



A detour in the Road to Totalitarianism: An extended review of the book “Causas y causantes del desastre económico en Venezuela. Un homenaje a Hugo J. Faría”

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CIROCCO, Luis B.; ACEVEDO, Rafael (Orgs.) *Causas y Causantes del desastre Economico en Venezuela. Un Homenaje a Hugo Faría*. Almería: Círculo Rojo Editorial, 2018. 254 p.

At the time of writing this review, the IMF predicted that the price increase in Venezuela would reach 1,000,000% by the end of 2018. If this forecast is fulfilled, the Caribbean country will be among the top five worst hyperinflations in world economic history. The Fund also foresees that the GDP will contract 15% in 2018. The situation is devastating. But, how did Venezuela get to this point? How did it go from prosperity to misery? These are some of the questions that the book *Causas y causantes del desastre económico en Venezuela* (Causes and agents of the economic disaster in Venezuela) tries to answer. It is a collection of essays that revolve around the ideas of the illustrious Venezuelan economist Hugo Faría. Some of the texts are his own while others are contributions from colleagues, pupils and friends.

Faría receives due recognition for this work, as he is probably the most lucid and original thinker to address the Venezuelan crisis. He has demonstrated, through rigorous qualitative and quantitative analyses, that countries with higher levels of economic freedom grow faster than those less free. His research indicates that the debacle in which Venezuela is engulfed is the result of increasingly aggressive interventionism, in use since at least the 1960s, and has reached its maximum expression in the last nineteen years of socialist revolution.

This book is quite interesting from a literary perspective. It is a *Festschrift*, a book in honor of a respected person, which contains articles by close associates. In general, such tributes coincide with a special date for the honoree, such as their birthday or the commemoration of an important event in their career. In this case, the reason is more pragmatic: not only to pay tribute to Professor Faría for his invaluable contribution to the defense of freedom, but also to share the highlights of his

theory, which can serve as a guide to understanding and overcoming the crisis Venezuela is going through.

In the book, the reader will find a deep analysis of the economic, social, political, and cultural factors that led to the current situation in Venezuela. Despite the abundant references to economic theory and history, it is possible to identify a common thread among the different approaches and explanations.

The work is structured as four major essays written by Hugo Faría ("The Tyranny of Minorities", "Venezuela: Without Liberals, There Is No Liberalism", "Hugo Chávez Against the Backdrop of Venezuelan Economic and Political History", and "The Critical Role of Economic Freedom in Venezuela's Predicament"), each accompanied by comments from other authors.

1 THE TYRANNY OF MINORITIES

This text aims to pinpoint a few obstacles faced by Latin American countries, in general, and Venezuela, in particular, which prevent them from affording material prosperity for their inhabitants. The author discovers the reasons why it is so difficult to change the current situation and shows how eradicating them could contribute to "insert Latin America into paths of high and sustained growth" (FARÍA, 2008, p. 182)

The article is divided into four sections. In the first, Faría offers three insights about the economic problem; in the second, he studies the causes why there is so much resistance to changing the status quo; in the third, he proposes possible solutions for the sake of change. Finally, he presents his conclusions.

The three insights to which Faría offers are: mercantilism, central planning, and humanistic Natural Law philosophy.

Mercantilism is based on the idea that it is necessary to favor existing companies, even if this means sacrificing the welfare of citizens. Therefore, instead of a company serving society, society must adapt to the interests of a company.

The government adopts a series of measures to protect certain productive sectors from foreign competition. In Venezuela, for example, the import of certain goods – mainly agricultural products – is forbidden, and high tariffs are imposed on those few allowed in. In 2007, the year in which this article was written, the average tariff was 12.2%, while the Latin American average was 10.7%. Additionally, the country applies "exchange protectionism", which consists of multiple bolívar's devaluations. Like tariffs, it makes imports more expensive, ending up in harm to the final consumer.

Faría continues his analysis with a questionable point. He says the violation of property rights, represented by barriers to international trade, could only be legitimized if those barriers were adopted with popular consent. Is he referring to a kind of democratic consensus? And if so, how could a majority decide for the whole of society, especially in a subject as important as trade?

The second insight that Faría tackles is central planning, according to which the state is the central agent in society, the engine of development and owner of the so-called “Commanding Heights” of the economy. Citizens are forced to sacrifice their welfare for the objectives established by the government, always on behalf of the common good. This perspective has Keynesian and socialist roots.

In Venezuela, central planning is the order of the day. The state owns vital resources such as oil, gas, iron, coal, and subsoil, as well as water and electricity companies. As if that were not enough, it also sets prices and interest rates, establishes exchange controls, determines credit quotas for banks and owns numerous companies in the most diverse sectors.

Faría also refers to one of the elements that have contributed to the ideological success of central planning: the education system. He tells us that in the schools of Economics, Administration and Law of Venezuela (and possibly throughout the western world), the macroeconomic theories taught the most are of Keynesian inspiration, which assert that state intervention is necessary (through fiscal, monetary and exchange policies) to drive the economy to the idealized state of full employment.

