

The Politics of Corruption in Venezuela

by

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Abstract

There is little doubt that corruption is and has been an endemic problem in Venezuela. Nevertheless, the political impact of corruption has varied historically. For several decades (from 1959 until around 1979) Venezuelans tended to view corruption as a nuisance. Yet, by the 1990s, corruption had become the scourge of Venezuela's otherwise internationally admired democracy. Moreover, since the election of Chavez in 1998, corruption no longer appears to be the dominant political issue on which political aspirants win election. Why does the political impact of corruption change? This paper addresses this question by considering the historical trends in corruption levels and patterns from the 1960s to today, the sources of influences on corruption and the anti-corruption efforts from government and society.

INTRODUCTION

Few would dispute the link between oil and corruption in Venezuela. Since oil was discovered during the first decade of the 20th century in Venezuela, it has generated unprecedented wealth for the state and with it potent incentives for both state officials and agents of businesses to engage in corruption.¹ Currently, nearly 90% of Venezuela's current export earnings come from oil and more than half of the federal budget comes from oil-derived revenue and oil accounts for roughly 30% of Venezuela's GDP.² But if, when and how the ensuing corruption affects politics in Venezuela is less obvious. Venezuelans have varied in their level of preoccupation with corruption and corruption's political impact has varied accordingly. While Venezuelans viewed corruption as a nuisance for many years, it became the principle scourge of the political system and dominant campaign issue during the 1990s. More recently, corruption has yet again receded from the center of the political arena. What explains this variation in the political effect of corruption?

In this study, I address this question with a review of the trends in the levels and form of corruption, as well as the various government efforts to address corruption. I find that the changing political impact of corruption in Venezuela cannot be easily traced to changes in the actual or perceived levels of corruption. Neither does it appear to be neatly linked to the overall efficacy, as evaluated by experts, of anti-corruption efforts by the government. Rather, it may have more to do with changes in the form of corruption and targets of anti-corruption efforts pursued by the government. Specifically, corruption which appears to grant business privileges over others may generate greater preoccupation with corruption and have greater political impact. In addition, I find that anti-corruption efforts which address business privilege may be more important than judiciary or regulatory reforms in reducing the public's general preoccupation with corruption.

THE CHANGING POLITICAL IMPACT OF CORRUPTION

Corruption has an impact on politics in democracies when the public perceives corruption to be a problem and is preoccupied with addressing this problem. The widespread perception that corruption is a problem can put pressure on politicians to make efforts to combat corruption. But, it can also erode the public's support for the existing political leadership. Both occurred in Venezuela. In Venezuela, the public's perception of corruption shifted from viewing it as a nuisance in the first two decades of Venezuela's democracy after 1958, to viewing it as the defining scourge of their political system by the early 1990s. This shift had an undeniable impact on politics: it eroded public support for the two-party democracy which had been in place since 1958 and boosted public support not just for a new kind of political leader but a new form of politics. Since 1998, however, Venezuelans generally have been less worried about corruption than most Latin Americans. Below I describe these shifts over time.

¹ Venezuela sits on one of the largest oil reserves in the world and is one of the world's primary producers of petroleum based products. It is currently the fourth largest supplier of oil to the U.S., after Canada, Saudi Arabia and Mexico (Energy Information Administration).

² Rising oil prices beginning in 2004 drove a booming economy until recently, leading Venezuela to reach an uncharacteristically high GDP growth rate for the region of 9%. Oil prices have rising from around \$30 a barrel for crude oil to nearly \$100 a barrel in late 2007 .

Corruption as Nuisance: 1958-1974

During the early part of Venezuela's democracy (the first three presidential administrations), corruption was perceived at worst as a nuisance and at best as an important means of redistributing wealth in society. Although it was considered to be pervasive, it was not viewed as a major problem for society. Corruption did not attract widespread media interest. Nor did political leaders mobilize campaigns around the issue. Some even argue that corruption helped stabilize Venezuelan politics during both democratic and authoritarian periods. Just as corruption helped secure loyalty to the dictator Vicente Gómez during the first 30 years of the twentieth century in Venezuela (Yarrington, 2003), so it had helped secure support for Venezuela's democracy. They argued the irregular distribution of state resources during the early part of the Venezuela's democracy was critical in generating the large middle-class of consumers, which in turn helped support a growing industrial sector (Capriles 1991:38-9; Capriles 1993: 210).³ In this way, then corruption was viewed as an important means of stabilizing the two multi-class parties (Accion Democrática-AD and Comité de Organización Política Electoral Independiente-COPEI) that anchored Venezuela's centrist democracy from 1959 through the mid-1990s (Collier and Collier 1991). But this had changed significantly by the 1990s.

Corruption as Scourge: 1980s-1990s

By the early 1990s, corruption was increasingly viewed as a scourge. It was not just acknowledged to be widespread; it was also viewed as a serious political problem (Capriles 1991:34). A 1992 poll, for example, indicated that Venezuelans viewed corruption as their country's number one problem (Mine 1992; "Venezuela: Ex-president faces possible corruption charges" 1992).

We first see the political impact of this change in the success of politicians from new non-traditional political parties in the late 1980s and early 1990s. These insurgent politicians became increasingly successful by focusing on anti-corruption platforms. For example, third party candidates that featured anti-corruption platforms unexpectedly won 3 governorships in 1989 ("Fewer than half the states go to AD; Left advances as debate on wages becomes main issue" 1989). We can also see this trend in the popularity of the junior military officers, who twice attempted to take over Venezuela's presidential palace in 1992 (on February 4th and again in November) on the grounds that this drastic action was necessary to eradicate corruption (Constable 1992; Olmos 1992a; Olmos 1992b). One of these officers was Hugo Chávez. We can also see the political impact of corruption in the successful campaign to remove Venezuela's president in 1993. Members of the president's own party led this campaign.

As Venezuela's political culture became increasingly intolerant of corruption, political leaders who vowed to rid the country not just of corruption, but of the two-party political system all together, won power. For example, in 1993, Venezuelans elected a president who, despite being one of the founders of the two-party system, vigorously attacked the political establishment by decrying their corrupt practices and recent neoliberal economic initiatives. In 1998, Venezuelans elected another political outsider, Hugo Chávez, as president. In doing so,

³ Others have argued that in other parts of Latin America, such as in Mexico and Chile (Lomnitz 1971 and 1988), the middle class has been a standard bearer of democracy.

Venezuelans abandoned the two traditional parties in favor of a critic of Venezuela's political establishment and its association with corruption and neo-liberalism (Gil Yepes 2004; Kelly and Palma 2004). Not two years later, a new constitution reconfigured Venezuelan political life.

Thus, pundits ("The Impatience in Venezuela" 1992) and scholars (Kelly and Palma 2004: 203) shared the view that rising public disgust with corruption had eroded the public's confidence in Venezuela's two traditional parties and the political system associated with them. The collapse of Venezuela's two-party democracy in the 1990s appeared to demonstrate how corruption could destabilize politics. But this outrage has largely subsided since the election of Hugo Chávez in 1998.

