Episode 1,119: The Venezuelan Disaster

Guest: José Niño

WOODS: You've got such a great article archive, and it's not just on Latin America. You've covered all different topics. But wow, is this a great series of pieces that you've written. And then particularly on Venezuela, what great backgrounders these are for ignoramuses like me who just don't know much other than the headlines that we read. So it's so valuable what you've done, and I'm so glad that you're here to talk to us about it.

I want to clear up some things, because when you try to talk about Venezuela, you get a lot of the usual kinds of defenses that you get when there's any failed socialist experiment or state. It's, well, it's not really socialism; it's capitalism — and you know, depending on how you define socialism, fair enough, but certainly there's very heavy government intervention. But you get excuses like that. Or Venezuela had its problems because the price of oil collapsed and it's not really a testament to the policies; it's just an unfortunate external occurrence that nobody can be blamed for. We get a lot of this, and so I would like to get your thoughts on it.

One of your columns, though, actually starts before Hugo Chavez, because a lot of people think that's where everything went wrong. And I think that's mainly because most people don't know anything about Venezuela before Hugo Chavez, and you're arguing that if we look back over the decades preceding his rise to power, we get a much better picture about what was really going on. So why don't you paint that picture for us?

NIÑO: Yes, the reality is that the genesis of Venezuela's economic problems really started 60 years ago when it returned back to democracy in 1958. At that point, Venezuela was a very well-developed country due to decades of relatively free-market capitalism in spheres like the petroleum sector and what not. But once the social democrat establishment in Venezuela got into power in 1958, the country progressively turned to more interventionist policies in matters of price controls, regulation of the petroleum sector, and the eventual nationalization of the petroleum sector in 1973 and all sorts of protectionist measures that made foreign investment more difficult and running a business a lot harder.

And it eventually culminated in the 1980s and 1990s into a fiscal and business disaster, where Venezuela had to eventually turn to the IMF for aid and they implemented a series of decent reforms that made it slightly more competitive on the global stage. But at the end of the day, these were half measures at best, and by that time, the bipartisan social democratic status quo was effectively discredited, and demagogues like Hugo Chavez who launched a failed coup in 1992 just gained more credibility. And by the time he ran for office in 1998, it was all

she wrote. The populous was just disillusioned with the political establishment, and the radical socialist movement that Hugo Chavez was in charge of was able to gain a lot of traction over those decades and they became a force to be reckoned with. And from that point forward, they've dominated Venezuelan politics ever since.

WOODS: So what exactly did Chavez do that was so radical?

NIÑO: He mostly doubled down on the interventions that the previous social democratic governments did, and he did it in a tyrannical fashion. He did expropriate industries, but without compensating them in a way that was not typical in the social democratic era, because the oil industry was nationalized in 1973 way before Chavez was in power, but they at least compensated foreign companies for that. But also, Chavez implemented price controls in all sorts of exchange controls, which was also implemented in the previous era. I think the moral of the story here is that there's no such thing as the middle road, that once you introduce a certain amount of economic intervention, it will beget more intervention, and if the political actors do not get the fiscal and economic house in order, these interventions will turn into nastier interventions as demagogues like Chavez come into power.

WOODS: Now, what do you say though to people who argue that, look, this is not — because in fact, you can find people in the American press, as you well know, who for years taunted free-market people with the example of Venezuela. They said: look, this is a great success story, and it goes against all the dogmatic free-market ideology we hear coming out of all you people, and it just goes to show that other systems work too, and we on the left are celebrating this. So now lately, of course, it's been fun for some people to dig up these statements from American journalists and say, "Well, what do you think now?" And they either don't respond or they've got some excuse or whatever. But we did hear a lot of that. We did hear a lot of cheerleading. And now once things have gone sour, we've got the excuse factory, and the top of the production of that excuse factory is that oil prices went sour and that this was bad for Venezuela. And there's always some excuse, but what do you make of these excuses?

