

Venezuela Inequality Report

Eric Kuznar
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Executive Summary

Data

Two datasets on wealth and status **distribution** in Venezuela were analyzed: 2006 World Bank quintile and decile estimates of income, and 2014 Venezuelan Encuesta de Condiciones de Vida (ENCOVI) data on income by occupational category.

Results

Income data provided by the World Bank (2006) and occupational data from ENCOVI (2014), shows a Venezuelan population that is extremely risk acceptant with a mean Arrow-Pratt score of -7.15, the second highest in the world.

Significance for Risk Taking and Stability

Venezuela's lowest and highest socioeconomic classes are extremely risk acceptant. The Venezuelan political and economic crisis is causing a shortage of living essentials for most of its population (Garcia-Navarro, 2016). How most of its population lives is in stark contrast to those working in the petroleum industries, or political elites who enjoy a high quality of living from low-priced goods and luxury items purchased from the black market.

Implications for US Interests

The United States has strong security interests in Venezuela but has little direct influence over what occurs in the country while President Maduro remains in power (Neghaiwi, 2019). Instead, the United States relies on economic sanctions to place political pressure on President Maduro in the hopes of seeing him removed from office. The US supports the opposition leader Juan Guaido's claim to the presidency. While President Maduro retains his power, the US must rely on Switzerland, which has been acting as a conduit between the US and President Maduro, to represent US interests. The extremely risk acceptant segments of Venezuelan society indicate that turmoil will continue between aggrieved constituencies supportive of Maduro and Guaido and across socioeconomic classes.

Implications for China's Interests

China has sunk billions of dollars into Venezuela in the form of financial aid (Rendon, 2018). If President Maduro retains his power, China will retain a tremendous ally in Latin America that it will be able to control through debt (Sigalos, 2019). However, if President Maduro is replaced by Guaido, then China stands to lose much of the money it has loaned Venezuela as well as access to cheap oil. The continued turmoil presents a dynamic situation from which China may either benefit if Maduro retains power or lose if Guaido prevails.

Implications for Russia's Interests

Russia has invested money and military personnel in Venezuela on a smaller scale than China, however its desired end is also to see President Maduro retain his power (Sigalos, 2019). Russia's interaction with Latin America is partially driven in response to the US and NATO activity in the Balkans and former Soviet

republics. Sigalos also states that this is a part of a larger economic strategy that is contingent on Russia growing its markets outside of countries in the European, Union including investments in Venezuela's petroleum industry (Lowe & Sagdiev, 2019). To both of these ends, if President Maduro secures his presidency, then Russia will gain an important political ally in the region and access to cheap petroleum. As with China, Russia's interests hang in the balance while a highly divided, discontented and risky accepting population supports their political rivals.

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Introduction

This is a summary report on inequality in Venezuela compiled as part of the Aggrieved Populations project conducted in support of the 2019 Strategic Multilayer Assessment (SMA) Future of Great Power Competition and Conflict project conducted for the JS-J39.

This report provides background on why the country was chosen, relevant historical background, literature review concerning inequality in the country, synopses of empirical data sources and analyses, and a concluding section that summarizes the findings. It is not intended to provide a comprehensive analysis of inequality and grievance in the country, but to place the empirical analyses conducted on this country in their social and political context and to highlight interesting cases of inequality pertinent to risk acceptance and great power competition. The analyses focus on the measurement of population risk sensitivity as a function of measured inequality using the Arrow-Pratt measure of risk aversion, whose positive values indicate risk aversion and negative values indicate risk acceptance. Studies have shown that risk acceptance is associated with social unrest, terrorism, and other forms of social disruption (Kuznar 2007; 2019). The full explanation of the underlying method and theory is presented in the summary report, *Inequality, Risk Sensitivity and Grievance in Context: Summary of Aggrieved Populations Country Reports*, submitted as part of this SMA project. This report is intended to be supporting material to that report and presumes familiarity with it.

In order to create an inclusive and more representative set of countries, an effort was made to analyze countries from each major region of the world (Africa, Central Asia, East Asia, Europe, Latin America, the Middle East, North America, South Asia).

Why Venezuela?

Venezuela was chosen for four reasons: 1) It is a representative nation from Central America, 2) it has the highest degree of inequality in all of Latin America, 3) its high levels of violence are a driver for immigration to the US, affecting domestic politics and national interests, and 4) both China and Russia are seeking influence in the country and region.

