



# INVESTMENT UPDATE

A few years back, after the fall of the Iron Curtain and the demise of the Soviet Union, Francis Fukuyama wrote a book called *The End of History and the Last Man*. The central idea behind this book was that, after experimenting over millennia with various organizing principles for forming civilized societies, mankind had found a single winner: liberal democracy. Liberal democracies (“liberal” in the broad sense, where individuals are allowed to choose to worship, work, and pursue personal goals), when combined with market-based economies, had demonstrated clear advantages over competing systems. The spread of democracy in the post-World War II era was a testament to the success of these principles; in the 30-year period from 1974 to 2004, the percentage of countries worldwide that were considered “electoral democracies” doubled from 30% to 60%, according to Freedom House (an organization established in 1941 to promote global democracy).

Fukuyama, in retrospect, had some significant blind spots. Most notably, he all but ignored China, and woefully underestimated the importance of religious fundamentalism (and its built-in antipathy towards liberalism) in less developed countries. After 9/11, he was severely criticized for these oversights by the academic community, as if he were personally to blame for these attacks. Nevertheless, anyone with a working understanding of economic history would be hard-pressed not to agree with his basic premise. Liberal democracies, by providing the necessary social, legal and societal underpinnings, are the wealthiest countries on earth, to the benefit of billions of people.

But that progress has hit a roadblock in the last decade. Freedom House’s most recent annual report was entitled “Democracy in Crisis,” as it noted that 2017 marked the 12th consecutive year of decline in its index of global freedom. It’s a sobering read, detailing broad declines in liberty and freedom—mostly in developing nations in Africa and Asia, but more significantly, among large, formerly free or “partly free” countries like Turkey, Russia, Venezuela, and Hungary. In Turkey, Prime Minister Erdogan has shut down media outlets, jailed opponents, and engaged in a brutal crackdown against the Kurdish minority. Turkey, as far as it has fallen over the past decade, is

not alone in the region—of the 12 least-free countries in 2017, nine were in the Mideast and North Africa.

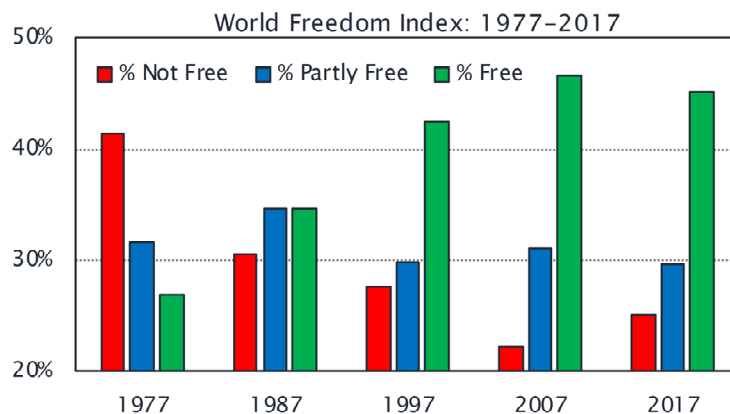
There’s no country, however, whose population has lost so much over recent years as our South American neighbor, Venezuela. Venezuela has the world’s largest oil reserves, and in the post-war period, built a strong economy based on oil and manufacturing exports. By the late 1950s, the Venezuelan economy was the strongest in Latin America, with a per capita GDP that rivaled that of West Germany. Compared to other countries in the region, Venezuela was relatively stable politically (admittedly, that’s a pretty low hurdle), with a central government that embraced democratic ideals, even though

corruption and cronyism were ever-present. Rising oil prices and national elections ushered in a left-leaning president in the early 70s, which led to massive spending on infrastructure and social programs, moving Venezuela closer to a fully developed, modern economy.

But by the late 80s, the country was deeply in debt,

and with oil prices falling, something had to give. That “something” was democracy. After his failed coup attempt in 1982 (as a lieutenant colonel in the Venezuelan army), Hugo Chavez’ imprisonment elevated him to folk hero status, and he was elected president in 1998. A populist campaign which promised to end corruption and help the country’s poor was successful, despite (or perhaps because of) campaign promises to disband the Venezuelan congress and re-write its constitution. Like many in the region, the Venezuela of the 1970s and 80s was a functioning democracy, but one with deep social problems and vast wealth disparities between the elites and the common man.

