

# Revolutionary Road?

## Debating Venezuela's Progress

By Bernardo Alvarez Herrera and Francisco Rodríguez

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Summary:

*BERNARDO ALVAREZ HERRERA is Venezuela's Ambassador to the United States.*

### HOW CHAVEZ HAS HELPED THE POOR

Bernardo Alvarez Herrera

When President Hugo Chávez was first elected, in 1998, his critics, many of whom have published in these pages, argued that he would slowly move Venezuela away from democracy. After 12 elections, including the December 2007 referendum, which he narrowly lost, that claim has finally crumbled under the evidence. Now the argument against Venezuela has shifted, and instead of being called undemocratic, Chávez's social programs are labeled as inefficient and his economic management categorized as catastrophic. Much like the first accusations against Chávez, the new criticisms, put forth by Francisco Rodríguez in "An Empty Revolution" (March/April 2008), simply do not stand up to the facts.

This much is undeniable: poverty has decreased in Venezuela under Chávez's administration. According to the 2007 Social Panorama of Latin America, a report released by the United Nations' Economic Commission for Latin America and the Caribbean, between 2002 and 2006 Venezuela decreased poverty by 18.4 percent and extreme poverty by 12.3 percent, an achievement second in the region only to that of Argentina. The report attributed these dramatic decreases to "rapid GDP growth and the ongoing implementation of broad social programs" and recognized that the "swift pace of progress considerably brightens the prospects for further reductions in poverty and significantly increases the feasibility of meeting the first target associated with the first Millennium Development Goal."

Rodríguez seeks to dismiss these advances not by claiming that they have not occurred but by arguing that they are just not good enough. He posits that the government's social-spending patterns have not changed from prior governments, that the social programs have not met their goals, and that Chávez's management of the country has not led to any significant redistribution of wealth. On all counts, he is wrong.

According to the Central Bank of Venezuela, social spending as a percentage of all government spending grew from 38.6 percent in 1997 to 44 percent in 2007. Looking more broadly, figures from the National Budget Office show that social spending accounts for a higher percentage of all spending than it did in 1992 -- Rodríguez claims otherwise -- or during the oil-boom years of the 1970s. But more important is that since 2003 the state-owned oil company, PDVSA, has contributed significant sums to social programs -- a point that Rodríguez ignores. In 2004, PDVSA announced that it would spend \$1.7 billion a year on social programs, a sharp increase from the \$400 million it had been spending in years past. In 2006 alone, it contributed \$13.3 billion, or 7.3 percent of GDP, to social programs. According to a report by the Center for Economic and Policy Research, when PDVSA's contributions are factored in, social spending during the Chávez administration has grown by an incredible 314 percent per person in real terms.

Venezuela's social programs, many of which have been funded by PDVSA, have been both effective and popular. Rodríguez seeks to dismiss them by quoting isolated and questionable statistics, but he fails to fully consider the gains they have achieved. According to the Central Bank's System of Social Indicators, school attendance at every level increased between 1998 and 2006, and today nine times as many children have access to free meals at school. Through the health mission Barrio Adentro, doctors located in Venezuela's poorest communities have provided more than 200 million checkups, saved over 47,000 lives, and overseen 3,100 births in the 715 different offices and specialized clinics built throughout the country. The treatment provided to HIV/AIDS patients is indicative of the larger commitment to health under the Chávez administration: whereas in 1999 only 335 patients received antiretroviral medications, in 2006 the number was over 18,000. The many social missions have been so well received that during the 2006 presidential campaign, the opposition candidate

Manuel Rosales pledged to keep them in place if he won the presidency.

Policies enacted since Chávez was elected have also helped redistribute the gains of Venezuela's record economic growth. Unemployment is down, employment in the formal sector is up, and the minimum wage has increased notably. More important, income has grown fastest for Venezuela's poorest. According to the polling firm Datanalisis, from 1998 to 2006 Venezuela's poorest sectors saw an increase in income of 445 percent, and the wealthiest saw a gain of 194 percent. These gains have come despite a concerted effort by certain sectors of the opposition to throw the country into crisis in 2002 and 2003. In a shocking omission, Rodríguez does not mention that the sabotage of the oil industry in late 2002 and early 2003 bled Venezuela of 24 percent of its GDP. By comparison, during four years of the Great Depression, the United States lost 29 percent of its GDP.

The policies of the Chávez administration have served to help lower poverty, increase access to necessary social services, and better distribute Venezuela's resources. But more than trust the numbers, one can turn to public opinion to verify this. According to a 2007 Latinobarómetro report, Venezuelans rank their country among the most democratic in the region, second only to Uruguay. On a number of measures -- equality between the sexes, the protection of private property, equality of opportunity, solidarity with the poor, social security, employment opportunities, and even income distribution -- respondents ranked Venezuela highest in the region. When asked how their families' economic situations would be in 12 months, 61 percent of the Venezuelan people said "much better" or "a bit better," higher than the figure for Brazil (60 percent) and the regional average (46 percent). On education and health services, 64 percent and 74 percent, respectively, expressed their satisfaction.

None of this is to say that the Venezuelan government is perfect, much less that it does not face ongoing challenges. It does, as Chávez recognized after his December 2007 referendum loss. One of the main challenges, inflation, has already decreased this year, and food shortages have similarly abated. More important, Venezuela will continue growing its economy, with eight percent expansion expected for 2008.

