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THE AMERICAN UNIVERSITY IN CAIRO  
SCHOOL OF HUMANITIES AND SOCIAL SCIENCES  
DEPARTMENT OF POLITICAL SCIENCE

THE POLITICAL ECONOMY OF VIOLENCE: THE CASE OF VENEZUELA

DANIEL SIMON LEON

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF MASTER OF ARTS IN POLITICAL SCIENCE

May, 2010

THE AMERICAN UNIVERSITY IN CAIRO

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A THESIS SUBMITTED BY

DANIEL SIMON LEON

TO THE DEPARTMENT OF POLITICAL SCIENCE

May, 2010

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF ARTS

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## **Abstract**

This thesis will attempt to answer the question of how can the rise in social violence be explained in the oil-rich nation of Venezuela since the 1980s? The once relatively peaceful nation of Venezuela has seen a dramatic rise in social violence over the last three decades that has placed her amongst some of the world's most dangerous countries. A review of the relevant literature will reveal that the study of a social phenomenon such as violence, and in a nation such as Venezuela, is a complicated task because there are a number of different but in many cases interlinked variables that contribute to the formation of this social phenomenon. Therefore the conceptual framework will consist of a multi-variable analysis so that this study may go about to formulate an appropriate explanation based on the complex causes and effects that surround this issue. However, special attention will be given to the nation's developmental history has given way to a severe socio-political crisis. But although special attention will be given to this important variable, no hierarchy of variables will be established as the convoluted nature of social events makes it very difficult to formulate one. Other factors that will also be analyzed as they contribute to the rise of social violence are: the nation's vast hydrocarbon wealth (which is always an outstanding variable because of its economic importance), economic reform and liberalization, and the urbanization process. Although there have been several studies on oil-rich nations (including Venezuela), their economic dynamics, the Latin American urbanization process, and the Venezuelan political crisis, there is an absence of studies that include these intervening factors in a comprehensive manner. This thesis hopes to fill this gap.

## Prologue

Venezuela is a country with 200 years of independent history but with a democratic history that begins in 1958 when General Marcos Perez Jimenez, dictator of the country, goes into exile due to the mounting public pressure for the democratization of the country. That same year a congress takes place where the future democratic leaders of the country that helped to topple the dictatorship come together to agree on the foundations for the new democratic regime. The result of the congress came to be known as the Pact of Punto Fijo, after the city where it took place. The new framework was based on *Pactismo* (pact-making), where the two main political parties, the Social Democrats (Acción Democrática) and the Social Christians (COPEI), agreed on a pluralistic consensus-building system that would maintain a democratic regime<sup>1</sup>.

The pact-making system gave way to a seemingly stable democratic political system in Venezuela. It was tested during the years of the following the first oil boom in 1973. The political system seemed to be holding on and channeling the new incoming wealth since it gave way to high growth rates, which even reached world records at some points in time, and an accelerated increase in the standards of livings<sup>2</sup>. But the Venezuelan honeymoon with high growth rates and a stable democratic regime came to an end at the end of the 1980s when the mounting social and economic pressures from

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<sup>1</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 93; Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 13.

<sup>2</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 542.

mounting public debt, an unproductive non-oil sector, and the inability of the state to solve problems through petro-dollars sees the nation's capital erupt in social unrest and violence<sup>3</sup>.

After the events of the late 1980s in Venezuela, the nation has steadily witnessed the murder rates increase every year. This social challenge has grown to become the Venezuelan people's number one concern<sup>4</sup>. Along side the murder rate, another social factor that increased was poverty and inequality<sup>5</sup>. It is notable that the majority of the impoverished population has concentrated in the peripheries of the urban areas. In 1992 one of the world's costliest bank – caused by a poorly implemented structural adjustment program that undermined state capacities - increased the country's socio-economic problems<sup>6</sup>. These social pressures have grown alongside an ailing political system.

The Venezuelan democratic pact-making system was seen as a rare and exceptional occurrence. This political system collapsed in 1994 after its consensus-building institutions (the traditional political parties) failed to win that year's presidential elections and failed to agree on a platform to address the dire socio-economic woes of the nation. Due to the precarious socio-economic situation that impoverished the country,

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<sup>3</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 180-181.

<sup>4</sup> International Crisis Group. "Venezuela: Accelerating the Bolivarian revolution." Latin America Briefing No 22. Bogotá and Brussels. November 5. 2009. P. 6.

<sup>5</sup> Lopez Maya, Margarita. "Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle)." *Lateinamerika. Analysen und Berichte*. Spanish version. 2004. P. 27.

<sup>6</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 113.



steadily rising levels of social violence and a severe political crisis the presidential elections of 1998 were filled with great uncertainty. The elections resulted in the victory of a candidate, armed with a radical but populist rhetoric, that vowed to act against the previous neo-liberal and the soc called “oligarchy” (meaning the middle and upper classes) that were seen by the popular masses – that accepted the message – as the culprits for their ill situation<sup>7</sup>. The politico-economic crisis and the high levels of social violence of Venezuela continue to this day with no apparent end in sight.

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<sup>7</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 16.

CHAPTER I:  
INTRODUCTION

*“When societies enter into crises, this almost inevitably raises the great necessity of what another author called “terrible simplifications.” But of course, the “terrible simplifiers” also arise, who become the bearers of the recipes, formulas, and beliefs that promise to solve the problems affecting society (original in Spanish).”*

*Moises Naim and Ramon Piñango<sup>8</sup>.*

The case of Venezuela is one that has been simplified and even dismissed too many times from academic and political discussions. It has been referred as an “exceptional case” since for the better part of the second half of the 20<sup>th</sup> century saw Venezuela as a progressive and democratic regime with a relatively peaceful internal environment while its other oil-producing counterparts exhibited autocratic and sometimes violent regimes<sup>9</sup>. More recently, Venezuela has been branded as one of the leading nations opposing the neo-liberal world order, a country that seems to have stood up against globalization<sup>10</sup>. This is because the executive administration that was elected in 1998 has been noted for its strong anti-neo-liberal rhetoric and actions such as the reversal of privatization endeavors<sup>11</sup>. But these interpretations are the erroneous and

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<sup>8</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. xv.

<sup>9</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 21.

<sup>10</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 17.

<sup>11</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in

sometimes dangerous result of the “terrible simplifications” by the individuals who provide uncomplicated and unelaborated formulas as explanations and solutions to phenomena that are in actuality very complex<sup>12</sup>.

The case of Venezuela has been misread and significantly understudied by the international academic community who felt that it was too boring. The Venezuelan experience has lacked the sensationalist features that characterize cases – found in conflict-ridden areas like the Middle East or in Africa. In their opinion these cases may not only satisfy genuine academic curiosity but the marketing potential for publication which are widely sought after features in the world of academia<sup>13</sup>. It is safe to say that the academic lure was applicable to journalists, which distracted them from the events in Latin America. Francis Fukuyama mentions for example that back in 1971, Richard Nixon advised the young Donald Rumsfeld that: “Latin America doesn't matter... People don't give one damn about Latin America now.’ Rumsfeld took Nixon's advice on where to focus his career, and the rest is history”<sup>14</sup>. But the reality is much different.

The Venezuelan experience – just like other Latin American cases and other developing nations around the world – cannot be explained away with simple analyses.

This is because the Venezuelan experience is a very complex one that comprises many

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Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 5.

<sup>12</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. xv.

<sup>13</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 17. P. 18.

<sup>14</sup> Fukuyama, Francis. “A Quiet Revolution: Latin America’s Unheralded Progress.” *Foreign Affairs*. November/December. www.foreignaffairs.com (accessed on March 14, 2010). 2007.

different variables. No single theoretical discourse will be able to provide an adequate explanation for it. As Lopez-Maya (2004) indicates that, Venezuela is a complex case to study because it responds to a different, but interlinked, array of factors. Some of them are common to the region-wide Latin American experience such as its colonial legacy, 200 years of turbulent independent history and the debt and poverty crises of the last two decades of the 20<sup>th</sup> century<sup>15</sup>. Some of these factors are common to the region and others are exclusive of the Venezuelan experience<sup>16</sup>.

A unique factor of the modern Venezuelan experience is the presence of high amount of social violence, which today constitutes the country's most dire challenge according to Venezuelan public opinion<sup>17</sup>. The levels of social violence in the country have been steadily rising since the 1980s to the point that at the turn of the century Venezuela became the 6<sup>th</sup> most violent country in the world<sup>18</sup>. Even though high social levels of violence are present in other Latin American countries, the Venezuelan experience differs because its rates of violence have become comparable to the ones found in Colombian Republic, a nation that suffers from a 40 year-old internal conflict, which is not the case with Venezuela. Therefore, because of the importance and

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<sup>15</sup> Lopez Maya, Margarita. "Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle)." *Lateinamerika. Analysen und Berichte*. Spanish version. 2004. P. 27.

<sup>16</sup> *Ibid*, 27.

<sup>17</sup> International Crisis Group. "Venezuela: Accelerating the Bolivarian revolution." Latin America Briefing No 22. Bogotá and Brussels. November 5. 2009. P. 6.

<sup>18</sup> Naim, Moises. "The Real Story Behind Venezuela's Woes." *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 19.

uniqueness of this factor the main question posed by this research is: how can the rise in social violence be explained in the oil-rich nation of Venezuela since the 1980s?

This high rate of violence in Venezuela has severely impacted the socio-political fabric. In 2006, the Venezuelan capital, Caracas, has become the number one murder capital of the world<sup>19</sup>. That year the murder rate in Caracas was 136 inhabitants per 100,000. This is far ahead, well over twice the rate, of even the second most murderous capital in the world at the time, South Africa's Cape Town with 62 murders per 100,000 inhabitants.<sup>20</sup> When the national murder rate per 100,000 inhabitants is examined, the overall national number is lower than that of the specific rate found in the capital, peaking in 2003 to 50. But it is still an extremely high murder rate that becomes comparable to the Colombian murder rate, a country that is suffering from a four-decade armed internal conflict<sup>21</sup>. This study has merit because it explores the very brutal effects of a convoluted developmental history and the impact of misplaced developmental strategies that this nation embarked on. Because of the complex nature of the Venezuelan developmental history, the literature will be examined somewhat eclectically in order to set a theoretical background that will attempt to explain the rise in social violence. Also,

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<sup>19</sup> In this study, the murder rate per 100,000 inhabitants will be used as the means to quantify the effects of the socio-political violence in the case study of Venezuela since it, like no other statistic, can portray in a simple and accurate way the impact and suffering that violence has on society. It only comprises violent and criminal acts that result in an individual's death. It is not limited to any single time of violence (i.e. political violence or domestic violence).

<sup>20</sup> Wigmore, Barry. "Caracas Tops List of Murder Capitals of the World." Mail Online, World News. <http://www.dailymail.co.uk> (Accessed on March 13, 2009 and Published on September 30<sup>th</sup> 2008). 2008.

<sup>21</sup> Briceño-Leon, Roberto.. "Violence in Venezuela: Oil Rent and Political Crisis." *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 316.

it is important to start by explain the economic context in which events have developed since the fourth quarter of the 20<sup>th</sup> century.

A unique feature of the Venezuelan experience, the dynamics of its vast oil wealth, always gets analytical priority in the studies that examine this country because of its significance and influence to the politico-economic dynamics, and this thesis is no exception. Countries that possess an insignificant endowment of natural resources, such as the repeatedly hailed cases of the Asian Tigers, have performed incredibly better in terms of economic and even political development than the resource-rich ones<sup>22</sup>. The same outcome appears to have materialized in the oil economy of Venezuela. The nirvana of Gross Domestic Product (GDP) growth, which grows only because of the rise in consumption and public expenditure, and which lasts only until the price of oil busts, is a dangerous attraction for developing countries<sup>23</sup>. The oil price bust, by itself, does not seem to create a tangible detrimental effect on society. This is because society is affected not so much by the reduction of hydrocarbon revenues but by the economy's inability to replace those revenues with other revenues from the non-oil sectors, manufacturing and agriculture. These sectors' productivity has been diminished by the economic effect known as the "Dutch disease." This economic effect results from the heavy use of mineral revenues that en up in "fostering an insufficient degree of diversification and

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<sup>22</sup> Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz Eds. *Escaping the Resource Curse*. Columbia University Press. New York. 2007. P. 1.

<sup>23</sup> Auty, Richard and Raymond Mikesell. *Sustaining Development in Mineral Economies*. Oxford University Press, New York. 1998. P. 29.

vulnerability towards external shocks”<sup>24</sup>. This is because the state is generating vast amounts of its income from abroad, which is used to finance public endeavors, and it is in a position to neglect domestic production. In other words, with mineral revenues it becomes logically easier to allocate the externally generated mineral revenue than generating revenue from domestic production<sup>25</sup>. This thesis will explore the effects that oil wealth has on in Venezuela – it will also explain that mineral wealth has had an important, but not a sole, role in helping to generate the high levels of socio-political violence that have marked Venezuela since 1980’s.

The main theoretical discourse specifically dealing with the economic dynamics of petro-states have been the rentier state theory and the resource curse thesis. The rentier state theory explains that oil revenues have a stabilizing effect on authoritarian regimes through fostering clientelist networks of patronage. This theory has been applied in various empirical studies of Middle Eastern petro-states<sup>26</sup>. But this theory does not adequately explain the Venezuelan case since the empirical and theoretical findings that sustain the theory in the Middle East do not hold in the Latin American nation. In Venezuela, rentierism did not stabilize the democratic pact-making system that existed in the nation since 1958, since it collapsed in 1994, but rather produces the opposite result

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<sup>24</sup> Mähler, Annegret. “Oil In Venezuela: Triggering Violence or Ensuring Stability? A Context-sensitive Analysis of Ambivalent Impact of Resource Abundance.” German Institute of Global and Area Studies (GIGA). Working Papers no 112. October. 2009. P. 7.

<sup>25</sup> Luciani, Giacomo. “Allocation vs. Production States: A Theoretical Framework.” Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 69.

<sup>26</sup> Mähler, Annegret. “Oil In Venezuela: Triggering Violence or Ensuring Stability? 2009. P. 7.

that aided in increasing the country's violence<sup>27</sup>. This does not disprove the rentier state theory, but just makes it less applicable outside the Middle Eastern socio-historical context.

The resource curse thesis offers a somewhat divergent explanation to the workings of the petro-state than the rentier state theory. It argues that when oil rents are used as the main or one of the main driving forces for the economy, the non-oil productive sector is significantly reduced – through the already mentioned process known as the Dutch disease – thus not encouraging the diversification of the economy and making it vulnerable to external shocks<sup>28</sup>. The resource curse thesis along with the rentier state theory – overall meaning oil-based development – are one of the thesis' hypothesis since they aid in explaining Venezuela's heavy economic woes of the late 1980's and 1990's which helped violence to increase by creating a detrimental socio-economic situation. But in the end these paradigms cannot fully account for other contextual factors that affected the nation and the phenomenon of social violence.

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<sup>27</sup> Cyr, Jennifer. "Examining the Evidence of Social Polarization: Venezuelan Society Before and After Chavez." Florida International University. Latin American and Caribbean Center. Working Paper Series no. 11. August. 2005. P. 4; Naim, Moises. "The Real Story Behind Venezuela's Woes." *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 17-18.

<sup>28</sup> Mähler, Annegret. "Oil In Venezuela: Triggering Violence or Ensuring Stability? A Context-sensitive Analysis of Ambivalent Impact of Resource Abundance." German Institute of Global and Area Studies (GIGA). Working Papers no 112. October. 2009. P. 7.



Table 1: Rentier States 1972-1999<sup>29</sup>

		<b>Rentier period</b>	<b>Average degree of rentierism in rentier period</b>	<b>Per capita GDP 1990</b>
Middle East	Kuwait	Entire period	88%	13,114
	Qatar	Entire period	87%	16,986
	UAE	Entire period	84%	19,648
	Oman	Entire period	81%	7,879
	Saudi Arabia	Entire period	80%	7,174
	Bahrain	Entire period	59%	8,879
	Libya	Entire period	58%	n/a (middle income)
	Iraq	Entire period	n/a	3,205
	Iran	Entire period	55%	3,392
	Algeria	Entire period	53%	2,777
	Yemen	From 1990	46%	1,979
	Sub-Saharan Africa	Nigeria	Entire period	71%
Botswana		From 1983	64%	2,284
Angola		From independence	62%	678
Equatorial Guinea		From 1996	58%	n/a (poor)
Congo (Brazzaville)		From 1980	57%	2,211
Gabon		Entire period	50%	3,958
Guinea		1986-91	50%	767
Latin America	Venezuela	Entire period	61%	6,055
	Trinidad & Tobago	1974-1984	53%	7,764
	Ecuador	1982-1993	47%	2,755
	Bolivia	1988-1991	43%	1,658
S.E. Asia	Brunei	Entire period	n/a (extreme rentierism)	n/a (rich)
	Indonesia	To 1989	49%	1,974
Pacific	Nauru	Entire period	n/a (extreme rentierism)	n/a (middle income)
	Kiribati	1995-1998	47%	n/a (poor)

In Venezuela oil constitutes 90 percent of export earnings, 50 per cent of budget revenues, and 30 percent of its gross domestic product (GDP)<sup>30</sup>. This places the country as an economically typical rentierist state, which is an important factor in explaining the

<sup>29</sup> Herb, Michael. "No representation Without Taxation? Rents, Development, and Democracy." *Comparative Politics*. Vol. 37 No. 3. April. 2005. P. 299. For the percentage value of rentierism, Herb uses Beblawi's (1987) definition that a rentier state's budget revenues should be comprised of at least 40 per cent by mineral income.

<sup>30</sup> CIA World Factbook. "Venezuela." <https://www.cia.gov/library/publications/the-world-factbook/geos/ve.html> (Accessed March 26, 2010). 2009.

country's woes. But in order to explain rise in social violence it is important to show the socio-historical of country's development. First of all, Venezuela had an illiberal politico-economic framework at the time, and subsequently of the first oil boom in 1973. Venezuelan policymakers sought to "seed the petroleum," which means that oil revenues would be used to fund developmental projects. But because of the policymakers' illiberal economic framework the chosen development endeavors were based on the concept of import substitution that significantly dislodged Venezuela from the international market<sup>31</sup>. This would aid in rendering the non-oil economy unproductive and help to intensify the effects of the Dutch disease.

In Venezuela, socio-economic pressures arose from the collapse of oil prices in the 1980s. This was because the economy's main driving force, oil revenues, lost its propelling force which allowed poverty to rise and the government was unable to offset this event with popular subsidies since the nation's budget deficit reached 9.9 per cent of GDP in 1988<sup>32</sup>. Social pressures reached their boiling points in 1989. This year, social unrest grew to the point where it manifested itself in the form of violent riots and clashes with governmental security forces in the capital city. This event came to be known as *El Caracazo*, which was a violent social response to the structural adjustment program that attempted to salvage the economy by implementing austerity programs that severely reduced subsidies. This reduction of subsidies particularly affected the transportation

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<sup>31</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 7.

<sup>32</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110.

sector because the price of gasoline was doubled<sup>33</sup>. The rise of gasoline prices had a severe effect in the Venezuelan psyche because its historical low prices have become extremely popular and their increase is a definite “third rail” political issue.

The literature dealing with the effects economic reform, or structural adjustment, implemented after 1989 has also helped to explain the socio-economic woes that the country has suffered. It is linked to the rise in violence because of the detrimental social effects that it produced such as the rise in poverty. Economic reform is another hypothesis explaining the rise of social violence as it reduced state capacities and failed to revive the private sector so that it could take over former public socio-economic endeavors such as job creation that would prevent the deterioration of the socio-economic situation<sup>34</sup>. This paradigm, although important, can also not be examined alone in order to explain the rise of violence. This is because there are other factors that aided in generating a detrimental socio-economic situation that has induced social violence.

Before further analysis is given of the context and variables that explain the rise of social violence in Venezuela, this case study has to be briefly compared to other states that share its rentier characteristic. When examining rentier states, and especially when they are compared, such as with the case of Venezuela (refer to Table 1) two important observations can be made. First, petro states must be divided into two categories, the extreme rentierist states (such as the Arabian peninsula states, commonly refer to as the

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<sup>33</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 180.

<sup>34</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 108.

Gulf states) and the other rentier states whose economies exhibit a high but not a complete dependence on mineral revenues. This distinction is important because one group is hardly comparable to the other group. This is because states that do not exhibit extreme rentierism are clearly still generating significant amounts of revenues from the non-hydrocarbon economy, which makes its socio-economic dynamics much more complex and vibrant. Adding to this context is once again population. Extreme rentier states are mostly comprised of relatively small populations, while non-extreme rentier states have sizable populations. This allows for very meaningful non-oil socio-economic dynamics to exist even though governmental revenues may still be dominated by oil revenues and are subject to different and often much more complex socio-economic dynamics. Not only are the economic dynamics more complex but also the social dynamics are much more convoluted and vibrant in non-extreme rentier states, which is definitely the case in Venezuela. This is because hydrocarbons have represented an average about 60 per cent of budget revenues (refer to table 1) and about one third of GDP. The rest of the economy is overwhelmingly occupied by the service sector, with a small contribution by non-oil industries and agriculture<sup>35</sup>. Therefore, the complexity and dynamism of the Venezuelan case makes the study of the social and political context as necessary as with the economic context.

Besides the economic factors that have influenced the Venezuelan case, one element that has severely influenced it is the dynamics of population growth and urbanization. The nation's population has more than doubled since the first oil boom in

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<sup>35</sup> CIA World Factbook. "Venezuela." <https://www.cia.gov/library/publications/the-world-factbook/geos/ve.html> (Accessed March 26, 2010). 2009.

1973 when it stood at 12 million and now stands at over 26 million<sup>36</sup>. Population pressures significantly increased the demand for job creation, which a non-liberal economy could not supply. The effects of the population boom have to be examined along with the country's urbanization process. Venezuela saw in the 20<sup>th</sup> century a heavy and rapid urbanization process that can be categorized as a rural-urban exodus. This process happened under the banner of modernization and industrialization that inherently carried with it the promise of ever-improving goods, services and standard of living. But the new generations of urban-born migrants did not see the promise of continually improving living conditions realized.

The urbanization process in Venezuela creates a mismatch between the precarious socio-economic condition and the expectation of continually modernizing standard of living. Furthermore, the fast, unorganized, and unregulated urbanization process eroded the social control mechanism of the new generations, which regulated the social interactions of their once rural home, and was unable to prevent the rise of violent men<sup>37</sup>. Therefore, the urbanization process is a hypothesis that further explains the increases in social violence since it has significantly contributed to increasing poverty and eroded institutions of social control that directly aid in preventing violence. This important paradigm becomes even more important when examining the country's particular socio-political variable.

