

Venezuela

Status Index (Democracy: 6.20 / Market economy: 4.89) 5.55		Management Index 3.03	
HDI	0.772	Population	25.8 mn
GDP per capita (\$, PPP)	4.919	Population growth²	2.5 %
Unemployment rate¹	15.5 % (Jan. 2005)	Women in Parliament	9.7 %
UN Education Index	0.87	Poverty³	15.0 %
		Gini Index	49.1 (1998)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Instituto Nacional de Estadística ² Annual growth between 1975 and 2003. ³ Population living below \$ 1 (1990-2003)			

A. Executive summary

The overwhelming majority of Venezuelans continue to embrace democracy as the best possible political system, but criticize its existing institutions and performance. While the coherence of the state remains largely unquestioned, points of critique are the distortion of democracy by dominant political actors who impose their own rules, the undermining of the rule of law, and the failure to establish a credible institutional framework in line with the postulates of the new constitution. The 1999 constitution sees economic and social development essentially because of state intervention. Consequently, the state is held responsible for and it should regulate practically everything, while private initiative is only of marginal importance. Given the state's poor past performance in terms of responsibility and regulation, the prospects of heading toward a thriving market economy are rather limited.

President Chávez' administration has been autocratic and confrontational from the outset. The prime ingredient of good governance – collective decisions that include all strategic actors – has been absent from the start. What appears to be a stable power balance, but is above all the result of slanted representation mechanisms, may tip to repressive autocracy or transitional crisis any time.

The adoption of the constitution of the Bolivarian Republic of Venezuela in 1999, its coming into force in 2000 and the re-legitimization of all public mandates till the end of that year set the country on what appeared to be a transition path toward a more inclusive democracy and social market economy. Yet it soon became evident that there was a lagoon between the ideal and the effective constitution. The period under review must be characterized as autocratic regression and a return to state-centered, rent-based economic populism. Mr. Chávez' unparalleled power is his main weakness, as it tends to blind against reality, shield against feedback, encourage adulation, foster groupthink and reduce the quality of government.

B. History and characteristics of transformation

Venezuela used to be a showcase of democracy in Latin America for most of the second half of the past century. In the sixties, the emerging “revolution in democracy” fought back several coup attempts from the left and right wings and managed to convert communist guerrillas to democratic actors. A kaleidoscope of political parties amalgamated into a bipartisan system with near-proportional representation of minority parties, based on elite conciliation, where divided government was the rule. In the 1970s and 1980s, it was a reference for consolidating democracies in the region. Hence, the decline and fall of party democracy in the 1990s, the subsequent rise of a populist caudillo, and the danger of authoritarian regression in Venezuela are matters of regional relevance.

Oil has been a major determinant of Venezuela’s economic, political, and social transformation ever since the second quarter of the past century. Oil catapulted Venezuela from the bottom to the top ranks of Latin American modernity in just one generation, allowed its currency to remain 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, four-fifths of its export earnings, and over half of the central government’s operating revenues.

Visions of reforms, such as switching the economy from rent-seeking to a productive mode and easing petroleum cycles by saving in times of abundance in order to spend in times of ebbing prices, from the dream of “sowing the black gold” of the 1930s to the “Great Turnaround” of the late 1980s, ended up in a morass of populist spending, mounting public debt and corruption. When President Perez announced the outlines of his tough macroeconomic adjustment package in February 1989, spontaneous popular protest degenerated into widespread riots, which were cruelly repressed by the military. The rebellion and its repression provided the long-conspiring group of army officers around Lt. Colonel Chávez with a pretext for staging two bloodstained coup attempts in 1992. After Perez’ impeachment on corruption charges in 1993, the adjustment package was scrapped by the successive administrations of Presidents Velasquez (1993-94) and Caldera (1994-1999).

Mr. Chávez’ election to the presidency in 1998 marked the beginning of an impressive series of nine electoral victories through October 2004, which handed him control of over two-thirds of all publicly elected offices in the country while strengthening his image as a democrat.

A closer look reveals contrasts. In 1999, a Constituent Assembly overwhelmingly dominated by Mr. Chávez’ allies drafted a constitution characterized by four main tendencies: plebiscitary democracy, concentration of power in the hands of the president, re-centralization of the state, and a social market economy subordinated

to state regulation. Checks and balances were provided for on paper, but the constitutional reality proves their ineffectiveness. Three of the five power branches established in the constitution – the judiciary, the electoral board, and the Citizen Power committee – were packed with widely known government supporters, contrary to the rules set out in the fundamental law. The government majority in the legislature functions as an echo of the head of the executive, bringing about a contradictory regime type that may be more drastically described as a formally legitimated *de facto* autocracy.

The most conspicuous indicators of such contradictions are the deeply entrenched social polarization and historically low voter turnouts. While low turnouts do not question formal legitimacy, they evidence that active regime supporters make up at most about one-third of registered voters; and polarization claims for reconciliation and negotiated reform rather than radical change without repression of dissent.

