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**THE POLITICAL ECONOMY OF ANTI-
POLITICS AND SOCIAL POLARISATION
IN VENEZUELA, 1998-2004**

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The Political Economy of Anti-Politics and Social Polarisation in Venezuela 1998-2004

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In the past twenty years, there has been a sharp decline in party politics and the rise of what can best be described as a new form of populist politics. Nowhere has this trend been more evident than in Latin America in the 1990s, particularly in the Andean region.¹ One common theme in this trend is the rise of leaders who denounce politics by attacking political parties as the source of corruption, social exclusion and poor economic management of the ancient regime. Alberto Fujimori in Peru in the 1990s and Hugo Chávez Frías since his surprising election in Venezuela in 1998 are prototypical examples of the rise of ‘anti-politics’, the emergence of ‘political outsiders’ who have mounted assaults on traditional politics, and the established political class, running in elections saying, ‘vote for us - we are not politicians!’

Populism refers to a political strategy where a leader appeals directly to ‘the people’, ‘the masses’ – or, in the language of today’s development discourse – ‘the poor’. They claim to love the people, to be the direct representative of the people, to be the voice of the people.² Populist leaders continually demonstrate their closeness to common people (*el pueblo*) and stimulate popular identification with their leadership. The leader-mass bond, in recent times, is harnessed through frequent face-to-face contacts with the masses, often through the use of television, and through other forms of mass media. To some extent, populism is a form of cinematic politics.³ Populists generally communicate in ways that embody and live out the dreams of the common person, promise to promote policies that will include neglected groups in the polity and economy, and instil in their followers a sense of mission to transform the status quo.⁴ The maintenance of a populist’s popularity is, of course, dependent on drawing on the power of the leader’s charisma.⁵

Populism, understood in political terms as the de-institutionalisation of political authority, emphasises the relatively insignificant role intermediary institutions like political parties, labour unions, the legislature, and so on, play in legitimating public authority and in executing public policies. This political perspective has the advantage of not wedding populism to a particular stage of development, transitional phase, or economic strategy. Historical/sociological perspectives argue that classical populism in the 1930s and 1940s in Latin America corresponds to a transitional phase that involved the demise of oligarchic socio-political orders and the introduction of inclusionary mass politics, when urbanisation and industrialisation transformed the nature of political settlements. The rapidly growing urban and middle-classes were not easily absorbed into the rural-based patron-client networks of traditional oligarchic parties, and, in much of the region, they were available for

¹ K. Roberts, ‘Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case’, *World Politics*, 48:1 (1995).

² K. Weyland, ‘Clarifying a Contested Concept: Populism in the Study of Latin American Politics’, *Comparative Politics* (October 2001).

³ I owe this point to James Putzel.

⁴ Weyland (2001), p.5.

⁵ A characteristic that Weber argued is essential to any politician.

mobilisation by populist figures such as Peron, Vargas and Cardenas.⁶ While dependency theorists did not adopt this functionalist approach, they identified populism as the emergence of multiclass political movements associated with the onset of import-substitution strategies (ISI) and nationalist-based state-led development strategies.⁷ More recently, populism had been defined as a set economic policies that aim to expand the fiscal spending through unselective distributive programmes aimed at rewarding labour unions, lower-income earners, and domestic industrialists, all of whom were important urban-based groups supporting populist governments.⁸ This so-called ‘macroeconomics of populism’ literature argued that populism generated unsustainable fiscal policies that were the root cause of growing fiscal deficits, inflation, and unsustainable debt portfolios in Latin America in the 1980s.

All of these approaches predicted as well as advocated the demise of populism. Those that emphasised populism as wedded to an economic stage saw populism as a transitional phase that would dissipate with the exhaustion of ISI. Those that associated populism with fiscal profligacy argued that such policies were unsustainable, and that populism would thus wither under the mountain of debts and balance of payments crises.

The re-emergence of new populist leaders in the 1990s has provided an opportunity to assess conventional theories of populism. Firstly, the new populist emerged in a different global environment, one where economic liberalism is considerably more dominant than in the past. Secondly, in contrast to classical populism, such as that Perón and Vargas, there is much less inclination of political outsiders to build party organisations as a basis of their rule. The defining characteristic of anti-politics is anti-political party politics. Thirdly, there has been an interesting co-existence between anti-politics politicians promoting neo-liberal microeconomic agendas and combing this with fiscal discipline, and even austerity. These trends suggest that populism is not wedded to either a stage of development or a particular economic strategy. Moreover, while the political perspective on populism is essential for understanding new forms of populism, it does not necessarily explain why or how some of the classical populists such as Perón, Vargas, Cárdenas and Betancourt combined personalist leadership with substantial forms of institution-building in the form of political parties and state-labour union links.⁹

In Latin America, a great deal of attention has focused on the extent to which anti-politics and neo-liberal economic policy have been *compatible* in the 1990s.¹⁰ Fujimori and Menem were striking examples of the rise of *anti-políticos* pursuing neo-liberal development strategies. The affinity between new populism and neo-liberalism revolves around both movements’

⁶ G. Germani, T. di Tella & O. Ianni, *Populismo y contradicciones de clase en Latino-américa*, Mexico: Ediciones Era, 1973.

⁷ F. H. Cardoso & E. Faletto, *Dependency and Development in Latin America*, Berkeley: University of California Press, 1979.

⁸ R. Dornbusch & S. Edwards, *The Macroeconomics of Populism in Latin America*, Chicago: University of Chicago Press, 1991.

⁹ Roberts suggests that a synthetic construction of populism can be founded on the following five core principles that are derived from the competing perspectives: 1) a personalistic and paternalistic, though not necessarily charismatic, pattern of political leadership; 2) a heterogeneous, multiclass political coalition concentrated in subaltern sectors of society; 3) a top-down process of political mobilisation that either bypasses institutionalised forms of mediation or subordinates them to more direct linkages between the leader and the masses; 4) an amorphous or eclectic ideology, characterized by a discourse that exalts subaltern sectors or is anti-elitist and/or antiestablishment; 5) an economic project that utilizes widespread redistributive or clientelistic methods to create a material foundation for popular sector support (Roberts, 1995).

¹⁰ K. Weyland, ‘Populism in the Age of Neoliberalism’, in M. Conniff (ed.), *Populism in Latin America*, University of Arizona Press, 1999; Roberts (1995).

adversarial relationship with the established political class, established intermediary organisations such as political parties, labour unions and business chambers. Advocates of neo-liberal reform argued that poor groups were excluded from the benefits of ISI policies, which not only bred corruption, but also disproportionately favoured groups that had formal links with state-led strategies, and the rents and subsidies associated with state interventionism. Moreover, state-created rents were not only unevenly divided but generating rent seeking and corruption, which, neo-liberals argued, were detrimental to economic growth and fiscal prudence. Economic liberalisation would limit the rent creation capacity of the state, and thus would undermine the effectiveness of influencing activities of interest groups associated with ISI. In this perspective, neo-liberals opposed the influence of organised interests. The neo-liberals' objections to intermediary organisations were to permit neo-populist leaders to invoke seemingly rational, technocratic arguments to strengthen their personal leadership. As Weyland notes: "They used neo-liberal policies to weaken labour unions and business groups, which had stalemated their predecessors".¹¹ Neo-liberal policies were thus instrumental in enhancing the power and legitimacy of *anti-politicos*.

At the same time, new populists rose by attacking the political class who distributed privilege in ways that excluded the poor from development strategies. *Anti-politicos* took advantage of the growing hostility of the vast majority of poor urban masses of the politics of privilege and corruption surrounding many failed state-led ISI strategies. While there is little evidence that corruption itself either hinders growth, is necessarily exclusionary, or was any greater in the 1990s compared with earlier periods, the *prolonged economic stagnation* in the 1980s and 1990s in Latin America opened up a space for corruption to be used as a focal point for social, political and economic discontent. Neo-liberal populists such as Fujimori and Collor ran successful anticorruption campaigns that resonated with the poor. This was reflected in the large shares among poor voters that both received in presidential elections. These leaders ran as outsiders, creating the image that they were different from the established corrupt political class. Both neo-liberalism and neo-populism shared hostility toward the political class.

In terms of governing, neo-liberals and neo-populists shared a vision that a strong executive was necessary to override distributional coalitions within civil society, and within the state bureaucracy and within political parties. The ease with which Fujimori shut down Congress and weakened the judiciary, and allied with the military suggest that many groups in society bought into the idea that established intermediary Fiscal austerity measures were crucial to neo-populists because the reductions in inflation, and subsequent price stability was a principal part of the regime's legitimacy. This was particularly the case where previous episodes of hyperinflation both hurt the poor greatest and was the source of economic instability and capital flight. Finally, the use of targeted subsidy programmes to poor groups (used extensively by Fujimori) was advocated by neo-liberals and helped neo-populist establish direct clientelist links, which enhanced loyalty of the masses.

In the cases where neo-liberal neo-populists did emerge, in Latin America at least, they did so in the wake of episodes not only due to prolonged economic stagnation, but also where prior episodes of *hyperinflation* decimated the legitimacy of the established political leaders and parties. Moreover, the cases of Fujimori, Mellor and Menem were decidedly conservative with respect to the property rights and privileges of upper income groups, and in particular, asset owners. There was little attempt to increase direct taxation on upper-income groups;¹²

¹¹ Weyland (1999), p.184.

¹² V. Tanzi, 'Taxation in Latin America in the last decade', *Working Paper 76*, Stanford: Center for Research on Economic Development and Policy Reform, Stanford University, 2000.

privatisation programmes often benefited well-placed business groups;¹³ income distribution, if anything, worsened; land reform was largely ignored; and there was little resistance to keep strategic national industries in the hands of the state. These cases did not represent significant political inclusion of lower-income groups, and were hardly transformative in terms of social relations of production. Their lack of revolutionary intent, perhaps more than anything, made these movements transitory and increasingly illegitimate over time. Fujimori, Menem, and Collor all left office in disgrace, subjects themselves, ironically, of large-scale corruption charges, and other abuses of power. The failure of these projects to distribute wealth proved their Achilles heel, particularly because trend increases in economic growth and investment were not sustained.

The affinity of neo-liberalism and neo-populism is, however, a trend that does not cover every case in Latin America. While many neo-populists in Latin America did follow neo-liberal policies, there is no reason to argue that there is a determinant relationship between the re-emergence of anti-politics and the economic and political strategies. In one of the classical studies of populism, Laclau posited the largely unpredictable nature of populist movements; and rejected the mechanical connection between populism and the stage of development.¹⁴

In December 1998, Hugo Chávez Frías, a former lieutenant colonel and leader of two failed two coups attempts in 1992, won a landslide victory in the presidential elections. His rise to power effectively marked the end of a political system where political pacts and corporatist bargaining had produced one of the most stable democratic systems in Latin America in the previous forty years. The cornerstone of the pacted democracy was the *Punto Fijo*, which was characterised by the alternation of power of two political parties, the social democratic Acción Democrática (AD) and the centre-right Social Christian Party (COPEI). Neither Chávez, who won 56 percent of the vote, nor Henrique Salas Romer, who finished second with 40 percent, was the nominee of either of the main parties (although Romer received the endorsement of two main parties).

