
Sharing the Oil Wealth? An Appraisal of Venezuela's Social and Redistributive Policies

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An emerging consensus?

- “Since 1999, the citizens of Venezuela have repeatedly voted for a government that -- unlike others in the past -- would share their country's oil wealth with millions of poor Venezuelans.” (Jackson, West, Huerta and Hayden, 2006)
 - “Venezuelan President Hugo Chávez seems to have succeeded in bringing education and health services to the barrios of Caracas, which previously had seen little of the benefits of that country's rich endowment of oil.”(Stiglitz, 2006)
 - “Chávez's brand of revolution has delivered some social gains—but at a heavy cost to democracy and economic development.” *The Economist*, May 12th, 2005.
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What is the evidence?

- Poverty in Venezuela has decreased during the Chávez administration.
 - 42.8 in 1-99 to 27.5 percent in 1-07.
 - However, Venezuela is also in the midst of an economic expansion.
 - Oil prices have grown from \$10.57 in 1998 to \$87.4 in 11/07.
 - Per capita income has grown by 16.0%
 - Effectiveness at reducing poverty is low:
 - Poverty reduction is 2.24 points for every point of increase in its per capita GDP.
 - Ravallion and Chen (1997) estimate this ratio at 2.6 on a sample of 64 developing countries.
 - Inequality has increased:
 - Gini goes from .44 in 2000 to .48 in 2005
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Poverty and scarcity

- The National Institute's poverty line is deflated by the price of a standard consumption basket.
 - Similar results for CPI based.
 - However, this method assumes that all products can be found at regulated prices.
 - High scarcity levels:
 - 14.3% in 1/07, increasing from near zero before price controls [1].
 - Very high for staples of poor families' diet like sardines(86%), black beans (85%), milk (65%)[2]
 - Calculating a real poverty line is complex, but definitely the current one is underestimated.
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The problems

- Poverty statistics will not adequately capture the effect of non-cash transfers.
 - Examples:
 - Health programs (Barrio Adentro)
 - Educational programs (Mision Robinson, Ribas, Sucre)
 - Increased participation
 - Current research aimed at establishing effects of these programs.
 - Robinson program (Ortega and Rodríguez, 2007)
 - Barrio Adentro program (González, Rodríguez and Gidwitz, *in progress*)
 - Political discrimination (Hsieh, Miguel, Ortega and Rodríguez, 2007)
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The Robinson Literacy Program

- The Robinson Literacy Program is one of the flagship *misiones*.
 - On October 28, 2005, President Chávez declared Venezuela *Illiteracy Free Territory*.
 - Official announcement: 1.482.543 persons were taught how to read and write.
 - We do not know how the government arrived at its estimate of program success.
 - Households Survey allows us to use self-reported literacy to evaluate effect of program.
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What the Data Says

- Number of illiterate persons over 15:
 - 2003-I:1.107.793.
 - 2005-II:1.015.725.
 - Difference: 92.068
 - Illiteracy rate:
 - 2003-I:6.5%
 - 2005-II:5.6%
 - There is no evidence of an eradication of illiteracy.
 - There has been some progress in illiteracy reduction
 - Can we conclude that it is due to *Misión Robinson*?
 - Time-series tests
 - State panel diff-in-diffs analysis (OLS and IV)
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Figure 1: Literacy Rates in Venezuela, 1975-05

