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THE POLICY CIRCLE

SOCIALISM: A CASE STUDY ON VENEZUELA



➤ SOCIALISM IN VENEZUELA ◀

SOCIALISM IS “ANY OF VARIOUS ECONOMIC AND POLITICAL THEORIES ADVOCATING COLLECTIVE OR GOVERNMENTAL OWNERSHIP AND ADMINISTRATION OF THE MEANS OF PRODUCTION AND DISTRIBUTION OF GOODS.” THE FACT THAT THERE ARE “VARIOUS” FORMS AUTOMATICALLY MAKES THE ISSUE CONVOLUTED, BUT IN GENERAL THE FOCUS IS ON OWNERSHIP OF ECONOMIC RESOURCES.

WHAT SEPARATES VENEZUELA FROM SIMILAR NATIONS IS ITS HISTORY OF CENTRALIZING POWER, ITS GOVERNMENT OVERREACH, AND ITS INABILITY TO “STABILISE EXTERNAL AND FISCAL ACCOUNTS.” BY IMPOSING PRICE CONTROLS, EXPROPRIATING PRIVATE PROPERTY, AND CONDUCTING LARGE-SCALE INDUSTRY NATIONALIZATION, THE VENEZUELAN GOVERNMENT WRECKED THE ECONOMY AND ELIMINATED THE ECONOMIC FREEDOM OF ITS CITIZENS. THE “DISMANTLING OF DEMOCRATIC CHECKS AND BALANCES, AND SHEER INCOMPETENCE” LED TO VENEZUELA’S COLLAPSE.



FACTS TO KNOW



THE WORLD BANK'S 2020 DOING BUSINESS REPORT LISTS VENEZUELA AS ONE OF THE WORST COUNTRIES IN WHICH TO DO BUSINESS, RANKING IT 188TH OUT OF 190 COUNTRIES. IN 2019, BRAZIL RECEIVED \$72 MILLION IN FOREIGN INVESTMENT, COLOMBIA RECEIVED \$14 BILLION, CHILE RECEIVED \$11 BILLION, AND VENEZUELA RECEIVED LESS THAN \$1 BILLION.

THE INTERNATIONAL MONETARY FUND ESTIMATES VENEZUELA'S GDP IS AROUND \$40 BILLION, A FRACTION OF NEIGHBORING COLOMBIA'S GDP OF OVER \$250 BILLION. IN LATE 2020, INFLATION WAS ESTIMATED AT 2,500%.

OVER 5.4 MILLION PEOPLE HAVE FLED THE SHORTAGES OF FOOD, WATER, AND MEDICINE IN VENEZUELA, INCLUDING THOUSANDS OF DOCTORS AND TEACHERS. IN EARLY 2021, COLOMBIA'S PRESIDENT ANNOUNCED THE COUNTRY WOULD PROVIDE TEMPORARY LEGAL STATUS TO THE 1.7 MILLION VENEZUELAN MIGRANTS WHO HAD FLED TO COLOMBIA IN THE PAST FEW YEARS.

LEAKED HEALTH STATISTICS REVEALED THAT BETWEEN 2016 AND 2017, MATERNAL MORTALITY ROSE 65% AND INFANT MORTALITY ROSE 30%. MALNUTRITION AMONG CHILDREN UNDER THE AGE OF 5 HAS REACHED "CRISIS LEVEL," ACCORDING TO WHO STANDARDS. ALMOST TWO-THIRDS OF VENEZUELANANS LOST ABOUT 25 POUNDS IN 2017.



➤ SOCIALIST GOVERNMENT ◀



STATE CONTROL, OR CENTRALIZED PLANNING, MEANS THE GOVERNMENT DETERMINES HOW BEST TO USE AND DISTRIBUTE ECONOMIC RESOURCES ACROSS SOCIETY. THE GOVERNMENT IS IN CHARGE OF MAJOR INDUSTRIES – ELECTRICITY, OIL, COMMUNICATIONS, HEALTH, AND AGRICULTURE, FOR EXAMPLE – AND PLAYS A SUBSTANTIAL ROLE IN DETERMINING PEOPLE'S INCOME AND EMPLOYMENT, THE GOODS AND SERVICES AVAILABLE TO CONSUMERS, AND HOW MUCH THOSE GOODS AND SERVICES COST.

