Leftist Governments in Latin America

Successes and Shortcomings

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The Repeating Revolution

Chávez's New Politics and Old Economics

Javier Corrales

This chapter addresses two questions. First, how "revolutionary" is the Hugo Chávez revolution (1999–present) in Venezuela; that is, how much of a departure from the past does the Chávez administration represent? Second, how sustainable are Chávez's economic policies?

On the first question, I will argue that the Chávez administration does represent a clear break from the past at the level of politics, but less so at the level of economics. Politically, the Chávez regime changed Venezuela from a system in which incumbent and large opposition forces shared the spoils of office into a system of reduced political sharing with, and constrained space for, opposition forces. This is not so much because the opposition has retreated voluntarily (as in fact it did in 2005 by refusing to compete in midterm elections) but mostly because the executive branch has concentrated power, eroded the autonomy of checks and balances, reduced press freedoms, imposed costs on actors situated in the opposition, and – since 2008 – failed to recognize the authority of elected opposition officials. In the introductory chapter, Weyland discusses the democratic trade-off faced by the left between mobilizing new, disenfranchised political actors and preserving pluralism. Under Chávez, this trade-off has been rejected, with the government showing little interest since 2005 in guaranteeing pluralism. Of all the elected governments in Latin America since the 1980s, not just those on the left, the Chávez administration has undermined liberal institutions of democracy the most, to the point where it makes sense to speak of a transition to some form of autocracy.

Economically, on the other hand, Chávez's model represents more continuity than originality. Since 2003, the Chávez model has been privileging state control over the economy and reliance on oil. Across a great number of economic policies, the regime resembles the high point of import-substitution industrialization (ISI) of the 1970s, also a time when Venezuela experienced a spectacular oil boom. What has changed this time is the magnitude and duration of the oil boom (by far, the post-2003 oil boom is the largest), more so than the state's economic policies.

This combination of new politics (concentration of power in the executive branch and constraints on the opposition) with old economics (statism and oil dependence) is producing an aggravation, rather than a correction, of some of Venezuela's worst historical economic maladies. On the question of sustainability, one might be tempted to believe that because the Chávez regime is repeating economic mistakes similar to those of the past, the regime is likely to crumble, much like the previous political regime unraveled in the 1990s, arguably a casualty of economic mismanagement. This time around, however, the regime might prove to be more resilient.

Exploring this resilience hypothesis requires addressing the question of the impact of oil booms and busts on regime type. In the third part of this chapter, I offer a theory of how boom and bust cycles affect regimes differently. In a democratic regime based on party cohabitation like the one that prevailed in Venezuela until the 1980s, oil booms and busts can be hypothesized to be far more damaging for the regime than they are in a semi-authoritarian regime such as Chávez's. In other words, the effects of oil booms and oil busts are different depending on regime type. They are more likely to weaken and even kill democracies than nondemocracies. If so, then the Chávez regime may not be as endangered by its economic mistakes as were its predecessors.

NEW POLITICS: INCREASING THE COSTS OF BEING IN THE OPPOSITION

The Chávez administration claims to be fundamentally revolutionary. After eleven years in office as of 2010 (the longest tenure in office of any contemporaneous democratically elected president in Latin America), it is possible to assess this claim. Does the Chávez administration represent a break from the past? I will divide my answer into two parts: one focusing on politics, the other on economics.

Politically, there has been an unquestionable, fundamental break from the past. Venezuela switched from a system of political coexistence, in which large and medium-size parties competed politically (see Levine 1973; Levine 1978) and simultaneously shared access to the spoils of office, to one in which only one party (in alliance with smaller parties) reserves for itself the rights to the spoils of office. To use language from North, Summerhill, and Weingast (2000), Venezuela's regime changed from one in which both the advantages of being in office and the costs of being in the opposition were limited to a system in which the advantage of being in office and the costs of being in the opposition are profound. Elsewhere (Corrales 2005; Corrales 2006; Corrales and Penfold 2007; Corrales 2008), I have applied the term "competitive authoritarian" to describe Chávez (from Levitsky and Way 2006), but my focus was mostly on what made the regime competitive – that is, what allowed it to win elections. In this essay, my focus will be on the authoritarian side – the aspects of the regime that disqualify it from being called a democracy. In a nutshell, the regime has expanded presidential power vis-à-vis other state powers constitutionally mandated to exercise checks and balances (thereby reducing horizontal accountability). It has also reduced the institutional spaces available to the organized opposition (thereby reducing vertical accountability). In addition, the regime has empowered the military like no other contemporary elected government in Latin America.

Formal Expansion of Presidential Powers: The 1999 Constitution

The Chávez regime started out with a dramatic expansion of formal presidential powers. This expansion was accomplished through the Constituent Assembly of 1999, which approved a new constitution less than a year after Chávez took office. The new constitution expanded presidential powers both in comparison to the preceding constitution but also to most other constitutions in Latin America. Table 2.1 lists a number of crucial presidential powers that any given constitution may contain, based on criteria drawn from theoretical works on presidential powers (Shugart and Carey 1992; Carey 2003; Alberts 2006; Hartlyn and Luna 2007). The table shows that no other Latin American constitution approved via a Constituent Assembly since the transition to democracy and until 1999 assigned as many formal powers to the president as the 1999 Venezuelan constitution does.

This constitution is not exactly authoritarian. In some areas, it creates new rights for citizens and sets new limits on presidential power (Wilpert 2003; Hartlyn and Luna 2007). But the net balance is clearly in the direction of empowering the president above any other entity in the political system – certainly far more than the other branches of government and, many would say, most citizens and citizen groups.

Postconstitutional Informal Expansion of Presidential Powers

Presidential powers expanded also through informal mechanisms. Shortly after the enactment of the new constitution in 1999 and up to 2003, the president used the existing formal powers granted by the constitution, together with informal channels, to accumulate further power in the executive branch. First, Chávez eroded horizontal accountability (Coppedge 2003) by enacting a new Supreme Court law that expanded the number of justices from twenty to thirty-six and staffed the new posts with die-hard loyalists, thereby eroding the Court's autonomy. He also compromised the autonomy of the electoral supervisory board, which led to irregularities and mistrust in the electoral process (Kornblith 2005; Kornblith 2006). He purged the military and made military appointments without consultation with Congress. He illegally fired key board members of the state-owned oil company, PDVSA, which produced a widespread labor and business strike, prompting Chávez to fire an additional twenty thousand staff, completely eroding the autonomy of the fattest milk cow in the entire country and the most profitable of Latin America's state-owned enterprises. He conducted a purge of the foreign corps, removing career

TABLE 2.1. *Presidential Powers in Latin America's New Constitutions, 1988–1999*

Category	Ven 1999	Arg 1994	Bra 1988	Col 1991	Ecu 1998	Gua 1985	Nic 1987	Par 1992	Per 1993	Ven 1961
President can set upper limit for budget	Y			Y	Y		Y		Y	Y
Recall referendum possible for legislators	Y				Y					
Executive can enter into some treaties without legislative approval	Y			Y					Y	Y
President has some legislative powers during legislative recess	Y									
Enabling law possible in many areas	Y								Y	Y
No legislative oversight of cabinet formation	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
No censure of executive possible	Y	Y	Y	Y				Y		
Executive can dismiss cabinet at will	Y	Y	Y			Y		Y		Y
Dissolution of assembly possible by executive	Y								Y	
Immediate executive reelection possible	Y	Y	Y		Y		Y		Y	
Six-year executive term length	Y						Y	Y	Y	Y
Executive can initiate constitutional amendments	Y		Y	Y	Y	Y	Y	Y	Y	
Executive can initiate constitutional rewrites	Y		Y	Y		Y				
No legislative approval required for military appointments/promotions	Y		Y		Y	Y			Y	
Unrestricted executive proposal of referenda	Y				Y	Y			Y	
Some executive power to declare state of exception/emergency	Y								Y	
No impeachment of executive possible by legislature	Y						Y			Y
Only Supreme Court has judicial review powers	Y		Y	Y	Y	Y	Y	Y		Y
Prosecutor general primarily dependent on the executive	Y	Y	Y			Y	Y	Y		

Note: The table includes all Latin American constitutions approved by Constituent Assemblies between 1988 and 1999 (as well as Venezuela's 1961 constitution, replaced by the 1999 constitution).
Source: Author's compilation.

diplomats in favor of political appointees (Jatar 2006; Boersner 2007). He also eroded the autonomy of the Central Bank and illegally sacked a supposedly congressionally controlled savings fund.

During this second phase of power concentration, Chávez made use of two *Leyes Habilitantes* (Enabling Laws of 2000 and 2001). There was another one in 2007–08, but these two alone led to a dramatic expansion of executive powers. The 2001 Enabling Law, for instance, culminated in the approval of forty-six new decrees on a broad set of topics. These decrees triggered massive protests.

