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## The Rise and Fall of Venezuela's Pacted Democracy: A Story of Coups, Oil Riches, and Political Pacts

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The Rise and Fall of Venezuela's Pacted Democracy:  
A Story of Coups, Oil Riches, and Political Pacts

Senior Project Submitted to  
The Division of Social Studies  
of Bard College

by  
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Annandale-on-Hudson, New York  
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## Dedication

Bobo,

I still remember that project you helped me write when I was in first grade.

I remember all the kids getting up and repeating the same information from the same Wikipedia page.

And then it was my turn.

And I remember my teacher later saying that mine had been the most original one, because I shared information that none of the other kids had mentioned.

And it was all because of you and your brilliant mind.

And I know that if you had been here,

The same would have happened with this project.

I wouldn't have needed to do any research,

because you would have been able to tell me this entire history on your own.

Siempre serás mi más grande inspiración.

This is for you.



## Acknowledgements

Special thanks to my advisor, Omar Encarnación, and board members Greg Moynahan and Miles Rodriguez. Thank you for your guidance on this project. I hope that you were able to make some sense of the story I was trying to tell throughout these pages.

To my professors,

I learned many great things from every one of you, but more importantly, you taught me how to see the world differently, and for that, I will be eternally grateful.

To Bard,

Thank you for four years of great experiences, memories, and people that I will carry with me for the rest of my life.

To my friends,

Your encouraging words were what got me through the final days before this project was due. Thank you for believing in me.

And most importantly, to my family,

You guys are my main driving force. Everything I do is because of you and for you. Thank you for your love and support. I hope I've made you proud.

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## **Introduction**

To talk about Venezuela is to talk about Chávez and oil; these are the two main characters in the modern narrative of the South American country and not without reason. Hugo Chávez made a name for himself in both the international and national arenas by expressing his socialist and anti-imperialist rhetorics and questionable friendships with other state leaders within Latin America and beyond. But his true legacy lies in the way he influenced the political, economic, and social sectors of the country, a legacy that forever transformed the Venezuelan state and whose effects remain present today. Oil, on its part, is central to the Venezuelan narrative primarily because of its role as the primary source of income for the state. Moreover, since its discovery, oil revenues have been a powerful tool employed by previous presidents to amass power at the executive level and remain there for decades.

In current times, Venezuela is widely known because of the deterioration the country is currently facing, both at the political and economic levels. High inflation rates and a repressive government that stopped being democratic a long time ago, if it ever was, have caused an exodus of millions of Venezuelans to all parts of the world in the last few years. Any Venezuelan who is asked about the reasons for the current state of the country, their immediate answers will be Hugo Chávez or his successor Nicolás Maduro, and they would be entirely right. And yet, here is where the question that I based this project on starts to emerge. Venezuela was once considered a model Latin American democracy in the 1960s and 1970s, a time when military dictatorships ruled most countries in the region. That old Venezuela and the one that I grew up in were two opposite realities that were challenging to understand and eventually led me to ask the main driving question of this project: what happened in the years prior to the elections of 1998 when

Chávez became president that pushed Venezuelans into electing a leader who would eventually lead the country into its downfall? Before the arrival of Chávez, Venezuela had enjoyed decades of democratic rule that started in 1958 after the removal of General Marcos Pérez Jiménez from power. The leading political parties at the time created an agreement called the Punto Fijo Pact that established a series of rules for how the country would be governed in the future. While the establishment of a democratic system was the priority, this ‘pacted democracy’ allowed these parties to remain in power for several years with limited competition. In the following chapters, I will be looking at the various aspects that played a key role in the eventual decay of the ‘pacted democracy’ that later led to the rise of *Chavismo*.

As I previously stated, no story about Venezuela can be told without discussing the Chávez regime and its effect on the country that exists today. However, for the purpose of this project, the pages dedicated to the Chávez era will provide an overview of the years since his election in 1998 until his passing in 2013. Chapter I focuses on how Chávez’s vast electoral support allowed him to amass greater power in the executive branch. The Chávez case provides a significant way of looking at how greater social participation in politics allowed for the consolidation of an authoritarian regime. Chapter II will then explore the examples of similar “petro-states” like Venezuela to consider the impact of petroleum on regime outcome. The cases presented show that as oil revenues became the leading source of income for the various states, some of which had recently become independent, it established a heavy reliance on this resource that eventually led to regime decay. In the Venezuelan case, the country was ruled by a military dictatorship when oil was first exploited in 1914, and through the various regime changes it would later face, oil remained the primary source of state income. While the impact of petroleum

riches on the country proved to be significant in how the various regimes, military, democratic, and authoritarian, retained power, it was the mismanagement of this resource during oil booms that did not consider what the future would be like once oil revenues ran out, that caused great economic hardships for the Venezuelan people. The final chapter will then explore the origins of the Punto Fijo Pact that established democracy in Venezuela in 1958 and the subsequent years that led to its decay. This chapter primarily looks into how failures in the original agreement, such as excluding certain political parties and social sectors from participating and being represented in government policies, were critical in its eventual downfall.

## Chapter I: On Chávez

The 1990s decade saw a particular type of regime being born in various countries of the world, including Venezuela, where the election of a former army Lieutenant Colonel to the presidency was an unexpected yet unavoidable outcome following years of a ‘partyarchy,’ a parties-based political system that ruled the country for decades and which will be the focus of Chapter III. Chávez would go on to establish, for the most part, what could be described as a hybrid regime. This type of regime is defined as semi-authoritarian because it possesses characteristics of both democratic and authoritarian systems. Generally, this ambiguous regime maintains the appearance of being democratic by allowing limited space for political parties and civil society organizations to form and some degree of a functioning free press. Still, real competition for power is minimal.<sup>1</sup> The Chávez regime embodied these characteristics for the first few years of its time in power; however, it would eventually take measures to restrict the opposition and private media further while growing the presence of the state in the leading economic sectors of the country.

The rise of Hugo Chávez to the presidency was an unconventional journey, as he first came into public consciousness in 1992 after leading a coup attempt on the then-president Carlos Andrés Pérez. After serving only two years in jail, he was pardoned by Pérez’s successor, Rafael Caldera, a decision that the former president would later regret. Years later, as Chávez began campaigning for the presidency, no one expected the up-and-coming former military officer to get very far.<sup>2</sup> But Chávez had one critical advantage on his side: his lack of association with the

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<sup>1</sup> Marina Ottaway, *Democracy Challenged: The Rise of Semi-Authoritarianism* (Washington, D.C.: Carnegie Endowment for International Peace, 2003), 3.

<sup>2</sup> Cristina Marcano and Alberto Barrera Tyszka, *Hugo Chávez*, trans. Kristina Cordero (New York: Random House, 2007), 107.

traditional parties that had been ruling Venezuela since 1958, AD and COPEI. And as it turned out, this advantage worked out in his favor when he would later win the presidential elections with 56% of the votes.<sup>3</sup> The Venezuelan people were tired of an exclusionary ‘democracy’ that had deteriorated entirely in the last few years. They went looking for someone who would bring about a change in the country, a new democracy where all social classes would be represented and not only an elite few. “In 1998, everyone in Venezuela, even those who did not vote for Hugo Chávez, wanted a change.”<sup>4</sup> The 1998 elections were a punishment vote against the traditional parties of Venezuela, and Chávez’s results at the polls were proof of that.

Chávez’s first year in office would set in motion one of the main factors that keep most semi-authoritarian regimes in power: the manipulation of formal democratic institutions. First, the president called on the Venezuelan people to vote for establishing a constituent assembly that would eventually replace the National Congress. The vote was a resounding majority in favor of the new assembly. In a later election in the same year, the members elected for the now-called National Assembly were primarily Chávez supporters and won a total of 125 seats in the 131-member assembly. The second measure of Chávez’s newly established government was drafting a new constitution approved that same year in 1999 with the total support of 72% of the vote.<sup>5</sup> The new constitution expanded the presidential term from five years to six and granted greater powers to the president, including the decision of military promotions. Among the other

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<sup>3</sup> Marcano and Barrera Tyszka, *Hugo Chávez*, 5.

<sup>4</sup> *Ibid.*, 14.

