



Venezuela: Without Liberals, There Is No Liberalism

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Montesquieu's view [is] that a republic (that is to say, what we would call democracy) rests upon the virtue of its citizens. Where the elementary public virtues are lacking, democracy can only lead to chaos which will end in dictatorship.

—Stanislav Andreski, *Parasitism and Subversion:
The Case of Latin America* (1969, 279)

This report uncovers that there is not much liberal discourse or activity in Venezuela, nor has there been much in the country's past. The moral and political culture of Venezuela is exceptionally unfavorable to liberalism. This article highlights the dire consequences stemming from the absence of public virtues and the attendant paucity of pro-growth economic institutions.

Some descriptions offered here are impressionistic, so it is especially appropriate to inform the reader that we, the present authors, are both Venezuelan and for many years have agonized over Venezuelan affairs to the extent of writing several books attempting to convince our political and entrepreneurial leaders to implement fundamental reforms to economic institutions. We believe in the protection of our God-given natural rights, which include freedom of speech and the cornerstones of economic freedom: personal choice, voluntary exchange, freedom to enter and compete in markets, and security of the person and of well-

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acquired private property. Unfortunately, these natural rights have been frequently violated in Venezuela, to the point of extinguishing the flame that ignites the prosperity and well-being of citizens.

To document Venezuela's institutional decadence, we mainly rely on the Economic Freedom of the World (EFW) index published by the Fraser Institute. The transparency of the EFW index enables scholars to reconstruct and replicate the rating for each country. The derivation of each component incorporated into the EFW index measure is clearly specified. Further, the underlying data are from reputable sources such as the World Bank, the International Monetary Fund, and the PricewaterhouseCoopers accounting firm. The annual EFW report gives the source of the data for each component, the methodology used to transform the raw data into component ratings, and how the component ratings are used to derive the summary rating for each country. All these procedures help to ensure that partial judgments of the authors do not influence the rating for any country.

Liberalism in Venezuela: A brief historical perspective

[T]he predicament of Latin America is ... the consequence of the original sin of the conquest, which bequeathed to the republics customs and institutions which constitute an enormous obstacle to political order and economic progress. (Andreski 1969, 26)

Historical evidence strongly suggests that institutional heterogeneity existed among colonial powers. The quality of political and economic institutions differed markedly between England on the one hand and France, Portugal, and Spain on the other (see Collins 1908; Acemoglu, Johnson, and Robinson 2005). Former colonies broadly reflected this heterogeneity. The difference in the relative rates of private land ownership in the United States versus Venezuela impacted the independence goals of both countries. British-American proprietors, particularly in the north as led by the founding fathers, wanted freedom. Venezuelan *caudillos* wanted independence.³

3. Sokoloff and Engerman (2000) argue that differences in factor endowments, such as suitability for growing sugar, rice, tobacco, and coffee, which require large land extensions relative to small-scale crops and livestock, contributed to there being few landowners in Latin America but many small proprietors in the United States. Accordingly the small number of owners in Latin America fought for institutions favorable to the few—exclusionary institutions—while the numerous American owners demanded inclu-

From Mexico to Argentina, between 1808 and 1810, revolutionaries swore allegiance to King Fernando VII of Spain. Their grievance with the local authorities, who were Spaniards appointed by the crown, was the allegation that these crown representatives were ‘usurping’ political positions to which wealthy locals of European descent felt entitled (Uslar 1962; Fronjosa 2012). Once the Spanish Crown did not hear—or else misunderstood—the underlying plea, the early patriots switched their efforts to the objective of obtaining independence from Spain.

But Venezuela’s independence was established by European descendants and for European descendants. The intent was to replicate locally the vices that existed with the crown. Indeed, the privileges that the local aristocracy had obtained during the colonial period persisted in the aftermath of the independence war (Angeles 2007; Bruhn and Gallego 2012). The independence war was really a civil war in which most of non-European descent, led by Spanish generals, fought in defense of the crown against the local European elites who were perceived, correctly, as oppressors.

Venezuela’s Simón Bolívar, who is known as the father of the Venezuelan nation and the “Liberator,” said, on December 15, 1812, in a famous speech known as the Cartagena Manifesto, that “the worst thing that could happen to Venezuela would be to embrace the natural-rights view that supports individualism, breaking the social pact to induce chaos and anarchy, because Venezuelans lack the true virtues characteristic of a Republic” (Bolívar 2003, 6). Such lack of trust in the people pervaded Bolívar’s thinking. As he wrote: “unsure of our future destiny and threatened by anarchy for lack of a legitimate, just, and liberal government, we threw ourselves headlong into the chaos of revolution... Until our compatriots acquire the political skills and virtues that distinguish our brothers to the north, entirely popular systems, far from being favorable to us, will, I greatly fear, lead to our ruin” (ibid., 21, 23).⁴

Lamentably, Bolívar’s education and upbringing did not permit him to ponder the possibility of limited democracy coupled with economic institutions similar to those that existed during his lifetime in England and the United States. Institutional changes are capable of altering peoples’ behavior and ways of thinking

sive institutions, beneficial to the majority. Examples are the much earlier extension of the franchise and education for most Americans relative to Latin Americans in general and Venezuelans in particular.

4. These quotes of Bolívar were a reaction to Venezuela’s first constitution in 1811, which, inspired by the American and French Revolutions, contemplated a representative and federal government organized as a liberal republic. Comparing the American Constitution with the 1811 Venezuelan Constitution, Bolívar in his Manifesto also wrote that it was a miracle that the American project had been so prosperous, but he attributed this to the unique character of the U.S. inhabitants, saying that Venezuela was unprepared to enjoy a federal system immediately after emerging to independence. *See* Hernandez 2012.

in light of different and better results. Chile's experience over the last 35 years attests to the merits of this method. Today we might call the mechanism "learning by doing" (Arrow 1962).

