



An Empty Research Agenda: The Creation of Myths About Contemporary Venezuela

BY MARK WEISBROT*

Executive Summary

Foreign Affairs recently published a compendium of allegations against the government of Venezuela ("An Empty Revolution: The Unfulfilled Promises of Hugo Chávez," *Foreign Affairs*, March/April 2008) by economist Francisco Rodriguez. The article argues that "a close look at the evidence reveals just how much Chávez's 'revolution' has hurt Venezuela's economy -- and that the poor are hurting most of all." As Rodriguez notes, this is contrary to widespread belief.

In the five years since the government of President Hugo Chavez Frias got control over the country's national oil industry, real (inflation-adjusted) GDP has grown by more than 87 percent, with only a small part of this growth being in oil. The poverty rate has been cut in half, and unemployment by more than half. The economy has created jobs at a rate nearly three times that of the United States during its most recent economic expansion. Health care for the poor has been vastly expanded, with the number of primary care physicians in the public sector increasing from 1,628 in 1998 to 19,571 (by early 2007). About 40 percent of the population has gotten access to subsidized food. Access to education, especially higher education, has also been greatly expanded for poor families. Real (inflation-adjusted) social spending per person has increased by more than 300 percent.¹

It would be remarkable if this macroeconomic and spending picture were compatible with the dire picture of Venezuela that Rodriguez paints. This paper looks at Rodriguez's allegations, in light of available data. It shows that some are altogether wrong, and others grossly exaggerated and/or misleading.

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¹ See, Weisbrot, Mark and Luis Sandoval. 2008. "Update: The Venezuelan Economy in the Chávez Years." Washington, D.C.: Center for Economic and Policy Research.

http://www.cepr.net/documents/publications/venezuela_update_2008_02.pdf

Among these:

- Rodriguez claims that inequality, as measured by the Gini coefficient has worsened during the Chavez years.

This is wrong. The only consistent measure of the Gini coefficient (see [Table 1](#) below) shows a substantial decline from 48.7 in 1998, or alternatively from 48.1 in 2003, to 42 in 2007. For a rough idea of the size of this reduction in inequality, compare this to a similar movement in the other direction: from 1980-2005, the Gini coefficient for the United States went from 40.3 to 46.9, a period in which there was an enormous (upward) redistribution of income.

- Rodriguez claims that Venezuela's poverty reduction during the current economic expansion – it has been cut by half, from 55.1 percent (2003) of households to 27.5 percent (first half of 2007) – compares unfavorably with other countries.

His argument is that other countries have reduced poverty by “around two percentage points” for every percentage point increase in per capita GDP. However, this is clearly wrong. If it were true, Venezuela would have to have eliminated poverty completely – 100 percent poverty reduction – to meet Rodriguez's description of “many other countries.”

- Rodriguez: “Remarkably, given Chávez's rhetoric and reputation, official figures show no significant change in the priority given to social spending during his administration.”

In fact, **real (inflation-adjusted) social spending *per capita*** in Venezuela **increased by 314 percent** from 1998-2006.

- Rodriguez states that Venezuela's import growth “is now threatening to erase the nation's current account surplus.”

But in fact the current account surplus is still very large, at more than 8 percent of GDP. (For comparison, imagine the U.S. with an annual current account *surplus* of more than \$1.1 trillion instead of its present *deficit* of \$739 billion.)

- Rodriguez: In a battery of statistical tests, we found little evidence that the [government's national literacy] program had had any statistically distinguishable effect on Venezuelan illiteracy.”

These statistical results were not robust and appeared to be based on an artifact of the specifications used. Much more importantly, the household survey data on which they were based was not designed to measure literacy, and could easily fail to pick up significant improvements in literacy among large sectors of the population.

- Rodriguez also selects certain statistics on low birth weight babies, homes with dirt floors, and running water in an attempt to argue that the living standards of the poor have deteriorated during Venezuela's extraordinarily rapid expansion.

On closer examination, these selected statistics run counter to other trends and do not indicate a deterioration of the living standards of the poor, who by most measures have experienced large gains.

Introduction

Foreign Affairs recently published a compendium of allegations against the government of Venezuela, “An Empty Revolution: The Unfulfilled Promises of Hugo Chávez”² by economist Francisco Rodriguez, who argues that Venezuela's poor have not benefited from the government of President Hugo Chávez. As Rodriguez notes, this is contrary to widespread belief. It is also contrary to the voting patterns of the poor themselves, who have repeatedly voted for Chávez and his allies in congressional elections by overwhelming margins (notwithstanding the narrow defeat of the government's proposed constitutional reforms in December 2007).

