As the global price of oil drops, the effects of this phenomenon are unveiling the failure of Latin America's populist governments to generate sustainable prosperity while depending on oil-for-loans schemes, mainly with China. In the last few months, the price of Brent crude oil has declined from a high of over $140 per barrel to under $60 a barrel as of the latest date. The reasons for the decline are manifold, but two stand out for many analysts. First, a technological revolution in energy extraction, known as "fracking" has substantially increased the supply of petroleum and natural gas in the U.S., making it less dependent on foreign sources of oil. Second, Saudi Arabia and other Gulf state producers have increased output in an attempt to drive out marginal producers, whose cost of production are highest. For instance, the on-shore unit cost of production in Saudi Arabia averages $18 while U.S. costs' average $34 a barrel.

The decline in prices is having a devastating effect on primary petroleum producers who relied on higher prices to bankroll massive expenditures in the last few years. Russians, beset by lower prices and Western sanctions are paying more for their inputs and getting less for their output. The new conditions negatively affect Russia's expansionist foreign policy. For some Latin American nations, the effects of the price drop are having devastating effects and, more importantly, revealing the weakness of economic conditions long masked by populist economic policies. With crude oil prices spiking during the mid-2000s Venezuela's populist government, with the world's largest oil reserves, was able to project its radical political agenda across much of Latin America. As part of the strategy of the late Hugo Chávez, Venezuela signed an oil-for-cash scheme with China estimated at over $40 billion. The cash allowed Chávez to spend extravagantly on politically inspired social programs to secure the votes of the country's poorest and to cover up fundamental economic weaknesses. Internationally, Chávez also sold petroleum at a discount to allies in the Americas, such as Cuba, who then resold a portion on the global market in exchange for sorely needed hard currency. This practice helped secure the allegiance of numerous countries for Venezuela's anti-U.S. alliances in the Americas. The easy money generated by high oil prices discouraged investments in new exploration and maintenance of productive facilities. Misappropriation and mismanagement converted the government-owned oil company, PDVSA, into a political piggybank known for waste and inefficiency. As economic journalists Sanderson and Forsythe cited in their 2013 book China's Superbank, "as of early 2012, the goal was to pump 4 billion barrels by 2014. With production languishing at about 3 million barrels a day, PDVSA, and Venezuela, were paying a price for deferring investment in the oil industry, forfeiting about $10 billion a month in lost revenues, more than enough to have funded Chávez's social programs, serviced the Chinese loans, and invested in new capacity." According to the US Energy Information Administration, in 2013 Venezuela produced an estimated 2.49 billion barrels per day. The economic policies of Chávez, and his successor Nicolás Maduro, have stifled real growth and led to widespread shortages and rationing of most basic necessities. With hardly any domestic capital formation and minimal foreign investment Venezuela's economy produces little worth consuming or exporting. The country's foreign currency reserves are at an all time low, making it harder to pay for imports of industrial inputs and consumer goods. Despite massive infusions of cash the Venezuelan economy is on the verge of collapse. During the boom other countries in the region, such as Brazil and Ecuador, also acquired Chinese financing through oil-for-cash deals. Brazil, with a more diversified economy has both an agro-export sector and an emerging manufacturing base, giving it other sources of income. Ecuador, however, has become overly dependent on oil exports, mainly to China. The Ecuadorean government is selling large swaths of land to Chinese companies for further exploration and extraction while attempting to sell bonds to cover its large spending. There is significant opposition from both environmentalists, who distrust Chinese practices, and from native populations living on the land. As it uses the U.S. dollar as its currency, Ecuador's government faces a substantial constraint in inflating the currency to manipulate monetary policy. Moreover, the strengthened dollar makes other Ecuador exports more expensive. The falling price of oil serves to highlight the failed economic policies pursued in these populist-led nations for over a decade. When capital is used to create two factories where once only one stood, both the country invested in and the country investing benefit. The increases in productivity and output create the wherewithal to pay back loans and credits, compensate investments, and purchase imports. However, if the capital is made available to enable political actors to spend two dollars when they should have only spent one then the result is capital consumption and an unfair, unpleasant indebtedness of future generations. Populist governments, like those in Venezuela and Ecuador, have spent lavishly to consolidate their political foothold, meanwhile placing substantial obstacles in the way of capital formation. As the price of petroleum continues to drop and output declines there is a danger of a widening in the unequal terms of trade. Countries like Venezuela and Ecuador will be obliged to sell greater quantities of petroleum at the new lower prices in order to pay back loans, credits and investments at yesterday's higher prices. And, as they have invested little to raise productivity, costs will act like another blade on a pair of scissors to cut their revenues. Even if China were to forgive their mounting debts, or more likely, when they default, these countries will still be in worse shape resulting from their failed economic policies. Given their inability to produce their way out of these circumstances, as well as their aversion to admit to failed policies, the message of the reigning Latin American populists will likely resemble a losing gambler's message from Las Vegas: "the system is working, send more money."