

## Venezuela

<b>Status Index</b> (Democracy: 2.8 / Market economy: 2.4)		<b>5.2</b>	<b>Management Index</b>		<b>2.7</b>
<b>System of government</b>	Presidential Democracy		<b>Population</b>	24.8 mill.	
<b>Voter turnout</b>	56.5 % (1998)		<b>GDP p. c. (\$, PPP)</b>	5,670	
<b>Women in Parliament</b>	12.1 %		<b>Unemployment rate</b>	10.0 % (2000)	
<b>Population growth<sup>a</sup></b>	2.6 %		<b>HDI</b>	0.775	
<b>Largest ethnic minority</b>	1.5 %		<b>UN Education Index</b>	0.84	
			<b>Gini Index</b>	49.8 (2000)	
Data for 2001 – if not indicated otherwise. <sup>a</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

### 1. Introduction

Following its transition from a military dictatorship to a presidential democracy in 1958, oil-producing Venezuela briefly developed the most stable electoral and party democracy in South America. However, signs of economic and political crisis became increasingly apparent throughout the 1980s, notably, in the depreciation of the bolívar (the national currency) against the dollar on *Viernes Negro* or Black Friday in 1983, and in the inherent weakness of a party system based on a pact between the two main political parties and influential interest groups.

Former lieutenant colonel Hugo Chávez, who led two unsuccessful attempts in 1992 to overthrow the democratically elected government, was elected president in free elections in December 1998. In his inaugural speech, Chávez announced that he would revamp the political system and rewrite a constitution he described as “destined to die.” In the name of his own social movement, the “Bolivarian Revolution” after Simón Bolívar (1783–1830), hero of the independence movement against the Spanish colonialists, Chávez has both reformed the political system and tailored it to his needs to be a neo-populist, election-based, democratic government.

However, the social and economic balance sheet of the “Comandante’s” government is in the red despite the high price of oil. Starting in late 2001, civil protests brewed first among the middle class and then labor unions and workers; and, Chávez was briefly overthrown on April 12, 2002 after a popular protest and an amateurishly executed coup d’état by right-wing circles. Polarization increased after Chávez was reinstated, and the oil industry called for an eight-week strike in

early December 2002 that was accompanied by mass protests. The outcome of the transformation introduced by Chávez is uncertain.

## 2. History and characteristics of transformation

Some authors consider oil the most important factor in Venezuela's history during the 20th century. Until 1925, a poor Venezuela was ruled by dictators and specialized in the export of coffee and cocoa; since then, the country has grown to become one of the most important oil exporters in the world. After the democratic push of the student generation of 1928 and the formation of political parties during the three-year democratic transition period from 1945 to 1948, Venezuela's dominant parties (particularly the social democratic *Acción Democrática*, AD, and the Christian democratic *Comité de Organización Política Electoral Independiente*, COPEI) agreed to establish a presidential democracy.

The following tasks were given to the newly elected government in 1958: to draw up a new constitution (1961) and long-term development plans; to institute agricultural and tax reform and social legislation; to improve the educational system; and to modernize the armed forces. Revenue from Venezuela's "black gold" allowed successive governments to move toward these goals over the next twenty years even if some of the petro-dollars flowing into the country—especially in the 1970s—were spent unproductively or ended up in private pockets and foreign bank accounts. Compared with other South American countries, Venezuela was a political success story for 30 years. The Pact of Punto Fijo marked the beginning of a period of balanced rule between the AD and COPEI and was, in fact, considered a prime example of elite consensus until the late 1980s.

Party development in Venezuela can be summarized in four periods: (1) The period after the transition to presidential democracy from 1958 to 1968, characterized by party splits and guerilla activity by leftist rebels, but free elections were still held during this period; (2) The period of the *bipartidismo* consolidated two-party system, from 1969 to 1988 the AD and COPEI parties alternated as head of government; (3) the *Caracazo* period of political crisis after the mass uprising in Caracas in February 1989, marked by violent protests and looting following the hasty introduction of a program of economic adjustments with neo-liberal tendencies. A highly fragmented multi-party system emerged in 1993, and the number of abstentions increased at the same time; (4) the period beginning with the election of Hugo Chávez in 1998, characterized by a dramatic decline in the importance of political parties, the emergence of a personalized, plebiscitary style of leadership, and growing instability.

