

Political Choice and the Venezuelan Petro-State

David R. Foster

Introduction¹

After over a century of instability and tyranny, Venezuela rejected its final dictator in 1958 to allow the ascent of a stable two-party democracy. Frustrated with Marcos Pérez Jimenez's abuses of power, the mass public removed Jimenez in favor of a less volatile democratic system. With the support of the armed forces and the signing of the Punto Fijo Pact, democracy, constitutionalism, and a two-party system took hold. For forty years, power alternated between the Christian Democratic Party and Democratic Action, until Hugo Chávez Frías upset the balance of power in 1998. Using unabashed populism and an appeal to the poorest Venezuelan citizens, Chávez rejected the two-party legacy and forged a new path for Venezuela.

Yet was Chávez really paving a road to the future, or was he stuck on a traffic circle? Venezuelan politics might look like an evolution: the nation has progressed through Spanish colonial rule, 130

¹ I am indebted to Shelley McConnell and Sharon Werning Rivera for providing comments on earlier drafts. I also thank Professor McConnell for her help in formulating my introduction and thesis question. Her suggestion that I explore institutional questions as well as Chávez's decisions proved insightful.

Insights

years of instability, forty years of unresponsive two-party democracy, and nine years of Hugo Chávez. For many observers, Chávez's regime represents an enlightened, egalitarian conclusion to years of political corruption and instability. After the Venezuelan people suffered through years of out-of-touch governance, they finally rejoiced at the opportunity for change that Chávez appeared to present. However, the rise of Hugo Chávez suggests a regression to the past, as both Chávez and the twentieth century's two-party system relied heavily on oil revenues to support their respective regimes.

Perhaps the important story of Venezuelan politics is one not of *caudillos* (strongman leaders) dictating Venezuela, but rather of oil dictating *caudillos*. To understand the relationship among oil, fate, and power, one must ask two questions: first, "By what mechanism does Venezuelan resource wealth prevent democratization?" and second, "Who or what determines the course of political events in Venezuela: Hugo Chávez, the state-owned oil company PDVSA, or petroleum?" Although PDVSA has successfully challenged Chávez's power as a sort of *statum in statu* (Parenti, 2006, p. 8), the presence of oil itself might condemn Venezuela to an undemocratic fate. The Venezuelan intellectual Arturo Uslar Pietri once observed that "petroleum is the fundamental and basic fact of the Venezuelan

destiny” (Karl, 1997, p.73). Consistent with his grim lamentation, the evidence appears to support the case that although Chavez might appear to be in control, his political choices are severely limited by the constraints that resource dependency imposes.

Literature Review

The “Resource Curse”

To understand oil’s role in Venezuelan politics, one must first examine theoretical models of resource dependency. The literature proposes numerous different possibilities that are not necessarily mutually exclusive: the “rentier effect,” the “institution effect,” the “corruption effect,” the “repression effect,” and the “modernization effect.”

The idea of the “rentier state” originates from the eighteenth- and nineteenth-century political economist David Ricardo,² and in recent times it has often been applied to the study of democracy in Middle Eastern countries. Political scientists have since adapted the concept to resource-rich countries throughout the world. In the “rentier state,” “governments use their oil revenues to relieve social pressures that might otherwise lead to demands for greater

² Professor McConnell informed me of this.

accountability” (Ross, 2000, p.332). According to Michael Ross (2000), there are three ways that this could happen: the “taxation effect,” by which the state derives revenues from natural resources rather than taxes; the “spending effect,” by which patronage reduces the demand for democracy; and the “group formation effect,” by which oil revenues allow the government to preclude independent social groups. Fareed Zakaria (2004) supports the idea of the “taxation effect,” writing that “when a government taxes people it has to provide benefits in return, beginning with services, accountability, and good governance but ending up with liberty and representation” (p.75). Karl and Gary (2004) agree, noting that “petrodollars actually sever the very link between people and their government that is the essence of popular control” (p.38). Additionally, Karl and Gary (2004) appear to support the idea of the “spending effect,” noting that “in oil-exporting countries, all actors...have overwhelming incentives to seek links with the state in order to make money; governments, in turn, reward their supporters by funneling petrodollars, tariff protections, contracts, or subsidies their way.” (p.40). Zakaria (2004) also endorses the “group formation effect,” claiming that “the state had to import knowledge and even people from overseas.... The result was a business class that, instead of being independent of the state, was deeply dependent on it.”

(p.73). These models posit a convincing reason why the people in resource-rich countries might passively accept authoritarian rule while their resource-poor neighbors clamor for democracy. By examining the relationship between citizens and the state, the concept of the “rentier effect” wisely includes citizens in the evaluation of the political dynamic. Yet focusing exclusively on this effect pays insufficient attention to institutional factors. Although Ross (2000) does consider oil wealth in the context of initial per capita income, this broad category says very little about the quality of institutions (p.342).