Finally, the author presents the humanistic Natural Law philosophy perspective, in which the central actor/agent is the human being, who has inalienable natural rights, such as the right to life, freedom of speech, freedom of religion, as well as the right to use, enjoy and dispose of private property obtained honestly. Faría says that, because there will always be people who try to violate these rights, we constitute governments as a mechanism for protection of natural rights, and therefore we grant it coercive powers. However, government powers are delegated ones. The government cannot have any right that has not been conferred by the people.

Although Faría presents a good defense of the Natural Law, the part that mentions government is quite questionable. It is a common misconception among classical liberals to believe that government is necessary and that it will fulfill its minimum task of defending individual rights.

Economics has shown that the existence of government is not justified in any case, not even that of a small government. According to Mises and Rothbard, since government is a monopoly, this means that there is no free entry of new actors/agents into the business of protecting individual rights. In the absence of competition, the price of protection and justice will increase, even though the quality will not be improved. Instead of being a good protector and judge, the government

will abuse its monopoly position, becoming a violator of the natural rights that it is supposed to protect ([HOPPE, 2001](#)).

The government operates under perverse incentives that attract the worst individuals, eager to accumulate power and seek rents. The American economist [Doug Casey \(2013\)](#) has found, using the Pareto principle, that 20% of people in a society show a combination of "perverse" characteristics such as lack of scruples, lack of empathy, and desire for absolute power. Precisely those are the ones who end up in the highest government hierarchies.

It is useless to believe in a "small government", because the agents that make it up will always look for ways to expand the range of intervention. [Robert Higgs \(1987\)](#) found that, in 1870, the government size in six major economies was between 7% and 13% (that is, public spending as a percentage of GDP). In 1986, it ranged from 30% to 60%.

On the other hand, government is not the result of free and spontaneous agreements among men. On the contrary, it is an artificial entity that is the product of predation and violence ([OPPENHEIMER, 1926](#)), and survives from illegitimate confiscations (taxes). From an ethical perspective, the existence of government is incompatible with Natural Law.

After this digression, let us continue with Faría's analysis. In another section of his article, he focuses on the issue of rights. In this regard, he affirms that natural rights are *protective*, that is, they protect us against damages inflicted by third parties. In this, they differ from *intrusive* rights that force one individual to transfer goods and services such as housing, healthcare, or education to another. This distinction between *protective* and *intrusive* rights takes on special relevance in the current age, in which the latter are enforced, even with the force of law.

Faría criticizes intrusive rights, claiming that they are impossible to satisfy because we live in a world of scarcity. This statement is very similar to the one exposed by [ROTHBARD \(1982\)](#) in his *Social Ethics of Freedom*, where he recognizes that scarcity is the reason for human conflicts and that the only institution capable of mitigating them is private property, from which rights of exclusive ownership over resources are assigned ([HOPPE, 2010](#)).

Once exposed the content of the Natural Law philosophy, Faría recognizes that in Venezuela there is no favorable situation for its enforcement. The result is the introduction of perverse policies that benefit a minority of the population and harm the majority. In other words, policies that generate concentrated benefits with dispersed costs. In his opinion, a policy centered on the human being would generate dispersed benefits with concentrated costs.

Showing unusual intellectual depth, Faría tries to reveal the reason for this situation. His response is that the winners of perverse policies, typically a minority, do everything in their power

to maintain the status quo to the detriment of the majority. The latter, being a large group, is difficult to organize in order to move towards suitable policies.

To support his thesis, the author resorts to the neoclassical public goods theory and to the analysis of collective action problems. He defines the public good as that which is non-rival and non-exclusive. It is non-rival, because its quantity is not diminished by the fact that it is consumed by a greater number of people. It is non-exclusive, because, as the term indicates, we cannot exclude anyone from its consumption. Although Faría does not say it, this characteristic also implies that the public good must be produced for a whole group or not be produced at all ([BENEGAS-LYNCH, 1998](#)).

For Faría, free trade, monetary freedom, and a good judicial system, which correspond to what he calls suitable policies, meet the characteristics of non-rivalry and non-exclusion.

For its part, collective action is the ability to organize and coordinate efforts among people with the aim of producing a public good. Because there is no collective action that allows the generation of suitable policies, they are produced in a minimum amount.

In its turn, this insufficient production results from the combination of three factors:

- Inability to efficiently organize the beneficiaries of suitable policies, who are the vast majority of the population. It is very difficult to establish communication mechanisms and binding agreements in such a diffuse and heterogeneous group of people.

- The “free rider” problem. Once the public good is produced, all people can enjoy it, whether or not they have contributed to its production. According to Faría, this is a problem, because it induces the following reasoning: I do not incur the cost of production because I hope that someone else does. As many individuals reason in a similar way, the result is that very few (or none) incur the cost and, as a result, the good is not produced.

- Rational ignorance. Many people remain ignorant on economic issues, because the costs of getting informed do not compensate the benefit. Such ignorance is taken advantage of by the minorities who benefit from perverse policies.

