Explaining Venezuela's Neoliberal Reversal

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Gustavo A. Flores-Macías
Cornell University
gaf44@cornell.edu

"Let it be nationalized! All that was privatized, let it be nationalized!"
Venezuelan President Hugo Chávez. [1]

Abstract

In contrast to the proliferation of studies seeking to explain the adoption of market-reforms, the return to state-interventionist policies in Latin America remains underexplored. As scholars trumpeted the prevalence of economic orthodoxy towards the end of the 20th century, Venezuela's president Hugo Chávez carried out state-interventionist economic measures significantly departing from neoliberal canons. How was one of the weakest presidents in the region able to conduct drastic state-interventionist policies amid the dominance of market orthodoxy? Drawing on the literature on economic transformations, this study argues that Venezuela's state-interventionist measures are a consequence of the deterioration of the party system, which allowed for the rise of an anti-system outsider to the presidency and undermined the opposition's ability to resist or ameliorate Chávez's economic transformations. Once the economic transformations were undertaken, the government's increased state capacity from oil revenues has supported the reversal of market-oriented reforms. Alternative hypotheses regarding the socialization of elites, the dept of neoliberal reforms, and the role of pressure groups are less helpful in accounting for Chávez's state interventionism.

Throughout the 1980s and 1990s, Latin America undertook what Barbara Stallings described as the "most significant transformation of economic policy since World War II" (2000, 5). During this period, the region's economies increasingly moved toward an open, market-oriented model of development and moved away from the state-interventionist, import-substitution industrialization model that had characterized them for decades. Sometimes gradually and other times suddenly, Latin American governments conducted a series of reforms towards liberalizing their economies. Beginning with Chile's economic liberalization shortly after Pinochet's military coup in 1973, one after another, countries in the region followed in the adoption of a set of

[1] Speech delivered to announce the nationalization of the telecommunications company CANTV and the utility company Electricidad de Caracas. New York Times, "Chávez Moves to Nationalize Two Industries," Jan. 8, 2007.

market-oriented policies including privatizations, trade and financial liberalization, elimination of subsidies, reduction of government employment and budget deficits, and control of inflation—known as the Washington Consensus (Williamson 1990; Weyland 2002; Cohen and Centeno 2006). Towards the end of the 20th century, the entire region, with the exception of Cuba, had experienced to some extent the implementation of structural reforms to reduce the role of the state in the economy.

Several aspects of the global economy appeared to make the neoliberal reforms omnipresent and irreversible. First, financial liberalization created incentives for governments to maintain orthodox economic policies in an effort to attract and retain much needed foreign investment (Wibbels and Arce 2003). Otherwise—whenever a country's macroeconomic stability presented signs of weakness, for example—technology and communications made it easy for investors to remove funds from a country in seconds. Second, a web of bilateral and multilateral international commitments, such as trade agreements and investment promotion accords, made it particularly hard for future governments to reverse neoliberal reforms. Third, the Washington Consensus permeated most policy and academic circles as the dominant paradigm (Cohen and Centeno 2006). On the one hand, international financial organizations staunchly championed market-reforms and conditioned monetary and technical assistance to the adherence to the neoliberal canons (Glatzer and Rueschemeyer 2005, 20). On the other, courses emphasizing economic orthodoxy took a prominent place in the most prestigious universities in the US and the developed world. In several Latin American countries, US-educated government elites were firm believers in the benefits of the neoliberal model and went to great lengths to apply its principles to their countries (Dominguez 1998).

In light of this evidence, renowned scholars concluded that the supremacy of neoliberalism was unrivaled. In line with Fukuyama's proclamation of the death of alternative developmental paradigms in "The End of History?," (1989) market reforms were considered "nearly ubiquitous" (Baker 2003, 423) and "the norm in virtually every Latin American nation" (Cypher 1998, 47). Opposition to market-orthodoxy was "voiced but not well-articulated, broadly considered, or able to appeal to voting majorities" (Potter 2007, 16). Rodrik (1996, 9) wrote about the remarkable "convergence" on what constitutes good economic policy, and, in the words of Sebastian Edwards, macro-economic populism in Latin America—as state interventionist policies are often referred to—was dead.[2] Without a doubt, market-orthodoxy reigned supreme in Latin America.

And supreme it reigned until Hugo Chávez implemented a set of interventionist policies including nationalizations, price controls, foreign exchange restrictions, tax increases, and an ambitious land reform. Although still far from a centrally planned economy, these policies constitute the most substantial deviation from neoliberalism since market-oriented orthodoxy became the dominant paradigm in the region. What factors explain Chávez's ability to implement state-interventionist policies in Venezuela? This is a particularly relevant question given that Venezuela had one of the weakest executives at the time Chávez became president (Shugart and Carey 1992, 155; Shugart and Haggard 2001, 80). In contrast to Menem's powerful presidency allowing him to govern by decree, for example, Hugo Chávez did not formally have any of the institutional powers—decree, veto, partial veto, or exclusive introduction of legislation—

[2] Cited in Potter (2007); see also Knight (1998: 224).

on which other presidents relied to break with the status quo during the adoption of reforms with drastic distributional consequences.

In the following pages I argue that explanations based on the role of interest groups, socialization of elites, and economic conditions, which were helpful in accounting for the adoption of significant economic transformations during the 1980s and 1990s in Latin America, are inadequate to explain the Venezuelan case. Instead, I point to the deterioration of the party system, from highly institutionalized to disjointed, as the main factor allowing Chávez to implement significant statist reforms. Venezuela's collapse of the party system (Dietz and Myers, 2007) allowed for the rise of an outsider to the presidency and—more importantly—undermined the opposition's ability to resist or ameliorate Chávez's economic transformations. Once the economic transformations were undertaken, increased revenue from historically high oil prices has allowed the Chávez administration to sustain the reversal of market-oriented reforms.

The article is organized into four main sections. The first section documents statist economic policies in Venezuela since Hugo Chávez became president in 1999. The second section evaluates explanations drawn from the literature on economic reforms and introduces the relationship between the type of party system and economic transformations. The third section examines the nexus between the deterioration of the party system and statist policies in that country. It discusses the role that economic hardship played in the erosion of the party system; shows how the parties' disarray allowed for the election of an anti-system candidate and the opposition's inability to shape economic policy; and suggests that the survival of such policies has been possible due to an unprecedented influx of oil revenue into government coffers. In the final section I discuss the findings' implications for the reversibility of market-orthodoxy in Latin America in comparative perspective.

