

# THE ECONOMIC POLICY OF THE LATIN AMERICAN LEFT IN GOVERNMENT

## VENEZUELA

Edgardo Lander  
and Pablo Navarrete



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# **THE ECONOMIC POLICY OF THE LATIN AMERICAN LEFT IN GOVERNMENT: VENEZUELA**

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## INTRODUCTION

Since Hugo Chávez assumed the presidency in February 1999, Venezuela has undergone a process of profound political and social changes. These transformations have been reflected in the government's official discourse and in the fundamental pillars of the government's economic policy. In Chávez's initial electoral platform and during the early part of his government, he spoke about combating "savage neo-liberalism" and searching for a more humane capitalism: a Venezuelan "third way" as a solution to the severe socio-economic crisis facing the country. During his government, however, this discourse has evolved, culminating in Chávez's public statement in January 2005 in which he rejected capitalism as a model for Venezuela and spoke of the need to create a 21<sup>st</sup> Century Socialism.

To understand the nature of the Chávez government, it is first necessary to consider the causes and magnitude of the collapse of the old socio-economic order based on the oil rent model. In analysing the economic policy of the Chávez government, we have identified three phases, marked by critical inflections in the government's policies. The first refers to the period between Chávez assuming the presidency in 1999 and the November 2001 approval of the so-called "Enabling Laws", which contained a series of measures that signalled profound changes in the Venezuelan economy. The net result of these laws was to bring together heterogeneous interests opposed to the Bolivarian Project. As a result, a second phase began that lasted until mid-2003 and can be characterised as a battle for state control. During this period, the majority sector of the opposition used a variety of

insurgent-type policies that culminated in the April 2002 coup and the 2002-2003 business-oil strike/sabotage and their subsequent defeat by the social sectors supporting the government. The final phase begins in mid-2003 with the implementation of government social programmes known as "Missions" and lasts until the present day. This phase has been characterised by an attempt, on the part of the government, to create mechanisms to facilitate structural changes in the Venezuelan economy. We will use the second half of 2006 (June) as the final date for the current analysis.

### **The Disintegration of Puntofijismo and the rise of Chavismo**

Prior to examining the Chávez government's economic policy, it is necessary to contextualise Hugo Chávez's victory in the 1998 presidential elections with a brief summary of the principal aspects of the Venezuelan political system from 1958 to the electoral triumph of Chávez.

### **Imaginary Venezuela**

Venezuelan democracy, understood as the governability pact created following the defeat of the Marcos Perez Jiménez military dictatorship in 1958 with the signing of Punto Fijo pact that same year, was based on a project that linked democracy, oil nationalism and development through the distribution of oil rent in a clientalist system (Hellinger, 2003, 43).

This so-called *puntofijismo* was consolidated in the 1961 Constitution and its main protag-

onists were the two main political parties in the country, *Acción Democrática* (AD), (Social Democratic) and COPEI (Social Christian).

This political pact also counted on the support of the Armed Forces; the Catholic Church hierarchy; the main trade union federation, *Confederación de Trabajadores de Venezuela* (CTV; Confederation of Venezuelan Workers of Venezuela); and the main business organisation, *Federación de Cámaras y Asociaciones de Comercio y Producción de Venezuela* (FEDECAMARAS; Federation of Chambers and Associations of Trade and Production of Venezuela) (López Maya and Gómez Calcaño, 1989). It is necessary to mention, however, that this political project was not entirely consensus-based given that left-wing organisations, in particular the Movement of the Revolutionary Left (MIR) and the Communist Party, influenced by the recent triumph of the Cuban Revolution, were excluded and openly repressed by the State apparatus.

Nevertheless, without a social revolution, and without changes in the distribution of economic resources or power in society, a sustained growth in oil rent made possible a process of distribution which allowed simultaneously, the profoundly unequal enrichment of high- and middle-income sectors of society as well as an improvement in the living conditions of the majority of the poorest population in the country.

This growing oil rent and unequal distribution of the permanently expanding pie was the foundation for the construction of a modernising policy and ideology with a strong social-democratic content in which the role

of the state was central. Unlike the majority of countries in Latin America, in this period there were no clearly right-wing parties, parties that identified themselves as conservative, or even as liberal. Within the imaginary of development and modernisation, the dominant classes did not see the subordinate and clientalist incorporation of grassroots sectors and their growing demands as a threat to their interests. And of vital importance, the public spending used to finance education, health and infrastructure did not come from a tax on the goods and income of the most affluent sectors. The social democratic consensus was based on an oil income expected to continue increasing forever and therefore permit the distribution of an ever-bigger pie. The distribution of the main source of the country's wealth was *not* seen as a 'zero sum game' where what was given to one player necessarily has to be taken from another.

With the quadrupling of fiscal income as a result of the hike in oil prices in 1973 – during the first government of Carlos Andrés Pérez – the collective delirium of *La Gran Venezuela* (The Great Venezuela) began: the imaginary of a rich country that, with very little effort, was well on the road to becoming a society of abundance. Critical voices were drowned out in an oil rent orgy.<sup>1</sup>

### **The economic and political crisis: the explosion of the social democratic consensus**

The last two decades of the 20<sup>th</sup> Century in Venezuela were characterised by a sustained economic and political deterioration. After more than two decades in which, as already



mentioned, there was sustained growth, a significant improvement in the living conditions of the population and the consolidation of the legitimacy of democratic regime, in February 1983 the symbolic beginning of the end of the oil bonanza in *Venezuela Saudita* (Saudi Venezuela), takes place when the Luis Herrera Campíns government decided to devalue the Bolívar after many years of fixed parity with the US dollar. The Venezuelan crisis was slower to develop than in the majority of Latin American countries. Nevertheless, given the expectations of sustained growth and the improvement in living conditions that formed part of the Venezuelan imaginary, its political and cultural impact was very deep. It was a very prolonged crisis marked by a sustained deterioration in the living conditions of the majority of the population over a two-decade period.

Per capita income in Venezuela in 1998 was 34.8% lower than it was in 1970 (Heston et al, 2002). The decline during this period represented the steepest decline in Latin America and one of the worst in the world, even worse than Africa during this period (Weisbrot, 2005). Between 1970 and 1997, workers' income was reduced to approximately half and by 1997 Venezuela was one of the most unequal countries in the world, with a Gini coefficient that surpassed South Africa (62.3) and Brazil (61.8) (Rodríguez, 2000, 1, 6). Between 1980 and 1996, according to a study from the Catholic Andrés Bello University, it is estimated that poverty in the country increased from 18% to 65%, the largest increase in poverty in any Latin American country in this period (cited in Wilpert, 2005).

The terminal crisis in the Punto Fijo political model took place during the second government of Carlos Andrés Pérez (1989-1993) and the profound breakdown of Venezuelan society was most clearly expressed in the social explosion in February 1989 known as *El Caracazo*.

Against a backdrop of a sharp reduction in international reserves, significant fiscal and balance of payments deficits, together with a foreign debt that – in these conditions – was un-payable, the Andrés Pérez government signed a Letter of Intent with the International Monetary Fund (IMF) that committed it to implementing an orthodox neo-liberal structural adjustment policy, despite the fact that during his electoral campaign he had appealed to the imaginary of the abundance of his first government.<sup>2</sup>

In response to the initial impact of the neo-liberal structural adjustment measures – the increase in the price of gasoline in the domestic market sparked a surprise increase in public transport prices – there was massive public ransacking in the main cities on a scale unheard of in Venezuelan history. The government imposed a curfew and ordered a brutal military repression that resulted in the death of 276 people according to official figures. The PROVEA human rights organisation reports that 366 people died. Some foreign correspondents refer to as many as 2,000 to 3,000 dead (CIDH, 1999; PROVEA, 1990).<sup>3</sup>

The *Caracazo* represented the first mass grassroots and spontaneous response to the rigorous conditions that international financial bodies were imposing in the majority of countries on the continent. The fact that

there was no grassroots rejection of the two coup attempts in 1992, nor defence of the democratic regime, confirmed the breakdown and the growing illegitimacy of a political system that had been considered exceptional, a show case for democracy in Latin America.

The oil industry was one of the areas of the economy where the neo-liberal agenda gained the most ground in Venezuela with the beginning of the so-called *Gran Viraje* (Great Turnabout) policy implemented during the Andrés Pérez government. These neo-liberal policies covered a broad spectrum: prices, production volume, relations with the Organisation of Petroleum Exporting Countries (OPEC), modes of foreign capital's participation in the oil business, *Petroleos de Venezuela* (PDVSA) investments abroad, tax policy, as well as relations between the oil company – whose shares were entirely owned by the Venezuelan state – and the Ministry of Energy and Mines (MEM), the public body responsible for elaborating and carrying out the country's oil policy.<sup>4</sup>

As yet another expression of the depth of the political crisis facing the country, Carlos Andrés Pérez did not finish his second presidential term as he was removed by Congress under accusations of corruption. This dynamic led to the breakdown of the two-party system that was evident in the next elections. Rafael Caldera abandoned COPEI, a party of which he was a founder, and leading ideological figure for half a century. Having decided to launch his candidacy, he created the *Convergencia Nacional* party, an electoral alliance between 16 political forces that included representatives of the traditional left such as Teodoro Petkoff. Rejecting the

neo-liberal adjustment policies, instead he proposed a 'Letter of Intent with the People'. His electoral victory represented the first time since 1958 that a candidate who did not belong to AD or COPEI had been elected president

After surviving the most severe financial crisis in the country's history during his first years of government and after a long period of indecision, Caldera ended up agreeing to a 'Letter of Intent' with the IMF. In 1996, under the 'Agenda Venezuela' slogan, he adopted the basic orientations of the neo-liberal agenda he had so strongly questioned. The consequences of the Labour Law reform that drastically reduced the social benefits of workers were particularly severe as were the policies to open up and internationalise the oil industry. The sustained deterioration of people's living conditions continued and the illegitimacy of the political system, its parties and their leaders deepened.

The application of structural adjustment policies gave particular visibility to two inter-related characteristics that the Venezuelan democracy shared with other countries on the continent and that the expanding oil income had partially hidden and/or attenuated. First of all, the elite nature of the political regime of the time, that was profoundly exclusive and insensitive to the demands of the majority of the population. Secondly, the severely limited nature of the autonomous decision-making powers of the political system due to the economic and geopolitical conditions forced on by international financial bodies. These two issues constitute the backbone of Chávez's discourse: the 'popular' and 'national autonomy'.

In 1997 Hugo Chávez's *Movimiento Quinto Republica* (MVR) of Hugo decided to participate in the 1998 presidential elections and registered as a party with the Supreme Electoral Council. By the time of the 1998 elections, the MVR had become the main reference point for the left in the country and the main left-wing organisations decide to support it, constituting the *Polo Patriótico*. Despite the fact that the AD and COPEI withdrew support from their respective candidates at the last moment and backed Henrique Salas Römer in a final bid to impede a Chávez victory, in the December 1998 presidential elections he won the presidency of the Republic with 56.2% of the vote

his insistence on the 'popular', the national, the sovereign, equality, participatory democracy, the critique of neo-liberalism and "sav- age capitalism", as well as the rejection of a uni-polar world and the priority placed on relationships with countries in the south, particularly those in Latin America, is very clear. Nevertheless, there remained a basic question: What would a viable counter-hegemonic project consist of in the current world? Is it the search for greater levels of national autonomy? The return to developmentalism, to import substitution? An endogenous development model? A social welfare state? An anti-liberal project within capitalism? An anti-capitalist project?