At this point in the discussion, I would like to make a few comments. First, the free rider problem is not really that bad. In fact, it is possible to affirm that human actions constantly benefit third parties, even inadvertently (BENEGAS LYNCH, 1998). Therefore, most of the goods and services carry free riders. On the other hand, the situation posed by Faría would only make sense if the collective action took place in an environment similar to the prisoner's dilemma – which he

cites in his article – in which two people cut off from each other must make a single decision that defines the luck of both. On the contrary, collective action takes place in a process of open communication and in a context of multiple decisions. It is possible that, at some point, an individual will reason as Faría points out, but he can learn from the consequences of his action (or his inaction, in this case) and decide to act in the future.

Second, the principle of rational ignorance is quite questionable. Following [CAPLAN \(2003\)](#) we see that if the majorities were ignorant about economics, “its members should essentially be agnostic on the subject” (s/p). In practice, instead, they often support (to a greater or lesser degree) regulations, controls, protectionism, among others, despite lacking sufficient knowledge to express an informed opinion. What is true in Faría's analysis is that the minorities that benefit from these perverse measures benefit doubly, by winning the discursive battle: “public opinion shares our concerns”.

Faría asserts that there are two additional factors that prevent formulating suitable policies in Venezuela: collusion between socialism and mercantilism, and the existence of a “patrimonial government”.

According to the author, both mercantilism and socialism have in common the destruction of free market, although for different reasons. Socialism does not accept that the market is an efficient mechanism for allocating resources, and prefers central planning; mercantilism is opposed to it for pragmatic reasons: it wants to eliminate competition so that inefficient companies survive.

Although the identification of common interests between socialism and mercantilism is a very accurate point in Faría's analysis, I think we could take it a little further. Mercantilism is, actually, a branch of central planning, because by protecting certain productive sectors, the government controls consumers' will by forcing them to choose certain products (produced by the protected manufacturers) over others (produced by foreign competitors).

The other factor that contributes to Venezuela's inertia is the existence of what Faría calls “patrimonial government”. In this regard, he presents an interesting thesis: when the government depends economically on citizens, a balance that limits power is created. If, conversely, the government becomes economically independent from citizens, it will not be obligated to be held accountable and its power will be disproportionate. In Venezuela, the government achieved such independence because it can support itself economically thanks to oil revenues.

Faría recommends distributing the taxes paid by oil companies as well as the shares of state companies among all Venezuelans. This way, the government would not own resources, having to negotiate the collection of taxes with all citizens.

I consider that Faría's idea of "patrimonial government", with its respective consequences, can be questioned. Following Hoppe, we see that, while all forms of government are bad, the "least bad" are those in which there is economic independence between rulers and citizens. If the ruler is economically self-sufficient, they will not need to burden citizens with exaggerated taxes. In turn, these will monitor every action undertaken by the ruler, in order to protect their freedoms. If the ruler commits any abuse, they could face a rebellion. Examples of this type of government would be some absolute monarchies of the past. At present, probably, the state most independent from its citizens is Liechtenstein, where the Sovereign Prince (who enjoys extensive constitutional prerogatives) supports himself economically from his private business, and doesn't depend on his citizens' taxes. The country is one of the freest and most prosperous on the planet.

That type of economic independence between rulers and citizens does not exist in Venezuela. In Liechtenstein, the Prince lives from legitimate businesses, that is, voluntary transactions in which he has taken on profits and losses. The Venezuelan government, on the contrary, lives on illegitimately acquired oil revenue. From the point of view of Natural Law, oil would belong neither to the government nor to the people of Venezuela, but to those companies that discover the deposits and "mix" them with their work (homesteading principle). So, there is a relationship of economic dependence based on pillage. Therefore, taxes should be returned to companies that are victims of confiscation.

After analyzing these factors, Faría proposes some alternatives/guidelines for action. According to him, the problem is how to move from a rent-seeking society, immersed in a poverty trap, to a society that generates wealth. Since it is largely a problem of collective inaction by citizens, one of his suggestions is to strengthen business leadership. That is, to organize entrepreneurs whose personal interest is well aligned with the welfare of most of the population. Thus, what Faría suggests is to reduce the scale of the group called to foster the changes. Instead of resorting to a dispersed majority, it should be better to resort to a small group that represents their interests, which would be easier to organize. Yet, what would be the real influence of business leadership in a totalitarian environment such as that of Venezuela?

Faría himself recognizes that due to the absence of business leadership, along with the government's immense economic power and high oil prices (in 2007) it was not difficult for Chavez to continue in power. He was not wrong. Even when one of those factors was absent (high oil prices) Chavismo continued to govern. However, Faría warned that "Socialism of the 21st century" was not a sustainable model, and at some point the crisis would come. He was not wrong either.

1.1 Comments to Faría's The Tyranny of Minorities

Three essays on the article are presented: "On the Tyranny of Minorities, by Hugo Faría", by Rocío Guijarro Salcedo; "Beware of Hugo Faría", by Daniel R. Morales; and "Hugo Faría, Friedrich Hayek and Bitcoin", by Humberto J. Rivero.

