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Venezuela: Socialism's House of Horrors

Socialism destroys countries' economies: Under low doses of it, countries succumb slowly to its ravages, and high doses of socialism can cause a quick demise.

Proponents of socialism such as Senator Bernie Sanders (I-Vt.) often point to the Scandinavian welfare states as alleged success stories that the United States should emulate. They are, however, notably reluctant to address the many other countries around the world that have tried socialism to one degree or another with considerably less success.



Case in point: Venezuela. The nation with the world's largest proven oil reserves is also its most miserable. For three years running, it has ranked number one on the world misery index, which is based on each country's unemployment, inflation, and interest rates. It suffers from triple-digit inflation, shortages of basic necessities, poverty, crime, and corruption. Is it any wonder that Sanders refused to comment on this glittering jewel of socialism during a Univision interview last year?

From Wealth to Welfare

Why should a country sitting on one of the world's most valuable commodities be unable to manage a welfare state when other countries are able to get by or even prosper while doing so? Socialism in any form is, of course, a bad idea, but a nation can — at least for a time — withstand moderate doses of it, particularly if it starts from a position of economic strength.

Venezuela, however, has gone far beyond "moderate" socialism. The 2016 Heritage Foundation/*Wall Street Journal* Index of Economic Freedom ranks Venezuela 176th out of 178 countries, ahead of only the officially communist states of Cuba and North Korea. And hand-in-hand with economic repression has come political repression, with President Nicolás Maduro becoming a virtual dictator and dissenters being silenced.

Moreover, Venezuela's march down the road to serfdom did not begin from a position of economic strength. As former National Security Council officer Roger Fontaine pointed out in a 1996 Cato Institute policy analysis, the South American nation has never been particularly hospitable to the development of indigenous businesses. "In fact," he recounted, "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."

This foreign investment paid dividends, giving Venezuela the highest per-capita income in Latin America by 1950. Observed Fontaine:

Even at midcentury, those figures were deceptive, however, because the data masked huge disparities



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in income. While the middle and upper classes in the Venezuelan capital, Caracas, benefited from the oil wealth, the urban poor and most residents of rural areas had a far lower standard of living. Worse, Venezuela's regulation-happy bureaucracy constituted 15 percent of the labor force. Tight controls over foreign investment discouraged real job creation, higher productivity, and rising wages. Instead, some of Venezuela's poor were bought off with public housing and other subsidies — artificially low bus fares, for example — that were soon seen as rights that could not be taken away, at least not without violent protest.

By the time Fontaine compiled his report, more than half of Venezuelans were on the public dole in one form or another, and the populace appeared content to continue down this path under the belief that "their country is rich and its major problems can be solved by a more egalitarian distribution of existing wealth." Venezuela's blindly leftist political culture, poor educational system, overbearing bureaucracy, deteriorating lower and middle classes, and super-rich who hadn't really earned their wealth, he argued, were "the ingredients of a societal Molotov cocktail."

Caesar Chávez

The cocktail's fuse was lit just three years later when Hugo Chávez (shown above) ascended to the presidency on a platform of combating poverty and corruption. Chávez, a self-proclaimed Trotskyist, had previously participated in a failed coup against President Carlos Andrés Pérez, who had taken some mild steps toward liberalization.

Initially, Chávez appeared to be little different from his predecessors, most of whom were run-of-the-mill Latin American leftists. But his true colors soon became evident.

In a 2006 Cato Institute report, Venezuelan anti-corruption crusader Gustavo Coronel wrote:

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 supraconstitutional powers, unconstitutionally dissolved Congress and most other existing democratic institutions during 1999 and replaced them with institutions staffed by people loyal to Chávez. This was a clear case of political corruption and a progressive coup d'état that ended with all Venezuelan political institutions under the control of the government and eliminated effective checks and balances. From that moment on, for all practical purposes, Venezuela ceased to be a democracy.

With most of the opposition out of the way, Chávez began implementing his hard-left ideology. He nationalized the oil industry, in the process firing 20,000 state oil company employees and replacing them with political cronies. Between 2002 and 2012, he nationalized 1,168 foreign and domestic companies. He aligned his country with some of the worst regimes on the planet, including those of Cuba and North Korea. And that wasn't the end of it.

