



The Poison of Socialism Claims Another Victim

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In the prisons of Venezuela, the shortage of food has become so acute that inmates have resorted to cannibalism. Juan Carlos Herrera told reporters in 2016, “My son and two others were taken by 40 people, stabbed, hanged to bleed, and then ... butchered ... to feed all detainees.” The situation has only gotten worse over the past three years, as malnourishment has also contributed to the outbreak of various diseases.

That is the situation in the official prisons of the socialist dictatorship of Venezuela. Conditions in the once-prosperous nation, poisoned by the human-caused disease of socialism, have continued to deteriorate, with chronic shortages of food, medical care, and electrical power.

Supporters of socialism typically explain the failure of its implementation in a country by saying either that it was not “done right,” or that it was sabotaged by its enemies, internal or external, or even both. But in the end, it is never done right — it cannot be done right — because socialism is intrinsically poisonous. It goes against human nature, and despite cultural differences in various nations in which it is tried, the poison of socialism, if pushed to its logical conclusion, will ultimately destroy the economy and society along with it.

Such is the case with Venezuela.

Prior to the ravages of socialism, Venezuela was a prosperous country that benefited from its vast oil resources — resources that are still abundant yet have not saved Venezuela from its recent economic collapse.

Venezuela opened its first oil well in 1914, harnessing the energy source that would drive much of the world’s modern economy for the next century. According to *Money* magazine, Venezuela holds the world’s largest supply of crude oil. Unlike some other oil-rich countries, the government did not initially nationalize the oil industry, allowing for its development in private hands. Under Juan Vicente Gómez, in power from the 1910s to the 1930s, the government was a strong supporter of private property rights.

In a 1996 Cato Institute policy analysis, Roger Fontaine said, “Venezuela’s unique natural resource base was developed by foreign capital beginning in 1917 when the first oil contracts

were signed by American, British, and Dutch companies that assumed the risks, generated the jobs, and paid substantial taxes to the Venezuelan national treasury.”

During World War II, the Allied Forces drew the bulk of their oil supplies from Venezuela.

The tax rates were quite low, and other than significant tariff rates, there were few restrictions on international trade. As would be expected, the economy thrived. With large reserves of oil and largely free market policies, and with almost no controls on prices of goods, wages, or interest rates, Venezuela’s economy grew at a more rapid pace than any other nation in the world from 1930-1966. By 1950, Venezuela enjoyed the highest per-capita income in Latin America, and ranked fourth in per-capita GDP in the world.

Today, however, starvation is a problem across Venezuela, and many citizens have been reduced to eating garbage and stray cats and dogs. The *New York Times* recently reported that Venezuela “is convulsing from hunger.” Many desperate parents are giving up their children to charities, neighbors, or others because they simply cannot provide enough food to keep them alive. Some abandoned children have turned to prostitution to get food.

The obvious question arises, “What happened? How did a prosperous, economically blessed nation come to such dire ends?”

Where the Country Went Wrong

Though a good answer would be long and involved, the simple answer is that socialism took hold there. To be specific, the government kept controlling more and more of the country’s economy — for the good of the people, of course — and its mismanagement of the economy led to devastation.

According to the *Oxford English Dictionary*, “socialism” is defined as “a political and economic theory of social organization which advocates that the means of production, distribution, and exchange should be owned or regulated by the community as a whole.” Socialist writer Karl Marx, who became known as the father of communism, famously described the goal as, “From each according to his abilities, to each according to his needs.”

Socialists everywhere claim to seek the attainment of a government that wisely directs the economy for the enrichment and overall good of all the people, but what socialism in practice always leads to is the impoverishment of the mass of the population, and the enrichment of the political class and its cronies.

Venezuela is no exception.

Venezuela did not convert from a free market economy to the hard socialism of today in one leap, but instead took several steps that weakened confidence in a free economy, paving the way for public acceptance of socialism.

Before the 1950s, Venezuela enjoyed a relatively free economy, with a dictatorial political system. While this surprises many, some authoritarians choose to leave the economy largely alone, just so long as the general population leaves them alone to run the government. Such was

the case with Vicente Gómez. Unfortunately, he was followed by Marcos Pérez Jiménez, who introduced crony capitalism (in which the government favors certain corporate actors over small business, with certain subsidies not enjoyed by small businesses), extensive public works projects, and increased state involvement in certain industries such as the steel industry. But the government did not create an extensive welfare state, and the price system was largely left to function freely.

However, in 1950, the telephone company was nationalized, and several companies and banks became state-owned. Venezuela had begun its dalliance with socialism, which illustrates that nations, once they inject smaller doses of the poison of socialism into their economic bloodstream, are tempted to socialize larger portions of the economy, with the inevitable consequences.