It is worth examining these claims. Recall that before CEPR published its paper “Poverty Rates in Venezuela: Getting the Numbers Right,” the U.S. and international media, and magazines including *Foreign Affairs* and *Foreign Policy*, were widely disseminating the false assertion that poverty had actually worsened under the Chávez government.³ After CEPR's paper was published, several major newspapers⁴ ran retractions/corrections, and the vast majority of the media stopped repeating this particular falsehood about Venezuela.

In the five years since the government of President Hugo Chávez Frias got control over the country's national oil industry, real (inflation-adjusted) GDP has grown by more than 87 percent, with only a small part of this growth being in oil. The poverty rate has been cut in half, and unemployment by more than half. The economy has created jobs at a rate nearly three times that of the United States during its most recent economic expansion. Health care for the poor has been vastly expanded, with the number of primary care physicians in the public sector increasing from 1,628 in 1998 to 19,571 by early 2007. About 40 percent of the population has gotten access to subsidized food. Access to education, especially higher education, has also been greatly expanded for poor families. Real (inflation-adjusted) social spending per person has increased by more than 300 percent.⁵

Yet the article argues that “a close look at the evidence reveals just how much Chávez's 'revolution' has hurt Venezuela's economy -- and that the poor are hurting most of all.” What follows is a closer look at some of Rodriguez's allegations, in light of available data. It shows that some are altogether wrong, and others grossly exaggerated and/or misleading.

Inequality

“... according to the Venezuelan Central Bank, inequality has actually increased during the Chávez administration, with the Gini coefficient (a measure of economic inequality, with zero indicating perfect equality and one indicating perfect inequality) increasing from 0.44 to 0.48 between 2000 and 2005,” (Rodriguez, p53).

This is wrong. It is not clear why Rodriguez chose the years that he chose; and the data are from two different sources.⁶ In any case, there is a consistent series for the Gini coefficient for Venezuela, and it is based on the same data set that Rodriguez uses for his other work⁷ -- the National Statistics Institute's

² Rodriguez, Francisco. “An Empty Revolution: The Unfulfilled Promises of Hugo Chávez.” *Foreign Affairs*. 87.2 (2008): 49-62.

³ Weisbrot, Mark, Luis Sandoval and David Rosnick. 2006. “Poverty Rates in Venezuela: Getting the Numbers Right,” Washington, D.C.: Center for Economic and Policy Research. http://www.cepr.net/documents/venezuelan_poverty_rates_2006_05.pdf; see appendix of this paper for documentation of this repeated false allegation in major media and other sources.

⁴ These included the *New York Times*, *Financial Times*, and *Los Angeles Times*.

⁵ See, Weisbrot, Mark and Luis Sandoval .2008. “Update: The Venezuelan Economy in the Chávez Years.” Washington, D.C.: Center for Economic and Policy Research. http://www.cepr.net/documents/publications/venezuela_update_2008_02.pdf

⁶ The Gini coefficient of 0.44 for 2000 comes from the World Bank's World Development Indicators, while the one for 2005 comes from the Venezuelan Central Bank's Third Household Expenditure Survey (*III Encuesta de Presupuestos Familiares*).

⁷ e.g., Rodriguez, Francisco and Daniel Ortega. “Freed from Illiteracy? A Closer Look at Venezuela's Robinson Literacy

(INE) Household Survey (*Encuesta de Hogares por Muestreo*). This series is listed below (Table 1), along with other available series.

TABLE 1
Venezuela: Gini coefficient, various sources and years(%)

	INE /1	CEPAL /2	WDI /3
1981			55.82
1987			53.45
1989			44.08
1990		47.10	
1993			41.68
1996			48.79
1997	48.74	50.70	
1998	48.65		49.53
1999	46.93	49.80	
2000	47.72		44.04
2001	45.73		
2002	49.38	50.00	
2003	48.11		48.2
2004	45.59	47.00	
2005	47.48	49.00	
2006	44.63	44.10	
2007	42.00		

Source: 1/ Venezuelan National Statistics Institute (*Instituto Nacional de Estadística*).
2/ United Nations Economic Commission for Latin America and the Caribbean.
3/ World Bank's World Development Indicators.