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<sup>36</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 4.

<sup>37</sup> Briceño-Leon, Roberto. "Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America)." *Nueva Sociedad*. 1999. P. 125.

Some socio-political factors such as the political crisis that triggered the political promotion of social resentment, which are endogenous to the Venezuelan experience, are able to fill the explanatory gap left by the economic-deterministic paradigms. As mentioned before, the rentier status of the Venezuelan government – and the clientelistic networks that accompanied it – was not able to prevent the collapse of the party-led pact-making system that preserved the democratic system from 1958 until its collapse in 1994 with the election of Rafael Caldera. This was because the presidential reelection of Rafael Caldera came about without the support of, or consensus, of any of the traditional parties that integrated the pact of Punto Fijo<sup>38</sup>. This ushers Venezuela into a seemingly irreversible political crisis.

The institutional void that was left by the Venezuelan political crisis came to be filled in 1999 by a new hyper-personalistic government, constituted by former military officers and far-left activists that showed little regard for democratic institutions. Even so, they ascended to power with the support of the marginalized and impoverished urban population<sup>39</sup>. *They have maintained this popular support by the institutionalization of social resentment amongst the marginalized urban population towards the more affluent sectors of the urban sphere.* The post-1999 regime has done so by applying an anti-politics rhetoric that blames the nation's economic woes on the structural adjustment

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<sup>38</sup> Lopez Maya, Margarita. “Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle).” *Lateinamerika*. Analysen und Berichte. Spanish version. 2004. 27-28.

<sup>39</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P.16.

programs enacted by the previous administrations<sup>40</sup>. Also, they have exploited the widely held popular belief that Venezuela is a very rich country – due to its hydrocarbon potential – and that it the previous governmental oligarchy, which is comprised of middle and upper class individuals, is the real culprits in literally stealing the nation’s wealth and the popular expectation for modernization<sup>41</sup>. The urban middle and upper classes demographically compose the majority of the Chavez’ political opposition<sup>42</sup>. Therefore, this thesis’ final hypothesis is that the post-1999 administration – a result of the nation’s political crisis – *by tapping into the marginalized poor’s social resentment, social violence is encouraged, and even legitimized because of the governmental discourse that “they” (the middle and upper classes) are the reason that “we” (the urban poor) are in an impoverished condition*<sup>43</sup>. These paradigms and their relation to other paradigms will be explored further in the following chapters.

Before moving any further it is important to note the methodology that will be used to explain the rise of social violence in Venezuela since the 1980s. As noted, in order to explain the dynamics of a particular phenomenon – whether it is social violence or other socio economic consequence - in a country such as Venezuela a multi-variable approach must be followed in order to avoid any kind of simplified explanation that has

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<sup>40</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 5.

<sup>41</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 20.

<sup>42</sup> Petkoff, Teodoro. “Las dos Izquierdas (The Two Lefts).” *Nueva Sociedad*. Vol. 197. May-June. 2005. P. 126.

<sup>43</sup> Colburn, Forrest D. “Latin America: Captive to Commodities.” *Dissent Magazine*. Vol. 56 No. 1. Winter. 2009. P. 30.

too many times plagued the analysis of events in the Latin American nation. Therefore, only a multi-variable analysis can explain the political economy of Venezuela, which may be able to explain the politico-economic factors that have allowed for the rise of violence in this country. However, even though several social, economic, and political variables will be examined no hierarchy will be mentioned or suggested between them. Particular emphasis has been, and will be, placed on the socio-political variable of the nation's political crisis and the institutionalization of social resentment. This is because it is a unique variable that has had a central role in the explanation for the rise of violence. However, even though this is an outstanding variable it must be examined along with the other variables, and the contexts in which they have developed, since it is the complex interaction amongst them that has produced the political crisis and the rise of social violence in Venezuela.

This thesis will be comprised of a total of 5 chapters, which includes this present introduction. The 2<sup>nd</sup> chapter will consist of a review of Venezuela's developmental path that particularly examines the economic contexts. The 3<sup>rd</sup> chapter will also examine the country's developmental path but focusing on the social and political context. The 4<sup>th</sup> chapter will be a more in-depth case study of Venezuela that will further explain the complex interaction of variables that will be explained in chapter 2 and 3. Finally, the 5<sup>th</sup> chapter will provide of the concluding analysis based on the findings of this thesis, policy recommendations and further calls for research.



## CHAPTER II:

## THE ECONOMIC CONTEXT OF VENEZUELA'S DEVELOPMENTAL PATH

Because Venezuela is a complex case any analysis of it would be poor if its defining characteristics are not stated and defined. Even though Venezuela shares many common historical and developmental experiences with its Latin American neighbors, there is one aspect that sets it apart from the broader regional experience. This characteristic is its vast oil wealth. Hydrocarbons have been used to fund developmental endeavors. This results from the fact that oil rents have dominated governmental revenues as shown in the introductory chapter. Therefore, since oil is a dominant variable in the economic context of Venezuela's developmental path it will be examined first. Afterwards, another important variable that significantly affects Venezuela's economic context after 1989, the process of economic liberalization and reform, will also be examined.

*1) Oil and Development*

First of all, it is important to define what is a mineral economy in order to understand the subject of the study. In quantifiable terms, a mineral economy is one whose mineral industry generates at least 8% of its gross domestic product (GDP) and at least 40% of its exports<sup>44</sup>. This quantified measure shows that a mineral economy relies heavily on its mineral industry to finance the endeavors of the state. Giacomo Luciani (1987) asserted that this overreliance could not only produce a mineral economy, but a

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<sup>44</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 3.

rentier economy if 40 per cent or more of its budget revenues are derived from oil<sup>45</sup>. This is of course a relative analysis. A country can have a very large mineral industry in absolute terms and not be a mineral economy. Only when the mineral industry of a country is large enough that the aforementioned industry becomes one of the primary, and sometimes the primary product of the national economy, is when the country becomes a mineral economy. It is also important to define the characteristics of a rentier economy. According to Hazem Beblawi (1987), there are three essential features of a rentier economy, “[First], rent cannot be the only kind of income in the economy, but it should predominate; [second], the origin of the rent must be external to the economy, as ‘pure internal rent boils down to a situation of domestic payment transfer’; [third], a minority in the population must be involved in the generation of the rent, while the majority is involved only in the distribution or utilization of it”<sup>46</sup>. When looking at the economic indicators in the analysis of the rent-based development, exports are the key figures as the rentierism occurs when mineral endowments are used as an export industry. There is no evidence of rents being generated when mineral resources are used for the sole purpose of domestic consumption<sup>47</sup>. The Venezuelan figures that were mentioned in the introduction in relation to the ratio of hydrocarbons in exports, governmental revenue

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<sup>45</sup> Luciani, Giacomo. “Allocation vs. Production States: A Theoretical Framework.” Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 70.

<sup>46</sup> Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 12.

<sup>47</sup> Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 257; Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 12.

and GDP well exceed the quantitative requirements to be classified as a mineral economy and a rentier economy.

Oil, or petroleum, has become an essential part of modern society. Not only because it fuels our primary means of transportation, but also because it provides other important products such as paint, rubber, and plastic. Owing to its importance, oil became the largest internationally traded commodity in the 1960s displacing coffee as the number one position<sup>48</sup>. This rise in trade of oil was generated by the increasing demand for this precious commodity, which became necessary for the functioning of human society and the rise of the standards of living around the world. The importance of oil was also by the shortage of supply that resulted from conflicts in the Middle East, and the Iranian Revolution and, especially, by the formation of the oil-based economic cartel called the Organization of Petroleum Exporting Countries (OPEC). These events generated a large oil price-boom in the early 1970s. There has been a misconception that the oil consuming countries were the losers during the oil boom of the 1970's. It was assumed that oil-consuming countries were the ones with the burden of paying high prices for the commodity. However, in reality the countries whose economies suffer the most were the oil exporters since they had to bear the ill socio-economic effects produced by the oil-led economy<sup>49</sup>. Just because the treasuries of the oil exporters were being filled at very high rates does not necessarily imply that these nations were exhibiting real growth and sustainable socio-economic development. As Gelb (1988) explains, the oil exporters

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<sup>48</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 3.

<sup>49</sup> *Ibid*, 4.

engaged in a “negative-sum game of monstrous proportions”<sup>50</sup>. The reason that the mineral economies were engaged in a negative-sum game is because they used their revenues to engage in rent-seeking behavior that stagnated growth in mineral exporting countries like Venezuela by relying on external oil revenues instead of domestic production<sup>51</sup>. The hydrocarbon sector grew tremendously at the expense of the non-hydrocarbon economy. Hence oil countries chose to increase productive investment in one sector, hydrocarbon industry, by reducing productive investment in another.

Due to the great importance and impact that oil has on the international economy, and more importantly in the oil exporters, the rentier state theory becomes a very powerful framework with which one may be able to explain the many woes that a petro-state may exhibit. It does not only claim to explain the endurance of economic woes but also of political and social woes. The rentier state theory has been used to explain the rise, and most importantly, the stability of authoritarian regimes because the state society linkage is broken when mineral rents replace the citizen’s tributary contributions to the governmental revenue<sup>52</sup>. Since these mineral resources are under the sovereign jurisdiction of the state, it is this entity that is accountable for the policies that are taken to manage the oil wealth. According to the rentier state theory set forth by Luciani (1987),

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<sup>50</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 5.

<sup>51</sup> Luciani, Giacomo. “Allocation vs. Production States: A Theoretical Framework.” Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 69.

<sup>52</sup> Mähler, Annegret. “Oil In Venezuela: Triggering Violence or Ensuring Stability? A Context-sensitive Analysis of Ambivalent Impact of Resource Abundance.” German Institute of Global and Area Studies (GIGA). Working Papers no 112. October. 2009. P. 7.

the linkage between the state and civil society is broken since the state does not need to rely on the societal production for its revenues, in other words, taxes<sup>53</sup>.

Since the state-society link is broken by the oil rents, the state's relation to society is reduced to principally the allocation of rents<sup>54</sup>. This should provide an explanation to why a negative sum game ensues, since domestic production is no longer a major concern for the rent-seeking state. Its socio-political applications are also almost universally confirmed but only within the region of its inception, the Middle East. This is why such an explanation has its critics. Gwenn Okruhlik (1999) has challenged the validity of the rentier framework to explain politico-economic phenomena in rentier states by examining the emergence of political opposition in these nations. She explains that,

“Money does not spend itself. Those acting in the name of the state make decisions, and the nature of the regime influences them. The rentier framework has proven inadequate in elucidating the rise of dissent because it reifies the state and overemphasizes state resources and autonomy from the social consequences of expenditures...[rent] is distributed inequitably (given in abundance to some and withheld from others)”<sup>55</sup>. She further explains that, “The determining variable in the creation and convergence of opposition is the choices of a personal regime in distributing money

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<sup>53</sup> Luciani, Giacomo. “Allocation vs. Production States: A Theoretical Framework.” Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 69.

<sup>54</sup> Ibid, 70.

<sup>55</sup> Okruhlik, Gwenn. “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States.” *Comparative Politics*. Vol. 31 No. 3. April. 1999. P. 297.

inequitably for political reasons, not rent”<sup>56</sup>.

Therefore, the economic public policy that enshrined the economic rationality for the management of the new incoming revenue cannot be separated from the political rationale, which means that political decision-making plays a critical part in the making of economic policies and hence in distributing rents<sup>57</sup>. Furthermore, the rentier state theory has an obvious explanatory weakness when it is applied outside the Middle East to such as the Venezuelan case. It may help to explain the economic woes of the Venezuelan case but not the socio-political factors as its political regimes have been highly unstable – and in the case of the pact-making regime – established in 1958 and collapsed in 1994 – that is within the country’s rentier period<sup>58</sup>. Because of these reasons, the rentier state theory is inadequate as the predominant theoretical framework in the Venezuelan case. Besides the rentier state theory, there is another theoretical paradigm that is used in explaining phenomena occurring in resource rich nations. It is the resource curse thesis.

The nature of the politico-economic problem when states take and spend hydrocarbon rents is that those rents have been produced from nothing. Although the process of extracting the mineral resources and even refining them for commercial use can be rather complicated and sophisticated, the product is normally traded in a

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<sup>56</sup> Okruhlik, Gwenn. “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States.” *Comparative Politics*. Vol. 31 No. 3. April. 1999. P. 308.

<sup>57</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P.15.

<sup>58</sup> Lopez Maya, Margarita. “Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle).” *Lateinamerika*. Analysen und Berichte. Spanish version. 2004. P. 27-28.

composition that is very similar to the one that was found naturally. Therefore, it falls in the strange economic category of products that are not produced. This is because hydrocarbons are extracted and exported in their original composition<sup>59</sup>. Thus, no human labor was used to produce it unlike other real products such as a car or a mechanical tool. As the wise and enlightened father of modern economics, Adam Smith (1776), eloquently affirmed, “[Rents are] the income of men who love to reap where they never sowed”<sup>60</sup>.

Hydrocarbon revenues are not tied to any productive factor but just to the fortunate configuration of supply and demand at one point in time that yields high rents. Petroleum is also a product that is largely unimportant in its original configuration. Therefore, its only importance and focus for the exporting country is its revenues<sup>61</sup>. Another important attribute of mineral resources and its rents, which affects its economic dynamic, is that since it is non-renewable it is not a continuous and renewable source of income but an asset. This is because a real source of income will permanently generate revenues as long as its productivity continues. Minerals are therefore an asset since their ability to raise revenues will permanently cease when they are depleted<sup>62</sup>. The economic dynamics of mineral resources are often neglected, as we will see below, and this causes various detrimental effects to the nation’s economy.

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<sup>59</sup> Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz Eds. *Escaping the Resource Curse*. Columbia University Press. New York. 2007. P. 4.

<sup>60</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 5.

<sup>61</sup> Luciani, Giacomo. “Allocation vs. Production States: A Theoretical Framework.” Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 67.

<sup>62</sup> Humphreys et al. *Escaping the Resource Curse*. 2007. P 4.

At the heart of the resource curse thesis lies the economic phenomenon termed the “Dutch disease.” The Dutch disease takes place when mineral rents are injected into the economy at a very fast pace, which is what occurs during a price boom as the exchange rate becomes heavily appreciated in real terms<sup>63</sup>. This generates the worst effect that the Dutch disease is able to render; the international competitiveness of the non-mining industries is completely destroyed<sup>64</sup>. The result of this is that internal revenues – and the economy as a whole – become largely dependant upon the mining industry and its international revenues in order to maintain a favorable balance of payments so that the domestic market can import the products that it does not manufacture, or does not manufacture effectively, or can no longer manufacture due to the Dutch Disease. Besides this, the economic decline that a country will suffer from the basic ills that were brought by the Dutch disease and these will tend to be aggravated by the subsequent policy choices.

The Dutch disease will create an atmosphere that favors protectionism. This is because when non-mineral industries are rendered uncompetitive by the Dutch disease, the lobbies that have an interest in the maintenance of the mineral industry as the primary industry, since these interest groups benefit from the rents, will argue that they are uncompetitive because of unfair competition by foreign manufacturers. Because of this reasoning, they will push to protect the domestic, and in some cases infant, industries

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<sup>63</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. 3-5.

<sup>64</sup> *Ibid*, 3.



from foreign competition and this leads to the failed strategy of import substitution industrialization.

Policies such as import substitution industrialization, or similar ones, create restrictions on trade and further lower the non-mining industry's competitiveness. This also lowers the overall productivity of the nation, and leads to a very substantial increase in unemployment. This effect is significantly intensified in the case study of Venezuela because of the population booms that was experienced after the first oil boom<sup>65</sup>. The final result is a reduction in the income per capita of the country, thus reducing the chances for development of the mineral countries<sup>66</sup>. The effect of the Dutch disease of making the non-mining sector of the economy uncompetitive is only aggravated by the protectionist policies that usually follow it. These protectionist policies are prominent in the Latin American mineral economies since this is an area that has been intellectually flooded by ideas that their development possibilities are constrained by their dependence on trade with the developed nations. But it is these kinds of protectionist policies that most expert economists preach against. It is proposed that a mineral economy's openness to international trade is needed in order to reduce the chances engaging in rentierism and

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<sup>65</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 4.

<sup>66</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 243; Arezki, Rabah and Frederick Van der Ploeg. "Can the Natural Resource Curse be Turned Into a Blessing? The role of Trade Policies and Institutions." IMF Working Paper. 2007. P. 15-16

generating the resource curse and the Dutch Disease<sup>67</sup>. But protectionism is not the only effect that is encouraged by the use of oil rents.

Oil dependence generates an optimistic bias and leads to a heavy dependence on the mineral sector for the governmental revenues. Thus, it tends to lead to the neglect of other domestic industries such as agriculture and manufacturing, and this results in two socio-economic effects that produce the same thing, unemployment<sup>68</sup>. The first effect produced by the neglect of the agricultural and manufacturing industry is that their productivity is dampened, and evidence shows that a reduction in productivity correlates with an increase in unemployment<sup>69</sup>. This occurs because the labor-intensive industry such as agriculture and manufacturing are neglected, their productivity is lowered. Instead, revenues are generated by a capital-intensive industry such as hydrocarbons, which only involve a small percentage of the population<sup>70</sup>. Therefore, the logical result is that the active labor force will be reduced. Besides the effect of increasing the unemployment figures, the resource curse will also encourage increasing governmental revenues from sources other than mineral rents and the domestic productive sector. This means that mineral economies will seek financial loans.

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<sup>67</sup> Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 4.

<sup>68</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 241.

<sup>69</sup> Kpodar, Kangni. "Why Has Unemployment in Algeria Been Higher than in MENA and Transition Countries?" IMF Working Paper. August. 2007. P. 14.

<sup>70</sup> Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 12.

Thus, mineral economies are very likely to borrow from international financial institutions and incur large amounts of debt<sup>71</sup>. The reason why mineral economies make the choice of taking external loans is...why not! The extra borrowing of money means a marginal increase of governmental revenues and foreign reserves for the development of the country. But this is an extra source of revenue that was not produced and was generated by an external source to the economy<sup>72</sup>. The resulting logic is even more rents on top of already existing high rents, and if the price boom for the mineral commodity continues to increase in the future the debt should be easily financed. Or so policy-makers thought, and might still think.

In reality, the economy is like the law of gravity; anything that goes up must go down<sup>73</sup>. Therefore, the resulting effect is that the government of a mineral economy is likely to neglect the multiplier effect that the rents, along with the incurred debts will have on the economy, most specifically on a spiraling out-of-control inflation rate<sup>74</sup>. This can be exacerbated if the government decides to print money to finance their huge debts after foreign exchange reserves have run out.

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<sup>71</sup> Weinthal, Erica and Pauline Jones Luong. "Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth." *Perspectives on Politics*. Vol. 4/No. 1. 2006. P. 36.

<sup>72</sup> Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz Eds. *Escaping the Resource Curse*. Columbia University Press. New York. 2007. P. 4; Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 12.

<sup>73</sup> Business cycles are a perfect example of this statement.

<sup>74</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 321.

Reducing the detrimental effect of hydrocarbon-based development would reduce its negative economic effects. Consequently, it would also aid in reducing a socially detrimental situation that can lead to effects such as social violence.

## 2) *Economic Liberalization*

The illiberal economic frameworks that are often seen in mineral economies are without a doubt unsustainable in the long run. By 1988 the Venezuelan international reserves were negative \$6.2 billion. This shows that sooner or later corrective measures of some kind will have to be undertaken. The Venezuelan case undertook corrective measures in 1989 with a structural adjustment deal known as *El Paquetazo*<sup>75</sup>. Around this time many developing nations also undertook structural adjustment programs that were needed mainly due to debt crises. However, when a mineral economy liberalizes, its structural adjustment involves a few extra factors to the classical theory. The most prominent liberalization policies that are proposed by experts on mineral economies in order to prevent the many negative effects created by the deployment of rents, so that mineral economies engage in a positive-sum game instead of a negative-sum one, are trade openness, economic diversification, macroeconomic stability, a natural revenue stabilization fund (NRSF), and transparency and accountability on the part of the government<sup>76</sup>.

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<sup>75</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 173

<sup>76</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 243-244, 247; Auty, Richard and Raymond Mikesell. *Sustaining Development in Mineral Economies*. Oxford University Press, New York. 1998. P. 255-257; Arezki, Rabah and Frederick Van der Ploeg. "Can the Natural Resource Curse be Turned Into a

As explained earlier, international openness is advocated in order to make the non-mining sector competitive and therefore tradable. If the non-mining sector is rendered uncompetitive by protectionism and an appreciation of the exchange rate occurs, the mining sector will be the only competitive one<sup>77</sup>. Trade openness will directly help the diversification of the economy. This is achieved by making the non-mining sector competitive and tradable. It will especially aid in the tradability of those non-mining sectors in which the country has a comparative advantage whether regionally or globally<sup>78</sup>. Also, since trade openness may be able to diversify the economy, it will increase productivity that will in turn increase employment<sup>79</sup>. Macroeconomic policies geared to the stability of the macro economy are proposed in order to avoid the Dutch disease.

Sterilizing the rents from the mineral resources that, as previously explained, occur when the extra revenue from the mineral exports is saved, thus creating macroeconomic stability. This involves capital and trade liberalization along with improved fiscal policies such as reducing governmental expenditures, but reducing the

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Blessing? The role of Trade Policies and Institutions.” IMF Working Paper. 2007. P. 6, 15; Weinthal, Erica and Pauline Jones Luong. “Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth.” *Perspectives on Politics*. Vol. 4/No. 1. 2006. P.36.

<sup>77</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 247; Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 4.

<sup>78</sup> Auty, Richard M. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Routledge, New York. 1993. P. 244, 258. The sectors of the economy that do not hold a comparative advantage will either disappear, and its workers will have to be retrained for another sector, or it will modify to produce something else where the nation holds a comparative advantage.

<sup>79</sup> Kpodar, Kangni. “Why Has Unemployment in Algeria Been Higher than in MENA and Transition Countries?” IMF Working Paper. August. 2007. P. 21.

budget of welfare programs that affect low-income individuals should be avoided. Taxing the income of the population to replace mineral rents should be pursued, as it will reduce dependence on external sources of income, thus reducing rentierism<sup>80</sup>. In order to sterilize the mineral rents and aid in the macroeconomic stability of the mineral economy a MRSF is often advocated in order to prevent the Dutch disease. In such a scheme the revenue in excess of formal revenues, or mineral rents, will be placed in a savings fund. This would prevent the appreciation of the real exchange rate, the inflation of the economy, and the over optimism that leads to incur more debts that create current account deficits which cannot be financed<sup>81</sup>. The policy recommendation of transparency and accountability is one that is completely linked to the issue of good institutions in the mineral economies, which will be discussed in the next chapter.