MARXISTS ORIGINALLY DESCRIBED SOCIALISM AS A KIND OF STEPPING STONE ON THE WAY TO COMMUNISM, DEFINED AS A "CLASSLESS SOCIETY." SOCIALIST SYSTEMS INVOLVE A HIGH LEVEL OF GOVERNMENT INTERVENTION IN THE MARKET; COMMUNIST SYSTEMS INVOLVE COMPLETE GOVERNMENT CONTROL OF THE ECONOMIC RESOURCES, AND PROVIDES CITIZENS WITH ALL BASIC NECESSITIES, INCLUDING FOOD, HOUSING, MEDICAL CARE, AND EDUCATION.

SOCIALIST/COMMUNIST SYSTEMS ARE USUALLY CONTRASTED WITH CAPITALIST/FREE ENTERPRISE SYSTEMS, IN WHICH THERE IS "PRIVATE OWNERSHIP OF THE MEANS OF PRODUCTION, WHERE INVESTMENT IS GOVERNED BY PRIVATE DECISIONS AND WHERE PRICES, PRODUCTION, AND THE DISTRIBUTION OF GOODS AND SERVICES ARE DETERMINED MAINLY BY COMPETITION IN A FREE MARKET." THE GOVERNMENT'S ROLE IS TO ALLOW INDIVIDUALS TO MAKE THE MOST OF THEIR ECONOMIC FREEDOM. THIS INVOLVES DEFINING AND ENFORCING THE RULES OF SOCIETY, SUCH AS PROTECTING PEOPLE'S RIGHT TO OWN PROPERTY, AND SETTLING DISPUTES THAT RESULT FROM CONFLICTING INTERPRETATIONS OF THE RULES.

TODAY, THERE ARE NO ECONOMIES THAT ARE PURE, FREE ENTERPRISE SYSTEMS. MOST ARE INSTEAD CONSIDERED MIXED ECONOMIES, WHICH INVOLVE "A COMPLEX MIX OF 'CAPITALIST' MARKET INSTITUTIONS AND 'SOCIALIST' REGULATORY AND REDISTRIBUTIVE INSTITUTIONS." THE GOVERNMENT MAY STEP IN TO HANDLE THE "FREE-RIDER PROBLEM," MEANING IT PROVIDES CERTAIN PUBLIC GOODS AND SERVICES THE MARKET WOULD HAVE TROUBLE PRODUCING OR MAINTAINING ON ITS OWN.



➤ THE ROLE OF GOVERNMENT ◀



CHAVEZ'S CAMPAIGN PROMISE WAS TO USE HIS POWER TO DISTRIBUTE PUBLIC AND PRIVATE OIL REVENUES TO THE POOR. CHAVEZ SPENT THESE FUNDS ON SOCIAL SERVICES AND WELFARE PROGRAMS. THE SOCIAL PROGRAMS, CALLED "MISIONES," DELIVERED BASIC SERVICES FOR EDUCATION, HEALTH, EMPLOYMENT, AND FOOD. THERE WAS PRACTICALLY NO LIMIT TO THESE WELFARE PROGRAMS; ONE YEAR, THE GOVERNMENT HANDOUTS INCLUDED APPROXIMATELY 200,000 HOMES. THIS "BOLIVARIAN REVOLUTION" INITIALLY IMPROVED A NUMBER OF SOCIAL INDICATORS SUCH AS LITERACY, INCOME PER CAPITA, UNEMPLOYMENT RATES, AND INFANT MORTALITY.

