Victims of Wealth?

The Venezuelan Petro-State: From Caudillismo to the Chavista Era

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International Relations Comprehensive Exercise

Winter 2005

Advised by Professor Montero
“Grant me this boon then,” Midas cried eagerly: “that whatever I touch may then to
gold!”

“So be it!” laughed the god… and Midas left his presence exulting to know that
henceforth his wealth was boundless.”

The Myth of King Midas

A parable of greed and its evils, The Myth of Midas questions the virtues and
vices of “boundless wealth,” an enigma that still prevails. At one point developing
nations were told insufficient assets were stifling their economies. Lacking capital and
investment, their financial systems would have difficulties experiencing growth. When
Venezuela struck black gold everyone knew the nation’s fate was forever changed, but
few realized it would be for the worse: producing economic distortions and political
disruption in the development process.

The role of petroleum in Venezuela deserves careful scrutiny because of its
implications in terms of state-building and development policy formulation. There exists
an intensifying dispute among academics, environmentalists, and policymakers
concerning the appropriateness of natural resources exploitation and the polity it may
foster. Both the many developing countries with comparative advantages in primary
products and the remaining nations so dependent on commodity markets have long
searched for an answer.

In an effort to curb multinational takeover and exploitation of oil revenues,
Venezuela sensibly nationalized the oil industry in 1975. Had they not, certainly political
autonomy, and perhaps even the health of the overall economy, would have been placed
in jeopardy. However, the state expanded to a grotesquely bloated condition of
corruption and inefficiency. As Venezuelan politics became riddled with rent-seekers, policies were increasingly designed to favor elites. What followed was what Terry Lynn Karl defined as the ‘petro-state’: an increasingly unstable, inefficient and clientelistic polity too inapt and unwilling to address development. Current Venezuelan president Hugo Chávez Frías has labeled himself a critic of the post-1958 clientelist state, making a career out of railing against it and advocating dramatic reforms. However, debate rages from academic institutions to Venezuelan pueblos over how much, if any, of the former economic structure and political culture has changed under Chávez.

Chávez’s ambitions and tactics are strikingly similar to those devised by the founders of the very same old regime he seeks to revolutionize. Chávez has not dismantled the petro-state Karl identified in 1997, the year before he took office, for what many modern scholars, particularly Crisp and Levine, describe as a burgeoning non-elitist Chavista democracy. In fact, the petro-state model thrives in his Fifth Republic: nurtured by the same dependency on oil-rents, redistributive economic model and clientelistic political arrangement.

*Literature Review*

The deterministic theory of Venezuelan political economy portrays Venezuela as a nation developmentally constrained by the production of oil. According to this approach, the Venezuelan petro-state is embedded in a rentier development model in which the state directly accrues and monopolizes the oil wealth. In turn, the government redistributes oil rent to constituents so to establish state power (Ross, 2001: 329). This view was made extremely influential by Terry Lynn Karl’s seminal 1997 work *The
Paradox of Plenty in which Karl describes Venezuela’s reoccurring fiscal and political struggles to be significantly ‘over-determined’ by the dominance of oil (Karl, 1997: 222).

However, with the ascension of Chávez to power in 1998 and his many reforms, the political literature on Venezuela is tending away from Karl. The dissenters have successfully established themselves as the “optimists,” by citing perceived trends towards political inclusion and institution-building. Rejecting the attribution of political developments to dependence on oil or cultural factors they see greater flexibility in the system and believe Karl’s theory to be a dated portrayal of Venezuela as “pathologically distorted—economically and psychologically—by the oil boom” (Ellner and Hellinger, 2003: 226).

Articles published by Daniel Levine and Brian Crisp, Richard Gott’s influential book, In the Shadow of the Liberator, and articles by Steve Ellner articulate positive predictions for Venezuela’s future by alleging the former binds of the petro-state have deteriorated or never existed to the extent Karl and her supporters describe. Levine and Crisp claim “the acute conflict and tension that have characterized Venezuela are mere growing pains generated by the system’s renewal, not signs of the “exhaustion of the model” (Levine and Crisp, 1998: 27) and that “what the doomsayers failed to appreciate was the ongoing process of democratization within democracy itself” (Levine and Crisp, 1999: 156). They point to the impeachment of the highly controversial Pérez as an example of the system’s “resilience” rather than its decay.

Often the ‘optimists,’ notably Levine and Crisp, base their positive forecasts for Venezuelan democracy upon what they perceive to be growing civic engagement and institutional reform. However, many political scientists and sociologists view
Venezuelan political culture dramatically differently: predicting continued decay due to engrained paternalism in the political culture. These scholars, working in the same deterministic framework as Karl, find the central government’s control and administration of oil leads Venezuelans to look to the state for quick solutions to their problems (Romero, 1997: 32).