Venezuela has been called a "fair-weather democracy" because of its dependence on oil exports. Democratically elected governments increased state-owned shares, and the oil industry was nationalized in 1976. The state-owned oil company

Petroleos de Venezuela, S.A. or PDVSA became one of the largest companies in Latin America. However, there is no automatic link between economic prosperity and political stability: In the 1960s, the government was able to stabilize party democracy despite comparatively low oil prices and political challenges from both the left and right, while political instability increased between 1998 and 2003 despite increased oil revenue.

The flaws of the “old” political system were well known: privatization of public funds, rampant corruption within the political class, government inefficiency, a rising crime rate, and an increasing loss of values. Attempts to address these problems, such as a committee on government reform established in 1984, were unsuccessful. The neo-populist Caudillo Chávez took advantage of this situation by promising a complete overhaul of the political system, which he single-mindedly implemented starting in 1999. Nevertheless, his policies not only failed to eliminate existing deficiencies, they further aggravated inefficiency and corruption. His unpredictable foreign policy, his messianic demeanor, and the fact that he has split the population into two camps have pushed a country known for its tolerance to the brink of civil war.

Venezuela’s economic transformation is also characterized by a lack of progress. While most Latin American countries implemented drastic structural economic reforms in the 1980s and 1990s, Venezuela’s attempts at reform have remained relatively lukewarm and hesitant. Its development model, based on petroleum and rent revenues, was overwhelmed with the eruption of the debt crisis in the early 1980s; nevertheless, Venezuela did not implement a tough austerity plan until Carlos Andrés Pérez (1989–1993) took office in 1989. The program’s goals were to privatize government-owned companies, reduce government spending, dismantle government subsidies, and protect the domestic market. However, this resulted in only modest economic stability and was accompanied by violent social unrest.

In 1996, Pérez’s successor, Rafael Caldera (1993–1998), also tried to institute IMF-oriented economic policies, but disagreements regarding crisis management and a lack of political support accelerated the country’s socioeconomic decline until Hugo Chávez assumed office. In particular, the Venezuelan economy’s structural problems, including a lack of diversification, an inefficient production sector, and very little international competitiveness, could not be resolved.

### 3. Examination of criteria for democracy and a market economy

#### 3.1 Democracy

Until the early 1980s, Venezuela made progress in transforming its political order, but there were deficiencies in the area of social justice and in some cases in the rule of law. Various indicators began backsliding in the mid-1980s and the trend accelerated when Chávez assumed office in 1999.

##### 3.1.1 Political regime

(1) *Stateness*: There were very few problems with state identity in Venezuela during the “violent decade” of the 1960s that was characterized by guerilla activity and military coup attempts. The government’s monopoly on the use of force is guaranteed, and there is no question regarding qualification for citizenship. There are no known ethnic tensions, and the indigenous population constitutes only 1.5 percent of the total population. All citizens have equal civil rights, and there is separation between church and state. Before Chávez came to power, the administrative system was dominated by the political parties. Since his rise, additional inflation and the influence of his followers have reduced the administration’s effectiveness. Public safety and order are currently limited as a result of the events of 2002 and because of a “radicalization of the revolution.”

(2) *Political participation*: There is still effective universal suffrage and the right to campaign for public office. A total of seven elections have been held under President Chávez since 1998, although voter turnout has declined steadily; nevertheless, Chávez has promoted plebiscitary and pseudo-plebiscitary democracy. In late 2001, the government enacted a set of 49 laws by presidential decree without consultation or approval of the legislative branch; some of these had dramatic consequences on the government’s ability to confiscate private enterprises and private property. In response, the upper and lower classes, as well as workers and various other sectors of the population participated in innovative protests such as mass demonstrations, highway blockades, sit-ins, and tax boycotts.

