

BTI 2008 | Venezuela Country Report

Status Index	1-10	4.71	# 84 of 125	
Democracy	1-10	4.78	# 76 of 125	↘
Market Economy	1-10	4.64	# 90 of 125	→
Management Index	1-10	2.14	# 119 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	26.6	HDI	0.78	GDP p.c.	\$	5,900
Pop. growth ¹	% p.a.	1.7	HDI rank of 177	72	Gini Index		48.2
Life expectancy	years	74	UN Education Index	0.87	Poverty ³	%	40.1
Urban population	%	93.4	Gender equality ²	0.53	Aid per capita	\$	1.8

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Despite the growing concentration of power in the hands of President Chávez and the manifest authoritarian tendency of his regime, democratic values remain deeply rooted in Venezuela's political culture. The inherent tension between the democratic beliefs of citizens and the forced march towards charismatic authoritarian socialism may eventually surface and threaten political stability.

Elections and referenda are frequent, but cannot be regarded as fully free and fair. President Chávez governs de facto, free from the checks and balances established in the constitution; he also legislates by decree as a result of an enabling law approved by the National Assembly on his request. Considerable constraints restrict freedom of association, and there are severe restrictions of freedom of expression; the government was urged by the Organization of American States (OAS) to preserve the plurality of the mass media. In summary, though Venezuela is currently a defective democracy, it is moving toward what may be characterized as an electoral autocracy.

Plans to rewrite Venezuela's 1999 constitution threaten to undermine the existing framework of the country's social market democracy. There are two issues of special concern: the proposed elimination of presidential term limits and plans to embed socialism as a basic constitutional principle. Both changes would entail fundamental shifts in the country's political, social and economic guarantees. They would affect the vertical division of power, the proportional representation of minorities, education, and the regulation of private property. Economic policy under Chávez has not addressed the country's main problems: fiscal laxity and an unattractive business environment. Venezuela is increasingly dependent on oil revenues. An increase in controls and discretionary policing renders the business environment increasingly hostile to private enterprise, competition and investment. As a result, the economy is also increasingly dependent on the public sector and oil price levels that allow lax fiscal and monetary

policies. High inflation, poor performance in creating jobs and a vulnerable balance of payment position make these policies unsustainable; tough adjustment packages may be required in the future. Arbitrary surprise decisions are the trademark of President Chávez' autocratic management style; consensus-building is not a principle in his revolution. The structural constraints on governance include persistent poverty, a poorly trained bureaucracy, an unconsolidated judiciary, a collapsing infrastructure, a sizable informal sector, and an increasing reliance on a rent-seeking model based on oil.

Venezuela is clearly not a credible and reliable partner in international relations. Accordingly, the international community rejected Venezuela's bid to win a temporary seat on the UN Security Council. The state of democracy in Venezuela will be affected by the following trends: the centralization of decisions and a top-down approach to policy-making; the erosion of vertical power-sharing as a necessary counterweight to the concentration of power in the hands of the president; progressive de-institutionalization at all levels; the ideological alignment of education and science; and increasingly paternalist relations between the state and society.

History and Characteristics of Transformation

For most of the latter half of the past century, Venezuela was viewed as a model democracy in Latin America. In the 1960s, Venezuela's emergent "revolution in democracy" fought back several coup attempts from both the left and the right, while converting communist guerrillas to democratic actors. A kaleidoscope of political parties amalgamated into a bipartisan system with near-proportional representation of minority parties. It was based on elite conciliation in which divided government was the rule. In the 1970s and 1980s, Venezuela was a point of reference for other consolidating democracies in the region. Since the 1990s, we have observed the demise of Venezuela's party democracy and the subsequent rise of a populist caudillo. Combined with the threat of growing authoritarianism, these developments are matters of not only domestic, but regional relevance.

Oil has been a major determinant of Venezuela's economic, political and social transformation ever since the second quarter of the past century. It was oil that catapulted Venezuela within a single generation from the bottom to the top ranks of Latin American modernity. Oil enabled the country to maintain currency stability and to achieve average growth rates of over 7% from the late 1920s through the 1970s. The petroleum business accounts for between one-fourth and one-third of the country's GDP, four-fifths of its export earnings, and over one half of the central government's operating revenues.

Reform attempts throughout most of the 20th century to transform the country's rent-seeking economy into one based on productivity – from the dream of “sowing the black gold” of the 1930s to the “Great Turnaround” of the late 1980s – only resulted in populist spending, mounting public debt and corruption. When President Perez announced the outlines of his tough macroeconomic adjustment package in February 1989, spontaneous popular protest degenerated into widespread riots that were brutally dispersed by the military. The rebellion and its repression provided the long-conspiring group of army officers around Lt. Colonel Chávez with a pretext for staging two bloody coup attempts in 1992. After Perez' impeachment on corruption charges in 1993, the adjustment package was scrapped by the successive administrations of Presidents Velasquez (1993 – 1994) and Caldera (1994 – 1999).

