Hugo Chávez Against the Backdrop of Venezuelan Economic and Political History

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Venezuelan president Hugo Chávez is a source of irritation for the leaders of freer countries. Financed by high oil prices, Chávez has meddled, sometimes successfully, in the internal politics and electoral processes of Bolivia, Ecuador, El Salvador, Mexico, and Peru, among other countries. He has established alliances with Iran and other "rogue" states of the Middle East. "An avowed Marxist, Mr. Chávez is in the process of destroying his country. Of this there is no doubt. But he is also an international menace, and a rich one at that. He has been using his oil wealth to sow revolution, à la Fidel Castro, in South and Central America. Did we mention that he's a dear friend of the Iranian government?" (O'Grady 2007).

In short, Chávez has been a destabilizing force around the world, attempting to subvert democratic rule and capitalism and to establish the so-called Socialism of the Twenty-first Century in his own country and elsewhere. In Venezuela, the so-called Bolivarian Revolution in 2007 nationalized electricity companies, renationalized the largest fixed telephone company, and shut down a TV station with the broadest audience in the country.

In this article, I seek to cast light on the political-economy determinants of

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Chávez's advent and popularity. I show that the Venezuelan economy produced a growth miracle from 1920 to 1957, especially during the 1940s and 1950s. Starting in the late 1950s, however, political leaders acting in complicity with elements of the private sector started to undermine the institutions that protected private property. Erosion of economic freedoms continued unabated and eventually was conducive to Chávez's free election. Under his regime, economic freedom has continued to decline, and now, not surprisingly, political and civil liberties are in serious jeopardy. Thus, the Venezuelan economy went from being a growth miracle to being a growth disaster. This story of an economy that went from riches to rags features government-owned oil wealth that engendered perverse incentives and demonstrates a lack of political and entrepreneurial leadership.

In this article, I provide objective information on the performance of the Venezuelan economy for the periods from 1920 to 1957 and from 1958 to 2006, respectively. Next, I offer a brief historical account that allows a comparison of the institutions that prevailed in both of these periods. Based on evidence about the institutional environment that prevailed between 1958 and 2006, I then characterize today's Venezuelan economy as socialist and mercantilist and suggest some factors that account for its persistence. I present a public-choice perspective of the difficulties of extricating the Venezuelan economy—indeed, most Latin American economies—from the poverty trap of socialism and mercantilism. Emphasizing that private property is the foundation of freedoms, I argue that because patrimonial governments such as Venezuela's lack this foundation, their political, civil, and economic liberties are precarious. To show the importance of entrepreneurial leadership for the promotion of economic freedom, I marshal historical and contemporaneous evidence and highlight the absence of such leadership in Venezuela. Finally, I offer potential future outcomes, describing possible causes of Chávez's downfall, noting that prospects for ousting Chávez are better than prospects for firmly establishing capitalism.

Growth Miracle

In 1960, Venezuela's gross domestic product (GDP) per worker relative to the comparable measure for the United States was 0.837 (Jones 2002, 216–19). At that time, the same ratio was 0.797 for Canada, 0.825 for Switzerland, and 0.788 for Australia, which shows that each of those advanced economies was roughly equivalent to Venezuela in its average output per worker.

To reach such a high level, the Venezuelan economy must have grown rapidly during the preceding decades, and the best available evidence is consistent with this hypothesis. The Venezuelan Central Bank, established in 1939, began to produce reliable national-accounts data in 1950. According to these data, Venezuelan real output per capita grew by 5.4 percent per annum on average between 1950 and 1957, a rate similar to the growth rates of the so-called Asian Tigers from 1960 to 2000. Venezuela's 87 percent increase in real output per capita between 1950 and 1957 not only exceeded that of any other Latin American country, but surpassed West Germany's "miracle" increase of 76 percent.

Moreover, the best available data—estimates by Baptista (2006) and by Sánchez-Coviza and Olcoz (1966)—indicate that Venezuela's GDP expanded during the 1940s at an average annual rate in excess of 10 percent. These same scholars also estimate that the growth rate was high during the 1920s and 1930s.

Growth Disaster

Jones classifies Venezuela as a growth disaster between 1960 and 1997 because real income per capita grew at a rate of minus 0.13 percent (2002, 4). Of 112 countries with data for the period from 1960 to 2000, sixteen endured a negative average growth rate (Barro and Sala-i-Martin 2004, 4). Fourteen of those sixteen lie in the sub-Saharan region, and two in Latin America. Of those two, Nicaragua suffered a civil war and a socialist government, whereas the other, Venezuela—a country rich in oil, gas, coal, and iron—experienced no major internal turmoil.