As can be seen, there is a sharp decline in inequality during the Chávez years, whether one measures from the beginning (1998, the year before Chávez took office) or from the time that the government got control over the oil industry (2003). As can be seen from the INE data in the first column, the Gini coefficient declined from 48.7 in 1998, or alternatively from 48.1 in 2003, to 42 in 2007. For a rough idea of the size of this reduction in inequality, compare this to a similar movement in the other direction: from 1980-2005, the Gini coefficient for the United States went from 40.3 to 46.9⁸, a period in which there was an enormous (upward) redistribution of income.

Poverty Reduction

Rodriguez writes:

"One oft-cited statistic is the decline in poverty from a peak of 54 percent⁹ at the height of the national strike in 2003 to 27.5 percent in the first half of 2007. Although this decline may appear impressive, it is also known that poverty reduction is strongly associated with economic growth and that Venezuela's per capita GDP grew by nearly 50 percent during the same time period -- thanks in great part to a tripling of oil prices. The real question is thus not whether poverty has fallen but whether the Chávez government has been particularly effective at converting this period of economic growth into poverty

Campaign." *Economic Development and Cultural Change*. Forthcoming, October, 2008.

[http://frrodriguez.web.wesleyan.edu/docs/working_papers/Freed_from_Illiteracy.pdf]

⁸ United States Census Bureau. 2006. "Current Population Survey, 1968 to 2006 Annual Social and Economic Supplements, Table A-3."

[http://www.census.gov/hhes/www/income/histinc/p60no231_tablea3.pdf]

⁹ The measured peak was actually 55.1 percent of households, in the second half of 2003 (see Weisbrot, Mark and Luis Sandoval. 2008. "Update: The Venezuelan Economy in the Chávez Years." Washington, D.C.: Center for Economic and Policy Research).

reduction. One way to evaluate this is by calculating the reduction in poverty for every percentage point increase in per capita income -- in economists' lingo, the income elasticity of poverty reduction. This calculation shows an average reduction of one percentage point in poverty for every percentage point in per capita GDP growth during this recovery, a ratio that compares unfavorably with those of many other developing countries, for which studies tend to put the figure at around two percentage points," (p 52-53).

This also appears to be an error by Rodriguez. If Venezuela were to have had, as Rodriguez suggests is the norm, two percentage points reduction in poverty for every percentage point increase in per capita GDP, as a matter of arithmetic this means that poverty would have been 100 percent eliminated during the four years 2003-2007.¹⁰ Clearly this is not a realistic expectation, to say the least.

It is also worth noting that the poverty reduction from 55.1 to 27.5 percent of households, which Rodriguez accepts, measures only cash income. Therefore it does not include the gains to the poor from increased access to health care and education.¹¹

Social Spending

"Remarkably, given Chávez's rhetoric and reputation, official figures show no significant change in the priority given to social spending during his administration," (p 53).

This is also wrong. Table 2 below shows that central government social spending increased substantially during the Chávez years, from 8.2 percent of GDP in 1998, or 12.1 percent of GDP in 2003, to 13.6 percent of GDP in 2006.

But this does not include an enormous amount of social spending that comes directly from the National Development Fund (FONDEN) or PDVSA (the state oil company), which for example funds the *misiones*. This was reported as 7.3 percent of GDP in 2006, which brings the total of social spending for 2006 to 20.9 percent of GDP – about the equivalent of the entire federal government budget in the United States. If we included PDVSA's reported spending, we find that **real (inflation-adjusted) social spending per capita** in Venezuela **increased by 314 percent** from 1998-2006.

Given this massive increase in social spending, it is not clear why we would want to look at social spending as a share of central government public spending, as Rodriguez does. But as Table 2 shows, this also shows a substantial increase. And this is not including the PDVSA/FONDEN spending, which as noted above, amounts to 7.3 percent of GDP. Rodriguez singles out health, education, and housing, and claims that spending on these categories during the first eight years of the Chávez government is the same as the previous years, when measured as a percent of total government spending. But as we have seen, this is irrelevant for three reasons: first, it does not matter to people what share of total spending is social spending; what matters is the amount of real social spending per person. If other areas of government spending increase, that does not reduce the impact of e.g., government spending on health care. Second, Rodriguez excludes about one-third of social spending, which comes directly from PDVSA. And third, health, education, and housing are not the only categories of social spending; social security spending has increased enormously, for example.¹²

¹⁰ The calculation is just 50 (percentage increase in per capita GDP) $\times 2 = 100$.

¹¹ See Weisbrot, Mark, Luis Sandoval and David Rosnick. 2006. "Poverty Rates in Venezuela: Getting the Numbers Right." Washington, D.C.: Center for Economic and Policy Research.