Mr. Chávez' election to the presidency in 1998 and a new constitution drafted by an overwhelmingly pro-Chávez Constituent Assembly marked the beginning of regime change. An impressive series of electoral victories through December 2006 handed him control of almost the whole of publicly elected office in the country while strengthening his image as a democrat. The 1999 constitution emphasizes four aspects: plebiscitary democracy, concentration of power, re-centralization of the state, and a social market economy subordinated to state regulation. Checks and balances are provided for on paper, but the constitutional reality proves their ineffectiveness. Three of the five power branches established under the constitution – the judiciary, the electoral board, and citizens' power – were packed with government supporters, contrary to the rules set out in the constitution. In addition, parliamentary elections in November 2005 that were boycotted by the opposition parties and drew a meager turnout of barely 20 percent resulted in a pro-Chávez legislature. It functions as an echo of the head of the executive branch, which is conducive to a regime type that may be described as an electoral autocracy. President Chávez scored another sweeping victory in the 2006 presidential elections. In his concession speech, opposition candidate Rosales voiced strong doubts about the legitimacy of the elections, doubts that were confirmed by external observers such as the European Union and the Organization of American States (OAS).

Riding the wave of his renewed mandate, President Chávez accelerated the pace of change, declaring that the transition phase was over and a new era of socialist revolution had arrived. The National Assembly hastily endorsed an enabling law that empowered him to legislate by decree in a wide array of matters. They range from changing the institutional structure and territorial order of the state to public and social security and defense issues. Topping the agenda is the nationalization of companies in strategic sectors such as telecommunications, utilities and steel.

Transformation Status

I. Democracy

Despite the growing concentration of power in the hands of President Chávez and the manifest authoritarian tendency of his regime, democratic values remain deeply rooted in Venezuela's political culture. Recent Latinobarómetro surveys consistently show Venezuelans as among the most convinced democrats in Latin America: they consistently attest that democracy needs political parties and a working parliament and offers opportunities for everybody to prosper as well as the necessary conditions for the country to develop. The mounting tension between the democratic beliefs of the citizens and the forced march towards authoritarian charismatic socialism may pose a threat to political stability.

1 | Stateness

With the exception of sporadic kidnappings and minor Colombian guerrilla incursions into Venezuelan territory, the state's monopoly on the use of force is unchallenged. However, the human rights record of the state security forces casts doubt on the methods employed to achieve this monopoly. PROVEA, a human rights organization, reports 169 unlawful killings by security forces in the year from the fourth quarter of 2005 to the third quarter of 2006, most of them qualified as "executions," an increase of over 4% from the previous year (2004 – 2005).

Monopoly on the use of force

Citizenship is not an issue in Venezuelan politics. Indigenous minorities enjoy representation quotas in national, regional and local parliamentary bodies, and the country's constitution is acknowledged by virtually all social groups. Some native peoples in frontier areas, such as the Wayuu or Yanomami, consider their Venezuelan citizenship – often combined with Colombian or Brazilian identities – as complementary to their own nationhood.

State identity

Venezuela is a secular country; religious dogmas are irrelevant for the legitimacy of the state and its legal order. The overwhelming majority professes the Catholic faith, although evangelical sects are expanding in poor areas.

No interference of religious dogmas

The public administration system covers the whole territory, even remote places in the Amazon region or the Orinoco Delta, but operates ineffectively. The

Basic administration

government used claims of bureaucratic deficiencies as a justification to implement major social programs, namely handouts to the population via the state-owned oil company PDVSA, which operates following patronage rather than bureaucratic lines. This parallel structure poses a threat to any future government, daring to depart from the “chavista” orientation.

2 | Political Participation

Elections and referenda are frequent – there have been ten such events nationwide since 1999 – but they cannot be regarded as fully free and fair. For example, in the 2006 presidential election, public sector workers were under enormous pressure to cast their votes for Chávez. The selective use of fingerprint scanners for voter identification, mostly in opposition-friendly states, compounded such intimidation because people (mistakenly) believed that the voter sequence registered by the scanners would allow authorities to track their votes. In addition, although the constitution prohibits public funding of political parties and candidates, the state-owned media and companies campaigned shamelessly for the incumbent. Both the OAS and European Union observer missions criticized these coercive and unfair practices in their reports.