<sup>5</sup> Steve Ellner, *Rethinking Venezuelan Politics : Class, Conflict, and the Chávez Phenomenon* (Boulder, CO: Lynne Rienner, 2008), 111.

new measures established were the elimination of the Senate and the banning of public financing for political parties.<sup>6</sup>

Throughout the first years of the Chávez regime, the opposition set out to remove the president from office on several occasions; however, most of these proved unsuccessful. The first of these efforts came in the form of an attempted coup d'état in 2002. Days before the events that took place on April 11 of the said year, the president went on national television to fire executive directors of the state-owned oil company. These actions encouraged opposition members who were looking for an opportunity to go against Chávez to call a general strike in support of the reinstatement of the employees to their posts. The private media supported the efforts of the opposition by providing them with screen time to advertise their call on the people to take the streets. These actions would later put a target on the participating networks. The protest shortly turned into a coup attempt once opposition leaders called on the people to oust Chávez. Still, their efforts were short-lived as the interim junta that took over soon lost support from other opposition members after announcing the different measures it was going to take, including the suspension of the constitution. And hours later, Chávez was back in power.<sup>7</sup> Yet, the opposition remained unabated and months later, joined by a union of the state's oil company workers, called for an oil strike that lasted from December of the current year until February. During this time, most of the oil sector closed down as production came to a standstill, which drove the country's economy into a severe depression. Chávez retaliated by firing thousands of employees from the

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<sup>6</sup> Javier Corrales and Michael Penfold, *Dragon in the Tropics*, 2nd ed. (Brookings Institution Press, 2015), <http://www.jstor.org/stable/10.7864/j.ctt7zsw2>, 20.

<sup>7</sup> Steve Ellner and Daniel Hellinger, eds., *Venezuelan Politics in the Chávez Era: Class, Polarization, and Conflict* (Boulder: Lynne Rienner, 2003), 50-1.

oil company, about 60% of the entire personnel, and took complete control of the enterprise once and for all, restoring production and putting an end to the strike.<sup>8</sup>

A relentless opposition would attempt once more to oust Chávez from power months after the failed oil strike. This time, they strived to do so by enacting a recall referendum, which they believed had a chance of succeeding as public support for the president had waned in the past months. Facing some setbacks from the National Electoral Council, whose leadership constituted allies of the Chávez regime, the opposition was eventually able to gather three million signatures and move forward with the referendum. However, their efforts were in vain. Chávez worked to raise his public approval by establishing a series of social programs targeted at his main support base in the lower classes and won the referendum by a landslide.<sup>9</sup> Despite his victory, the president decided to strike back once again against those he had warned off of signing the referendum brought about by the opposition. His revenge came in the form of *la lista Tascón*, the Tascón list, named after Luis Tascón, a member of the National Assembly who was charged with making the contents of the said list available to the public. This list was a digital record of the three million names that had signed the referendum petition and was then used by the government and various state offices to retaliate against the list's signatories by removing them from their posts and later denying employment, loans, contracts, and other forms of subsistence. Sometime later, after facing international scrutiny, Chávez would publicly order that the list be archived and buried. Still, in truth, it continued to be used to dictate the lives of the

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<sup>8</sup> Corrales and Penfold, *Dragon in the Tropics*, 24-5.

<sup>9</sup> Rory Carroll, *Comandante : Myth and Reality in Hugo Chávez's Venezuela* (New York: Penguin Press, 2013), 101-02.

millions of Venezuelans who had signed it.<sup>10</sup> Nonetheless, this would not be the last punishment policy that the president would implement.

After an overwhelming win in the 2006 presidential elections, which granted Chávez an additional six years in power, with 63% of the vote, a margin never before seen in a Venezuelan election, the president announced his next steps. The new measures included the nationalization of “strategic” industries, shutting down RCTV, the most popular television channel in the country, and reforming the constitution to abolish term limits, which would allow the president to run for reelection in 2012.<sup>11</sup> His decision to go against the private television network Radio Caracas Televisión (RCTV) was perhaps the most unpopular yet unsurprising one. RCTV was one of the four private channels that had backed the 2002 coup attempt against Chávez. Yet, unlike its fellow counterparts who decided to refrain from publicly criticizing the president, the owners of RCTV continued to publicly reiterate their disapproval of the president and his “Bolivarian revolution.” The consequences of this came in May 2007, when the government denied the renewal of the network’s terrestrial license, which eventually caused its complete shutdown. These actions triggered a series of demonstrations throughout the country in opposition to the closing down of the channel, and yet, the government remained unwavering in its decision.<sup>12</sup> Despite his sentiments toward opposition-owned private networks, Chávez’s relationship with the media was a more positive one. He was quite in favor of being on screen talking to the Venezuelan public and would do so through two primary means, his weekly talk shows *Aló Presidente*, Hello, President, and his recurrent national “chains.” These *cadena*s were a special program transmitted whenever there was a particular event that the president wanted to

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<sup>10</sup> Carroll, *Comandante : Myth and Reality in Hugo Chávez’s Venezuela*, 103-04.

<sup>11</sup> Carroll, *Comandante : Myth and Reality in Hugo Chávez’s Venezuela*, 108-09.

<sup>12</sup> *Ibid.*, 112.



be televised. Over the main decade of his presidency, Chávez would do a total of 1,923 televised *cadena*s, with each lasting an average of forty minutes; it was the equivalent of fifty-three consecutive days.<sup>13</sup>

Despite his apparent retaliation against the opposition, Chávez still held broad support from his primary support base among poorer Venezuelans. And this was a crucial factor in the survival of his semi-authoritarian regime.<sup>14</sup> The reason why the continuous attempts by the opposition to remove Chávez from office failed was partly because of divisions within the party but primarily because of their inability to produce a concise set of political proposals that went beyond middle-class concerns. Instead, they recurrently reacted in opposition to Chávez's initiatives and did not take advantage of the few chances where they could address the nation and present a program that was inclusive of all classes rather than solely focused on the elites. Chávez's main support base came from the lower classes because, for the first time in years, this social group represented the priority for the government's plans and not the middle-class elites.<sup>15</sup> During the first few years of his presidency, Chávez tended to be vague about his political leaning, calling himself a "Bolivarian," referring to the Venezuelan liberator Simón Bolívar and his ideals; never explicitly stating whether his political ideologies rested on the left or right side of the political pendulum. Still, his rhetoric always highlighted leftist ideas of revolutionary movements that, as he expressed in the earlier years of his political career, in order to be transformative, had to "take a swing at the powerful." Therefore, it came as no surprise when in 2005, he officially referred to himself as a socialist whose goal was to embark on the creation of

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<sup>13</sup> Carroll, *Comandante : Myth and Reality in Hugo Chávez's Venezuela*, 184.

<sup>14</sup> Ottaway, *Democracy Challenged : The Rise of Semi-Authoritarianism*, 17.

<sup>15</sup> Ellner, *Rethinking Venezuelan Politics : Class, Conflict, and the Chávez Phenomenon*, 129.

twenty-first-century socialism.<sup>16</sup> Chávez's "Bolivarian revolution" was mainly targeted at the lower-income classes of Venezuela by establishing various social projects that aimed to bridge the gap between the vastly different socio-economic classes.

Legislative changes from earlier in his regime would be critical to Chávez's social plans. As part of a special forty-nine laws package that the president introduced back in 2001, two are worth highlighting: the Hydrocarbons Law and the Lands Law. The first of these laws dealt with the highly significant oil sector. Its purpose was to further restrict private-sector oil-industry companies' role by stating that any future projects developed by the state's oil company PDVSA would require at least 51% state ownership. This law also increased the royalties paid to the state from 16.66 to 30% for all projects developed.<sup>17</sup> The second law passed at this time had to do with lands, and it established that any uncultivated land would be subject to expropriation. Moreover, those who owned underutilized land would be given two years to cultivate these in addition to being required to pay a special tax.<sup>18</sup> These two legislations were significant because they foreshadowed the main deeds the Chávez regime would be known for, expropriation of businesses, land, and control over the oil company, the last one being the most significant one.

One of the most significant failures of the Chávez presidency in terms of the economic sector was the decay of the state-owned oil company *Petróleos de Venezuela, S. A. (PDVSA)*. Since the nationalization of the oil industry and the establishment of the state company in 1976, the then government set in place measures to ensure that PDVSA would remain autonomous from political intervention. Although the executive branch retained the power to appoint the president of the board of directors that oversaw the entire oil sector, its members were capable

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<sup>16</sup> Cristina Marcano and Alberto Barrera Tyszka, *Hugo Chávez*, trans. Kristina Cordero, 22-3.

<sup>17</sup> Corrales and Penfold, *Dragon in the Tropics*, 82.

<sup>18</sup> Ellner, *Rethinking Venezuelan Politics: Class, Conflict, and the Chávez Phenomenon*, 113.

professionals that guaranteed the successful function of the industry.<sup>19</sup> Unfortunately, that would all change under the Chávez regime.

In the aftermath of the oil strike and the upcoming recall referendum that he was in danger of losing if public opinion was of any indication, Chávez decided to take control of PDVSA, which would guarantee him unrestricted access to oil revenues. Among the immediate actions that the president took soon after gaining control of the company were naming loyal regime supporters to the board of directors and a vast number of employee dismissals. While the main departments affected were finance and human resources, the loss of trained and experienced staff of the exploration department and engineers would have the most significant impact on the company's overall operations.<sup>20</sup> In addition, further changes in PDVSA's agreements with other entities, like the Central Bank, would allow its capital to be used to fund social, agricultural, and infrastructure projects both within the country and abroad, turning this company into the most important welfare agency within the state. Soon after, a newly established Social Development Fund (Fondespa), set up and fully financed by PDVSA, would become the main sponsor of the social programs that granted the president his landslide win in the 2004 recall referendum.<sup>21</sup>

In 2003 the government established a series of special programs called "*misiones*," missions, primarily aimed at providing health services and educational opportunities in low-income areas throughout the country as part of Chávez's greater "revolutionary process." Of the various programs launched, the first one was called the Barrio Adentro Mission, instituted in collaboration with Cuban doctors who had already been providing their services in certain parts

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<sup>19</sup> Corrales and Penfold, *Dragon in the Tropics*, 77-8.