Corruption as Nuisance: 1998-2006

Today, Venezuelans once again view corruption as a nuisance, much like they did during the early decades of the two-party democracy. Even New York Times' reporter, Simon Romero, has marveled at the "quietude that has greeted Venezuela's latest corruption scandals" in contrast to the "rollicking reactions to the alcohol ban" during the week before Easter in 2007.⁴ This view of corruption as a nuisance is reflected in a number of recent polls. For example, Venezuelans do not rank corruption as their country's most important problem. Only 4.5 percent believed corruption was their country's most important problem in 2007, down slightly from 6 percent in 2004 (Evans/McDonough Company).⁵ Many more Venezuelans ranked unemployment and security as the most important problem facing the country in 2007.

The perception that corruption is a nuisance rather than a serious threat is also underscored by the arenas Venezuelans believe are most affected by corruption. Although Venezuelans believe corruption currently affects political life more than their personal lives, they don't believe it affects political life much more than the business environment. In 2006, they rate corruption's effect on their political life as 2.8 out of a 5 point scale in which 5 represented a high degree of influence. Moreover, their view of corruption's effect on politics is considerably better than the rest of region. Latin Americans on average rate corruption's effect on political life much higher at 3.3 out of 5. Furthermore, as noted above, unlike the rest of Latin Americans, Venezuelans believe the police, not political parties, are the actors most affected by corruption. In contrast, Latin Americans as a whole believed political parties were the most affected agencies. They rated political parties as a 4.5 in 2005 and 4.1 in 2007 (Transparency International 2005; Transparency International 2007).

Venezuelans also have a comparatively optimistic view of corruption in their country. They are less likely than other Latin Americans to think corruption is going to increase in the next three years. In 2007, only 45% of Venezuelans expected corruption to increase in the next three. In contrast, on average 52% of Latin Americans and 54% of the respondents in the world expected corruption to increase over the next three years (Transparency International 2007).⁶ Moreover, the proportion of respondents who thought corruption was likely to increase was

⁴ Recent corruption scandals he notes have included "attempts by Supreme Court justices to avoid paying income taxes on generous bonuses and claims that government officials illegally siphoned off millions of dollars from state infrastructure deals with Iran" (Romero 2007a).

⁵ In 2006, 4% of Venezuelans thought corruption was their country's leading problem (Evans/McDonough Company). The 2007 poll (Campos 2007) was conducted in November immediately prior to the December 2nd referendum on constitutional amendments.

⁶ Transparency International's own Global Corruption Barometer is a public opinion survey conducted on their behalf around the world.

down in 2007 from 62% in 2005 (Transparency International 2005). Similarly, Venezuelans were more likely to think their government was effective at fighting corruption. In Venezuela, 38% of respondents thought their government was effective at fighting corruption, compared to 28% on average in Latin America and 29% worldwide (Transparency International 2007).

But the public's tolerance of corruption may be waning. On December 2nd 2007, Venezuelans denied Chávez a slate of proposed reforms which included eliminating term limits and extending the presidential term. Even those sympathetic to the current government interpreted the defeat as reflecting a growing unease among Chávez' supporters with what they perceive as the government's neglect of tangible problems like corruption (Romero 2007c). And yet, the public's current unease with corruption seems more analogous to the public's view of corruption as a nuisance which was prevalent during the early part of the democracy, than the public's dismay with corruption during the 1990s.

These shifts in the political impact of corruption raises the question: Why, during the early years and again more recently, was the public less preoccupied with eradicating corruption? Moreover, if the public can and does tolerate corruption in some contexts, "Why", as a long time observer of corruption in Venezuela lamented during the 1990s, "is *our* corruption perceived as a political and economic problem par excellence?" (Pérez Perdomo 1991:17). What is it that transformed corruption from a nuisance to a scourge? Why did the public grow so intolerant of corruption during the 1990s? And, is a similar shift under way once again?

FORCES THAT MAY SHAPE PUBLIC PREOCCUPATION WITH CORRUPTION

It would be logical that actual and/or perceived levels of corruption to affect the public's preoccupation with corruption as a political problem. And yet, the above described shifts in the public's preoccupation with corruption appear to correspond more closely with changes in the form rather than the level of corruption. Similarly, they seem to have less to do with the relative commitment to enact changes which might curb corruption than with particular forms of anti-corruption efforts undertaken.

Levels of Corruption: Experience and Expert Opinion

How bad is corruption today? The answer, it seems, depends on who you ask. Experts have a dim view of corruption in Venezuela today. They rank Venezuela near the bottom of Latin America and the world in its levels of corruption and say it is getting worse. But average Venezuelans disagree. They report less direct experience with corruption than most Latin Americans. Moreover, if we put the experts' view of current corruption trends in a longer historical perspective, they do not stand out. Even expert opinion of corruption levels during the 1990s is not that different than it has been in the past decade. This mixed evidence raises more questions than answers about the forces shaping the public's preoccupation with corruption.

Experts and the public disagree on the extent of corruption currently plaguing Venezuela. Polls gauging direct experience with corruption show Venezuelans currently have less direct experience than most Latin Americans. In the first two years of Transparency International's Global Corruption Barometer, Venezuela was one of the few Latin American countries in which under 10% of the population reported having paid a bribe for a service in the past 12 months (Transparency International 2004; Transparency International 2005). In 2007 this had increased slightly to 12%. However, this was still below the average for Latin America of 13% and only

one Latin American country, Argentina, had a lower proportion of respondents who said they had paid a bribe for a service in the past 12 months (Transparency International 2007). To put this in global perspective, the rate of direct experience with extra-legal payments for public service in Venezuela is in the 3rd or the middle quintile of the world's distribution.

[Figure 1 about here]

Latinobarometro provides further support for this tendency. According to the 2007 regional poll, Venezuelans experienced about the same overall drop in reported experience with corruption in the past 12 months as did the rest of Latin America between 2001 and 2006. In Venezuela, direct experience with corruption declined from 27 percent in 2001 and 2002 to its lowest level of 13 percent in 2006. Similar to the rest of Latin America, the proportion of Venezuelans reporting having been a victim of corruption in 2007 increased from 2006. While Venezuelans reported lower than average direct experience with corruption during 2004-2006, their level of experience in 2007 was greater than it was generally in Latin America (Corporación Latinobarómetro 2007). This would suggest that the public's declining preoccupation with corruption may reflect a decline in actual experience with corruption.

And yet, experts have generally been more pessimistic about corruption's recent levels and trends in Venezuela. According to probably the longest running and widely known expert-based corruption indicator, the Corruption Perception Index (CPI), Venezuela's corruption has been getting worse since 2002. As table 1 indicates, this was the first year that Venezuela's score on the CPI went down in three years. Between 2001 and 2002, Venezuela also lost ground compared to others in Latin America. It fell from the 76th percentile in 2001 to the 84th percentile in its regional rank order in 2002. Venezuela's level of transparency compared to others in the region, continued to fall, attaining the 97th percentile, or next to last place in the region, in 2007. In addition to falling to nearly the lowest level of transparency in the region, its CPI score was the lowest in history at 2.0 in 2007. Furthermore, 2007 was only the third time in the history of Transparency International's ratings that Venezuela ranked higher than the 90th percentile – indicating that 90% of countries were perceived as having better transparency than Venezuela.