Opportunities to overcome the polarization were missed by both sides. Lack of political will to compromise on legislation that would transform the innovations of the constitution into an adequate institutional framework triggered a series of protest demonstrations that inspired the failed coup against President Chávez in April 2002. Lack of political will to reconcile the country through the proposed creation of a post-coup truth commission led to a crippling strike in 2002-2003 and the recall referendum petition against President Chávez in 2003 and 2004. He won the referendum in August 2004, which was hastily endorsed by the OAS and Carter Center observers, but questioned on credible grounds by the opposition. Chávez saw his victory as a *carte blanche* to radicalize his Bolivarian revolution and has sped up its pace ever since. Fresh legislation, which in practice criminalizes dissent, paves the way toward harsher repression and even stiffer autocratic rule.

C. Assessment

1. Democracy

The overwhelming majority of Venezuelans view democracy as the best possible political system but criticizes its existing institutions and performance. While the coherence of the state remains largely unquestioned, points of critique include: the distortion of democracy by dominant political actors who impose their own rules, the undermining of the freedom of expression and the rule of law through legislation that is viewed as violating human rights, as well as the failure to establish a trustworthy institutional framework in line with the postulates of the new constitution. The public sphere is deeply polarized because of an aggressive discourse that renders social and political reconciliation extremely difficult.

1.1. Stateness

The state's monopoly on the use of force extends in principle to the whole territory. Nevertheless, serious threats are posed mainly by Colombian guerrillas who use frontier areas as safe havens and a source of finance fed by the kidnapping of ranchers (over 200 reported during the review period), often in tacit complicity with Venezuelan security agencies. Another threat stems from vigilante groups infiltrated in police forces, who have been accused of hundreds of killings in 2003 and 2004, as well as armed civilians organized in so-called "Circles for the Defense of the Revolution".

Citizenship is beyond discussion, even though there were complaints about the so-called "dignity mission", a massive ad-hoc identity and nationalization program implemented in the run-up toward the recall referendum in 2004 that swelled the electoral roll from 12 to over 14 million people. It certainly left a bad taste when Venezuelans learned that Rodrigo Granda, the foreign secretary of the Colombian Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia, or FARC), guerrilla, illegally kidnapped in Caracas and delivered to the Colombian authorities, had been given Venezuelan identity documents and registered as a voter.

Venezuela is a secular state. The public administration infrastructure works at low efficiency levels, but covers the whole territory. Particular problems are posed in the implementation of social policies, where parallel agencies concur with government bodies in the same areas and sectors.

1.2. Political participation

Elections are the means to fill executive and legislative positions at all levels, and referenda allow the people to participate in major decisions, but such electoral events are not conducted properly. The recall referendum against President Chávez on August 14 and the regional and local elections on October 30, 2004 are cases in point. While their outcomes may reflect the will of the electorate and were endorsed by international observers, their administration lacked transparency and provision of equal opportunities to all involved. The European Union, although invited, did not deploy an observation mission on the ground that Venezuela's electoral authorities had refused to guarantee conditions in line with the European Union's standard methodology.

The Constitution of the Bolivarian Republic of Venezuela concentrates power in the hands of the president, enabling him to dissolve even the National Assembly, albeit within restrictive conditions. President Chávez effectively has the power to govern, practically unchecked by an obliging parliament and by other government-friendly instances of power, such as the judiciary, the electorate or

citizen groups. He is also the sole instance to decide on military promotions to the ranks of Colonel and above, as well as appoint the commanding positions of the Armed Forces.

Freedom of association is guaranteed by the constitution, but there are severe restraints in practice. On the one hand, the constitution entrusts the electoral authority with the competence to conduct internal elections in trade unions, “organizations with political ends” (the text of the constitution avoids the term “political party”), and social organizations, thus limiting organizational freedom. On the other hand, political and civic organizations may receive neither public nor foreign funds, thus handicapping their response capacity in the face of abundant public sponsoring of government-friendly parties, campaigns, and rallies.

Freedom of expression has been severely restricted by recent legislation, especially the Law on Social Responsibility of Radio and Television (December 2004) and the Reform of the Criminal Code (January 2005). The Inter-American Commission on Human Rights has expressed concern over both bills. Furthermore, state-owned radio and television stations function as government propaganda agencies.

1.3. Rule of law

In principle, the establishment of five separate instances of power in the Venezuelan Constitution – executive, legislative, judicial, electoral, and citizen powers – appears to be a perfect design of mutual checks and balances. However, the political reality on the ground clearly evidences their lack of accountability and their subordination to the president’s will.