The insidious ways of colonial times continued in the independent Venezuela. As Andreski writes:

Once a society is pervaded by parasitic exploitation, the choice is only to skin or be skinned. A man may combine the two roles in varying measure but he cannot avoid them: he cannot follow Candide's example and till his garden, relying on hard work for his well-being, because he will not be left alone: the wielders of power will pounce upon him and seize the fruits and tools of his labour.... In ... Venezuela, Paraguay, [and] the Dominican Republic ... nothing was safe from the conquerors of power, who grabbed the estates of those who did not belong to their band. (Andreski 1969, 11)

Andreski emphasizes that "throughout Latin America political power has always been the surest and quickest way to wealth; and more often than not it was the only way" (ibid.). Any private wealth accumulations in Venezuela attained outside the political-power mechanism are the exception to the rule. Political turmoil has been the usual state of affairs in Venezuela, and the identities of the wealthy have changed with the turbulence: in the two centuries since independence, Venezuela has had 21 constitutions.

A hiatus from infighting commenced around 1910 under the government of Juan Vicente Gómez. Gómez was a ruthless dictator who "during his long rule appropriated for himself hundreds of millions of dollars from the public treasury and substantial amounts for his family and military associates" (Andreski 196, 76). Nevertheless, Gómez pacified the country, establishing the underpinnings of a system of private enterprise, which allowed most Venezuelans to prosper. Economic growth was boosted following Venezuela's first discovery of an important oil field on April 15, 1914. Gómez allowed multinational companies to extract oil from the subsoil, which in Venezuela is owned by the government.

The economy experienced high growth rates from 1920 until 1935, when Gómez died (see Baptista 2011). During Gómez's 27 years as head of state, Venezuela evolved from a mainly agricultural country to the second-largest oil producer of the world. Thus, with Gómez, Venezuelans started to escape income stagnation associated with the Malthusian trap. Venezuela became strategically important to the British Empire and a reliable oil supplier to the U.S. Atlantic seaboard (see McBeth 1983). Rómulo Betancourt, who became the first democratically elected president in 1958, suggested in his book *Venezuela: Oil and Politics* that Gómez was a servant of powerful foreign oil interests (Betancourt 1979).

During the Gómez administration, Venezuela had a semi-free system of banking, price stability, low taxation, and low levels of government spending and intrusion in the economy. The government paid down the internal and external debt—fiscal discipline, then, coexisted with corruption which was centralized, limited to high-ranking government officials. The 1920–1935 period thus marks the apogee of economic liberalism in Venezuela, unfortunately tarnished by Gómez and his acolytes’ corruption and tyrannical measures taken against political foes. Other non-liberal policies were the creation of three government banks, aimed at helping workers (Banco Obrero), home buyers (Banco Hipotecario), and farmers (Banco Agrícola y Pecuario), and high tariff rates aimed at the generation of governmental revenues given the absence of income taxes (see Lahoud 2015). Nevertheless, this contrasting performance in politics and economics has prompted historian Manuel Caballero (2007) to dub Gómez “*el tirano liberal*” (the liberal tyrant).⁵

After Gómez’s death in 1935 and on through 1957, policy lurched gradually in the interventionist direction. A central bank was created in 1939, coercing Venezuelans to use the currency issued by the governmental monetary authorities, and a governmental board was established to control prices of more than 100 goods, justified by the onset of the Second World War. The government-owned Banco Industrial was established to fund industrial endeavors consistent with governmental industrial policies which already existed in the agricultural sector.⁶ In 1940, the recently created central bank recommended and implemented exchange-rate controls. In 1943, taxation of people’s income and corporations’ profits was introduced, and numerous government-owned regional banks were established to promote development. Also came a government-owned steel industry, nationalization of the telephone company, and even numerous government-owned hotels. However, one pro-growth policy implemented after Gómez’s death, a substantial investment in human capital, was the attacking and virtual eradication, circa 1960, of tropical diseases like malaria and Chagas disease (Oletta 2012).

In spite of the growth-retarding policies adopted after 1936, the Venezuelan economy experienced income per capita growth rates that exceeded West Ger-

5. To better understand the *raison d’être* of policies favoring agricultural and industrial activities, even today, we note that the onset of the oil revolution caused the so-called Dutch Disease, which rendered agriculture less competitive—and many political leaders were farm owners. Taking into account that the Venezuelan people were and are *de jure*, not *de facto*, owners of the oil wealth, no constituency emerged to counterbalance the manifold inefficient programs and policies aimed at helping farmers and industrialists. Thus, the Dutch Disease was really a Schumpeterian process of creative destruction, which required adaptation to a new reality in the form of economic activity compatible with oil such as tourism.

6. Banco Industrial de Venezuela has been the source of manifold corruption scandals. The government (*viz.*, the people) has on various occasions had to recapitalize the bank because borrowers are not, and do not feel, compelled to pay back the loan.

many's economic miracle. According to Adrubal Baptista (2011), Venezuela's GDP growth rate during the 1940s averaged 12 percent, and the central bank puts the average growth rate during the 1950–57 period at 9.4 percent.⁷ Andreski (1969, 5) provides a table reporting economic growth of 20 Latin American countries over the period 1945–1958, and Venezuela tops the list quite handily.

Andreski suggests that these numbers are misleading and that “the fabulous income from oil ... was squandered” by “ruling cliques” with a “taste for spend-thrift ostentation” (1969, 68). Here we beg to differ. Corruption, prior to 1957, was centralized among a few, and so the plunder had little effect on business processes, and the amounts plundered were a relatively small fraction of GDP or government revenues. The average Venezuelan in 1958 had a living standard much higher than in 1920.

It is true that a greater effort could have been made in the area of education. However, today's largest university, the Central University of Venezuela, enjoys the physical infrastructure laid out by Marcos Pérez Jiménez in the 1950s. Similarly, many of the highways within Caracas and connecting Caracas to other cities were built by the Pérez Jiménez dictatorship.⁸ In real terms, Pérez Jiménez's government had far fewer resources than did the Carlos Andrés Pérez administration in the 1970s, when due to the Arab oil embargo oil prices quadrupled and fiscal revenues tripled (see Central Bank Economic Report 1975).

