



Venezuela's Accelerating Descent to Socialist Misery

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Nations usually don't suffer overnight economic collapse. Indeed, Adam Smith was right about the ability of a country to survive and withstand lots of bad public policy.

But at some point, as a nation gravitates in the wrong direction on the statism spectrum, it goes from prosperity to stagnation to decline.

Which is sort of what happened in Argentina because of Peronism (though Pope Francis learned the wrong lesson from his country's big mistake).

But Venezuela is even worse. It's going from prosperity to stagnation to decline to collapse.

In a must-read article for the Mises Institute, José Niño explains how cronyism and redistributionism helped to sap Venezuela's economy way before Chavez and Maduro made a bad situation far worse.

While Chávez and his successor Nicolás Maduro deserve the brunt of the blame for Venezuela's current economic calamity, the underlying flaws of Venezuela's political economy point to much more systemic problems. ... 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.

But it wasn't always this way. Indeed, Venezuela at one point was market-oriented and prosperous.

From the 1910s to the 1930s, the much-maligned dictator Juan Vicente Gómez... modernized an otherwise neocolonial backwater by allowing market actors, domestic and foreign, to freely exploit newly discovered oil deposits. Venezuela would experience substantial economic growth and quickly establish itself as one of Latin America's most prosperous countries by the 1950s. In the 1950s, General Marcos Pérez Jiménez would continue Gómez's legacy. At this juncture, Venezuela was at its peak, with a fourth place ranking in terms of per capita GDP worldwide. ... A combination of a relatively free economy, an immigration system that attracted and assimilated laborers from Italy, Portugal, and Spain, and a system of strong property rights,

allowed Venezuela to experience unprecedented levels of economic development from the 1940s up until the 1970s.

But the seeds of economic decline were planted during this time.

Pérez Jiménez did introduce some elements of crony capitalism, pharaonic public works projects, and increased state involvement in “strategic industries” like the steel industry. ...social democrat political leader Rómulo Betancourt would...assume the presidency from 1959 to 1964. The Fourth Republic of Venezuela — Venezuela’s longest lasting period of democratic rule, was established... Venezuela’s Fourth Republic marked the beginning of a process of creeping socialism that gradually whittled away at Venezuela’s economic and institutional foundations. ...Betancourt still believed in a very activist role for the State in economic matters. Betancourt was part of a generation of intellectuals and student activists that aimed to fully nationalize Venezuela’s petroleum sector and use petroleum rents to establish a welfare state... At its core, this vision of economic organization assumed that the government must manage the economy through central planning.

And policy went further left in the 1970s. And beyond.

in 1975, ...Carlos Andrés Pérez’s government nationalized the petroleum sector. The nationalization of Venezuela’s oil industry fundamentally altered the nature of the Venezuelan state. Venezuela morphed into a petrostate, in which the concept of the consent of the governed was effectively turned on its head. Instead of Venezuelans paying taxes to the government in exchange for the protection of property and similar freedoms, the Venezuelan state would play a patrimonial role by bribing its citizens with all sorts of handouts to maintain its dominion over them. ...Pérez would take advantage of this state power-grab to finance a profligate welfare state and a cornucopia of social welfare programs... Venezuela’s economy became overwhelmingly politicized. ...the nationalization of the petroleum industry...laid the groundwork for institutional decay that would clearly manifest itself during the 80s and 90s.

Jose’s article is a valuable contribution to the discussion.

Indeed, if you peruse the historical data at *Economic Freedom of the World*, you’ll find that Venezuela enjoyed a high degree of economic freedom at late as the early 1970s.

And it’s no coincidence that Venezuela was much richer than its neighbors at the time.

But bad policy has caused economic decline, and bad policy has accelerated as the country has shifted from cronyism and vote buying to explicit socialism (otherwise known as entering the fourth circle of statist hell).

Let’s look at what big government has produced in Venezuela.

An article in *Foreign Policy* sees parallels in the collapse of the Soviet Union and the disintegration of Venezuela.