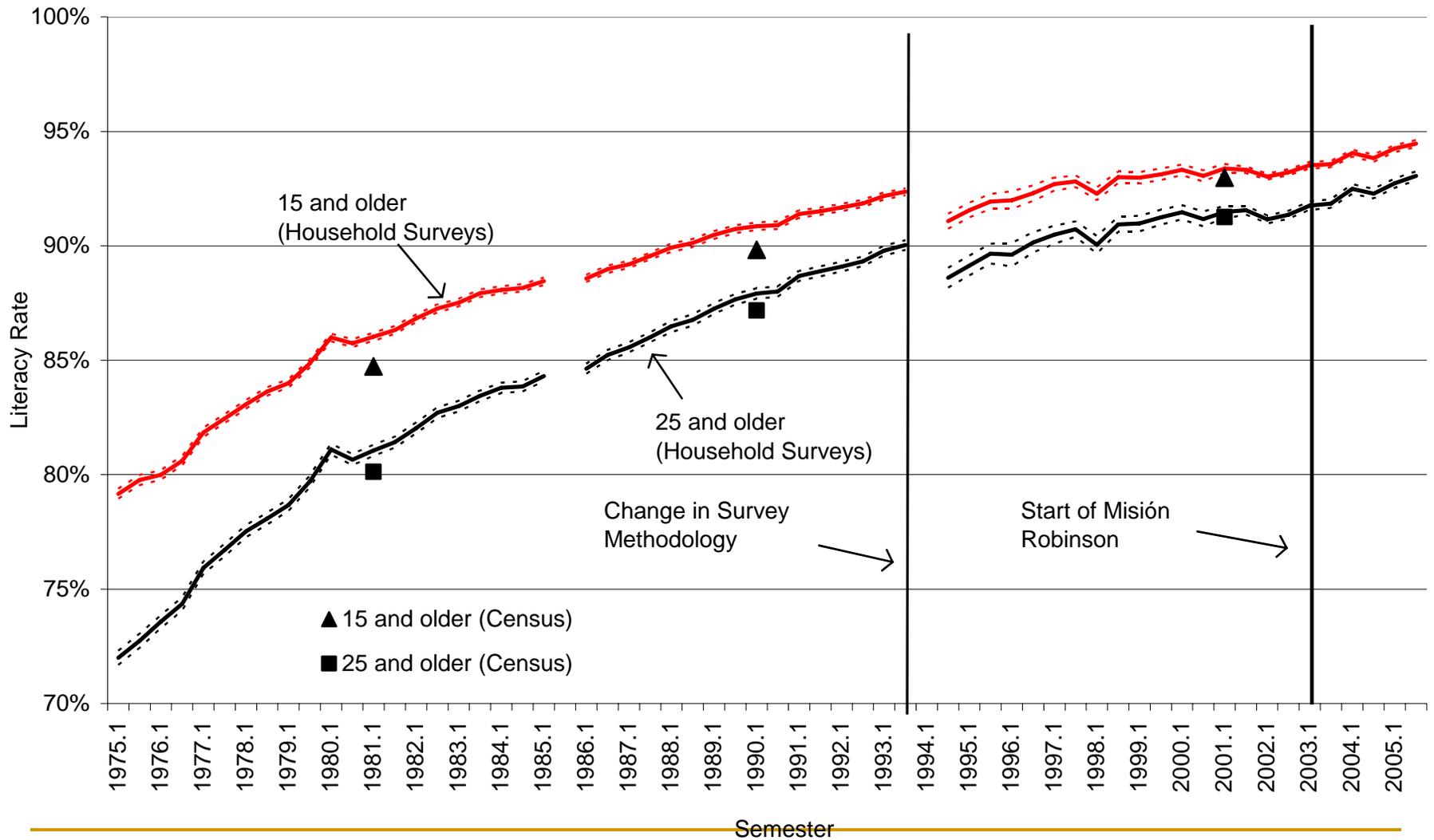


Table 3

Alternative Specifications, time-series regressions

Literacy rate (%)	(1) Baseline	(2) Lagged	(3) Restricted	(4) Cumulative	(5) Break in Trend
Ordinary Least Squares					
15 and over	-0.0020 (0.0029)	-0.0003 (0.0026)	0.0011 (0.0154)	-0.0012 (0.0035)	1.16
25 and over	-0.0009 (0.0035)	0.0013 (0.0030)	0.0054 (0.0111)	0.0009 (0.0042)	2.05
Seemingly Unrelated Residuals					
55 and over	0.0055 (0.0042)	0.0083 (0.0042)**	0.0114 (0.0091)	0.0126 (0.0078)	1.90
45-54	0.0045 (0.0037)	0.0067 (0.0037)*	-0.0023 (0.0060)	0.0095 (0.0066)	2.71
35-44	0.0001 (0.0025)	0.0036 (0.0025)	-0.0016 (0.0033)	0.0016 (0.0054)	6.12
25-34	0.0008 (0.0025)	0.0022 (0.0024)	-0.0009 (0.0025)	0.0032 (0.0058)	2.20
15-24	0.0050 (0.0055)	0.0118 (0.0054)**	0.0127 (0.0099)	0.0164 (0.0083)**	2.61
Test for joint significance across age groups:					
Test Statistic	4.58	8.31	2.94	9.8*	17.18
Degrees of Freedom	5	5	5	5	15