Statist economic policies in the Chávez era

Chávez's economic project has been the most state-interventionist in the region. It diverges from economic orthodoxy by significantly increasing the role of the state in several key economic areas, including nationalizations, price controls, foreign exchange restrictions, trade policy, and an ambitious land reform. Such policies, which were first articulated during the 1998 presidential campaign (Polo Patriótico 1998), have been implemented from the very beginning of the Chávez presidency, amidst the dominance of the neoliberal model.

Nationalizations

The Chávez administration has conducted nationalizations in a variety of industries, including the extraction and refining of oil, telecommunications, and utilities. The 2001 Hydrocarbons Law—one of the earliest and most salient of the Chávez presidency—drastically increased the government's control over the oil industry. This legislation reserved for the state the majority shareholding in any new ventures for exploration and production (Mommer 2003, 141). Furthermore, it increased royalty payments from 16.7 percent to 30 percent for conventional oil fields (Buxton, 2003: 129; Mommer 2003, 141). This law, which came into effect in January 2002, replaced the Hydrocarbons Law of 1943 and the Nationalization Law of 1975. As a result, all oil production and distribution activities became domain of the Venezuelan state, with the exception of joint private-public ventures extracting extra heavy crude oil. The

Hydrocarbons Law also mandated that any arbitration proceedings be conducted at domestic courts.

In addition to the modification established in the Hydrocarbons Law, the Chávez administration has unilaterally modified agreements between the government and the oil companies. In 2004, the government increased the income tax rate for strategic associations to extract heavy crude oil from the Orinoco River from 1 to 16.7 percent.[3] In 2005, the government threatened to seize operations in marginal fields through the military unless they converted to the terms under the Hydrocarbons Law. By March 2006, the government converted the private investments in the marginal oil fields into joint ventures with PDVSA majority ownership. PDVSA has between 60 and 80 percent ownership in the joint ventures. Of the 32 marginal or low yielding operating agreements, five were voluntarily turned over to PDVSA and two were confiscated by the government from France's Total and Italy's ENI after these companies rejected the new terms (Sullivan and Ribando 2006). Under the new agreements, income taxes increased from 34 to 50 percent and were made retroactive to 2001. On May 1, 2007 Chávez announced the nationalization of 60 percent of four refineries in the Orinoco Belt. The projects, which can refine 600,000 barrels of crude oil a day, were owned by Conoco Phillips, Chevron, Exxon Mobil, BP, Statoil, and Total. The government announced that in some cases there would not be compensation.[4]

Furthermore, President Chávez has played an important role in reviving OPEC. Because of the central role that oil plays for government finances, maintaining high oil prices has remained one of his priorities. Consequently, Chávez and his oil minister, Alí Rodríguez Araque, reversed Venezuela's condemnation of OPEC quotas during the Caldera years, and began to advocate cuts to inflate prices (Mommer 2003, 140). Venezuela's renewed involvement in OPEC has contributed to maintaining oil prices at historically high rates (Parker 2005).

In addition to PDVSA's control over the oil industry, nationalizations have taken place in telecommunications and utilities. Shortly after his reelection in December 2006, Chávez announced the nationalizations of Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV) and Electricidad de Caracas. Before this announcement and with the exception of the oil industry, the government had mostly focused on the creation of state owned companies, rather than taking over private enterprises. For example, the Chávez administration started companies in aviation and telecommunications, areas which the government had previously exited. However, the re-nationalizations of CANTV and Electricidad de Caracas were particularly symbolic because they had been previously privatized in 1991.

Government spending

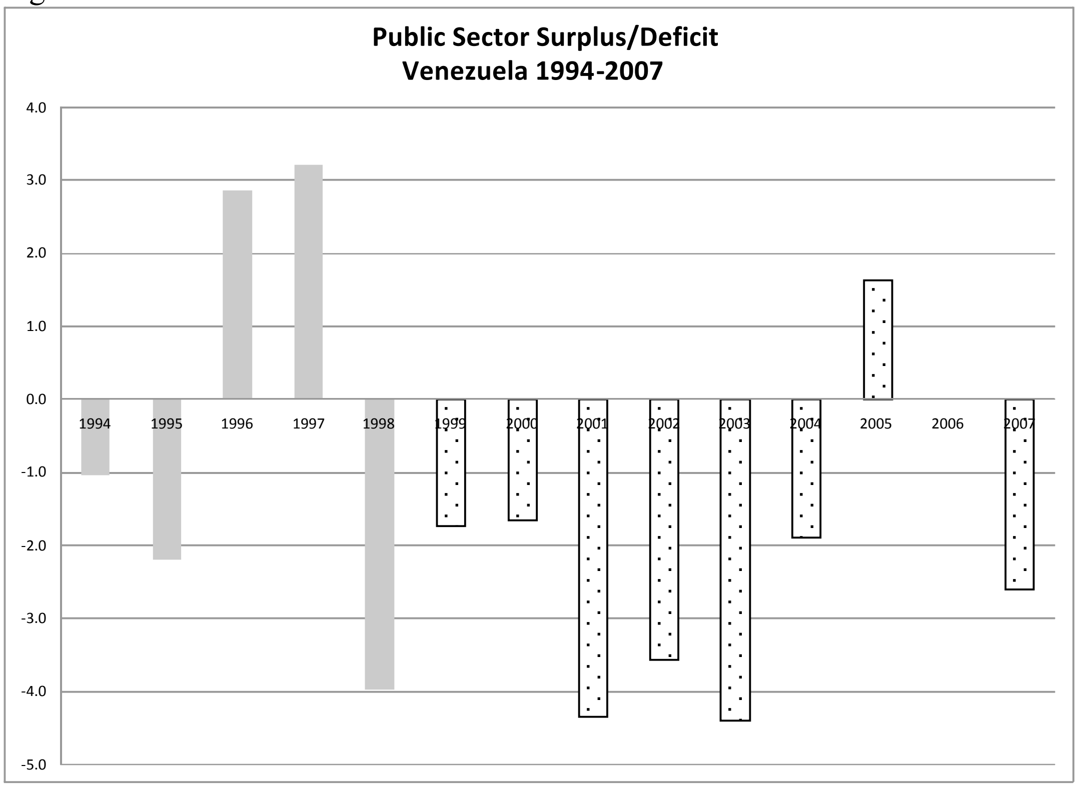
In spite of the government's increased oil revenues, the Chávez administration has been characterized by fiscal indiscipline. Figure 1 shows the size of fiscal deficits throughout the Chávez presidency. Fiscal deficits in this period have been larger than

[3] Business Wire, "Fitch Affirms Petrozuata, Cerro Negro, Sincor, and Hamaca, Despite Royalty Hike," Dec. 23, 2004.