## PHASE 1 : THE END OF THE NEO-LIBERAL AGENDA, FEBRUARY 1999 – NOVEMBER 2001

In Chávez's speeches as a presidential candidate and at the beginning of his presidency,

The most systematic initial proposal of an alternative productive model is the so-called "Bolivarian Alternative Agenda" of 1996 (Chávez, 1996). This document defines five productive sectors that constitute the mixed nature (public/private) of the proposed economic model:

Sector	Characterisation	Property Regime
I	Basic and Strategic companies. Oil sector, basic companies. Mining, high military technology	State
II	Essential consumer goods. Construction industry, the agro industrial industry, SMEs, tourism	Mixed
III	Essential services and Government. Productive sectors such as education and health, as well as a non-productive government sector, which generates essential non-tradable services	Mixed
IV	Banking and Finance. Oriented toward financial intermediation. Non-tradable.	Mixed, but regulated and controlled by the State
V	Major Industry. This is fundamentally made up of the major import industry, a generator of goods and non-essential services.	Fundamentally private

(ibid, 14)

This mixed nature of the economy is repeated in Chávez's campaign platform entitled, *A democratic revolution: Hugo Chávez's proposal to transform Venezuela* (Chávez, 1998). While it criticises the path that the Venezuelan economy has taken, it does not question capitalism as a system. Rather, it seeks a "humanist, self-managing and competitive" economic model that is summarised by the phrase "as much market as possible and as much state as necessary." Significantly, in the political field the document emphasises the need to transform the existing political-judicial framework through the Constituent Process in order to "give way to an authentic participatory democracy."

Despite these initial guidelines issued by the government regarding the direction of economic policy, it is constitutional reform as a means for institutional change that dominates the first year of government. As we have mentioned, for the government, political reform was a pre-requisite for economic reform and in the move away from the so-called Fourth Republic to the Fifth Republic.

### **The initial priority: the political institutional change**

On the same day he was sworn in as President in February 1999, Chávez announced a referendum to consult the population about the formation of a Constituent Assembly. Despite strong opposition from the old political class, the Supreme Court ratified the constitutionality of this referendum and it was held in April that same year. Chavez won the referendum with 87.75% of the vote, but the abstention rate was 62.35%. In the elections for the Assembly members held in July, the govern-

ment coalition obtained 125 out of 131 seats. The referendum to approve or reject the new Constitution took place in December and was approved by 71% of voters.

Despite the limitations in the process to draft the new Constitution<sup>5</sup>, there was a significant contrast between the national project outlined in this text and the neo-liberal orthodoxy that dominated most of the continent. This contrast appeared both in the dispositions that ratify (or deepen) the contents of the previous Constitution as well as in new dispositions. It is neither a socialist project nor even an essentially statist project. While in the majority of the initial doctrinal documents of the Bolivarian movement, the state appears as the main backbone of societal transformation, in the Constitution the role of the state is encased within a market economy with private activity given a preponderant weight (Camejo, 2002).

The new text guarantees economic freedom (article 112), the right to property (article 115), it grants private initiative a role in the generation of economic growth and employment sources (article 299) and consecrates fiscal balance, stipulating that this will be balanced in the budget, giving the Central Bank of Venezuela (BVC) the autonomy to formulate and exercise monetary policy (articles 311 and 318). At the same time, it defines clear and central state responsibilities in trade policy and the defence of national industries (article 301), reserves oil activity and other strategic activity for the state (article 302), and assigns the state a governing role in the development of sustainable farming and food security (article 305)(*Constitution*, 1999).

The guarantees that the text grants economic

and social rights, in particular health, education and social security, are equally significant. Perhaps the most significant change in the 1999 Constitution vis-à-vis the previous text (1961), however, is the broad range of new forms of participation that combine traditional forms of liberal representative democracy (separation of powers, the election of the executive and legislative authorities at a municipal, state and national level) with forms of direct “participatory and protagonist” democracy. It is here, in the promotion of a participatory democracy and economy where it is possible to see an approach to an alternative economic model (Albo, 2006).

### **Initial orientations of the economic policy**

Apart from the notable exception of oil policy, during the first years of government there was neither an integral proposal for a development model nor an economic policy that was consistent with the radicalism of the political discourse. In the area of hydrocarbons, however, there were significant changes from the outset.<sup>6</sup> Despite the fact that the official policy of the Venezuelan state was supposedly to continue to defend oil prices through the regulation of export volumes agreed to by OPEC, the policy spearheaded by PDVSA following the application of neo-liberal policies in Venezuela during the second Carlos Andrés Pérez and Caldera governments pointed in the opposition direction.

Prioritising market share over price levels, the company had systematically violated its OPEC commitments. For PDVSA's upper management, the oil cartel hampered the free

operation of the global oil market. Its violations of OPEC quotas, as well as the goal to broaden its market participation, were aimed at weakening the OPEC to render it irrelevant or prepare the ground for Venezuela's withdrawal. The voluminous over supply of Venezuelan crude had a significant impact on the collapse of oil prices in the international market, leading to the lowest prices in 50 years<sup>7</sup> in 1998–1999. In Venezuela, this led to a significant fall in fiscal income, a huge fiscal deficit, a balance of payments deficit, and a heavy recession, with its corresponding increase in unemployment, trends that were accentuated in the first year of the new government.

From the moment Chávez assumed the presidency, the MEM began an aggressive policy aimed at recovering, both the weakened OPEC, as well as oil prices. To an important extent these new oil policy initiatives made it possible to establish credible commitments regarding lowering production volumes, not only by OPEC member countries but also by other exporters that did not belong to the organisation, such as Mexico and Norway.

To the surprise of the principal analysts of the world oil market, the agreements were met and this is the leading factor behind the tripling of the price of Venezuelan oil in the world market, from less than US\$8 per barrel at the beginning of 1999 to US\$24 toward the end of that same year. Parallel to this, the process to open up the oil sector, that formed part of PDVSA management's privatisation strategy, was suspended, and progress was made on legislation to reverse the insignificant role given to domestic capital in the industry. At the same time, the first steps were taken to recover National Executive

control over oil policy and the basic orientations of the company that, in previous years, had reached increasing levels of autonomy.<sup>8</sup>

Nevertheless, in the absence of a global development project that served to effectively orient the economic policy in different areas, it is possible to find varied orientations, even some that could be seen as corresponding to divergent strategic proposals.

Given the profound nature of the economic crisis, the basic orientations of the macroeconomic policies were mostly orthodox<sup>9</sup>, with priority placed on macro-economic balances and an emphasis on inflationary control.<sup>10</sup> Exemplifying this focus, Maritza Izaguirre, Finance Minister in the last year of the Caldera government, remained in this role. This orientation is found in the *1999-2000 Economic Transition Programme* issued by the government, which emphasises macro-economic stability “as a *sine qua non* condition for the development of sector policies aimed at encouraging an economic reactivation on a solid and permanent foundation” (Cordiplan, 1999). It includes the following about the general orientation of the economic policy: “The central pivot of the specific actions of monetary, financial and exchange rate stability is a prudent fiscal policy related to tax reform, adjustments in spending, tariffs and the price of goods and public services.”

Despite the fact that there was political insistence on the need to review and renegotiate the foreign debt, this was paid with rigorous punctuality, and in the first year the government maintained its commitments with the IMF that had been assumed by the Caldera government (López Maya, 2006). Given this capacity for payment, no new loans were

requested from the IMF thereby avoiding new negotiations, conditions and supervisions on the part of that body. A consequence of this political decision was a significant increase in the internal public debt, and an increase in interest rates and in financial sector earnings. President Chávez met with foreign investors on numerous occasions, exhorting them to invest in Venezuela and guaranteeing juridical security and political stability.

The most notable examples of economic decisions that represented continuity with neo-liberal policies were two juridical regulations in the early years of government: the *Law to Promote and Protect Investment*<sup>11</sup> of October 1999 (FUNDELEC, 1999) and the *General Telecommunications Law* of March 2000 (TSJ, 2000), that was lauded by international investors as a model of openness and transparency.

One of the documents that most clearly demonstrated the difficulties to formulate economic guidelines that were consistent with the political and social orientations of the process of change was the *General Lines of the Economic and Social Development Plan of the Nation 2001 - 2007* (MPD, 2001) published in September 2001. In this document, structured around the objective to achieve balance in five major areas (economic, social, political, territorial and international), the economic balance is formulated in the following manner:

In the period 2001-2007, the foundations will be established for a productive model capable of generating self-sustaining growth, promoting productive diversification and achieving international competi-

tiveness in a context of macroeconomic stability, and which will facilitate a deep and diverse reinsertion in globalised international trade (ibid, 16).

Over and over again, insistence was placed on the priority of export-orientated growth:

...An additional source of fiscal income is required that will come from new agricultural, industrial and private sector branches, which will conform a new economy with the mass export of goods and services that, together with freeing the national economy from an excessive dependence on the exports of crude oil and refined products, primarily of a petroleum origin, will substantially increase non oil fiscal income (ibid, 16-17).

The focus of the document is evident: the sustainability of socio-economic growth will require broadening the motor of development currently concentrated in oil. The aim is to include new branches for agricultural, industrial and services production, capable of generating solid array of exports to globalised markets, while also covering the essential demands of the internal market. The document proposes achieving these objectives through private investment and initiative, as well as with state presence in strategic industries (Lebowitz, 2006).

The document also talks about “developing the social economy;” a sector that will consist of associative companies such as cooperatives, small family businesses and self-managing small businesses, which are seen as an “alternative and complementary route to what is traditionally known as private economy and public economy.” (MPD, 2001, 27-

28). A key aspect of the document, however, is that it assigned a minor role to co-operative and self-managing activities.

The social production units that the document proposes are small: the idea is to stimulate them by democratising capital, with training and micro-financing from institutions like the recently created Women’s Development Bank (Banmujer)<sup>12</sup>, that will subsequently form part of a micro-financing system. It proposes that by decreasing regulations and tax commitments and increasing training, it will be possible to insert the informal economy into the formal economy. The document argues that it is essential to “transform workers from the informal sector into the managers of small businesses.” The goal of the state is to create “an emerging business class” (Lebowitz 2006, 89-90).

According to the mentioned document, the true means to transform the economy was based on stimulating private capital, both domestic and foreign. The state was given the responsibility of creating a more propitious situation for investment through: the promotion of financial stability; the creation of productive chains to process natural resources; the creation of free trade zones; the creation of a stock market to “create a growing democratisation of management capitalism”; stabilising exchange rates; and in general creating a “climate of trust for foreign investment in the country.” (ibid).