On the other hand, the traditional parties have failed to form a unified opposition after their decline during the 1990s, and their influence has been further limited by the new constitution. Instead, the leaders of the National Chamber of Commerce (FEDECAMERAS) and Venezuela’s largest union federation (*Confederación de Trabajadores de Venezuela* or CTV) are the voice of the opposition. The media, largely controlled by business interests, function as a substitute party through its criticism of the president in newspapers and private television channels.

Individual journalists and newspapers have been intimidated and threatened, and the suicide of the editor-in-chief of *The Daily Journal* in March 2003 caused

additional unease. Since 2001, Chávez has organized his followers into “Bolivarian Circles,” modeled after Cuba’s Committees for the Defense of the Revolution that serve as the liaison between neighborhoods and the government. During the dramatic changes in the political landscape, the military has increasingly become a force with veto power, and its actions will be a deciding factor in the country’s future development.

(3) *Rule of law*: Compared with other Latin American countries, Venezuela’s legislative and judicial branches historically played a relatively strong role in the government, although the old Venezuelan Congress did not adequately use this to its advantage. Advancing from the Fourth Republic to the new “Fifth Republic,” Chávez implemented both personalization and centralization. The unicameral National Assembly replaced the previously bicameral legislature; the executive branch was strengthened; and the legislative branch was weakened. The new constitution of 1999 may emphasize the right to participate and forms of direct democracy, but its validity is nevertheless uncertain as demonstrated in the Supreme Tribunal of Justice’s rejection of an application for a February 2003 referendum to revoke Chávez’s mandate.

The Bolivarian constitution introduced the ideas of “citizen power” (or moral power) and “electoral power,” but it also strengthened the presidential office, giving Chávez the authority to appoint the executive vice president and ministers, extending his mandate to six years, and allowing him to stand for immediate re-election. The judiciary, the Constitutional Court of the Supreme Tribunal of Justice, and the National Electoral Court may be independent according to the letter of the law, but their obligations still lie with the federal government.

The members of these organizations owe their appointments to the interim Legislative Council, which was comprised of 30 members from the National Constituent Assembly, none of whom were members of the opposition. It has not been difficult for the president to expand his influence through similar methods. For example, he tried to take control of the Caracas police force in late 2002; it was originally under the control of the city mayor, who was a former follower and now a leading opponent of Chávez. At first, the president was content with verbally insulting his critics and opponents, calling them “oligarchs” and “fascists.” However, the situation came to a head in 2002, and there were casualties on both sides.

Since Chávez pleads “revolutionary legitimacy,” it appears that an escalation of violence will be inevitable. This situation detracts from the separation of powers as a whole. Abuse of authority is hardly ever punished, and corruption has increased. Civil rights are becoming increasingly limited, especially for the leaders of the opposition.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: All of Venezuela's political institutions have experienced rapid change in the past five years. President Chávez has far-reaching but extremely vague ideas for the country's transformation, which in fact amount to an even stronger concentration of power, that would interfere with the form and workability of the institutional structure. Conflict has largely shifted from the institutions and is now taking place in the private media as well as in public protest movements. As a result, the consensual and proportional democracy that had been characteristic of Venezuela since 1958, based on the distribution of oil income and referred to as an "illusion of harmony" back in 1985, has been abandoned.

(2) *Political and social integration*: Despite stark differences in income, there was a high level of political integration in the past. Because public revenue was so high, the government was able to reintegrate formerly radical powers into the political system and, especially during the oil boom in the 1970s, enable a comparatively high level of social mobility. While criticism of parties and politicians continues to increase, Venezuelan citizens still strongly approve of democracy. The political parties, which had many members in the past, have lost a lot of their influence. This is partly due to their own failures and to a certain extent some of the country's critical public but it is also a result of the skillful discrediting and dismantling of the "old" system by Chávez.

