

11. Assess the respective rôles of politics and economics in the collapse of the Venezuelan political system in the late 1990s

Introduction

Throughout the latter half of the twentieth century many commentators saw Venezuela as perhaps Latin America's most stable democracy. Although corruption was recognised as being present, it seemed that Venezuela was broadly immune from the problems being faced by other countries in South America. It had a multi-party system, regular elections, and a stable economy thanks to a vast abundance of oil.

Today, the future for this same country looks much more uncertain, and it seems that Venezuela is once again bucking the general trend: in the eyes of many, as the rest of Latin America becomes steadily more democratic, so the situation in Caracas is becoming ever more unstable, with the dominance of Hugo Chávez's MVR^{*1} movement and the economy in a poor state.

This essay will attempt to assess what impact various political and economic factors have had on this change. Following a description of the various crises, based broadly on Crisp's argument (1998), it will be seen that it is probably the case that both politics and economics are to blame.

Before discussing the population's response to any particular event, it is important to understand the socio-economic status of the majority of the country's inhabitants. Templeton (1994: 94) cites a Pulso Nacional survey

¹ See list of abbreviations at the end of this document.

from 1982 in which 30 percent of the respondents 'barely' met their expenses, and 44 percent only 'more or less' met them; even in A-B strands of society, these figures are 14 percent and 54 percent respectively. This self-identification with poverty continued in 1987 when 39 percent of those interviewed claimed to be 'lower-class'.

The Political Crisis

A number of facts about the political system in Venezuela must be understood when assessing this topic. Firstly, the populace elect a President, who is a political figure and represents a political party. These parties, as Crisp and Levine (1998: 32) have described, were once very powerful in the country, with even beauty contests being run on party lines. The President then chooses a list of others in his party with whom to work, with his favourites at the top, and the party votes are distributed in the order of the party's preference among this closed list. Such a system is intended to keep candidates' personalities out of the election, but it also means that the people cannot know for whom they are voting and, as such, the characteristics of the party manifestos are often unclear. Unlike many European countries, there is no head-of-state who is considered 'above' politics, and thus there is no sense of continuity over changing governments. Until 1999, the President was forbidden by the constitution to serve more than one consecutive term in office: he could only return after somebody else has served a full term. As will be seen, this can lead to policies not being designed for the long-term, since the President himself has no stake in the success of his actions.

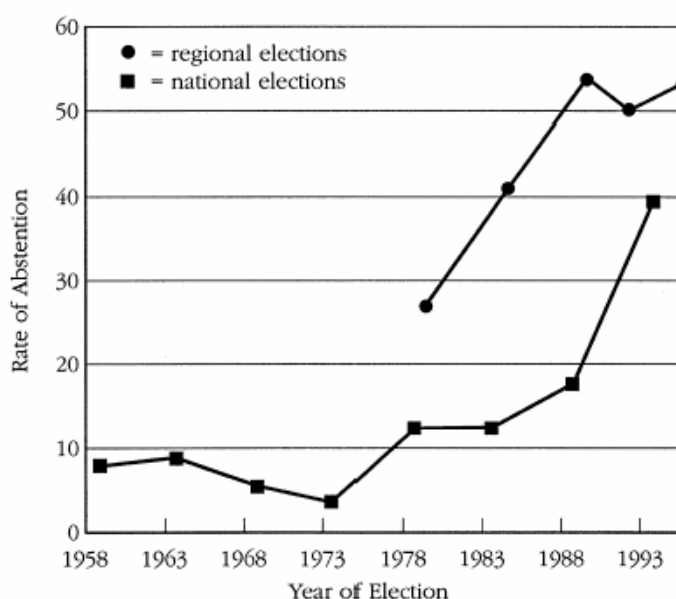
The Punto Fijo agreements of 1958 meant that the AD, COPEI and (much more minor) URD parties agreed to share power and income, whatever the results of any election. The result was that party policies became decreasingly important and AD and COPEI became more and more similar in terms of their electoral manifesto. The agreements also forbade the Communist party, for example, from ever being able to hold power.