2 ON THE TYRANNY OF MINORITIES, BY HUGO FARÍA

This article compares the situation described by Faría (in 2007) and that of today (2018). According to the author, Faría's article was written at the precise moment in which Venezuela reached the point of no return to socialist totalitarianism. Since then, the state has reached the limit of wanting to annul the individual. Faría's article is as valid today as it was when it was written. The path to freedom seems very far away, hence the importance of rescuing an analysis like Faría's.

Professor Guijarro also points out an implicit element in Faría's analysis: the fear of freedom and the responsibilities it entails, which ultimately leads to the status quo of mercantilism and socialism. She says that if something makes us human, it is the gift of freedom, which can lead to decisions that elevate well-being, or to a terrible paradox: to be the only species that willingly enslaves itself.

3 BE CAREFUL WITH HUGO FARÍA!

This article addresses the academic influence of central planning discourse based on the author's personal experience as a former student of Professor Faría's. The author recalls that, in his macroeconomic classes, the illustrious economist used to tell his pupils that Keynesian models had only pedagogical utility and that they did not serve as a foundation of public policies, since they would lead to a deterioration of the quality of life.

Indeed, nothing good can be expected from Keynesianism on a practical level. Keynes himself, in the introduction to his famous General Theory, affirmed that his theory "can be adapted much more easily to the conditions of a totalitarian state, than to those of free market" ([KEYNES, 1981](#), p. xxvi).

Professor Faría taught his students that institutions should enforce property rights, and that economic policy should be designed to reduce people's cost of living. The author recognizes that Faría was always in "propaganda" mode, continuously transmitting the principles of humanistic Natural Law.

According to [HUERTA DE SOTO \(2009\)](#) one of the main tasks to modify public opinion, always prone to statism, is to disseminate the ideas of freedom in all possible scenarios through activities such as teaching, publication of academic material, and promotion of specialized media in the study and application of free market ideas. This is Faría's legacy.

4 HUGO FARÍA, FRIEDRICH HAYEK AND BITCOIN

The third article applies the Natural Law approach to money issues. The author points out that money is a spontaneous institution that arose among men in order to facilitate voluntary exchanges of goods and services. Behind all this lies the Natural Law philosophy, with which Hugo Faría supports his thesis of free currency competition.

According to Rivero, both Faría and Hayek have the same idea regarding the "denationalization of money" and the freedom of each bank to produce its own currency. Both would glimpse at the existence of a model of competition between currencies, where each bank would have incentives to create and back its money in gold, thus preventing the currency produced from depreciating compared to those of the other banks. The result would be a healthy and sound currency, which we do not currently have.

In this regard, I consider it important to make a small theoretical observation. [HAYEK's](#) model (1990) never considered gold as monetary support; he advocated free competition between fiat currencies. This is just one of several monetary laissez-faire models that have been proposed over the years as an alternative to the inefficient and pernicious central banking system. Professor Faría's proposal, as Rivero puts it, would fit the Free-Banking model, which has already been tested in different places and times with relative success ([DOWD, 2002](#)) and which would undoubtedly be a relief for the current situation in Venezuela.

Rivero also refers to bitcoin as a new form of money that rescues the principle of freedom under which the currency was born, and states that once the use of cryptocurrencies becomes massive, citizens will no longer be condemned to pay the silent tax called inflation.

5 VENEZUELA: WITHOUT LIBERALS, THERE IS NO LIBERALISM

This article, written by Hugo Faría and Leonor Filardo, offers a historical perspective on the state of liberalism in Venezuela from the time of independence to the present. Faría discovers that there has never been much discourse or liberal activity in the country; rather, the opposite is true: moral and political culture is exceptionally unfavorable for liberalism.

The author says that Simón Bolívar, "the father of the Venezuelan nation", felt a deep animosity for everything that the Natural Law philosophy represented. For that reason, he did not endeavor to introduce institutional changes that would lead to the private accumulation of wealth, by means other than political power.

Since its independence, Venezuela went through a long period of institutional instability that came to an end around 1910 (almost a century later), under the government of Juan Vicente Gómez. Despite having gone down in history as a dictator, he pacified the country and established the conditions for the private initiative to flourish, which allowed the majority of Venezuelans to prosper. Economic growth was strengthened in 1914, the year in which an important oil deposit was first discovered. President Gómez allowed multinational companies to extract oil from the subsoil, although the government remained the legal owner. In that way, Venezuela went from being an agricultural country to be the second largest oil producer in the world.

Venezuelan economy experienced high growth rates from 1920 to 1935, when Gómez died. During his administration, the country also enjoyed a semi-free banking system, price stability, low taxes, and little government intervention in the economy. While there was corruption, it was limited to high-ranking officers, and the loot represented a tiny fraction of GDP and public finances.

From 1935 to 1957, the country took a turn towards interventionism, manifested in measures such as: creation of the Central Bank and price control board (1939), exchange controls (1940), taxes on people's income and corporate profits (1943), establishment of a government-owned steel industry, nationalization of the telephone company, and even the construction of numerous hotels owned by the government.

Faría points out that the country experienced considerable growth rates in spite of this. In the 1940s, the average rate was 12%, and in the 1950-57 period, 9.4%. In fact, Venezuela came to be at the head of Latin American countries between 1945 and 1958.