¹² Rodriguez has argued elsewhere (e.g. "Ask the Expert: Chávez and Venezuela." *Financial Times* January 23, 2007. [<http://www.ft.com/cms/s/2/d47f5b8a-aa48-11db-83b0-0000779e2340.html>]). Social Security spending should not be included, on the grounds that public pensions accrue to workers in the formal sector of the economy. It is difficult to justify this exclusion; these workers are not rich, and their pensions are in many cases shared with families and extended families who are in the informal sector, thus contributing to poverty reduction among others besides the recipients.

A complete breakdown of the PDVSA spending in the various areas (e.g., health, education, housing) is not available, so it is possible that some of the company's reported social spending may be on projects (for example transportation) where the categorization as social spending is debatable.

TABLE 2
Venezuela: Central Government Social Spending (1998-2006), in percent of GDP^a

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Public Spending	23.7	24.5	29.6	31.6	29.4	31.0	28.4	28.5	31.0
Total Social Spending	8.2	9.4	11.0	12.1	11.2	12.1	11.8	11.6	13.6
Education	3.4	4.1	4.5	4.8	4.8	4.6	4.8	4.1	5.1
Health	1.4	1.5	1.4	1.5	1.7	1.5	1.6	1.6	1.8
Housing	1.0	0.8	1.7	1.0	0.8	1.1	0.6	1.3	1.6
Social Security	1.4	2.0	2.2	3.4	2.8	3.4	3.1	3.0	3.6
Social Development and Participation	0.8	0.9	0.8	0.9	0.8	1.1	1.2	0.9	1.0
Culture and Social Communication	0.2	0.1	0.2	0.2	0.1	0.3	0.3	0.3	0.3
Science and Technology	0.1	0.1	0.2	0.3	0.1	0.1	0.3	0.3	0.2
Social Spending (% of Public Spending)	34.7	38.5	37.3	38.4	38.2	39.0	41.4	40.6	44.0

Source: Sistema de Indicadores Sociales de Venezuela (SISOV) and Banco Central de Venezuela (BCV)

Notes:

^a Does not include social spending by PDVSA, the state oil company, which in 2006 contributed \$13.3 billion (or 7.3 percent of GDP) to social projects.

But the increases in overall social spending are so huge that there is no doubt that social spending, however it is measured and whatever it is compared to, has increased massively in Venezuela during the Chávez years.

Literacy

"In contrast to the government's claim [of 1.5 million people taught to read and write], we found that there were more than one million illiterate Venezuelans by the end of 2005, barely down from the 1.1 million illiterate persons recorded in the first half of 2003, before the start of the Robinson program. Even this small reduction, moreover, is accounted for by demographic trends rather than the program itself. In a battery of statistical tests, we found little evidence that the program had had any statistically distinguishable effect on Venezuelan illiteracy," (p55).

This refers to Rodriguez's paper¹³ which looks at the effect of the *Mision Robinson* program, a national literacy campaign. The main problem with this conclusion is that it is based on a Household Survey that was not designed to measure literacy. The survey simply asks whoever is present at the time of the interview about another family member: "Does this family member know how to read or write?" A respondent may answer "yes" to the question, knowing that her brother or father can write his name. At the end of a literacy program, however, the person may have considerably improved reading skills, but would still show up in the survey as the same response. There are probably millions of functionally illiterate people who would not be captured as illiterate at the starting point by this crude survey. To measure the results of *Mision Robinson*, one would need some before-and-after test for the participants.

The Center for Economic and Policy Research used the Household Survey data to look at whether the statistical tests cited above by Rodriguez actually showed, even with this crude data, that there was "little evidence that the program had any statistically distinguishable effect on Venezuelan literacy." We found

¹³ See Rodriguez, Francisco and Daniel Ortega. "Freed from Illiteracy? A Closer Look at Venezuela's Robinson Literacy Campaign." *Economic Development and Cultural Change*. Forthcoming, October, 2008.
http://frodriiguez.web.wesleyan.edu/docs/working_papers/Freed_from_Illiteracy.pdf

that the statistically insignificant results found by Ortega and Rodriguez were not robust and appeared to be an artifact of the specification of the tests that they used; and that under other reasonable specifications, there was a statistically significant effect of the program that was visible in the household data.¹⁴

In sum, it may well be that the government exaggerated the results of the literacy campaign, but neither the Household Survey itself, nor Ortega and Rodriguez's statistical analysis of it, provides much evidence regarding this question.