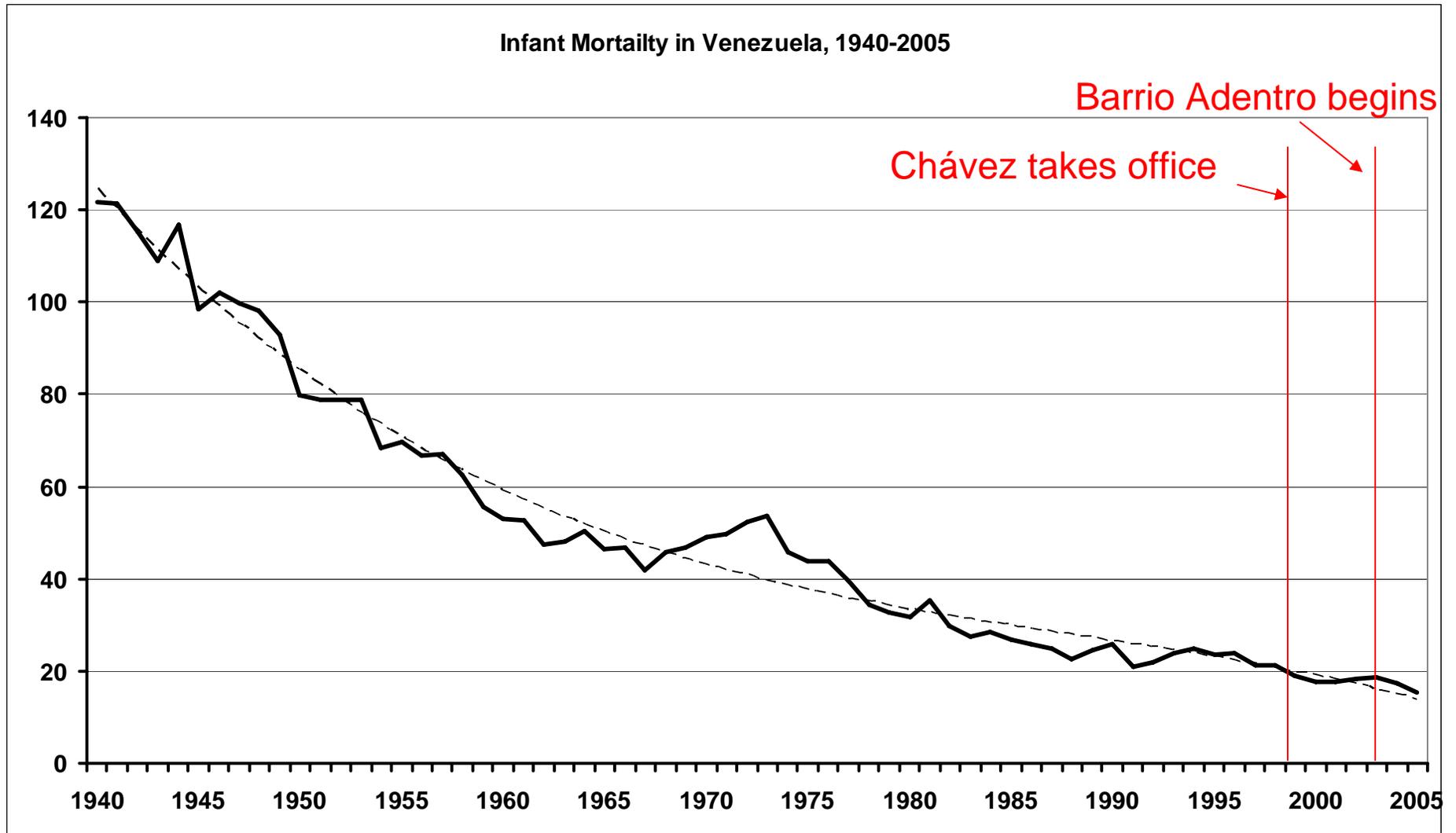
Understanding our results

- Our results indicate that the effect of Robinson is not statistically distinguishable from zero.
 - This does not mean that the effect does not exist, but it does mean that it is not possible to refute the hypothesis that it doesn't exist.
 - Even the most favourable estimates to *Misión Robinson* imply quantitatively minor effects
 - Lagged state panel regressions - 51,136 persons.
 - The government may have obtained their estimates from trainer/supervisor reports.
 - In such a case, they may be extremely biased.
 - Other inconsistencies in the government estimates.
 - Implies mobilization of 1-2% of labor force as trainers
 - No evidence of this in budget data.
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Health indicators