Attempting to fill the gap in the “rentier effect” theory, several scholars have proposed that the strength of institutions provides the critical link between oil wealth and regime type, which I shall call the “institution effect.” Mehlum, Moene, and Torvik (2006) ask, “Why are some countries blessed and others cursed by their resource wealth?”, answering, “An important explanation can be found in institutional differences” (p.1118). As a result, “the consequences of discovering a new valuable resource are therefore likely to be quite different in warlord-dominated Afghanistan and law-obedient Switzerland” (p.1119). In other words, the quality of political institutions are central to a country’s success (or failure) in managing resource wealth. Michael Ross’s (2000) statistical regressions provide

some support to this hypothesis, as he finds that “oil and mineral wealth cause greater damage to democracy in poor countries than in rich ones” (p.343), although this requires the assumption that richer countries tend to have stronger institutions. Other scholars suggest a related idea that I shall term the “overextension effect,” which occurs when increased demands for spending lead to decreased autonomy and considerable budget deficits. Karl and Gary (2004) claim that “oil booms raise expectations and increase appetites for spending” and that as a result, “governments dramatically increase public spending based on unrealistic revenue projections” (p.36). Both the “institution effect” and the “overextension effect” insightfully explain the process by which governmental weakness can explain the fiscal and democratic success of the United States or Finland and the failure of Afghanistan or Venezuela. Institutional theories serve as a useful complement to other ideas such as the “rentier effect,” yet they still do not paint a complete picture of the “resource curse.”

While these institutional theories treat the state as a single actor, another model suggests that the individuals within institutions merit attention as well. According to M. Stephen Fish (2005), the “corruption effect” occurs when weak institutions are once again incapable of providing proper oversight for the allocation of resource

wealth. As a result, “holding office can afford access to enormous funds and make one fabulously rich overnight” (p.127). Karl and Gary (2004) second this, noting that some oil companies “pay secret bonuses that cannot be traced” (p.41) and that “because there is no transparency in the management of oil revenues, parallel budgets are created” (p.37). The corruption effect suggests yet another reason why oil might impede democracy. Considering the selfish nature of corrupt politicians, this idea provides a convincing partial explanation for the “resource curse.”

Ross points to another possible effect that stems from corrupt politicians. He discusses the “repression effect,” by which resources “allow their governments to spend more on internal security and...block the population’s democratic aspirations” (Ross, 2000, p.335). Among others, Ross (2000) cites Theda Skocpol (1982), who “notes that much of Iran’s pre-1979 oil wealth was spent on the military, producing what she calls a ‘rentier absolutist state’” (Ross, 2000, p.335). Yet Ross explains that verifying the presence of this effect might be tricky, since higher levels of conflict (and correspondingly lower levels of democracy) within a country might cause increased militarization rather than the other way around (ibid.). Additionally, a complete understanding of the “resource curse”

requires an examination of the poor economic development that appears to result from the state's behavior.

To incorporate economic effects, scholars have suggested the "modernization effect." Tompson (2005) ventures that "resource dependence may undermine economic performance, thereby impeding progress with respect to democratization and/or good governance" (p.339). Karl and Gary (2004) agree and suggest multiple obstacles to economic development. First, they note that the volatility in oil prices "has been shown by scholars to be bad for investment, income distribution, educational attainment, and poverty alleviation." Second, they observe that "foreign debt grows faster in oil-exporting countries, mortgaging the future." Third, "petrodollars replace more stable and sustainable revenue streams, exacerbating the problem of development." Fourth, "non-oil productive activities, like manufacturing and agriculture, are adversely affected by the oil sector in a phenomenon called Dutch Disease" (p. 36-8). Drawing its name from the overvaluation of Dutch currency during a natural gas boom, this economic effect occurs when resource exports "crowd out" other exports. With increasing oil exports and revenues, a country's currency becomes more attractive relative to other currencies. The resulting currency appreciation makes non-resource goods unattractive

to world consumers, as the goods have become relatively more expensive than the same goods imported from another source (Sachs, 2007, p. 181-6). Karl and Gary (2004) argue that as a result, “agricultural exports—a labor-intensive activity particularly important to the poor—in particular are adversely affected” (p. 38). Ross’s (2000) conception of the modernization effect emphasizes a transformative effect on the populace: “if resource-led growth does not lead to higher education levels and greater occupational specialization, it should also fail to bring about democracy.” In other words, even though oil provides vast wealth, only wealth that results from greater development favors democracy (p. 337). The “modernization effect” thus contributes another important perspective to a unified theory of resource dependence.

Nonetheless, it would be nearsighted to focus exclusively on modernization. Ross (2000) alleges that “the modernization effect does not work through the state: it is a social mechanism, not a political one” (p. 337). Yet the state plays an important role in economic modernization. Using a game theoretical model, Thad Dunning (2005) attempts to explain the economic interaction of political elites and non-elites in resource-dependent countries. Dunning believes that elites recognize that promoting economic

development will endanger their power: “While [political elites] might like to promote diversification of the economy [to improve] aggregate economic performance, diversification may create a societal base of power outside of the control of political elites” (p. 452). Dunning identifies three types of possible resource-rich countries: “politically stable, economically flourishing, and possibly diversified,” “poor, resource-dependent, and fiscally volatile but politically stable,” and “diversified and economically growing but possibly politically unstable” (p. 457).

This research has possible implications for Venezuela, which fits into the second category. If Dunning’s analysis is applicable to countries outside of his case studies, it provides insight into the political motivations that lie behind elites’ economic decisions. Additionally, the model incorporates societal opposition to state elites and the existing level of non-resource economic development. However, there exist several weaknesses in Dunning’s paper. Although the paper focuses heavily on the behavior of elites, it reduces them to calculating players who make their choices scientifically. While a game-theoretical model is useful as a systematic approach to evaluate the decisions of perfectly rational actors, the processes of democratization and economic liberalization require a more subtle,

holistic approach. As Ross (2000) notes, “the rentier, repression, and modernization effects are largely complementary.... All three explanations, or any combination of them, may be simultaneously valid” (p.337). A unified theory of resource dependence in Venezuela requires a consideration of all plausible theories already set forth as well as the possibility of new explanations.