The problem is that such “softer” forms of socialism are not widely regarded as the cause of economic decline, but rather the decline is blamed on those parts of the economy left free — which far too often leads to more socialization, rather than less.

Ironically, when elections and other democratic features were introduced into the country, Venezuela began a headlong plunge into the socialist mire. As Rafael Acevedo and Louis Cirocco wrote in their article “How Socialism Ruined Venezuela,” which appeared in the pro-free market magazine *The Austrian*, “In 1958, Venezuela became a democracy when the dictatorship was overthrown. With that came all the usual benefits of democracy such as freedom of the press, universal suffrage, and other civil rights. Unfortunately, these reforms came along with continued destruction of our economic freedom.”

In 1958, the first president of Venezuela elected under this system was Rómulo Betancourt. Betancourt was a former communist, now styling himself as a social democrat willing to bring about socialism through a more gradual process. While he originally intended to nationalize the oil industry, he eventually opted to just take half the profits of the foreign oil companies that had built the Venezuelan oil industry. In 1960, he was a driving force behind the creation of the Oil-Producing Exporting Countries (OPEC), along with Kuwait, Saudi Arabia, Iraq, and Iran. While the purpose of OPEC was to keep the price of Venezuelan oil sold on world markets high, he began implementing some price controls in the domestic economy to keep prices in that country artificially low.

Price controls, while not considered socialistic by the average consumer, establish the principle that it is a legitimate role of the government to intervene in the economy, and limit private property rights, and go hand in hand with socialism. Inevitably, these controls lead to shortages, as prices are held below the normal market level. This causes an increase in demand (as consumers naturally buy more at a lower price), a decrease in supply (as sellers naturally bring less of a good to market at that lower price), and a resulting shortage. Unfortunately, a public largely ignorant of the workings of the laws of supply and demand often then blames producers for shortages, instead of the government, whose price controls created the problem. This causes a decline in confidence in a free economy, and demagogic politicians offer a “government solution,” which includes, not surprisingly, the politicians as the problem solvers.

Betancourt crafted an extensive welfare state, largely based upon the profits from the booming oil industry, with “free” education, “cheap” gasoline (through subsidies), government-subsidized healthcare, and the expansion of many other public services.

As such, Betancourt devalued the currency (the bolivar), instituted a land policy that encouraged squatting (which undermined the property rights of landowners), and crafted a constitution, creating “positive rights.” Whereas “negative rights” are either restrictions on government action, or requirements that government provide protection of individual freedoms and property — such as freedom of speech, due process of law, the right to own property, and the like — “positive rights” involve the government taking something from one group of people to give to another, including government-provided housing, healthcare, and education, provided by taking wealth from more productive citizens. Even with Venezuela’s oil income and increased tax rates, the revenue was not enough to keep up with increased spending on social programs.

Unfortunately, the next several presidents of Venezuela, instead of restoring what was lost under Betancourt, followed this same “soft socialism” path, and over time, this softer form of socialism, with price controls and government control of “only” a few productive parts of the economy, produced the poison that began to weaken the nation’s freedom and prosperity.

Like an alcoholic who thinks another drink will make him well, Venezuela had begun its deterioration. Carlos Andrés Pérez was the lone president during this time who made any effort at any free market reforms, with feeble attempts at lifting some price controls. In the end, he did little in the way of free market reform and, therefore, did little to stop the nation’s creep toward a harder socialism.

Pérez made modest spending cuts, in an effort to reduce the nation’s growing deficits, but did not address the underlying problems of a flawed monetary policy (printing money to pay for government spending), burdensome regulations on struggling business owners, and crony capitalist policies.

Then, like now, however, the economic problems that beset the country were blamed on the free market reforms, not the socialism that warped the markets. As Acevedo and Cirocco wrote, “Over time, the destruction of economic freedom led to more and more impoverishment and crisis.”

When Pérez attempted to phase out gasoline subsidies, which had kept prices artificially low, he was confronted with angry consumers who had become accustomed to such lower prices. Finally, in 1989, the capital city of Caracas was gripped with protests that degenerated into riots and looting. Government reaction led to hundreds of dead in the streets, and the end of the Pérez regime.

The softer socialism employed in Venezuela from 1958-1998 ultimately failed, as it led to an anemic economy with negative economic growth. Venezuela was one of only two nations in Latin America to experience negative economic growth during this period. When Venezuela’s “golden goose” of oil suffered the low oil prices of the 1980s, the government could no longer sustain the extensive welfare state it had constructed.

The stage was now set for the rise of a dictator with a populist message: Hugo Chávez.

