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From Deconsolidation to Reequilibration? Prospects for Democratic Renewal in Venezuela

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FROM DECONSOLIDATION TO REEQUILIBRATION?
PROSPECTS FOR DEMOCRATIC RENEWAL IN VENEZUELA

Jennifer L. McCoy
William C. Smith

EXECUTIVE SUMMARY

The challenges confronting contemporary Venezuelan politics are not those of democratic transition or consolidation, but rather how to renew weakened democratic institutions and eroding legitimacy in an existing democracy. Although these challenges are similar to those of established democracies in a crisis context, the explanation for the Venezuelan crisis is found in social and economic changes common to many Latin American societies. In particular, the unravelling of a "state-centered" model of political, economic and social relations has produced crises of governability and legitimacy in Venezuela in the 1990s.

The collapse of the Venezuelan version of the state-centered model was threefold: 1) The decline of oil prices and the fiscal crisis of the state undermined the democratic compromise based on distribution of externally-derived oil revenues rather than redistribution through domestic taxation; 2) The very organizational success of a political model based on an extremely strong form of party-mediated politics and a somewhat weaker form of neocorporatist policymaking eventually became progressively rigid and exclusionary; and 3) The petro-state's multiple economic roles of entrepreneur, regulator, employer, and provider of social welfare gradually lost coherence and its capacity to generate sustained growth.

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To achieve democratic renewal will require not only political and institutional reform but also a reorientation of the socioeconomic model to restore governability and legitimacy. The paper assesses three scenarios -- an attempted resurrection of the old politico-economic model centered around the state and political parties, a democratic collapse with alternative outcomes, and democratic renewal and economic recovery.

Although the first scenario is the most likely in the short-term, some signs point to the possibility of achieving the third scenario in the longer-term. The encouraging signs include a potential resolution of the collective action dilemma of providing public goods through domestic taxation, the emergence of a more pluralist politics with multiple channels of participation, and the move toward a more "market-centric" model of political, economic and administrative decentralization.
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I. INTRODUCTION

Venezuela’s contemporary politics poses a problematic different from those predominating in the literature on democratization. Scholarly research in the last decade focused first on the crisis of authoritarian rule and the ensuing transition to civilian governments, with the reestablishment of electoral procedures, and more recently on the problems of the consolidation of a democratic regime, including alternation in power, universal acceptance of the rules of the game, and the generation of a democratic political culture.¹

The challenges confronting Venezuela are not those of transition or consolidation, but rather the decomposition or deconsolidation of an established democratic regime. In other Latin American countries, the crises in recent decades of long-standing statist development models unleashed complex social and economic transformations, one of whose consequences was democratic transitions. In Venezuela, however, this crisis threatened to destabilize democracy. The issue is whether Venezuela’s weakened political institutions and eroding democratic political culture can be renewed and revitalized, or whether they will continue to deteriorate to the point of regime collapse or breakdown. Our analytical problematic thus resembles Juan Linz’s notion of reequilibration of democracy:

Reequilibration of a democracy is a political process that, after a crisis that has seriously threatened the continuity and existence of the basic democratic political mechanisms, results in their continued existence at the same or higher levels of democratic legitimacy, efficacy, and effectiveness. It assumes a severe jolting of those institutions, a loss of either effectiveness or efficacy, and probably legitimacy, that produces a temporary breakdown of the authority of the regime. Reequilibration is compatible with changes of regime within the genus democratic.... Reequilibration can be, even when it does not need to be, a breakdown or profound transformation of one regime, but not of democratic legitimacy and basic institutions (Linz 1978, 87).
The problematic of renewal and reequilibration, rather than transition or consolidation, implies that in many ways -- with the significant exception of a restless military establishment - - Venezuela faces challenges related to legitimacy and governability not fundamentally different from the more established democracies.\(^2\) The legitimacy bestowed on a democratic regime by a population stems from a mixture of performance legitimacy (what a regime delivers to its citizens) and normative legitimacy (belief in the democratic process for its own sake). A population’s willingness to accept the authority of a government and voluntarily comply with its rules, however, may ultimately come down to "the belief that for that particular country at that particular historical juncture no other type of regime could assure a more successful pursuit of collective goals" (Linz 1978, 18).