After the advent of democracy in 1958, a deterioration in Venezuela's economic institutional quality accelerated. Between 1959 and 1999, the following policies were adopted (in parentheses are the names of the presidents who initiated the policies during the democratic period):

1. European and Latin American immigration was substantially curbed.⁹ (Rómulo Betancourt)
2. Creation of OPEC, founded by the Venezuelan secretary of energy. (Rómulo Betancourt)
3. Establishment of CORDIPLAN, an economic planning agency. (Rómulo Betancourt)
4. An end to the extension of tract lands to oil multinationals to find and extract oil reserves. (Rómulo Betancourt)
5. Creation of the CVP, a government company in the oil business. (Rómulo Betancourt)

7. See Sánchez-Coviza and Olcoz (1966).

8. Important impacts on productivity and growth can be spurred by investments in transportation infrastructure (Michaels 2008; Donaldson 2010; Jedwab and Moradi 2015).

9. See on this CEPAL (2000).

6. Agrarian reform, or redistribution of agricultural lands, where the new 'owners' did not receive a property title but only a right to farm the land. (Rómulo Betancourt)
7. Marginal income tax rates at the personal level were tripled from 12 percent to 36 percent, and numerous tax brackets created increasing complexity of the tax system. (Rómulo Betancourt)
8. Rent controls and strengthening of the legal capacity of the rent-payer to remain in the property after contract expiration and against the will of the owner (Rómulo Betancourt)
9. Exchange-rate controls. (Rómulo Betancourt 1960–1964; Luis Herrera and Jaime Lusinchi 1983–1989; Rafael Caldera, second term, 1994–1996; Hugo Chávez and Nicolás Maduro, 2003 to the present)
10. Price controls, which have been ubiquitous in the Venezuelan economy during the democratic period until the present. (Rómulo Betancourt and Raúl Leoni)
11. The Central Bank Law was amended to allow lending to the government by the central bank. (Rómulo Betancourt)
12. High inflation and concomitant devaluations. (Carlos Andrés Pérez and Luis Herrera)
13. Minimum-wage decrees and rulings to prohibit dismissal of workers. (Carlos Andrés Pérez)
14. Nationalizations of the Central Bank (which had been 49 percent owned by the private sector), iron industry, and oil industry. (Carlos Andrés Pérez)
15. Rampant corruption at all levels of government, including the judicial system. (Rafael Caldera and Carlos Andrés Pérez)
16. National policy of 'import substitution' (governmentalization of international trade), increasing the cost of living to average Venezuelans and reducing the benefits conferred by greater choice of goods to buy. (Rómulo Betancourt and Raúl Leoni)
17. Complex regulations that stymie business formation, increase the cost of dismissal, and compel banks to allocate loans to sectors deemed by the government as strategic. (Carlos Andrés Pérez)

In short, Venezuela is plagued with a plethora of centric, coercive, exclusionary policies and institutions.¹⁰

10. See Faria (2008) for a detailed account of the 1960–2000 period; see also Sánchez-Coviza and Olcoz (1966).

The economic growth literature characterizes Venezuela's economic performance from 1960 through 2000 as a growth disaster.¹¹ Growth was weak in the 1960s, and from 1978 to 2000 real per capita income experienced a negative growth rate, on average—population growth exceeded real product growth. By 2000, Venezuela's GDP per capita was only 22 percent of that for the United States, down from 45 percent in 1960 (Heston, Summers, and Aten 2012).

It is important to underscore that the growth disaster took place before the accession of Hugo Chávez. The Chávez-Maduro 'revolution' is better understood as a consequence of the dismantling of Venezuela's liberal economic institutions such as they existed in 1957. The consequent absence of economic growth played a major role in the wide acceptance of Chávez's redistributionist rhetoric, which listed 'capitalism' and 'neoliberalism' as the culprits behind Venezuela's rising poverty. The Chávez-Maduro economic revolution is an exacerbation of the interventionism that was salient in the 1960–2000 period.

With Chávez, a new economic elite has emerged. The new group of wealthy people are accumulating vast fortunes, greater than those made in the past. But, like the big wealth from the 1960–2000 period, the new wealth has been principally acquired by government privilege.¹² Meanwhile, the political opposition, financed by the elites who made their wealth in the 1960–2000 period, is aptly described as 'Chávez light.' Perusing local newspapers, it can be easily gleaned that the opposition is not advancing liberalization. Leopoldo López is the chief opposition leader—now a political prisoner atrociously sentenced to 14 years behind bars—and even the party he founded, *Voluntad Popular* ("Popular Will"), is a full member of Socialist International ([link](#)).

2000 to today

Generally speaking, parasitism constitutes the most powerful brake on economical progress by destroying the link between the effort and the reward. (Andreski 1969, 12)

11. See Barro and Sala-i-Martin (2004); Hanushek and Woessmann (2012); Jones (1999); Jones and Romer (2010). Jones and Vollrath (2013) extend the calculations up to 2008, and Venezuela shows up as a growth disaster also for the 1960–2008 period.

12. This is not to imply that all the well-to-do under Chávez-Maduro are new. Some were wealthy prior to Chavez but with a capacity to blend in with the new providers of government largesse. Naturally most beneficiaries become at least passive defenders of the government. Hence, the old expression that "Venezuela is a society of accomplices." Our conscience is bought by the wealthy government.

Hugo Chávez was democratically elected president in 1999. Underlying this outcome was a generalized disenchantment of the population with political parties of the status quo, namely, AD and COPEI, which alternated in control of the presidency since the onset of the democratic rule in 1959. Chávez, a charismatic populist projecting an image of an outsider and employing the rhetoric of class warfare, exploited the consequences of the economic disaster abetted by AD, COPEI. He also targeted Fedecamaras, a union of entrepreneurs who actively lobbied government successfully on many occasions and influenced the appointment of cabinet members.