[Table 1 about here]

Several additional indicators based largely on expert opinion offer a similarly dim view of corruption in Venezuela. The Corruption Control Index (CCI), an indicator produced by the World Bank, confirms this trend and comparatively weak position of Venezuela. The Corruption Control assesses "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests"(Kaufmann, Kraay, and Mastruzzi 2007:3) by aggregating up to 15 polls of experts on the issue. Venezuela's CCI score has hovered at a low level (around -1) since 2002 (Kaufmann, Kraay, and Mastruzzi 2007). Although Venezuela's score is not as bad as some, such as Somalia (-1.77), Myanmar or North Korea (-1.68 and -1.69 respectively), it is well below the highest scores, such as Finland and Iceland (near 2.5). It is also below the world average of 0 and the scores of other comparable Latin American countries.⁷ Another recent regional survey of experts, which included legislative, academic, journalist and civil society leaders, designated Venezuela as the least transparent of 9 Latin American countries in its budgetary processes

⁷ The world average score of 0 should not be interpreted to mean that on average, countries are rated as having no corruption, or no difficulty in curbing corruption. This index is merely scaled so that the average score world wide is 0. In 2006, the corruption control index score was -.49 for Argentina, -.35 for Mexico, -.33 for Brazil, -.22 for Colombia and 1.31 for Chile (Kaufmann, Kraay, and Mastruzzi 2007:91-93).

(Centro de Análisis e Información 2007: 93-96). Their composite picture of Venezuela is of a society in which corruption is easy to engage in and hard to detect. As such, it contradicts any easy assumption of a correlation between levels of corruption and public preoccupation with corruption.

One notable exception is the Global Integrity study of 2004. This study assesses the existence of laws and anti-corruption agencies which deter corruption, the likelihood that these mechanisms will be implemented, and the relative ability of citizens to hold government accountable. It scored Venezuela as having weak levels of public integrity in 3 of their 6 areas and ranked it 12th out of 25 countries ("Global Integrity Report 2004" 2004). Similar to the direct experience indicators, this study places Venezuela in the mid-range of public integrity worldwide and in the company of the other three major Latin American societies included in their survey (Mexico, Argentina and Brazil). Differences in methodology undoubtedly contribute in the differences among these expert-opinion based assessments of corruption. For example, while most of the indices based on expert opinion tend to rely on polls which they then aggregate, the Global Integrity study uses both a quantitative score-card and peer-reviewed qualitative assessments by journalists and social scientists. The contradiction among experts underscores the difficulty in assessing levels of corruption as well as the broader question: Why have experts so often diverged from the views of average Venezuelans?

Indeed, one reason experts have so often diverged from experience-based assessments of corruption might be because they are measuring different types of corruption. The polls assessing direct experience of corruption best measures forms of corruption that average citizens might have contact with such as small scale bribery of officials for government services, subsidies and authorization, or small scale extortion by government officials of fees for government services. In contrast, the expert-based studies such as the CPI and the CCI best measures forms of corruption which businesses are most likely to become aware of, ranging from small scale extortion by government officials for various business permits or licenses, to larger scale schemes to divert resources for personal gain (fraud) or bribery. Indeed, both the CPI and the CCI include polls of experts who are business leaders themselves or are particularly attuned to the concerns of business, such as business-oriented think-tanks. Thus, these differences between direct experience and most expert-based indicators of corruption may reveal diverging trends in two different types of corruption; and hence the public's greater tolerance for the everyday forms of corruption. I come back to this point in the following section.

Alternately, or more likely additionally, these differences between direct experience and expert opinion indicators of corruption might be due to the influence of a highly polarized political context on the different subjects consulted for each index. The view of average citizens on direct experience may be colored both by the evident popularity of the government, as demonstrated by multiple votes since 1998, and their potential fear of losing government services. Since 2005, there have been no representatives of the political opposition in the national legislature, leaving the federal government firmly in the hands of the current president and his allies. Given that a single political party-like entity dominates the distribution of government services, we might also expect average citizens to fear that reporting on their experiences with corruption might endanger their access to government services. It is difficult to judge the degree to which government approval vs. fear might be coloring citizen responses. Nevertheless, the fact that a similar downward trend in direct experience with corruption occurred in competitive democracies throughout Latin America makes it less plausible to attribute Venezuela's trend solely to fear. Moreover, this trend is consistent with the polls

described below (in the section on corruption's political impact) which reveal the public's generally optimistic view of the incidents of corruption, particularly in politics.

Just as the views of average citizens may have been colored by their politics, so the view of experts, particularly those of business leaders, may be colored by their generally more critical take on the government. This may have led them to exaggerate corruption and overlook efforts for greater transparency. The fact that the CPI and the World Bank's corruption control index took a downturn precisely at the point when many opposition leaders hardened their stance towards the government in 2002, points to such an effect.⁸ In 2002, the opposition suffered a humiliating defeat in what the government has called a failed coup attempt. In fact, the initial anti-corruption efforts of President Hugo Chávez in 1998 impressed the experts. Venezuela's CPI score initially increased from 2.3 to 2.6 between 1998 and 1999. This improvement also affected its global and regional ranking favorably. In 1999, Venezuela attained its lowest percentile ranking in the regional rank order that year, down from the 84th percentile to the 71st percentile. It was the 15th most corrupt nation in the Americas out of 21 countries ranked in 1999. Its global ranking also improved, decreasing from the 91st percentile in 1998 to the 76th percentile in 1999. As Table 1 illustrates, this positive trend continued through 2000.⁹

Despite their recent pessimism, one should note that Transparency International's CPI's overall assessment of corruption in Venezuela since Chávez took office in 1998 has not, in fact, been all that different from the decade before he took office. For example, between 1988 and 1998, Venezuela's CPI scores ranged from 2.3 to 2.77 and from 1998 to 2006, they ranged from 2.3 to 2.8. The level of transparency in Venezuela according to the experts beginning in 1999 was also closer to that of most countries in the world. Venezuela's CPI score were generally closer to the global average CPI score beginning in 1999. Before hand, the difference between Venezuela's CPI score and the global average ranged from 2.59 to 2.9. Beginning in 1999, however, the difference between Venezuela and the global average ranged from 1.82 to 2.06. Finally, the decline in how expert opinion of corruption in Venezuela compares to its regional counterpart in recent years occurred despite the fact that its own CPI score remained virtually the same between 2003 and 2006 at 2.3.