As we now know, the election of Chavez marked the start of what has been a very dark period for the Venezuelan people. Under Chavez, property rights were all but abandoned as private businesses were confiscated by the government and wealth redistributed. In addition to the nationalized oil company, PDVSA, Chavez nationalized the cement industry, the larg-



est steel company, the telephone industry and the electric utility industry. After the global financial crisis, Venezuela all but nationalized the country's banking system. The results were predictable; electricity was rationed in order to reduce rolling blackouts, telephone service was sporadic, the Internet was heavily censored, and there were persistent shortages of building materials.

The Venezuelan economy became ever-more dependent on the rise and fall of oil prices, as Chavez consolidated power by diverting oil revenues to political allies and the military. Foreign capital evaporated and currency controls were implemented, further isolating Venezuela from the global markets. After Chavez' death in 2013, his hand-picked successor, Nicolas Maduro, was elected with 50.6% of the vote; the election results were (no surprise) upheld by the Venezuelan high court, despite widespread evidence of election fraud. In response to protests and riots, Maduro had his main political rivals imprisoned, as any good dictator would.

Chavez' dream of a socialist utopia has deteriorated even further under Maduro. Because of strict currency controls and money-printing, the Venezuelan bolivar has become nearly worthless; inflation exceeded 83,000% in July and is expected to hit 1,000,000% before year-end (yes, you read that right). There are critical shortages of food and medicine, as oil revenues (which make up 95% of government receipts) have plummeted over the past five years. In order to win reelection earlier this year (an election in name only), Maduro used food to bribe voters in the poorest neighborhoods. People that haven't fled the country (the BBC estimates that more than 7% of the population has emigrated since 2014) are starving. The National Survey of Living Conditions, an annual study conducted by three Venezuelan universities, estimated that the average citizen suffered weight losses of 18 pounds in 2016 and 24 pounds in 2017, as nearly 90% of the population lives in poverty.

As the seagull flies, it's only a little more than 1,000 miles between the tip of Florida and the northern coast of Venezuela, although we could be forgiven for thinking that what's happening there is a million miles from us. But the US cannot avoid scrutiny when it comes to how we protect our own liberty and freedom. After all, as the chart above shows, the US' rankings have been slipping in recent years. For 2017, Freedom House gave the US a freedom index of 86, placing us 53<sup>rd</sup> out of 210 countries; that puts us between Croatia and Greece—not exactly

the company we'd most like to keep. Compared to the top-rated countries (Finland, Norway and Sweden), the US falls short mostly in the "political rights" category, which includes the electoral process (the US was docked due to Russian interference in the 2016 presidential election, gerrymandering of congressional districts, and efforts to restrict voting participation, as well as the influence of money in politics) and the functioning of government (including legislative stalemate and dysfunction, as well as President Trump's business conflicts and lack of transparency).

While it might be tempting for some to pin the blame on the current administration for the US' falling scores, we should point out that our scores and rankings have been falling since 2008, which includes two full terms of the previous administration. We cannot pretend that threats to our democratic traditions only started in January 2017. Perhaps the most stinging criticism that was lodged in this year's report was that the US is losing its place as standard-bearer for democratic principles. Freedom House wrote, *"While the United States and other democratic powers grappled with domestic problems and argued about foreign policy priorities, the world's leading autocracies—Russia and China—continued to make headway. Moscow and Beijing are single-minded in their identification of democracy as a threat to their oppressive regimes, and they work relentlessly, with increasing sophistication, to undermine its institutions and cripple its principal advocates."*

Now, to be perfectly clear: every study, including those by Freedom House, has built-in biases. Critics will point out that this survey focuses too much on political freedom and not enough on economic policies, as the Heritage Foundation does in its annual Index of Economic Freedom. In response, we'd point out that the rankings between these surveys aren't that different, since democratic freedom is joined at the hip with economic freedom (Hong Kong, UAE and Singapore are notable exceptions, all three scoring high on economic freedom, but low on democratic freedom).

The main points remain, and are extremely important; namely, that countries that fail to protect the liberty of their citizens and institutions create conditions that are antithetical to economic growth and ultimately, national stability. There is no security in despotism, and no hope for the future of any country that restricts the free will of its population.

