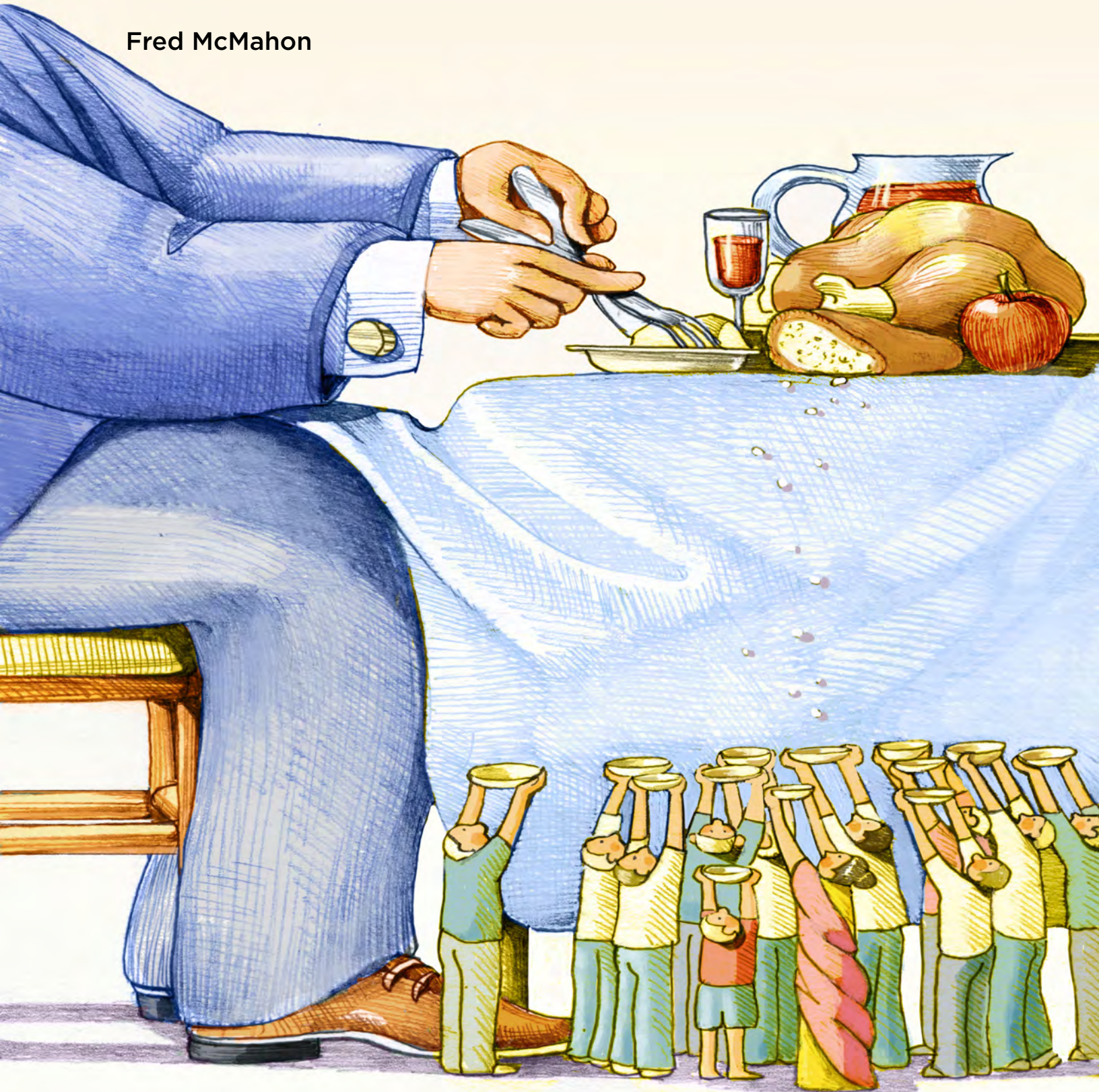


VENEZUELA'S TRAGEDY SPURRED BY CRONY CAPITALISTS AND SOCIALISTS WHO DETEST FREE MARKETS

Fred McMahon



Imagine a city where menus don't print prices because inflation drives them higher daily; where streets are ghostly empty after dark and the murder rate is the world's highest; where people queue for hours for meagre supplies of medicines and food, leaving many hungry and sick; where farmers don't bring goods to market because roads are dangerous and police corrupt.

