

Documento de Trabajo

Working Paper

**A Petro-State: Oil, Politics and Democracy
in Venezuela**

Manuel Hidalgo

6/11/2007

Working Paper 49/2007

A Petro-State: Oil, Politics and Democracy in Venezuela*

Manuel Hidalgo**

Introduction

The vast oil revenues that Venezuela has received in recent years have re-opened a debate on the destination and impact of this source of income. When Hugo Chávez came to power in 1999, the price of Venezuelan oil did not exceed US\$10/barrel. Last year it fetched an average of US\$56.70. This increase forces us to ask questions about how oil revenue is used to develop the country, the way this revenue has affected relations between the State and society, its influence on the nature and evolution of the political regime and, last but not least, the role of petro-dollars in Chávez's foreign policy.

These issues are nothing new for the people of Venezuela, who lived through oil booms in the 1970s and 80s. However, the new increase in oil prices seems to be structural, and Venezuela's ruling elite of civilian and military leaders are pushing a political agenda that is different from the one applied in the previous four decades. Therefore, this contrast between the two periods facilitates an analysis of longer-term trends and allows us to discern a few keys as to what is happening in that country.

The central argument of this article is that the Chávez government has accentuated the practice of '*rentismo*' and strengthened the Petro-State in comparison to earlier periods. '*Rentismo*' –from the Spanish word '*renta*', ie, income or revenue– or '*rentierism*' is the practice whereby a government uses a single resource, or source of revenue, as the pillar of the economy and its main tool to manage the country, rather than develop and diversify the economy with an eye to long-term growth and stability. To do this, Chávez has resorted to advocating high prices, institutional and legal reforms and political control over the State-run company *Petróleos de Venezuela (PDVSA)*. He has thus ended the industry's traditional autonomy, more than a decade of opening in the sector and a considerable decline in revenue in the 1990s. Oil policy certainly serves to shore up a new socio-political model –the so-called Socialism of the 21st century–. It aims to be more encompassing in all realms but so far it has provided few benefits, even though some are significant. However, the new model remains dependent on an external source of revenue. Although this money flow has facilitated changes in the economy, the pattern of development has not changed substantially. Furthermore, in light of some of the changes that have been made, there are reasonable doubts as to the model's viability over the long term. Finally, while in the past Venezuela's leaders used oil to forge alliances and influence international relations, what is new here is oil's intensive use to create anti-capitalist or anti-US coalitions. In Latin America, these coalitions are apparently based on energy accords creating a bloc of countries that defend an alternative world order.

This article is divided into four sections. The first examines some questions regarding the relationship between mineral resources, economic performance, the State's capacities and democratisation. This allows a better understanding of the developments explained in the later sections. The second one describes the historic importance of oil in the transformation of Venezuela's political system until 1998. The third part addresses the transformations that have taken during the Chávez era (1999-2007), in particular with regard to Petro-States, the development model and the domestic and international effects of the project now under way. Finally, we present some preliminary conclusions.

Abundance of Natural Resources and Petro-States

Petro-States are a particular kind of State whose main source of revenue comes from abroad through sales of oil, which represent at least 40% of total exports and 10% of GDP. These are States that are highly dependent on a resource that is expendable, capital-intensive, strategic, vulnerable to external variables and which can provide a high monopolistic income. Two important aspects of Petro-States have been addressed, and while they are related they can also be examined separately. First is the economic performance of these States, which tends to be considered poor. In second place, researchers more recently have looked at why oil

* This Working Paper was originally published as a chapter of our *Anuario Iberoamericano Elcano – EFE 2007*.

** Universidad Carlos III, Madrid.

wealth has negative effects on democratisation and the maintenance of democratic regimes.

A brief review of the literature should start with the study by Sachs and Warner (1995) on economic growth between 1971 and 1989. These authors showed that economies which depend on exports of high-value natural resources grew more slowly than economies with scant natural resources.¹ Later, after the first oil boom in the 1970s and subsequent rise in prices, doubts arose as to whether this income was being managed properly and about its social and economic impact. Price fluctuations led some authors to reflect on boom-bust cycles. This gave rise to economic literature that explored the thesis of the ‘Dutch disease’: a rise in revenue from the use of natural resources –minerals and oil– causes a decline in productivity in sectors like manufacturing and agriculture and these, due to an overvalued currency, become less competitive.² In its initial formulation, this theory predicted a deindustrialisation of the country over the mid-term, but later versions of the ‘Dutch disease’ concept suggest that this does not occur. In fact, what is more likely is a decline in the importance of agriculture and a rise in the government sector. Some research showed that this effect was less common in developing countries and that governments in any case could counter its impact; the problems of synergies among sectors –in other words, creating a more diversified model of development– depended on correct government policies, in particular after greater government stakes in –or nationalisation of– oil industries. Therefore, it is a good idea to be careful with the theory of the Dutch disease because as Davis (1995, p. 1768) said, there is nothing inherent in oil booms that might cause economic stagnation.

Economic studies have also addressed the so-called resource curse thesis that seeks to explain how countries with abundant energy resources not only do not benefit from them but also post economic growth lower than that of countries with fewer natural resources. This theory has also drawn attention from a political standpoint, which is quite logical because after all, it is governments that ultimately makes decisions, or at least have a high potential on oil policy and where revenue ends up.

Initially, the State-centric focus gave rise to the theory of the ‘rentier’ State as applied to the countries of the Middle East. After these studies came more sophisticated analyses which, while not free of certain problems of methodology, have contributed to a better understanding of the ‘paradox of abundance’. In his comparative work, Terry Karl (1997) explained why two oil booms in the space of a decade –1973-74 and 1979-80– had a negative impact on economic development and State capacities and led to the decline of political regimes in Iran, Nigeria, Algeria, Indonesia and Venezuela. Karl found the key was the link between the export sector and the political-institutional structure of State incentives. Due to a country’s tax revenue and tax structure –which taxed its citizens little or not at all– the State developed the oil industry extensively, but paid less attention to developing a competitive, local manufacturing industry. Karl also said boom periods led to an expansion of jurisdiction for a State which until then had not had an apparatus that was sufficiently developed or coherent. Booms caused great centralisation and concentration of power in the central government. So the structure of incentives stimulated a search for revenue by interest groups, politicians and bureaucrats eager to boost their shares of power or gain access to natural resources. This dynamic ended up affecting the effectiveness and efficiency of State intervention, favoured discretionality and corruption and weakened rulers’ accountability.

In the end, the stability and functioning of the regime depended on income that allowed certain kinds of alliances. Over the short term, ‘rentier’-style behaviour maintained the political order but over the long term it led to a poor utilisation of resources. Due to this structure of incentives and its relation to policies that favour redistribution over production, a fall in revenue prevented the State from having the ability to change the behaviour of key players and apply long-term policies of de-regulation. In summary, Petro-States did not create an institutional structure that favoured economic development that was less dependent on a sector vulnerable to external shocks. Furthermore, this kind of State hindered adaptation to bust periods, triggering the decay of its political regime.

The more political dimension of the Petro-States has been a subject of growing interest. This stems from

¹ Also see Auty (2001).

² Although the phenomenon has precedents in Australia and the gold rush of the 19th century (Ross, 1999, p. 306), the term was coined by *The Economist* in 1977 to describe the decline of the manufacturing sector in the Netherlands after the discovery of natural gas in the 1960s.

clear evidence: of more than 20 developing countries that depend on oil exports, few are governed by a democratic system and all are subject to multiple tensions. For this reason many researchers deduce that oil complicates democratic processes. Ross, a vocal advocate of this thesis, has pointed out three mechanisms that hinder democratisation. In the first place, there is the so-called 'rentier effect' that allows governments to use oil revenues to ease social tensions and weaken demands for participation or accountability by resorting to non-extensive use of taxes, promising jobs in exchange for votes or applying measures that block the emergence of autonomous social groups. The second effect, known as 'repression', translates into the use of part of the revenue to strengthen internal security, either to control the population politically or avert ethnic or regional conflicts centring on oil wealth. Finally, based on the theory of modernisation, a possible link has been established between oil wealth and non-democratic regimes through the so-called modernising effect.