As José Niño wrote in *Mises Wire* two years ago, “Analysts like to point to rosier pictures of Pre-Chávez Venezuela, but what these ‘experts’ conveniently ignore is that the seeds of Venezuela’s destruction were sowed during those ‘glory years.’ Years of gradual economic interventionism took what was once a country bound to join the ranks of the First World to a middle-tier developing country. This steady decline eventually created an environment where a demagogue like Chávez would completely exploit for his political gain.”

A lieutenant-colonel in the army, Chávez and other military officers had previously attempted a coup d’état with his Revolutionary Bolivarian Movement — 200, in February 1992, and another one in November, which landed him in prison. After two years, he and his fellow rebels were pardoned by then-President Rafael Caldera. Then, in 1998, Chávez won the presidency, vowing to fight crime and to replace the softer socialism with a more radical variety.

Gustavo Coronel described what happened next in a report published by Cato Institute in 2006: “Although elected in democratic elections in 1999, Chávez went on to dismantle the main democratic institutions in the country, with the complicity of the majority of the members of the existing Supreme Court of Justice. A Constituent Assembly, stacked with his followers and given supra-constitutional powers, unconstitutionally dissolved Congress and most other existing democratic institutions during 1999 and replaced them with institutions staffed by people loyal to Chávez.” This eliminated all effective checks and balances.

In short order, Chávez nationalized the oil industry, along with 1,168 other foreign and domestic companies, aligning Venezuela with Cuba and North Korea.

Ryan McMaken of the Mises Institute wrote, “Perhaps more than any other Latin American strongman in recent memory, Chávez was a ‘true believer’ when it came to socialism, and he showed his ideological devotion with his war, not just on multinational corporations and other powerful corporate interests, but on everyone he considered to be ‘bourgeois.’”

Many small-business owners were arrested and tried for a variety of “capitalist” crimes.

In the early years of his rule, things were not good. After three years of Chávez’ economic policies, discontent had grown to the point to inspire thousands of enraged Venezuelans to take to the streets in protest, as the economy did not make much improvement. In 2002, a massive protest resulted in 17 dead, with Chávez losing power for about three days. In 2003, a two-month strike failed to end his presidency. But with the rise in oil prices, Chávez’ popularity rose, too.

Despite his heavy-handed crackdowns, Chávez attained strong popularity, because the higher world oil prices from 2003-2010 enabled him to finance his socialist schemes, buying off the population with welfare benefits for the poor, but as Nino explained, “Sooner or later, unsustainable transfer systems are bound to collapse.” The late British Prime Minister Margaret Thatcher put it well, saying that socialism works well, until one runs out of other people’s money.

For a few years, buoyed by strong oil prices, which financed his generous welfare state, Chávez was able to survive all political challenges. In 2006, Chávez was chosen as president with 62 percent of the vote. He boasted that the election was a vote for socialism.

In 2007, Chávez confiscated and expropriated even more private companies, aiming now to seize control of the media and the food industry. He introduced constitutional “reforms” that would make Venezuela not much different from an outright communist state. Venezuelans turned down this effort in a constitutional referendum, but Chávez continued his hard-core socialist policies, growing the government bureaucracy from 800,000 employees in 1998 to more than three million by the time of his death in April 2013. During that same period, the number of government ministries tripled, giving lots of Venezuelans great incentive to back socialist government policies.

Following Chávez’ death, power passed to his protégé, Nicolás Maduro, who managed to win a controversial election one month later. Instead of reversing the hard-socialist course plotted by Chávez, Maduro continued the government’s chokehold control of the economy. After all, Maduro studied under Fidel Castro, the brutal communist dictator of Cuba, so it is no surprise that he was a dedicated leftist.

When fracking in the United States led to an oil glut and a downfall in worldwide oil prices, it cut off much of the money with which the government had been buying the goodwill of voters via social-welfare programs, such as artificially lower gasoline prices, free or cheap housing, healthcare, and the like. Maduro turned to printing money to keep the government going, increasing the money supply 10 times. In 2010, one American dollar was worth about eight bolivars. The continuation of inflation since then by Maduro has only increased the problem, to where now that same dollar is worth more than 8,000 bolivars.

When the wild inflation of the money supply led to a predictable rise in prices of goods in the country, Maduro placed heavy price controls on the economy, leading to the predictable widespread shortages now plaguing the country. By 2014, the Venezuelan central bank was reporting that 28 percent of goods were now simply unavailable. It is not known how much worse the situation is now because the government quit publishing such information after that.

While the government under Maduro has increased the minimum wage, sometimes multiple times in one year, workers have fallen further and further behind as inflation has continued to reduce the value of their wages. It is estimated that the *average monthly wage* in Venezuela (for those fortunate enough to have a job in a country with an unemployment rate of about 25 percent) would only be equivalent to a little less than \$100. A person making the “minimum” wage in the country makes enough to obtain about one cup of coffee a day, but little else.

