

Venezuela now stands as an illustration to the world of how quickly a country can collapse. It has moved from being a one-word term of disparagement to a spectacle of disaster. Even recently, the charge by Jeremy Corbyn's critics that he was wrong to revere Venezuela's left-wing policies could be taken as a piece of political debate.

Not now. The world is gripped by the disaster that is unfolding, which is leaving Venezuelans' lives in turmoil.

How did it happen, and what does it tell us about what other governments should do - and never, ever do?

Inflation hit 1,000% last year. This year, it will be 1,400,000%, forecasts suggest. In 2019 it will reach 10,000,000%, according to the International Monetary Fund. That means something that cost £1 on 1 January 2019 would cost £100,000 by the end of the year. Tens of thousands of people have been fleeing the country every day into neighbouring Colombia and Brazil, in search of food, medicines, electricity and something that resembles a manageable life.

Cash has become almost useless, despite the redenomination of the bolivar in August; rather than carry bags of it around, people use electronic transfers. Hospitals lack running water and power. The United Nations reckons that 2.4 million people have left in four years since the crisis hit, from a population of 31 million.

The roots of the problem go back some way, although given that the socialist government has been in power since 1999 (first under President Hugo Chavez), that is where many turn to look for mistakes. For years, Venezuela was riding high, buoyed up by the oil industry. It has the largest proven reserves in the world. But years ago, it also became a textbook case for the curse which has so often afflicted countries with such abundance of natural resources. Much like the Gulf states and Russia, it failed to develop other industries. Chavez's price controls, which aimed to make basic goods affordable to the poor, discouraged businesses, which could not prosper, many economists think. Currency controls discouraged investors.

When the oil price was high, Venezuela could happily use its export earnings to import what Venezuelans needed or wanted. Oil was an aston-

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Venezuela is heading for inflation of 10,000,000% and its citizens are streaming out over the borders. Nearly 20 years of policies that discouraged businesses left it fatally dependent on oil - and the oil price



ishing 95% of its export revenues, an economic case of putting all your eggs in one basket that is rare precisely because the risks are so obvious. When the oil price fell in 2014, the country suddenly lacked the foreign currency to buy what it needed.

The government made the problem worse with policies designed to shore up its appeal to voters, particularly poor Venezuelans. It raised the minimum wage, making things more difficult for businesses that might have helped diversify from oil. It printed money to cover the shortfall in government finances, all the more when creditors turned cool and declined to lend.

Last year, GDP shrunk by 14%. This year, another 18% fall is expected. The oil industry is almost at a standstill. The IMF reckons that GDP per head has fallen by 35% since 2013, and will fall by 60% overall in the decade between 2013 and 2023. The hyperinflation has been driven by loss of confidence in the currency and by the printing of money to finance the government's big fiscal deficits. But given that it has now defaulted on some of its bonds, creditors are hardly going to be confident about investing.

Yet the government's prescription is more of the same. It has proposed to raise the minimum wage by a factor of 34 (despite businesses' dismay) although it also wants to trim generous fuel price subsidies. Venezuela continues to deny the crisis. "Venezuela is the victim of world media attacks designed to construct a supposed humanitarian crisis so as to justify a military intervention," President Maduro told the United Nations General Assembly last month.

For all the unique qualities of the current drama, there are many lessons. The most obvious, though, is that resting a whole country's fortunes on a single industry is perilous. Persisting with policies that constantly undermined new businesses, while seeming to take those businesses for granted, had the inevitable result - few were created or thrived. And the dangers of populism are clear, too: promising what will win an election even though it cannot be delivered invites disaster. ●

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