Governmentalization dominates the commanding heights of the Venezuelan economy. In the Economic Freedom of the World (EFW) index (2014), which ranks the economic freedom of 152 countries, Venezuela ranks last, below the Republic of Congo and Zimbabwe, with a score of 3.71 on a scale that goes from zero to ten where higher numbers are associated with higher levels of freedom.¹³

The oil sector in Venezuela is owned by the government, and the state-owned companies are managed very inefficiently, generally operating at a loss. The political rhetoric is that oil belongs to all Venezuelans. A much better description of the reality is that average Venezuelans are excluded from the oil sector, which is reserved to the state, a clear example of an exclusionary institution. The proceeds from oil extraction, taxes and dividends, are reaped by the government. If Venezuelan citizens were true owners, they would receive oil proceeds and would have publicly traded shares allowing equity holders to sell their shareholdings. Moreover, under liberal institutional arrangements, multiple private companies would be allowed to extract and refine oil resources.

Venezuela has a greater amount of oil reserves than any country in the Americas. Venezuela's reserves are comparable in size to Saudi Arabia's.¹⁴ Nonetheless, oil production under the state holding company, PDVSA, is at a very low level and on average declining. PDVSA is engaged in many non-oil activities such as food importing and distribution. PDVSA is suffering from a tragedy of the commons, as resources owned by the government are also susceptible to predation

13. An additional reason for using in this study the Economic Freedom of the World index (EFW), published by the Fraser Institute and built over the years by Gwartney, Lawson, and Hall (2014), is that it provides a good quantitative measure of the extent to which a given economy is capitalist, that is, economic liberal. Another factor of considerable importance, is that recent research provides compelling empirical evidence suggesting that institutional and policy quality measured by the EFW is a better growth predictor than other measures of economic institutional quality, political institutions, social capital and human capital gauged by cognitive skills (see Faria and Montesinos-Yufa 2009; Faria, Montesinos-Yufa, Morales, and Navarro 2015; Bennett et al. 2015).

14. According to OPEC, Venezuela has proven reserves of 299.95 billion barrels of oil, whereas Saudi Arabia has 266.58 billion barrels of oil ([link](#)).

and parasitism, even from foreign entities such as the Revolutionary Armed Forces of Colombia (Molina 2015).

The situation is similar in the iron, steel, coal and electricity sectors. According to the 2014 Economic Freedom of the World Report, the Venezuelan government sector gets a rating of 4.88, where the most flagrant component is “government enterprises and investment”, which is rated with a zero. Moreover, 61 percent of total investment undertaken in Venezuela is by government-owned companies.

A dreadful area is that of monetary arrangements. As of July 2015 annual inflation surpassed 800 percent, according to the Cato Institute’s Troubled Currencies Project (Hanke 2015). The government threatens coercion against Venezuelans who use a currency other than the bolívar within Venezuela. Access to other currencies is reserved for the few with sufficient income to travel, to buy dollars, and to send wealth abroad where it is less susceptible to governmental plunder. Common Venezuelans are unable to protect their income from the ravages of inflation, rooted in government’s fiscal irresponsibility and illiberal policies. In other countries, such as Peru and the Dominican Republic, dollar bills circulate alongside domestic currency, and in Ecuador, Panama, and El Salvador the US dollar is the main currency. Not surprisingly, in the EFW area of “sound money” Venezuela receives a low rating of 4.16.

Another grim area is international trade policy, where again interventionism dominates. There are high tariffs, quotas, other non-tariff barriers, and outright prohibition of imports, all of which unfortunately help make Venezuela an expensive country for poor people. For example, while very expensive cars are assembled by multinational company plants located in the country, one alternative option could be used cars from the United States—but the government at least since the 1960s prohibits the importation of used cars.¹⁵ Such restrictions also apply to food, as no common citizen can import corn, sugar, soy, or other staples. A 25 percent tariff is levied on wheat, even though Venezuela does not produce wheat. As for beer, in practice there is a local duopoly. In the EFW index Venezuela receives a low rating—3.26—in the “freedom to trade internationally” area. The component with the lowest rating is the black market exchange rate, rated at zero, indicating a severe disparity between the official and black-market exchange rates. The component “non-tariff trade barriers” is rated at 3.9 and “compliance cost of importing and exporting” is at 0.47.

The Venezuelan economy has a profusion of restrictions and impositions on businesses, particularly in the areas of labor and new business formation. Only the big, well-established companies can afford the high regulatory burden. This is

15. The Maduro regime is allowing importation of used cars but imposing a high tariff.

consistent with George Stigler's (1971) insight on regulatory capture, which abets government creation of monopolies stymieing competition. Further, the high levels of informal or underground economic activity in Venezuela are consistent with existence of a high regulatory burden (see Diaz and Corredor 2008). Unsurprisingly for such a setting, corruption is rampant.¹⁶ The EFW index rates the regulatory area at 4.36, with the component "hiring and firing workers" at 1.13 and the "cost of tax compliance" 1.12.

In the judicial system, corruption is out of control, rendering justice unavailable for the average citizen. The Chávez regime circa 2004 started to transfer international reserves from the central bank to government funds without compensation, dissipating the bank's net worth. On March 8, 2006, García-Mendoza, in unison with José Guerra, Jesus Rojas, and Orlando Ochoa, challenged the constitutionality of the executive actions. The Supreme Court received the pertinent legal documents but as of today no pronouncement on the constitutionality of the government's actions have been made (see García-Mendoza, Guerra, Rojas and Ochoa 2007). Another recent conspicuous case is that of Alberto Federico Ravell, former co-owner of a TV network, against whom the government has initiated legal action for his exercise of free speech (via the website LaPatilla.com). The EFW rating for Venezuela in the area of legal system and property rights is 2.20, the lowest among the five different areas of the index. The component with the worst performance is "judicial independence," with a score of 0.19.