In summary, we could say that the conception of the economy advanced in this document distanced itself from the neo-liberal model in the sense that it rejected the “cult of the market of neo-liberalism,” ruled out the privatisation of the oil industry and other

state industries, and granted the state a leading role in directing the economy. There is no doubt, however, though that it does not imply a rejection of capitalism. Rather, it is an alternative to neo-liberalism. This is clear if we consider that part of the theoretical foundation of the document was the book by Chilean economist Osvaldo Sunkel *El desarrollo desde dentro: Un enfoque neo-estructuralista para América Latina* (Sunkel, 1994). The “Cepalino” focus of this book is exemplified by the phrase that affirms that the “balance between the state and the market proposed by Latin American neo-structuralism can be qualified as a “free market strategy helped by the government” (ibid, 394). It is not surprising that in the light of this discourse and the policies, many analysts who were critical of the process reached the conclusion that it had a basically neo-liberal economic orientation.<sup>13</sup>

Financial markets and Venezuelan businessmen were of another opinion. The political discourse was taken more seriously than the economic policy statements: the country risk increased and there was large-scale capital flight.<sup>14</sup> There was also a severe contraction in fixed capital formation, which fell 18% during the first year of government. However, it increased by 0.9% and 11.9% in 2000 and 2001 respectively. Fixed capital formation in the public sector displayed a similar trend: it declined 15% in 1999, rising by 1.2% and 15.1% in 2000 and 2001 respectively (BCV, 2006b). GDP fell 6% in the year 1999, but then increased by 3.7% and 3.4% during 2000 and 2001 (BCV, 2006c). The unemployment rate rose from 11.2% in 1998, to 14.9% in 1999 but fell to 13.9% in 2000 and to 13.3% in 2001 (BCV, 2006d). Inflation declined significantly from 29.9% in 1998 to 20% in 1999

and later to 13.4% in 2000 and to 12.3% in 2001, its lowest level since 1985 (BCV, 2006a).

## **Social Policy: equity, inclusion and participation**

Beyond the multiple limitations that could be attributed to improvisation, budgetary restrictions and serious breakdowns in the management capacity of public policies and co-ordination among the different levels of government, during this period there was a greater conceptual and doctrinal coherence regarding social policies than in the productive terrain. Starting with the constitutional guarantee of economic, social and cultural rights, all the main documents regarding social policy rejected targeted policies toward the most vulnerable groups. Emphasis was placed rather on the need for universal social policies aimed at achieving social equity and overcoming the political inequalities and cultural exclusions that marked Venezuelan society.<sup>15</sup> This policy is based on participation<sup>16</sup>, as a means of social inclusion and construction of citizenship.<sup>17</sup>

The first major social programme of the Chávez government was *Plan Bolívar 2000*, (1999-2001), a civil-military emergency programme to: repair public infrastructure in the barrios, schools, clinics and hospitals; provide medical attention; repair and build housing as well to distribute food to remote areas of the country. Despite this programme having a significant social and political impact in the low-income sectors, where it was focussed, it presented severe problems and limitations, generating major controversies due to its improvisation, lack of institutionalisation and transparency, as well as



accusations of corruption (Wilpert, 2003).

In the early years of government, there was an important increase in public and social spending. Public spending as a percentage of GDP went from 23.7% in 1998 to 31.6 % in 2001, an increase of 33.3% (SISOV, 2006a). Social spending as a percentage of public spending went from 34.6 % in 1998 to 38.3% in 2001, an increase of 10.7% (SISOV, 2006b). Practically all the increase in social spending was aimed toward social security and education, areas that have been clearly considered priority areas. With the exception, however, of potable water and sewerage services provided by regional hydraulic services – primarily part of HIDROVEN – there were few systematic and accumulative advances in the other areas of social policy during the early years of the government.<sup>18</sup>

### **First point of inflection: the Enabling Law**

The first landmark in the attempts to converge the political discourse with the economic proposal took place in November 2001 with the approval of the so-called Enabling Laws (MPD, 2001b).<sup>19</sup> Of the 49 laws approved under the Enabling Law, those where the principal objective is to democratise property and production stand out. There are several laws that aim to finance or promote alternative economic modalities for business organisations. In this context, notable examples were: laws geared toward reorienting financing instruments from the public sector to finance economic and social development stand out;<sup>20</sup> the promotion of small- and medium-sized industry;<sup>21</sup> the creation of a micro-credit system;<sup>22</sup> the ‘Fondo

Único Social’;<sup>23</sup> and the promotion of alternative modalities for property and for organising production, such as co-operatives.<sup>24</sup>

There were three laws that sparked more polemic and negative reactions on the part of business sectors and the political opposition in general: the ‘Fishing and Aquaculture Law’, the ‘Land and Agrarian Development Law’ and the ‘General Hydrocarbons Law’.

The Fishing and Aquaculture Law was aimed at guaranteeing the “responsible and sustained use of hydro biological resources, taking into account biological, technological and economic aspects, food security and pertinent social, cultural, environmental and cultural aspects.” It granted priority to the “demands of the national market” and protection of the “artisan fishing communities as well as improving the quality of life for small scale fishermen”, and it protected the fishing grounds of artisan fishermen in continental waters and those close to the maritime coast. It promoted “the application of responsible practices that ensure the management and efficient use of live aquatic resources regarding the ecosystem, the biological diversity and the genetic patrimony of the nation.” For this, it defined as “property of the state, hydro biological resources that are permanently or temporarily in national territory and in areas under the sovereignty of the Republic.” It established restrictions on industrial fishing and reserved “exclusively for traditional artisan fishermen” a broad range of activities to exploit fishing resources (MPD, 2001h).

The Land and Agrarian Development Law (MPD, 2001i):

is aimed at establishing the foundation of

integral and sustainable rural development, understanding this to be the fundamental means for human development and the economic growth of the agrarian sector within a just distribution of wealth and strategic, democratic and participatory planning, eliminating large estates as a system contrary to social justice, general interest and social peace in the countryside, ensuring biodiversity, agro-food security and the effective guarantee of rights to environmental and agro-food protection of present and future generations (article 1).

While recognising private property, it established limits based on both the right of peasants to land and the constitutional objective of ensuring agro-food security. It also established the goal of eliminating large estates.

For the effects of the present Legal Decree the elimination of large land estates is declared to be of public and social interest, as established in article 307 of the Constitution of the Bolivarian Republic of Venezuela. In this sense, the National Land Institute will proceed with the expropriation of private land that is necessary for the sustainable ordering of farm land, in order to ensure its food and agriculture potential, remaining subrogated in all the rights and obligations that according to this Legal Decree could correspond to the Republic (article 72).

The National Land Institute was given the right to recover land it owned that was illegally or illicitly occupied.

[Private lands] are subject to the fulfilment of the social role of providing food and

agriculture security of the Nation. In this sense, they must submit their activity to the need to produce food products according to the agricultural and food security plans established by the National Executive (article 2).

The law guaranteed the right of peasants to land as well as the value of the *conuco* as a productive modality.

The *conuco* is recognised as a historic source of agricultural biodiversity. The National Executive will promote, in those areas developed by *conuqueros*, the investigation and dissemination of ancestral farming techniques, the ecological control of plagues, soil preservation techniques and the conservation of germ plasmas in general (article 19).

Based on what was contemplated in the constitutional text, the General Hydrocarbons Law specified a series of regulations regarding the country's main industry that defined orientations that were radically contrary to the liberalising orthodoxy in place in Latin America (PDVSA, 2001). Of these orientations, below we emphasise five of special importance. In first place was the reaffirmation that the state was the owner of all the hydrocarbons fields:

The hydrocarbons fields existing in national territory, no matter what their nature, including those that are in the territorial ocean bed, on the continental platform, in the exclusive economic zone and within the national borders, belong to the Republic and are goods of public dominion and therefore inalienable and indisputable (article 3).

The second aspect to be emphasised refers to an issue that has been extremely polemicised in Venezuela in recent years: the growing autonomy that PDVSA had assumed regarding the State, reaching a point where it operated like a “State within a State.” It had become like a company that operated more under the logic of a transnational energy company regarding its corporate interests than as a public company that belongs to all Venezuelans. Public control over the company was established in the following terms:

It corresponds to the Ministry of Energy and Mines to formulate, regulate and monitor the policies and the planning, implementation and control of hydrocarbon activities, which includes what is related to the development, conservation, use and control of said resources; as well as the market study, the analysis and establishment of hydrocarbon prices and their products. In this sense, the Ministry of Energy and Mines is the competent national body in everything related to the administration of hydrocarbons and therefore has the authority to inspect the work and activities that are inherent to these as well as to control operations that generate taxes, rates or contributions established in this Legal Decree and review their respective accounts (article 8).

In the third place, it is important to emphasise the priority that the law grants regarding the formation of capital and national capacity in the area of hydrocarbons:

The National Executive will adopt measures to encourage the formation of national capital to stimulate the creation and

consolidation of operating companies, of services, the manufacture and the supply of goods of a national origin for activities foreseen in this Legal Decree. In this sense, the State, the bodies and the companies referred to in this Legal Decree must incorporate in their contracting processes, the participation of companies with national capital in conditions that ensure the optimum and effective use of goods, services, human resources and capital of Venezuela origin (article 18).

In fourth place is the definition and limits of the partnerships that the state oil company can establish for the creation of mixed companies:

The primary activities indicated in article 9 will be carried out by the State, either directly by the National Executive or through companies of its exclusive property. Equally, it can do so through companies where it controls the decisions as it holds more than fifty percent (50%) of the social capital, which for effects of this Legal Decree are called joint ventures. The companies that are dedicated to carrying out the primary activities will be the operating companies (article 22).

Finally, and also contrary to the current liberal common sense, royalties were established as one of the basic modalities of the tax structure in the hydrocarbons industry.

Of the volume of hydrocarbons extracted from any field, the State has the right to a 30 percent (30%) participation as a royalty (article 44).<sup>25</sup>

The 49 laws approved under the Enabling

Law and, in particular, the laws on fishing, land and hydrocarbons were catalogued by the business sector and the political opposition as a violation of private property with many arguing that this confirmed the statist or communist nature of the government's political project.<sup>26</sup> This sparked a period of intense confrontation between the government and the opposition that would last, in its most critical period, for approximately a year and a half.

## **PHASE 2: THE BATTLE FOR STATE CONTROL (DECEMBER 2001 – JUNE 2003)**

As a result of the 49 laws approved under the *Enabling Law*, in the final months of 2001 and for the first time during the Chávez government, different opposition sectors began to create an alliance and agree on a common agenda (Lander, 2004). The first confrontation between this opposition alliance and the government took place on the 10 December, 2001 when FEDECAMARAS, with the support of CTV,<sup>27</sup> called a “national civil strike”. While the effect of the strike was limited, it represented the beginning of a breakdown that would culminate four months later in the 11 April coup. Moreover, the strike confirmed the consolidation of a coalition of interests opposed to the government who were willing to use a variety of methods, both legal and extra-legal, to overthrow the government. This policy of the Venezuelan opposition found growing foreign support, in particular with the government of George W. Bush in the United States, whose relations with the Venezuelan government were deteriorating rapidly.<sup>28</sup>

The political confrontation in the country continued to grow worse and within this climate of uncertainty there was increasing capital flight. This led to a series of devaluations in the national currency and, given that Venezuela imports around 80% of its consumer goods, inflation became a serious problem. In the first quarter of 2002, inflation increased 6.9% (INE, 2006a).<sup>29</sup> Up until January 2002, the government had tried to defend the Bolívar using international reserves but when capital flight sharply increased following the December 2001 strike the government was forced to abandon this strategy given the speed at which the reserves were being depleted. Between November 2001 and January 2002, the international reserves (including the FIEM)<sup>30</sup> fell by \$2.661 billion, which meant they declined to \$16.922 billion (BCV, 2006f). The capital flight, the increasing inflation and the general economic uncertainty were accompanied by a decline in investment and an increase in the unemployment rate (Wilbert, 2002). Between November 2001 and January 2002, unemployment increased more than 25%, from 12% to 15.8% (INE, 2006b).