Venezuela is not the first developed country to put itself on track to fall into a catastrophic economic crisis. But it is in the relatively unusual situation of having done so while in possession of enormous oil assets. **Venezuela Is Heading for a Soviet-Style Collapse** ...the Soviet Union’s similar devastation in the late 1980s...may be instructive for Venezuela... The Venezuelan government, though it doesn’t

claim to be full-fledged in its devotion to Marxism-Leninism, has been pursuing as absurd an economic policy mix as its Soviet predecessor. It has insisted for years on maintaining drastic price controls... the government financed the budget deficit by printing money. The inevitable result was skyrocketing inflation. ...The collapse of the Maduro regime will not be pretty, but it is difficult to see how it can be avoided.

Hopefully, the collapse will happen quickly.

A thoroughly depressing story in the Wall Street Journal reveals the suffering of the country's poor people.

Jean Pierre Planchart, a year old, has... a cry that is little more than a whimper. His ribs show through his skin. He weighs just 11 pounds. His mother, Maria Planchart, tried to feed him what she could find combing through the trash—scraps of chicken or potato. She finally took him to a hospital in Caracas, where she prays a rice-milk concoction keeps her son alive. ...Her country was once Latin America's richest, producing food for export. Venezuela now can't grow enough to feed its own people in an economy hobbled by the nationalization of private farms, and price and currency controls. ...Venezuela has the world's highest inflation—estimated by the International Monetary Fund to reach 720% this year—making it nearly impossible for families to make ends meet. Since 2013, the economy has shrunk 27%... Hordes of people, many with children in tow, rummage through garbage... People in the countryside pick farms clean at night, stealing everything from fruits hanging on trees to pumpkins on the ground, adding to the misery of farmers hurt by shortages of seed and fertilizer. Looters target food stores. Families padlock their refrigerators. ...Dr. Machado and her team of doctors are seeing a dramatic increase in emaciated infants brought to the Domingo Luciani Hospital in Caracas, where they work. ...The most recent Caritas study of 800 children under the age of 5 in Yare and three other communities showed that in February nearly 11% suffered from severe acute malnutrition, which is potentially fatal...nearly a fifth of children under age 5 in those four communities suffered from chronic malnutrition. ...Nearly a third of Venezuelans, 9.6 million people, eat two or fewer meals a day...four of out five in the nation are now poor.

But not everyone is suffering, reports the U.K.-based Times.

Ministers in President Maduro's government have been accused of hypocrisy by Venezuelans struggling to feed themselves after it emerged that many children and cronies of senior officials are living abroad in luxury. ...The scandal has been likened to that of the "princelings" in China — the sons and daughters of Communist Party officials who have been exposed as leading lavish capitalist lifestyles. The recent series of outings of the children of Maduro's inner circle began with the case of Lucía Rodríguez, daughter of Jorge Rodríguez, the hard-left mayor of Caracas, and niece of Delcy Rodríguez, the foreign minister. Both politicians routinely describe the opposition in Venezuela as the "bourgeoisie". After Ms Rodríguez began posting images of her own bourgeois life in Sydney, where she is enrolled in a media studies course at the private SAE university, she was tracked down by an opposition activist to Bondi Beach, where she was photographed surfing and sipping cocktails. ...Rumours have long surrounded the suspiciously lavish lifestyles of two of the daughters of Mr Maduro's predecessor and mentor, Hugo Chávez. María Gabriela Chávez, the late president's elder daughter, is the deputy ambassador to the United Nations. Opposition MPs claim that she is a billionaire. She has been likened to the socialite Paris Hilton... Many families linked to the Maduro government and former officials have moved to America, despite it being denounced as the evil "imperio" by the president.

While the socialist elite enjoy luxury, unimaginable misery spreads across Venezuela.

Thousands of babies died in Venezuela last year, new official data show, highlighting the tragic impact of the country's economic crisis... The health ministry said deaths of infants under the age of one soared by 30 percent in 2016, a year when hospitals and protesters complained of severe shortages of medical supplies. Deaths of mothers linked to childbirth soared by two-thirds meanwhile, according to the data published by the ministry — the latest such figures since 2015. ...The Venezuelan Medical Federation says hospitals have only three percent of the medicines and supplies that they need to operate normally.