Oil in Venezuelan Politics

These theoretical models prove useful when they are combined with a nuanced treatment of the role of oil in Venezuelan politics. To give this context, articles such as that of Michael Shifter (2006) provide the empirical data necessary to evaluate theory. Shifter’s most notable observation is that “in exchange for Cuban teachers and doctors, Chávez furnishes the financially strapped island some 90,000 barrels of oil a day.” This single fact suggests elements of both the rentier effect and the modernization effect, the former because Chávez is “buying off” the people, and the latter because Chávez imports doctors rather than investing in training his own Venezuelans. Additionally, Shifter suggests a geopolitical motive: “[Chávez] has skillfully managed to establish himself as a global and regional leader, using oil money.” Unfortunately, Shifter does not thoroughly evaluate the numerous possible links between oil and failed democracy.

Further research is therefore necessary to create a model that considers the specifics of Venezuela and critically evaluates them in the context of theoretical explanations for the failure of democracy.

Considering the importance of oil to political development, any effective analysis of political relationships should necessarily extend from a comprehensive understanding of oil's place in Venezuela. With this knowledge, one can evaluate the locus of control within government more effectively and completely. Although it is commonly assumed that Hugo Chávez wields unchallenged authority, that which maintains his political status also threatens it the most. His control appears largely tied to PDVSA, the state owned oil company. Referring to the two-day coup that removed Hugo Chávez from the presidency, Sylvia and Danopoulos (2003) note, "the turmoil of April 2002 stemmed from Chávez's attempts to appoint members of the Board of Pdvsa [*sic*] loyal to himself. Shortly, after his return to power, Chávez withdrew the controversial appointments" (p. 72). Christian Parenti (2006) explains that "to move away from oil dependency and create development alternatives, Chávez must first control PDVSA—something no previous president has managed to do" (p.9). Thus, perhaps there are multiple centers of power within Venezuelan governance.

Political Choice and the Venezuelan Petro-State

The articles by Parenti and Shifter, respectively, do not engage in a more substantive explication of the exact relationship between power centers, and further research is needed to examine their interactions. Additionally, although oil is necessary to support Chávez's regime, neither author explores what might happen if the price of oil were to drop. A more thorough consideration of fatalism in this context might provide insight into the politics of both Venezuela and of other "resource-cursed" nations; essentially, one must consider whether political elites matter in a resource-rich country, or if the nation is condemned to a pre-ordained fate. Answering this question in the context of Venezuela requires a subtle analysis, as many scholars have misinterpreted the country's political dynamics by suggesting that a break with the past had occurred during Venezuela's democratic period of the late twentieth century.

Although the idea of "exceptionalism" has since been largely discredited, some experts on Venezuelan politics appear poised to misinterpret the country's historical trajectory once again. For example, Sheila Collins (2005) suggests that Hugo Chávez represents

a unique shift in Venezuelan history.³ Yet a careful evaluation of Venezuelan history and comparison with Venezuela under Chávez shows that his government represents the mere revival of *caudillismo* (rule by strongmen) and the continuation of resource dependency. Considering the underlying institutional causes of these problems, the country is unlikely to shift its path toward true democracy unless it ceases to rely on resource wealth. As Collier and Collier (1991) note, “a common understanding of change...is a cornerstone of comparative-historical research on development. It suggests what Paul A. David has called a ‘path dependent’ pattern of change, in that outcomes during a critical transition establish distinct trajectories” (p. 27). These path-dependent frameworks formalize an idea that might seem too obvious, that a nation’s formative conditions limit the paths that the nation’s political development can take later. Therefore, perhaps a path-dependent explanation applies, at least in part, in the cases of Venezuela and other resource-rich nations.

³ Ironically, those who believe that Chávez represents a shift in Venezuelan history appear to be the most adverse to the discredited Venezuelan exceptionalism thesis. For example, Collins (2005) believes that Chávez is “breaking the mold.”

**Venezuela's Transition to Democracy and the Signing of the
*Pacto de Punto Fijo***

Founded as a Spanish settlement during the sixteenth century, Venezuela's road to democracy has been long and perilous. Although revolutionary Venezuelans failed in numerous attempts to throw off Spanish colonial rule, Simón Bolívar finally succeeded in 1821. Bolívar led a revolution to free Gran Colombia, which consisted of present-day Venezuela, Ecuador, Panama, and Colombia and broke into multiple nations in 1831. Foreshadowing Venezuela's eventual political evolution, the revolution and independence also upset bureaucratic institutions, as "old methods of defining legitimacy and right were replaced by a new system based almost entirely on force" (Myers, 1990, p.289). Unfortunately, this did not bode well for Venezuelan democracy, as the nation suffered from instability and tyranny throughout much of the nineteenth and early-twentieth centuries ("Background Note: Venezuela"). As Venezuela became a source of commercial goods for the industrializing North American countries, its political development culminated with firm control by its ruthless and brutal leaders (Myers, 1990, p.290). These *caudillos* directed the nation in the absence of democratic institutions. As Lombardi (2003) explains, "the litany of caudillos and regime changes

throughout the period from José Antonio Páez until Juan Vicente Gómez serves as incontrovertible evidence of the fragility of the Venezuelan order” (p. 1). Yet as Lombardi also observes, Venezuelan politics of the 19th century was marked not only by a succession of ever-strengthening *caudillos*, but also by what he calls the “Hispanic extractive engine”: “Originally perfected in the eighteenth century to produce and export cacao, it expanded to encompass coffee through the nineteenth century” (ibid.). Thus, two of the country’s modern problems appear to have evolved through an integrated process: as the political culture evolved to favor rule by a *caudillo* or “strongman,” the *caudillo*’s power became inextricably linked to the extraction of resources.

