

VENEZUELA AND THE ECONOMICS OF UPHEAVAL: A PRELIMINARY BALANCE (1998-2013)

by Roberto Lampa

Introduction

According to its critics, Chavism would be nothing but an eclectic and bizarre re-edition of a very Latin-American phenomenon, namely *Populism*. However, when compared to populist governments, one should not ignore Venezuela's peculiarity: since after 2006 elections, Chávez formulated a series of proposals aimed at transforming the country into a *socialist* country of the *21st century*. In particular, the economic analysis of the Bolivarian Venezuela clearly shows that in the 2003-2007 period the government could successfully implement a new growth-paradigm by means of an effective demand-oriented strategy, which eventually determined an unprecedented economic expansion and a dramatic reduction of poverty. It is also true that the country faced two serious recessions, that revealed a worrisome lack of control on many, strategic, branches of the economy, particularly the financial, the electrical and the import (and distribution) ones. In the light of this premise, this article aims at shedding some light both on the origins of Chavism and its future challenges, particularly with respect to the economy, proposing an interpretation based on Kalecki's *Political Aspects of Full Employment*¹ contribution. In Section 1 we expound Chavism's common features with the rest of the regional neo-populist governments. In Section 2 we suggest, however, that Chavism tried to represent also a (21st century) socialist exception

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¹ M. KALECKI, *Political Aspects of Full Employment*, in "Political Quarterly", vol. 14, n. 4, 1943, pp. 322-330.

within South America. In Section 3 we perform an economic analysis of Venezuela's most important achievements between 2003 and 2007. In Section 4 we highlight the unsolved issues of the economy and we propose a Kaleckian interpretation of such economic outlook. Finally, we draw some conclusions about the relationship between institutional constraints and economic development.

1. *Venezuela's continuity with the regional trend*

One may legitimately interpret the Bolivarian Revolution in the light of the broader political and economic changes that have involved the South American region since the end of the 90s. In turn – in order to understand such a process – one has to make reference to the previous situation, that is the *fiasco* of the neo-liberal adjustments, imposed by the Washington Consensus and culminated with the continental *Sovereign Debt Crises* in late 90s. In Venezuela's case, economic collapse actually predates the rest of the region as it burst in the 1989-1993 period, during the presidency of Carlos Andrés Pérez, ironically enough a social-democratic politician member of the Socialist International.

Until 1988 Venezuela had substantially maintained the same economic structure, based on both oil revenue and state enterprises; the country had also implemented policies aimed at substituting (the traditionally high) imports. However, in the late 80s, the deterioration of oil prices affected the macroeconomic indicators: the rate of inflation reached 29,48% in 1988, the current account deficit got to US\$ 5.809 million and the international reserves fell by US\$ 9,5 billion between 1986 and 1988. In the light of this scenario, Pérez's cabinet emphasized the need to rethink the whole Venezuelan economy. Therefore, he presented a neoliberal economic package, ambitiously defined *El Gran Viraje* (the great turnabout), consisting of three main issues. First, adjustment was the key-mechanism in order to re-establish short-term equilibria in the main macroeconomic indicators and to repay the external debt. Second, Venezuela had to shift from a state-directed and oil-dependent economy to a *market* economy based on private and tradable exports. Third, the political system had to change as well, from a *populist* to a *modern* one, that is, to a system that would not interfere with the free operation of the market.

Notwithstanding Pérez's *pathos*, the new economic agenda was essentially the same as the one suggested by a previous mission of the

International Monetary Fund (IMF) in 1987, which had subordinated a loan to Venezuela to a long series of prescriptions². In particular, the country had to restrict its public expenditures; squeeze the wage level; deregulate and increase the exchange rate; remove price controls; reduce subsidies and liberalize imports.

As predictable, the consequences of the "Pérez-nomics" on the (already fragile) Venezuela's economy were absolutely negative: in a sketch, it can be defined both ineffective and inequitable. From 1988 to 1989, the rate of unemployment increased from 6,9% to 9,6%. In addition, real wages fell to its minimum level: in 1990 it was 50,2% lower than its maximum historical level, dated 1950. The share of real labour income on national income fell to 22,4% in 1990: it was 50,24% in 1983. Also income distribution was deeply affected. Even the economic recovery was simply the ephemeral effect of public expenditures financed by foreign loans: as a matter of fact, in 1992 economic growth had already ended and the reserves were even lower than before 1989. In turn, the augmented financial fragility provoked a subsequent financial crisis that erupted with the 1994 bankruptcy of the *Banco Latino*: as the government chose to rescue the bank, this led to a strong fiscal deficit and eventually to the crisis of the whole financial system.

Both the birth and the rise of Chavism are indissolubly tied to the social reaction to Pérez's adjustments. Firstly, on February 27, 1989, a massive and tumultuous rebellion (*El Caracazo*) inflamed Caracas's streets. The repression was brutal: over 300 hundreds people were killed and approximately 700 were seriously wounded by the army³. Hugo Chávez Frias was one of the few disobedient officers who firmly rejected to take part in the repression. As a consequence, the army punished him by several disciplinary measures: in turn, such measures consecrated Chávez as *amigo del pueblo* (people's friend), in front of the public opinion⁴.

Subsequently, and foremost, on February 4, 1992 Chávez led a failed *coup* against Pérez. Before surrendering, he spoke to the nation on the national broadcast, assuming the whole responsibility: this moment represented his dominant approach as the leader of the

² E. LANDER, *The Impact of Neoliberal Adjustment in Venezuela, 1989-1993*, in "Latin American Perspectives", vol. 23, n. 3, 1996, pp. 50-73.

³ It has to be remarked, however, that such statistics have been questioned by several independent sources, which stressed that actually it produced over 3.500 dead people.