Hugo Montesinos and I, using data from the World Development Indicators published by the World Bank, estimate that Venezuela's real income per capita grew on average during the 1960s by 1.46 percent per annum, during the 1970s by minus 0.76 percent, during the 1980s by minus 1.88 percent, during the 1990s by minus 0.08 percent, and under Chávez from 1999 to 2006 by minus 0.06 percent. Owing to the great increase in oil prices recently, the growth rate has exceeded 10 percent since 2004.

What Happened?

The discovery of oil in 1918 gave substantial impetus to the Venezuelan economy. Private international companies handled all aspects of the oil business, however. The Venezuelan government did not make the mistake of attempting to manage the oil business. The central bank acted as a currency board, defending an irrevocable fixed exchange rate with the dollar. The marginal tax rate on individual income was 12 percent in 1957, and the consolidated public sector absorbed 22 percent of GDP. Moreover, government consumption represented only 12 percent of GDP, and the rest was spent in building the country's basic infrastructure. The overall fiscal budget was generally in surplus. Tariffs were relatively high at 20 percent, but other impediments to trade, such as quotas and antidumping or safeguard laws, did not exist. There were few state-owned companies and virtually no price, interest-rate, or exchange-rate controls. Although political and civil liberties were tightly restricted, the judicial system administered justice impartially, particularly in the area of business and economics. The cities were safe, and corruption was concentrated at the highest level of government. Thus, corruption's drag on economic growth was not as severe as it would have been if it had pervaded the government bureaucracy.

According to Escovar and Faria (2006), the Index of Economic Freedom for Venezuela—on a scale from 1 to 5, where 1 is the freest—was 1.5 in 1950 and 1.6 in 1955. This evidence suggests that the Venezuelan miracle was not simply driven by oil. Economic institutions guarded private property and helped to channel the oil wealth efficiently. The manufacturing, construction, and service sectors grew faster than overall GDP.

During the 1950s, however, when Venezuela still enjoyed substantial economic freedoms, government decisions began to chip away those freedoms. In 1950, Marcos Pérez Jiménez's dictatorial government nationalized CANTV, the telephone company. Soon afterward it founded SIDOR, a state-owned steel company, built dams to generate electricity, and established hotels across the country in hopes of developing a tourist industry. In addition, the government founded a state-owned petrochemical company called Instituto Venezolano de Petroquímica and set up numerous regional "development" banks. This formation of state-owned companies was implicitly justified by the apparent success of centrally planned economies such as the Soviet Union.

Pérez Jiménez's government was overthrown in 1958, and a democracy with universal suffrage and freedom of the press was established in 1959. These events are consistent with the notion that economic freedom and the growth of wealth destabilize dictatorial regimes because citizens, having savored economic freedom, also want to enjoy political and civil liberties (Barro 1999; Glaeser et al. 2004).

Democratic leaders, however, accelerated Venezuela's descent into socialism and mercantilism. Romulo Betancourt was elected in December 1958 and assumed the presidency in 1959. One of Betancourt's first decisions as president was to undertake a land reform aimed at breaking up large landholdings (*latifundia*). New "owners" of the redistributed land received titles of use, but not full ownership rights. Betancourt's government established a central planning office called CORDIPLAN, adapted to a mixed economy. During his presidency, one of his cabinet members founded the Organization of Petroleum Exporting Countries (OPEC). The government also created a state-owned oil company called Corporación Venezolana de Petróleo and barred international oil companies from new concessions. Thus, if these companies discovered new oil deposits, they were not allowed to extract the oil.

Betancourt devalued the currency, raising the bolivar price of the dollar from 3.30 to 4.50, and implemented exchange controls. He also increased overall government expenditures, especially consumption outlays. His government tripled the income tax rate, raising it from 12 percent to 36 percent, made the tax more complex, and introduced numerous graduated brackets. Years of successive fiscal deficits made their first appearance and then became a hallmark of Venezuela's public finance.

Price controls were generalized. A notable example was rent control, which wiped out the market for rental dwellings and helped to foster today's slums. The government also limited European immigration, which had been a major source of innovation and transformation of the Venezuelan economy.