In his controversial article “Rearranging the Deck Chairs on the Titanic: The Agony of Democracy in Venezuela,” published, as Karl’s Paradox of Plenty, in 1997, Aníbal Romero declares Venezuelan democracy already dead. Citing worsening economic indicators, deeply ingrained centralism, widespread hunger, and a politically alienated public, Romero critiques what he sees to be a static Venezuelan system rather than any particular administration or policy. Further, Romero, like modern political sociologists Fernando Coronil and Patricia Márquez, describes this combination of paternalism, centralism, and populism “degraded democracy,” which he traces back to the initiation of the democratic period in 1958 (Romero, 1986: 44-45).

This study strives to update Karl’s theory of the Venezuelan petro-state model by introducing my own findings to the debate. I incorporate current statistical evidence, studies on political culture and policy assessments to describe the manner in which the oil industry changed the Venezuelan political and economic environment as well as how, and why these institutional, economic and cultural changes persist in the Chavista era. My findings indicate Chávez’s reforms have not divorced the state from Karl’s 1958-1997 petro-state model: the government’s clientelism, centralism, profligacy and distributional economic strategy indicates the ‘ancien régime’ remains intact. What has changed is the government’s constituency: the clients in Venezuela’s well-established
society of patronage. Prior to the *Chavista* era, administrations focused their wasteful and often fruitless distributional strategies on industry and the middle class. Chávez employs an identical schema but simply alters the recipient based upon his constituency: Chávez has focused his ineffective distributional strategy on agriculture and the poor.

*Methods:*

The relationship between primary production and development has long plagued the minds of academics and policymakers. Prior to the Industrial Revolution, northern and western European countries were relatively poorly endowed with natural resources compared to their southern and eastern neighbors, who were soon to be economically surpassed. Similarly, the modern economic fairytale—the growth of the East Asian Tigers—took place in an area marked by scant natural, though abundant human, resources. In contrast, natural resource endowed Latin America has had a tumultuous history of development attempts: vacillating between protectionist and liberal reforms, the continent has yet to experience widespread development.

Economists have long argued discrepancies in international inequality can stem from factor allotments; however the conventional wisdom has been the more land, capital, labor and technology, the better. In an important departure, recent studies many based upon the aforementioned trends, have revealed economies constrained by land further developed their capital, labor and technology to sustain themselves while economies “blessed” by natural resources never felt the pressure to develop (Auty, 1998). Similarly, rentier states afforded generous budgets by mineral or oil revenues were able to forgo institution building, decentralization and fiscal responsibility by employing a redistributional economic system now more sophisticated polities could never rely upon.
The question of dependency is at the heart of both these unresolved, yet absolutely vital, economic and political paradoxes.

The study of unexpected petrol revenues, or oil windfalls, and state-building presents a situation where developing countries were given a tremendous opportunity to reform and develop. It is an ideal test of the relationship between primary production, state transformation and development. Venezuela has been selected as the crux of this study because the dramatic changes in both national wealth and the character of its regimes enable an easier identification of causal relationships. Firstly, here the national and international arenas intersect in a clear and defined manner: the world’s second largest oil producer ran out a multinational corporation to nationalize the petroleum sector and in the wake of the 1973 oil boom dramatically improved its terms of trade. Secondly, Venezuela’s political history, from Pérez’s 1973 landslide election coupled with a $10 billion windfall to Chávez’s momentous arrival in 1998, exemplifies the marriage between politics and economics in Venezuela and the capacity rent has to transform a state.

This study focuses upon how the constraints of an oil-reliant state, the independent variable, shape Venezuela and impact policy development in a patterned fashion. Venezuelan institutions, cultural expectations, and political decision-making serve as the dependent variables. Research on political culture and attitudes consisted of reading global newspapers articles, online blogs, journals and conducting telephone interviews to supplement academic texts and articles. The economic indicators described here are based upon both statistical data (particularly figures collected by the World Bank, United Nations, economic journals and news publications) and narrative
descriptions of the country’s economic climate by citizens and foreign analysts.
Research into pre-Chávez Venezuelan history was dominantly rooted in scholarly texts while information concerning the current administration generally derived from articles, internet sources, and in the small selection of available books on the subject.

**Part I: The Historic Formulation of the Petro-state and its Characteristics**

Petro-states are not created in a vacuum; rather they are assembled from what is already in existence. The influence of the oil companies would have been held in check upon their arrival in the early 1900s had the state developed some form of bureaucratic resistance. Unfortunately, Venezuela was extremely vulnerable as it lacked civil service, an independent central bank and impartial judiciary. The country “suffered from a legacy of extreme administrative weakness that is remarkable even in the context of Latin America” (Karl, 1997: 74). Indeed, the state had barely been formed: marginalized by the Spanish empire and embroiled by the Independence Wars that followed colonialization, Venezuela was characterized by disorder.