[4] BBC Online, "Venezuela to take over refineries" May 1, 2007, available at http://news.bbc.co.uk/2/hi/business/6610333.stm

those presented during Caldera's government, even when the average price of oil has been five times higher on average during Chávez's tenure.

Figure 1



NB: Dotted bars (1999-2007) correspond to Chávez's administration. Balance for 2006 = 0.
Source: Venezuela Ministry of Finance, Central Government Operations, 1994-2007

Foreign Exchange controls

The Law Governing the Foreign Exchange System in Venezuela enables the executive to intervene in the foreign exchange market whenever it is a matter of national interest. Following the sharp devaluation of the bolivar after the strike that brought PDVSA to a standstill, the Central Bank stopped trading local currency on January 22, 2003. Shortly thereafter, President Chávez decreed the creation of an exchange administration board (Comisión de Administración de Divisas – CADIVI) to regulate foreign exchange transactions (Decreto No. 2.302). Authorities have expressed their intention to maintain the foreign exchange rate controls as a long-term mechanism in place. The government has shown inability to take care of the demand for foreign currency, and business is often forced to turn to the black market. The parallel foreign exchange black market is widespread.

Price controls

On February 5, 2005, President Chávez announced the establishment of price controls on a nationally televised address to the nation. The government introduced price controls for 400 leading consumer products, including food, medicines, raw materials, and basic services. As a result, the Ministry of Production began monitoring prices for these goods and enforcing the decree as an attempt to control inflation. The government deemed this measure necessary to keep "speculators" in line.[5]

Trade Agreements

Venezuela has withdrawn from agreements that the Chávez government deemed inconvenient, such as the G-3 with Mexico and Colombia and the Andean Community. Instead, it joined Uruguay, Paraguay, Brazil, and Argentina in gaining full membership to Mercosur. Chávez has threatened to withdraw from multilateral financial organizations such as the World Bank and the International Monetary Fund (IMF), but whether he follows this drastic course of action remains to be seen.

Land Reform

The 2001 Land Law is an ambitious effort meant to establish limits on land ownership and to tax and redistribute land considered inactive (Buxton 2003, 129). The law established limits for the maximum size of landed property depending on the type of activity and productivity level. According to this legislation, owners who maintained idle land have to pay an inactivity tax. The Land Law also contemplates confiscation of the land by the government. According to the legislation, the landowners would be compensated for their lands at market value. This provision has been enforced by the Chávez administration through the Instituto Nacional de Tierras, created in January 2002. Among the institute's main objectives are determining which land should be redistributed and who is eligible to apply for new land deeds. For example, the government distributed more than 1.5 million hectares to about 130,000 families organized as cooperatives in 2003.[6] In 2005, the government nationalized almost half the British-owned El Charcote, a 13,000 hectare cattle ranch in the state of Cojedes.

In short, Chávez has significantly increased the level of state intervention in the Venezuelan economy. From the nationalization of private companies to the withdrawal from existing trade agreements to the confiscation of land, he his policies have contradicted the neoliberal canons that inspired the market-reforms of the 1980s and 1990s. How was he able to carry out successfully such economic transformations with important distributional consequences?

Evaluating explanations of economic transformations

In explaining the adoption of significant economic transformations—most notably the implementation of market-oriented reforms—scholars have analyzed a number of explanatory factors, including the role of interest groups (Geddes 1994; Levitsky and Way 1998; Murillo 2000; Schamis 2002; Madrid 2003); political elites (Dominguez 1998); economic conditions (Bates and Krueger 1993; Biglaiser and DeRouen Jr. 2004; Drazen and Grilli 1993; Krueger 1993, 109; Naím 1993 and 1994; Rodrik 1996; Weyland 2004); and political institutions (Haggard and Kaufman 1992 and 1995; Przeworski and Limongi 1993; Schamis 2006; Weyland 2002). In the following paragraphs, I assess

[5] New York Times "Chávez Threatens to Jail Price Control Violators," Feb. 17, 2007.

[6] Oxford Analytica, cited in Venezuela's embassy in the UK, available at http://www.venezlon.co.uk/newsletter/sept2004/sept/sp_3.htm

whether these explanations are helpful in accounting for the adoption of statist economic transformations in Venezuela.

A prominent explanation put forth by the literature has to do with the role of interest groups in pressuring the government to conduct economic transformations. During the adoption of neoliberal reforms, for example, this perspective emphasized as a key explanatory factor the dramatic weakening of organized labor vis-à-vis the business sectors and labor's resulting inability to oppose economic measures with significant distributional consequences (Levitsky and Way 1998; Murillo 2000; Madrid 2003; Schamis 2002). Across Latin America, the 1982 debt crisis and the decade's characteristic hyperinflation resulted in the explosion of the informal sector and the decline of unionization. As a result, the once powerful *centrales obreras* lost their ability to influence the course of economic policy and preserve the privileges gained during import-substitution industrialization (ISI).

Following this logic, in the context of the Venezuelan case we would expect the strengthening of a group of society—organized labor—favoring a particular policy course—increased state-interventionism—relative to those sectors opposing it—business sectors. However, there are two main reasons why the role of pressure groups is not helpful to account for the reversal of neoliberalism in Venezuela. First, in line with the declining strength of organized labor across Latin America, the power of labor groups in the Andean country suffered a sustained erosion during the last three decades. This was due in part to the deterioration of economic conditions, which affected salaried workers and the underemployed most significantly, and in part to the loss of prestige of the once powerful workers umbrella organization—the Confederation of Venezuelan Workers (CTV)—because of its close association with AD and Copei (Ellner, 2003).