So far the theories that have been examined were the ones dealing with Venezuela's vast oil wealth – the rentier state theory and the resource curse thesis – as well as the ones dealing with economic liberalization and reform – the effects of structural adjustment. This theoretical framework deals specifically with the nation's economic context within its developmental path, which has been mainly focused on the period since the first oil boom in 1971 until the early 1990s. In the fourth chapter the theoretical framework, set in this present chapter, will be discussed further and include some of the most recent socio-economic events.

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<sup>80</sup> Auty, Richard and Raymond Mikesell. *Sustaining Development in Mineral Economies*. Oxford University Press, New York. 1998. P. 226; Luciani, Giacomo. "Allocation vs. Production States: A Theoretical Framework." Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 69.

<sup>81</sup> Auty and Mikesell. *Sustaining Development in Mineral Economies*. 1998. P. 226-227.

CHAPTER III:  
THE SOCIAL AND POLITICAL CONTEXTS OF VENEZUELA'S  
DEVELOPMENTAL PATH

Besides the detrimental socio-economic effects that the use of hydrocarbon rents inflicts on a mineral economy like Venezuela, the negative socio-political effects have been just as widespread. The first section will discuss the institutional dynamics where the political as well as the economic variables take place as they are important in explaining how phenomena develops. The second section will deal with the urbanization process. This is a social variable that has had a profound role in generating the nation's political and economic woes. The final section will discuss the theoretical framework surrounding the socio-political crisis that has severely affected the recent history of the country.

*1) Institutional Dynamics*

Arezki and Van der Ploeg (2007) points out, it is unclear whether the resource curse causes bad institutions, or whether it just makes already bad institutions worse<sup>82</sup>. But this statement, which carries some validity, assumes that institutions exist. Huntington argues that in the third world, which is where most of the mineral economies lie, there has been little development of political institutions that are needed for social

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<sup>82</sup> Arezki, Rabah and Frederick Van der Ploeg. "Can the Natural Resource Curse be Turned Into a Blessing? The role of Trade Policies and Institutions." IMF Working Paper. 2007. P. 4.

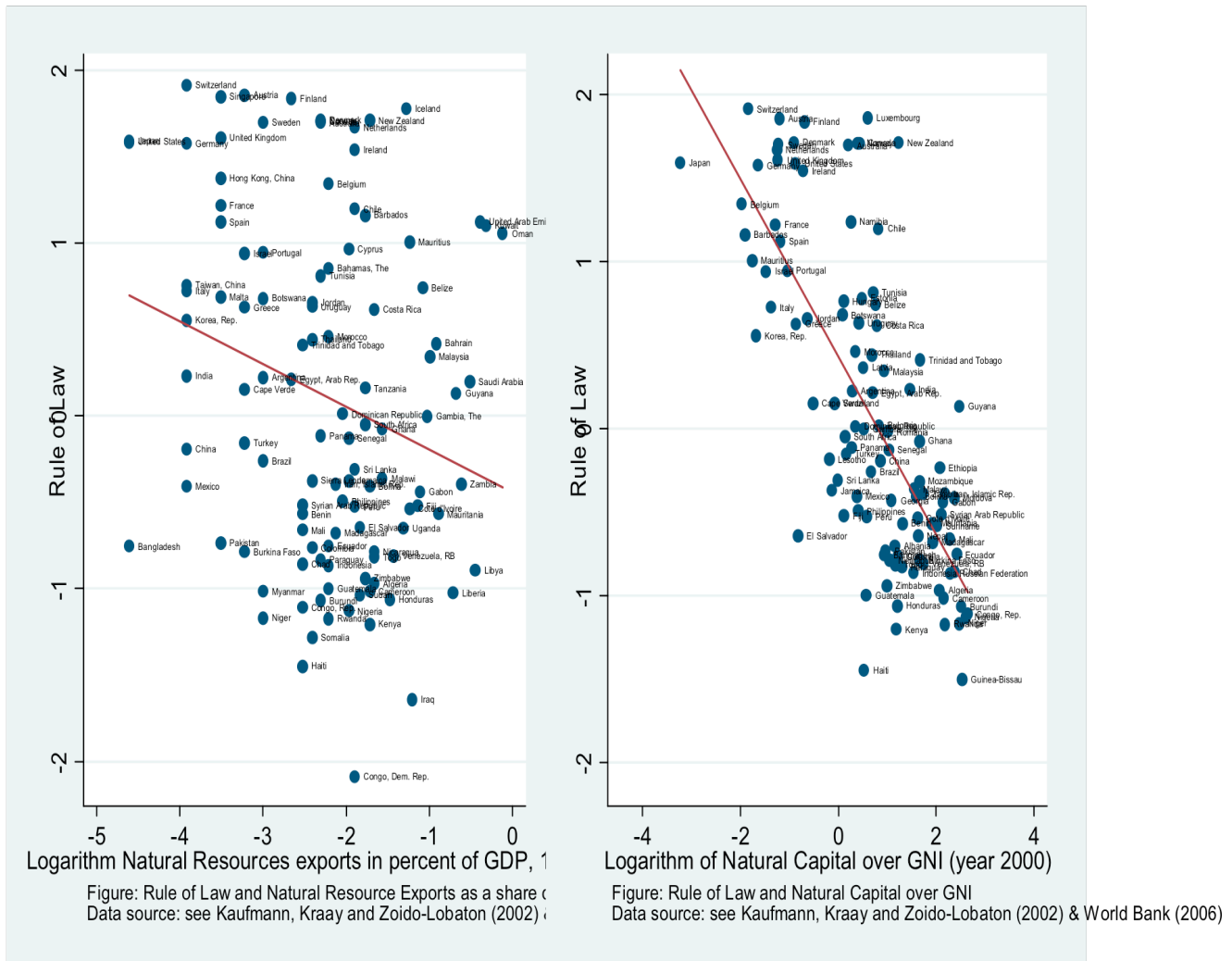
and economic progress<sup>83</sup>. In many parts of the developing world, there is an absence of political institutions. High political participation without proper institutions generates instability and disorder<sup>84</sup>. These bad or non-existent institutions, which rent-based development have generated or have worsened, create governments that are often not transparent and unaccountable. The result of these types of governments in the mineral economies is that they become highly corrupt, thus the rule of law withers away as the graph below shows that the more a country exports its natural resources, and especially the more its revenues are dependant on it, the worse the state of the rule of law will be.

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<sup>83</sup> Huntington, Samuel P. *Political Order in Changing Societies*. Yale University Press. New Haven. 1968. P. 5.

<sup>84</sup> Huntington, Samuel P. *Political Order in Changing Societies*. Yale University Press. New Haven. 1968. 5.



Graph 1: Correlation Between the Rule of Law and Natural Resource Exports<sup>85</sup>

Not only does retierism hamper the institutions of mineral economies by creating a negative correlation between them and the rule of law but it also has a detrimental effect on foreign direct investments. A country with poor or non-existent rule of law has reduced judicial security. This discourages investment in the mineral economy because of fears of expropriation or other governmental or social action against investments that will

<sup>85</sup> Arezki, Rabah and Frederick Van der Ploeg. "Can the Natural Resource Curse be Turned Into a Blessing? The role of Trade Policies and Institutions." IMF Working Paper. 2007. P. 18.

not be able resolved through the domestic courts<sup>86</sup>. It would also reduce the state's ability to provide effective security against social violence. Therefore the creation of institutions, or the strengthening of them in a mineral economy, is extremely important in order to acquire transparency and accountability.

Poor institutions, or non-existent institutions in mineral economies can hinder the effects of any of the above mentioned policy recommendations. The NRSFs effectiveness will be hindered because the government, due to bad institutions, is not transparent about how it uses the fund. Independent institutions are needed in order to hold the executive branch accountable for its actions<sup>87</sup>. Strong institutions are a necessary precondition so that the proposed policy solutions can work when implemented in the mineral economies.

Weinthal and Jones (2006) explain that, "Robust institutions are the product of both supply and demand; governments must have an incentive to supply them and societal actors must have both the interest and ability to make a credible demand for them"<sup>88</sup>. Because of this, the authors propose that in order to create new well-functioning institutions or to strengthen current ones, private ownership of domestic enterprises will generate the legitimate demands that are needed for the government to supply good institutions<sup>89</sup>. Most enterprises and especially those involved in the mineral industries are state-owned in mineral economies. If they are privatized, along with non-mining

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<sup>86</sup> Arezki, Rabah and Frederick Van der Ploeg. "Can the Natural Resource Curse be Turned Into a Blessing? The role of Trade Policies and Institutions." IMF Working Paper. 2007. P. 18.

<sup>87</sup> Weinthal, Erica and Pauline Jones Luong. "Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth." *Perspectives on Politics*. Vol. 4/No. 1. 2006. P. 40.

<sup>88</sup> Ibid, 42.

<sup>89</sup> Ibid, 36.

enterprises, they will less likely to be corrupt since they are concerned with profitability. This is unlike government owned enterprises that have no incentive to show good performance, and does not create an incentive for efficiency, transparency and accountability<sup>90</sup>. Governments in mineral economies generate revenue from the mineral rents instead of from the citizens' income taxes. Because of this, the people are not able to legitimately and effectively demand that their government produce good institutions<sup>91</sup>. But the authors qualify the statement by acknowledging that the process of creating or strengthening institutions is one that is time demanding<sup>92</sup>. But not all experts share the often-hailed policy recommendation of privatization as a means to generate transparency and efficiency.

Joseph E, Stiglitz (2007) argues that when privatization is engaged without the existence of strong institutions, it cannot be effective in its goal of achieving transparency and efficiency. In fact, privatization in the absence of existing well-established institutions can result in a even larger failure than their often-criticized public counterparts<sup>93</sup>. Stiglitz puts forward the example of Russia, where the International Monetary Fund (IMF) argued for rapid privatization in order to reduce the advent of corruption. But the result was not one that can be used, as an example of success, but of

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<sup>90</sup> Weinthal, Erica and Pauline Jones Luong. "Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth." *Perspectives on Politics*. Vol. 4/No. 1. 2006. P. 42.

<sup>91</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 62.

<sup>92</sup> Weinthal and Jones. "Combating the Resource Curse." 2006. P. 46.

<sup>93</sup> Stiglitz, Joseph E. "What is the Role of the State?" Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 23-52. 2007. P. 27.

failure since the amount of corruption and inefficiency, especially in the oil companies, was rampant<sup>94</sup>. Stiglitz' skepticism seems to have merit in the case of Venezuela. In the Venezuelan case, the structural adjustment that occurred in 1989 reduced state capacities, and the private sector was unable to revitalize itself alone and take over former public enterprises<sup>95</sup>. Therefore, the mismatch between demand for employment and supply of employment persisted after liberalization. This means that rapid liberalization, and especially privatization, alone can hardly be recommended as a policy solution for mineral economies.

The example of Norway is able to disprove the inability of public enterprises from working transparently and efficiently<sup>96</sup>. Stiglitz (2007) argues that before privatization can be engaged, which is not undesirable, a well developed legal framework, tax system, and corporate governance structure must be in place along with financial institutions that can provide funding to worthy investment projects after their assessment – instead of the indiscriminate use of mineral rents<sup>97</sup>. Stiglitz also shows another interesting example, Malaysia, where the oil industry developed a reasonably high degree of both transparency and efficiency by the mutual development between both public and private enterprises. This public-private partnership allowed for the, “Transfer of technology, skills, and

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<sup>94</sup> Stiglitz, Joseph E. “What is the Role of the State?” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 23-52. 2007. P. 36.

<sup>95</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 108-109.

<sup>96</sup> *Ibid*, 30.

<sup>97</sup> *Ibid*, 36.

understanding of organizational structures to enable the creation of an honest and efficient public sector extractive industry”<sup>98</sup>. Thus, strong institutions generate an atmosphere where privatization can positively and substantially aid in development, not the other way around. The building of these institutions generally comes from a popularly dreaded source, taxes.

Terry Lynn Karl (2007) states that in order to avoid rent-seeking behavior a “fiscal social contract” is required by all actors, domestic and international, that not only includes the government and enterprises but the society of the mineral economy<sup>99</sup>. Following British philosopher Edmund Burke’s maxim, “The revenue of the state is the state,” Karl explains that European states developed amid constant border wars and conflicts that forced them to maintain large standing armies<sup>100</sup>. In order to achieve this European states had to develop systems of popular taxation – income, sales, import and other taxes of the like. The result of the need to tax their citizens is that European states developed a strong state-society linkage where organizational structures – institutions – were demanded so that a state-society consensus on the expenditure of the people’s taxes could be reached<sup>101</sup>. Direct and progressive taxation of the people also provided these

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<sup>98</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 44.

<sup>99</sup> Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 257.

<sup>100</sup> Quoted in Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 259.

<sup>101</sup> *Ibid*, 260.

developed polities with a tool of wealth distribution to achieve general social welfare<sup>102</sup>. But oil-rich states did not develop a state-society linkage due to the fact that the government's revenue did not originate from the people. Fair and efficient redistribution of wealth and strengthening of the rule of law as well as institutions were absent in mineral economies because they lacked the "stateness" that was developed in Europe and in other successful emerging economies, such as the Asian Tigers<sup>103</sup>. Karl cites the example of Norway that possessed a diversified tax-base and strong legal and political institutions. With the advent of large oil revenues, Norway did not lower its taxes<sup>104</sup>. Thus the revenue of the state did not change, which impeded the change of the state itself.

Economic liberalization and reform can be seen as a necessary step for a mineral economy, because as the Venezuelan case shows, the economic framework based on hydrocarbon rents is unsustainable. This generates a detrimental socio-economic situation in the country as the appearance of high inflation and high unemployment can demonstrate. But the analysis of the surge in social violence cannot be limited to purely economic factors.

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<sup>102</sup> Luciani, Giacomo and Hazem Beblawi Eds. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. 1987. P. 9.

<sup>103</sup> Karl, Terry L. "Ensuring Fairness: The Case for a Transparent Fiscal Social Contract." Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 261.

<sup>104</sup> *Ibid*, 273.

## 2) Urbanization

Even though it is important to analyze how the economic framework of the country and its evolution and effects on society and violence, other variables must be given attention. One of these variables is the process of urbanization. The process of urbanization in Venezuela, and in the Latin American region, has been characterized by two events. The first one was the rural-urban exodus that occurred with very accelerated force throughout the 20<sup>th</sup> century but with even more force in the second half of the century. This was a rather unorganized and poorly planned process that left well over 70 per cent of the Latin American population living in urban environments<sup>105</sup>. The second characteristic is the population boom that took place also in the second half of the 20th century<sup>106</sup>. These two forces shaped an urbanization process that created more than just poverty and misery.

When looking at a city such as the Venezuelan capital of Caracas, the effects of the urbanization process can be easily appreciated. The same is true of other Latin American and developing countries. In Caracas the popularly termed, *el cinturón del hambre* (the belt of hunger) exhibits a great number of shantytowns around the hills that surround the valley in which Caracas lies. Some analysts claim that it is the poverty in this environment of misery that causes the rise of social violence. But analysts such as Briceño-Leon (1999) argue that there is too much emphasis on poverty and misery as a

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<sup>105</sup> Briceño-Leon, Roberto. "Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America)." *Nueva Sociedad*. 1999. P. 125.

<sup>106</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 4.

trigger for violence that other important factors are often overlooked. He argues that there is a breakdown of the expectations that were promised by the ever-modernizing urban life to second and third generation urban migrants<sup>107</sup>. Because the new and young generations of urban migrants do not see their expectations of modern urban life realized because of the precarious, unorganized, and poorly serviced urban environment that their families came to, they felt excluded. Exclusion has an effect on the personality of individuals. In the case of the young second or third generation urban migrants whose environment is unable to provide them with a formal job or activity as a legitimate and traditional form of achieving a high societal status, they are highly inclined to achieve a high societal status and respect through illegal and often violent activities<sup>108</sup>. Furthermore, the precarious conditions that these new generations of urban migrants find themselves in has allowed the erosion of social institutions that maintained the orderly working of society back when they lived in the rural areas. The family, the school, and religion lost their influence as mechanisms for social control<sup>109</sup>. Thus, illegal and violent activities were able to emerge and increase since the urbanization process has eroded the societal institutions and were unable to check them.

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<sup>107</sup> Briceño-Leon, Roberto. "Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America)." *Nueva Sociedad*. 1999. P. 124.

<sup>108</sup> Zubillaga, Veronica. "Los Varones y Sus Clamores: Los Sentidos de la Demanda de Respeto y las Lógica de la Violencia Entre Jovenes de Vida Vieolenta en Barrios de Caracas (Men and their Clamors: The Reasons Dehind the Demand for respect and the Logic of Violence Between Young Men and Violent Life in the Slums of Caracas)." *Espacio Abierto Cuaderno Venezolano de Sociologia*. Vol 16 No 3. July-September. 2007. P. 584-585.

<sup>109</sup> Briceño-Leon. "Violencia y Desesperanza." 1999. P. 125.



The legacy of the urbanization process in Venezuela has been one of poverty and failed institutions of social control. This has contributed to an environment where violence is permitted and even encouraged since illegal activities fill the void left by the inability of traditional institutions from working in the precarious environments created by rapid and unorganized rural –urban exodus. In the Venezuelan case, this situation also played an important role in the politics of the nation at the end of the 20<sup>th</sup> century. It has been a process that even further escalated the levels of social violence.

### *3) The Socio-Political Crisis*

As explained before, the nation of Venezuela can be confidently classified as a rentier state. Yet its modern history shows that even as a textbook example of a rentier state it has several features that contradict the rentier state theory. This is because rentierism did not stabilize the country's political regime<sup>110</sup>. As mentioned, the democratic pact making system that existed from 1958 ended with its collapse in 1994 when a candidate was elected without any support from the two dominant parties. The collapse of the pact-making system was a result of this system's inability to efficiently address Venezuela's woes. This is because policy-makers under the pact-making system sought the stability and continuance of the political system. Therefore, they attempted to solve the nation's woes through poorly organized appeasement instead of contestation

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<sup>110</sup> Mähler, Annegret. "Oil In Venezuela: Triggering Violence or Ensuring Stability? A Context-sensitive Analysis of Ambivalent Impact of Resource Abundance." German Institute of Global and Area Studies (GIGA). Working Papers no 112. October. 2009. P. 7.

and open debates<sup>111</sup>. But because the political system of pact-making collapsed, the result was an institutional void that was waiting to be filled.

After the Venezuelan political pact making system collapsed in 1994 and left a more impoverished country with a high concentration of the poor in the urban areas, the nation's development allowed for the rise of a new political system based on a discourse that must be labeled anti-politics. This is because it directly challenged the policies and frameworks of the previous political system. In December of 1998, a new administration was elected whose campaign and public management style was based on a personalistic and populist approach that appealed to the impoverished masses by using an anti-politics rhetoric. Political economist Jonathan DiJohn (2005b) explains that "Populism [and personalism], understood in political terms as the de-institutionalization of political authority, emphasizes the relatively insignificant role intermediary institutions like political parties, labor unions, the legislature, and so on, play in legitimating public authority and in executing public policies"<sup>112</sup>. This dynamic was experienced in Venezuela by the administration that took office in 1999. DiJohn goes on to explain that this type populist, personalistic, and hyper-presidentialist that severely weakened the role, importance and effectiveness of the judicial and legislative powers has not been a new occurrence either in Venezuela or in the Latin American region. He argues that what has made "*Chavismo*" different than in other cases is its way of counteracting the global neo-

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<sup>111</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 554-555.

<sup>112</sup> DiJohn, Jonathan. "The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004." Crisis States Research Center. Working Paper no. 76. December. 2005. P. 1.

liberal economic regime that, as the Venezuelan government argues, is at fault for the country's economic, social, and political woes<sup>113</sup>. But even though this is an analysis that has provided this Venezuelan administration with international attention and sympathy by different groups and nations, it is a simplistic analysis that ignores the full socio-economic dynamics of the country.

The simplistic argument that Venezuela is an example of the backlash of neo-liberal policies and globalization that has generated the precarious socio-economic condition that has yielded, amongst other things, high levels of social violence does not take into account the full experience and factors affecting the country. The internationally recognized Venezuelan analyst Moises Naim explains that, "Contrary to the conventional wisdom, Venezuela's problem is not too much globalization but too little. Its current economic woes and social deterioration are the consequence not of market reforms but of the failure to reform its economy"<sup>114</sup>. This is because the country had a long history of illiberal economic frameworks and that just because a structural adjustment program was implemented it cannot be concluded that it was designed and executed correctly or that it was unnecessary. There are other factors that have to be examined in conjunction so that a better explanation of the country's ills can be forged.

Four socio-economic factors have been prevalent in the modern history of Venezuela that are often overlooked and even less often are they analyzed in conjunction

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<sup>113</sup> DiJohn, Jonathan. "The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004." Crisis States Research Center. Working Paper no. 76. December. 2005. P. 4-5.

<sup>114</sup> Naim, Moises. "The Real Story Behind Venezuela's Woes." *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 17.

with one another. The first one is the process of urbanization that brought to the urban migrants and its subsequent generations the expectations of an ever-improving quality of life through the process of modernization. This process was rapid and unplanned as governmental intervention in the provision of public services to many urban sectors – the impoverished ones<sup>115</sup>.

The second factor has been the high rise of expectations in the Venezuelan population by what Naim and Piñango have termed the “demonstration effect.” What this term means is that due to very high growth rates that the Venezuelan people have witnessed over the course of the second half of the 20<sup>th</sup> century very high growth rates that in some instances even constituted world records. This growth allowed for a very fast increase in the standards of livings. Therefore some people gained high expectations of increasing their standards of living and quality of life. This occurs when people see that some of their neighbors were achieving a higher quality of life<sup>116</sup>. But because of the structural poverty that an ill-performed urbanization process created and a stagnant non-oil economy due to the heavy use of oil rents, some people were unable to achieve, or rapidly achieve, high standards of living. Yet the demonstration effect maintained their hopes and aspiration.