Void of political, social and administrative institutions, Venezuelan authority was founded upon *Caudillismo*, a set of political rules rooted in the use of force. Regime change comprised of the strongest self-organized militias and their leaders marching to Caracas to assume control— not of centralized power, rather of national wealth. The fragility of the government, lack of national political culture and heritage of personalism left an indelible mark on state formation.

Not until 1899 when a regional group, rather than a dominant national class, captured power, was state authority centralized. Half a century of autocratic rule began when “General Cipriano Castro seized Caracas, accompanied by a small band of sixty
men, two of whom became the presidents who ruled Venezuela from 1908 to 1941” (Karl, 1997: 76). Extensive battles ensued after the declaration of the government. Though power was centralized, these battles shattered the prospect of constructing a viable administrative structure. Venezuela would long resemble this regime marred by an underdeveloped administrative scheme reliant upon personal authority, erratic and informal justice and clientelism.

The arrival of the international oil companies changed the character of the Venezuelan state. Minimalism and decentralization was replaced with a pattern of state expansion and increased jurisdiction. However, the concentration of power was not complimented by the creation of institutions and checks and balances. Rather, the evolution of the state simply sparked patronage and began “a consciousness on the part of rulers that petrodollars could be an instrument for maintaining regime stability” (Karl, 1997: 80). This mentality extended into the future virtually unchanged, even under a democratic regime.

A completely skewed Venezuelan economy took form in a decade: between 1920 and 1925 oil’s proportion of total exports soared from 1.9 percent to 41.6 percent; ten years later this figure had reached 91.2 percent (Tugwell, 1975: 182). The petroleum industry also fostered the birth of new social classes and factions whose wealth relied upon the dispersal of oil rents through state spending. This transformation coupled with the explosion of oil exportation had Dutch disease effects: stunting the growth of the industrial sector and exacerbating the decline of agriculture. Increasingly rural investment declines and landowners found themselves selling their property to the oil
companies and joining the rentier class. The petro-state had begun to solidify (Coronel, 1983: 51).

_**Venezuela at the Crossroads**_

The dramatic Arab embargo of October 1973 quadrupled world oil prices and effectually set in motion an international chain of events that was to have a great impact on the economics of virtually all countries, industrialized and developing, oil-rich or poor. Oil represented the largest internationally traded commodity and the shocks caused unprecedented transfers of income between consumers and producers. During the oil price shocks approximately $300 million was transferred from importing to exporting countries each day (Gelb, 1988: 1).

The aforementioned oil boom presented Venezuela with a momentous opportunity: this capital-poor country was now endowed with extraordinary wealth from oil windfall gains. Plagued by a long history of primary production and a crawling pace of development, Venezuelans sought to redefine their nation. Directly after the boom, Venezuela embarked upon an extensive new development program fueled, of course, by what seemed to be endless oil revenues—petrodollars. The mood was euphoric (Karl, 1982: 3).

For Venezuela, the founding member of OPEC, 1973-1974 marked a unique crossroads. Newly elected president Carlos Andrés Pérez was presented with a 10 billion dollar windfall gain shortly after a landslide election that put him in power. The combination of this overwhelming victory and the historically unparalleled financial resources (the fiscal revenues far exceeding the combined sum of all other governments
since 1917) gave Pérez the popular mandate to act. He embarked upon the “boldest and
most ambitious development blueprint Latin America had ever seen” (Karl, 1982: 15-16).

In 1974 Pérez enacted the first major development plan, a project known as *La
Gran Venezuela*. Through fighting poverty, with price controls and income increases,
and the diversification of the country’s economy with import substitution the
administration intended to “sow to oil.” At the crux of the plan was the nationalization of
Venezuela’s oil industry, with the creation of Petroleos de Venezuela (PDVSA) in 1976.
The plan’s two main objectives were to manage oil revenues and to invest these windfalls
into industrialization (Coronel, 1983).

The government sensibly addressed the issue of revenue management: petroleum
production was promptly cut-back and the Venezuelan Investment Fund (VIF) was
formed. The VIF removed the petrodollars from the internal economy (which would
have caused inflation and a rapid absorption of the gains). However, on the issue of
public investment, the plan encountered trouble and fell victim to sectoral distribution
biases. Decision-makers valued a combination of resource-heavy industrialization and
import substitution—thereby investing in capital-intensive production and further into the
petroleum sector. Further, they neglected to make basic social needs universally
accessible and failed to diversify exports—both defining characteristics of development
(Earle, 1982: 20).

