

Poverty Reduction in Venezuela: A Reality-Based View

BY MARK WEISBROT*

Venezuela has seen a remarkable reduction in poverty since the first quarter of 2003. In the ensuing four years, from 2003 to 2007,¹ the poverty rate was cut in half, from 54 percent of households to 27.5 percent. (See Table 1). Extreme poverty fell even more, by 70 percent – from 25.1 percent of households to 7.6 percent.

These poverty rates measure only cash income; as will be discussed below, they do not include non-cash benefits to the poor such as access to health care or education.

If Venezuela were almost any other country, such a large reduction of poverty in a relatively short time would be noticed as a significant achievement. However, since the Venezuelan government, and especially its president, Hugo Chavez Frias, are consistently disparaged in major media, government, and most policy and intellectual circles, this has not happened. Instead, the reduction in poverty was for quite some time denied. Until the Center for Economic and Policy Research published a paper correcting the record² in May 2006, publications such as *Foreign Affairs*, *Foreign Policy*, the *Washington Post*, the *New York Times*, the *Financial Times*, the *Miami Herald*, and many others all published articles falsely asserting that poverty had increased under the Chavez government.³

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¹ This is measured from the first half of 2003 to the first half of 2007; data are not seasonally adjusted. As can be seen in Table 1, the poverty rate rose very slightly by one percentage point in the second half of 2007, most likely due to rising food prices.

² 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.

³ See Ibid., including appendix, for more detail. A few of these publications eventually ran corrections. While poverty did in fact rise sharply in 2002-2003 (see Table 1), the publications cited above and in the Appendix to Weisbrot *et al* (2006) all printed false statements about the poverty rate after it had dropped back down and the new data were publicly available.

TABLE 1
Venezuela: Poverty Rates, 1997-2007

Year /	Time Period	Households (% of total declared)		Population (% of total declared)	
		Poverty	Extreme Poverty	Poverty	Extreme Poverty
1997	1st Half	55.6	25.5	60.9	29.5
	2nd Half	48.1	19.3	54.5	23.4
1998	1st Half	49.0	21.0	55.4	24.7
	2nd Half	43.9	17.1	50.4	20.3
1999	1st Half	42.8	16.6	50.0	19.9
	2nd Half	42.0	16.9	48.7	20.1
2000	1st Half	41.6	16.7	48.3	19.5
	2nd Half	40.4	14.9	46.3	18.0
2001	1st Half	39.1	14.2	45.5	17.4
	2nd Half	39.0	14.0	45.4	16.9
2002	1st Half	41.5	16.6	48.1	20.1
	2nd Half	48.6	21.0	55.4	25.0
2003	1st Half	54.0	25.1	61.0	30.2
	2nd Half	55.1	25.0	62.1	29.8
2004	1st Half	53.1	23.5	60.2	28.1
	2nd Half	47.0	18.6	53.9	22.5
2005	1st Half	42.4	17.0	48.8	20.3
	2nd Half	37.9	15.3	43.7	17.8
2006	1st Half	33.9	10.6	39.7	12.9
	2nd Half	30.6	9.1	36.3	11.1
2007	1st Half	27.5	7.6	33.1	9.4
	2nd Half	28.5	7.9	33.6	9.6

Source: Instituto Nacional de Estadística (INE), República Bolivariana de Venezuela

When it could no longer be denied, the government's opponents – who have a near-monopoly of the debate about Venezuela outside the country -- then tried to put a negative spin on it. An article in the March/April issue of *Foreign Affairs* by Francisco Rodriguez (2008), attempts to argue 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.”⁴ I have dealt with these assertions in detail elsewhere⁵ and will only treat some of them briefly here.

As can be seen from Table 1, the poverty rate fell from 1999-2001, and then rose sharply in 2002-2003. This is to be expected, since the economy was devastated in 2002-2003 by an oil strike (joined by business owners), losing 24 percent of GDP from the third quarter of 2002 to the first quarter of 2003. In terms of lost income, this is comparable to the U.S. economy in some of the worst years of the Great Depression.

⁴ Francisco Rodriguez (2008a). “An Empty Revolution: The Unfulfilled Promises of Hugo Chávez”, *Foreign Affairs*, Vol. 87, Issue 2: 49-62.