⁴ E. LANDER, *The Impact of Neoliberal Adjustment in Venezuela, 1989-1993*, cit.

self-declared Bolivarian insurrection against adjustments and Neoliberalism⁵. His popularity grew rapidly: in November 1992 a second (failed) *coup* tried to liberate him from prison; in 1998 he largely won the presidential election (56% vs. 35%) against a conservative entrepreneur and, finally, in 2002-2003 he could resist both a counter-coup and a massive oil strike/economic boycott led by the Chambers of Commerce (FEDERCAMARAS).

From this perspective, Chávez government certainly shared several common features with to the so-called *Neo-Populism*⁶. First, his discourse was anti-political and assonant to the Argentinian “*¡que se vayan todos!*” (Throw them all out!), since the pre-existing institutions and political parties were indistinctly accused of being responsible for the crisis. Not coincidentally, in 1998 Chávez’s electoral cartel was originally called *Movimiento V República* (Movement for the Fifth Republic) in order to stress the necessity of a blank slate with the past. Indeed, after the victory the new cabinet rewrote the Constitution in 1999, and even changed the country’s name and its flag (from “Venezuela” to “Bolivarian Republic of Venezuela”). Secondly, Chavism was based on both the charismatic leadership of his founding father (Top-Down dimension) and the permanent mobilization of militants (Bottom-Up dimension), as in traditional populism. Thirdly, nationalism represented a crucial element of Chavism: in several occasions, Chávez described himself as the loyal heir of Simón Bolívar, recovering this latter’s idea of a *Patria Grande* (Big Fatherland) among the South American peoples. Fourthly, as Perón in the 1943 Argentinian cabinet, Chávez gave much importance to the role of the army in the political process⁷. Fourthly, he used many *topoi* of traditional populism: for instance, he repeatedly mentioned the existence of several enemies that threatened the Bolivarian Revolution. In the inner plane,

⁵ G. CISNEROS, *Prototipo del Populismo Contemporáneo: el Chavismo y su llegada al poder*, in “Revista de Ciencia Política”, n 6, Marzo 2009.

⁶ L.G. CALCAÑO, N. ARENAS, *¿Modernización autoritaria o actualización del populismo? La transición política en Venezuela*, in M.L. RAMOS (ed.), “Venezuela: rupturas y continuidades del sistema político (1999-2001)”, Salamanca, PDVSA-CIED, Ed.Universidad de Salamanca, 2002. According to them, Neo-Populism differs from traditional Populism, since the latter represented an attempt to forcedly modernize South America, whereas the former arises from the collapse of existing institutions, that is, from the exhaustion of the previous modernizing process.

⁷ N. ARENAS, *El gobierno de Hugo Chávez: populismo de otrora y de ahora*, in “Revista Nueva Sociedad”, vol. 28, n. 2, 2004, p. 38-50.

they were represented by the “*rotten and corrupted oligarchy*” that conspired against the national interests in order to increase its own wealth. In the external plane, the enemy was embodied by the USA and particularly by its former president, George W. Bush, to whom Chávez addressed several memorable invectives. Furthermore, it has to be remarked that a similar attitude influenced the other governments of the region and turned into a sort of ‘regional common sense’, that challenged Bush’s proposal of an AFTA (American Free Trade Association), at the 2005 4th Summit of the Americas of Mar del Plata.

2. *Chavez’s 2007 attempt to transform the institutions*

“La igualdad de resultados es más importante que (la) igualdad de oportunidades”
(Hugo Chávez Frías, 2004)

Notwithstanding the aforementioned similarities, we do not share the widespread (among both conservative and liberal scholars) common sense that Chavism is the same as any other regional populism⁸. Venezuela’s peculiarity was that, particularly after the 2006 elections, Chávez government formulated several proposals aimed at transforming the country into a *21st century socialist* one.

First, from 1998 on, Venezuela nationalized many strategic branches of the national economy: the oil company PDVSA (1999); the department store company MERCAL (2003); the telephone company CANTV (2007); Caracas’ electrical company (2007); the iron steel company SIDOR (2008); three foreign cement plants (2008); the food company PDVAL (2010) and several small and medium enterprises. The government also created in 2003 the “*Zamora mission*”, which allowed the redistribution of 3,6 million hectares of expropriated agricultural land to 130.000 families. As a result, in 2010, the public sector produced approximately 30% of Venezuela’s GDP⁹, thus showing a clear expansion when compared to the pre-Chávez period.

⁸ See, e.g. A. RAMOS JIMÉNEZ, *Partidocracia y democracia plebiscitaria. El ascenso de un nuevo régimen en Venezuela*, in “Iconos. Revista de Ciencias Sociales”, n° 12, 2002, pp. 111-121.

⁹ BANCO CENTRAL DE VENEZUELA, *Informe Económico 2010*, Caracas, 2011.

Second, the 2001 Organic Law of Planning allowed the government to create a series of local institutions aimed at organizing people's participation in public budget decisions: the *Local Councils of Public Planning* (at the municipalities level) and the *District Councils*, which in addition can manage local banks (financed by the government) and manufacture cooperatives. In 2007, over 25.000 councils had been created, gathering together about 420.000 people¹⁰. Furthermore, in January 2007 Chávez created the *Councils of Workers* and the *Councils of Peasants* in order to broader participation into the management and control of local public enterprises and agricultural cooperatives.

Finally and foremost, in 2007 Chávez government proposed a radical review of the 1999 Constitution, explicitly aimed at transforming Venezuela into a *socialist* country of the *21st century*. Notwithstanding the electors rejected such modifications for a strict majority (50,65% vs. 49,34%), they still reveal the peculiarity of Chavism, especially when compared to the rest of the region. The changes dealt with four crucial aspects of the country¹¹.