The judiciary acts merely as a process meant to duly and formally legalize the government’s political preferences. Two circumstances illustrate this fact. First, about 90% of all judges are appointed under provisional conditions, that is they may be dismissed, as several cases have proven, if their rulings do not satisfy government expectations. Consequently, many judges are reluctant to pronounce their own judgments and their reservations prolong the course of the law. Second, the newly enlarged constitutional court duly overruled the Supreme Tribunal’s plenary decision of August 2002, which ruled that the military commanders had not acted in rebellion when they avoided a massacre by refusing to comply with Chávez’ order to deploy tanks against the huge peaceful demonstration in July 2002, calling for Chávez’ resignation.

Legal or political sanctions for officeholders who abuse their positions are in place in principle, but in practice the ruling elite closes ranks every time accusations of such abuse arise. Transparency International ranks Venezuela

among the most corrupt political systems in the world (with a corruption perception index of 2.3, Transparency International).

Violations of civil rights are frequent, such as massive repressions of anti-government demonstrations, searches and detentions without warrant, and hundreds of politically motivated processes and imprisonments. Chances for citizens to seek redress of such violations stand close to nothing.

1.4. Stability of democratic institutions

Venezuela's government must be characterized as democratic by origin – it was elected in free and mostly fair elections – but clearly autocratic by performance, as there are no working checks and balances in place. The three officeholders of the citizen branch of power – auditor general, attorney general and ombudsman – were widely known as unconditional supporters of President Chávez when they were appointed in violation of the constitution, by a 30-member, all pro-government “Legislative Commission” during the transition period from the old to the new constitution (December 1999 to August 2000). The Supreme Court was enlarged and filled with Chávez supporters in 2004, after the recall referendum, following a highly controversial decision by the tribunal's constitutional court allowing the Tribunal's governing law to be modified by simple majority. The electoral authority was appointed by the Supreme Tribunal's constitutional court, and consequently installed first with a three to two, and later a four to one pro-government majority. This was contrary to the constitutional mandate of appointment by a two-thirds parliamentary majority. Finally, the government alliance's majority in the National Assembly functions as the president's sounding board.

1.5. Political and social integration

The effective number of parties is under five (index 4.3) and voter volatility is relatively high (32%). Despite this, the composition of political parties reflects the deep polarization of society: a pro-government “revolutionary” camp (representing roughly one-third of the electorate) versus an opposing “democratic” block (representing roughly one-fourth of the electorate), and nearly half the electorate between the two blocs, who abstain from voting or expressing preferences. Polarization also extends to the social interest groups who are divided in pro-government and opposition camps: the trade union movement and entrepreneurial associations are divided, as well as most non-governmental organizations.

Venezuelans are among the strongest supporters of democracy in Latin America (74%, Latin Barometer 2004). They also clearly favor liberty to order (62% prefer

to live in a “society where rights and liberties are respected even at the cost of some disorder”).

As elsewhere in Latin America, social trust is still relatively low (17%), although it has been rising slowly since the beginning of the nineties. Social organization is also relatively weak – only about half of Venezuelans are members of some association or group – but increasing and strongly associated to consent to democracy, nursing hopes that growing social capital will countervail authoritarian tendencies in the political system.

2. Market economy

The 1999 constitution sees economic and social development essentially because of state intervention. Consequently, the state is held responsible for, and is meant to regulate practically everything, while private initiative is only of marginal importance. Given the state’s poor past performance in terms of responsibility and regulation, the prospects of heading toward a thriving market economy are rather grim. The government’s economic policy, labeled as humanistic, endogenous, self-determined and competitive, amounts to the reinstatement of the rent seeking and distribution paradigm that imploded from the 1980s onwards, when rising fiscal needs could no longer be met by oil incomes. Petroleum accounts for over 51% of revenues in the 2005 budget. The return to rent seeking comes with a cost. It is now obvious that even upturns in oil prices no longer compensate for the structural weaknesses of the country’s economy. While ever-expanding budgets help buy political support in the short run, they are unsustainable as economic performance remains poor, and may end up in even harsher adjustment policies in the future.

2.1. Level of socioeconomic development

One of the remarkable feats of President Chávez’ government is the separation of the subjective and objective aspects of poverty. Official data prove that objective poverty rose during his administration – between the beginning of 1999 and the end of 2003, the proportion of households below the poverty line rose from 43.9 to 55.1 percent or more than one million households (in terms of people, the proportions are 50.4% and 62.1%, or 3.7 million persons), surveys indicate that the subjective perception of the poor is that they no longer feel excluded. As an economic phenomenon, poverty is structurally entrenched in the rent-seeking paradigm. As a socio-cultural phenomenon, poverty is marked by the persistence of pre-modern values and attitudes of elites and non-elites alike.