Voters have cast ballots seven times since 1998 in five elections and two referenda. Chávez enjoyed a high degree of popularity during his first two years in office, but his popularity has declined dramatically since August 2001. The presidents of FEDECAMERAS and the CTV as well as several military leaders critical of Chávez defend the interests of the upper and middle classes in the public arena. On the other hand, the government is involved in organizing the *lumpenproletariat* in the slums.

Until now, Chávez has primarily led a revolution of words and not deeds to benefit the poor. He presents himself as an advocate of the people, as opposed to the oligarchy, which for Chávez includes local businessmen as well as the traditional parties. High oil revenues in 1999 and 2000 allowed him to return to the tradition of the paternalist state, which he promises to use exclusively for the benefit of the informal sector.

Plan Bolívar 2000, a social initiative instituted by the government that employs soldiers and civilians to build roads, provide health care, and repair schools, is intended to help achieve this goal. The project to relocate poorer segments of the population, such as victims of the 1999 flood disaster, from the coastal region near Caracas to the interior plains where the Orinoco and Apure rivers meet failed. The number of poor people has actually increased under Chávez's leadership, and the middle class has also suffered heavy losses. A general strike in

late 2002 led by the oil industry and various sectors in the business community demonstrates the magnitude of polarization.

Meanwhile, it is now obvious that Chávez intends to fill all of the intermediary organizations—introduced “bottom down” with the goal of replacing old organizations—with his supporters or puppets. When he encounters resistance (as was the case with the state-owned oil company PDVSA), the organization in question is called “a state within a state,” and the government attempts to undermine its influence. The civic organizations founded in the 1980s have lost their former character and in the course of social polarization now mostly express support for Chávez. Political and social polarization have both increased, and increasingly interfere with social integration as a result.

## **3.2 Market economy**

The Venezuelan economy showed the particular characteristics of a rent-collecting economy in the past because the state has a large interest in oil production. Nevertheless, Venezuela has regressed quite a bit in regard to transformation of its economic system. The deficiencies can mainly be attributed to the current political leadership and the tense situation in the country. Legal uncertainty and state controls encourage the flight of capital and have led to a decline in private investments.

### **3.2.1 Level of socioeconomic development**

In Latin America, Venezuela is considered a middle-income country. During the first two years of the Chávez administration, salaries in the public sector and public spending were raised temporarily, most likely to encourage support in the next elections. After years of enjoying high mobility and rapid accumulation of wealth, especially in the 1970s, the country has been experiencing a decline in income. However, the previous expansion was more likely the result of the traditional parties’ process of informal government contract allocation rather than long-term reform policies. Per capita income has dropped 18 percent in the past four years. In late 2002, the unemployment rate was at least 17 percent, and reached 54 percent in the informal sector. The poverty rate is estimated to be as high as 80 percent.

### **3.2.2 Market structures and competition**

The government’s share in the business sector has hardly diminished since the government nationalized the oil and iron ore mining companies in 1975–76. The easy income from the oil industry led to the development of a rent-seeking mentality that even in the 1930s was characterized as “harvesting the crude.” As is typical, investing this revenue productively proved to be problematic.

The prospect of additional public revenue from oil tempts government leaders to introduce populist policies and limit competition, and this holds true for the current leadership. During the past four years, the Venezuelan government has earned more than \$120 billion, or five times its external debt. This is apparently the most revenue any Venezuelan government has ever received, yet the government has been unable to stimulate the economy, despite initial economy-friendly statements, particularly vis-à-vis foreign countries. In fact, according to estimates, approximately 6,000 companies have gone bankrupt in the past four years.

In 2002, foreign investments outside the oil industry accounted for only approximately 15 percent of the total foreign investment in 1998. The government has the authority to implement price controls and expanded existing price caps on gasoline, agricultural products, and medicine in February 2003. Foreign trade is essentially liberalized, but is severely limited by foreign exchange controls and import restrictions such as those for agricultural products. For all intents and purposes, capital movement ground to a halt in January 2003 after foreign currency transactions were suspended, though banks and other financial institutions can still be fully owned by foreign institutions. After a recovery in the late 1990s accompanied by increased control by supervisory bodies, the Venezuelan banking sector has once again become unstable in the last three years.