Low birth weight babies, water, dirt floors, and the welfare of the poor

“...official statistics show no signs of a substantial improvement in the well-being of ordinary Venezuelans, and in many cases there have been worrying deteriorations. The percentage of underweight babies, for example, increased from 8.4 percent to 9.1 percent between 1999 and 2006. During the same period, the percentage of households without access to running water rose from 7.2 percent to 9.4 percent, and the percentage of families living in dwellings with earthen floors multiplied almost threefold, from 2.5 percent to 6.8 percent,” (p.53).

This is extremely misleading. Tables 3, 4, 5 and 6 below provide some of the relevant data, including the percentage of low birth weight babies. As can be seen, all the measures of infant mortality show significant declines from 1998-2005 (the last year for available data).

TABLE 3
Venezuela: Infant Mortality and Low Birth Weight Babies

	1998	1999	2000	2001	2002	2003	2004	2005	2006
In thousands									
Live Births	501.8	527.9	544.4	529.6	492.7	555.6	530.6	585.7	.
Deaths Under-1 year of age	10.7	10.0	9.6	9.4	8.9	10.3	9.3	9.1	.
Deaths of newborns between 28 days and 11 months of age (Post-Neonatal)	4.5	3.8	3.4	3.5	3.1	4.0	3.1	2.8	.
Deaths Under-28 days of age (Neonatal)	6.2	6.3	6.3	5.8	5.9	6.2	6.2	6.3	.
Number of Low Birth Weight Newborns at Monitoring Hospitals (thousands)	.	12.6	12.5	11.0	10.4	12.5	11.4	11.5	11.7
Number of Monitored Children for Birth Weight (thousands)	.	150.4	142.3	126.6	121.9	140.9	129.3	127.1	.
Low Birth Weight Newborns at Monitoring Hospitals (% of Total Live Births)	.	8.4	8.8	8.7	8.5	8.9	8.8	9.0	9.1
Monitored Children for Birth Weight (% of Total Registered Live Births)	.	28.49	26.13	23.91	24.73	25.36	24.37	21.71.	
Infant (Under-1 year) Mortality Rate (deaths per 1,000 live births)	21.36	18.98	17.72	17.66	18.16	18.49	17.48	15.53.	
Post Neonatal (Between 28-days and 11-months old) Mortality Rate (deaths per 1,000 live births)	8.98	7.14	6.21	6.62	6.25	7.26	5.86	4.74.	
Neonatal (Under 28-days) Mortality Rate (deaths per 1,000 live births)	12.39	11.84	11.52	11.04	11.92	11.23	11.62	10.79.	

Source: Sistema de Indicadores Sociales de Venezuela (SISOV)

¹⁴ See Weisbrot, Mark and David Rosnick. “Illiteracy Revisited: What Ortega and Rodriguez Read in the Household Survey” at <http://www.yale.edu/polisci/info/conferences/Venezuela/papers.html>]. Forthcoming. Washington, D.C.: Center for Economic and Policy Research.

For example, under 1-year mortality drops from 21.4 to 15.5 per thousand. All of these declines were interrupted by the disruption of the economy during the oil strike of 2002-2003 – something to keep in mind when evaluating this progress, since the Chávez administration can hardly be held responsible for this devastation of the economy by opposition organizers seeking to topple the government (see below).

The rise in the rate of low-birth weight babies is thus an exception to these trends. Most of it takes place from 2002 to 2003, when the economy was devastated. Why did it not recover, like the other indicators? It is possible that this is a measurement problem; as Table 3 shows, the percent of children monitored for birth weight dropped sharply from 1999-2005, from 28.5 to 21.7 percent of births; this is not a random change in the sample, so measurement could have been affected. Given what happened to infant mortality, it is difficult to believe that the increase in low birth weight babies is really an indication of deteriorating prenatal or postnatal care.

Tables 4, 5 and 6 below show the data for the Chávez government regarding floor construction, water access, and sewage disposal. There is an unexplained jump from 2005 to 2006 in the percentage of dwellings with dirt floors, from 2.2 to 6.8 percent. There is also a drop in piped water, from 94.7 to 90.6 percent. This is matched by a corresponding increase in delivery by “other means” and from public fountain sources. It is not clear from the data to what extent, if any, this represents a deterioration in water supply. At the same time, there is a huge improvement in access to sewage disposal, up from 79.7 to 95.2 percent, which follows another large jump the previous year.

Rodriguez's selected indicators purporting to show a decline in the well-being of the poor are thus ambiguous and counter to other trends. We are looking at a period of sharp decline in the poverty rate, the extraordinarily rapid real growth of the economy (including 10.3 percent in 2005 and 10.3 percent in 2006, the years in which he is alleging deterioration); and a huge real growth in construction (20 and 35.6 percent in 2005 and 2006, respectively).