2.2. Organization of the market and competition

The state agency entrusted with the promotion and protection of market competition was created as a tool to implement the Free Competition Law of 1992. In recent years, its philosophy has tended to privilege sporadic high profile campaigns over systematic monitoring of market participants, and to promote micro-enterprises and cooperatives. Monopolies and cartelization are outlawed by the constitution, except for state concessions for the exploitation of natural resources (Article 113), however inconsistent regulations and their unsystematic implementation add up to the toleration in practice of near monopolies, oligopolies or cartels in several business branches.

Venezuela is a founding member of the WTO. It has yet to adapt part of its legislation to the organization's agreements. While it has started to automate customs procedures, non-automatic import licenses are still in place, as well as differentiated tariffs and promotional rules for special export sectors. The country does not participate in the Multilateral Agreement on Government Procurement.

The banking system comprises over fifty institutions, most of them private, with public institutions characterized by excessively high payment defaults (over 50% of loans vs. under 6% in the private sector), mainly due to lack of supervision. Although it can be regarded as a viable source of financing, its heavy government debt burden limits its capacity of mediation between borrowers and lenders.

2.3. Currency and price stability

Currency and price stability have been more rhetoric than real targets of the government's economic policy. Exchange controls were introduced in 2003, and the devaluations in 2003, 2004, and 2005 had the clear fiscal purpose of balancing the budget using inorganic money. Heavy government spending directed toward consumption kept double-digit inflation near or in the 20% margin over the period. The Central Bank's autonomy was undermined when it duly bowed to the president's demand for millions of dollars of "foreign exchange profits" (dollars gained by PDVSA, changed to national bolivars, and handed over to the government). The bank is under pressure to cap international reserves in order to hand out "excess" margins to the government. President Chávez asked the National Assembly to work on legislation to that end. Stability has definitely not been a state policy aim during the period assessed.

2.4. Private property

Property rights, including industrial and intellectual property, are formally guaranteed by the constitution. On other hand, the constitution softens the

previous conditionality of property confiscation and fails to adapt these to international standards. Expropriations by decree of latifundios and other land property on grounds of inefficient or insufficient cultivation or alleged insufficient proof of ownership have alarmed the landowner community. Private companies can act freely within the legal and regulatory framework; nevertheless, the state pursues a policy of forcing out traditional corporate actors through: (a) concessions in strategic business sectors such as minerals and petroleum, preferably to foreign capital, and (b) procurement preference for newly created actors such as micro-enterprises and cooperatives, a major source of corruption.

2.5. Welfare regime

The country's public sector enjoys well-developed social security networks financed mainly through the national, regional, and local budgets. A state-run pay-as-you-go pension scheme covers most of the formally employed labor force, albeit at a very low, uniform level. The government and the National Assembly have not yet fulfilled their old promise to reform the social security legislation. The reform bill introduced by the previous government, combining a comprehensive pay-as-you-go scheme with a broad scope of individually and collectively managed pension funds, was discarded.

Equality of opportunity is a constitutional mandate that is still far from being a reality. While the poor feel included at discourse level and honor such official attitude by broad support and sympathy toward President Chávez, there is no de facto compensation for deep structural differences. The so-called "missions" through which ad-hoc social policies are implemented, are successes in public relations, but poorly monitored and counter-productive from the perspective of institutionalized social policies with long-term aims. While gender equality is widespread in terms of access to public office and education (about 60% of undergraduate students are women), there are still deficits regarding gender roles.

2.6. Economic performance

Per capita GDP (U.S. dollars, PPP 5.380) at the point of writing this review is below its level at the beginning of Mr. Chávez' presidency (U.S. dollars, PPP 5.495), and far below its highest level in the last three decades (U.S. dollars, 7.845 in 1977). The government's poor economic performance can be attributed to policy preferences that deliberately privilege short-term political gains over long-term effects and sustainability. They include oversized budget expansion (national budgets tripled since 2001, nominal terms), high unemployment levels (around 15% since 1999), unabated inflation (mean 1999-2004 over 20%), and mounting internal debt (from under \$5 billion in 1998 to over \$14 billion by the third quarter of 2004).

2.7. Sustainability

Venezuela's economy is heavily dependent on petroleum: oil and gas fields are scattered all over the country including offshore and lake areas. Ecologically sustainable oil exploration, production, and processing have therefore been a question of survival for the state-owned petroleum company that used to be very efficient in meeting high standards in this context. The favorable record was interrupted in the wake of the politically motivated petroleum strike in 2002-2003, when the government decided to dismiss over 16,000 technical, engineering, and administrative staff who participated in the strike. Among the various consequences of this heavy drain on human capital are a growing number of environmental accidents and refinery stoppages due to technical problems. Uncontrolled urban development and building has contributed to worsening sanitary conditions and aggravated the impact of climatic phenomena. The response capacity of the institutional framework represented by the Ministry of the Environment has proven sporadic and ineffective.