Notwithstanding the serious wounds Betancourt inflicted on the Venezuelan economy, the following government, headed by Raul Leoni, cemented the import-substitution policy that ended up increasing the cost of living for Venezuelans and misallocating resources. Leoni also fortified and augmented the syndicated labor force. Rafael Caldera, who succeeded Leoni, not only did not reverse his predecessors' socialist and mercantilist policies, but made the Venezuelan economy even more inward looking, requiring all private companies to have a majority ownership by Venezuelans.

In 1974, Carlos Andrés Pérez was elected president. His government, like Betancourt's, gave a big push to socialism. The central bank was 51 percent owned by the government and 49 percent by the private sector. Pérez's government bought the privately owned stake and placed several of its cabinet members on the board, wiping out the bank's independence.

In addition, Pérez nationalized the oil and iron industries and established new state-owned companies financed by the high oil prices that resulted from the Arab oil embargo and the lax U.S. monetary policy. These nationalizations ended the precarious balance that had existed between the civil society and the political society and marked the commencement of a patrimonial government. In spite of tripled fiscal revenues owing to oil boom, the government launched into a debt rampage, the proceeds of which were used to finance government enterprises. Finally, clear signs of corruption surfaced in the judicial system.

The following government, headed by Luis Herrera, more than doubled external debt and in 1983 devalued the bolivar to more than 7 bolivars per dollar. Devaluation has remained a recurrent policy: today the official exchange rate is 2,150 bolivars per dollar, and in the so-called parallel market the rate hovers around 6,000 bolivars per dollar. Herrera established exchange-rate controls that, not surprisingly, spawned a substantial amount of corruption, much of which surfaced in the following government, headed by Jaime Lusinchi, who for the most part continued his predecessors' socialist and mercantilist economic policies.

In the late 1980s, Venezuelans elected Carlos Andrés Pérez for the second time. The government signed an agreement with the International Monetary Fund (IMF), and under the banner of market reforms it continued to devalue the currency. The rate of inflation never fell below 30 percent. The government also imposed new taxes, such as the value-added tax, in spite of poorly provided government services and the government's ownership of the economy's commanding heights. Unfortunately, IMF bureaucrats never would have recommended the better approach of adopting the value-added tax while reducing or eliminating income taxes and thereby making the tax reform income neutral.

Although the Pérez government liberated most prices, rent controls remained in place, and in an inflationary environment the positive impact of eliminating price controls is diminished somewhat. Price increases in a noninflationary environment serve as signals of relative scarcity. With rapid inflation, people have difficulty in disentangling the relative-price signal within the overall tendency of prices to increase.

The Pérez administration liberated international trade, reducing tariffs unilaterally. However, an environment of great uncertainties, rapid inflation, and high costs of doing business is not a propitious setting for trade liberation, given the clout of inefficient entrepreneurs who influence the media and of rival politicians who typically are not friends of market solutions. In other words, the sequence of reforms is important. Inflation must be tamed, and measures must be taken to reduce the costs of doing business, allowing economic growth to proceed unhindered. In a stabilized, growing economy, which goes a long way toward winning popular support for reforms, unilateral trade liberalization may be pursued more successfully.

The Pérez government also sponsored gasoline price increases in an attempt to bring the price more into line with the cost of production, phasing out the government subsidy. Like trade liberalization, this measure is also a good policy. Nonetheless, under democratic rule a timing issue must be taken into account. Average Venezuelans are reluctant to accept higher prices for gasoline when part of their implicit contract with the government is that the state owns the oil and, in exchange, impoverished citizens get subsidized gas prices. An increase in gas prices has a better chance of succeeding politically in an environment of sustained economic growth, where people perceive better prospects.

To secure the people's approval of new economic policies, it is important that reforms induce rapid, sustained growth. The reelections of Alberto Fujimori in Peru, Carlos Menem in Argentina, and Fernando Cardozo in Brazil were driven by rapid economic growth and reduced rates of inflation. During the Pérez government in Venezuela, the economy grew at a healthy pace, but the growth was fueled by high oil prices (associated with the Gulf War) that financed greater government expenditures. When oil prices fell, growth subsided. Moreover, the beneficial effects of growth in increasing real wages and economic well-being were substantially offset by high inflation. Thus, growth under Pérez was not sparked by greater private investment and generally enhanced economic activity in the private sector induced by brighter economic prospects.

The Pérez government privatized CANTV, the telephone company, and sold half of VIASA, the airline company, to the government of Spain. However, to exact a high price for the telephone company, it extended a ten-year monopoly to the new owners, which kept consumers in the short run from enjoying the benefits of greater competition. Notwithstanding the monopoly privilege, however, service quality improved substantially. VIASA eventually went bankrupt and was liquidated. Its demise at least spared Venezuelans from financing 50 percent of the losses.