During the early twentieth century, Venezuela could no longer compete in the international market for coffee, and it switched to the extraction of petroleum (Lombardi, 2003, p.1-2). This transformation of the economy had wide-reaching effects. Just as the 1831 revolution had upended colonial bureaucracy, “the petroleum-based ‘technological imperium’ overpowered the commercial bureaucratic system” (Lombardi, 2003, p.2). Once again, Venezuela’s weak institutions succumbed to external pressures, which Lombardi notes has been problematic since the departure of Spanish colonial rule: “as

Political Choice and the Venezuelan Petro-State

however innovative and creative the writers of constitutions and laws might be, they could not reinvent the traditional stability and effectiveness of the Spanish imperial institutions” (ibid.). Although the switch to oil “raised the stakes of the game,” it did not immediately alter Venezuela’s historical trajectory, as the country continued to suffer under the rule of *caudillos* (p. 3). Yet the events of the early-twentieth century eventually helped to steer the country away from traditional strongman rule. Venezuelan leaders who came after Juan Vicente Gómez realized the inability of the existing commercial bureaucracy to resolve conflict, so they experimented with democratic methods (Myers, 1990, p.291).

The transition to democracy progressed, although not without stops along the way. The political system experienced chaos in 1945 when “power was seized by youthful military officers in alliance with middle-class reformers from the interior” (ibid.). These groups thus founded the party *Acción Democrática*, (AD) which attempted to institute socialist reforms. As a result, “those with the most to lose abandoned the democratic experiment,” popularly-elected president Rómulo Gallegos was overthrown, and AD was outlawed. Col. Marcos Pérez Jiménez then rode an anti-Communist wave to power in 1952 and served as dictator until 1958 (ibid.). Yet Venezuelan

democracy appeared to have gained some traction. In 1958, the prospect for peaceful liberal democracy brightened: “Marcos Pérez Jiménez [was overthrown] in a massive popular revolt supported by liberal elements of the armed forces, the signing of the Punto Fijo Pact, and the writing of a new Constitution in 1961 that guaranteed social and political rights” (Collins, 2005, p. 369).

An “Exceptional” Democracy?

This “*Pacto de Punto Fijo*” appeared to institutionalize democratic rule and moderation. Although Venezuela had suffered under tyrannical rule for over a century, the political system now seemed to support stability and balance. In contrast to the *coups d'état* of the past, from 1959 until 1998 political power alternated between two major political parties, COPEI and AD, in a democratic process (“Background Note: Venezuela”). The relative stability of Venezuelan government compared to its neighbors led many scholars to speculate that Venezuela was an “exceptional” democracy (Ellner and Tinker Salas, 2007, p. 3). As Ellner (2003) notes, “some considered Venezuelan democracy largely unique for Latin America, and actually more comparable to the democratic systems of Western Europe” (p. 8). According to Ellner, scholars pointed to seven reasons that Venezuelan

politics were exceptional:

1. A two party system with minimum ideological differentiation....
2. Political leaders committed to democracy who avoided ultranationalist rhetoric....
3. A mature political leadership that, learning from past experiences, discarded sectarian attitudes and formed interparty agreements....
4. Major parties of multiclass composition with a predominately middle-class leadership....
5. An emphasis on party discipline within AD and COPEI....
6. A political system sufficiently open to provide attractive opportunities for junior coalition partners and other small parties....
7. Parties that were highly institutionalized rather than vehicles for ambitious leaders (Ellner, 2003, p. 8-9).

Yet all was not well within Venezuela. Even though military leader Hugo Chávez would not become president until 1998, his rise to power began with declining oil revenues in 1981. Venezuela's government relied heavily on oil for revenue to fund social services, and "by the late 1980s,...the government was no longer able to provide the level of social services it had during the oil boom years" (Collins, 2005, p. 370). Over the next decade, Venezuela's inability to support its largely-impooverished citizens led to the further decline of its two-party system. In 1989, riots in Caracas led to 200 civilian deaths, which would be termed the *Caracazo* (loosely translated, the "big smash in Caracas"). Three years later, Hugo Chávez cited this *Caracazo* as a

justification for his coup attempt in 1992 (“Background Note: Venezuela”). Although Chávez received a prison term, the impeachment and removal of President Carlos Andrés Pérez in 1993 ultimately resulted in Chávez’s pardon after two years and the beginning of his career in electoral politics. While COPEI and AD had dominated politics well into the nineties, the rise of Hugo Chávez and collapse of the two-party system exposed the shaky foundations of Venezuela’s pacted democracy and shattered ideas of exceptionalism.