### **The battle for the control of the state: the coup of April 2002 and the business-oil strike/sabotage of 2002-2003**

Toward the beginning of April 2002, the confrontation between the government and its opponents had reached such a level that the media openly referred to an imminent coup. The opposition alliance convened a 48-hour strike for 8 and 9 April, which hours before it was to end became an indefinite strike and a march against the government was

announced for 11 April. This march took place amidst violent acts and culminated with the coup that put the president of FEDECAMARAS, and one of the main opposition leaders, Pedro Carmona, in power. While the new regime received the support of some foreign countries and multilateral agencies like the IMF<sup>31</sup>, a little less than 48 hours later significant constitutionalist elements within the army, supported by massive mobilisations by grassroots sectors that demanded the return of Chávez, managed to restore him to power.<sup>32</sup>

Following the failed April coup, Chávez began a series of contacts and conversations with sectors of the opposition (Diaz Rangel, 2006) and both he and others who supported him lowered the tone of their discourse and made a series of concessions to their adversaries (Ellner, 2003b). For example, in the economic arena a series of changes took place within the economic cabinet and new people entered who were considered more acceptable to sectors of the opposition.<sup>33</sup> At the same time, these changes led to a moderation of the government's economic discourse. The new team published a document "proposal for consensus" that proposed changing the "third-way" path of previous government plans (Mujica y Rincón, 2006). As an alternative, the document proposed what it called a "Fourth Way Option" based on a model of society that combined, in the economic aspect, the two traditional mechanisms used to assign resources: the State and the Market and added a third: Solidarity.<sup>34</sup>

Despite these attempts on the part of the government to placate opposition groups, the polarization of Venezuelan society continued and in December 2002 a new campaign began to overthrow the government. Once

again, the opposition alliance was grouped around FEDECAMARAS and the CTV and, with the significant participation of PDVSA executives, the "Democratic Co-ordinating Committee" was created. This convened a national strike for December 2<sup>nd</sup> initially for 24 hours. It too became an indefinite strike that lasted for 62 days until February 2003.

The strike was concentrated in strategic industries of the economy such as energy, petrochemicals, transport and the distribution of food. Significantly, the opposition managed to paralyse almost all of PDVSA's operations, demanding that President Chávez leave office (Lander, 2004).<sup>35</sup> As a result of blackouts and fuel shortages, companies in different sectors of the economy were forced to close their doors, significantly affecting the transport of people and goods and the nation's economic activity in general. Oil production dropped from a daily average of 2,900,000 barrels per day in November 2001 to what PDVSA has estimated reached 25,000 per day in the worst moment of the strike (ibid).<sup>36</sup>

Thanks to the grassroots resistance to the strike and an immense effort on the part of professionals and workers from the oil industry and outside collaborators – civil and military – the strike was finally broken in February. As a result, the opposition's second attempt within a year to overthrow the government failed. However, the fact that national industry had essentially shut down, in particular PDVSA, had a catastrophic impact on the economy.

According to PDVSA, during the strike the country stopped exporting around 328.75 million barrels of crude and gas, which,

according to real sales prices, would have represented additional income for PDVSA of \$8.340 billion (PDVSA, 2006).<sup>37</sup> This loss, together with the continuous capital flight<sup>38</sup>, contributed to a fall in GDP of 6.3% in the fourth quarter of 2002<sup>39</sup> and 24.4%, during the first quarter of 2003. GDP fell 26.7% in the first quarter of 2003 compared with the same period a year earlier. (BCV, 2006c).

The spectacular fall in the GDP led to a severe worsening of socio-economic indicators. Between November 2002 and February 2003, unemployment increased from 15.7% to 20.7%. As a result, the unemployed population increased from 1,852,736 to 2,406,251 people (INE, 2006b). Between the first half of 2002 and the first half of 2003, poverty increased 30.1%, rising in absolute terms from 41.5% to 54%; extreme poverty increased from 16.6% to 25.1% (INE, 2006c). There was a steep slide in international reserves, which fell 12.3% between November 2002 and January 2003 (BCV, 2006f). This last fall led the government to implement, on 5 February 2003, exchange rate and price controls –on mass consumption products, medical products, cleaning and services products –to attenuate the negative effects on the national economy.

### **The recovery of PDVSA and the transition toward the popular offensive**

Despite the severe socio-economic costs of the oil strike in the country, the recovery of effective control of PDVSA on the part of the executive was of enormous importance regarding the implementation of the government programme. The upper- and middle-level PDVSA management had been imple-

menting an oil policy that was not only different from, but radically opposed to, the government's strategic project. This explains why the oil industry played such a key role in the principal confrontations between the government and the opposition in the years 2002 and 2003.

By April 2002, the upper and middle ranking company management, the self-denominated "meritocracy" had placed PDVSA at the service of the coup, a position that was epitomised in one of its slogans of the time: "Not a single drop of oil for Cuba." This same management staked everything on the removal of Chávez during the 2002/2003 oil strike. Not only did they lose their political wager, it was shown, to their amazement, that the industry could operate without them. This allowed the government to make the entirely legal decision not to reincorporate the majority of the upper and middle ranking management who had carried out a strike with openly stated insurrectional aims for more than two months.<sup>40</sup>

With the end of the strike the government recovered effective control over the company, resuming the internal operations of all of its control and information systems. In 1993 the PDVSA board had decided to create the INTESA information technology company. PDVSA held 40% of the company's shares while 60% was in the hands of Science Applications International Corporation (SAIC), a company with close relations both with transnational oil companies and with US security bodies. This company ended up controlling all the financial data, budgetary data, and information regarding operative physical installations and PDVSA business. As a result, highly confidential information of

fundamental importance for the security and defence of Venezuelan sovereignty had remained in the hands of a transnational firm (MEP, 2006). It was probably easier for transnational oil companies and US government agencies to obtain immediate trustworthy information about PDVSA's operations than for the Venezuelan State, its owner. This external control over all the main information systems was one of the most significant obstacles when it came to reinitiating PDVSA's operations during the oil strike.

In mid-2003 PDVSA began to be in sync with the political changes that were taking place in the country. The National Executive, through the Ministry of Energy and Oil, recovered both political control over the company and oil policy. From this moment, the strategic orientation to reverse the liberal orientations that the company had imposed in previous years advanced with greater coherence and fewer obstacles. The government, after a defensive phase in which it sought above all to survive and reactivate the oil industry, the foundation of the national economy, acquired more confidence and began to spearhead policies aimed at consolidating its political and social base with concrete, tangible public policies with the capacity to impact on the living conditions of the vast majority of the population. This marked the beginning of the third phase of government.

### **PHASE 3: THE BEGINNING OF THE SOCIAL OFFENSIVE (JULY 2003 – JUNE 2006)**

Following the defeat of the oil strike and the government's recovery of political control

over PDVSA, the government decided to accelerate the economic and social changes. The food shortages that resulted during the strike demonstrated the strategic value of having a broad and stable food production base within the country. The strike not only confirmed the degree of dependence that the country has regarding food imports, but also the major concentration in the processing and distribution of these and other basic products. It also showed that the Venezuelan economy – and its current political process – was extremely vulnerable to manipulation (price and access) in international trade and to the will of oligarchic-political business sectors.<sup>41</sup>

How does one respond to these conditions when neither socialism nor the nationalisation of the economy formed part of the constitutional design or were foreseen in the initial political project of *Chavismo*? In addition to the broad grassroots support the government received and of the Armed Forces' backing for democratic governance, the capacity to resist the oil strike was possible because of the exceptional conditions oil income grants the Venezuelan economy. It was thanks to the country's international reserves that it was possible to bring in emergency imports (food and fuel) that contributed to defeating the strike. Oil income in the hands of the State also made it possible to design new responses to the political and economic changes of the time. As a measure that was not just short term (the immediate political impact of generating employment) but rather strategic, a development model was spearheaded that was defined as endogenous<sup>42</sup> and based on the priority of the "social economy."<sup>43</sup>

Starting from a recognition of the precarious

nature of the structures of state management to impel public policies – in particular new social policies – it was concluded that the political timing of the Venezuelan conflict, made it impossible to wait for administrative reforms to improve management capacity in the face of new and urgent demands. For this reason, the Executive opted to create *misiones*, a range of extraordinary programmes that, by partially by-passing state bureaucracy, sought to respond to each of the social problems identified as critical and requiring an urgent response.<sup>44</sup>

In the area of health Mission Barrio Adentro was created, a programme that proposed taking primary and family health care to grass-roots sectors across the nation with the mass participation of Cuban doctors. In the area of food, the Mercal Mission was created, aimed at commercialising food products and other basic products to guarantee the supply of quality, low priced goods to low-income sectors across the nation. In the process of creating alternative production and commercialisation channels, the aim was to strengthen co-operatives and small companies.

In the area of education a civic-military programme called Robinson Mission was created, that sought to provide literacy training in the short term to the 2 million people that, it was calculated, did not know how to read and write. In subsequent phases (Mission Robinson II), those who were recently literate carried out primary school studies.

The aim of the Ribas Mission was to provide secondary education for people of any age who had completed primary school but had not done or finished secondary school. The Sucre Mission proposed the broad incorpora-

tion of high school graduates into university programmes but would place priority on students from the lower-middle class and the poorest sectors. In the agricultural sphere, the Zamora Mission proposed providing peasants with land, training, technical and marketing assistance as well as infrastructure, services and financing.

Unlike targeted social policies, which prevailed throughout the continent in recent times, these policies were aimed at achieving social equity and overcoming political inequalities and cultural exclusions. For this, they emphasised participation and the construction of citizenship (Parra and Lacruz, 2003). They were not conceived as policies to compensate the negative social effects of economic policies but rather as an integral part of these policies. The announced goal was that the missions would achieve a growing co-ordination to construct the productive and social fabric of the new Venezuela as well as a new public institutionalism.

It is in this period, during which the principal missions were created and when there began to be significant changes in the living conditions of the majority of the population, that a recovery in the Venezuelan economy also became evident. In the second quarter of 2003, GDP increased 26.8% compared to the previous quarter and in the third and fourth quarter of 2003 the increase was 3.3% and 7.6% respectively. Despite these increases, in 2003 GDP fell 7.7% compared to 2002. It is in the first two quarters of 2004 that the economic recovery began to gain strength and GDP increased by 36.1% and 12.1% respectively compared to the same period a year earlier, to reach an average 24.6% in the first half of 2004. (BCV, 2006c).



After the failure of the oil strike and before the economy showed evident signs of recovery, sectors opposed to the government sought to regroup and continued their efforts to overthrow President Chávez (Díaz Rangel, 2006).<sup>45</sup> This time they concentrated their efforts in the legal arena gathering signatures to call for a consultative presidential referendum, according to what was set out in article 72 of the new Constitution.<sup>46</sup> As result, the National Electoral Council (CNE) convened, for the first time on the continent, a referendum on 15 August 2004 to revoke the President's term. Here, not only was Chávez's continuation as President of the Republic at stake but also the extraordinary dilemma between continuing along the difficult path of change or reverting to a neo-liberal economic model and policy and a re-alignment of Venezuela with the United States. President Chávez had his mandate confirmed with the support of 59.1% of voters, with an abstention rate of 30.1% (CNE, 2006a). These results marked the seventh consecutive election that Chávez and the political forces supporting him had won since 1998.<sup>47</sup>

Following this latest victory of President Chávez, several social organisations demanded that the government take advantage of the political situation to strengthen the changes (the "revolution within the revolution"), and encourage grassroots organisations to participate in and monitor public management. They also called for candidates for governors and mayors to "be submitted to primary elections in assemblies of militant citizens" (Conexión Social, 2004). While this final demand failed to be taken up in the election of regional and municipal authorities held on 31 October, government candidates won the majority of the positions.<sup>48</sup> With these results,

the government consolidated the new political majority that was ratified with the August presidential election (Bonilla-Molina y El Troudi, 2006).

