

# BTI 2010 | Venezuela Country Report

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	27.5	HDI	0.84	GDP p.c.	\$	12156
Pop. growth	% p.a.	1.7	HDI rank of 182	58	Gini Index		43.4
Life expectancy	years	74	UN Education Index	0.92	Poverty <sup>2</sup>	%	10.2
Urban population	%	93.0	Gender equality <sup>1</sup>	0.58	Aid per capita	\$	2.6

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Venezuelans rank highest in Latin America with regard to generic support for democracy as a form of government but drop to the bottom when asked to choose between democracy and their pocketbook. These shallow democratic convictions are vulnerable to autocratic movements like that of current President Hugo Chavez. As a marketing tool, Chavez's autocratic "road map" employs two principle political slogans, the "five constitutional engines of the revolution" and the "three Rs." While the latter simply transformed the worldwide green proposition (Reduce, Reutilize, Recycle) into "Revise, Rectify, Reimpulse" in response to Chavez's defeat in the 2007 referendum on constitutional reform, the former sums up Chavez's basic philosophy of governance. The five engines include the following: an "enabling law as a direct road towards socialism," which Chavez has already put into practice; constitutional reform, which was turned down by popular vote in 2007; an "education with values," meaning the imposition of a "Bolivarian curriculum" in schools (this was blocked by strong public opposition); a "new power geometry allowing the socialist restructuring of national geopolitics," which translates into a recentralization of power as a response to electoral defeat in some regions and the capital (this is currently under way); and the "explosion of communal power" as a top-down answer to the challenge of what remains of bottom-up local autonomy.

Venezuela is on its way towards the imposition of so-called 21st century socialism. President Chavez accelerated the pace of his socialism reforms after the defeat of his proposed constitutional amendment in December 2007. The first phase of this process was the state seizing control of strategic sectors of the economy. After taking over CANTV (telecoms), EDC (electricity), SIDOR (steel) and three cement companies, the state is now taking steps to control the food production, processing and distribution chains. The state pursues a policy of establishing "social" property as the dominant form of property, although it does not hand the firms and farms it seizes to the workers, but transforms them into "social production enterprises" under centralized state management. This management is answerable directly to the president.

Consequently, the business environment is increasingly hostile to private activity and investment. The dependence of economic performance on the price of oil forces the government to scale down spending for social policy and direct transfers, which results in a contraction of private consumption. As protest actions spread, the state will grow increasingly repressive.

Economic policy has not addressed the country's main problems, which include fiscal laxity and an unattractive business environment. Venezuela is more dependent on oil revenues than ever. Soaring inflation, poor performance in the creation of qualified employment and a vulnerable balance of payments position make the government's current policies unsustainable. Tough adjustments will be required in the future.

President Chavez recruits his team from a limited pool of close allies, who are continuously rotated through cabinet posts. The team's management style is characterized by a strategy of command and surprise. This strategy begets policies that lack continuity and forestalls all political debate and negotiation. The absence of reliable patterns of policy formulation and implementation is one of Venezuela's main obstacles to development.

The centralization of decisions, a top-down approach to policy-making, the erosion of vertical power-sharing as a necessary complement to the concentration of power in the hands of the president, progressive deinstitutionalization at all levels, the ideological alignment of education and science, and increasingly paternalistic relations between the state and society are likely to characterize Venezuela's political development in the near future.

## History and Characteristics of Transformation

For most of the latter half of the 20th century, Venezuela was a showcase of democracy in Latin America. In the 1960s, the emerging "revolution in democracy" fought back several coup attempts from left and right and managed to transform communist guerrillas into democratic actors. A kaleidoscope of political parties amalgamated into a bipartisan system with near-proportional representation of minority parties. The system was based on elite conciliation; divided government was the rule. In the 1970s and 1980s, Venezuela was an example for other emerging regional democracies. Hence, the decline and fall of Venezuela's party democracy in the 1990s, the subsequent rise of a populist caudillo, and the danger of authoritarianism are matters of regional importance.

Oil has been a major determinant of Venezuela's economic, political and social transformation ever since the second quarter of the 20th century. Over the course of just one generation, oil catapulted Venezuela from the bottom to the top ranks of modernized countries in Latin America. These resources allowed Venezuela to keep its currency stable and to achieve average growth rates of over 7% from the late 1920s through the 1970s. The petroleum business accounts for between one-fourth and one-third of the country's GDP, 80% or more of its export earnings, and over one half of the central government's operating revenues.

During the last century, Venezuela's economic vision oscillated between a rent-seeking and a productive paradigm, and from the 1930's dream of "sowing the black gold" to the "Great Turnaround" of the late 1980s. Such economic inconsistency left the country in a morass of populist spending, soaring public debt and corruption. When President Perez announced the outlines of a tough macroeconomic adjustment package in February 1989, spontaneous popular protest degenerated into widespread riots, which the military cruelly repressed.

The rebellion and its repression provided a group of conspiring army officers centered around Lt. Colonel Chavez with a pretext for staging two coup attempts in 1992. After President Perez's impeachment on corruption charges in 1993, the adjustment package was scrapped by the successive administrations of Presidents Velasquez (1993-94) and Caldera (1994-1999).

Chavez's election to the presidency in 1998 and a new constitution drafted by an overwhelmingly pro-Chavez Constituent Assembly and adopted by referendum in 1999 marked the beginning of regime change. An impressive series of electoral victories handed Chavez control of almost all publicly elected offices in the country and strengthened his image as a democrat.