Education is the manifest prime concern of the government, at least in public discourse, but public spending reflects a relatively stable commitment to education in the last three decades (around 5% of GDP); inflation-controlled per capita spending actually dropped sharply in 2002 and 2003 (12% and 36% respectively). The structure of public spending on education reflects prioritization of the tertiary level (over 40%), the second-highest proportion in Latin America, resulting in a dense network of public and private technical colleges and universities. On the other hand, spending on research and development is relatively low (0.4% of the GDP) with an equally low proportion of researchers (193 per million people).

3. Management

President Chávez' administration has been autocratic and confrontational from the outset, marked by the absence of the prime ingredient of good governance – collective decisions that include all strategic actors. Even as he managed to build hegemonic power on apparently rock-solid ground, an enormous and widely unrepresented minority of four in 10 Venezuelans disapprove of his style, politics, and performance. What appears to be a stable power balance, but is above all a result of slanted representation mechanisms, may tip to even more repressive autocracy or critical transition any time. Mr. Chávez' unparalleled power is his main weakness; he is a strongman who controls all key decisions in the country, a circumstance that tends to blind against reality, shield against feedback, foster groupthink, encourage adulation and reduce the quality of government.

3.1. Level of difficulty

Entrenched poverty and growing dependence on oil revenues (over half of government revenues) are the structural constraints on governance. They are assessed as moderate because the current oil boom makes medium and long-term strategies to overcome them viable. The government's priority for spending on consumption rather than investment – fixed investment rates in 2003 and 2004 were just a little more than half their values in 1997 and 1998, when oil revenues were low – is politically motivated, as there are local and parliamentary elections in 2005 and presidential elections in 2006. Long-term considerations are overridden by populist policies of ever more handouts in order to ensure short-term electoral benefits.

Although there are over 4500 civil society organizations in Venezuela (according to the Centre of Social Science Research), the country's tradition in this arena of public life must be assessed as moderate. Most of these organizations are rather short-lived, and trust in institutions is very low, except the Catholic Church, the media and the universities. Civic participation in public life is highly volatile. There was considerable civil society activity and mobilization, both among pro-government and opposition ranks, in the run-up toward the recall referendum in August 2004. Once President Chávez had won the referendum, such activity ebbed. While the mobilization evidenced sharp social polarization, the two camps were and are divided along political, hence in principle reconcilable, rather than ethnic, religious or class lines.

Profile of the Political System

Regime type: <i>Democracy</i>	Constraints to executive authority:	3
System of government: <i>Presidential</i>	Electoral system disproportionality:	16.42
	Latest parliamentary election:	30.07.2000
	Effective number of parties:	2.8
1. Head of State: <i>Hugo Chávez</i>	Cabinet duration:	08/00-present
Head of government: <i>Hugo Chávez</i>	Parties in government:	4
Type of government: <i>unified government</i>		
	Number of ministries:	19
	Number of ministers:	19
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>		

3.2. Steering capability

Long-term social and economic policy requirements have been systematically sacrificed on the altar of short-term electoral benefit. The most obvious form of privileging tactics over strategy is the creation of parallel organizations for the implementation of ad hoc social policies called "missions" which respond directly to the president. Such "missions" are in practice not accountable to parliament; they manage funds provided directly by the state petroleum company, and work in addition, but not always complementary to the programs and administrative organization of the ministries. While their symbolic value and potential to generate support is very high, their effectiveness is at best doubtful, let alone their efficiency. Often enough, "missions" and other specific policies had to be designed and implemented following the president's brainwaves during his Sunday morning radio and televised addresses.

The government's reform agenda is richer in promises and announcements than in achievements, and lacks coherence as well as strategic orientation. Purpose does not translate into illustrated resolution, even less so into programmatic action. A case in point is employment policy: more than a handful of programs were announced in 2003 and 2004, but only two were launched and none sustained, and the impact on unemployment figures was plainly negligible. Public policy tends to be formulated on an ad hoc basis; implementation follows political loyalty rather than technical competence criteria. Poor outcomes in terms of human development indicators prove the distance between political discourse and facts.

The mismatch between purpose and achievement is aggravated by the political leadership's limited learning capacity. Critical appraisals of public policy tend to be dismissed as obstruction, with the result that valuable feedback remains unregistered. The aim of short-term electoral benefit is best served by confrontational populism focused on unsustainable consumption-oriented deficit spending, even in times of ballooning oil revenues. Turning the country around and putting it on a sustained growth path would require strategic planning, aimed at a shared design based on negotiation and wider consensus, which is currently not in sight.

3.3. Resource efficiency

2003 and 2004 saw the politically motivated dismissal of thousands of highly skilled technical and administrative staff from the state petroleum company for their participation in the 2002-2003 strike, as well as the expansion of the public sector by over 300,000 workers, recruited on the condition of not having signed the recall petition against President Chávez. Although the fiscal deficit is manageable and overspending typically does not surpass about 5% of the budget, there is a lack of transparency and ineffective auditing, as shown for e.g. in the

high credit default proportions in the government's development banks. The process of decentralization of public services, which had produced positive results in areas such as education and health care, was reversed in the wake of the centralized and highly politicized social policy "missions".