Moreover, while comparable data does not exist for earlier periods, there are strong indications that the most important transformation in levels of corruption, as defined by CPI, probably occurred in the 1970s not in the late 1990s. The earliest Corruption Perception Index (CPI) scores for Venezuela are for the period between 1980 and 1985. They indicate that the experts believed corruption was widespread in Venezuela. During these years Venezuela ranked as the 138th least transparent political system out of 149 countries with a score of 3.19. Venezuela's CPI sunk further to 2.5 between the 1988 and 1992 period, where it has hovered since then. But noted corruption scholars do not think that corruption became any worse during the 1980s than they already were in the 1970s (Capriles 1991:34). It is the 1970s, they argue, when corruption escalated and changed in form.

⁸ The first year that the World Bank's corruption control index is almost -1 is 2002 (Kaufmann, Kraay, and Mastruzzi 2007:93)

⁹ Venezuela's score on the World Bank's corruption control index also dropped to -.59 in 2000 from -.84 in 1996 and 1998.

Forms of Corruption: Petty bribery, fraud and extortion vs. corruption implicating business

It can be useful to differentiate types of corruption according to the direction of influence between state officials and business actors. We can differentiate between corruption in which state officials initiate actions that result in their own financial gain (embezzlement, fraud, or extortion) and corruption in which private citizens take the initiative to press officials towards actions which would benefit the private citizen. In the former state officials abuse their power to defraud the public by extracting resources from the government at the expense of the public, extort money from private individuals or misdirect funds in order to give friends and family special treatment. In the latter, business actors secure selective benefit typically by offering a financial reward such as a bribe, a kickback or illegal campaign contributions. Both state initiated and private citizen initiated corruption involve the potential for the public to lose considerable resources. However, forms of corruption that business actors initiate involve an additional risk: that of distorting the purpose of government agencies to such a degree that the interests of business actors become official policy. When this occurs an elite subgroup in society effectively captures the state.

What types of corruption are most prevalent and how have they changed? Below I describe Venezuela's long history of fraud, extortion and petty bribery in Venezuela, including the types of policies and agencies where they seem particularly rife today. I then describe indications that the state was at risk of being captured by private special interests beginning in the 1970s and again in the 1990s. The latter shift in the type of corruption may help us explain why corruption had a political impact in the 1990s.

Extortion, Petty Bribery, and Fraud

Extortion, fraud and petty or smaller scale bribery have a long history in Venezuela. For example, one of Venezuela's foremost scholars of corruption argued that during the first decade and a half of Venezuela's two party democratic period (1959-1974), corruption was typified by the abuse of state authority to distribute state resources in an irregular, or non-merit-based way, via informal social networks (Capriles 1991:38-9; Capriles 1993: 210). Thus, it is perhaps not surprising that reports of corruption today have focused on similar types of corruption.

Extortion is deeply rooted in Venezuela's police and judiciary. Because officials in the judiciary and the police wield considerable discretionary authority and the ability to threaten citizens, we can expect extortion to typify the corruption in these agencies. Human Rights Watch, a U.S. based non-profit group monitoring human rights around the world, for example, noted that current president Hugo Chávez "inherited a judiciary that had been plagued for years by influence-peddling, political interference, and, above all, corruption." (Wilkinson 2004a). Since 2005, Venezuelans have considered the police as the agency most affected by corruption. In 2005, they rated the police 3.7 on a 5 point scale (1=not affected at all, 5=gravely affected by corruption). It remained the Venezuelan agency believed to be most affected by corruption in 2007 with a score of 3.8 (Transparency International 2005; Transparency International 2007). Experts agree. The Global Integrity study deemed Venezuela's Rule of Law and Access to Justice to be weak and its Law Enforcement to be very weak ("Global Integrity Report 2004" 2004:1). Similarly, the World Bank's Rule of Law Index score was -1.39, well below the world

average of 0 and below that of most comparable Latin American countries.¹⁰ Below I describe a number of recent efforts by the current government to reform the judiciary that have, by most accounts, fallen short.

Instances of fraud and petty bribery have been reported in some of the programs which are central to the current government's ambitious social programs: health, food subsidies and education (Sandoval and Weisbrot 2007:8).¹¹ For example, in March 2001, the government admitted irregularities in the distribution of funds in its first ambitious social programs, Plan Bolivar 2000 (Subero 2004: 379).¹² A number of irregularities were found in the Fund for Urban Development in 2001 including "700 ghost employees" on its employment roles (p. 174). The head of the fund also "publicly stated that he 'objected' to open bids and preferred the discretionary allocation of public works, in open contradiction to Venezuelan regulations" (Luzzani 2001:176).¹³ The government's program to distribute subsidized basic food in underserved neighborhoods, MERCAL, is rumored to be plagued by disappearing products or, as the state president of MERCAL in Lara, Janeth Rodríguez put it "administrative disorganization" (Wagner 2005). In that state, MERCAL suffered a scandal involving the misappropriation of \$1 million worth of products the year the program was started in 2003 (Wagner 2005). More recently, a high ranking official in MERCAL reported a 51% increase in corruption cases between 2006 and 2007 ("Denuncian 397 casos" 2008) and high ranking officials within MERCAL, such as state administrators, have been charged with corruption ("Detienen a administradora de Mercal Carabobo por presunta corrupción" 2008). An ambitious program to promote cooperatives as an alternative means of individual economic advancement has also come under scrutiny. Allegedly tens and perhaps hundreds of millions of dollars were handed out to individuals who ended up pocketing the loans and never established the cooperatives (Collier 2006; Ellner 2007).

There are a number of indications that fraud and bribery on a larger scale may be widespread, and therefore undermining the potential of the most valuable asset of the Venezuelan government: the state owned oil company, Petróleos de Venezuela (PDVSA). PDVSA has come under intense scrutiny as a government agency which does not have sufficiently rigorous standards of transparency. This lack of transparency may make it easier for state officials to defraud the public or distribute funds in a manner inconsistent with the company's mission. Transparency International cites the lack of audited financial statements since 2002 and the failure of the Minister of Energy to produce an annual report as evidence of reduced transparency at PDVSA ("Venezuela Country Report" 2006). They also express

¹⁰ The rule of law index measures "the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence" was low and deteriorating since 1996. Venezuela joined Argentina as one of the 6 countries worldwide that experienced deterioration in expert assessment of the "rule of law" (Kaufmann, Kraay, and Mastruzzi 2007:3). In 2006, the Rule of Law score was -.58 for Argentina, -.49 for Mexico, -.48 for Brazil and 1.15 for Chile.

¹¹ According to official statistics, social spending has increased from 8.2 percent of GDP in 1998 to 13.6 percent for 2006. Additionally, the state oil company has a social fund which spent an additional \$13.3 billion (or an additional 7.3 percent of GDP) in 2006.

¹² The government's own comptroller – the office responsible for auditing government agencies – reported that \$2.6 million dollars of the \$113 million which the program spent in 2000 could not be accounted for. This program built roads, repaired schools and administered health care (Subero 2004:379). Transparency International also reported that corruption was the result of inflated invoices (Luzzani 2001:171).

