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Issue Brief

A Note on Venezuela's Economic Performance

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It is sometimes asserted that Venezuela under President Hugo Chavez Frias (1999 to the present) has been an economic failure, as compared with the past. For example, a recent news article in the *Washington Post* referred to "Hugo Chavez, the populist Venezuelan president whose giveaways to the poor have slowed economic progress."¹ Such claims are not supported by the evidence. From 1970-1998 per capita income in Venezuela fell by 35 percent.² This is the worst economic decline in the region and one of the worst in the world -- much worse even than what happened to Africa during this period.

Since the present government took office, per capita income growth is about flat,³ and will likely be positive at year's end. So the Chavez government can at least claim credit for reversing the terrible long-term economic decline in Venezuela, according to the standard reference sources on economic growth.

But there are other considerations. First, it would not be fair to hold the government accountable for the loss of output due to opposition actions aimed at toppling the government. The oil strike of 2002-2003 caused enormous damage; one might also include the military coup and other de-stabilizing actions. If not for these efforts, economic growth would almost certainly have been substantially higher and well above the average for the region. But the first point, about reversing the country's long economic decline, holds true even if one ignores the effect of opposition actions on the economy.

Also there has been a significant improvement in the lives of the poor -- the majority of Venezuelans -- in terms of access to health care and other services, as well as subsidized food.

It is therefore very difficult to construct an economic argument that the majority of Venezuelans are worse off as a result of the present government. One would have to produce a counterfactual in which this terrible 28-year economic decline that preceded the Chavez government would have reversed itself in the absence of any change in policies or government, and then the economy would have grown so much faster than the rest of Latin America that, even without any social programs for the poor, enough would have trickled down to them so that they would be better off than they are now. This is not a very plausible story.

There have been a number of articles recently (e.g. *Christian Science Monitor*,⁴ Andres Oppenheimer in the *Miami Herald*⁵) claiming that poverty has actually increased under President Chavez, based on government statistics. This is also wrong, because:

a) These data do not include the non-cash income of the poor -- including subsidized food and access to health care services. Since there have been enormous changes in these areas, any comparison would have to take these changes into account in order to accurately measure the change in living standards of the poor. With subsidized food now reaching 46 percent of the population, this one program alone could easily push millions of people over the official poverty line that is based on cash income only. Any comparison of poverty today with past years that does not include these new benefits to

the poor is essentially meaningless.

b) Here are the data cited by the articles:

Year	Percent of Households in Poverty
1998	49.00
1999	42.80
2000	41.60
2001	39.10
2002	41.50
2003	54.00
2004	53.10

Source: Instituto Nacional de Estadística,
República Bolivariana de Venezuela
<http://www.ine.gov.ve/>

The data are from the first quarter of each year. Since President Chavez took office in February 1999, the relevant years would be 1999-2005. But we do not have data for the first quarter of 2005. Since growth was very rapid over 2004 (17.8 percent) and continued into the first quarter of 2005⁶, we would expect a dramatically different poverty rate today. So a look at the Chavez years that stops at March 2004, just one quarter after a severely depressed year, is not very useful.

Poverty rates are generally very sensitive to sharp changes in economic growth.⁷ As can be seen in the table, almost all of the increase in poverty during this period is in one year: 2002 (first quarter) to 2003 (first quarter). Not surprisingly, this is the worst of the recent economic recession, which was caused by the oil strike of December 2002-February 2003. Over that year, GDP was down 24.9 percent.⁸ At the same time, the poverty rate moved from 41.5 percent to 54 percent, a 30 percent increase.

So to measure a change in poverty over this period including an extremely steep economic downturn, but without including most of the recovery, does not make any economic sense. It is like comparing fall temperatures to the summer, and concluding that there is no global warming. (The fact that the steep economic decline during the year in which poverty increased was due to an oil strike against the government makes the comparison even more misleading).

Endnotes

¹ *Washington Post*, Sunday, April 24, 2005; Page A16

² Source: Per capita GDP fell from \$10,528 in 1970 to \$6,863 in 1998, Penn World Tables, table 6.1, http://pwt.econ.upenn.edu/php_site/pwt61_retrieve.php.

³ The best measure is to compare the first quarter of 2005 with the first quarter of 1999 (since the data are not seasonally adjusted), which shows real GDP growth of 10.3 percent; this would be pretty close to population growth for the period. Source: Banco Central de Venezuela <http://www.bcv.org.ve/>

⁴ See *Christian Science Monitor* Editorial, "Latin Oil Romance," May 24, 2005 and news article "Latin states seek more control of oil," May 28, 2005.

⁵ March 31 and April 7, 2005

⁶ GDP was up 7.9% from Q1 2004 to Q1 2005.

⁷ The sharp drop in the poverty rate shown in the table from 1998-1999, when GDP declined by 8.9 percent, is very unusual and could reflect measurement error.

⁸ This is comparing Q1 2003 to Q1 2002.