Imagine a nation, whose richest woman, with billions stashed away, is the daughter of the former president, whose family owns 17 country estates in his birth state; where "socialist" elites live in mansions and have ready access to government-subsidized supplies that others queue for from dawn to dusk.

Welcome to one of the world's most beautiful cities, Caracas, in resource-blessed Venezuela. Kidnapping is so routine one victim praised his kidnappers to me. Ransom negotiations were reasonable and they only broke one finger. But murder is increasingly common once ransom is paid.

This is the aftermath of the Bolivarian Socialist Revolution, led by the late Hugo Chavez, whose daughter is the billionaire. I saw the tragedy firsthand on a recent visit to CEDICE, an impressive and courageous Venezuelan think-tank striving to build a better future.

This isn't just about Chavez and his successor, Nicolás Maduro. Venezuela has been failing for more than four decades.

In 1970, Venezuela had the most free-market policy in South America and

was its richest nation on a per person basis. Remarkably, Venezuela was poorer in 2014, the most recent data, than in 1970. During the same period, global per capita GDP more than doubled. Some blame Venezuela's misfortunes on oil, but in 1970, a barrel of oil was US\$20 in today's prices compared to around US\$100 for most of 2014. Even today, with Venezuela in crisis, oil prices in real terms are twice as high as in 1970.

So what happened?

Venezuela, like much of Latin America, was afflicted by crony capitalists, who detest free markets as much as crony socialists and degraded free-markets long before Chavez. "Elites in the private sector salivate over... policies destructive of markets because it is their custom and culture to accumulate wealth through political connections," a recently released Fraser study argues.

Back in 1970, Venezuela ranked 10th globally in economic freedom; by the time Chavez took over after 30 years of cronyism, the country had fallen to 109th.

Cronyism restricted markets, weakened the rule of law, undermined growth, adopted many leftist "populist" policies to maintain power, and favoured their supporters at all income levels, excluding others and generating the frustration that led to Chavez.

Can we gauge the decline? The best available measure of free

markets is the Fraser Institute's economic freedom index. Back in 1970, Venezuela ranked 10th globally in economic freedom; by the time Chavez took over after 30 years of cronyism, the country had fallen to 109th; in the most recent data, 2014, it's 159th out of 159 Jurisdictions. Both, Chavez and crony capitalists attacked free markets.

In the 1960s, under free-market policies, Venezuela experienced steady growth, despite declining real oil prices. After 1970, as free markets deteriorated and crony capitalism increased, Venezuela's economy staggered. Today's disaster has decades of history, but Chavez took bad policy to extremes.

Compared to crony socialism, crony capitalism tends to be less extreme and allows some competition but is still destructive.


Supporters of socialism and all-powerful governments try to explain away the failures of such regimes. But failure is systematic. The cavalcade of excuses borders on fantasy and reveals closed minds.

Regimes like Castros' Cuba and Chavez's Venezuela, concentrate absurd power in the ruling "socialist" clique. Institutions that protect people, particularly the legal system, are made subservient to government if not completely destroyed. The economy is nationalized and politicized. "Managers" are chosen for ideology. If enterprises squander

resources, hardly produce anything, and make things of poor quality—tough, the people can suffer.

Compared to crony socialism, crony capitalism tends to be less extreme and allows some competition but is still destructive. True free markets produce prosperity and reduce poverty whether ever they bloom, whether in Europe, North America or Asia.

Venezuelans are coming to understand the nature of the tragedy but the opposition is divided with little policy. The current regime cannot endure in its present form—food is running out and the military may already be in control.

Venezuela will not jump to the level of economic freedom of Canada, Sweden or Denmark. Cronyism is baked into the system. But hopefully, as disaster looms, Venezuela can start down a road away from both crony capitalism and socialism. 

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