Given these horrifying and outrageous stories, is anyone surprised that this is happening?

There has been violence and widespread looting this week in Valencia, a once bustling industrial hub two hours from the capital by road. In an incident loaded with symbolism, a group of young men destroyed a statue of the late leader Hugo Chávez... Footage shows the statue, which depicts Chávez saluting and wearing a sash, being yanked down to cheers in a public plaza before it is bashed into a sidewalk and then the road as onlookers swear at the leftist, who died in 2013... “Students destroyed this statue of Chávez. They accuse him, correctly, of destroying their future,” the opposition lawmaker Carlos Valero said about the incident... Venezuela's opposition...now enjoys majority support... Polls show the ruling Socialists would badly lose any conventional vote due to four years of economic crisis that has led to debilitating food and medicine shortages.

Or this?

Eugenio Vásquez Orellana, who was former Venezuelan President Hugo Chavez's minister of public banking, probably shouldn't have gone to a Venezuelan bakery in Miami, Florida. Shouts of “thief” and “rat” rang out as the crowd realized who this man was.

He should be grateful that he wasn't tarred and feathered. Or worse.

Let's review some additional examples of Venezuela's misery.

The *Wall Street Journal* reports on the plight of low-level government security officials.

Ana, a five-year veteran of the national police, ...and her colleagues use tear gas and rubber bullets against increasingly desperate protesters armed with stones, Molotov cocktails and even bags of feces. The showdowns take place in scorching heat, and she says the authorities provide her with no food, water or overtime pay. ...She and many of her exhausted colleagues say they are wavering as protests enter a seventh week with no end in sight. “One day I will step aside and just walk away, blend into the city,” she said. “No average officers support this government anymore.” ...loyalty...has largely given way to demoralization, exhaustion and apathy amid an economic collapse and endless protests, said eight security officers from different forces and locations... Most of them say they want only to earn a steady wage amid crippling food shortages and a decimated private sector. Others say fear of a court-martial keeps them in line.

While I feel some empathy for poorly paid cops, who are doing bad things but mostly trying to keep their jobs, I have zero sympathy for these elites who merely want to wind up on the winning side.

...as Venezuela sinks into chaos, with clashes between protesters and the police escalating, why have its powerful political and military elites stuck by President Nicolás Maduro?

...Demonstrators have overwhelmed city streets, so far undeterred by a police crackdown in which hundreds have been arrested and dozens killed. The violence deepens a monthslong crisis marked by food shortages, economic collapse and Mr. Maduro's fumbling attempts to consolidate authority. In quasi-democratic systems like Venezuela's, such pressures have often led elites to force a change, and have provided them an excuse to do so. ...splits are beginning to emerge, as a few figures in major institutions signal opposition to Mr. Maduro, hinting at growing dissatisfaction and the government's inability to silence it. Recent actions by both elites and the government suggest they take the possibility of fracture seriously — maneuvering in a high-stakes contest... Elite fracture operates as a kind of game... Stay loyal to a failing government too long and you risk going down with it. But if you break with the government and others don't, you'll pay a high price for disloyalty. ...Mr. Maduro can also play this game. He has enabled loyalists to profit from corruption and patronage, giving them a financial stake in the government's survival. ...Drug and food smuggling also generate revenue, including for the military. But as the economy worsens, elites compete over a smaller pie. "When elites begin to compete among themselves, usually somebody defects," Mr. Levitsky said.

Which suggests – fingers crossed – that the regime may soon collapse.

In our 2017 forecast, we predicted that Venezuela's government would not survive the year. ...nationwide protests that seemed to be reaching a critical point, and the problem has not subsided. For more than a month now, large-scale protests against the government have taken place across the country nearly every day. The death toll continues to rise as protests show no sign of stopping. ...foreign intervention either in support of the government or of the opposition is not a viable way to end this crisis. ...International organizations could also intervene, but they lack the capability or political will to do so. ...Without foreign support, the opposition will need to rely heavily on public protests to increase pressure on the Maduro government. ...So far, Maduro has resisted resignation and a negotiated exit from power, believing he can withstand the protests against him. ...If the military and other security forces can no longer keep the protests in check, it will be a game changer for the Maduro government.