The 1999 constitution emphasizes four governmental principles: plebiscitary democracy, concentration of power, re-centralization of the state and a social market economy regulated by the state. The constitution outlines a system of checks and balances, but in practice they are ineffective at preventing the massive accumulation of executive authority. Contrary to the rules set out in the fundamental law, Chavez packed three of the five branches established under the constitution – the judiciary, the electoral council, and the citizens' power (which consists of the public prosecutor, office of the comptroller and the peoples' advocate) – with government supporters. The 90% pro-Chavez legislature, a result of parliamentary elections in November 2005 that were boycotted by the opposition parties and drew a meager turnout of around 20%, rubber-stamps the president's proposals. The result of this concentration of presidential power is a regime type that perfectly fits the definition of an autocracy.

Chavez scored one more sweeping victory in the presidential election in December 2006. In his concession speech, opposition candidate Rosales voiced serious doubts about the free and fair nature of the election. The reports of observer missions sent by the European Union and the Organization of American States echoed these concerns.

Chavez's string of resounding victories at the polls was broken in 2007 when he lost a constitutional referendum that would have abolished term limits and set up a socialist regime. Electoral setbacks continued in the regional and local elections of 2008, when Chavez's alliance lost some important bastions, including the capital Caracas. Defeat in the referendum did not stop the president's accelerated push toward what he calls 21st century socialism. An enabling law passed by parliament allowed Chavez to advance this agenda with a package of decrees in mid-2008, which legalized most elements of the defeated 2007 referendum.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, but it is no longer unchallenged even in the capital. Vigilante commandos have emerged in some Caracas neighborhoods. They control access to their areas and coordinate illegal activities such as drug trafficking. They call themselves "security collectives," are heavily armed, and are tolerated by the government. The government affords these groups absolute impunity despite their publicly acknowledged bomb attacks against government critics in the media, the headquarters of the employers' association and the Vatican Embassy, where a student protest leader resides in exile.

Monopoly on the use of force

Vast stretches of territory along the Colombian border harbor FARC and ELN guerrillas. These guerrillas control these enclaves without any interference from Venezuela's security forces, suggesting tacit official approval of their activities. Furthermore, extrajudicial killings by security forces have continued to increase. Since Chavez took power, crime rates have risen steeply. Murder rates are now at over 50 per 100,000 inhabitants nationwide and over 130 in Caracas. These increasingly dire statistics are primarily the result of official negligence. Over 95% of homicide cases, for example, are not prosecuted. In general, this spike in crime poses a threat to the state's monopoly on the use of force.

The 1999 constitution strengthened the rights of ethnic minorities by granting them cultural and a (limited amount of) territorial autonomy and representation quotas at the national, regional, and local levels. Some of these ethnic communities who live near the Colombian border do not identify themselves primarily as Venezuelans, as they hold Colombian as well as Venezuelan citizenship.

State identity

Venezuela's constitutional order, legal norms and social practice all follow the country's long-standing secular tradition. While evangelical sects and groups continue their expansionary course in poor neighborhoods and rural areas, Catholicism is still the dominant religious faith among the population.

No interference of religious dogmas

The structure of public administration covers almost all of Venezuela's territory, but its operation is to some extent deficient, mainly because of poor management and even poorer qualifications of public servants. Managers at all levels are rotated with high frequency; at the top level it is rare to see a cabinet member holding the same job for even a year. The state appoints the leading managers from a narrow pool of candidates, which includes a very limited number of loyal, rather than competent, Chavez cronies. As a consequence, the administrative action at the practical, public level tends to be unfocused, inconsistent and unpredictable.

Basic  
administration

## 2 | Political Participation

Elections and referenda are the means of filling parliamentary and executive offices at all levels and decide or legitimate important political matters. Serious constraints on the freedom and fairness of such processes exist and became even more manifest in the constitutional referendum of 2007 and the regional and local elections of 2008. In both campaigns, the government pressured public servants to show up for voter mobilizations – they had to sign control lists – and conveyed them in trucks to cast their votes for the official options. Chavez's administration used taxpayers' money to finance his side's campaign advertisements and mobilizations. At the same time, the official media granted virtually no time and space for opposition spots. The electoral authority, which is dominated at the ratio of four to one by loyal government nominees, did not see any wrongdoing on the part of officialdom, although the dissenting member offered proof of extreme bias in state media. Furthermore, some opposition candidates were excluded from the regional elections of 2008.

Free and fair  
elections

The regime qualifies as an electoral autocracy. President Chavez concentrates the effective power to rule in his hands. Checks and balances do not exist. The National Assembly simply echoes the president's proposals; the supreme court sees its role as the judicial spearhead of the revolution; the audit office is focused on looking for administrative problems in the few opposition local and regional governments; and the electoral authority bows to the president's wishes even when they run counter to constitutional norms.

Effective power to  
govern

The freedom of association and the right to assemble freely are enshrined in the 1999 constitution, in the same terms as it was in the 1961 fundamental law. A huge gap exists, however, between paper and practice. Constraints on the freedom of assembly include outright prohibitions of opposition demonstrations, which the state justifies by claiming that official mobilizations were announced earlier in the same areas. There are also open threats against public servants should they dare to join organizations critical of the government, sign manifestoes or participate in opposition campaign rallies or demonstrations. At the same time, public servants

Association /  
assembly rights

are urged to join the official party, sign its manifestoes and participate in its campaign or other rallies; to make sure they obey, the government compels them to appear at checkpoints and sign lists if they want to avoid harassment.

Freedom of expression, though a constitutional guarantee, is under severe pressure in Venezuela. Media that criticize the government face permanent verbal attacks by official spokesmen, including the president, and physical attacks by officially tolerated vigilantes. Critical journalists suffer judicial harassment, intimidation, physical attacks and even killings. The Inter-American Court of Human Rights has repeatedly asked the government to guarantee freedom of expression and to protect human rights organizations against harassment and intimidation. Human Rights Watch, a New York-based NGO, recently criticized the government's tolerance for attacks against the freedom of expression, which constitutes a major human rights violation. When the organization's director for America presented the report in Venezuela, he was immediately expelled by presidential order. The Law on Social Responsibility of the Media advanced rather than discouraged the intimidation and harassment of critical voices and the criminalization of dissent. This so-called muzzle law breeds self-censorship and violent action on the part of government friendly, and manifestly tolerated, fundamentalist vigilantes.