First, the form of the state changed into a *mixed democracy*: the traditional representative institutions coexisted with several new institutions of direct participation. Second, the property regime also turned into a mixed one where private property simply became one of the five possible types of property¹². Furthermore, any expropriation became self-executing and it was no more necessary to wait for the Court's verdict. Third, the economy shifted to a *mixed economy*: private owned firms were allowed, but their production could not be aimed exclusively at maximizing profits. Rather, production must be carried out in order to *cover all social needs*, under two types of constraints: the workers' participation to the management of the firm and the firm's social responsibility for the environmental consequences of the production itself. Moreover, the Central Bank would have ceased to be autonomous, in order to harmonize fiscal policy and monetary policy.

¹⁰ P. NAKATANI, R. HERRERA, *Structural Changes and Planning of the Economy in Revolutionary Venezuela*, in "Radical Review of Political Economics", n° 40, Summer 2008, pp. 292-299.

¹¹ O. REYES, *Sobre el socialismo del siglo XXI en Venezuela*, in "Stockolm Review of Latin American Studies", n. 1, November 2006, pp. 84-104.

¹² Being the other: *public* (i.e. of the State), *social* (i.e. of Councils), *collective* (both the natural resources and the land, which became Commons) and *mixed property* (i.e. of the cooperatives).

Fourth, the welfare state was no more linked to the level and quality of jobs (the so-called *workfare*), rather it represented a universal human right, and corresponded to an equal redistribution of a certain fraction of the social surplus to the people.

In our view, such a reform would have actually transformed Venezuela into a particular (and unconventional, as well) form of socialist economy, namely a *mixed economy*. According to Oskar Lange¹³, in a mixed economy production is operated by both private and state enterprises. However, the government chooses whether to leave the production to the private sector or to conduct it through public services depending upon which choice promises to contribute more to the satisfaction of the social needs. Therefore, it is essentially a *service economy* because the production is assigned to the unit which best serves the collective interest. In other words, the production is delegated to private firms by the government *only if* they do it better than, or just as well as, public agencies: therefore, *private* money profits essentially depend on the achievement of *social* results. That is why, according to Lange, it is possible to define a similar economy as a particular type of socialist economy. We are persuaded that Lange's definition may have perfectly fitted with Venezuela's economy, in case of a victory in 2007 constitutional referendum. In turn, it has the merit of clarifying several crucial differences from traditional populism.

Firstly, Chávez attempt of transforming Venezuela into a socialist country reveals that he did not share the conventional interclassism typical of any populist government in South America. More precisely, the 2007 constitutional draft departs from the traditional Developmentalism of such governments: Chávez was not proposing any *pact among producers* aimed at 'freezing' the class conflict neither did he defend the traditional class division of the society. Quite the opposite, he questioned the traditional division of classes by means of the redefinition of the very idea of property, while indicated a clear alternative, namely the *21st century socialism*. In turn, such a choice had crucial consequences on Venezuelan society, as the bulk of Chávez's support emerged from the poorer-dark skinned sectors, thus determining a

¹³ O. LANGE, *The Scope and Method of Economics*, in "Review of Economic Studies" vol. 13, n.1, 1945, pp. 19-32.

polarization around class and racial subtext and, eventually, a class-based political system¹⁴ that differs from the rest of the region.

Secondly, once we define Chavism in the aforementioned terms, it becomes clear that there is another possible parallelism, almost ignored by the majority of the scholars, namely Cuba¹⁵. It is sufficient to recall that also the Cuban Revolution was not, originally, a socialist revolution and, above all, that in the last decade also the Cuban government has seriously debated how to re-shape the institutions with regards to the relationship between State and Market. Notoriously, the most important reforms are actually aimed at converting the national economy into a market-socialist economy or, to put it differently, into a *mixed economy* which is objectively very close to the one portrayed by Chávez in 2007.

In short – recalling a well-known concept of Gramsci – we can assert that Chavism has not embodied the typical features of a *passive revolution*: rather than circumscribing its area of action to a *conservative modernization* (i.e. a process of accelerated development that does not change, or even question, the class structure of the society), in 2007 it proposed an ambitious, class-conscious, institutional alternative. However, one has also to take note that after the failed constitutional referendum such a project has been completely set aside. Later on, we are going to show the topical consequences of this choice, particularly on the country's economy.

3. *Chavism's most important economic achievements (2003-2007)*

The ambivalence of the Bolivarian Revolution has inescapably determined ambivalent results. In a sketch, we can divide the macroeconomic analysis into two periods: a first period (2003-2007) in which Chávez's cabinet managed very effectively the economy, and another period (or, to put it better, two sub-periods, i.e. 2002-2003 and 2008-2013) in which Venezuela had to face difficult circumstances. In this

¹⁴ B. CANNON, *Class/Race Polarisation in Venezuela and the Electoral Success of Hugo Chavez: a break with the past or the song remains the same?*, in "Third World Quarterly" vol. 29, n.4, 2008, p. 731-748.

¹⁵ E. LANDER, *El referéndum sobre la reforma constitucional el proceso político en Venezuela entra en una encrucijada crítica*, in "Revista Venezolana de Economía y Ciencias Sociales", vol. 14, n.2, 2008, pp. 133-166.

section, we are going to deal with the first, successful, part of Chávez's administration¹⁶.