NIÑO: Well, it's just like really like a no-true-Scotsman fallacy when they talk about how socialism hasn't been truly implemented there. And also, if you look historically at oil prices and Venezuela's overall economic development, when it was a first-world country in the 1950s, Venezuela did not enjoy high oil prices. In fact, they were actually quite low. And the reason it became rich was that the government generally stayed out of the way. The problem is that once the Venezuelan government nationalized the oil industry in the 1970s, it became the state-owned oil company, PDVSA, Petroleos de Venezuela, became basically a spigot for a bunch of populist politicians that sought to buy votes the entire time. And really what it did was just only guarantee political stability for these political parties and their patronage networks.

But after the oil company was nationalized and enjoyed really high prices, economic growth was actually not that impressive. In fact, from 1958 to 1998, Venezuela was characterized by some economists as an economic growth disaster, because its per capita GDP was actually in the negative. It actually became slightly poorer, not as poor as it is now, but there was an ongoing trend of decreasing prosperity in the country due to the increased intervention.

And now to your point on the journalists that touted Venezuela as like a success story in the mid-2000s, Venezuela was enjoying ridiculous windfalls from the high oil prices of that time,

but even then the growth was measly at best. And there were also reports of shortages in certain consumer goods as early as 2007 because of the price controls and exchange controls that Venezuela had, that even with the high oil prices, there were several cracks in the system that were starting to emerge. So once the oil prices plummeted, the whole facade of Venezuela's prosperity came crashing down quick.

WOODS: But also, the very fact that the fall in price of one commodity should lead to a catastrophe on this scale first of all is highly implausible, that one price leads to outcomes like we're seeing people scrounging around for scraps. But secondly, even if that were the explanation, that's a further indictment of the economy under these people, because why is the economy so single-mindedly attached to just one thing? And of course it happens to be state-owned. There's obviously something sick about this economy if just the one thing can lead it to disaster.

NIÑO: Yes, that's a good point as well, because the Venezuelan political class since the '70s thought that they could just rely on petroleum rents to subsidize other industries, and as a result, these industries became inefficient because of government involvement and there was no real market incentive from the ground up to build up these industries. So there has always been a dependency on the state to build industries, and that's why Venezuela has become so single-minded when it comes to its economic development. And that's mostly because of state intervention. It's not because of the free market.

And yes, the fact remains that there were already shortages even during the boom phase, which shows you that even the laws of economics cannot be violated whenever you have a commodity boom. And it's just the chickens came home to roost once prices plummeted and the interventions eventually began to take their toll.

WOODS: You have a piece called "Donald Trump Is the Least of Latin America's Worries." This is from February 2017. The argument here is that with Trump talking about tariffs and his opinions on immigration, naturally there was hostility toward him from Latin America, and the point you were trying to make was that: all right, this is all well and good to some degree, but in large part, this is a smokescreen to divert the attention of people in these countries from the consequences of the policies put forth by their own rulers. It's very, very tempting to say Trump did this and Trump did that, but Trump has almost no impact on the economic well-being of any of these people. It's the regimes in those countries, which of course are all too happy to divert attention from what they're up to.

So what exactly are they up to? And incidentally, before I finish that question, of course a lot of people seem to think that Latin America is suffering from capitalism run amok and that that's why there's a push for socialistic alternatives. But there's never been capitalism run amok in Latin America.

NIÑO: The reality is that since Latin America's independence from Spain in 1820, the overwhelming majority of countries in that region have engaged in some form of mercantilism, light socialism, and in some extreme cases like Cuba and Venezuela tyrannical socialism. And the reality is that the political class over time has found it convenient to blame the United States for its home-brewn failures such as tariffs, onerous occupational licensing, restrictive business practices that prevent foreign investment, as well as high taxation. So it's very simply. You can just cast the blame on America and avoid all the problems that politicians have created over the past few decades, and these guys will go scot-

free into election and perpetuate themselves into power while region remains underdeveloped.

WOODS: I want to talk about some of your historical pieces in just a minute after we thank our sponsor.

