



Late Venezuelan Strongman Hugo Chavez "reelection campaign" posters in 2012.

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The Truth About Venezuela's Economic War

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January 18, 2017 by Antony Davies and James R. Harrigan

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Blaming Venezuela's spiraling inflation on "economic war and mafia attacks," Hugo Chavez's successor, socialist President Nicolas Maduro has raised the nation's minimum wage for the fifth time in a year. The whopping 50 percent wage hike raises the monthly wage to between \$12 and \$60, in U.S. terms, depending on whether one

goes by the state-controlled or the more accurate black-market exchange rate.

No matter what, though, the measure will provide no relief given Venezuela's projected 1,600 percent inflation rate.

Decades of Chavez-ism have finally demonstrated Margaret Thatcher's dictum: Socialists "always run out of other people's money." Venezuela's paper money has lost so much value that it is no longer counted at the point of purchase. It's weighed.

The once-affluent and still oil-rich nation came to this because of a long train of abuses, missteps and shortsighted moves typical of socialist regimes. These began when Venezuela nationalized its oil industry in 1976. The pretext for nationalization was to take profit from capitalists and return it to the people. But when the government seized the oil companies, it removed the profit incentive people had to develop and maintain the physical apparatus that brings oil to market. Predictably, everything has fallen into disrepair. It also removed another equally important force: the loss incentive.

In private industries, decision-makers bear the consequences of their decisions. Good decisions beget profit for decision-makers, and poor decisions beget losses. The dual forces of profit and loss guide management, and the investors who hire them, to use resources judiciously. But in nationalized industries, political elites share the consequences of their decisions. Good decisions beget profit for political elites. Poor decisions beget losses for the people. And so it has been in Venezuela, where not only do people not have oil, they don't have food.

In Venezuela, political elites treated the oil industry like the parents' credit card. They pulled out money to fund their socialist utopia, but did little to ensure the industry's, and thus the nation's, long-term viability. Why? Because they kept the industry's profit for themselves, but not its losses. Those were for the Venezuelan people. And so Venezuela's oil production plummeted.

Since Venezuela nationalized its oil industry in 1976, world oil production has skyrocketed. Saudi Arabia's oil production rose 25 percent, Kuwait's 30 percent, the United Arab Emirates' 100 percent, Canada's 133 percent, and China's 220 percent. Even war-torn Iraq's oil production rose 125 percent. Compared to Venezuela, the United States' zero percent growth is a bonanza. Since 1976, Venezuela's oil production declined 20 percent.

Chavez's socialist experiment is ending in the same rampant poverty that ends every socialist experiment, because they are all built on the same false premise — that an economy is a mechanism that can be managed by a cadre of elites. Experience, both long and painful, should paint a clear picture. An economy is much more like an organism composed of millions of different people employing different skills, doing different things, in pursuit of their own innumerable goals.

An economy simple enough to be centrally managed is too simple to feed millions of people.

When the government restricts the economy in one place, the organism reacts and unexpected consequences arise elsewhere. To fill their own pockets, Venezuelan political elites nationalized the oil industry. The unintended consequence was a decline in oil production. Paired with a decline in the price of oil, this meant less tax revenue for the government. To obtain needed revenue, the government printed money. The unintended consequence was inflation as more bolivars chased fewer products. To slow inflation, the government imposed price controls. The unintended consequence was food shortages and hoarding. To prevent hoarding, the government limited how much food people could buy. The unintended consequence was that fewer people produced and transported food. To increase food production, the government forced people to work on farms.

In the end, though, President Maduro is correct. Venezuela's economic woes are indeed the result of economic war and mafia attacks. But Venezuela's political elites are the mafia, and they alone have waged a decades-long economic war on Venezuela's people.

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