Freedom of  
expression

### 3 | Rule of Law

The separation of powers exists only on paper. De facto, the legislature and the judiciary act as presidential rubber stamps. Two recent events illustrate the situation. In late 2008, a disgruntled president publicly attacked two Human Rights Watch representatives as "envoys of imperialism." They had presented a report exposing serious human rights violations under the Chavez administration. The government immediately detained and expelled them. Only hours later, the National Assembly convened to issue a declaration supporting their expulsion on the grounds that they violated Venezuela's national sovereignty, meddled with its internal affairs and assaulted the president's and the people's dignity. Also in 2008, the Inter-American Court of Human Rights ruled that three superior judges, who had been fired because they had repeatedly ignored official "guidance," must be restored to their positions. The ruling expressly criticizes Venezuela's Supreme Court for yielding to presidential pressure in its decision to remove them. Under renewed presidential pressure, the Supreme Court dutifully ruled, with unusual swiftness, that it would not comply with the IACHR ruling. The Organization of American States condemned the sentence as an act of contempt.

Separation of  
powers

Venezuela's judiciary is institutionally differentiated, but its independence is under siege, mainly due to the lack of secure tenure for a huge proportion of judges and the manifest partiality of nearly all Supreme Court magistrates. In his report

Independent  
judiciary

published in 2008, the special rapporteur on the independence of judges and lawyers of the U.N. Secretary-General expressed concern over judicial independence in Venezuela.

Venezuela is one of the most corrupt countries, even though public opinion does not register corruption as a major concern. Despite widespread allegations and manifest cases of graft, the state has taken no legal action against officeholders as long as they are loyal to the “process.” If they dare to dissent, as did some high-ranking elected officials, they are immediately accused of malfeasance and investigated. A case in point is that of former governor Manuitt of Guarico State, who as a loyal Chavez follower was acquitted of corruption charges by parliament when in office. In the 2008 regional election campaign, blocked from running again by legal term limits, he failed to secure the president’s support for his daughter and defied the official nominee who eventually won the election. Mr. Manuitt is now under investigation for exactly the same charges for which he had been previously been acquitted.

Prosecution of  
office abuse

Civil rights are partially violated in Venezuela. According to human rights defenders PROVEA, extrajudicial killings by security forces are increasing, repression of protest mobilizations is more frequent and more violent, violent crime continues to rise unchecked, not least as a consequence of rampant impunity, vigilante groups flourish, and lynching has become more common.

Civil rights

#### 4 | Stability of Democratic Institutions

The absence of checks and balances influences the performance of Venezuela’s institutions, which were designed as democratic but are in practice subject to the president’s often erratic or even sibylline intentions. A case in point is President Chavez’s call for a constitutional referendum on the abolition of term limits in response to the symbolic blow he received in the November 2008 regional and local elections. The same proposition had been part of the constitutional reform proposed by Chavez in 2007, which a majority of Venezuelans rejected in December that year. This meant that the reform was constitutionally blocked from being introduced again during his current term. The Supreme Court ruled, with its customary swiftness when presidential matters are concerned, that the rejection of the proposed amendment by popular vote had been generic as the term limit proposal had been part of a package, and that the president was entitled to raise the question again in another referendum during his current term. In a preemptive action, the election authority – never in doubt of the Supreme Court’s ruling – had already started preparations for the referendum before it was declared constitutional. The legislature hastened to approve the additional budget the electoral authority required for organizing the referendum. Three power branches, thus, swiftly rubber-stamped the president’s proposal in less than a month.

Performance of  
democratic  
institutions

No veto players exist in Venezuela. Since the adoption of the 1999 constitution, politicians' positions on the constitution have shifted fundamentally. Many of those who had been critics when the text was first discussed have now switched to defend it. In the meantime, the constitution's erstwhile supporters are now keen on amending it or throwing it overboard, because they see the rights enshrined in it as obstacles to the authoritarian goal of 21st century socialism.

Commitment to democratic institutions

## 5 | Political and Social Integration

The outstanding characteristic of Venezuela's party system is polarization between a leader-focused official movement and a highly fragmented opposition camp. In the 2008 regional and local elections, the official United Socialist Party and its allies received about 54% of the vote and about 80% of the electoral positions. With about 46%, the opposition camp prevailed in some highly symbolic places where they campaigned as a united front, among them the capital Caracas. In a parliament dominated by the United Socialist Party (84%), the effective number of parties is 1.4. In Venezuela's present situation, the above-mentioned polarization splits society in two hitherto irreconcilable camps of roughly one-third each, with the rest caught in the middle. Little space exists for interest representation or aggregation. The president's Manichean discourse, which treats those who do not support him as traitors and lackeys of imperialism, does nothing to help unite the country.

Party system

Interest group networks exist, especially in the area of the defense of human rights and freedoms. Nonetheless, government-sponsored communal councils, which should be bottom-up organizations involved in the formulation, implementation and evaluation of public policies at the local level, are in fact controlled by the National Presidential Commission for Popular Power. This commission acts as a conduit of presidential power and is responsible for legalizing and coordinating the councils, as well as approving funds for projects. Trade unions and business associations are split into pro- and anti-government federations, which complicates genuine interest representation.