'As a result of this arrangement, Venezuela developed into a model democracy for the hemisphere, withstanding the pressures of a guerrilla war, military rule in its southern neighbors, and the booms and busts of the oil industry. That model democracy, however, also generated a government dominated by AD and COPEI, which created hierarchical national organizations and relied on oil revenues to satisfy the needs of their major constituencies.' (McCoy 2000: 4)

The amount of faith in this political system may be charted by following the abstention rates recorded in elections, since increased abstention implies the population's belief that nothing can be changed, regardless of the outcome of an election.

Electoral abstention reached fifty percent in the 1993 elections, and this in a country where voting is technically compulsory (although rarely enforced) and which had always been proud of its democracy, resulting in very high turnouts. It was clear that many believed that no politician would be able to solve the economic crisis in which the country found itself. By comparison, the economically more prosperous years until the mid-1980s had abstention levels below 15 percent.

Figure 1. Abstention Rates in National and Regional Elections



Source: (Crisp & Levine 1998: 34)

At the start of the 1990s, the population was becoming increasingly aware of corruption in the established parties. Some moves to ‘democratise the democracy’ (in Crisp’s phrase) were made, but not quickly enough for the majority of voters. The corruption had been recognised for some time, but there was now a seemingly unending number of examples coming to the public’s attention. This is significant, since, as Roberts describes, it represented the desperation of the traditional parties looking to find favour with certain sectors of the electorate. The rest of the population started looking for a strong alternative that was completely different from the way things had been done hitherto:

‘As the economy settled into an endemic crisis and the social landscape became increasingly informalized and impoverished, both the corporatist and clientelist bonds that linked established parties to

social constituencies were emasculated. The parties lost their capacity to distribute generalized material benefits, making their resort to more selective forms of patronage increasingly vulnerable to anti-corruption backlash. ' (Roberts 2003: 53)

The population thought that it had found this alternative in Chávez but, interestingly, the trend of abstentions continued in the national elections in the year 2000, where only 56.5% of the eligible population voted. Both the number of votes cast in Chávez's favour and the amount in percentage terms compared with his landslide victory in 1998 were higher (Molina & Perez 2004: 117-118) but the high abstention rates perhaps forecast the problems that now face him.

The Economic Crisis

Throughout the 1970s, under the AD President Carlos Andrés Pérez (commonly known as CAP), the Venezuelan economy performed outstandingly well. This was mainly thanks to the high price of oil, of which the country was a major exporter and a member of OPEC. Indeed, in 1975, 82% of its exports had been petroleum or petroleum-based products (Pánková 1987: 171). Despite this, however, the seeds for future problems were already being sown, with the country's absolute dependence on the oil price remaining high and capital being exported (mainly to the US) whilst state borrowing increased:

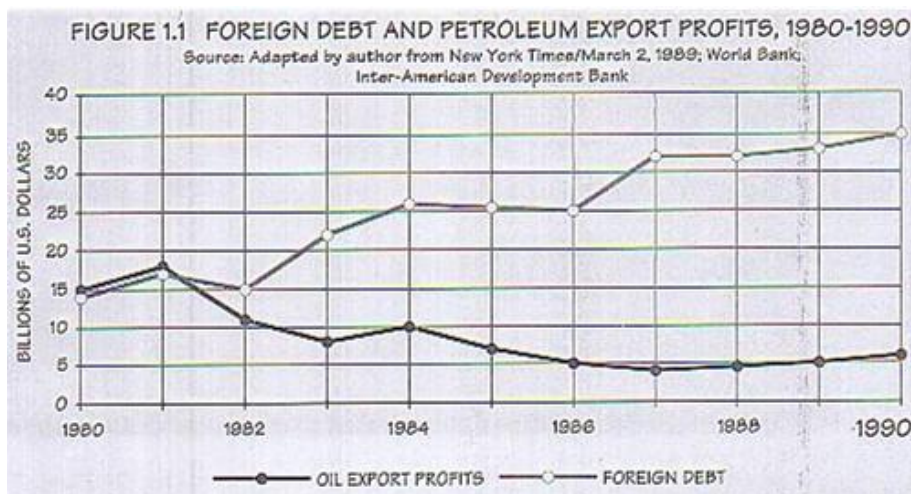
'With partisan patronage added to the costs of corporatist distributions and massive generalised subsidies for business and consumers, the Venezuelan state borrowed heavily even in the midst of the oil boom of the 1970s, then sank into financial crisis in the 1980s, when global interest rates tripled and oil prices plunged.' (Roberts 2003: 50)

Throughout this period, foreign banks also benefited from the high price of oil and had spare capital to lend to oil-producing countries at very low interest rates. Like many countries, Venezuela took advantage of this.