Second, neither organized labor nor the business sectors sided with Chávez when he first introduced his economic transformations; instead, both were in direct confrontation with the president. For example, in an unusual alliance between labor and business, the CTV promoted a series of strikes in 2001 among workers of the steel, oil, teachers, and public employees unions, and the Venezuelan Federation of Chambers of Commerce (FEDECAMARAS)—the main umbrella business organization—endorsed the general strike upon the CTV's request (Ellner 2003). The strikes constituted a concerted attempt to repudiate the president's economic policies and bring down the Chávez government. In sum, while these alternative policies were helpful in explaining the adoption of market reforms across Latin America during the 1990s, they are less useful in accounting for the adoption of state-interventionism in Chávez's Venezuela.

A second explanation highlights the socialization of economic elites in academic and policy circles. The dominance of the neoliberal model in industrialized countries during the last quarter of the 20th century clearly resonated in universities, foundations, and international financial institutions, where a new generation of leaders from the region was trained. Dubbed "technopols" by Jorge Dominguez (1998,72), these technically savvy leaders returned to their home countries to push for a change in the economic model with the support of the international community.

Contrary to Latin America's experience during the 1980s and 1990s, however, Venezuela's changes in economic policy have occurred in spite of the dominance of market-oriented canons among international elites. Economic orthodoxy remains the dominant economic model in the policy, academic, and international financial worlds

(Glatzer and Rueschemeyer, 2005: 20). Far from being considered a mainstream economic alternative, the reversal of neoliberalism faced obstacles from the preponderant sectors in each of these arenas. ISI and the command and control economies are seriously discredited as inefficient and conducive to rent-seeking behavior (Evans 1997). In other words, the reversal of neoliberal policies in Venezuela occurred in spite of the dominance of the market oriented paradigm.

A third view argues that the implementation of significant economic transformations is explained by the government's responsiveness to the public's perceptions of economic conditions (Weyland 1996 and 1998). It assumes that public opinion understands to some extent the consequences of adopting a particular set of policies, and that governments are receptive to the public's preferences. For example, this perspective explained the adoption of drastic market-oriented reforms in Argentina, Brazil, and Peru during the 1990s as a consequence of the support that Argentines, Brazilians, and Peruvians gave to generally unpopular neoliberal reforms advocated by their governments, in the hope that they would alleviate severe hyperinflation. Thus, "the hope of saving the country from grave problems" made people endorse tough reforms (Weyland 1998, 541).

Accordingly, this perspective would explain Chávez's statist policies as a consequence of the public's support for these policies and their discontent toward the neoliberal reforms carried out by the second Caldera administration (1994-1998). In spite of his anti-neoliberal campaign rhetoric, Caldera carried out a neoliberal agenda—dubbed Agenda Venezuela—in the form of the privatization of state-owned enterprises, austere government spending, opening PDVSA to private investment, and cooperation with the IMF. Given that he reneged on his rejection of neoliberalism, and, in light of the country's poor economic results since market-oriented policies were introduced in 1989, the public's dissatisfaction with orthodox policies could have prompted the government to modify the prevailing economic model.

However, the correspondence between public opinion's views on market reforms and Chávez's statist policies is weak in the Venezuelan case. Public opinion data from Latinobarómetro between 1998 and 2007 reveal that Venezuelans are among the most satisfied with the market economy in general and the privatization of state-owned companies in particular. When asked whether "a market economy is the best model for the country," more than 60 percent of Venezuelans agree or strongly agree with this statement. This places them above the regional average and with higher support than Chile and Mexico, which follow significantly more orthodox models. Furthermore, when asked whether the privatization of state-owned companies has benefited the country, Venezuelans show the highest level of support in Latin America with more than 47 percent expressing agreement or strong agreement. Thus, the Chávez government's implementation of statist economic policies does not correspond to the administration's responsiveness to the public's views regarding the market economy.

If these explanations from the literature on economic transformations cannot account for the adoption of statist economic policies in Venezuela, what does? I argue that the adoption of statist policies in Venezuela is best explained by this country's party system disarray. Unlike institutionalized party politics, which is conducive to moderation and mutual accommodation, Venezuela's disjointed party system is likely to generate executives with extreme positions that go unchecked by the legislature. In disjointed party systems, newcomers are able to rise to power without the pre-electoral alliances, broad consensus building, and political record (Shugart and Mainwaring, 1997; Schamis, 2006). Lacking the political commitments that party politics requires, such presidents are more likely to adopt drastic measures than rank-and-file politicians.[7] Similarly, parties in disjointed party systems tend to be highly malleable in their policy positions. Party discipline and loyalty are low in weakly institutionalized party systems and, as a consequence, parties are less able to curb drastic policy changes. Relying on personalistic politics themselves, opposition parties in disjointed party systems lack the ability to check a president's personalistic appeals to circumvent the legislature (Shugart and Mainwaring, 1997; Schamis, 2006).

From the deterioration of the party system to statist economic policies

The nexus between the deterioration of the party system and Chávez's ability to conduct these economic policies can be summarized as follows. First, the sustained decline of economic conditions contributed to the loss of Venezuelans' confidence in the political class as a capable steward of the polity. The generalized disappointment led to the appeal of anti-system alternatives outside the traditional "partiarchy", undermining the strength of the two-party establishment. The erosion of the party system allowed Hugo Chávez to create an ad hoc electoral vehicle—the Movimiento V República—to run for president and rally enough support behind an ambiguous, state-interventionist government program. Once in office, the party system's disarray facilitated the president's direct appeal to the people to circumvent existing political parties represented in the legislature, replace existing political institutions, draft a new constitution, and considerably strengthen the president's powers to carry out economic reforms.

The collapse of Venezuela's party system

The deterioration of the Venezuelan party system following the gradual erosion of economic conditions in that country has been extensively documented (Dietz and Myers 2007; Roberts 2003; Molina and Pérez 1998; Levine 1994; Kornblith and Levine 1995; Romero 1997; McCoy 1999; McCoy and Myers 2004; Crisp 1996). During the 20 years leading to Chávez's election in 1998, economic growth was meager and unable to keep up with population growth. Real GDP per capita, which peaked at $7,790 in 1977, dropped to $5,654 in 1999. At the time Hugo Chávez took office, Venezuelans were 27 percent poorer than two decades earlier. Similarly, the share of the population living in poverty increased from 36 to 68 percent and extreme poverty rose from 11 to 34 percent during the same period (Lander 1996, 65).