That said, it cannot be ruled out that revenue from a natural resource might contribute to the establishment of a democratic system under certain conditions and under certain historical circumstances. Such is the case of Venezuela. And the important thing in periods of abundance is to analyse the use of external revenue and see what consequences it has for the functioning of democracy. It is only to be expected that leaders would use some of these mechanisms to keep themselves in power, but a deeply rooted democratic culture and a relevant number of agents with veto power (Tsebelis, 1995) would constrain their actions. Inevitably, one must observe the trajectory of such a regime in order to deduce the determining factors that public leaders face in times of plenty.

Friedman (2006) has formulated the ingenious 'first law of petropolitics' by using contributions from Ross. The argument is simple: the more crude prices go up, the more erosion there will be in individual freedoms, the structure of political-electoral jurisdiction and the rule of law in Petro-States. He says a rise in the price of black gold gives a greater margin of operation to leaders of oil States, who are not very receptive to domestic demands and even less worried by the opinion of other countries. On the basis of this observation, Friedman warns of the danger this phenomenon poses for the international system. However, even though control over oil can create asymmetric relations among States, the use of this source of wealth in order to exert influence on the international scene is no different than the use made available by possessing other goods or resources (Arriagada, 2006).

Oil, Socio-Economic Modernisation and Democracy

Is Venezuela a Petro-State? Without a doubt it is, and this is not just a phenomenon of recent decades. Exploitation of petroleum starting in 1910 is closely linked to the consolidation of the national State. Rapid development of the oil industry due to international demand turned petroleum into Venezuela's main export starting in 1927; two years later, Venezuela was considered the world's leading exporter of oil. From that point on, oil was fundamental in the country's socioeconomic and political modernisation. In just a few decades, Venezuela went from being an agricultural and rural society with a backward economy to another kind of society that quickly became industrial and urban and boasted an expanding economy. In the early 1970s, black gold accounted for more than 90% of Venezuela's export revenue, 20% of GDP and more than 65% of its tax revenue (Tugwell, 1977). Twenty years later, tax revenue from oil sales represented more than 70% of the money taken in by the State and 80% of all export revenue (Naim, 1993). In recent years, the economy's deep degree of subordination to oil exports has again manifested itself. In 2006 alone, oil exports generated US\$57.776 billion in revenue –89.5% of total exports (Parra Luzardo, 2006)–. In summary, even though in some situations this dependence has eased or been accentuated, it has always been prominent and no change in this trend is foreseen for many years.

The country's economic development has been determined by just one exportable product, which from 1950 to 1973 contributed decisively to yearly growth rates of 6%-7%. This expansion was even greater, going as high as 11% in some years, after the first oil boom, but starting in 1979 the economy's climb came to a halt (Escobar, 1988). It hardly grew at all over the next two decades. The main feature since the late 1970s has been boom-and-bust cycles that had multiple effects on economic activity, the organising and functioning of the State, the stability of the system and people's living standards.

Ever since oil started being exploited in Venezuela, the pace and scope may have varied but successive governments used this source of wealth to develop the country, strengthening the role of the State in economic and social life. This State intervention was consolidated with the establishment of democracy in

1958. As did other governments in the region, a model was adopted that replaced imports with industrialisation. Although it contributed to the quick creation of a significant industrial sector, it did not fulfil expectations of economic diversification. The model's viability rested basically on oil revenue because politicians avoided instituting a system that taxed people's personal income. Part of the money coming in from abroad was invested in building infrastructure and equipment and in supporting private businesses. Meanwhile, the strength of the Venezuelan currency, the bolivar, against the dollar favoured imports and this had repercussions on the production of certain goods. This looks like a limited effect of the 'Dutch disease'. In the end, macroeconomic management was based on applying a fixed exchange rate and interest rates, fiscal discipline and a protectionist trade policy. All these helped bring about high rates of growth, low inflation and balanced external accounts prior to the first oil boom in 1973 (Hausmann, 1995). Although the model of industrialisation replacing imports showed its limits in the late 1960s, the two booms that happened in the space of less than a decade gave the populist-minded political and government elite an excuse to put off carrying out significant economic reforms. Indeed, abundant revenue from oil exports was used to deepen the 'rentier' model.

Venezuela's vulnerability to oil price fluctuations manifested itself in subsequent years. Until then, the problem was limited by the stability of prices which, while not very great, guaranteed large and secure revenues for the State. But this circumstance changed from 1973. In a matter of just a few years, the price of a barrel of Venezuelan oil multiplied, going from US\$2 in 1968 to US\$14 in 1974 and reaching US\$30 in 1981 (Escobar, 1988). A flood of revenue caused economic indigestion as leaders were unable to manage so much money efficiently. It was during these years that the dream of progress was fuelled at the same time as the effects of the 'Dutch disease' started to emerge. Carlos Andrés Pérez, during his first term in office (1974-79), tried to build 'the Great Venezuela', an idea which in part meant greater State intervention, a proliferation of government-owned companies and agencies and grandiose development projects that required huge investments (Coronel, 1988). Some of the problems discussed in the previous section are easy to detect in these years of abundance: an expansion of State jurisdiction and a drop in efficiency, a tendency towards the concentration of power and an increase in discretionality and corruption (Karl, 1997). Furthermore, in this context no decision was made to boost internal tax collecting, the idea being to avoid conflict. Instead, the government resorted to external debt. The growing demands and needs of public expenditure, added to fluctuations in oil revenue starting in the 1970s, sent foreign debt soaring. At this time the government was spending nearly 70% of export revenue on debt service.

The flood of petro-dollars caused problems of such magnitude that the economy did not grow from 1978 to 1985. The main reason for the economic stagnation was a reduction in total investment in real terms. With some variations and differences between the public and private sector, the drop in investment began after 1978 and stemmed from a reduction in State-sector investment as of 1979, although at some points it rebounded, especially after the second oil boom. Private-sector investment, which is contingent on public investment, did not advance due to perceived economic deterioration. State spending in real terms rose starting in 1973, but suffered fluctuations that were abrupt and subject to variations in oil revenues since the late 1970s. This circumstance, besides causing serious problems and mistrust in government management, showed how the crisis was advancing. The devaluation of the bolivar in February of 1983 marked a low point in the deepening of socio-economic problems and revealed the weaknesses of Venezuela's development model. Despite intentions and measures aimed at liberalisation, a drop in public spending and decline in statist behaviour, the new oil boom during the first part of Herrera Campins' term (1979-84) kept the economy from cooling down. A new fall in oil prices as of 1981 sapped the coffers of the government, which kept up with its policy of taking on foreign debt. A drop in interest rates compared with international rates and the deterioration of the situation triggered an exodus of foreign currency starting in the late 70s and an even faster one as of 1981. In a bid to stop this currency flight, the government devalued the bolivar and established controls on currency exchange. Thus, the oil boom came to an end.

The situation worsened for the rest of the decade. Inept renegotiation of foreign debt tied the hands of the government of Jaime Lusinchi (1984-89). The multiple currency exchange control system proved to be inefficient. The availability of foreign currency and the expansion-minded policy of the government –unable to stop either through errors, self-interest or inertia– created false expectations among the population. It began to feel the effects of the devaluation of the Bolivar and a significant rise in inflation. As the crisis deepened, Venezuela suffered fiscal imbalances, a rise in unemployment and in the informal, under-the-table job market, a fall in productivity and scarce economic growth during this decade (Hidalgo, 2000). This economic slump had negative effects on the living standards of Venezuelans and the distribution of wealth.

Meanwhile, other problems got worse, such as corruption, bureaucracy and inefficiency in the delivery of basic public services.

Delays in the application of reform measures took the economy to the verge of collapse right before the elections of 1988: the problems involved the balance of payments, a high fiscal deficit, low reserves, inefficient controls on prices and services and high inflation. Having no margin in which to operate, Carlos Andrés Pérez (1989-93), remembered for his populist record in the 1970s, was forced to apply a programme of stabilisation and reforms in line with the 'Washington Consensus'. This 'economic package' produced growth and some improvements in external accounts, the country's reserves and the formal job markets during a first stage (1990-92), but was unable to reverse the development pattern. Furthermore, inflation and fiscal imbalances persisted. At the same time, some problems worsened with an expansion of public spending that coincided with a rebound in oil prices. Even so, there was significant progress in the expansion of the market, economic deregulation and less intervention by the State. Cuts in subsidies and social expenditure were felt by society, which had lived off 'rentierism' for decades. The absence of political leadership in the application of reforms triggered a major socio-political crisis and problems of democratic governance. In its core elements, the economic reform package did not work after 1992. As Kart has pointed out, Venezuela had institutions and deeply rooted behaviour among its civil servants, parties and interest groups, all resistant to change. In this moment of the '*Gran Viraje*' ('Big Shift') it became clear that the ruling elite was incapable of reforming the economy and responding to the challenges of a competitive international context. The Petro-State's incentive-based structure had spawned pernicious dynamics of money-grubbing that hampered efforts to transform a 'rentier' economy with problems. This situation illustrates some of the woes discussed earlier about how this kind of State struggles to adapt when boom turns to bust.