"Perhaps more than any other Latin American strongman in recent memory," penned the Ludwig von Mises Institute's Ryan McMaken, "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.'" The Chávez regime, McMaken averred, "intentionally crushed even the middle and working classes." He pointed to the example of "a small-time butcher in Caracas" whom Chávez declared a "class traitor and a tool of international



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capitalists”; the butcher, “along with many other small business owners and retailers,” was arrested and tried for “various ‘capitalist’ crimes.” Chávez also persecuted Jews, threatened “the rich” (i.e., business owners) with “civil war” for failing to back his policies, and shut down opposition media outlets.

Meanwhile, thanks to rising oil prices, Chávez was able to give the Venezuelan people even more of the freebies they already believed were their birthright.

Successful Socialism? Scarcely

For a while, it all seemed to work, at least according to official government statistics. Thus, by 2013, *Salon* could run an article touting “Hugo Chávez’s Economic Miracle” — improved Gross Domestic Product (GDP); lower rates of infant mortality, unemployment, and extreme poverty; increased college enrollment; better access to healthcare — and arguing that the United States should follow Venezuela’s lead.

The article was, to be generous, misleading even at the time of its publication. For one thing, the trends in Venezuela were similar to those of its considerably less socialist neighbors, some of which actually outperformed it. For another, as even *Salon* admitted, Chávez’ policies had still not solved some of Venezuela’s most intractable problems, such as the country’s murder rate, which jumped from the already horrific figure of 25 per 100,000 people in 1999 to at least 58 per 100,000 by 2015. (Exact figures are hard to come by because of government secrecy; independent estimates put the 2015 rate as high as 90 per 100,000.) Today Caracas is the world’s most violent city.

Still, to the extent that the article was accurate, its gloating over South American socialism turned out to be premature. By October 2014, Venezuela was running a 17-percent budget deficit, the official inflation rate was 65 percent, and there were shortages of various necessities, including food, medicine, and toilet paper. Oil prices began to plummet, greatly shrinking the government’s income. In January 2015, Moody’s downgraded Venezuela’s credit rating to one step above default.

Truth be told, the country’s looming crisis was evident to unbiased observers well before 2014. Because Chávez’ new social programs cost enormous sums of money — over \$100 billion in their first decade — the government began printing the necessary currency (bolivars) to fund them. When prices inevitably increased, Chávez imposed price controls, which just as inevitably resulted in shortages. By 2005, the country’s central bank was already reporting that five percent of goods were unavailable; that figure rose to 24.7 percent in 2008 and 28 percent in 2014, whereupon the government stopped publishing the information. Venezuelan economists told the U.K. *Guardian* in 2013 that a 20-percent scarcity rate “is similar to countries undergoing civil strife or war-like conditions.”

Chávez’ death in 2013 did nothing to alleviate his people’s plight. His handpicked successor, Nicolás Maduro, is an even more militant Marxist than Chávez — he actually studied under Fidel Castro — and has continued and expanded Chávez’ disastrous policies, blaming their manifold failures on capitalists and the United States. The inflation rate reached 800 percent in 2016 and is expected to be double that this year, according to International Monetary Fund (IMF) estimates. The IMF also estimates that Venezuela’s GDP fell by 10 percent last year; private economists think it contracted by as much as 15 percent. (As with the shortage rate, the government refuses to publish other economic data; no news, apparently, is good news, as far as Maduro is concerned.) Maduro’s continuation of Chávez’ disastrous



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policies, combined with the downturn in oil prices, has only deepened the problem of shortages.

The Maduro Diet

Food is one of the scarcest items in the country. Venezuela simply does not grow enough food to feed its own people, and it can no longer afford to import it. Besides, few foreigners want to sell things to Venezuela because its official exchange rates — all four of them — don't even come close to the actual value of the bolivar relative to foreign currency.

"Other than oil, we produce close to nothing, and even oil production has decreased," Asdrúbal Oliveros, an economist with the Venezuelan consulting firm Ecoanalítica, told the *Guardian*. "There is a lack of hard currency, and, in a country that imports everything, this becomes more evident with food scarcity."

The government's policy of redistributing large parcels of private farmland to small farmers also hurt. "More than 3m hectares [about 7.4 million acres] were expropriated during 2004-2010. That and overvalued exchange rate destroyed agriculture," said Oliveros. "It's cheaper to import than it is to produce. That's a perverse model that kills off any productivity."