While Pérez was under house arrest for relatively minor corruption charges, I visited him with a group of students who knew him. During the interview, I asked his opinion about a possible privatization of PDVSA, the state owned oil monopoly. He answered that such a privatization would be equivalent to his selling his own home. This personal anecdote illustrates the mindset behind his economic policies: preference for government control and ownership of the economy's commanding heights, as opposed to economic growth engendered by private efforts, either national or foreign.

Needless to say, the IMF's ill-conceived policies, some owing to content and others to timing, were very unpopular and helped to disillusion people regarding market reforms and to engender a constituency for price and interest-rate controls as well as for a cessation of privatizations. These sentiments played a major role in the second election of Rafael Caldera, who resumed many kinds of controls. The economy was on an unsustainable path, and Caldera ended up signing another agreement with the IMF, which was characterized by inflation, devaluation, and a new tax on bank-related financial transactions.

To summarize the problems afflicting the Venezuelan economy, we may say that the people's private-property rights are severely limited. Venezuelans lack the rights to earn payments in a hard currency, to pay low taxes, to spend their income on the cheapest goods produced in any part of the world, to convert the fruits of their labor into any currency they wish, to pursue work and ownership in any activity deemed legal, to charge as sellers whatever price they consider suitable for goods and services, to charge as bankers the interest rate of their liking and to extend or deny credit to anyone as they consider appropriate, to contract freely in the labor market, and to have their rights safeguarded by a well-functioning judicial system that protects private-property rights and punishes violators of these rights.

In view of these systematic violations of private-property rights, it should not be surprising that Venezuela became a growth disaster. The economy's poor performance and the attendant increase in poverty, coupled with the idea that the IMF recipe is equivalent to capitalism, fostered propitious conditions for the advent of populist government and for Hugo Chávez's autocratic tendencies. Chávez easily won the election in 1998, campaigning against the so-called Punto Fijo Pact that generated the "corrupt policies of the past forty years." Projecting the image of an outsider, Chávez banked politically on the growth disaster and the impoverishment engendered by the perverse economic policies implemented systematically and most prominently since 1958. Chávez promised to put an end to these policies under his government.

Ironically, however, Chávez not only has implemented the same types of perverse policies as his predecessors, but in some instances has exacerbated past policy mistakes. Inflation, devaluation, price controls, interest-rate controls, exchange-rate controls, reduced independence of the central bank and of the judiciary, rampant corruption, impunity, state-owned companies, land reform, complex tax and labor legislation are all policies not invented by Chávez. Nonetheless, these policies are ubiquitous under the Chávez government. The Chávez administration has recently nationalized CANTV, the telephone company, and Electricidad de Caracas, an electric-utility company.[1] VIASA, the airline company, was liquidated, as previously mentioned, but the Chávez government in effect revived the company by founding a new airline called CONVIASA.

Chávez has encountered fertile ground for promoting class warfare, given the rise in poverty and the population's rational ignorance of economic issues. He attributes the poverty to the capitalist policies of the past, which he describes as savage neoliberal economic policies. He is extremely charismatic to the low-income people, and the tail wind of high oil prices has allowed him to redistribute more income to them and to spur economic growth by increased government expenditures.

A Poverty Trap

Socialism and mercantilism are clearly what ails Venezuela. An unmistakable manifestation of socialism is that the government owns the economy's commanding heights—the oil, steel, gas, coal, electricity, and water industries—and that it interferes pervasively in the workings of markets. Obvious expressions of mercantilism are the prohibitions that common citizens face in their attempts to import sugar, milk, rice, sorghum, and used cars, among other things, from most countries, including the United States. New cars, clothes, and shoes, for example, carry a stiff tariff of 35 percent. Antidumping and safeguard laws are typically abused by inefficient entrepreneurs in connivance with government officials. Import quotas are granted to domestic producers after the internal production has been sold.

Socialism and mercantilism reinforce each other because both destroy free markets. The philosophical tenets of socialism reject free markets as an efficient means of allocating scarce resources. Mercantilism negates free markets for utilitarian reasons. Entrepreneurs seek shelter from competition by manipulating the government, whose officials grant them protection in exchange for private benefits and power. The government extends protection to entrepreneurs to enhance politicians' control; some officials see themselves as presiding over an industrial empire. Whether the initial impetus for protectionism comes from government or from entrepreneurs is unclear, but the overall consequence is transparent: increases in the cost of living for ordinary citizens.