A regime enters into disequilibrium and potential crisis when habit, interests, and belief in the legitimacy of governing institutions no longer generate obedience on the part of strategic elites and/or of large groups of citizens. In circumstances when voluntary compliance erodes, a disloyal opposition may question the authority of the regime and attempt to transfer legitimacy to a new set of institutions and rulers (Linz 1978, Chapter 2).

In situations of disequilibrium and crisis, the maintenance of regime legitimacy is intimately tied to (but not the same as) its ability to govern. Governability, in turn, requires political institutions to combine both efficacy -- "the capacity of a regime to find solutions to the basic problems facing any political system...that are perceived as more satisfactory than unsatisfactory by aware citizens" -- and effectiveness -- "the capacity to actually implement the policies formulated, with the desired results" (Linz 1978, 20, 22). In practical terms, such problem-solving in a democracy depends in large part on a state’s administrative capacity and
on the executive’s ability to build a majority coalition in the legislature. Consolidated democracies have an advantage over newer ones in that regime efficacy can be judged not by the performance of a single administration but by the performance of the regime over time. Nevertheless, even in long-established democratic systems, persistent problems of governability can ultimately weaken legitimacy and undermine governmental authority.

An important problem in many contemporary democracies is that citizens are losing faith in the ability of democratic institutions -- particularly legislatures, party systems, and political elites -- to solve problems and realize collective goals. Although the point of democracy is to allow citizens the opportunity to change their leaders when dissatisfied with their performance, while still supporting democratic means to choose those leaders (Huntington 1992), if over time a regime consistently fails to perform, then its normative legitimacy may also begin to erode. In this situation, citizens may question the very value of democracy relative to other types of regimes.

Venezuela’s dilemma in addressing these interrelated challenges of legitimacy, governability, and performance is complicated by its tremendous success in the post-1958 period. The paradox is that the legacy of earlier success may now prove to be a disadvantage in confronting the renewal/reequilibration problematic. In contrast to the postauthoritarian situation in most of Latin America, Venezuela is not emerging from a repressive government that stimulated a revalorization of the principle of democracy and a social consensus to protect fragile representative institutions. Venezuela’s collective memory of military government is faded.

Instead, like the more established Northern democracies, Venezuela’s legal-constitutional and institutional continuity means that its democratic renewal must be primarily accomplished
under the leadership of (or at least with the acquiescence of) the same actors who benefitted from
the old system. This must be accomplished in the context of widespread disillusionment with
ineffective government that gives a new edge to the perennial collective action dilemma of how
to elicit individual and sectoral sacrifices while promoting the common good. "Changing
democracies from within is different (and likely more difficult) than the transitions to
democracy...." (Crisp, Levine, and Rey, 1995).

Without the unifying fear of a repressive alternative, the concept of democracy itself may
prove an illusory unifying theme. Likewise, the persistence of entrenched political and economic
interests accustomed to a monopoly over state power means that the motivation for change must
come from either a recalculation of strategic interests on the part of elites, or from another
source, such as pressure or mobilization from below. In common with other Latin America
societies, wrenching socioeconomic transformations in Venezuela are rapidly eroding traditional
identities, loyalties, and forms of collective action; at the same time, new social movements and
political actors are emerging to spearhead popular mobilization from below. The difficulty is to
reassure the powerful while also granting new groups a legitimate stake in renovated political and
institutional arrangements.