Chávez also obtained legislative approval to transfer resources from both the Central Bank and PDVSA to a special National Development Fund (FONDEN). In 2005, for example, US$6 billion were transferred from international reserves to FONDEN; in February 2006, US$4 billion were transferred from the Central Bank and $6.8 billion from PDVSA. Only the president gets to monitor and draw resources from FONDEN.

In addition, Chávez eroded vertical accountability during this second phase. A new penal code limited the rights to expression of protest. Efforts were made to first avoid, then delay the opposition's call for a recall referendum. He created a special set of forces (e.g., *Círculos Bolivarianos*) together with armed guards (e.g., the reservists) to defend the administration against critics and intimidate opponents. Following the 2004 recall referendum, in which the government prevailed, the government used the lists of signatories (*Lista Tascón* and *Lista Maisanta*) to deny jobs and government contracts to those on the list (Jatar 2006). In 2009, there were reports of approximately 800 citizens placed under investigation for political treason for participating in protests. There are allegations that the government relies on citizen groups that use pressure tactics to harass critics, especially in low-income neighborhoods.

As if this erosion of accountability were not enough, *Chavismo* won twenty of twenty-two governorships in 2004 and obtained 100 percent control of the National Assembly because the opposition boycotted the 2005 election for legislators. In retrospect, this withdrawal was the opposition's most serious tactical mistake, because it amounted to ceding to progovernment forces the only institutional space available to the opposition. But back then, the boycott had a logic. The opposition thought that it would lead to international condemnation of persistent electoral irregularities, which would then force the government to postpone the election and correct the irregularities. But international reaction was tame, and the government proceeded with the elections without opposition participation.

Following the 2005 election, Venezuela's National Assembly became a mere rubberstamp of presidential bills, rather than a bargaining actor. In terms of Cox and Morgenstern's (2002) famous typology of executive-legislative relations, Venezuela became Latin America's preeminent case of "dominant president, subservient legislature," a position famously occupied by Mexico between the 1940s and 1960s and by no other Latin American electoral democracy.

In short, between 1999 and 2003, the formal and informal powers of the president vis-à-vis other state institutions and the citizenry expanded beyond what the 1999 constitution allowed.

Military Government

In terms of appointments and spending, the Chávez administration is the most militaristic Latin America has seen in decades. Since its inception, the Chávez administration has relied on military figures to run key government programs (Trinkunas 2004). Almost a quarter of pro-Chávez forces at the 1999 Constituent Assembly had a military background. Chávez then relied on the military to provide social services (briefly in 2000–01), to staff the bureaucracy (since 2001), to administer the oil sector (starting in 2003), and to handle the booming trade with Colombia (2005–present). In 2008, eight of twenty-four governorships and nine of approximately thirty cabinet positions were controlled by active or retired career officers. In addition, the military is being allowed to conduct illicit business with impunity.

In terms of spending, the expansion of military influence is also conspicuous. Military spending under Chávez has increased sevenfold. Venezuela is today one of the largest arms buyers in the world (*Versión Final* 2008a). Between 2005–07, the government spent an extraordinary $4.4 billion on arms imports (*El Universal* 2 June 2008). This is equivalent to the expense required to build 300 new Bolivarian schools, nineteen superhospitals, thirty-four medical schools, and two sports stadiums (*Versión Final* 2008a). This expansion in military spending has occurred despite the absence of any existing or imminent military conflict, domestically or abroad.

Paradoxically, Chávez's initial strategy was to bolster military powers as a way to bolster presidential powers, but he has now discovered that he might have created a sort of Frankenstein monster. The military apparatus is becoming an uncontrollable beast that has begun to assert itself more forcefully in politics. There are credible rumors, for instance, that key decisions to accept defeat in the 2007 referendum to change the constitution or to make peace with Colombia after the March 2008 Colombia-Ecuadorian conflicts, occurred as a result of military pressure. Today, the military seems to be the only actor capable of exercising veto power over the president – a testament to the erosion of military subordination to civilian power that is expected in democracies.

Freedom of Expression

Freedom of expression has continued to exist under Chávez, but there are fewer means of expression than ever. This is because the government has curtailed the size and overregulated the content of private media. In 2007, the government shocked international observers by refusing to renew the operating license of

RCTV, a leading TV channel and media firm. The government also confiscated RCTV's assets without compensation. This was a new high point in a campaign, begun in 2003, to expand the government's share of media outlets in the country by acquiring small operations such as radio stations and local newspapers.

At the start of the Chávez administration, the Venezuelan state controlled only one television station, one AM radio station, and one FM station. As of 2007, the government controlled 85 percent of all television signals (six channels), two national-level radio stations, a news agency, three thousand community radio stations, three printed media companies, seventy-two communitarian media outlets, and approximately 100 Internet portals, according to the director of the School of Communication at the Central University, Adolfo Herrera. After the RCTV shutdown, Venezuela has been left with only three private television stations: Venevisión, Televén, and Globovisión. The latter does not even have national coverage, and Venevisión hardly covers politics.

There is more. SENIAT, the government's tax agency, frequently harasses media companies. There have been 134 reports of acts of aggression against reporters (*Versión Final* 2008b). A social responsibility law bans media from issuing information that is contrary to national security or disrespectful of elected officials. Certain news programs cannot air outside of prime time, under the pretext that they are not suitable for children. The government coaxes the media by threatening not to spend on publicity or to provide dollars to buy paper. Private media is obligated to broadcast seventy weekly minutes of free government publicity. As of mid-2008, the president's personal TV program, *Aló Presidente*, had been aired 311 times, each with an average air time of four hours and twenty-one minutes. (In 2006, the average was six hours and twenty-two minutes; see *Versión Final* 2008b.)

In 2009, the government's assault on the remaining private media escalated, with repeated threats to shut down Globovisión, a twenty-four-hour news channel, accused of "contaminating" Venezuelans and inciting insurrection for its coverage of the government's response to national disasters. Furthermore, the National Assembly approved a reform to the National Law of Telecommunications that, in the spirit of "democratizing" the airwaves and protecting the mental health of Venezuelans, authorizes the state to "eliminate media *latifundios*" held by twenty-seven families that presumably control 32 percent of the country's radio waves. In August, thirty-four radio stations were shut down, part of a group of private radios accused of failing to comply with media laws.

In short, the Venezuelan administration has assaulted freedom of expression probably further than was the case under the Alberto Fujimori administration in Peru, known in Latin America as the elected government that went the furthest in efforts to control the media. Whereas Fujimori employed mostly bribes and harassment of reporters to control the media, Chávez has deployed a more diversified and powerful artillery – state nationalizations, discretionary shutdowns, draconian laws, and even Orwellian arguments – to reduce the size and operation of the private media.

Discretionary Spending

The most notable spending characteristic of Chavismo is not so much huge fiscal spending, which is unquestionably astounding in the history of Latin America (see the next section), but rather huge discretionary spending. The law in Venezuela stipulates that any government revenues that exceed the projected and congressionally approved amount must be deposited into a special stabilization fund. Chávez has taken advantage of this provision to expand discretionary spending by making use of two gimmicks.

The first gimmick was to undermine the autonomy of the stabilization fund. Essentially, Chávez draws from this fund as he sees fit, rather than only in moments of declining oil revenues, as the fund creators intended, and by 2008, had simply ceased putting money in it, as rules stipulate. In the second gimmick, between 2002–07, Chávez sent budget bills to Congress that deliberately underestimated the projected price of oil. For instance, for the 2008 budget the government made revenue projections based on a US$35 price per barrel of oil, a figure that was far below the actual figure even for the previous year. For three weeks in 2008, Venezuelan oil sold for at least US$116 per barrel, which was 233 percent higher than the budgeted amount. Then-Finance Minister Rodrigo Cabezas justified this underestimate by arguing that it was a way to "minimize the risk" of lack of fulfillment in the event of any external shock and promising to channel any surpluses to the service "of the people and only for the people" (*El Economista* 2007). But the actual result of this systematic underestimate was to generate an average of 20 percent surplus in revenues every year (see Figure 2.1) which Chávez was free to use without legislative oversight.

These gimmicks violate democratic principles on two counts. First, they violate the notion that the expenditure of public monies should be subjected to congressional scrutiny. Second, they enlarge the power of the presidency to control the economy – and thus politics – far beyond the already large formal and informal powers of the executive. These gimmicks give Chávez far more unaccountable powers than any other elected president of Venezuela, and arguably Latin America, ever had.