A third factor that allows the first two to interact with the force and speed that they did is very particular to the Venezuelan case when only looking at the regional context,

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<sup>115</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

<sup>116</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonia* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 542.

and it is oil. Moises Naim (2001) elaborates that, “According to a survey conducted in August 2000, about 90 percent of Venezuelans believe [that Venezuela is a rich country]. In fact, 82 percent think that Venezuela is ‘the richest country in the world.’ This assertion is a permanent feature of the national discourse. The specific reference, of course, is to the country’s oil wealth and its mineral potential”<sup>117</sup>. Oil here plays the role of intensifier of the whole process. It provided the revenues that allow the economy to “jump-start” and generate high growth rates that will lead to accelerated development of the urban areas and the creation of the demonstration effect since there are the monetary means available to realize it. But it also produced a very important socio-psychological effect. This effect is social resentment. It follows logically that if – in the eyes of the average Venezuelan, and especially in the eyes of the poor Venezuelan – one lives in the richest country in the world, and one sees other people rapidly and substantially improving their standards of living, but the individual fails to enjoy the fruits of the blessed Venezuelan land, then the individual is being cheated and/or robbed by someone. Social resentment did not arise overnight; it grew steadily after the decade of the 1970s. But it needed the intervention of another factor for it to truly explode into a serious national threat.

The fourth socio-economic factor in Venezuela that has to be explained, and that is related to the previous three factors, is the one that allowed the effect of social resentment to explode to dimensions that would generate a grave national threat and produce the country’s number one ill, social violence. The Venezuelan political crisis allowed for the

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<sup>117</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 20.

rise of a personalistic and populist regime that filled the political void with the politics of anti-politics and de-institutionalization putting an end to multi-class politics and consensus building. This new political system feeds itself with the needed support by politicizing social inequality<sup>118</sup>. This in turn allows the collective social resentment of the masses to be openly expressed and even channeled against the classes that they perceive to be at fault for their poverty<sup>119</sup>. Therefore, this provides an incentive and even a legitimizing factor in the minds of the lower classes to engage in social violence to retaliate against those that have that have taking their perceived right to the higher standard of living that was never given to them by the richest country in the world<sup>120</sup>.

As mentioned in the introduction, the mineral-dependent country of Venezuela has shown high amounts of social violence. Most of the literature concerning the mineral economies is able to account for the different factors that produce an economically detrimental situation. But even though a detrimental socio-economic situation – in other words, poverty – can confidently be singled out as a cause for the rise in violence, its role is often either exaggerated or placed the sole cause for the rise of violence<sup>121</sup>. Other explanations that have been discussed in this chapter, such as the absence of strong

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<sup>118</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 4-5.

<sup>119</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 27.

<sup>120</sup> Colburn, Forrest D. “Latin America: Captive to Commodities.” *Dissent Magazine*. Vol 56 No 1. Winter. 2009. P. 30.

<sup>121</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 124.

institutions, the urbanization process and the socio-political crisis are very important in complementing the explanation surrounding the phenomenon of social violence as this phenomenon has a multi-variable cause. The following chapter will provide an in depth discussion on the socio-economic and socio-political variables and events that explain the rise in social violence since the 1980s in the Venezuelan case.

CHAPTER IV:  
CASE STUDY # 1: VENEZUELA

1) *It's Good to be Rich! The Origins of Oil-based Development*

*“Petroleum is the fundamental and basic fact of the Venezuelan destiny. It presents today the most serious national problem that the nation has known in its history. It is like a Minotaur of ancient myths, in the depths of his labyrinth, ravenous and threatening.*

*The vital historical theme for today's Venezuela can be no other than the productive combat with the Minotaur of petroleum.*

*Everything else loses significance. Whether the Republic is centrist or federalist. Whether voters vote white or any other color. Whether they build aqueducts or not...Whether the workers earn five bolívars or fifteen bolívars...All issues lack meaning...*

*Everything is conditioned, determined, created by petroleum.”*

*Arturo Uslar Pietri, Venezuelan Intellectual<sup>122</sup>.*

*We look more like Saudi Arabia than Brazil. We are Venezuela Saudita” (emphasis in original).*

*Juan Pablo Perez Alfonso, Founder of OPEC<sup>123</sup>.*

*“Oil...was not black gold; it was the devil's excrement!”*

*Juan Pablo Perez Alfonso, Former Venezuelan Oil Minister<sup>124</sup>.*

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<sup>122</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 73.

<sup>123</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 72.



In order to explain the complexity of the Venezuelan case, and in particular the phenomenon of social violence, the variables that were mentioned in chapters 2 and 3 – the nation’s oil wealth, economic liberalization, urbanization and the socio-political crisis, will be examined in depth in this chapter. The theoretical framework set out by the aforementioned variables will be discussed along with the historical events of Venezuela’s developmental history. Therefore, it is important to first examine the nation’s historical background.

When the first oil boom occurred in 1973, North American scholars saw the case of the Venezuelan mineral economy as “exceptional” because unlike its OPEC counterparts, which consisted of illiberal Middle Eastern autocracies, Venezuela enjoyed a somewhat established history of democratic rule with a multi-party system that tended to have centrist policies<sup>125</sup>. The optimism enjoyed by foreign intellectuals was very much shared inside the country. “God is Venezuelan!” was a popular feeling that was truly believed by the Venezuelan people and its policy makers as the massive oil windfalls went into the country as if they had fallen from the heavens. During the one-year period after the start of the oil boom the Ministry of Finance found itself with an extra \$10 billion, and for a nation that at the time had a population of 12 million people, this was an increase of almost \$1000 extra per capita. With this new found wealth the presidential elections that were scheduled for the same year when the oil boom took place was easily

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<sup>124</sup> Quoted in Naim, Moises. “The Devil’s Excrement: Can Oil-Rich Countries Avoid the Resource Curse?” *Foreign Policy*. September/October. [http://www.foreignpolicy.com/articles/2009/08/17/the\\_devil\\_s\\_excrement](http://www.foreignpolicy.com/articles/2009/08/17/the_devil_s_excrement) (Accessed on September 19, 2009). 2009.

<sup>125</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 21.

won by the candidate of the white party, *Acción Democrática* (Democratic Action), who ran a campaign that promised to bring development to Venezuela through its new source of seemingly never ending revenue.

After his inauguration as President of the Venezuelan Republic, Carlos Andres Perez implemented his new program termed *La Gran Venezuela* (The Great Venezuela) that was intended to bring self-sustained development to the country and bring it out of the depths of the third world. The Venezuelan intellectual, Arturo Uslar Pietri, coined the famous phrase, “Seeding Petroleum,” as the opportunity that Venezuela had to transform the newfound wealth into productive investment<sup>126</sup>. President Perez said in a speech in Caracas (1979) that, “One day you Americans will be driving cars with bumpers made from our bauxite, our aluminum, and our labor. And we will be a developed country like you”<sup>127</sup>. His new plan was greeted with enthusiasm by lawmakers and the people at large<sup>128</sup>. With the new economic power that Venezuela possessed after the oil boom nothing seemed impossible in the imagination of this small Latin American nation<sup>129</sup>.

Thirty years later, the rosy picture that was developed from the first oil boom ceased to be. Venezuela, by the turn of the 21<sup>st</sup> century, was not a developed country.

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<sup>126</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 7.

<sup>127</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 4.

<sup>128</sup> The new plan of Carlos Andres Perez was greeted with such enthusiasm because his party also won both chambers of the Venezuelan legislature.

<sup>129</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 71.

One of the biggest developments that the nation experienced was not related to positive gains in the socio-economic indicators but a record rise in violence that at the time placed the nation as the 6<sup>th</sup> most violent country on the planet<sup>130</sup>. In 2009, the International Crisis Group (ICG) carried out a survey in three major Venezuelan cities, including the capital. The ICG found that, “the biggest concern in the country is mounting insecurity in its cities and some rural areas. Caracas is the most violent city in Latin America after San Salvador (El Salvador), reporting approximately 130 murders per 100,000 inhabitants annually, with an estimated total of 13,000 in 2008. “Express kidnappings,” theft and armed assault are common, and municipal and state police not only fail to protect citizens, but are said to be actively involved in approximately 20 per cent of the crimes”<sup>131</sup>. Therefore, it is important to examine the multi-variable sequence of events to explain why a nation that showed large and reasonably realistic amounts of potential for positive and meaningful development in the early 1970s went on to greet the new millennium with an array of social problems that include, but are not limited to, social violence.

With the newfound wealth that seemed to be divinely ordained to make Venezuela rich and developed, the government embarked on a spending spree of ridiculous proportions. The expenditure of the Venezuelan government in the first oil boom of 1973 rose by 74.5 per cent! The spending was mainly focused on state projects

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<sup>130</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 19.

<sup>131</sup> International Crisis Group. “Venezuela: Accelerating the Bolivarian revolution.” Latin America Briefing No 22. Bogotá and Brussels. November 5. 2009. P. 6.

and import substitution industrialization (ISI)<sup>132</sup>. Because of the effort to achieve self-sufficient development through oil-funded ISI programs the government made little effort to transfer its savings to the private sector. It created state-owned companies in various fields such as electricity, transportation, communications, aluminum, iron ore, and steel, which included the ambitious SIDOR Company (Orinoco Steel Company). These ISI programs adversely generated inadequate public services that along with high unemployment, high inflation, and very anti-egalitarian income distribution created more underdevelopment instead of development<sup>133</sup>.

The Dutch disease seemed to be taking a strong hold on the country. The ISI programs besides generating the negative effects that were stated above rendered non-oil industries completely uncompetitive on the international markets<sup>134</sup>. The autarkic measures geared towards import substitution invited the Dutch disease to infest Venezuela. Even though investment on non-oil industries grew, they still remained internationally uncompetitive. This is due to the autarkic policies of ISI and inefficiency on the part of the government that created “a mismatch between investment and potential demand”<sup>135</sup>. After the oil boom of 1973, rentierism and the resource curse took hold of Venezuela.

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<sup>132</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 25.

<sup>133</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 291.

<sup>134</sup> *Ibid*, 292.

<sup>135</sup> *Ibid*, 311, 317.

The Venezuelan government engaged in some effort to sterilize its mineral rents by creating the Venezuelan Investment Fund in 1984, which was a Macroeconomic Resource Stabilization Fund (MRSF). But with the effects of bonanza there was no serious demand for accountability on how the fund was managed, thus corruption followed and remained unchecked<sup>136</sup>. Because oil rents were not effectively sterilized due to the unchecked corruption in the MRSF, rent-seeking became part of the framework of the Venezuelan state and economy. To make the problem worse the nation went to international financial institutions to borrow more money in excess of what the oil-rents were providing to the country. Since Venezuela was an oil exporting nation it was seen by foreign financial institutions as a very credit worthy borrower thus, its ability to borrow money was virtually limitless<sup>137</sup>. The Venezuelan government borrowed money to spend even more than what it was acquiring with the oil rents during the booms, and to maintain the high expenditure levels during the oil price bust that occurred after 1979. The country's foreign debts reached \$20 billion!<sup>138</sup>. The Venezuelan government neglected the "multiplier-effect" that the extra revenue from the foreign loans had on the domestic economy by increasing aggregate demand. The result was very high inflation and rising current account deficits<sup>139</sup>. Economically speaking, Venezuela in the 1970s became a case study of how the rentierism and the resource curse unfolds.

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<sup>136</sup> Ibid, 321.

<sup>137</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 321.

<sup>138</sup> Ibid, 289.

<sup>139</sup> Ibid, 321.

The founder of OPEC, Diplomat Juan Pablo Perez Alfonso, was a man whose wisdom was years ahead of his contemporary countrymen. He became a critic of President Perez' administration from the beginning and remained one even after its end. He understood the dynamics of a mineral economy and its risks. On the new plans of President Perez for development through oil he affirmed that, "he acted as if we had no cages, as if we could shed our poor history, as if we are somehow different from the rest of Latin America. Of course we *are* different. We look more like Saudi Arabia than Brazil. We are *Venezuela Saudita*" (emphasis in original). Deaf ears met Perez Alfonso's warnings that his country was drowning in oil rents<sup>140</sup>. The bonanza shielded the Venezuelan people and their leaders from the dangers of the resource curse. This curse destroyed the Venezuelan economy and its hopes for development by destroying any ability to produce rational macroeconomic policies.

To understand the breakdown of rational macroeconomic policymaking in Venezuela, it is first necessary to examine the history behind its political system and culture. Venezuela briefly took the world spotlight in the early 19<sup>th</sup> century away from Europe, as its revolutionary leader, *El Libertador* Simon Bolívar, led a liberal independence movement based on the ideas of the enlightenment that freed six Latin American countries from the rule of the Spanish Empire. That historical event had a profound impact on the history of the Latin America, and especially for Venezuela. The Venezuelan territories were already sparsely populated at the time of the War of Independence and that war reduced the population of the country by almost 40 per cent.

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<sup>140</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 72.

This costly war destroyed the traditional elite classes and most of the institutions that the Spanish had in place for colonial rule<sup>141</sup>.

The Venezuelan experience that greatly differs from that of its northern neighbor, the United States, which enjoyed a democratic revolution that maintained the continuance of already established British institutions and elites<sup>142</sup>. Because there were few continuing institutions in Venezuela after the War of Independence, disorder followed. In order to fill this vacuum of organized authority, *Caudillos* (strongmen) emerged. *Caudillos* were the norm from the time of independence in Venezuelan until 1958, and for most of Latin America until the 1990's. This led to a long-lasting political culture of personalism and "ultra-presidentialism" that is still widely visible and present modern day Latin America<sup>143</sup>. After the dictatorship of General Marcos Perez Jimenez was toppled in 1958, there was an attempt to bring Venezuela into the realm of those few countries that have experimented with democracy.

After the end of the Perez Jimenez dictatorship Venezuela created a constitution in 1961 based on *Pactismo* (pact making) that had the goal of allowing a smooth transition to democracy by incorporating the different political and economic views represented by many different parties into the governmental system<sup>144</sup>. The delegates of

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<sup>141</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 74-75.

<sup>142</sup> Huntington, Samuel P. *Political Order in Changing Societies*. Yale University Press. New Haven. 1968. P. 7.

<sup>143</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 75.

<sup>144</sup> *Ibid*, 93.

Punto Fijo, which went on to create the Pact of Punto Fijo of 1958 that institutionalized the consensus-building system of Pactismo, were the ones who drafted and agreed upon the new democratic system for the country. This new idea accomplished the goal of creating a stable democracy and policymaking apparatus. But a decade of stable democracy in Venezuela does not mean that it had accomplished the important task of creating effective and independent institutions that could sustain the new democratic system.

The new democratic order enshrined in the Pact of Punto Fijo dealt not only with the political issues of governability but also with economic issues. The delegates of Punto Fijo came predominantly from left-leaning parties. Therefore the economic structure that they set out to develop, “Included the strengthening of the protectionist policy, and the harmonization of unions, which were fed by governmental subsidies”<sup>145</sup>. It is important to note the pre-boom economic policymaking as it will aid in explaining the post-boom economic rational and the ease with which the Dutch Disease, as well as the rent-seeking that took hold of the country and the socio-economic effects that it would produce.

One of the most decisive moments in the History of Venezuela arrived in 1973. The first oil boom that took place in 1973 saw the price per barrel rise by 419 per cent. In 1976, the GDP per capita of Venezuela equaled that of West Germany and was double that of Italy. Rentierism was poised to infect the policymaking apparatus of

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<sup>145</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 13.



the under-institutionalized state<sup>146</sup>. Discussions started on the way that the nation should move forward. The wise words of advice and criticism of Uslar Pietri and of Perez Alfonso were always present, but often ignored. This was the first major stress test of the Pact of Punto Fijo. Unfortunately, in hindsight we can see that the political system failed the test as the ensuing effects of the resource curse brought back the “ultra-presidentialist” system that haunted Venezuelan politics since independence.

The incredibly high oil windfalls that were generated in the first oil boom made government officials question the role of a democratic system. A congressional debate began on the “Special Powers Act” that would give President Perez the power to rule by decree. One minister of Perez’ cabinet commented by saying that, “frankly I don’t believe that the democratic system is the only way – or even the best way – out of underdevelopment. In fact, I would say that we may do better with another type of system. But my interpretation of the Special Powers Act is that it allowed us to get around the slowness and the restrictions. Congress is just a restriction here. The president needed decree power...so that he could preserve democracy in the end”<sup>147</sup>. With the president’s party controlling congress the voice of opposition by other parties was struck down. In 1974 the Venezuelan Congress passed the Special Powers Act. This action gave the president extremely high amounts of power. It gave him the power of congress itself;

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<sup>146</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 119-120.

<sup>147</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 128.

he became now the law maker and the one who executes those laws, all in the name of overriding the slow process of democracy<sup>148</sup>.

The centralization of power in the national executive rendered the Venezuelan Congress virtually useless. On average the Venezuelan Congress produced 28 laws per year during the time when the Special Powers Act was in force. The Venezuelan congress may be compared with other Latin American legislatures such as the Brazilian Federal Senate that produced 827 laws per year during the same timeframe of the Perez administration, the Argentinean Chamber of Deputies produced 300 laws during the same time period. The Venezuelan legislature is only comparable to the Cuban People's Assembly, a body that produced on average 27 laws per year<sup>149</sup>. During the years of the Special Powers Act, President Perez made many political appointments, state expenditure and tripled passed the law against unfair dismissals that tightened the labor market. These actions were targeted without much strategic planning in order to appease the immediate demands of the population instead of seeking tougher but sustainable solutions. This example gives weight to Okruhlik's (1999) argument that the inequitable use of oil windfalls arises because of political reasons, not because of the rentier framework<sup>150</sup>. The use of arbitrary power on political and economic matters worsened the state of the economy, made the country unattractive for investment and caused capital flight. These actions created an increase in consumption based on the ill-advised thinking that the

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<sup>148</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 129.

<sup>149</sup> Ibid, 106.

<sup>150</sup> Okruhlik, Gwenn. "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States." *Comparative Politics*. Vol. 31 No. 3. April. 1999. P. 308.

boom in oil windfalls was virtually indefinite. This accustomed many Venezuelans to “[higher] standards of living that could not be sustained”<sup>151</sup>. The snowball effect that oil rents had created was getting bigger and with the exception of Perez Alfonso, nobody seemed to have seen it coming. The impending snowball of the resource curse was going to hit Venezuela after the collapse of oil-prices in the mid 1980s.

## 2) *Inflated Economy, Deflated Productivity and Chaotic Urbanization*

Venezuelan policymakers thought that they would be able to “seed the petroleum” by simple heavy investment. No policies were implemented or envisioned for the prevention of the negative effects of the resource curse such as the Dutch Disease. According to the theory behind the Dutch Disease, the productivity of the manufacturing sector is neglected and begins to decline due to rentier policies. This occurs as the exchange rate becomes appreciated and protectionist measures render the domestic manufacturing industry internationally uncompetitive. Venezuela is a textbook example of this, as it will be explained later.

In the 1980’s the populist tradition of appeasing the masses through subsidies and corruption was still the norm in the resource curse infested state of Venezuela even after Perez left office. Subsequent Presidents such as Herrera Campíns and Jaime Lusinchi did not help the country to recover from rentierism and the resource curse that began after the oil booms of the 1970’s. Venezuela, during the period 1980-1988, experienced the severe effects of the resource curse during the price bust, when its oil exports fell 51.8 per cent

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<sup>151</sup> Okruhlik, Gwenn. “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States.” *Comparative Politics*. Vol. 31 No. 3. April. 1999. P. 132-135.

in real terms. But rent-seeking behavior did not recede with the price bust because this behavior had become the framework of the decision-making apparatus<sup>152</sup>. The effects of the bust were becoming painfully real for the Venezuelan people as Venezuela's negative balance of payments kept on rising.

In 1983, Venezuela suffered its first major oil bust. This economic shock triggered a series of economic policies that worsened the nations' socio-economic situation. The government decided to heavily devalue the Venezuela currency, the bolivar (Bs.) that had been maintained on a fixed exchange rate of 4.3 Bs. to one U.S. dollar. This fixed exchange rate had the advantage that it kept inflation relatively stable. The move was inspired by the desire to reduce the country's imports as they had become cheaper than domestic products<sup>153</sup>. This was done in the context of a restrictive trade atmosphere. Venezuela had some of the highest import tariffs in all of Latin America. At one point the maximum tariff reached 135 per cent<sup>154</sup>. These events have to be seen in light of the type of productive investment that marked the country. Productive investment had focused on the oil industry while the manufacturing sector had been left unproductive (see table 2). This caused two interrelated effects. The first was on increased unemployment because the labor-intensive manufacturing sector was declining while the capital-intensive oil sector was expanding. The oil industry historically accounted for one

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<sup>152</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 162.

<sup>153</sup> Briceño-Leon, Roberto. "Violence in Venezuela: Oil Rent and Political Crisis." *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 318.

<sup>154</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110-111.

third of GDP, but it employed less than 2 per cent of the population<sup>155</sup>. The second negative effect was increased inflation. This occurred because the amount of currency dramatically increased – due to devaluation – compared to the amounts of goods in the country – because manufacturing capacity is decreased – and currency found it difficult to escape to the international market in exchange for goods because of high import tariffs. Furthermore, the worsening macroeconomic balance of payments deficit further undermined the socio-economic situation. Graph 2 will show the evolution of Venezuela’s inflation and unemployment rates as indicators of the state of the socio-economic situation. But there are other factors besides the negative effects of using hydrocarbons as the fuel for development.