What are the prospects that Venezuela can meet these challenges and achieve democratic
renewal and regime reequilibration? To respond to this question, it is necessary not only to
analyze regime legitimacy and related politico-institutional issues but also to understand how they
are embedded in and are effected by the specific logic and dynamics of far-reaching social and
economic transformations in Venezuela. While, as we have noted, Venezuela faces challenges
common to established democracies in a crisis context, the explanation for that crisis should be
sought in analysis of broad social and economic processes common to many Latin American societies. Consequently, we reject the notion of Venezuelan "exceptionalism" and propose to frame our inquiry by placing Venezuela comparatively in the context of the transformation of Latin America’s state-centric political economy.

In the next section, we briefly describe the fundamental characteristics of recent political and economic transformations in Latin America and argue that Venezuela’s historical trajectory from the 1920s to the present exemplifies a specific variant of a more general pattern of state-led development. The following sections probe the contradictions in Venezuela’s *dirigiste* model and assess the issues involved in reequilibrating a democratic regime in Venezuela. Finally, we discuss alternative scenarios for democratic renewal, decay, and collapse and the prospects for a transition to a new politico-economic matrix.

II. VENEZUELA IN COMPARATIVE LATIN AMERICAN PERSPECTIVE

Despite pronounced differences in their relations with the world economy, productive structures, systems of class stratification, actors in civil society, and political regimes, countries as diverse as Argentina, Brazil, Chile, Mexico, and Uruguay shared similar fundamental traits of the "classic" or "state-centric matrix" (SCM) of political, social, and economic relations (Garretón and Espinosa 1992; Cavarozzi 1992, 1994). According to Cavarozzi’s insightful analysis,

The operation of the SCM was based on two pairs of complementary processes, or mechanisms, which allowed the matrix to achieve a certain equilibrium, although by no means a stable one. The first mechanism depended on the relationship between the market and the state.... The second mechanism related civil society to the state (Cavarozzi 1992, 671-672).

The central economic features of this state-led model included an autarkic strategy of capital accumulation based upon import-substitution industrialization (ISI) in a semi-closed
economy. This implied an extensive entrepreneurial role for the public sector, pervasive state regulation of markets, subsidies to urban middle-class and working-class consumers, and a regime of moderate inflation. Political features of this model included a state-directed expansion of civil society, with tutelage of popular participation and regulation of citizenship. These features were complemented by political and cultural controls, such as intensified clientelistic patterns, corporatist channels, and direct linkages between national elites and the popular masses.

Despite some key differences, particularly the institutionalization of electoral competition and the alternation of parties in power, by the 1950s Colombia, Costa Rica, and Venezuela exhibited many elements of this matrix, marking them as specific variants of the state-centric pattern. In Colombia, Costa Rica, and Venezuela,

...industrial development and the political inclusion of the popular sectors occurred more recently than in [Argentina, Brazil, Chile, Mexico, and Uruguay]. Also state regulation of the economy was either less pervasive, as in Colombia and Costa Rica, or strictly dependent on oil rent distribution, as was the case in Venezuela (Cavarozzi 1992, 673-74).³

By the 1960s, the state-centric model in Latin America began to show obvious signs of fragility and progressive inflexibility. The chief symptoms included declining effectiveness of macroeconomic policy, falling private-sector investment, deficits in fiscal and current accounts, rising inflation, organizational decay, erosion of regime legitimacy, and, in some countries, the withdrawal of the population from the formal arenas of political participation. The respite provided by cheap international liquidity in the 1970s, however, disguised the growing cracks in the model and made possible a new phase of capitalist development.⁴

During the 1970s, Mexico and Brazil implemented debt-financed "forced march" strategies to deepen import substitution, while the Southern Cone countries began to abandon import-
substitution strategies and embarked upon radical, market-oriented projects (O'Donnell 1981; Smith 1985; Schamis 1991). As a result, orthodox monetarist policies were imposed in Chile following the 1973 military coup against Allende and subsequently, in a less drastic, and less successful fashion by military regimes in Argentina and Uruguay in the mid- and late 1970s (Foxley 1983). Detonation of the debt crisis in 1982 led many countries to follow Chile's experience and to adopt orthodox, IMF-style stabilization policies and then, when stronger measures were called for, to implement far-reaching structural adjustment policies. The new neoliberal creed crystallized in the late 1980s in the so-called "Washington Consensus." These structural adjustment packages included common elements based upon orthodox neoclassical economics -- fiscal equilibrium, "getting the prices right," trade and financial liberalization, privatization and deregulation, promotion of foreign investment, labor market flexibilization, and enhanced protection for property rights.⁵