When a series of scandals were uncovered at the end of CAP's presidency, it became clear that AD would not win the elections of 1978, which, indeed, were won by Luis Herrera Campíns of the opposition COPEI party.

Nevertheless, in the light of the troubles to come, CAP would come to be seen as a successful President, who had been in power during Venezuela's most prosperous years.

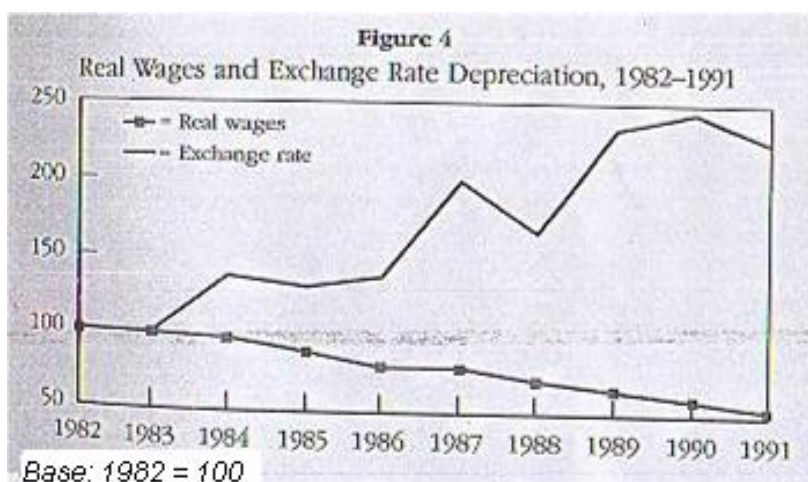
Herrera Campíns' presidency started in the continuing economic boom, but this liberal surprised many by attempting the privatisation of several state-owned industries. In the early 1980s, the price of oil dropped significantly and this, in turn, caused great difficulties for the Venezuelan economy which was so dependent on the price of one commodity. The extent of the crisis, which saw the value of petroleum exports fall by over a third from 1981 to 1986, whilst foreign debt dramatically increased, is clearly demonstrated in this graph:



Source: (Hillman 1994: 16)

In response, the foreign banks raised substantially the interest rates on their loans, to the extent that many nations found it hard to pay. To try to alleviate its own position, Venezuela introduced the RECADI: On 28th February 1983,

the currency, the Bolívar, was devalued. A fixed rate of B4.3 = \$1 (the previous rate) was introduced for importation and public debt, with B6 = \$1 for regulated trade. All other cases continued with a floating exchange rate, which has risen from a starting point of B7.5=\$1 in 1983 to B43.1=\$1 in 1989 (just after the suspension of the RECADI, see below) to B106.35:\$1 in January 1994 and B1938.93=\$1 in April 2004².



Source: (Zambrano Sequín, L. 1995: 71, based on information from IIES-UCAB)

The aim was to create an artificially low exchange rate for the debt (set in dollars) and it should also have assisted the oil industry (since the cost of a barrel is also set in dollars). It is widely thought to have failed because inflation continued to rise, thus making the poor poorer and the rich (whose assets were often kept in dollars in US bank accounts) richer in real-terms. It also gave opportunity for corruption, and, soon, the practices of over-invoicing or even setting up fake companies became widespread, allowing the dollars to be sold for profit on a black-market. Since the lower and middle-classes

² 1983 & 1994 rates: (Hillman 1994: 92);

1989 rate: (Haussman 1994: Table 9.2);

2004 rate: Universal Currency Converter <http://www.xe.com/ucc/>

formed the highest number in the electorate, it is no surprise that Herrera Campíns' popularity declined with the economic situation, despite the fact that one might argue that his policies seemed to make sense at the time, given the poorly managed economy of the 1970s – which he had inherited – and the dip in the oil price – over which he was relatively powerless.