On 12 and 13 November 2004, a high-level government workshop took place that gave rise to a document based on a presentation by President Chávez ("the new strategic map for the country") that identified ten major strategic objectives (MINCI, 2004).<sup>49</sup> Regarding the economic model (objective 7), it was emphasised that "the aim is not to eliminate private property" but to accelerate "the construction of a new productive model" in order to "transcend the capitalist model" in the long term, given that this model was "non viable" and "impossible" (ibid, 30-31). This rejection of capitalism as a model for Venezuela led Chávez to insist, for the first time in a public act in Caracas in December 2004, that it was necessary to re-conquer the concept of socialism and seek a route toward a new form of socialism that overcomes the errors of the past – a "socialism of the 21<sup>st</sup> Century" (Raby, 2006, 176-177).<sup>50</sup> These declarations, marking a new inflection in the Venezuelan process, represented the beginning of a political offensive, which was accompanied by the consolidation of the economic recovery. In the third and fourth quarter of 2004, GDP increased 7% and 5.9% respectively compared to the previous quarter. In 2004, GDP increased 18.3% compared to the previous year, representing the biggest increase in any country in the Western Hemisphere.

As of 2005, there was an improvement in the majority of socio-economic indicators, and the government stepped up its efforts to create mechanisms to facilitate structural changes in the economy. We will analyse in

greater detail three closely intertwined areas in which the government focused its action: 1) the oil industry; 2) Latin America integration and the search for multi-polarity in the international arena; 3) the social economy and endogenous development.

### **PDVSA: sowing the oil**

From the end of the oil strike until today, the government has continued playing an important role within OPEC, seeking to increase world oil prices. As a result of these high prices, per capita oil income in Venezuela has increased from \$226 in 1998 to \$728 in 2005 (Wilpert, 2006a).

Parallel to the rise in world oil prices, the government has sought to increase its negotiating capacity regarding multinational companies (MNCs) operating in the oil sector. Significantly, in April 2006 the National Assembly approved a new legal regulation that eliminated the Operative Agreements on the grounds that their contents were “incompatible with the rules established in the oil nationalisation regime” (National Assembly, 2006). With this legal instrument, the Executive negotiated with the companies that were party to these contracts to form new consortiums in which PDVSA would have the majority share, in accordance with the General Hydrocarbons Law<sup>51</sup>. This was justified on the ground that it represented the recovery of national sovereignty and the end of the “disguised concessions” of the oil sector opening.<sup>52</sup>

This series of reorientations in government oil policy, that included changes in the tax framework (increase of royalties and taxes)

and the transformation of Operative Agreements into joint ventures, made it possible for a growing portion of the company's income – the product of high oil prices on the international market – to pass into State hands. According to a PDVSA report, in 2005 the global income of the company reached \$85.730 billion. Between royalties, income tax and dividends and “contributions for social development”, the total contribution to the nation was \$25 billion (MEP, 2005).<sup>53</sup>

The increase in public spending that has followed the rapid accumulation of State resources has played an important role in the high economic growth of recent years. After falling during 2002 and 2003, public spending as a percentage of GDP recovered and in 2005 reached nearly the same level it was in 2001.<sup>54</sup> At the same time, social spending as a percentage of public spending rose from 38.3% in 2001 to 40.7% in 2005 (SISOV, 2006a; 2006b).<sup>55</sup> In 2005, GDP grew 10.3% compared with 2004. In the second quarter of 2006, GDP increased 10.2% compared to the same period in the previous year, marking the 11th consecutive rise since the final quarter of 2003. In the first half of 2006, GDP rose 10.2% compared with the previous year (BCV, 2006c).

Another fundamental change to the reorientation of oil policy is its insertion as a core part of the Venezuelan State's current foreign policy. The most significant developments are the policies to diversify markets and to use oil as a tool to strengthen geopolitical relations and encourage Latin American and Caribbean integration. With differing degrees of success, depending on the responses of potential counterparts, the Venezuelan government has proposed multiple modalities of

co-operation in the oil area. The most significant of these is the creation of Petrocaribe<sup>56</sup> (in which 15 countries from the Caribbean are participating) and the proposal to create Petrosur and Petroamerica with other major state-owned hydrocarbon companies on the continent. PDVSA has also bought into or entered into partnerships with both existing refineries and those to be constructed in Paraguay, Uruguay, Argentina and Brazil.

Outside of the American continent, China has been the focus of oil geopolitics and where the search for a diversification of markets has developed most. According to Hugo Chávez, in 2006 exports to China surpassed 150,000 barrels a day and the aim was to reach 300,000 barrels a day by 2007 (*El Universal*, 2006). As an expression of this market diversification policy, negotiations are also under way to supply India and Vietnam with oil.

There has also been a significant diversification of the origin of foreign investment in oil and gas. In the case of the Orinoco Belt, memorandums of understanding to quantify and certify the reserves have been signed with companies from India, Russia, China, Spain, Iran and Brazil (PDVSA, 2005). In the *Strategic Gas Development Plans*, companies from Italy (ENI) and Norway (Statoil) are investing, alongside those of the United States (PDVSA, 2006b).

All of this indicates that while Venezuela will continue to supply oil to what has historically been the main market for Venezuela exports - the United States<sup>57</sup> - the bulk of the increase in exports planned for the next few years are aimed at other markets: Latin America, the Caribbean and Asia.

It is also worth mentioning that there are a series of criticisms and concerns regarding the implications of current Venezuelan State oil policy. These do not come only from energy transnationals, the US government or the Venezuelan opposition, including the oil “meritocracy”. Due to space constraints, we will only analyse the most important criticisms and concerns.

Firstly, there is a substantial difference between the 2001 ‘General Hydrocarbons Law’ (PDVSA, 2001) and the 1999 ‘General Gaseous Hydrocarbons Law’ (PDVSA, 1999). In the case of oil, private capital and transnational capital must be in partnership with PDVSA and may only hold a minority stake. In the case of gas, however, private capital – both national and international – can hold a 100% of shares and can negotiate concessions of up to 30 years, renewable for a similar period. This is probably because PDVSA has less experience in gas exploitation and the main fields are offshore, which require massive investments and technological capacities that the company does not have at present.

A second criticism refers to the seeming contradiction between the verbal radicalism in defence of sovereignty and the fact that, in the transition from operative agreements to joint venture companies, transnational capital is more directly incorporated into oil development as a partner of the state. It has been argued that the Venezuelan population is being misled with a nationalist, anti-imperialist rhetoric when in reality the participation of international capital is increasing in the development of the country’s resources (Mather, 2006). With joint ventures, even though a majority participation of PDVSA is established, something is now authorised that

was banned by the 1975 nationalisation law, a law that reserved the exploitation of those resources for the State. In defence of joint ventures, it is argued that their fiscal benefits are far superior compared with the conditions under which the previous operational agreements these replaced were negotiated.

Finally, and with implications that could not only question oil policy but also core aspects of the *Chavismo* project as a whole, is the significance of increasing the dependence of the Venezuelan economy on oil activity, and both the cultural and environmental impacts of the mega development projects announced by the government. While it may be true that there has been a reduction in the production volume targets programmed by the “old PDVSA”, significant increases in hydrocarbons exploitation volumes are planned, both oil and gas.

According to the PDVSA web page, the company “expects to reach production of 5.847 billion barrels a day by 2012” (PDVSA, 2006c), which represents a 72% increase on the average production volumes of 2006. To achieve this increase in hydrocarbons production, the aim is to open up a large portion of national territory – including major territorial ocean areas – to oil and gas production (Red Alerta Petrolera-Orinoco Oilwatch, 2005). This is taking place despite increasingly conclusive indications that human activity, particularly the consumption of fossil fuels, represents a serious threat to the continuation of life on the planet. Moreover, in speeches President Chávez himself consistently questions the development/consumption model based on burning fossil fuels and warns of the threat this represents for the planet.

The main thrusts of this expansive policy, as well as each mega-projects in the pipeline, bidding processes to exploit gas farther offshore, new investment in the Orinoco belt, and the construction of major gas pipelines toward the south or toward Colombia and Central America are all announced either by the President or spokespeople from the Ministry of Energy and Mines and PDVSA announce, as decisions that have already been taken. There is no public information about the environmental impact studies that, according to Venezuelan legislation, are obligatory for projects of this nature. Nor is there any broad-based, democratic, informed debate about the implications of these projects for the future of the country and the world.

### **Latin American Integration and Multi-polarity**

The government offensive following the failure of the oil strike had implications for the nature of Venezuela’s international insertion, both in the region and internationally. Since the beginning of its term, the government had spoken of multi-polarity and its desire to promote processes of integration in Latin America and the Caribbean, but it was only with the recovery of the State’s political control over PDVSA that substantial achievements were seen in this area.

When Chávez reached the presidency in 1999, he was profoundly isolated in a Latin American context where nearly all the governments could be characterised as neo-liberal and submissive to the policies of the US government. If this context had remained unaltered, the government’s project would

have had little chance of success. A great deal has taken place in the continent and the world, however, since the struggles against the WTO in Seattle in 1999.<sup>58</sup>

Without a doubt, the main factor that has conditioned the behaviour of the Venezuelan government in the international arena is its relationship with the government of the United States, particularly after Bush's election in 2000.<sup>59</sup> The greater autonomy assumed by the Chávez government, initially regarding oil policy (the recovery of prices, the recovery of OPEC, etc) in relations with other member countries of OPEC (some of which the United States considers part of the 'axis of evil'), led to initial confrontations. Subsequently, the US government's direct involvement in attempts to destabilise the Venezuelan government played a central role – its support for the April 2002 coup, its funding for the opposition, as well as the use of tactics first tried by the US in Nicaragua and later in the 'orange revolutions' of Eastern Europe.

Venezuela's first significant victory regarding the US government's plans for America took place in April 2003 around the negotiations for the Free Trade Agreement for the Americas (FTAA).<sup>60</sup> In the meeting of the FTAA Trade Negotiations Committee held in Puebla (Mexico) in 2003, the Venezuela government openly criticised the FTAA, and this strengthened the already consolidated networks of social movements in the region opposed to the FTAA.<sup>61</sup>

The ALBA proposal (*Alternativa Bolivariana para las Américas* or Bolivarian Alternative for the Americas) is developed as an integration option for peoples who oppose the logic

of the FTAA and free trade agreements. In December 2004, Cuba and Venezuela signed a declaration (containing twelve orienting principles) and the first agreement within the framework of ALBA, and, in April 2006, the Bolivian government of Evo Morales signs up (Fox, 2006a).<sup>62</sup> One of the twelve orienting principals of ALBA concerns the *Televisora del Sur* (TELESUR) communications project, which was created in July 2005 by the governments of Argentina, Cuba, Uruguay and Venezuela.<sup>63</sup> TELESUR seeks to respond to a critical issue: the monopoly held by North American corporate media over sources of information on the continent.

After the IV Summit of the Americas, in Mar del Plata in November 2005, the FTAA seems to have definitively died.