Interest groups

According to recent Latinobarómetro data, Venezuelans continue to express among the highest consent to democracy as a form of government (82%). On the other hand, as long as the ruler manages to solve pressing problems people tend to express considerable approval of non-democratic rule. In other words, part of the consent to democracy is not solidly based on principle but is rather determined by pocket-book issues. This throws a considerable shadow over the quality of the generic consent.

Consent to democratic norms

Venezuela continues to be a low trust society. Latinobarómetro found a decrease from 29 to 26% in interpersonal trust in the period under assessment. On the other hand, a fairly strong and vivid associational life is reflected in the existence of

Associational activities

thousands of civil organizations of all kinds. Participation in community groups that share responsibilities in local affairs has increased, although the supposedly grassroots approach is in fact embedded in a centralized architecture, as community councils and roundtables depend on a central presidential commission for project approval and funding.

## II. Market Economy

President Chavez is pushing Venezuela towards an economic system he calls 21st century socialism. He continued in this direction despite suffering defeat on his proposed constitutional amendment in December 2007. Government takeover of strategic sectors of the economy is the top priority in this socialist agenda. The Chavez government reversed the privatization of the national telecoms company and took over electric, steelmaking, and cement companies. Next on the agenda is seizing control over the food production, processing and distribution chains.

The government pursues a policy of establishing the hegemony of social over private property. Social property is in essence centralized state property as the farms and firms the state takes over in order to establish “social property enterprises” are not handed over to those who work there but managed from the center. As a consequence, Venezuela’s economic environment is increasingly hostile to private activity, including investment. This comes at a time when falling oil prices warrant an open door policy of promoting and welcoming investors.

To make things worse, the Venezuelan economy’s dependence on oil prices has forced the government to scale back spending for social policy and direct transfers. Private consumption is posed to contract, which is likely to trigger social unrest. As protest actions increase in number and intensity, repression will have to be scaled up. All this bodes ill for the social peace of Venezuelans in the coming years.

### 6 | Level of Socioeconomic Development

Although Venezuela’s Human Development Index has continued its moderate upward trend of the past, its rank has not improved. Income distribution measured by the GINI coefficient has improved slightly, from 0.482 when Mr. Chavez took the helm to 0.479 according to the recently published Report on Family Budgets of the central bank. Nevertheless, such improvement conceals a widening of the gap between the poorest and the richest deciles: while the richest enjoyed about 14 times the income of the poorest in 1998, this gap has widened twofold to 27 times according to the same report. Poverty has declined in relative terms, from 29% in 1999 to 23% in 2007, but remained static in absolute terms, as according to the

Socioeconomic  
barriers

most recent official statistics about 1.5 million Venezuelan families still belong to the group exposed to unsatisfied basic needs. Survey data reveal high association coefficients between party identification and being the beneficiary of social assistance. This suggests a change from systemic exclusion due to insufficient coverage to systematic exclusion on political grounds.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	112451.6	145513.5	184508.5	<b>228070.8</b>
Growth of GDP	%	18.3	10.3	10.3	<b>8.4</b>
Inflation (CPI)	%	21.8	16.0	13.7	<b>18.7</b>
Unemployment	%	13.9	11.4	9.3	<b>7.5</b>
Foreign direct investment	% of GDP	1.3	1.8	-0.3	<b>0.3</b>
Export growth	%	13.7	3.8	-4.5	<b>-5.6</b>
Import growth	%	57.7	35.2	31.1	<b>33.6</b>
Current account balance	\$ mn.	15519.0	25110.0	27149.0	<b>20001.0</b>
Public debt	\$ mn.	26133.3	30927.5	27159.2	<b>27494.2</b>
External debt	\$ mn.	39344.2	45702.6	44613.7	<b>43148.3</b>
Total debt service	% of GNI	6.7	4.0	5.4	<b>2.6</b>
Cash surplus or deficit	% of GDP	-1.3	2.2	-	-
Tax Revenue	% of GDP	12.9	15.5	-	-
Government consumption	% of GDP	12.0	11.1	11.6	<b>11.9</b>
Public expnd. on edu.	% of GDP	-	-	3.6	<b>3.7</b>
Public expnd. on health	% of GDP	2.3	2.0	2.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.4	1.6	<b>1.3</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The fundamentals of market-based competition are under heavy stress. The government controls a vast scope of retail and service prices. It has tightened its control over exchange and pushed part of imports to the parallel exchange rate, which contributes to fuel inflation. This adds to the mounting difficulties for starting a business. Others include the country's crumbling infrastructure, the hegemony of so-called collective or state-owned businesses over private enterprises, and the mounting state takeovers and expropriations. The informal or shadow economy still employs just a little less than one-half of the labor force who are excluded from social security coverage. The following comparative rankings of Venezuela's economic order underscore this picture: Growth Competitiveness Index, World Economic Forum, 105 of 134; Business Environment Index, World Economic Forum: 117 of 118; Ease of Doing Business Report, World Bank, 174 of 181; Enabling Trade Index, World Economic Forum, 115 of 118.

Market-based  
competition

A new anti-monopoly law was introduced in the National Assembly in 2006 but has not been approved. The 1999 constitution prohibits monopolies without specifying whether they are private or public. The government's business-unfriendly policy in itself contributes to the concentration on the supply side as the number of existing businesses was halved since President Chavez came to power, and starting a business is ever more complicated. There are near-monopoly situations in some sectors such as cement (public) and beer production (private).

Anti-monopoly  
policy

Foreign trade liberalization is not an issue on the government's agenda, even though Venezuela's producers face problems with the country's entry into Mercosur and the ensuing adoption of its trade integration agreements, which require liberalization until 2016. Venezuela's counter project against the U.S.-inspired and now defunct Free Trade Area of the Americas, the Bolivarian Alternative for America, has so far convinced Cuba, Bolivia, Nicaragua and Honduras. Its basic inspiration is solidarity exchange, not free trade. The plan is fundamentally driven by generous Venezuelan oil shipments at preferential prices, an unsustainable – and also less attractive – scheme when prices plummet. The state controls exports and imports through a bundle of non-tariff barriers.