CHAVEZ'S ECONOMIC MODEL INTENDED TO HAVE COMMUNITY ENTERPRISES WORKING ALONGSIDE THE PRIVATE SECTOR, BUT GOVERNMENT OVERREACH MEANT NATIONAL AGENCIES, CO-OPS, AND STATE INDUSTRIES COMPRISED THE BULK OF THE ECONOMY. STARTING IN 2007, THE GOVERNMENT USED OIL REVENUE TO BUY THE LARGEST ELECTRICITY, TELECOMMUNICATIONS, AGRICULTURAL, STEEL, GLASS, AND CEMENT COMPANIES. THESE PRODUCED LITTLE RETURN, AND CO-OPS IN PARTICULAR OFTEN "WOUND UP IN THE HANDS OF INCOMPETENT AND CORRUPT POLITICAL CRONIES." PRIVATE ENTERPRISES SUFFERED A NUMBER OF STATE-IMPOSED REGULATIONS AND HIGH TAXES. INTERNATIONAL AIRLINES STOPPED SERVICING FLIGHTS TO VENEZUELA, AND BUSINESSES INCLUDING GENERAL MOTORS, CLOROX, AND KELLOGG'S, AT RISK OF HAVING THEIR ASSETS TAKEN BY THE STATE, FLED THE INHOSPITABLE ECONOMIC CONDITIONS.

THE GOVERNMENT HAS THREATENED NEWS OUTLETS THAT COVER THE OPPOSITION, SHUT DOWN RADIO STATIONS, RAIDED TELEVISION CHANNEL OFFICES, AND BLOCKED WEBSITES. A NUMBER OF INTERNATIONAL JOURNALISTS HAVE BEEN ARRESTED AND DEPORTED. FREEDOM HOUSE, AN INTERNATIONAL ORGANIZATION THAT ANALYZES CHALLENGES TO FREEDOM, RANKS VENEZUELA AS "NOT FREE" IN TERMS OF POLITICAL RIGHTS AND CIVIL LIBERTIES. ARTICLE 57 OF VENEZUELA'S 1999 CONSTITUTION GUARANTEES FREEDOM OF EXPRESSION AND ARTICLE 51 GUARANTEES THE RIGHT TO ACCESS PUBLIC INFORMATION.

IN 2016, MADURO RESPONDED TO MASSIVE DEMONSTRATIONS INVOLVING OVER 6 MILLION VENEZUELANES BY BANNING STREET PROTESTS, WHICH LED TO OVER 130 DEATHS AND ALMOST 5,000 ARRESTS. IN 2017, UNITED NATIONS HUMAN RIGHTS OFFICIALS WERE NOT ALLOWED INTO THE COUNTRY DURING AN INVESTIGATION OF OVER 120 DEATHS THAT COULD HAVE BEEN RELATED TO GOVERNMENT FORCES. MANY PROTESTS HAVE BEEN IN RESPONSE TO GOVERNMENT ATTEMPTS TO CONSOLIDATE POWER, ALSO SEEN IN THE SUSPICIOUS ACTIVITY THAT SURROUNDED THE 2018 VENEZUELAN PRESIDENTIAL ELECTION. IN THE MONTHS LEADING UP TO THE 2018 ELECTION, MADURO BLOCKED OPPOSITION PARTIES FROM PARTICIPATING OR CAMPAIGNING AND ARRESTED OPPOSITION CANDIDATES.



FRAMING THE ISSUE: PRODUCTION & INFLATION



USING OIL REVENUES FOR SOCIAL CHANGE CONTINUOUSLY DEEPENED THE DEPENDENCE ON THE RESOURCE. THERE WAS LITTLE CONCERN WHEN OIL PRICES WERE HIGH IN THE MID-2000S, BUT PRICES FELL IN 2014 AND VENEZUELA NO LONGER HAS THE FUNDS TO IMPORT WHAT IT DOES NOT PRODUCE AT HOME. FOR THIS REASON, WELFARE PROGRAMS HAVE BEEN CUT BACK. CHAVEZ "DID LITTLE TO IMPROVE HOW VENEZUELA ACTUALLY MAKES MONEY." INSTEAD OF RELYING ON AN ENTREPRENEURIAL ECONOMY TO PRODUCE A VARIETY OF GOODS AND SERVICES TO GENERATE WEALTH, CHAVEZ'S POLICIES MADE CITIZENS DEPENDENT ON ONE COMMODITY.