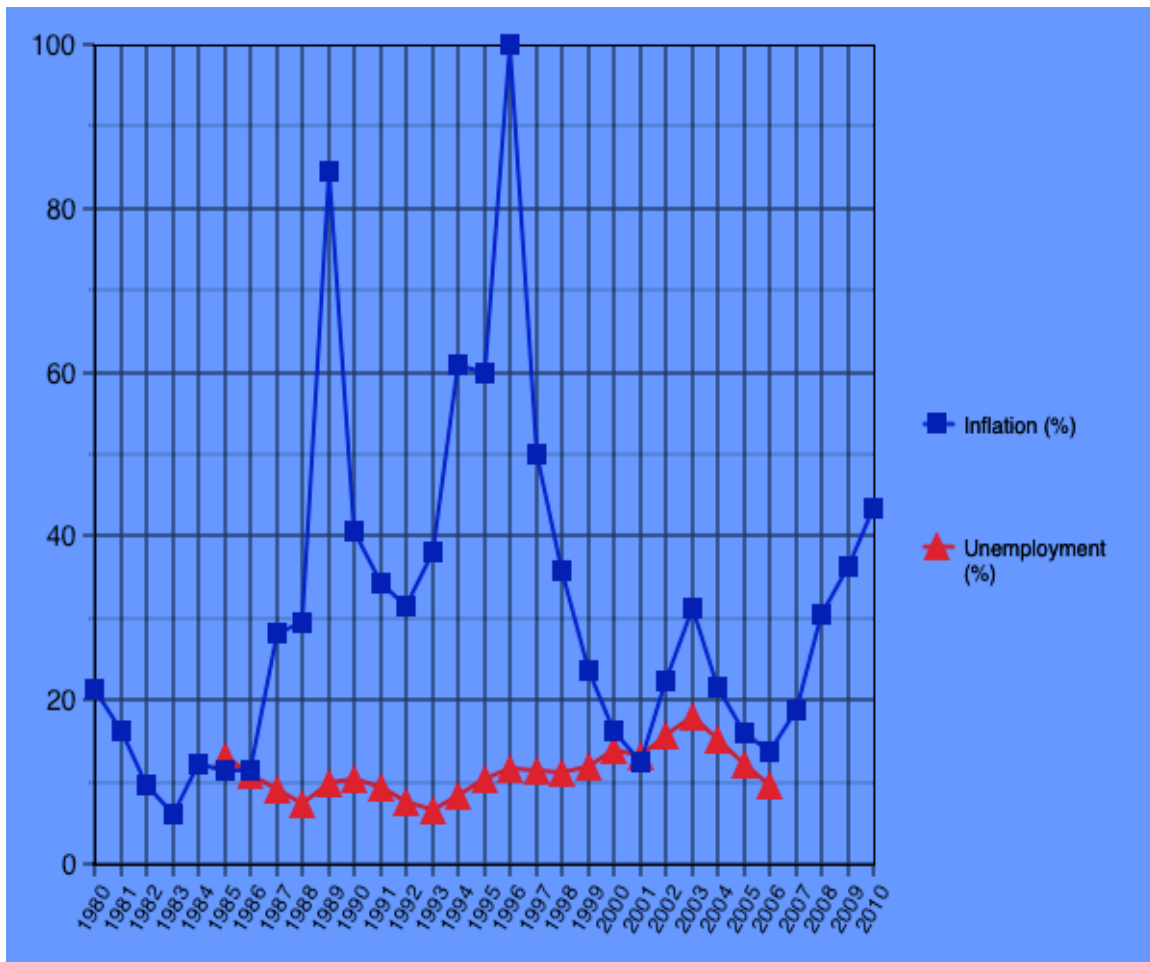
Table 2: Growth Trends in the Venezuelan Economy 1920-2002<sup>156</sup>

	Non-oil GDP (average annual growth rates*, %)	Manufacturing (average annual growth rates*, %)
1920–30	10.2	–
1930–40	2.7	–
1940–50	9.6	6.6
1950–57	9.1	15.0
1957–65	3.4	8.5
1965–80	5.7	5.8
1980–90	–0.1	4.3
1990–98	2.3	1.5
1998–2002	–1.9	–5.0

<sup>155</sup> Briceño-Leon. “Violence in Venezuela.” 2006. 316.

<sup>156</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 111.

Graph 2: Annual Inflation and Unemployment Averages in Venezuela<sup>157</sup>



Venezuela's economic history is dominated by the dynamics inflicted on it by oil rents. But there other factors have to be taken into consideration so that the deterioration of the socio-economic situation can be accurately explained. These factors are the nation's population and urbanization. Venezuela saw its population more than doubled in

<sup>157</sup> Graphs created by author with data from: International Monetary Fund. "IMF Data Mapper, World Economic Outlook April 2009 (Inflation)." <http://www.imf.org/external/datamapper/index.php>. (Date accessed August 19, 2009). 2009; International Monetary Fund. "IMF Data Mapper, Joint IMF-OECD Statistics 2009 (Unemployment)." <http://www.imf.org/external/datamapper/index.php>. (Date accessed August 19, 2009). 2009.

a period of about three decades from the time of the first oil boom<sup>158</sup>. This population pressure meant that there were a rising number of new entrants into the economy that would demand employment. To this factor has to be added the often-overlooked urbanization process. The rural-urban exodus had left all Latin American nations – since the urbanization process was common to the entire region – with over 70 per cent of their populations living in urban settings and leaving the rural semi-feudal production systems to a relative minority<sup>159</sup>. Urbanization had been seen as a synonym of modernization and an ever-rising quality of life. But the new generations of the rural migrants that were born and grew up in the urban settings did not find this to be accurate.

Urbanization brought high expectations to the rural migrants and even more to the new generations that were born in the urban settings. Many of these rural migrants, and their offspring consisted of relative low-income households. The move to the urban sphere, and being raised in it, signified an improvement of their educational and work opportunities. These expectations were enhanced by the fact that they saw some of their urban neighbors continually improving their quality of life and standards of living. In a nation such as Venezuela the process of increasing once standards of living was quite fast, which increased the expectations of the, mainly low-income, rural migrants. But many of these migrants did not see their expectations realized. They were part of an

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<sup>158</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 7.

<sup>159</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 125.

urbanization process that was highly unorganized and rather chaotic. The result was a condition that was not conducive to ever-rising standards of living.

The precarious conditions in the impoverished urban sectors were greatly affected by a large reduction of governmental interventions in these low-income sectors that their unorganized development did not allow for well functioning public services – such as water and electricity – to be included. This also led to a reduction in the presence of schools, hospitals, and police<sup>160</sup>. This acts seriously undermined the expectations that the rural migrants possessed – especially amongst young people – because the promise of upward social mobility was unfulfilled<sup>161</sup>. Thus, the nation's urbanization process had a direct effect in increasing the brutally high impoverishment of Venezuela's population after the 1980s<sup>162</sup>. Because of this economic constraint, people, especially the young, do not have an opportunity through formal channels to achieve traditional social improvement that would provide them with a respectable position vis-à-vis their family and community. The result is often that they will seek this social improvement through non-formal, meaning illegal, means that most often leads to violence<sup>163</sup>. Keeping these

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<sup>160</sup> Briceño-Leon, Roberto. "Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America)." *Nueva Sociedad*. 1999. P. 128.

<sup>161</sup> *Ibid*, 129.

<sup>162</sup> Lopez-Maya, Margarita. "Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle)." *Lateinamerika. Analysen und Berichte*. Spanish version. 2004. P. 27.

<sup>163</sup> Zubillaga, Veronica. "Los Varones y Sus Clamores: Los Sentidos de la Demanda de Respeto y las Lógica de la Violencia Entre Jovenes de Vida Vieolenta en Barrios de Caracas (Men and their Clamors: The Reasons Dehind the Demand for respect and the Logic of Violence Between Young Men and Violent Life in the Slums of Caracas)." *Espacio Abierto Cuaderno Venezolano de Sociologia*. Vol 16 No 3. July-September. 2007. P. 584.



socio-economic factors in mind, the evolution of other factors in Venezuela's developmental history will be looked at the following section to further explain the causal web of variables that aid in explaining the country's gradual rise of social violence.

### 3) *Economic Reform and Political Revolution*

The Venezuelan government of Carlos Andres Perez began to run out of hard currency, US dollars in the Venezuelan case, which was needed to maintain the policy of popular appeasement through heavy subsidies. By 1988, International reserves were negative US\$ 6.2 billion and the budget deficit reached 9.9 per cent of GDP<sup>164</sup>. Because of this, Carlos Andres Perez was elected in 1988 for a second term. Even though he was still unpopular, the other prospective candidates were even more unpopular, and the people remembered the "good times" of his first term in the 1970s when the first oil boom took place. This was an attempt by the Venezuelan people to relive the good years of the first oil boom when everything seemed to be in the best possible condition<sup>165</sup>. With his re-election and the new mandate to take Venezuela out of the hole that he helped put it in, Perez engaged in negotiations with the International Monetary Fund (IMF) and other international financial institutions in order to receive loans to service the high amounts of debts that had accumulated and to finance the balance of payments in exchange for structural adjustment. The end result of these negotiations was termed as *El Paquetazo* (literally means being hit by a packet) that contained elements of structural adjustment involving the dismantling of awkward policies in three areas of the economy,

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<sup>164</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110.

<sup>165</sup> Briceño-Leon, Roberto. "Violence in Venezuela: Oil Rent and Political Crisis." *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 322.

“state intervention, subsidization of organized private interests, and sustained increases in social spending”<sup>166</sup>. This was the typical structural adjustment formula that was based on a “Big Bang” approach: an approach that restructures the economy all at once<sup>167</sup>. But this package of reform was a complete and utter surprise to the people of Venezuela, a surprise that became very costly.

By the end of the 1980s, Venezuela began to experience a serious decrease in basic products. These shortages in basic goods were due to the decline in foreign reserves that caused a decrease in imports, as well as to the inability of the Dutch-diseased manufacturing sector to fill the demand gap. This is one of the main reasons that Carlos Andres Perez was reelected in 1988. The Venezuelan people hoped that the basic goods shortages would be overcome with the populist and redistributive policies that Perez implemented in the 1970s<sup>168</sup>. Although Perez’ campaign was focused on the very same populist rhetoric that he delivered in the 1970s, once in office his actions were contrary to his campaign promises. The term of *El Paquetazo* comes from the fact that the reform packages hit the people by surprise. The policy intentions of the Perez administration

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<sup>166</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 173.

<sup>167</sup> Auty, Richard and Raymond Mikesell. *Sustaining Development in Mineral Economies*. Oxford University Press, New York. 1998. P. 225.

<sup>168</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 320.

were hidden from the public until they were administered. The result is that the economic shock that the policies intended to cause also generated a negative social shock<sup>169</sup>.

In 1989, popular appeasement abruptly ended with a reduction of public services. As a result of *El Paquetazo*'s structural adjustment policies, the public became enraged. This particularly affected people of low-income because they depended on subsidized transportation and food. Although there were several sectors where reductions in public subsidies generated discontent, in Venezuela there is no price increase that can generate as high a level of unrest as an increase in gasoline prices. With one of the historically lowest, if not the lowest, gasoline prices in the world, the doubling of gasoline prices in early 1989 was the last drop of water that an enraged public needed to explode<sup>170</sup>. The result was *El Caracazo* of 1989 where violent protests left an official death toll of 350 people (around 1000 people dead according to unofficial sources). President Perez declared a state of emergency. Inflation hit a record high of 98.3%. He refused emergency loans that were offered by the United States, and the IMF pushed for even more structural adjustment that Perez subsequently implemented, as he saw no other viable option<sup>171</sup>. Even though the move was extremely unpopular, as clearly demonstrated by the social unrest, his policies showed evidence of having short-term positive effects on Venezuela.

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<sup>169</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 114.

<sup>170</sup> Ibid, 114.

<sup>171</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 180-181.

After structural adjustment was implemented in Venezuela under the recommendation of the IMF, capital flight stopped, the private sector was briefly revitalized, foreign investment returned to Venezuela, and the country's foreign reserves almost doubled. But the effects of the rentierist policies were too deep. Conflicts could no longer be resolved without "the lubricant of the petro-dollars"<sup>172</sup>. The Venezuelan economy was mortally wounded thanks to the rent-based development strategy. It needed something more than just structural adjustment to save it. However, in the case of Venezuela, the rentierism argument has its critics. Jonathan DiJohn (2005) explains that the economic ills that the country suffered in the 1990s – as can be seen in graph 2 – were not only the result of an oil-based development strategy but also of diminished state capacity after the neo-liberal structural reforms. The logic behind the World Bank and IMF-sponsored structural reform packages is that governments increase their capacity by reducing their burdens and competencies to "fundamental" tasks, while leaving production and services to the private sector<sup>173</sup>. But this proved not to be the case since liberalization, in Venezuela, failed to revive the private sector to a level that could take over public capacities<sup>174</sup>. Thus, the result was that the state willingly reduced its capacities and there was no other entity capable of absorbing them. Venezuelan policymakers hoped that they would be able to copy previously successful liberalizations that occurred in other countries.

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<sup>172</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 181.

<sup>173</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 108.

<sup>174</sup> *Ibid*, 109.

The architect of *El Paquetazo* was the Venezuelan Planning Minister, Miguel Rodríguez<sup>175</sup>. He envisioned the reforms as following the successful Chilean example of 1982 where economic liberalization and reform placed that country on a path of growth that endures to this day<sup>176</sup>.

The Chilean experience with economic reform was not recreated in Venezuela since the private sector was not revitalized. This was due to three factors that differed from other successful experiences with liberalization, which includes – but it is not limited to – Chile. First, low state capacity failed to create a safe environment for investment<sup>177</sup>. Table 3 shows how the already-declining investment rates in Venezuela were not stopped by neo-liberal liberalization. Second, the state was not able to prevent the massive collapse of the banking system in 1992 that resulted in a gigantic bailout equivalent to 18 per cent of the GDP – and corrupt bankers, due to poor regulation resulting from decreased state capacity, stole some US\$ 7 billion<sup>178</sup>. Claessens and Leeven (2003) show that the development and strength of the financial system was directly related to the strength of the institutional framework<sup>179</sup>. But with a reduced state

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<sup>175</sup> It is important to note here that although international organizations supported the structural adjustment packages in Venezuela, there is no evidence of them putting any kind of pressure on the Venezuelan government. Therefore, foreign interests or influence did not drive the reforms but domestic policymaking. DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110.

<sup>176</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 109.

<sup>177</sup> *Ibid*, 112.

<sup>178</sup> *Ibid*, 113.

<sup>179</sup> Claessens, Stijn and Luc Leeven. “Financial Development, Property Rights, and Growth.” *The Journal of Finance*. Vol. 58 No. 6. December. 2003. P. 2401.

capacity from rapid liberalization, the institutional framework was weakened. Third, Venezuelan policymakers did not take into account the governmental preconditions in other successful, or more successful, reforming states. In both Chile and Mexico reforms were carried out, “In the context of non-democratic continuity.” In other words, in authoritarian states, public capacities were not going to be risked since their ability to remain in power depends on it. In Peru, President Alberto Fujimori reached a consensus with the military, his political party and other political agents before implementing liberalizing reforms. Unlike these examples, Venezuela was a democratic state subject to social pressures that Chile and Mexico were not, and President Perez did not seek any kind of consensus – even within his own political party – and executed reforms as a secret bombshell<sup>180</sup>. With a severely hampered state capacity that could not prevent a banking crisis or the eventual worsening of socio-economic indicators from spiraling out of control during the 1990s, the outcome was an ever-worsening social situation and political unrest.

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<sup>180</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 118.

Table 3: Gross Fixed Investment Rates, Venezuela, 1950 to 1998<sup>181</sup>

	All investment (as % GDP)			Non-oil investment (as % non-oil GDP)		
	Total	Public	Private	Total	Public	Private
1950–60	27.7	10.5	17.2	34.8	16.9	17.8
1960–70	24.2	8.4	15.8	26.1	9.1	17.0
1970–80	34.4	10.8	23.6	36.8	9.6	27.2
1980–90	21.3	10.6	10.7	22.5	8.7	13.8
1990–98*	15.8	9.9	6.9	13.7	5.6	8.1

Notes: annual average as percentage of GDP and non-oil GDP respectively in current prices.

\*non-oil investment data for the period 1990–95 only.

In 1992, after two deadly, but unsuccessful, coup attempts to unseat Perez, the democratic pact – the Pact of Punto Fijo – which had prevailed in the country since 1958 and made it seem in the eyes of foreign scholars as an “exceptional case” showed clear signs that its foundations were crumbling. This break out of political instability and social discontent and unrest against the socio-economic ills that worsened with the banking crisis. With no petro-dollars to appease the masses, within the next two years the murder rate almost doubled in absolute numbers from 12 homicides per 100,000 inhabitants to 22 homicides<sup>182</sup>. Finally in 1993, the Supreme Court successfully impeached President Perez for embezzling \$17 million in government funds<sup>183</sup>. The Venezuelan people thought that they solved the problem by removing Carlos Andres Perez. In fact the removal of President Perez officially ended *Pactismo*, which was internationally hailed for maintaining a seemingly stable democracy. This is because in the subsequent presidential

<sup>181</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 112.

<sup>182</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 321.

<sup>183</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 183-184.

elections of 1994 Rafael Caldera was reelected for a second term without the support of any of the traditional parties (Acción Democrática, the Social Democratic party, and COPEI, the Christian Democratic party)<sup>184</sup>. The hope that the nation's woes would be resolved by the removal of the head of state proved to be a fallacy as violence and the country's crisis were not solved and were only in the early stages of their unfolding.

As the socio-economic situation worsened, criminality and deadly violence grew significantly. During the years of 1992 to 1998, the murder rate per 100,000 inhabitants remained at an all time high of about 20, this can be appreciated in graph 3. This is extremely significant in a population that before the decade of the 1990s had not seen medium or high degrees of violence<sup>185</sup>. The number of Violent protests by so-called *encapuchados* (meaning the hooded ones) peaked to an annual average of 100 from 1996 to 1998<sup>186</sup>. These *encapuchados* protested in front of university campuses – the Central University of Venezuela in Caracas was a notorious hub for their activities, and they were made up of some students and others claiming to be students. They claimed to be protesting because of the lack of social services. These shortages came as a result of the oil-bust and the inability of the government to subsidize social programs due to low international oil prices<sup>187</sup>. The crisis that the country was undergoing was getting deeper

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<sup>184</sup> Lopez-Maya, Margarita. "Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle)." *Lateinamerika. Analysen und Berichte*. Spanish version. 2004. P. 27-28.

<sup>185</sup> Briceño-Leon, Roberto. "Violence in Venezuela: Oil Rent and Political Crisis." *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 316.

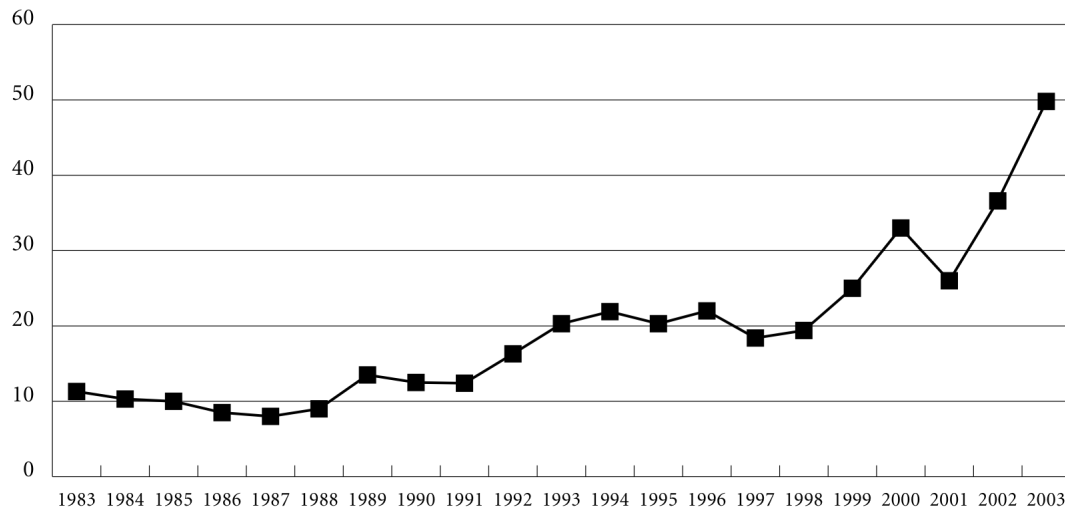
<sup>186</sup> Calzadilla, Fernando. 2002. "Performing the Political: Encapuchados in Venezuela." *TDR*, The MIT Press. Vol. 46 No. 4. Winter. 2006. P. 105.

<sup>187</sup> *Ibid*, 117.



and deeper without any action taken by the Venezuelan policymakers to try to change the nation's course. The situation was due to take another turn for the worse.

Graph 3: Homicide Rate per 100,000 inhabitants in Venezuela from 1983 to 2003<sup>188</sup>



The presidential elections of December of 1998 saw the predominant Venezuelan political parties in the worst of possible situations that they could have encountered. Their political slogans no longer resonated with the years of unlimited wealth back when the first oil-boom made Venezuelans cheer at the prospect of an ever-abundant future. But the Venezuelan people came to realize that God was not Venezuelan. They realized this after experiencing rising homicide rates. They realized this when more than 40 per cent of people were barely acquiring the most basic living wages in the informal sector<sup>189</sup>.

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<sup>188</sup> Briceño-Leon, Roberto. "Violence in Venezuela: Oil Rent and Political Crisis." *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 319.

<sup>189</sup> Calzadilla, Fernando. 2002. "Performing the Political: Encapuchados in Venezuela." *TDR*, The MIT Press. Vol. 46 No. 4. Winter. 2006. P. 117.

They realized this after the country suffered Latin America's largest drop in GDP per capita and inequality increase<sup>190</sup>.

Because of this situation, in the upcoming presidential elections, the leader of the first coup attempt against Carlos Andres Perez, Lt. Col. Hugo Rafael Chavez Frias was elected as President of the Republic. He was nominated by a new third party, testament that the old two-party political system had collapsed in what Gelb would have described as a "crisis of legitimacy" that traditional parties were undergoing since the collapse of oil prices of 1986<sup>191</sup>. Mollejas (2006) is able to further elaborate on the causes and effects of this climatic event in Venezuelan history by pointing out that:

"The inability of the original parties that signed the pact of Punto Fijo to appreciate the gravity of the newly instituted changes and the detrimental socio-economic consequences of their macroeconomic policy (unemployment and sustained inflation, apparently irreversible) along with the losing of their legitimacy and governability from a political viewpoint, opened the doors in the elections of 1998 so that they could be expelled from power by the marginalized people of the Punto Fijo pact: The impoverished and underemployed urban population which accepted the 'inclusion' proposal that was offered by the leadership of the extreme-left

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<sup>190</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International political Science Review*. Vol. 26 No. 1. 2005. P. 107-108.

<sup>191</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 292.

parties and the militarist elements that were not committed with the representative democratic order” (original in Spanish)<sup>192</sup>.

In 1999, the new left-wing leader created a new constitution that centralized more power in the executive, returning to the old traditions of *Caudillismo* and ultra-presidentialism with radical popular rhetoric that had been absent since the 1940s<sup>193</sup>. The current president has publically noted on numerous occasions that his government is a revolutionary government that would completely change the system for the people’s welfare, especially by reversing the ill effects that neo-liberal structural adjustment had on society. It is important to revisit the failure of the structural adjustment program (coined *El Paquetazo*) as it was not only a central theme in the presidential campaign of 1998 and an important factor in the Venezuelan political crisis, but was also a factor in the rise of violence.

Neo-liberal economic reform has been cited as one of the primary, if not the primary, source of the nation’s socio-economic woes by both academics and politicians. This was especially true in the early years of the Venezuelan administration that took office in 1999. Venezuela, at the turn of the millennium seemed to be a sign that the developing world was taking actions, revengeful actions, against the waves of market

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<sup>192</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 16.