In the following years, the conflicts and imbalances got worse, coinciding with a grave financial crisis at the start of the second term of Rafael Caldera (1994-99). The crisis tied the hands of a government that advocated a populist, statist and interventionist policy. This just worsened the situation it had inherited. The economic team failed in its efforts to solve things through currency and price controls or stop-gap measures that fell short of a respectable economic plan. Only when the crisis reached critical levels did the government apply some stabilising measures, complemented with some structural reforms. Although the so-called 'Venezuela Agenda' (1996) did not meet the objectives that were set, it did have certain positive effects thanks in large part to a rise in oil prices in 1996 and 1997. But 1998 was awful, as a fall in oil revenue coincided with the financial crisis in Asia and electoral uncertainty. The severity of the crisis had negative repercussions on economic growth. Unemployment rose and the informal economy expanded, poverty grew and real per capita revenue fell (Riutort, 1999; Ortega & Nóbrega, 1999). The situation at the end of the 1990s showed how vulnerable the economy was to fluctuations in oil revenue and how the populist elite was incapable of introducing changes in the development model to improve people's living standards.

Nationalisation, Internationalization of PDVSA and the Opening Up of the Oil Industry

The nationalisation of the oil industry in 1976 was the result of a policy applied by the ruling elite for decades in order to enhance the State's fiscal stake in the oil business, and exercise greater control over the hydrocarbon industry (Betancourt, 1986; Tugwell, 1977). It is important to point out that the industry's production had peaked: from nearly 4 million barrels a day (mbd) in 1970 it had fallen to nearly 2.4 mbd in 1984. The departure of big multinational firms coincided with lower investment levels aimed at maintaining production capacity, and added to this was a high rate of declination of oil fields (Coronel, 1988). It is true that in the mid-1980s it was believed there were large reserves in the Orinoco Oil Belt, but these were fields of extra-heavy crude that required technology and investment. The decline in production was influenced by the international oil market: sometimes by OPEC strategies to cut production and other times by drops in demand. The failure of economic reforms led Venezuela to boost its oil production. But by then, some experts say, PDVSA had already begun a phase of internationalisation –this was under way since 1983– that led it to create an international network of subsidiary companies. The biggest was Citgo, which operated in the US. Besides refining oil, it sold petrol and petrochemical products. The company's plan was to maximise production and transfer profits abroad by resorting to transfer prices with major discounts for its subsidiaries (Mommer, 2003). The goal was to keep the political elite from wasting tax revenue. Added to this was the interest of some managers in the company as well as consumer countries and some multinationals in privatising the industry.

In the same spirit as economic liberalisation in the early 1990s, there came the opening up of the oil industry. It did not just open up the industry to private capital with the aim of increasing production. Rather, it also helped PDVSA and its subsidiaries gain more autonomy from the State, weakening control over so-called oil power. In 1998 Venezuela's production reached 3.5 mbd (Isbell, 2007a) and by 2006 it was thought it could reach 6.2 mbd (Lander, 1998). It is important to point out that as production rose, the State's stake in oil revenue declined. This stemmed from hydrocarbon tax reforms that did not favour tax-collecting but were approved at times when deregulation and weakening of State institutions were the order of the day.

The Crisis of Democracy

On the basis of all this, it is easy to see how important oil has been in shaping the Venezuelan political system. In the first section we noted some of the arguments that highlight the negative effects that oil has on the democratisation of a country. But in the case of Venezuela one must not forget the important role oil played in its socio-political modernisation. After decades of changes, the first attempt at democracy failed –it was called the *trienio adeco* (1945-48)–. This failure stemmed from an attempt by the new governing elite to apply a radical, leftist programme of modernisation without basic agreements with other political forces. Furthermore, the governing party, Acción Democrática (AD), made huge mistakes that caused polarisation and led to a break-down of the democratic system (Levine, 1973). During this *trienio*, or three-year period, programmes were launched to transform the country and improve living standards by using oil revenue as the engine for development. To a certain extent, an effort was made to bring alive the slogan '*la siembra del petróleo*'³ ('the sowing of oil'), which was preached a lot after new players came onto the political scene following the death of the dictator Juan Vicente Gómez in 1936. In the 10 years after the *trienio*, the authoritarian regime proved to be a lesson and tough experience for the forces of democracy. However, both historical periods had a decisive influence on the behaviour of the partisan elite, paving the way for accords and commitments to end the dictatorship of Pérez Jiménez and establish a representative democracy (1958-98).

Oil was the most important structural factor in promoting democracy. But one must not ignore others such as the role of political leaders, who, with projects aimed at modernisation, gave a central role to the State in economic and social life and in the political realm. It was a centralised State. Once the democratic regime was established, political parties were the main players, not just because of the programmes they pushed, organisational development and establishment of links with the main social organisations, but also because having access to a State with abundant external revenue put them in a privileged position. From that position they controlled a weak civil society that would grow under the protection of the State. The State also relied for many years not only on people's widespread acceptance of elections as a 'democratic ritual' (Maingón & Sonntag, 1991), but also on neo-corporative practices that gave priority to certain interest groups and sectors, facilitating money-seeking behaviour. At the same time, government policy was to hire lots of civil servants, grant heavy subsidies and apply extensive controls and strong protectionist measures.

Abundant tax revenue from oil exports in the 70s and 80s led paradoxically to economic deterioration, the weakening of State capabilities and the decline of the democratic regime. Meanwhile, the deterioration of the political and institutional framework had negative repercussions on management of the government, in particular after the crisis worsened. Inasmuch as the material functioning of the system rested on the State appropriating revenue and distributing it, as the revenue diminished, conflicts over how this money was to be shared out intensified. These disputes had remained contained until the late 1980s. In hindsight, the relationship between political and economic factors is clear. In just a few years, and after a programme of 'neo-liberal' reforms was applied, the political system was rocked by events such as a social revolt (1989), which showed the social pact reached in the 1950s was no longer viable; two attempted coups (1992), which brought into question whether the armed forces would respect civilian rule; and a political crisis with the firing of President Pérez in 1993.

In the 1990s the crisis of legitimacy of the political parties and important institutions of the State deepened. This crisis was due not only to the economic factors we have discussed, but also to the difficult transition from an institutional system dominated by certain political parties to one that was more pluralist (Levine & Crisp, 1995). This new system had to incorporate new groups and leaders that were the product of the social modernisation experienced for decades (Salamanca, 1997) and some political and institutional reforms that

³ Mentioned by Uslar Pietri in an essay written in 1936. This Venezuelan author warned of the risks of creating an unproductive economy that was basically dependent on oil.

were introduced in the 1990s. These changes, the most important of which was political decentralisation –the most important reform in decades– had positive effects but were not enough to boost the legitimacy of the main players in the system –the political parties– and to counter Venezuela’s economic and political decline. New organisations and leaders did emerge. But most of the elite who defended the *Punto Fijo* model did not want to or were not able to implement all the changes necessary to allow a renewal of the model of economic development. Nor did other, more dynamic elites who could have replaced the earlier programmes quickly enough manage to prevail (Kornblith, 2003).

The ‘Bolivarian Revolution’ and the Strengthening of the Petro-State

In the elections of 1993 voters opted for change from within the regime. Five years later they voted for a radical transformation of the system. The deterioration of the socio-economic situation, institutional decadence and the errors, inability and limitations of the political-bureaucratic elite are factors which, linked to the mistakes of the major parties during the election campaign, contributed to the collapse of the party system in the elections of 1998 and gave rise to a new political era. Hugo Chávez, who became famous after leading a failed coup in February 1992, garnered broad support at the polls (56.20%). Waving the prospect of a Constituent Assembly, the ex-lieutenant colonel triggered big expectations. What came later was the launching of a process of legal and political changes that doomed the weakened *Punto Fijo* model in little more than a year.