The next Presidential elections took place only months after the devaluation of the currency, and the electorate placed their confidence in the AD once more. Their candidate, Lusinchi, discovered that the country was about \$33 billion in debt, which many considered to be roughly equal to the amount of private money held by Venezuelans abroad (Hillman 1994: 44). In order to combat the situation, he attempted to block the flight of capital and maintained the currency controls introduced by his predecessor. Fearing that IMF involvement could make the situation still worse for the citizens, the new President also ensured that the principal repayments on the loan continued, even if to do so meant depleting the country's foreign currency reserves.

Meanwhile, the standard of living for the majority of the population continued to worsen. As inflation increased, the price of oil and wages dropped in real-terms. This led to increasing unemployment, and so, in 1985, under some pressure, the President enacted unemployment insurance, thus giving the population a limited sense of security, which reduced the potential for protest.

With the 1988 election now looming in December, the AD announced CAP as its candidate. CAP, who had been responsible for much of the country's

foreign debt, now argued for it to be reduced, seeing that the only way for the situation to be reversed was by removing this huge obstacle to the country's economy. At the time, Lusinchi's handling of the economy was widely regarded as having been careful and this fact was rewarded by the electorate as, on this occasion, power did not pass to the opposition, but rather CAP was re-elected for the AD.

In his inaugural speech, CAP refused to discuss exactly what his reforms would be. This might have been a sensible plan, designed to give himself more time to study the situation before making a statement. His return to office, however, was marked in the style of a lavish coronation. This was much criticised in the press, and resulted in the population beginning to fear that no-one, not even this man who had led them through the heady days of the 1970s, would be able to assist the country now.

It was more than two months before the reform package would be described in detail and, when it was announced, it occurred on the same day, 16th February 1989, as the lavish 'Wedding of the Century' of two members of the upper-class: Mariela Cisneros and Gonzalo Fernandez. Again, the extensive press coverage of the ceremony was remarked by the population and, for example:

'The Church published a post-riot document on March 9 in which Lebrun [a conservative archbishop] and twenty other Roman Catholic priests stated "the luxury of the few has become an insult to the masses" ... [It] concluded that Venezuela's

foreign debt should not be the burden of the poor. ' (Hillman 1994: 122)

The significance of the juxtaposition of the wedding with talk of new and higher taxes, further devaluation of the currency, import duties and the suspension of price controls was not lost on the populace, who were increasingly wondering whether CAP was introducing reforms which were the opposite of what they would have wanted to vote for, since these plans would only exacerbate their problems. If the release of the news on that day was intended to be covered-up by the diversion of the wedding, the plan backfired, but this was not as serious as the basic error of omitting details of corrective measures from the speech:

'The inflation rose to an unprecedented 80 percent. Knowing that prices would rise, retailers suspended sales in order to boost future profits. This created a serious shortage of basic products. The absence of corrective measures by the government produced anxiety and anger. Government inaction at this point was perceived as a clear failure to address the people's needs.' (Hillman 1994: 119)

Perhaps the most significant reform was to suspend the RECADI, (the system for the purchase of discounted dollars under the fixed preferential exchange rates) after it was revealed that \$2 billion had gone missing, presumed to have been sold illegally.

It is interesting to look briefly at other countries' responses to the oil price collapse, to assess whether the ensuing crisis might have been partially avoided by different planning. The main response was buying into the entire distribution process, down to the individual forecourts. The Kuwaiti oil industry had already bought into the European market by acquiring Gulf Oil's Benelux and Scandinavian branches in 1983, expanding to Hayes Petroleum Service in the UK in 1986, and then various stakes in British Petroleum. At the end of the 1980s it was also interested in other Western European countries and the United States market. Libya, meanwhile, set up the Oil Investments International Company and purchased large stakes in interests in Italy and also purchased a refinery in the, then, West Germany. Likewise, Saudi Arabia obtained access to some of Texaco's interests in the United States. Venezuela also attempted to access these European markets, principally West Germany and Sweden, and also obtained several large deals in the United States. It is seen, therefore, that Venezuela's response was in line with other affected countries, which did not suffer as badly (Morse & Nanay 1991: 186-195). Indeed:

“Due to its OPEC quota, Venezuela was unable in 1988 to meet the supply needs of all its clients, including joint-venture partners and third-party states. Venezuela sold more oil than it actually produced. At times since 1987 it has had to purchase crude in international spot markets to supply part of its needs.”
(Morse & Nanay 1991: 186)

The Evolution of Civil Society

In the light of these economic difficulties, the population had become conscious that real improvements were being hindered by the entire system. On 26th October 1988, thirty tanks surrounded some of the government offices. Whether this was an actual attempt at a *coup d'état* or just a warning to those standing for election is unclear, but it is now known that some small units in the army had been contemplating a military take-over for several years, and, indeed, Hugo Chávez, who would later rise to prominence, had been transferred out of Caracas because of evidence of this.

Trouble was also brewing on the campus of the UCV University in Caracas, following a demonstration two days earlier, on 14th February, against government economic policy, in which a student and an employee had been killed. The students felt especially let down by CAP's reform package and when, in the ensuing economic chaos, the local minibuses attempted to double fares and stop accepting student discount cards in order to meet the rising costs of fuel, the students started another protest on 27th February.

This insurrection quickly became rioting, then looting, and more and more people joined in, with the disruption eventually spreading to a further nineteen cities. It took several days before the President was able to act, since the police seem to have sympathised with the looters for some time.

The suspension of basic freedoms which followed – freedoms guaranteed in the Constitution – is thought to have given rise to the alleged massacre of

anyone suspected by the security services of having been involved, but the exact numbers of people killed, or hard evidence for this, is difficult to obtain. What is certain, however, is that something happened which stopped the demonstrators from attempting another riot for a further three years, even though few significant changes, except the suspension of the RECADI, happened as a result of the events of February 1989.

It was three years later, in February 1992, with the economic situation still deteriorating, that the discontent again boiled-over. On 2nd February, CAP had gone on a state visit to the United States, and the MBR-200, a small left-wing political party, supported by five Lieutenant Colonels and less than ten percent of army units (Berggraaf & Millett 1994: 65), attempted a military coup (*golpe*) the following day. In the fighting, which lasted over twelve hours, some seventy people died. Shortly before midday on 4th February, an unknown face, that of Lieutenant Colonel Hugo Chávez appeared on television to surrender. The desperate population immediately adopted Chávez's image as an icon of their struggle and, perhaps for the first time, a personality came to prominence on the political scene, rather than a political party. Indeed, very few of the population had any concept of the MBR-200's policies at all, viewing the failed attempt as Chávez's personal fight to remove CAP.

Despite the lack of success, the MBR-200 spread the word that there was to be a *cacerolazo* – a beating of pots and pans by way of peaceful (but noisy) protest – just over one month later on 6th March 1992. Again, few actually

seem to have realised that the MBR-200 was involved in the planning, but this means of protest was widely adopted and, for just under three hours that evening, there was a deafening noise across the capital. A couple of weeks later the *cacerolazo* was repeated and, by 8th April, it had become a *pitazo* using whistles that seem to have been distributed by the MBR-200's underground network.

Despite the protests, the government again did little to appease the voters and Chávez was imprisoned. But the inaction caused more protests and, on 23rd June, there was yet another march sponsored by the University in Caracas. This time it was peaceful but the phrase *Fuera CAP* (out with CAP) was chanted by thousands. Still he refused to leave the Presidential palace.

Less than six months later, another *golpe* attempt took place. Again, the MBR-200 was behind the attacks, in which bombs were dropped on the capital city and key military figures fled to Peru. Chávez again appeared on

television, this time only in videotapes, and again the attempt failed, although sporadic violence continued for a few days after the main attempt on 27th November.

The population, however, was better prepared for this attempt. Fearing reprisals for the events of March, many had stockpiled food for months previously, and so were able to sit it out at home.