The generalized deterioration of economic conditions resulted in three manifestations of popular discontent—riots, failed coups, and the president's impeachment—evidencing the lack of legitimacy of the existing political order. First, in 1989, the first year of the Pérez presidency, protests against the deterioration of living conditions and the introduction of neoliberal reforms got out of control and ended in the most generalized and violent riots in Venezuela's modern history. Known as *El Caracazo*, the riots lasted several days and took a toll of roughly four hundred dead, a

[7] For example, Geddes's (1994) argues in the context of the implementation of market reforms that political outsiders who became presidents (Fujimori, Menem, and Collor) were more prone to adopt drastic measures than rank-and-file politicians.

couple of thousand wounded, and thousands of businesses destroyed (Lopez Maya, 2003).[8] Three years later, two military coups were attempted against President Pérez. Although the coups failed militarily, they catapulted ringleaders Lt. Cols. Hugo Chávez and Francisco Arias to stardom (Romero 1997; Lander 1996; Levine 1994). Lastly, before his presidential tenure was over, Carlos Andres Pérez was charged for corruption—accused of mismanagement of the secret funds of the state—and impeached. As Lander (1996) puts it, "the figure of Pérez came to symbolize the turmoil, instability and threats of a coup generated by the deterioration of the living conditions of the population and the increasing loss of legitimacy of democratic institutions."

Once regarded as a model of stability and institutionalization for the region, Venezuela's party system counted among its most important features the continuity of the main political parties, low electoral volatility, the population's strong party identification, and strong party discipline (Mainwaring and Scully 1995). As economic conditions worsened, however, support for the party system plunged. The two dominant political parties, Acción Democrática (AD) and Comité de Organización Política Independiente (COPEI), stopped being the main avenues to voice the people's concerns and articulate their demands. Evidence of the deterioration of the party system are the 1) erosion of traditional political party loyalties, indicated by a sharp decrease in voter turnout (Romero 1997, 14), allegations of electoral fraud (Ellner 2005, 10), and declining party identification (Molina 2002); 2) extreme focus on personalistic politics, which became apparent after Caldera's election in 1993 as Convergencia's candidate marked the beginning of a series of charismatic contenders—or *caudillos*—running with ad hoc electoral vehicles without much programmatic coherence, organizational complexity, or cadres; 3) high electoral volatility, with continuous turnover regarding the main contending parties in every election since 1993; and 4) lack of correspondence between politicians' campaigns and their government policies, which became an important source of discontent among the population during the second presidencies of Pérez and Caldera after they adopted orthodox economic programs against their campaign promises (Ellner and Tinker Salas, 2005: 10).

The rise of the anti-system outsider and the sidelining of the opposition

The deterioration of the party system—the erosion of party loyalties, the prevalence of personalistic politics, the lack of party continuity, and the disconnect between platforms and government actions—had two fundamental consequences for Venezuela. First, it set the stage for the rise of an anti-system outsider. Second, it severely undermined the opposition's ability to shape the executive's statist economic policies. In the following paragraphs I explain how the combination of these two factors allowed for the implementation of statist economic policies.

Chávez's Rise to Power

On February 4, 1992, Lt. Col. Hugo Chávez and Lt. Col. Francisco Arias jumped to the political stage after attempting a coup to assassinate president Carlos Andres Pérez and assume the presidency. The rebels, the leadership of the Bolivarian Revolutionary

[8] Although the minister of defense officially reported 277 deaths and around 1,800 wounded, Lopez Maya (2003) documents evidence from different sources that the actual toll approximated 400 deaths and a considerably higher number of wounded people.

Movement–200 (MBR-200),[9] justified their actions in response to a tyrannical and illegitimate executive, a legislature that did not represent its constituents, and a corrupt judiciary (Norden 1996,78). Nine months later, another uprising threatened to breach the constitutional order.

As former congressional leader Gustavo Tarre expressed in a personal interview in Caracas, "the coup was a military failure but quite a political success."[10] Upon his apprehension, Chávez addressed the nation on TV to call his supporters to surrender. The address catapulted him to national prominence. Many Venezuelans expressed admiration for Chávez's affront to the political class and empathized with his cause. Chávez was pardoned by Caldera and released from prison on March 26, 1994. He began his political proselytism by touring the nation immediately after his release. When asked about his plans for the future the day of his release, Chávez replied, "Reach power" (Diaz Rangel 2002).

Chávez founded the MVR[11] on October 1, 1997. Although its statutes rejected the notion of a political party strictly speaking and embraced that of a movement—implying the mobilization of the masses, ideological diversity, and a broad encompassing social structure directly linked to the people (MVR 1998, cited in Pereira-Almao 2001)—in reality, the decision-making of the MVR was highly personalized upon Chávez. He selected the party leadership as well as the candidates to elected office. He invariably determined the party's alliances, the party line in the legislature, and the party's general political direction. This severely restricted the MVR's institutionalization.[12]

With AD and COPEI seriously crippled, the electorate's alternative to the MVR in 1998 was another electoral vehicle formed around another personality. Enrique Salas Römer, former governor of Carabobo state, founded Proyecto Venezuela based on the regional party Proyecto Carabobo months before the 1998 presidential elections. Running on an ambiguous conservative campaign, he finished second with 39.9 percent of the vote against Chávez. However, Proyecto Venezuela was unable to form a lasting political opposition to Chávez, as it obtained 6 percent of the vote in the parliamentary elections of 2000 and 0.2 percent in 2005. By the presidential election of 2006, the short lived political party had virtually disappeared.