The *chavistas* announced a ‘peaceful revolution’ to transform basic aspects of the economy and the political order in a bid to make the system more inclusive. Once the population became aware of the true nature of the changes that were proposed, there came a crisis of expectations, especially among the middle and upper classes. After the Constitution was approved in 1999 and Chávez won the 2000 elections, a conflict arose over measures that altered the *status quo*,⁴ In some cases, the tension was provoked not so much by the reforms themselves but by the way in which they were applied –they were imposed– and by fears that the country was headed for Castro-style communism. Furthermore, the President’s divisive and polarising discourse with its constant threats and the significant actions of the new ruling elite, which were hardly democratic or not democratic at all, had stirred up dynamics of confrontation. After the period 2001-04, which was particularly turbulent and polarised, there came a period in which Chávez consolidated his power –after his triumph in a referendum on revoking his presidency (August 2004)– and improved the governability of the system.

Since then, the government’s record has had greater visibility and impact due to growing oil revenues. Although it seeks to improve living conditions for broad sectors of the population, in many cases these actions have tended towards measures with a strong element of clientelism. One should recall, for instance, the launching in 2003 of a series of social measures that were called ‘missions’. Over and above their beneficial effect, they contributed to Chávez’s victory in the referendum and the broadening and consolidation of his powers over time.

Furthermore, the Chávez camp has come to control all the reins of State power and almost all the representative bodies. In some cases, factors that contributed to this were the leadership and popularity of the President; the organisation and mobilisation of his supporters; the use (and abuse) of State resources, particularly during election campaigns; skilful design and handling of election rules or controversial acts by the National Electoral Council with regard to the electoral census. Other times the opposition has paved the way for the Chávez camp through errors and omissions and by underestimating the President.

In the last presidential election in 2006, a transition phase came to a close. In the space of just a few years, a political revolution has taken place, in light of all the transformations and the new elite’s access to power. There has also been a major political crisis which shows the gravity of the conflicts present in Venezuelan society over the President’s leadership and the changes he is bringing about. The goal of what was first called the *Bolivarian Revolution* is to build a new kind of socialism that will improve living conditions for the poor –the backbone of Chávez’s project–. His new victory augurs a deepening of the transformations that

⁴ Through an Enabling Law, 49 laws were passed in 2001. Among them the highlights include the controversial land laws (expropriation of large estates and distribution of land among peasants), fishing (benefiting small-scale fishermen as opposed to trawlers and commercial operations) and hydrocarbons (higher taxes for private companies and an obligation to create joint-venture companies, with the State holding the majority stake).

are under way. One of the President's main tactics is to reap maximum fiscal advantage of the country's main industry.

The Strengthening of the Petro-State

In line with its anti-market vision and with the goal of financing the changes taking place, the government has followed a strategy that strengthens the Petro-State as a receiver, administrator and distributor of revenue. To this effect, changes in oil policy have been key in accentuating the policy of 'rentierism': oil tax revenue relies more and more on royalties and dividends from the State-run company PDVSA and less on income tax in the make-up of the State's oil revenue (Mora, 2005). Various features of the new policy can be highlighted. In the first place are Venezuela's pacts with fellow members of OPEC to raise prices and cut production. These practices, when added to higher international demand, have contributed to a nominal recovery of oil prices. In late 2006, Venezuelan oil cost on average US\$56.70/barrel, although real prices had not reached the highs seen in the mid-1980s (see Graph 1). Since 1999, oil exports have made up a larger proportion of Venezuela's total exports (see Graph 2). Whereas in 1996 oil exports totalled US\$18.385 billion –78.56% of the total– in 2006 they were US\$57.776 billion, or 89.20% of the total.

Graph 1. Price of the Venezuelan Oil Basket



¹Obtenido a partir del implícito combinado (inflación y tipo de cambio) de los precios de la cesta OPEC.

²Calculado a partir del promedio de la cesta venezolana, al 15 de diciembre de 2006 y los Informes mensuales de la OPEC.

Fuente: OPEC, Menpet y cálculos propios.

Source: BCV, 2006, p. 16; OPEC; Menpet; and the author.

Nominal (Y1)

Real (Y2)*

Obtained from the implicit combination (inflation and exchange rate) of the prices of the OPEC basket.

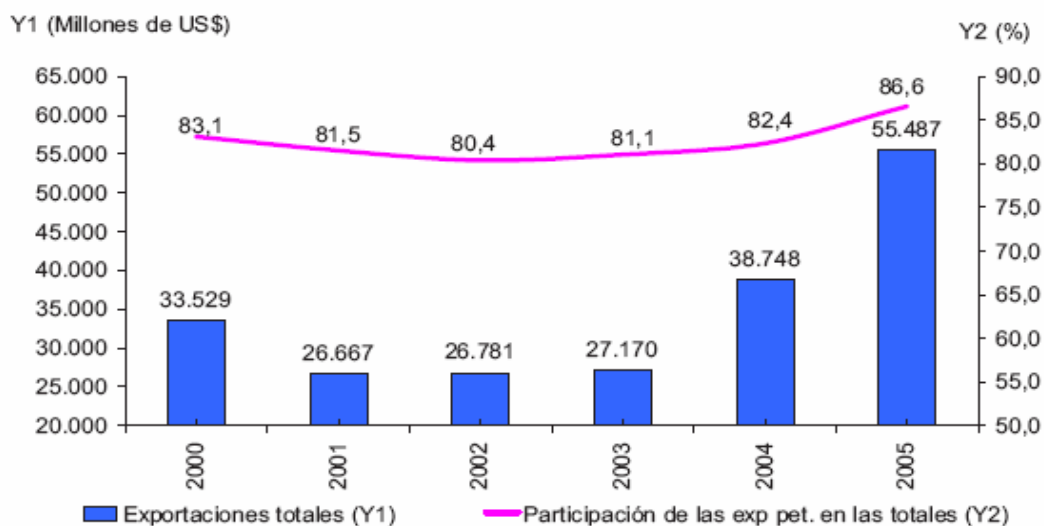
*Obtained from the average of the Venezuelan basket as 15 December 2006 and monthly OPEC reports.

A second aspect to consider is a series of institutional and legal changes designed to end the processes of internationalisation of PDVSA and the opening up of the oil industry, which were considered harmful to Venezuela's national interests, but doing so in a way that respects the contracts now in force. The idea was to guarantee more stable tax revenues and, if necessary, share risks with private investors (Mommer, 2002). Among the laws approved –the Gaseous Hydrocarbons Law (1999), the Liquid Hydrocarbons Law (2001) and reforms regarding hydrocarbons in the Income Tax Law–, the following can be highlighted: (1) the new legislation gives a fundamental role to the Ministry of Energy and Mines –now called the Ministry of People's Power for Energy and Oil– in the granting of licences for exploration and exploitation of hydrocarbons; this reverses the practice that began in the late 1980s in which PDVSA administered the resource; (2) a minimum royalty of 20% is established for natural gas and 30% for liquid hydrocarbons, although in the latter case lower-percentage exceptions are allowed depending on the profitability of the operation; (3) the new income tax law reduces the rate from 67.7% to 50% for conventional petroleum, while

the rate remains 34% for extra-heavy crude;⁵ (4) the so-called ‘protective fiscal wall’ is established for upstream operations; (5) the State is the majority shareholder in upstream activities, while a greater stake was given to private investors in the exploitation of natural gas and in downstream activities, considered less profitable; and (6) the idea of encouraging investment from Venezuelan private capital –historically left on the sidelines of this business– is being considered (Mommer, 2002).

Graph 2. Total exports and percentage of oil exports

Exportaciones totales y participación de las exportaciones petroleras



Fuente: BCV.

Source: BCV, 2005, p. 118.