Free and fair elections

President Chávez governs and legislates free of the constraints derived from the checks and balances established in the constitution. Following his request without delay, an obliging National Assembly entrusted its legislative function to the president by means of an enabling law, which they did not even debate. As a consequence, the version approved by the Assembly differs substantially from the one the government published in the Law Gazette. Appointees to the rest of the branches of government – Supreme Court of Justice, Citizen Power, and Electoral Power – were handpicked by the president and obediently nominated by the Assembly.

Effective power to govern

Considerable constraints restrict the constitutional guarantee of freedom of association. The “Maisanta” files compiled by the ruling Fifth Republic Movement on the basis of records of voters who signed the petition for a recall referendum against Chávez in 2004 provides perhaps the most salient example. These files, which contain personal and political preference data of about 14 million citizens, were illegally handed over to the governing party by the Electoral Council. Those filed as “opponents” are likely to encounter problems when trying to register an association with the corresponding public agency or when requesting the renovation or issuance of a passport.

Association / assembly rights

On top of the severe restrictions imposed on the freedom of expression by the so-called “muzzle law” (the Law on Social Responsibility of Radio and Television) and the restraining provisions of the Criminal Code, the government decided to

Freedom of expression

deny license renewal to the television station RCTV, which was a leader in audience ratings and openly critical of the government. Overt government-sponsored attacks on and politically motivated lawsuits against critical journalists and media prompted the Special Rapporteur for Freedom of Expression of the OAS to invoke the American Convention of Human Rights, urging the government to “preserve the plurality of the mass media”.

3 | Rule of Law

The Chávez regime is on its way to becoming an electoral autocracy: the elected president rules de facto free of any constraints or checks and balances; the separation of powers exists only on paper, without any consequences in practice.

Separation of powers

Venezuela’s judiciary has grown increasingly less independent since 1999. The doubts that may have remained about the subordination of the judiciary to the president were dispelled when then President of the Supreme Court Mora Diaz declared in his inaugural speech of the judicial year 2006 that his branch was committed to the Bolivarian revolution. This raised a standing ovation from his 31 toga-clad colleagues who shouted “uh-ah, Chávez no se va” (uh-ah, Chávez won’t go). Four in ten judges are still in provisional positions, that is, they may be sacked if their rulings fail to satisfy the government.

Independent judiciary

Corruption is widespread, and so its perception, a fact of which the population is well aware. In eight years of government, not a single officeholder loyal to the regime is known to have been prosecuted on corruption charges.

Prosecution of office abuse

The protection of civil rights is precarious. PROVEA, a human rights organization, registered close to 4,000 cases of violation of individual liberties, personal integrity and freedom of expression. The victims stand little chance of finding redress for such violations. The Public Prosecutor’s Office reports that between 2000 and mid-2005, police killed more than 6,100 persons; of the close to 6,000 police officers implicated in these killings, only 517 were charged and fewer than 250 were arrested. Amnesty International states that the lack of independence of the judiciary, the harassment of human rights defenders and the use of administrative and tax proceedings restrict freedom of expression.

Civil rights

4 | Stability of Democratic Institutions

Public institutions, including the administrative structure and the judiciary, are subsumed by the semi-autocratic regime, that is, they can only perform their functions insofar as they conform to the political leadership’s vision. Unsurprisingly, this limits the legitimacy of their procedures.

Performance of democratic institutions

None of the factions within the government-friendly spectrum, nor organizations outside it, have the ability to act as potential veto players. Under a semi-autocratic government, even intra-players cannot act as leaders in their own right because their positions depend entirely on the supreme leader; opponents are simply incapable of summoning veto power.

Commitment to democratic institutions

5 | Political and Social Integration

The traditional party system has folded since Chávez came to power, giving way to a new constellation of political movements and groups clustered in two camps: “revolutionary” and “democratic.” While the former is in the process of creating the Unified Socialist Party of Venezuela and holds all seats in the National Assembly, 22 of the 24 governorships, and over 80% of the municipalities, the latter is fragmented and lacks a nation-wide organizational structure. The two camps reflect the polarization of the society, with just under one-half of registered voters supporting Chávez, about 30% opposing him, and about one-quarter undecided. Due to the hegemonic position of the Chávez’ Fifth Republic Movement, the effective number of parties in parliament indicates low fragmentation (index 1.9).

Party system

The political divide between government-supporting and government-opposing camps is reflected in interest group networks. Organized labor is split into three confederations, with government-supporting unions now dominating, while opposition-supporting associations still prevail among entrepreneurs. At any rate, their mediation capability between society and the political system is insignificant, as government supporters tend to applaud whatever the government proposes without having a say or being listened to, while opponents simply lack negotiation potential.

