

# THE WEEK

## How authoritarian socialism caused Venezuela's collapse

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Venezuela's economy is in freefall. It's probably the worst in the world — literally. The country tops *Bloomberg's* "Economic Misery Index," which looks at measures including inflation and unemployment to find the economy where things are worst for regular people.

Venezuela's GDP is expected to plunge by a jaw-dropping 8 percent this year, and inflation is an even more gut-churning 720 percent, according to the International Monetary Fund. The Venezuelan government is imposing rolling blackouts on its citizens. Food shortages are rife, leading to lines and even looting. As *The New York Times* reports, in Venezuela's hospitals children are dying for lack of medicine. The country is on the brink of collapse. And let's keep in mind, Venezuela is one of the world's most oil-rich countries.

What's going on?

Venezuela's president blames foreign companies, the United States, and other dark foreign forces. But the actual reason is a mix of socialism and authoritarianism, which has systematically destroyed Venezuela's productive capacities.

Now, the proximate cause of much of the mayhem, as my colleague Jeff Spross points out, is a byzantine official currency exchange rate which needlessly pushes up inflation and government deficits. And he's right. The late President Hugo Chavez put in those currency controls to prevent capital flight and increase government control over the economy.

But Venezuela has a bigger problem, too: authoritarian socialism. The Venezuelan brand of socialism leads to misery and corruption just like water flows downhill.

Consider the basic necessities of life. Food, toilet paper, and many other basic goods are hard to come by in Venezuela. Why? Well, when Chavez decided the prices of necessities were too high, he first put the squeeze on retailers, accusing them of hoarding or raising prices to bilk the customer. Then he put in price controls which, just as Econ 101 says they would do, led to shortages and a black market. The government responded by arresting CEOs and executives of retailing firms.

The government doesn't just control the oil industry, imposing windfall taxes as high as 50 percent on the few private sector projects that remain. The government has nationalized rice mills, large producers of agricultural products, and expropriated millions of acres of farmland; it has acquired some banks and shut down others; nationalized the cement sector; tried to nationalize gold miners; nationalized the country's largest steel mill and the country's largest

telecommunications company; expropriated the nation's largest power producer (remember those rolling blackouts?), and more.

People close to the regime have benefited from many of those deals. Corruption has skyrocketed since the beginning of Venezuela's "Bolivarian revolution." According to the Cato Institute, \$22.5 billion in public funds have been transferred from Venezuela to foreign accounts with no plausible explanation. Relatives of President Nicolas Maduro have been implicated in drug trafficking, with suspicions of drug money used to finance his campaign.

Oh, and Venezuela's capital has earned the distinction of being the murder capital of the world.

All of these tragedies were avoidable. They are all the result of a mentality that sees only nails for the hammer of government control. Chavez and Maduro kept saying that everything that was wrong with Venezuela was the fault of markets and that if the government either eliminated or regulated those markets, things would get better. They implemented their agenda and it has been a disaster. This socialist brand of economic authoritarianism had the predictable consequence of political authoritarianism, corruption, and a breakdown of the rule of law. It's a lesson worth remembering.