Liberalization of  
foreign trade

Venezuela's banking system is differentiated with a handful of local and a few branches of global players dominating the sector. Public institutions mainly serve special interests, such as micro-credits to particular sectors and activities. The socialist production units are the primary recipients of this money. Intermediation capacity is poor. Banks thrive mainly thanks to public sector deposits. Public institutions tend to lose money because their credit default rates typically are ten times those of the private sector. Regulations earmark nearly half of the banks'

Banking system

credit portfolio (minimum proportions for agriculture, housing, construction, etc.). The supervising agency is understaffed and turns a blind eye on underperforming public institutions.

## 8 | Currency and Price Stability

Venezuela's inflation rate of over 30% in 2008 was the highest in the hemisphere and one of the highest in the world, fuelled mainly by inorganic money issuance and government handouts for consumption. Imports soared to over \$50 billion. Plummeting oil prices and an over-optimistic budget estimation of oil revenues forced the government to announce tighter fiscal policies. While the announcement was unspecific, it may include the scaling down of handouts and social policies, smaller salary hikes, higher taxes, and devaluation. Even the sacred ultra-low price levels for petrol are now under revision. All this spells trouble as the unions rediscover their temporarily lost goal of fighting in the interest of workers (even if they are supporters of the Chavez regime), consumers complain about inflation, and businesses close down due to excessive controls and shrinking margins. Inflation has increased steadily, from 14% in 2005 to 17% in 2006, 23% in 2007 and 32% in 2008. Most tellingly, there was no difference in inflation rates between goods subject to price controls and uncontrolled products. With a rate of 45%, food prices rose faster than most other items. Only hotel and restaurant prices registered higher inflation.

Anti-inflation /  
forex policy

The government's stubborn clinging to the grossly overvalued exchange rate may help to dampen inflation, but it tends to exacerbate Venezuela's port economy paradigm by bringing down import prices while rendering national production uncompetitive. Even if this was politically welcome because it weakened the entrepreneurial elite, it will be all the more damaging in the future as a major adjustment will be inevitable in a then much more fragile national business environment. To make things worse, the government has removed what was left of the central bank's battered autonomy has been removed by forcing the transfer of more than one-quarter of the reserves to its Development Fund, an institution that is exempt from the parliament's budgetary control. The operations of the Development Fund remain opaque.

The government's economic policy is unsustainable. Serious problems exist with regard to achieving stability. A case in point is the transfer of \$12 billion from the currency reserve to the Development Fund, an action tantamount to printing money because the dollars handed over to the central bank by the state petroleum company PDVSA were converted to bolivars that were then used by the company to pay for royalties and taxes. In order to fund government programs, the same dollars have been converted again, probably on the parallel market, where they help to drain

Macrostability

liquidity but, at the same time, provide higher-priced dollars for consequently higher-priced imports. These imports, in turn, fuel price increases. The country's hostile business environment does not help to ease its economic burdens.

## 9 | Private Property

The constitutional guarantees for private property exist on paper, but they are not implemented consistently or safeguarded adequately. In practice, the government has embarked on a campaign of taking over what it claims to be "strategic interests" of the people. These interests include food production, processing and distribution, construction materials, utilities, media, telecoms, and even buildings, real estate and hotels. The Law on the People's Access to Goods and Services, issued by presidential decree under special powers in mid-2008, provides for tight controls of complete production chains and allows state organisms to seize and then distribute goods when they suspect hoarding (the dividing line between legal stocks and hoarding is ambiguous). The government, acting "in the people's interest," requires no proof in order to seize private goods. The guarantee of due process and the right to judicial review of administrative decisions are likewise ignored. The second half of 2008 saw the confiscation of raw materials and processed food in several private production and distribution facilities.

Property rights

Despite nationalizations and constraints, the private sector still represents about 60% of the GDP and about 68% of formal employment. Private companies can no longer act freely, because the state controls everything from cost calculation to output, distribution and retail prices. This even includes products not subject to price controls. The government has taken over strategic business sectors and is threatening to seize the rest unless companies bow to what the government interprets as the people's interest. Many Venezuelans remain unconvinced by the government's actions with regard to socialization of private enterprise. More than half of the people (55%) think entrepreneurs are doing a good job and that a market economy is the only way towards development. Only 41% trust the parliament and a little less than half think the government is doing a good job (48%) or trust it (47%).

Private enterprise

## 10 | Welfare Regime

The Venezuelan Social Security Institute runs most of the country's hospitals, a network of clinics and a social security scheme that includes pensions, health care, and unemployment benefits. The pay-as-you-go pension scheme covers roughly 60% of formal employment but only one-third of the labor force; workers in the informal sector and agriculture are largely excluded. Pensions are due after 750 weeks of work and are flat, about \$370 at the official exchange rate. In addition,

Social safety nets

separate pay-as-you-go-schemes in the public sector, which cover education, the military and the oil industry – offer generally far better conditions than the basic national scheme. Workers in the shadow economy are not covered.