As evidenced by the pioneer works of Furtado, Venezuela's economy had always suffered of a particular and heavy variant of the *Dutch disease*¹⁷. The abundance of oil had continuously determined, on the one hand, a big amount of foreign currency and, on the other hand, an over-appreciated exchange rate. In addition, Venezuela had traditionally implemented a protectionist trade policy, in order to defend both its (backward) industry and agriculture. The combination of these characteristics determined quite a paradoxical result: when compared to the international prices, both the prices of Venezuelan consumption goods and the *monetary* wages (expressed in US\$) were relatively high, so that the national commodities could not be traded abroad. However, at the domestic level, protectionism forced the workers to buy the overpriced national goods, so that *real* wages were definitely low. Consequently, Venezuela was not an export-led economy, neither did it take advantage of the domestic demand: it remained an underdeveloped country, notwithstanding the remarkable surplus guaranteed by the oil branch. Furthermore, in the absence of any productive use, such an enormous mass of capitals was traditionally addressed to the US financial markets, thus strengthening the hegemonic role played by the *rentiers* (i.e. those who controlled the oil trade), the bankers and the financial brokers in the Venezuelan society. In addition, the over-appreciated exchange rate strongly incentivized speculation in the currency market: when

¹⁶ Firstly, it is necessary to declare our sources: CEPAL and the Center for Economic and Policy Research (CEPR). Indeed, Venezuela's political polarization has determined quite a paradoxical situation: for a long while (basically, until 2007), the most part of publications did not share the same methodology, neither did they agree on the national account statistics. However, the contributions of both CEPAL and CEPR has finally shed light on the real economic outlook. Researches of CEPR have also evidenced the systematic manipulation of Venezuelan economic indicators made by anti-Chavist economists (e.g. Francisco Rodriguez) and, above all, by several outstanding US economic media, such as *Foreign Affairs*, *Foreign Policy*, *The Washington Post*, *The New York Times*, the *Financial Times* and *The Miami Herald*. See: M. WEISBROT, *How Not to Attack An Economist (and An Economy): Getting the Numbers Right*, Issue Brief CEPR, April 2008; M. WEISBROT, *Poverty Reduction in Venezuela: A Reality-Based View*, in "ReVista, Harvard Review of Latin America", Fall 2008, p. 1-7.

¹⁷ C. MEDEIROS, *Celso Furtado e a economiapolítica da abundância de divisas*, in J. SABÓIA, F.J. CARDIM DE CARVALHO (eds.), "Celso Furtado e o Século XXI", Sao Paulo, Manole, 2006, pp. 81-109.

the (hard) currency approached its perceived upper limit, devaluatory expectations determined massive capital flight. This scenario rapidly evolved into a self-fulfilling prophecy, as the government actually had to devalue the national currency in order to stop such capital flight. Subsequently, capitals were repatriated at much more favorable conditions, which eventually guaranteed a speculative markup. In a sketch: Venezuela was both an underdeveloped and a capital-exporting country: a bizarre picture, indeed.

In the 2003-2007 period Chavism could successfully partially correct these problems by adopting a new growth paradigm. On the one hand, the government was not able to determine a differentiation in the country's productive structure (which remained largely dependent on oil), neither did it implement significant industrial policies or economic planning programs¹⁸. On the other hand, Venezuela could take advantage of a huge economic expansion, by means of an effective demand-oriented strategy.

Thanks to high oil prices, the nationalized PDVSA guaranteed an enormous quantity of financial resources to the government¹⁹. However, differently from the past, such a surplus was entirely addressed to the expansion of the domestic demand, that is to the expansion of the purchasing power of the wage earners, essentially by two tools.

First, Chávez's cabinet greatly increased social spending on (free and universal) healthcare, education and on subsidized food. In 1998 there were 1.628 primary care centers (each one with one physician), 417 emergency rooms and 74 rehab centers. In 2007, 8.621 primary care centers (with 19.751 physicians), 721 emergency rooms and 445 rehab centers. The number of students in the primary school increased from 271.593 to 1.098.489, in the 1999-2006 period; furthermore, the students admitted to the school food program increased from 252.000 to 1.800.000²⁰. Finally, by 2006 there were 15.726 stores that offered

¹⁸ P. NAKATANI, R. HERRERA, *Structural Changes and Planning of the Economy in Revolutionary Venezuela*, cit.

¹⁹ However, the government also increased remarkably its collection of non-oil taxes (from 10% of GDP in 1999 to 12% in 2006) and income taxes (from 2% of GDP in 1999 to 3,2% in 2006) in order to finance the fiscal stimulus. See: M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, Washington, CEPR, July 2007.

²⁰ It must be remarked that in underdeveloped countries free education expands the households' purchasing power especially because children usually have two free meals at the school.

basic food items at subsidized prices (from 27% to 39% less than average price markets). Together with the special programs for the extremely poor, this service benefited an average 67% of the population in 2005. Consequently, poverty rate has also decreased rapidly, from 55,1% in 2003 to 30,4% at the end of 2006²¹. When compared to the pre-Chávez period, the reduction of poverty was a 31% drop²².

Second, the government kept the national currency appreciated with the aim of paying less for the imports. This choice was strategic in order to obtain a demand-led economic growth, as it allowed both to substantially increase the stock of imported consumption goods available in the national market (particularly, food and agricultural goods) and to dramatically lower their prices for the Venezuelan consumers. As a matter of fact, Chávez's administration reached both goals: in 2006 imports reached US\$ 30.552 million (were US\$ 8.344 million in 2003), while the average inflation rate (consumer prices) decreased to 13,7% (from 31,1% in 2003)²³.

A similar increment of imports imposed carefulness in both the external and the internal balances; it also required a consistent stock of international reserves, in order to face an unexpected decline in oil revenues. In the 2003-2006 period, Venezuela achieved both these objectives: on the one hand the country run a commercial surplus (35.031 million in 2006) and total public debt decreased from 47,7% of GDP (2003) to 23,8% (2006); on the other hand international reserves increased from 21.366 million (2003) to 37.440 million (2006)²⁴. Furthermore, in order to avoid the traditional capital flight and speculation on the currency market suffered in times of hard currency, in 2003 the government introduced a regime of capital control: any currency transaction to finance import must be submitted to a Currency Administration Commission (CADIVI), which processes applications to obtain foreign currencies.