Interest groups

According to the latest Latinobarometro release (January 2007), Venezuelans are strong supporters of democracy (89%, the highest proportion in Latin America). Furthermore, they trust in democracy as a system that furthers their country’s development (78%) and creates the conditions for everybody to prosper based on their own efforts (76%). A majority (57%, up from 42% in 2004) is also satisfied with the way democracy is working in the country. While more than half (56%, up from 49% in 2005) think the elections are free and fair, 27% report that they know of somebody who was pressed to vote in a particular way (among the highest proportions in Latin America).

Consent to democratic norms

Progress towards the construction of social capital is slow but exists. Social trust is gradually growing (29% say that most people can be trusted, up from 22% in 2003), and self-organization manifests itself in over 32,000 voluntary associations registered in an NGO database (CISOR), but only half of Venezuelans are

Associational activities

engaged in one of them. The significant statistical relation between associative behavior and democratic values underscores the importance of self-organization for the political and social integration of the country.

II. Market Economy

President Chavez intends to break with the version of a social market economy described in the 1999 constitution, in which the state pursues economic development by acting as a strategic planner and promoter of private initiative (Art. 299). In its place, Chavez has pledged to install a system adapted to 21st century socialism, consisting of a mix of anarchism, indigenism, communism, and Christianity. First steps in that direction include the takeover of private shares of the biggest telecommunication company and several utilities, as well as the forced “migration” of joint ventures in heavy oil production to grant exclusive control to state-owned oil company PDVSA. An increase in controls and discretionary policing renders the business environment increasingly hostile to private enterprise, competition and investment. As a result, the economy is increasingly dependent on the public sector and high oil price levels, that allow for lax fiscal and monetary policies. High inflation, poor performance in the creation of employment, and a vulnerable balance of payment position make these policies unsustainable; tough adjustment packages may be required in the future.

6 | Level of Socioeconomic Development

Since President Chávez came to power in 1999, the key indicators of socioeconomic development such as poverty, income distribution and gender-related aspects have varied erratically. The proportion of people living in poverty has declined significantly from 50 to 40% over the period, but peaked at 62% in 2003 – 2004, while the Gini index declined marginally from .47 to .45, but fluctuated by two or three hundredths from year to year. Gender-related development did not keep pace with general human development, as the country’s GDI rank fell below its HDI rank, which also dropped eleven positions under this administration from 61st to 72nd. While government handouts have helped to improve income poverty, there is no significant progress towards removing the structural causes of exclusion. The well-intended education, public health and sanitation programs are poorly implemented and fail to achieve a measurable impact.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	92,890	83,522	109,764	140,192
Growth of GDP	%	-8.9	-7.7	17.9	9.3
Inflation (CPI)	%	22.4	31.1	21.8	16
Unemployment	%	15.6	16.8	-	-
Foreign direct investment	% of GDP	0.8	3.2	1.4	2.1
Export growth	%	-4	-9.9	11.8	5.2
Import growth	%	-25.2	-19.6	60	30
Current account balance	\$ mn.	7599.0	11448.0	13830.0	25359.0
Public debt	\$ mn.	23,063.8	24,155.6	24,640.3	29,317.3
External debt	\$ mn.	36,316.4	37,762.2	39,315.2	44,201.3
External debt service	% of GNI	8.3	10.9	6.9	4
Cash surplus or deficit	% of GDP	-3.2	-4.1	-1.3	2.3
Tax Revenue	% of GDP	11	11.5	13.2	16.1
Government consumption	% of GDP	13.0	12.9	12.6	11.3
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.3	2.0	2.0	-
R&D expenditure	% of GDP	0.4	0.3	-	-
Military expenditure	% of GDP	1.3	1.3	1.2	1.2

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The principle of free competition is enshrined in the constitution (Art. 299) and regulated by law but poorly monitored and severely limited by price and exchange rate controls as well as import restrictions. Procompetencia, the competition watchdog, is inefficient and guided by a philosophy that privileges state intervention over market-based competition; commenting on the far-reaching plans of extending state-ownership to telecommunications and utilities, the director of the agency remarked that he was convinced the state would

Market-based
competition

provide better service than the private sector. The country ranks only 88th in the World Economic Forums' Growth Competitiveness Index and 94th in the Quality of the National Business Environment Index.

Along with the mandate to guarantee competitive conditions in the economy, the constitution forbids monopolies and cartelization with the exception of state concessions for the exploitation of natural resources and public services. The anti-monopoly bill, tabled in the National Assembly in 2006, privileges public service and redistribution criteria over the modernization of anti-monopoly regulations and the corresponding administrative structure. With a total of 40 employees of whom only nine are qualified professionals, the anti-monopoly and competition agency is hopelessly understaffed.