Because access to wealth by privileged entrepreneurs under mercantilism is based on "know who" rather than on "know how," accumulated riches among the privileged gall the masses, who rightly associate wealth with corruption. The ubiquitous problem of envy linked to inequality is exacerbated under mercantilism, engendering undesirable social conflict in which wealth is stigmatized. Further, under mercantilism, the accumulation of wealth typically does not translate into prosperity and enhanced welfare for the people at large. Hence, great potential exists for politicians such as Chávez to deploy rhetorical weapons against riches and capitalism.

1. This is the second nationalization of CANTV; the first took place in 1950 under the dictatorship of Pérez Jiménez.

The interaction of socialism and mercantilism often induces inertial forces that maintain a perverse status quo. For example, Chávez frequently disparages from a socialist perspective the George W. Bush government's initiative on free trade. Many Venezuelan entrepreneurs take solace from his criticisms because they wish to retain trade barriers that diminish competition. Similarly, when Chávez vilifies capitalism, inefficient entrepreneurs take comfort because so long as genuine capitalism is kept at bay, they will not have to reckon with competition.

Another case of the unholy alliance between socialism and mercantilism is the alleged tendency for the local currency to become overvalued. Many economists indicate that the bolivar is *overvalued,* which is a code word for the desirability of devaluation—that is, for robbing people of their hard-earned income's purchasing power. The government benefits from devaluing the currency because dollars obtained through exports of oil can be exchanged for more bolivars, and noncompetitive entrepreneurs benefit because of the destruction of competition associated with the higher prices of imported goods.

Complex taxation, regulation, and labor laws also promote socialistic and mercantilist objectives. Socialists thrive in such complexity under the conviction that complex rules achieve cosmic justice (Sowell 1999). Well-established, big companies love such complexity because it serves as a barrier to entry, eliminating potential competition by smaller companies that cannot survive under convoluted rules. It is revealing that the leaders of CONINDUSTRIA, a guild of managers and owners in the Venezuelan industrial sector, typically do not advocate reducing the costs of doing business in Venezuela. They usually plead for a "competitive currency" and for the reduction of imports, which are "justified" on the grounds that they create employment.

Direct beneficiaries of socialism and mercantilism are conspicuous Venezuelans with substantial influence in the media and in the political decision-making process. Consequently, it is very difficult to extricate the economy from such an impoverishing, self-perpetuating political equilibrium. This condition, I suggest, plagues most Latin American countries and explains why most economies south of the Rio Grande remain stagnant or experience only slow economic growth.

Collective-Action Problems

Public institutions are nonrival—that is, they are subject to joint consumption without exhaustion. The benefit of a good judiciary, for example, is a public good that is not only nonrival, but also nonexcludable. By the same token, the benefits of free trade, monetary freedom, and simple, low-rate tax laws, among others, are public goods.

The neoclassical economic explanation for the "underproduction" of such goods is "market failure," from which the neoclassical economists infer a need for government intervention. The market fails because consumers cannot carry out collective action, even though they are the ultimate beneficiaries of the public good (Olson 1977).[2]

Consumers are beset by problems of group size, free riding, and rational ignorance:

Group Size. Consumers are so numerous that they cannot organize themselves efficiently. They are beset by the same problems that afflict participants in the prisoner's dilemma game. It is difficult for them to communicate and to establish binding agreements with one another.

Free Riding. Once the public good is produced, everybody benefits whether he has contributed to its production or not. Because contribution is costly, consumers hold back, waiting for others to contribute. If all consumers act in this way, no one contributes, and hence no collective action is undertaken.

Rational Ignorance. It is costly to become informed about good economic policies. If the expected benefits of becoming informed do not exceed the costs, people remain ignorant about policies that will benefit them and thus fail to support worthwhile collective action.

In sum, consumers remain indifferent in spite of policies inimical to their best interest and do not lobby or put pressure on public officials. In contrast, the beneficiaries of perverse policies work hard to preserve the benefit—also a public good—of existing protectionist measures that they enjoy as members of a smaller group. In this fashion, public goods such as the benefits of free trade or a stable currency are "underproduced."