Shifting from news reports to opinion journalism, Kevin Williamson of *National Review* shares his thoughts.

People are starving in Venezuela. That, too, is familiar enough to students of the history of socialism. The Ukrainian language contains a neologism—holodomor—necessitated by the fact that the socialist rulers of that country used agricultural policy to murder by starvation between 2 million and 5 million people who were guilty of the crime of resisting the socialists' agricultural policy. The road to serfdom runs through Venezuela. In the 1990s, famine killed something on the order of 10 percent of the population of North Korea, where people were reduced to cannibalism. A recent study found that the average Venezuelan has lost nearly 20 pounds in the past year as food supplies dwindle. ...Hayek and his colleagues in what has become known as the Austrian school of economics, ...believed that the central-planning aspirations of the socialists were not simply inefficient or unworkable but impossible to execute, even in principle... Hayek believed that efforts to impose central planning on economies were doomed to fail, and that this failure would not be met with humility but with outrage. ...which leads to

outright political repression, scapegoating, and violence. ...there is something about socialism itself that throws up monsters.

Having endured all these depressing snippets of information (as well as the 28 horrifying headlines I shared last month), your reward is some dark humor.

In a video for *Reason*, Remy promotes the highly successful Venezuela Diet.

Let's close with a different type of humor.

It's time to mock the leftists who went on record in favor of Venezuela's totalitarian regime.

Recent figures show that a majority of Venezuelans go to bed hungry and 15 percent of people eat garbage to survive. The country desperately lacks basic resources, such as medicine and power. ...Venezuela's problems date back to 1999, with the election of socialist president Hugo Chávez, whose mass redistribution of wealth and financial mismanagement laid the groundwork for the country's economic collapse. ...Chávez's regime received plaudits from numerous left-wing academics, politicians, and celebrities who have now gone quiet.

Here are a few examples.

- The darling of the left, retired MIT professor Noam Chomsky was a supporter of Chávez's Venezuela and his anti-Americanism, arguing that he brought forward the "historic liberation of Latin America" proving "destructive to the rich oligarchy."
- Actor Sean Penn met with Hugo Chavez on numerous occasions, describing him as a "fascinating guy" who did "incredible things for the 80% of the people that are very poor there."
- Film director Oliver Stone was such a fan of Chávez and the rise Latin American socialism that he made a film about it, entitled *South of the Border*. In the film, he conducted interviews with the continent's left-wing leaders, including Chávez, Cuba's Raúl Castro, Argentina's Cristina Fernández de Kirchner, and Bolivia's Evo Morales.
- Civil rights activist Jesse Jackson...said there was no evidence that Venezuela posed a threat to the United States, while praising Chávez for his "focus on foreign debt, debt relief, and free and fair trade to overcome years of structural disorder, unnecessary military spending, [and] land reform." After Chávez's death, Jackson also offered a prayer at his funeral while celebrating his socialist legacy.
- ...filmmaker Michael Moore..., after Chávez's death, ...praised him for "eliminating 75 percent of extreme poverty" while "[providing] free health and education for all."
- The leader of the British Labour Party Jeremy Corbyn, ...thanked Chávez for allegedly insuring "that the poor matter and wealth can be shared," adding he had made "massive contributions to Venezuela and the world."
- The economist Joseph Stiglitz, a recipient of a Nobel Laureate, praised Hugo Chávez's socialist policies whilst on a visit to Caracas in 2007. Speaking at a World Economic Forum, Stiglitz said: "Venezuelan President Hugo Chavez appears to have had success in bringing health and education to the people in the poor neighbourhoods of Caracas."

And speaking of cosseted left-wing elites, does anyone think **Bernie Sanders** feels remorse for his support of Venezuela's evil government? If this interview is any indication, the answer is no.

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