The plan lacked coherence and organization and soon gave into the demands of
public sector agencies and private interests—forcing up levels of spending. This
spending gradually ate away at the oil revenues once sensibly externalized from the
national economy in the VIF, international reserves, and foreign banks. When this
money was exhausted, the government began to borrow. The fatal moment was the tripling of Pérez’s budget in 1978. At this point the failures to move the country towards development were glaringly apparent: government spending cost the nation dearly as inflation boomed. The oil wealth had been absorbed but the country had been changed.

Corruption was rampant as the widely distrusted government was bloated and inefficient by the privatization of the oil industry, enormous development plans and the accompanying artificial job creation. Economically, wage and price inflation riddled the non-oil sectors of manufacturing and agriculture—thus making these sectors less attractive to investors and labor. Resources had shifted away from agriculture and low-value added manufacturing towards unproductive, state subsidized consumer durable good production which effectually favored higher income groups and worsened inequality (Amuzegar, 1982).

Despite momentary increase in domestic consumption, poverty and literacy rates showed few signs of improvement. Even under a new administration and party, the plans implemented after the second oil windfall (1979-1982) were equally unsuccessful at addressing development goals (UNDP, 1960-1985). The reform package did not address equity, rather, another overly ambitious industrialization plan as the semi-autocratic Venezuelan government again overlooked the general public (Rodriguez, 2000).

The characteristics described thus far are generalizable to nearly all other countries in Latin America: historically weak state formation, a tendency towards expansionism, the absence of capable administration structures and high levels of centralization in the executive. However, Venezuela embodies these characteristics to a uniquely extreme extent and, most importantly, they were acquired due to the dominance
of petroleum (Mahon, 1992: 168). This is not to argue that intervention was solely due to the predominance of petroleum. Certainly, similar state expansion would have occurred without the oil industry due to the import substitution industrialization policies (ISI). However, the petroleum industry was a huge catalyst for ISI and the increasing size of the state. Moreover, because oil revenues were channeled to the central government, petrodollars further empowered the executive. Therefore, the degree of centralization was further exacerbated in Venezuela.

As Venezuelan production grew, so did the size, wealth, power of the government, and the rules that govern the behavior of decision-makers began to transform. Administrations sought to maximize gains from the oil company as policymakers attempted to create state-directed, resource-based projects (often attempts to catalyze industrialization) which effectively expanded the state. When faced with dissatisfied constituents, governments routinely followed a simple rule of appeasement based upon rent distribution (Karl, 1997: 112).

The weakness of Venezuela’s democratic and participatory institutions enabled these changes in preferences and unproductive activities to go unchecked contrary to the public good. Flimsy checks and balances coupled with weak parties and a powerless congress enabled the executive to circumvent what few roadblocks did exist (as Pérez did with the Special Powers Act in 1974 and Chávez with his new constitution in 1998). Therefore, the Venezuelan state shaped by the petroleum industry permitted demagogic and semi-authoritarian patterns of rule. In this context executive reforms are marred by

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1 Less than two months into office Pérez drew upon his popularity to enact the Special Powers Act. This act completely reorganized public financial institutions in order to empower the executive with the capacity to quickly and autonomously implement a package of fiscal reform. In a strikingly similar fashion Chávez has too wielded his popularity (he was elected by the largest margin in Venezuelan history) to centralize power to the executive (Penfold-Becerra, 2004: 175).
the need to appease limited constituencies (the rentier class) rather than the nation. The consequences of such an arrangement are clearly predictable: clientelism, corruption, favoritism, inequality growth, and a rentier mentality (Bou’e, 1993: 193).

Although social welfare was constantly articulated as a government priority; with consistency, government implementation of said policies were, not surprisingly, skewed against agricultural interests (Gelb, 1988: 309). Throughout the late 1970’s and early ‘80’s the divide between rural and urban incomes were exacerbated by the oil booms: as labor flowed into the city seeking oil rents, rural farmer suffered currency devaluations and subsequent inflation.

Additionally, the sudden increase of oil revenues in Venezuela caused a serious problem in the government’s fiscal policies. The new revenues caused the illusion that oil income could be used to industrialize the country via massive infrastructure projects, to “sow the oil.” A quadrupled government income caused government spending to quickly increase and even surpass the newfound revenues. When the oil income began to decline again, the government found it more difficult to reduce spending than increase it. In consequence, the government gradually went deeper and deeper into debt. Between 1970 and 1994, foreign debt rose from 9% to 53% of GNP. While oil prices and revenues declined, so did per capita income and the Venezuelan economy as a whole, and poverty increased (UNDP, 1970-1994).