All in all, in the 2003-2007 period such controls proved to be quite effective. The combined effect of favorable oil prices and a robust fiscal stimulus was a rapid and impressive economic growth: in 2004

²¹ However it measures only cash income and does not take into account advances in health care or education.

²² M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, cit.

²³ CEPAL, *Statistical Yearbook for Latin America and the Caribbean*, Santiago de Chile, United Nations, 2012.

²⁴ See: CEPAL, *Statistical Yearbook for Latin America and the Caribbean*, cit; M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, cit.

real GDP increased 18,3% in 2005, 10,3% in 2006 and 8,4% in 2007. Consequently, unemployment rate fell from 18,4% in June 2003 to 8,3% in June 2007²⁵. Finally it has to be remarked that also the income distribution showed an impressive improvement, as the Gini Index decreased from 0,48 (2003) to 0,42 (2007)²⁶.

4. *The unsolved problems: inflation and the illegal market of currency*

4.1 The deteriorating macroeconomic outlook (2002-2003 and 2008-2013)

Notwithstanding the important results achieved, Chavism faced two serious recessions, that shook the country and revealed a worrisome lack of control on many, strategic, branches of the economy, i.e. the financial, the electrical and the import (and distribution) ones.

First, in the years 2002 and 2003, Venezuela lost about 24% of its GDP and suffered a tremendous capital flight due to heavy political instability. Notwithstanding the barrel's price was at its lowest point in 22 years when Chavez assumed in 1998²⁷, the economy grew during both 2000 (+3,7%) and 2001 (+3,4%). However, political instability upset such a trend in the next two years: in December 2001 FEDERCAMARAS organized a general business strike against the government that eventually turned into a military *coup* in April 2002 (led by the entrepreneur and former president of FEDERCAMARAS itself, Pedro Carmona), that lasted 48 hours²⁸. However, instability did not cease, as in December 2002 the opposition led a catastrophic 62 days oil strike that paralyzed oil production. As a result, Venezuela faced a severe recession: the rate of unemployment increased from 13,3% (2001) to 18,4% (2003) but also the inflation rate manifested a sharp rise (from 12,5% in 2001 to 31,1% in 2003) because of the continuous

²⁵ M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, cit.

²⁶ CEPAL, *Statistical Yearbook for Latin America and the Caribbean*, cit.

²⁷ M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, cit.

²⁸ E. LANDER, *El papel del gobierno de EE.UU. en el golpe de Estado contra el presidente Chávez*, OSAL N° 7, Buenos Aires, CLACSO, 2002, pp. 5-11.

shortage of consumption goods, provoked by the entrepreneurs adherent to FEDERCAMARAS.

Second, since 2007 the global economic crisis had serious consequences on Venezuela's economy and evidenced the limits of the growth paradigm implemented by Chavism. As we have anticipated, in 2007 the GDP was still growing fast (+8,4%) whereas the imports increased essentially with the same intensity as in 2006 (+39,2%). Such an expansion proved to be insufficient, since the inflation rate rebounded to 22,5% (13,7% in 2006)²⁹. In addition, after the breakdown of Lehman Brothers, the production of oil slowed down, affecting Venezuela's exports, which suffered a sudden slowdown (+4,95%; they grew +17,71% in 2006). Given this new scenario, in 2008 the government chose to increase capital controls as well as restrictions to imports (which "only" increased +10,83%) in order to avoid external imbalances. However, the administration did not reduce the fiscal stimulus on the economy and, in addition, exports recovered rapidly (+38%). Consequently, GDP grew +4,8% but, in the light of the reduced stock of consumption goods available, the inflation rate shot off to 30,9%.

Finally, in 2009 the global recession determined a strong reduction in both the external demand and the price of the oil. Venezuela's exports dramatically decreased (-39%) and the GDP contracted -3,3%. It has to be noticed, however, that also the government adjusted its expenditures and reduced the fiscal stimulus in order to maintain fiscal balances. The value added tax (IVA) increased from 9% to 12%, counteracting the effect of the reduction of the economic activity on the inflation rate, which remained high (25,1%)³⁰.

The recession continued in 2010 (-1,4% GDP), essentially due to the moderate fiscal stimulus, the low price of oil and the severe energetic crisis of the Guri Dam, that determined a long lasting electrical rationing, which affected the industrial production, particularly the iron and steel branch. However, in the fourth trimester of 2010, the oil price rose sharply, limiting the effects of the recession. On January 1st, 2010, in order to counteract the strong reduction of exports registered in 2009, the government increased further capital controls and introduced a dual exchange-rate: the exchange rate remained the same (1US\$=2,6 bolívares) for imports of food, drugs, industrial ma-

²⁹ M. WEISBROT, L. SANDOVAL, *The Venezuelan Economy in the Chávez Years*, cit.

³⁰ CEPAL, *Estudio Económico de América Latina y el Caribe 2009-2010*, cit.

chines and equipment; but it increased (4,3 bolívares) for any other kind of imported goods. Furthermore, any other class of operation (e.g. tourism, remittances, etc.) must be authorized by a commission called SITME: in this case the exchange rate was 5,3 bolívares. The subsequent restriction to imports (-14,37%) had a negative impact on inflation (27,2%). However, one should not underestimate the negative role played by the devaluation of the currency, which very often, in the Latin American economies, rather than increasing exports simply produces an increase in the prices of both the imported and (due to an imitation effect) the domestic prices³¹.

On January 1, 2011, the government insisted with this strategy in order to recover from the recession, unifying the exchange rate to 4,3 bolívares and maintaining the 5,3 value for the SITME transactions. However, the recovery was the result of both the fiscal stimulus and the increase in oil price rather than of devaluation³². GDP increased 4,2%; imports registered a moderate expansion of 10,7% and exports expanded thoroughly +38%. On the other hand, the inflation rate remained high (27,6%): it is plausible that also in this case the further devaluation and the restriction to imports are the ones to blame.