The rise of anti-politics in the Venezuelan case in the period 1998-2004 represents important differences with contemporary patterns in Latin America, as well as a break with Venezuela's recent past. One of the hand, Chávez is a consummate *anti-politico*. The anti-party, anti-corruption discourse is central to his popularity, particularly among the poor. From the beginning of his career Chávez cultivated an anti-party discourse. He aggressively denounced the hegemony of the two main parties, and their domination of Congress, the judicial system, and the labour and peasant movements. In this sense, he was similar to many neo-liberal analysts that had argued that Venezuelan economic and political crisis was due to the capture of the state by clientelist and increasingly corrupt parties – a system that was referred to as a “partyarchy”.¹⁵ Upon winning the election, he followed through on his campaign promise of transforming the nation's corporatist system through a constituent assembly.¹⁶ The drafting of a new constitution in 1999 attempted to create direct, participatory democracy at the local level. The changes Chávez promised and executed severely weakened the power of the legislature and judiciary. The increase in executive power led many to call his regime ‘hyper-

¹³ H. Schamis, H., ‘Distributional Coalitions and the Politics of Economic Reform in Latin America’, *World Politics*, 51:2 (1999).

¹⁴ E. Laclau, *Politics and Ideology in Marxist Theory: Capitalism, Fascism, Populism*, London: New Left Books, 1977.

¹⁵ M. Coppedge, *Strong Parties and Lame Ducks: Presidential Partyarchy and Factionalism in Venezuela*, Stanford: Stanford University Press, 1994.

¹⁶ J. McCoy, ‘Chávez and the End of “Partyarchy” in Venezuela’, *Journal of Democracy*, 10:3 (1999).

presidentialist', although Latin American politics, and Venezuela in particular, has traditionally been presidentialist in any case.¹⁷

On the other hand, while the anti-party discourse is similar to other Latin American cases, the *chavismo* movement evolved in ways that differ substantially from other Latin American cases. Firstly, the appeal of Chávez owes to the resonance of his *anti-neo-liberal* discourse and policies; and his foreign policy rhetoric, which called for the strengthening of developing country alliances and the need to create 'multi-polar' centres of power in the world. On foreign policy, Chávez opposed the US line on many issues, including maintaining particularly friendly relations with Cuba, and granting asylum to Colombian guerrillas. Chávez directly attacked not only the political class, but also attacked the economic oligarchy as an enemy of the people – in his often used quote, “*horror a la oligarquía.*” Chávez also reversed the process of privatisation of the oil industry, which accounts for three-quarters of Venezuela's exports; and gradually eliminated the independence of the Central Bank. The introduction of capital controls in 2003, in the wake of a two-month oil strike, also contrasts with neo-liberal policy. Thus, one of the salient characteristics of the rise and rule of *chavismo* is a *reversal* of neo-liberal policies. The second aspect *chavismo* is the *politicisation of social and economic inequality*.¹⁸ While Chávez has had little support among labour unions, the prominence of agrarian reform in his electoral platform and during the period 2000-2004 represents a radicalisation of property-rights transformation not seen in other Latin American cases. Moreover, the introduction of government missions that redistribute social spending to the poorest groups, and the virulence of the opposition of middle-class and upper-class groups, and the media – controlled by established, large economic groups – to a series of Chávez's political and economic reforms in the period 2001-2004, attests to the extent to which the privileged groups' rights and access to the state were under threat. The politically more radical stance of Chávez's administration points to the role of ideas and ideology in influencing the extent to which struggles over property rights can be transformed. Thirdly, the Chávez period attests to the relatively greater role the military plays in executive-led social and economic programmes and management. The re-emergence of the military has little parallel among other *anti-politico* cases, though the military was a strong ally of Fujimori. Finally, the *durability* of Chávez's support among the poor, despite economic stagnation and crippling opposition-led strike in 2002 and 2003, differs substantially from the other Latin American cases of anti-politics. The consolidation of the Chávez regime in September 2004, with an overwhelming victory in a recall referendum demanded by the opposition, attests to the solidity of Chávez's support. The popularity of Menem and Fujimori were based largely on controlling hyperinflation and reviving economic growth. Their support proved ephemeral in the wake of economic downturns. The extent to which *chavismo* will represent an enduring path change in property rights and in economic performance will, as the history of developmental states attests, depend upon the ability of the regime to institutionalise many of the reforms and initiatives undertaken.

This paper examines the political economy underlying the rise of Hugo Chávez Frías and the accompanying replacement of a party-centred system with a more personalistic/partyless populism in the period 1998-2004. The first section examines the pre-conditions that created the opportunity for a political outside to emerge in Venezuela. In particular, it explores the mechanisms through which economic liberalisation policies contributed to increasing political

¹⁷ S. Mainwaring & M. S. Shugart, *Presidentialism and Democracy in Latin America*, Cambridge: Cambridge University Press, 1998.

¹⁸ K. Roberts, 'Social Polarization and Populist Resurgence in Venezuela', in S. Ellner & D. Hellinger (eds.), *Venezuelan Politics in the Chávez Era: Class, Polarization and Conflict*, Boulder: Lynne Rienner, 2003.

instability, the decline in the fundamental political party, the increase in resonance of anti-party and anti-corruption discourses, and the social and economic polarisation and inequality. The second section examines the ideological background behind Chávez and his movement. The third section provides a historical account of how Chávez has exercised power, and explores, in particular the mechanisms through which the politics of anti-politics operates. The rise of hyper-presidentialism, the change in the Constitution, the role of neighbourhood community cells known as Bolivarian Circles, and the growing role of the military will be traced. The increasing factionalism within *chavismo*'s main political organisation (Movimiento Quinta República, MVR) will be assessed. The fourth section examines economic policy and outcomes. In particular, the legitimating role of executive-led missions to support social programmes, agrarian reform, and battle over the state oil company-PDVSA, will be explored.

Pre-Conditions for the Rise of Anti-Politics

Economic Liberalisation, Economic Crisis and Growing Inequality in Venezuela, 1988-1998¹⁹

The space for the rise of anti-politics lies in the inability of the traditional political parties and the state to govern the economy in ways that promoted economic growth. In the period 1958-1988, the Venezuelan polity had historically been legitimated by the state-led developmentalism and economic nationalism,²⁰ with centralised rent-deployment patterns controlled by the executive and brokered by two hegemonic and highly centralised and clientelist political parties. The declining effectiveness of state-led industrialisation contributed to declining growth rates and balance-of-payments crises, which influenced the decision of Carlos Andres Pérez to launch one of the most ambitious liberalisation reforms in Latin America. The liberalisation plan, known as the 'Great Turnaround' (*El Gran Viraje*) included the unification, and massive devaluation of the exchange rate, trade liberalisation, privatisation and financial deregulation, including freeing of interest rates, elimination of nearly all restrictions on foreign investment, and the introduction of tax reforms, including the introduction of value-added taxes.²¹ The programme was intended to be an orthodox reform package along the lines of the Washington Consensus.²² However, the introduction of neo-liberal economic reforms in 1989 failed to reverse a long-run trend decline in growth from the 1960s and substantially increased economic and social polarisation in the country. Indeed, the introduction of economic reforms in Venezuela in 1989 ushered in a period of profound political instability, growing polarisation and income inequality, and contributed to the demise of once stable and power political parties.²³ In many ways, Venezuela was an unlikely candidate for political and economic implosion. Firstly, in the period 1958-1988, Venezuela maintained, through political pacts and corporatist bargaining, one of the most stable

¹⁹ Draws substantially on J. Di John, 'The Political Economy of Economic Liberalisation in Venezuela', *Crisis States Working Paper*, 46, London: Crisis States Research Centre, LSE, 2004.

²⁰ F. Coronil, *The Magical State*, Chicago: University of Chicago Press, 1998.

²¹ For details, see R. Hausmann, 'Quitting Populism Cold Turkey', in L. Goodman *et al.* (eds.), *Lessons from the Venezuelan Experience*, Baltimore: Johns Hopkins University Press, 1995; J. Corrales & I. Cisneros, 'Corporatism, Trade Liberalization and Sectoral Responses: The Case of Venezuela, 1989-1999', *World Development*, 27 (1999); M. A. Rodríguez, *El Impacto de la Política Económica en el Proceso de Desarrollo Venezolano*, Caracas: Universidad Santa Maria, 2002.

²² J. Williamson, 'What Washington Means by Policy Reform', in J. Williamson (ed.), *Latin American Adjustment: How Much Has Happened?*, Washington: Institute for International Economics, 1990.

²³ For a more extensive discussion of these political economy of these reforms, see Di John (2004).

democratic systems in Latin America.²⁴ Thus, crisis and breakdown in Venezuela have occurred in a polity that had accumulated substantially strong mechanisms to regulate and contain conflict. Secondly, Venezuela was for six decades before 1980 the second fastest growing economy in Latin America and the economy with the lowest inflation rate, the latter a sign of a polity that contains and regulates conflict. Given its favourable initial conditions, the Venezuelan case may prove to be an instructive case as to the stresses liberalisation can unleash not only in transition economies,²⁵ but also in a late-developing, capitalist, and long-standing democratic polity.

There are several political economy trends that contributed to the decline in the legitimacy of the political parties. The first concerns the long-run decline in economic growth and investment. Despite maintaining relatively high growth rates in gross domestic product in the period 1920-1980, and despite being the recipient of oil export windfalls in the period 1974-1985, Venezuela entered one of the worst growth implosions in Latin America in the period 1980-1998. Per capita gross domestic product declined 2.7 percent in the liberalisation period, 1990-1998.²⁶ As indicated in Table 1, the growth performance of the Venezuelan economy not only exhibits an implosion of growth in the period 1980-1998, it also exhibits a marked long-run decline in the trend rate of growth in the non-oil and manufacturing sectors in the period 1965-1998 when compared with the prior period of 1920-1965.

Table 1: Growth Trends in the Venezuelan Economy, 1920-1998
(Average Annual Growth Rates,* %)

Source: A. Baptista, *Bases cuantitativas de la economía venezolana 1830-1995*, Caracas: Fundación Polar, 1997; BCV, *Annual Reports and Statistical Series*, Caracas: Banco Central de Venezuela, various years.