¹³ Both the Plan Bolivar 2000 and Fund for Urban Development irregularities were originally reported in a newspaper published by Teodoro Petkoff, one of the founders of Venezuela's left of center party, MAS, and former minister in the administration directly prior to Chávez'.

concerns that the historical separation between government energy policy and management of the oil company, which they argue helped ensure that political interests did not interfere in managing the company, ended when the Minister of Energy and Mines became the president of PDVSA ("Venezuela Country Report" 2006). This concern has been raised a new when a Venezuelan-American businessman who arrived in Argentina on a plane with employees of PVDSA was found by Argentine customs with a suitcase full of nearly \$800,000 (Barrionuevo 2007; Carlson 2007). Some speculated the money was probably destined for the campaign of a leading candidate for the Argentine presidency. As we will see next, these concerns about PDVSA differ from those of the past.

Large Scale Bribery and Capturing the State: 1970s & 1990s

Since the beginning of Venezuela's two-party democratic era in 1958, Venezuela's political leaders transferred wealth from the state to the private sector through various development policies. However, during the Pérez administration (1974-1978), indicated that large scale bribery (the exchange of money from business actors for favors from state officials) or fraud in which business actors colluded with state officials became more common (Capriles 1993:212). In this new form of corruption, business actors appeared to have successfully pressured state officials to make their special interests a matter of public policy, regardless of whether it served the public good. In other words, the state appeared to have been captured by business interests. Indeed, his administration became associated with boosting the economic fortunes of a new group of business elites, sarcastically dubbed his 12 apostles, in exchange for their campaign support (Duno 1975).

Figure 2 reflects the increased visibility of this new type of corruption in the mid-1970s. It shows an increased proportion of high profile corruption cases which denounced business actors during the Pérez administration (1974-1978).¹⁴ During this government, 38% of the cases denounced business actors, exceeding the rate at which any other actor was denounced during that political period. This figure also illustrates that denouncing business actors for their involvement in corruption remained important through the early 1990s. Although the proportion of cases which denounced business actors decreased during the Herrera Campins' administration, it increased in each of the two successive administrations. The proportion of cases which denounced business actors reached its peak in the second Pérez administration, at 46%, again exceeding the rate of denouncing either politicians or government agents as in his first administration.

[Figure 2 about here]

The decisions about how to structure and manage the state oil company after nationalization in 1975 appeared to confirm that the state had been captured by business interests. Even though Venezuela's government bought out the major foreign oil companies in 1975, the Pérez administration left the newly formed Petroleos de Venezuela (PDVSA) in the hands of prior oil company executives. Thus, as some have pointed out, PDVSA was "never fully controlled by any of the governments that technically owned it" (Parenti 2006:8) as the

¹⁴ Business actors were denounced for engaging a wide array of corrupt practices. The most common were instances of the government overpaying a private actor for a product or a service (1/3rd of the cases), a company not following through on a contract, the government awarding contracts without a competitive bidding process and the selling under-priced government products to business actors.

directors of the company displaced the Energy Ministry in setting Venezuela's oil policy (Lopez-Maya 2002:22).

Furthermore, reforms in Venezuela's oil policy in the 1990s appeared to confirm that PDVSA had been captured by private business interests. Until the 1990s, PDVSA's profit making strategy was developed within the production guidelines set forth by the Organization of Petroleum Exporting Countries (OPEC). Venezuela had helped found OPEC in the early 1970s with the goal of protecting the value of oil by a coordinated control over global production levels. Famously, OPEC dramatically raised oil prices in 1973, by curtailing production. However, PDVSA became increasingly oriented towards profit through increased production during the 1990s. PDVSA's profit making policy also moved away from its long-time commitment to restricting how transnational corporations might invest in the oil industry towards allowing transnational corporations to make investments in the company (Lopez-Maya 2002:21). Instead, it increasingly appeared to conform to the preferences of the handful of major foreign oil companies which provided services to or were the primary clients of PDVSA. To attract these foreign investors the government relinquished "its ability to tax the transnationals". This resulted in a net loss in government revenue from oil (Lopez-Maya 2002:21). In addition, one of PDVSA's most profitable subsidiaries, Citgo, acquired foreign refining assets during the 1990s. This permitted Citgo to disguise its revenue in ways that made it difficult for the federal government to access and diminished the state's oil revenue (Romero 2005). Those who guided this shift included several top managers of PDVSA who had a personal financial stake in expanding production.¹⁵ The correlation between a shift in PDVSA's profit strategy in the 1990s and the rise to prominence of PDVSA managers with a financial stake in increased production and investment by transnational corporations appeared to confirm that the PDVSA had been captured by business interests.

The fact that indications of a captured state emerged roughly parallel to the public's growing intolerance of corruption suggests that the public may be tolerant of some types of corruption more than others. They may be more willing to tolerate corruption if they do not suspect corruption has allowed private interests to capture the state. The public's growing intolerance of corruption in Venezuela during the 1990s also seems related to the government's aggressive anti-corruption efforts.

Anti-corruption Efforts

We might expect the government's efforts to curb corruption to affect the public's preoccupation with corruption and therefore its likely political impact. But both the current and recent past governments have taken steps to curb corruption, albeit different ones. Below I outline the current government's attempts to identify, prosecute and penalize corrupt officials and their accomplices by introducing a new federal anti-corruption agency, cleaning up the judiciary, and promoting a new form of citizen-based accountability (social accountability). While the latter may hold out the possibility of curbing small scale fraud and petty bribery, both the judiciary reform and the federal anti-corruption agencies have yielded few results. Their lack

¹⁵ For example one of PDVSA's presidents during the 1990s, Andres Sosa Pietri, had a company that made pumps and valves used to expand production at PDVSA. Another, Luis Guisti, had a financial stake in the private firm which handled PDVSA's newly privatized financial and administrative functions ("NYT's Tina Rosenberg Goes to School on Venezuela's Oil, and Flunks" 2007).

of political independence seems to be undermining their efficacy and therefore their capacity to reign in larger scale fraud more common at higher levels of the government. The government has aggressively sought to counter-act the undue influence of the private companies with which PDVSA does business. While this seems to have come at the expense of transparency in PDVSA's budget and resource allocation, it may be that this highly publicized and controversial step may have contributed to the public's greater passivity regarding corruption as a political issue.

Federal Anti-Corruption Laws and Agencies

Establishing laws that punish corruption and implementing those laws through federal anti-corruption agencies are corner-stones of any anti-corruption effort. During the two-party democratic era, Venezuela took international leadership in promoting anti-corruption laws. For example, the Venezuelan government hosted the twenty-two countries in the Americas which signed the Inter-American Convention against corruption on March 29th, 1996. Furthermore, during the two-party democratic era Venezuela's federal anti-corruption agencies actively denounced and prosecuted corruption. There were two such federal anti-corruption agencies: the attorney general and the comptroller. The attorney general was responsible for prosecuting those citizens or members of congress accused of corruption. The comptroller was responsible for auditing government finances and identifying irregularities and individuals responsible for such irregularities. Both actively denounced and prosecuted many corruption cases and as the impeachment of the president in 1993 illustrated, did not shy away from prosecuting high ranking officials.¹⁶ The comptroller from 1994 to 1999, Eduardo Roche Lander, in particular, gained a reputation as an aggressive prosecutor of ranking members of the administration. These aggressive anti-corruption campaigns may very well have curbed the temptation of state officials to engage in corruption, and made the public less tolerant of corruption by raising their awareness of corruption.