The stricter controls on capitals and imports together with the regulation on the currency market were suddenly loosened in 2012, probably because of the crucial presidential elections of October. CADIVI authorized imports for the impressive amount of 61.167 million of dollars (+67,8%), which represented the highest value of imports in the recent history of the country. The government also expanded the fiscal policy, partly financed through the high price of oil and partly by means of deficit spending. The result was a thorough economic growth (+5,5% GDP) and a strong reduction in the inflation rate (20,1%).

However, the country had also to face an unprecedented capital flight that was the combined result of the policies implemented since 2003, particularly from 2010 to the end of 2012. Firstly, after 2006, capital controls and restrictions to the currency market became, at once, stricter and less effective. On the one hand, the government substantially changed the legislation in order to discourage both imports and the degree of “dollarization” of the economy. On the other hand, the government itself and the

³¹ A. FIORITO, N. GUAITA, S. GUAITA, *El Mito del Crecimiento por el Tipo de Cambio Competitivo*, in “Circus. Revista Argentina de Economía”, Año 3, vol. 5, 2013, pp. 81-104.

³² CEPAL, *Estudio Económico de América Latina y el Caribe 2009-2010*, cit.

oil company PDVSA emitted dollar-valued bonds, for an approximate value of US\$60.000 million. In addition, firms systematically over-invoiced their contracts in order to swindle both CADIVI and SITME: according to a recent estimation, over-invoice was equivalent to the 19,9% of total private imports³³. Finally, until 2012 a few Venezuelan companies (e.g. the telephone company CANTV) were listed in the New York Stock Exchange Market: therefore (on the only condition of having a checking account abroad) it was possible to buy these bonds in a Venezuelan bank, paying with bolívares, and to sell them in New York, obtaining US.

Secondly, the loosening of the controls in 2012, together with the enormous mass of authorized transactions along this year, facilitated predatory conducts on the currency market. According to the former president of the Central Bank of Venezuela, the Chavist Edmee Betancourt, in 2012 approximately US\$ 20.000 million over 60.000 million authorized by CADIVI and SITME were appropriated by fake or un-existing firms³⁴. On the other hand, the number of complaints for 'suspicious activity' in the financial market received by the regulating authority SUDEBAN (Superintendencia de las Instituciones del Sector Bancario de Venezuela) sharply increased 35,70% in 2012³⁵.

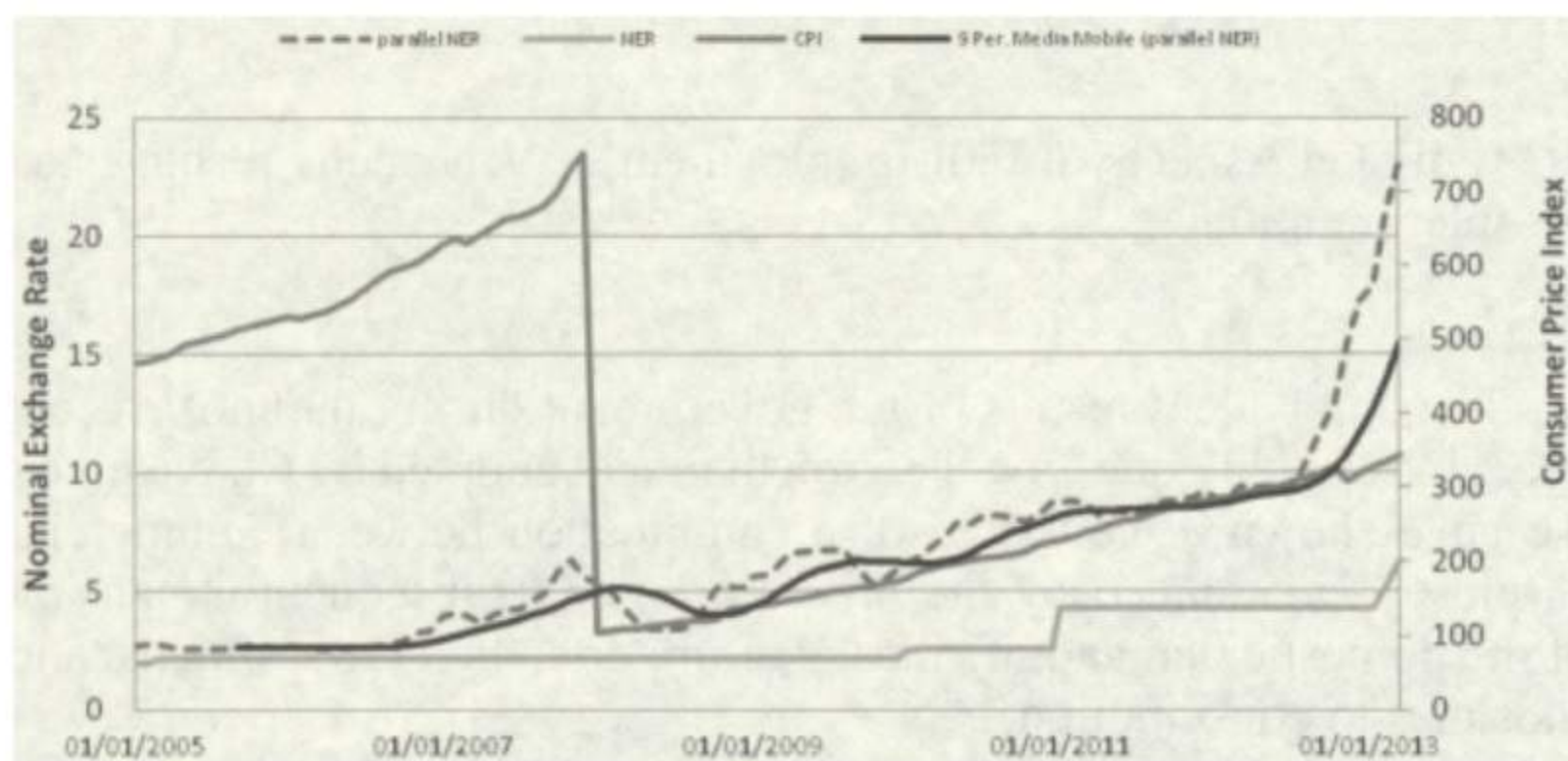
Since 2003, such a (legal, illegal and "barely legal") parallel supply of dollars had nourished a black market of the currency. However, the gap between the official exchange rate and the parallel one increased particularly since 2007, in correspondence of the stricter controls over imports and capitals. Given the new restrictions, an increasing number of importers had to purchase the more expensive dollars on the black market. Consequently, this gap generated expectations of devaluation from the economic agents, who began to plan their expenditures and to account for their costs *as if* the currency were weaker than the official one, thus influencing consumer prices. Accordingly, this gap fueled the inflation rate and appreciated the real exchange rate. Together with the capital flight, this eventually determined the devaluation of the official exchange rate by the government in 2010 and 2011. In short, we can call it a self-fulfilling prophecy. Figure 1 shows this process until January 2013.