With the advent of democracy in 1958, interventionism deepened further. During the government of Romulo Betancourt (1959-1964) OPEC was founded (by initiative of the Venezuelan energy secretary), the extension of concessions to multinationals for exploration of oil deposits was terminated, the CVP - a dedicated state company - was created to manage the oil business), a central planning agency known as CORDIPLAN was established, a policy of redistribution of agricultural land was undertaken (where the "owners" only received the right to cultivate the land), new taxes were created, and exchange and price controls were established. These last two measures would be adopted by all his successors, from Raúl Leoni to Nicolás Maduro.

Another highly interventionist government was the one of Carlos Andrés Pérez (first term from 1974 to 1979) who promulgated minimum wage decrees and laws to prohibit the dismissal of

workers, carried out the nationalization of the Central Bank and the iron and oil sectors, established regulations that hindered business development, and forced banks to grant loans to sectors considered strategic by the government. His term was also characterized by high inflation.

As a result, economic growth between 1960 and 2000 was quite mediocre. Between 1960 and 1978 it was weak, and from then until 2000, it was negative. By the year 2000, Venezuela's GDP per capita had fallen to 45% of that in 1960. On the other hand, corruption, once limited to high rank officers and insignificant from a fiscal point of view, overflowed all spheres of power.

With this historical recount, Faría shows that the disaster surrounding growth predates the arrival of Hugo Chávez to power. Therefore, the Bolivarian Revolution is nothing more than the deepening of the interventionist drift experienced by Venezuela since 1958. For nearly nineteen years that Chavismo has been in power; undoubtedly the darkest period in Venezuelan history. There is no reason, however, to suppose that the country was going in the right direction before.

From Faría's analysis, we see that the "Road to Totalitarianism", as described by [HAZLITT \(1956^a\)](#), was fulfilled in Venezuela. This famous economist says that the road to total control is marked by three trends.

The first is pressure for constant increase in public intervention, in public spending, and in public power. Faría presents the results of the Index of World Economic Freedom (EFW) of 2014 as evidence of this trend, in which Venezuela ranked last among 152 countries, with a score of 3.71 on a scale of one to ten (the higher the score, the greater the economic freedom).

The other two trends derive from the first. The second is the "greater and greater concentration of power by the central government" ([HAZLITT, 1956^b](#), p. 85). Despite being a federal state, the truth is that Venezuela's state governors, most of them belonging to the ruling party, are no more than local executors of the national government's orders. In the states administrated by the opposition, parallel governments are installed.

The third trend that indicates the drift towards totalitarianism, according to Hazlitt, is "the increasing concentration of power in the hands of the President at the expense of the other two coordinate branches of the government: Congress and the courts" ([HAZLITT, 1956^c](#), p. 86). This is the case of Venezuela, where Hugo Chávez eliminated the separation of powers. His successor, Nicolás Maduro, went much further, installing a "National Constituent Assembly", to which all public servants in the country must be subordinated.

HAZLITT (1956), quoting Cassel, concludes that "economic interventionism and government economic planning lead toward dictatorship" (p. 84). Total control over the economy represents total control over what people do, say and think, in such a way that the elimination of civil liberties (press, association, voting against the government) is a mere corollary (HAZLITT, 1956).

Finally, Faría talks about three sectors that contribute to the system's ideological strengthening: universities, media, and the clergy. He warns us that, at a political level, we are witnessing the struggle for power between two non-liberal factions (government and opposition).

6 A TIRELESS DEFENDER OF FREEDOM, WITH COURAGE

This article, written by Luis B. Cirocco, emphasizes three points previously mentioned by Faría and Filardo: the existence of material and cultural institutions that hinder the implementation of a market economy in Venezuela, the perverse symbiosis between socialism and mercantilism that has existed for a long time in the country, and the points of inflection in its economic history.

Moreover, Professor Cirocco highlights that free market ideas do not find a voice in any business and/or political leadership, and that is the reason why it is not on "equal conditions" with other schools of thought.

7 HUGO FARÍA: A VOICE IN THE DESERT

This review, written by Hugo M. Montesinos, revolves around the three economic views posed by Faría: mercantilism, socialism and humanistic Natural Law. From a historical analysis, Faría and Filardo show that Venezuela has experienced a combination of the former two, which has resulted in very low levels of economic freedom. For its part, the third vision was never really employed in the country's institutional life. From this historical analysis emerges the fact that Hugo Chávez was a consequence (and not the cause) of the problems that Venezuela is going through.

This review also highlights one of the virtues of Hugo Faría's thinking, which is to consider that well-being is not only an economic problem, but also an ethical one, with profound social implications. For him, economics and ethics are closely connected.

Certainly, there are close interrelationships between economic theory and social ethics. According to [HUERTA DE SOTO \(1999\)](#), economic science "is not only able to help to adopt clearer ethical positions but can, furthermore (...) make logical-deductive reasoning easier and surer in the social ethics field" (p. 153). In this way, "considerations, relative both to moral principles and to economic efficiency, far from being separate or in opposition, mutually strengthen and support each other" (p. 153).