Y1 (US\$ million)

Y2 (%)

Total Exports (Y1)

Oil exports as a percentage of total exports (Y2)

More recently, steps have been taken towards the re-nationalisation of the oil industry. This should not be seen only in ideological terms but also in economic ones. The idea is to boost tax revenue. In May 2006, several reforms to the Hydrocarbon Law created two new taxes and raised royalty rates and income tax for four joint ventures between foreign capital and PDVSA, the minority stakeholder, in the Orinoco Oil Belt. The law obliged PDVSA to have a majority stake in all activities (exploration, extraction and distribution). For this reason, in February legislation was approved creating joint ventures –with a minimum 60% stake for the State– with four private companies that have been operating in the Orinoco belt since the 1990s.⁶ For many analysts this was a step backwards with regard to guaranteeing private investment and legal security. Furthermore, a fall in production in 2006 by services subcontractors that turned into joint ventures with a majority stake held by PDVSA hints in this case at a sharp decline in production.⁷

The fall of production levels and inability to raise them has been cited by several sources. They note the politicisation of the industry, a loss of managerial capacity –after the oil stoppage– a drop in investment, a diversion elsewhere of resources necessary for improving the industry’s infrastructure and staff skills, and the challenges of refining extra-heavy crude. Production figures provided by PDVSA do not match those given by major international organisations. While the Venezuelan State-run company said production

⁵ According to Mommer (2002), the changes reflect the evidence that it is easier to exert control over royalties and because high taxes on net profits prompt companies to reduce their tax obligations as much as possible.

⁶ Decree-Law of 26/February. The conversion to joint venture companies was to begin officially on 1 May 2007. It is believed the Orinoco Belt may contain the largest oil reserves in the world, estimated at more than 300 billion barrels. Today they are being certified internationally. Also, this decree was approved through the powers granted to the President via the Enabling Law for a period of 18 months to approve decrees and regulations in 11 areas, including the energy sector.

⁷ VenEconomía Opinión, Caracas, 1/III/2007, www.veneconomia.com.

averaged 3.2 mbd in the first half of 2005, the International Energy Agency said the figure was actually closer to 2.5 mbd. So it would seem PDVSA has not recovered the production levels that existed before the stoppage, much less those of the late 1990s. This is one of the weak pillars of the Petro-State.

Another important decision was to convert the Ministry of Oil and Energy into the main decision-making body for the sector. This has involved legal modifications, strengthened the role of the Ministry and given it control over PDVSA. After the nationalisation of the industry, this company had come to make the major decisions on oil policy. Now it is in charge only of operations and production. At first the *Chavista* camp had a hard time because the company's directors and managers were not keen on modifying the way the company worked. Indeed, it was considered a model of good management and efficiency. However, over time this State-run company became a State within the State, a sort of 'black box', as Chávez once defined it. This opposition blocked the President's goal of having the oil industry agree to cut production and participate more in social programmes. Only after the *paro económico*, or economic strike, between December 2002 and January 2003 –driven by opposition sectors with political aims– did the government control the industry. It had come to a stop because many of its workers backed the opposition political demands and also wanted to express their dismay with staffing and promotion policies considered far out of line with the concept of meritocracy. As a result of the strike, more than 15,000 workers were dismissed and the State-run company was restructured.

Oil policy is the cornerstone of the new structure, of the system the Chávez camp wants to build. Abundant oil revenue has allowed the political class, no friends of the market, to expand State intervention in the economy through regulations, fees and price controls. Added to this are currency exchange controls introduced in February 2003, a fall in foreign currency reserves and the depreciation of the bolivar. The Chávez government has expanded the network of State-run companies and government agencies thanks to oil revenue (which accounts for around 50% of total tax revenue) and non-oil revenue (it has grown considerably in the last decade due to an extension of some taxes and greater tax-collecting efficiency). Growth in the size of the administration has been notable –despite initial intentions and actions– and the latest nationalisations point to an increase in State capitalism, characterised by inefficiency, waste and a lack of productivity. Meanwhile, acts such as the nationalisation of the telephone company CANTV, private companies linked to the opening up of the oil industry or the expropriation of ranches and land have led some analysts to describe Venezuela as being a 'predator State'" (Guerra, 2007), asserting that the State does not produce wealth but rather appropriates that which other sectors of society produce.⁸ Compared with previous years, there has undoubtedly been an extension of populist practices (Corrales, 2006) and use of coercion, and sometimes violence, in order to achieve certain 'revolutionary' goals. The Petro-State is without a doubt promoting the search for income due not only to greater State intervention but to a true lack of control over systems of State financing. Creation of obscure networks based on clientelism is one of the effects to be expected of living with a State that devours resources and wants to extend its jurisdiction.

Some Consequences of Economic Performance

A substantial increase in oil revenue, the positive evolution of the international economy in recent years and an improvement in the political situation after the presidential referendum of 2004 have all influenced the Venezuelan economy. The curtain came down on a mediocre period which was at first shaped by the imbalances that were inherited, a fall in oil revenue and socio-political conflicts. The period was characterised by economic policy with major faults (use of exchange rates as the nominal anchor for prices) that had repercussions on the unemployment rate, real salaries, poverty levels, productivity, investment, etc.

As of late December 2006, the Venezuelan economy had posted 13 straight quarters of growth with rates of around 10% (Parra Luzardo, 2006). It is worth noting that macroeconomic performance has been influenced by oil revenue, which has served to increase government spending considerably.⁹ At the same time, economic policy has been based on an expansive fiscal policy and a monetary policy that favoured domestic credit and maintenance of stable interest rates. The economic improvement has contributed to greater public and private investment, a faster expansion of production in the non-oil sector and a recovery of purchasing

⁸ The public sector contributes around 30% of GDP and the main component is oil. GDP from oil as a portion of total GDP has ranged between 20%-25% in recent decades.

⁹ Several funds created with oil revenue (Fondespa, FEM, Fonden) have contributed to the stabilisation and better management of assets and liabilities in the public sector (BCV, 2005), but they have also led to an expansion of public spending through financing of infrastructure and social projects.

power. This last process began in 2003. External accounts also reflect the economic expansion, with a significant surplus in the current account (16.3% of GDP) and international reserves of some US\$37 billion as of December 2006 (almost two-and-a-half times the figure for 1999). Meanwhile, increased domestic tax-collecting and better fiscal management helped the government post a surplus in 2005 after six years of deficits. The public sector managed to save money in net terms and domestic debt which had reached alarming levels has fallen to 11.1 % of GDP. Finally, overall debt stood at 36.6% of GDP (Vera, 2006).

Economic activity has helped reduce the jobless rate (10.4% in 2006), increase real salaries and cut down on the informal job market (it remains at high levels, of around 45% in 2005). One should also point out stable interest rates, an expansion of bank lending and a regular flow of foreign currency for imports. Per capita GDP, which fell by 1%-2% in the period 1999-2003, has recovered in a sustained fashion, with notable increases (17.8% in 2004; 9% in 2005). The Chávez government's so-called social missions have had repercussions on broad sectors of society, but it is hard to obtain reliable information on them. These missions and a rise in salaries seem to be at the heart of a rise in revenue for the poorest sectors of the population (D and E, accounting for 81% of the total). By comparison, revenue for the middle class has not increased at a rate higher than those of inflation since the beginning of Chávez's term. Inflation is one of the country's main economic problems, although the figures for the last two years show a downward trend (14.9% in 2006; 13.5% in 2005) that might be transitory. Besides inflation, other major challenges are alleviating poverty, which has gone down a few points since 2003,¹⁰ and unemployment. Recovery in some indicators (income, education and health) is reflected in the fact that Venezuela moved up three places in the Human Development Report of 2006 (using data from 2004) compared with the 2005 report.

International Petropolitics

One of the innovations of Chávez's policy is to use his country's abundant reserves of oil and gas to form alliances that seek to counter US power. Specifically, these alliances are being used to drive energy integration in Latin America through a variety of accords and commitments. This integration is still at an early stage and some major countries of South America have expressed reserves, questioning the good will of the 'Bolivarian revolution'. The energy initiative is called Petroamérica and is part of a broader project, the Bolivarian Alternative for the Americas (ALBA in Spanish), which encourages development that is more socially inclusive. It seeks to counter the Free Trade Agreement of the Americas, which the US is pushing. The scope of the proposal is limited: Petroamérica is based on three sub-regional initiatives –Petroandina, Petrosur and PetroCaribe– of which only the last has really begun to take shape.¹¹ There are doubts as to whether PDVSA can take on certain commitments in oil policy in the region. In the not-so-distant future, Venezuela's largest company might not be able to maintain and increase its production levels. Another initiative is the Great Southern Gas Pipeline, but it has raised many questions as to the relationship of subordination for some important countries of the region, its huge costs, the complexity of building it and the issue of whether it will be profitable. Furthermore, although Venezuela has the largest gas reserves in the whole region, it has not developed its exploitation for commercial ends and in the next few years it is not expected to be able to supply more than its own domestic market (Isbell, 2007b). Finally, for now the Bolivarian Alternative for the Americas has not drawn much enthusiasm and it only has four members: Venezuela, Cuba, Bolivia and Nicaragua.