Agricultural production has fallen so dramatically that Maduro has been encouraging city dwellers to grow their own food and even issued a decree last summer stating that the government could force people to work in the fields for up to 60 days at a time — longer "if circumstances merit."

Maduro, who blames the shortages on hoarding by private companies, began rationing food in 2014. Now Venezuelans wait in long lines for hours upon hours in hopes of purchasing what little is left that they can afford. According to a June report from the *New York Times*, "A staggering 87 percent of Venezuelans say they do not have money to buy enough food," and "a family would need the equivalent of 16 minimum-wage salaries to properly feed itself."

Starvation is becoming a widespread problem. "Citizens are chasing down stray cats and dogs (and the occasional unlucky pigeon) to stave off hunger," reported The New American online. Others have taken to eating garbage. Dozens of food riots have broken out, with looting of stores commonly a part of them. "Venezuela," the *Times* wrote, "is convulsing from hunger."

The situation in prisons is even worse. Thanks to overcrowding and food shortages, prisoners are literally eating each other, leading to hundreds of riots.

"My son and two others were taken by 40 people, stabbed, hanged to bleed, and then ... butchered ... to feed all detainees," Juan Carlos Herrera told reporters in October. Herrera, whose 25-year-old son had been serving time for robbery in a Caracas prison, said the inmate who informed him of this incident "told me that he was beaten with a hammer to force him to eat the remains of the two boys."

"Prisoners have been dismembered before and some inmates have forced other prisoners [to] eat their [own] fingers. That happened in a detention center in El Tigre," Humberto Prado, coordinator of the Venezuelan Prison Observatory, told Fox News Latino. "But inmates die not only from that [kind of violence], there are many prisoners who die of hepatitis, cirrhosis or famine."

On the outside, starvation is driving parents to turn their children over to charities, neighbors, or even the state in an effort to keep them alive. Officials in the Caracas municipality of Sucre, which includes some of the worst slums in the region, told Reuters in December that they have seen an "exponential"



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increase in the number of parents giving up their children.

"It's very dramatic to see parents' pain when saying they can no longer look after their child," said welfare director Angeyeimar Gil. "We're seeing a lot of cases of malnutrition and children that come to hospital with scabies."

Some parents are simply abandoning their children. Infants and toddlers have been found in bags and cardboard boxes. Recently, two mothers checked out of hospitals after giving birth without taking their babies.

A social-services center in Carirubana, a municipality on a peninsula far from Caracas, sees "more than a dozen parents plead for help taking care of their children" every day, up from about one parent per day in 2015, said Reuters. Maria Salas, the center's director, said, "The principal motive now is lack of food."

One mother who gave her young daughter to a neighbor told Reuters, "It's better that she has another family than go into prostitution, drugs or die of hunger." The number of children begging or prostituting themselves just to survive is growing, welfare workers said.

Enter Healthy, Leave Dead

Venezuela's healthcare system is faring no better than its food-distribution system. "The economic crisis in this country has exploded into a public health emergency, claiming the lives of untold numbers of Venezuelans," observed the *Times*:

Hospital wards have become crucibles where the forces tearing Venezuela apart have converged. Gloves and soap have vanished from some hospitals. Often, cancer medicines are found only on the black market. There is so little electricity that the government works only two days a week to save what energy is left.

Infant mortality is skyrocketing. The Venezuelan government reported that between 2012 and 2015, the public-hospital death rate for babies under a month old had increased more than a hundredfold, and the rate for new mothers had nearly quintupled.

"The death of a baby is our daily bread," said Dr. Oselidy Camejo, a surgeon in Caracas.

Babies and mothers aren't the only ones suffering. Practically anyone who either visits or works in a hospital is in danger. According to the *Wall Street Journal*, "On a recent day at the University Hospital of Maracaibo, in Venezuela's second-largest city, patients lay on bare beds in rooms with dirty floors. There was no running water, medicine, cleaning supplies or food. Feces floated in the toilets. Medical staffers there said gang members roam the halls, forcing underpaid and harassed doctors to lock themselves in the offices to avoid assaults." A hospital in the Caribbean port town of Barcelona lacks functioning X-ray and kidney dialysis machines, and some patients are forced to lie on the floor in pools of their own blood because of a lack of beds.

