</b>	98
<b>Venezuela</b>	<b>Not Free</b>	<b>14</b>

# Conclusion

Despite having one of the largest oil reserves in the world, a lucrative resource, Venezuela has experienced extreme hyperinflation and has the lowest world freedom rating in South America. The purpose of this study was to reexamine this phenomenon that was studied by Professor Terry Karl and see if that theory holds merit today. Karl published a book, *The Paradox of Plenty: Oil Booms and Petro-States* in 1997 which examines and argues how Venezuela, and other countries like it, have suffered from *Dutch Disease* because they have become dependent on a singular natural resource and the effects of that economic decision are so astronomical that it trickles into the rest of the state's functions leading to the devastating *Resource Curse*.

These results suggest that Karl's theory has merit and that Venezuela's oil-dependent economy has continued to lead to its poor economic, political and social chaos. This is important not only because it proves that the theory presented is a likely cause for the turmoil, but because identifying the problem is the first step in creating a solution to this problem. Further research could be constructed on how to combat this, and steps could be taken to improve the lives of the Venezuelans who are suffering at the hand of this seemingly everlasting *Resource Curse*.