The 2007 Constitutional Reform Referendum

Chávez attempted to arrogate more presidential powers in 2007 through a constitutional reform. Although the effort failed electorally, it nonetheless revealed the extent of the government's intent to concentrate power. If approved, the forty-four-page reform proposal would have constituted the most radical blank check for any elected president in the democratic history of Latin America. It included the following provisions, among others: The president's term in office

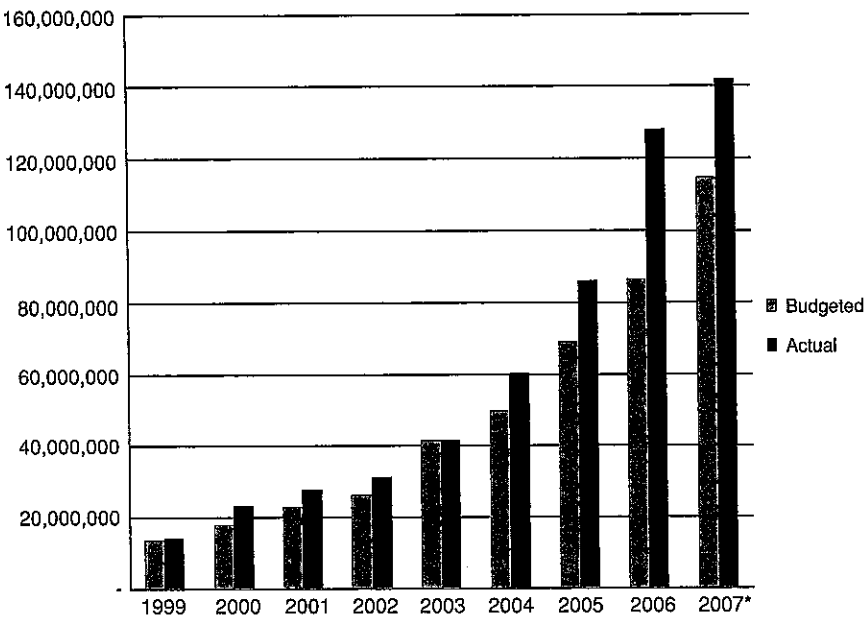

FIGURE 2.1. Venezuela-Discretionary Spending, 1999–2007 (Millions of Bs). *Source:* Pérez Martí 2008. 2007 is an estimate.

was to be extended from six to seven years. The president (but no other elected official) was to be eligible for indefinite reelection. Presidentially appointed *consejos comunales* were to receive constitutional ranking, thereby bypassing and possibly replacing local and regional elected offices. The "missions" – programs under the complete jurisdiction of the president – were to obtain constitutional ranking, undermining the authority of local and regional offices (all elected bodies). The state was to obtain the right to expropriate private property without prior judicial authorization. Article 115 of the constitution, which stipulates that all persons have the "right to... enjoy and use freely (*disponer*) their property (*bienes*)," was to be deleted, thereby abolishing the right to private property. External funding of political groups was to be banned (while simultaneously allowing the state to finance the ruling party). The number of vice presidents was to be expanded, all of whom would be designated without legislative approval. The armed forces were to be assigned a domestic enemy (the *oligarquías*), which is almost a declaration of civil war. The education sector was to be required to promote a socialist state, thereby undermining the notion of freedom of education. And finally, presidential powers during states of siege were to expand – due process would be eliminated and the right to the presumption of innocence would be abolished, with no limits set to the duration of states of siege – thereby violating key rights upheld by the United Nations Committee for Human Rights and the Inter-American

Court for Human Rights (Human Rights Watch 2007). This constitutional reform proposal, together with the RCTV affair, generated the same effects as previous power grabs: unification of the opposition, defections from the government, and a showdown in the streets. This time, the government lost at the polls (albeit not in every state).

The "Coup" against Elected Opposition Leaders

Some observers thought that the 2007 defeat would yield a new era in politics and policy. Many hoped that Chávez would read the signs of electoral disapproval and desist in his efforts to concentrate more power.

However, the 2007 referendum changed politics little, and policy even less. In terms of policy, the 2007 defeat hardly mattered, because the government responded – not by changing course – but by insisting on finding other means to enact the very same reforms that had failed. In early 2009, Chávez organized another referendum to change the constitution to allow for indefinite reelection, despite the fact that it was unconstitutional (Article 346 states that electorally defeated constitutional reforms cannot be reattempted during the same constitutional period) and carried out through illegal means (no funding was provided for the No vote). The government requested a third Enabling Law, which unlike the first two, was granted in economic good times and therefore could not be justified in terms of economic exigency. This law was even more extravagant than the previous two, as it allowed Chávez to legislate in almost every domain: state institutions, popular participation, public values, economic affairs, social affairs, financial institutions, the tax system, security issues, national defense, infrastructure, transport, service, and energy.

Furthermore, the government reverted to the practice of blacklisting citizens, this time, citizens interested in running for office. In 2008, the government created the *Lista Russián*, which included names of citizens disqualified from running for office for the 2008 midterm election. These citizens were blacklisted without having been charged by any tribunal. Although a majority were *Chavistas* (suggesting that Chávez was trying to purge less obsequious followers), the list included some of the most popular leaders of the opposition.

But in terms of politics, the 2007 referendum defeat may have unleashed a new era. A new electoral cleavage seems to have emerged, not so much between high-income and low-income sectors (in Caracas, for instance, the referendum lost in every jurisdiction, rich or destitute) but between high-population states (which overwhelmingly rejected the reform) and low-population states.

This cleavage was confirmed in the pivotal 2008 regional elections for state governors, mayors, and local legislatures. The opposition retained two governorships (Zulia, Nueva Esparta), added three more (Miranda, Táchira, Carabobo), and obtained the mayoralty of Caracas, Maracaibo, and several other cities. The opposition defeated the ruling party in the jurisdictions with the greatest concentration of both population and economic assets.

The 2007 and 2008 elections suggest a divide between the more modern/industrialized states and the more rural states (Alvarez 2008). Like Fujimorismo in Peru in the late 1990s, Chavismo may be becoming a disproportionately nonurban phenomenon. Furthermore, the 2007 and 2008 elections also boosted the morale of the opposition, because these constituted the opposition's first electoral victories in the Chávez era. The election ended the tendency of opposition voters to abstain from the electoral process – a tendency that had cost them dearly in previous elections. It was the governing party that experienced the highest abstention rates. If this political trend continues, it demonstrates a decline in the electoral competitiveness of the regime.

After these opposition victories, Chávez staged what amounted to an inside coup (a so-called *golpe 'desde' el estado*). The targets were the new elected opposition officials. The elected mayor of Maracaibo and former presidential candidate Manuel Rosales was forced to go into exile after Chávez issued an arrest warrant on questionable corruption charges. The elected mayor of Caracas, Antonio Ledezma, and the governor of the state of Miranda, Henrique Capriles, were stripped of their office (through mobs), the bulk of their budgets (through presidential decrees), and the bulk of their staff (through budget cuts). Ledezma also lost the bulk of his authority through the transfer of mayoral responsibilities to a newly created office, head of government, led by a presidential appointee. Capriles also lost control of ports, airports, a hospital, and an asphalt plant. His police force, one of the best performing in the country, had to surrender three thousand firearms to the central state. In July, Chávez described the governors as "enemies of the people" and threatened to prosecute them for allegedly raising paramilitary armies.

In sum, the Chávez administration has expanded presidential powers to the detriment of check-and-balance institutions, increased the costs and obstacles of being in the opposition, curtailed the operations and content of private media, granted far more power to the military than any other democratic administration in Latin America, and disregarded electoral victories for the opposition. After the 1999 constitutional reform, Chávez failed to expand presidential powers through electoral means and has employed alternative means to reach the same ends. Although the regime has encouraged participation by new actors (mostly in its early years) and has respected some autonomous political spaces and political liberties, it has nonetheless become considerably more restrictive for nonincumbent groups than any other regime in Venezuela since 1958. It may not qualify as a full-fledged autocracy, but it is a long way from the more open, more opposition-friendly political regime that existed between 1958–99. No doubt the previous regime was fraught with problems, and almost every scholar who studied it, regardless of ideology, obsessed about its shortcomings (e.g., Naím and Piñango 1984; Coppedge 1994; Crisp 2000; Buxton 2001; Márquez and Piñango 2004; Myers 2004). Nevertheless, the previous system allowed opposition forces to win in five of seven presidential elections, two of which were won by nontraditional parties (the 1993 election by MAS and Convergencia and the 1998 election by the Polo Patriótico). Under Chávez, presidentialism has expanded to the detriment of any other powerholding group in the country, and this expansion shows no sign of slowing down.

OLD ECONOMICS

Economically, as opposed to politically, the break with the past has been less palpable. Chávez's political economy seems instead to be a case of déjà vu: A return to the policies of import-substitution industrialization (ISI) and oil boom mismanagement that characterized Venezuela prior to the 1990s, especially in the 1970s. The irony of Chávez's ideology is that despite being so virulently antiparty and opposed to policies of the Punto Fijo era, the president advocates economic models that are similar to those of Venezuela's traditional parties, especially Acción Democrática under Carlos Andrés Pérez in the 1970s.