An alternative interpretation is that underproduction of the public goods is rooted not in market failure, but in the government's inability to fulfill its most important mandate: to protect people's natural rights, including the right to pursue and hold private property. In other words, the Venezuelan government has failed to produce the benefits of free trade, stable currency, low taxes, and transparent justice, among others, because of its ill-advised interference in the economy. The government bears ultimate responsibility for erecting trade barriers, devaluing the currency, and forcing Venezuelans to use the bolivar exclusively. Ironically, government intervention, which neoclassical economists take to be the solution of public-good problems, is the root cause of the failure to produce public goods optimally. Likewise, one of the government's major duties is to provide a sound judicial system. The corruption and lack of independence of Venezuela's judicial system further exemplifies how the government is ultimately failing the citizenry. The same thing may be said of complex regulations, rigid labor laws, and the lack of personal security.

2. Cowen and Crampton assert that "a consensus developed that governments should provide at least a few public goods, such as national defense, but markets do the best job of providing most goods and services" (2002, 3). They stress convincingly that many of the new market-failure theories, based on asymmetric information, efficiency wages, and lock-in, are bogus.

The Foundation of Freedoms

Parliamentary democracy was born in England as a result of a Coasean bargain between the Crown on one side and the nobles and the people on the other, whereby funds were provided to the king in exchange for his protection of basic freedoms (Pipes 1999; Glaeser and Shleifer 2002, 1208).[3] The Crown needed the people to survive because the most important owners of land and creators of wealth were the people who consented to be taxed in exchange for protection of property and of the freedoms associated with it.

The institutional arrangements of Venezuela and the other OPEC countries are not conducive to the establishment of stable democracies because the governments are patrimonial: the sovereign is also the owner, so there is no binding check on the Leviathan. It is revealing that most OPEC countries are secular or religious autocracies and that, perhaps not coincidentally, their governments own the country's oil. Democracy in Venezuela is waning, a manifestation of the "natural resource curse" (Sala-i-Martin and Subramanian 2003, 5). A revealing illustration of the perverse outcomes rooted in Venezuela's patrimonial government, which bypasses the will of the people, is provided by Alvaro Vargas-Llosa:

> Chávez buys influence through oil. It is a form of blackmail: At OPEC, Chávez fights for increasing prices, making life hard for poor countries that import oil, and then offers those very nations oil subsidies they have no choice but to accept. That is what happened with the 14 Caribbean countries that make up the Caricom group. He also sends 100,000 barrels of oil to Cuba daily; and 200,000 barrels to Bolivia every month in exchange for soy, poultry and political subservience. And he has bought $3 billion worth of Argentine bonds to entice President Kirchner's loyalty. Chávez is denying his nation its wealth from oil, somewhere between $40 billion and $50 billion a year. His annual "aid" budget totals more than $2 billion. He sponsors 30 countries, including some in Africa, in order to buy their vote for a seat at the U.N. Security Council. (2006)

Chávez can deny his nation its wealth from oil, as Vargas Llosa notes, because the government, not the people, owns the oil. This ownership allows the government to require oil companies to pay taxes directly to the government. Perhaps bypassing the people would be substantially diminished if oil taxes were equally divided among all Venezuelans at least eighteen years old. Then, to obtain revenues, the government would have to tax the people, ideally through consumption taxes, and in exchange the

3. "In fact, one can view the Magna Carta as a remarkable example of an early Coasean bargain, in which the community and the crown agree on a cash transfer needed to support the efficient outcome" (Glaeser and Shleifer 2002, 1208). Djankov and colleagues also regard the adoption of the U.S. Constitution as a Coasean bargain (2003, 613).

people most likely would demand protection of basic rights and better-quality government.

As Vernon Smith has observed with regard to another OPEC country, "A central issue in Iraq—as well as [in] the U.S. and other countries—remains whether the people control government through voting and taxes or the government controls the people through a monopoly on natural resources" (2003). Looking at the problem in this light reveals that the curse is not the existence of oil, but the state's ownership of the oil.

A perverse consequence of socialist institutions and patrimonial governments is that people live off the state. Their energies are channeled toward penetrating the state through political entrepreneurship—seeking wealth transfers from government—rather than creating wealth. People's addiction to government largess, induced by socialist institutions, is exacerbated by mercantilist institutions. Venezuela's most influential entrepreneurs have accumulated wealth by virtue of various impediments to trade implemented by government. When entrepreneurs seek government protection because their farm or industry has been invaded by outsiders or workers, their pleas fall on deaf ears because public officials know that those businesses exist because of government favors. Moreover, the entrepreneurs' pleas for protection against trespassers are not consistent because, owing to the barriers to competition enacted at their behest, these same entrepreneurs are indirectly confiscating the property of common citizens by forcing consumers to buy more expensive, domestically produced goods.