This reliance on oil had fostered a deep-seeded rentier and clientelistic mentality among Venezuelans. Rather than engaging in creative entrepreneurial activity, Venezuelans were encouraged to ally themselves with the state by seeking employment or contracts from the oil-rich government (Karl, 1997: 184). Cultural anthropologist
Fernando Coronil argues that Venezuela’s oil wealth, monopolized by the state, has created the illusion of a “magical” state able to accomplish just about any feat at no cost to the population. “By manufacturing dazzling development projects that engender collective fantasies of progress, it casts its spell over audiences and performers alike” (Coronil, 1997: 4).

**Part II: A Country in Transition**

To access to the oil wealth Venezuelans engaged themselves in a web of patron-client relationships that can be visualized as an inverted pyramid. Throughout the country, clients were connected to increasingly fewer patrons simply by the bonds of oil wealth. These associations permeated every sphere of life: from a small municipality’s road repairs to multi-billion dollar infrastructure programs. A neighborhood organizer who arranges to get a basketball court for a community is client to the mayor, who though a patron, is in turn client to governor of the state. This pattern, fostered by an exchange of petrodollars for power, continues until the highest echelons of political office. On election day, voting becomes an expression of reciprocity rather than ideological affinity as clients vote for their patrons in an effort to preserve their access to the state’s oil funds (Romero, 1997).

The Venezuelan political model, structured about these vertical social linkages and “hierarchical national organizations,” is characterized by roles of dominance and subservience, rather than egalitarian, horizontal connections (McCoy, 1999: 4). Vertical social systems such as these suffer low social capital and consensus building, a cornerstone of democracy, becomes extremely difficult. Without horizontal bonds of trust citizens cannot deliberate and verge upon a common position as equals (Putnam,
In Venezuela hierarchical structures dominate and the clientelism has stifled a truly democratic and egalitarian system.

By 1998, people resented this system of bloated bureaucracy which had long proved its ineffectiveness at bringing true and lasting development to Venezuela and on an anti-corruption platform, Chávez was supposedly elected to dismantle it. But the petro-state induced more than a myriad of social relations lubricated by oil money—it created a culture, and this would be far more difficult to identify and shape.

Despite the economic statistics which indicate inflation, recession, low productivity, deficits, and enormous debt, Venezuelans think their nation is saturated with oil money and they have been deprived of their take. The illusion of a government with enough petrodollars to finance every need and desire of the Venezuelan people pervades petro-state culture. A survey conducted in August 2000 finds over 90 percents of Venezuelans believe “Venezuela is a rich country;” 82 percent believe that Venezuela is “the richest country in the world” (Keller, 2000). Such assertions frame the national discourse and are politically explosive. Redistribution is the state’s purpose and administrations are judged by how convincingly they narrate an old tale of boundless wealth.

In the 1950s when Venezuela’s oil money was steady and abundant, the state fairly efficient and the population relatively small, redistribution was effective. In 1974, 80 percent of government revenues were from the oil industry, and if partitioned, they provided the government with a generous $1,540 for each citizen. In that time frame, the 1950s through the mid 1970s, Venezuelans witnessed fantastic changes in their standards of living. There was job creation, impressive infrastructure construction and the
reasonable expectation for continued improvement. Modernity seem to bless Venezuela decades before their neighbors would see gleaming airports, public housing, universal schooling, hospitals and highways or know the comforts of unemployment benefits, pensions and maternity leave. However, in 1994, in the wake of harsh economic busts, these figures had already fallen to 40 percent of fiscal revenue and $200 a citizen (Torres, 2000: 36).

With 68 percent of Venezuelans living in poverty today, scarcity and its desperation, not wealth, defines the economic landscape. Today, 68 percent of Venezuelans live below the poverty line. In Latin America only Chile under Allende in the early 1970’s and again under Pinochet in 1982 has experienced an increase in poverty of this magnitude and speed. Venezuela was the world’s fastest growing economy of the 20th century—until 1980 (Karl, 1997: 160). In real terms, today’s income per capita is at its 1962 level. Understandably, Venezuelans feel betrayed and blame corruption for this devastating change.

For much of the country the rationale is as follows: if the country is rich but the people poor, someone has stolen the wealth, namely politicians and the wealthy. Corruption is a central theme to the national psyche and an often justified mistrust in the government is widespread. For many Venezuelans, corruption is seen the main, if not only, impediment to their personal prosperity. The popular belief, one furthered by reform politicians and the media, is without corruption the wealth will effortlessly and instantaneously spread throughout society. The eradication of corruption has long been Venezuela’s most important policy goal and development strategy. Sadly, the problem is
both more intricate and less morally satisfying than that: it is a mélange of political and economic issues that have long riddled Venezuela (Romero, 1997: 8).

