

# HOW SOCIALISM DESTROYED VENEZUELA





# How Socialism Destroyed Venezuela

*By Daniel Di Martino*

*Founder  
Dissident Project*

*Graduate Fellow  
Manhattan Institute*

## INTRODUCTION TO VENEZUELA

Venezuela has been central to the debate over socialism in America. Major progressive figures now claim that Venezuela isn't an example of "real" socialism, while conservatives point out that progressives are leading America towards a future resembling Venezuela. I was born and raised in Venezuela, and I came to America after graduating high school in 2016.

Let me break down for you what happened in Venezuela and what it means for America.

### **1940s-1970s: The American Dream in Venezuela**

In 1950, Venezuela was one of the richest countries in the world, with the fourth highest Gross Domestic Product (GDP) per person. Such was Venezuela's wealth that the country's capital city of Caracas had more cars per person than New York City, and an office secretary was better paid there than in the United States.

Venezuela was a relatively wealthy country in the mid-20<sup>th</sup> century due to a combination of factors. World War II had just ended and much of Europe was destroyed, so countries that weren't involved in the war had an advantage. Venezuelan oil became crucial to the Allied war effort in the





1940s and even more important to the whole world in the post-war economic boom, leading to unprecedented private and public investment in Venezuela's oil industry, commerce, and infrastructure. Finally, Venezuela was a country with very low taxes and little regulation in the 1950s. There was no sales tax, and the income tax represented a mere 5% of the national income, much lower than in Europe or the United States, where taxation was growing rapidly.



*Venezuela was the fourth wealthiest country in the world following the end of World War II, and the country's natural oil reserves helped jumpstart the global economy during the post-war boom.*

This prosperity led millions of immigrants from other Latin American countries, war-ravaged Europe, and the Middle East to seek a better life in Venezuela. Millions of Colombians, Spaniards, Italians, Portuguese, Lebanese, and Syrians headed to Venezuela between 1940 and 1970, working in the cities and fields and tripling Venezuela's population.

### **1970s-1990s: Government Growth and Economic Stagnation**

Venezuela became a democracy in 1958, and after fighting off a Cuban invasion in 1967, seemed headed for prosperity.



However, as successive governments fought to use the country's oil wealth to win elections, they continuously raised taxes on oil companies to finance more welfare programs—until they decided to fully nationalize (i.e., fully take over) the entire oil industry in 1976.

Dependence on oil revenues meant that volatile oil prices determined the government's spending budget, leading to waste during high oil-price years and crises when prices went down. To make matters worse, after nationalizing the entire oil industry, the government used its oil wealth to buy as many votes as possible, causing refineries and rigs built by foreign and Venezuelan private companies to fall into disrepair and oil production to fall.

From 1976 to the 1990s, Venezuela's GDP per person stagnated, but its advantage was such that it stayed the richest country in Latin America, even if not the fourth richest in the world. By the 1980s, Venezuela was still wealthier than countries like Spain, South Korea, and Ireland.

However, because the country's economy was dependent on the nationalized oil sector, the cratering of oil prices in the late 1980s rattled the country, leading to a wave of massive riots known as the "Caracazo."

### **1990s: The Prelude to the Nightmare**

After the Caracazo riots in 1989, then-army lieutenant Hugo Chavez, with the help of the Castro socialist regime in Cuba, attempted two coups in 1992 to overthrow the democratically-elected Venezuelan government. The coups failed, and its participants were sentenced to prison. But they were pardoned by the next President, Rafael Caldera, in exchange for political support from left-wing parties.

Caldera embarked on free-market reforms—such as opening the oil industry to private investment, balancing the budget, and deregulating prices and businesses—that would



eventually lower Venezuela's inflation and unemployment rates.