- The Venezuelan government has launched a massive public health program called *Barrio Adentro*.
 - 15,356 Cuban doctors (+1,234 Venezuelan doctors) to live in shantytowns.
 - Substantial refashioning of health policy.
 - Less emphasis on hospitals – marked scarcity of materials.
 - What are the measurable effects on health?
 - We use Infant mortality as an indicator of health performance.
 - Time series tests
 - State-level diffs in diffs
 - Other variables show different behavior:
 - Percentage of newborns who are underweight or under height: 8.4% to 9.1% from 99 to 06.
 - Is the IM decline significantly different from the pre-1999 trend?
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Infant Mortality Trends



Is the evolution of IMR an expectable result of economic growth?

- We fit the regression

$$Growth(IMR_{t,t+n}) = \alpha_0 + \alpha_1 \ln IMR_t + \alpha_2 Growth(GDP_{t,t+n})$$

to data from LAC countries.

- We use the coefficient estimates to predict the expected decline in Venezuela, given its starting point and economic growth rate.

Table 3: Predicted and Historical Evolution of Infant Mortality

	Model projections			Historical Venezuela
	OLS	FE	RE	
1998-2006	-0.0289 (0.0056)	-0.0277 (0.0038)	-0.0350 (0.0041)	-0.0444
1999-2006	-0.0411 (0.0078)	-0.0333 (0.0070)	-0.0390 (0.0042)	-0.0345
2002-2006	-0.0765 (0.0195)	-0.0435 (0.0106)	-0.0497 (0.0083)	-0.0483
2003-2006	-0.1314 (0.0395)	-0.0571 (0.0288)	-0.0659 (0.0170)	-0.0699

Explanations

- How do we explain that such massive programs have had no effect?
 - Sometimes the programs are not that massive.
 - Amount budgeted to Robinson was actually \$50 million.
 - There can be severe systemic inefficiencies.
 - Anecdotal evidence that public hospital care has deteriorated significantly.
 - Venezuela wouldn't be the first country to squander an oil boom.
 - Many large literacy and public health programs in LDCs have poor outcomes (Abadzi, 1994, Filmer and Pritchett, 1999)
 - Program design is vital.
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Political participation

- An important component of well-being is the capacity for political participation.
 - Venezuela has styled itself as a “participatory democracy”
 - Greater power to community organizations.
 - Institutions such as the recall referendum.
 - Growth in voter enrolment.
 - However, there exist multiple accusations of voter intimidation.
 - The *Tascón* and *Maisanta* lists of referendum signers.
 - Similar accusations by government.
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The Price of Political Opposition

- We combine information from *Maisanta* on 12.4 million voters with:
 - Panel of labor market activity from Household Surveys.
 - Panel of firms from industrial survey.
 - Main findings:
 - Decline of 4% in income of petition signers.
 - 40%-50% increase in taxes paid by firms whose board members signed.
 - 5% net productivity loss from political conflict.
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Firm-level results

Table 7: Political Activity and Firm Outcomes, 1995-2007

	Net taxes / Production, 1995-2004 (5)	Taxes / Production, 1995-2004 (Tobit FE) (6)	Log foreign exchange allocation, 2004-2007 (7)	Any foreign exchange allocation, 2004-2007 (8)
Signed against Chávez * Post-2003	0.512** (0.256)	0.450** (0.215)	-0.786** (0.367)	-0.189** (0.093)
Signed against Opposition * Post-2003	-0.107 (0.539)	-0.089 (0.641)	0.502* (0.294)	-0.019 (0.185)
Firm FE, year FE, time trends*firm sector	Yes	Yes	No	No
Sector FE, pre-2004 firm size controls	No	No	Yes	Yes
F-test p-value (on equality of Post-2003 coefficient estimates)	0.30	0.40	<0.01	0.10
R-squared	0.47	-	0.75	0.61
Observations	2840	2840	220	348
Number of firms	350	350	220	348

