Written by **Brendon S. Peck** on September 27, 2011

Hugo Chavez' Heart of Gold

Over the past decade, Hugo Chávez has radically altered Venezuela's economic landscape. Executing a pernicious, politically driven, nationalization program, the government has systematically taken over key sectors. In doing so, Chávez stripped private industry, its investors — not to mention political opponents — of infrastructure, private property, and profits. Since 2002, almost 1,000 companies have been seized. For socialists and statists the world over, this is something of a guide, a graduate seminar in confiscation and class warfare. But for the rest of us, it remains a lesson in economic decay and failed leadership.

The takeover of gold mining operations should surprise no one. With gold commanding upwards of $1,600 dollars an ounce, the industry is highly profitable. And it is the profit of private enterprise that Chávez endeavors to exploit for his ends. As the dictator himself once said, "We can't have socialism if the state doesn't have control over its resources!"

Whatever the rationale, however misguided, the effort to undercut the private sector is not without economic and social consequences. Under Chávez, in power now for 12 years, the country continues to suffer under worsening conditions. Consider first the corrosive business climate: Venezuela is ranked dead last in the protection of property rights and near the bottom in the World Bank's 2011 *Doing Business* report.

Investing in Venezuela, then, is risky. Numerous companies, both foreign and domestic, are under constant threat of state intrusion and takeover. Given the size and scope of the ongoing scheme, the prospect of asset confiscation only grows — as does the ever expanding list of industries that have already been nationalized. Some highlights include finance, farming, steel, cement, telecommunications, utilities, oil, and now gold.

Put into focus, the gold decree is most instructive. For it reminds us that despite his bout with cancer, recently completing his fourth round of chemotherapy, the dictator is very much in control. It also underscores how domestic considerations and a shifting geopolitical calculus have influenced his nationalization efforts.

Under the new law, it is now illegal to export gold out of the country, and what is extracted must be sold to the state. Also, all gold mining ventures must restructure, surrendering to the government a 55-percent controlling stake, and as much as 13 percent of the royalties.

Together with the domestic takeover of the gold mining sector and its market, Chávez announced that Venezuela will repatriate its existing gold reserves held overseas. Worth almost $11 billion and weighing some 211 tons, the move would be the largest transfer of bullion in decades. So large, in fact, that, according to the *Financial Times*, at current market prices it would be "impossible to insure" just one aircraft for the task. It would be a tempting target for thieves.

The more pressing question, though, is this: Why move the gold now? Could it be out of fear? It is true that most of it is housed in U.S. and European banks. And there may be concern that the reserves could be compromised if financial sanctions were placed upon the government. In May, U.S. sanctions were imposed on Petróleos de Venezuela (PDVSA), Venezuela's state-run oil giant, over its links to Iran.

That said, the bullion transfer is likely an act of personal power consolidation and populism. The latter is, of course, quite popular among the nation's poor, and their support is crucial for Chávez. Not surprisingly then, forced nationalization and asset seizure plays well with his base, increasingly swayed as they are by class-warfare rhetoric. Indeed, it is no coincidence that his most recent moves were designed to shore up his domestic standing. Chávez will face the voters next year.
Apart from the domestic political calculations made on reserve repatriation, there is a noteworthy global component that surely influenced his decision to nationalize gold.

Remember, 95 percent of the country's export earnings comes from crude oil, and the government relies heavily on oil revenue to pay foreign creditors. But with crude oil prices declining and domestic production down, that is becoming more difficult; government borrowing is out of control. Quite predictably, the decision to nationalize oil has proven ill-fated and foolish.

Under state control, oil activity is well off 1998 levels — the year before Chávez took office. In 1998, oil output was 3.3 million barrels per day, now it is 2.25 million. As the *Economist* noted earlier this year, the dictator plundered PDVSA, "packed it with loyalists, starved it of investment, and used it for social spending." Under these corrupt conditions, further decline in the oil sector seems certain, and the government's confiscatory policies make luring foreign investment a steep challenge.

Exxon Mobile, for instance, lost billions when, in 2007, the government seized operational control of the last non-state owned oil fields within Orinoco Belt — a territory wherein substantial deposits of heavy crude is extracted. Though they stand to recoup a portion of their losses through the lengthy process of arbitration, its impact reverberates still today. Consider the response from international energy giants, like Total, earlier this year. When undeveloped oil blocs were put up for bid, they declined to participate. A good business decision it seems as a recent tax hike on oil producers, now operating as minority stakeholders after nationalization, will be forced to pay as much as 95 percent on profits.

In need of a new source of steady revenue, gold nationalization, then, is just another scheme to raise money. But more central control of the economy will make matters worse.

Venezuelans live under a socialist system that is, as *Foreign Policy* reminds us, "replete with widespread inefficiencies, declining production and rampant shortages." The dismantling of private enterprise and a decade of anti-business policies has made for an ever weakening core and dimming prospects. And more of the same will just bring more misery.
As usual, the people who suffer the most under socialism are the poor. They account for 60 percent of all Venezuelan households. For them, prospects are bleak. Housing and food shortages are ever present while electrical blackouts are routine. The minimum wage, in real terms, is falling also, at its lowest point under Chávez. It has declined more than 35 percent since 1980. Inflation is nearly 30 percent and climbing.

This is a sad state of affairs for a country awash in oil and mineral wealth. But as long as confiscation, corruption, and class warfare continue under the banner of "permanent revolution," the condition of the poor will only deteriorate as corrosive policies drive out capital and destroy business.

For a leader who positions himself as a champion of the people, Chávez’ policies are nothing more than poison, the economic kiss of death from Mr. Hugo Goldfinger.

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Photo of Hugo Chávez: AP Images