*President Hugo Chavez's (left) tyrannical practices continued due to his hand-picked successor, Nicolás Maduro (right), remaining in power.*

### **1999-Present: The Socialist Regime**

The reforms of the early 1990s were too little, too late. By the late 1990s, Hugo Chavez capitalized on Venezuela's long economic stagnation, uncertainty of the government-controlled oil markets, and corruption of the political class. He was elected president in December 1998. The next year, he would circumvent the laws and rewrite the constitution before being re-elected for a longer and renewable six-year term in 2000. He did all of this with the democratic support of the population.

By 2002, nationalizations of businesses were widespread. The population rebelled. Millions of Venezuelans took to the streets in a nationwide strike. Chavez ordered the killing of protesters with police snipers, but the military eventually took over. Chavez resigned and was arrested. The next day, his allies released him from prison and helped him regain power. He embarked on a political persecution campaign to cleanse the military of critics and fired tens of thousands



of government employees on live TV. After a 2004 recall election, his staff doxed millions of Venezuelans who signed petitions to recall him.

By 2006, the regime had once again fully nationalized the oil industry, in addition to seizing millions of acres of private land, implementing price and currency controls, and nationalizing banks, utilities, heavy industry (i.e., large manufacturing), TV and radio stations, and large and small businesses alike.



*The destructive policies of Venezuela have inspired massive protests against the country's dictator, Nicolás Maduro.*

In 2009, Chavez illegally amended the constitution—the same one he had written a decade earlier—to allow for indefinite re-elections. In 2012, he won re-election on a day marred by fraud, near-total media control, and imprisonment of opposition leaders. He died shortly thereafter of cancer, but not before hand-picking his successor, current tyrant Nicolás Maduro, who was fraudulently elected in 2013 and re-elected in 2018.

## VENEZUELA'S SOCIALIST POLICIES

- **Nationalizations:** When he was elected in 1998, Hugo Chavez seized the private property of thousands of businesses, starting with the oil and agricultural industries before expanding to every sector of the economy. Many nationalized companies stopped production outright, while others simply hired many more workers than they needed and ran huge deficits that the national government had to cover, even as production dwindled.



- **Price controls:** As prices rose, Chavez and his successor, Nicolás Maduro, imposed price controls on every good and service that they considered necessities. Everything from eggs and milk to chocolate and cable were regulated, leading businesses to stop producing and empowering the black market to flourish with much higher prices to compensate for risk and reduced production.
- **Currency controls:** Just as prices were set by the government for private businesses, the government also controlled who could obtain foreign currency and how much. Everyone they found trading U.S. dollars for Venezuelan Bolivars at a rate different from the extremely overvalued government rate risked prison. However, the main problem of the foreign currency exchange regime was that it effectively subsidized imports, leading to a huge budget deficit. This was covered by printing more Venezuelan currency, further devaluing the Bolivar.
- **Minimum wage hikes:** Supposedly to combat high inflation, Chavez and Maduro raised the minimum wage by decree dozens of times. There came a point when most workers in the country were making the minimum monthly wage and prices would rise immediately after the announcement of another wage increase, roughly at the same rate as the hike.
- **Massive government spending:** The nail in the coffin of Venezuela's economy was Chavez's massive expansion of the government, both by way of nationalizations and an expanded bureaucracy and welfare programs. New agencies, such as the Vice Ministry of the Popular Will for Supreme Social Happiness, were created and employed thousands of public employees. Welfare programs for free housing utilities, food, healthcare, and college education depleted Venezuelan state coffers even as oil revenues soared. This led Chavez and Maduro to use the Central Bank (i.e., print more money) to finance





welfare, causing inflation to soar and taking away those small gains from Venezuela's poor.