DOMESTIC PRODUCTION PLUNGED AND FOOD IMPORTS SOARED; ACCORDING TO THE DIRECTOR OF VENEZUELA'S CONFEDERATION OF ASSOCIATIONS OF AGRICULTURAL PRODUCERS, VENEZUELA WENT FROM PRODUCING 70% OF ITS FOOD TO IMPORTING 70% OF FOOD. ALL MATERIALS FROM SEEDS TO FERTILIZER ARE PROVIDED BY THE GOVERNMENT, BUT FARMERS REPORT THEY OFTEN DO NOT RECEIVE SUPPLIES. ADDITIONALLY, THE GOVERNMENT-CONTROLLED STEEL INDUSTRY DOES NOT PRODUCE ENOUGH MACHINERY AND INFLATION HAS MADE IT ALMOST IMPOSSIBLE TO AFFORD IMPORTING NEW EQUIPMENT.

THE SCARCITY OF GOODS DROVE PRICES UP, RESULTING IN MASSIVE INFLATION. THE PRICE CONTROLS UNDER PRESIDENT CHAVEZ MADE NECESSITIES MORE AFFORDABLE, BUT IT WAS NO LONGER PROFITABLE FOR BUSINESSES TO MAKE THEM. AS A RESULT, PEOPLE WERE FORCED TO TURN TO THE GOVERNMENT FOR HANDOUTS OR TO THE BLACK MARKET. PRESIDENT MADURO REPEATEDLY INCREASED THE MINIMUM WAGE IN AN ATTEMPT TO COMBAT INFLATION. IN AUGUST OF 2018, A 3000% INCREASE EQUATED TO ABOUT \$20 A MONTH. THIS HAD ALMOST NO EFFECT; ALMOST 90 PERCENT OF VENEZUELA'S POPULATION LIVED IN POVERTY AND PRICES WERE DOUBLING ON AVERAGE EVERY 19 DAYS BY THE END OF 2018.



FRAMING THE ISSUE: BRAIN DRAIN



AS THE ECONOMY CRUMBLES, EDUCATION HAS BECOME A LUXURY. SCHOOL BUILDINGS OFTEN LACK WATER AND ELECTRICITY. EACH START OF THE SCHOOL YEAR, THOUSANDS OF TEACHERS DO NOT SHOW UP TO CLASSES, HAVING OPTED FOR DIFFERENT JOBS THAT EARN SLIGHTLY MORE MONEY OR TRYING THEIR LUCK ABROAD. POST-SECONDARY EDUCATION IS ALSO SUFFERING. SIMON BOLIVAR UNIVERSITY, DUBBED VENEZUELA'S "UNIVERSITY OF THE FUTURE," WAS GOVERNMENT-FUNDED SINCE IT OPENED IN 1970, BUT ALUMNI LIVING ABROAD HAVE BEEN FINANCING THE UNIVERSITY WITH PRIVATE DONATIONS AND TEACHING CLASSES VIA SKYPE. PROFESSORS CAN ONLY EXPECT TO EARN THE EQUIVALENT OF \$25 PER MONTH, PROMPTING MANY TO FLEE THE COUNTRY.

OVER 20,000 DOCTORS HAVE FLED VENEZUELA SINCE 2014. ACROSS THE COUNTRY, HOSPITALS FACE SHORTAGES OF BASIC MEDICINES SUCH AS THOSE TO CONTROL HYPERTENSION OR DIABETES, AND HIGH-COST MEDICINES FOR CANCER, PARKINSON'S AND MULTIPLE SCLEROSIS ARE NO LONGER IMPORTED. TREATMENTS SUCH AS ORGAN DONATIONS AND TRANSPLANTS STOPPED IN 2017. THE 1996 CONSTITUTION GUARANTEED THE RIGHT TO HEALTH AS "AN OBLIGATION OF THE STATE," BUT THE STATE HAS INSTEAD REDUCED FUNDING, SILENCED PRACTITIONERS, AND CENSORED HEALTH SYSTEM PUBLICATIONS. THE GOVERNMENT SPENDS ABOUT 1.5% OF GDP ON HEALTHCARE, WHICH IS 75% LOWER THAN THE WORLD STANDARD.