The Return of ISI

Venezuela under Chávez has returned to a modified form of ISI. ISI was the model of economic development that prevailed in most South American countries and Mexico between the 1930s and early 1980s. Table 2.2 lists all the policies that were typical of ISI in its heyday (the mid-1970s). Venezuela under Chávez fits into almost all of these ISI categories.

Essentially, Venezuela has experienced a dramatic expansion of the state in almost every domain of the economy through nationalizations, firm buyouts, expropriations, direct subsidies, special credits, heavy spending, and business-unfriendly regulations. The Heritage Foundation Index of Economic Freedoms, which ranks countries according to their levels of economic state intervention, shows Venezuela's descent into a more state-centric economy. Venezuela had one of the lowest starting scores (2002) and experienced one of the steepest drops by 2008 (Figure 2.2).

Public spending as a percentage of GDP increased from 18 to 34 percent between 1998 and 2008 (data in this section drawn from *Veneconomía* 2008). State-owned enterprises have expanded in all sectors through the introduction of new state-owned firms (e.g., the airline Conviasa), nationalizations (e.g., CANTV, Electricidad de Caracas, Sidor, cement companies), expropriations (seventy-four oil service providers, more than forty factories and firms), and conversion of private firms into joint ventures (e.g., foreign oil corporations). Also directly in line with ISI, Chavismo is relying heavily on price and exchange rate controls. The former have been imposed on a large list of items. The latter led to three exchange rates: the official, the preferential (for designated importers), and the parallel or informal rate. This exchange rate was abruptly replaced with the 2010 devaluation, which established two new official rates.

One way to grasp the expansion of the nonfinancial, nonoil state-owned sector is to look at the income generated by these firms. Between 2003 and

TABLE 2.2. *ISI Policy Toolbox during the 2003–2008 Period*

ISI Policy Tool	Examples
	Industrial Policy
State-owned enterprises or mixed-equity enterprises	Nationalization of CANTV, Electricidad de Caracas, Verinauto, SIDOR; purchase of Banco Santander (the third-largest private bank); expropriation of Mexican CEMEX (and acquisition of two other foreign-owned cement companies), 74 oil-related firms in Zulia, textile firm INVELEX in Cojedes, dairy factory in Los Andes, various rice producers, including U.S.-owned CARGILL and some firms owned by POLAR, approximately 50 factories, 1,500 hectares of Smurfi Kappa, paper-maker VENEPAL in Carabobo, iron-related factories through CGV, and 2.2 million hectares in land. The government is increasing its presence in tourism, including nationalization of hotels (e.g., Caracas Hilton). By early 2009, the government has identified 30 more firms as potential targets for nationalization.
"Buy National" laws	Misión Fábrica Adentro and other programs establish joint ventures designed to generate "endogenous development," the Chavista term for import substitution.
Require foreign firms to establish joint ventures	In 2006, 32 private contractors in the oil exploration sector were forced to "migrate" into joint ventures, with PDVSA becoming the majority shareholder. Only 21 joint firms survived. In the Orinoco Oil belt, three private firms were forced to become mixed enterprises; one became fully owned by the state.
Require foreign firms to increase local content	To obtain foreign exchange, firms have to show the government a "Certificate of No National Production," demonstrating that they need imports because there are no locally produced substitutes.
	International Instruments
Tariffs on consumer goods	Few
Quotas on imports	Few; mostly on cars, car parts, and some other products.
Exchange rate overvaluation	Exchange rate has been fixed since 2005; the 2010 devaluation has eased, but not eliminated overvaluation. The inflation rate was 16.2 percent in 2005, 13.6 percent in 2006, 20 percent in 2007, and 31 percent in 2008.
Exchange rationing	Comprehensive system of exchange rate control (CADIVI). Currently, three rates operate: the official rate, the special rate for importers (*Mercado permuta*), and the unofficial rate. Approximately 20 percent of foreign exchange transactions in the private sector relies on the nonofficial rates.

ISI Policy Tool	Examples
Import licenses	Few (but exchange rate controls, which limit access to dollars and thus to imports, are heavily restricted and offered on a select basis).
	Fiscal and Monetary Policies
Subsidies for cheap inputs (e.g., electricity)	Tax credits are offered to designated sectors, especially in agriculture. Price controls are in place on a variety of consumer goods. Periodic increases of gas prices were stopped in 1999. As of 2008, the government offered one of the cheapest prices of gasoline in the world (US$0.12 per gallon, or 1/15 the price of a liter of bottled water), a subsidy of almost US$11 billion in 2007.
Tax breaks on production	Tax revenues have increased but there is uneven application of tough tax laws.
Preferential interest rates and loans	Private banks are obligated to channel 47 percent of capital to designated sectors. Furthermore, new controls have been established

Source: Franko 2007; Veneconomía 2008; *Versión Final* (26 July 2009); *Business Week* (23 May 2008).

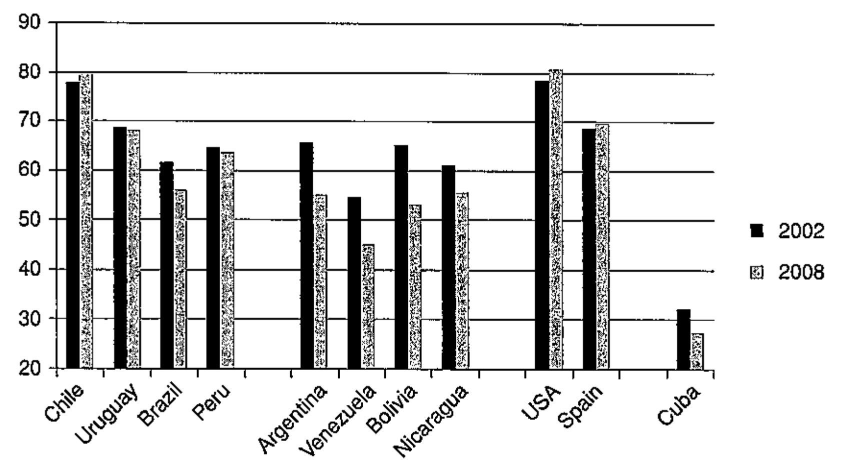

FIGURE 2.2. Index of Economic Liberties, Selected Countries, 2002–2008. *Source:* Heritage Foundation.

2007, income from these corporations almost doubled from 7.4 billion to 13.5 billion bolivars.

The growth of state-owned enterprises under Chávez is often justified discursively in terms of the need to regain control over sectors deemed by the state to be strategic. But as was true in previous episodes of ISI, state expansion under Chávez seems to fulfill political rather than strategic purposes. To pave the way for nationalization, the government tends to pursue two channels. One is for the state to actually encourage labor conflicts, thereby driving a firm to bankruptcy, which justifies the government taking over (e.g., Constructora Nacional de Válvulas and now Coca-Cola FEMSA; *Veneconomía* 3 October 2008). The other is for the government to take over the firm, promising workers that it will expand employment and relax productivity standards – all of which pleases labor and thus helps the government meet electoral challenges successfully. Teodoro Petkoff makes this point in discussing the 2007 nationalization of Sidor:

> Polls show dwindling support for Chávez in Bolívar state – home to the steel plant and other heavy industry facilities and thus of strategic importance to the government – and the nationalization decision was an effort to stop the electoral hemorrhaging in this region. Seen from the vantage point of the progressive weakening of the president's standing, the Sidor nationalization is a case of offense being the best defense. That labor unions and most company employees rejoiced at the announcement came as no surprise: the current statist drive has rekindled an old, conditioned reflex in the labor force. Before privatization in 1997, Sidor needed twenty thousand workers to produce less than 3 million tons of steel a year. As the employer, the state eagerly agreed to unrealistic collective agreement terms knowing the national purse would make up for any red ink. After privatization, the payroll was cut to six thousand and Sidor started producing 5 million tons of steel a year (Petkoff 2008: 11).

Either way, the result is the same: The state becomes the principal economic agent in a region or in a group of workers, which increases the state's cooptation capacity. Although Petkoff argues that this political bias makes Chávez's nationalizations "qualitatively different" from previous statism, his point may be overstated. Similar political intentions have been identified in previous episodes of ISI expansion (Kaufman and Stallings 1991).

One political motive behind these nationalizations is to increase the size of the workforce under state control. Between 2007 and mid-2008, when nationalizations picked up pace, nationalizations allowed the state to absorb almost 41,400 new workers into the public payroll, a 7.2 percent increase from the early 2007 level and a 53.5 percent increase from the start of the Chávez administration (from 1,348,181 to 2,064,027 workers). In contrast, the private sector has expanded its payroll by only 28 percent since 1999 (from 7,343,257 to 9,405,568 workers; see Tejero Puntes 2008). Because private-sector job creation is lagging seriously behind the state sector, the economy is being left with a phenomenally large shortfall in employment of approximately 8.7 percent (*Veneconomía* 30 April 2008).