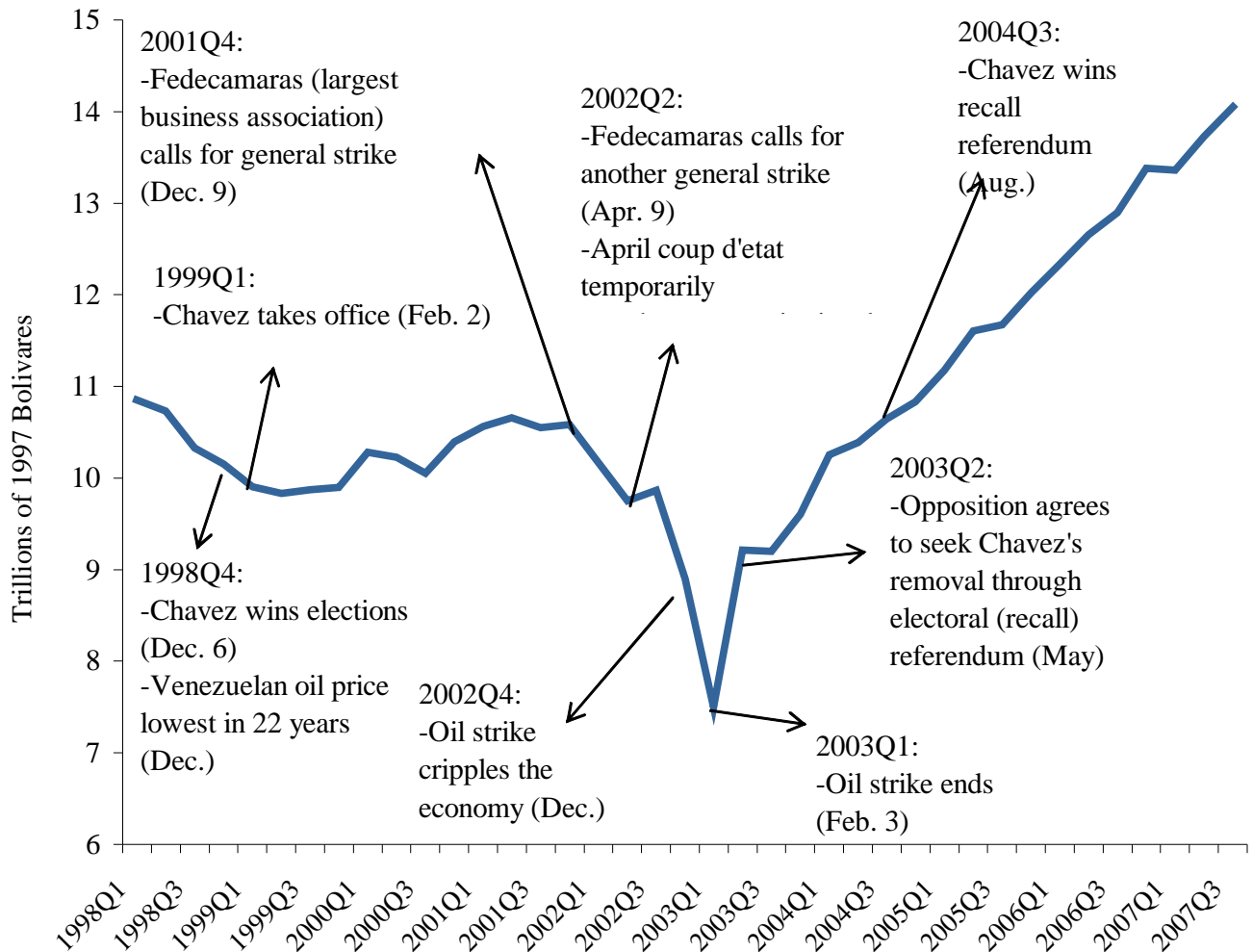
⁵ Mark Weisbrot (2008b). “How Not to Attack an Economist (and an Economy): Getting the Numbers Right”, Washington, DC: Center for Economic and Policy Research.

http://www.cepr.net/documents/publications/venezuela_2008_04.pdf.

It would not seem logical to hold the government responsible for the economic impact of the oil strike and business lockout, since that was carried out by its opponents. Indeed, a strong case can be made that the government could not do much at all about poverty for its first four years (1999-2003). During this time it did not have control over the national oil company – Petroleos de Venezuela, or PDVSA, and there was considerable instability, including a military coup (April 2002) and the strike.⁶

Once the government got control over the oil industry and the major opposition groups agreed to pursue their goal of removing Chavez through a referendum (May 2003), the economy began to grow rapidly and poverty was sharply reduced. (See Figure 1). In the five years from the bottom of the recession in the first quarter of 2003, to the first quarter of 2008, the economy grew by a remarkable 88.3 percent.

FIGURE 1
Venezuela: Real GDP (seasonally-adjusted)



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

⁶ See Teodoro Petkoff (2008), currently one of the most prominent and respected leaders of the Venezuelan opposition, who describes the opposition “strategy that overtly sought a military takeover” from 1999-2003, and its use of the oil industry for purposes of overthrowing the government.

Rodriguez (2008a) asserts that this halving of the household poverty rate in four years is not very good:

“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 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. (2008a, p.52-53).”