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As we're recording this, it's been a week, a week and a half since you released an article at the Mises Institute called "Latin America versus the United States: A Tale of Two Independence Movements." And this may follow on my previous question about what really has been the experience of Latin America because what you're arguing in this piece is that the American example of independence is very much indebted to an intellectual tradition that is based on individual rights, private property, the natural rights tradition that we're all familiar with. And you're arguing that Latin America's experience in independence did not carry that kind of philosophical influence.

NIÑO: That is correct. In fact, the Latin American experience was mostly of a political class that believed that its original colonial privileges were being abrogated by the Spanish crown, so they declared independence to perpetuate their privileges. And in fact, Latin America was actually more regressive in many sense than Spain when it came to political and economic matters. And it's no small wonder why Latin America was so underdeveloped for the 50 years following the independence movement. And it's very simple. In Latin America, there was more devotion to the caudillo, the strongmen that would grant the populace certain government benefits, would nationalize industries in the name of fighting imperialism, but in reality, this just turned into a system of oligarchical collectivism where a political class would just profit off the labor of the masses and just perpetuate themselves in power.

WOODS: I have to say I'm drawn a bit, by the way, to another of your columns, just because even though you wrote it in August 2017, it's an evergreen topic. And that has to do with gun control laws, because in the U.S., there's always something in the news that leads us to be debating gun control. And one of the common refrains in that debate is: let's look at the examples of other countries that have different laws pertaining to guns than the U.S. has, and then let's compare those countries. And as one of my recent guests pointed out, they tend to be fairly selective in which countries they want to compare the U.S. to. And you have an article called "Gun Control Laws Have Failed Latin America," and I'd like you to tell us something about that, because I have only the vaguest sense of what gun control laws in Latin America would be like. I think it's probably accurate, but I don't know what the results have been.

NIÑO: Yeah, this goes back to foundational principles. In Latin America, there has never really been a Second Amendment. In the colonial era, the Spanish were the only ones that had control over firearms, and there was always a monopoly of force that was exclusive to the state and several privileged private actors. Now, what you see currently in Latin America is that in the most violent countries like Mexico, Colombia, Brazil, and Venezuela is that these countries feature heavy amounts of gun control, and they already have very corrupt law enforcement systems that are not very reliable, so cartels, governments, and paramilitary actors will have a field day with the unarmed citizenry. And people will blame this violence for like the third-world status, but there's countries like Uruguay and Chile that

actually have higher degrees of gun ownership relative to the population, and they don't have these same problems as well. They have comparable levels of economic development.

So really, a modest proposal for solving a lot of these issues of violence in Latin America would be to start considering loosening these tight gun regulations that limit the amount of arms being sold to law-abiding citizens and actually allow them to defend themselves in the face of criminals, paramilitary forces, and even in worst-case scenarios tyrannical governments.

WOODS: All right, let's go back to Venezuela specifically. For a while, we were seeing newspaper stories telling us about conditions there, and these stories were, it seemed to me, brutally frank about what was happening and what people's experiences were. And then, I don't know if it was just the natural duration of the news cycle, but these stories more or less began to dry up. So right now, I think people don't really know exactly what the situation is in Venezuela. Has it improved? Is there any prospect of improvement? What's the typical day-in-the-life of somebody in Venezuela like in terms of political and economic conditions?

NIÑO: Well, for started, Venezuela is the poster child of the current failures of socialism, without a doubt, so the media will do everything it can to just put out puff pieces about its current economic situation and then be done with them after a few days. But really, nothing has really improved. The fact remains that Venezuela's on a hyperinflationary course where inflation could be increasing like 50% on a per-monthly basis, and you're looking at some estimates saying it could go up to like 30,000% by the end of the year, bringing it to a point of hyperinflation. Right now, the Venezuelan currency, the bolivar, is slightly more — 4,000 bolivar is equivalent to like a dollar, and the official exchange rate, which is a complete joke and nobody relies on it, is like one dollar is like 10 bolivars, but really the black-market rate, which is the actual rate, it's 1 to 4,000.