The November attempt came in the context of preparations for local elections, which went ahead as planned on 6th December. These elections, although not affecting the President directly, were widely seen as a referendum on CAP's leadership. The COPEI won, with the support of the Catholic Church. This is particularly interesting as, in Venezuela (and unlike many other Latin American countries) at this time, the Church was not actively involved in politics, although the link with COPEI did continue. It seems, then, that the Church was eager to see a peaceful end to the situation, rather than a political gain for itself.

Throughout early 1993, MBR-200 continued to issue pamphlets calling for CAP's resignation. He did not resign but was removed from power, just months before elections were due anyway, by an impeachment trial in the summer. After this, a transitional government assumed power for the next few weeks, but little changed as they were without a clear mandate.

The 1993 elections were won by Rafael Caldera, a candidate who had been a founding member of COPEI, but who had then become an Independent, realising that the political party-based structure of the country was partly to blame for the crisis. Here, then, at least in the eyes of the electorate, was the end of the Punto Fijo agreement, and the opportunity for significant change.

Change was not forthcoming, however, and, according to the International Labour Organisation, (cited by Roberts 2003: 52-53³) by 1996 wages were in

³ See also (Andrubal 1997: graph 15b).

effect just 38.8 percent of what they had been in 1980, compared with 102.6 percent in the rest of the region as the economic downturn continued.

In the next few years, Hugo Chávez's party, the MVR, joined with the PPT and MAS in a loose agreement called the PP. It was with this arrangement that the MVR won the 1998 elections, led by Chávez himself following his release from prison. (The PP alliance collapsed in April 2000 as the PPT left, but the PPT does still vote with the MVR on issues of mutual agreement.)

Without the PP, those who wanted to defeat the AD and COPEI feared that there would be too many (often new) small, opposition parties for any one of them to gain an absolute majority, which would potentially allow the two old parties, although significantly weakened, to continue in power.

The MVR's surprise win in 1998 was a landslide victory that dealt a deathblow to the AD and COPEI, which had already become split during the 1990s. This left the PP coalition with no real opposition to its planned reforms, except the population's increasing apathy. Their win, and the rise of the very left-wing *La Causa R* party five years earlier, is also interesting as it shows how a smaller party could rise to prominence, despite the difficulties underscored by Crisp and Levine (1998: 33): the voting procedure was designed so that (1) regional parties could not realistically win seats and (2) so that the cost of a national campaign would be out of the reach of any party but the AD or COPEI.

Surveys have suggested that many of the poor were disappointed by the new Constitution of 1999. Chávez's huge mandate allowed him to extend the Presidential term from five to six years and permit re-election of the same President for successive terms. To many, the poor man's hero seemed to have become as guilty of *matizaje* (literally a mixture of tones, figuratively, mixing many rôles) as any other corrupt Latin American politician, although (and this remains to be seen) it should encourage Chávez to formulate economic policies that consider more medium-term implications than other Presidents have.

As is proved by the short-lived coup of April 2002 and the petition calling for a vote of no confidence in Chávez (which, at the time of writing, is stalled in a dispute over some of the signatures obtained), the collapse of the Venezuelan political system, and the current premier's attempts to rebuild it, have had far-reaching effects.

The Structural Crisis

To Crisp and Levine, one of the main reasons for the present problems is the influence of ‘interest groups’ and non-elected bodies such as the FEDECAMERAS on the governmental system, particularly in the decentralised public administration. If labour groups (including the oil industry) had a large say in economic policy during the 1970s, it is hardly surprising that the more disastrous long-term scenarios, such as the eventual collapse of the price of the barrel, were not studied closely. Crisp and Levine also blame this political system for the lack of strong corrective measures in the 1980s after the crisis had struck, but before it deepened. They explain how industry had won such concessions as favourable exchange rates, job protection, wage increases, protection from foreign competition and huge subsidies for agriculture:

‘Because of the consultative policy-making process, the state continued these policies through the 1980s, despite the collapse of the international petroleum market, enormous government deficits, and increasing public and private indebtedness. Given the extensiveness of the representation and its constancy across time, the influence of the FEDECAMARAS and the CTV [Confederación de Trabajadores de Venezuela, the largest trade union] was entrenched in the executive branch of electoral oversight.’ (Crisp & Levine 1998: 38)