This implies that other countries have had twice as much poverty reduction per unit of economic growth as Venezuela. This is not true, and Rodriguez subsequently acknowledged this, listing Venezuela's income elasticity of poverty reduction at 1.67, which is closer to two than one.⁷ But an elasticity of two is not the relevant comparison.

Table 2 shows country and regional data from the World Bank for thirty-four growth spells of more than forty percent in per capita GDP, over the last two decades. As can be seen from the table, there are only three countries with a better income elasticity of poverty reduction than Venezuela. And even this comparison understates Venezuela's success. The World Bank data is for a \$2 per day⁸ poverty line, whereas Venezuela's poverty line is about 50 percent higher than this. The income elasticity of poverty reduction is much less elastic -- that is, there is much less poverty reduction for a given amount of growth -- for higher poverty lines.⁹ And as noted above, we are here only looking at cash income, ignoring gains for the poor in health care and education.

So it is not possible to assert that Venezuela's income elasticity of poverty reduction is lacking by any reasonable international comparison. On the other hand, it is not clear how relevant this measure is. In four years, poverty has been cut in half and extreme poverty by 70 percent. This is a major achievement. The United Nations' Millennium Development Goals call for a reduction in extreme poverty by half over the period 1990-2015. Should anyone, including the poor, care if Venezuela's very rapid reduction in poverty is high or low or medium relative to the amount of economic growth that has taken place? In other words, if Venezuela's income elasticity of poverty reduction were not so high, but poverty were cut sharply because of rapid economic growth -- including rising employment and real wages -- what would be wrong with that? In any case, the question is moot, since Venezuela has had a rapid reduction in poverty even for the amount of growth that it has had.

⁷ Rodriguez, Francisco (2008b). “How Not to Defend the Revolution: Mark Weisbrot and the Misinterpretation of Venezuelan Evidence.” Middletown, CT.: Wesleyan Economic Working Papers, Wesleyan University. [http://frodriiguez.web.wesleyan.edu/docs/working_papers/How_Not_to_Defend.pdf].

⁸ Purchasing Power Parity dollars.

⁹ Bourguignon, Francois. (2003) “The Growth Elasticity of Poverty Reduction: Explaining Heterogeneity across Countries and Time Periods”. The World Bank. Also, the three countries that are above Venezuela -- Poland, Latvia, and Chile -- have very low levels of poverty by the end of the period, measured at \$2 per day; countries with very low levels of absolute poverty tend to have much higher income elasticities of poverty reduction.

TABLE 2
Changes in per capita GDP and Poverty Rates, Countries and Regions

	Years	Percent change in per-capita GDP	Percent change in poverty rate /1	Estimated elasticity
Albania 1997-04	7	62.6	-11.5	-0.3
Armenia 1999-03	4	53.0	-18.8	-0.5
Azerbaijan 1995-01	6	46.5	-24.4	-0.7
Botswana 1986-93	7	50.2	-9.5	-0.2
Cambodia 1994-04	10	66.2	-6.6	-0.1
Chile 1992-03	11	44.2	-53.6	-2.1
China 1981-87	6	76.1	-22.1	-0.4
China 1987-93	6	57.3	-0.7	0.0
China 1993-99	6	64.4	-26.5	-0.6
China 1999-04	5	50.0	-30.3	-0.9
Costa Rica 1986-03	17	48.1	-45.8	-1.6
Dominican Republic 1992-04	12	44.1	65.7	1.4
East Asia & Pacific 1981-87	6	46.6	-19.2	-0.6
East Asia & Pacific 1987-93	6	50.3	-5.1	-0.1
East Asia & Pacific 1993-99	6	46.7	-24.1	-0.7
East Asia & Pacific 1999-04	5	41.7	-25.9	-0.9
Estonia 1995-03	8	73.3	8.7	0.2
Georgia 1996-03	7	59.1	197.5	2.3
Hungary 1993-02	9	40.9	0.0	0.0
India 1993-04	11	63.6	-5.8	-0.1
Indonesia 1987-02	15	65.2	-30.9	-0.7
Kazakhstan 1996-03	7	60.1	-14.0	-0.3
Lao PDR 1992-02	10	48.3	-1.1	0.0
Latvia 1998-03	5	43.1	-59.1	-2.5
Lithuania 1996-03	7	53.9	0.3	0.0
Low & middle income 1993-04	11	46.7	-20.0	-0.6
Malaysia 1989-97	8	64.2	-33.5	-0.8
Panama 1989-03	14	43.7	-24.1	-0.8
Poland 1993-02	9	51.0	-83.0	-4.3
South Asia 1981-93	12	41.3	-7.1	-0.2
South Asia 1993-04	11	54.7	-6.2	-0.1
Sri Lanka 1990-02	12	52.4	2.5	0.1
Thailand 1981-88	7	43.5	-1.8	-0.1
Thailand 1988-02	14	75.9	-53.5	-1.4
Average				-0.5
<i>Venezuela 2003-2007</i>	5	35.7	50.0	-1.67

Source: World Bank, World Development Indicators

The poverty and extreme poverty rates in Venezuela are based only on cash income, so they do not include the increased access to health care and education that the poor have gained since the government has gotten control over the oil industry. From 1999 to 2007, the number of primary care physicians in the public sector increased more than twelve times, from 1,628 to 19,571, providing health care to millions of poor Venezuelans who previously did not have access to health care.