### **3.2.3 Stability of currency and prices**

The Chávez government does not have an adequate stabilization policy. Venezuela's foreign debt may be relatively low, but its domestic debt, which has quadrupled in the past few years, increasingly burdens the federal government, and the rate of inflation is currently over 30 percent. The bolívar lost approximately 40 percent of its value in 2002, and the decline continued in early 2003.

In addition to price controls, the government introduced foreign exchange controls in late January 2003; foreign currency may only be bought and sold through the Central Bank, and the government sets the guidelines for the allocation of foreign currency. The government introduced price controls on food. It is particularly feared that the opposition newspapers will have difficulty obtaining dollars legally, as there is no intermediate exchange rate, just the legal exchange rate and the wildly unstable black market rate. Political instability has triggered massive capital flight and scared off foreign investors.

### **3.2.4 Private property**



The protection of property rights is weak both in law and in practice. The constitution adopted in 1999 reinforced the social restrictions on individual property and granted the state broad rights in this area. The government is exercising those rights in rural areas in its resettlement program even though government-owned land could have been used. In 2001, Chávez declared in his call-in radio talk show *Aló Presidente* (Hello President) that only affairs of God and the people are sacred—not private property. This has contributed to the climate of insecurity, which has caused the private sector to be extremely cautious, especially in investments.

The private sector accounted for 62 percent of the gross domestic product in 2001. Chávez and his predecessors privatized other formerly state-owned enterprises in the areas of finance, telecommunications, and other services. Nevertheless, the economy is still dominated by the oil industry and therefore by the state-run oil company PDVSA, which accounts for 30 percent of GDP, 80 percent of exports and half of the public budget. This also means that Venezuela's private sector is not able to compete very effectively on the international market—unlike the PDVSA, which US analysts recently reaffirmed as the best-run oil company in the world.

### **3.2.5 Welfare regime**

The current welfare regime has been in crisis since the 1980s. The minimum pension is currently \$120 per month. Upon termination, employees in Venezuela are entitled to a severance pay of two months' salary for each year the employee worked for the company. In the public sector, retirement benefits are based on the previous year's annual salary. Twenty-five percent of the population is covered by this system, twenty-five percent are unemployed, and approximately fifty percent are employed by the informal economy. A new law aims to institute compulsory insurance for everyone involved in a formal employer-employee relationship. Those employed by the informal sector should also be covered by this insurance, and the government plans to set up pension funds.

In the past, social improvements have been the result of informal procedures. Some of the anti-poverty programs in Venezuela include the distribution of imported food but additional private backup systems are necessary. Equal opportunity and access to public services also depend on a person's level of income. Women are at a slight disadvantage with regard to their access to education, income and public office.

### 3.2.6 Strength of the economy

The country is economically gutted after two years of confrontation between *Chavistas* and the opposition. Chávez has not developed a compelling program to eradicate poverty or pursued a coherent economic policy. The economy's performance has also been restricted by the strained political situation and the repercussions of the two-month strike.

The basic development indicators show a considerable decline since 2000 despite increasing oil revenues. In fact, public debt and public expenditures have increased, and the GDP dropped another 7 percent in 2002. Analysts can hardly forecast the economy's performance, particularly since the effects of the politically motivated restructuring of the PDVSA are not yet discernible. Venezuela posted the lowest HDI growth in Latin America between 1975 and 2000, a trend that is now expected to intensify.

### 3.2.7 Sustainability

Environmental awareness in Venezuelan society and among legislators is slowly increasing. Venezuela has a wide range of biodiversity. Environmental laws protect at least 20 percent of the country's territory, and the country has 43 national parks. Venezuela has a predominantly state-run education and higher education system, although some facilities are privately owned. In the 1990s, public spending on education equaled approximately 5 percent of GDP or approximately 20 percent of the national budget. Average spending for research and development was 0.3 percent of GDP. A modern infrastructure exists but in some cases it is in very poor condition.