The eradication of systemic exclusion was one of President Chavez's most important arguments in the 1998 presidential election. His strategy for combating exclusion through so-called social "missions" has produced excellent results on the symbolic front. People now feel included, at least in the president's discourse. This view is supported by public opinion. More than half of Venezuelans – by far the largest proportion in any Latin American country – think that income distribution is just, despite the fact that the gap between the poorest and the richest has widened and the GINI coefficient has improved only marginally. The practical impact of the missions is at best mixed. While consumer-oriented schemes of subsidized food stores run by the state or the oil company undoubtedly help people to cope with runaway inflation, the health care and education missions are harder to assess. According to recent studies by the Caracas-based Centre for Development Studies, the missions' impact in indexes such as infant and maternal mortality or quality of education has been at best ineffectual, because funds are channeled towards the missions and away from hospitals and educational institutions. The missions' main problems are that they do not create social entitlements and lack oversight. The programs depend directly on the presidency for direction and budget. They exist beyond parliamentary control or audit. A gender equity law is under discussion in the National Assembly. Women are underrepresented in senior political and business management (27%), but overrepresented in professional positions (61%); they earn only 53% of the corresponding male incomes.

Equal opportunity

## 11 | Economic Performance

Venezuela's economic dynamism is a direct function of oil prices. The volatility of those prices is reflected in the country's economy. In his inauguration speech in February 1999, Chavez identified the dependence on oil as the country's main economic problem. He promised to attack the issue by substituting the rent-seeking paradigm for a productive model. Ten years later, Venezuela's dependence on oil is deeper than ever before, and the rent-seeking paradigm has gained widespread public approval. Official discourse encourages this mentality by instructing Venezuelans that living standards are not the prize of effort but the results of just or unjust distribution of the nation's inherent riches. This collective imagery is reflected by the fact that over two-thirds of Venezuelans, more than in any other Latin American country, think that the state is capable of solving all problems, even though over half of them also feel that a market economy is the only way towards development. Venezuela's per capita GDP rose significantly, albeit with declining speed, from 8.5% in 2006, to 6.6% in 2007 to 4.8% in 2008. Due to soaring oil

Output strength

prices, the country's current account surplus in 2008 was over \$48 billion or 13% of GDP. External debt was \$44 billion or 13% of GDP. Total debt was 18% of GDP. According to central bank estimates, investment dropped from 29% of GDP in 2005 to 20% in 2008.

## 12 | Sustainability

The environment is a major concern in the national constitution, which holds the state responsible for environmental protection. The constitution establishes the individual and collective right to a safe, healthy, and ecologically balanced environment, as well as an economic order based, among other things, on the protection of the environment. In addition, the constitution ties the nation's security to the promotion and conservation of the environment. Venezuela has huge protected areas, although their supervision needs to be improved. Extensive illegal logging, for example, occurs in the frontier areas controlled by the military. Solid waste recovery and disposal is a major problem in the cities. Although the abolition of plumbed gasoline has improved vehicle gas emissions, the extremely low cost of gas – \$0.042 per liter – stimulates the sale of gas-guzzlers, especially SUVs. The government does not regulate vehicle emissions. It also fails to exercise control over industrial emissions especially in the oil industry, although regulations establish tight limits. In sum, the state concerns itself only sporadically with environmental matters. The country's institutional framework for environmental management is understaffed and inadequate.

Environmental  
policy

Education is one of the government's main concerns. It received special attention in the social assistance scheme with five "missions" dedicated to this policy area. Just as in the health sector, the money poured into the missions helped many beneficiaries of direct transfers overcome hardships, but general impact assessment on educational institutions remains difficult. The formal education system has received insufficient attention. Teachers complain about low pay and high workloads, deficient physical conditions of schools, and lack of resources. The government plans to impose a "Bolivarian curriculum" that interprets the world, the country and history from a single perspective. The plan has been criticized as a blueprint for brainwashing. The adult literacy rate is about 94%, net primary enrollment rose to 91% and net secondary enrollment to 63%, while about 91% of children reach the fifth grade.

Education policy /  
R&D

R&D got a boost through the Science and Technology Law, which gives businesses tax allowances as long as they finance research and technology projects in-company or at universities. Venezuela spent about 0.35% of GDP on R&D through 2006, when the methodology of measuring was changed and, according to official sources, spending soared to 1.78% of GDP. Even so, the outcome is rather sobering, as the country has only 0.38 researchers per 1,000 labor force, against the Latin

American average of 1.58. The number of scientific publications fell from 12 per \$1 billion GDP when Chavez came to power, to a meager six in 2006, compared with a Latin American average of 14. Taking into account the immense resources that flooded the state's coffers – over \$850 billion in ten years – the outcome is indeed poor, even in Chavez's own terms. When he took office in 1999, he complained that the previous administrations had wasted the equivalent of 15 Marshall Plans in forty years without putting the country on a development path. By these standards, his failure is exponentially bigger. Chavez has overseen the spending of more than 50 Marshall Plans in only ten years without having managed to make the country climb on the Human Development Index scale.

## Transformation Management

### I. Level of Difficulty

Constraints are more embedded in leadership qualities than in structures; and resistance to learn from past lessons prevails among the former. Structural constraints, apart from persistent poverty pockets, include the lack of an adequately trained bureaucracy and a competent labor force. Competitiveness assessments and studies specifically highlight these as severe constraints. The polarization of society and growing anomy add to this problem as more and more qualified Venezuelans turn their backs on the country and look for better alternatives elsewhere, generating a negative migration balance or brain drain in top qualifications. According to data provided by the Network of Science and Technology Indexes/State of Science 2008, more Venezuelan professionals work in R&D in the United States than in their home country. The outlook in this respect is bleak as shrinking oil revenues shatter the country's rent-seeking paradigm. The fiscal downturn comes with a vengeance, because the country's leadership failed to develop contingency plans to cushion the crash. In sum, structural constraints on governance are moderate while leadership failure represents a huge constraint.

Structural  
constraints

While there is a respectable tradition of NGOs, especially regarding the defense and protection of human rights, Venezuelan society continues to be a low trust society where interpersonal trust is decreasing. Trust in institutions (parliament, political parties, leadership) remains far below the trust in the media (TV, radio, newspapers).