<sup>20</sup> *Ibid.*, 79-80.

<sup>21</sup> *Ibid.*, 81.

of Venezuela. The main focus of this “mission” was to set up consultation offices in *barrios*, lower-class neighborhoods, in various parts of the country which would provide free medical services. A second program called the Robinson Mission would target education by providing a range of literacy classes and primary-level teaching. Other programs, such as the Vuelvan Caras Mission, aimed to provide job training in various areas.<sup>22</sup> While within the overall educational focus, the Sucre Mission provided university-level education and established “Bolivarian universities” that would sponsor student participation in community programs. Apart from the “*misiones*,” the government also set up a chain of supermarkets called Mercados de Alimentos (MERCAL), located in low-income neighborhoods that provided subsidized food items. Chavez’s social programs further expanded beyond health and education, and into economic development, through the Lands Law previously mentioned. This law allowed the government to take over and later distribute uncultivated lands and companies that had closed down.<sup>23</sup>

When these social programs were first enacted, they represented a significant opportunity to help bridge social and income gaps in the country. Its effects were evident in certain social indicators, such as declining numbers of households living in extreme poverty.<sup>24</sup> However, over time, some of these programs eventually failed. In the case of the expropriated lands, these were primarily distributed among newly established cooperatives financed by the government. And although they were provided with all necessary subsidized pieces of equipment and tools, about ninety percent of them became inefficient. Lack of financial control left funds unaccounted for, while insufficient experience, training, and infrastructure caused the eventual decline of the

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<sup>22</sup> Ellner, *Rethinking Venezuelan Politics: Class, Conflict, and the Chávez Phenomenon*, 122.

<sup>23</sup> *Ibid.*, 132-33.

<sup>24</sup> Corrales and Penfold, *Dragon in the Tropics*, 85.

cooperatives.<sup>25</sup> As other social programs were abandoned, the entity that was their primary funding source also began to decay. The oil prices boom that started at the end of 2003 lasted until the global financial crisis of 2008. During this period, PDVSA's inefficiency grew as domestic oil consumption increased. Eventually, the company was unable to provide for both consumer demands at home and abroad, which led to cuts in crude oil exports. In addition, the decline in oil prices caused financial problems for the company, including an increase in its debts that could put its entire operation in jeopardy. In the face of these numerous hardships, the company's then-president, Rafael Ramírez, chose to favor financing the various decaying social programs rather than paying the almost \$9 billion the company owed to its suppliers.<sup>26</sup> A clear display of political interests taking precedence over the productivity of the oil sector, the leading source of state revenue. Ramírez's decision shows why politics needed to remain separated from the oil industry. Yet, that was not the case, and years of government control over PDVSA became its eventual downfall.

From early on in the Chávez regime, it was evident that the country would not become the new democracy the people wanted. Instead, Chávez's revolution would transform into an "illiberal" system where the executive would hold all power. The social programs financed by oil revenues were critical in maintaining Chávez's discourse of inclusion and which allowed him to retain an electoral majority that permitted him to rule as he saw fit.<sup>27</sup> While the opposition remained able to participate in presidential elections, the various changes made to the constitution that allowed Chávez to run for president continuously made it clear that there would not be a transfer of power in the near future. The passing of Hugo Chávez in 2013 would cause

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<sup>25</sup> Carroll, *Comandante : Myth and Reality in Hugo Chávez's Venezuela*, 216.

<sup>26</sup> Corrales and Penfold, *Dragon in the Tropics*, 89.

<sup>27</sup> Corrales and Penfold, *Dragon in the Tropics*, 8.

Venezuela to decay into a more authoritarian system as a rising successor and divided regime faced a strongly emerging opposition. Nicolás Maduro, a former bus driver, later turned foreign minister, then Vice-President, could not fill the vacant space left by the late president. Among his various shortcomings was the lacking charismatic characteristic that made Chávez highly appealing to his followers. Support for the great “Bolivarian revolution” that Chávez had started waned as former *Chavistas*, Chávez supporters, did not find in Maduro a leader worth following. These circumstances caused the current Maduro regime to become more repressive, as that was the only way the revolutionary fight was able to survive in the face of a rising opposition.

## **Chapter II: On Oil**

Oil exporting countries belong to a category entirely of their own. Some may deem them ‘lucky’ for being part of the “have” countries that possess such a rich resource, while in fact, it may be those “have-not” nations that are the lucky ones. In most of the cases that I will later introduce, the introduction of oil wealth to the state proved to be damaging for both the political and economic sectors, instead of being the easy path towards development and modernization that it was assumed to lead the states on as revenues started pouring in. The reality is that oil wealth blinds governments to the fact that too much dependence on these riches will be their eventual downfall. This dependence leads to the commonly known ‘Dutch Disease’ that most petro-states seem to be unable to avoid; this so-called disease is “a process whereby new discoveries or favorable price changes in one sector of the economy — for example, petroleum — cause distress in other sectors — for example, agriculture or manufacturing.”<sup>28</sup> Most oil-exporting countries tend to follow the same dependency-based trajectory path once oil wealth takes over the country; as “petrodollars” replace other fiscal revenues, the state adopts resource-based industrialization, increasing its jurisdiction and public spending to never before seen levels.<sup>29</sup>

Most petro-states made the mistake during oil booms of solely focusing on the oil riches coming in rather than what the future held for them. As a result, other economic sectors were pushed back behind the much more profitable oil industry. Instead, governments favored measures aimed at “sowing the petroleum” and spending as much as possible over the fear that oil wealth would not last long. Moreover, the arrival of petroleum wealth during the oil boom of

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<sup>28</sup> Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997), 5.

<sup>29</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 213.

the 1970s happened to coincide with unstable conditions within some of the newer and older petro-states. These circumstances proved critical for how the effects of oil would shape these governments and vice versa. Therefore, timing and preparedness were two crucial factors in managing oil riches. By timing, I refer to external events happening in the world that would influence oil prices and subsequent revenues; and preparedness as in the internal conditions of the state, including regime type and the strength of state institutions. Most state leaders took advantage of significantly high oil prices to set in motion ambitious development plans while at the same time strengthening state power. Venezuela is a prime example of these conditions, but it is not the only one; this was also the case in countries like Algeria, Indonesia, Iran, and Nigeria. These nations shared similar trajectories following the 1973 oil prices boom. Still, some fared better than others due to differing internal circumstances.

Iran is one of the examples that more closely resembles the case of Venezuela, both because of its time as a petro-state and its subsequent actions in dealing with oil. Iran first encountered this resource in 1908, which also marked the first oil well in the Middle East.<sup>30</sup> As I will later expand on in the Venezuelan experience, foreign oil companies were instrumental in encouraging government centralization since it was easier for them to deal with a single state figure rather than several of them. In Iran's case, that would be the Pahlavi regime in power at the time. Oil revenues quickly became the leading source of income for the country, which made the government focus its attention on extracting as much revenue from the oil companies as possible. Their primary way of doing that was by implementing taxes on the foreign companies rather than taxing at the domestic level; one critical mistake that most petro-states would

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<sup>30</sup> "Iran Facts and Figures," OPEC, accessed April 15, 2022, [https://www.opec.org/opec\\_web/en/about\\_us/163.htm](https://www.opec.org/opec_web/en/about_us/163.htm).



recurrently commit for it prevents the citizenry from holding the state accountable. When the citizens of a country do not pay taxes to the state, then the government is not subjected to work in favor of the public but rather for their own benefits since the citizens rely on the state and not the other way around. When the 1973 oil boom occurred, Iran went on a spending spree, aiming to modernize by investing in heavy industry and military defense. Still, this reliance on oil revenues proved counterproductive, for once petroleum prices stalled post-1973, the oil-based regime fell apart.<sup>31</sup>

The case of Algeria differs slightly from Iran and Venezuela in that oil was discovered much later in the country, similar to Nigeria and Indonesia. Therefore, by the time it established itself as an oil country in the late 1950s, Algeria benefited from the parameters set by the older petro-states on how to profit from oil revenues and bargain with the oil companies, as well as by the creation of OPEC, of which it is a member.<sup>32</sup> These circumstances proved beneficial for the country since they allowed Algeria to gain quick control over oil rents and its industries. During this time, Algeria gained its independence from France, which shaped its priorities regarding oil since it was more interested in recovering from the war rather than extracting the highest revenues from oil taxes possible, which resulted in keeping said taxes relatively low ahead of the upcoming oil boom. On the national level, instead, Algeria maintained higher tariffs on domestic goods and services, which allowed for some accountability on the government, the opposite of what other petro-states did. The war of independence also awarded legitimacy to Algerian leaders, meaning that those in power already had a base of authority before oil came into the country. By 1965 oil amounted to almost 60% of total merchandise exports; however, this would

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<sup>31</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 201-02.