## 4. Trend

(1) *Democracy*: Before the period covered in this report, the state's monopoly on the use of force, a functioning administration, the functionality of the courts as well as public safety and order were guaranteed with certain limitations. Under Chávez, the country's situation noticeably deteriorated starting in 1999, despite his promises. Chávez ordered the Constitutional Assembly to draw up a new constitution, introduced a unicameral parliament and provided for the president to be able to serve more than one consecutive term.

He has responded to the growing number of political opponents—who have increased continually since 2001—with hard and dismissive discourse, and he has responded callously to numerous peaceful civil protests. He announced in two of his long speeches in early 2003 that he plans to stay in office until 2021, which is the 200th anniversary of the Battle of Carabobo. Meanwhile, he speaks of the “revolutionary government” that must be defended for the sake of the people. The

government has forged close ties with Cuba, while the middle classes and the majority of Venezuelans lean more toward the United States.

Chávez frequently travels to Cuba, and Fidel Castro has repeatedly visited Venezuela. Chávez's ties to Arab governments, Colombian guerillas, and anti-imperialistic and nationalist powers in Latin America have more than aroused the suspicion of North American and Spanish governments. In view of the altered political system's dwindling representation, the citizens of Venezuela have expressed their dissatisfaction in strikes and large-scale demonstrations, and the press, which is privately funded and critical of the president, gives a detailed account of the protests. On the other hand, Chávez talks about participatory democracy and an endogenous model of development.

The recall referendum on August 19, 2003, which is provided for in the Constitution, should be a test of Chávez's allegiance to democracy, but it could also lead to a dangerous escalation of the situation, especially since he intends to run again even if he loses the recall referendum. According to the latest surveys, Chávez could lose the referendum, but his loyal followers might give him a good chance of winning the subsequent election, especially if there are several opposing candidates on the ballot as expected.

(2) *Market economy*: Development indicators were stagnant until 2000 and have deteriorated since then. Even though revenue from oil exports rose by \$26 billion between 1999 and 2002, public debt and spending have almost doubled during the same time period. The GDP dropped 17 percent from 1998 to 2002, and the minimum wage dropped 23 percent. The number of violent crimes has almost doubled since 1998. Venezuela has lost an average of \$7 billion a year between 1999 and 2002 from capital flight due to uncertainty and political instability. With regard to the economic regime, Venezuela appears to be moving away from the principles of a market economy instead of towards them. The condition of the institutional framework for free market activity has deteriorated, and a coherent government development policy is not discernible.

**Table: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP index	Gini index	UN education index	Political representation of women <sup>a</sup>	GDP per capita (\$, PPP)
1998	0.770	0.763	0.68	0.495	0.84	5.9 %	5,808 US\$
2000	0.770	0.764	0.68	0.498 <sup>b</sup>	0.83	12.1 %	5,794 US\$

<sup>a</sup> Percentage of female representatives in Parliament.

Sources: UNDP, *Human Development Report*, 2000, 2002,

<<http://hdr.undp.org/reports/global/2000/en/>>, <<http://hdr.undp.org/reports/global/2002/en/>>.

<sup>b</sup> [http://www.eclac.cl/publicaciones/Desarrollo Social/3/LCG2183P/Anexos\\_2002.pdf](http://www.eclac.cl/publicaciones/Desarrollo%20Social/3/LCG2183P/Anexos_2002.pdf)

**Table: Development of the macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002
GDP growth (%)	0.2	-6.1	3.2	2.8	-7 *
Export growth (%)	4.2	10.8	5.5	0.9	-1.8 (a)
Import growth (%)	9.4	14.6	15.4	11.0	-29.3 (a)
Inflation (%) (CPI)	30.1	20.0	13.4	12.3	33.8
Unemployment (%)	11.0	15.4	14.1	11.0	17.0
Budget deficit (%) of the GDP	-4.0	-2.0	-2.0	..	-3.9
Current account balance in billion \$	-3.3	3.5	13.1	4.0	2.6

\* estimate <sup>a</sup> Export and import of goods, Banco Central de Venezuela,

<http://www.bcv.org.ve/cuadros/2/241.asp> [accessed 30.4.2003]

Quellen: BCV: Business Monitor International LTD. Venezuela 2002; Dresdner Bank Lateinamerika; Weltbank: World Development Indicators.