	Non-oil GDP	Manufacturing
1920-30	10.2	n.a.
1930-40	2.7	n.a.
1940-50	9.6	6.6
1950-57	9.1	15.0
1957-65	3.4	8.5
1965-80	5.7	5.8
1980-90	-0.1	4.3
1990-98	2.3	1.5

* All output series in 1984 bolivares

Manufacturing growth, which had been on a downward trend since the mid-1960s, declined from an annual average of 4.3 percent in the period 1980-1990 to 1.5 percent in the reform era of 1990-1998, and collapsed to minus 5 percent in the period 1998-2002. Non-oil annual growth did increase from minus 0.1 percent in the period 1980-1990 to 2.3 percent in the period 1990-1998.

²⁴ D. Levine, *Conflict and Political Change in Venezuela*, Princeton: Princeton University Press, 1973; T. L. Karl, 'Petroleum and Political Pacts: The Transition to Democracy in Venezuela', in G. O'Donnell, P. C. Schmitter and L. Whitehead (eds), *Transitions from Authoritarian Rule*, Baltimore: Johns Hopkins University Press, 1986; J. C. Rey, 'La Democracia Venezolana y La Crisis del Sistema Populista de Conciliación', *Estudios Políticos*, 74 (October-December 1991).

²⁵ A. Przeworski, *Democracy and the Market*, Cambridge: Cambridge University Press, 1991.

²⁶ For a discussion of the ineffectiveness of the economic liberalisation package launched in 1989, see Di John, (2004).

Moreover, there was continued decline in total investment and particularly private sector investment, as indicated in Table 2:

Table 2: Gross Fixed Investment Rates, Venezuela (1950-1998)
(Annual average as percentage of GDP and non-oil GDP respectively in current prices, %)

Source: Baptista (1997); BCV, *Annual Reports*, various years; BCV, *Statistical Series in Venezuela in the Last Fifty Years* (Series Estadísticas de los Últimos Cincuenta Años), Caracas: Banco Central de Venezuela, 1992; OCEI, *Encuesta Industrial*, Caracas: Republic of Venezuela, various years.

	All investment (as % GDP)			Non-oil investment (as % non-oil GDP)		
	Total	Public	Private	Total	Public	Private
1950-60	27.7	10.5	17.2	34.8	16.9	17.8
1960-70	24.2	8.4	15.8	26.1	9.1	17.0
1970-80	34.4	10.8	23.6	36.8	9.6	27.2
1980-90	21.3	10.6	10.7	22.5	8.7	13.8
1990-98*	15.8	9.9	6.9	13.7	5.6	8.1

* Non-oil investment data for the period 1990-95 only

Investment rates, particularly private investment rates, in the 1990s were significantly lower than in any period since 1950. The non-oil public investment rates in the 1990s were also lower than at any period since 1950, which also suggests that the effectiveness of the state in mobilising resources did not increase as a result of economic reforms. Reducing the role of the state in the economy has not, in the Venezuelan case, led to a more secure environment in which to invest.

The socio-economic and political effects of long-run economic stagnation have been dramatic and devastating. Stagnation in growth has negatively affected the demand for labour. Firstly, there were important increases in unemployment rates, especially since the mid-1980s. In the period 1965-1983, unemployment rates steadily fell and averaged 7.4 percent. From 1984-89, annual average unemployment rates rose to 10.5 percent and rose further to 11.5 percent in 1990-99. Not only has economic liberalisation not increased the incentives to generate investment and employment, but also there appears to be a tendency of further deterioration as the end of the period (1996-99), which has seen average unemployment rates increase above trend to 13.5 percent.²⁷ Secondly, there has been a dramatic decline in average real wages, which in 1995 had already fallen below the levels attained in 1950.²⁸ Thirdly, the percentage of households below the poverty line was 36 percent in 1985-86; but increased to 42 percent in 1989-90; 51 percent in 1994-95; and 56.4 percent in 1998-2000.²⁹

While investment has stagnated, there has been a massive shift in the factor distribution of income in favour of profits and away from wages. The principal decline in labour's factor share occurs in the liberalization period, 1989-1998, as indicated in Table 3:

²⁷ Unemployment data are from OCEI, *Encuesta de Hogares* (Household Survey) and *Employment Surveys*, Caracas: Republic of Venezuela, various years; and Baptista (1997), Table I.4, p. 31.

²⁸ Baptista (1997), Table IV-1, p.145

²⁹ G. Marqéz & C. Alvarez, *Poverty and the Labour Market in Venezuela*, Washington DC: Inter-American Development Bank, 1996.

Table 3: Net Factor Distribution of National Income in Venezuela, 1950-1990Source: BCV, *Statistical Series*, various years

	Share of wages and salaries in national income (annual average, percent)	Share of corporate profits, dividends, rents and interest payments in national income (annual average percent)
1950-1960	47%	53%
1960-1970	46%	54%
1970-1980	49%	51%
1980-1988	46%	54%
1989-1998	36%	64%

The share of corporate profits, rents and dividends oscillated between 51 percent and 54 percent in the period 1950-1988. However, in the liberalisation period of 1989-1998, capital owners appropriated an annual average of 64 percent of national income. Despite the fact that capitalist surplus appropriation and rents were increasing, private-sector investment rates declined in the 1990s. In fact, much of the increased surplus appropriation went abroad as accumulated capital flight, which reached \$14 billion in the period 1994-2000. Capital flight was nearly the same as the accumulated surplus in the current account of the balance-of-payments (\$15 billion) in the same period.³⁰

While liberalization has been associated with a dramatic decline in labour's factorial share, it is not possible to conclude definitively that liberalisation caused this decline. There are, as Rodríguez points out, important feedback effects to consider.³¹ On the one hand, labour unions had weakened prior to the liberalisation period. In 1975, the rate of unionisation was 33 percent, but fell to 26.4 percent by 1988 owing to economic stagnation and decline. Moreover, the ties between the main labour-based party, AD and the main labour federation (the Confederación de Trabajadores de Venezuela, CTV) weakened throughout the 1980s.³² Labour's weakened political power contributed to the decline in its bargaining power over factorial shares. On the other hand, the liberalisation policies clearly exacerbated this trend as lower factor shares along with weak demand for labour owing to stagnant investment further weakened labour's power. In the period 1988-1995, the rate of unionisation fell by nearly 50 percent, declining from 26.4 percent of the workforce in 1988 to 13.5 percent in 1995.³³

Accompanying the decline in labour union membership was an increase in informal employment in the liberalisation period. In the period 1980-90, the rate of informal employment of the non-agricultural labour force averaged 39.5 percent. However, the level of informal employment increased to an average of 44.5 percent in the period 1991-95, with a tendency towards continued increases as the sub-period 1994-95 saw informality rates reach an average of 48.5 percent.³⁴ The consequence of growing fragmentation and informalisation of the labour and production process negatively affected the social bases of support for political parties, and hence contributed to the de-institutionalisation of conflict mediation capacities in the Venezuelan polity. It also meant that populist/outsider strategies become

³⁰ Rodríguez (2002), p.67.

³¹ F. Rodríguez, 'Factor Shares and Resource Booms: Accounting for the Evolution of Venezuelan Inequality', *WIDER Working Paper*, 205. Helsinki: WIDER, 2000, pp.35-36.

³² Roberts (2003), pp.60-61.

³³ Roberts (2003), p.61, using data from International Labour Organisation.

³⁴ Based on data from OCEI, *Household Surveys and Employment Surveys*, various years.

more likely to be effective political strategies. It is perhaps no accident that the two subsequent political leaders – Caldera and Chávez – relied on *anti-politico*/outsider discourses and less on the corporatist modes of intermediation that characterised Venezuela's pacted democracy in the past.

The decision of the two main parties, AD and COPEI, and the national labour union, CTV, to support the elimination of system of severance pay in 1997 had significant political repercussions. This reform was one of the policies pushed by neo-liberal reformers and was associated with policies advocated by the Washington Consensus. According to this arrangement, a worker's last monthly salary and period of time on the job determined the level of severance pay. Retroactivity dated back to the 1936 Labour Law, widened in scope over time, and became a symbol of the social democratic ideals of the pacted democracy. The Labour Reform of 1997, which eliminated retroactivity, generated a great loss in legitimacy for the parties and labour unions; the *chavista* movement referred to the reform as a national betrayal.³⁵

The worsening of distribution contributed to the growing polarisation of politics. Such divisiveness was manifested in increasing factionalism within and between the political parties, and declining support among the poor for economic reforms.³⁶ The severity of the growing polarisation was manifested in the widespread support among the poor for two military coup attempts in 1992, the first of which was the military rebellion of Hugo Chávez, whose popularity was based on the stressing injustices of the neo-liberal model.³⁷ The attempt to capture the presidential palace failed, and Chávez surrendered. However, he appeared on television urging fellow conspirators to lay down their arms. "Comrades", he said on television, "unfortunately, for the moment, the objectives we have set ourselves have not been achieved in the capital". The phrase 'for the moment', *por ahora*, caught the popular imagination. The aims of the rebellion had not been secured, but many people thought Chávez would return to the struggle at a later date. *Por ahora* became Chávez's slogan, and the red beret of the parachute regime his log.³⁸

Growing inequality was also the focal point of Rafael Caldera's famous speech in Congress in 1992 where he condemned the actions of the coup plotters, but emphasised that the discontent of the military officers was a fair reflection of the injustices of the neo-liberal programme. This speech revived Caldera's political image (he was president in the period 1968-1973). Caldera, a founding member of COPEI, split from his party (which did not nominate him for the presidential elections in 1993) and re-invented himself as an 'outsider', running on a campaign focusing on anti-corruption and anti-neoliberal slogans. Caldera went on to win the 1993 election, allied with a plethora of minor and emerging parties under loose coalition known as Convergencia. The decision of Caldera not to accept his nomination loss within

³⁵ S. Ellner, 'Organized Labor and the Challenge of Chavismo', in Ellner & Hellinger (2003).

³⁶ Roberts (2003). Naím explains political instability in terms of the failure in the communication strategy of the Pérez administration to inform the poor and middle class the benefits of reform (M. Naím, *Paper Tigers and Minotaurs: The Politics of Venezuela's Economic Reforms*, Washington, DC: Carnegie Endowment Book, 1993). This line of reasoning underestimates the distributional impact the liberalisation model itself. Polling evidence from the period 1989-1991 suggests that the poor strata were much less likely to support the reforms than upper income groups (Roberts, 2003, p.63).

³⁷ For evidence on the poor's support for the military coup as well as their continued support for Chávez in the period 1992-2000, see D. Canache, 'From Bullets to Ballets: The Emergence of Popular Support for Hugo Chávez', *Latin American Politics and Society*, 44 (2002).

³⁸ R. Gott, *In the Shadow of the Liberator: Hugo Chávez and the Transformation of Venezuela*, London: Verso, 2000.