Price controls are pervasive in the Venezuelan economy. Peacetime generalized price controls started in the 1960s. A brief episode of price liberation existed in the second presidential term of Carlos Andrés Pérez (1989–1993), but controls were reestablished in the second term of Rafael Caldera starting in 1994. Under the Chávez-Maduro administration, price controls have been intensified. The sorry results include widespread scarcity of basic consumer goods like toothpaste and toilet paper, as well as reduced profits for producers, costs to economic actors of lobbying government to allow price changes, and the cost to taxpayers of hiring bureaucrats to enforce the controls.

What can explain the pervasiveness of price controls in the Venezuelan economy in spite of their consequences? A reason invoked by governmental officials for decreeing price controls is that there are few producers in Venezuela's

16. Venezuela is classified by Transparency International in the Corruption Perception Index of 2014 as a "very corrupt country", ranking as the 161 most corrupt country out of 174 countries and territories, tied with Angola, Haiti, and Yemen ([link](#)). An institutional arrangement that abets corruption is government ownership of the oil wealth. It fosters rent-seeking activity, a corrupt activity, and promotes a perverse behavior of people living off the government. In all well-established democracies the government lives off the people.

small economy. In the absence of price controls, it is argued, widespread price collusion would take place among producers. Of course the liberal answer to this argument is to open the economy unilaterally, reducing most trade barriers down to zero. However, Venezuelan firms, government officials, and bureaucrats would dislike this solution. Firms would be forced to compete in the international arena, government officials would lose power by virtue of a lower dependency of the private sector on government, and bureaucrats would lose income from corrupt practices at customs level.

This hypothesis is consistent with the non-existence of educational campaigns by the private media on the perverse consequences of price controls. The private media in Venezuela was capable of reaching vast segments of Venezuela's population prior to the hostile takeover of RCTV by the government in 2007. Thus private entrepreneurs prefer to endure the costs associated with price controls and complex regulations than the costs associated with competition.

Education and health care are heavily governmentalized. The poor have to patronize government-owned hospitals, which typically are under-stocked because of plunder by hospital employees (see Jaen and Paravisini 1999; Oletta 2012). Eric Hanushek and Ludger Woessmann (2012) report evidence clearly indicative of the dismal performance of Venezuela's educational system. They find that within Latin American countries, Venezuela ranks next-to-last in translating years of schooling into cognitive skills, as measured by test scores (Hanushek and Woessmann 2012, 502, fig. 3). Analysis of the relation between conditional growth and conditional test scores reveals that Venezuelan students rank last in terms of cognitive skills within Latin America (*ibid.*, 504, fig. 4). This evidence casts a huge shadow on the legitimacy of Venezuela's democracy, given its inability to provide quality education, a predictor of income, to most of its citizens. A low-income parent whose child is in a failing public school does not have the choice to place the child in a private school, which on average offers better quality.

Universities, media, and culture

Universities

Teaching at the university level is highly influenced by Marxist thinking and, in the case of economics, Keynesianism. Liberal alternatives are marginal, at best relegated to elective courses. Private and public universities seemingly differ in their approaches, but both ignore liberalism. Private universities are Keynesian, while government universities are mainly socialist.

At private universities, mainstream economics is distinctively Keynesian. The textbooks in vogue are those by Olivier Blanchard, Rudiger Dornbusch and Stanley Fischer, and Jeff Sachs and Felipe Larrain. The Keynesian view is taught as if it is simply the truth, that there is no other school of thought. Hardly any mention is made of Chicago- or Austrian-school ideas. In some universities Milton Friedman is demonized, and Friedrich Hayek's image is that of a philosopher rather than an economist; the prevailing view is that his economic reasoning must be taken on faith.

Public choice analysis helps to explain why Keynes is king in Venezuela at private universities. First, the Keynesian view is predicated on the notion of a nation-wide market failure, which requires government expenditures to extricate the private economy from a low and stable level of income that is causing high unemployment. The general notion conveyed is that markets are unstable and prone to failure and that governmental intervention is the only remedy. In short, the Keynesian view provides intellectual cover for a panoply of governmental interventions, which university academicians as good Keynesians think are just fine.

Second, the most renowned private universities in Venezuela were created with substantial contributions from the private sector in the form of land donations and building infrastructure. Those donor families built their wealth under mercantilist practices such as trade barriers and complex regulations that preclude international and local competition. Big business can finance high regulatory costs, survive price controls, and has enough clout to lobby government to obtain price increases when revenues cannot cover costs. Moreover, these donor families have influence on the administration of the universities. Given that most university authorities are drawn from faculty members who have a socialist orientation, they constitute a check on the few liberal academics and consequently indirectly end up defending the economic interest of the founders. This helps to explain private universities' reluctance to hire liberal professors. Liberal professors will indicate that markets work and are capable of achieving social goals and make the case for rule of law, opening the economy, streamlining regulations, tax simplification, monetary freedom and limited government. Such discourse goes against the interest of political and entrepreneurial elites.¹⁷

In government-owned universities, Marx still lives alongside Keynes. These universities teach typically at least one semester of Marxism in the departments of economics and sociology. The university of the military establishment, called UNEFA, when it comes to economics, teaches only central planning. Accounts provided by students, including reactions of professors to the possibility of inviting

17. Available upon request are several personal experiences on the issue of hiring by private universities.

liberal-oriented individuals, clearly suggest that markets are brushed aside with derision. Liberal economics is ignored except when it is abused as a barbaric relic of the past.

In our view the only university in Venezuela where liberal teachings are mainstream is Monteávila University. Individuals who stand behind this accomplishment include Daniel Morales, Rafael Ávila, and Hugo Bravo. The latter two have doctorates in Austrian economics, and Ávila is dean of the faculty of business and social sciences. Other market-oriented professors at Monteávila are Carlos Navarro, Victor Contreras, and Ricardo Pérez.