Whatever the explanation for these selective data points presented by Rodriguez, it is difficult to believe that they indicate a decline in the well-being of the poor in recent years.

TABLE 4
Venezuelan dwellings by type of material on floor (% of total declared households)

<i>Type of material on floor</i>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Hardwood, granite, ceramic and vinyl	31.6	32.8	30.8	29.5	28.4	30.4	29.2	30.4	29.4	30.5	31.2
Cement	66.0	64.2	66.3	67.5	68.2	65.6	65.7	65.9	66.9	67.1	61.9
Dirt	2.3	2.7	2.7	2.5	3.1	3.8	4.8	3.7	3.6	2.2	6.8
Other (wooden planks)	0.1	0.2	0.2	0.5	0.3	0.2	0.2	0.0	0.1	0.2	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 5
Venezuelan dwellings by type of water access (% of total declared households)

<i>Water access</i>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Fountain	0.6	0.7	1.0	0.6	0.7	0.6	0.4	0.6	0.7	1.1	2.9
Truck	2.9	2.3	1.7	2.1	2.2	2.0	2.4	2.8	2.7	1.8	1.5
Other means	5.4	4.8	4.2	4.5	4.8	3.9	4.7	4.7	4.2	2.5	5.0
Aqueduct (Pipes)	91.1	92.1	93.1	92.8	92.3	93.4	92.5	91.9	92.4	94.7	90.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 6
Venezuelan dwellings by type of access to sewage disposal service (% of total declared households)

<i>Sewage disposal access</i>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
From toilet to sewer	69.8	71.7	72.4	73.5	72.0	73.9	72.0	71.1	71.2	79.7	95.2
Toilet to septic pit	16.9	16.2	16.1	14.5	15.9	14.4	15.7	16.5	17.4	10.6	1.1
Does not have a toilet	8.9	7.7	6.8	7.0	7.5	6.3	6.6	8.4	8.0	6.4	0.5
From toilet to hole or latrine	4.3	4.4	4.7	5.0	4.5	5.4	5.6	4.0	3.4	3.2	3.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SISOV

The Origins of the 2002-03 recession, and political and economic instability

“At that point, [February 2002] the economy had entered into a recession as a result of an unsustainable fiscal expansion carried out during Chávez’s first three years in office . . . as we proceeded to meet with officials, the economic crisis was spilling over into the political arena, with the opposition calling for street demonstrations in response to Chávez’s declining poll numbers. Soon, workers at the state oil company, PDVSA, joined the protests,” (p.58-60).

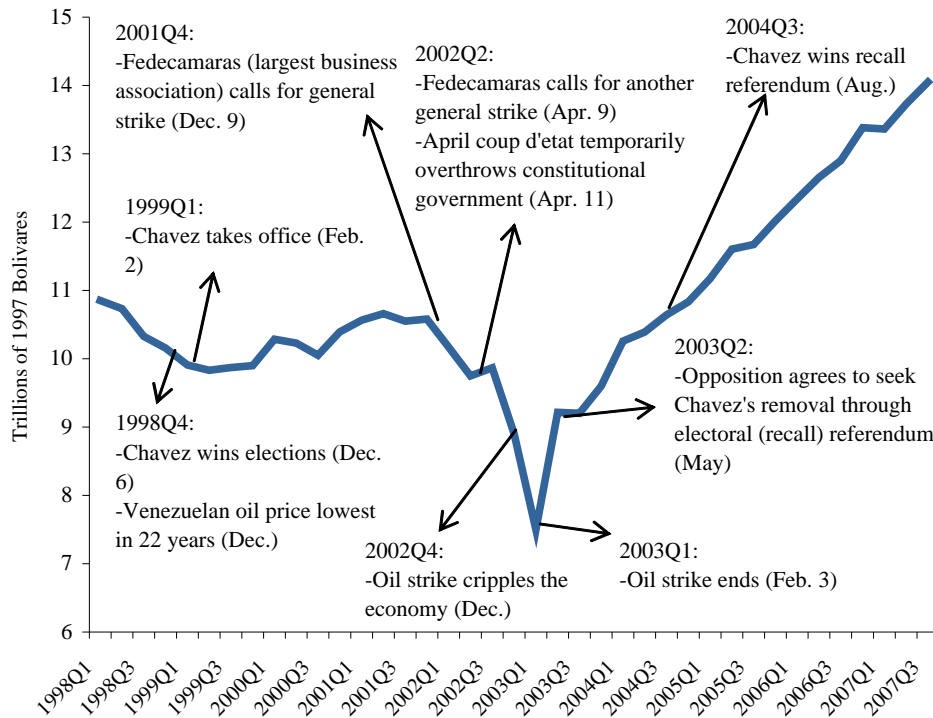
This is an unusual interpretation of events which probably few economists would agree with.