In sum, the deterioration of the party system allowed the arrival of an anti-system outsider to politics to a prominent national political stage. Upon the disarray of the party system, the formation of an electoral vehicle without the need for consensus building and intra-party accommodation faced little opposition. Having become a prominent national figure and with the MVR in place, the conditions were ripe for Chávez to capitalize on the population's animosity towards the traditional political establishment. Political parties had so little traction among the electorate that Venezuelans opted for supporting a candidate who attempted to breach the constitutional order through a violent coup rather

[9] The Movimiento Bolivariano Revolucionario – 200, or MBR-200, originated from the Ejército de Liberación del Pueblo de Venezuela (Venezuelan People's Liberation Army), which was formed by Hugo Chávez in 1977 along with other mid- and low- ranking officers.
[10] Personal interview with former COPEI congressional leader Gustavo Tarre in Caracas, Venezuela, on March 14, 2007.
[11] In Spanish, the MVR is phonetically similar to the MBR.
[12] The personalistic nature did not change after the Partido Socialista Único de Venezuela agglutinated pro-Chávez parties.

than continue supporting the traditional "partiarchy" order. As a result, Hugo Chávez took office on February 2nd, 1999, after obtaining 56 percent of the vote.

The Opposition as a Spectator

Once in office, Chávez exploited the party system's disarray to sideline the opposition represented in Congress and increase the level of state intervention in the economy. The drastic reversal of market-oriented policies was due to three main events resulting from the party system's disarray: 1) the granting of the prerogative of enabling laws (Leyes Habilitantes), 2) the dismantling of Congress and adoption of the new constitution in 1999, and 3) the opposition's boycott of the 2005 parliamentary elections. Each of them played a fundamental role in strengthening a historically weak executive and giving him carte blanche to implement an anti-neoliberal agenda.

1) *The 1999, 2000, and 2007 Leyes Habilitantes*

A key factor to explain economic transformations in the Chávez government has been the Constitutional provision that enables Congress to grant the president extraordinary decree powers through a Ley Habilitante. Such powers are not unusual in Venezuela's recent history. Previously, legislatures had granted extraordinary powers in the form of a Ley Habilitante to reform economic and financial issues to Romulo Betancourt, the first Pérez government, Jaime Lusinchi, Ramon Velásquez, and the second Caldera administration, for example. These powers were strictly limited to a narrow set of financial issues and had a maximum duration of six months. However, the extent of the extraordinary powers granted to Chávez on three occasions—one before the new constitution was adopted in 1999 and two subsequent in 2000 and 2007—has been unprecedented. The three Leyes Habilitantes have played a fundamental role in implementing Chávez's state-interventionist project.

The first time Chávez received extraordinary powers, the legislature was controlled by the opposition; neither the MVR nor the Polo Patriótico had a majority in either chamber of Congress.[13] Shortly after his inauguration in February 1999, Chávez requested extraordinary powers to address the fiscal deficit. By the end of March, the Venezuelan Congress passed a bill granting the president "power to dictate extraordinary measures regarding economic and financial issues required by the public interest" (Ley Habilitante, 1999a). Such authority, provided for in article 190, section 8 of the Venezuelan Constitution (1961), was granted for six months. In this bill, Congress granted Chávez the ability to issue decrees regarding a 0.5 percent tax on financial transactions, a value-added tax on retail goods, income tax reform, and reducing the size of the government. However, it refused to grant him the authority to renegotiate or incur additional debt and to decree legislation related to Venezuela's oil industry, which the president had requested originally. The opposition justified the refusal on grounds that the executive's request had been "unconvincing."[14]

[13] Following the Nov. 8, 1998 congressional elections (a month before the presidential election), the Chamber of Deputies' 100 seats were distributed as follows: Acción Democratica – 29; MVR – 21; COPEI – 17; Proyecto Venezuela – 14; MAS – 10; Causa R – 5; PPT – 2; Convergencia – 1; Apertura – 1.

[14] Notitarde de Valencia, "La Comisión de Finanzas de la Cámara de Diputados Aprobó la Ley Habilitante," March 24, 1999.

Upon Congress's refusal to extend the powers he requested, Chávez returned the bill to Congress and vowed to declare a state of emergency unless his requests were included in the bill.[15] On the evening of April 6, 1999, in a press conference aired during prime time, the president complained that only a fourth of his requests had been granted and declared that Venezuela's progress would be severely affected if he signed the bill into law. In his own words, the law was "more disabling than enabling" and, if Congress refused to approve a comprehensive Enabling Law he would be "forced to declare a state of emergency and dissolve Congress."[16]

Shocked by the unprecedented threat and with a diminished ability to organize resistance (McCoy 1999), legislative opposition gave in within a week. A day after the press conference, the MVR's position in Congress became to "forget about the Ley Habilitante and push for a state of emergency."[17] The opposition expressed disappointment in the president's veto, but, two days after the president's announcement, congressional debates made it clear that the opposition had conceded defeat.[18] The debate switched from outrage about the president's threat, to how long it would take Congress to draft the Ley Habilitante granting Chávez the powers originally requested.[19] In a desperate plea, AD senator Timoteo Zambrano wrote a letter to the Organization of American States (OAS) urging its Secretary-General to intervene.[20] On April 21, Congress passed the comprehensive Ley Habilitante.[21]

Following the adoption of the 1999 Constitution, which considerably expanded the scope and duration of the powers conferred by the legislature, a second Ley Habilitante was granted in November 2000. The new unicameral legislature, the Asamblea Nacional, granted a twelve-month prerogative enabling the president to issue decrees along six main spheres: financial, economic and social, infrastructure and transportation, public safety, science and technology, and the organization of the state. These reforms considerably expanded the degree of state intervention in the economy. Among the 49 decrees[22] that resulted from this prerogative were changes regarding land reform, hydrocarbons law, and income taxes to oil companies.[23]

On Feb. 1, 2007, a third Ley Habilitante was published in the official gazette. This time eleven spheres were included, and the scope of the decree powers went well beyond economic and financial issues to include the military and national defense, public safety, energy, and infrastructure. Regarding the economy, it enabled the president to implement measures towards "a new economic and social model that introduces the collective into the country's development to accomplish equality and the equitable distribution of