³³ EL NACIONAL, *Fuga de capitales en los últimos 10 años sumó \$ 144,9 millardos*, 21 de Enero 2013.

³⁴ APORREA.ORG, *Presidenta del BCV: Parte de los \$59.000 millones entregados en 2012 fueron a "empresas de maletín"*, www.aporrea.org. 2013.

³⁵ SUDEBAN, *Informe de Retroalimentación Segundo Semestre 2012*, Caracas, 2013.

Figure 1 - *Nominal Exchange Rate-NER (official and parallel) and Consumer Price Index-CPI (2005=100) of Venezuela*



Source: A. FIORITO, N. GUAITA, S. GUAITA, *El Mito del Crecimiento por el Tipo de Cambio Competitivo*, cit.

As we can see in the graph, the “sudden loosening” of capital controls in 2012 reinforced the devaluatory expectations of economic agents, who perceived that, after the election, the conditions on the currency market would have worsened. Consequently, the gap between the official and the parallel exchange rate increased enormously and, eventually, pushed the government to devalue the bolívar: on January 1st, 2013, the national currency’s value was curbed by 46,5% (from 4,30 to 6,30 bolívares per US\$). Such a strong devaluation, in turn, has been accompanied by a dramatic reduction in the authorized imports from February 2013³⁶. These factors had serious consequences on both imports and domestic prices: in 2013 Venezuela’s inflation rate was 54,3% and several shortages of consumption goods (including basic ones) have affected the economy of the country. As a consequence, the economic growth was restricted to 1,6%.

It must be remarked, however, that at present the country is not risking any catastrophic drop of his GDP (or, more in general, any economic collapse) as the oil revenues are still high (so that the Venezuela still runs a current account surplus) and the central bank cur-

³⁶ M. WEISBROT, *Sorry, Venezuela haters: this economy is not the Greece of Latin America*, in “The Guardian”, thursday, November 7th, 2013.

rently holds \$21.7bn in reserves, and opposition economists estimate that there is another \$15bn held by other government agencies, for a total of \$36.7bn³⁷.

4.2 'Political Aspects of Full Employment' in Venezuela: a suggested interpretation

The ambivalent results of the government during the most recent years inescapably question the growth model adopted by Chavism. As we have shown, it consisted of a combination between commercial surpluses (guaranteed by the oil exports) and subsequent expansion of the domestic demand, by means of imports, direct investments and subsidies to consumption.

In the first place, our macroeconomic analysis reveals that the lack of differentiation in the country's productive structure together with the absence of significant industrial policies or economic planning, certainly represented a weakness of the Chavist paradigm. Concretely, the economic growth depended almost exclusively on oil prices: as we have seen, in times of international turbulence such a choice was definitely risky and implied several downturns to the Venezuelan rate of growth. Furthermore, this latter depended also on the price of the imports. However, given the backwardness of the Venezuelan agriculture, approximately 50% of the imports was represented by food or agricultural goods³⁸: in the last ten years the international prices of such commodities increased continuously, affecting both the volume of Venezuela's imports and the inflation rate.

In the second place, there is a more profound objection that one may move to Chavism. Stated succinctly, we can affirm that after the failed referendum of 2007 Venezuela was, to all intents and purposes, a regulated capitalist economy. However, to take note of these characteristics implies to analyze carefully the economic role played by capitalist institutions given the full employment of resources' goal pursued by the government.

³⁷ M. WEISBROT, *Sorry, Venezuela haters: this economy is not the Greece of Latin America*, cit.

³⁸ BANCO CENTRAL DE VENEZUELA, *Informe Económico 2010*, cit.

In our mind, the reference to the topical work of Michal Kalecki *Political Aspects of Full Employment*³⁹ becomes thus inescapable, in order to interpret the complicated contingencies of Venezuela. According to Kalecki, if the government undertakes public investment and/or subsidizes mass consumption in order to achieve full employment, the entrepreneurs will take position against such policies, notwithstanding economic growth would benefit them as well, since profits rise. This apparent paradox can be explained essentially for three reasons.

