



Oil, Maduro and a mango: The toss heard 'round Venezuela

By [Rob Nikolewski](#)

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The woes of Venezuela's economy, buckling under the pressure of low global oil prices, crystallized in a most unpredictable way last week.

A poor woman's well-placed [toss of a mango that beamed Venezuelan President Nicolas Maduro](#) did not land her in jail but, instead, got her a new apartment — adding a bizarre chapter in a country with a rich history of political twists and turns.

“The inflation is much more severe and that's why these stories are much more bizarre than people anticipate,” said [Steve Hanke](#), professor of applied economics at Johns Hopkins University, who estimates the annual inflation rate in Venezuela at 300 percent per year — about double the official number.

“The shortages are much greater than most people can imagine,” said Hanke, who has worked as an adviser to a number of South American countries, including Venezuela from 1995 to 1996.

The story began last weekend when 54-year-old Marleni Olivo threw a mango at Maduro when he was driving a bus to a rally through the streets of the Venezuelan state of Anzoátegui. The mango [hit Maduro just below his left ear](#) but didn't hurt him.

Olivo's aim was exceeded only by her guts. On the mango, she scribbled her name and phone number, along with a message: “If you can, call me.”

Upset with her living conditions, Olivo said she just wanted to get Maduro's attention. “I didn't have paper available at that moment,” she told El Pitazo TV. “What I had was a mango that I was about to eat because I was hungry.”

Seizing on the political opportunity, Maduro announced he would grant Olivo a new apartment to live in through the “Great Housing Mission of Venezuela” run by his socialist government.

The move drew cheers from Maduro's supporters but barbs from his critics. “If for a mango they give you apartments, then you know what to do: throw him a pineapple!” needled Dolar Today, a

website that highlights the growing black market for dollars that have flooded the Venezuelan economy in recent months.

Why have things gotten so bad?

Oil accounts for a staggering [96 percent of Venezuela's hard currency revenue](#) and the declining global price has decimated the Venezuelan economy that, under Maduro and his predecessor [Hugo Chávez](#), has been placed under firmer control of the central government and dramatically increased social spending.

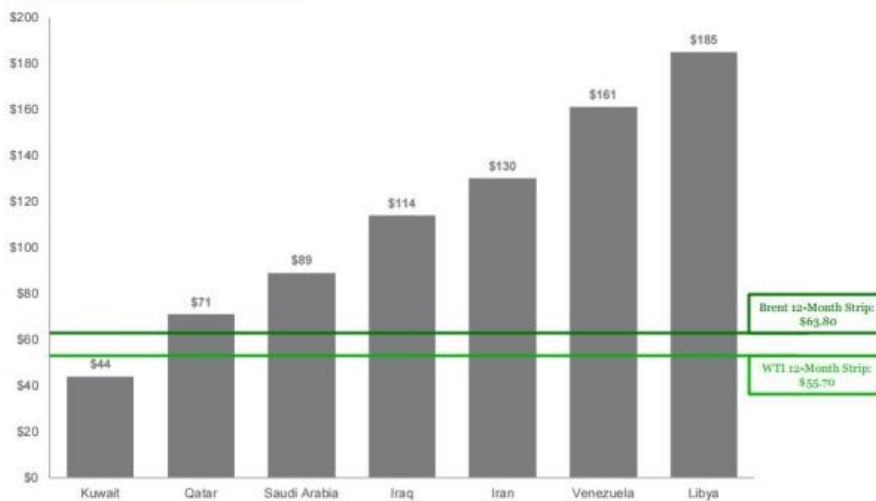
Even before the recent oil price downturn, the Venezuelan economy was losing money. [Oil prices were as high as \\$107 a barrel last June](#), but the price of Brent crude — the internationally recognized price — dropped into the low 50s in January. The price has crept back into the mid-60s recently, but Venezuela's pain appears unrelenting.

Studies indicate that in order to just break even, Venezuela needs the price to be at \$117.50 a barrel — one of the highest break-even prices in the world:

Global Oil Competitiveness Issues

OPEC BREAK-EVEN OIL PRICES

Break-Even Oil Price by Country (\$/Bbl)



Source: Citigroup Global Commodities Research



11

“It adds to a situation that was severe to begin with for a country with no cushion or margin of safety,” Hanke said. “They hadn’t ever squirreled anything away for a rainy day. So when the rainy day came — meaning the acute problem with the oil price collapse — there wasn’t anything in the cupboard.”

The economic problems have taken a toll on Maduro, whose popularity has [dropped to 28.2 percent](#).

Hanke, who also directs the [Troubled Currencies Project](#) at the Cato Institute, a free-market think tank based in Washington, D.C., placed Venezuela on the top spot of his [annual World Misery Index](#) of 108 countries by a wide margin.

“The state-owned oil company is mismanaged and politicized,” said Hanke. “They have all the political hacks that have been put in there with patronage ... and it’s destroying their resources as fast as they’re producing their resources.”

Just one month after rankings came out, anti-government protesters [clashed with riot police](#), with demonstrations in the town of San Cristobal injuring five. Days earlier, the Maduro government had to resort to [nationalizing a giant chain of the country’s grocery stores](#) after shelves went bare.

Parliamentary elections are scheduled for later this year, although Maduro is not up for re-election [until 2019](#).

Venezuela — like other struggling countries that belong to the [Organization of Petroleum Exporting Countries](#) such as Nigeria, Iran and Libya — has urged OPEC leaders to reduce output to get prices back over \$100 a barrel. But OPEC ministers, led by oil giant Saudi Arabia, have expressed no interest.

In reaction, Maduro has turned to China to help his country’s shattered economy.

Last week, Maduro announced he secured a [\\$5 billion loan from China](#) that will be repaid with crude oil and refined products. That’s in addition to a [\\$20 billion investment](#) Maduro received after traveling to Beijing just three months earlier.

“It’s better than not having the credit, there’s no question about that but it really, it isn’t going to solve anything,” Hanke said. “It’s a little Band-Aid. It doesn’t fix anything. The wound will just break out again as soon as they burn through the \$5 billion.”

Hanke thinks what Venezuela really needs is to dispose of its interventionist economic policies, but practically nobody expects that to happen any time soon.

In the meantime, Hanke believes Venezuela can help shore up its immediate money problems by [dollarizing its currency](#) — that is, ditching the Venezuelan bolívar and substituting it for the U.S. dollar. Ecuador and El Salvador have each dollarized their economies in recent years.

“It would control the budget,” Hanke said. “The government couldn’t go to the Central Bank and say, print money and give us credit.”

But Venezuela’s oil price and production problems remain, highlighting an economic and political crisis that runs much deeper than the hubbub over an accurately thrown mango.

“The overall lesson is that like any good socialist economy, they end up in a river of tears,” Hanke said. “They’re in deep trouble.”