8 LIBERAL-LIBERTARIAN VENEZUELA: A COMMON DREAM

In this article, Professor Rafael Acevedo points out the reasons why Venezuela is going through the current crisis, based on the analysis of Faría and Filardo, and emphasizes the difficulty faced by those who have decided to disseminate the ideas of freedom. He recognizes that while freedom is one, which is composed of the economic, political and civil, the foundation is the economic one. Quite rightly, the author affirms that the struggle for political and civil rights can only occur when the material needs of the individual are satisfied.

9 HUGO CHÁVEZ AGAINST THE BACKDROP OF VENEZUELAN ECONOMIC AND POLITICAL HISTORY

In this article, written in 2008, Faría tries to explain the political and economic determining factors for the rise of Hugo Chávez to power and his popularity. Chávez represented a destabilizing force for the region, as he tried to establish the so-called Socialism of the 21st century beyond the borders of Venezuela.

In the first part, the author elaborates a historical recount of the Venezuelan economy from the 1920s to the present, presenting the context that allowed the emergence of a character like Chávez. It is noteworthy that, between 1920 and 1957, Venezuelans enjoyed substantial economic freedoms that ended up boosting the high growth rates during that period. The economic miracle came to an end in 1958. That year marks the beginning of democracy, whose redistributionist policies undermined economic freedoms. As a result, the average growth between 1960 and 2000 was negative.

Diminished prosperity (due to interventionism) created the conditions for the emergence of a populist leader, Hugo Chávez, who falsely blamed capitalism for the people's impoverishment. Once in power, however, Chávez continued with the nefarious policies of his predecessors, taking them to unsuspected levels, namely: inflation, price controls, exchange controls, interest rate controls, nationalizations, labor regulations, among others.

Faría picks up an idea that had already been approached in his article "The Tyranny of Minorities", that a transition towards a market economy is frustrated by several factors: problems with collective action, the existence of a government that bribes its people, and the lack of business and political leadership. By this last point, Faría recognizes the responsibility of the political and business elites allied with the government for the institutional deterioration of the country.

10 COMMENTS TO FARÍA'S "HUGO CHÁVEZ IN THE CONTEXT OF VENEZUELAN ECONOMIC AND POLITICAL HISTORY"

Comments on "Hugo Chávez in the context of Venezuelan economic and political history". By Carlos E. Navarro

This article deals with four myths about the socialist period in Venezuela: the Socialism of the 21st century as the cause of the Venezuelan economic disaster, the existence of a capitalist Venezuela before 1999, the existence of efficient and independent *state entrepreneurship* that has been victim of the policies against private property institutionalized by Chávez and Maduro, and the "curse of natural resources".

Regarding the first myth, Faría shows that the economic policies of Chávez and Maduro adopt are a more advanced version of those that have been employed since 1950.

The second myth is refuted by the fact that the institutions and policies that prevailed in Venezuela since then are typical of socialism and mercantilism. Therefore, they are doctrines that were already well established before Chávez's arrival. Evidence of socialism before Chávez is the state property of the main companies and the means of production; evidence of mercantilism is restrictions on imports and other protectionist measures to favor business elites to the detriment of society. None of these elements characterizes capitalism.

As for the third myth, we find that mercantilism helped business elites benefit from interventionist policies that eliminate competition. A few entrepreneurs have even collaborated closely with the regime.

Finally, the "curse" the fourth myth speaks of is not explained by the existence of a certain natural resource (in the case of Venezuela, oil), but by the regime's ownership over it. According to Navarro, ownership over oil has allowed the government to implement policies that caused the growth disaster and undermine one of the citizens' natural rights: their property rights.

11 A NEW NARRATIVE FOR A NEW VENEZUELA

The author, Humberto J. Andrade, claims that the Socialism of the 21st century is the natural conclusion of more than 40 years of state interventionism, which progressively weakened individual liberties. For him, each previous government contributed to the growth of Leviathan.

This article pays special attention to the myth of capitalist Venezuela before the rise of Chavismo, which has fostered the belief that the country's misfortunes began with Hugo Chávez. Hence, the need to create a new narrative that exposes the real causes of the disaster that Venezuela is experiencing.

The axis of this alternative narrative would be that Chavismo did not invent anything, just used the old socialist and mercantilist formulas. The only "novelty" introduced by Chávez was the addition of a repressive and authoritarian component to the formula.

In this regard, we could observe that repression is an intrinsic characteristic of any interventionist project, and authoritarianism existed before Chávez. A well-known case is the *Caracazo*, in 1989, which consisted of violent repression towards protests against the government of Carlos Andrés Pérez.

12 THE CRITICAL ROLE OF ECONOMIC FREEDOM IN VENEZUELA'S PREDICAMENT

Here Faría and Montesinos propose that a growing number of countries see an increase in per capita income basically associated with the quality of formal and informal economic institutions - the latter, known as culture.

Following Douglass North, Faría explains that formal institutions are the rules and laws promulgated by a government, while informal institutions are rules of conduct and social conventions (not written) that are transmitted intergenerationally.

