

Interview with Ricardo Hausmann: Venezuela's Economy

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Ricardo Hausmann is a Harvard economics professor, but he's also from Venezuela--and in fact worked in Venezuela's government for a couple of years back in the early 1990s. For the present government of Venezuela, his criticisms have made him persona non grata, and his brother-in-law, a journalist in Venezuela, recently spent seven months in jail and remains under house arrest. In "[How did Venezuela get to this point?](#)" Cardiff Garcia interviews Hausmann for the *Financial Times* (October 3, 2017). A [full transcript of the interview is here](#), or you can [listen to it here](#). Here are a few points that caught my eye:

Venezuela was one of the fastest-growing economies in the world from 1925-1975

"[O]il became Venezuela's largest export in 1925, and Venezuela became the largest exporter in the world in 1929. And it remained so until about 1965. In that period, say between 1925 and 1975 call it, that 50 year period, Venezuela was the fastest growing country in the world, and it went from being a very poor Latin American country with an income similar to that of say Central American countries at that time to being the richest Latin American country. And that reflected itself in the fact that it attracted massive immigration. It attracted some 700,000 Spaniards, Italians and Portuguese in a country that at the time had something like seven million people. It attracted probably something like a million Colombians and so on. So it was a magnet. It was wealthy, prosperous. It used massively its resources to invest in infrastructure. When democracy came along it prioritised education, health, public housing. And it was a fairly prosperous place. University education was free. Not only primary and secondary but university education was free. There was very cheap access to electricity, water and so on. So it was a fairly prosperous place."

Venezuela has hobbled its own golden goose, the oil industry

"Let me just give you a sense of the magnitude of the mismanagement of the oil industry. In 1998, the year before Chávez got elected, or the year in which in December of that year Chávez got elected and he took power in February 1999. In 1998, Venezuela produced 3.7 million barrels of oil [per day]. Today it's producing about two. If Venezuela had maintained its market share in the world oil industry -- which it could have because it had infinite reserves, it had the largest reserves in the world -- it would be producing two million barrels more than it is currently producing. With the same market share. So the collapse is immense relative to history, and it's immense relative to this opportunity cost of where it should have gone had it just kept its market share the way it was."

"That collapse of the oil industry happened in two steps. First, all the know-how of that industry, centuries of man-years of experience was lost in the firing of these people. They were not only fired but persecuted, so most of them left the country. Many of them left the country. And they caused, for example, an oil boom in Colombia [where many of them moved to]. Colombia went from producing 200,000 barrels of oil [per day] to a million barrels of oil thanks to the fact that Venezuelans knew how to extract much more oil from the fields that Colombia was already exploiting. So there was a massive loss of human capital."

"They also wanted to create a politically conscious oil company, so they started to put an enormous amount of social programmes and other things on the books of PDVSA, the oil company. And as a consequence they starved the company from investment and they ran the

company in an amazingly corrupt way, and this is really not just talk about corruption but evidence of corruption in massive ways. ... So they really destroyed the hen that laid the golden eggs ..."

And it wasn't just the oil industry that was taken over and ruined ...

"So he [Chavez] took over significant chunks of the Venezuelan economy, and the typical thing is that the moment they took over a company, they ran it to the ground. Production collapsed. They nationalised the steel company. The steel company at the time of nationalisation was producing 4.5 million tons of steel with 5,000 workers. It now has 22,000 workers but it's producing something like 200,000 tons of steel. So they ran those companies to the ground. Aluminium is almost not done any more, when Venezuela was producing about a million tons of aluminium back when..."

The size of Venezuela's economy has fallen by about half since 2013

"So official numbers would suggest that GDP in per capita terms since 2013 has fallen 37%. If you add to that the impact of the decline in the price of oil to income, national income has declined by over 50%. But if you exclude from that the GDP generated by the government itself which is just estimated by the number of employees the government has, or if you disregard other parts of the economy that are grossly mismeasured, just look at goods like agriculture, manufacturing, mining, even construction and so on, that part of the economy declined by in excess of 55%. So there's been this massive collapse in output, massive collapse in incomes.

"If you look at the minimum wage, which in Venezuela given this incredibly fast inflation and so on has become the median wage, the median wage if you estimate it at the black market rate is something like \$20 a month. But you might say: Well, but, what is this black market rate? What does that mean? So we have been measuring the minimum wage in calories. We look at the market prices of things and we calculate what is the cheapest calorie a family could buy? And if you do that calculation in 2012, a family could buy 55,000 calories a day with the minimum wage. And now a family can buy 7,000 calories. So if you think that a median wage has to sustain a family of five, well five people could not eat enough calories if they spent 100% of their income in the cheapest calorie and no income in housing, footwear, transportation or anything else.

"So as a consequence, incomes per capita have collapsed to a degree that it is hard to transmit and understand, and that collapse in private incomes is accompanied by a collapse in public services like healthcare for example. They are just beyond belief. People have been writing pieces that I'm sure are going to win a Pulitzer Prize, because it's just astonishing how life expectancy rates, how the prevalence of diseases that had been eradicated... Venezuela was the first country to eradicate malaria back in 1961. Even before the US did. And malaria is back big time. Measles is back big time. There are no drugs for HIV. There are no drugs for hypertension. There are no machines to do dialysis. There are no cancer drugs."

While it may be useful or necessary at some point to restructure Venezuela's debts, current lending to Venezuela seems exploitive such that Hausmann refers to it as "hunger bonds"

"So usually you think that the capital markets are there to provide capital for good ideas that are

going to generate value and pay back the loans and create other benefits for the borrower. So you think of capital markets as being angels for good in the world. But when capital markets have to deal with a government that is willing to compromise future cash flows for any cash up front, and it's not using the resources to create any good things for the future, then you're giving money to an authoritarian regime to mismanage in the short run and you are condemning the future of the country with obligations that they will not be able to afford to pay. So that's why I call them hunger bonds.

"A very clear example that prompted this was Goldman Sachs lending the government \$850 million at an interest rate of 50%. No-one has a project that pays 50%. So the government has \$850 million now, then they have to pay an amount going forward that they will not have the resources to pay it with. Because they're not using the money in any investment programme that will be able to pay for that debt. That debt is just to prop up the current regime, and in my mind that makes that debt odious. It's a debt of the regime, it's not a debt that should bind the people of a country, because the regime does not represent the people and the regime cannot commit the future of the country."

Here's an post from last year on ["Hyperinflation and the Venezuela Example"](#) (April 28, 2016). [Steve Hanke notes](#) that while the official inflation rate in Venezuela was 741% as of February 2017, the unofficial inflation rate implied by the black-market exchange rate is more like 2500%.