A handful of professors at Andrés Bello Catholic University (UCAB), which is private, have a liberal orientation. These include Daniel Lahoud, who teaches Austrian economics both at UCAB and at the Central University of Venezuela (which is government owned), as well as Antonio Canovas, Liliana Fasciani, and José Valentín González, who teach in the UCAB law school, and Victor Maldonado in the department of sociology.

At the Central University of Venezuela, individuals with liberal orientation include Andrea Rondón, Luis Alfonso Herrera, and Alonso Domínguez in the law school, and Sara Levy and Jose Valentín González in the economics department. At the Metropolitan University, professors oriented toward liberalism include Alexander Guerrero and Ernesto Fronjosa in the faculty of economic and social sciences, Nestor Luis Álvarez in the faculty of studies in law and politics, and Oscar Valles in philosophy. At the University of Carabobo (UC), there are Thomas Chacon and Domingo Sifonte, both in economics. Finally, at University Institute of Technical Management, Guillermo Rodríguez is a professor in economics.

Media

Prior to the gradual takeover of the private media by the government in Venezuela, the private media was mercantilist in viewpoint, while the government-owned media was socialist. No Venezuelan media outlet offered an editorial position espousing economic liberalism.

The privately owned media are mercantilist, because their big advertisers have accumulated wealth by eliminating competition. They have been aided and abetted by governmental intervention. Thus, while these media voice some opposition to the government, it is mainly about issues like inflation and unemployment, voting rights, political representation, crime, electoral rules, and access to government power. The implied cause of our problems is that we have the wrong people in power and not that they face perverse incentives. Consequently, liberal ideas about economic institutions hardly enter the discourse.

In recent years, major media outlets have been acquired by cronies and dependents on government power and privilege; the image is that of private acquisition, but the effect has been that criticism of the regime and of statism generally has become even more tempered. And while some moderate independents belonging to the political opposition are invited to participate in opinion programs, every opinion-maker fears censorship.

The government-owned media are socialist because the politicians are socialists. For those unfamiliar with the twentieth-century history of Venezuelan politics, a brief review follows.

The generation of 1928 who rebelled against Gómez was mainly composed of communists. Some of them morphed into social democrats, among them Rómulo Betancourt, founder of Democratic Action (AD) and also known as the father of Venezuela's democracy. Unfortunately and as stated above, in 1959, Betancourt began destroying the underpinnings of a well-functioning democracy by decimating some important liberal economic institutions.

Rafael Caldera founded an 'opposition' party in 1946 known as the Social Christian Party (COPEI). Although a Christian, Caldera turned out to be no less socialist than Betancourt. Nicomedes Zuloaga (whom we will discuss later) said of COPEI: "These are communists that go to Mass."¹⁸

Regrettably, the new generation of politicians is also socialist. None of them, for example, proposes privatizing—that is, devolving ownership to the people, free to trade away the property they own—oil, gas, iron, steel, or electricity. Perhaps Venezuela's institutional structure influences the politicians' points of view. They may be socialists of convenience given the enormous power wielded by politicians stemming from government ownership of the most important industries of the country.

Furthermore, at least half of the revenues received by the government do not proceed from the people's pockets. This arrangement has serious repercussions on the performance of the economy and on the viability of decent democratic rule. First, it diminishes accountability of governmental officials to the people, because the perception is that the people do not pay their salaries. Second, the lack of accountability contributes to the low quality of government. Third, people not fully experiencing the cost of government may think that government's cost is low or nearly non-existent. In our opinion, a critical check and balance of democracy is the idea that politicians and bureaucrats live off the people. In Venezuela, the people

18. This well-known statement was communicated to us in a personal conversation with Mr. Zuloaga. Although the assertion is exaggerated, it correctly provides the flavor of the economic mindset of COPEI's leaders.

are thought to live off the government, giving rise to a society of rent-seekers and cronies, and rampant corruption.

Socialism and mercantilism have more in common than at first meets the eye. Both loathe free markets: socialists believe that markets are incapable of achieving social goals, while mercantilists do not want to compete.¹⁹ Trade barriers, complex regulations, and price controls confer benefits to politicians in the form of greater power, and to established business firms through lessened competition. Currency devaluations provide more revenues to the government, as oil dollar proceeds from PDVSA's exports are converted into more bolívares, and imported goods denominated in dollars become more expensive, favoring domestic industry. The reaction of private actors to nationalizations of the commanding heights of the economy is to engage in rent-seeking activity and other manipulations of government and democracy for private gain at the expense of citizens.

Thus, the Keynesian–mercantilist alliance is a manifestation of the latent socialist–mercantilist symbiosis that is broad in scope and that pervades the psyche of average Venezuelans. The underlying cause that unites leaders of both groups would seem to be greed, including a thirst for power, attention, and status, ignoring the deplorable consequences to the welfare of Venezuelans.

This alliance cripples the economy and helps explain the economic growth disaster in Venezuela. Evidence of a socialist Venezuela can be found in the Economic Freedom of the World index: in 1990, nine years prior to the advent of Chavez, the component “government enterprises and investments” received a rating of zero and more than 65% of total investment was undertaken by the government. Evidence of mercantilism is there too: in 1990 mean tariff rates were 30.6% and the standard deviation was 24.4%. The regulatory area received a mediocre rating of 4.93. The standard deviation of average inflation was more than 30%, and this component's rating was zero.

For the most part, media space given to economic issues is occupied by those of a Keynesian or socialist bent. Most of the economic issues addressed are related to ephemeral events. Perhaps a commentator may criticize the government over some instance of malfeasance or corruption, but the commentator will invariably ignore the rules of the game, the institutional structure of the country, and the benefits of adopting inclusive, liberal rules.²⁰ The lack of meaningful proposals by

19. Their main argument is that they create jobs. Of course jobs are desirable, but society is better off without welfare-destroying jobs.