Yet, the efforts of federal anti-corruption agencies before 1998 did not seem to be successful. Very few of these cases were resolved and even fewer resulted in convictions (Capriles Méndez 1992). This raises questions about the political independence of these federal agents. Even though the comptroller was typically from an opposition party, a fact that should have helped ensure their political independence (McCoy 1989: 65), anyone appointed by the two dominant parties also had a stake in protecting the reputation of these two parties. Both parties had agreed to share power and exclude other parties in 1958. Their lack of success also raises questions about the real motives for instigating corruption prosecutions. These federal anti-corruption agencies became key actors in what scholars have called the "politicization of corruption" (Capriles Méndez 1990:12-14; Pérez Perdomo 1991: 19). Many of the cases which the attorney general prosecuted were cases which politicians initially denounced. Prosecuting such cases tainted the federal anti-corruption agencies with the political motivations of these politicians (Capriles 1993: 225), as "making public corruption allegations increasingly became a means to obtaining objectives other than cleaning up the public administration" (Capriles Méndez 1990:14) and "one of the most important political functions of the opposition" (Capriles Méndez 1990:12).

¹⁶ The Attorney general brought charges in 22% of the corruption cases in Capriles' corruption dictionary, while the congressional comptroller brought charges in 14% of the cases.

The current government has launched some bold anti-corruption efforts through its laws and federal agencies. They established stricter anti-corruption laws which dictate stiffer penalties on those government officials found to be guilty of corruption (Kornblith 2004:5). The government agency that collects taxes has reduced corruption. It “imposed sanctions on evaders, diminishing tax evaluation in the country” (Kornblith 2004:4). Since the new constitution in 1999, a third federal anti-corruption agencies has been added: that of the ombudsman. The ombudsman is responsible for scrutinizing any abuse of power by state officials.

But, all three federal anti-corruption agencies have been criticized as lacking political independence (Kornblith 2004:3-4). The Chávez government retained the popular former comptroller, Eduardo Roche Lander through December 1999.¹⁷ But since then, the office has been held by individuals who have maintained a much lower profile politically and have been less willing to bring to light irregularities in the current government (Subero 2004: 367-8). The loss of political independence of the attorney general has raised concerns that the government may be less likely to prosecute and punish corruption in the current administration. The Comptroller’s recent actions have confirmed these fears. In December 2006, Venezuela’s Comptroller denied the Organization of American States permission to publish a report by Transparencia Venezuela that was critical of the government, in its follow-up report to the Inter-American Convention against Corruption.¹⁸ The concentration of power in the executive has also raised concerns that the executive’s authority will undermine the authority of federal anti-corruption agencies (Luzzani 2001: 178, 180) as well as the judiciary.¹⁹

Cleaning up the Judiciary

According to Venezuelan constitutional expert, Carlos Escarrá, the political leaders during the two-party democratic era knew that the judiciary was a problem, but didn’t fully comprehend that addressing problems in the judiciary were a key part of being able to curtail corruption. He quipped: “The Venezuelan judicial system always was the Cinderella of the state powers, in the sense of, ‘as the last thing, we’ll take care of the judicial system,’ without realizing that the judiciary is the actual support of the rule of law and of the rule of justice.”(Wilpert 2004). The fact that Venezuela’s judiciary rarely prosecuted let alone convicted officials charged with corruption undoubtedly emboldened those contemplating corruption.

The current government demonstrated a recognition that the judiciary is a critical weak link in Venezuela’s anti-corruption efforts by immediately instigating a number of reforms designed to ‘clean-up’ Venezuela’s justice system. The July 1999 reform of the penal code reduced the likelihood of corruption in the court, because it moved away “from an inquisitorial court system often characterized by secretive trials to a more open system with public trials, citizen juries, and a presumption of innocence.” (Subero 2004: 377). Then in September 1999, the newly elected constitutional assembly declared the judiciary in a state of emergency and created an emergency commission which could suspend any judge with more than seven

¹⁷ Roche raised questions about irregularities in Plan Bolivar 2000 (Subero 2004: 367-8). He contended that commanders in the military responsible for the Plan Bolivar in several provincial cities had charged the government for services that they did not in fact perform.

¹⁸ The letter in which the Comptroller denied this permission is available at http://www.oas.org/juridico/spanish/mesicic2_ven_opc_sp.pdf. The report by Transparencia Venezuela that is available at <http://www.transparencia.org.ve/admin/multimedia/imagenes/20061205105036.pdf>

¹⁹ They cite the expert Alfredo Ramos Jiménez as offering this critique.

complaints or who seemed to be living beyond their means (Wilkinson 2004b). Within 6 months, nearly 400 judges were suspended and 75 were removed all together (Subero 2004:377). In October of 1999, the Supreme Court reviewed the cases of two former presidents (Lusinchi and Pérez) after the Constitutional Assembly argued that “embezzlement charges against both men were improperly dropped” (Subero 2004:377). These reforms were hailed by many in the international community as making the judicial process more efficient and fair.²⁰

A number of high profile cases suggested that the reforms were working and that the government was willing to prosecute its own for corruption. For example, the government responded with impartial investigations to multiple accusations made against police officers who were put in charge of restoring order after devastating floods ruined the coastal region of Venezuela in 1999 (Rosen and Burt 2000: 17). The congressmen who proposed the legal reform to the judiciary and one of the Supreme Court judges who had been approved after the 2004 reforms and had been active in convicting and firing many judges for corruption was himself removed after he was accused of taking \$4 million in kickbacks from a contract to create a new courthouse complex (Gunson 2006).

But other high profile corruption cases raise doubts about the political independence of the judiciary (Subero 2004: 371). For a judiciary to be untainted by corruption, let alone for it to be a mechanism of curbing corruption elsewhere in the government, it must maintain its independence from political influence. But in May 2000, after the Constituent Assembly appointed their preferred attorney general in December 1999, the newly appointed Supreme Tribunal of Justice thwarted efforts to bring a case against the former chief of the Constituent Assembly, Luis Miquilena (Subero 2004:378). The tribunal would not strip Miquilena of his immunity as a member of the national legislature. Similarly, the inspector general of the courts, René Molina, resigned in August 2000 out of frustration with the judicial reform commission. He complained that the commission appointed friends and relatives as judges and blocked his attempts to remove corruption judges (Subero 2004: 378). Then, in 2002, the Supreme Tribunal claimed there was insufficient evidence to merit an investigation of the allegation that Chávez accepted illegal campaign funding from a Spanish bank (Subero 2004: 380). These cases raised concerns about the judiciary’s political independence.