The private sector had shrunk considerably with the exit of tens of thousands of small and medium businesses. State-owned enterprises in industries such as steel, aluminum or petrochemicals survived, but could attribute that survival to enormous government subsidies and made meager contributions to national income or employment. Non-oil industries, much like the country itself, lack the human and physical infrastructure for sustainable growth.

Export instability also continued to be a problem. The 1973 oil embargo began the petroleum market’s now long history of vacillation and had a disastrous effect on Venezuelan spending habits. The government’s reliance on a boom-or-bust commodity made responsible budget planning nearly impossible. Venezuela’s government has chronically mismanaged or misjudged the international market’s cycle, consequently worsening the economic repercussions of inflation and debt. Continuing the well-established technique of overspending, governments seemingly believed every boom would last and often concocted costly development plans financed with petrodollars and more loans.

The plans would appease their constituency and the next administration would adopt the debt. When prices fell, the former profligacy brought severe recession. These wounds inflicted upon the Venezuelan economy have been devastating. Corruption, though a serious and important contributor to the nation’s economic failures, did not alone ravage the nation’s economy.
Public expectations were dramatically changed in 1970s Venezuela, but by the late 1980s the government did not have enough resources to fuel former dreams. Dwindling oil revenues coupled with population growth made the redistribution strategy increasingly less feasible. In 2004, were the State’s oil revenues partitioned equally each Venezuelan would receive $1.35 per day for the year. Though significant, without proper institutions and economic opportunities, it would do little to shape poverty (Torres, 2000: 36).

The late 1980s brought Venezuela to an important junction. The nation was in need of widespread reform. Again, the government needed to become less reliant on petrol, not only as a source of revenue, but as a source of clientelistic political and cultural systems. For lasting development and democracy through an egalitarian model of interpersonal relationships, horizontal social structures needed to replace the vertical. Furthermore, the government needed to increase transparency and end the myth of magic petrodollars—amongst themselves and their constituents. The state needed to help Venezuelans create their own wealth rather than subserviently wait for the non-existent handout. Then, Venezuela could begin to reform the petro-state model.

**Part III: Modern Venezuela and the Failure of Petro-state Reform:**

“What has been called the democratic system in Venezuela has not differed much in recent years from what came before... Everything has basically remained the same; it’s been the same system of domination with a different face, whether it’s that of General Gomez or of Doctor Rafael Caldera....”

- Hugo Chávez interviewed in June 1995 (as cited in Gott, 2000: 34)

Though a self-proclaimed critic of the clientelistic state that emerged in post-1958 Venezuela, Chávez has done little to alter the government’s dependency on oil rents or challenge the political culture intrinsic to the model. In fact, Chávez has in many
dimensions strengthen the presence of the petro-state: dramatically recentralizing the
government, retelling the redistributive myth to appease his constituency, and
jeopardizing Venezuela’s economic health with profligate spending for utopian plans.
His very critique of the ‘ancien régime,’ that the poor never profited from their nation’s
riches due to corruption, is founded upon the same redistributive logic that fosters a
petro-state.

Though his focus on the poor is an important and much needed shift in
Venezuelan politics, Chávez’s fruitless “revolutionary” vision dreadfully parallels
unsuccessful regimes that preceded him. To the delight of his constituency—the
impoverished and oft-ignored of Venezuela—Chávez has repeatedly emphasized
corruption as the origin of Venezuela’s poverty, all the while redistributing dwindling
petrodollars through his poorly organized and ineffective development plans. Chávez
does not intend to dismantle the petro-state. His rebellion against the petro-state is no
more than a reorientation of former clientelistic structures in an effort to maintain his
patron-client linkages to the poor.

Continued Themes: Clientelism

“Chávez did not want civilians to participate as a concrete force. He wanted civil society
to applaud but not to partake…”

Douglas Bravo, founder of Partio de la Revolucióon Venezolano,
interviewed in 1999 (Gott, 2000: 59)

Clientelism under Chávez has changed, but its most basic components are there.
With the country heavily polarized by the election, policies, and the drama that ensued,
horizontal linkages are not forming past socio-economic lines. As for the former vertical
linkages, the pyramid has been replaced by, what the administration portrays as, a direct
connection between citizen and president. Though quite different from that of his
predecessors, Chávez is using a brand of clientelism. In the Chavista patronage system only two levels exist: the president and all others. The former system of business arrangements between clients and patrons in adjacent levels of the pyramid has been replaced by one of imagined personal bonds between the charismatic leader and his supporters. It is what some academics have labeled Chavista postclientelism.