<sup>193</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 107. This new constitution has allowed for the centralization of power in the executive, even though it is counter to the letter of the document, but it is one that has been found extremely easy to amend, as recent constitutional referendums show.

reforms and globalization that dominated the last decade of the 20<sup>th</sup> century<sup>194</sup>. It is obvious that economic liberalization failed in the way that it was implemented. The liberalization that took place in 1989 did not increase incentives to attract investment and generate employment<sup>195</sup>. In Venezuela, economic reform was implemented in an elitist and secretive manner that ran counter to the nation's democratic principles<sup>196</sup>. That said, there were, although short-lived, positive economic effects from liberalization since capital flight briefly stopped, the private sector showed signs of revitalization, and foreign reserves almost doubled<sup>197</sup>. This brings an important point that has to be considered when analyzing the effects of economic reforms.

The debate surrounding economic reform – in Venezuela and other countries – has often centered on the question of whether reform should or should not be undertaken, or whether it was good or bad. I believe this is worth noting because in Venezuela the reversal of economic reform began not under the Chavez administration but under the Caldera administration in 1994 until 1999, which was also elected under an anti-liberalization slogan<sup>198</sup>. Analyst Moises Naim (2001) explains that, “Contrary to the conventional wisdom, Venezuela’s problem is not too much globalization but too little.

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<sup>194</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 17.

<sup>195</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 8.

<sup>196</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 118.

<sup>197</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 181.

<sup>198</sup> DiJohn. “The Political Economy of Anti-Politics and Social Polarization.” 2005. 8.

Its current economic woes and social deterioration are the consequence not of market reforms but of the failure to reform its economy”<sup>199</sup>. Economic liberalization is too often used to provide a simplified explanation of events. This is logical considering the passionate international debate that surrounds the topic. But unfortunately the effects of such simplifications are detrimental as they lead to a significantly inaccurate analysis of events. Furthermore, the debate surrounding the issue of economic liberalization, as shown by the country’s events, brings to light a structural problem in the political economy of Venezuela that has not allowed issues that include, but are not limited to, economic liberalization from being implemented efficiently. This issue is, “The avoidance of open debates and contestation [that] has been the trademark of the democratic governments since 1958 (original in Spanish)”<sup>200</sup>. As mentioned before, the leftist administration in office since 1999 has termed itself as revolutionary. However, the politico-economic record, as it will be explained, can demonstrate that a revolution has hardly taken place.

#### *4) The Worsening of Political and Economic Variables and the Rise of Violence*

With the turn of the millennium, the leftist government introduced the new economic plan named, “Socialism of the 21<sup>st</sup> Century” where import substitution industrialization, popular appeasement through subsidization, economic laws contrary to the rules of the market, and nationalization of private industries were going to become the

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<sup>199</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol. 12 No 2. April. 2001. P. 17.

<sup>200</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 554.

norm. But in order to provide an accurate analysis of the leftist administration, the radical rhetoric should be placed aside while the policy outcomes are examined.

The policies that the new Venezuelan leftist regime set in place have not been unfamiliar. First of all, it is important to note that all policies were funded and conditioned by the oil price-boom of the early 2000s (see graph 4) that allowed for the renewal of the oil-based development strategy. In 2003, strict price and monetary controls were set, most notably were the foreign exchange controls – the Venezuelan exchange rate was fixed to 2150 Bs. (2.15 Bolivares Fuertes, meaning “strong bolivares” after a needless currency reconversion that took place in 2008 in order to create an illusion of a “strong” currency. Once again the fixed exchange rate was devaluated in January 2010 to 4.3 Bolivares Fuertes)<sup>201</sup>. But they have been implemented in the country before. The only difference about the execution of these price controls is that they have been much more enduring. As of 2010, the foreign exchange control continues, and this why the president of *Fedecamaras* (Federation of Chambers of Commerce), Noel Alvarez (2009), has called on the national executive to negotiate a removal of the foreign exchange control as it “Is more of an instrument of political control than a mechanism to safeguard the economy” (original in Spanish). Alvarez also notes that the inability of enterprises to access foreign exchange because of the exchange controls (which has allowed the development of a large black market of foreign exchange) and the threats of expropriation (a phenomenon that was not seen before in Venezuela) have been

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<sup>201</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 17.

disincentives for domestic investment. With a fall in oil-prices in 2008 and further economic radicalization, “The productive apparatus [the non-oil economy] has collapsed” (original in Spanish)<sup>202</sup>. But as table 3 shows, investment in Venezuela has been falling for over two decades now. This means that there are continuing factors in the economy that have hampered productive investment besides the political crisis, economic liberalization or reversal of liberalization, and the price volatility that an oil economy such as Venezuela would be exposed to.

Reinier Schliesser (2009), professor of developmental economics from the Metropolitan University in Caracas, explains that the ever-important factor of the oil-busts for the Venezuelan economy does not entirely explain the country’s growth slowdown. GDP growth showed signs of decline in the first quarter of 2008 when the barrel of oil stood at over US\$ 100 and preceding the international financial crisis that caused the latest oil-bust. Schliesser provides an explanation for this phenomenon – along with price and exchange controls just as Alvarez stated – the ever-increasing levels of public spending have crowded out private investment. The professor is not saying that private investment is non-existent, as the Venezuelan central Bank places it at 19 per cent of GDP. The problem is that private investment is geared towards replacing existing equipment and technologies instead of the manufacturing or purchasing of new and additional productive plants, resulting in the lack of expansion and growth of the productive sector due to governmental disincentives and the crowding out from massive

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<sup>202</sup> Campos, Freddy. “Fedecámaras Aboga por Desmontaje Concertado del Control de Cambios” (Fedecamaras Requests a Concerted Dismantling of the Exchange Controls). El Universal. August 25<sup>th</sup>. [www.eud.com](http://www.eud.com) (accessed on August 25<sup>th</sup>, 2009). 2009.

public spending<sup>203</sup>. However detrimental these policy outcomes to the economy might be, they are still not previously unknown in the country.

In Venezuela, public overspending and the crowding out of the private sector have taken place before during previous oil booms. Some experts point out that this process began with the massive nationalization process of the oil industry in 1977<sup>204</sup>. This goes to show that the institutionalization of an oil-based development strategy has steered policymaking decisions to those that would generate the Dutch Disease with an unproductive non-oil economy. However, there is one factor that has negatively affected productivity in the oil and public sector, which has not taken place in previous administrations. This factor is what Mollejas (2006) terms as the “lockout” or exclusion of political opposition elites after a two-month general strike in 2002 led by the oil workers. It was these elite that possessed the “know-how” of the oil industry and other public enterprises and after thousands of workers were fired for their political dissidence they were replaced by personnel whose only qualification was loyalty to the regime<sup>205</sup>. That note aside, an important socio-economic variable, inflation, has also shown a great deal of continuity in the Venezuelan economy.

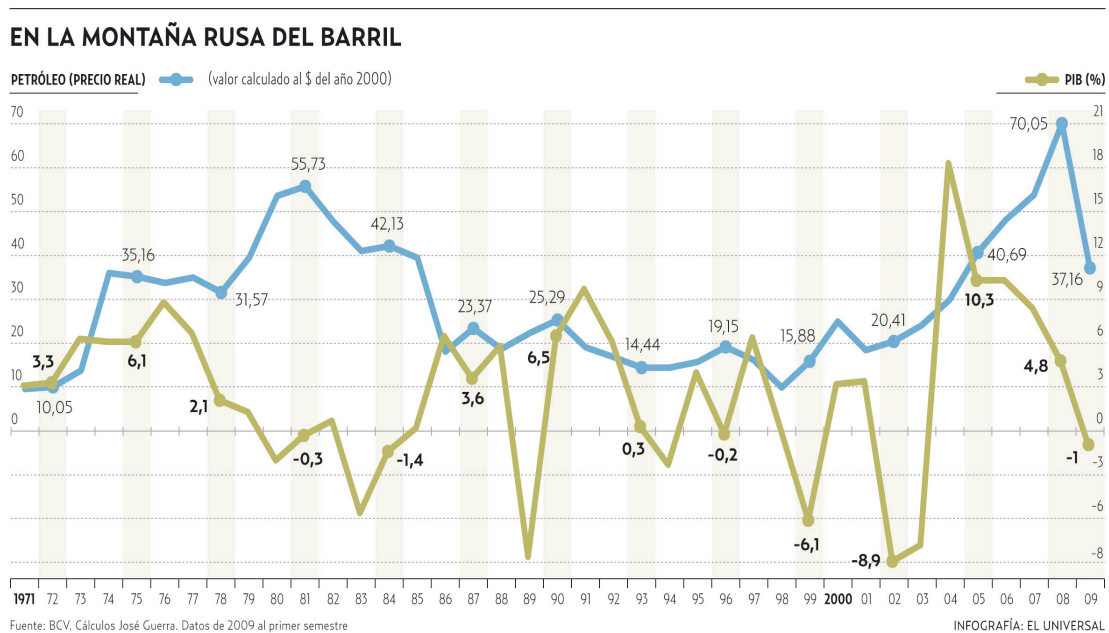
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<sup>203</sup> Salmeron, Victor. “El Petróleo Pierde Fuerza Como combustible de la Economía” (Oil Loses Strength as the Fuel of the Economy). *El Universal*. August 24<sup>th</sup>. [www.eud.com](http://www.eud.com) (accessed on August 24<sup>th</sup>, 2009). 2009.

<sup>204</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 318.

<sup>205</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 17.



Graph 4: In the Rollercoaster of the Barrel, from 1971 to 2009 (Original in Spanish)<sup>206</sup>

High inflation has long been part of the Venezuelan economy as graph 2 is able to illustrate. Even though there was a substantial dip in the annual average inflation rate at the turn of the century, coinciding with the rise of the regime, it has risen again due to the oil-boom in the early part of the current decade and the restrictions on capital movement as a result of the strict price and exchange controls. This economic indicator, and variable of the misery index, has been rising in the last few years. The rise in inflation has to be looked at with the decline in productivity, which causes a reduction in purchasing power that will directly affect the citizenry. As of 2009, the Venezuelan capital, Caracas, is the fourth most expensive city in the world in the prices of foodstuff. Aguzzi (2009) reports that the residents of Caracas “Have to spend 604 [US] dollars in order to purchase 39

<sup>206</sup> Salmeron, Victor. “El Petróleo Pierde Fuerza Como combustible de la Economía” (Oil Loses Strength as the Fuel of the Economy). El Universal. August 24<sup>th</sup>. www.eud.com (accessed on August 24<sup>th</sup>, 2009). 2009. Note: The upper line represents the real price of barrel calculated in US\$ of the year 2000. The lower line represents the Venezuelan GDP growth.

[basic] nutritional products. The capital is only overtaken by Tokyo (\$710), Zurich (\$658), and Geneva (\$633)” (original in Spanish). But the key to analyze this event is purchasing power; something that inflation can eat away. In that respect, a study performed by the Swiss financial company USB, shows that the top most expensive cities, such as Zurich and Geneva, can meet their needs, as they are also the ones with the highest amounts of personal income in the world. Whereas the residents of Caracas cannot meet their needs since the capital occupies the 53<sup>rd</sup> place in highest wages. Aguzzi also shows that another study finds that in Caracas, the average person must work 126 minutes in order to buy a Big Mac, 70 minutes for a kilogram of bread, 14 minutes for a kilogram of rice, and if they would like the luxury of an Ipod nano of 8 GB they would have to work 12 days. In contrast with the Venezuelan capital, in Santiago de Chile – where progressive socialism is promoted – its residents only have to work 69 minutes to buy a Big Mac, 37 minutes for a kilogram of bread, 36 minutes for the kilogram of rice, and 8.6 days for the Ipod<sup>207</sup>. This goes to show that the realities on the ground may be worse than the economic indicators show. I believe that this must be noted since a simple observation of the economic indicators may give the wrong impression that the economic situation has improved in the post-1999 administration. That said, the social impact of economic policies may have worsened but they have followed the same trend for over

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<sup>207</sup> Aguzzi, Maria Gabriela. “Caracas es la Cuarta Ciudad del Mundo con Alimentos Más Caros” (Caracas is the Fourth City in the World with the Most Expensive Foodstuff). El Universal. August 24<sup>th</sup>. [www.eud.com](http://www.eud.com) (accessed on August 24<sup>th</sup>, 2009). 2009.

two decades now. The socio-economic trends cut across political paradigms, just as Uslar Pietri said, Venezuela is a country “Conditioned, determined, created by petroleum”<sup>208</sup>.

Every Venezuelan administration since the first oil-boom of 1973 has used petroleum as the fuel for growth and development. In 1997, renowned political scientist and natural resource expert, Terry Lynn Karl, explained that in a mineral economy like Venezuela,

“Regime norms and practices were institutionalized that reinforced centralization over decentralization, states over markets, preemption over autonomous reaction, restrictiveness over contestation, the purchase of elite support over the autonomous organized masses, networks of complicity over broadly debated policies, politicization over administration, and appeasement over hard choices. These practices would define the behavior in the 1973 boom”<sup>209</sup>.

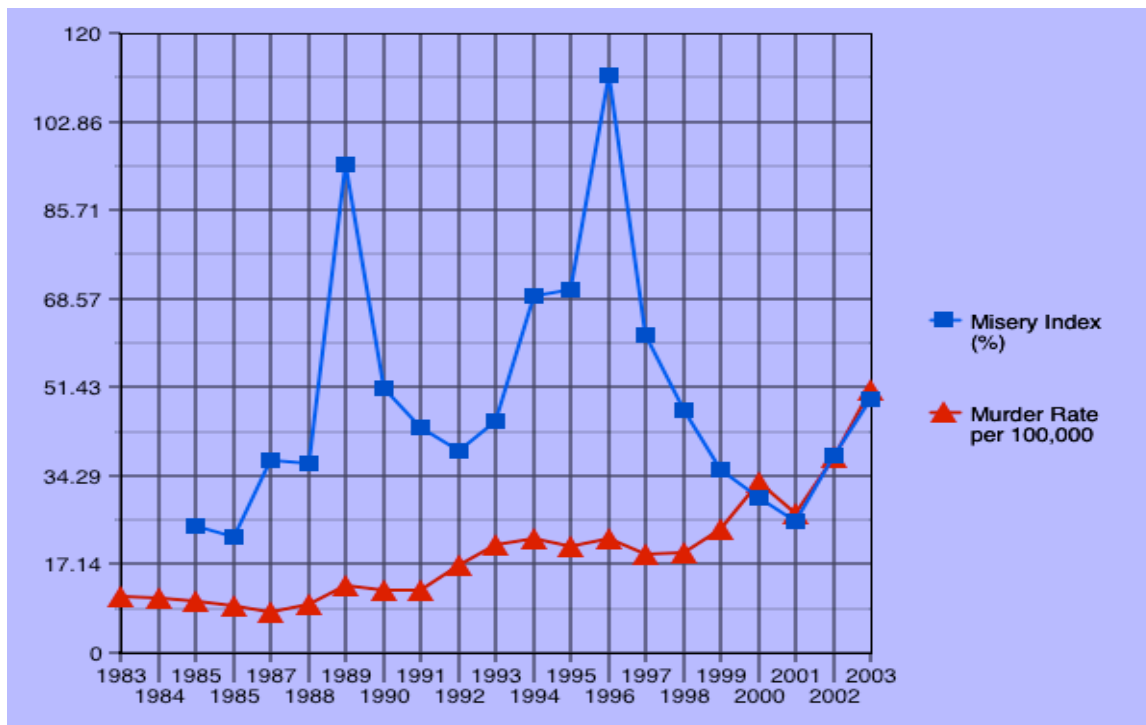
This analysis has remained valid well beyond the 1973 oil-boom. There is no difference in the framework of the Perez and the Chavez administrations. The reason being that the politico-economic framework of Venezuela has maintained it as a mineral economy dependant on petroleum revenues. Thus, it has generated a very detrimental socio-economic setting and its worst outcome yet, high and unacceptable levels of violence.

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<sup>208</sup> Quoted in Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 73.

<sup>209</sup> *Ibid*, 115.

Graph 5: The Misery Index and Violence in Venezuela from 1983 to 2003<sup>210</sup>



Graph 5 shows a correspondence between the misery index and violence in Venezuela, which may help to illustrate the nexus between a precarious socio-economic situation and high amounts of social violence. The Misery Index is a simple equation consisting of the sum of the annual inflation rate with the annual unemployment rate. Economist Arthur Okun created this equation and it is a simple but highly effective indicator of the general socio-economic situation<sup>211</sup>. As can be appreciated, the

<sup>210</sup> Graph created by author with data from International Monetary Fund. “IMF Data Mapper, World Economic Outlook April 2009 (Inflation).” <http://www.imf.org/external/datamapper/index.php>. (Date accessed August 19, 2009). 2009; International Monetary Fund. “IMF Data Mapper, Joint IMF-OECD Statistics 2009 (Unemployment).” <http://www.imf.org/external/datamapper/index.php>. (Date accessed August 19, 2009). 2009; Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006.

<sup>211</sup> Nessen, Ron. “The Brookings Institution’s Arthur Okun – Father of the “Misery Index.”” [www.brookings.edu/opinions/2008/1217\\_misery\\_index\\_nessen.aspx](http://www.brookings.edu/opinions/2008/1217_misery_index_nessen.aspx). (Accessed on March 23, 2009). 2008.

Venezuelan misery index from the year 1985 to 2003 has exhibited a highly volatile and erratic behavior. The negative effects of the rapid liberalization plan implemented under *El Paquetazo* in 1989 shows the first extreme spike in the misery index. This first misery index spike receded to much lower – but still considerably high – levels because of the positive, but short-termed, macroeconomic stabilization that structural adjustment brought<sup>212</sup>. An important note about the Venezuelan misery index is that its erratic behavior is fueled almost exclusively by the inflation rate. The Phillips Curve might explain the inverse relationship since unemployment has been kept stable and “relatively” low while inflation has been the high and volatile variable<sup>213</sup>. As explained, the positive effects of the reforms were short-lived as they were not able to prevent the subsequent banking crisis in 1992, whose effects and second extreme spike in the misery index lasted until 1996. This spike was fueled by the massive government-sponsored financial bailout equivalent to 18 percent of GDP that attempted to reinsert liquidity in the financial market but prompted inflation at the same time<sup>214</sup>. These two spikes correlated with an increase in the annual murder rate per 100,000 inhabitants. But the inconsistency within the misery index and between its correspondence with violence has to be accounted for.

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<sup>212</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 181.

<sup>213</sup> Hoover, Kevin D. “Phillips Curve.” *The Concise Encyclopedia of Economics of the Library of Economics and Liberty*. [www.econlib.org](http://www.econlib.org) (Accessed on November 4<sup>th</sup>, 2009). 2008.

<sup>214</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 113.

In the period of 1998 to 2001 the Venezuelan correspondence does not hold true as the misery index is declining while the murder rate is climbing at alarming rates. The reason for the decline in misery index after the second spike in 1996 is that there was a negative shock to aggregate demand. Between the years 1996-2001 Venezuelan GDP decreased on an average of 3.2 per cent, which is a clear indicator that the financial bail out was not able to revive the economy and petro-dollars could not be tapped to offset demand since they were at an all time low (see Graph 4). The bail-out failed in part because the increased liquidity in the banking sector was not transferred as investment in the country since a significant portion of it was being taken out of the country as the government and the banking sector were not able to generate confidence in Venezuelan investors<sup>215</sup>. After the period of 2001, and ending in 2003, the correspondence not only showed itself to be completely direct but both slopes were completely in par with each other. As illustrated by this case, when longer time-spans are examined to identify a correspondence between a worsening socio-economic situation and a rise in social violence was found. But it is also worth noting that statistically; a correspondence cannot be established in short time-spans for this specific case. Therefore, it can be preliminarily concluded that a worsening socio-economic situation does have a significant effect on violence.

The Venezuelan murder rate at the turn of the century doubled within three years. It became comparable with the Colombian murder rate, which was produced in a country

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<sup>215</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 112.

that had been suffering from a four-decade long internal conflict<sup>216</sup>. The outcome of the murder rate is even more dramatic and significant when the total numbers of murders are considered: in 1980 the total numbers of murders stood at 1,300, while in 2003 the total came to, 13,000. In a twenty-year span, when the population had barely doubled, the murder rate multiplies by a factor of ten, which is a 1,000 per cent increase<sup>217</sup>. When this is looked at in combination with a constantly rising misery index, which has for the most part remained above 35 per cent ever since 1985 (see Graph 5), the correspondence between a poor socio-economic climate and violence over longer periods of time can be confidently established. It is also important to note that extremely high misery index spikes in the 1990s were not followed by the dramatic rise that Venezuela experienced at the turn of the century, which was not accompanied by as high misery index as occurred in the 1990s. This important difference may occur because the violent outcomes from the misery index are not felt until a significant amount of time after the economic indicators show its presence. This means that the misery index may have delayed social consequences. But because of the complexity that surrounds the issue of social violence and its determinants in the Venezuelan case, along with the limits that statistical research imposes on social analysis – that is obvious as difficulties arise when using purely quantitative data to explain socio-economic phenomena – is the reason that other variables have to be examined. Furthermore, special attention has to be given to variables that are not economically deterministic so that a fuller explanation may be provided.

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<sup>216</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 316.

<sup>217</sup> *Ibid*, 316.

It has already been said by Mollejas (2006) that, “The impoverished and underemployed urban population which accepted the ‘inclusion’ proposal that was offered by the leadership of the extreme-left parties and the militarist elements that were not committed with the representative democratic order” (Original in Spanish) won the presidential election in 1999<sup>218</sup>. The new administration had, from its beginning, maintained a popular base by making monetary transfers to the impoverished sectors of society<sup>219</sup>. Since the leftist regime had to maintain its popular base it could not implement or enforce policies that would hurt its base and benefit the now vilified “oligarchs” or middle and upper classes in Venezuela<sup>220</sup>. This is why the government took up an ambiguous policy towards the issue of crime and security<sup>221</sup>. Governmental policy in this respect has worsened the negative outcomes in the field of violence.

The ambiguous policy towards security by the socialist regime has gone to the point of stating that, “the problem is not that there is insecurity in Venezuela. Rather, this improvised [theorizing] of what is happening in Venezuela [argues that the issue] is more of a ‘sensation’ of insecurity, created by...the media, who hammers on the subject thus

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<sup>218</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 16.

<sup>219</sup> Ibid, 16-17.

<sup>220</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 5.