And the shortages still continue. You have hundreds of thousands if not millions of Venezuelans fleeing the country to more prosperous places like the United States, Panama, Colombia, Chile. And the fact remains that Venezuela is not improving, and Maduro is still in power, and the opposition has been very ineffective in ousting him in power and proposing any type of solutions really to put the country on the right path.

WOODS: Well, this is unbelievably frustrating. Now, the problem that I think a lot of us worry about is: are people who are going through this unbelievably difficult situation, are they going to come out of this with the right lesson? At least there'd be a silver lining to their suffering. At least something good comes out of it, that they'll say: well, state intervention causes a lot of problems. Or will it instead be: state intervention from the wrong people causes problems; we need to get better people in there, kick these bums out? Are you afraid it's going to be the second one?

NIÑO: I'm afraid it is the latter, unfortunately. One problem is that the average Venezuelan since the return to democracy in 1958 has been brainwashed with the idea that there exists a good form of socialism, and I blame the bipartisan system set up in 1960, which is called the Puntofijo Pact, by two parties named Acción Democrática and COPEI, which is a Christian democrat party, believed that the state could lead Venezuela on the road to prosperity. Unfortunately, this middle-of-the-road approach eventually took its toll, and like Rome didn't build itself in one day, it also didn't destroy itself in one day, and Venezuela is experiencing that consequence of decades of interventionism that now are manifesting itself into a

tyrannical socialist nightmare. And unfortunately, a lot of the people that are leaving the country have not really gotten that lesson.

But there is some hope, because some opposition parties like María Corina Machado's Vente Venezuela has done a good job of becoming an opposition force in bringing about more free-market alternatives to Venezuela in the country and also educating a lot of Venezuelan expatriates on these ideas and making them more politically relevant. So there is a sliver of hope, but I'm not that optimistic given the reality that Venezuela has been dominated by a social democratic consensus in one way or the other the past 50 years, and there just has not been very relevant political actors that have espoused any semblance of free-market ideas.

WOODS: Jose, tell us about your own background.

NIÑO: Well, I came to the United States from Venezuela when I was seven in the late '90s, but I got involved in politics through Ron Paul actually in 2007. I really liked his message and believed that he was like the only candidate that was talking about ideas that actually matter and sound economic principles. And I've been involved in libertarian groups throughout my university career. And now I work as a writer and activist for certain lobbyist groups, and I mostly focus on a lot of Latin American politics, especially Venezuela, to educate people on what's going on there and what the actual solution to Venezuela's problems should be, which is free market.

WOODS: Well, given what you just told me, that almost nobody has been exposed to the kinds of ideas that you're talking about, how did you ever come across them?

NIÑO: I came across them through Ron Paul. And also admittedly through some of your books, especially *The Politically Incorrect Guide to American History*, really got me started investigating libertarianism, free markets, constitutionalism, and understanding why limited government is the best way to organize a society.

WOODS: How about that? Do you mind if I ask how old you are?

NIÑO: I am 27 years old.

WOODS: All right, so you're a young whipper snapper by my reckoning, so that's great. We need more people your age, especially to help out Latin America by seeing the real truth of things. How do people — what I'm going to do is — because I want people to read your stuff, because it's really, really gerat. I'm going to link to your article archives. You have two archives that I particularly want to link to at TomWoods.com/1119. And then tell people what your Twitter handle is, because I want people to follow you on Twitter.

NIÑO: My Twitter handle is @JoseAlNino.

WOODS: Okay, and I am this very second clicking "Follow." There we are. Now I'm following you also. All right, great. Let's follow Jose over there. I'll also link to his Twitter at TomWoods.com/1119, but really, check out his articles and just follow him, because he writes great stuff that we need more people who are age 27 writing. I'll just put it that way. You're doing great work. You're doing tremendous work, and I really, really appreciate it. Thanks for being with us today.

NIÑO: Thank you for having me on, Tom. It was a pleasure talking to you.