Chavista postclientelism has been cultivated by what some call “gimmicks” and others “efforts” such as a Sunday morning radio program and weekly television call-in show where those who get their calls through have their wishes for an operation or job and the like fulfilled. The president emphasizes how he wants to help each supporter personally.

On television, he will often appear to be speaking to an invited audience immediately in front of him. Then he will suddenly turn, as though to another camera, to address the real audience out there in the rural areas and the shanty towns. It is an electrifying performance, for he speaks as though he is in instant communication with his own people (Gott, 2000: 21). Chávez is a master communicator and it is difficult to overestimate how vividly his rhetoric influences Venezuela’s poor, the largest section of society. His virtues praised in folksongs by Ali Primera and Cristóbal Jiménez and his picture often carried in a wallet along side illustrations of Jesus and Mary, Chávez’s messianic popularity with the poor is immense (Márquez, 2003: 209).

Centralization of Power and Personalism:

Chávez’s brand of anti-institutional populism has already justified attacks against the independence of subnational governments, the judiciary, and the press. These actions led Brazilian president Fernando Henrique Cardoso to quip recently that the Venezuelan leader is an “unconscious authoritarian.” If such evaluations continue to be confirmed by Chávez’s actions, then the demise of democracy may become one of the unintended consequences of greater centralization (Penfold-Becerra, 2004: 175).
In 1999 and 2000, his first two years in office Chávez closed down the Congress and the Supreme Court, abolished the constitution of 1961, “and stood back to watch while the country’s two principle and long established political parties committed suicide” (Gott, 2000: 6). The creation of the Chavista Fifth Republic and its new constitution, judiciary and single chamber National Assembly, both replete with Chávez supporters, completely reversed the positive trends towards decentralization that took place prior to Chávez’s election. The reforms have granted the president astonishing authority of degree and an extended tenure from five to six years with the possibility of reelection, a clear indication of the rapid centralization Chávez presides over (Penfold-Becerra, 2004: 157).

Large-Scale Development Plans

He is passionately hostile to ‘corruption,’ of which there was no shortage in the past… Yet he often finds it difficult to describe just what it is that he intends to put in its place. His first speech as president on 2 February 1999, gave few details about what lay ahead (Gott, 2000: 174).

Chávez plans to relocate tens of thousand of poor from Venezuela’s crowded Northern cities to the sparsely populated east and south of the country in an effort to ‘colonize’ the country and develop ‘integrated’ sustainable agro-industrial projects in the now barren lands. The homes and land are not free, only the settler’s first year will be without rent, then begin annual quota payments. Chávez’s ambitious planning is captured by Fifth Republic supporter Richard Gott’s prominent book *Shadow of the Liberator*:

Warming to his theme, he calls for a map to be brought, and stabs vigorously at it with his pencil. ‘We will simply put everything into reverse: education will be available *over there*; health will be available *over there*; sport will be available, *over there*; land will be made available –so that people can work *over there*…and we are now beginning to put it into operation. We have been working
on it since last year… to be honest, few people want to leave the city (Gott, 2000: 12-13).

Later, on site, Chávez gestures towards the abandoned remains of Carlos Andrés Pérez’s La Gran Venezuela and informs Gott: “Look, here is the frontier with Colombia, here is the international airport, here is an abandoned industrial site” (Gott, 2000:180) This graveyard of the petro-states failures is where Chávez appropriately plans to bring his own hastily constructed grand plans for agro-industrial stimulation:

‘Here is the land, here are some houses, and here we will put in a school, a workshop, and a road’… He said, [on the phone] to the chief on the general staff. ‘Look, I think we’ll go to La Fría on Wednesday. How much is ready? How many families have you got? What sort of state is it in?’ He paused to listen to a stirring reply. ‘Well, tell them to get a move on. We’ll come anyway; it doesn’t matter if it’s not finished…We are not teaching them so that they can go off somewhere else. We want people to stay here. We are colonizing the country with our own people. How many times have we failed in the past? We can’t fail this time” (Gott, 2000: 184).

Profligacy and Debt

Chávez has favored a common petro-state solution for appeasement: profligate spending through large-scale development plans. Government expenditures in 2004 were increased 77 percent from their 2003 levels to 34.3 trillion Bolívars ($17.9 billion) according to the central bank (Bureau of Western Hemisphere Affairs, 2005). Ironically, the petro-model Chávez has found himself reliant upon is furthered strained by the chaotic state of Venezuelan oil production. Projections state Venezuela will produce 1.2 million barrels of oil per day (b/d) less than were produced in 2001. It is another contradiction of the Chavista era: the president articulates the petro-state’s founding myth has he erodes the oil industry’s capacity to fund it. The state was unable to finance society on 3.8 million b/d it is unlikely to happen on 2.6 million b/d. Chávez has been lobbying OPEC vehemently to raise price per barrel with some success but the increases
are not sustainable in the long-term and reflects the governments growing worries about its deteriorating financial situation (World Energy Council, 2005).