The missions – in education, health care, employment, civil registry – overlap with the routine activity of traditional administrative structures, generating redundancies and even frictions. Furthermore, frequent cabinet re-shuffles produce discontinuities, as the new ministers have their own ideas about running their departments. Uncoordinated planning and often counter-productive policy changes have undermined government performance in agriculture, health care, investment promotion and employment policies.

The screening of mission and political databases such as the list of over three and a half million citizens who signed the recall referendum petition reveals that the vast resources of the above-mentioned “missions” are distributed based on political preference rather than rational criteria. Accountability is not a characteristic feature of Venezuelan politics. Corruption is deeply entrenched in its administrative and state culture. In 2003-2004, the auditing office, constitutionally autonomous but in reality aligned with officialdom, identified just 21 cases of corrupt practices at the national, and 10 at the regional and local levels, which were handed over to public prosecution. Intriguingly enough most of these cases were from the few opposition-controlled states.

3.4. Consensus-building

Under the circumstances of the prolonged run-up toward the recall referendum in August 2004 – a political stalemate in the context of permanent crisis – any basic consensus about the country's development goals and path was unlikely. The agreement of May 2003, brokered with the help of external mediation (OAS, UNDP, Carter Center), was limited to paving the way toward some electoral solution. Doubtful sweeping victories in the referendum and the regional and local elections of October 2004 strengthened President Chávez' hegemonic position; the opposition is no longer a challenge, and consensus-building continues to be a non-issue.

The form of government and economic order most Venezuelans endorse is a market-based democracy (four in five according to the Latin Barometer Survey, which also rates them as the most entrepreneur-minded on the subcontinent). Those political actors who share the people's view – most opposition parties, a majority of the trade unions and employer associations – have been unable to shed their own discredited populist past, translate that strategic preference into a credible policy agenda and mobilize support for it. In contrast, the dominant political actors pursue a populist, state-centered agenda, while succeeding in

convincing the people that their approach was an advanced version of market-based democracy tailored to meet the country's specific needs. Yet that dominant agenda is neither unmistakably formulated nor agreed upon within the government alliance. Paradigms span from a mixed economy with private, cooperative, and state-controlled sectors to a fully state-owned centrally planned system. There is greater harmony regarding the political model of hegemonic plebiscitary democracy that precludes alternation in government.

Reformers and revolutionaries are still on the same pro-government side of the political fence; their strength as an alliance rests on the appeal of the charismatic and autocratic leader. As long as elections, which are competitive at least in principle, required an image of unity, their differences on strategy were unlikely to surface. At the same time, such elections helped reformers to calibrate their specific weights within the coalition and hence their relative negotiation power with the leader. Revolutionary rhetoric aside, there is a small window for reform in the direction of a state-regulated social market economy that can be closed any time, should that rhetoric translate fully into practical policy.

A recent political culture survey reveals a social and symbolic dispute over the meaning and definition of democracy, development, and social relations. The political leadership, above all President Chávez himself, contributed to heat up the dispute to the point of social rupture. This goes hand in hand with the purposeful destruction of interpersonal and social trust, not least through a Manichean official discourse that preaches class hatred ("oligarchs tremble") and equals dissidence with treason, and through the sectarian recruiting policy of excluding citizens who signed the recall referendum petition from employment in the public administration. Expelled technical specialists cannot even work for the state oil company's contractors, as these are required to report the identity of the employees on their payrolls.

The Venezuelan Constitution is advanced in matters regarding the inclusion of civil society in the political process. It guarantees its participation in all spheres of public management, civic education, and the designation of the electoral authority. According to the constitution, this body should comprise of five members with no political affiliations, three of them nominated by civil society, one by the universities, and one by Citizen Power. Again, there is a gap between the ideal and the real constitution. The electoral authority, who steered the questioned recall referendum process and the October 2004 elections, was not appointed by a constitutionally required two-thirds majority of the National Assembly (which the government alliance did not command at that time), but by a complaisant constitutional court that installed a safe pro-government majority of three to two and later four to one. Accordingly, nearly all decisions of the body were approved three to two or four to one.

In the official discourse, the country's history divides into good and evil phases: the good implies the glorious fight for independence led by Bolívar and the

Bolivarian Revolution led by President Chávez, his 21st century reincarnation; the evil refers to Spanish colonial oppression and almost two centuries of undifferentiated exploitative, exclusive rule of the lackeys of imperialism. Dissidence is automatically identified with unpatriotic behavior. Efforts to rewrite Venezuela's recent history find their way into the schoolbooks. Mr. Chávez' coups are glorified while the forty years of consolidating and deconsolidating representative democracy that made his rise to power possible, are vilified. It is not reconciliation of the so-called excluded with the supposed privileged of the past that is on the agenda, but the reversal of roles: privilege the so-called excluded, exclude the supposedly privileged in the name of historical justice.