In April 2006, the Venezuelan government decided to withdraw from the Andean Community (CAN)<sup>64</sup>, citing the decision of some members of the CAN to negotiate free trade agreements with the United States. In May 2006, Venezuela withdrew from the Group of Three (G-3), a trade partnership formed eleven years ago with Colombia and Mexico. As an alternative to Latin American integration, Venezuela turned to MERCOSUR and in June 2006 is admitted as a full member, together with Argentina, Brazil, Paraguay and Uruguay, pending the final approval by the congresses of these countries. Moreover, during this period, Venezuela signed a multiplicity of political, economic and energy agreements with CARICOM nations (Petrocaribe), South American countries and with other countries (for example China, Russia, etc).

Despite the continuous deterioration in polit-

ical relations between Venezuela and the United States and attempts on the part of Venezuela to arrest and formulate alternatives to the free trade initiatives for America promoted from Washington, trade between both countries is more robust than ever. Annual figures recently published by the Venezuelan-American Chamber of Commerce and Industry (Venamcham) demonstrate that in 2005 the total trade between Venezuela and the United States was \$40.373 billion, an increase of 146.4% since 1998. However, the BCV estimates that this trade, which has traditionally represented half of Venezuela's international trade, will be 48.2% in 2006 (Camel, 2006). With the consolidation of commercial agreements between Venezuela and the countries indicated above, it is most likely that the proportion of trade with the US will tend to fall.

### **The social economy and the path toward a new economic model: endogenous development**

Following the public rejection of capitalism and Chávez's declaration in late 2004/early 2005 in favour of a "socialism of the 21<sup>st</sup> Century" for Venezuela, a period began in which initiatives related to the social economy and endogenous development were accelerated. These initiatives were constructed on the foundation of a series of policies existing in this sector.

In March 2004, the Mission *Vuelvan Caras* (About-Face) was created to combat poverty and generate permanent employment through job training<sup>65</sup>, socio-cultural formation<sup>66</sup> and the creation of Endogenous

Development Groups (NUDE)<sup>67</sup> in tourism, agriculture, infrastructure, services and industry. Beyond a simple employment programme, the Mission aimed to be:

A vanguard instrument for social and economic transformation and the battle against poverty. It was aimed at promoting the transition toward a new model of endogenous, sustainable and solidarity development, based on the cultural transformation of social relationships and production and through job training and the promotion of co-operatives in poor and excluded sectors and their full inclusion in local socio-productive processes (MINEP, 2006).<sup>68</sup>

In September 2004, the Ministry for Popular Economy (MINEP) was created to co-ordinate the transition from a capitalist economic model to "a social and sustainable economy" (MINEP, 2006).<sup>69</sup> In particular, the MINEP is responsible for institutionalising the Mission *Vuelvan Caras* and co-ordinating work with existing and new micro-financing institutions.<sup>70</sup> Moreover, the MINEP is responsible for co-ordinating and creating policies promoted by micro-businesses, co-operatives and other sustainable productive units that contribute to the collective well-being, dignify productive work and provide technical assistance, infrastructure and credit for co-operatives and micro-businesses. The MINEP also attempts to ensure markets for the production of co-operatives and helps manage contracts with institutions and state companies through business summits (Piñero Harnecker, 2005).

These measures have accelerated the growth of the number of co-operatives registered in the country, a process that has intensified

since 2003.<sup>71</sup> In 1998, there were 877 co-operatives registered with the National Superintendence of Cooperatives (SUNACCOOP).<sup>72</sup> By June 2006, the number had increased to 131,581 (SUNACCOOP, 2006).

Of the total 108,870 co-operatives registered as of February 2006 81.3% were constituted by five to ten members. While the majority of these co-operatives are in services (52.1%) and production (31.7%), they also operate in activities such as transport, social protection, consumption, savings and credit, and housing (SUNACCOOP, 2006). Despite the significant increase in the number of co-operatives in the country, many of these co-operatives have not been continuous and there has been a high mortality rate. Only 37,552 were considered operative by SUNACCOOP in 2007.<sup>73</sup>

With regards to the relationships of production within the different associative productive forms and their relationship with the State and private sector, the government has promoted the concept of co-management. This practice, which was also one of the demands of the new union federation created in April 2003, the National Workers Union (UNT), has been encouraged in several State companies such as the CADAFE and CADELA electricity distribution companies and the Alcasa aluminium production company. Co-management has also been implemented in a few companies expropriated by the government after they were abandoned by their owners. These companies have been re-launched with 51% of shares held by the State and 49% by workers' co-operatives. In 2006, in co-ordination with UNT, the government evaluated another 700 production units that were not active and that could be expropriated and turned over to their former work-

ers to make them operative (Wilpert, 2006). The government has promoted another modality of co-management in the private industrial sector of the economy by providing subsidiary loans and other incentives under the 'Inside Factory' programme. Inside Factory was created in May 2005 and as of December 2006, 856 companies had joined the Framework Agreement of Co-responsibility for Industrial Transformation, which formed part of the Inside Factory programme (MILCO, 2005; Iribarren, 2006).<sup>74</sup>

In July 2005, to ensure that co-operative companies, co-managed companies, and those managed by the State were guided by a new series of principles, President Chávez proposed the creation of a new type of economic production unit known as a *Social Production Company* (EPS, for its initials in Spanish).<sup>75</sup> In November 2005, Chávez defined the EPS as follows:

They are those economic entities dedicated to the production of goods or services in which the work has its own meaning that is not alienated, is authentic, in which there is no social discrimination in work or any type of work, there are no privileges in the work associated with the hierarchical position. These are economic entities marked by substantial equality among their members, based on a participatory and protagonist planning, and under a regime of state property, collective property or a combination of both (MINCI, 2005).<sup>76</sup>

In conclusion, with regards to the social economy, the government has deepened its efforts to expand associative types of property and control, such as co-operatives and co-management. These associative forms of pro-

duction have been stimulated through diverse types of micro and small credit granted by state funding entities. At the same time, there has been an intense promotion of purchases and the contracting of services and works by the public sector as a means of generating productive capacity. These initiatives, framed within the search for endogenous development and, as of 2005, “socialism of the 21<sup>st</sup> century”, have increasingly defined the socialist nature and the new strategies of the Bolivarian process.

## GENERAL BALANCE SHEET

In order to explore the potential of the Venezuelan process as an alternative to neo-liberalism, it is not enough, evidently, to review the main programmatic texts of the government or to analyse the new constitutional framework. There is a wide margin of interpretation and possible action within these broad programmatic orientations. It is by confronting the problems and experiences accumulated by the government in the execution of their program’s management, in the internal debates within the forces promoting change, in the struggles against the opposition and in the way that obstacles are approached which give their policies greater definition and substance and help bring about more precise proposals about the future. As the confrontation with sectors of the opposition became more acute, polarisation became consolidated in Venezuelan society and the political times became shortened. In this way, solutions were sought which point to a more consistent break with the neo-liberal model.

Within this context, in order to characterise

the operation of the Venezuela economy during the Hugo Chávez government and to explore the nature of the changes that have taken place during this period, it is necessary to look at the economy on two fronts, which while they cannot be separated from the whole, are useful as levels of analysis for discerning the most significant trends.

On the one hand, there are the macroeconomic policies (monetary policy, inflation control, fiscal policy, exchange rate policy, etc), where some orthodox policies were applied initially that did not break with the existing neo-liberal framework. At the same time, however, policies of an anti-neo-liberal nature were applied, too, such as the rejection of the privatisation of the oil industry and other state industries. The nature of the initial phase of government has several explanations that are not mutually exclusive. Among these, the following stand out: the general weakness of the government plan, particularly the lack of a coherent economic plan; the priority given to political-institutional change as a pre-requisite for economic reform; the ideological battles within *Chavismo*; the magnitude of the economic crisis the country faced; and especially the government’s need to survive. These policies essentially related to the ‘normal’ management of public finances have an impact on the productive apparatus as a whole and, of course, have political consequences, which we have considered. This not only refers to macroeconomic policies but also to those factors usually taken into account when evaluating the operation of an economy, for example, oil policy and the creation of new public companies. These factors might have successful indicators without this necessarily meaning that a path has been opened to change the economic model.



On the other hand, there are the social policies, the promotion of the social and grassroots economy; foreign policy; the new institutional forms etc. These are areas where there have been significantly different and, in some cases, novel orientations in public policies.

Nevertheless, it is still insufficient to attempt to understand the behaviour of the Venezuelan economy by parameters used to evaluate 'normal' economies. The reason for this relates fundamentally to the exceptional factors of political confrontation both inside and outside of Venezuela, which have had a severe impact on the behaviour of the economy.

The current Venezuelan political process is part of a continental and global struggle against the destructive dynamic of a militarised neo-liberal globalisation. Its deepening, indeed, its very survival depend on how this global confrontation plays out. Moreover, the path that Latin American integration processes – economic, political and cultural –

take will be, in this sense, decisive. It is an open-ended process that is generating a great deal of expectations.

In a post-Berlin Wall global context characterised by the absence of clear alternatives to the hegemonic neo-liberal capitalist model, it is unsurprising that initially in Venezuela there was no alternative national project that broke with the prevailing scheme. It is only since mid-2003, the last phase described in this report, that a new economic model begins to emerge, which is clearly distinguished from the hegemonic neo-liberal project.<sup>77</sup>



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## NOTES

<sup>1</sup> Two examples of these calls to attention that had a limited impact are: Pérez Alfonso, 1977; and Equipo Proceso Político, 1978.

<sup>2</sup> In contrast to the experience of many other countries in Latin America, during the past decades, the Venezuelan electorate has consistently voted in favor of electoral programmes that offer the greatest resistance to neo-liberalism. This was the case in the elections of Jaime Lusinchi in 1983, Carlos Andrés Pérez in 1988, Rafael Caldera 1983 and Hugo Chávez in 1998.

<sup>3</sup> Hugo Chávez later said that many military officers were sensitised by this repressive experience, which accelerated the conspirational movement and precipitated the coups that were attempted in 1992 (Blanco Muñoz, 1998, 182-183).

<sup>4</sup> In many respects, these policies were in fact a de facto reversal of the regulations established by the law through which Venezuelan hydrocarbons were nationalised in the 1970s (Congress of Venezuela, 1975).

<sup>5</sup> For example, it was not clear in the political debate prior to convening the Constituent Assembly what the main problems of the country were that had their origins in the 1961 Constitution or that required a new Constitution to be resolved.

<sup>6</sup> Given Venezuela is an oil producer, where oil exports represent approximately 80% of the total value of exports and nearly half the fiscal income, oil policy is the necessary starting point for any evaluation of the country's economic policy.

<sup>7</sup> By January 1997, the OPEC oil basket was at \$23.45, crashing until it reached \$9.72 in December 1998. The prices of the Venezuela oil basket are slightly lower than the OPEC oil basket and by February 1999 (when Chavez assumed the presidency) the price of the Venezuela basket for export reached \$7.35 per barrel, with the average for that month \$8.43 (Lander, 2004)

<sup>8</sup> For a detailed discussion of these reorientations of Venezuelan oil policy, see the articles included in "La reforma petrolera en Venezuela" (Tema central) (Revista Venezolana de Economía y Ciencias Sociales, 2002; and Mommer, 2003.

<sup>9</sup> We use the term orthodox to talk about essentially neo-liberal policies that are promoted by multilateral bodies such as the World Bank and the International Monetary Fund (IMF). The term Washington Consensus and, more recently, post-Washington Consensus have been used to describe the application of these neo-liberal measures in Latin America.

<sup>10</sup> Average inflation in the previous decade (1989-1998) was 52.5%, reaching a peak of 103.2% in the year 1996 (BCV, 2006a).