<sup>32</sup> “Algeria Facts and Figures,” OPEC, accessed April 15, 2022, [https://www.opec.org/opec\\_web/en/about\\_us/146.htm](https://www.opec.org/opec_web/en/about_us/146.htm).

soon increase due to higher production and taxes on foreign oil companies until petroleum profits became the main source of income for the state. Like some of its fellow oil-exporting countries, Algeria invested primarily in heavy industrial development as its agricultural sector deteriorated, resulting in a dependence on food imports purchased with petrodollars. Eventually, the economic deterioration led to state disorganization, resulting in regime decay.<sup>33</sup>

Nigeria is another example of oil discoveries coinciding with state formation, with crude/petroleum being found in 1956 and the nation becoming independent from the British in 1960, which meant a weak new state attempting to manage the effects of oil/revenues. Therefore, it is not surprising that the country offered no resistance to the dominance of this one resource over the economic sector. By 1977, oil exports constituted 93% of total state exports. The war of independence left a fractured country divided by unresolved ethnic and religious differences throughout the nation, which meant that petrodollars had the critical role of keeping this fragile country together by financing expensive loyalties that would keep the peace in the region. Between 1970 and 1985, Nigeria would go through five military administrations and only one civilian government, continuous regime changes that were closely related to shifts in oil prices.<sup>34</sup>

Like the case of Algeria, the Civil War that ended in 1970 pushed Nigeria into embarking on a rapid industrialization program aimed at reconstructing the country. Yet, as previous examples have shown, this plan was never successful. Primarily because of the previously mentioned unstable leadership in government, which, due to their short periods in power, encouraged high levels of corruption and an even higher dependence on oil revenues since those with closer ties to the government knew that they had a short amount of time to benefit from

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<sup>33</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 204-06.

<sup>34</sup> *Ibid.*, 206-07.

their positions. As petroleum reliance took over the country, its effects were felt in the other economic sectors, causing one of the worst cases of Dutch Disease. Nigeria went from being an agricultural exporter to a food importer. The decline in oil prices throughout the 1980s eventually led to another regime shift, from military to civilian rule, but that would not be the end of political instability in the country.<sup>35</sup>

The examples of Iran, Algeria, and Nigeria are worth highlighting since these petro-states shared similar trajectories during the oil booms of the 1970s and 1980s. But there is one other example that can be cited as an exception to the journey that these countries faced, and that is the case of Indonesia. In terms of its timing factor, the effects of WWII, a recently gained independence, and nationalist actions by the government were causes for a disrupted oil sector. These actions lasted well into the 1960s and drove away foreign companies like Shell from the country at a time when only about 10% of state revenues came from corporate taxes on petroleum, and oil accounted for only about a third of total exports.<sup>36</sup> These circumstances allowed Indonesia to deal with the effects of oil at a slower pace compared to its fellow oil-exporting countries.

The newly established Suharto regime implemented specific measures that allowed Indonesia to **fare better** than the previous examples of petro-states at the time. One fundamental way by which Indonesia differed was by avoiding the deterioration of the agricultural sector. Rice self-sufficiency was among the central goals of its government's development plans, as shown by the increase in rice production of 4.2% per year between 1968 and 1978. Another differing measure was its fiscal discipline in the form of budgetary restrictions that state

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<sup>35</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 208.

<sup>36</sup> *Ibid.*, 209.

institutions put in place, therefore allowing Indonesia to employ better control over its expenditures, a trait its fellow petro-states should have adopted. One final difference was that the state took advantage of the fiscal relief provided by the oil booms to establish domestic taxes that would allow it to enjoy a diversified tax base prior to the plummeting of oil prices in 1986.<sup>37</sup> Although Indonesia would eventually develop a higher dependence on oil, no severe economic issues plagued the nation in the following years that would have set it off into the path of political decay and regime crisis that previous petro-states faced.

When oil riches impacted Iran, Algeria, Nigeria, and Indonesia, most of these were navigating what it meant to be a new state while concurrently experiencing non-democratic regimes, which had some consequences on their capacity to manage the newly found petroleum resource and revenues. Timing and preparedness were at odds with each other in most of these cases, resulting in both political and economic instability. That is why it is worth exploring how a well-established democracy fared with the impact of oil, and such was the case of Norway. This country mainly differed from the experience of the other petro-states in that it was already a wealthy, democratic, and equitable nation by the time oil was discovered in the 1960s.<sup>38</sup> These traits gave Norway an advantage that the other oil-exporting countries lacked, it was already a developed nation, therefore, it did not need to exploit this resource and its revenues to finance development and modernization plans.

Among the significant distinctions between Norway and the petro-states mentioned so far was its high degree of “stateness.” Norway was a “civil-service state,” which means that its civil servants were some of the best-educated, and recruitment was solely based on merit rather than

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<sup>37</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 210-212.

<sup>38</sup> *Ibid.*, 216.

personal ties with government leaders, as was often the case in previous examples. Still, more importantly, no civil servant was allowed to receive preferential treatment or favors from the state. These and other strict norms in government allowed for corruption to be nonexistent in the state.<sup>39</sup> In terms of its economic sectors, Norway did not let oil overshadow its other primary industries. Instead, it granted large subsidies to agriculture and other sectors such as fishing, shipping, and manufacturing, while it also protected its traditional exports of cement, aluminum, and paper.<sup>40</sup> Overall, Norway is an example of how strong pre-existing state institutions were critical in managing the entry of the petroleum industry and subsequent booms; these institutions allowed the state to deal with the effects of oil in a careful and sensible manner, a luxury that most oil-exporting countries did not enjoy. Moreover, the advantages that Norway enjoyed prior to its oil discovery, primarily being an already wealthy nation, allowed it to treat oil as another simple raw material rather than as the answer to grandiose dreams of development; therefore, complete dependence on it was not necessary. Unfortunately, this was not the case for other nations who thought themselves lucky to find such a resource within their subsoils, as was the case in Venezuela, where the thrill of oil and petrodollars proved to be a curse in disguise that would lead to its eventual downfall.

#### - **The Magical State of Venezuela**

The history of Venezuela and its relationship with petroleum could be described as a fairy tale. Since the country first started producing this resource in July 1914, oil has shaped Venezuelan politics, economy, and society. And the reality is, why would that not be the case? We are the country with the largest oil reserves in the world, with a little over 300 billion barrels

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<sup>39</sup> Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, 217.

<sup>40</sup> *Ibid.*, 214-15.

of crude oil, to be exact.<sup>41</sup> However, as the previous examples have shown, while this resource brings great wealth, it also carries along with many complications for a nation. Therefore, it is not surprising that being the proud owners of such vast amounts of this one resource, Venezuela would have an entirely different experience in dealing with oil and its revenues, compared to that of its fellow petro-states.

The history I will develop in the following pages is truly a magical one, a tale of kings who shared their riches with their subjects, or in this case, friends and close allies first; it is a story of a special type of currency that allowed those lucky enough to have it to purchase everything their hearts desired from faraway lands. But most importantly, it is a story of hopes and dreams for a better future, a vision for a magical state. And what a good dream it was, at least for as long as the money lasted. There are three main characters in this story, and those are General Juan Vicente Gómez, General Marcos Pérez Jiménez, and two-term President Carlos Andrés Pérez. These men dreamed of great plans for Venezuela and utilized oil riches as the magic needed to accomplish their dreams, leaving a legacy of vast state expenditures, corruption, and grand visions of modernization and development that did more harm than good.

The first dreamer in this story was Juan Vicente Gómez, who in 1908 came into power after effectuating a coup on the then-president Gen. Cipriano Castro, under whom Gómez served as Vice-President before taking over while Castro was away on travel. At the time, the Venezuelan economy was drowning in foreign debt. Still, luck was about to look down upon Gómez, or more accurately, it was about to be found deep within the subsoil, in the form of a viscous liquid, not too visually appealing but highly financially worthy to those ‘lucky’ enough

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<sup>41</sup> “Venezuela Facts and Figures,” OPEC, accessed April 15, 2022, [https://www.opec.org/opec\\_web/en/about\\_us/171.htm](https://www.opec.org/opec_web/en/about_us/171.htm).

to find it within their territories. The first oil well in Venezuela was drilled in 1914 in the state of Zulia; this oil well marked the beginning of oil production in the country, with exports starting some few years later. These dates are significant because they will play a part in the timing effect that I have previously mentioned as being critical in how oil will affect the newly established petro-state. Furthermore, as Venezuela started producing this resource, World War I took place, and the navies of the world had just switched from coal to oil as their fuel source, making oil an even more valuable resource.<sup>42</sup> Gen. Gómez knew how to take advantage of these exceptional circumstances and encouraged the investment of foreign oil companies in the country by providing beneficial conditions for them to do so in exchange for their economic and political support of his presidency.