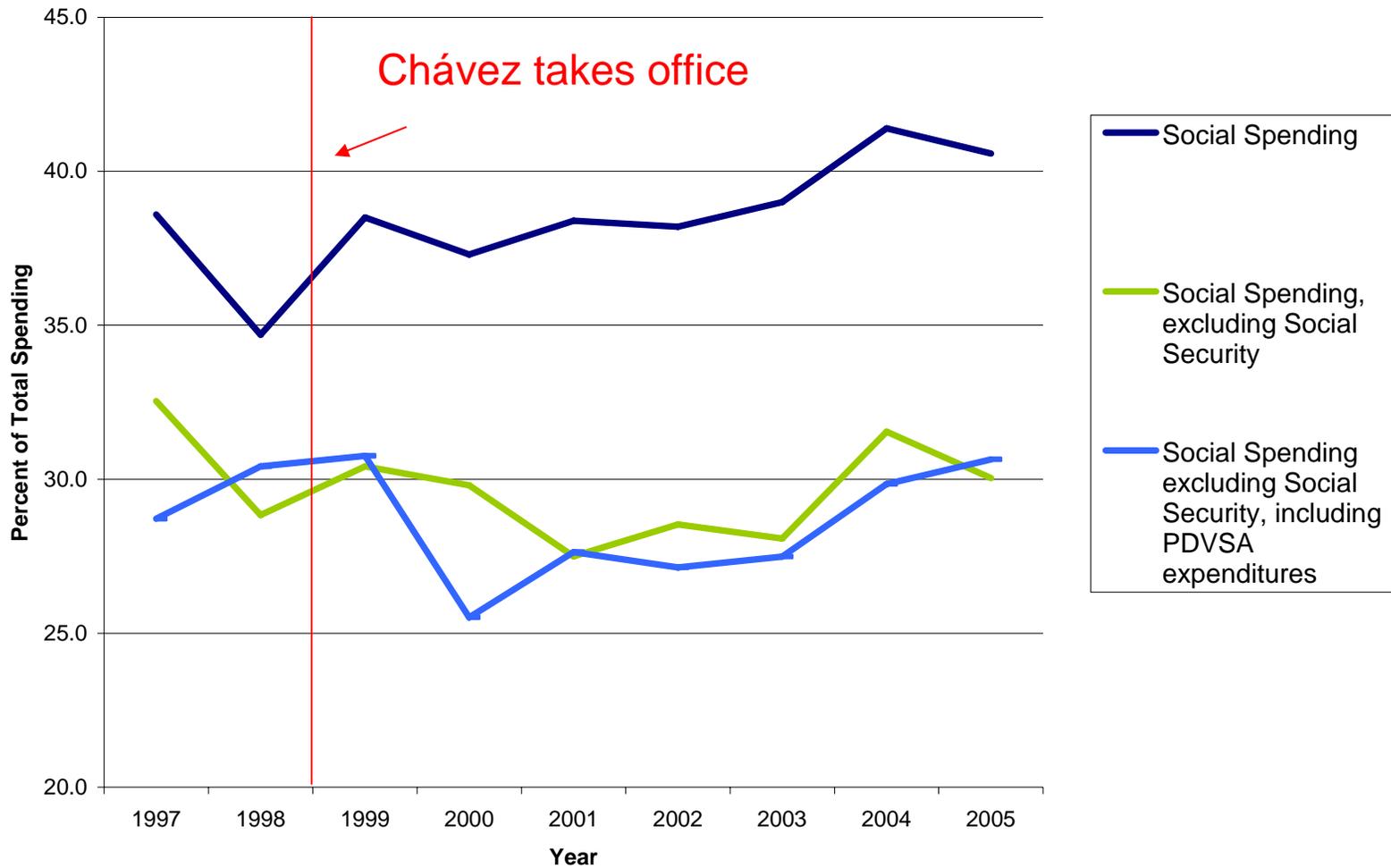
Deterioration of Press Freedoms

	RSF Press Freedom Index
2002	25
2003	27.83
2004	24.63
2005	23
2006	29
2007	36.88

What about priorities?