Not only the motives, but also the outcomes of Venezuela's current ISI seem to be repeating a similar story. The public sector is getting bloated (with labor), while productivity is plummeting. PDVSA is the best illustration. In 2009, the minister of energy and president of PDVSA announced that PDVSA's payroll increased by 266.7 percent, going from thirty thousand to eighty thousand employees (*Infolatam* 19 July 2009). And yet – measured in terms of barrels

per day produced – the company's production declined by 22.4 percent since prestrike levels, from 2.35 million in 2002 to 1.82 million at the end of 2008 (EIA 2009; Espinasa 2009). (Private firms in strategic association with PDVSA have not experienced productivity declines, suggesting that this is a company-specific, rather than an industrywide, outcome.) The company's operating costs have more than doubled, from US$6.7 per BBL in 1997 to US$15.1 in 2007 (Romero 2008). This productivity drop is all the more remarkable and unexpected given the large world demand for oil since 2003.

Modified ISI

Despite the similarities, there are at least two major differences between classic ISI and Chávez's ISI. First, Chávez has spent little effort on restricting imports. Tariffs and import quotas do exist (e.g., in auto parts), but they are not that salient, widespread, or rigid. In fact, the government is relying on an avalanche of imports to combat inflation (because foreign items exert downward pressure on prices) and to alleviate consumer goods shortages, which have increased in Venezuela since 2006. Insofar as import controls exist, they occur by way of exchange rate controls: Importers must obtain dollars from the government, and the government is restricting the number of dollars it sells. Consequently, Venezuela has experienced an import boom that is inconsistent with the goals of classic ISI. However, it is consistent with the import boom that took place during Venezuela's first oil boom under Carlos Andrés Pérez, in which imports registered an average 33.7 annual growth between 1973–78 (Echevarría 1995: 58). It is important to note that the market-reform period of the second Carlos Andrés Pérez administration (1989–93), often billed as a time of trade-induced deindustrialization, actually registered a decline in imports.

An even greater departure from ISI is the dearth of public and private investments in diversified industrial activities. This contrasts with the 1960–90 period, when investment levels in industrial activities actually expanded, in defiance of traditional resource-curse theories that predict export booms to yield deindustrialization (Di John 2009). The decline in public investment under Chávez is noticeable in both oil and nonoil activities. Public sector investment in oil declined from an already low 9 percent in 2003 to an even lower 8 percent of total sector revenues in 2007. In nonoil sectors, public-sector investments declined even more dramatically, from 7 percent in 2003 to 4 percent in 2007.

By neglecting investments in capital, the state is leaving only the domestic private sector to shoulder the burden of investing. And yet this private investment is not forthcoming, mostly because the government is doing very little – other than offering a fiscal stimulus – to help business thrive. The World Bank *Doing Business Index*, which ranks countries in terms of their favorable domestic investment climate, places Venezuela near the bottom of the list (World Bank 2008).

The consequence of these industrial policies – openness to imports and business-unfriendly regulations – is, of course, fewer private industries. The number of private manufacturing firms in Venezuela declined by 13 percent between 2001 and 2006; food- and beverage-related manufacturing industries declined by 8.4 percent (Pérez Martí 2008). Another consequence has been capital flight starting in 2006. This decline in firms and increase in capital flight are completely unexpected in a country undergoing the most impressive consumer boom in decades. But they are perfectly predictable in the context of a proimports/anti-investment economic model. Di John (2009) argues that the worst economic effects of the resource curse – oil booms leading to deindustrialization – never happened in Venezuela, at least until the 1980s. Under Chávez until 2009, these effects were in full swing.

One result of the Chavista political economy is that, like most heavy-handed statist models, it contains a mechanism for permanently generating its own demand. The state creates poor business conditions for many sectors, which yields unemployment or capacity underutilization or both. The government then uses this outcome as an excuse for taking over. In a famous critique of capitalism, Charles Lindblom (1982) argued that the private sector can hold the government hostage because it can always threaten politicians with unemployment and thus force them to adopt business-friendly policies. Chavismo has discovered that a petro-state can actually reverse this relationship. The state can afford to corner the private sector into underperformance and thus generate demand for more state interventions. In a nonresource-based economy this model would be unsustainable – at some point the state would run out of funds. In a petro-state enjoying an oil-price boom such as Venezuela in 2003–08, the model was impossible to break because both supply and demand were feeding on each other.

Figure 2.3 shows some of the economic results of Chávez's modified version of ISI, which, as argued, is similar to Venezuela's ISI in the 1970s. Imports

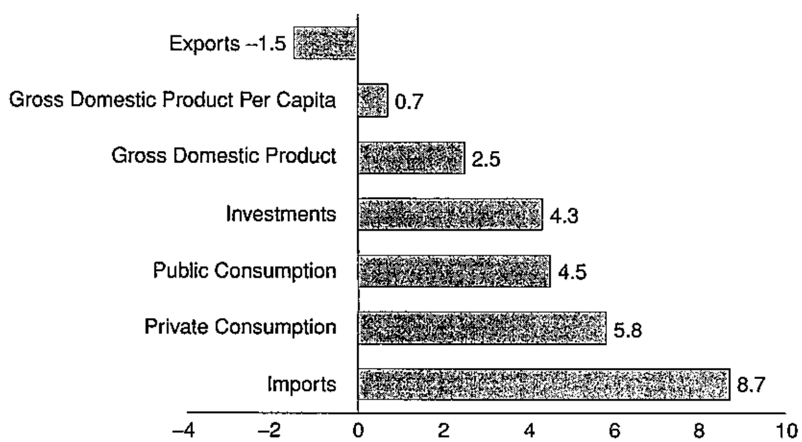

FIGURE 2.3. GDP Growth Rates by Different Components, 1998–2006 (annual percent). *Source:* Penfold 2008.

is the sector of the economy that has expanded most conspicuously, which is a departure from textbook ISI; whereas nontraditional exports have shrunk, which is compatible with both traditional ISI and typical resource-curse theories that predict nondiversification of exports in situations of oil dependence during boom times.

In short, Chavismo represents another ISI experience with some modifications. It differs from classic ISI (but not Venezuela's previous ISI) in that it welcomes imports. It also differs from both classic ISI and Venezuela's previous ISI in that it purposefully represses public and private capital investment.

Social Policies, Clientelism, and Cronyism

Weyland's chapter poses the question of how did leftist administrations in Latin America in the 2000s address issues of social equity? Chávez has become known worldwide for vigorous social policies, especially his "Missions to Save People." Regime supporters claim that Chávez's social policies are truly revolutionary (Gibbs 2006; Wilpert 2007; Buxton 2008; Ellner 2008; Weisbrot 2008). They argue that Chávez's policies of poverty alleviation and income redistribution – both in terms of ingenuity of program design and populations reached – represent true breaks with the past. The reality is far less rosy.

There is no question that some of Chávez's missions are innovative and accessible to previously neglected populations. Yet the claim that Chávez's overall social spending represents a break with the past is overstated. No doubt social spending levels measured in per capita terms have increased, with one estimate placing the increase at 314 percent between 1998 and 2006 (Weisbrot 2008). But spending levels measured in terms of proportion of overall spending are not that much greater than those of previous administrations. There is more spending simply because Chávez enjoyed the largest inflow of revenue in Venezuela since the 1930s. There are also press reports that many missions began contracting in terms of budget, people served, timely payment of salaries, and facilities running, from the peaks of 2006–07, even before the economic crisis hit in late 2008 (e.g., Conde 2009). For instance, Barrio Adentro's budget declined from US$1.3 million in 2007 to US$100,000 by September 2008 (e.g., *El Universal*, 10 February 2009).

Although social spending is a crucial tool to alleviate poverty, it is not the only factor that matters. Inflation and unemployment rates are also decisive. They affect purchasing power directly, especially among low income groups. Measured in terms of these two indicators, the Chávez government's performance has been quite unimpressive. Venezuela's inflation rate under Chávez has far surpassed the region's average and is one of the world's highest. The unemployment rate was also above Latin America's average every year except for 2007 and 2008. Figure 2.4 provides a picture of Venezuela's poor performance with these indicators. It combines the unemployment and inflation rates to create what some analysts have labeled as the misery index. Unless Venezuela is a major exception to standard economic forces, the prevalence of

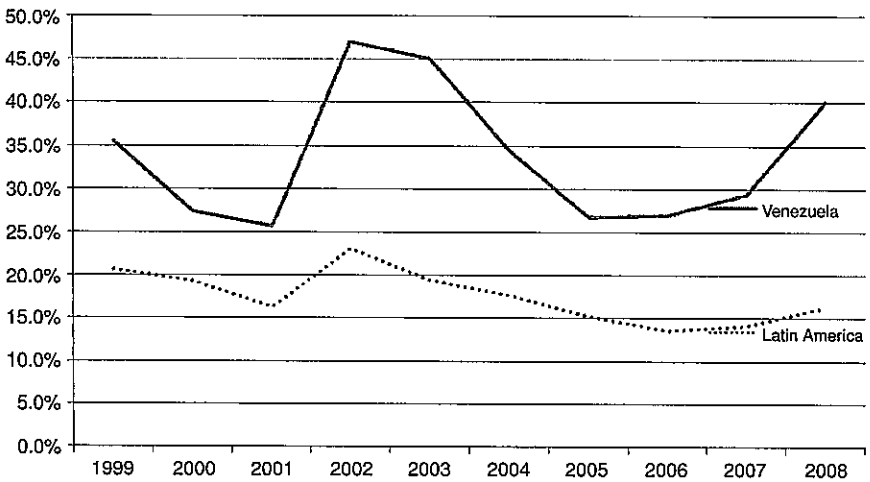

FIGURE 2.4. Misery Index: Venezuela v. Latin America, 1999–2007. *Note:* Misery Index is the sum of the annual consumer price inflation rate and the open urban unemployment rate. *Source:* World Development Indicators and CEPAL.

high unemployment and very high inflation suggests that poverty alleviation must be less impressive than official figures suggest.