3.5. International cooperation

The government invited external mediation by the Organization of American States, the United Nations Development Program, and the Carter Center to broker the General Agreement that paved the way toward the recall referendum. At the same time, it complained repeatedly of what it referred to as unduly political interference, when the brokers voiced the obstacles that had to be removed at the negotiation table. In its Country Assistance Strategy, the World Bank prioritizes macroeconomic stability, economic diversification, sustainable development and good governance while recognizing that there are risks in Venezuela that it expressly considers worth taking. Such strategic statements reflect a clear vision of the country's main challenges, as well as a scarcely veiled and very diplomatic reference to "chemistry" problems in its relations with the Venezuelan partners.

President Chávez divides the international stage into friend and foe just as he does at home; closer relations with China, India, Iran or Spain are useful for the diversification of the country's global options and do not generate particular suspicion on the part of its traditional partners. Closer ties with Brazil and Argentina help project the image of a progressive front that might foster hemispherical integration on terms more suited to Latin America's identity. But the Caracas-Havana axis, with growing influence for the latter and economic viability guaranteed by the former (according to estimates, the trade agreement with Venezuela's state oil company implies an annual \$500m transfer to the island, compared with about \$100m annual remittances from exiled Cubans), creates as much suspicion as Venezuela's stance vis-à-vis the Colombian guerrillas or the export of the Bolivarian Revolution to the rest of the hemisphere. As a factor in the World Bank risk appraisal, the international community is at best cautious in its trust toward Venezuela.

Caracas has switched more than once from cooperation to scarcely veiled hostility toward neighboring Colombia, while maintaining and consolidating excellent relations with Brazil and the Caribbean. Relations with the United States, always special due to the traditionally strong trade interdependence, has been noisy on the

surface, but so far quite fluent in real terms. Relations with multilateral actors have been less steady, especially with the Inter-American Commission on Human Rights and the WTO. Venezuela insists that international agreements should give states the rights to regulate whatever they consider as of strategic importance to them.

4. Trend of development

The adoption of the Constitution of the Bolivarian Republic of Venezuela in 1999, its coming into force in the following year and the re-legitimization of all public mandates before the end of 2000, put the country on what appeared to be a transition path toward a more inclusive democracy and a social market economy. Yet, it soon became evident that there was a gap between the ideal and the effective constitution. As positions were filled in open disregard of legal requirements, power was even more concentrated in the hands of the President and society was split into two opposing camps by a Manichean political discourse and action, inspired by hatred and oriented toward the revenge of “historic injustice”. The period under study from 2001 to 2005 must be characterized as autocratic regression and a return to state-centered rent-based economic populism.

4.1. Democratic development

On a continuum between the two ideal types of democracy and autocracy, the political regime is moving away from the democratic pole. Indicators of that regressive dynamic are the following: firstly, the state has in effect given up its monopoly on the use of force in some frontier areas that are de facto safe havens for Colombian guerrillas, with Venezuelan ranchers paying “insurance policies” to them. Secondly, the fairness and outcome of the two electoral events that took place in the assessment period – a recall referendum against President Chávez and regional elections – have been seriously questioned even though international observers endorsed the former (the European Union refused to send a mission because their standard requirements of access to data and processes were not met). Thirdly, freedom of expression has been under constant attack, as was stated in an official report of the Inter-American Commission on Human Rights (Chapter B, Threats, harassment, and attacks against journalists and the media).

Radical change in a formally democratic context (a kind of re-edition of the “revolution in democracy” of the 1960s) is seen as requiring the gradual substitution of the “ancien regime” institutions by parallel organizations that eventually take over their remains, and needs “enemies” within the society who must be excluded, marginalized or even expelled or destroyed. In the Venezuelan case, parallel organizations accountable directly to the president (not to parliament) have been set up to assume operating functions in areas like health

care (Mission Inside Shantytown), education (Missions Robinson, Ribas, Sucre), social assistance (Plan Bolivar 2000), or employment (Mission Turnaround). Their functional principle is not bureaucratic rationality, but loyalty to the leader and patronage instead of legal claims. On the other hand, the government exacerbated political rifts with the result of splitting society into good and evil forces.