<sup>221</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 322.



creating this generalized feeling that there is a problem that does not exist”<sup>222</sup>. Political scientist and humorist, Laureano Marquez, wrote a reaction to this specific and somewhat recent official statement, which appears below in Appendix A. But the regime’s actions go beyond rhetoric to practice as they banned all media outlets from publishing crime and murder statistics after 2003. This is the reason that the statistical information’s used ends in 2003. This suggests that the murder rate has significantly increased, although most figures provided after 2003 may or may not reflect the true reality, as they may have been fudged<sup>223</sup>. Furthermore, it shall be explained that the government’s actions have not only involved turning its back on the problem but outright support of violence from the regime’s top echelon.

Venezuelan sociologist, Roberto Briceño-Leon (2006), notes that the president of the republic has publically stated that, “ it [is] understandable that people rob when they are in need”<sup>224</sup>. Briceño-Leon also showed that the current head of the Venezuelan executive has been running a counter-culture campaign by explaining that,

“For decades the Venezuelan children were taught, ‘violence is the weapon of those, who are wrong.’ The expression has been used for preventing young people in the schools from solving their conflicts by violence, but also to discourage adults to use violence, mainly during the

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<sup>222</sup> The Devil’s Excrement. “According to Venezuela’s People’s Ombudsman Soaring Crime is Just a Sensation Created by the Media.” July 19<sup>th</sup>. [www.devilsexcrement.com](http://www.devilsexcrement.com) (accessed on September 29<sup>th</sup>, 2009). 2009.

<sup>223</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 323.

<sup>224</sup> *Ibid*, 322.

passage of a rural society to urban life. It was surprising to observe how, in his speeches of several hours transmitted by all radio and television stations, the president several times said that this affirmation ‘is not true,’ suggesting that violence can be used and trying to change an idea he knew to be deeply rooted in the population”<sup>225</sup>.

Such overt public policy can be considered as a factor explaining why the murder rate significantly rose from the years 1998-2000 when the socio-economic situation seemed to have improved in that period (see graph 5). These precarious political events, which occur during the period of an oil boom, seem to follow Friedman’s (2006) “First Law of Petropolitics,” which states that “the price of oil and the pace of freedom always move in opposite directions,”<sup>226</sup>. But this counter-culture campaign that has been promoted by the head of the Venezuelan executive can also be explained as the product of the nation’s developmental history and not only as a political tool to gain the support of popular sectors that comprise the majority of society.

Socio-economic variables, meaning the impoverishment of the population, alone may not fully explain the rise in social violence. Other factors, such as the transformation of urban centers, are often ignored since they are less visible to the eyes of analysts and journalist. This is because of their lack of sensationalism that is provided by other factors

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<sup>225</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 323.

<sup>226</sup> Friedman, Thomas L. “The First Law of Petropolitics.” *Foreign Policy*. May/June. 2006. P. 31.

such as political and economic crises<sup>227</sup>. In the 1980s the process of the rural-urban exodus accelerated and consolidated. The rural migrants were lured to the urban centers by the expectations of a better quality of life that would be provided by an ever-improving household thanks to the modernity of the urban setting<sup>228</sup>. The urbanization process that occurred in Venezuela – and was also common to the Latin American region – created two effects that have contributed to the rise in social violence. The first effect of urbanization is the breakdown of traditional institutions of social control<sup>229</sup>. The second effect is the breakdown of expectations and the rise of social resentment as the “demonstration effect” ceases to be a motivating factor in the pursuit of self and communal development<sup>230</sup>.

The Venezuelan population, and the Latin American population as a whole, was primarily located in rural environments until the second half of the 20<sup>th</sup> century. This was due to the economic legacy of colonial or semi-colonial productive systems. But due to the rural-urban exodus, the Latin American region has now well over 70 per cent of its

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<sup>227</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 124.

<sup>228</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 125.

<sup>229</sup> *Ibid*, 125.

<sup>230</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 542.

populations residing in urban environments<sup>231</sup>. When this exodus occurred, the rural migrants brought to the urban setting the traditional social institutions that allowed for the peaceful and orderly working of society. Roberto Briceño-Leon (2001) elaborates on the evolution of these social institutions. At first they were able to fulfill their role as social controllers, but he then explains that,

“The material situation of their household and of the urban environment was of slow but permanent improvement. What happens afterwards is that these conditions are altered. This is because the social institutions, in particular the family, the school and religion cease to possess the weight that they had in regulating daily life. The material situation of the households and the environment becomes more complex, thus no improvements are observed, but an increase in the number of problems due to the rise in density of the poor areas and by the reduction of actions [and interventions] by the state”<sup>232</sup>.

Since the passage from the rural to the urban environment has diminished or destroyed the effectiveness of traditional institutions of social control – and in a environment that does not fulfill their expectations of development – the new impoverished households and community lose their ability to function in an organized manner.

Adding to the previous point is that these communities are not able to substitute traditional institutions of social control because the entity that is capable of providing

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<sup>231</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 125.

<sup>232</sup> *Ibid*, 125

them – the government by actions such as with the building of schools, hospitals, community centers, and churches – is not present. This is because poor governmental planning or restricted governmental capacities and budgets did not allow for the provision of public services to the sectors where the rural migrants resettled. Also, many of these new urban sectors were comprised of low-income migrants that did not have the means to pay for basic services, which restricted their access<sup>233</sup>. After this is noted, the wisdom in the timeless words of Thomas Hobbes (1651) and their relevance to the study of violence can be appreciated.

“Hereby it is manifest, that during the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war, as is of every man, against every man... To this war of every man against every man, this also is consequent; that nothing can be unjust. The notions of right and wrong, justice and injustice have there no place. Where there is no common power, there is no law: where no law, no injustice. Force, and fraud, are in war the two cardinal virtues”<sup>234</sup>.

Since the transition from rural to urban life made institutions of social control irrelevant and government also ceased to assert its influence and control in the new low-income urban areas the result was, as elaborated by the classical work of Hobbes, an environment highly prone to violence. Furthermore, in addition to the destruction of traditional

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<sup>233</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

<sup>234</sup> Hobbes, Thomas. “Excerpts. *Leviathan*. Chapter 13: On the Natural Condition of Mankind as Concerning their Felicity, and Misery.” [www.st-andrews.ac.uk/~vlibrary/Hobbes-Leviathan-Quotes.pdf](http://www.st-andrews.ac.uk/~vlibrary/Hobbes-Leviathan-Quotes.pdf) (accessed on March 22, 2010). 1651.

institutions and lack of governmental intervention by the urbanization process, the effect of social resentment also has to be examined.

The increased expectations in the population that were created by the urbanization process had an important element within them. This element is what Naim and Piñango (1985) have termed the “demonstration effect.” They explain that, “This effect consists in the augmentation of the aspirations, wishes and ambitions of a person or group as a consequence of observing in others living standards, situations or possessions more attractive than the one that he, she or them have... Such ‘demonstration effect’ on expectations and aspirations operates in all economic brackets of society”<sup>235</sup>. This effect is the element that lies at the heart of the motivation to seek a new life, and continue that life, in the urban environment. Moreover, in the Venezuelan case, this effect becomes much more relevant than in other Latin American cases because of the nation’s unique standing as a petro-state. The progressive improvement of the household’s material situation in Venezuela occurred at a very fast pace – especially when compared to its regional neighbors<sup>236</sup>. This is because the country enjoyed a vibrant economy that possessed steady and high growth rates, which at times even constituted world records, due to the high capital injections that came from the oil rents<sup>237</sup>. Also, because of the nation’s standing as a petro-state, the influence that this factor had on the workings of the urbanization process and the “demonstration effect” is more than just economic. It also

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<sup>235</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 542.

<sup>236</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de América Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

<sup>237</sup> Naim and Piñango. *El Caso Venezuela*. 1985. 542.

has a profound socio-psychological component.

Venezuela, a rentier state, has had an urbanization process heavily influenced by a very strong and accelerated “demonstration effect.” Besides the economic workings behind this process a severely profound socio-psychological effect emerges because of the fact that the people are aware of the nation’s mineral wealth. A public opinion poll conducted at the turn of the century showed that 90 per cent of Venezuelans believed that their country was a rich one and 82 of the total population not only believe that it is a rich country, but that it is “the richest country in the world,” which is, “[a] specific reference...to the country’s oil wealth and its mineral potential”<sup>238</sup>. But even though a large proportion of Venezuelans believe that their country is the richest in the world, and they see some of their country-mates enjoying continuously rising living standards, a great many see that their reality does not match their deeply held beliefs. This is because Venezuela, in the past two decades of the 20<sup>th</sup> century saw a large increase in the poverty and inequality levels. Any socio-economic indicator is able to clearly show that poverty and inequality has significantly and alarmingly increased since the 1980s<sup>239</sup>. Therefore, there is a mismatch between the expectations that urban life and mineral wealth provide and the underdevelopment that has been experienced by the poor sections of the urban sphere. This mismatch created a socio-psychological effect that promoted an extremely volatile socio-political situation.

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<sup>238</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 20.

<sup>239</sup> Lopez-Maya, Margarita. “Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle).” *Lateinamerika*. Analysen und Berichte. Spanish version. 2004. P. 27.

The socio-psychological of the mismatch between expectations and reality affecting the poor and impoverished urban population of Venezuela led this group of people to conclude that their precarious situation in the “world’s richest nation” was due to corruption and the theft by politicians and the rich of what was rightfully “theirs”<sup>240</sup>. The result of this thinking was that a collective feeling of social resentment was formed.

The Venezuelan political crisis does not seem to have an end in sight. The current political elite has not been shy to point the finger at the middle and higher classes for being the culprits – as perceived by the impoverished urban classes - of the nation’s woes since they have stolen the massive national wealth that belongs to all Venezuelans<sup>241</sup>. This political strategy has been used with great efficacy and success by the post-1999 leftist administration because it revives the popular expectations that the people once held with the urbanization endeavor.

The accelerated urbanization process – the rural-urban exodus –that was experienced in Venezuela carried with it a Marxist element of communal development. It was envisioned that the development and continual improvement of individual households was going to be achieved as a collective. As the country developed, everybody would also enjoy that development. Sociologist Briceño-Leon (1999) explains that,

“They refer to it in different ways [referring to the expectations raised by urbanization], but in the end they all represented the same dream of social

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<sup>240</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 21-22.

<sup>241</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 5.



change and a better life. However, amongst the crisis of Marxism and fall of the Berlin wall this illusion lost weight as a force for personal motivation. What was left was a particular individualism that when it was not able to transform itself in acts framed around the new order, it became an inducing force for the systematic transgression from the social norms to the production of violent men”<sup>242</sup>.

This inability to achieve development and social mobility as a collective, and even as individuals, affects in particular the young urban poor. The result is that this segment of society – as it realized that its expectations are unattainable – replaces its desire for development with frustration and hopelessness<sup>243</sup>. These feelings are easily turned into social resentment in a society that perceives itself as rich, and as having a right to that wealth. This is a serious inducing factor for violence.

The already mentioned politico-economic factors in the Venezuelan case – such as a precarious socio-economic situation, a stagnated economy due to its rentierist framework, an increasing population, an urbanization process that created structural poverty and destroyed traditional institutions of social control, an impoverished population that thinks of itself as stripped of the right to tap into the nation’s mineral wealth, and finally, a political crisis that has been fed by tapping into the collective social resentment of the popular segments of society – may serve as an explanation of why violence has been steadily and alarmingly increasing over the last three decades. This

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<sup>242</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 130-131.

<sup>243</sup> *Ibid*, 129.

lengthy concluding statement goes to show the complex web of factors that surround the issue of the rise in social violence. No single or specific reason can be given as *the* defining factor to explain it. There are important factors that affect this case, such as oil wealth. But to understand the political economy of a particular case all intervening factors have to be included and studied, as well as their relation to one another so that a satisfactory explanation can be provided.

## CHAPTER V:

## CONCLUSION

Venezuela has seen over the period of 1983 to 2003 a 1000 per cent increase in the social violence rates – quantified by the murder rate per 100,000. It is without a doubt the Venezuelan public's number one concern<sup>244</sup>. It is understandable that the very high levels of social violence are a matter of grave popular concern since it affects all micro and macro aspects of society. It affects it in the micro level, the day to day living, as social violence decreases the standards of living, as people have to reduce activities of pleasure and business in order to reduce personal risks. At the macro level it affects the whole economy, as a violent market heavily increases the risks for investment. It also increases the risks of political pressures and instability. But just as social violence causes several effects on society, it is caused not by a single variable but by an interaction of different variables.

The variables that have been explained as being involved in gradually producing high levels of social violence are: the use of the nation's vast oil wealth in the economy since the first oil boom in 1973, the short-lived structural adjustment that sought to reform and revive the economy after 1989, the dynamics of population growth and urbanization that took place in the second half of the 20<sup>th</sup> century, and lastly, the interaction of this variables in Venezuela's developmental history have directly contributed to the nation's socio-political crisis, which has not been able to recover itself

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<sup>244</sup> International Crisis Group. "Venezuela: Accelerating the Bolivarian revolution." Latin America Briefing No 22. Bogotá and Brussels. November 5. 2009. P. 6.

to this day, and institutionalizes the collective social resentment of the urban poor against the middle and upper classes. As mentioned in the introduction no hierarchy of variables can be suggested when explaining the phenomenon of social violence because there is a complex interaction of variables where each one plays a significant role. But the final variable, the nation's socio-political crisis, has to be given particular emphasis because of its unique and very impacting role in generating social violence. This is because the institutionalization of social violence has been used as a mechanism to gain and maintain political support by channeling the collective social resentment of the people – left by the legacy of failed economic reforms and the urbanization dynamics – against the more affluent urban social spheres<sup>245</sup>.

Venezuela has often been mentioned in studies that deal with the management of natural resources and rentierism since its preconditions seem to have differed from other case studies, most of them in the Middle East. It possesses a liberal culture and democratic values rooted in western and enlightenment history. It is supposed to be the “exceptional case” in the study of rentier economies<sup>246</sup>. But a deeper analysis of the Venezuelan case reveals that superficial historical aspects do not make Venezuelan developmental history exceptional – in the positive sense – because the true legacy of that so called “exceptional case” is a precarious one that has experienced an average death toll

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<sup>245</sup> Colburn, Forrest D. “Latin America: Captive to Commodities.” *Dissent Magazine*. Vol. 56 No. 1. Winter. 2009. P. 30; Petkoff, Teodoro. “Las dos Izquierdas (The Two Lefts).” *Nueva Sociedad*. Vol. 197. May-June. 2005. P. 126

<sup>246</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 21.

of about 7,000 people each year since the 1990s due to social violence<sup>247</sup>. Arturo Uslar Pietri's – unarguably Venezuela's most important intellectual – wise advise to “seed the petroleum” so that it generates truly productive development instead of a developmental mirage that rents produce was never seriously taken<sup>248</sup>. The public industries go on to use oil-rents irresponsibly and do not pay attention to the massive multiplier-effect that generated incredibly high levels of inflation enduring to this day, which creates a detrimental socio-economic situation<sup>249</sup>.

Venezuela is no “exceptional case” so far as development is concerned. As the nation's foremost critic of the rent-based development strategy, Juan Pablo Perez Alfonso, once claimed that his country has ceased to look like a Latin American state and had become “Venezuela Saudita”<sup>250</sup>. This development strategy failed in Venezuela as it failed in many other countries. It has generated widespread misery. The Venezuelan GDP per capita plunges and inequality increases at the fastest rate in Latin America<sup>251</sup>. But although the nation's oil wealth can be pointed out as being one of the main causes of the

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<sup>247</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 319.

<sup>248</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 7.

<sup>249</sup> Gelb, Alan and Associates. *Oil Windfalls: Blessing or Curse?* Published for the World Bank by Oxford University Press. Washington D.C. 1988. P. 321.

<sup>250</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 73.

<sup>251</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 107-108.

precarious socio-economic situation, other factors had a significant role in producing the deteriorated state.

Venezuela had an illiberal economic framework even before the first oil-boom. In Venezuela, the new democratic governments that came after 1958 followed an economic framework where protectionism and import substitution industrialization were the rule<sup>252</sup>. These illiberal, or less than liberal frameworks, allowed the Dutch Disease to rapidly infect the country.

The antecedent of illiberal economic frameworks facilitated the resource curse effects of the Dutch Disease in Venezuela because it was composed of high import tariffs, and other non-tariff barriers, and international uncompetitive non-oil industries that caused a detrimental economic situation as shown by the country's misery index<sup>253</sup>. The nation also had the pressure of population growth. In Venezuela, where the population doubled since the first oil-boom, the increase of the birth rate has aided in the GDP per capita reduction, thus increasing the negative effects of rising inflation and a reduction of the people's purchasing power<sup>254</sup>. Because of the socio-economic pressures that the nation's developmental history created by the late 1980s, the country was in a position where it had to make the hard choice of structural economic reform.

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<sup>252</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 13.

<sup>253</sup> DiJohn, Jonathan. "Economic Liberalization, Political Instability, and State Capacity in Venezuela." *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110-111.

<sup>254</sup> Mollejas . *Los Limites de la Revolución*. 2006. P. 15.

The year 1989 is a key historical year that forever changed the course of history and of the international order. Venezuela was no exception as in this year it underwent the changes brought by the international system and its own domestic political economy. In Venezuela, the socio-economic pressures for structural adjustment became too great not only because of the shift of the international order to a single liberal regime but because of the failures of the rent-based development policy and the highly detrimental socio-economic effects that they produced.<sup>255</sup> It is important to note that in Venezuela, the shift in the international order had far less impact than in other developing nations that also went through the process of structural adjustment. In the Venezuelan case, a nation that – until the emergence of the leftist regime in 1999 – had very close and progressive relations with the United States, was not so much compelled to reform because of the influence of the new unipolar system headed by its historical ally. There is no evidence of any significant pressure by the American-based international financial institutions to press for the 1989 reforms, even though they supported them<sup>256</sup>. The international influence to reform in Venezuela seems much more localized since it came from inside the Latin American region. The architects of the Venezuelan reforms tried to follow the 1982 Chilean example, which took place before the shift of the international order from a bipolar to a unipolar regime<sup>257</sup>.

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<sup>255</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 110.

<sup>256</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 110.

<sup>257</sup> *Ibid*, 109.

The liberal reforms of 1989 attempted to place Venezuela back on a path of growth and development by a simple readjustment of macroeconomic policies such as fiscal austerity (reduction of public subsidies) and trade liberalization. But the economic indicators did not show the positive results that were expected. In Venezuela, the economic indicators – with special attention to socio-economic indicators like the misery index – worsened, and brought the grave ills of violence and death with them. Graph 3 will show a direct correspondence between a high misery index and violence in Venezuela. The quantitative data suggests that a high misery index, as a contributory cause for violence does not have an immediate effect but a delayed one. In the data set, high peaks of violence came between two to seven years after a peak of the misery index. In addition to the economically deterministic factors, other variables must also be considered.

A very important variable that helps generate the high levels of social violence in Venezuela are its dynamics of population growth and urbanization. The Venezuelan population more than doubled since 1973<sup>258</sup>. Moreover, this population growth has to be seen in light of the country's urbanization process. This process consisted of a rural-to-urban exodus that accelerated and consolidated in the second half of the 20<sup>th</sup> century. By the 1980s, Venezuela had over 70 per cent of its population living in urban areas. The rural migrants were lured to relocate by the prospect of attaining a “modern” lifestyle and

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<sup>258</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 4.



conditions in the urban settings<sup>259</sup>. Also, many of the rural migrants were affected by the fact that they saw other Venezuelans living in the urban settings and rapidly improving their living conditions. Naim and Piñango (1985), call this process the “demonstration effect,” as other people see the tangible results from “development”<sup>260</sup>. It is this socio-psychological effect that worsened the social situation in the new and impoverished urban areas.

The urbanization process was largely unplanned and unorganized. The subsequent generations of the rural migrants that were born in the urban settings did not have their expectations realized and in fact they saw their living standards worsen<sup>261</sup>. The fact that some people, especially the young ones, do not see a viable and formal alternative to achieve social mobility prompts them to achieve it through illegal and often violent means<sup>262</sup>. But even though a detrimental socio-economic equation can confidently be pointed out a factor that causes social violence, sociologist Briceño-Leon (1999) says that poverty is exaggerated as the instigator of violence. He explains that in the passage from

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<sup>259</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 125.

<sup>260</sup> Naim, Moises and Ramon Piñango. *El Caso Venezuela: Una Ilusión de Armonía* (The Case of Venezuela: An Illusion of Harmony). Ediciones IESA. 2nd Edition. Caracas. 1985. P. 542.

<sup>261</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

<sup>262</sup> Zubillaga, Veronica. “Los Varones y Sus Clamores: Los Sentidos de la Demanda de Respeto y las Lógica de la Violencia Entre Jovenes de Vida Vieolenta en Barrios de Caracas (Men and their Clamors: The Reasons Dehind the Demand for respect and the Logic of Violence Between Young Men and Violent Life in the Slums of Caracas).” *Espacio Abierto Cuaderno Venezolano de Sociologia*. Vol 16 No 3. July-September. 2007. P. 584.

rural to urban life the influence of traditional institutions of social control – the family, the school, and religion – were severely diminished and unable to check the increasing tendency to violence growing amongst the youth in the impoverished urban sectors<sup>263</sup>. Furthermore, there are no substitute institutions of social control because the government withdrew from the popular urban areas<sup>264</sup>. This means that public schools, hospitals, churches are not being build. There is little or no presence of security forces to help curb the rising violence that spreads in and around the popular urban areas. The impoverishment and hopelessness created by the urbanization process has become a source of fuel for Venezuela’s political crisis and further escalation of violence.

In Venezuela, the full collapse of the *Pactismo* (pact-making) system of the Punto Fijo pact that followed the political crisis significantly contributed to the dramatically high levels of violence<sup>265</sup>. This is because this collapse, which begins in 1994 with the inability of the traditional parties to win the presidential election and agree on a platform that would address the nation’s needs, created an institutional vacuum in the country<sup>266</sup>. This vacuum went on to be filled in the presidential elections of 1998 by a political group

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<sup>263</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza.” 1999. P. 125.

<sup>264</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

<sup>265</sup> Briceño-Leon, Roberto. “Violence in Venezuela: Oil Rent and Political Crisis.” *Ciência & Saude Colectiva*. Vol. 11 No. 2. April/June. Rio de Janeiro, Brazil. 2006. P. 325; Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 16.