Great Power Interests in Venezuela

The United States' confrontational political history with Venezuela and recently imposed sanctions on Venezuelan oil, gives the US limited economic interests in Venezuela itself. US interests in Venezuela are instead focused on regional stability and the success of the current political uprising to bring down Maduro's regime (Rendon, 2017). Rendon (2017) suggests that the US is concerned about the potential effects on regional security that a breakdown in Venezuelan security may have. Corrupt Venezuelan government officials, who have drug trafficking ties to Hezbollah, increase insecurity and represent a direct threat to the US 's control of its near abroad (Clarke, 2019).

The US' interaction with Venezuela has been made increasingly difficult due to the fact that the Venezuelan government has cut all direct political dialogue with the United States Government as retribution for recent sanctions, in addition to the US 's backing of President Nicolas Maduro's political opponent Juan Guaido who the US and many other countries have already recognized as Venezuela's rightful leader (Neghaiwi, 2019). Because of the United States' inability to interact directly with Venezuela on an official basis, Switzerland has agreed to interact with President Maduro on the US' behalf.

Venezuela's economic importance to the US is lessened due to the US' increase in oil production.¹ The impact of recent US sanctions against Venezuela have yet to be understood. Many of Guaido's supporters have voiced support for the sanctions saying that oil is not a strong priority in their daily lives while they have limited access to necessities including milk, flour, and medicine. (Martinez & Ramirez, 2019). Guaido's supporters accuse President Maduro of blocking foreign aid and worsening conditions in Venezuela as a tool to subdue domestic uprising.

China is by far Venezuela's largest financier, which it has used to leverage one-sided economic deals (Rendon, 2018). Many of the economic deals that China has struck with Venezuela are not transparent, and the US considers them illegitimate. Rendon also speculates in his article that these one-sided deals have stunted the trajectory of Venezuela's future economic growth. This creates concern for future regional and national security in the Latin American region and even in the United States. If Maduro prevails, China will receive an anti-US ally in the region as well as access to cheap oil (Sigalos, 2019). However, with the US and its allies backing the opposition leader, Guaido, it could take an unknown amount of time for both China and Russia to collect on their loans from Venezuela.

Russia has invested in and given financial loans to Maduro's government on a smaller scale than China. However, like China it is poised to make similar political gains in Latin America and secure access to cheap oil (Sigalos, 2019). In order to see its interests protected, Russia has declared Guaido's claim to the presidency an illegal power grab that is backed by the US and has gone as far as to send small amounts of military personnel and military equipment including two long-range bombers (Rainsford, 2019). Russia claims that the military personnel it has in Venezuela are there only to conduct maintenance on military equipment, and that the bombers are purely a symbolic gift from President Putin to President Maduro (Litvinova, 2019). However, the bombers' presence has caused concern among US officials because the Tu-160 bombers are not only capable of carrying out long range missions but are also built to handle nuclear capability (AP, 2018).

Literature Review on Inequality in Venezuela

Venezuela is suffering from extreme inequality throughout its entire society. Its inequality issues extend from wealth attainment, allocation of goods and racial issues; all of which are exacerbated by poor general economic conditions and a low quality of life (Garcia-Navarro, 2016). The standard of living between those who possess monetary wealth, including political elites and those in the petroleum business, and most of the country in general is extreme. Many of Venezuela's citizens struggle to find basic necessities such as food and medicine, while those in the upper-class live in luxury and have an abundance of cheap high-end goods. The economic crisis and increased inequality have been linked to the growth of a gold-based barter economy, rampant exploitation of mine workers, and even foreign involvement from the Columbian rebel group ELN² that further destabilizes the country.

Venezuelan inequality is not only confined to economic prosperity but is also rooted deeply in the cultural and ethnic history of Venezuela. During the early 1900s European migration was encouraged by

¹ US oil production is decreasing its reliance on foreign sources of oil as well as decreasing the price of oil and therefore competitors' profits <https://www.eia.gov/todayinenergy/detail.php?id=37053>

² An illicit gold economy has arisen in Venezuela, providing an opportunity for rebels in the region to support their insurgencies and further destabilize the region. https://www.theguardian.com/world/2019/jun/08/venezuela-puerto-ordaz-gold-mines-armed-gangs?CMP=Share_iOSApp_Other

Venezuela's government in order to increase "white qualities" among the Venezuela's population (Marsh, 2019). While these practices ended in the mid-1940s, many of the same sentiments still remain, partly because of Venezuela's societal refusal to address it openly. Marsh states in his article that Venezuela's black and indigenous populations are still overrepresented in the lower socioeconomic groups and proportionally hold very little political power.