Anti-monopoly
policy

The implementation of multilateral trade commitments has brought liberalization in some areas. On the other hand, non-tariff barriers and contingency measures have been increasingly applied, as well as local preferences in government procurement. There are 27 steps to getting an import license payable at the official exchange rate, and many items require a no national production certificate.

Liberalization of
foreign trade

Venezuela's differentiated banking system comprises over 50 institutions; some of the market leaders which absorb about 40% of all assets belong to global players oriented towards international standards. Four institutions oversee the system – the Central Bank, the Superintendent of Banks, the Deposit Guarantee Fund and the National Banking Council. Private banks perform significantly better than their public counterparts, even though they are heavily dependent on government debt swaps that limit their financial mediation capacity.

Banking system

8 | Currency and Price Stability

The 12-month inflation rate climbed to over 18% in January 2007, by far the highest in Latin America. Election-related growth in government spending which boosted domestic demand through a money supply expansion of over 50% in 2005 and nearly 70% in 2006, fueled this spike. The government failed to come up with a consistent policy response. Instead of stimulating supply by creating a friendlier business environment, it resorted to interventionist actions like price and exchange-rate controls, tougher price policing and threats to nationalize parts of the food production chain. Such threats were of little help in curbing inflation. Tighter fiscal policies are not on the government's agenda. The autonomy of the Central Bank, embedded in the constitution (Art. 318) but already undermined by the obligation to hand "excess" reserves over to the government, is one of the aspects to be amended in the proposed constitutional reform.

Anti-inflation /
forex policy

The policy mix is not aimed at stability, as the main needs are not being addressed: a tighter fiscal policy and a better and a more stable business environment. The current model is unsustainable even at relatively high oil prices of around \$40 a barrel.

Macrostability

9 | Private Property

The constitutional safeguards of property rights and their protection are the centerpiece of the proposed amendment process and under discussion in the presidential commission entrusted with rewriting the fundamental law. Current guidelines include definitions of several types of property – collective, cooperative, public and private – with the latter to be given the lowest protection level. The illegal occupation of buildings and businesses as well as “invasions” of big ranches or farms by organized groups are tolerated and frequently used to apply political pressure under the pretext of social control of official policies. Ensuing negotiations over concessions or expropriation with adequate compensation have generally proceeded within the legal framework and led to agreement.

Property rights

The private sector represents about 70% of formal employment and over 60% of the GDP. Although private companies can act freely in principle, they are subject to mounting pressure in the form of controls ranging from fiscal and social security inspections to commitment to social responsibility and science and technology. Government procurement privileges the communitarian sector, that is, cooperatives and socialist production units. The privatization process begun in the nineties is now being reversed: the government re-nationalized the private share in the leading telecommunications company, took over several private-run utilities, and is pressing the foreign shareholders of the joint-ventures in the Orinoco Belt heavy oil business to cede majority positions to their state-owned partner PDVSA.

Private
enterprise

10 | Welfare Regime

The social security system consists of a state-run pay-as-you-go scheme, which covers 62% of the urban workforce in the formal sector and a set of branch-specific security networks covering public employees such as teachers, the military, and university or state-owned oil industry staff. Both schemes include pension funds, health care, unemployment compensation, housing credits and recreation benefits. Nearly half of the workforce – those working in the informal sector – are not covered by public plans; the rural population is also largely excluded. The public system is complemented by an array of private providers that offer full plans as well as complementary coverage.

Social safety nets

Specific policy programs called “missions” lie at the core of an inclusive counter-strategy designed to compensate for exclusion and gross social differences and to promote sustainable development. 19 missions cover social policy areas such as education, healthcare, childcare and integration of ethnic minorities. They also manage a retail network, promote conservation and provide identity documents. The missions depend directly on the presidency, with funding through direct extra-budgetary contributions from the state-owned oil company PDVSA and para-institutional structures that favor cronyism and patronage. While the social impact of the missions is hard to monitor and auditing them is even harder, public opinion of them is largely positive due to their provision of social services to excluded sectors, especially inhabitants of poor neighborhoods as well as indigenous minorities.