Civil society  
traditions

While ethnic or religious cleavages play no role Venezuela's social life, the extreme polarization of the society between pro- and anti-Chavez poles, the presence of a heavily armed militia under Chavez's direct command, and the existence of vigilante groups on both sides spell trouble for the future. Acts of open violence on the part of Chavez-friendly or tolerated (impunity) vigilantes in the recent past are early warning symptoms in that sense, even though they may be interpreted as acts of anticipatory obedience following or pre-empting the caudillo's will. Such symptoms also include growing social protest, even on the part of Chavez supporters, the criminalization of protest and stiffer repression. While protest actions are a necessary ingredient of democracy, they may also signal the failure of

Conflict intensity

the leadership to listen to the people's voice and channel unsatisfied needs. The 2008 Latinobarometro survey found Venezuelans among those Latin Americans with the highest proportion of people agreeing that protest was a normal affair in democracy, that it was indispensable in order to make your voice heard, and that it was the way young people could feel they were part of something.

## II. Management Performance

President Chavez and his team – drawn from a limited pool of close allies and rotated in cabinet posts time and again – believe in management by command and surprise. This results in erratic policies and policy formulation. Policy-makers conduct little debate or negotiation over alternative options. The absence of reliable patterns of policy formulation and implementation is one of Venezuela's main obstacles to development.

### 14 | Steering Capability

Chavez and his team prioritize the irreversibility of the Bolivarian revolution towards 21st century socialism over any other policy goal. The global financial crisis and its reverberations in Venezuela have so far produced basically repressive answers on the part of the government (militarization) and the mortgaging of the country's future through the sale of oil stocks that have yet to be produced.

Prioritization

The government's opposition to anything similar to representative democracy and market economy has become much more obvious after its symbolic defeat in the regional and local elections of November 2008. Although officialdom prevailed in about 80% of the contests, it lost significant states and the capital Caracas. In response, President Chavez decided to accelerate the pace of his agenda in order to impose the systemic changes that had been rejected in the constitutional referendum of 2007. Instead of reform goals, the government pursues a revolutionary tenet.

Implementation

Dogma substitutes for realism. The leadership molds the facts to their theoretical propositions instead of assessing theory from the perspective of practice. This is best proved by the continuing process of seizing farms and agricultural businesses despite the fact that none of those seized in the past and declared "collective property" has resulted in maintaining production levels, let alone enhancing them. Beef and meat production grew only marginally since 1999, while imports skyrocketed. Soybean production shrunk dramatically and milk and dairy production was stable in the face of a growing population. Only poultry production grew substantially, though it is dependent on foodstuff imports. Venezuela's dependence on food imports is deeper than ever.

Policy learning

## 15 | Resource Efficiency

The government uses only some of its available resources efficiently – in fact, it is wasting many of them. The country is losing human capital through a brain drain, which the president has encouraged by telling people to leave the country rather than stay and oppose him. Fiscal resources, including the largest petrodollar flow in the country's history, have not been translated into noteworthy advances in human development. Organizational resources are also wasted, because all the money spent on symbolically rewarding but partly ineffectual "missions" has weakened the already deficient formal institutional structure.

Efficient use of assets

Although the executive is monolithic in its absolute subjection to President Chavez's leadership, the president's erratic decision-making makes coordination a major problem. He may come up with an order in the morning and a counter-order in the afternoon. While the president follows a clearly defined long-term strategy, his tactical moves are unpredictable and often deliberately misunderstood or even disregarded by his team. The result is a quintessentially populist form of policy-making, which prioritizes the promise of immediate solutions for problems as they emerge without proper study or the design of structural rather than stopgap solutions.

Policy coordination

Corruption is as rampant as ever and difficult to trace and prove. The most practical approach is to gauge it through perception, as does the Latin American Public Opinion Project (LAPOP), which ranks Venezuela as a country with generalized corruption on position 4 among 22 American countries (behind Jamaica, Argentina and Guatemala). The same survey, however, indicates that only about 11% of those interviewed reported to have been victim of corruption. An increasingly troubling sign with regard to corruption is the increasing overlap of the structures of the United Socialist Party and the state. As a consequence, public resources are used without limits for election campaigns of party candidates. National and international election observers from a wide range of public and private institutions have criticized such breaches of fairness in the election processes of 2007 and 2008.

Anti-corruption policy

## 16 | Consensus-Building

Consensus-building is not an issue in a – hitherto peaceful – revolution. The revolutionary strategy is not negotiable, nor does President Chavez tolerate discussion about day-to-day politics. If the opposition wants to have a voice, the president made clear that it must bow to his views. Mr. Chavez negotiates only from positions of self-perceived or real weakness in order to buy time and determine whether he can win without compromising any of his goals. These goals are in large measure opposed to the paradigms of representative democracy and market economy.

Consensus on goals

No national consensus exists about the goal of implanting 21st century socialism or anything else. The opposition forces, apart from the simple proposition of getting rid of Chavez, remain fragmented. One of the reasons why so many people support Chavez even if they disapprove of the socialist revolution is that they feel like the president cares about them. President Chavez cultivates this attitude by this populist rhetoric. The fragmented opposition, meanwhile, offers no vision whatsoever of what the country should look like in a post-Chavez era.

In Venezuela, the anti-democratic actors are at the helm; they rule, but have hitherto failed to prove that they have the ability to govern. President Chavez prevents all meaningful debate about reform and blocks competition in the political sphere. The administrative blocking of scores of opposition candidates in the 2008 regional elections, in a flagrant violation of the right to due process that was covered up by a favorable Supreme Tribunal ruling, leaves no room for doubt. Interestingly enough, many of the blocked opposition candidates were leading the polls when they saw the administration's red card.