Other Obstacles to Freedom

All stable, flourishing liberal democracies, besides being financed by the people, have active competition among economic groups and entrepreneurs who lobby the government for different policies (Becker 1983, 1985). This competition has important historical roots. De Long and Shleifer have marshaled important historical evidence on the role of entrepreneurs in promoting conditions propitious for growth:

> European history also presents cases where cities grew rapidly and commerce flourished in the absence of strong princes in regions where political power was held by merchant oligarchies or checked by constitutional limitations and representative assemblies. The city-states of northern Italy, of the Low Countries, and of Burgundy prospered and grew in the later Middle Ages and the Renaissance before they came under autocratic Habsburg control in the sixteenth century. . . . [L]imited governments are more concerned with private economic prosperity: either they are led by merchant oligarchs who have a stronger interest in maintaining and expanding the flow of commerce than in the power of the state and the splendor of the court, or they give a veto to parliaments or estates-general that feel the weight of heavy taxes. (1993, 672, 674)

Repeal of the corn laws in Great Britain is a better-known, more recent case. In 1804, under pressure from landowners, a corn law was introduced in Parliament that sought to protect farmers' profits by imposing a duty on imported grain. On May 15, 1846, the corn laws were repealed at the request of the prime minister, Sir Robert Peel, whose wealth derived from his family's textile mills. Manufacturers, fearing higher wages, wanted to eliminate tariffs on imported grain. Thus, in defending their own interest, they also furthered the interests of the British people at large.

A present-day example is President George W. Bush's initiative Free Trade Area of the Americas (FTAA). In this case, efficient U.S. entrepreneurs, especially exporters, lobby the government in support of the initiative in opposition to other, less-efficient entrepreneurs and the labor unions. Thus, certain business interests support policies that better their lot, but also benefit U.S. and Latin American consumers. A by-product is that government is restrained and diminished in its intrusion into the workings of the market system.

This line of reasoning reveals another obstacle to freedom and economic growth in Venezuela: the absence of leadership by a well-organized pressure group of efficient entrepreneurs. Consider the political events of April 2002, when for thirty-six hours Chávez was deposed by popular and peaceful demonstrations with the help of the military. The opposition leader was Pedro Carmona, a high-ranking entrepreneur with a heavily protected corporation. In spite of Carmona's background, many libertarians in Venezuela supported him and signed a document that purported to legitimize his presidency. In the election of 2006, the opposition leader was Manuel Rosales, a professional politician. His policy promises were mostly redistributionist, with no plans to push back the frontiers of socialism and mercantilism in Venezuela. Of course, part of his campaign financing came from inefficient economic interest groups.

RCTV was an open-signal TV station whose license to operate was arbitrarily revoked by the Chávez government in May 2007 in violation of freedom of speech. Although this station was watched mainly by low-income people from whom Chávez draws much of his political support, it did not produce commercially attractive yet educational programs—for example, its numerous and widely viewed soap operas might easily have dramatized the negative consequences of inflation, devaluation, trade barriers, and price controls, among other things. Instead, RCTV attacked the government for its numerous violations of political and civil rights. However praiseworthy such attacks may be in themselves, they did not touch a sensitive chord among most Venezuelans, who had seen their personal economic situation deteriorate under democratic rule with free elections and freedom of the press. Moreover, defense of these freedoms lacks credibility when it is articulated by leaders who, rightly or not, are associated with the corrupt policies of the past. In this case, as in many others, leaders of the opposition to Chávez failed to mount an effective media campaign against him even though many reforms to reduce the size and scope of the government would benefit the masses.

The owners of RCTV did conduct themselves substantially better, however, than the owner of rival VeneVisión, Gustavo Cisneros, one of the wealthiest persons in Latin America, with well-diversified investments around the globe. After a meeting with Chávez and former U.S. president Jimmy Carter in Caracas, VeneVisión in 2004 ceased to make any comment that might damage the Chávez government's reputation; that is, the company agreed to self-censorship.

In contrast, in the United States, for example, there is intense competition between media outlets with quite different political and economic orientations, not to mention the many active think tanks with diverse political and ideological orientations. This diversity may be traced, in part, to the economic support provided by entrepreneurs of different stripes. Entrepreneurs are less afflicted by the problems of collective action that usually stifle organized political action by consumers or taxpayers as such. The group numbers are smaller, and the potential profits to be reaped provide the necessary incentives to be well informed and to spend time in organizing and coordinating an effective lobbying effort.