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[15] El Universal, "Congreso Considerará Observaciones del Ejecutivo," April 7, 1999.
[16] El Universal, "Presidente Devuelve Habilitante y Pide Colaboración al Congreso," April 7, 1999.
[17] As MVR senator Hermann Escarrá stated, "At this point, the country's situation is so deteriorated that Venezuela requires not an enabling law, but a full-fledged state of exception." El Universal, "Sigue Planteada la Emergencia," April 8, 1999.
[18] El Universal, "Fracciones Repudiaron Decisión del Ejecutivo," April 8, 1999.
[19] El Universal, "En Una Semana Aprobarán Ley Habilitante, April 8, 1999.
[20] Specifically, the letter requested the application of the OAS's Resolution 1.080, whereby an emergency summit is convened upon a breach in the constitutional order of a member country. El Universal, "Nuevas Amenazas Ameritan Intervención de la OEA," April 12, 1999.
[21] Notitarde, "Comisión Bicameral de Finanzas Aprobó Reformas a la Habilitante," April 22, 1999.
[22] Agencia Bolivariana de Noticias, "Ley Habilitante: Via Directa al Socialismo." Feb. 7, 2007.
[23] Asamblea Nacional, Listado de 49 decretos, available at http://www.asambleanacional.gov.ve/ns2/leyes-habilitante/HABILITANTE%20REFORMADA.ASP

wealth" (Ley Habilitante 2007). This time, extraordinary powers were granted for an unprecedented period of 18 months.

As a result of the 2007 Ley Habilitante, Chávez issued the Ley de Nacionalización del Sector Eléctrico, which effectively nationalized the power company Electricidad de Caracas and all of its subsidiaries. He also issued decrees mandating the currency conversion at the end of 2007 from the Venezuela's traditional bolivar to the "Bolivar Fuerte" (Decree 5.229); the nationalization of the Orinoco Belt (Faja Petrolera del Orinoco)—transferring at least 60 percent of ownership to the state (Decree 5.189); and sanctions for speculators and violators of price controls (Decree 5.197).

2) *Constitutional Convention*

One of Chávez's first actions as president was to call for a referendum to determine whether a Constitutional Assembly should be convened. A large majority approved the convention in a referendum held on April 19, 1999, less than three months after Chávez' inauguration. The 131 deputies that would participate in the convention were elected on July 25, 1999. The Polo Patriótico, the electoral coalition led by Chávez' MVR, fully controlled the Constitutional Assembly after obtaining 122 seats. Throughout the remainder of the year the Constitutional Assembly drafted the new Constitution, approved by the population through a general vote held on December 15, 1999. The Constitution came into force five days later and Congress was officially dissolved.

Marking the beginning of Venezuela's "Fifth Republic", the 1999 Constitution brought important changes to the previous nature of executive-legislative relations. It transformed the bicameral Congress into a single-chamber National Assembly and gave the president the ability to dissolve the legislative body. The new text also increased the length of the presidential term from five to six years, allowed one consecutive reelection,[24] and increased the president's control over the Central Bank. Most importantly, it extended the powers of the president granted through a Ley Habilitante by the legislature from merely financial to general. This modification has allowed Chávez to conduct the most aggressive reversal of neoliberal reforms in Latin America.

On July 30, 2000 the first presidential and legislative elections of the Fifth Republic were held concurrently under the new constitution. Chávez won the presidency comfortably with 59.7 percent of the total vote, followed by Causa R candidate Francisco Arias (37.5 percent). In the parliamentary election, the MVR won 44.4 percent of the vote to obtain 92 of the 165 total seats at stake in the National Assembly. AD finished in a distant second place with 16.1 percent and 33 seats. Copei, one of the pillars of Venezuela's patriarchy, was reduced to six seats in the legislature. With friendly parties controlling 60 percent of the seats in the National Assembly (Weyland, 2001), Chávez emerged from these elections with a comfortable control of a legislative body with the ability to grant him unprecedented decree powers.

3) *The 2005 electoral boycott*

The opposition's decision to boycott the congressional elections in 2005 gave Chávez control over the legislature. Five opposition parties, namely AD, Copei, Proyecto Venezuela, Primero Justicia, and Un Nuevo Tiempo decided not to participate in the 2005 elections to renew the Asamblea Nacional. They complained that the electronic

[24] The 1961 constitution mandated a 10 year ban for reelection after a president had been in office.

voting mechanism, which included finger print scanners, did not guarantee the anonymity of the vote. "Beyond the technical complaint, the boycott was meant to be a broader political statement," as Luis Ignacio Planas, COPEI's Secretary-General, explained in his office in Caracas.[25] Its political objective was to protest Chávez' dismantling of the legislature and to denounce his authoritarianism to the eyes of the world. Only the MVR and its satellite parties, including Patria Para Todos (PPT), Por la Democracia Social, and Partido Comunista de Venezuela, participated in the election. The MVR won 116 of the 167 seats in the National Assembly, and the remaining 51 went to Chávez's satellite parties. This result gave the MVR the two-third majority required to change the constitution without having to negotiate support with other political parties.

In brief, the party system's disarray allowed Chávez to deeply revamp the strength of the executive vis-à-vis the legislature and introduce interventionist economic measures. With their popular support decimated, the opposition forces in Congress were easily intimidated into granting the president extraordinary powers through an ambitious Ley Habilitante in 1999 that helped set the stage for his economic transformations. Appealing directly to the public and with the opposition parties unable to present significant resistance, Chávez was able to re-found the political system by dissolving Congress and convening a Constitutional Assembly that would draft the new Constitution. Following these profound institutional changes—in what became the Bolivarian Republic of Venezuela—and the opposition's boycott of the 2005 parliamentary elections, Chávez encountered no obstacle to conduct drastic economic transformations by decree.

Resources and Chávez's statist policies

Although Chávez's implementation of significant statist economic policies preceded the dramatic increase in oil prices, increased oil revenues have undoubtedly played a supporting role in sustaining such policies over time. As discussed in the previous section, Chávez's adoption of statist policies began in the first years of his administration, when the price of oil was at its lowest level ($15.7 per barrel) since 1946.[26] During a time that the boom-and-bust mentality of petro-states (Karl, 1997; Auty and Gelb 2001) would have predicted "frantic retrenchment" and austerity measures among Venezuelan policymakers as a result of the historically low prices (Ross, 1999), Chávez reversed market oriented reforms and pushed statist policies forward. Thus, Chávez's ability to wrestle Leyes Habilitantes out of the legislature does not respond to a "wealth-induced stupor" resulting from a period of oil bonanza, but to the opposition's inability to shape Chavez's economic policies due to the disarray of the party system.

