



Worksheet 29.2

The importance of incentives to Poverty Alleviation

Two developing countries: Venezuela and Brazil. Two ideologies underpinning economic growth and development: command in Venezuela versus free market in Brazil. Which system has worked better for the people of these two large South American countries? [This article](#) tells the story: read from the start to ‘40 percent in 2005’ and then ‘Rodríguez also questioned’ to ‘from a social point of view, disappeared’.

In Venezuela, president Chavez’s socialist inspired, command policies, paid for by the sale of expensive oil to the rest of the world have led to benefits primarily for those citizens willing to show political loyalty to Chavez and his party. Hard work and productivity is not rewarded as much as loyalty and support for the government. This system of incentives leads to some poor outcomes. The result? Only mediocre improvements in poverty rates, literacy, employment and health of the people.

In Brazil, where free market principles underlie much of the economic development policies, monetary benefits for development workers and the families they serve are linked not to political affiliation but to actual behavior of households and government employees. The result, not surprisingly, has been real improvements in education, health, and poverty levels amongst Brazilians. Read from ‘Meanwhile, in Brazil’ to ‘where the credit should go’ and then ‘Or to the simple fact’ to ‘childhood vaccinations’ in the article linked to above.

The lesson here? In a command economy like Venezuela’s, in which the government decides how resources are to be allocated, it appears that real improvements in people’s lives are not as important as political loyalty. Because most people involved in economic development work for the government, they focus on making themselves appear more dedicated and loyal to president Chavez, in order to make sure they get paid more and promoted up the ladder.

In Brazil’s free market economy, on the other hand, rewards are based on performance, not political loyalty. Brazilians have enjoyed access to a wider variety of efficiently run development programs than Venezuelans, despite Hugo Chavez’s pledge to alleviate poverty. Correct incentives explain why the market system is more efficient and effective than a command system, and the examples of Venezuela and Brazil illustrate this observation quite nicely

Discussion Questions:

1. Why do command economies so often fail to efficiently allocate resources to where they are needed the most?
2. What does Brazil do that Venezuela does not that has led to real improvements in people’s lives?
3. Both Brazil and Venezuela have achieved a similar degree of economic growth over the last two decades. How do the types of growth experienced differ?



Economics

4. Provide evidence from the articles above for the existence of economic development in Venezuela and Brazil. Which country appears to be achieving a greater level of development?