The Petroleum Law of 1922 would define the favorable terms of Gómez's agreements with foreign oil companies. This law granted exploitation contracts for an extended time; instituted taxes on exploration and exploitation aimed at increasing state revenues, and would also allow tax exceptions on machinery and equipment imports.<sup>43</sup> Wanting to keep the oil companies content was critical for their continuing support of the Gómez regime. Still, as the oil business became state business, or more explicitly, Gómez's business, the president decided to take a more central role in dealing with the oil companies. In 1923, Gómez established the *Compañía Venezolana de Petróleo, S.A. (CVP)*, which would now be in charge of all oil concessions and the sale of these and national reserves to the foreign oil companies, a business that was previously in the hands of private landowners who would receive these concessions from the state and later sell them to oil companies for a profit; many of these private owners

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<sup>42</sup> Raúl Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela* (Potomac Books, 2016), 58.

<sup>43</sup> Jorge Salazar-Carrillo and Bernadette West, *Oil and Development in Venezuela during the 20th Century* (Westport, CT: Praeger, 2004), 37.

being close allies, friends and even relatives of the president himself.<sup>44</sup> This shift signified the establishment of Gómez as a landlord and Venezuela as his estate, as the increasing oil revenues were benefiting both the country and his personal wealth. Gómez and the state became one as the public came to see oil wealth as a collective patrimony and the state as the one in charge of safeguarding it, which allowed Gómez to consolidate more power in the executive.<sup>45</sup>

In the 1930s, as oil revenues continued streaming into the country, something magical indeed occurred; the Bolívar, Venezuela's national currency, appreciated nearly 70% against the dollar and became one of the strongest currencies in the world at a time when nations, primarily the U.S., were struggling with the Great Depression. This increase in currency value caused Venezuela's previous primary exports like coffee and cocoa to become too expensive for foreigners to buy, which led to the detriment of the agricultural sector, an early warning sign that Venezuelans failed to notice. Instead, a strong Bolívar and oil wealth blinded the public as petroleum established itself as the state's leading export. There was a great abundance of petrodollars flowing around, and Venezuelans knew how to spend it, relying on imports for everyday necessities like food, clothes, and more.<sup>46</sup> By 1929 Venezuela became the second-largest oil producer in the world after the United States, with oil accounting for 76% of total export earnings and half the state's total revenues.<sup>47</sup> With Gómez's passing in 1935 and Venezuela officially established as a petro-state, the dreamer seat was left vacant until the arrival of Gen. Marcos Pérez Jiménez over a decade later.

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<sup>44</sup> Fernando Coronil, *The Magical State : Nature, Money, and Modernity in Venezuela* (Chicago: University of Chicago Press, 1997), 80.

<sup>45</sup> Coronil, *The Magical State : Nature, Money, and Modernity in Venezuela*, 83.

<sup>46</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 60.

<sup>47</sup> Daniel Yergin, *The Prize : The Epic Quest for Oil, Money, and Power*; (New York: Free Press, 2009), 219.



In the interim years after Gómez's death and before the arrival of Pérez Jiménez into power, significant pieces of legislation regarding oil were passed that would shape the relationship between oil-exporting countries and foreign oil companies. The Petroleum Law of 1943 instituted higher taxes and royalties on the oil sector that would substantially increase the government's profits to almost equal levels as the oil enterprises. The law also granted validity to some of the concessions obtained by the oil companies during the Gomez regime, and the nature of how they had been acquired was no longer in question. At the same time, new exploration opportunities would be made available along with extensions to pre-existing concessions. However, some within the government argued that the terms were more beneficial for the companies and did not reflect an actual fifty-fifty gain for both parties, but instead, to about sixty-forty. Further revisions in the tax law were made to guarantee that the division would amount to the fifty-fifty agreement, and by 1948 the state's total income was six times greater than it had been in 1942.<sup>48</sup> The democratic years of Venezuela came to an end in 1948 through a coup, not the first one and certainly not the last one to occur in the nation's history. While initially led by a military junta, General Marcos Pérez Jiménez eventually emerged as the leading figure who would later establish himself as president.

During the early 1950s, Venezuela enjoyed great wealth; foreign events caused crude prices to increase, and oil was in high demand. Conflicts in the Middle East, primarily Iran's nationalization of its oil industry and Egypt's Suez Canal crisis, proved beneficial for Venezuela, for it meant a large influx of petrodollars into the country. As a result, oil production and exports would see a stable expansion throughout the decade of the Pérez Jiménez regime.<sup>49</sup> Contrary to

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<sup>48</sup> Yergin, *The Prize : The Epic Quest for Oil, Money, and Power*; 417-18.

<sup>49</sup> Coronil, *The Magical State : Nature, Money, and Modernity in Venezuela*, 180.

his predecessors, Pérez Jiménez did not pursue radical changes in the government's involvement in the oil industry. Primarily encouraged by the oil companies' threat to move their investments to places like the Middle East if the government continued asserting drastic oil policies, Pérez Jiménez took a friendly approach instead that would eventually cost Venezuela millions in revenue losses.<sup>50</sup>

But the general had grand ambitions for the nation, and keeping the oil companies content while using petroleum revenues to achieve his grandiose dreams seemed like the best course of action. Pérez Jiménez's modernization plans included giving a new name to the country; he renamed it "Republic of Venezuela." He established state-owned companies in the mining, steel, aluminum, and petrochemical industries and embarked on a grand public spending spree. "Venezuela's oil affluence made it seem as if the country could simply buy its way into becoming a modern nation."<sup>51</sup> Pérez Jiménez poured money into various programs, from schools, hospitals, and low-income housing to freeways and luxury hotels. But eventually, his projects proved to be too costly and inefficient for a government that was too wasteful and corrupt.

Pérez Jiménez's regime came to an end in 1958 by means of a coup because Venezuelans are particularly fond of those; therefore, the arrival of democracy into the country, or at least a version of it, could not have occurred under any other circumstances. With Pérez Jiménez ousted from power, the leading political parties of the country joined forces and formed a democracy based on mutually beneficial pacts and agreements where everyone would be guaranteed a seat at the table or, in this case, a place in government. At the time, this arrangement seemed like a

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<sup>50</sup> Coronil, *The Magical State : Nature, Money, and Modernity in Venezuela*, 181.

<sup>51</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 67.

positive new chapter in Venezuelan politics following years of dictatorship, but that would not be entirely the case, and this I will further expand in Chapter III.

For the newly established government, “oil was more important than democratic principles,”<sup>52</sup> and to make sure that the state was receiving as much revenue as possible from this sector, the-then president Rómulo Betancourt called on the one person who could make sure this was the case, and that was Juan Pablo Pérez Alfonzo. Betancourt knew that Pérez Alfonzo was the right man for the job because they had worked together some years before during the short period of democracy in Venezuela in the 1940s when the latter served as the former’s development minister. During his time in government, Pérez Alfonzo pushed for higher taxes on the oil companies and believed that the country should profit from all aspects of the oil sector, not solely from petroleum extraction. He was also the one who shared Venezuela’s fifty-fifty agreement with the oil states in the Middle East, encouraging them to set similar terms with the oil companies.<sup>53</sup> Therefore, it made sense for Betancourt to bring Pérez Alfonzo back and put him in charge of this resource as the country’s oil minister, especially when he would become the leading mastermind just a few years later behind the creation of the world’s first cartel of oil exporters.

Oil riches continued streaming into Venezuela, making its per-capita income one of the highest in Latin America during the 1960s, while the Bolívar remained a strong currency. Still, while the petroleum sector thrived, others, mainly agriculture, continued to deteriorate, which caused an increase in social spending. The state had to invest in public benefits because the country’s economic sectors were not strong enough to employ most people. These investments

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<sup>52</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 69.

<sup>53</sup> *Ibid.*, 64.

amounted to 31.4% of total state expenditures by the 1970s. These figures considerably surpassed the 5.3% of total government spending during the Gómez regime.<sup>54</sup> And yet, these numbers would still not compare to the state expenditures of the following years. Venezuela was about to receive a shock like no other, accompanied by the arrival of a new dreamer into office whose effects would be felt for years to come.