In order to present a quantitative analysis of formal economic institutions, Faría resorts to the Economic Freedom of the World Index (EFW), that addresses a set of economic policies that set the rules in the market game. In their turn, non-formal institutions, or culture, are measured by two indicators: the level of trust in society and the individualism / collectivism gap.

Faría shows that, historically, institutions prone to be part of the free market have not flourished in Venezuela, and since 1959, the country has followed the path of interventionism. His analysis suggests that in the years 1980, 1990, 2000, 2005, 2010 and 2013, institutions in Venezuela deteriorated systematically in all areas measured by the EFW: legal system and property rights, solid currency, freedom to trade, and regulation. The only exception occurred in the 1990s due to increase in the last three areas; lower, however, than those in Latin America.

Once he finishes analyzing formal institutions, Faría studies the informal ones. His research on the level of confidence (confidence level) found that Venezuela appears in the quartile of the countries whose inhabitants distrust each other most, which negatively impacts economic growth.

Regarding the individualism/collectivism gap, it is necessary to explain: individualist societies are those that privilege personal freedom, achievement and innovation, and are distinguished by a strong respect for individual rights. On the other hand, collectivist societies are based on conformism and the notion of the individual as part of a large® group, which discourages dissent and prominence. Venezuela falls into the lowest quartile of the individualism measurement.

Two factors are added to this hostile institutional environment: a legal system based on the French tradition - evidence suggests that countries governed by this tradition are more prone to government interference in many aspects of life in society - and a low level of education among the population.

13 SOCIALISM OF THE 21ST CENTURY: TEARS, SWEAT AND BLOOD

According to the author, María Lorca Susino, the economic and political history of Venezuela is branded by the existence of "oligarchic capitalisms", in which private property is highly concentrated, and by a "state capitalism", in which states plan the economic life. This historical legacy has laid the foundations for the emergence of 21st century Socialism, an impoverishing ideological project that presents itself as the adaptation of classical socialism to the reality of the new world.

However, no matter the century, Lorca Susino believes that socialism not only ruins countries economically, but denaturalizes democracy and genuine liberal policies.

Perhaps what Lorca-Susino failed to mention is the reason why socialism fails completely where it is implemented: the impossibility of economic calculation. The first to explicitly address the issue was [MISES \(1962\)](#), who explained that in a socialist system, there would be no prices (as we know them), because they arise from the voluntary exchanges that take place in a context of private property. Obviously, this institution is absent in socialism. The result is that the market would not have the signals that ensure its proper functioning. Instead, we would have "prices" defined arbitrarily by the central planners.

14 THE INSTITUTIONS AND THE IDEAS: THE SOURCES OF WELL-BEING

This article, written by Dakar Parada, offers some reflections on poverty. Venezuela is presented as the example of a rich country that became poor. The economic freedom enjoyed by Venezuela between 1920 and 1957 allowed it to maintain high levels of growth. Economic prosperity

led to the return of political freedom in 1958, year that also marks the beginning of a gradual impoverishment.

To this well-known story, Parada adds an interesting idea: the regulatory framework, defined by formal and informal institutions, is the product of the ideas of most of the population. From there emerges a logical scheme that takes the following form: ideas-institutions-freedom.

15 COMMENTS ON THE ARTICLE BY HUGO FARÍA AND HUGO MONTESINO: THE CRITICAL ROLE OF ECONOMIC FREEDOM IN VENEZUELA'S PREDICAMENT

The author, Leonor Filardo, makes a brief historical account of the liberal philosophy and its influence in the world.

The author quotes Ludwig von Mises, who said that liberalism supported the Industrial Revolution, and the countries that joined it by applying liberal principles achieved prosperity and welfare never seen before in history. For the Austrian economist, "the greatness of that historical period between the Napoleonic Wars and the First World War was that the most eminent people aspired not to implement a system of free trade in a peaceful world formed by independent nations."

In the late nineteenth and early twentieth centuries, most of liberalism's achievements were distorted by schools of thought that paved the way for the triumph of socialism and communism.

In the twentieth century, communism and socialism spread throughout Europe and Latin America, and were consolidated as a political system in some countries. Finally, the author says that two great liberal movements emerged in the 1980s, somehow reversing the dangerous trend of communism: *Reaganism*, in the United States, and *Thatcherism*, in the United Kingdom.

I disagree. The truth is that *Reaganism* and *Thatcherism* were "free-market rhetoric masking statist content" ([ROTHBARD, 2013^a](#), s/p). Both Mr. Reagan and Mrs. Thatcher increased the percentage of government spending to GNP, raised the tax burden, kept monetary inflation, and introduced regulations of all kinds ([ROTHBARD, 2011](#)) ([ROTHBARD, 2013^b](#)).

So, instead of representing advance for the free-market philosophy, these political movements meant a setback. The worst is that many freedom advocates were (and many still are) deceived by these two characters.

Filardo says that, at the same time (the 80's), a debt crisis exploded in several Latin American countries, forcing their governments to reach agreements with international organizations (International Monetary Fund, World Bank) to receive aid. In return, they promised to introduce

liberal economic policies. After the collapse of the Soviet Union in 1991, its former member states made similar agreements with the same organizations.

