



The economic consequences of Hugo Chavez: A synthetic control analysis



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ABSTRACT

We use the synthetic control method to perform a case study of the impact of Hugo Chavez on the Venezuelan economy. We compare outcomes under Chavez's leadership and policies against a counterfactual of "business as usual" in similar countries. We find that, relative to our control, per capita income fell dramatically. While poverty, health, and inequality outcomes all improved during the Chavez administration, these outcomes also improved in each of the corresponding control cases and thus we cannot attribute the improvements to Chavismo. We conclude that the overall economic consequences of the Chavez administration were bleak.

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1. Introduction

Popular accounts of economic events often put the credit or blame for outcomes squarely on the national leader. It seems intuitive that heads of state and their policies are significantly responsible for economic outcomes. But intuition is a poor guide for establishing causality. To say that a leader caused an outcome is to say that without that particular leader, things would have been significantly different, and establishing the counterfactual can be a tricky process. Recently, [Abadie and Gardeazabal \(2003\)](#) and [Abadie et al. \(2010, 2015\)](#) have proposed and developed an approach to case studies which creates a statistical synthetic control to serve as a counterfactual to an observed treatment.¹ They then identify the effect of a treatment in a single region by comparing outcomes there to those in the control constructed from similar regions and states that did not experience the same treatment.

Here we use the method to study the effects of one particular leader, Hugo Chavez, on his country, Venezuela. Chavez is a controversial figure who won 3 elections, re-wrote Venezuela's constitution, re-structured its Supreme Court, and survived coup and recall attempts. Poverty fell, inequality fell, clinics opened, and Chavez was hailed as a hero by many. At the same time, Venezuela is a major oil exporter and oil prices boomed during much of Chavez's tenure, raising the question

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¹ [Abadie and Gardeazabal \(2003\)](#) developed the method in order to identify the effect of terrorism in the Basque Country in Spain. [Abadie et al. \(2010\)](#) explain the technique in detail and analyze the effect of a change in California's tobacco regulations. [Gautier et al. \(2009\)](#) and [Montalvo \(2011\)](#) provide additional applications to the analysis of terrorism. And of course the synthetic control method has seen numerous recent applications including affirmative action ([Hinrichs, 2012](#)), compulsory voting ([Fowler, 2013](#)), economic liberalization ([Billmeier and Nannicini, 2013](#)), natural disasters ([Cavallo et al., 2013](#)), employment legislation ([Bohn et al., 2014](#)), and advances in energy production technology ([Munasib and Rickman, 2015](#)).

of whether any positive outcomes under Chavez's tenure as president were really due to his leadership and policies. To answer this question, we need to know how Chavez's Venezuela fared relative to how it would have fared if politics and policies in Venezuela had remained "business as usual", and we measure business as usual by a weighted average of control countries that best fit Venezuela's experience in the 30 years before Chavez. Using Abadie's terminology, we create a synthetic Venezuela and compare its outcomes to those that occurred under Chavez, specifically investigating average incomes, health & poverty outcomes, and inequality.

We find that average income rose significantly slower under Chavez than it would have without him, as shown by the performance of the synthetic control. The gap between the control and the treated unit is quite large, on the order of thousands of dollars per capita.

We also find that while health and poverty outcomes improved under Chavez, they are not particularly different than what occurred in the synthetic control. Finally, we see little evidence that Chavez lowered inequality beyond what occurs in the synthetic control. Thus, under Chavez, Venezuela experienced lower average incomes, but did not produce any greater levels of health improvement, poverty abatement, or inequality reduction, as it likely would have without his leadership and policies.

While the synthetic control method as applied here does not give us a causal test of exactly how Chavez affected Venezuela's economy, the results we find are consistent with an explanation that emphasizes the importance of institutions for economic progress. As we will discuss further in later sections, upon taking office Chavez immediately began the process of creating a new constitution, one that concentrated power in the executive branch and greatly limited the checks and balances that existed in the old system. He further used a large super-majority in the new National Assembly to gain the ability to rule the country by executive decree. In sum, Chavez policies dramatically changed Venezuela's political institutions.

Our results on how Chavismo and its associated politico-institutional changes affected Venezuela relative to the synthetic counterfactual is at least partly related to other recent work on the impact of national leaders. [Jones and Olken \(2005\)](#) address causality between leaders and economic growth by focusing on leaders who died in office due to natural causes or accidents. They find that leaders are highly influential, especially in autocratic systems with few constraints on the executive. On the other hand, [Easterly and Pennings \(2014\)](#) take a growth accounting approach and argue that, "only a small fraction of the variation in growth in autocracies can be explained by variation in leader quality."

The paper most closely related to ours is [Garcia Ribeiro et al. \(2013\)](#). They study the effect of the 1959 Cuban revolution on Cuba's subsequent per-capita income, finding that it is substantially depressed relative to their control. They do not consider any other possible economic effects of the revolution.²

Our paper is organized as follows. [Section 2](#) provides some background on the Venezuelan economy. [Section 3](#) explains how the synthetic control is created, and how potential control countries are chosen. [Sections 4, 5, 6 and 7](#) present our results on per-capita income, health, poverty, and inequality, respectively. [Section 8](#) concludes.

2. Chavez and the politico-economic institutions of Venezuela

Venezuela is a highly urbanized, ethnically diverse South American country of roughly 30 million people. Despite gaining independence in 1821, the country did not enjoy a peaceful transfer of power from one party to another until 1969. Venezuela is a founding member of OPEC, and since the 1973 oil crisis, its economic fortunes have risen and fallen with oil prices. From 1958 to 1998, Venezuela was democratic with its politics dominated by two political parties. However, poor economic performance in the 1990's created popular unrest.

Hugo Chavez was a military officer who launched an unsuccessful coup in 1992. He was pardoned in 1994 by then president Rafael Caldera. In 1998 Chavez handily won the presidency and launched his "Bolivarian Revolution" in 1999 with the formation of a constitutional assembly that produced a new constitution, which placed a lot of emphasis on social progress and human rights. It also converted the legislature from bi-cameral to unicameral and greatly increased the powers of the executive branch. It increased the presidential term from 5 to 6 years and allowed for the president to hold the office for 2 consecutive terms. In 2000, a mega-election was held for the presidency, the new national assembly and other offices. Chavez won and his party won 101 of 165 seats in the Assembly, which then granted Chavez the right to rule by decree. In 2004, Chavez and the national assembly increased the number of Supreme Court justices from 20 to 32, allegedly "packing" the court with his supporters. Chavez won re-election in 2006, and in 2007 was granted the right to run again in 2012 in a referendum.³

These were not just paper changes; they are reflected in many subjective indices that are used in the institutions and growth literature. For example, the Constraints on the Executive variable from the Polity project averaged a value of 6.0 in the 14 years before Chavez (1985–1998) but only 4.2 in the 14 years (1999–2012) of Chavez's rule (a 30% fall). Polity's

² We thank Alberto Abadie for bringing this working paper to our attention when giving us comments on an earlier draft of our paper.

³ A full analysis of the events and policies of the Chavez regime is beyond the scope of this paper, but beyond what is listed in the text, Chavez took greater control over the national petroleum company, imposed price controls on many items and limited access to foreign exchange to many individuals and businesses. He also experienced a failed coup in 2002 and a failed recall in 2004. We discuss the relationship between Chavez and the Venezuelan oil industry in more detail in [Appendix B](#).

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