By late 1973 oil prices spiked to levels never seen before, prompted by a petroleum embargo by oil-exporting countries in the Middle East on Western nations, over their support of Israel during the Arab-Israeli War.<sup>55</sup> This “oil shock” led to a significant transfer of world wealth from the center nations of the first world to the OPEC countries of the periphery.<sup>56</sup> As a result, Venezuela’s oil revenues increased to about \$10 billion a year, a wealth that Pérez Alfonzo said would be too much for the country to handle, “Venezuela was in a state of emergency because it had too much cash.” This wealth encouraged ideas of modernization that the recently elected president Carlos Andrés Pérez knew to use in favor of promoting his vision of “La Gran Venezuela,” the Great Venezuela.<sup>57</sup> Pérez’s way of administrating the vast amounts of petrodollars coming into the country was by decreeing higher wages and salaries, funding social services, and creating jobs by any means necessary. And yet, those efforts were still not enough to manage the cash influx, which caused inflation to rise to 11.6% during the first year of Pérez’s presidency. The rising inflation encouraged Venezuelans to spend heavily. Since the money they kept in the banks was losing value, what was the purpose of leaving it there? Instead, spending it made more sense than saving it, and spend it they did. Venezuelans were rightfully endowed with

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<sup>54</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 72.

<sup>55</sup> Salazar-Carrillo and West, *Oil and Development in Venezuela during the 20th Century*, 205.

<sup>56</sup> Coronil, *The Magical State : Nature, Money, and Modernity in Venezuela*, 237.

<sup>57</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 73.

the nickname of “Saudi Venezuelans” because of the various luxuries they decided to pour their money into, from importing premium alcohol and luxury vehicles to multiple restaurants run by renowned chefs.<sup>58</sup>

During this time, the Pérez administration decided to nationalize the oil industry. Countries like Mexico, Indonesia, and Algeria had already nationalized their petroleum industries years before Venezuela chose to follow in their footsteps. The passing of the Organic Law Reserving the Industry and Commerce of Hydrocarbons to the State (LOREICH) set in motion the nationalization process, which would officially take effect in 1976, and established the state-owned company *Petróleos de Venezuela S.A. (PDVSA)*. Still, the foreign oil companies remained involved as part of subsidiary companies under PDVSA since they did not trust that the state was experienced enough or possessed the appropriate technology to continue operating with efficacy.<sup>59</sup>

The abundance of the 1970s would eventually come to an end, and by the following decade, Venezuela was running out of money; a surplus of oil worldwide caused crude prices to decline. But the people and government had grown used to high spending and did not want to face the reality that oil riches were slowing down. And yet, reality eventually caught up to them as the country grew its foreign and local debts to finance continuing spending and the bolivar faced its most significant devaluation.<sup>60</sup> As the economy continued to deteriorate, the Venezuelan people elected Carlos Andrés Pérez as president in 1989, believing that the oil riches-filled period of his previous presidency would make a comeback with Pérez back in charge. What most

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<sup>58</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 73-4.

<sup>59</sup> “From Privatization to Nationalization of the Venezuelan Oil Industry,” PDVSA, accessed April 23, 2022, [http://sch.pdvsa.com/index.php?tpl=interface.en/design/readmenuhist.tpl.html&newsid\\_obj\\_id=1869&newsid\\_temas=13](http://sch.pdvsa.com/index.php?tpl=interface.en/design/readmenuhist.tpl.html&newsid_obj_id=1869&newsid_temas=13).

<sup>60</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 75.

Venezuelans failed to realize was that Pérez's spending spree from years ago was primarily responsible for the country's current condition. With inflation on the rise, reaching 35% at the time, Pérez instituted drastic economic measures to battle the dire situation. And eventually, Venezuelans realized that the prosperous times of his first term in office would not be returning.<sup>61</sup>

The previous pages provide an overview of over 70 years of history between crude oil and the Venezuelan state; and how one has shaped the other throughout time. The presidencies of Juan Vicente Gómez, Marcos Pérez Jiménez, and Carlos Andrés Pérez were worth highlighting because of how they were influenced by times of great oil riches, including the discovery of the resource in the first place. In addition, Venezuela's history of being ruled primarily by caudillos was significant in how these men, and the ones that followed, amassed their power and did with oil revenues as they saw fit, primarily in ways that were beneficial to them and their close allies.

But there is also a lesson to be learned from the Venezuelan history and the examples presented by the petro-states introduced at the beginning of this chapter. As the riches of one resource blind a country, especially one as volatile as oil, it forgets to plan for the future. The experiences of the oil-exporting countries mentioned in this chapter were similar in that most had recently become independent states before soon after becoming a petro-state. Moreover, regime instability encouraged the high spending sprees their governments embarked on instead of planning for the future and saving for when the money would eventually stop pouring in.

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<sup>61</sup> Gallegos, *Crude Nation : How Oil Riches Ruined Venezuela*, 77.

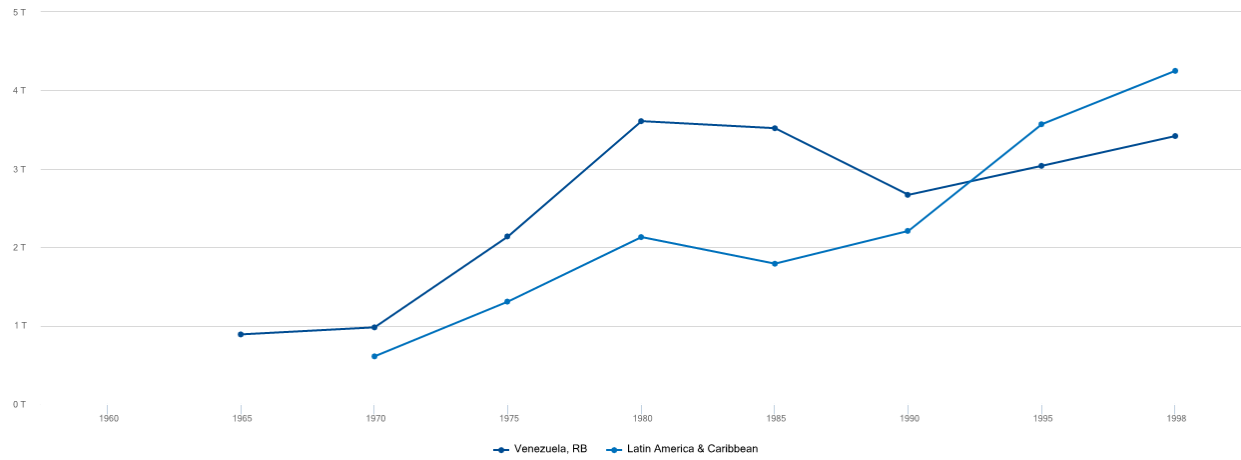


Figure 1: Venezuela's Gross National Income per capita compared to Latin America and the Caribbean, 1960 - 1998.

### Chapter III: On Political Pacts

Democracy surged in Venezuela in 1958 through a political pact between the leading parties of the country, which would later form a “partyarchy” that would govern for almost thirty years. The use of political pacts as a transitional method, in this case from military dictatorship to democracy, is presumed to be later the cause of political decay into the non-democratic regimes they were meant to replace in the first place. This assumption is based on how these pacts originally came about, which tends to be by “corporatist, exclusionary and undemocratic”<sup>62</sup> means. And while that had been the predominant experience in places like Colombia and Venezuela, some exceptions can make a case for democratic decay not being the eventual outcome of political pacts.

Spain is the primary example of a successful transition and maintenance of a democracy originally established by political pacts. This ‘pacted democracy’ emerged in 1976 after the death of the dictator Francisco Franco the previous year. Members of the democratic opposition and left-wing parties got together to establish a set of compromises that would make for a successful transition into democracy. The primary outcome of this consensus was the restoration of the Spanish monarchy.<sup>63</sup> Later pacts would emerge following the first democratic elections in the country after decades of dictatorship. Still, the Moncloa pact would be crucial in setting the foundational agreements for democratic consolidation in Spain. This pact implemented key measures to counter expected economic struggles and foster a political consensus for constitutional reforms. Similar agreements would later emerge and were considered ‘social

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<sup>62</sup> Omar G. Encarnación, “Do Political Pacts Freeze Democracy? Spanish and South American Lessons,” *West European Politics* 28, no. 1 (January 2005): 182.

<sup>63</sup> Encarnación, “Do Political Pacts Freeze Democracy? Spanish and South American Lessons,” 187.



pacts' since the government was not a direct participant but instead played a more supportive role.<sup>64</sup>

The success of the Spanish people with political and social pacts was heavily dependent on two significant factors: inclusiveness and duration. The pacts that emerged in the country were established in joined participation with the various ideologically diverse parties of the government; these included the Communist and Socialist parties of the left, the centrist parties, and various groups on the right side of the political spectrum. In terms of duration, the Moncloa agreement was only intended to be a short-term strategy in the overall consolidation of democracy in the country. At the same time, later social pacts reached their end and never re-emerged. These two factors are a vast difference in how political pacts shaped the consolidation of democracy in countries like Colombia and Venezuela, where these alliances continued to dictate the workings of their governments for years.<sup>65</sup>

The case of Colombia is similar to the Venezuelan experience, both in the time when these pacts originated and the type of governing system they established. In the 1940s, political friction emerged among the traditional parties of the country as each attempted to gain majority control over the state. These issues resulted in a highly divided Colombian society between the Liberal and Conservative parties. These circumstances gave rise to what would be known as *La Violencia*, the violence, a series of social conflicts that lasted for about a decade and were mainly centered in the countryside.<sup>66</sup> As violence continued to afflict the country, the leading Conservative and Liberal parties came together in 1957 and formed the National Front, a

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<sup>64</sup> Encarnación, "Do Political Pacts Freeze Democracy? Spanish and South American Lessons," 188.