VENEZUELA IS NOW THE ORIGIN OF ONE OF THE LARGEST MASS MIGRATIONS EVER ON THE LATIN AMERICAN CONTINENT. AS OF DECEMBER 2020, 5.4 MILLION PEOPLE HAVE FLED THE SHORTAGES OF FOOD, WATER, AND MEDICINE. FORMER DOCTORS AND ENGINEERS WORK AS WAITERS OR STORE CLERKS IN COLOMBIA AND PERU TO SEND REMITTANCES BACK TO FAMILY MEMBERS WHO REMAIN IN VENEZUELA, BUT THEY FREQUENTLY FACE HOSTILITY FROM CITIZENS OF OTHER NATIONS WHO ACCUSE VENEZUELAN'S OF STEALING THEIR JOBS. COLOMBIA, VENEZUELA'S NEIGHBOR TO THE WEST, IS ABSORBING MOST OF THOSE FLEEING.



FRAMING THE ISSUE: OUTAGES & AID



INTERMITTENT POWER OUTAGES ARE A REGULAR OCCURRENCE, BUT A MASSIVE OUTAGE THAT AFFECTED 22 OF VENEZUELA'S 23 STATES IN EARLY MARCH REVEALED THE SEVERITY OF THE STATE OF VENEZUELA'S ENERGY INFRASTRUCTURE. PRO-GOVERNMENT OFFICIALS BLAMED VENEZUELA'S OPPOSITION PARTY, CLAIMING THEY HAD SABOTAGED VENEZUELA'S HYDROELECTRIC GURI DAM AS PART OF AN "ELECTRICITY WAR" DIRECTED BY THE U.S. ENERGY EXPERTS, POWER SECTOR CONTRACTORS, AND EMPLOYEES FROM THE GOVERNMENT ENERGY COMPANY ATTRIBUTED THE PROBLEMS TO "YEARS OF UNDERINVESTMENT, CORRUPTION AND BRAIN DRAIN." SKILLED OPERATORS "HAD LONG LEFT THE COMPANY BECAUSE OF MEAGER WAGES AND AN ATMOSPHERE OF PARANOIA."

THE FALLOUT HAS ONLY EXACERBATED THE SUFFERING OF THE VENEZUELAN PEOPLE. LOOTERS STARTED RANSACKING BUSINESSES FOR FOOD AND SUPPLIES. GAS STATIONS COULD NOT PUMP FUEL, CAUSING MANY TO TURN TO THE BLACK MARKET FOR GASOLINE IN "A COUNTRY THAT SUBSIDIZES FUEL TO THE POINT THAT IT IS NEARLY FREE." AT LEAST 20 PEOPLE DIED IN PUBLIC HOSPITALS DUE TO THE OUTAGES; DAMAGED OR DRAINED BACK-UP GENERATORS COULD NOT KEEP MACHINES REQUIRED FOR DIALYSIS, INCUBATORS, AND ARTIFICIAL VENTILATION RUNNING.

PRESIDENT MADURO ORDERED TROOPS TO BARRICADE BRIDGES AT THE BORDERS TO PREVENT AID FROM ENTERING IN FEBRUARY 2019, CALLING AID EFFORTS "PART OF A HOSTILE FOREIGN MILITARY INTERVENTION." AT THE END OF MARCH 2019, HOWEVER, MADURO REACHED AN AGREEMENT WITH THE INTERNATIONAL RED CROSS TO DELIVER AID. BY SEPTEMBER 2019, THE AID WAS ONLY MAKING SMALL IMPROVEMENTS AND SHORTAGES IN MEDICINES STILL PERSIST. OVER THE SUMMER OF 2020, VENEZUELA'S OPPOSITION PARTY REACHED AN AID AGREEMENT WITH THE PAN AMERICAN HEALTH ORGANIZATION, SPECIFICALLY TO HELP VENEZUELA RESPOND TO THE PANDEMIC, BUT HUMAN RIGHTS WATCH REPORTED IN DECEMBER 2020 THAT VENEZUELAN AUTHORITIES WERE "FREEZING BANK ACCOUNTS, ISSUING ARREST WARRANTS, AND RAIDING OFFICES" OR HUMANITARIAN GROUPS OPERATING IN THE COUNTRY.