20. Inclusive institutions are those that offer the potential to maximize voluntary transactions, consistent with a ‘social optimum,’ and therefore do not unnecessarily exclude citizens from accessing corporate resources, goods, and services. Examples of exclusionary institutions are nationalizations, price controls, trade barriers, minimum-wage laws, complex business regulations, and inflationary policies. The common

economists is reminiscent of Venezuela's political opposition, which does not offer institutional reforms to improve the well-being of citizens.

For example, on the day of this writing in Venezuela a major discussion is taking place on the issue of dollarization. Pedro A. Palma, a prominent economist with a Ph.D. in economics from a prestigious Ivy League university, is still against the idea of dollarization in spite of the outrageous failure of Venezuela's monetary system—a system of forced use of the bolivar—a system that has wrought wretchedness and sorrow for average Venezuelans.²¹ This seems to be another case of thinking that the problem is not of institutions but one of the wrong people heading the central bank. But who benefits and is protected under the current monetary institutions? Those who have dollars—that is, the elites. Which is the monetary institutional arrangement that is most capable of protecting the fruits of the labor of all Venezuelans? We suggest it is the model of monetary freedom, which does not imply elimination of the bolivar but will challenge the monopoly of the central bank. Even in the United States, forums on Venezuela's economy that take place in Miami, New York, or Washington will usually exclude liberal economists, even when they have academic credentials comparable to Keynesians. It may be that the large mercantilist Venezuelan businesses have sympathetic ears among organizations promoting closer ties between the United States and Latin America.

The clergy and laity

Another source of anti-'capitalism' and anti-'neoliberalism' discourse is provided by most members of the clergy and some influential laymen of the Catholic Church. Markets are viewed with suspicion and as a source of materialism. One of the co-authors of this paper was educated by the Jesuits. Although very grateful for many of the teachings received, by graduation time from high school this individual was indoctrinated in the merits of communal property. After graduating from UCAB, a university also run by the Jesuits, as an economist this co-author emerged a Keynesian.

Today an influential layman among Catholics in Venezuela is Rafael Tomás Caldera, a renowned scholastic philosopher. In a public forum on January 31, 2015, with presentations by anti-capitalists like Father Luis Ugalde, Dr. Caldera pleaded for the establishment of "international social justice."²² His emphasis was

feature of these policies is that they unnecessarily restrict the number of voluntary transactions and therefore represent instances of government failure.

21. Palma's newspaper article is available upon request.

22. Evidence on the discourse given by Dr. Caldera and on Ugalde's anti-capitalism view is available upon request.

on redistribution, not on wealth creation. He decried the “return” of economic liberalism, particularly after the Berlin Wall came down. He claimed existence of an attempt (he did not specify by whom) to impose a market ideology that does not recognize the exigencies of social justice.

A crucial word missing from encyclicals and the social doctrine of the Church is *mercantilism*. Typically the options presented are between socialism and capitalism. Mercantilism, however, is not denounced in spite of its consequences of greater unnatural inequality and the suffering of poor people.²³ Moreover, mercantilism or crony capitalism is the traditional and true foe of economic liberalism, as documented in the writings of Adam Smith.²⁴ Mercantilists enjoy this omission because it sidelines economic liberalism and allows them to accumulate wealth free of moral stigma.

Latin American reverberations of the socialist–mercantilist alliance

Democracies afflicted by socialist and mercantilist institutions become dysfunctional or collapse because they are captured for the benefit of the political and entrepreneurial elites. The capture precludes high and sustained growth, fostering a state of continuous social tension and conflict verging on violence. Such was the state of Venezuela prior to Chávez, and is the state of Argentina today. The way out of this internal rift in badly functioning political systems has been through political leadership—typically, autocratic leadership.²⁵ In some countries these political leaders create or allow liberal institutions and the country starts to grow. The concomitant improvements of the living standard convince the people that this is the road out of serfdom and into freedom and prosperity. These are the cases of Chile and Peru (also called “the new Chile”) and to a lesser extent El Salvador, Nicaragua, and Panama, where the latter partially lives off the inertia imparted by the 1900 US decision to establish a regime of monetary freedom. In other cases, the strongman maintains the poor institutional quality or makes matters even worse. Such are the cases of Ecuador, Bolivia, and Venezuela. There

23. For clear Gospel teaching on the importance of satisfying basic material needs of thy neighbor, such as hunger, thirst, and clothing, see Mathew 25:31–46.

24. “The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. In this consisted a great part of the policy of Mr. Colbert, who, notwithstanding his great abilities, seems in this case to have been imposed upon by the sophistry of merchants and manufacturers, who are always demanding a monopoly against their countrymen” (Smith 1976/1776, IV.ii.38).

25. The entrepreneurial elites make their wealth in a non-liberal setting. Consequently, there is no substantial financing to educate the electorate through the media on the merits of the capitalist view, which is a prerequisite to increase and sustain Venezuela’s level of economic freedom via democratic rule.

is a third category, where democracy plagued by the socialist–mercantilist nexus implements some liberal reforms, but at a slow pace. These are the cases of Brazil, Costa Rica, Colombia, Guatemala, Honduras, and Mexico.²⁶

Significant centers that promote liberal economic thinking

There have been a few prominent liberals in the history of Venezuela. The first was Henrique Pérez Dupuy (1881–1979) also known as Don Henrique. In 1925 he founded Banco Venezolano de Crédito and remained its president until the mid-1960s. He published several books with titles indicative of his liberal roots, including *Socialism Is the Ruin of Nations*, *Governmental-Economic Interventionism Is a Sign of Decadence*, and *Creative Liberalism Versus Destructive Socialism*. He was a staunch opponent of the direction taken by the country in economic matters after Gómez's death. Socialists and mercantilists attacked him viciously and personally, to the point of demonization (see Lahoud 2015 for a lucid account of Don Henrique's Austrian views).