<sup>65</sup> *Ibid.*, 192-3.

<sup>66</sup> John A. Peeler, *Latin American Democracies : Colombia, Costa Rica, Venezuela* (Chapel Hill: University of North Carolina Press, 1985), 56.

coalition government aiming to restore political order. This coalition was officially consolidated on a constitutional reform that was approved that same year, and presidential elections took place the following year. The conflicts of the previous decade were primarily caused by attempts from one party to exclude the other from participation in government completely. Therefore, the newly established coalition sought to prevent any exclusions by agreeing that leadership of the presidency would be alternated for three terms, or twelve years, later extended to four terms; the remaining public office vacancies would be equally divided among the two parties, and in Congress, a two-thirds majority would be needed to approve any legislation, later changed to a simple majority. This pact also restricted competition by stating that no other parties were allowed to hold public office. Overall, this agreement meant the “reassertion of control by the traditional elites.”<sup>67</sup>

In Colombia, the pacted agreement between the leading parties was utilized to re-establish order in the country. However, in the case of Venezuela, the goal of the pacted agreement between the parties was democracy, a democracy that would later be consolidated as a *partidocracia*, “partyarchy,” which refers to the degree to which political parties interfere with the fulfillment of the requirements for polyarchy. According to Robert Dahl, polyarchy is “the set of institutional arrangements that permits public opposition and establishes the right to participate in politics.”<sup>68</sup> Therefore, in some extreme cases, a “partyarchy” can be characterized by parties controlling all nominations for public office; electoral laws limiting citizens’ choices in an election to voting for a party rather than for a candidate; freedom to form and join organizations where the political parties are heavily present; the media is closely related to the

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<sup>67</sup> Peeler, *Latin American Democracies : Colombia, Costa Rica, Venezuela*, 57-8.

<sup>68</sup> Michael Coppedge, *Strong Parties and Lame Ducks : Presidential Partyarchy and Factionalism in Venezuela* (Stanford, CA: Stanford University Press, 1994), 18.

parties; therefore, the news they report is highly politicized along party lines.<sup>69</sup> Although many political systems possess some degree of these characteristics, Venezuela is the one case that comes closest to incorporating most of the components of an extreme case of “partyarchy.”

The circumstances that gave rise to the political pact that would eventually turn Venezuela into a polyarchy can be traced back to the 1950s and the dictatorship of General Marcos Pérez Jiménez. The General ruled Venezuela for almost a decade before a coalition of the leading parties of the country, joined by various sectors of society and the military, ousted him from power in 1958. The Punto Fijo Pact would be the agreements that emerged between the then-leading parties Acción Democrática (AD), the Social Christian party Comité de Organización Política Electoral Independiente (COPEI), and the Unión Republicana Democrática (URD), which united to bring democracy back into the country. Joined by business and church elites, these groups met in New York in December of 1957 to consolidate their alliance. However, one crucial political group was left out of this coalition: the Venezuelan Communist Party (PCV). Partly because they believed that the PCV party leaders would not agree to be part of the type of democracy this coalition was trying to establish, and also because the leaders of AD, COPEI, and URD wanted to gain the support of the United States for their pact and knew that having the Communist party as a member of their alliance would jeopardize that.<sup>70</sup> This decision would later play a vital role in the rise of Hugo Chávez and the eventual downfall of the Punto Fijo Pact.

The “foundational” Pact of Punto Fijo consisted of six general terms that would be the basis for how the future democratic government would function. The first point was the

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<sup>69</sup> Coppedge, *Strong Parties and Lame Ducks : Presidential Partyarchy and Factionalism in Venezuela*, 19.

<sup>70</sup> Jennifer L. McCoy and David J. Myers, eds., *The Unraveling of Representative Democracy in Venezuela* (Baltimore, Md.: Johns Hopkins University Press, 2004),14-5.

agreement to institute a democratic form of government where all parties would equally share power, which alludes to the second point, which guaranteed that the dominant AD would not attempt to monopolize the government by any means and to consider the interests of other parties on political decisions. The third point referred to respect for individual rights and liberties, which stemmed from the times of the Pérez Jiménez dictatorship and the use of force against the public. The fourth point was one of the most important ones because it dealt with the role of the state within the economic sector; it was agreed that the state could act in an interventionist capacity within it in terms of income distribution and development promotion. One final informal agreement was to avoid pursuing wealth and power redistribution issues until support for democracy was officially consolidated.<sup>71</sup> These were the so-called rules of the political and economic game that started in 1958 and lasted well into the 1990s.

As consensus became the dominant mode of decision-making in the country, various attempts at other pact agreements were made later on as it became clear that the 1958 pact needed to be amended. The first of these attempts was the *Pacto Social*, social pact, proposed by then-presidential candidate Jaime Lusinchi in 1983. This pact mainly differed from the previous one in that the political parties were not at the center of the political system; instead, it proposed a corporatist type structure in which decision-making would be at the hands of representatives from the business, labor, and government sectors. "...the Social Pact is a pact between the factors of production (businessmen and workers), promoted by the government...It is an understanding of broader scope among the fundamental factors of national life..." Although the later Lusinchi administration would establish a commission that oversaw the setting of all prices and salaries

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<sup>71</sup> McCoy and Myers, eds., *The Unraveling of Representative Democracy in Venezuela*, 17-9.

with the participation of representatives from the workers and businesses entities, the Social Pact never achieved to alter the functioning of the Venezuelan political system, which remained under the rules set in place in 1958.<sup>72</sup>

A later attempt would be the *Pacto para la Reforma*, Pact for Reform, signed by a majority of the political parties in 1990 and which contained a series of legal and administrative reforms that aimed to renew the political system. It included new electoral laws, reorganization of the judiciary, allocation of tasks among levels of government, and the structure of the central government. Although acknowledging that the 1958 pact was in immediate need of reform, the political parties remained the prominent actors in the pact. Strong public support for the new pact encouraged the parties to sign it, but by the time the proposed changes reached the legislative power, most were stalled. The reforms on which Congress could not reach a consensus were primarily concerned with changes to the political parties, the electoral system, and voting procedures.<sup>73</sup>

One other effort to establish a new pact came in 1992 after the country faced an attempted coup on February 4 of the said year. With public opinion not being on the side of the government, the state launched the *Consejo Consultivo de la Presidencia de la República* (Advisory Council of the Presidency of the Republic). The council was meant to show the president's willingness to bridge the gap between the executive and significant social sectors of the country that had been ignored for too long. The purpose of the council was to reach a consensus among the parties involved on the political changes needed to end the ongoing crisis and restore political stability. The council eventually produced a report containing a list of

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<sup>72</sup> Jennifer McCoy, ed., *Venezuelan Democracy under Stress* (Coral Gables, FL : North-South Center, University of Miami ; Boulder, CO: Distributed by L. Rienner, 1995), 16.

<sup>73</sup> McCoy, ed., *Venezuelan Democracy under Stress*, 17-9.

various policy proposals, the majority of which never made it too far in Congress. The council was meant to appease the public during the critical times the country was facing but was never considered to produce a coherent document of political or economic reform.<sup>74</sup>

Most of these efforts emerged decades after the implementation of the Punto Fijo Pact to deal with the political and social crises that were a direct cause of the system of government that the pact had established in the first place. The consensus that these parties reached to consolidate democracy in the country years earlier had some fundamental weaknesses that would later cause their downfall. Therefore, the changes that the government set out to achieve by creating new pacts that would remedy the flaws of the previous one, were too late. The type of system brought about by the Punto Fijo pact established a “partyarchy” government where certain parties, mainly left-wing ones, were left out. This exclusion also left out certain sectors of society, primarily the urban poor. This particular social group had previously been supportive of General Pérez Jimenéz and later of the URD and the PCV. Therefore, when Venezuela eventually became a two-party political system, these groups had no option but to side with one or the other, either AD or COPEI. Without a strong political group where their needs were a priority, the urban poor remained an underrepresented group divided that remained in the background of the AD and COPEI loyalists.<sup>75</sup>

#### - **The Beginning of the End**

In the first decades of the *Puntofijismo* era, Venezuelan democracy was considered a success. The country was deemed a model democratic example in Latin America during a time when most nations in the region fell under authoritarian military rule, making Venezuela one of

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<sup>74</sup> McCoy, ed., *Venezuelan Democracy under Stress*, 19-20.