Ellner discusses six different explanations for the breakdown of the *Punto Fijo* system, including party pacts, political party institutionalization, political learning, oil-exporting status, the system of proportional representation, and “multiclass” parties (Ellner, 2003, p.12-3). Arguably, oil-exporting status is a particularly significant factor, considering that the other five are largely temporal. While institutions, parties, and representational systems change easily with each *coup d’état* or reorganization of the state, it is difficult to imagine that Venezuela would willingly decide to stop exporting oil. Ellner explains that this oil-exporting status “held back political and economic development” and “encouraged the state to create a large, highly unproductive bureaucracy at the same time that it borrowed money from abroad to finance unrealistic...megaprojects.” Although

puntofijismo (the system of pacted democracy under the *Pacto de Punto Fijo*) appeared to represent an enlightened coda to years of mismanagement and tyranny, it merely represented a detour from *caudillismo* and hid the continuing centrality of resource extraction.

Discrediting scholars of the past who speculated that oil made Venezuela a uniquely stable democracy, Richard Hillman (1994) suggests that the connection between oil and democracy has been overemphasized (p. 51). Yet while Hillman is correct to assert that one cannot maintain a democracy through oil alone, he neglects the strong inverse relationship that exists between resource wealth and liberal democracy. An examination of Venezuelan democracy from 1959 to 1998 shows that while *puntofijismo*'s façade appeared democratic and stable, the nation most likely suffered from some combination of the five broad categories of resource effects that appear in the literature.

El Paquetazo

Ironically, petroleum's effect on pre-Chávez Venezuela becomes apparent through an examination of petroleum's disruption during the eighties. When oil prices plummeted in 1982, the foundation of the *Punto Fijo* regime began to crumble. As Karl (1997) explains, "the sharp drop in oil prices...forced an abrupt devaluation

of the bolívar and plunged the country into its worst recession in the postwar period, which sent the...government scrambling for new revenues” (p. 176). With Venezuelan debt reaching dangerously high levels, international banks began to insist that the country restructure its economy under an International Monetary Fund plan (p. 174). Although officials managed to postpone IMF austerity for a few years, in 1988 the banks finally demanded that Venezuela comply with the IMF as a condition of future lending (p. 178-9). After the economy collapsed in early 1989, second-term president Carlos Andrés Pérez negotiated with the IMF to create *el paquetazo* (“the big package”), which was a set of economic reform plans. These measures included “the elimination of nontariff barriers covering 94 percent of local manufactures, the reduction of tariffs from their average of 35 percent to a 1990 target of 10 percent, an increase in internal interest rates of up to 30 percent, [and] the reduction of the fiscal deficit to no more than 4 percent of GDP” (p. 180). *El paquetazo* led to dramatic effects, including a shrinking economy, rising unemployment, declining salaries, and inflation near 100%. In the absence of oil revenues “to smooth over the protests,” President Pérez faced increasing pressure to resign (p. 181). Finally, Hugo Chávez and a small group of rogue military leaders attempted to overthrow the government in 1992.

The Repression Effect?

These events first provoke an examination of the place of military and police forces within Venezuelan politics. Many scholars before 1992 concluded that the military would not intervene in Venezuela's stable pacted system (Hillman, 1994, p. 51), and in fact the military contributed to stability by stopping Chávez's coup attempt in 1992.⁴ However, after Chávez became president in 1998, the police played a role in the repression of Venezuelan citizens. Human rights observer Leo Casey (2005) notes that "demonstrations against [Chávez's] regime were violently attacked.... Fifty-five Venezuelans had died in such instances of street violence." Casey invokes the studies of Human Rights Watch and Amnesty International, which concluded that the National Guard and the police often mistreated or tortured demonstrators, even organizing death squads to subdue opponents of Hugo Chávez (p. 87-7).

Yet does this constitute a "repression effect"? Although the police have abused human rights, their actions do not match the definition of the effect, which is an increased ability to suppress dissent through higher levels of military or police spending (Ross, 2000, p.335). Data from Chávez's government do not provide any

⁴ Professor McConnell pointed this out.

convincing support for the effect: from 2001 to 2004, Venezuela's military spending as a percentage of GDP ranged between 1.17 to 1.75, with a downward trend over time. During the same period, many successful democracies spent more; for example, U.S. defense spending ranged between 3.1 and 3.98 percent, and Chilean defense spending ranged between 3.71 and 3.86 percent ("Defense Spending"). Military repression might play a greater role in the future, as Chávez has begun to create a new civilian reserve and increase spending on arms (Romero, 2007), although the "repression effect" appears an unlikely candidate to explain resource dependency's anti-democratic effects in Venezuela.

Democratic Failure under *Puntofijismo*

Perhaps focusing on Venezuelan institutions proves more helpful in explaining the failure of democracy. As Hillman (1994) explains, "paradoxically, the very institutions that have provided stability through difficult transitions in the past contribute to the conditions that provoke military factions to continue to attempt violent intervention into national politics" (p. 52). The reasons for stability that earlier scholars had posited (as catalogued by Ellner [2003]) provided the most trouble when oil revenues collapsed. In particular,

Political Choice and the Venezuelan Petro-State

“a two party system with minimal ideological differentiation,” “a mature political leadership that, learning from past experiences, discarded sectarian attitudes and formed interparty agreement,” and “major parties of multiclass composition with a predominately middle-class leadership” (p. 8-9) created a democracy with a hollow core, following the Colombian model.⁵ When the two major parties cooperated too extensively, provided no contrast, and shut disaffected groups out of the political process, true democracy did not provide the basis for Venezuelan government’s stability.

