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Economic Policies of the New Radical Left Will Fail

Venezuela and Bolivia are doing nothing to transform the productive base of their economies.

THE CURRENT ECONOMIC STRATEGIES of the new radical Left do not provide a sound alternative for the region's problems. Instead, the policies currently being pursued by governments in Bolivia, Ecuador and Venezuela are a less-than-coherent mix of anti-market prejudices and blind voluntarism. These governments appear poised to repeat the set of avoidable policy mistakes that spelled the demise of many previous heterodox experiments in the region.

Let me make clear: I am far from a market fundamentalist. Most of my research has been oriented towards understanding why economic liberalization doesn't always lead to greater prosperity in developing countries. Import substitution as an economic strategy was far from the failure that Washington Consensus advocates often claimed. And the blanket case against government ownership of firms falls apart when

you realize that some of Latin America's most competitive companies, such as Brazil's Embraer, would not exist had they not been created by their governments.

However, Latin America's new radical Left governments are not attempting to frame a new economic

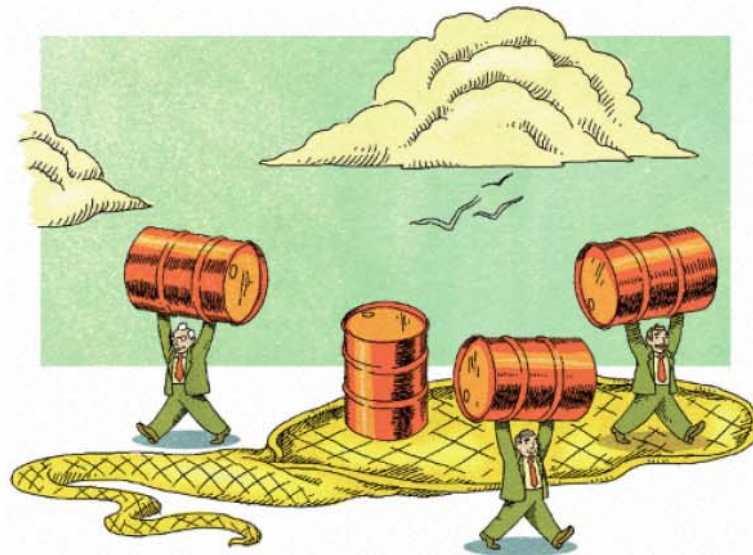
strategy and to be preoccupied instead with accumulating political power.

These governments are pursuing macroeconomically unsustainable policies, increasing their countries' resource dependence, failing to significantly improve social indicators, and substantially restricting their citizens' political and civil liberties.

Witness the case of Venezuela. Awash with oil revenues, the government of Hugo Chávez has gone on a spending binge, tripling real government spending between 1999 and 2006. The result: Venezuela's public sector ran a deficit of 1.5 percent of GDP last year despite experiencing the highest oil prices in two decades.¹ Venezu-

ela's economic expansion is clearly unsustainable even in the face of a moderate decline in oil prices.

The Venezuelan boom is basically consumption driven: private consumption now stands at 71.3 percent



strategy to learn from past experiences or to create institutions that can adequately address growth and equity problems. Quite the contrary. They appear to be giving very little thought to long-run economic objec-

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of GDP, considerably higher than the 52.4 percent eight years ago. In the same period, imports (adjusted for inflation) have grown by 154.5 percent. If there is an industrial policy aimed at increasing non-oil exports in Venezuela, nobody seems to know about it: non-oil exports actually declined by 8.5 percent last year.

The belief among progressive circles that the Chávez administration is at least redistributing the nation's oil wealth among the country's poor is simply wrong. The two most oft-cited statistics in defense of this claim are the decline in poverty and the reduction of infant mortality. The decline in poverty is a predictable result of the oil-driven economic expansion. Between 1998 and 2006, Venezuela reduced its poverty numbers by two percentage points for every point of increase in its per capita GDP.² But this ratio, which measures a country's effectiveness at turning growth into poverty reduction, is actually lower than the average decline per point of growth of 2.6 percent estimated by Ravallion and Chen (1997).

A similar argument holds for infant mortality. Between 1998 and 2004 (the last year for which there is comparable data for all Latin American countries), Venezuela's reduction in infant mortality by 16.4 percent was actually lower than the regional average of 16.9 percent and well below the performance of Brazil (21.0 percent), Ecuador (25.9 percent) or Chile (28.7 percent).³

A closer look at other health and education statistics in Venezuela also shows no remarkable signs of progress. The percentage of newborns that are underweight or under height actually increased from 8.4 percent to 9.0 percent since Chávez came into office.⁴ Although the Venezuelan government claimed to have eradicated illiteracy between 2003 and 2005, existing data do not back up these claims. Using data from the National Statistical Institute's Households Survey, my colleagues and I have shown that in the second semester of 2005 there were 1.01 million illiterate Venezuelans over the age of 15, only slightly fewer than the 1.11 million illiterate Venezuelans before the start of the literacy program in 2003.⁵ The observed decline appears to be traceable to changes in the demographic composition of the population, rather than to any effect of the government's literacy program.

It is too early to tell how well policies are working in other countries where the radical Left has recently reached power, but the first signs are not encouraging. Bolivia appears to lack a strategy for economic diversification. During the first year of the administration of Bolivian President Evo Morales, non-traditional exports declined by 1.7 percent in the midst of an economic expansion.⁶ The country's investment rate—the lowest in the region—has barely changed.

Even more worrying is the trend

toward the erosion of civil and political liberties, which undermines the institutions most needed to foster a stable climate for growth. This is most marked in Venezuela, where the government has packed the Supreme Court, taken over private media, blacklisted opponents who signed a petition to hold a referendum against Chávez in 2004, and politicized the armed forces. But it is also evident elsewhere. The recent efforts by Evo Morales and Ecuadorian President Rafael Correa to re-draft their constitutions to allow the simultaneous reappointment of all branches of government are dangerous signs that separation of powers may soon disappear in these countries.

The governments of the radical Left appear to be squandering the resources derived from primary export booms while systematically concentrating power.

There is no doubt that Latin America requires a reevaluation of the role of the state in economic strategy. But this can only be achieved through an open debate about formulating new inclusive and equitable national strategies for development. Framing this debate requires the existence of truly democratic spaces. ▀

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