

Discussion of the History of Venezuela 1

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The chapter on Venezuela tells the story of a country that, despite having good initial conditions and large endowments of natural resources such as oil, is currently experiencing one of the deepest social and economic crises documented in history. Diego Restuccia gives an excellent account of the broad macroeconomic trends over the 1960–2016 period and provides a measurement of the driving forces behind the fiscal and monetary outcomes of Venezuela during this period.

The main results of the accounting procedure for Venezuela can be seen in Table 1 in the chapter. There, we can see the main components of the consolidated budget equation averaged across four subperiods: 1961–74, 1975–86, 1987–2005, and 2006–16. Three main patterns emerge. First, and with the exception of the last subperiod, most of the increase in the obligations of the public sector in Venezuela is accounted for not by increases in primary deficits but rather by “transfers”—the residual component in the accounting exercise. Second, we can see that the increase in public-sector obligations observed over this time period took place during two specific periods: 1975–86 and 2006–16, with the remaining periods displaying a roughly constant share of obligations over output. Third, the public sector financed these obligations initially by issuing debt. From the late 1980s onward, however, most of the financing occurred with seigniorage and the inflation tax.

Thus the bottom line in the accounting exercise is that transfers were the prime driver of the obligations of the public sector, a point that is strikingly reinforced by Restuccia’s counterfactual in Figure 20. Unfortunately, these transfers are the residual component in the accounting exercise, and it is hard to pinpoint what they stand for. They could stand for actual transfers between the central government and nonfinancial public firms that are not consolidated in the fiscal accounts, or they might even capture misspecifications in the budget equation. Given the lack of transparency in the debt statistics, Restuccia cannot assign this component to something tangible. This is a limitation of the current analysis because the most important driver of fiscal and monetary outcomes in Venezuela is not measured directly.

Restuccia’s interpretation of the residual, however, is sensible. His interpretation is that this component does reflect actual transfers to pseudo-private entities, and it could be used by the Venezuelan government for fiscal policy purposes. For instance, the author

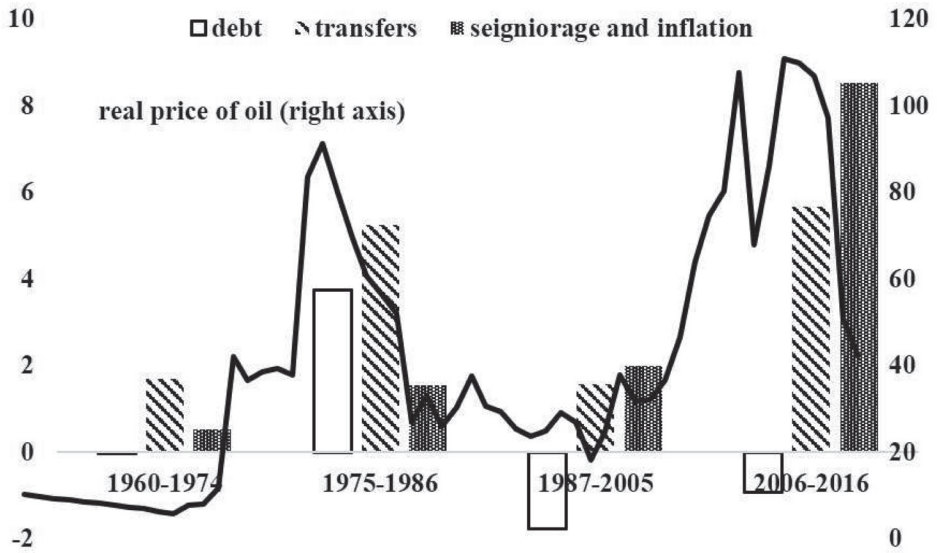


Figure 1. Oil prices, obligations, and sources

mentions the case of the state-owned oil company, PDVSA, which holds a monopoly over the production and exports of Venezuelan oil. The company under the Chavez presidency has engaged in the direct financing of different social and investment programs through FONDEN (the Fondo de Desarrollo Nacional, or National Development Fund), a private corporation controlled by the Finance Ministry of Venezuela. This move has been interpreted as a way for the Venezuelan government to engage in discretionary spending with little oversight from Congress.¹

To the extent that transfers capture discretionary spending by the fiscal authority, their pattern over time conforms to the experience of other Latin American economies. Gavin and Perotti (1997), for instance, document that fiscal policy in these countries has been mostly procyclical during the postwar period, with expenditures and fiscal deficits rising during good times. In the case of Venezuela, endowed with large oil reserves, those good times coincide with periods of oil price booms. Figure 1 plots real oil prices over the 1960–2016 period, along with the key elements of the budget equation for Venezuela: transfers, the sum of internal and external debt, and the sum of seigniorage and the inflation tax. From the figure we can see that the two cycles of expansionary transfers coincide with sizable increases in oil prices. As the good times end, however, the government has a hard time cutting back on those obligations, which pushes the economy toward fiscal or monetary crises (or sometimes both).

Let me conclude the discussion with more general thoughts about what the Venezuelan experience tells us about fiscal and monetary policy. The first takeaway is that careful case studies, such as the ones presented in this volume, are clearly needed. The case of Venezuela shows that official statistics might not deliver an accurate account of the policy stance, and efforts should be directed toward studying local accounting practices and institutions.

The second takeaway is that researchers should devote more effort toward incorporating political economy considerations into models of determination for fiscal and monetary policy. The Venezuelan experience points toward features that make governments increase financial obligations during good times, making it hard to subsequently cut back on those obligations when the cycle turns bad—a behavior at odds with the standard tax-smoothing model of Barro (1979). Models of sovereign borrowing, such as Arellano (2008) and Aguiar and Gopinath (2006), can generate this comovement by having a myopic government, but more research is needed to understand the underlying frictions determining this behavior and which institutions could potentially tame the tendency to generate fiscal deficits.

Finally, governments have chosen different instruments during different time periods to finance their fiscal obligations. In the case of Venezuela, the government mostly relied on debt issuances and defaults in the 1970s through the 1980s, whereas it reverted to money supply and inflation in the 2000s. Few studies in the literature compare these different ways through which the intertemporal budget constraints are satisfied in practice (see, for instance, Du and Schreger 2016). More research is needed to understand the trade-offs that these alternatives bring.

Note

- 1 See, for example, Brian Ellsworth and Eyanir Chinae, “Special Report: Chavez’s Oil-Fed Fund Obscures Venezuela Money Trail,” Reuters.com, September 26, 2012, available at <https://www.reuters.com/article/us-venezuela-chavez-fund-idUSBRE88P0N020120926>.

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