Finally, by pushing a multi-polar approach in the face of US domination and conservative international organisations, Venezuela has won strong support among countries, organisations and people who oppose neo-liberal ideology. In some cases Venezuela has tried to forge links with Iran, Russia, India and China, resorting to a variety of agreements. However, it remains to be seen if a foreign policy that breaks with a tradition of cooperation and promotion of democracy, the defence of the principles and legality of international law and the repudiation of war, and which uses oil resources will be effective over the mid- and long-terms (Cardozo, 2006).

¹⁰ In December 1998, households classified as living in poverty amounted to 43.9% of the total, while measured in people the figure was 48.7%. In late 2005, the figures were 37.9% and 43.7%. The reductions have not been linear, and in some years poverty even increased (Weisbrot, Sandoval & Rosnick, 2002).

¹¹ Ministry of People's Power for Energy and Oil,

http://www.pdvsa.com/index.php?tpl=interface.sp/design/readmenuprinc.tpl.html&newsid_obj_id=145&newsid_temas=46.

21st Century Socialism

Although Chávez initially defined the process of change as ‘revolutionary’ or ‘Bolivarian’, since the autumn of 2004 he has characterised his project and government as representing a new socialism, one separate from traditional experience and which does not have Cuba as its model, despite the links established between the two countries in recent years. So far the concept of ‘21st century socialism’ has been used in a vague and imprecise way in political practice and the discourse of Chávez is full of references to Jesus Christ, Simón Bolívar, Simón Rodríguez (a Venezuelan educator and writer, and Bolívar’s mentor), Ezequiel Zamora (a military leader during Venezuela’s Federal War, advocate of far-reaching land reform), José Martí, ‘Che’ Guevara and other intellectuals and politicians with a desire to integrate the region or aspirations for socio-economic transformation and the liberation of peoples. It is a term which is being analysed and which is taking shape. According to ideologues like the Venezuelan Haiman El Troudi (2007), this socialism is an open project for a new society, one based on people power that organises a strong and participative democracy; it is characterised by equality, well-being and integrated development of its citizens.¹² It advocates an anti-capitalist society with a high level of social welfare. It also features a desire to achieve harmonic development of territory, and in particular attention to internationalism and the autonomy and sovereignty of the country in security and defence issues. In theory, perhaps it is the German Heinz Dieterich who has worked hardest on developing this ideology. Inspired by Chávez, who says capitalism ‘with a human face’ is impossible, this presidential adviser based in Mexico has spent years exploring the possibility of replacing the market-based economy with a ‘planned economy based on equivalences’, founded on the value of use (Dieterich, 2005). Some critics say this could involve a return to the barter system or the establishment of an all-embracing State (Guerra, 2006). Dieterich (2007) recently said that this sort of socialism is not reached by having the State seize private property but rather through a mixed economy with participation by ‘three agents: the State, private enterprise and social property, as a cooperative’. The Social Democratic way would become an intermediate ‘revolutionary’ stage moving toward a ‘post-capitalist civilization’.

A New Development Model?

Since the 1990s, theories have emerged as alternatives to the ‘Washington Consensus’, given the limitations of neo-liberal policy and the discontent they trigger. There has been a return to economics based on development, to structuralist approaches or institutional economics. Judging from official discourse, Venezuela seems to draw more from neo-structuralist sources. However, there are important differences between these and the new Venezuelan model of production. Vera (2006) has said that neo-structuralism, based on its ideas for ‘development from within’, tries to overcome conceptions that are wrong and excessively State-centred in the process of industrialisation; seeks to improve levels of productivity and growth; and grants an important role to external markets. But what Venezuela has been applying in recent years is in fact a model that accentuates the role of the State and features low levels of technology and innovation in the productive grid. In this model, primary industries (iron, steel, energy, transport and communications) are the first endogenous core. Businesses of social production, cooperatives and co-managed businesses would be micro-nuclei with close links to the former, as basic companies are their main customers. The third component is the training system based on the so-called ‘*Misión Vuelvan Caras*’ and other educational missions. These three main elements of the new development model would combine with an important percentage of the workers who live off the informal economy and a non-oil industrial apparatus that is in a state of decline. Within this model, it can be seen that for now private enterprise should continue to play an important role in production and job-creation, although it would not be supported by the State (Francés, 2006).

The model has been officially called ‘Endogenous Development’ and defined vaguely as ‘development from within’, as a ‘socio-economic model in which communities develop their own proposals’ (Ministry of Communication and Information, 2004). It is a vision that breaks with the intentions of the first years of Chávez and is part of a broader framework for building ‘21st Century Socialism’. It was to be expected that the magnitude of the legal and political changes would carry with them new socio-economic proposals. In fact, the idea of structural changes to shift from an economy based on ‘rentierism’ to a productive one that improved people’s living standards has been inseparable from *Chavismo* from its outset. The broad outlines of the development plan initially called for ‘a productive system that is diversified, competitive, open to international markets, based on private initiative and with presence by the State in strategic industries’. It was to be supported by private investment and business ethic guided by productivity and efficiency. Today,

¹² Remarks from 25 January 2007 at <http://www.aporrea.org/ideologia/n89658.html>.

too much protagonism is assigned to the State and this is complemented with a series of subsidiary companies, even if the emphasis is still on encouraging a social economy.

It is obvious that the ruling elite are interested in developing an alternative economic system, but there are reasonable doubts as to its viability over the long term. The first reason for this is that the current model is still dependent on oil revenue. Furthermore, it remains to be seen if the fundamental pieces of the workings of 21st Century Socialism –social production companies, cooperatives and co-management– can generate wealth and jobs. It might be argued that investment in infrastructure and endogenous micro-nuclei are part of a first phase of accumulation which will later allow higher levels of productivity and growth. But there is no evidence that the ‘rentier’ single-producer economic model is actually being replaced. Therefore, we will have to wait and see.

The Regime, Rights and Freedoms

In the first section of this paper we mentioned the ‘first law of petropolitics’ which, along with the contributions of Ross, might be useful in examining the evolution of the Venezuelan political regime. The last report from Freedom House (2007) says that along with Russia and Pakistan, Venezuela poses one of the most significant cases of rolling-back of freedoms since 1998. However, variations in rights and freedoms with respect to the rise in oil prices have not been linear. A year before Chávez came to power, Venezuela had the status of a ‘free country’; after the triumph of the former lieutenant colonel, it entered the category of ‘partially free’ and has stayed there in the past few years, with some oscillations in political rights and civil liberties. It is formally an ‘electoral democracy’¹³ in which authoritarian practices abound. There has been a progressive concentration of power in the hands of the President, who controls many areas through institutions or parallel mechanisms run by people he trusts or by himself. The Enabling Law passed in February is the latest expression of this. Nor can one ignore the autonomy of the National Armed Force (FAN in Spanish) and the country’s growing militarisation. The FAN has increased its patches of power in the State and in society, and is under the control of President Chávez. An increase in the number of reservists also illustrates this change in civilian-military relations. The nature of the regime is hybrid, combining democratic and authoritarian elements. The ruling elite say they are building a participative democracy that is more democratic than the representative-liberal system. So far, although some empowerment projects for communities have been developed, there remains a person-centred system that respects certain very weakened representative bodies with features of direct democracy. Chávez holds many powers, some of them in line with the Constitution. To this one must add the process of ‘recentralisation’ of power that has been under way since 1999 (Mascareño, 2005).

The weakening of the rule of law has been clear, although contrary to what Friedman says, it came in an initial context of low prices for Venezuelan oil. The later rise in oil prices allowed the regime to delay reforms and finance legal and political changes, although, as we have said, economic activity was not to recover completely until 2003. The price rise posted over the last five years has been used not just to apply transformation measures but also to win support and forge loyalties. In fact, one can observe aspects of the ‘rentier’ and ‘repressive’ effects pointed out in another section of this paper. But having said this, it is very difficult to establish cause and effect links between oil and freedoms, much less to speak of an overall worsening. On the one hand, cut-backs in rights and liberties are observed since the beginning of the Chavista period through the drive for fundamental transformations in the legal and political framework. On the other hand, the effect of oil revenue is mixed with factors such as leadership, especially presidential leadership, cultural variables, and the goals of the groups in power. So different powers and institutions have been subjected to different dynamics.