As the oil-price and debt crisis demonstrated, the relationship between citizens and their government had become unhealthy. Venezuelan presidencies were largely corrupt and favoritism was widespread; for example, “the government was using large contracts and credits to pay back contributors to Pérez’s 1973 campaign” (Karl, 1997, p. 148-9). This corruption allowed the Venezuelan government to produce an artificial kind of stability, by which political leaders would “paper over” demands with petroleum revenues. As Karl (1997) notes, “Venezuela’s democracy...was based on a pattern of public policies and state expenditures aimed at winning the support of

⁵ Professor McConnell explained that these characteristics match the Colombian model of democracy.

every major organized class or social group” (p.104). When these revenues were interrupted, the government’s debt increased substantially before an upheaval finally resulted. The state’s inability to deal with increasing demands suggests the “overextension” component of the “institution effect.”

These demands stemmed from the presence of the “rentier effect,” by which citizens interact with their government through patronage networks. There is evidence for each of the “rentier effect’s” three subsidiary effects within *Punto Fijo* Venezuela. The “taxation effect” is apparent through Venezuela’s unusually low income tax rates at the time. In 1985, Venezuela’s individual taxes made up 3.0% of government income, while corporate taxes brought in 48.9%. This contrasts with a successful democratic country such as Norway, whose individual and corporate taxes made up 7.7% and 16.9% of government income, respectively (Karl, 1997, p. 198). The “spending effect,” which represents another pathological connection between citizens and their government, also impeded democracy. Karl (1997) writes,

The reliance on oil money placed an especially high premium on gaining access to the state. Pact making, electoral outcomes, and the exercise of influence were the bases for the assignment of shares among contending forces, and political authority, not markets or custom, decided allocations (p. 104).

Political Choice and the Venezuelan Petro-State

Even non-state groups became tainted by oil money, suggesting the third component of the “rentier effect.” This “group formation effect” is apparent through “[labor unions having] a strong stake in capturing subsidies from petroleum” (Karl, 1997, p. 99-100). Through these extensive patronage networks, politics and civil society were defined by oil rather than taxation and accountability.

The turmoil of the eighties and nineties also made apparent one of the “modernization effect’s” key components, which is reliance upon an inherently volatile natural resource. Humphreys, Sachs, and Stiglitz (2007) note that “in the oil price booms of the 1970s, [Venezuela] mortgaged [its future] by borrowing against booming oil revenues, only to end up in a debt crisis when oil prices fell in the early 1980s” (p.8). Because of the high volatility of these revenues, planning was more difficult, and political leaders subject to the whims of the electorate often dispensed with sensible growth plans. As a result, politicians often satisfied the ever-increasing demands of their clients by borrowing against future oil revenues (ibid.). While this might work during boom periods caused by a high oil price, a resource-dependent country faces fiscal insolvency and political instability during “busts.” Karl notes that although petro-states appear

stable, it is a “hollow stability.... The sudden collapse of the party system in Venezuela portends the types of dramas waiting in the wings” (Karl, 2007, p. 269). Humphreys, Sachs, and Stiglitz (2007) conclude that oil revenues thus caused “boom-bust” cycles, in which the benefits of booms were fleeting, yet the difficulties of busts endured (p. 8).

The “group formation effect” is also closely intertwined with this element of the “modernization effect”: under such an erratic economic cycle, development and education often come last, precluding the formation of non-state groups. During *puntofijismo*, “Venezuela...experienced real per capita income plunging back to the level of the 1960s and 1970s” (Karl, 2007, p. 267-8). After the introduction of IMF reform measures, poverty worsened, and “by 1989, the number of households living below the poverty line had increased tenfold since 1981” (Karl, 1997, p. 179). The striking poverty of Venezuelan citizens made them ineffective practitioners of politics and civil society, further impeding democracy.

Volatility and economic reform were not the only impediments to non-state, non-petroleum institutions, as macroeconomic factors also played a role in Venezuela, specifically the “Dutch Disease” mentioned earlier. The currency appreciation that results is a grave

concern, because “a squeeze of the non-oil tradable sector might...also have special adverse consequences for income distribution, particularly hurting the poorest of the poor” (p.184). Although Sachs concludes that this occurs less than usually supposed, he points us to a greater worry: “the non-oil export sector [might] be squeezed, thereby squeezing a major source of technological progress in the economy. But this fear is vastly overblown if the oil proceeds are being properly invested as part of a national development strategy” (ibid.). Yet despite Venezuela’s efforts during the early seventies to reinvest petroleum revenues in industry, the state reinforced the centrality of its power by directing these plans (Karl, 1997, p. 112), and “oil still provided 90 percent of export earnings, 65 percent of government income, and 20 percent of GDP” (p.113). Although Venezuela tried to fight against the deleterious effects of natural resource wealth, it failed miserably.

Conclusion: Is Chávez’s “Fifth Republic” a New Path or an Old Road?

Unfortunately, the presidency of Hugo Chávez represents a return to the *caudillismo* that has characterized most of Venezuelan rule. Chávez is actively consolidating his presidential power, which

further marginalizes liberal democracy. For example, Chávez “revised the rules of congress...[to expand] the Supreme Court from 20 to 32 justices and filled the new posts with...Chavistas” (Corrales, 2006, p. 33). Chávez also directly controls the military and the National Electoral Council, the latter of which now publishes lists of voters and their “political tendencies” online (p. 34-5). The regime’s power over its people is almost completed through the prohibition of “showing ‘disrespect’ toward government officials” (p. 34).