Probable Scenarios

Given the problems of collective action by consumers, a patrimonial government's ability to capture business owners and managers, the lack of entrepreneurial leadership among Venezuela's most prominent businesspersons, and the inertial forces of a perverse status quo in which socialism and mercantilism are mutually reinforced, it is unlikely that opposition leaders will be able garner most Venezuelans' support to oust Chávez and build a capitalist economy. More likely is a Chávez crash owing to his policy mistakes, whose ill effects are difficult to predict given the temporary good fortune currently generated by high oil prices.

Moreover, it is probable that Chávez's ousting will be effected by the same leaders, some of them from the military, who now support him. This scenario, however, does not necessarily augur good economic prospects. Venezuela's military men usually espouse socialism. Further, dictatorships in general are no panacea for economic growth.[4] Examples abound of dictatorships in Latin America and other parts of the world that have failed to bring about reforms capable of igniting rapid, sustained growth.[5] Finally, oil revenues prevent a crisis of major proportions that would inflict enough pain to disenchant Venezuelans with socialism and mercantilism.

A more optimistic scenario is that Venezuela will mimic the eastern European countries, which, after suffering so acutely under communism, are now more capitalist

4. Glaeser and colleagues report that dictatorships on average grew less rapidly than democracies between 1960 and 2000 (2004, 287).

5. Democracy, however, is not critical for growth, either (Snowdon 2006, 15). Many democracies are rich and many are poor, which suggests that the correlation between growth and democracy is zero. Xavier Sala-i-Martin also expresses this view in the interview of him by Snowdon (2006).

and their leaders more pro-American than their western European counterparts. It is conceivable that the suffering caused by Chávez's policies will induce Venezuelans and their political leaders to seek refuge in capitalism as an antidote for the country's chronic stagnation and concomitant high levels of critical poverty.

Conclusions

Until the late 1950s, Venezuelans enjoyed substantial economic freedoms, which fostered the miracle rates of economic growth the country experienced between 1920 and 1957. Not surprisingly, the economic freedom catalyzed the introduction of democratic rule, increasing Venezuelans' political and civil liberties—another example of the positive correlation between economic and political freedoms (La Porta et al. 2004, 452–53), consistent with the Lipset-Barro hypothesis that prosperity tends to foster democracy (Lipset 1959; Barro 1996, 1997, 1999).

The inception of democracy brought more redistributionist policies and greater influence by rent-seeking pressure groups, whose actions undermined economic freedoms so much that economic growth was on average negative from 1960 to 2006. This experience starkly exemplifies democracy's growth-retarding potential (Barro 1996, 2). As expected, diminished prosperity has caused social unrest and created an environment conducive to the emergence of a populist leader who blames capitalism for the people's impoverishment.

I have identified several factors that militate against the prospects of destroying socialist and mercantilist institutions in Venezuela and replacing them with the institutions of a market economy. Among them are problems of collective action, a patrimonial government that bribes its people, lack of entrepreneurial and political leadership, and the inertial forces of socialism and mercantilism—all of which mutually reinforce each other as they develop. These same factors work against the success of opposition leaders in credibly convincing the populace that without Chávez, their living standards will improve. Thus, myopic and self-serving political and entrepreneurial elites are responsible for this flagrant case of government failure. Even more worrisome, if one may judge by the discourse of political leaders and the opinions expressed by most media pundits, is that we Venezuelans have not learned our lesson. There is no consensus among leaders of the opposition that we urgently need to dismantle socialist and mercantilist institutions.

Given these considerations, the most likely scenario, barring outside intervention, is that Chávez will discredit himself, and today's friends in government will become tomorrow's political foes and oust him. This scenario does not necessarily bode well for the economy because the Venezuelan military leadership embraces the socialist school of thought. A possibility exists, however, that given all the wounds Chávez has inflicted on the economy, we Venezuelans will learn our lesson and embrace capitalism.

In sum, the problems that plague the Venezuelan economy transcend Chávez and his misrule. Chávez himself is a consequence of the unsurprising failure of socialism and mercantilism that were implanted gradually in Venezuela, commencing with the first nationalization of the telephone company in 1950. Further, although getting rid of Chávez may be a necessary condition to overcome our problems, it will not be sufficient. Consequently, the many analyses of Venezuela's current plight that center their attention on Chávez are simplistic. A more fruitful line of inquiry is to discover political strategies capable of dismantling socialism and mercantilism under the kind of democratic system prevalent in Latin America.

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