*Empty store shelves are a startling reminder of the real-life implications socialism has brought to Venezuela's economy and the devastating impact it has on citizens' everyday lives.*

## THE DESTRUCTIVE RESULTS OF VENEZUELA'S SOCIALIST POLICIES

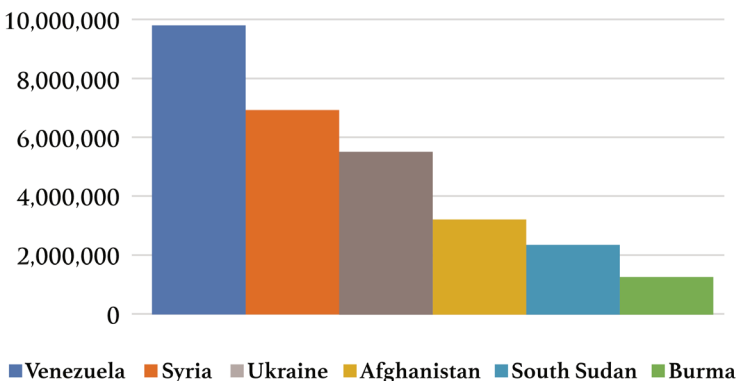
- **Destruction of domestic industry:** 60% of Venezuela's private companies have shut down since Hugo Chavez was elected.
- **Corruption:** When Chavez took office in 1998, Venezuela ranked 75<sup>th</sup> in the world in Transparency International's corruption perceptions index. By 2021, Venezuela had fallen over one hundred spots to 177<sup>th</sup> place.
- **Depreciation of the currency:** The Venezuelan Bolivar has lost 99.99% of its value since 1999. A banana today in Venezuela costs nearly 20 Bolivars, which is equivalent to two quadrillion Bolivars of 1999



(2,000,000,000,000,000) and more than one U.S. dollar in a country where the average monthly salary is around \$100.

- **Shortages:** Since the mandatory price controls made it practically impossible for entrepreneurs and business owners to turn a profit, most stopped producing.
- **Blackouts and water outages:** Chavez called for an “electricity revolution” in 1999, during which he spent billions of dollars on new electric powerplants and refused to raise rates, even as inflation soared. The mismanagement resulted in rolling blackouts that persist today—blackouts that the dictator constantly blames on the opposition, cyberattacks, and even U.S. Senator Marco Rubio.
- **Mass emigration:** More than 7.1 million Venezuelans have left the country since 2015, making Venezuelans the largest international refugee group in the world. Venezuela has more refugees than do countries in wars like Ukraine and Syria, and the number of people of concern and in need of international protection is about 10 million, according to the United Nations.

Number of people of concern to the U.N. Refugee Agency





## MYTHS ABOUT VENEZUELA DEBUNKED

**Myth #1:** Over-dependence on oil is what caused Venezuela's economy to collapse.

- ◆ **Reality:** There are many oil-dependent nations that aren't experiencing any kind of economic crisis, including Saudi Arabia, the United Arab Emirates, and even the neighboring South American nation of Ecuador. We haven't seen millions of refugees flee these countries even when oil prices fall.

**Myth #2:** Venezuela is poor because of U.S. sanctions and imperialism.

- ◆ **Reality:** The United States only recently implemented sanctions against Venezuela's socialist regime, but these initially included only the confiscation of bank accounts held by the country's dictator and his inner circle. In 2019, the Trump administration banned Americans and foreign companies that did business in the United States from trading with the government of Venezuela, but Americans are still free to send food, money, and medicine or trade in any capacity with private individuals and businesses in Venezuela.

These policies are far more lenient than America's more comprehensive sanctions against Iran or Cuba. Indeed, Iran, which is similarly dependent on oil and is an oppressive dictatorship, has never seen the kind of misery Venezuelans are experiencing because Iran, unlike Venezuela, is not a socialist country.

**Myth #3:** Venezuela's crisis was caused by corruption and mismanagement, not socialism.

- ◆ **Reality:** Venezuela is very corrupt, but this level of corruption could only be achieved in a country where the government controls most of the private sector. Most of Latin America, Africa, and Asia are ruled by



highly corrupt governments. But only the countries that implement socialist policies, like Venezuela, have experienced extreme poverty and mass emigration to the same extent.