- The evidence suggests that some of the Chávez administration's social programs have not been particularly effective at addressing its key objectives.
 - Are these problems of implementation or problems of prioritization?
 - The share of social spending in the budget can help us evaluate to what extent the government is prioritizing social spending.
 - It is important to distinguish between absolute levels of spending and the share of spending in total spending.
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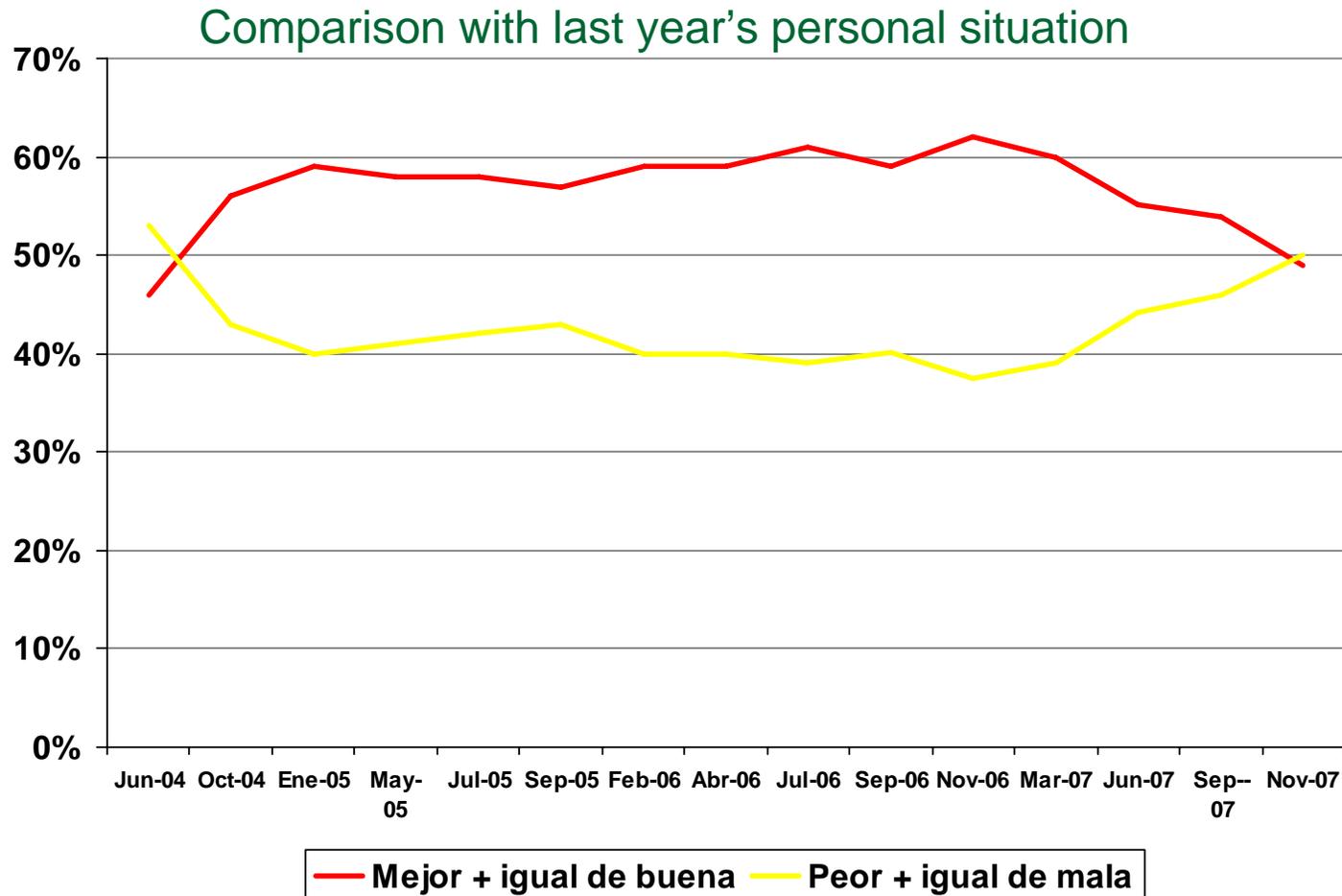
Social Spending as Share of Total Spending, 1997-2005



In Sum,

- The data do not show evidence that some of the government's flagship programs have been effective in generating results in terms of health and education.
 - The data do suggest a deterioration in political liberties.
 - Neither do they suggest that the government is prioritizing these sectors any more than previous administrations.
 - The unraveling of *Chaveznomics* may have played an important role in the Dec. 2 defeat.
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Has the economy stopped favoring Chávez?



Source: Consultores 21, 16-25/11 07
Coverage: Cities with population greater than 20.000