4.2. Market economy development

Venezuela's HDI did not change in the past five to seven years (HDR 2004: 0.768 in 1995 to 0.778 in 2002). Poverty rose substantially during the first five years of President Chávez administration "for the poor": according to the figures of the Statistical Office, from 50.4% (end 1998) to 62.1% (end 2003), an increase of close to 4 million people, most of them in conditions of extreme poverty, which rose from 20% to 30% of the population in the same period.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	3.7	3.4	-8.9	-7.7	17.3
Export growth in %	5.8	-3.5	-4.0	-9.9	13.3
Import growth in %	12.4	14.1	-25.2	-19.6	60.0
Inflation in % (CPI)	13.4	12.3	31.2	27.1	19.2
Investment in % of GDP	13.3	14.7	12.6	8.9	8.3
Tax Revenue in % of GDP ^a	9.0	9.4	9.4	10.0	11.9 ^c
Unemployment in % ^b	13.2	12.8	16.2	16.8	16.2
Fiscal balance in % of GDP ^a	-2.6	-6.6	-5.4	-5.9	-3.5
Current account balance in billion \$	12.1	2.1	7.6	9.6	8.9

Source: Banco Central de Venezuela - if not indicated otherwise; a) Ministerio de Finanzas; b) Instituto Nacional de Estadísticas; c) SENIAT

The institutional framework for progress toward a market economy has changed appreciably. The implementation of the Land Reform Law, though of negligible economic impact, has upset farmers as expropriations were decreed in sometimes-doubtful legal procedures. The Central Bank's constitutionally guaranteed autonomy was undermined by a resolution of the Supervisory Agency for Credit Institutions imposing new rules for the calculation of the Bank's "exchange surplus", which added about \$2 billion to the government's coffers. State-controlled credit institutions like the Women's and the People's Banks were exonerated from supervision (a further case of parallel organizations); credit default rates of over 60% were the consequence.

In real terms, overall economic development remained stagnant between 2001 and 2004, and was below its level in 1998, the year before Chávez took office. While the general government fiscal balance was kept in a manageable range of between just under 2% and over 3%, its dependence on oil revenues – and hence its political viability in a populist rent-seeking and distribution setting – rose from just one-third to over 50% of total revenues. The average inflation rate of over 20% is but one indicator of a policy that prioritizes government handouts over investment.

D. Strategic perspective

President Chávez' re-legitimization in the August 2004 recall referendum let off steam from the overheated political landscape, allowed the economy to pick up pace again, and set the stage for the sweeping victory of his coalition in the regional and local elections of October 2004. The governing coalition also looks set for further victories on the electoral front in both local and parliamentary elections in 2005 as well as presidential elections in 2006. Apart from the habitual campaign noise and occasional protest actions on the part of political and social actors alike, the country's political uncertainty of past years should be under control.

This is not to say that the Bolivarian Revolution is irreversible. President Chávez' salami tactics of imposing revolutionary change by way of radical but gradually imposed reforms has proven effective so far, but may become overstretched and arouse opposition even from within, as not all of his associates share his recently confessed conversion to socialism (note that Fidel Castro also let time pass before declaring his successful revolution as socialist). Mr. Chávez' unparalleled power and strength is his main weakness; he is the strongman who controls all key decisions in the country, a circumstance that tends to blind against reality, shield against feedback, encourage adulation, foster groupthink, and reduce the quality of government.

A fair proportion of government support hinges on spending and handouts, as evidenced by survey results in the run-up toward the recall referendum. As a result, fiscal discipline will be a non-issue, with elections approaching in 2005 and 2006. Given the enormous dependence of the government's coffers on oil revenues, the state petroleum company will be forced to divert bitterly needed investment in exploration, production, and refining to consumption via the budget and the parallel social transfers to the missions. Consequently, the decline in the company's production, observed already in 2003 and 2004, is expected to continue due to insufficient investment, and this will affect its role as the government's money-chest. A major adjustment package may be necessary after Mr. Chávez' expected victory in the 2006 elections, in which case he will encounter the sort of problems he was confronted with just a year after his

sweeping victory in the July 2000 elections: strikes, protest demonstrations, decline of popular support. This time around, with legislation in place that criminalizes dissent, the repression of such protest on all fronts, including the media, will be harder, regarding the use of force and the use of the judiciary to control dissidence.

Economic growth, which was so strong in 2004 (17.3%), should slow down, both due to the statistical bounce effect – the economy had hit rock bottom in 2003 – and to the low investment rate. The focus on consumption spending will help reduce unemployment levels, but inflation is posed to linger on in the double-digit range of 20% or more.

On the international stage, the government will continue in its effort to diversify Venezuela's international political and trade relations (China, India, Iran), strengthen Latin American integration initiatives in areas such as the petroleum and energy industry (Petrosur and Petroamerica, proposed joint ventures of Venezuelan, Argentine, Brazilian, and Uruguayan petroleum companies), communications (the proposed South American TV channel Telesur), or travel and tourism (proposed common Andean passport). The government's petrodollars will continue to be useful in its worldwide public relations campaign, especially in the United States (where it has been spending millions to pay for consulting, lobbying services and hacks); they will also help promote friendly movements and candidates such as Bolivia's *cocaleros* (Evo Morales) or Mexico's Lopez Obrador. Venezuela appears to be the showcase of neo-populist resurgence in Latin America.