The independence of the court was further undermined by a 2004 reform (“Venezuela Country Report” 2006). That year, the Venezuelan legislature approved a new law regulating Venezuela’s highest court, the Supreme Court (or Tribunal Supremo de Justicia – TSJ). The new law clarified that the court could have 32 judges, increasing it from 20 members. It also mandated that after an attempt to approve a nominee by two-thirds of the legislature has failed three times, the new nominee can be approved with a simple majority and indicates that judicial appointments may be annulled if the judge has not fulfilled constitutional requirements.²¹ These changes make it easier for the national legislature, dominated by pro-government politicians, to approve judges which a minority finds objectionable and to remove judges they believe are not carrying out the new constitution. Human Rights Watch declared that judicial independence was “under siege” with these new provisions because they would allow the national assembly to pack

²⁰ The World Bank praised it as having made significant progress (“Project Information Document, Report AB510” 2003). Furthermore, the magazine published by the Inter-American Development Bank praised the reforms (Drosdoff 2002).

²¹ For a summary of the measures introduced in the 2004 reform see the Venezuela’s Information Office summary (“Judicial Reform in Venezuela” 2004) as well as Greg Wilpert’s introduction to an interview with Constitutional Law Expert, Carlos Escerrá (Wilpert 2004).

the court in favor of pro-government judges (Wilkinson 2004b). The timing and source of the reforms, they pointed out, appeared to confirm that the reforms were politically motivated. Since the initial reforms, the court's 20 justices were evenly divided between pro and anti-government judges (Wilkinson 2004b). But after the 2002 coup attempt, these divisions became more of a problem for the government, particularly when Supreme Court judges refused to prosecute those who led the attempted coup ("Judicial Reform in Venezuela" 2004). Furthermore, the reform was formally proposed by a congressional leader who was also a member of the supreme court and president of the commission that named and/or removed judges ("Venezuela Country Report" 2006:281).

Subsequent assessments of the judiciary confirm that the 2004 reforms have not improved the judiciary. After the reforms had been in place for a year and a half, a widely respected independent human rights organization in Venezuela concluded that the reform "had not achieved reverting the structural problems which have made it impossible to guarantee a free, accessible, impartial, transparent, autonomous, independent, responsible, equitable and expeditious justice" ("Annual Report" 2006:267-282). The prevalence of provisional judges has continued to undermine the independence of Venezuela's judiciary. Provisional judges are subject to appointment and dismissal without administrative proceedings. Thus, they are beholden to the nominating committee who put them there.²² The Venezuelan Supreme Court itself indicated that 70 percent of judges were provisional, as of March 2005 ("Venezuela Country Report" 2006:282). Although the number of provisional judges seems to be on the decline,²³ the judiciary remains a weak link in Venezuela's anti-corruption efforts.

Counteracting the State's Captured Oil Policy

The current government has also taken less orthodox anti-corruption measures. It has sought to address the concern that by the late 1990s, Venezuela's oil policy had been increasingly captured by the special interests of the private businesses in the industry at the expense of the public good. This concern was not so much that PDVSA officials were engaged in illegal activities, such as accepting bribes or colluding with business. Rather, it was that PDVSA policy had, more generally, come to be captured by special interests. Reorienting Venezuela's oil policy has been central to the agenda of the government since 1998. The four priorities of the government's oil sector reforms have been: 1) to move the power to make oil policy back to the Energy Ministry from the directors of the PDVSA; 2) to improve the government's income from oil by shifting away from taxing profits towards royalties – which are easy to collect and assess; 3) to strengthen OPEC and respect OPEC quotas and 4) to curtail new private investment (Lopez-Maya 2002:22).

In order to achieve these goals, the government aggressively restructured the leadership within PDVSA. In March 2002, for example, the government replaced PDVSA's current board of directors (Subero 2004:379). After frustrated middle managers within PDVSA resisted the new board by helping to lead a national strike in April 2002 which culminated in pushing Chávez

²² For example, Human Rights Watch reported that in March of 2004, three judges who made decisions unfavorable to the government were dismissed ("Venezuela: Chávez Allies Pack Supreme Court" 2004).

²³ The Venezuelan Program of Education and Action on Human Rights (Programa Venezolano de Educación-Acción en Derechos Humanos - PROVEA), reported that by the end of 2006, only 33.3% of judges were provisional judges ("Boletín electrónico No. 179" 2006).

out of office for 2 days (Lopez-Maya 2002:23)²⁴, and participated in the general work stoppage called for by both business and unions in December 2002 (Parenti 2006: 9), the government took further actions. The government purged 18,000, more than a third, of PDVSA's middle managers (Parenti 2006:9; Subero 2004:380), enabling the government to reconfigure how PDVSA used its earnings. In early 2005, the Venezuelan government continued its internal transformation of PDVSA by overhauling Citgo. The government replaced Citgo's chief executive and its board. In their place the government installed managers more favorable to the government's new priorities. In March 2005, the government sent a delegation of legislators to investigate allegations of corruptions at Citgo as part of its efforts to clean up the company (Romero 2005).

While the make-over of PDVSA's management structure has transformed the face of PDVSA decision-making process, and with it reoriented its policies, it has not eliminated corruption at PDVSA. Indeed, as noted earlier, the lack of transparency regarding PDVSA's profits and resource allocations are likely to have created new opportunities for state officials within the agency to commit fraud. Consistent with this concern, in 2007, a number of senior oil executives have been charged with making illegal deals with private oil-services companies.²⁵ Thus, these government efforts to curb corruption underscore how difficult it is for anti-corruption efforts to comprehensively address corruption. Anti-corruption efforts may more often than not entail imperfect trade-offs between reducing one type of corruption but opening up new opportunities for other types of corruption.

CONCLUSION

Given the persistence of corruption in Venezuela, the public's varying levels of tolerance of corruption is perplexing. During the present government, the public has generally been more tolerant of corruption than they were during the 1990s, in the final decade of the former political system. However, as I noted earlier, there are some signs that the public may be growing increasingly intolerant of corruption. But will corruption destabilize the current government? It seems unlikely given that few of the conditions in place during the period when the public's view of corruption did shift from tolerance to intolerance (1980s-1990s) are likely to occur in the near future. First, it seems unlikely that the public will perceive the government as captured by private *business* interests, given the current government's emphasis on reducing business sway over policy. That said, the government's very emphasis on marginalizing business influence over the state may make them particularly vulnerable to any evidence to the contrary. Second, until the current government faces real political challenges at the ballot box, as political leaders in the former political system did, it seems unlikely that government agents or politicians will engage in the type of anti-corruption campaigns which previously reduced the public's tolerance of corruption.

²⁴ The alignment of the short-lived Carmona interim presidency with the interests of the old managers at PDVSA was evidence by the fact that one of the few appointments Carmona made was to reinstate the ex-president of PDVSA whom Chávez had fired (Lopez-Maya 2002:23).

²⁵ In a move that revealed internal splits within the government's circle of allies, Venezuela's national assembly called upon Venezuela's energy minister and president of PVDSA, Rafael Ramírez, to address allegations that PVDSA has made illegal deals with oil-services companies (Romero 2007b).