With significant variations in rhythm and intensity in each country, stabilization and structural adjustment policies reinforced already pronounced tendencies toward the concentration of power in the executive branch and the exclusion of the popular sectors from participation in the formulation and implementation of social and economic policies. The erosion of traditional political identities and forms of political organization and participation, along with the emergence of new, still inchoate identities, particularly undermined the capacity for collective action on the part of the popular classes (Acuña and Smith 1994; Díaz 1994).

These transformations have accelerated the dismantling of state-centric styles of macroeconomic management and populist and semidemocratic modes of regulation, as well as the social structures of accumulation in which they are embedded.⁶ As a consequence, the
boundaries between the state and the market have undergone rapid redefinition. The shrinkage
of the public sector in democracies undergoing market-oriented reforms also underscores an often
overlooked phenomenon -- the further weakening of state power and administrative capacity both
to regulate the economy and mediate social conflicts, and the corresponding political, cultural,
and economic empowerment of private capital. Severe domestic and external financial crises,
coupled with trade and financial liberalization and the globalization of production, enabled local
and foreign "savers" (and especially holders of "mobile capital" in the form of liquid assets) to
acquire tremendous structural leverage over the state and macroeconomic policies.⁷

Despite its immense oil wealth, Venezuela did not escape this process. In fact, the
problems afflicting Latin America’s fourth largest economy led to the launching of probably the
most radical shift in development strategy in Venezuelan history. Consequently, the contemporary
political and legitimacy crises in Venezuela are manifestations of the unraveling of its particular
variant of the state-centric model -- a democratic petro-state. Moreover, we argue that the
problematic of reequilibration obliges scholars to abandon the thesis of Venezuelan
"exceptionalism" that has relegated Venezuela to the backwaters of comparative inquiry.⁸
Although petroleum is a major, and not secondary, feature of the Venezuelan dirigiste model, this
does not foreclose an analysis situating Venezuela in a broader comparative framework.⁹

Petroleum affected the historical development of Venezuelan social and economic
structures and, consequently, political structures.¹⁰ However, petroleum did not prevent
Venezuela from replicating the broad contours of the state-centric matrix; indeed, it contributed
to a particularly strong and resilient version of the SCM. Neither did petroleum stop the eventual
unraveling of the statist model. Instead, it allowed Venezuelan society to postpone
acknowledgment of the unraveling and exacerbated the consequences of the decline.
III. PACTED DEMOCRACY, THE PETRO-STATE, AND \textit{RENTIER CAPITALISM}

For many decades, Venezuela's variant of state-led development worked extraordinarily well, as reflected in high growth rates and lower inflation than in other large and medium-size economies. From the 1950s through the early 1970s, aggregate growth averaged over 6 percent annually, with an inflation rate of less than 2 percent. The secret to this success was, of course, the state-mediated distribution of surplus derived from oil rents.

