



Venezuela's mad socialist experiment is destroying a nation

by Allister Heath
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IF you want to see how to destroy an economy and a society, look no further than Venezuela. One year after the death of Hugo Chavez, its disastrous communist president, the country is on the verge of total collapse under his equally appalling successor Nicolas Maduro.

Food is running out, as are other essentials, even though the country claims the world's largest oil reserves. There are shortages of toilet paper and soap, empty shelves and massive crowds queuing for hours in front of supermarkets. Patients are sometimes having to buy their own medicines; doctors are warning that 95 per cent of hospitals have only five per cent of the supplies they need. The central bank's scarcity index has reached a record of 28 per cent, which means that more than one in four basic goods are out of stock at any time; and the situation has worsened considerably since the figures were last compiled.

The reason? A brain-dead rejection of basic economics, and a hardline, anti-market approach of the worst possible kind. There are maximum prices, other prices controls, profit controls, capital controls, nationalisations, expropriations and every other statist, atavistic policy you can think of. An extreme left wing government has waged war on capitalism and won; and as ever, ordinary people are paying the price.

There are constant clashes with the police. At least 20 protesters have been killed. The media is being censored. The country is now one of the most dangerous places in the world. Independent observers estimate that there were close to 25,000 murders in 2013, five times the amount seen in 1998, when the current regime took over and really started to wreck the country. There are 30m Venezuelans, less than half the number of Brits; to put the figures in context, the police recorded 532 homicides in the UK in the year to June 2013.

The government claims that oil production is 3m barrels per day; the real figure is closer to 2.3m and yet the country is still having to import petrol. Capital Economics estimates that Venezuela's overall exports are 11 per cent lower than the government claims, and that cash foreign reserves are virtually zero, against a supposed stockpile of \$20bn, including gold. The official exchange rate is 6.3 bolivars per dollar, which is a bad joke; the real market rate is around 80 bolivars per greenback. With hard currency running out, and the country having to fork out \$10bn to service its national debt this year, the regime will soon have to choose between buying food or defaulting.

In the meantime, the money printing presses are in overdrive. The Johns Hopkins–Cato Institute Troubled Currencies Project estimates that Venezuela’s implied annual inflation rate has reached 302 per cent; actually recorded inflation was already an eye-watering 56 per cent last year. The middle classes and anybody on a fixed income, or who isn’t protected against inflation, is being wiped out.

This is a hugely important story and yet one which has been covered insufficiently prominently in the UK, partly because we are understandably more concerned with what is happening closer to home in Ukraine. Yet the political blunders and the economic illiteracy at play in Venezuela have universal applicability, and are therefore just as relevant to us than Putin’s power grab.

The lesson from all of that is clear. Socialism doesn’t work. Price controls don’t work. Stealing people’s property doesn’t work. Chasing away foreigners doesn’t work. Destroying the supply-side of an economy doesn’t work. Supply, unsurprisingly, has collapsed, as has investment, and that means fewer goods in the shops as well as reduced incomes. Companies aren’t allowed to increase prices, despite rampant inflation, so they are not selling at all. It is a spectacularly horrible case of what FA Hayek called the Road to Serfdom. The world must pay more attention to Venezuela’s plight.