Furthermore, when examined in terms of the relationship between investment and return, it is not clear that Chávez's policies are all that impressive. The most serious studies of these missions' impact reveal that poverty reduction is considerably less than what might have been expected from an economy exhibiting such a spectacular growth performance and fiscal stimulus. In fact, education and health achievements are not more impressive than Venezuela's historical trend since the 1960s, and income inequality has actually expanded, as confirmed by both unsympathetic (Rodríguez 2008) and sympathetic (Pérez Martí 2008) analysts. Income among the poor has risen, but the income share of the upper echelons of society has expanded at a faster rate. Furthermore, there is plenty of corruption (Coronel 2006) and politically minded spending (Penfold-Becerra 2007), which indicates that Chávez's social spending is actually exacerbating, rather than correcting, old pre-Chávez-era political vices.

One final domain in which Chávez's political economy is exacerbating pre-Chávez-era political vices is cronyism, or state economic favors for the privileged. Most state contracts to the domestic private sector are awarded without any form of bidding. In addition, a wave of mergers and acquisitions flourished in the half-decade boom of 2004–08, in which many of the buyers were individuals and firms politically linked to the government. Many of these mergers and acquisitions took place in the financial sector. For instance, the fourth-largest insurance company in Venezuela, La Previsora, was acquired in mid-2009 by Bainvest, an investment firm run by Arné Chacón, brother of the minister of science, technology and intermediate industries, Jesse Chacón (*El Universal*,

19 June 2009). The transfer of state and private assets into private hands that are closely linked to the government – locally known as *boliburgueses* – has led many actors to talk about Chávez's *robolución*. The former term is a play on the Spanish words for "Bolivarian" and "bourgeoisie"; the latter, a play on the words for theft and revolution.

The Ax-Relax-Collapse Cycle All Over Again

Thus far, I have provided a snapshot picture of economics under Chávez by 2009 to argue that the prevailing model looked not unlike a slightly modified version of ISI. If one instead examines how the regime's policies evolved since its inception, it is possible to identify yet another economic similarity with the past: a repetition of Venezuela's famous boom-bust cycles.

In a 2000 essay, I argued that Venezuela's economic management between the late 1970s and 1999 repeated a consistent cycle: An oil boom is mismanaged and overspent (which fuels deficits and corruption), leading to a macroeconomic crisis (which aggravates poverty) and underinvestment in the oil sector (which leads to oil production decline), followed by a period of austerity (which further aggravates poverty and ignites political discontent), ultimately forcing governments to abandon reforms, which then brings the country back to economic crisis until a new oil boom appears (see also Villasmil, Monaldi et al. 2004). I have called this the "ax-relax-collapse" pattern. The Chávez administration replicated this path (see Table 2.3).

The ax stage: Chávez inherited a country experiencing both a short-term and a long-term economic crisis. The short-term crisis was a massive recession and exchange rate crisis in 1998, which was an aftershock of the 1997–98 Asian crisis. The long-term crisis was the chronic decline of oil revenues on a per capita basis, which had been generating fiscal deficits, inflation, and debt since the early 1980s (Hausmann and Rodríguez in press). When Chávez took office, he found the economic situation, in his words, "unimaginable . . . There was no money even to pay salaries" and "No one wanted to lend us a penny" (Chávez, Harnecker, and Boudin 2005: 66–7). Economic conditions deteriorated further in 2002–03, with the government blaming opposition strikes for the recession,

TABLE 2.3. *Venezuela: Stuck in "Ax-Relax-Collapse" Cycles*

Administration	Ax	Relax	Collapse
Luis Herrera Campíns	1979	1980–1	1983
Jaime Lusinchi	1983–5	1986–8	1988
Carlos Andrés Pérez, Ramón J. Velásquez, Rafael Caldera	1989–91	1991–2	1993–5
Rafael Caldera	1996	1997	1998
Hugo Chávez	1999–2003	2003–08	2008-present

Source: Adapted from Corrales 2000.

and the opposition blaming Chávez for the strikes. Regardless of the cause, there is no question that the first four years of the Chávez administration were characterized by economic hard times. Chávez's approach to these hard times was not that different from that of previous presidents confronting economic crises: He turned to austerity measures (this section draws from Kelly and Palma 2004). He began by retaining the finance minister from the Caldera administration, Christian Democrat Maritza Izaguirre; freezing PDVSA's investment plans; using decree powers in 1999 to establish a series of new taxes; cutting the budget across the board by 7 percent; and focusing on controlling inflation through exchange rate overvaluation and import promotion. Social spending – in fact, government spending in general – was limited (Penfold-Becerra 2007). Chávez also showed openness to foreign direct investment, especially in the telecommunications sector. This was a period in which some observers even called Chávez a neoliberal.

The Relax Phase

The austerity phase ended with two developments in mid-2003, first, the sudden and rapid rise in the price of oil, and second, the sudden emergence of a serious electoral challenge to Chávez, namely, the opposition's campaign to hold a recall referendum. Chávez's popularity had declined precipitously between 2001–03. The opposition became majoritarian (according to most polls), took to the streets, and pressured the government to enact a recall referendum. In response to this political crisis, the government launched one of the most expansive fiscal stimulus programs in the history of Latin America. It was during this phase (2003–08) that Chávez implemented most of the ISI and social policies just described. Figure 2.5 shows this dramatic change in policy. Between 1999 and 2003 (the ax phase), the budget had expanded modestly or actually shrank overall. In contrast, between 2004–07, it expanded by double digits annually. In fact, expenditures grew at a faster rate than the already phenomenally high rates of revenue growth, a bold procyclical policy

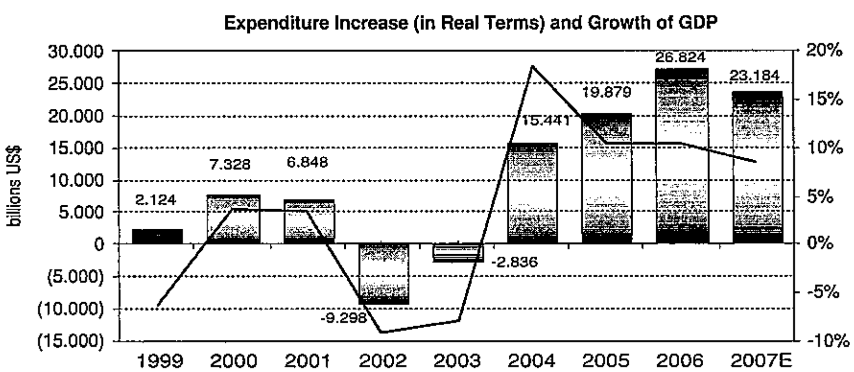

FIGURE 2.5. Spending Increases in Real Terms and GDP Growth Rates. Source: Michael Penfold-Becerra based on Ministerio de Finanzas and Ecoanalítica.

that has generated unjustifiable deficits (Pérez Martí 2008). As in the past, a key component of this relax cycle was inattention to investments in oil – social spending was privileged over capital spending. Consequently, Venezuela's oil production declined.

The Collapse Phase

As in previous boom-bust episodes, the relax phase soon gave way to macroeconomic and microeconomic problems: rising debt, inflation, exchange rate distortions, declining oil production, consumer goods shortages, and capital flight. By 2007, the state had lost control of the expenditure side, and soon liabilities began to surpass state revenues, which created fiscal pressure. The government responded by tightening price, exchange rate, and interest rate controls and curtailing bank liquidity, all in a futile effort to avoid more serious austerity measures, such as severe spending cuts, massive devaluation, and profound tax increases. Tightening these controls led, in turn, to consumer goods shortages, economic slowdown, and more capital flight. This combination of rising inflation and consumer goods shortages is particularly taxing on low-income groups in almost every country, even when there is economic growth. This is one reason that poverty alleviation in Venezuela stopped in 2008.