Chávez’s autocratic control of government is made possible largely through the resource dependence that characterized the *Punto Fijo* regime. Patronage continues under the new presidency: as Javier Corrales notes, “A Chávez-controlled oil industry allows the state to spend at will, which comes in handy during election season” (ibid.). Additionally, the institutions that might ensure the equitable distribution of resources have not been created. Although Venezuela technically has a Natural Resource Fund, it has proven to be an inadequate solution. As Humphreys and Sandpu point out, “in practice, NRFs and similar institutions rarely make it any easier to accumulate large amounts of money..., reflecting the fact that the incentives surrounding the choices of politicians do not conform to this idealized [system]” (Humphreys and Sandbu, 2007, p.199).

Political Choice and the Venezuelan Petro-State

Chávez has also not departed from the “modernization effect” that has long plagued Venezuela. Rather than liberalizing the economy to support private economic development, he instead relies on oil revenues to fund his social programs. Socialist initiatives such as the exchange with Cuba of oil for doctors ensure that Venezuela’s poor, who comprise a majority of the population, remain firmly in Chávez’s corner. Ironically, the social programs that maintain Chávez’s electoral support have done little to alleviate poverty. For example, the government’s takeover of hundreds of thousands of acres of private land held significant symbolic importance to the poor, yet impoverished citizens are not actually receiving land or benefits as a result (Corrales, 2006, p. 37). New York University Professor Jorge G. Castañeda reports that “Venezuela’s poverty figures and human development indices have deteriorated since 1999, when Chávez took office” (Castañeda, 2006, p. 28-43). More specifically, “poverty rose from 43 to 54 percent during Chávez’s first four years in office,” and “despite the record oil profits that are funding social spending, [Chávez’s] initiatives have yielded only very modest gains” (Shifter, 2006). Humphreys, Sachs, and Stiglitz (2007) support this conclusion, noting that “approximately half the population of Venezuela—the Latin American economy with the most natural resources—lives in

poverty; historically, the fruits of the country's bounty accrued to a minority of the country's elite" (p. 2). Although Chávez seizes land and imports doctors with great fanfare and popular support, his programs serve only to perpetuate the country's resource dependency.

Yet how important are these elite decisions in the context of Venezuelan history and resource dependence? In other words, what if a reformer president attempted to diversify the economy, break the patronage networks, and instill true democracy? Karl (1997) suggests an answer to this question when she explains that "even presidents blessed by wealth...form their preferences and make their decisions within the framework of a state that encourages some options over others, awards some choices more than others, and blocks some actions temporarily or permanently" (p. 72). The unqualified failure of previous reform attempts provides convincing support for this assertion. Although there is little motivation today to diversify the economy, the small efforts that Venezuela made during the seventies merely increased state power (p. 112). This appears to be a reflection of the *caudillismo* that characterizes the country's rule. Rather than encourage independent social and economic development, Venezuela has always reverted to its historical pattern of relying on some central power to dictate answers to its problems.

Political Choice and the Venezuelan Petro-State

At the same time, this central power is not unqualified and unlimited, as two reform attempts by Carlos Andrés Pérez demonstrate. During the early 1970s, President Pérez ordered a reduction in oil production and created a natural resource fund with the goal of using tax revenues to replace petrodollars. Yet loud protest, weak institutions, and the ensuing presidential campaign quickly eschewed these plans (Karl, 1997, p. 131-2). Although one could argue that the problem was Pérez's lack of political will, his disastrous IMF-forced economic reform in 1988 suggests that it was the patronage networks and political culture of Venezuela that stood in the way of change. The ensuing riots, political pressure, and coup attempt imply that Pérez faced a narrowly constrained set of political options. Although he probably would not have decided to restructure Venezuelan institutions if the IMF had not forced him, the political pressure and upheaval that followed made it clear that regardless of what political elites wanted or international bodies forced, reform was not even an available option.

Today, Hugo Chávez is in a similar position. Despite Sheila Collins's overblown rhetoric about Chávez's "defiance of the neoliberal agenda," perhaps a more accurate assessment would be his non-defiance of the *caudillismo* and resource dependency of the past.

Insights

Chávez may be the strongman president of Venezuela, but the country's history is the king. Although it might be difficult, consider a scenario in which petroleum is discovered in another country or scientists improve renewable energy. The resulting drop in oil prices would expose the weakness and inefficacy of government that petroleum had long concealed. Unable to satisfy the people's clientelistic demands, the presidency of Hugo Chávez or any other leader would soon be over. From this, one can therefore conclude that while Venezuelan history compels the country to demand a single central decision-maker, this decision-maker must ultimately submit to the limits that resource dependency imposes. The case of Venezuela thus has possible implications for other Latin American countries and for resource-rich countries in general. The enduring failure of Venezuela's democracy suggests that wide swaths of Africa and the Middle East likely face significant if not insurmountable obstacles to successful democratization.