<sup>75</sup> McCoy and Myers, eds., *The Unraveling of Representative Democracy in Venezuela*, 35-6.

the few thriving exceptions. Elections took place every five years, with the leading parties alternating the presidency; Romulo Betancourt (AD; 1959-1964), Raul Leoni (AD; 1964-1969), Rafael Caldera (COPEI; 1969-1974), and Carlos Andres Perez (AD; 1974-1979). During the 1950s and 1960s, the country enjoyed high oil revenues and low inflation, averaging about 1.7% annually. As a result, Venezuela was one of the most prosperous economies in the region, in the world even. Yet, things were about to change following the spike in oil prices in the mid-1970s. High dependence on this volatile resource made Venezuela vulnerable to when external events could impact petroleum prices.<sup>76</sup>

The eventual decline in support for the leading parties AD and COPEI could be said to have materialized during the presidencies of Luis Herrera Campíns (COPEI; 1979-84), Jaime Lusinchi (AD; 1984-89), and Carlos Andres Pérez's second term (AD; 1989-93). Inadequate management of the economic crisis that originated during their times in office caused a lack of trust by the public in the efficiency of a system that had been in place for decades.<sup>77</sup> Two economy-related events would spark social unrest among Venezuelans that eventually led to violence and would cause the overall deterioration of the *Puntofijinismo* era in Venezuela. These two events are commonly known as "Black Friday" and the *Caracazo*. First, the oil boom period of the first Pérez presidency encouraged increased spending and the accumulation of foreign debt, which the Herrera Campíns government inherited. Throughout his presidency, the country's accumulated foreign debt increased from \$20 billion to about \$30 billion in the mid-1980s.<sup>78</sup> The sharp decline in oil prices in 1983 would gravely affect the Venezuelan economy even more. It

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<sup>76</sup> Joseph S. Tulchin and Gary Bland, eds., *Venezuela in the Wake of Radical Reform* (Boulder, Colorado: Lynne Rienner, 1993), 40-1.

<sup>77</sup> McCoy, ed., *Venezuelan Democracy under Stress*, 43.

<sup>78</sup> Tulchin and Bland, eds., *Venezuela in the Wake of Radical Reform*, 42.

forced the government to implement an abrupt devaluation of the bolivar, leading the country to face its worst recession in years; these would be the events of “Black Friday.”<sup>79</sup> The economic crisis of 1983 and ensuing ones most gravely impacted those in the lower-income classes. In 1981 the number of people living below the poverty line began to increase and continued to do so throughout the following years. By 1989, about 58% of the population could be categorized as living in poverty, a figure that nearly doubled from 1982.<sup>80</sup> The decline in economic prosperity also had severe implications for the overall effectiveness of democracy.

Political participation was heavily affected by the poor performance of the government, especially during times of low economic growth. The state of the economy, reliant primarily on oil, was a leading determinant for Venezuelans of how they wanted the country to function. Surveys conducted by organizations in the 1990s showcased that the Venezuelan public valued ‘justice,’ employment, and freedom as central aspects of their ideal democracy. While other elements like participation, elections, and voting ranked lower among the public. These results indicated that economic-based rights were more important for Venezuelans than political ones. Many believed that if the economic situation improved, the political one would do so as well.<sup>81</sup> Following the 1983 currency devaluation, by the time the 1988 presidential elections took place, voter turnout was particularly low. A clear trend could be seen where lack of participation predominantly took place in the poorer states of the country. Other surveys also showed that by the mid-1990s, the public ranked political parties as only the eighth most important institution in

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<sup>79</sup> McCoy, ed., *Venezuelan Democracy under Stress*, 44.

<sup>80</sup> Tulchin and Bland, eds., *Venezuela in the Wake of Radical Reform*, 44.

<sup>81</sup> Julia Buxton, *The Failure of Political Reform in Venezuela* (Aldershot ; Burlington USA: Ashgate, 2001), 65-6.



a democracy. Most did not trust them, and only about half believed that democracy would not survive without political parties.<sup>82</sup>

Lack of prosperous economic times could lead to more significant discontent among the public towards the parties and cause higher levels of abstention at the polls. Voter participation declined during the years when the country was facing economic challenges, such as in the late 1970s and 1980s, until reaching record high numbers in the presidential election of 1993, where voter absentee rates were 39.8%. Government officials portrayed the low voter turnout as an occurrence of everyday democracy, something that could happen in any part of the world, instead of acknowledging that these low numbers in participation represented the public discontent with the leading parties in government.<sup>83</sup> The economic crisis resulting from external events and mismanagement by the state encouraged a lack of trust in the government, especially in a country that highly values government performance in relation to economic prosperity.

One other important event would occur during the second presidency of Carlos Andres Pérez that would have significant ramifications on the public and the state. As the economy continued to decay, the president announced a series of strict reform plans for the economic sector, including higher prices for public transportation and a 30% increase in the prices of gasoline, this last one having a significant impact on the Venezuelan people after decades of enjoying low gas prices due to being an oil-rich country.<sup>84</sup> Unfortunately, the “Black Friday” events of some years earlier and the newly announced reforms were catalysts for the ensuing violence that broke out in the streets of Venezuela. The *Caracazo*, as it would later be named,

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<sup>82</sup> Buxton, *The Failure of Political Reform in Venezuela*, 67-8.

<sup>83</sup> *Ibid.*, 62-3.

<sup>84</sup> Damarys Canache and Michael R. Kulisheck, eds., *Reinventing Legitimacy : Democracy and Political Change in Venezuela* (Westport, Conn.: Greenwood Press, 1998), 4.

lasted for over two days starting on February 27, 1989, a time during which lootings, destruction of property, and attacks on businesses took place in various cities throughout the country. The government reacted by calling on the armed forces to maintain public order, and by the time the violence stopped, a total of three hundred people were reported dead, with hundreds more injured; many reports predict that the death count was, in fact, higher.<sup>85</sup> The events of February 1989 took the government by surprise, yet the reaction of the Venezuelan people was a clear sign that they had had enough.

While the economic reforms of the Pérez administration had severe impacts on the country throughout the first year after their implementation, other political and social reforms also came into place. The violence that surged earlier that year in the country proved that the political system needed to be altered. As a result, President Pérez instituted certain changes to generate greater political participation in the nation. Among the reforms implemented were the first direct elections of state governors by the people; these appointments had previously been at the hands of the president. Pérez also created a new directly elected official, the city mayor, and brought about the eventual approval of an amendment that would now allow direct election of Congress members, as opposed to the previously existing system where the public voted for a party-determined list of candidates.<sup>86</sup> Other measures were targeted at the social sector, more specifically, at those within the lower-income classes. The government started an ambitious welfare program that included food grants to families in need, day-care centers, reduced public transportation fares for students, health insurance for those who had been laid off from work, credits for microbusinesses, salary increases by presidential decree, and an increase in both urban

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<sup>85</sup> Canache and Michael R. Kulisheck, eds., *Reinventing Legitimacy : Democracy and Political Change in Venezuela*, 72.

<sup>86</sup> Tulchin and Bland, eds., *Venezuela in the Wake of Radical Reform*, 56.

and rural minimum wages.<sup>87</sup> These reforms, while significant initiatives, were implemented too late. After the various social, political, and economic issues the country had faced for years and the lack of trust in the government institutions, especially by those in the poorer social groups that had been neglected for too long, the people wanted a change. In the presidential elections of 1998, that change arrived.

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<sup>87</sup> Tulchin and Bland, eds., *Venezuela in the Wake of Radical Reform*, 8.

## Conclusion

As any Venezuelan born in the 2000s, I grew up in a severely divided country where people were either in favor of the government, or more explicitly Chávez, or against it. This division could be found across various environments, including family reunions, at the workplace, in schools, and in everyday life. Political conversations were a carefully navigated subject that could not be freely talked about in any one place, for no one knew whether those around them were *Chavistas*, Chávez supporters, or *opositores*, members of the opposition, and to declare oneself against the government could have serious ramifications. Growing up in the Chávez era, and then throughout the first years of the Maduro regime, I would hear stories from my family about the golden years of Venezuela, meaning the time before Chávez came into power. The economy was booming due to oil revenues; the public could trust the democratic process of elections, and Venezuelans could afford to live a comfortable life, which is why I decided to focus on the history of Venezuelan democracy before the arrival of Chávez into power. This history turned out to be a complicated one, involving many key figures and external factors that all played an essential role in how democracy first came to be in the country and its eventual downfall.

The Venezuelan experience with democracy could be described as a story of wasted money and potential. On many occasions throughout the years explored here, since the exploitation of oil in 1914, the establishment of democracy in 1958, and the arrival of Chávez into the presidency in 1998, Venezuela had the potential to become a well-established democracy with a thriving economy. But most times, those opportunities were wasted. Democracy could have remained stable if the government had listened to the people and allowed for greater

participation by all social groups. The economy could have thrived if oil income had been better managed. Overall, there was much to explore in this topic, which at times made it challenging to decide what was important to share and what was not. It is an extensive history, and every chapter could have been an entire project on its own therefore I hope to have shed some light in the previous pages on the overall story of democracy in Venezuela, a story that continues to be told today even when the country is facing some non-democratic times.

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