COPEI represents an important turning point as to the capacity of the main political parties to maintain discipline among their militants and leaders.

It is interesting to note that while neo-liberalism became associated in Venezuela with a worsening of income distribution, in the period 1970-1990 Venezuela had among the *least* unequal distributions of income in Latin America: only Uruguay, Costa Rica and Peru were less unequal.³⁹ However, in the period 1990-1997, the growth in income inequality in Venezuela was the fastest in the region.⁴⁰ In comparative terms, the *growth* in inequality was perhaps more destabilising politically in Venezuela than in other reformers where the initiation of reforms began with among the highest levels of income inequality, such as in Brazil, Chile or Mexico. In the latter countries, there was little scope for income distribution to worsen further. This suggests that rapid *increases* in income inequality matter more for instability than initial *levels* of inequality (Brazil and Chile have had much higher levels of income inequality yet have proven much more stable politically). Moreover, increases in inequality may have paved the way for more *radical, nationalistic political* outsiders because anti-neoliberal platforms and policies resonate more in polities where changes in distribution are *recent*.

Neo-Liberal Reforms, Corruption and Political Instability⁴¹

Apart from the decline in growth, and increase in inequality, the liberalisation period also produced uncertainty and political tension, and increased in the perception that corruption had worsened. These factors contributed to the loss in legitimacy of the two main parties, but particularly the fundamental party, AD.⁴² The sudden deregulation led to a frenzy of what Naím refers to as “oligopolistic wars” among business groups vying for control over raw material supplies, financing, and distribution channels.⁴³ The rapid dismantling of trade protection and a decline in state-business cooperation had no counterpart in trust and ‘social capital’ of inter-conglomerate networks. In the context of weak judicial and regulatory mechanisms, these wars turned into nasty battles undertaken in the media as business groups aggressively invested in newspapers, magazines, and radio and television stations. According to Naím and Francés, there reached a point where no major media enterprise was independent from a major private conglomerate group.⁴⁴ The limited social capital of business groups clearly intensified a ‘war of positions’ within the private sector that added greatly to the atmosphere of political and social instability that marked the liberalisation era of the 1990s.

³⁹ Inter-American Development Bank (IADB), *Development Beyond Economics*, Washington DC: IABD, 2000, p.6.

⁴⁰ M. Székely & M. Hilgert, ‘The 1990s in Latin America: Another Decade of Persistent Inequality’, *Inter-American Development Bank Working Paper*, Washington DC: Inter-American Development Bank, Research Department, 1999.

⁴¹ Draws substantially on Di John (2004).

⁴² A ‘fundamental party’ (a term coined by Gutiérrez Sanín, ‘Fragile democracy and schizophrenic liberalism: exit, voice and loyalty in the Andes’, draft paper presented to the Crisis States Programme workshop, Johannesburg, July 2003) can be viewed as the natural governing party (in terms of electoral success) as well as the party whose mobilisations and strategies were central to regime founding. The justification for referring to Acción Democrática as a fundamental party in the period 1958-1993 is based on the following: a) AD never yielded its position in this period as the single biggest party in the either the House of Representatives or Senate; and b) AD won 5 of the 7 presidential elections.

⁴³ Naím (1993), pp.95-100.

⁴⁴ M. Naím & A. Frances, ‘The Venezuelan Private Sector: From Courting the State to Courting the Market’, in Goodman *et al.* (1995).

Neo-liberalism, if anything, created the setting for increases in mafia-like activity to appropriate the large rents that suddenly emerged with deregulation.

The manner in which economic liberalisation was introduced also destabilised the polity. Pérez, elected in a landslide, had been president in the period 1974-1979, and many voters associated him with a period of prosperity and state largesse. Neither Pérez nor his party, AD, stressed during the campaign that rapid and profound reforms were planned, though there were policy documents that indicated that some market reforms would be initiated.⁴⁵ By ‘hiding’ his policy intentions, Pérez was one among many ‘first generation’ reformers in Latin America, such as Salinas in Mexico, Fujimori in Peru and Menem in Argentina, that introduced economic reforms in the early-1990s despite running a campaign that ‘hid’ policy reform intentions. This misrepresentation of policy intention during the campaign – essentially deceiving the electorate – was to prove damaging to the long-standing consultation process in the Venezuelan polity.⁴⁶

Hiding reform intentions exacerbated the ‘shock’ to the public when economic liberalisation therapy was actually introduced. A few weeks after the announcement of reforms, Venezuela experienced its bloodiest urban riots since urban guerrilla warfare in the 1960s. The riots, known as the ‘*Caracazo*’, occurred in late-February 1989. A doubling of gasoline prices, which were passed on by private bus companies, induced the outbursts. The government had actually announced that bus fares were allowed to rise by 30 percent, but did not monitor the increases bus companies were charging. Moreover, bus drivers ignored discounts to student prices.⁴⁷ The riots that ensued were contained by a relatively undisciplined military response that left more than 350 dead in two days. Although never documented, there are many informal accounts that point to left-wing organisations that mobilised groups to incite riots when gas prices were increased.⁴⁸

The way in which liberalisation reforms were decided was also divisive. Pérez decided to completely abandon consultations with large rival factions within his party, AD, and introduced reforms by relying on insulated technocratic decision-making. Since 1958, Venezuela’s democracy had been consolidated around a series of political pacts that relied on consensus building among the main political parties, labour unions and business associations. Two-thirds of cabinet ministers were from outside the governing political party, a move that created resentment and opposition in the legislative assemblies, including within AD.⁴⁹ Moreover, Pérez and his ministers’ discourse were confrontational and insulting to anti-Pérez factions within AD. Miguel Rodríguez, the Planning Minister, labelled reform critics as “dinosaurs”, “unadapted”, “cowards” and “unschooled”, and Pérez did little to dissociate himself from such remarks.⁵⁰ Such a discourse contributed to the ‘activation of boundaries’ between the self-proclaimed ‘modern’ reformers and the ‘backward’ old guard of the political parties. The creation and activation of boundaries contribute to the escalation of political

⁴⁵ A. Stambouli, *La política extraviada*, Caracas: Fundación para la Cultura Urbana, 2002, pp.175-176.

⁴⁶ The second major policy switch in the period under study occurred in 1996 when Rafael Caldera, who won the Presidency in 1993 running on an anti-corruption, anti-neoliberal campaign, abandoned two years of price and capital controls and endorsed the Agenda Venezuela, a structural adjustment package with IMF support. The policy switch did only not reverse economic stagnation, it led to a further disillusionment with the party system and a deterioration of state institutions and public services (M. López Maya, ‘Hugo Chávez Frías: His Movement and His Presidency’, in Ellner & Hellinger (2003), p.83).

⁴⁷ J. Corrales, *Presidents without Parties*, University Park: Penn State Press, 2002, p.51.

⁴⁸ Interviews with military officers and leaders of the Bolivarian Circles (June 2003).

⁴⁹ Stambouli (2002), pp.179-180.

⁵⁰ Corrales (2002), p.122.

conflict and violence.⁵¹ The break with pact making and consultation exacerbated the emerging factionalism between and within political parties and was largely responsible for the adversarial executive-party relations in the first three years of reform, and the massive increase in corruption scandals and accusations in the period.⁵² As a result, political instability and investment risks increased.

One way to gauge the increase in conflict is to examine inflation levels, which reflect increases in the intensity of distributive struggles and the increasing inability of the state to manage such conflicts.⁵³ While Venezuela's inflation rates have been relatively low by Latin American standards throughout, as indicated in Table 4, the rises in the 1980s and 1990s were significant in terms of the country's own record of low inflation:

Table 4: Inflation Rates in Latin America, 1960-2002

(Average, annual change, %)

Source: World Bank, *World Development Indicators*, Washington, DC: World Bank, various years

	1960-70	1970-80	1980-90	1990-98	1998-2002
Average	14.4	72.0	223.0	253.0	9.6
Venezuela	1.0	6.6	23.0	50.1	23.4
Argentina	22.4	132.9	565.7	281.1	7.1
Peru	9.9	26.5	481.3	897.3	3.3
Chile	26.6	174.6	21.4	12.7	3.5
Colombia	12.0	19.3	23.5	23.7	10.6

Clearly, economic liberalisation did not generate a constellation of political constituents capable of imposing stable macroeconomic management within the state. Great increases in inflation rates (if not levels), proved very destabilising to a polity where low inflation was taken for granted.

The perception that corruption increased during the liberalisation did enormous damage to political party legitimacy.⁵⁴ The reasons for this increase are complex, though several factors have contributed. First, the insulated manner in which policy reforms were introduced ran contrary to the consultative processes that had characterised the political pacts upon which Venezuelan democracy was built since 1958. Such insulation exacerbated factionalism within the governing party and between the government and opposition parties. This increase in factionalism increased the degree of 'whistle blowing', as those left out of decision-making used the corruption scandal as a weapon of political contestation. Moreover, the high levels of campaign financing by some of the prominent business groups for the Pérez presidency created animosities among rival contenders within AD, and fuelled allegations that Pérez supporters would benefit from reforms. Rafael Caldera emerged as the leading political opponent of neo-liberal reforms in the early 1990s on an anti-corruption platform. He won the presidency in 1994. Second, the media increased and magnified the coverage of scandals, including the growing anti-corruption discourse among politicians and rival economic groups,

⁵¹ C. Tilly, *The Politics of Collective Violence*, Cambridge: Cambridge University Press, 2003, p.96.

⁵² The rebellion of Pérez's own party, along with the 1989 riots, contributed to the isolation of the Executive. Such isolation 'signalled' a legitimacy crisis for the government, which, in turn, emboldened further attacks against the state (Corrales, 2002, p.167). The most notable examples were the two coup attempts in 1992 and the support among all political parties of the impeachment of Pérez (who was forced to resign in May 1993).

⁵³ B. Rowthorn, *Capitalism, Conflict and Inflation*, London: Lawrence & Wishart, 1971.

⁵⁴ M. Naím, 'The Real Story Behind Venezuela's Woes', *Journal of Democracy*, 12:2 (2001).

which increased public perception that corruption was increasing.⁵⁵ The fact that few scandals ever resulted in arrests or penalties further fuelled public outrage. Finally, the decline real wages in combination with growing inequality quite likely reduced the tolerance the majority of people had for corruption and thus corruption scandals became politically more explosive and destabilising.