➤ THE FUTURE OF VENEZUELA ◀



DESPITE THE INTERNATIONAL COMMUNITY'S CONDEMNATION OF THE ELECTIONS, MADURO BEGAN HIS NEXT SIX-YEAR TERM WITH AN INAUGURATION CEREMONY ON JANUARY 10, 2019. BARELY TWO WEEKS LATER, MASS DEMONSTRATIONS BROKE OUT IN CARACAS IN SUPPORT OF JUAN GAIDÓ, HEAD OF THE NATIONAL ASSEMBLY. GIVEN THE CONTESTED ELECTION RESULTS, GAIDÓ CLAIMED MADURO WAS USURPING THE PRESIDENCY BY STAYING IN OFFICE AND THAT GAIDÓ COULD ASSUME POWER BASED ON ARTICLE 233 OF THE VENEZUELAN CONSTITUTION, WHICH STATES: "IF AT THE OUTSET OF A NEW TERM THERE IS NO ELECTED HEAD OF STATE, POWER IS VESTED IN THE PRESIDENT OF THE NATIONAL ASSEMBLY UNTIL FREE AND TRANSPARENT ELECTIONS TAKE PLACE." HE SWORE HIMSELF IN AS INTERIM PRESIDENT ON JANUARY 23, 2019.

IN JANUARY 2021, THE OPPOSITION PARTY BOYCOTTED NATIONAL ELECTIONS, WHICH MEANS TECHNICALLY GAIDÓ'S TERM AS CONGRESSIONAL SPEAKER EXPIRED. MANY LATIN AMERICAN AND EUROPEAN NATIONS HAVE "DISTANCED THEMSELVES" FROM THE OPPOSITION AS THEY CANNOT JUSTIFY "RECOGNIZING A LEADER WHO HAS NO CONTROL OVER THE COUNTRY," ALTHOUGH THE U.S. STILL OFFERS ITS SUPPORT.

MEXICO, TURKEY, IRAN, BOLIVIA, NICARAGUA, CHINA, AND RUSSIA CONTINUE TO RECOGNIZE THE MADURO REGIME. CHINA IN PARTICULAR HAS OFFERED TECHNICAL ASSISTANCE TO HELP RESTORE THE COUNTRY'S ELECTRICAL GRID, AND CUBA IS HEAVILY INVOLVED IN VENEZUELA'S OIL INDUSTRY.



WHAT YOU CAN DO



BE IN THE KNOW ON VENEZUELA ISSUES AND SHARE WITH YOUR FRIENDS, COLLEAGUES AND FAMILY: CHECK OUT THIS POLICY CIRCLE BRIEF ON FREE ENTERPRISE & ECONOMIC FREEDOM OR IT'S A WONDERFUL LOAF FROM RUSS ROBERTS AT STANFORD UNIVERSITY'S HOOVER INSTITUTION FOR MORE ON MARKETS AND HOW THEY ARE AFFECTED BY GOVERNMENT INTERFERENCE LISTEN TO THE POLICY CIRCLE'S CONVERSATION CALL ABOUT VENEZUELA KEEP TRACK OF BILLS IN CONGRESS RELATED TO VENEZUELA.

ENGAGE- KNOW WHO DECIDES POLICY IN VENEZUELA: STAY UP TO DATE WITH INFORMATION FROM THE HOUSE FOREIGN AFFAIRS COMMITTEE AND THE SENATE COMMITTEE ON FOREIGN RELATIONS ORGANIZE A COMMUNITY GATHERING ABOUT AID, POLICY, AND WHAT YOUR TAX DOLLARS ARE GOING TO SUPPORT IN FOREIGN COUNTRIES. POSE ANY QUESTIONS IN A WRITTEN PIECE FOR YOUR LOCAL PUBLICATION TO MAKE OTHERS IN YOUR COMMUNITY AWARE AND SEEK ANSWERS. CHECK OUT THE POLICY CIRCLE'S GUIDE TO WRITING AN OP-ED.