

Venezuela Elections a Blow to Left Wing Populism

By David Floyd | December 08, 2015

On Sunday, Venezuelans broke a 17-year pattern and voted a non-Chavista party into power. The Mesa de la Unidad Democrática (MUD), a patchwork coalition of just about every opposition party in the country, took 99 of 167 seats in the national legislature, while President Nicolás Maduro's ruling United Socialist Party took 46. Votes are still being counted, but if at least 13 of the seats go to the opposition, it will have the two-thirds supermajority that could allow it to make changes to the constitution and call a referendum to remove Maduro from power.

The vast majority of Venezuelans have welcomed the result. While people across the country – and the continent – mourned the death of Maduro's predecessor Hugo Chávez in 2013, his hand-picked successor has proved to be a disaster. The country is plagued by shortages of the most basic goods, and the lines outside gutted supermarkets recall the Soviet Union. Inflation is out of control, to the point that thieves no longer want the local currency.

Maduro, along with state-run media outlet, has blamed the worsening depression on an "economic war" waged from abroad with the support of domestic counterrevolutionaries. Earlier in the year he manufactured a border crisis with Colombia that led to the deportation of around 1500 Colombian-Venezuelans. In the run-up to elections, a number of opposition candidates have been jailed.

Against this backdrop, many suspected that the regime would resort to vote-rigging or violence to maintain its grip on the legislature, so the opposition's triumph is a pleasant surprise. Going forward, bitter political conflict will make reform difficult, and violence is unfortunately not out of the question.

Argentina and Brazil

While Venezuela is by far the most extreme case, recent developments there shed light on a broader transition affecting South American countries. When commodities were expensive due to seemingly inexhaustible Chinese

demand, a few commodity-rich countries elected populist left-wing governments to redistribute the windfall. Times were good for Argentinians under Néstor Kirchner (in office 2003-2007), Brazilians under Luiz Inácio Lula da Silva (2003-2011) and Venezuelans under Hugo Chávez (1999-2013) – so good that all three countries duly elected hand-picked successors to carry on with the populist program: Kirchner's widow Cristina Fernández de Kirchner, Lula's Chief of Staff Dilma Rousseff and Chávez's Vice President Maduro.

Then commodities crashed, and the illusion of prosperity faded. Venezuela, the most stridently leftist of the three, has suffered the worst, but it's difficult to envy Brazil. Brazil has seen rising unemployment, three consecutive quarters of GDP contraction and double-digit inflation. A corruption scandal centered on the semi-state-owned oil company, Petróleo Brasileiro S.A. Petrobras (PBR) has implicated a number of politicians from the ruling coalition and sunk Rousseff's approval ratings. On December 2 the speaker of the lower house began impeachment proceedings against the president. While protestors have been calling for that for some time, it appears that the speaker, Eduardo Cunha, is attempting to draw attention away from his own involvement in the Petrobras scandal.

Argentina has fared little better. Having defaulted on sovereign debt repayments, it's been locked out of international bond markets and has depended on China for support, including an \$11 billion currency swap. Amid obvious signs of economic strain, de Kirchner put a muzzle on the statistics agency, stopping reports on the poverty rate and tweaking ones on inflation to her liking. On November 22, the country elected Mauricio Macri, the center-right mayor of Buenos Aires, in a clear rejection of kirchnerismo. (See also: Brazil's Recession and its Effect on the World Economy.)

Time to Bet on a Turnaround?

In November 2014, Investopedia published an article titled Where Not to Invest in Latin America, in which Greg McFarlane argued that Brazil, Argentina and Venezuela were bad bets. Thankfully, there appears to be light at the end of the tunnel, as left-wing populism loses its commodity-fueled credibility. Other commodity-rich countries in South America, such as Peru and Chile, have managed to maintain a modest rate of growth despite the slowdown in China's economy. Perhaps their struggling neighbors will reform and join them.

On the other hand, challenges remain. If Rousseff survives the move to impeach her, she will remain in office until the end of 2018. Macri faces a skeptical public and a legislature dominated by de Krichner's party. Venezuelans face an outright depression and the prospect of ousting a dictator, albeit a democratically elected one, who's demonstrated a willingness to manipulate the press, imprison the opposition and whip up nativist-cum-revolutionary hysteria to fend off critics. Taking a long-term view, citizens of these countries have every reason to be suspicious of free-market "neo-liberalism" and foreign investment, which they associate with brutal right-wing dictatorships. The turn leftwards was a reaction to these painful Cold War memories.

The Bottom Line

Unfortunately for their citizens, some of South America's most populous countries spent heavily when times were good. When the global economy took a turn, there was little for populist leaders to fall back on but rhetoric, swagger and misinformation.

The People aren't fooled, but that doesn't make solving the problem any easier. A new president in Argentina, a new legislature in Venezuela and a push to oust the president in Brazil might be signs that these countries are getting back to economic basics, but a number of challenges remain.

Read more: [Venezuela Elections a Blow to Left Wing Populism \(PBR\)](http://www.investopedia.com/articles/investing/120815/venezuela-elections-blow-left-wing-populism.asp#ixzz3uNvYqlol)
<http://www.investopedia.com/articles/investing/120815/venezuela-elections-blow-left-wing-populism.asp#ixzz3uNvYqlol>