Firstly, entrepreneurs dislike state intervention in the matter of employment *as such*: in a free-market regime, unemployment exclusively depends on the deterioration of the firms' "state of confidence", so that capitalist have an indirect control over government policy, as any measure that affects the "state of confidence" must be avoided. Secondly, entrepreneurs dislike the direction of government spending: public investment are risky, because they often imply nationalization of public utilities (which in turn implies that the state now competes with private businesses); subsidising mass-consumption is rejected for moral reasons, as the protestant ethic of capitalists states that "*you shall earn your bread in sweat*". Thirdly and foremost, the entrepreneurs dislike the political changes resulting from the maintenance of full employment: unemployment would cease to play its role as a disciplinary measure of the labor market, therefore the social position of the capitalists would be undermined, as class-consciousness of the working class would grow: "(...) 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system"⁴⁰. Furthermore, Kalecki highlighted that demand-led policies might have risen the inflation, thus affecting also the income of small and big *rentiers*. This would have pushed the *rentiers* to make a powerful alliance with big business, in order to sacrifice economic growth in the name of monetary stability and social order.

It seems superfluous to stress the analogies between Kalecki's analysis and the Venezuelan context. In 2002-2003, when Chávez had not yet expressed any socialist endorsement, the association of the Venezuelan entrepreneurs did not hesitate to paralyze oil production

³⁹ M. KALECKI, *Political Aspects of Full Employment*, cit.

⁴⁰ M. KALECKI, *Political Aspects of Full Employment*, cit. p. 325.

and extraction, thus sacrificing 24% of national GDP, essentially for 'political stability' reasons. The same rule partly applies also to the recent times, as in 2009-2010 recession both shortages and blackouts increased suspiciously, affecting the economic growth: in both cases, private entrepreneurs control a large part of the branch.

The national *rentiers* (to whom Furtado had already referred), in particular, played a sympathetic role in this scenario, since capital flight can legitimately be interpreted as an attempt to undermine the economic growth. First, oil branch is not completely nationalized and several foreign companies still operate in Venezuela: as we have seen, this had serious consequences on capital flight, particularly due to over-invoice. Second, also the financial branch contributed to the capital flight, as proven by the aforementioned allegation for 'suspicious activity' reported by SUDEBAN. It is not surprising, as private banks still control 64,8% of the financial sector⁴¹ and the Central Bank, which should be responsible for the bank vigilance, is inexplicably (given the full-employment of resources goal) independent.

Once this Kaleckian interpretation is accepted, it is worth analyzing what kind of solution a government can adopt to achieve full employment by means of demand-led growth. Also in this case, we share Kalecki's answer: it is necessary to reshape both economic and political institutions in deep. In our mind, the constitutional draft of 2007 still represents a good starting point. When conceived as a mixed economy, Venezuela would be certainly able to cope, in a more effective way, with both the need of differentiating its productive structure (by means of economic planning) and the capital controls dilemma (by nationalizing, at least, a vast part of the financial branch). Both Venezuelan entrepreneurs and *rentiers* seem to be perfectly aware that such possibility exists and they have been counteracting for more than a decade in order to avoid it. The question remains if Chavism will be able to develop the same awareness rapidly and to act with resoluteness.

Concluding Remarks

The analysis developed highlights the ambivalence of the Bolivarian Revolution started in 1998. On the political plan, we have

⁴¹ BANCO CENTRAL DE VENEZUELA, *Informe a la Asamblea Nacional sobre los Resultados Económicos del Año 2011*, Caracas, 2012.

shown both its common features (e.g. opposition to Neoliberalism; the anti-political discourse) and differences (the class and race consciousness; the reference to 21st century socialism) with the rest of progressive or *Neo-Populists* governments of the region. On the economic plan, we have emphasized the existence of a Chavist growth model, which consisted of a combination between commercial surpluses (guaranteed by the oil exports) and the expansion of the domestic demand, by means of imports, direct investments and subsidies to consumption. Subsequently, we have traced both the achievements and critical points of such a Chavist growth model, that is the lack of a differentiation in the country's productive structure and its excessive dependency on oil and imports' prices. Finally, we have suggested a possible Kaleckian interpretation of the present difficulties of Chavism. We have stressed that, in the light of the harsh polarization of the Venezuelan society, any re-release of conventional regulated capitalism would be unsuccessful, as the lack of control on many strategic branches (finance, imports) of the economy would seriously limit the room for proper economic policies. We may thus conclude that the real challenge that Chavism faces today is to undertake a deep institutional change along the lines portrayed in the 2007 constitutional referendum. Indeed, the transition to a mixed economy would allow Venezuela to cope, in a more effective way, both with the necessity of differentiating its productive structure (by means of economic planning) and with the problem of capital controls (by nationalizing at least a vast part of the financial branch). In the opposite case, the problems that have affected the country in the last five years would probably worsen, thus menacing the very existence of Chavism.

Riassunto - Questo articolo indaga sull'evoluzione dello scenario politico ed economico del Venezuela durante gli ultimi 15 anni (cioè il periodo noto come il Chavismo), con lo scopo di chiarirne le origini e individuare le sfide future, in particolare di carattere economico. Con il proposito di fornire un'interpretazione complessiva, si studiano analogie e differenze fra il Chavismo e gli altri governi progressisti della regione. Si mostrano anche i principali contenuti della riforma costituzionale chavista del 2007 che puntava alla costruzione del *Socialismo del*

XXI secolo. Si esplorano in particolare i principali risultati economici e i problemi ancora irrisolti del modello di crescita *demand-led* venezuelano. Inoltre, attraverso un parallelismo con l'analisi di Kalecki sugli *Aspetti politici della piena occupazione*, si evidenzia come i principali problemi del Venezuela dipendano dai vincoli generati dalle attuali istituzioni. Si conclude che la vera sfida per il Chavismo sarà quella di avviare un profondo cambiamento istituzionale, possibilmente nella direzione indicata dal progetto di referendum costituzionale del 2007.