## 5. Transformation management

### 5.1 Level of difficulty

As an oil-rich country with a comparatively small number of citizens, a well-developed infrastructure, and a lack of ethnic and religious conflicts, Venezuela has many promising opportunities for development. Problems result from the lack of good governance and the effects of poor management. The fundamental consensus about important democratic rules that existed in the past threatens to disappear altogether because it is not up-to-date and is therefore shaky. Regardless of the outcome of the crisis that will come to a head in 2003, Venezuela will have problems picking up the thread of the positive—though uneven—development in

at least some areas seen in the 1970s and early 1980s. The problems are for the most part homemade, and leadership capacity that points to the future is not yet discernible.

## **5.2 Reliable pursuit of goals**

It is hard to discern the government's economic strategy. While President Chávez rails against the "oligarchies" in his public discourse and tries to distance himself from the United States, the government is at the same time making an effort to attract foreign investments, especially from Spain and Brazil. However, despite the president's promises, foreign investment outside the petroleum industry has dropped 54 percent between 1998 and 2001. Chávez fired oil experts who took part in the oil strike in December 2002–January 2003, which could weaken the industry and cause the government to sell some of its shares to foreign companies.

A clear-cut transformation objective is not perceptible. The government has made the poor its symbolic subject and there is discussion of a statutory minimum wage for the poor. The government may guarantee a fundamental reliability of expectations for the life of its citizens, but it cannot guarantee legal security or a framework of stable economic conditions. Social and economic actors always take huge politically charged risks when they make decisions.

## **5.3 Effective use of resources**

Chávez took office announcing that he would correct the mistakes and weaknesses of the previous development model, but was unable to fulfill the high expectations of his voters. Corruption continued to increase and he filled many government positions with members of the military or his friends. He is also talking about an endogenous business model in which the wealthy will be asked to pay even more money in taxes. The crisis has escalated, partially as a result of this vague economic policy and partially as a result of the two-month strike in 2002–03 when different sectors of the economy ground to a halt. The public services provided by the government facilitate only partial development or transformation progress, since the country continues to revolve around patrimonialism and a rent-seeking economy. Considering the strong social polarization, Venezuela currently does not use its resources effectively.

## **5.4 Governance capability**

Venezuela's top political actors and especially Chávez himself insist on implementing obviously misguided and detrimental policies, and changes are blocked regardless of their effects. In addition, it is still unclear whether Chávez will continue on the path toward the Cuban model or his main priority will simply

be to stay in power. In addition to lacking a reform policy, Chávez's political authority has been in question for about two years. Furthermore, the government also widely ignores the allocative effect of its policies and regularly causes the misallocation of production factors, which has a negative effect on Venezuela's chances for development.

### **5.5 Consensus-building**

The actors are currently unable to agree on reform goals and the government instead encourages polarization. It is uncertain whether Chávez will allow the country to hold the August 2003 recall referendum provided for by the constitution. The hopes of the Venezuelan people are linked with the negotiation efforts of the Organization of American States (OAS), the Carter Center, and the Group of Friends of Venezuela, even though the latter does not have a clear mandate. The opposition joined forces in 2001 to form the Democratic Coordination (*Coordinadora Democrática* or CD), which includes 16 political organizations and nine NGOs in its alliance. However, the democratic opposition still lacks a clear leader. The parties are weak and continue to be discredited, which contributes to the lack of consensus, mistrust, and social division. The anti-Chávez sector of the military could provide a veto power, but so far, Chávez has been able to further increase support among those in the military already leaning toward him.