**Myth #4:** Socialism is what the Nordic countries do, not Venezuela.

- ◆ **Reality:** U.S. Senator Bernie Sanders once said, “I think we should look to countries like Denmark, like Sweden and Norway, and learn from what they have accomplished for their working people.” However, we should look to them not because these countries are socialist, but for exactly the opposite reason.

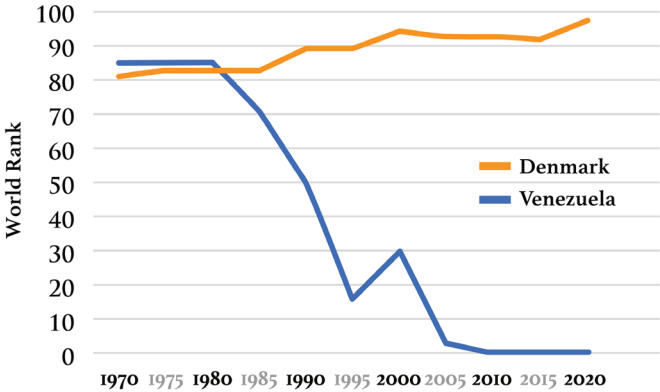
Denmark, Sweden, and Norway all tax corporations at a lower rate than does the United States, all run balanced budgets and have very little debt as a share of their economy, and all make it easier to start a business due to fewer and more streamlined regulations. Governments in these countries do spend a larger share of the economy than does the U.S. government, but they do so by collecting much more in sales taxes from low and middle-income citizens and payroll taxes that all citizens pay, regardless of their income.

In 1970, Venezuela was a freer, less regulated economy than Denmark, ranking 13th in the world versus Denmark’s 16th place, according to the Fraser Institute’s Economic Freedom of the World Report. By 2020, Venezuela was the least free economy in the world, ranking 165<sup>th</sup> place, while Denmark repealed regulations and lowered taxes to move into fifth place, even as more countries were added to the ranking.

The problem with “democratic” socialist proposals in America is that they pretend we can increase government spending to Nordic levels and collect all the necessary revenue from the top 1% of income earners. This is mathematically impossible.



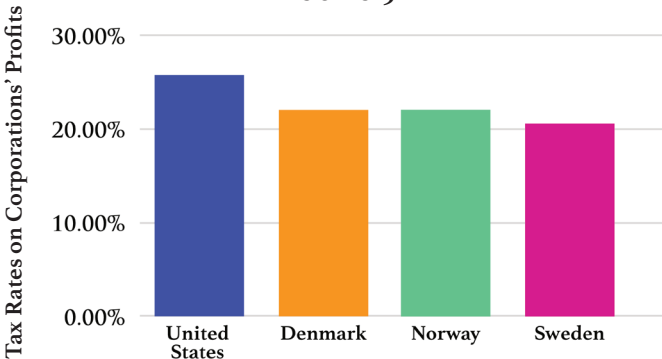
### Economic Freedom Ranking Percentile



According to the Fraser Institute's Economic Freedom of the World Report

America already has a more progressive tax system than these countries do, meaning that the rich pay a greater share of their income in taxes and the poor a smaller share. And even with current spending, America is on the path to bankruptcy, as we cannot even finance our current welfare programs. By these standards, America seems like the socialist country of the bunch, not the other way around.

### Total Corporate Tax Rate As of 2023







## THE SOCIALIST THREAT IN AMERICA

In America, many of our elected leaders have defended the Chavez, and then Maduro, regime, and many more have advocated for similar policies that have destroyed the Venezuelan economy. Even worse, more Americans call themselves “socialists” than ever before.