Finally, the liberalisation period coincided with a decided disintegration in the legitimacy of the political party system and growing crisis of governability, which was manifested in the ensuing social unrest and political violence. The magnitude of the crisis in governability was evident with the decline in the legitimacy of the dominant governing political parties, as evidenced in dramatic increases in voter abstentionism. Since the consolidation of democratic elections in 1958, voter abstention rates averaged 7.6% in the five presidential elections in the period 1958-1983. From 1983, these rates increased dramatically: 18.1% in 1988, 39.8% in 1993, and 32.3% in 1998. At the regional and local levels, the average level of abstention in state and local elections since the institution of decentralised elections in 1979 has been dramatically increasing as well. The aggregate figures for state/local abstention rates are as follows: 1979 (27.1%), 1984 (40.7%), 1989 (55.0%), 1992 (52.8%), 1995 (53.9%).⁵⁶ Apart from growing abstentionism, there are several other clear indicators of the decline in the legitimacy of the two dominant political parties since the consolidation of democracy in 1958. While one of the two parties has won the presidency from 1958 onwards; since 1993, neither party has held the presidency. There were also two abortive military coups in 1992, and the impeachment of Carlos Andres Pérez's presidential term in 1994 on corruption charges.

The Fragmentation of Political Parties, 1989-1998: Anti-Politics from within the Party System

The failure of the political parties to meet economic challenges along with the growing polarization that neo-liberal reforms unleashed opened the space for the emergence of a political outsider. There was nothing inevitable about the subsequent rise of Chávez. Prolonged economic crises do not inevitably lead to the disintegration of political representation through the party system. The confluence of several contingent factors contributed the demise of the party system.

The first (and perhaps most important) factor was the decisions of the two most popular and influential leaders of Venezuela's two main parties, Carlos Andres Pérez (AD) in 1989, and Rafael Caldera (COPEI) in 1993, to distance themselves from their parties. Both leaders seized upon crisis situations to re-invent themselves as political outsiders. They did so with political messages and platforms that were the opposite of what they and their respective parties had established over the previous forty years. Dramatic policy switches have been shown to be a destabilising event for fragile democracies.⁵⁷ The decision of Pérez, leader of AD, to implement neo-liberal reforms through the use of non-party technocrats was detrimental in two ways. First, Perez's party-neglecting strategy accentuated factionalism

⁵⁵ Pérez Perdomo, 'Corruption and Political Crisis', in , in Goodman *et al.* (1995).

⁵⁶ The data on all abstention rates from 1958-1995 are taken from M. Grindle, *Audacious Reforms*, Baltimore: Johns Hopkins University Press, 2000, p.83. The figures for 1998 are taken from the Venezuelan National Commission of Elections, at <http://www.Elecciones.eud.com/absten.ntm>.

⁵⁷ S. Stokes, 'What do policy switches tell us about democracy?', in A. Przeworski *et al.* (eds.), *Democracy, Accountability and Representation*, Cambridge: Cambridge University Press, 1999.

within AD, and made implementing reforms politically contentious.⁵⁸ Many AD party members blocked reforms in Congress and ultimately supported the impeachment of Pérez. Many AD members of Congress and of the Central Electoral Committee of AD considered Pérez's actions a betrayal on two fronts: one for implementing neo-liberal policies, and two for naming very few AD party members to the Cabinet. Secondly, the launching of a neo-liberal economic went against the set of policies and symbols that defined AD's legitimacy for decades. AD became the fundamental party as a champion of the working class and peasants, and built its reputation (however tarnished it had become) by advocating and implementing state-led developmentalism, the anti-imperialist struggles, and economic nationalism. Neo-liberal reforms launched by AD's most established politician divided what AD stood for in the minds of their militants and sympathisers. The loss of AD's party identity most likely contributed to the significant decline in party identification through the 1990s.⁵⁹

Rafael Caldera lost the nomination of the party he founded, COPEI, in 1993, to Oswaldo Alvarez Paz, one of the emerging regional politicians that decentralisation and direct state elections (legislated in 1989) created. COPEI, traditionally the party that secured the middle-class, orthodox Catholic and business vote, was opposed to Caldera's opportunistic speech in Congress to defend the spirit of Chávez's coup attempt; and opposed his intention to free Chávez from jail if elected president. Caldera decided to break from COPEI, and ran on an anti-corruption, anti-system and anti-neoliberal campaign as a re-invented outsider. Caldera ran and won with a loose coalition of small left-wing parties under the umbrella of the new 'party' Caldera founded, Convergencia. Convergencia's main ally in government would be the Movimiento al Socialismo (MAS), which was an established, but small, left-wing party led by Teodoro Petkoff, an intellectual an ex-guerilla in the 1960s. Caldera won with 30 percent of the vote, while the candidates from AD, COPEI, and Causa R won between 20-23 percent of the vote.⁶⁰

The short rise of Convergencia had serious consequences for the cohesion and legitimacy of the party system, hitherto controlled by AD and COPEI. First, Caldera's victory had an important *signalling effect*: the presidency could be obtained by running outside traditional party affiliation. Secondly, Caldera split the COPEI vote, and thus divided what was a solid *centre-right organised alternative* to AD and civil society. COPEI did survive this fracture of its middle class and business support. Thirdly, this period sees a growing proliferation of political parties competing for the presidency and Congress. With the rise of Convergencia and the *Causa R* (a labour-union alternative to AD), representation of the centre-left vote became divided between these two 'parties', AD and MAS, at both the national and regional elections. In the period 1973-1988, the number of effective parties averaged 2.5 for the presidency and 3.3 for the Congress. In 1993, the number of effective parties competing for the presidency rose to 5.6 and the number of effective parties in Congress rose to 5.6, though AD and COPEI remained the two largest parties in both chambers.

⁵⁸ Corrales (2002).

⁵⁹ Ironically, in the first Pérez administration (1974-1978), the government attempted one of the largest *state-led* 'big push' natural-resource-based industrialisation programs in Latin America, a program that was known as *La Gran Venezuela* (Karl, 1997, pp.143-160; Di John, 2004). For data on the loss of party identification through the 1990s, see polls conducted by Datanalisis (various years).

⁶⁰ Causa R, led by presidential candidate Andres Velásquez, governor of the Bolivar state, was an emerging left-wing party that had gained prominence by successfully challenging AD control of labour unions in the steel sector. Many rumours circulated that the Andres Velásquez, had won the 1993 election but was denied by fraud. On the rise and fall of the Causa R, see M. López Maya, 'The Rise of Causa R in Venezuela', in D. Chalmers, *et al.* (eds.), *The New Politics of Inequality in Latin America: Rethinking Participation and Representation*, Oxford: Oxford University Press, 1997.

The very negative and disappointing experience of government in the Caldera administration (1994-1998) further undermined the legitimacy of the party system. Caldera was, after all, trying to govern with political party input (including a rapprochement with AD), as opposed to Pérez, who was convinced that AD and the party system were generally moribund. Firstly, Caldera inherited one of the worst banking crises in 1994,⁶¹ and exacerbated the situation by shutting down the largest bank, Banco Latino, which was owned by an economic group close to the previous Pérez administration.⁶² Secondly, there was a growing incoherence in state ministries as Caldera tried to accommodate the fractious coalition. There was no clear and coherent economic strategy. There were *four* economic plans initiated in Caldera's government, and there was a large rotation of ministers.⁶³ Third, worsening economic performance – as manifested in the continued increase in inflation, poverty, slow growth, declining investment and capital flight – created widespread disillusionment. Fourth, while the first two years of government paid lip service to the increase in attention in social programmes, the capacity of the state to spend money on projects became a big problem. Fifth, an important policy switch in 1996 toward a more neo-liberal economic programme, known as the Agenda Venezuela, led many to abandon their support for Caldera (whose popularity rating begins to decline significantly). Capital controls, instituted in 1994 (in the wake of the banking crisis) were lifted, trade was liberalised further, the oil industry was opened to significant foreign investment, and the severance-pay law (which had included retroactivity since 1936) was eliminated. These policy switches represented a betrayal to those lower-income sectors of the population, who had voted for Convergencia. Finally, the decision of AD to support Caldera in this policy switch (AD was still the largest party in Congress, but with a reduced share in historical terms), further eroded the party's identity as a champion of the less privileged sectors of the population. Essentially, AD abandoned its image as a populist political party, which it had built since the 1930s, under the leadership of Romulo Betancourt.⁶⁴

Secondly, introduction of political decentralisation and fiscal federalism in the early-1990s also contributed to the fragmentation and loss of party discipline in the two main parties in the democratic pact, AD and COPEI. According to Penfold-Becerra, the post-1989 reforms that initiated direct election of mayors and governors and led to the devolution of state spending to states and municipalities lowered the barrier to entry of marginal and emerging parties and encouraged politicians within the two main parties to develop local alliances and assert autonomy from national party bosses.⁶⁵ At the regional level, the share of 22 governorships that AD and COPEI controlled declined from 55 percent and 35 percent respectively in 1989 to 34 percent and 21 percent respectively in 1998.

Decentralisation, in the context of rapid economic reforms and economic crisis, along with relentless media coverage of corruption scandals concerning the state and political parties, provided opportunities for marginal but strong parties such as MAS, but more importantly embryonic and structurally weak political 'parties' such as Causa R and Proyecto Venezuela, and later MBR-200, to compete electorally at the state level. Most of the emerging parties

⁶¹ See Di John (2004).

⁶² See Rodriguez (2002).

⁶³ R. de Krivoy, *Colaspo del Sistema Bancaria Venezolana de 1994*, Caracas: Ediciones IESA, 2002.

⁶⁴ On the populist nature of AD in the period 1940-1960, see S. Ellner, 'The Heyday of Radical Populism in Venezuela and its Aftermath', in M. Conniff (ed.), *Populism in Latin America*, Tuscaloosa: University of Alabama Press, 1999.

⁶⁵ M. Penfold-Becerra, 'Federalism and Institutional Change in Venezuela', paper presented at the American Political Science Annual Meeting, Boston, 2002.

built their power bases at the regional level. Andres Velásquez, Bolívar state's governor from Causa R (1989-93), ran for the presidency based on his well-deserved reputation of running a successful administration. In Carabobo state, a centre of industrial activity, Henrique Salas Romer broke with COPEI during the 1992 regional elections, and created a state-based party, Proyecto Carabobo, and won the governorship in 1992 and 1998. Salas Romer, who changed the name of the party to Proyecto Venezuela, came second in the 1998 presidential elections running under this improvised name (with last-minute support of AD and COPEI after they realised their own candidates were polling below 5 percent each).