<sup>266</sup> Lopez-Maya, Margarita. “Venezuela 2001-2004: Actores y Estrategias en la Lucha Hegemónica (Venezuela 2001-2004: Actors and Strategies in the Hegemonic Struggle).” *Lateinamerika*. Analysen und Berichte. Spanish version. 2004. P. 27-28.

that gained tremendous popularity amongst the popular masses by offering an inclusionary discourse that exploited and institutionalized their collective social resentment against their poor socio-economic situation<sup>267</sup>.

Social resentment was exploited and institutionalized as a very effective political tool because of the popular belief by Venezuelans that they live in one of the richest, if not the richest, country in the world<sup>268</sup>. This belief is enhanced by the “demonstration effect,” where people think that their belief of living a very rich country is true. Therefore, a mismatch between perceptions and reality is created. This is because the reality for the majority of the rural migrants, especially the new generations, is one of poverty and unachieved expectations of development and upward social mobility<sup>269</sup>. Therefore, the anti-politics and anti-oligarchy rhetoric (referring to the previous governmental elites and the middle and upper classes) set forth by the post-1999 leftist regime directly resonated with the deepest feelings held by the impoverished urban population<sup>270</sup>. The politically volatile socio-psychological variable of social resentment – in combination with an impoverished urban population that had lost its institutions of social control is a catalyst for the rise of social violence in Venezuela. This would greatly

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<sup>267</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 16; DiJohn 2005b, 5.

<sup>268</sup> Naim, Moises. “The Real Story Behind Venezuela’s Woes.” *Journal of Democracy*. Vol 12 No 2. April. 2001. P. 20.

<sup>269</sup> Briceño-Leon, Roberto. “Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America).” *Nueva Sociedad*. 1999. P. 128.

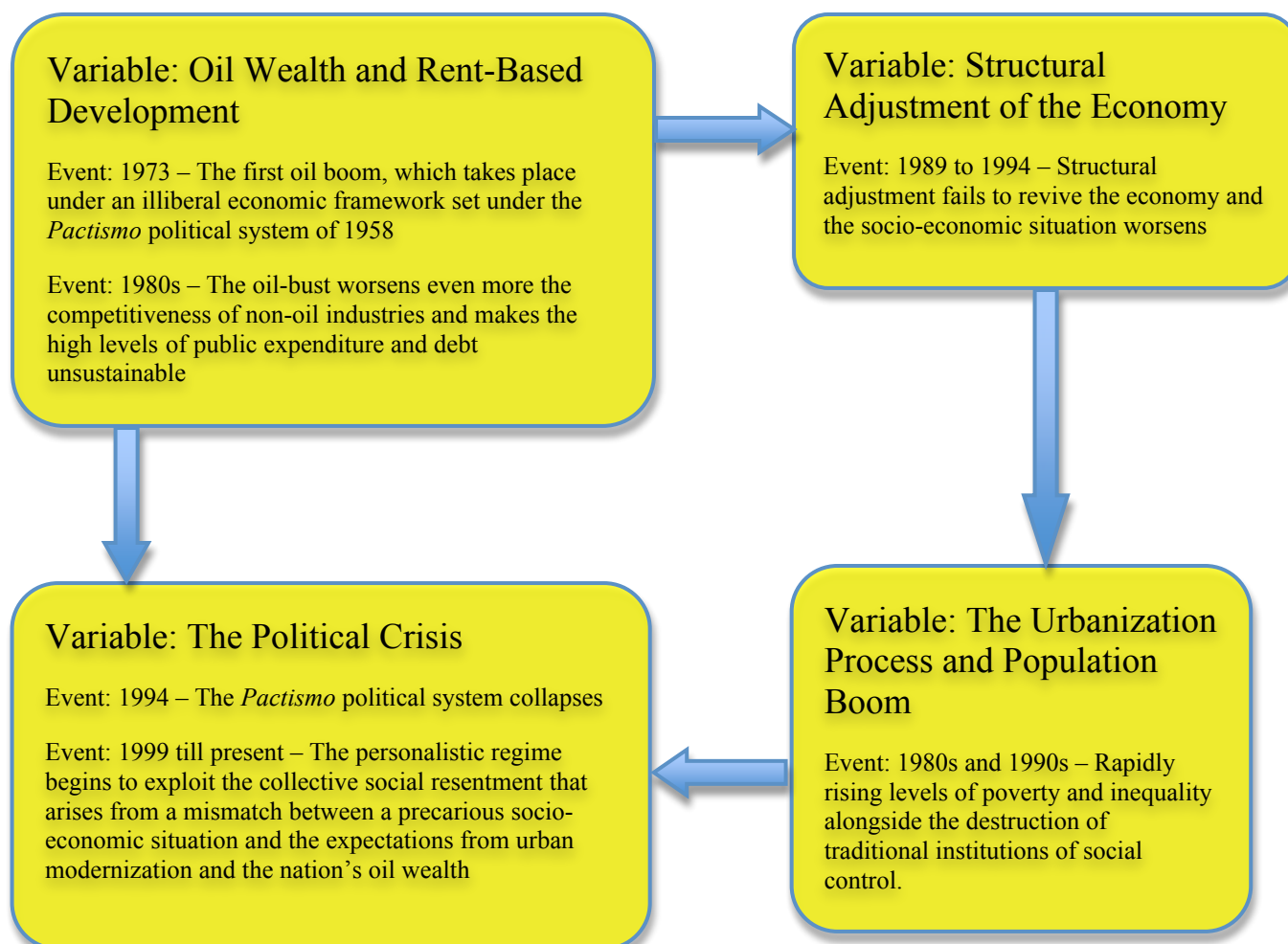
<sup>270</sup> DiJohn, Jonathan. “The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004.” Crisis States Research Center. Working Paper no. 76. December. 2005. P. 5.

aid to explain why at the turn of the millennium the already rising murder rate doubled in such dramatic fashion (see Graph 3).

The analysis presented above provides a preliminary conclusion to this thesis' master question and hypotheses. The following and final section will provide some insight into the possible solutions for Venezuela's woes.

Diagram 1: The Interaction of Variables and Events that Produced Social  
Violence in Venezuela

The interactions amongst the variables in the context of events that took place in Venezuela since the 1980s results in a 1000 per cent increase in social violence.



1) *Policy Recommendations*

*“[To reverse rentierism and the resource curse] petro-states should simply remake themselves”*

*Terry Lynn Karl, Political Scientist<sup>271</sup>.*

Terry Lynn Karl’s (2007) notes that, “The ‘resource curse’ is primarily a political, and not an economic phenomenon”<sup>272</sup>. Okruhlik (1999) explains that the rentierism framework was sometimes inadequate to explain events in mineral states because it “places political choice behind economic rational”<sup>273</sup>. Therefore any policy recommendation to reverse rentierism and its effects of precarious socio-economic conditions would have to spring from the politico-economic framework.

Until recent years the primary policy recommendations to undo the detrimental socio-economic effects of the resource curse have been limited to macroeconomic adjustments that have been part of the early 1990s neo-classical set of structural adjustments. Within the structural reform package privatization was always included since it was seen as the means to limit the inefficient role of the public sector and increase productivity. But now the ill effects that rapid privatization had on emerging and transitioning economies have been well documented. Privatization was performed

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<sup>271</sup> Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 270.

<sup>272</sup> *Ibid*, 256.

<sup>273</sup> Okruhlik, Gwenn. “Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States.” *Comparative Politics*. Vol. 31 No. 3. April. 1999. P. 295.

without a strengthened institutional framework<sup>274</sup>. A poor strategy for privatization can result in a severely decreased state capacity – as is explained in the Venezuelan case study – that reduces the government’s ability to manage, or prevent, crisis situations effectively and allows the problem to worsen<sup>275</sup>. But this is not to suggest that privatization is undesirable. On the contrary, privatization is desirable, in the hydrocarbon industry and for the whole economy. This is not so much because it increases efficiency and productivity. Public enterprises like those in Norway have proven that a public enterprise can be as efficient, productive, and transparent as a private enterprise. But in the case of developing countries, privatization may reduce government spending on public works thus lowering the need for international loans. Privatization must be carried out against the backdrop of strengthened institutional frameworks, with special attention to the private property rights system<sup>276</sup>.

Just like privatization, previously implemented structural adjustment programs have tackled fiscal policy reform. Petro-states have been encouraged by these programs to be more fiscally responsible and transparent and to avoid rent-seeking behavior. They have also been encouraged to reduce the supply of circulating currency to reduce inflation. Even though these fiscal recommendations are economically sound they have

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<sup>274</sup> Stiglitz, Joseph E. “What is the Role of the State?” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 23-52. 2007. P. 23, 27.

<sup>275</sup> DiJohn, Jonathan. “Economic Liberalization, Political Instability, and State Capacity in Venezuela.” *International Political Science Review*. Vol. 26 No. 1. 2005. P. 108.

<sup>276</sup> Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 270.

not aided in any significant way to reduce the detrimental socio-economic effects seen in mineral-rich economies. This is because the detrimental effects of hydrocarbon-led development are rooted in the political framework.

Simple macroeconomic adjustments to remedy a mineral economy's woes such as the reduction of money supply and balancing the fiscal budget are not enough since the political framework has to be reformed. The way to go about this task is with socio-political agreements. Karl (2007) proposes that all domestic and international actors abide by a "social fiscal contract"<sup>277</sup>. The substance of this "social fiscal contract" would be geared towards the prevention of rent-seeking behavior. The Kingdom of Norway was successful in generating such a "social fiscal contract" when it did not change its revenue base, income and corporate taxes, for oil rents from newly found, and massive, oil wealth in the 1970s. By maintaining a diversified tax-base, and bringing its plentiful oil revenues under strict fiscal control – as was democratically agreed with a population that has a direct stake in public policy through taxation – the outcome of such wise administration cannot be ignored. Norway now occupies the number one spot in the human development index<sup>278</sup>. But it must be noted that good natural resource management is not enough to reverse the negative effects from an ill-advised development strategy in developing countries that do not possess the historical and institutional preconditions of a developed country, which Norway possessed. Productivity of the non-oil economy has to increase to generate substantive and sustainable development, thus ending the vicious cycle of

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<sup>277</sup> Karl, Terry L. "Ensuring Fairness: The Case for a Transparent Fiscal Social Contract." Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 257.

<sup>278</sup> *Ibid*, 273.



rentierism<sup>279</sup>. The outcome of such a change would generate new employment opportunity – reducing the unemployment rate, – and that can increase the supply of goods so that the ratio of the amount of currency chasing the amount of goods is lowered – reducing the inflation rate. This would help to reduce the harmful socio-economic effects that provide a helping hand in generating violent outcomes.

Luciani's (1987) explanation, which says that oil is not a product that is important in its original state, means that its importance to the exporting country comes from the revenues that it brings. Therefore, one can deduce that macroeconomic productivity can be increased – and avoid rentierism – by diversifying exports to finished products. This is because with a finished product would have a practical importance other than just the revenue that it provides<sup>280</sup>. Therefore, in order to increase productivity there has to be an increase in productive investment something that has been largely absent in mineral economies.

Productive investment has been historically financed by oil-rents within petro-states. Because of the effects of the Dutch Disease oil-rents have been geared to finance projects within the oil industry that are geared to expand the rent-seeking industry. This expands industries that do not produce new productive employment opportunities or a reduction in the wage-hurting inflation rates. In order to generate productive investment from a source that other than hydrocarbon revenues – in order to avoid the detrimental

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<sup>279</sup> Luciani, Giacomo. "Allocation vs. Production States: A Theoretical Framework." Eds. Luciani, Giacomo and Hafez Beblawi. *The Rentier State*. Instituto Affari Internazionali. Beckenham and New York. P. 63 – 82. 1987. P. 69

<sup>280</sup> *Ibid*, 67.

economic phenomena such as rentierism and the resource curse – the country’s financial sector must be developed<sup>281</sup>. Claessens and Leeven (2003) argue that financial development fosters growth at both the macroeconomic and microeconomic level<sup>282</sup>. They note that there is less economic growth in countries with underdeveloped financial sectors, as their firms do not possess adequate access to finance in order to expand productive activities<sup>283</sup>. The authors also explain that the development of the financial sector is directly related to the strength and development of property rights. There is a direct correlation between property rights development and financial sector development<sup>284</sup>. This is not only because strengthened property rights reduce and may even prevent the possibility of arbitrary expropriation – which allows for a healthier and more attractive investment climate – but because they allow firms to use intangible assets as collateral for loans and not only tangible assets that are harder to acquire and make the availability of finance much more exclusive<sup>285</sup>. Only a developed property rights system can secure returns on intangible assets, which is what allows them to be used as collateral, thus expanding the access to finance<sup>286</sup>. Also, underdeveloped or poorly

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<sup>281</sup> Kpodar, Kangni. “Why Has Unemployment in Algeria Been Higher than in MENA and Transition Countries?” IMF Working Paper. August. 2007. P. 21.

<sup>282</sup> Claessens, Stijn and Luc Leeven. “Financial Development, Property Rights, and Growth.” *The Journal of Finance*. Vol. 58 No. 6. December. 2003. P. 2401.

<sup>283</sup> Ibid, 2403.

<sup>284</sup> Ibid, 2401.

<sup>285</sup> Ibid, 2402.

<sup>286</sup> Ibid, 2403.

functioning financial institutions lead to the misallocation of resources<sup>287</sup>. Misallocation of resources is exactly what takes place under the effects of the resource curse and the Dutch Disease.

Political scientist, Terry Lynn Karl (2007), explains that in order for a petro state to reverse the outcomes of rentierism, such as the resource curse, and especially the very detrimental socio-economical effects of the Dutch Disease they should,

“Diversify away from oil and use market mechanism [including a liberalized trade and currency exchange, privatization and deregulation] to guarantee macroeconomic stability. To prevent the Dutch Disease...they ought to improve productivity in agriculture and industry and reform their financial sectors. They should ‘sterilize’ their petroleum revenues by saving them in an oil trust fund abroad, thereby avoiding overheating by introducing them gradually into the economy. They should cut public spending and avoid popular public works programs with immediate payoffs. Finally they should provide a stable environment for property rights [so that access to finance and productive investment can occur] and drastically limit their own role, possibly by privatizing the petroleum industry [but after basic state institutions have been strengthened]. And they should do all of this while improving their judicial system to better fight corruption. In short, petro-states should simply remake themselves.

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<sup>287</sup> Claessens, Stijn and Luc Leeven. “Financial Development, Property Rights, and Growth.” *The Journal of Finance*. Vol. 58 No. 6. December. 2003. P. 2431.

But such prescriptions do not take into account the fundamental reality: *what is often economically inefficient decision making is an integral part of the calculation of rulers to retain their political support by distributing petrodollars to their friends, allies, and social support bases*” (emphasis in original)<sup>288</sup>.

Karl is able to synthesize all of the policy recommendations that have been put forward by almost all of the experts in the field of rentier political economy. She is also able to point out the fundamentally important challenge that sovereignty places on switching to a more efficient, productive and sustainable developmental path where socio-political violence can be avoided. The exclusion of traditional elites in Venezuela is an example of Karl’s final point.

One important conclusion that can be drawn from analysis of the Venezuelan case is the danger of destroying or excluding traditional elites. The Venezuelan case exhibits severe effects from the exclusion or destruction of traditional elites as it occurred twice during the country’s history. The first time was during the early 19<sup>th</sup> century after independence was achieved. The traditional Spanish and *Criollos* (Venezuelan-born Spaniards) elites and their institutional frameworks were destroyed by a bloody independence war that killed 40 per cent of the country’s contemporary population. This prompted the rise of authoritarian regimes because of the havoc left by the absence of an

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<sup>288</sup> Karl, Terry L. “Ensuring Fairness: The Case for a Transparent Fiscal Social Contract.” Eds. Humphreys, Macartan, J.D. Sachs and J.E. Stiglitz. *Escaping the Resource Curse*. Columbia University Press. New York. 256-286. 2007. P. 270.

established governmental institutional infrastructure<sup>289</sup>. In 2002, the second episode occurred where traditional elites were destroyed or excluded. The traditional elites working in the oil industry, and other public institutions entered into a two-month long general strike that failed to meet its goals of forcing the president to resign and to call for new presidential elections. After the regime emerged victorious it proceeded to fire and exclude from all public enterprises all of the 18,000 professionals, which were part of the traditional elites, which took part in the general strike<sup>290</sup>. Graph 4 is able to show that after the “lockout” of the traditional elites, the Venezuelan annual GDP growth plunged to negative 8.9 and remained around that low level for about two years. Thus severely affecting productivity and worsening the socio-economic situation. The latter episode of exclusion of the traditional elites constitutes part of Venezuela’s political crisis.

This conclusion has given particular emphasis to possible remedies to the economic woes of Venezuela, which are directly linked to the economies oil dependence. Policy recommendations for the country’s social and political woes are much more complicated. This is because problems such as the political crisis and urbanization have developed over several decades. Therefore, their remedies will also have to take a significant amount of time to have the desired effect. In relation to the urbanization process, it is clear that an economic recovery will not suffice, as the institutions of social

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<sup>289</sup> Karl, Terry L. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press. Berkeley and Los Angeles. 1997. P. 74-75.

<sup>290</sup> Mollejas, Luis Meta. *Los Limites de la Revolución: Petróleo y Gobernabilidad* (The Limits of the Revolution: Petroleum and Governability). School of Social and Economic Sciences. Central University of Venezuela Press. Caracas. 2006. P. 17; Mähler, Annegret. “Oil In Venezuela: Triggering Violence or Ensuring Stability? A Context-sensitive Analysis of Ambivalent Impact of Resource Abundance.” German Institute of Global and Area Studies (GIGA). Working Papers no 112. October. 2009. P. 26.

control have to be replaced or regenerated so that the violent culture or the propensity for violence, especially amongst the youth, can be significantly reduced<sup>291</sup>. The political crisis will be resolved when the current populist and personalistic regime ends and is replaced by organized political institutions<sup>292</sup>. It is clear that Venezuela's social and political woes have contributed to the rise of social violence and will necessitate ample time to be resolved. This conclusion may seem pessimistic about the future possibility of positive developments taking place in the more immediate future. But there may still be hope.

Most often the Kingdom of Norway is the exemplary country that is put forward as the one that has, from the beginning, avoided rentierism and its detrimental socio-economic effects. But it is acknowledged by those who use the example of Norway that it is a country whose initial preconditions are very different from other mineral economies as it was a developed country with a strong institutional system *before* the exploitation of mineral endowments in the 1970s. This differs from the common experience of developing countries that have tried to develop after the exploitation of mineral wealth, with catastrophic results<sup>293</sup>. Moises Naim (2009) provides successful examples of developing mineral economies – although they are mineral economies they are not petro-states. Naim asserts that the mineral countries of Chile and Botswana have both avoided

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<sup>291</sup> Briceño-Leon, Roberto. "Violencia y Desesperanza: La Otra Crisis Social de America Latina (Violence and Hopelessness: The Other Social Crisis of Latin America)." *Nueva Sociedad*. 1999. P. 131.

<sup>292</sup> DiJohn, Jonathan. "The Political Economy of Anti-Politics and Social Polarization in Venezuela 1998-2004." Crisis States Research Center. Working Paper no. 76. December. 2005. P. 1.

<sup>293</sup> *Ibid*, 273.

rentierism and the resource curse. He goes on to explain that, “Their experiences confirm what we know is needed to inoculate a country from the oil curse. But why they were able to do so is still a mystery. Answers such as ‘good leadership,’ ‘strong governance,’ and ‘reliable institutions’ only serve to mask our ignorance. Unlocking the secret of what enabled these two poor countries to successfully lift the resource curse can spare millions from the devil's excrement. But nobody has done it yet”<sup>294</sup>.

Moises Naim's suggestion that successful experiences in developing mineral economies should be given much closer study to analyze and compare the causes, and preconditions, of positive outcomes and if they are compatible with the preconditions and current situation of countries such as Venezuela. It is also important to note that this present study has focused on a politico-economic analysis linked to the developmental strategies and history of the Venezuelan case in order to bring about a possible explanation for the appearance of high socio-political violence. This study does not include other technical factors such as the availability and effectiveness of police forces and of the criminal judicial system. These are factors that also ought to be analyzed. The causes of high socio-political violence are definitely a multi-variable phenomenon. Thus, the reversal of Venezuela's social violence and its other woes will have to be comprehensive of all of its different causes so that real and positive development can be achieved.

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<sup>294</sup> Naim, Moises. “The Devil's Excrement: Can Oil-Rich Countries Avoid the Resource Curse?” *Foreign Policy*. September/October. [http://www.foreignpolicy.com/articles/2009/08/17/the\\_devil\\_s\\_excrement](http://www.foreignpolicy.com/articles/2009/08/17/the_devil_s_excrement) (Accessed on September 19, 2009). 2009.

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## Appendix A

“It has been said this week in Venezuela that this is not a country without security, but it is a country in which we live a ‘sensation’ of insecurity. Everyone has attacked the author of the phrase, without realizing that the postulate is a transcendental concept that even is philosophically impeccable. To me, this stuff takes us back to Kant, the German philosopher, who understood the concept of sensation as ‘the effect over the representative faculty, as far as we are affected by it.’

Who can assure the more than 59 people that died last week in Caracas that they are truly dead? Do we have the capacity of involve ourselves in spiritual insights? Probably, Kant and his Ombudsman would say that ‘the object’, the lead bullet, produced over “the representative faculty” of the victim the ‘sensation. of dying. The only difference with other vitals sensations is that this will be a lasting and definitive sensation, but that takes nothing away from it.

Probably the relatives have the sensation that they buried him and the morgues the sensation that they collapsed...I will go even further; Do you, dear reader ever have a feeling that we only have a sensation of Government, that this shit can not be happening?

Have you ever thought when oil prices go up beyond one hundred dollars and you keep contemplating the same poverty, that what we have here is a sensation of wealth? When you hear the corresponding Minister saying that he is going to end with the workers and that he will lessen their working conditions imposed by the –employee-Government, that what we have here is a sensation of socialism? Don’t you have the sensation that here what they are doing is ripping off the money shamelessly? With what happened in

Curiepe don't you get the feeling that people are getting pissed and that the 'people' have the sensation that they are being screwed and that is why they are going to shut down radio stations so that people do not have the sensation that they have sensations? To me, by now, I have no doubt; Venezuela is a country, which is: Sensational!"<sup>295</sup>

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<sup>295</sup> Quoted in The Devil's Excrement. "According to Venezuela's People's Ombudsman Soaring Crime is Just a Sensation Created by the Media." July 19<sup>th</sup>. [www.devilsexcrement.com](http://www.devilsexcrement.com) (accessed on September 29<sup>th</sup>, 2009). 2009.