By early 2009, the Chávez government was in a typical collapse-phase mode: withdrawing foreign reserves from special funds, repurchasing foreign reserves from the Central Bank, cutting the amount of foreign currency offered to private actors by more than 60 percent compared to 2008, reducing the budget by 6 percent, increasing the value-added tax by 3 percentage points, defaulting on debts held by PDVSA with local companies, and expropriating many of these firms. In 2010, Chávez had to resort to a massive devaluation. Except for privatizations, Chávez was repeating some of the same policies that dominated the late 1980s and 1990s.

However, it may very well be that – barring a profound drop in the price of oil – the current collapse phase in Venezuela will be less severe in macroeconomic terms than pre-Chávez-era collapse phases. One reason that previous collapses were more severe is that Venezuela between 1981 and 2003 found itself in a situation of chronic oil revenue shortage, which deprived the state of mechanisms for responding to economic contraction countercyclically. The collapse phase under Chávez is not yielding equally severe macroeconomic strains because the external side remains unusually healthy. Oil prices continued to rise until 2008 to levels never before seen in Venezuela's oil history, and as of this writing, they remain historically high.

And yet despite this difference, the strains on the Venezuelan economy in 2008–09 were significant. In 2008, Venezuela registered one of the highest inflation rates in the world (25.8 percent annually), despite its imposition of the broadest system of price control in decades; consumer goods shortages in a broad variety of products, despite massive imports; stagnation in the agricultural sector leading to food shortages, despite heavy agricultural subsidies; and credit shrinking, despite negative interest rates. In early 2009, the administration continued to have sufficient revenues to sustain fiscal spending and thus avoid a procyclical response to economic contraction. But the microeconomic distortions this time around seemed severe enough to generate poverty and political discontent, as in previous collapse periods. Venezuela is also overexposed internationally. In the past few years, Venezuela bought Argentine bonds and guaranteed part of Ecuador's foreign debt. If these countries default, Venezuela faces onerous foreign obligations.

WHY ECONOMIC MISMANAGEMENT TODAY IS LESS THREATENING TO REGIME SURVIVAL

What are the implications of economic collapse for the sustainability of Chávez's regime? Any discussion of regime survival in Venezuela must address the issue of economic sustainability, which in turn entails discussing oil flows. Chávez has been able to build his economic model because of oil. Nobody disputes this point. The key question is whether the regime will collapse in the event of a severe oil downturn. My answer is "Not necessarily."

There is no question that the Venezuelan state remains dependent on oil revenues, more so now than at any other time since the 1970s. This dependence introduces volatility, since the international price of oil, and thus, income from oil exports, fluctuate dramatically. For that reason, Venezuela had periods of a steep rise in oil revenues in the 1970s, rapid decline in the 1980s, volatility and decline in the 1990s, and another steep rise since 2003. It is worth asking what would happen – economically and politically – in the event of another sustained downturn in oil revenues.

Indeed, in 2008, world oil prices took a dramatic downturn. Between July and December 2008, prices of Venezuelan crude declined by 68.5 percent from a high point of US$129.54 per barrel. The full impact of this decline may dissipate as oil prices have since then recovered to some extent, but the experience of late 2008 shows that a severe exogenous drop is possible.

I would suggest that an oil bust will not necessarily bring about the demise of Venezuela's new political model. This is because oil flows impact economic and political sustainability differently, depending on the regime type in place. Massive oil booms, I argue, risk weakening democracies but have a high chance of strengthening authoritarianism, whereas massive oil busts jeopardize democracy more than authoritarian regimes. (Smith 2006 reaches a similar conclusion but his causal argument is different.) To understand these different impacts, it helps to review the effects of both oil booms and busts along three regime dimensions: economic policy, checks on executive power, and societal response (see Table 2.4).

Oil Booms

Economic Policy. Under both democracies and autocracies, as Karl (1997) and Coronil (1997) made abundantly clear, oil booms have an inebriating effect on

TABLE 2.4. *Effects of Oil Flows on Political Regimes*

	Effects of Oil Booms On:		Effects of Oil Busts On:	
Key variable	Democracy	Authoritarianism	Democracy	Authoritarianism
Economic policy	Heavy fiscal expansion; party-mediated clientelism	Ditto, except that cronyism and clientelism are not mediated by opposition parties. Opposition finds it hard to capture oil rents.	Structural adjustment; high chance of policy paralysis or state-society conflict	Clientelism declines, cronyism can persist.
Presidential powers	Spending capacity increases the incumbent's capacity to co-opt; limits on presidential power will depend on the vitality of political party competition.	Increase with few limits	Executive becomes tempted to rule by decree and/or circumvent parties and congress. Traditional parties suffer dealignment and fragmentation, which can exacerbate policy paralysis.	Fewer resources available to stay electorally competitive; will avoid elections or create obstacles for the opposition
Societal Response	Rising rent seeking; possible increase in party competition, at least initially	Bandwagoning	Growing resentment against politicians	Beneficiaries of clientelism will protest the decline in clientelism, but cronies can reaffirm support.
Net effect	Regime declines (Venezuela 1973–9)	Regime strengthens; incumbent turns electorally competitive (Venezuela 2003–07)	High probability of instability and regime collapse (Venezuela 1989–2001)	Two scenarios: regime turns more authoritarian and survives; regime collapses if regime is unwilling or able to repress

state leaders. Oil booms drive presidents to overspend, typically on megainfrastructure projects, often in utter disregard of macroeconomic and financial viability. One key difference is that in a democracy, exaggerated statism is channeled through (or occurs under the scrutiny of) political parties, whereas under authoritarianism there is no mediating institution between the state and economic agents receiving state funds. Oil booms can therefore promote party competition in democracies (see Levine 1978; Karl 1987), at least initially, because large opposition parties, not just the ruling party, can benefit from state largesse. In an authoritarian regime, on the other hand, because the incumbent has a virtual monopoly over state largesse and its accompanying policies of clientelism and cronyism, the chances of rival forces capturing state resources to challenge the state are more limited.

However, oil booms in a democracy may eventually result in party collusion (see Norden 1998), as traditional parties begin to collude with one another in sharing the spoils of office. To compete, parties overemphasize patronage to the detriment of sound capital investments, which is especially unfortunate for development (Collier 2007: 44–5), may impede economic adjustment (Naím 1993; Di John 2009), and can lead to antiparty/anti-status quo sentiment (Myers 2007; Di Tella, Donna et al. in press).

Checks on the Executive Branch. Higher spending expands the capacity of incumbents to co-opt political actors (especially in the context of weak institutions). Consequently, incumbents become very hard to defeat or restrain during oil booms. Their enhanced power to spend inadvertently leads to declines in key democratic features, such as notions of limited government, transparency in fiscal affairs, equal treatment of the opposition, and reduced asymmetry of power between incumbents and the opposition, as Karl (1997) argues took place in Venezuela under the first Pérez administration. The key point is that these trends are detrimental for democratic governance but not necessarily for nondemocratic regimes, because they obviously do not base their legitimacy on these democratic features.

Societal Response. In many petro-states, a consistent economic response by societal actors to oil booms is to become addicted to oil-based rents (see Romero 1997 for Venezuela). Economic agents devote their energies to finding ways to extract oil-based rents. Because the state controls the oil sector, this societal response translates into demand for statism. In democracies, the rising demand for oil-derived rents does not necessarily erase political competition. Political parties will compete for votes in their quest for state power, with each party advocating its own view of what constitutes the fairer or better way to distribute rents. But ideological competition among parties does decline: All parties end up defending one version or another of heavy statism. A free-market economist, Hugo J. Faría, thus complains that in Venezuela there is no one (no party, media group, or politician) openly defending any economic ideology other than statism (Faría 2007; Faría 2008). In a democracy, wherein both incumbents and opposition forces share rent revenues, rent seekers across societies can satisfy their appetite for rents by capturing both incumbent forces and opposition forces. In an authoritarian setting, by contrast, there is only one way to satisfy the appetite for rents – by bandwagoning with the incumbents. Because the opposition, if it is active at all, has almost zero chance of winning, there are weak incentives for rent seekers to side with the opposition. It is a hopeless and possibly dangerous gamble. Economic agents thus side instead with the state in the hope of getting a government contract, a government job, or a government subsidy.

In short, oil booms risk weakening democracies, if not right away, then in the medium term. Booms lower checks on the executive branch and increase society's demand for rents. Party competition for electoral office may still survive, but collusion expands, and ideological competition wanes. Consequently, over time, oil booms also risk weakening party competition and provoking voter dealignment, as citizens turn increasingly against party life. In authoritarian settings, all these same effects only serve to strengthen the regime, because autocracies – by definition – thrive in contexts of declining institutional checks, societal demand for statism, bandwagoning, and declining respect for civilian politicians. Furthermore, oil booms allow authoritarian regimes to embrace larger degrees of clientelism and cronyism, which expands the number of their supporters, and greater hegemony over the distribution of these benefits, which expands the degree of bandwagoning and the extent to which the autocrat can turn into a competitive autocrat.