Country-Level Measures of Inequality in Venezuela

Venezuela was initially assessed with a collection of country-level metrics. These metrics provide measures of the country's inequality compared to other nations, inequality within the country, social conditions that may be consequences of that inequality, and the prognosis for stability in the future (**Error! Reference source not found.**).

Venezuela's per capita GDP during 2018 is low at only \$6,890. Despite this, it is only slightly under the median per capita GDP of countries that were examined in this study. Its inequality is represented by its Gini coefficient that is in the bottom 17th percentile. Venezuela also faces more risk for acts of terrorism and mass killings than most other countries and has higher levels of instability. Most significantly, Venezuela's Arrow-Pratt score is the second lowest of all country scores, -7.15, in this study showing that its population is extremely risk acceptant.

Table 1. Venezuela: Basic Statistics on Inequality

Measure	Value	Rank	Source
Inequality Compared to Other Nations			
Per Capita GDP 2018	\$6890	81 of 187	WB
Country Measures of Inequality			
Inequality-adjusted Human Development Index (IHDI) 2018	0.636	65 of 151	UN
Gini Coefficient	46.9%	32 of 184	WB
Informal Employment as % of Total Employment	39.7%	68 of 112	ILO
Measures of State Instability			
Fragile States Index	86.2	45 of 175	FFP
Terrorism Index	3.665	55 of 160	IEP
Probability of Mass Killing	0.014	46 of 161	EWP
Risk Sensitivity			
Average Arrow-Pratt Measure	-7.15	157 of 158	This Study
<p>*EWP – Early Warning Project, FFP – Fund for Peace, IEP – Institute for Economics and Peace, ILO – International Labor Organization, UN – United Nations, WB – World Bank</p> <p>-The Inequality-adjusted Human Development Index (IHDI) is a UN measure of well-being and is a scale based on per capita GDP, life expectancy and education levels of the population.</p> <p>- The Fragile States Index is based on twelve conflict risk that include security apparatus, factionalized elites, group grievance, economy, economic inequality, human flight and brain drain, public services, state legitimacy, human rights and rule of law, demographic pressure, refugees and IDPs, and external interventions. The potential range of the index is zero (no fragility) to 120 total fragility).</p> <p>- The Terrorism Index scores each country on a scale from 0 to 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism.</p>			

Prognosis for Change to 2029

A resolution to the political conflict in Venezuela between President Maduro and opposition leader John Guaidó, could potentially lead to Venezuela's citizens gaining back basic necessities that Guaidó claims Maduro purposely blocking in order to create pressure on the civilian lead opposition and force it to succumb (Martinez & Ramirez, 2019). A resolution can also decide whether the US maintains a firm grasp on its near abroad in Latin America or whether China and Russia gain influence and a political ally that they can leverage through debt (Sigalos, 2019). Regardless of how the conflict plays out, Venezuela's underlying racial biases and economic inequality will persist (Garcia-Navarro, 2016; Marsh, 2019). There is little to no evidence in the literature that Venezuela's population will become less risk accepting, especially with the unknown outcome of the current Venezuelan political crisis fueling the potential for violent confrontation.

Empirical Data on Inequality in Venezuela

Dataset 1: 2006 Venezuela World Bank Quintile Data

The World Bank provides data on lowest and highest decile, and quintiles of percentage of income or consumption.³ These data are used to calculate their Gini coefficients. While not exactly measuring the actual income, the percentage of overall income provides an approximation. The Venezuelan data was collected in 2006 where **Error! Reference source not found.** presents the original data and the fitted distribution curve from which the Arrow-Pratt risk sensitivity measures will be derived, as well as the Arrow-Pratt measures of risk sensitivity.