- In 2020, U.S. Senator Bernie Sanders called for a full nationalization of the American energy industry—very similar to Chavez’s “electricity revolution” in 1999.
- In 2019, U.S. Representative Ilhan Omar condemned the Venezuelan people’s quest for freedom and opposed America’s recognition of Juan Guaidó as the country’s leader, saying that “We cannot hand pick leaders for other countries on behalf of multinational corporate interests. The legislature cannot seize power from the President, and Venezuela’s Supreme Court has declared their actions unconstitutional.”
- When Representative Alexandria Ocasio Cortez was asked in 2019 if she “would denounce the Maduro regime” her answer was “I think that this is absolutely a complex issue.”
- Representative Gregory Meeks, while attending dictator Hugo Chavez’s funeral in 2013 said “He was controversial. However, he was also a man I knew who wanted to help the poor.”
- Senator Bernie Sanders refused to call Nicolás Maduro a dictator as recently as 2019, even after numerous fraudulent elections and



*U.S. Representative Alexandria Ocasio Cortez is one of the many American lawmakers advocating for policies similar to those that have destroyed the Venezuelan economy.*



violent repression. Even worse, he used to have on his website an article stating that “These days, the American dream is more apt to be realized in South America, in places such as Ecuador, Venezuela and Argentina, where incomes are actually more equal today than they are in the land of Horatio Alger. Who’s the banana republic now?”

- The Democratic Socialists of America currently boasts nearly 100,000 active members and chapters in all 50 states and, despite the catastrophe that Venezuelans are enduring, over half of Generation Z has a positive view of socialism.



*Some Americans have a positive view of socialism despite the catastrophe that Venezuelans are currently living under.*

## CONCLUSION

Venezuela is a lesson for America because no other nation has elected its way into socialism and destroyed itself like Venezuela. Not Cuba, which was a victim of Fidel Castro’s violent revolution in 1953. Not the U.S.S.R., which was similarly taken over by the Bolsheviks led by Vladimir Lenin in 1917. And not China, which was taken over by Mao Zedong after a bloody civil war in 1949.



Venezuelans overwhelmingly elected Hugo Chavez in 1998. Chavez supporters replied to those who saw him for what he was, a socialist tyrant, with claims like “It can never happen here. We are a democracy, we are an oil-rich nation, we are not an island. We will never be like Cuba.” But after the first few free elections, as Chavez’s policies took effect and his popularity declined, Venezuela’s elections stopped being free.

Now that Venezuelans can’t vote their way out of socialism, the saying on the street is, “We were rich, but we didn’t know it.” Today, even as many Americans think that what happened in Venezuela can never happen in America, many of our leaders are working to ensure that Venezuela’s present becomes America’s future. It’s up to you to recognize and protect the precious freedoms we enjoy in America, so we never say, “We were rich, but we didn’t know it.”



*More than 7.1 million Venezuelans have left the country since 2015, making Venezuelans the largest international refugee group in the world.*



## ABOUT THE AUTHOR



Daniel Di Martino is a PhD candidate in Economics at Columbia University and a Graduate Fellow at the Manhattan Institute. Born and raised in Venezuela, Di Martino experienced the terrible consequences of socialism first-hand. After leaving Venezuela for the United States in 2016, he dedicated himself to explaining how socialism destroyed

his homeland, advocating for its freedom, and stopping this ideology from ever being implemented in America and elsewhere.

Daniel has appeared dozens of times on national TV channels such as Fox News and CNN, written for *USA Today*, *National Review*, and other news outlets, and speaks regularly at college campuses and events all over the country. In addition to his economic research on immigration and his media appearances, Di Martino founded the Dissident Project to teach high school students about the evils of socialist regimes.



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“Only socialism can cause more destruction  
and displacement to a country than  
an actual war.”

— DANIEL DI MARTINO



*www.yaf.org*

Reagan Ranch Center  
217 State Street  
Santa Barbara, California 93101  
888-USA-1776

National Headquarters  
11480 Commerce Park Drive  
Sixth Floor  
Reston, Virginia 20191  
800-USA-1776