The emergence of federalism drastically changes the alliance strategies followed by political parties. AD, COPEI and MAS all developed alliance-bloc systems with a strategy to protect their regional leaderships.⁶⁶ In 1989, AD established alliances with an average of 2.18 parties per state for the 22 gubernatorial elections. By 1998, AD allied with an average of 7.5 parties per state. In 1989, COPEI established an average of 5.57 alliances with parties and 9 by 1998. The electoral premium COPEI obtained from these alliances rose from an average of 7 percent in 1989 to 20.6 percent in 1998. In 1998, Chávez's party, Movimiento Quinta Republica (MVR) MBR-200, was gaining strength at the regional level and by 1998, on the coat tails of Chávez's victory, won 17.7 percent of the governorships. What is telling about these regionally based parties is that their growth never expanded to the national level in terms of party organisation. Moreover, the growth in political alliances at the regional level increased the degree of factionalism of the governing level, which may account for the disappointing performance of local government in the 1990s.⁶⁷

At the national level, the central committees of COPEI and AD were less able to control party member, and particularly within COPEI, the central committee became an empty shell by the mid-1990s.⁶⁸ A telling indication of the effect that decentralisation had on the presidency occurred in 1993 when Rafael Caldera, founding member of COPEI, decided to found a new political movement, *Covergencia*, and won the presidency that year opposing political parties and neo-liberal economic reform:

One main motivation that Caldera had in abandoning COPEI was his failure to control an increasingly decentralised and fragmented party structure, a situation that hindered his capacity to construct a political base win the presidential candidacy within the party.⁶⁹

The decision of Pérez, leader of AD, to implement neo-liberal reforms through a party-neglecting strategy,⁷⁰ the subsequent decision of Rafael Caldera, founding member of COPEI, to abandon his party affiliation in favour of re-inventing himself as an honest 'outsider', and Caldera's decision to free Chávez from jail in 1994 were contingent outcomes. The consequences of these strategies emerge clearly in the period 1993-2000: there was a substitution of political parties by loose coalitions by political movements with superficial tag-names with little organisational structure or capacity (*Convergenica*, *Proyecto Venezuela*, *Proyecto Irene* etc.), which was instrumental in the growing voter volatility in the period. To adapt the logic of Hirschman, the strategic decision of key leaders to 'exit' their party structure, produced a fracturing of political representation, or 'voice', across and within

⁶⁶ Penfold-Becerra (2002).

⁶⁷ Grindle (2000).

⁶⁸ Grindle (2000), p.17.

⁶⁹ Grindle (2000), p.17).

⁷⁰ Corrales (2002).

income and class groups.⁷¹ This, as Gutierrez points out in the Peruvian case, led ultimately to the fracture between politics and society.⁷²

Much further research is needed as to why political parties fail to reform to meet challenges and why the institution of reforms proves so destabilising in some context as opposed to others. Economic crises, growth in informality, the rise of television, etcetera, were all features of the Argentinean, Brazilian, Chilean, Uruguayan, Mexican and Colombian milieu, but have not led (at least not the same extent) to the collapse of either their state institutions or their political party systems (however fragmented they may have become). Moreover, there is not a necessary connection between decentralisation and fiscal federalism on the one hand, and political party collapse and state breakdown on the other. For instance, Colombia introduced decentralisation reforms at the same time as Venezuela and has not experienced a collapse in its two main political parties or noticeable declines in state capacity in the period 1990-2002. One possible reason for this may be that the party system in Colombia was much more fragmented and regionalised compared with the more centralised party system in Venezuela. Secondly, Venezuelan political parties relied much more than their Colombian counterparts on state intervention to develop patron-client networks. Decentralisation, in this case, would disrupt patronage patterns in a centralised, hierarchical party system more than in a fragmented one like Colombia.⁷³ These differences with Colombia highlight the importance of considering the nature of initial structural conditions in developing hypotheses on the cause of political party fragmentation and collapse and its relationship to declines in state capacity, and the subsequent rise of anti-politics. The next section examines the rise of a consummate political outsider, Hugo Chávez, and the roots of his radical ideology and platforms.

The Ideological Roots of the Chavista Movement

The radical nature of *chavista* anti-politics has a long trajectory. While spending two years in jail after the failed military coup in 1992, news of the revolutionary project he had been working on with colleagues in the military emerged. Venezuelan junior officers led by Chávez formed in a conspiratorial group known as the Movimiento Bolivariano Revolucionario-200 (MBR-200) in 1982. This group was among many in the country that began to question the viability and effectiveness of Venezuela's pacted democracy and the existing distribution of wealth and privileges.⁷⁴ They met in clandestine cells to study military and national history, were critical of the growth in corruption scandals, and were intent on influencing political processes.⁷⁵ They were particularly interested in the rule of nationalist, left-wing military leaders such as Omar Torrijos in Panama, and General Velasco Alvaro in Peru.

The military education offered in Venezuela in the 1970s also helped play an important role the commitment of middle-level officers to political activism. With the decline in guerrilla

⁷¹ A. Hirschman, *Exit, Voice and Loyalty*, Cambridge, MA.: Harvard University Press, 1970.

⁷² Francisco Gutiérrez Sanín, 'Deconstruction without Reconstruction? The Case of Peru (1978-2004)', *Crisis States Working Papers*, 63, London: Crisis States Research Centre, LSE, 2005.

⁷³ M. Tanaka, 'La situación de La Democracia en Colombia, Peru y Venezuela a Inicios de Siglo', Lima: Comisión Andina de Juristas, 2002.

⁷⁴ Gott (2000), p.61.

⁷⁵ A. Zago, *La rebelión de los ángeles*, Caracas: Fuente Editores, 1992; A. Blanco Muñoz, *Habla el comandante*. Caracas: Universidad Central de Venezuela, 1998; A. Garrido, *La Historia Secreta de la Revolución Bolivariana*, Mérida: Editorial Venezolana, 2000; A. Garrido, *Documentos de la Revolución Bolivariana*, Caracas: Ediciones del Autor, 2002; A. Garrido, *Guerrilla y Revolución Bolivariana*, Caracas: Ediciones del Autor, 2003; Gott (2000).

warfare in the 1960s, the government implemented the ‘Andres Bello Plan’, which enrolled young officers in Venezuelan universities as an alternative to military institutions.⁷⁶ The experience of meeting and engaging with university students and taking courses in social sciences (at a time when dependency theory, and nationalist development policy were the mainstream) politicised a great many officers in their formative years.

The MBR-200 was committed to forming a ‘civilian-military’ alliance. Chávez particularly was an avid history reader, and his thinking and philosophy were based on three figures in Venezuelan history: Simon Bolivar, Ezequiel Zamora, and Simon Rodriguez. From Bolivar, Chávez sought to re-fan the revolutionary flames of seeking political unification of Latin America through the process of developing internal, and indigenous, forms of development in each country. “A valid project for the twenty-first century”, Chávez believes, “is to bring together at a conference the balkanised countries of Latin America”.⁷⁷ Re-inventing nationalism and regional integration, themes that were once at the forefront of ECLA thinking in the 1960s, formed part of the Bolivarian revolutionary project. From Zamorra, Chávez and the MBR-200 developed an impassioned advocacy of agrarian reform. Zamorra was a popular nineteenth-century *caudillo* who had a strong sense of social solidarity with the landless peasant. Zamorra organised civilian support for his army by promising agrarian reform during the brutal Federal War in the mid-1800s. His appeal to the insurgent peasantry was based on three slogans: a) ‘land and free men’; b) general elections; and c) hatred of the oligarchy. Simon Rodriguez, a contemporary of Bolivar, was an educator and philosopher, who championed the importance of universal education, and who was particularly passionate about the importance of integrating indigenous peoples into the emerging education system. He also wrote passionately against racism, and advocated far-reaching agrarian reforms. In the course of travelling in the West Indies, Rodriguez changed his name to Robinson. Upon returning to Venezuela, after a quarter century in Europe, he wrote: “My project is to colonise America with its own inhabitants. I want to rehabilitate the indigenous race and prevent it from being exterminated”. The so-called ‘Robinsonian’ mission of education forms an integral part of Chávez’s revolutionary project and became one of the principal government missions in education in the period 2000-2004 (discussed below).

During the 1980s, the MBR-200 became closely connected with activists and leaders of leftist parties that were defeated in the guerrilla struggles of the 1960s. The most influential contact was with the Partido de la Revolución Venezolana (PRV), led by Douglass Bravo. Other important links were developed with left-wing parties, including La Causa R, and Bandera Roja (Red Flag). Most of these left-wing groups shared with the *Bolivarianos* the goal of a civilian-military alliance for the purpose of promoting revolutionary change.⁷⁸ Apart from links with guerrilla activists, the MBR-200 made numerous meetings and links with left-wing intellectuals, academic, and activists. These included members of the Frente Patriótica (Patriotic Front) such as Luis Miquilena, Manuel Quijada, José Vicente Rangel, and university figures who were steeped in dependency, Marxist and post-Keynesian thinking such as Jorge Giordani, Luis Fuemmayor, Hector Navarro, and Adina Bastides.⁷⁹ All assumed prominent positions after 1998 in Chávez’s administration.

In the 1990s, the Bolivarian movement grew significantly. One of the more influential figures to join was Kleber Ramirez, a former guerrilla who formulated basic proposals for the rebel

⁷⁶ S. Ellner, ‘The Radical Potential of Chavismo in Venezuela’, *Latin American Perspectives*, 120:5 (2001).

⁷⁷ Quoted in Gott (2000), p.99.

⁷⁸ Garrido (2003).

⁷⁹ López Maya (2003).

movements programme of government. Ramirez argues that the party structure was ineffective and worn out. He called for strengthening of the national executive, elimination of state legislatures, and the reorganisation of municipal government, which would form the pillar of the nation's new democracy.⁸⁰ In 1997, the MBR-200 became the Movimiento Quinta Republica (MVR) at its Congress in Valencia, where it abandoned electoral abstentionism. At this point many disillusioned members of AD and COPEI joined the MVR. The rapid nature of the movement's group added many diverse ideological currents and was to be a source of factionalism that was to characterise the MVR during the Chávez regime.