Mexico has created an Oil Stabilization Fund and Chile continues to finance a Copper Compensation Fund, but the Venezuelan government has not resurrected the VIF to protect the export-revenue economy from inevitable falls in commodity prices and the recession that would ensue. Rather, the new government has been forecasting deficits. Despite the good oil year the Chávez administration has predicted a central government budget deficit of 3.3 percent of gross domestic product. Morgan Harting, a sovereign debt analyst for Fitch Ratings in New York forecasts a 6 percent deficit.

The Chávez regime may soon face the same problem that plagued former president Carlos Andrés Pérez in the 1970s: an exhaustion of the oil money. The current waste, inefficiency, corruption, and protection tainting the administrations projects will be extremely difficult to pay for. Economic analysis shows for the funding to be feasible the government’s control of the central bank and PDVSA funds must not slip, national debt and inflation would continue, and oil would need to remain above $35 a barrel. At $30 a barrel it would be extremely difficult to finance, and impossible at $25. Chávez has gambled heavily on a myth. The volatility of oil prices has more than once defeated the great Venezuelan plans and presidents (Bardel, 2004).

Conclusion:

Venezuela was marred by an entrenched culture of corruption that was prevalent throughout both the nation’s micro and macro economy. Many inefficient Venezuelan businesses were heavily protected by long-term tariffs and subsidies. The state payroll was extremely bloated: many “employees” simply collected paychecks without workers,
so called “phantom workers” (Mommer, 2002: D2). Kickbacks, commissions and bribes prevailed. Venezuelans wanted change—a departure from corruption and the clientelism that often fostered it. However, they wanted to keep their petro-state and the myth that surrounds it, they simply wanted an adapted version.

Though corruption undoubtedly was and remains to be an important detriment to Venezuela’s economic situation. The fundamental cause of the worsening poverty and inequality exists elsewhere. Poor policies, weak institutions, adverse international circumstances and the noxious effects of an oil economy and culture have played a far more significant role than corruption. The most recent focus on fighting corruption has disabled the possibility of significant reforms in policies and institutions—breaking the vicious circles that have stifled Venezuelan economic and political development. Just as the dominance of oil has hindered the development of other industries, the dominance of the oil and the corruption issue in the current political environment has hindered the creation and emergence of reforms for the nation’s more persistent problems.

Unfortunately, Chávez’s Fifth Republic is strikingly similar to the governments devised by the founders of the very same old regime he seeks to revolutionize. Chávez has continually underscored corruption as the source of Venezuelan economic hardships; however, corruption’s clientelistic roots: the redistributing of dwindling petro-dollars, are at the heart of his poorly organized and ineffective development plans. “Chavez has said his goal is a ‘social transformation’ that will ‘redistribute national income’ into the hands of the millions of poor people who have long been denied access to this country's vast oil riches” (Sullivan, 2004). Effectually, this revolutionary closely resembles Carlos Andrés Pérez circa 1974, a man Chávez once attempted to overthrow. Chávez has not
dismantled the petro-state Karl defined in 1997, the year before he took office, for what many modern scholars, particularly Crisp and Levine, describe as a burgeoning democracy. In fact, the petro-state model thrives in modern Venezuela: nurtured by the same dependency on oil-rents, redistributive economic model and clientelistic political arrangement. That is not to say with firm, pre-determined pessimism that the petro-state model is forever static and Venezuelan democracy altogether dead. Perhaps, when Venezuela’s society defragments, establishes horizontal linkages of trust and abandons the myth of Chávez and his black gold perhaps we will see a new era in Venezuelan democracy and a new chapter in the history of petroleum states.

Shortcomings:

There is no shortcoming in the availability of literature concerning Chávez. On the contrary, a plethora of viewpoints on his regime are being published daily. However, Venezuela and the international community of reporters and scholars are highly polarized so a problem does exist in finding objective scholarly work when so much has been exaggerated or completely falsified. All primary sources, even statistical, need be questioned regularly and pitted against others.

I have made an effort to balance and diversify my sources so to sort out the inconsistencies and empty rhetoric, but the reality is the Chávez administration’s work is being, or at least attests to being, done in marginalized sectors of Venezuela and coupled with a lack of transparency is difficult to track and assess. Some allege Chávez is using theatrics, others praise his blessed hands. With contradictory poverty and economic data, it is difficult to discriminate between the two.
Works Cited