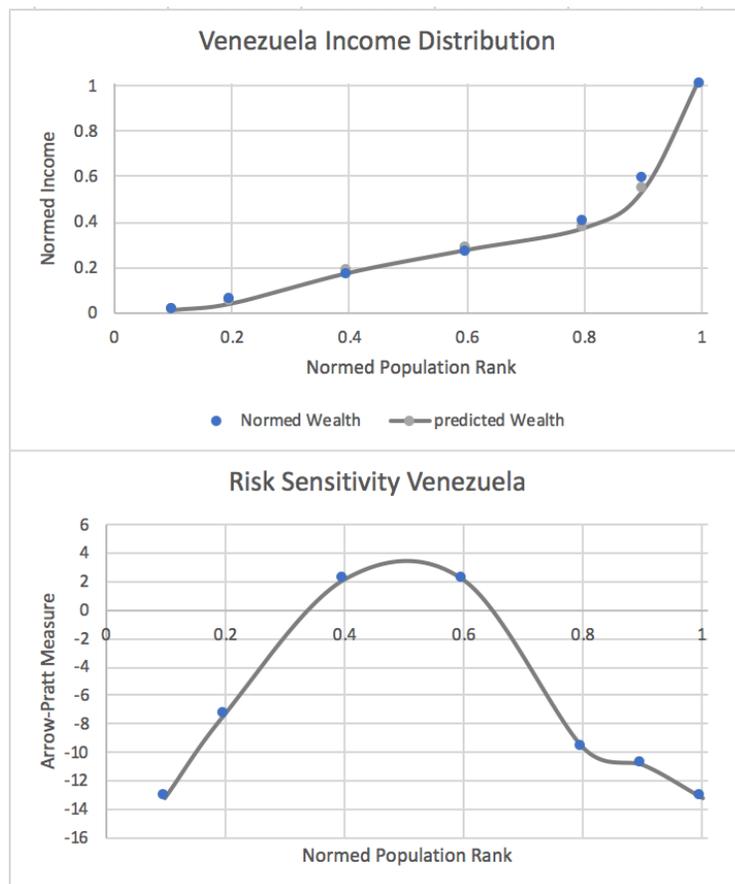


Figure 1: Distribution of Income, World Bank Quintiles Venezuela 2014 and associated Risk Sensitivity.

Summary Dataset 1: 2014 Venezuela World Bank Quintile Data

In Venezuela both those earning the lowest and highest incomes are extremely risk acceptant. The mean Arrow-Pratt score is -7.1, indicating that the Venezuelan population overall is extremely risk acceptant. The income earners that make up the lowest and highest centiles from the World Bank's income data are equally risk acceptant with a low Arrow-Pratt score of -13. The only centiles of data that are risk averse are those making up the middle-income earners. These can be found from the fourth to sixth centiles of data.

³ Data drawn from: <http://wdi.worldbank.org/table/1.3>

Dataset 2: 2014 Venezuela ENCOVI (Encuesta de Condiciones de Vida) Income by Occupation

ENCOVI (Encuesta de Condiciones de Vida) is a consortium of Venezuelan universities that pool resources to collect socioeconomic data on the country's population. The data for this analysis was found in Alvarez (2014), and included occupational categories of relevance to the Venezuelan government such as cooperatives, manual laborers, self-employed, government employed, and business owners. These categories differ somewhat from those used by most governments and the ILO.

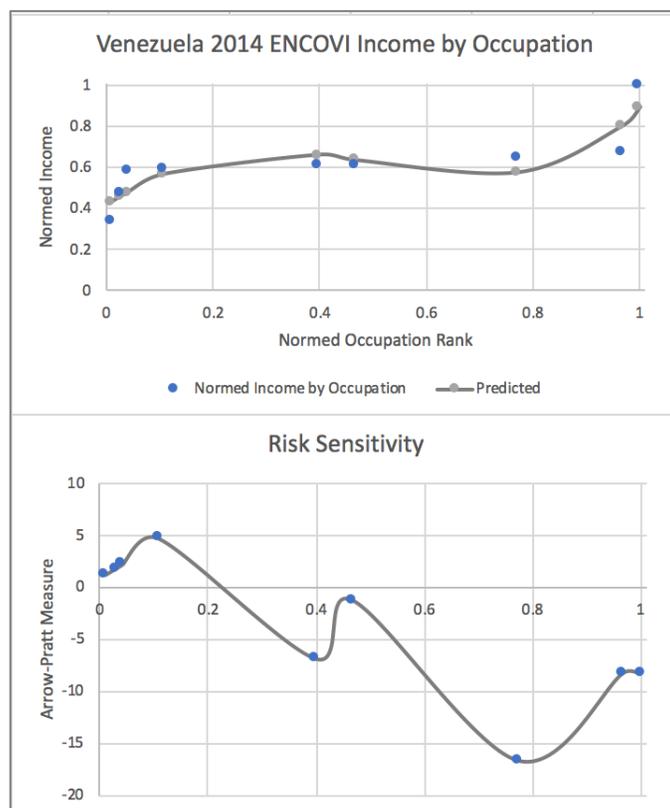


Figure 2: Distribution of Income, World Bank Quintiles Venezuela 2014 and associated Risk Sensitivity.