Finally, the platform presented by the Polo Patriótico (PPT), the main political umbrella group of the *chavistas*, for the 1998 elections provides an important source of information on the economic project and thinking of the *chavista* movement. The team that elaborated the document were to form some of the principal cabinet members in Chávez's government. Moreover, extensive interviews with Chávez undertaken by Agustín Blanco Muñoz, and published under the title *El Comandante Habla*, also provides a rich source on the economic thinking on the leading *chavistas*.⁸¹

There are several themes that define the thinking of the *chavistas*. First, the principal problems identified are inflation, hunger, lack of security and poverty. The mass of these problems, according to leading *chavistas*, is the capture of the democratic system by political cliques and small, but powerful, economic groups.⁸² This diagnostic is similar to the negative impact that distributional coalitions play in the analysis of economic stagnation provided by Olson.⁸³ The Constituent Assembly organised in 1999 addresses this problem directly through its advocacy of a more participatory democratic system. A second problem identified is the concentration of production of the Venezuelan economy. *Chavistas* point out that production is concentrated in three ways: a) by regions, in the North-Central regions around Caracas and Valencia; b) by ownership, in the sense that few economic groups control a high relative share of production; and c) by product, in the sense that the economy is vulnerable as a mono-exporter of oil. Third, political transformation, in particular promoting direct democracy and reducing the power of the legislature, is given priority over economic strategies. Poverty is seen primarily as a social problem, not an economic one, and there is no discussion that the distribution of income, or stagnant economic growth, are the main contributors to poverty. While there are references to the unequal access to oil revenues in Venezuelan society, the focus on the importance of social programmes, and the lack of any coherent strategy to revive investment, growth or export diversification strategies, is illuminating. In particular, there is no discussion in the Polo Patriótica's economic platform of the competitive advantage of Venezuelan exports, which would require large-scale plants, itself a source of increasing inequalities in terms of asset ownership. Instead, the platform focuses extensively on the need to provide basic necessities in consumer products and public services, and the role of the government in maintaining control of the 'commanding heights' of the economy in the minerals and energy sectors. There are references to the importance of promoting large-scale industry, finance and banking, but they are downplayed and it is not clear the extent to which these industries should remain private. Finally, the *chavista*

⁸⁰ K. Ramírez, *Venezuela: La IV República (o La total transformación del Estado)*, Caracas: Cromotip, 1991, pp.121-125.

⁸¹ Blanco Muñoz (1998).

⁸² Blanco Muñoz (1998), p.625.

⁸³ M. Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, New Haven: Yale University Press, 1982.

programme supports fiscal balance and is essentially orthodox in orientation. The reduction of the fiscal deficit is seen as the principal way to combat inflation, which *chavistas* see as important in maintaining the purchasing power of the poor.

In sum, the rise of *chavismo* is a history of an alliance between radical military thinkers and former guerrilla leaders searching for a way to challenge the existing structures of political and economic power. It is only through an examination of the intellectual history surrounding this group that it is possible to understand why anti-politics in the period 1998-2004 takes a decidedly more nationalistic and radical turn than in other Latin American cases. Moreover, the emphasis on the political over the economic contains many contradictions that will become the source not only of fierce opposition, but will also negatively affect the coherence and administrative viability of the policies proposed.

Empowering Anti-politics: The Rise of the *Chavistas* and Constitutional Change

During the electoral campaign of 1998, Chávez and the MVR campaigned on an anti-corruption, anti-neoliberal, anti-political establishment discourse that called for the transformation of the political system and the Constitution. The promise for a Constituent Assembly provided the focal point of Chávez's electoral pledge. Growing levels of poverty and the policy switch to a neo-liberal agenda (in the form of the Agenda Venezuela) during the Caldera administration severely reduced the popularity and legitimacy of the traditional political parties. The MVR refused to make any alliances with traditional parties; instead the MVR constructed a broad alliance with new and alternative movements, which together became known as the Polo Patriótica (PP, Patriotic Pole). The MVR (the Fifth Republic Movement), the electoral organisation of the MBR-200, was designed to protect the fragile structure of the MBR-200 from the unpredictability of the electoral process.⁸⁴ MBR-200 leaders did not want their ideological orientation compromised by the real politics of constructing electoral alliances. The fragility of anti-politics originates here in the divorce of economic and political programmes from economic and political organisations. The MVR was thus conceived as a tool of the party to incorporate independent parties and groups, whose only shared concern with the MBR-200 was their support of Chávez's presidential candidacy.⁸⁵ The electoral success in 1998, however, allowed the MVR, with its acute factionalism, to take the vanguard in government, and the MB-200 loses control over programmatic politics after the election.

The main strategy of the election campaign was mass rallies. The anti-politics discourse was evident in Chávez's refusal to make alliances with traditional parties. Perhaps his most effective tactic was the string of fiery, even messianic speeches that incorporated the term '*el pueblo*' (the people) into his political discourse, and the dramatic way he created bonds with the poor. Much of the middle and upper class opposition to Chávez continually underestimated the importance of his message and passion. Chávez is a *mestizo* who comes from mixed Indian and African heritage. He appealed to the less privileged and unorganised poor groups as both economically excluded and pointed out that economic exclusion occurred mainly among *mestizos*, like him. His appeals to the masses not only as a group that had been forgotten in the past decade, but that those who were most affected happened to be of similar racial origins to him. The appeal to less privileged groups thus consisted of an appeal to the

⁸⁴ López Maya (2003).

⁸⁵ López Maya (2003).

prevailing anger along *class* and *racial* lines. Traditionally, Venezuelan presidents came from European ancestry. Chávez linked ‘the people’ to the great achievements of the nineteenth century, particularly their role in the bloody war of independence, and the Federal War, invariably painting *el pueblo* as a brave, noble, beautiful, and valiant – the protagonist in history.⁸⁶

The role of television in the campaign was also a crucial medium for Chávez (and his main adversary, Salas Romer). While television undoubtedly provided the opportunity for politicians to reach beyond political party organisations in winning elections, it is well known that, since 1973, Venezuelan campaigns were among the most expensive in the developing world because TV advertising was a principal medium to get across a party’s message. Nevertheless, by 1998, surveys indicated that 64 percent of Venezuelans used television as the main source of their information about politics, 22 percent use newspapers as the primary medium to inform themselves about politics and 9 percent rely on radio.⁸⁷ The role of television as an enabling factor in Chávez’s years as president is more problematic since the period 2001-2004 sees the private TV stations waging a fierce anti-*chavista* campaign to persuade voters to remove him from office, though Chávez used his access to the state TV station to address the nation each Sunday in five-hour encounters with supporters.

Upon winning the election in 1998, Chávez took advantage of his enormous popularity to transform the political system and economic policy. The first objective was to call for a Constituent Assembly to rewrite the Constitution. This would not be an easy task for several reasons. First, voter abstentionism was 36 percent, which was higher than the previous three presidential elections. In historical terms, this was not necessarily a mandate for wide-ranging changes. Secondly, Chávez received most of his electoral support from lower income groups, who had traditionally had much less political voice than the middle- and upper-income groups who voted for Salas Romer. Thirdly, AD, COPEI and other traditional parties still retained control of the Congress, most state and municipal assemblies and had traditionally dominated the Supreme Court, the Judicial Council, and the National Electoral Council.

In these first, few months, Chávez’s ability to manipulate power, and intimidate, divide and conquer the opposition, were masterful. Without this tactical ability, it is doubtful whether a Constituent Assembly would have been called.⁸⁸ He appeared on his weekly call-in radio show, *Aló Presidente*, to help sway public opinion. A referendum in April 1999 approved elections for the Constituent Assembly by a wide margin (though abstentionism was very high at 62 percent). Chávez and his supporters threatened from the beginning to eliminate Congress if the work of the Constituent Assembly was obstructed. The ultimate success of Chávez in forging an agreement to proceed with elections for the Constituent Assembly in July 1999 depended on at least three factors. First, Chávez had a relatively high popularity rating that ranged between 60-70 percent in the first year of office. Second, there were many anti-*Chavista* groups, including business groups and some of the private media that had backed him in the election. Third, Chávez and the MVR could count on the solid support of the poorer sectors of the population. Chávez, in his radio programmes and numerous appearances on the state television channel, *Venezolana de Televisión*, promised passionately to protect the rights and support squatters, the unemployed, retired workers and pensioners. This created enormous expectations but also galvanised the poor to march in favour of

⁸⁶ López Maya (2003).

⁸⁷ A. Alvarez, ‘Buenas noticias y mala propaganda: el uso de los medios en la campaña política de 1998’, in Carrasquero *et al.* (2001), p.92.

⁸⁸ Ellner (2001).

constitutional reform.⁸⁹ Because of the groundswell of popular support for Chávez, the MVR's threats that they would mobilise 'the street' to against adversaries was a credible threat. Fourth, the opposition parties were at an historic low in popularity and legitimacy. This was reflected in the poor presidential election showing as well as polls indicating that party identification for AD and COPEI below 10 percent.⁹⁰ Indeed, many traditional party members refrained from running candidates for the July 1999 elections for the Constituent Assembly.⁹¹ Finally, Chávez and the MVR benefited from extensive support within the military. With embryonic, factionalist and fragile nature of MVR, and the lack of MVR penetration of labour unions, Chávez needed the military as a principal political ally. He used executive control over funds and public jobs to appoint military officers to high-level positions within the state, particularly the oil industry. Moreover, Chávez channelled large amount of funds into public works programmes in sanitation, health, indigent care, public transport and housing through the armed forces. Thousands of military personnel were deployed in this programme. These programmes delivered short-run benefits to poor neighbourhoods and increased the profile and popularity of the military. Finally, the extension of suffrage to the military enhanced their support. The support of the military probably allowed Chávez and the MVR to sanction and even identify with street demonstrations in support of the Constituent Assembly without worrying about a coup.⁹²

The MVR and its allies dominated the election to the CA, gaining 123 of the 131 seats. This paved the way for the rewriting of the Constitution. The major changes have been the subject of extensive analysis.⁹³ The main changes to the political and economic landscape are as follows. First, in classic populist style, the name of the country was changed to 'The Bolivarian Republic of Venezuela'. Second, the powers of the executive were strengthened and the Congress weakened. The Assembly created a unicameral Congress, eliminated congressional input in military promotions (and reduced it in the case of judges) and gave the president more extensive power to dissolve Congress and re-enforced the ability of the president to pass emergency laws. Many analysts refer to these measures as transforming Venezuela from a 'presidentialist' to a 'hyper-presidentialist' polity. Third, the constitution promoted a more participatory democracy with the intent of giving 'the people' a 'protagonist' role, which downgraded the importance of intermediary organisations and elected representatives. The creation of citizen assemblies, citizen power groups, and the facilitation of referenda (including one that allows for the removal of elected public officials) were emphasised. Representative democracy was downgraded. No better reflection of this is Article 67 of the Constitution, which eliminated public funding of political parties. In sum, the institutional changes at the level of the Constitution both strengthened executive power while enhancing the possibility of direct participation.

While constitutional changes were wrought with conflicts both within the *chavista* movement and outside, the popular sectors and other supporters of *chavismo* felt enormous vindication and pride in the even small levels of consultation and the symbolism that direct democracy

⁸⁹ Most of 1999 was filled with tense street demonstrations all seeking to have their input into the realisation of the Constituent Assembly elections and in the rewriting of the Constitution (López Maya, 2003).

⁹⁰ Datanalysis, 2003. In the 1980s, the portion of the population that declared themselves either a member or supporter of AD averaged 25 percent. Between June 1998 and July, 1999, the share of the population that identified with AD declined from 19 percent to 4.0 percent; in the same period, the share of the population that identified with COPEI declined from 11 percent to 3.0 percent (Datanalysis, 2003).