"Some come here healthy, and they leave dead," emergency-room physician Dr. Leandro Perez told the *Times*.

Maduro, in typical fashion, prefers to deny the situation. In a television appearance last year, he declared, "I doubt that anywhere in the world, except in Cuba, there exists a better health system than this one." Lest the truth get out, doctors in state-run hospitals are forbidden to reveal data on the state



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of medical care, and journalists are kept out of healthcare facilities by armed guards.

In fact, Maduro's whole approach to resolving his nation's woes seems to be first to deny that there is a problem and then to double down on the policies that caused the problem in the first place — the more authoritarian the tack, the better. Running out of oil revenue to pay for social programs? Print more money. (The bolivar lost half its value in November alone.) Prices rising because of the new cash? Impose price controls, have the military take over food distribution and occupy stores, and fire the head of the central bank for doing exactly what he was told to do. Christmas about to be spoiled by high prices and shortages? Force retailers to have sales they can't afford and confiscate toys from the manufacturer — be sure to accuse him of price speculation for good measure — so the government can play Santa Claus. Capital fleeing the country? Impose currency controls. Unemployment on the rise? Increase the minimum wage, guaranteeing even more joblessness. Government agencies or media outlets reporting bad news? Silence them. Citizens rioting over the lack of food? Confiscate their guns. Political opponents threatening to remove you from office? Round them up and ship them off (or worse).

Socialism's Default Denouement

Absent major changes in policy, what does the future hold for Venezuela? Nothing good.

The Venezuelan economy is in ruins. Johns Hopkins University economics professor Steve Hanke calculated that "since the arrival of Chávez in 1999, Venezuela's real GDP in dollar terms has vanished." The state-owned oil company's production has fallen 20 percent since then, and now, according to Reuters, it can't even afford to service its vessels so it can export oil. Multinational corporations are getting out while the getting is good, even if it means taking significant losses. Hundreds of thousands of ordinary citizens are high-tailing it for other countries.

Then there's the country's massive and growing foreign debt. Thus far, the government has gone out of its way to pay creditors despite desperate domestic needs. When Harvard economist Ricardo Hausmann, a native Venezuelan, publicly questioned this decision, he was, predictably, excoriated as a "financial hitman" and "outlaw" by Maduro.

But with oil prices still far below the heights of a few years ago and the nation's economic situation increasingly dire, "it is only a matter of time until Venezuela will default on its foreign debt," Dr. Antony Mueller, an economics professor at Brazil's Federal University of Sergipe, asserted in January:

After a short peak in 2009, when the country's foreign exchange reserves stood at over \$40 billion, Venezuela has been steadily hemorrhaging its reserves down to \$10 billion. In 2016, Venezuela started to sell gold in order to compensate for the loss of its monetary reserves. As a consequence, Venezuela's gold reserves plunged from over 360 tons down to less than 190 tons. Other than in the case that some foreign power, such as China, for example, would jump in as a lender, Venezuela's default seems unavoidable.

At that point, the nation would be in an even more precarious position. Argentina's 2001 default, for instance, was met with social and political unrest, including three different presidents in the course of four days, and lawsuits that tied up its government for more than a decade. Since the state oil company owns part of Venezuela's foreign debt, bondholder lawsuits "could severely disrupt [the company's] operations and result in seizures of the company's overseas assets," explained the *Times*.

All of this suggests that Maduro, whose approval ratings are in free fall, may soon be driven from office.



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And because he has made the peaceful transfer of power nearly impossible, he is likely to be removed forcibly.

Average Venezuelans, meanwhile, will continue to suffer the most. Until they come to realize that socialism is at the root of their problems, however, they will just keep replacing one left-wing government with another in the vain hope that someone somehow will finally be able to make an unworkable system succeed. As the Mises Institute's Tho Bishop put it, "The crisis that Venezuela finds itself in is purely one of ideology, and there is no hope for the country until that is understood."

Fans of socialism in other parts of the world need to learn the same lesson. For them, perhaps, a field trip to Hugo Chávez' "economic miracle" is in order.

Photo of Hugo Chávez : AP Images



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