Figure 1: Percent who had personally or who knew someone that had been the victim of corruption in the past 12 months

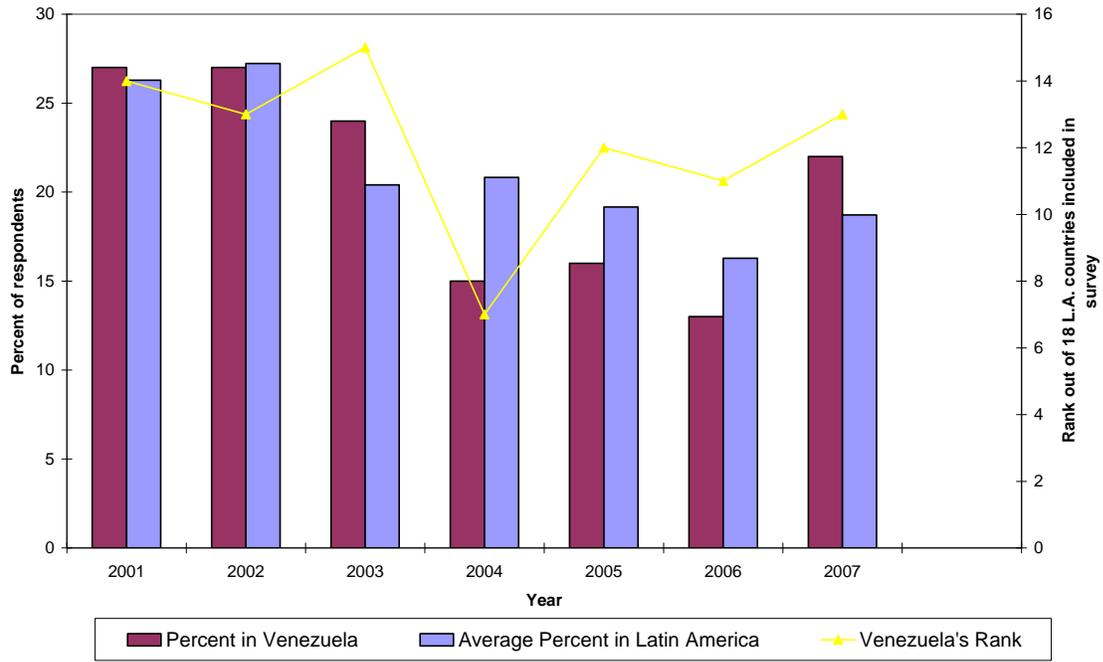
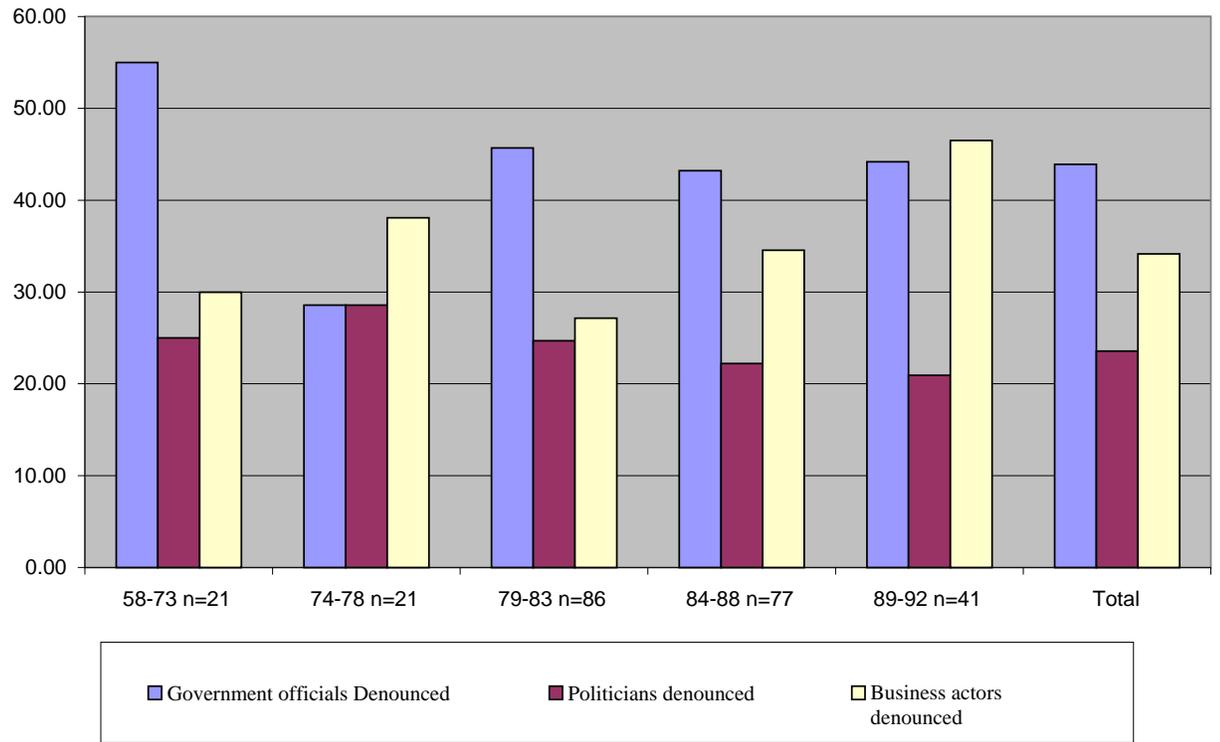


Table 2: Venezuela's Corruption Perception Index (1980-2007): Score, Rank and Rank Percentile

Index Type	'07	'06	'05	'04	'03	'02	'01	'00	'99	'98	'97	'96	'95	1988-1992	1980-1985
Venezuela's CPI Score	2.00	2.30	2.30	2.30	2.40	2.50	2.80	2.70	2.60	2.30	2.77	2.50	2.66	2.50	3.19
Global Average Score				4.16	4.22	4.56	4.76	4.76	4.60	4.89	5.67	5.35		5.28	5.30
Difference between Venezuela and Global Average				1.86	1.82	2.06	1.96	2.06	2.00	2.59	2.90	2.85		2.78	2.11
Regional Rank	30	30	26	23	19	21	16	17	15	16	8	9	7	8	8
Global Rank	162	138	130	114	100	81	69	71	75	77	44	48	38	42	42
Regional Rank Percentile	0.97	0.97	0.93	0.85	0.83	0.84	0.76	0.81	0.71	0.84	0.73	1.00	1.00	0.80	0.80
Global Rank Percentile	0.91	0.85	0.82	0.78	0.75	0.79	0.76	0.78	0.76	0.91	0.85	0.89	0.93	0.79	0.79

Source: For 1980-2004 http://www.icgg.org/corruption.cpi_olderindices.html. For 2005, see http://www.transparency.org/policy_research/surveys_indices/cpi accessed 12/12/2007.

Figure 2: Percent of Cases by type of Actor Denounced and Political Period



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