Unlike the elections of the 1999-2000 period, in 2004-05 there was a greater questioning of election authorities and administrations and of the voting system. Venezuelans objected to abuses of public resources and by government officials, the *carnetización* of citizens and the electoral census. They also complained about ‘threats’ to civil servants and the use of lists –such as Tascón and Maisanta– to frighten people and deny work and contracts with the State.¹⁴ In the presidential elections of 2006 several international

¹³ Competitive multi-party system; universal suffrage for adults; elections held in conditions that are acceptable in terms of organisation and results; election campaigns that are generally open.

¹⁴ The Tascón list collected the names of the ‘signatories’ who were in favour of calling a referendum against Chávez. It was drawn up by a *chavista* politician, Luis Tascón. The Maisanta list is an update of the former and featured such data as participation in some missions –*Ribas* and *Vuelvan Caras*–.

organisations reported improvements in the organising and carrying out of the voting, saying the elections met international standards despite certain problems that require the attention of the authorities and political leaders (EU, 2007; OAS, 2006). There was a degree of improvement in the structure of political-electoral jurisdiction, although it might be transitory.

The scarce or non-existent separation of powers is a more critical issue. Although the pro-Chávez camp did not win a majority until the legislative elections of December 2005, it undertook actions in the legislative branch that at times broke the law. One controversial case was the approval by simple majority of a law governing the workings of the Supreme Court of Justice (2004). It allowed the *chavistas* to increase the number of judges from 20 to 32 and thus exert greater influence over the court, although in the past it was commonly politicised. Another example is the Law of Social Responsibility (2004), approved under pressure from the government. This law seeks accurate reporting and responsibility in radio and television programmes. But despite its positive aspects, it has given the State a potent tool which, along with changes to the penal code (2005) that punish defamation, has managed to impose a sort of ‘self-censorship’ by private media. Just like the State-run ones, these media have gone overboard in their duty and contributed to the polarisation of the country. This has given the government a pretext not to renew the TV licence of the largest media groups critical of his rule.¹⁵ In any case, several communications groups have sought an accommodation with the regime. Leaving behind the period in which private media acted like actual political parties, given the crisis of representation and legitimacy of the parties, the State is building a powerful media network by buying local radio and television stations.

The Executive branch’s control over the electoral authorities, through majorities in the National Electoral Council (CNE in Spanish), has also been questioned; this is another cause for discontent and mistrust among political forces and broad sectors of the population on electoral processes. In the last elections, the council’s behaviour drew less criticism. Finally, the so-called Citizen Branch of Power –the People’s Ombudsman, the Public Prosecutor’s Office and the Comptroller’s Office of the Republic– is not free of government control either. Although its functions are to ‘prevent, investigate and sanction acts that go against public ethics and administrative moral’ (Art. 274, Constitution of 1999), corruption remains deep-seated in the administration. It does not seem that the Law against Corruption (2003) has been very effective. According to the index of the corruption watchdog organisation Transparency International,¹⁶ for more than a decade the country’s score has ranged between 2.77 and 2.3.¹⁷ The perception that there has been more corruption in recent years is due to the abundance of petro-dollars that have flooded the economy and to the greater possibilities that come with an increase in statism and bureaucracy. To this one must add the lack of controls (horizontal and vertical), as seen with the lack of basic information on important issues and in decisions taken without prior consultations or in violation of the law.

Finally, limits on exercising rights and freedoms have been common. The calling of the referendum on revoking the Chávez presidency was a messy process which showed how reluctant the ruling elite were to accept laws they had passed but which could backfire on them. Complaints filed against journalists are frequent, and there is much sensitivity about human rights violations by security forces that are corrupt and have not been purged and act with impunity. In other areas of civil society there are fears that the executive branch has used the control it has over the National Assembly to support an international cooperation law that could limit the autonomy of the social organisations that operate in Venezuela. Again, although some of these have been high-profile in their opposition to the government, at times going beyond the scope of their missions, for instance a group called Súmate, the State’s temptations to control and shape the expressions of civil society are evident.

Conclusions

Since the early 20th century, Venezuela’s fate has been linked to its oil industry. The country’s relationship

¹⁵ If the President goes through with what he has announced, the concession granted to Radio Caracas TV (RCTV) will not be renewed. It is one of the two largest networks (out of a total of six) in the country and has been vehement in its opposition to the government.

¹⁶ The Index ranges from 0 to 10, with 0 the most corrupt.

¹⁷ In 1995 the index was 2.66; in 1996 2.50; in 1997 2.77; and in the last year of the Caldera period it fell to 2.33. In the first three years of rule by Chávez it stood at 2.62, dropping to 2.3 in 2004 and 2006. See Transparency International, http://www.transparency.org/policy_research/surveys_indices/.

with this resource has been ambivalent, inasmuch as it has contributed to both socio-economic modernisation and stagnation and decline. At the same time it has served to underpin a wide variety of political regimes. Analysing in greater detail the State's links to the oil sector, particularly in periods of abundance, one observes an inability to transform the tax revenue from this black gold into a source of lasting growth and welfare in the framework of a stable democratic-representative system. In other words, the Venezuelan Petro-State has been unable to handle cycles of boom and bust. At the core of this phenomenon is a structure of institutional incentives and policy that are part and parcel of the appropriation of an external source of revenue. The Venezuelan State has evolved since its belated institutionalisation in the 1930s, but it maintains a mentality that stems from how it makes a living: as a collector and distributor of income rather than an engine for development. This phenomenon has been evident during periods of abundance. Perhaps one of the biggest differences between the current boom and that of the 1970s and early 80s has to do with a worsening of the negative effects of the Petro-State.

A comparison of the two periods allows one to discern some common features: centralisation, a heavy emphasis on the office of the President, statism and bureaucracy. The two periods share things like corruption, inefficiency and inability to change the structural conditions surrounding poverty. One big difference is that, while in the 70s there was a consolidated, liberal democracy, the current regime is hybrid and highly person-centred, without social or institutional counterweights. Compared with earlier administrations, this new regime has exacerbated the practice of 'rentierism' and strengthened the Petro-State, accentuating the effects of the 'Dutch disease'. Another difference between the Chávez period and those of the *Punto Fijo* governments is its determination to distribute part of the oil revenue among the lower classes. But there are reasonable doubts as to whether Venezuela can escape the perverse dynamic that this kind of State spawns. Finally, the current government's foreign policy is more aggressive on the international stage as it seeks partners and support to serve as a counterweight to the US and the process of globalisation. So far Chávez's use of energy to build alliances has yielded only limited results, but we cannot rule out his managing to increase and expand his influence in Latin America.

The 'endogenous' development model being pushed by the *chavistas* seems unviable, given its high costs and scant productive capacity. Its main pillar is oil revenue which, so long as it is copious and stable, can give the government enough elbow room to 'experiment' and deal with some of the population's needs. But the oil sector –highly dependent on external variables and also limited by problems with sustaining and raising production levels over the mid and long term– could become the main 'enemy' of the 'Bolivarian Revolution'. Determinism in history is a bad adviser. We know that Petro-States are characterised by poor management of an external source of revenue, corruption and inability to generate growth over the long term and improve people's living standards. But other kinds of factors also come into play and can change a country's course. So even though the current *chavista* phase does not seem different from earlier ones and in some areas the negative effects are even more acute, one needs greater perspective over time to draw definitive conclusions. Maybe the country is not cursed by possessing oil. But today, just as it was in the past, there is truth to what Juan Pablo Pérez Alfonzo, a Venezuelan social democratic politician and founding father of OPEC, said when he spoke of the 'Venezuela effect', a local expression to refer to the 'Dutch disease'.