Equal opportunity

11 | Economic Performance

While GDP grew 18% from 1999 to 2006, its annual fluctuation was extremely volatile, with three downturns between 6 and 9% and four upward bounces between 3 and 18%. Per capita GDP declined 24% in 2002-2003 and then grew 29% until 2006. Contrary to what one would expect, GDP growth during the bonanza period from 2004 onwards failed to trigger a corresponding growth in personal incomes. Inflation fluctuated in the double digits and was 18% in 2006; unemployment dropped constantly to a little over 11%; the budget balance is in the red at 4.5%; overall tax revenue rose to 12% of GDP; foreign debt stabilized at around \$37 billion – with a net public credit position of about \$50 billion – and the current account balance was nearly 16% of GDP in 2006. Investment dropped from 27% of GDP in 1999 to 16% in 2003 and recovered to 29% in 2005. These data add up to the economy’s heavy dependence on government expenditure, reform aversion and dirigisme.

Output strength

12 | Sustainability

The country protects over one-third of its territory, the highest proportion in the Americas. On the other hand, only 68% of the population has access to improved sanitation, GDP per unit of energy use is low (\$4,600 PPP per kg of oil equivalent), and carbon dioxide emissions per capita double the world average. Uncontrolled small-scale mining and logging in the rain forests south of the Orinoco River damage the biosphere. The government response to such threats is sporadic and ineffective. For example, such projects as “Mission Tree” and “Mission Piar,” which are aimed at conserving forests and guaranteeing the sustainable development of small-scale mining, lack an appropriate institutional framework. An increasing number of ecological accidents in the oil industry as well as the limited concern for environmental considerations shown by urban

Environmental policy

developers add to the contamination of major lakes like Lake Maracaibo and Lake Valencia. The response capacity of the Ministry of the Environment has proven insufficient in the face of growing ecological risks.

Education is one of the five “engines” of Chávez’ 21st century socialism, although his commitment is reflected more in extra-budgetary and extra-institutional spending than in the 5% of GDP earmarked for education in the 2007 budget. While the cost of the extra-institutional educational “missions” cannot be detailed with precision, the amount spent on scholarships alone for the close to two million participants of the missions Robinson II (adult literacy program) and Ribas (high school crash course) in 2004 was \$1.8 billion, that is, several times the amount spent for ordinary pupils at these levels. However, key indicators do not reveal significant advances in educational achievement: the country has the second largest deficit in secondary education coverage in Latin America; the literacy ratio increased marginally from 92% in 1999 to 95% in 2005, meaning that even though Chávez declared the country would be “free of illiteracy,” there are still over one million illiterate people. The gross enrollment ratio actually dropped from over 62% to under 55% in 2004, which may indicate desertion from the formal system to the informal missions. R&D spending had averaged below 0.4% since 1999 but dropped to about 0.3% in 2006. A recently adopted science and technology law forces companies of a certain size to spend a portion of their gross earnings before tax on research and/or development projects presented by universities and other research institutions.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The structural constraints on governance include persistent poverty, a poorly trained bureaucracy and unconsolidated judiciary, a collapsing infrastructure, a high level of informality in the economy with its consequential incapacity to generate adequate jobs in the required proportion and time frame, and the traditional reliance on a rent-seeking model based on oil. On the other hand, there are positive structural factors such as the absence of ethnic, racial, religious or interregional conflicts, the agricultural and resource potential and the well-trained professional elite with graduate degrees from the world's best universities (financed through a massive scholarship program implemented three decades ago but scrapped by the current administration). The balance of positive and negative factors allows a moderate rating of structural constraints; in principle, the administration could overcome these constraints in the medium term if it gave up its resistance to learn from past experience and adopted a more open-minded and dialogical approach to policy formulation.

Structural
constraints

Civil society organizations began to emerge mainly as neighborhood associations from the sixties onwards. In the meantime they have diversified their activities; according to the Center for Social Science Research (CISOR), there are now about 5,000 NGOs, more than 25,000 other private associations and over 80,000 cooperatives (mainly top-down organizations created by official instances under a new Cooperative Law). Even so, only one in two persons belongs to an organization; according to the latest Latinobarometro release, social trust increased to 29%, and about half of Venezuelans now trust their institutions.

Civil society
traditions

There are no serious ethnic or religious cleavages, but the political landscape is deeply divided into the polarized camps of Chávez supporters and opponents with a thinning buffer of undecided. The president's aggressive political discourse and style tend to deepen the polarization instead of building bridges.

Conflict intensity

II. Management Performance

Arbitrary surprise decisions continue to characterize President Chávez' autocratic management style, evident in his now five nationwide radio and TV programs per week. It is in such programs that ministers learn they have been fired, companies learn they are to be taken over by the state, or the leaders of the parties that support his government learn that they are required to join the United Socialist Party.

14 | Steering Capability

President Chávez, the undisputed leader, acts on the long-term goal of revolutionary transformation, which he truly believes to be in the country's interest even though only one in four Venezuelans perceive themselves ideologically as leftists bent on radical change. But the implementation of this strategy is inconsistent and characterized by the adoption of ad hoc policies, often spontaneously expressed in the president's almost daily radio and TV shows.