Access to education has also been greatly expanded. This is especially true at the level of higher education: from the 1999-2000 school year to 2006-2007, enrollment increased by 86 percent; estimates for the 2007-2008 school year put the increase at 138 percent from the 1999-2000 base. For secondary education, the increase from the 1999-2000 school year to 2006-2007 is 54 percent. For basic education (grades 1 through 9) the increase over this period was 10 percent; but this was already at a 91 percent gross enrollment level in 1999-2000.

Some 3.9 million school children – about half of the population between three and seventeen years of age – now receive lunches in school.

In addition, more than 15,000 government (Mercal) food stores distribute basic food items at discounts from 27 to 39 percent; and there are some 894,300 people served by soup kitchens. Some of the impact of the discounted food from the Mercal stores – but not the soup kitchens or school lunches -- should show up in Venezuela's cash-income based poverty rate through lower prices, although it is difficult to say exactly how much.

It is therefore clear that the sharp reduction in poverty in Venezuela, as measured by the official poverty rate, captures only a part of the improvement in living standards for the poor.

There is no doubt that substantial improvements in the labor market, especially in the private sector, during the present economic expansion, contributed greatly to the sharp reduction poverty.

Measured unemployment has dropped sharply, from 19.7 percent in the first quarter of 2003 to 8.2 percent in the first quarter of 2008. If we compare to the beginning of the Chávez administration, unemployment stood at 15.6 percent in the first quarter of 1999. By any comparison, the official unemployment rate has dropped sharply. Of course, an unemployment rate of 8.2 percent in Venezuela, as in developing economies generally, is not comparable to the same rate in the United States or Europe. Many of the people counted as employed are very much underemployed. But the measure is consistent over time, and therefore shows an enormous improvement in the labor market. This can be seen in other labor market indicators. For example, employment in the formal sector has increased to 6.35 million (2008 first quarter), from 4.40 million in the first quarter of 1998 and 4.50 million in the first quarter of 2003. As a percentage of the labor force, formal employment has increased significantly since 1998, from 52.0 to 56.2 percent (2008).

There has been an increase of about 2 million jobs in the private sector and 633 thousand jobs in the public sector since the first quarter of 1999. Perhaps most importantly, employment as a percentage of the labor force has increased by 7 percentage points since the first quarter of 1999, which is quite substantial. (Since 2003, it has increased by almost 11.5 percentage points).

Inequality also shows a substantial decline as measured by the Gini coefficient – from 48.7 in 1998, or alternatively from 48.1 in 2003, to 42 in 2007.¹⁰ 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.

The extra scrutiny that the government of Venezuela and its statistics receive, as compared to other countries in the hemisphere, has produced some very modest positive results. For example, Rodriguez (2008) showed that some of the spending listed as “social spending” by PDVSA was inappropriately categorized. This was significant but did not change the overall picture, since eliminating this spending resulted in a measured increase of 218 percent in real social spending per capita, as opposed to a previously measured 314 percent. Ortega and Rodriguez (2006) also raised some serious doubts about the official data on the number of people who participated in the Venezuelan government’s national literacy campaign, although the data that their research was based on did not allow for any firm conclusions.¹¹

It may turn out that some of the official data that we are using today will be revised or replaced by better data, as happens in many countries. But overall, there is no evidence that the accuracy of government data in Venezuela has deteriorated in recent years or compares unfavorably to that of similar middle-income countries. Most of the controversy over social and economic progress under the Chavez administration is simply a result of misinformation, political prejudice, an overwhelming reliance on opposition sources, and an overall political and media climate of hostility toward a government that finds itself in conflict with Washington.

¹⁰ Rodriguez (2008a) tries to show an increase in inequality, first by selecting the years 2000-2005; he then tries to challenge the official data (Rodriguez 2008b); but his challenge is unfounded. See Weisbrot 2008b – [\[http://www.cepr.net/documents/publications/venezuela_2008_04.pdf\]](http://www.cepr.net/documents/publications/venezuela_2008_04.pdf).

¹¹ Weisbrot, Mark and David Rosnick (2008). “‘Illiteracy’ Revisited: What Ortega and Rodríguez Read in the Household Survey.” Washington, DC.: Center for Economic and Policy Research. [\[http://www.cepr.net/documents/publications/literacy_2008_05.pdf\]](http://www.cepr.net/documents/publications/literacy_2008_05.pdf)

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