Very simply, Rodriguez has reversed the causality of events. The opposition was determined from even before the beginning of 2002 to topple the government, and they controlled the most important asset of the country, the state-owned oil company, which provided about 50 percent of the government's revenue and 80 percent of Venezuela's foreign exchange earnings.¹⁵ Figure 1 below shows this relationship between

¹⁵ For this reason it does not make sense to hold the Chávez government responsible for the economy during its first four years, since it did not control the state oil company or its revenues. Without control over these resources – and indeed when they are controlled by hostile forces seeking to use or even sabotage them in order to destabilize and/or overthrow the government – as happened in 2002 and 2003, it is difficult if not impossible for the government to achieve much of anything in the way of economic or social improvements. In fact, as the oil strike of December 2002-February 2003 showed, it was impossible to even keep the economy afloat while PDVSA was controlled by the opposition. As an analogy, since the United States has no comparable sector of such importance to the economy or government revenue, imagine that the U.S. Federal Reserve were controlled by a board of governors that was determined to use its control over monetary

the opposition's efforts and the economy.

FIGURE 1
Venezuela: Real GDP (seasonally-adjusted)



Source: Banco Central de Venezuela (BCV) and authors' analysis.

Chávez's first year (1999), which began with the price of Venezuelan oil at its lowest point in 22 years, was marked by negative growth. But the economy began to grow in the first quarter of 2000 and continued through the third quarter of 2001. The next few months were a period of the most extreme political instability: in December of 2001 the Venezuelan Chamber of Commerce (FEDECAMARAS) organized a general business strike against the government. This political instability, combined with much capital flight, continued through April 2002, when the elected government was overthrown in a military coup. The constitutional government was restored within 48 hours, but stability did not return, as the opposition continued to seek to topple the government by extra-legal means. Growth remained negative through the summer and fall of 2002, and then the economy was hit with the opposition-led oil strike of December 2002-February 2003. This plunged the economy into a severe recession during which Venezuela lost 24 percent of its GDP. The economy began to recover in the second quarter of 2003 and has grown very rapidly and continuously since then. All of this is shown in Figure 1.

policy and interest rates to destabilize the economy and government. Such a board could wreak havoc on the economy simply by raising the Federal Funds rate to the level where it would induce a recession. In such a situation, it would not be fair to hold the executive branch or Congress responsible for the resultant economic destruction.

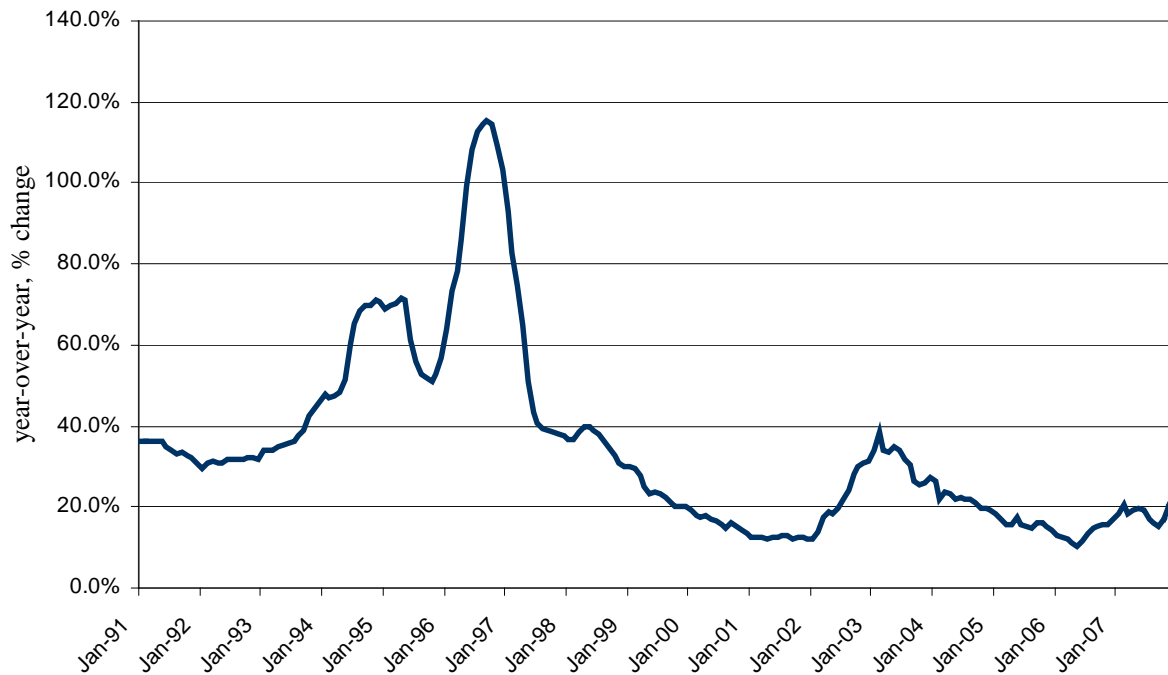
Rodriguez's Criticisms That Are Valid or Partly True