Conclusion

To return, then, to the question, to what extent are the factors that gave rise to these events political or economic? Undoubtedly, it is hard to separate the two in many instances, as the political handling of the economy in the 1970s is certainly partly to blame. The oil economy has been seen by many to be central to this issue:

‘Oil money ... [was] able simultaneously to mitigate social conflict and to manage economic growth and distribution. The state is top-heavy: controlled by remote elites, colonized by interest groups, and dependent on ever greater infusions of oil money. Once revenues decline, the model is “exhausted” and conflict comes to the surface, making crisis a part of everyday life.’ (Crisp & Levine 1998: 29)

Coppedge also believes that infiltration of non-elected bodies and interest groups (which he compares to Mexico’s dominant party, the PRI) meant that they would naturally be influential. It was the fact that the unions were elected from party slates, with the CTV (representing up to eighty percent of the formally (ie. legitimately) employed work force) being mainly dominated by the AD, and what he terms the *‘notorious ... lack of turnover in their leadership’* (Coppedge 1993: 259) that was a major barrier to reform.

‘While neither of these parties [AD or COPEI] was dominant, both were structured like the PRI: they were built on labor, peasant and

middle class wings subject to tight party discipline, and they actively coopted and infiltrated other organizations in society in order to extend their control, relying on state resources (when available) to achieve their ends. ' (Coppedge 1993: 254)

Roberts, on the other hand, highlights the economic factors, both those under the control of the Venezuelan leaders, and those about which they could have done little, as the cause of the collapse of the economic system:

'[The] traditional party system nevertheless was founded on a mixture of corporatist and clientelist linkages to social actors that were unable to withstand the secular decline of the oil economy and several aborted attempts at market liberalisation.' (Roberts 2003: 35)

In summary, Venezuela, which had had a multi-party system in the 1970s, high electoral turnout levels, prosperity and a successful President, was left at the turn of the century with a dominant-party system, abstention on previously unheard-of scales, an economic crisis and a former coup-leader as President.

It is hard to blame the situation on any one issue or event, especially as politics and economics are so inextricably linked. Certainly it might have been better, with hindsight, had politicians in the prosperous years of the 1970s borrowed less, had the AD and COPEI not signed the Punto Fijo

agreements, had politics been more transparent, had the oil price not slumped, had the economy been based on more than one commodity or any number of other politico-economic conditionals. But such *what if* questions are impossible to answer. As it stands, all that can be said is that, in their own ways, both politics and economics played a fundamental rôle in the collapse of the Venezuelan political system in the 1990s.

*** Abbreviations:**

- AD: Acción Democrática
With COPEI, one of the two main parties in twentieth century Venezuela.
- CAP: Carlos Andrés Pérez
Commonly-used abbreviation of this former President's initials.
- COPEI: Comité de Organización Política Electoral Independiente
With AD, this Christian Socialist party was one of the two main parties in twentieth century Venezuela.
- CTV: Confederación de Trabajadores de Venezuela
The largest trade union.
- FEDECAMARAS: Federación de Cámaras y Asociaciones de Comercio y Producción
An umbrella organisation for business interest groups.
- MAS: Movimiento al Socialismo
Major opposition party that rose to prominence in the 1990s.
- MBR-200: Movimiento Bolivariano Revolucionario
The political movement which undertook the *golpes* and protests in the early 1990s
- MVR: Movimiento V República (Movement for the 5th Republic).
Hugo Chávez's party, currently in power.
- OPEC: Organisation of Petroleum Exporting Countries
Venezuela was a founder member.

- PP: Polo Patriótico
Opposition alliance that fought the 1998 and 2000 elections,
- PPT: Patria Para Todos
Opposition party which left the PP just after the elections in 2000
- PRI: Partido Institucional Revolucionario (*Mex.*)
Dominant party in Mexico for much of the twentieth century
- RECADI: Régimen de Cambios Diferenciales
The system for obtaining cheap dollars during the fixed exchange rate period.
- UCV: Universidad Central de Venezuela
Main University in Caracas.
- URD: Unión Republicana Democrática
Minor party which shared power with AD and COPEI under the Punto Fijo agreements.