Anti-democratic  
veto actors

President Chavez needs enemies in order to push ahead with his 21st century socialism. Without such enemies, he would have nobody to blame for the revolution's failures and setbacks. Exacerbating polarization is necessary to bond the revolutionaries together, to make them feel strong enough to fight against the enemies and overcome them. The situation is best described and synthesized by Chavez's slogan "fatherland, socialism, or death" – a grim prospect for conflict management.

Cleavage /  
conflict  
management

Chavez has exacerbated the rift between his supporters and opponents to the extreme of an option between socialism and death. In addition to such extreme discourse, the regime fights a permanent brainwashing battle in order to reinterpret the meaning of history in general and Venezuela's past in particular. At the discursive level, the president speaks only about the past and future, in other words the glorious moments in history and a glorious socialist future. No space exists to discuss the disappointing present. Those who are unwilling to accept such reinterpretation are disqualified as traitors, oligarchs or imperial lackeys.

Enhancement of civil society participation is one of the major achievements of the 1999 constitution. The tools originally designed in order to implement such participation were the Local Public Planning Councils, presided over by mayors and composed of town councilors plus representatives of organized communities. When it turned out that the councils developed substantial autonomy, Chavez replaced them with the Communal Councils, which report directly to the Presidential Council for the Explosion of Communal Power, an organization appointed by and answerable to the president for approval of projects and funding. A decentralized bottom-up approach to the formulation, implementation and evaluation of public policies at the local level was replaced by a top-down processing architecture.

Civil society  
participation

Since the establishment of democracy in 1958, Venezuela has not experienced major historical injustices. The current course of democratic decay, however, may soon change this.

Reconciliation

## 17 | International Cooperation

The Chavez administration has suspended cooperation with multilateral institutions like the IMF and World Bank, claiming that their approach is neoliberal and thus unsuited for the Bolivarian revolution. An oil revenue tsunami enabled Chavez to propose (and begin to set up) alternative solidarity-oriented institutions for the hemisphere, such as the Bank of the South, and subsidized oil supply schemes like Petroamerica, Petrocaribe and Petrosur. Such checkbook diplomacy is doomed in the face of falling oil revenues.

Effective use of support

Venezuela is not a reliable partner, except for its dependent allies in the Bolivarian Alternative for America. President Chavez's unpredictability was best demonstrated by his unexpected order to expel the Israeli ambassador, which he gave during one of his Sunday TV shows. It should be noted that not a single Arab state broke relations with Israel over its bombing of the Gaza strip. Mr. Chavez's policy towards the international community appears to be a product of gut reaction rather than deliberate action.

Credibility

President Chavez cooperates only selectively with neighboring states and supports regional or international integration only if the rules are in line with his claims to be the 21st century reincarnation of Simon Bolivar and the authorized interpreter of the Bolivarian dream of a united Spanish America. Consequently, Venezuela suddenly withdrew from the Andean Community. Chavez also claimed to transform the Mercosur community, which Venezuela joined in 2006, into a political rather than economic integration scheme. The parliaments of Paraguay and Brazil remain unconvinced and have yet to ratify Venezuela's admission.

Regional cooperation

## Strategic Outlook

Despite setbacks at the ballot box in 2007 and 2008, President Chavez and his United Socialist Party still enjoy massive support and have the capacity of winning future elections, not least because they control the lion's share of public money and the election system favors the largest minority, especially when turnout continues to be low. The president and his party, however, lack the will and capacity to build an inclusive alliance beyond their current constituency in order to foster more sustainable development. President Chavez's confrontational ruling style is adequate for a revolution but incompatible with promoting good governance. With confrontation being the centerpiece of day-to-day policy-making in the framework of a revolutionary strategy, opposing factions within Venezuelan society are unlikely to identify common ground as a basis for reconciliation.

Reconciliation is a major condition for developing shared perspectives on problems and designing strategies to attack them. Such strategies should emerge from public debate and negotiation and aim at constructing a compelling alternative to revolution. The democratic potential of Venezuela's political culture is robust enough to muster significant resistance to a revolution that conceals authoritarian trends behind symbolic charm and pocket-book policies. In order to capitalize on this reservoir of democratic sentiment in the country's political culture, the opposition camp needs to reach out with the message that death is not the only alternative to socialism.

This strategy proved to be successful in the 2008 elections, mainly because President Chavez's pool of officeholders is based on loyalty rather than competence, while in the opposition camp a new generation of competent and sensible young professionals has emerged. These opposition leaders have either demonstrated their skills in office or patiently built grass roots organizations and networks, which helped them defeat incumbents or high profile Chavez nominees in areas that had previously supported Bolivarians by large margins. A convincing public management record or credible performance promise, both of which are based on years of direct involvement with the people, helps defeat poor performers. This is true even though those who deliver such a poor performance belong to the inner circle of the still-respected president. The lesson domestic actors on both sides should draw is that performance matters. Political leaders should focus on transparent public policies aimed at improving structural shortcomings. Such focus would provide Chavez followers with their own performance legitimacy and ensuing autonomy, while opponents could build performance records that may recommend them for higher office.

International actors should refrain from policies aimed at regime change and opt instead for a strategy of strengthening the democratic reserves of Venezuela's society and enhancing the natural autonomy and performance aspirations of officeholders. This goal can be achieved through offers of technical and eventually financial or material support for public policy initiatives at the local and regional levels that promise positive social impact. To avoid

accusations of meddling in internal affairs, cooperation programs should target municipal and regional levels where officeholders would present their particular projects and compete for funding. A complementary but equally important policy would consist in setting up or significantly upgrading similar programs focused on Venezuelan human rights defenders. Furthermore, media coverage of what happens in Venezuela should insert grey tones into its black-and-white presentation of the country's woes.