<sup>11</sup> This law contains the basic orientations of foreign investment protection included in the majority of the most recently negotiated international free trade agreements. It established a broad definition of investment, the right to national treatment (it allowed for certain sectors to be reserved for the state or Venezuelan investors); investments did not require prior authorisation, unless the law expressly indicated it was necessary; and it introduced the concept of

“measures equivalent to expropriation.” In the case of expropriation, compensation will be at market prices and these will be “deposited in convertible currency and will be freely transferable abroad.” The controversies between the investor and the Venezuelan state will not be addressed in national tribunals but through diplomatic channels or in an international arbitration court.

<sup>12</sup> Banmujer was created in March 2001.

<sup>13</sup> See, for example, García, 2000 and Vera, 2001. From another perspective, see Parker, 2003.

<sup>14</sup> It is estimated that between 1999 and 2001, the total amount of capital flight reached \$26.2 billion, 40% of the value of oil exports in that same period. (Blanco cited in Parker, 2005, 139).

<sup>15</sup> According to the Center for Social Science Investigation (CISOR), “The actions of social policy has been oriented more towards the suppression of political limitations (lack of power and contexts for participation) and cultural limitations (lack of recognition and devaluation of life styles) than to the removal of obstacles of an economic nature (poverty and inequality). From this point of view, the social policies do not seem to be aimed at addressing the deprivation of liberty or limitations caused by socio-economic injustices. This is due to the fact that poverty, from the perspective of the current government, is a product not of the conditions of productivity, but of social relations of domination and exploitation.” (Parra y Lacruz, 2003, 80)

<sup>16</sup> “There is an orientation towards encouraging types of organisation related to the social economy. As a result, cooperatives are considered ideal instruments for social policy as they favor the organisation of the grassroots, encourage employment, eliminate intermediaries between production and trade. Given that the problem of social exclusion is caused by the poor distribution of wealth and political exclusion, the solution is therefore found in a greater participation in the distribution of goods and in participatory and democratic types of social organisation. For this reason, issues such as the social economy, the democratisation of the distribution of land, the restructuring of the compensation regime and the encouragement of grassroots organisations appear as solutions to the social problem. Participation becomes a tool to transform living conditions” (ibid, 39).

<sup>17</sup> “The proposed social policy is a policy to propagate citizenship but understood as that which makes effective all human rights; and the constitutional dispositions of 1999 considerably broaden the extension of those rights.” (ibid, 80).

<sup>18</sup> The most systematic and credible source about the results of public management regarding economic, social and cultural rights is the report produced each year by the Venezuelan Action in Human Rights Education Program (PROVEA). [<http://www.derechos.org.ve/>].

<sup>19</sup> This group of laws were decreed by President Chávez in accordance with the attribution granted by the National Assembly in November 2000 under the law that “Authorises the President of the Republic to dictate Decrees with the Force of Law in the delegated areas” (Ley Habilitante, 2000).

<sup>20</sup> Law for the Transformation of the Investment Fund of Venezuela into the Economic and Social Development Bank of Venezuela (MPD, 2001c).

<sup>21</sup> Law for the Promotion and Development of Small and Medium-Sized Industry (MPD, 2001d).

<sup>22</sup> “The present Decree Law is aimed at creating, stimulating, promoting and developing the

Micro-Financing System oriented toward facilitating access to financial and non financial services in a swift and opportune manner, to grassroots and self managing communities, family businesses, self-employed individuals, unemployed people and any other forms of community association that develop or have initiatives to develop economic activity, in order to integrate them into the economic and social dynamics of the country.” (MPD, 2001e).

<sup>23</sup>.The ‘Fondo Único Social’ has the task to concentrate and co-ordinate process to attract, administer and invest resources to optimise the development and implementation of policies, plans and programmes aimed at favouring and strengthening social development, integral health and education. It must impel the grassroots economy; promote the development of micro businesses and co-operatives as forms of grassroots participation in economic activity and in the job training of young people and adults.” (MPD, 2001f).

<sup>24</sup>.Law To Partially Reform the Special Law on Cooperative Associations (MPD, 2001g).

<sup>25</sup>.Royalties as a component of the tax regime has two fundamental differences regarding a regime based exclusively on the paying of taxes on profits. In the first place “the royalty (...) by basing itself only on the volumes produced and the trade price, simplifies the collection and obligates a greater effort to reduce costs, sharing between the owner and the investor the risks derived, for example, from prices.” (Rodríguez Aranke, 2002, 193-194). In second place, royalties, unlike tax on income corresponding to commercial or industrial activities, recognises the fundamental fact that with the exploitation of a non-renewable resource like hydrocarbons, the Venezuelan nation collectively becomes poorer as a source of wealth is being used that belongs to everyone, that Venezuelan oil is not a “free gift from nature for the companies and international consumers.” (Mommer, 2003, 176).

<sup>26</sup>.It is interesting to note that while some of the most radical critics of the Chávez government criticise him for being communist (Gomez, 2003) others accuse him of being neo-liberal (Sonntag, 2003).

<sup>27</sup>.While during the first two years of the Chavez government the CTV was on the defensive, by 2001, as the result of an organisational reform process, its leadership was consolidated and demonstrated growing aggression toward the government (Ellner, 2003a, 217-218).

<sup>28</sup>.This deterioration increased rapidly after President Chávez’s televised condemnation of the US invasion of Afghanistan in response to terrorist attacks that took place on 11 September 2001 in the United States.

<sup>29</sup>.In 2001 the figure was 12.3%

<sup>30</sup>.Investment Fund for Macroeconomic Stabilisation

<sup>31</sup>.On 12 April, the day after the coup, Thomas Dawson, director of foreign relations for the IMF told journalists “we are ready to assist the new administration as it sees fit.” (IMF, 2002)

<sup>32</sup>.Due to a lack of space, it is not possible to address the events in the days surrounding the April 2002 coup in greater detail. For more information regarding these events, in particular the role of the private media, see the Irish documentary “The Revolution Will Not be Televised” Bartley and O’Brian, 2003. Regarding the role of the United States in supporting the coup, see Golinger, 2005; 2006; Lander, 2002.

<sup>33</sup>.In May 2002 the head of the economic team, Jorge Giordani, in the Ministry of Planning and Development, was replaced with Felipe Pérez; in the Finance Ministry, the economist Tobías

Nóbrega replaced Nelson Merentes; in July 2002, Gastón Parra is replaced as President of PDVSA by Alí Rodríguez, who – at the time – is considered a candidate for consensus.

<sup>34</sup>For a detailed analysis about this issue and the action of each of its elements, including altruism, see Pérez, 2002; Wilpert, 2003a.

<sup>35</sup>Given the importance of the shut down of PDVSA in the strike and the coup-related behavior of high and middle ranking executives during the strike, the term oil-business strike/sabotage is commonly used to refer to the strike. We will use the term oil strike from now on.

<sup>36</sup>In December, average production fell to 707,000 b/d; the average in January has been estimated at 738,000 b/d; during February, it reached 1,865,000 b/d; and by the end of March, it had recovered normal levels, averaging that month 2,672,000 b/d (Lander, 2004).

<sup>37</sup>Given the multiplying effect that this fiscal income would have had, the real cost of the oil strike for the economy was much higher.

<sup>38</sup>According to Lope Mendoza, president of Coindustria, during the 1999-2002 period capital flight reached \$33.179 billion, more than in the previous 40 years (Leon, 2003).

<sup>39</sup>GDP fell 8.9% in the year 2002 (BCV, 2006c).

<sup>40</sup>A total of 18,756 workers were not reinstated after the end of the strike (PROVEA, 2003, 47).

41. When considering these vulnerabilities one cannot ignore how the US government has, for decades, used trade as a political weapon, in particular in the blockade against Cuba.

42. The guiding principles of this “endogenous development” project, rooted in CEPAList developmentalism, are found in MPC, s. f.

43. According to the team that worked on this proposal in the Ministry of Planning and Development, the “social economy” is an “alternative economy” where “democratic and self-managing practices prevail.” It is “powered by associative work and non salaried work and the means of production are collectively owned (with the exception of the case of small businesses).” It is “centered on the equal division of surplus,” it is “in solidarity with the social context within which it develops” and is “anchored to its own autonomy regarding the monopolist centers of economic or political power.” It is oriented by the following ethical principles: “1. The expansion of democratic and libertarian values toward all social practices. 2. A commitment to brotherhood and solidarity within the community and labor environments in which we move. 3. An egalitarian meeting with one another. 4. The struggle for the complete liberty and dignity of our nations. 5. A profound love of the earth and nature. 6. Absolute respect for human rights. 7. The priority of general interest above individual interests” (MPD, 2004). For a more in-depth discussion of the meaning of the social economy with the project for change in Venezuela, see Vila Planes (2003).

<sup>44</sup>By October 2003, President Chávez had announced the creation of seven government missions to combat poverty (Wilpert, 2003b). By November 2006, there were 19 different missions (MRE, 2006). See ILDIS, 2006 for a comprehensive evaluation of the some of the main government missions.

<sup>45</sup>In March 2004, they organised a series of disrupting actions in several cities called guarimbas that included stopping transit in several zones and destroying public and private property valued at hundreds of millions of bolívares (Díaz Rangel, 2006, 184).

<sup>46</sup>After a great deal of conflict about the number and the validity of the signatures that were

presented in April 2004, it was confirmed that the opposition had gathered signatures corresponding to more than 20% of the registered national electorate.

<sup>47</sup>. These are: presidential elections of 1998, referendum about convening a Constituent Assembly (1999), Constituent Assembly elections (1999), the referendum approving the new Constitution (1999), presidential and governor elections (2000), mayor elections (2000) and the 2004 referendum to revoke Chávez's mandate.

<sup>48</sup>. Government candidates won nearly 300 mayors, 20 of 22 governor positions, and the majority of representatives in the Regional Legislative Councils.

<sup>49</sup>. These are: "1. To advance in the formation of a new social structure. 2. To articulate and optimize the new communicational strategy. 3. To swiftly advance in the construction of a new democratic model of grassroots participation. 4. To accelerate the creation of the new institutionalism of the State apparatus. 5. To activate a new integral and efficient strategy against corruption. 6. To develop the new electoral strategy. 7. To accelerate the construction of a new productive model, geared toward the creation of a new economic system. 8. To continue implementing the new territorial structure. 9. To deepen and accelerate the conformation of the new national military strategy. 10. To continue impelling the new international multi-polar system." (MINCI, 2004, 29-30).

<sup>50</sup>. Chávez famously repeated this statement in the V World Social Forum in Porto Alegre, Brazil in 2005. According to Chávez, this socialism will be different from the socialism of the XX Century though he does not specify how to ensure that it will not be a socialism of the State such as that implemented in the Soviet Union or Eastern Europe or like that currently existing in Cuba (Wilpert, 2006).

<sup>51</sup>. 26 MNCs (including Chevron) 'migrated' to this agreement. Two MNCs did not accept and left the country: Total of France and ENI of Italy.

<sup>52</sup>. In August of that same year, parliament agreed to increase the income tax charged to companies that exploit crude oil from the Orinoco belt from 34% to 50% (La Jornada, 2006).

<sup>53</sup>. Between 2000 and 2005, the total income of the company increased by 61% and the company's contribution to the nation jumped 121%. However, in that same period, the nation's participation only increased from 21% to 29.1% of total company income.