Oil Busts

By the same token, oil busts can jeopardize democracies far more than authoritarian regimes.

Economic Policy. Because petro-states have few sources of income other than oil, they are particularly susceptible to oil busts. Oil busts tend to produce severe fiscal crises and recessions, which force presidents in both democratic and autocratic petro-states to implement spending cutbacks, with serious costs for incumbents' popularity. For democracies, economic adjustment is particularly difficult because most necessary reforms (e.g., reducing spending, raising taxes, privatizing, and deregulating) require adherence to the law (Haggard and Kaufman 1995; IDB 2005). Presidents must seek legislative approval for reforms, which in turn requires support from political parties and their constituents, all of whom are highly addicted to oil rents and are thus reform adverse. An autocracy, on the other hand, can more easily get away with ruling by decree – or at least with writing off certain constituencies. This gives authoritarian regimes a greater probability of surviving oil busts and may be one reason that Przeworski, Alvarez, Cheibub, and Limongi (2000) find that autocracies survive economic crises more often than do democracies.

Checks on the Executive Branch. Facing the urgency of addressing a severe fiscal crisis together with a congress/society that is unwilling to accept the cost of adjustment, presidents in democratic petro-states will feel tempted to carry out profound reforms by fiat, often circumventing existing democratic channels (e.g., by governing through decrees, bypassing consultations with parties; see O'Donnell 1994). Insofar as they push executives to concentrate more power and consult less, oil shocks have the potential of eroding levels of democracy. Many times in democracies, societal demand for more concentration of power in the hands of the executive can increase during economic bad times. For instance, a public opinion survey of Venezuelans between 1995–98 – a period of poor economic performance (Corrales 2000) – shows that the proportion who supported "government intervention in the economy" skyrocketed across all income groups (from 29 percent to 80 percent of upper-income Venezuelans and from 68 percent to 86 percent among lower strata). The proportion supporting "radical political changes" expanded as well, most remarkably among the upper classes, from 8 percent to 17 percent (Canache 2004). In dictatorships, oil busts hinder the capacity of presidents to be generous (i.e., to spend heavily on clientelism) but do not technically cause an erosion of democracy, because the starting point was not democracy. Demand for radical change across the population may very well increase, especially among cost bearers, but the disaffected groups will lack institutional avenues to channel their discontent or will fear the costs of protesting.

Societal Response. In democracies, the politics of adjustment engender two spheres of political conflict. One axis of conflict occurs between the state and cost bearers, those societal actors who bear the brunt of economic adjustment (Nelson 1989; Przeworski 1991; Haggard and Webb 1994; Eckstein 2001). The second axis of conflict is between the president and the political organizations that resist the executive's efforts to concentrate more power (Geddes 1995). The rise of either delegative powers or party-neglecting policies produces a severe clash between the democratic forces of society and the state. In autocracies, adjustment will engender mostly the former type of conflict. The latter type of conflict is less significant, or, rather, would have either predated the oil shock or would have been resolved already (if the dictatorship had consolidated power).

Overall Outcome. For democracies, especially fragile ones, the most likely overall outcome of an oil bust is an increased risk of regime decay or collapse. All institutions come under strain. This explains Venezuelan politics between the 1980s and the early 2000s. Economic adjustment generated policy paralysis and muddling through. State-society conflict centered on citizen protests against economic adjustments, especially among the urban poor, and top-down efforts to reform the economy. Traditional parties suffered voter defection and dealignment, driven by rising voter discontent with professional politicians. Because the economic crisis lasted long (from 1979 to 2001), resentment about the status quo and politicians became especially acute. Nobody likes austerity or politicians who appear immobile before crises. From almost every angle, the politics of adjustment in democratic petro-states risks jeopardizing the quality and institutional foundations of democracy.

For autocracies, the outcomes of an oil bust can go in one of two ways. One route is for the executive branch to survive in office, maybe even become stronger. This can occur if the executive branch intensifies the authoritarian features of the regime, repressing protesting cost bearers and preventing the defection of cronies. The other possible outcome is for the executive not to survive in office. This occurs if cost bearers become too hard to repress or cronies abandon the regime.

Which of these two outcomes is more likely in the case of a prolonged oil bust under Chávez, whose regime currently sits somewhere between democracy and autocracy? Many analysts contend that an oil bust will automatically terminate populist spending, thereby disarming Chávez. However, I suggest a different answer. First, even if austerity provokes protests by cost bearers, it could very well be that Chávez will find himself with a stronger capacity to repress than in 2002, given the regime's enormous spending on weapons, the rise of military training (for domestic insurrection), the creation of urban militias, and the increase in loyalism within the armed forces. Second, the regime controls important institutions that will side with the incumbent and not the opposition (the Congress, the courts, the regulatory agencies, and the expanding state-controlled media). Third, and more important, I have argued that the support for the regime does not rest entirely on clientelism. The regime also relies on cronies, who receive tangible benefits, and on other supporters, who receive intangible rewards (impunity, radical ideology). It is not clear that an oil bust will jeopardize the regime's capacity to provide these two other forms of rewards. Populist spending might need to be curtailed, but corruption spending (to maintain the cronies) can remain affordable, and intangible resources such as impunity from corruption and radical ideologies to seduce activists can endure even in austerity periods. And now that the opposition has won in five states, Caracas, and Maracaibo, the government can apply austerity measures to those jurisdictions, thereby saving resources to be channeled to true allies elsewhere.

CONCLUSION

"Revolution" can mean two things: radical changes or repeating cycles. Chávez's Bolivarian Revolution encompasses both meanings, but in different realms. In politics, Chávez has introduced radical changes (e.g., greater restrictions on and obstacles for the opposition, less transparency in government, heightened power concentration). In economics, on the other hand, he has repeated old vices (dependence on oil for state revenues, politically minded statism verging on classic ISI, and ax-relax-collapse economic policy cycles).

Economic mismanagement has different impacts on different regimes. In a democratic setting – when the political regime is less restrictive – economic management has a detrimental effect on the political regime, leading to corruption, party collusion, voter distress, and ultimately regime unraveling. By the 1990s, few citizens found their democracy to be credible, responsive, or worth defending. Under the new political regime – characterized by political restrictions on the opposition and excessive presidential discretionalism – the impact of this economic approach may be less damaging to the regime: Oil dependence, statism, and ax-relax-collapse may not be that lethal for an authoritarian political system. During an oil boom, economic agents in an authoritarian system are tempted to bandwagon with the state, because siding with the opposition offers no payoffs. During a collapse phase, the president can repress the cost bearers (if they protest), blame exogenous actors for the economic misfortune, and simultaneously offer cronies and ideologues much of what they like – impunity and radical ideology. These steps can yield regime survival rather than regime demise. A competitive autocracy like Chávez's, facing the need to implement economic adjustment, will surely spend less on clientelism, but he might still be able to invest in the other pillars that keep him in power. An oil bust may force a competitive autocracy such as Venezuela's to lose its "competitive" label but not its "autocracy" designation. The paradox of the Chávez regime is that its rise and consolidation was very dependent on oil flows, but its sustainability in office may not depend as much on oil.

3

The Challenge of Progressive Change under Evo Morales

George Gray Molina

Evo Morales's presidency has caught the attention of scholars and activists in Latin America.[1] Alain Touraine (2007) has remarked that the Bolivian left charts a "third way" with respect to both Chile under Michelle Bachelet and Venezuela under Hugo Chávez. Typologies of governance in Latin America place Bolivia on the radical wing of existing political projects (Arnson 2007; Roberts 2007). Morales's own personal trajectory and his government's strong link to social and indigenous movements have been scrutinized and contrasted with other Latin American left-wing political projects (see Stefanoni and do Alto 2006; Molina 2007). Despite the sharp political focus on Bolivia, less attention has been paid to policy outcomes and outputs or to the achievements of the administration's first term in office. This essay looks at this less-examined side of the Bolivian experiment in postneoliberal politics.

Many contentious and unresolved issues frame the Bolivian policy agenda in the present, including the nationalization of natural resources, fiscal and political decentralization, and indigenous peoples' rights, among others (Crabtree and Whitehead 2008). I argue that the Morales policy agenda, although clearly postneoliberal in the chronological sense, may not be sufficiently postneoliberal in raising labor and welfare standards at home and transforming Bolivia's role in the global economy. This is a predicament shared with most Bolivian governments of the democratic era. If the past is any guide, however, there are unlikely to be any technical fixes to Bolivia's intractable problems in the future (Gray Molina 2009). Progressive change is sought and resisted on contested terrain. This dimension of the debate is often misunderstood in the Bolivian context. Opponents of Morales tend to characterize the regime as being too political, often missing the point over how social and economic change actually happens. On the other hand, proponents of Morales tend to minimize the importance of shared standards of

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