At this point, it is necessary to present another objection: the last thing the organizations cited by author defend is the free market. Paraphrasing HAZLITT, they only aid governments and banking at the expense of the poor ([ROCKWELL, 1988](#), p. 187).

16 SHOULD WE BE SURPRISED?

The author, Rafael J. Ávila, points out that, before 1999, the economy was going bad. The therapy used in the previous nineteen years exacerbated the mistakes of the past instead of correcting, them. Therefore, it is not surprising that the results are worse than at that time. It is impossible that a "therapy" based on inflation, controls, regulations, disrespect for private property, legal and personal insecurity, and obstacles to business activity can yield good results.

17 AS A PREFACE

The author, Daniel L. Bennett, exposes the background of the theory that positively correlates economic freedom with economic growth and development. He says the idea that "economic institutions are crucial to economic progress because they generate the necessary incentives for productive investment" can be traced back to the writings of classical economists. However, it was only recently that it became possible to test this theory through quantitative tools, such as the Index of Economic Freedom. Until then, there was no econometric evidence to verify the relationship between both variables.

The work of Hugo Faría has helped to fill this gap. His research has demonstrated, once and for all, that economic freedom is the first determinant of long-term growth. Other factors, such as human capital (widely debated in growth theories), play a secondary role, which consists of improving the quality of institutions, generating a virtuous circle that translates into greater well-being.

18 REFLECTIONS OF A SILENCED TEACHER

This final reflection, by Professor Faría, addresses three issues: a series of reform proposals for the Venezuelan economy, the obstacles to be faced and how they could be overcome, and a thank-you for the tribute.

The institutional changes proposed by Faría are: return oil (and other resources) to citizens through the distribution, in equal parts, of all taxes paid by oil companies, and citizens' shareholding in state-owned oil enterprises; monetary freedom, that is, the abolition of legal tender laws; international trade freedom; restructuring of the judicial system; and establishment of alternative fiscal rules, such as personal taxes that impact burden spending, limitation of state debt, limitation of consolidated government spending, and regulatory simplification.

I think the reform package proposed by Professor Faría would lead to a substantial increase in freedoms in Venezuela. Of the points presented by him, there are only two that deserve objection: the first is to return oil (and other natural resources) to citizens, and the other one is that refers to tax reforms.

As for the former, a true liberal reform would consist of abolishing "public property" over natural resources, including the subsoil. In this context, oil would belong to those companies that have discovered it first and that have "mixed" it with their labor. On the other hand, if we want be fair, taxes should be returned only to the companies taxed, not to all citizens.

With respect to tax reform, from a strict libertarian position, any tax is theft, so an ideal situation would be to reduce them all to 0%. Nevertheless, while this is not possible, [ROHTBARD \(2017^a\)](#) suggests considering a temporary solution originally formulated by Ron Paul, a variant of the flat tax proposal: "reducing all income tax rates to 10 percent, while at the same time keeping all existing deductions, credits, and exemptions" (s/p).

Naturally, this is just a proposal that could be modified in some aspects to fit the Venezuelan reality. In any case, the fundamental idea of "oppose all rate increases or exemption decreases" ([ROTHBARD, 2017^b](#), s/p) should be maintained in order to "remove the blight of taxation as much as possible" ([ROTHBARD, 2017^c](#), s/p).

After presenting his reform proposal, Faría poses that the greatest obstacle to implement the suggested changes is the resistance of the socialist-mercantilist alliance, that is, of those minorities that would see their privileges threatened. Instead of giving in to it, Faría insists on the need to give democracy a great communication battle in order to win the public opinion.

It is inevitable to feel a strong Misesian accent in this strategic approach. Let us recall that this Austrian economist considers the "course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology" ([MISES, 1998^a](#), p. 850). If the policies formulated would result in disaster, it was not because citizens have rational ideas deliberately ignored by policy-makers, but that the opposite happened: that the the average citizen's generally irrational ideas are heeded ([CAPLAN, 2005^a](#)).

In a culture prone to interventionism, as it is the Venezuelan case, it is not strange that this preference is manifested at the political level, with the disastrous results that we all know. That is why it is so important to fight an ideological battle, in order to move the opinion of the majority towards the defense of freedom. In this regard, it is worth remembering the words of Mises himself: “the flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority” ([CAPLAN, 2005^b](#) quoting [MISES, 1998^b](#)).

CONCLUSION

This book is possibly the only one that has addressed the causes of Venezuela’s economic disaster from a free market perspective. Through rigorous historical analysis and deep understanding of libertarian values, the authors show us that the crisis Venezuela faces comes from decades of interventionism, and that the exit can be found through an institutional redesign that respects individual liberties.

Despite theoretical discrepancies one may have with the authors in some topics, truth is that, in general, the book offers an accurate diagnosis of the situation in Venezuela. It also suggests a reform program that, comparatively speaking, is much better than the statist programs that politicians and influencers, linked to the socialist-mercantilist alliance, might present to Venezuelans in these difficult times.

The great challenge the defenders of freedom face in Venezuela is to change the public opinion (prone to interventionism), presenting free market ideas as the only solution to the country crisis.

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