Summary Dataset 2: 2014 Venezuela ENCOVI Income by Occupation data

The data that ENCOVI provides shows a Venezuela that is mostly risk acceptant with a mean Arrow-Pratt score of -3.51. The occupations that earn the least are risk adverse, with the most risk acceptant occupations being found around the fourth quintile. While the data collected by ENCOVI is similar to data collected by the ILO, it is not the same as it uses different methodology and headings to show its data.

Findings on Inequality in Venezuela

Relevance to Instability and Social Cleavages

Venezuela is currently undergoing extreme political turmoil as the Maduro presidency is being challenged by his United States backed opponent, Guaido (Sigalos, 2019). China's and Russia's support for Maduro has trapped Venezuela in great power competition and elevated it to the global center stage. The extreme amount of poverty facing much of Venezuela's population has also inflamed past ethnic and racial prejudices against minority groups (Marsh, 2019). According to Marsh the violence that has claimed more than a hundred lives has threatened to erupt into actual conflict that could break down the weak social structure and security remaining in Venezuela.

Opportunities and Pitfalls for the US and Adversaries

The United States has little economic or energy incentives for becoming more involved in Venezuela. Instead, it sees the chance to secure its influence in Latin America by pushing back against Chinese and Russian influence, which threatens the US 's regional security (Rendon, 2017). If President Maduro retains power the US could face a hostile autocratic country close to its sovereign territory, which is also in debt to the US' largest global geopolitical opponents (Neghaiwi, 2019). Fortunately for the US, the opposition leader Guaido has the backing of many of its allies in the region including Brazil. If Guaido can secure power, then the US would have a democratic regime with which to work and foster new relations. Venezuela's highly risk acceptant population has already begun taking political and social risks as there have been anti-Maduro demonstrations throughout the country and people have openly backed Guaido (Casey, 2019). The demonstrations have turned violent and calls for a military uprising have been made. The Venezuelan population's risk acceptance will continue to aid the US in its interests as long as Maduro does not solidify his power.

China

China has funneled billions of dollars toward Venezuelan aid (Sigalos, 2019) and this gives China strong economic ties to the country. Under President Maduro Venezuela's dire financial situation has caused it to sign several one-sided deals with China (Rendon, 2018). The large amount of debt owed to China is a strong incentive for China to continue to aid Maduro in his bid for power retention. An anti-US government in Venezuela gives China a strong regional ally that it can work with in order to hurt both the US's regional influence and credibility in Latin America. The highly risk acceptant nature of Venezuela's population could serve to aid or hinder China's interests in the country as Maduro has a strong ability to mobilize his wealthier supporters; however, Guaido appears more capable of mobilizing a grass roots movement among Venezuela's population that is angry and suffering from a shortage of basic needs including access to medicine and food (Casey, 2019). As long as Maduro controls the military, it will be hard for Guaido to oust him and seize power.

Russia

Russia has undertaken similar steps to China in Venezuela. Most of Russia's interests are vested in financial loans and access to cheap oil; however, Moscow has sent some military personnel to Venezuela as well showing an express Russian interest in Venezuelan security (Rainsford, 2019). While Russian President Vladimir Putin has insisted that the personnel are there to do military upkeep on military vehicles it had sold Venezuela, the US and its allies are wary of Russian military intervention. Similar to China, Russia stands to gain or lose a close regional ally and a significant amount of financial capital through unpaid loans from the Venezuelan government if Maduro were to be replaced (Sigalos, 2019). The risk acceptant

nature of Venezuela's population gives Russia both the opportunity to meddle in the region, but also poses risks to its interests as civil revolt against the Russian and Chinese backed President Maduro has been an ongoing conflict that has been turning more violent (Casey, 2019).

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