References

- Background Note: Venezuela. (2007). U.S. Department of State Bureau of Western Hemisphere Affairs. Available <http://www.state.gov/r/pa/ei/bgn/35766.htm>. Accessed 09/17/2007.
- Bienvenidos al IESA. (2007). Available <http://www.iesa.edu.ve>. Accessed 09/18/2007.
- Casey, L. (2005). Venezuela under Chávez: Some truths are not all that complicated. *Dissent*, Vol. 52, No. 3.
- Castañeda, J. G. (2006). Latin America's left turn. *Foreign Affairs*, Vol. 85, No. 3.
- Collier, R. B. & Collier, D. (1991). *Shaping the Political Arena*. Princeton, New Jersey: Princeton University Press.
- Collins, S. D. (2005). Breaking the mold? Venezuela's defiance of the neoliberal agenda. *New Political Science*, Vol. 27, No. 3.
- Country Analysis Briefs: Venezuela: Oil. (2007). Energy Information Administration. Available at <http://www.eia.doe.gov/emeu/cabs/Venezuela/Oil.html>. Accessed 11/19/2007.
- Corrales, J. (2006). Hugo boss. *Foreign Policy*, No. 152.
- Defense Spending. (2007). GlobalSecurity.org. Available at <http://www.globalsecurity.org/military/world/venezuela/budget.htm>. Accessed 12/9/2007.
- Diamond, L. (1999). *Developing democracy: Toward consolidation*. Baltimore: The Johns Hopkins University Press.
- Dunning, T. (2005). Resource dependence, economic performance, and political stability. *Journal of Conflict Resolution*, Vol. 49, No. 4.

- Ellner, S. (2004). Introduction. In S. Ellner and D. Hellinger, eds., *Venezuelan politics in the Chávez era*. Boulder, CO: Lynne Rienner Publishers.
- Ellner, S. & Tinker Salas, M. (2007). The Venezuelan exceptionalism thesis: Separating myth from reality. In S. Ellner and M. Tinker Salas, eds., *Venezuela: Hugo Chávez and the decline of an "exceptional democracy"*. Lanham, Maryland: Rowman & Littlefield Publishers, Inc.
- Fish, M. S. (2005). *Democracy derailed in Russia: The failure of open politics*. Cambridge: Cambridge University Press.
- Hillman, R. S. (2004). *Democracy for the privileged: Crisis and transition in Venezuela*. Boulder, CO: Lynne Rienner Publishers.
- Humphreys, M., Sachs, J. D., & Stiglitz, J. E. (2007). Introduction: What is the problem with natural resource wealth? In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds. *Escaping the resource curse*. New York: Columbia University Press.
- Humphreys, M., & Sandbu, M. E. (2007). "The political economy of natural resource funds. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the resource curse*. New York: Columbia University Press.
- Huntington, S. P. (1991). *The third wave: Democratization in the late twentieth century*. Norman, Oklahoma: University of Oklahoma Press.
- Karl, T. L. (2007). Ensuring fairness: The case for a transparent fiscal social contract. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the resource curse*. New York: Columbia University Press.
- Karl, T. L. (1997). *The paradox of plenty: Oil booms and petro-states*. Berkeley, CA: University of California Press.

Political Choice and the Venezuelan Petro-State

- Karl, T. L., & Gary, I. (2007). The global record. Foreign policy in focus petropolitics special report, January 2004. Available at <http://www.fpif.org/pdf/petropol/ch4.pdf>. Accessed 11/10/2007.
- Lombardi, J. V. (2003). Prologue: Venezuela's permanent dilemma. In S. Ellner & D. Hellinger, eds., *Venezuelan politics in the Chávez era: class, polarization & conflict*, ed. Boulder, CO: Lynne Rienner Publishers.
- McCoy, J. (2005). One act in an unfinished drama. *Journal of Democracy*, Vol. 16, No. 1.
- Mehlum, H., Moene, K., & Torvik, R. (2006). Cursed by resources or institutions? *The World Economy*, Vol. 29, No. 8.
- Myers, D. J. (1990). Venezuela. In H. J. Wiarda & H. F. Kline, eds., *Latin American politics and development*. Boulder, CO: Westview Press.
- Parenti, C. (2006). Venezuela's revolution and the oil company inside. *NACLA report on the Americas*, Vol. 39, No. 4.
- Romero, S. (2007). Venezuela spending on arms soars to world's top ranks. *The New York Times*, 2/25/2007. Available <http://www.nytimes.com/2007/02/25/world/americas/25venez.html>.
- Ross, M. (2000). Does oil hinder democracy? *World Politics*, Vol. 53, No. 1.
- Sachs, J. D. (2007). How to handle the macroeconomics of oil wealth. In M. Humphreys, J. D. Sachs, & J. E. Stiglitz, eds. *Escaping the resource curse*. New York: Columbia University Press.
- Shifter, M. (2006). In search of Hugo Chávez. *Foreign Affairs*, Vol. 85, No. 3.
- Skocpol, T. (1982). Rentier state and Shi'a Islam in the Iranian revolution. *Theory and Society*, Vol. 11.

Insights

Sylvia, R. D. & Danopoulos, C. P. (2003). The Chávez phenomenon: political change in Venezuela. *Third World Quarterly*, Vol. 24, No. 1.

Tompson, W. (2005). The political implications of Russia's resource-based economy. *Post Soviet Affairs*, Vol. 21, No.4.

Zakaria, F. (2004). *The future of freedom: Illiberal democracy at home and abroad*. New York: W.W. Norton & Company.