Nevertheless, the steady increase of oil prices since 2003 has contributed to maintaining high levels of government spending in social programs while managing to preserve macroeconomic stability. The flow of oil resources into government coffers has become one of Chávez's main allies to garner popular support for the continuation of his economic policies toward "21st century socialism." As Teodoro Petkoff, Caldera's planning minister, Movement toward Socialism (MAS) presidential candidate, and

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[25] Personal interview with Luis Ignacio Planas, COPEI's Secretary General, in Caracas, Venezuela, on March 15, 2007.

[26] All of the oil prices included here are expressed in real terms (April 2008 dollars). Source: Inflation Data, available at http://inflationdata.com/inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp

former *guerrillero*, confided, "In Venezuela there aren't good governments and bad governments; there are high or low oil prices."[27]

The Chávez administration can be considered a fortunate government by this standard. In contrast to the period between 1996 and 2003, when the price of oil did not exceed $32.3 dollars per barrel, the price of this commodity skyrocketed from a yearly average of $42.8 in 2004 to $64.7 in 2007 to more than $140 in 2008—nine times the price when Chavez became president. With the exception of president Luis Herrera Campin's administration (1979-1984) when the mean price of oil was $74.8, no other Venezuelan presidency has benefited from and relied on such high oil prices.

The economic prosperity resulting from historically high oil prices has allowed Chávez to bolster his popularity and ignore the austerity measures articulated in the Washington Consensus. In 2004, for example, PDVSA transferred the equivalent of 4.5 percent of its GDP to a special fund managed by the presidency for discretionary spending (Penfold-Becerra, 2007). This fund financed 70 percent of the social spending exercised through Chavez's missions (misiones), constituting one of the largest social spending funds in Latin America (Penfold-Becerra, 2007). Although the opacity of Chávez's discretionary spending makes it hard to estimate the total amount and the destination of the funds, by mid 2007—before the surge in oil prices past $100 in 2008—the president's discretionary fund was believed to have more than $15 billion—or close to 8 percent of Venezuela's GDP in 2007 (Corrales and Penfold, 2007). Against neoliberal canons, discretionary spending has ballooned as the government keeps running deficits year after year (see Figure 1).

In other words, the increased revenue made possible by oil windfalls has given the Chávez administration ample room to maneuver. Although not directly responsible for Chávez's ability to carry out important statist policies during the first years of his presidency, the unprecedented price of oil has pushed the boundary of the policy choices at hand farther out, allowing his government to maintain high levels of social spending while compensating for capital flight and the lack of private investment (Weyland, 2001; Corrales and Penfold, 2007).

Conclusion

This article first documented Venezuela's adoption of state-interventionist policies—e.g., nationalizations, price controls, foreign exchange controls, trade policy, and an ambitious land reform—which significantly challenged the economic orthodoxy prevailing in the region. Next, it tested existing explanations of economic transformations, including the role of pressure groups, socialization of elites, economic conditions, and political institutions for their ability to account for Venezuela's adoption of statist policies. It argued that the adoption of such policies is best explained by the disarray of the Venezuelan party system, and suggested that their sustainability has been bolstered by unprecedented oil revenues.

There are two key considerations that stem from these findings: the first one pertains to the reversibility of market orthodoxy—our outcome—while the second is related to the party system—our explanatory factor. First, the Venezuelan experience poses a serious challenge to the view maintaining the irreversibility of the neoliberal model, at least in the medium term. Following the collapse of the Soviet Union, the

[27] Personal interview with Teodoro Petkoff, Caracas, Venezuela, March 13, 2007

acceleration of financial interconnectedness, and the discredit of state intervention in the economy, governments seemed to be particularly constrained to follow the playbook of market orthodoxy. Although far from a centrally planned economy, the high degree of state interventionism in that country has certainly pushed out the narrow boundaries of the economically feasible set by neoliberal canons in a globalized, post-Cold War world.

As a result, the policies that were once seen off limits—nationalizations, price controls, land reform, and even debt defaults—have increasingly become part of other Latin American governments' repertoires. Prominent examples are Kirchner's successful default and renegotiation of Argentina's foreign debt, and Morales's and Correa's energy sector nationalizations in Bolivia and Ecuador. These measures have in common the severe criticism faced among international financial circles, but their sustainability prospects seem to vary. In the Argentine case, the largest default of sovereign debt in history became quite a success: the country secured incredibly favorable terms for repayment and has continued access to credit in the international markets. In the cases of Bolivia, Ecuador, and Venezuela the experience seems to be mixed: on the one hand, most energy companies chose to stay in spite of changes in the terms of contract and drastic increase in royalties; on the other, these countries appear to be suffering the consequences of declining productivity and lack of technology as a result. In spite of the long term difficulties, however, these experiences suggest that governments maintain considerable latitude to implement policies running counter to the dominant neoliberal paradigm, particularly when assisted by high commodity prices.

Second, the nexus between party system and the adoption of statist economic policies explored in this article may provide insight into the reversal of neoliberalism occurring in other Latin American countries with a weakly institutionalized party system. Bolivia and Ecuador are cases in point. In Bolivia, Evo Morales's state-interventionist policies—also in the form of nationalizations, price controls, tax increases, and land reform—have taken place against a backdrop of an anti-system outsider reaching the presidency and the opposition's inability to the prevent the dismantling of the legislature. In Ecuador, Rafael Correa's government—although still in the early years of his administration—seems to be following a similar path. In contrast, countries with considerably more highly institutionalized party systems have adopted gradual reformist positions. In Brazil, Chile, and Uruguay—where presidents are also identified with the left—more institutionalized party systems have enabled the different political forces—those supporting the president and those in the opposition—to shape the executive's economic policies and limited the chances of anti-system, outsider candidates to reach the presidency.

Finally, an important question is whether substantial state-interventionism in Venezuela and other Latin American countries constitutes a correction mechanism echoing Karl Polanyi's (2001) "double-movement," or whether it is a hiccup in the dominance of neoliberal economics. In other words, is this a reflection of the theory of economic change espoused in *The Great Transformation,* where the state and the market alternate supremacy in a pendulum fashion? Although more time needs to pass to assess the sustainability of these countries' statist policies in the long-run, their governments' ability to stretch the neoliberal straight jacket seems to depend heavily on weak institutions and personalistic politics, rather than a social reaction against the market economy.

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