To make matters worse, *Money* reports, the growing hostility of the Maduro regime to the foreign businesses still remaining in the country has led to many of the remaining foreign businesses, such as Pepsi and General Motors, leaving the country, taking jobs and foreign money with them.

Alberto Ramos, an economist who researches Latin America for Goldman Sachs, summarizes the problem: “The economy is really chaotic. It’s totally collapsed.”

In their article in *The Austrian*, Acevedo and Cirocco, native Venezuelans, explained why. “As Venezuelans, our poor understanding of the importance of freedom and free markets has created our current disaster. We Venezuelans never really understood freedom in its broader dimensions because when we enjoyed high levels of economic freedom, we allowed the destruction of political and civil rights, and when we finally established a democracy, we allowed the destruction of economic freedom.”

But Venezuelans might be starting to see the economic light, as they strive to survive the economic destruction that has befallen their country.

Venezuela’s vaunted socialized healthcare system is dying along with its patients. The *New York Times* reports, “The economic crisis in this country has exploded into a public health emergency, claiming the lives of untold numbers of Venezuelans.”

Many hospitals are even out of soap and gloves, while cancer medicines often exist only on the black market. Between 2012 and 2015, the death rate for infants less than a month old in the “free” public hospitals increased more than a hundred times.

“On a recent day at the University Hospital of Maracaibo, in Venezuela’s second-largest city,” reports the *Wall Street Journal*, “patients lay on bare beds in rooms with dirty floors. There was no running water, medicine, cleaning supplies or food.”

Despite these horrendous conditions, dictator Nicolás Maduro defends his socialist medical system: “I doubt that anywhere in the world, except in Cuba, there exists a better health system than this one.”

America on the Same Path

A related question is more important here: Have Americans learned from the examples of socialist failure provided by Venezuela, the Soviet Union, Cuba, Argentina, Greece, Italy, North Korea, Vietnam, and more? Many Americans smugly presume that the idiocy that produced the disaster in Venezuela could not happen here, but that is not so. A recent Gallup poll found that 43 percent of Americans think socialism is good.

In fact, Americans are adopting socialism on an astounding scale — even providing “free” cellphones — and all of the Democrat politicians currently running for the 2020 presidential election, such as Bernie Sanders and Elizabeth Warren, favor some type of medical takeover by the U.S. government.

And Americans are falling for the same appeals to greed to get socialist plans passed as have worked in other countries, such as Venezuela. In any economy, some of the population is going to be wealthier than others. Either to gain votes, or to keep the poorer segments of society satisfied so they won’t rebel against the elites, politicians from Julius Caesar to Otto von Bismarck to Bernie Sanders have campaigned on generous wealth redistribution schemes.

Such wealth redistribution plans have long been practiced in Venezuela, as well, with public housing benefits and other such income transfer schemes. But of course, there is always another “free” benefit to be desired, and in Venezuela, the government even took wealth from some Venezuelans to provide for artificially low bus fares. What tends to happen, however, is that those on the receiving end of such benefits come to view it all as an entitlement — a right. How often have we heard those on the Left argue that healthcare is a right? But the only way that government can provide any such entitlement is by first taking wealth from others. There is no such thing as a free lunch, because someone pays for it. The same principle applies to other “free” stuff, such as “free cellphones.”

Government subsidies tend to drive up the price of a good or service, whether it be college tuition, housing, or healthcare, which causes those who are having to pay the higher prices to insist that the government “do something” about the high prices. Eventually, it is the providers of goods and services in the free market who are seen as causing prices that are “too high,” which leads to calls for the government to simply take over that industry — “nationalization.”

Despite the dire circumstances facing their native country, Acevedo and Cirocco expressed some “reason for hope,” saying that “a revolution in ideas can really bring a new era to Venezuela.” Bluntly put, Venezuela must abandon socialism.

Nino expressed similar views. “To reach the end of the tunnel, Venezuela must completely abandon socialism, and embrace the capitalist path to prosperity.”

Hopefully, Americans will never have to experience the current pain of Venezuelans, brought on by their adoption of socialism. To avoid such a calamity, Americans must educate our fellow citizens on the benefits of, in the words of the slogan of The John Birch Society (parent organization of The New American), “less government, more responsibility, and — with God’s help — a better world.”

Otherwise, as prosperous and vibrant as the American economy has been, adoption of the socialist schemes of some of our leading politicians could not only kill the goose that laid the golden egg, it could strip us of the freedoms we have long enjoyed.