<sup>54</sup>. In 1998, public spending as a percentage of GDP was 23.7%. In 2001, it was 31.6%. In 2005, it was 29.5%. Between 1998 and 2005, public spending as a percentage of GDP increased 25.5%.

<sup>55</sup>. During the Chávez government, social spending, as a percentage of public spending increased 17.6%, going from 34.6% in 1998 to 40.7% in 2005. During this same period, as a percentage of GDP, social spending has increased by 46.3%, going from 8.2% in 1998 to 12% in 2005. In education, for example, from 1998 to 2005, real public spending per capita has increased by 80%, with annual public spending in education surpassing 4% of GDP (SISOV, 2006b; Weisbrot et al, 2006).

<sup>56</sup>. The agreement that led to the creation of Petrocaribe was signed in September 2005 and included 13 countries from CARICOM plus Cuba and the Dominican Republic (Lai, 2006).

<sup>57</sup>. According to the Venezuelan American Chamber of Commerce and Industry in 2005, approximately 70% of Venezuela oil is aimed at the US market (Venamcham, 2005).

<sup>58</sup>. The progress and the strengthening of the movements of resistance to neo-liberal globalisation have had clear expressions in the World Social Forums held since they began in Porto Alegre in 2001 to those carried out in Bamako, Karachi and Caracas in 2006. The movements opposed to structural adjustment policies, in particular privatisations, have achieved important successes on the continent such as the case of the Water War in Cochabamba in 2000. Equally important, from the perspective of the continental geopolitical context in which the Venezuelan government operates were the electoral victories of candidates and parties considered “progressive” or left-wing in many countries in South America in recent years.

<sup>59</sup>. From the beginning of the Punto Fijo democracy, the governments of AD and COPEI were unconditional in their support of the United States.

<sup>60</sup>. During the first years of the Chávez government, like in many areas, there was no clear vision of what was happening in the FTAA negotiations, the World Trade Organisation (WTO) or free trade agreements in general. It was starting from the III Summit of the Americas held in Quebec in April 2001, when the Venezuela government reserved its position on the definition of democracy as exclusively “representative democracy” and over the schedule of negotiations, that Venezuela began systematically questioning the FTAA as a project that favours TNCs of the United States to the detriment of development in Latin American countries and the living conditions of the majority of the population on the continent.

<sup>61</sup>. At the fifth WTO Ministerial Meeting held in September 2003 in Cancún, the Venezuela government’s position document circulated prior to the meeting emphasised the following points. First, that combating poverty and social exclusion was a priority. Secondly, the ideological bias that favours the market over state action was criticised. It promoted a process of participatory negotiations and prioritised human rights over trade. Finally, it defended the obligation of the state to provide strategic services (Venezuelan Embassy in the United States, 2003). The important thing about this document, which from its tone could have easily been written by groups of the so-called “anti-globalising movement,” is that it criticised the theoretical foundation of the rules of the game in international trade. After the Cancún meeting, the position of other Latin American governments regarding the FTAA became more critical.

<sup>62</sup>. See Arreaza (2004) for a summary of information about the ALBA published by the Foreign Trade Bank (Bancoex) of Venezuela.

<sup>63</sup>. The Venezuela government is the majority shareholder of TELESUR, providing 51% of funding.

<sup>64</sup>. At the time, the CAN was comprised of Colombia, Bolivia, Ecuador, Peru and Venezuela.

<sup>65</sup>. The lanceros (the name given to participants in the programme), the vast majority recent graduates of the educational missions, receive a government scholarship and training in a variety of jobs in the area of production and services, with an emphasis on work within co-operatives. Given the immediate needs of the country, the programme began by focusing on the development of agriculture. Of the total scholarships, 50% were for training in the farming sector and 30% for the industrial sector (placing emphasis on the food industry and the production of shoes and clothes) (Lebowitz, 2006, 98).

<sup>66</sup>. Essential elements of the ideological aspect of the programme include: attacking the division between those who think and those who do, a rejection of salaried work as such and the pro-



motion of collective property.

<sup>67.</sup>The NUDE are “areas or places with endogenous development potential according to their historic and cultural characteristics” and to create them “residents from the close by areas are invited to take part in technical-productive and socio-political training, oriented toward the later development of a co-management or self-management activity in the area of development” (MINEP, 2005, 30-31).

<sup>68.</sup> According to official sources, by June 9th 2006 there were 627,539 lanceros registered in Mission About-Face, and as of 2005, 264,720 lanceros had graduated. As of June 2006, there were 6,814 co-operatives created by lanceros and by November 18th 2006, 954 billion bolívares had been granted in credit and 130 NUDEs were operative (MRE, 2006).

<sup>69.</sup> With the creation of MINEP, the Ministry of Social Economy created in 2002 was replaced.

<sup>70.</sup> The majority of these new funding institutions, such as the Banmujer and the Microfinance Development Fund (Fondemi), was created in 2001 as a result of the Enabling Laws and, together with already existing financial institutions, have been the “bastion of the social economy model” (Fergusson, s. f.).

<sup>71.</sup> While the 1999 constitution demands that the State promote and protect the co-operatives (articles 118 and 308), only after the approval of the “Special Law on Co-operative Associations” in August 2001 (MPD, 2001g), was there a significant increase in the number of co-operatives in Venezuela.

<sup>72.</sup> In 1998, 877 co-operatives were registered. In 1999, when the Chávez government began, 33 more co-operatives were registered. Later in 2000, 94 more were registered, in 2001 the number of new registrations was 1,154 and in 2002 2,280. In 2003, the number of new registrations was 17,939, in 2004 36,765 and in 2005 41,485 to reach a total of 100,627 co-operatives registered by the end of 2005. As of June 2006, another 30,954 co-operatives were registered, resulting in a total 131,581 registered co-operatives by June 2006 (SUNACOOOP, 2006).

<sup>73.</sup> Oscar Bastidas, General Co-ordinator of the Research Centre for Participation, Self-Management and the Co-operative Movement (CEPAC) of the Central University of Venezuela (UCV), has spoken of a “cemetery” of co-operatives (Fox, 2006b). Starting on August 15th 2006 the MINEP, the SUNACOOOP and the National Statistics Institute (INCE) held the first co-operative census to update and optimise the national information system to register co-operatives. In November 2006, the director of SUNACOOOP Carlos Molina said that representatives from 37,552 co-operatives (21.7% of the 172,899 co-operatives registered up to September 2006) formed part of the census. The final results of the census will be ready at the beginning of 2007. The co-operatives that do not form part of the census will no longer form part of the SUNACOOOP registry as it will be assumed they are no longer active (Contreras Altuve, 2006).

<sup>74.</sup> The government “proposes a Framework Agreement to business people and workers in order to guarantee economic sovereignty, democratise relationships of production and achieve the productive inclusion of citizens” (MILCO, 2006).

<sup>75.</sup> The concept of EPS is to a large extent influenced by the book *Beyond Capital* by Hungarian philosopher István Mészáros (Lebowitz, 2006),

<sup>76.</sup> In order to qualify as EPS and obtain preferential treatment to obtain low interest loans and state contracts, companies must meet a series of requirements such as “prioritizing the values

of solidarity, cooperation, reciprocity, equity and sustainability, before the value of profitability” (Wilpert, 2006). The EPS proposal is presented in a more systematic form in the book *Empresas de Producción Social: Instrumento para el socialismo del siglo XXI* (El Troudi y Mondero, 2006).

<sup>77</sup>In the 3 December 2006 presidential elections Chávez was re-elected president of Venezuela until 2013, with 62.8% of the vote compared with 36.9% for the opposition consensus candidate Manuel Rosales (CNE, 2006b). A few weeks after his re-election Chavez called for the creation of a “united socialist party of Venezuela” with the aim of building socialism “from below” through this new party. On 8 January 2007 Chavez announced a series of measures that include constitutional reform and the re-nationalization of some strategic industries in the country, such as electricity and telecommunications. Here Chavez characterized the 1999-2006 period of his presidency as a “transition phase” and said he has entered a new era, which he called the National Simon Bolivar Project between 2007–2021 (Wilpert, 2007). On 10 January, during his inauguration speech, Chavez called for the promotion of “five motors” in the national Simon Bolivar construction project, in order to lay the foundations for a “Socialist Venezuela”. These motors are: an Enabling Law through which a series of laws will be reformed; a constitutional reform that includes a proposal for indefinite presidential re-election; a national programme for popular education; a new geometry of power based on a political-territorial change in order to create a system of federal cities and territories; and finally the fifth motor will be the “explosion of Communal Power” that will imply that the “communal councils must transcend the local arena in order to form federations and confederations that study the needs of the territory and participate in the new socialist territorial ordering.” As of this moment, a new phase is announced in the construction of what has been termed 21st Century Socialism.

## **Havens Center**

[www.havenscenter.org](http://www.havenscenter.org)

Established in the Sociology Department at the University of Wisconsin-Madison in 1984, the A. E. Havens Center for the Study of Social Structure and Social Change is dedicated to promoting critical intellectual reflection and exchange, both within the academy as well as between it and the broader society. By fostering such interaction, the Center seeks to contribute to the development of a society openly committed to reason, democracy, equality, and freedom. The Center is named in honour of the late Professor of Rural Sociology, A. Eugene Havens, whose life and work embodied the combination of progressive political commitment and scholarly rigor that the Center encourages.

## **Rosa Luxemburg Foundation**

[www.rosalux.de](http://www.rosalux.de)

The Rosa Luxemburg Foundation is a provider of political education, a discussion forum for critical thinking and political alternatives, and a centre for progressive social thinking and research both in Germany and throughout the world.

The Rosa Luxemburg Foundation has its origins in the association "Social Analysis and Political Education", founded in Berlin in 1990. In 1996 the Rosa Luxemburg Foundation was recognised by the Left Party ("Die Linkspartei. PDS" – formerly "PDS - Party of Democratic Socialism") as the political education institution related to it. Within the framework of a network of foundations, it cooperates closely with independent local foundations.

## **Transnational Institute**

[www.tni.org](http://www.tni.org)

Founded in 1974, the Transnational Institute (TNI) is an international network of activist-scholars committed to critical analyses of the global problems of today and tomorrow, with a view to providing intellectual support to those movements concerned to steer the world in a democratic, equitable and environmentally sustainable direction.

The TNI New Politics programme engages with innovations and experimentation by social movements, progressive political parties and governments worldwide. It stimulates new thinking and policy proposals on participatory democracy, political organisation, urban governance and rural democratisation.



Venezuela has undergone profound political and social changes since Hugo Chávez assumed the presidency in February 1999. These transformations have been reflected in the fundamental pillars of the government's economic policy. Chávez initially spoke about combating "savage neo-liberalism" and searching for a more humane capitalism. This discourse has evolved, however, culminating in Chávez's public statement in January 2005 in which he spoke of the need to create a 21st Century Socialism.

In this briefing, Edgardo Lander and Pablo Navarrete identify three key stages in the development of the Chávez government's economic policy. The first phase, which dates from the start of Chávez's presidency, culminated in the passing of the so-called "Enabling Laws" in November 2001. These involved a series of measures to end the "neo-liberal agenda" in economic policymaking. A second phase, which lasted until mid-2003, saw a battle for state control. During this period, opponents of the Bolivarian Project used a variety of insurgent-type policies, most notably the April 2002 coup and the 2002-2003 oil strike. The third phase began in mid-2003 with the implementation of government social programmes known as "Missions" and continues to the present day. It is characterised by the creation of various mechanisms to facilitate structural changes in the Venezuelan economy.