Prioritization

The government's strategy is to implement 21st century socialism. As a logical consequence, it shows not only a lack of commitment to the idea of representative democracy or market economy, but is plainly opposed to it. It has been effective in undoing earlier privatizations, diluting the protection of private property rights and preparing the ground for a socialist revolution.

Implementation

Chávez' paramount revolutionary goal renders rational policies pointless: dogma substitutes for realism. Resistant to learning from past experience and mistakes such as the undeniable failure of the Plan Bolivar 2000 social policy package, the government sticks to unsustainable fiscal policies and handouts in order to stay in power instead of addressing structural problems. It harasses private enterprises in order to pave the way towards socialism.

Policy learning

15 | Resource Efficiency

The government wastes human resources by excluding qualified candidates from public service due to their political leanings, financial resources through the costly takeover of efficient companies and utilities, and organizational resources by building parallel extra-bureaucratic structures for the implementation of social policies. A positive aspect is the substantial improvement in tax collection.

Efficient use of assets

Government policies are incoherent in that strategy is well defined, but day-to-day politics lack consistent guidelines. The president's personal style and spontaneity keep top officials spinning as they try to reconcile requests of immediate action with legal requirements and colliding policies. For example, when Chávez wanted to tighten the conditions for granting preferential dollars for imports, the administration acted accordingly. However, once vital imports were delayed as a consequence of this decision, the pendulum swung back and the administration received another order from Chávez contradicting the first, namely to ease the flux of dollars for vital items.

Policy coordination

Containing corruption is definitely not a government priority. Two-thirds of Venezuelans think the government does not fight corruption effectively but rather even encourages it.

Anti-corruption policy

16 | Consensus-Building

Chávez advocates and pursues a socialist revolution and hence opposes representative democracy and market economy. The main actors of the opposing minority share a basic agreement on representative democracy and market economy with varying inclusion of populist ingredients, but lack the clout to force negotiation. As both opposing forces conceive their goals as antagonistic ("revolution" vs. "reform"), there is little space or potential for negotiation.

Consensus on goals

The minority actors committed to advance democratic reforms have proven unable to design and implement an effective counter-strategy against the revolutionary course pursued by Chávez. The reasons for their inability include their own lack of vision and unity, increasing pressure on independent media, harassment of dissenters in the public service and government control of the agency entrusted with organizing elections.

Anti-democratic veto actors

The current leadership does not see political cleavages as a risk to stability, but as an indispensable ingredient for the revolution. Revolutions need counter-revolutions, not an intra-system opposition. So in their logic they must exacerbate the split between government supporters and opponents in order to strengthen the revolutionary camp. The leadership's divisive Manichean discourse, epitomized in President Chávez' slogan "socialism or death," does just that.

Cleavage / conflict management

There has been some consultation of civil society in the legislative process, for example, in the context of the drawing of the national police law. But as the incoming Minister of the Interior shelved the results of that consultation, the sincerity of such participation processes must be questioned.

Civil society participation

The current leadership staged two failed coup attempts against the elected government in the early nineties and, after they had been pardoned by presidential decree in 1996, came to power in 1998 on a promise of profound change. Their interest is anything but reconciliation; instead, they have focused on the manipulation of history. They have done so, for example, by glorifying their bloody coup attempts as days of national celebration; the 4th of February, the date of the 1992 coup against the elected president, was declared a national holiday by presidential decree in January 2007.

Reconciliation

17 | International Cooperation

Rather than a recipient of foreign cooperation, Venezuela is an important donor that uses its oil-fueled affluence as a political weapon in the international arena. Even so, it failed to win a temporary seat on the U.N. Security Council after a costly campaign that involved cheap oil shipments to the Caribbean and Central American countries and donations to African states. The political leadership cooperates closely with the friendly regimes of Argentina, Bolivia, Cuba, Ecuador and Nicaragua, the main beneficiaries of Venezuelan financial and technical assistance, as well as with China, Iran and Russia, Venezuela's providers of technology and weaponry.

Effective use of support

Venezuela is definitely not a credible or reliable partner for the international community. Foreign policy moves are often contingent on the president's emotions, as occurred with his surprise decision to abandon the Andean Community. The president's frictions with the leaders of Mexico and Peru are more personal than political, but ultimately led to the withdrawal of ambassadors. President Chávez' close ties to leaders like Iran's Ahmadinejad, Belarus' Lukashenko and Zimbabwe's Mugabe do not enhance the country's reputation. The international community's awareness of this no doubt contributed to Venezuela's failure to win a temporary seat on the U.N. Security Council. The Globalization Index, which measures globalization and its impact using variables grouped into economic integration, personal contact, political engagement and technological connectivity, ranks Venezuela a miserable 59th out of the 62 countries represented.