### **5.6 International cooperation**

The government has had some success in strengthening the role of OPEC under Chávez. However, Venezuela has had to accept heavy losses due to domestic dissent and as a result of the oil strike, and OPEC members are considering reducing Venezuela's share. As an oil-producing country, Venezuela still has its own financial resources and is not as dependent as other Latin American countries on international cooperation; and the government is attempting to distance its foreign policy from that of the United States. During a visit to Cuba in 2001, the Minister of Foreign Affairs declared that Venezuela did not want to join the Free Trade Area of the Americas (ALCA/FTAA). In doing so, the government did not reassure international community that it can or wants to contradict the rumors that it is allegedly aiding the Colombian guerrillas.

## 6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the actors' political achievements (management), this assessment comes to the following conclusions:

(1) *Originating conditions*: The originating conditions established in the 1960s can be considered positive with the above-mentioned limitations. Market-based structures exist despite the fact that the government takes a large share of profits. The questions of social welfare and national identity appear to be solved. Nevertheless, the oil-rich country continues a trend of not living up to its potential and has not been able to solve the problem of poverty despite the Venezuela's overall wealth. A reform attempt in the 1980s failed for several reasons, including a lack of willingness among elites and the parties. Contrary to Chávez's criticism of representative and democratic development in Venezuela, and his Bolívar-inspired discourse about a reestablishment of democratic principles, the country does not have to reinvent itself, but rather needs to undergo reforms which will leave it better governed.

(2) *Current status and evolution*: Chávez won the 1998 elections by posing as a self-proclaimed savior. He pushed to overhaul the "old" political system in the following two years, but from an economic standpoint, his actions were reserved and not very efficient. The opposition's ineffectiveness in the National Assembly helped contribute to the fact that the populace took to the streets. The current government is considered to be one of the most inefficient and chaotic administrations in the country's 170 years of independence.

Coordination within the government does not function well and a constant wasteful muddle results. Several of Chávez's earlier supporters have abandoned the government and it is hard to tell what direction the country will take. While Chávez supporters are betting on direct and participatory democracy, some members of the *Patria por Todos* (the PPT, or Homeland for All), one of the government parties, want to continue allowing parties to be involved. During the strike in the oil industry, oil production temporarily dropped from 2.5 million barrels a day to just 340,000 barrels and began to slowly increase again in mid-January 2003. The government declared that the country had already reached its pre-strike export capacity by March 2003. The overall economic cost of the strike is estimated to be \$10 billion.

(3) *Management*: The results of the actors' managerial achievements are clearly negative. The current government has proved to be less than competent and has contributed to Venezuela's extreme political polarization. Chávez's reorganization of PDVSA points to the increased involvement of forces close to the government. Chávez, who was elected because of his promises to fight corruption, has found himself facing accusations of misappropriation of federal relief funds from Plan Bolívar and accepting campaign contributions from Spain's Banco Bilbao

Vizcaya Argentaria (BBVA). According to the latest Transparency International Corruption Perceptions Index, Venezuela has slipped to one of the last places on the list. Venezuelan exports have dropped 2 percent in 2002, compared with the previous year's exports.

## **7. Outlook**

Estimates of negative GDP growth of 20 percent are not out of the question for 2003. There are claims that 2003 will probably be the worst fiscal year in the past 144. Members of the "Revolution" will probably fill the available positions after the Chávez-ordered mass dismissals at PDVSA (the opposition claims more than 10,000 people were fired). PDVSA will apparently be broken up into two divisions (PDVSA East and PDVSA West), undergo an internal reorganization, and sell off some of its foreign assets. Venezuela's Central Bank decided to halt foreign exchange trading and introduce exchange controls in January 2003. In February 2003, Chávez spoke about the necessity to disband the union federation CTV and possibly of shutting down all television stations in an attempt to control the social responsibility of the media.

Chávez, whose political staying power was initially underestimated, wants to consolidate and accelerate the "Revolution." Following the failure of the two-month strike in 2002–03, the opposition is seen to be weakened, especially as it has not been able to settle differences among various groups and individuals. Future scenarios range from a successful recall referendum in August 2003 or new elections if an accord is reached between the government and the opposition through outside negotiations, to the possibility of social unrest with an uncertain ending caused by deteriorating economic conditions for the majority of citizens. At the same time, there is a danger that Chávez will continue authoritarian developments.