Trying to argue that Venezuela's economic growth and social gains are all a myth sustained by effective international lobbying and public relations both underestimates the intelligence of the Venezuelan people and does a grave disservice to the facts. Contributors to Foreign Affairs may not like Chávez personally, but they should not keep looking for unsubstantiated reasons to attack Venezuela's efforts to create a vibrant and equitable democracy.

#### RODRIGUEZ REPLIES

Ambassador Bernardo Alvarez Herrera argues that I have ignored evidence showing the Chávez administration's commitment to the poor and the effectiveness of its social policies, and he cites several indicators that would appear to counter the central arguments of my article. Let us look closely at each of his claims. The ambassador argues that the share of social spending has increased during the Chávez administration from 38.6 percent in 1997 to 44 percent in 2007. However, it is important to be careful about what is meant by "social spending." The growth cited by the ambassador was driven by a substantial increase in the payment of pensions, whose share of total government spending doubled, from 6 percent to 12 percent. There is an extensive literature documenting the regressivity of pensions in countries such as Venezuela, where the poor do not participate in the formal economy and thus are not beneficiaries of the social security system. This is why I restricted myself to the categories of spending that can truly be argued to be mainly directed at the poor: education, health, and housing. The share of spending devoted to these categories has been essentially unchanged during the Chávez administration.

Ambassador Alvarez also argues that I have ignored the large amount of social spending carried out by the state-owned oil company, PDVSA, which totaled \$13.3 billion in 2006. Again, it is necessary to be careful about definitions. PDVSA categorizes all of its spending on the direct support of government initiatives as "social development expenditures," regardless of the type of projects it supports. The bulk of these expenditures do not go to programs that under any reasonable definition would be described as pro-poor. The two largest single items of expenditure reported under this category in PDVSA's financial statements are \$3.2 billion given to the Ministry of Finance for debt restructuring and \$1.1 billion given to the Ministry of Defense. Only 26.8 percent of PDVSA's "social development expenditures" went to support education, health, and housing programs. This is roughly the same percentage spent by the central government on such programs, confirming my claim that the data do not show that pro-poor spending is being prioritized by the Chávez administration any more so than it was by past administrations.

The ambassador also shows that school attendance rates have increased since Chávez reached office and that a large number of people have benefited from the government's Barrio Adentro health initiative. Both of these assertions are correct, but neither provides evidence that this administration has done more to help the poor than its predecessors did. The increase in school attendance observed since 1998 simply continues a long-term trend of improvement. Between 1975 and 1998, attendance rates for students between the ages of 6 and 14 increased from 77 percent to 94.4 percent; since 1998, that increase has continued, with the rate reaching 96.2 percent in 2006. (To its credit, the Chávez government maintained the previous administration's program Escuelas Integrales, rechristened Escuelas Bolivarianas, which appears to have been vital in further improving attendance rates.)

Regarding the government's flagship health program, Barrio Adentro, the picture is more mixed. To be sure, a considerable number of Venezuelans have benefited directly from the services of this program. On the other hand, the program's growth has been accompanied by a decline in resources allocated to the conventional functions of the public health system, generating a crisis in many traditional health services, such as hospitalization and the prevention of endemic diseases. According to the Ministry of Health, only 28 percent of hospital beds in the public health system are currently in operating condition, and the number of cases of malaria and dengue fever have skyrocketed, growing by 94 percent and 203 percent, respectively, since 1999. The positive effects of Barrio Adentro must be weighed against the collapse in the broader public health system. It is precisely because of this mixed picture that most Venezuelan health indicators do not show significant improvements -- and some show worrying deteriorations.

When it comes to the distribution of income, there are two series based on major surveys carried out by Venezuelan statistical offices. One of them, the Central Bank's Household Expenditure Survey, shows a substantial deterioration in the share of income accruing to the lowest quintile between 1997 and 2005, and the second one, produced by the National Institute of Statistics, shows a moderate increase. The improvement in the National Institute's results appears to be due to some questionable methodological decisions taken by the agency in its calculation. The World Bank, using the same base data as the National Institute, found that the share of income received by the poorest quintile declined from 4.1 percent to 3.7 percent between 1998 and 2005 -- a period for which the National Institute reported that it increased from 4.1 percent to 4.6 percent. (At the time of this writing, neither the World Bank nor Venezuela's Central Bank had produced estimates for years after 2005.)

The ambassador has pointed to survey results indicating that Venezuelans are satisfied with the state of their democracy and the direction of the country. There are at least two reasons to take these results with a grain of salt. First, responses to such questions tend to be significantly correlated with economic growth, which has been quite high since the current oil boom began. Second, there is growing evidence that Venezuelans do not feel free to express their political opinions. A 2006 Associated Press survey, for example, found that only 42 percent of Venezuelans were "very confident" that their votes in that year's elections would be kept secret. These misgivings have their roots in the publication five years ago by government supporters of the names of 3.5 million Venezuelans who signed a recall-referendum petition against Chávez. The list was widely used to threaten public-sector workers so that they would withdraw their signatures and to ensure that opposition sympathizers would not have access to public-sector jobs. In our recent research, my co-authors and I have shown that signers of the recall-referendum petition received significantly lower incomes than nonsigners after the dissemination of the list.

Whether one looks at the rate of poverty reduction, the evolution of spending patterns, or the performance of health and social-development indicators, the evidence paints a consistent picture of an administration that has not effectively prioritized the well-being of Venezuela's poor.