⁹¹ Ellner (2001); McCoy (1999); Carrasequero *et al.* (eds.), *Venezuela en transición: elecciones y democracia 1998-2000*, Caracas: CDB Publicaciones, 2001.

⁹² Ellner (2001).

⁹³ See Carrasquero *et al.* (2001); Ellner & Hellinger (2003).

meant for underprivileged groups, who felt neglected or used by the traditional political parties. The CA raised the level of political consciousness in Venezuela to unprecedented levels as even opposition groups admit. It became *de rigueur* to carry around a miniature blue copy of the Constitution. In the wake of this euphoria, both Chávez and MVR and allies won landslide victories in the ‘mega-elections’, which elected all levels of government in December 2000. Chávez defeated his fellow coup conspirator, General Francisco Arias Cardenas,⁹⁴ by a similar margin to his victory in 1998. This period represented the end of the honeymoon for Chávez, as the economic and social emergency laws he decreed in 2001 polarised the nation further and led to increasing factionalism within his own movement.

Assessing the Chávez Era: Economic and Social Indicators 1998-2004

The social and political polarisation of the period 1998-2004 greatly affected the economic performance of the Venezuelan economy. What is interesting is that despite the continued decline in economic growth and investment, increases in capital flight, unemployment and poverty, Chávez has remained, by a long distance, the most popular politician in the country, and consolidated his hold on power with a landslide victory in the 2004-referendum call.⁹⁵ The *chavista* movement has always maintained the fierce loyalty of the lower-income groups. There is no doubt that increases in oil prices dramatically increased the possibility of fiscal expansion and social spending in the period 2001-2004. However, the effect of oil on regime stability and a president’s popularity has been indeterminate in the Venezuelan case. Chávez began his regime with oil prices at historic lows in the first two years and managed to promote constitutional reforms. Moreover, the fierce opposition to Chávez in the period 2002-2004 undermined much of the oil windfall effect, as there were increases in poverty and unemployment. In contrast to the Fujimori case, the consolidation of anti-politics in Venezuela coincides with drastic declines in economic performance. Fujimori presided over the largest increase in economic growth in Peru for thirty years, yet his reign in power ended in disgrace, amidst large-scale corruption and military abuse charges.⁹⁶ Chávez has survived and consolidated power despite much fiercer opposition from the media, middle-class and business groups, and opposition in parts of the military and tacit US backing for a failed coup attempt on 11 April 2002. This period clearly demonstrates once again that there is no determinant relationship between economic performance and regime sustainability. Moreover, in periods of institutional transformation – where rules of the game and political access to the state are under contention and/or undergo path changes-economic performance indicators may tell us less about regime viability than in times of ‘normal’ politics (where political competition occurs under agreed rules of the game).

As indicated in Table 5, the Chávez era has seen a dramatic decline in economic growth in both the non-oil economy and in manufacturing, even when compared to the poor economic performance of the liberalisation era, 1990-98. Much of the poor performance owes to the two-month national strike (which included the suspension of oil production) in December 2002 called by the opposition to Chávez. In the first trimester of 2003, GDP fell 25 percent

⁹⁴ Arias Cárdenas defected from the Chávez camp over disagreements on the role the military should play in economic and political life.

⁹⁵ Chávez’s overall popularity rating fell from nearly 70% in 1998 to 30% through 2003-4.

⁹⁶ In the period 1980-1990, average annual growth in Peru was –0.1 percent. In the period 1990-2001 (most of which is the era of anti-politics), average annual growth in Peru rose dramatically to 4.3 percent. Moreover, largely due to the implementation by Fujimori of orthodox monetary and fiscal policies, and with fiscal windfalls from privatisation, inflation was reduced from an annual average of 246 percent in the period 1980-90 to 23.1 percent in the period 1990-2001 (World Bank, various years).

compared to the previous year. The political and economic opposition also negatively affected investment levels. While total investment increased by an average of 6 percent in 2000-01, investment fell dramatically by 22 percent in 2002, and 38.9 percent in 2003. Such an economic depression negatively affected the demand for labour. Unemployment averaged over 15 percent in the period 1998-2003 (compared with an average of 9.6 percent in the period 1993-98). The factorial share of labour remains very low at 34.8 percent, which implies that, in the formal sector, exploitation of labour was at elevated levels in historical terms (see Table 3). The informal economy increased to 55.5 percent in the period 1998-2003 (compared with 46 percent in the period 1993-98). Together these figures suggest that income distribution probably worsened slightly, at least within the formal sector of the economy. The declining influence of labour unions and Chávez's antagonistic stance toward the CTV meant that there was little scope for bargaining for increases in the share of the surplus being generated. In any case, the demand for formal labour declines to such an extent that little would have been expected in that front.

Table 5: Growth Trends in the Venezuelan Economy, 1990-2002

Source: Baptista, (1997); Central Bank of Venezuela, *Annual Reports*, various years

	Average Annual Growth Rates,* %	
	Non-oil GDP	Manufacturing
1990-1998	2.3	1.5
1998-2002	-1.9	-5.0
2003	-8.1	-8.0

* All output series in 1984 bolívares

However, the poorest sectors of the economy, Chávez's basis of support are, in large part, in the informal economy and in the shantytowns of the country. There are material reasons as to why their support unwavered beyond Chávez's charismatic, symbolic, inspirational appeal to such groups. Firstly, there was a reduction in the annual average rate of inflation in the period 1998-2003 to 24.6 percent, down from 66.6 percent in the period 1993-1998. This likely arrested the decline in purchasing power of the lower-income groups. This was maintained through prices controls on food, and, particularly after 2002, the maintenance of an overvalued exchange rate. Secondly, amidst economic decline the poverty rate actually declined significantly compared with the last years of the Caldera administration. The poverty rate declined from an annual average of 66 percent in the period 1993-1998 to 56 percent in the period 1998-2002.⁹⁷ This, in turn, is due to the increase in a re-shifting of resources in favour of social spending. The share of social spending in GDP increased from an average of 7.5 percent in the period 1997-1998, to 11 percent in the period 2000-2004.⁹⁸ This represents a 46 percent increase in the share of social spending. Moreover, increased oil prices permitted the government to engage in fiscal expansion despite declines in private sector investment. Two aspects of this social spending are noteworthy. First, the executive-run government missions (many with the aid of the military, and, to a much lesser extent, Cuban educators and physicians) in health, education, housing, and infrastructure spending in shantytowns have improved living conditions in many poor areas. Public spending in health increased from 3.2 percent of GDP in 1998 to 4.8 percent of GDP in the period 2002-2004. One indicator of the effects of this spending is a decline in infant mortality from an annual average of 22 deaths per 1,000 live births in the period 1996-98 to 17.6 per 1,000 live births in the period 2000-2002. Because the lower income groups use public services, this improvement in public health was bound to increase the legitimacy of *chavismo* among the

⁹⁷ F. Rodríguez, 'Las Consecuencias de la Revolución Bolivariana', *Nueva Economía*, 19 (2003).

⁹⁸ INE, *Logros Equilibrio Social y Económico*, Caracas: República Bolivariana de Venezuela, 2004.

poor. Wealthier groups, who generally use private sector services, never mentioned any of these gains while supporting the overthrow of Chávez. Secondly, agrarian reform laws and the distribution of state lands to landless groups in the central and south-western plains states have contributed to the reduction in rural poverty, and given the rural and urban poor hope that more opportunities will arise.⁹⁹

Several deficiencies in the Chávez administration need to be noted. First, there has been little attempt to build the administration in terms of organisational capacity or build political links between ministries and interest groups. Much of the spending remains in the hands of the executive.¹⁰⁰ There are several reasons for this. First, the *chavistas* do not draw on bureaucratic personnel associated with AD and COPEI and thus lose out on some talented pools of labour. As such, the armed forces and immigration of Cuban health and education workers fill many of the gaps needed.¹⁰¹ As well, the growing factionalism within the *chavista* movement has created similar problems to bureaucratic incoherence that plagued the Caldera administration. Second, there is a lack of any coherent production or export strategy. Much of this has to do with the antagonistic relationship Chávez has maintained vis-à-vis many big business groups (though relations have improved as Chávez has consolidated power after the 2004 referendum). However, another important factor is the ideology of *chavismo*, which is focused on supporting small-scale businesses and cooperatives through micro-credit schemes. This strategy makes Venezuela more dependent on oil. This may be the reason behind the very pragmatic position Chávez takes in terms of oil policy. The Venezuelan state, while trying to ensure the state appropriates a greater share of oil revenues (which had been declining in the 1990s),¹⁰² has made it clear to the Bush administration that it intends to continue exporting to the US, and has made plans for joint ventures with Exxon-Mobile and Texaco to exploit the Orinoco gas and oil fields. Finally, the prospects of sustaining effective social spending and the development of a sustainable production strategy will depend on the extent the administration institutionalises the gains of a radical episode in anti-politics.

Conclusion

The return of party politics in Venezuela seems remote at the moment. Firstly, the Constitution reduces the limits of political party financing. The failures of the opposition to overthrow Chávez have exhausted middle-class opposition. Opposition politics has, in the past three years, taken place through the media and street demonstrations, some of which have turned violent, though the level of political violence in Venezuela remains low in comparative terms. AD and COPEI remain moribund; and the parties that have replaced them, with sham names such as *Primera Justicia* (First Justice) and *Coordinador Democrática* (Democratic Coordinator), are run by middle- and upper-class groups who lack organisation and have no alternate plan of government. These political movements have disintegrated quickly in the wake of the failure of the referendum to oust Chávez in August 2004. While oil makes the state worth struggling over, the ability of the Chávez regime to construct a developmental state and diversify export production will likely enhance the prospects of the return to party democracy. Without an increase in the size and productivity of the formal economy, it is

⁹⁹ G. Wilpert, 'Collision in Venezuela', *New Left Review*, 21 (2003).

¹⁰⁰ See article by PDVSA head of the state oil company, a Chávez loyalist, Ali Rodriguez ('The Main Obstacle is the Administrative Structure of the Venezuelan State', *Venezuelaanalysis.com*, 24 July 2004).

¹⁰¹ One of the biggest losses of talent occurred by the ill-advised attempt to oil sector executives and workers to strike in December 2002. Chávez rightly fired 18,000 employees associated with this attempt, but replacing them will take time.

¹⁰² B. Mommer, 'Subversive Oil', in Ellner & Hellinger (2003).

unlikely that the material base of meaningful party politics will re-emerge in Venezuela in the foreseeable future. This does not preclude the possibility that imaginative and visionary politicians, such as Chávez, will contribute to the reconstruction of coalitions in support of political parties, despite the difficult socio-economic context in which Venezuela finds itself.

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The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

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Research Objectives

- We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.
- We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.
- We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.
- We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.



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