Manuel Hidalgo
Universidad Carlos III, Madrid

References

- Arriagada, G. (2006), 'Petropolitics in Latin America. A Review of Energy Policy and Regional Relations', Working Paper Series on Colombia and the Andean Region, Inter-American Dialogue, Washington DC.
- Auty, R.M. (1993), *Sustaining Development in Mineral Economies: The Resource Curse Thesis*, London.
- Betancourt, R. (1986), *Venezuela, política y petróleo*, Caracas.
- Cardozo, Elsa (2006), 'La política exterior venezolana, 1999-2005: rupturas y confrontaciones', unpublished manuscript.
- Carrasquero, J.V., T. Maingon & F. Welsch (Comps.), *Venezuela en transición: elecciones y democracia 1998-2000*, Caracas.
- Central Bank of Venezuela (several years), *Informe económico*, BCV, Caracas.
- Central Bank of Venezuela (2001), *Resource Abundance and Economic Development*, UNU/WIDER Studies in Development Economics, Oxford.
- Coronel, G. (1988), 'Energía y petróleo; evolución, organización y perspectivas', in M. Naim & R. Piñango (Comps.), *El caso de Venezuela: una ilusión de armonía*, Caracas.
- Coronil, F. (2002), *El Estado mágico. Naturaleza, dinero y modernidad en Venezuela*, Caracas.
- Corrales, J. (2006), 'Hugo Boss', *Foreign Policy*, May/June.
- Chávez, Hugo (2001), 'Presentation', at the Ministry of Planning and Development (2001), 'Líneas generales del Plan de Desarrollo Económico y Social de la Nación 2001-2007', September, mimeograph.
- Davis, G.A. (1995), 'Learning to Love the Dutch Disease: Evidence from the Mineral Economies', *World Development*, 23 (10).
- Dieterich, Heinz (2005), *Hugo Chávez y el socialismo del siglo XXI*, Barquisimeto.
- Ellner, S., & D. Hellinger (Comps.) (2003), *La política venezolana en la época de Chávez: clases, polarización y conflicto*, Caracas.
- Escobar, G. (1988), 'El laberinto de la economía', in M. Naim & R. Piñango (Comps.), *El caso de Venezuela: una ilusión de armonía*, Caracas.
- Espinasa, R. (2006), 'Las contradicciones de Pdvs: más petróleo a Estados Unidos y menos a América Latina', *Nueva Sociedad*, 204.
- European Union-Electoral Observer Mission (2007), *Informe final. Elección presidencial 2006*, <http://www.eueomvenezuela.org>.
- Francés, A. (2006), 'Ni contigo ni sin ti: la empresa privada en el gobierno bolivariano', unpublished manuscript.
- Freedom House, 'Freedom in the World', <http://www.freedomhouse.org/template.cfm?page=1>.
- Friedman, T.L. (2006), 'The First Law of Petropolitics', *Foreign Policy*, May-June, p. 28-36.
- Guerra, José (2006), 'El socialismo del siglo XXI', *Análítica Premium*, 15 December, <http://www.analitica.com/premium/ediciones2006/1488407.asp>.
- Guerra, José (2007), 'El Estado depredador en Venezuela', *Análítica*, 1 February, <http://www.analitica.com/va/economia/opinion/3918995.asp>.
- Hausmann, Ricardo (1995), 'Quitting Populism Cold Turkey: The "Big Bang" Approach to Macroeconomic Balance', in L.W. Goodman *et al.* (Comps.), *Lessons of the Venezuelan Experience*, Washington DC.
- Hidalgo, M. (2000), 'Liderazgo político y reforma económica: el caso de Venezuela, 1989-1998', *Zona Abierta*, 90/91.
- Hidalgo, M. (2002), '¿Empeorar para mejorar? Cambio político y desgobierno en Venezuela', *Revista Venezolana de Ciencia Política*, 21.
- Hidalgo, M. (2004), 'El referéndum revocatorio presidencial y la crisis política de Venezuela', ARI nr 106/2004, Elcano Royal Institute.
- Hidalgo, M. (2006), 'Chávez a votación: Venezuela ante las elecciones del 3 de diciembre', ARI nr 120/2006, Elcano Royal Institute.
- Isbell, P. (2007a), 'Hugo Chávez and the Future of Venezuelan Oil (I): The Resurgence of Energy Nationalism', ARI, Elcano Royal Institute.
- Isbell, P. (2007b), 'Hugo Chávez and the Future of Venezuelan oil (II): The Looting of PdVSA and the Threat to its Production Levels', ARI, Elcano Royal Institute.
- Karl, T.L. (1997), *The Paradox of Plenty. Oil Booms and Petro-States*, Berkeley.
- Kelly, Janet (1995), 'The Question of Inefficiency and Inequality: Social Policy in Venezuela', in L.W. Goodman *et al.* (Comps.), *Lessons of the Venezuelan Experience*, Washington DC.
- Kornblith, M. (1998), *Venezuela en los 90: la crisis de la democracia*, Caracas.

- Kornblith, M. (2003), 'Elecciones y representación en tiempos turbulentos', in P. Márquez & R. Piñango (Comps.), *En esta Venezuela: realidades y nuevos caminos*, Caracas.
- Lander, L.E. (1998), 'La apertura petrolera en Venezuela: de la nacionalización a la privatización', *Revista Venezolana de Economía y Ciencias Sociales*, 4 (1).
- Levine, D. (1973), *Conflict and Political Change in Venezuela*, Princeton.
- Levine, D., & Crisp (1995), 'Legitimacy, Governability, and Reform in Venezuela', in L.W. Goodman *et al.* (Comps.), *Lessons of the Venezuelan Experience*, Washington DC.
- Maingón, T., & H.R. Sonntag (1991), 'Del rito democrático a la protesta silenciosa (elecciones de 1988 y 1989)', in M.V. Magallanes, *Liderazgo e ideología*, Caracas.
- Mascareño, C. (2005), 'Descentralización, recentralización y sociedad civil', in Cendes, *Venezuela visión plural. Una mirada desde el Cendes*, vol. I, Caracas.
- Mommer, B. (2002), 'Venezuela: un nuevo marco legal e institucional petrolero', *Revista Venezolana de Economía y Ciencias Sociales*, 8 (2).
- Mommer, B. (2003), 'Petróleo subversivo', in S. Ellner & D. Hellinger (Comps.), *La política venezolana en la época de Chávez*, Caracas.
- Mora, J.M. (2005), 'Las bases de la política petrolera rentista y bolivariana del gobierno de Chávez', unpublished manuscript.
- Naim, M. (1993), *Paper Tigers & Minotaurs. The Politics of Venezuela's Economic Reforms*, Washington.
- Naim, M., & R. Piñango (Comps.) (1988), *El caso de Venezuela: una ilusión de armonía*, Caracas.
- Ortega, G., & T. Nóbrega (1999), 'El epílogo de la Agenda Venezuela', *Nueva Economía*, 12.
- Parra Luzardo, G. (2006), *Mensaje de fin de año del presidente del Banco Central de Venezuela*, Caracas.
- UNDP, *Human Development Report, 2006*, New York.
- Politeita (2003), 30, (*Special edition on 'Venezuelan democracy in two eras: 1972-2002'*).
- Rey, J.C. (1989), *El futuro de la democracia*, Caracas.
- Riutort, M. (1999), 'Pobreza, desigualdad y crecimiento económico en Venezuela', Institute of Economic and Social Research, Andrés Bello Catholic University, Caracas, unpublished manuscript.
- Ross, Michael L. (1999), 'The Political Economy of the Resource Curse', *World Politics* 51.
- Ross, Michael L. (2001), 'Does Oil Hinder Democracy?', *World Politics*, 53.
- Sachs, Jeffrey D., & Andrew M. Warner (1995), 'Natural Resource Abundance and Economic Growth', NBER Working Paper Series, WP 5398, Cambridge, MA.
- Salamanca, L. (1997), *Crisis de la modernización y crisis de la democracia en Venezuela*, Caracas.
- Serbin, A., A. Stambouli, J. McCoy & W. Smith (Comps.) (1993), *Venezuela: la democracia bajo presión*, Caracas.
- Tsebelis, G. (1995), 'Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism', *British Journal of Political Science*, 25.
- Tugwell, F. (1977), *La política del petróleo en Venezuela*, Caracas.
- Vera, Leonardo (2006), 'El nuevo modelo de desarrollo productivo: bases, límites y contradicciones', *Analítica Premium*, 15 December, <http://www.analitica.com/premium/ediciones2006/1843030.asp>.
- Viciano Pastor, R., & R. Martínez Dalmau (2001), *PCambio político y proceso constituyente en Venezuela (1998-2000)*, Valencia.
- Weisbrot, M., L. Sandoval & D. Rosnick (2006), 'Índices de pobreza en Venezuela: en búsqueda de las cifras correctas', Informe Temático, Washington DC.