Another well-known liberal was Nicomedes Zuloaga (1926–2006). He was the first Venezuelan—and perhaps Latin American, along with Manuel Ayau from Guatemala—to become a member of the Mont Pelerin Society. Zuloaga befriended Hayek, Friedman, Ludwig von Mises, James M. Buchanan, and Wilhelm Röpke, among others. He published several books of high academic caliber and many newspaper articles. In addition, he frequently invited liberal intellectuals from Latin America to speak for Venezuelan audiences, using his house as a venue. He founded a journal with Joaquín Sánchez-Coviza titled *Economic Orientation*, in which liberal views were defended with Austrian-inspired arguments and empirical evidence.

Economic Orientation was a precursor for CEDICE, almost the only think tank that promotes liberal economic ideas in Venezuela. CEDICE is the Spanish acronym for the Center of the Diffusion of Economic Knowledge. CEDICE was founded in 1984, after a meeting of principals with Antony Fisher, founder of the Institute of Economic Affairs in London. The meeting was attended by Carlos Ball, Ricardo Ball, Jesús Eduardo Rodríguez, Enrique Sánchez, Oscar Schnell, Nicomedes Zuloaga, and Ricardo Zuloaga.

Since its founding, CEDICE has been a beacon of freedom in Venezuela. Many renowned liberal thinkers visit Venezuela, give talks, and are exposed to

26. Evidence on these cases is beyond the scope of this article, but it is certainly available upon request.

the media under the aegis of CEDICE. CEDICE also promotes liberal thinking in the local media. Venezuelan economic and political elites have responded to CEDICE with both passive and active hostility. The passive resistance principally takes the form of a ‘conspiracy of silence,’ which is to say that a message conveyed by CEDICE will be apparently well-received and understood, but there is no ensuing action consistent with the message. More recently, under the Chávez-Maduro regime, active opposition has occurred, with protests, sometimes violent, taking place in the area near CEDICE events. In addition, Chávez has publicly insulted, in front of TV cameras, speakers invited by CEDICE to Venezuela.

Since the 1990s CEDICE has been led primarily by Oscar I. García-Mendoza, who has steered the organization successfully through very troubled waters. García-Mendoza has established and funded educational programs, some aimed at students and young politicians. He is president of Banco Venezolano de Credito. The bank is managed scrupulously, even to the point of not accepting deposits from the government in order to avoid pernicious influence and to ensure García-Mendoza has an independent voice. García-Mendoza is also a director of the Atlas Foundation in Washington, D.C., which is indicative of his liberal bona fides. But his support of liberal principles has had substantial personal costs. As of the date of this writing, García-Mendoza is in exile in the United States as a result of his having spoken out against corruption.

Other liberals worth mentioning are Rafael Alfonzo, Rocío Guijaro, and Andrés Sosa Pietri. These have staunchly defended existing outlets for liberal discourse and worked to create new opportunities for political action.²⁷

Conclusions

Venezuela is experiencing a struggle for power reminiscent of the infighting that took place in the nineteenth century prior to the advent of Gómez. On this occasion we have two illiberal groups vying for control of the country.

One is represented by the late Hugo Chávez, who as an outsider won the 1998 presidential election.²⁸ This group has mainly aggrandized the economic vices of its predecessors such as corruption of the judiciary, price controls, nationalized companies, inflation, devaluation, fiscal opacity in the areas of taxation and government spending, regulatory burden of businesses, exchange-rate controls,

27. This is the best recollection of Venezuelan liberal personalities that we can make. We apologize to those who inadvertently we have failed to mention.

28. Revealingly, most of the private media supported Chávez during this election. One of the current authors had two private meetings with Chávez prior to the elections and easily noted his socialist mindset.

minimum-wage increases, governmental indebtedness, trade barriers, and exacerbation of housing rental laws biases against the property rights of real estate owners. Moreover, the Chávez-Maduro government has further abused what political and civil liberties had existed during the preceding four decades. The second group, led and financed by those who made their wealth during the forty years prior to the election of Chávez, defend democracy but have not repudiated the exclusionary economic policies and institutions implanted in the pre-Chavez period.

Hayek (1944) and Friedman (1962) argued that economic freedom is a necessary condition for political and civil liberties. Venezuela appears to lend credence to the Hayek-Friedman hypothesis. The high levels of economic freedom enjoyed by Venezuelans during the 1920–1957 period spurred on the advent of democratic rule. However, subsequent destruction of institutions promoting economic freedom, which accelerated with the onset of democracy in 1958, has undermined freedoms in the political and civil spheres. Thus by privileging certain political rights over economic freedom, Venezuelans have ended with no freedom (see Lawson and Clark 2010).²⁹ If Venezuela had more entrepreneurs with the ethical fiber of Pérez Dupuy, Zuloaga, and García-Mendoza, more staunch defenders of economic freedom, most likely the country would not be in its current predicament. Venezuela and most Latin American countries suffer from the absence of entrepreneurial leadership that champions economically inclusive, liberal institutions. The nation needs to adopt a philosophy that will make property secure, reduce governmental intervention, and confine interventions to those that follow regular and certain rules.

However, as of the date of this writing both competing groups appear to be more interested in fulfilling, rather than straining against, the so-called ‘iron law of oligarchy.’ This lack of leadership aimed at surmounting problems of collective action helps to explain why millions of Latin Americans, particularly Venezuelans, have suffered poverty and its attendant hardships. Such leadership will be needed to excise the numerous exclusionary and illiberal institutions that persist in Venezuela, embedded throughout its history by ravaging rulers.

29. Further, the democratic transition, the widespread phenomenon of democracies substituting for autocracies, is induced by the rapid rise in income per capita that has proceeded since the onset of the Industrial Revolution circa 1800 (see Faria, Montesinos-Yufa, and Morales 2014). We note that during the Malthusian epoch of stagnating income per capita, historical records do not document establishment of permanent democracies.

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