There are three imbalances in the Venezuelan economy that Rodriguez correctly identifies, and if left unchecked, could lead to serious problems. However, even here he exaggerates the situation considerably. The first is the country's overvalued exchange rate. This is important not only because of the distortions that it creates (subsidizing “the cost of imports and foreign travel for the wealthy”) – which are serious, but also because it affects the country's economic development. By subsidizing imports and making the country's non-oil exports too expensive, the over-valued exchange rate hinders the diversification of the economy away from oil.

The second imbalance is in the inflation rate, which is now running at an annual rate of 25.2 percent.¹⁶ This is indeed too high, although it is worth noting that it was at a 40 percent annual rate at the end of the oil strike in 2003; it was 36 percent before Chávez took office, and 100 percent in 1996. (See Figure 2 below).

FIGURE 2

Venezuela: Year-over-Year Monthly Inflation Rate, Consumer Prices (January 1991 - December 2007)



Source: Banco Central de Venezuela (BCV)

The high inflation contributes to the more important problem of the overvalued exchange rate, because the government keeps the nominal exchange rate fixed, and so it grows more overvalued in real terms as inflation proceeds.

The third imbalance is reflected in the shortages of certain basic foods, as Rodriguez describes. This should not be difficult to resolve, since Venezuela can import as much food as it wants. Rodriguez, with

¹⁶ Rodriguez asserts that “When the Central Bank board received its November price report indicating that monthly inflation had risen to 4.4 percent (equivalent to an annual rate of 67.7 percent), it decided to delay publication of the report until after the vote on the constitutional reform was held.” The 67 percent annual rate is meaningless; economists do not annualize one-month rates because the data are too erratic. Also, the Central Bank publishes inflation data for the previous month on the first working day of the current month. The referendum was on Sunday, December 2, 2007 and the Central Bank published the November inflation data on Monday, December 3, 2007. So the allegation of delayed publication is also false.

amazing exaggeration, states that the country's import growth " is now threatening to erase the nation's current account surplus" But in fact the current account surplus is still very large, at more than 8 percent of GDP. (For comparison, imagine the U.S. with an annual current account surplus of more than \$1.1 trillion instead of its present deficit of \$739 billion.) So there is plenty of room to import more food, which would also bring down the inflation rate.

Whether or not the government takes the necessary steps to resolve these imbalances remains to be seen. But the situation is nowhere near as dire as Rodriguez paints it. His comparison with "populist macroeconomics" of past Latin American governments, whose policies led to "the accumulation of severe fiscal and balance-of-payments problems, galloping inflation, and plummeting real wages" clearly does not apply to contemporary Venezuela, which has no serious fiscal problems, enormous foreign exchange reserves, a large balance of payments surplus, and rising real wages. In fact, the Venezuelan economy's imbalances – again, not to underestimate the long-run importance of them – do not even constitute the kind of imminent threat to the economy that the U.S. housing bubble presented to our economy in 2003-2006, where one could say with confidence that the bubble would eventually collapse and cause a recession, and that the longer it took to burst, the worse the recession would be.¹⁷

While it is useful to discuss the imbalances in the Venezuelan economy and what might be done to correct them, there is little use in presenting such a grossly exaggerated picture of an economy as if it were on the brink of ruin, and pretending that Venezuela's poor have not benefited from the economy's most rapid economic expansion in decades, and from the government's large increases in social spending and programs.

¹⁷ See, e.g., Baker, Dean and David Rosnick. 2005. "Will a Bursting Bubble Trouble Bernanke? The Evidence for a Housing Bubble." Washington, D.C.: Center for Economic and Policy Research.