Credibility

President Chavez champions the integration of Latin America on his own terms with the "Bolivarian Alternative for the Americas" (ALBA, Alternativa Bolivariana para las Americas, a name that combines the Bolivar myth with the symbolism of the Spanish word "alba," which means "dawn"), a rather nebulous and undefined counter-proposal against the U.S.-led project of American Free Trade Area (in Spanish ALCA). So far he has recruited Bolivia, Ecuador and Nicaragua, with Argentina as a friendly bystander. Venezuela opted out of the Andean Community because some partners chose to take advantage of a clause

Regional cooperation

that allows signing trade agreements with the United States, and joined Mercosur, securing its admission with generous energy offers. In summary, the president cooperates selectively with compliant neighbors but is reluctant to accept rules set previously by regional organizations.

Strategic Outlook

Emboldened by his resounding electoral triumph in December 2006, President Chávez announced that the time was ripe to switch from the Bolivarian to the socialist phase of the revolution. He asked the National Assembly for, and was immediately granted, special powers that enable him to legislate by decree. He also set up a commission entrusted with rewriting the 1999 Constitution of the Bolivarian Republic of Venezuela aimed at basically two aspects: first, the elimination of term limits for the president and second, the embedding of socialism as a basic constitutional principle. This will entail change of essential political guarantees, such as vertical division of power and the proportional representation of minorities; social guarantees, such as education, training and scientific research; and economic guarantees, such as property.

The swift creation of some 32,000 “Communal Councils” that communicate directly with the president and are funded through his office will lead to the gradual erosion of the financial and, consequently, the political support of town mayors and state governors. Furthermore, the resources channeled to those parallel councils will be deducted from the amount earmarked by the constitution for the decentralized administration. Meanwhile, the creation of the Unified Socialist Party of Venezuela helps to suffocate dissidence within the official movement and minimize the opportunity of opposition forces to win elected office.

Education is a fundamental vehicle for the socialist transformation of society, which means that it has to be thoroughly controlled by the state. In the same vein, science must be subordinated to the priorities and follow the methodological and theoretical approaches established by the political leadership. As President Chávez clearly stated, capitalist ideas must be banned from the science and education agendas. Uniform thought channeled through a uniform educational agenda entrenches collectivism. The (re)-nationalization of strategic actors in the economic realm is but the first step in a broader move towards the gradual erosion of the concept of private property. Other changes will result in landless farmers having usufruct but not ownership rights to the expropriated land, workers running but not owning the factories, and what remains of private enterprise being closely controlled.

In sum, the centralization of decisions and a top-down approach to policy-making, the erosion of vertical power-sharing to concentrate power in the hands of the president, the progressive de-institutionalization at all levels, the ideological alignment of education and science, and increasingly paternalist

relations between the state and society will characterize the country's political development in the coming years.

President Chávez does not limit his vision of socialism to the confines of Venezuela, but seeks to extend it to Latin America as well as the rest of the world. The aim is not only to create a counterweight to the United States' dominance, but also to overcome capitalism as a socioeconomic model, which President Chávez epitomizes as evil.

The vehicle for boosting socialism in the region and beyond is energy. Concrete steps in this direction have already been designed and implemented, such as the oil-for-doctors program with Cuba (Mission Barrio Adentro/Inside Shanty-Town) with about 20,000 Cuban doctors working in poor areas in Venezuela. The program has already been extended to cover Bolivia, Ecuador and Nicaragua. Other examples include: financial and technical cooperation with the re-nationalized Bolivian oil company and Ecuador's refineries; oil shipments at preferential prices to Central America and the Caribbean; shipments of diesel generators and cheap fuel to Cuba and Nicaragua; cooperation with Argentinean and Uruguayan oil companies; the creation of regional energy integration agencies like Petrocaribe and Petrosur; the proposed trans-Amazonian gas pipeline; and even cheap fuel shipments to poor districts of Boston, New York and London.

The idealistic foreign policy approach with its missionary character manifests itself on two stages: in diplomatic relations at the government-to-government level, and in support of social and political movements in Venezuela and elsewhere thought to advance the cause of anti-globalization and anti-Americanism at the grassroots level. While the latter provokes occasional complaints of undue interference in the internal affairs of other states, it also helps promote President Chávez' and Venezuela's international image as champions of a multipolar world. The strategy can only be effectively counterbalanced by attractive, credible and determined American – and European – political and trade overtures towards Latin America.