Since the 1920s, large differential rents from oil revenues, plus the perpetual overvaluation of the currency, drove down the prices of imported foodstuffs and increased demand for more sophisticated services. These incentives induced traditional export-oriented agrarian elites to move into finance, trade, and services, taking advantage of their historical close ties to the military rulers. In subsequent decades, petroleum would provide about 80 percent of Venezuela's foreign exchange earnings, two-thirds of state revenues, and 20 percent of GDP.\textsuperscript{11}

The abundance of petroleum resources benefitted foreign capital and the domestic producers of nontraded goods. An alliance of the oil companies, the old agrarian elite, and a newer Caracas-based commercial sector dominated politics in the 1920s and 1930s; but over time, the impact of rapid economic growth created the conditions for a broader struggle over shares of oil rents. The emergence of an organized labor movement based in the petroleum industry and a middle-class service sector, along with the traditional peasantry, provided the basis for a mass mobilization under the leadership of the political parties. The impetus toward industrialization in Venezuela came after World War II with the \textit{Trienio} democratic experiment of 1945-1948. Industrialization was further intensified during the Pérez Jiménez dictatorship in the 1950s, with foreign and local investment in consumer durables, state ownership of basic industry, and massive imports of capital goods.
The fall of the Pérez Jiménez dictatorship in 1958 and the forging of a broad agreement between labor and capital and among the principal parties -- the Social Democratic party (*Acción Democrática*, AD), the Social Christian party (*Comité de Organización Política Electoral Independiente*, COPEI), and the Republican Democratic Union party (*Unión Republicana Democrática*, URD) -- made possible the emergence of stable democracy.

The institutionalization of democratic politics based on a hybrid combination of electoral competition and neocorporatist bargaining was accomplished by means of a series of pacts hammered out in 1958-1959. The first of these accords, the *Avenimiento Obrero-Patronal* signed in April 1958, consisted of a social pact that made explicit a class compromise in which capitalists pledged to support the democratic order while labor promised to eschew radical militancy and revolution. This pact ensured labor peace and reduced uncertainty by setting up institutional mechanisms for conflict resolution in labor relations and by explicitly recognizing rights and obligations of workers and employers.

The second pact, the *Pacto de Punto Fijo* itself, signed in October 1958 (before the December presidential elections), was a political agreement that guaranteed each of the three signing parties a share in the government, no matter who won. This power-sharing pact insulated the new regime from the threat of partisan conflict and guaranteed that each party had a stake in the survival of the system, thus reducing the possibility that any significant actor would reject the outcome of the electoral contest.

The final accord, the "Declaration of Principles and Minimum Program of Government," signed along with the *Pacto de Punto Fijo*, laid out a common economic and political program to be supported by all political parties. The objective was to mitigate uncertainty regarding the
economic strategy and policies to be implemented by the winners, thus providing reassurances to losers that their vital interests would not be threatened. The business community was promised protection from imports, the Catholic church was guaranteed a financial subsidy and legal autonomy, and the armed forces assured that no officer would be prosecuted for past actions (Hellinger 1991, 94).

By creating stakes in the game for the major actors and by utilizing negotiations that essentially eliminated electoral choice over state policies, the political leaders of 1958 successfully reduced economic uncertainty and ensured the transition and initial survival of the democratic regime. The exception was the Communist party (PCV), which although it had spearheaded the Patriotic Front, joined by AD, COPEI, and URD, to mobilize the population against Pérez Jiménez and to support the reestablishment of a constitutional regime, was excluded from these agreements. Nevertheless, the PCV supported the new democracy and the writing of the 1961 Constitution until ideological and programmatic differences eventually led the party and the AD youth wing to reject the class compromise forged during the transition and to lead a guerrilla insurgency launched in late 1961. This armed conflict was the largest single factor uniting the rest of the society, including putchist military factions, behind the democratic regime.

The new democratic regime continued an import substitution strategy benefitting domestic rentier interests by means of oil-financed investment subsidies, imported capital goods, and high levels of tariff protection for domestic manufacturers. ISI in Latin America has been notoriously inefficient and characterized by widespread unproductive rent-seeking. This phenomenon was nowhere more pervasive and destructive than in Venezuela, where the rentier logic of the petro-state created
...fertile conditions for major economic distortions.... [T]he combination of a state rich with oil and poor in efficient institutions tended to amplify both the virtues and the defects of an inward-oriented and highly protected and subsidized industrialization effort.... Industrial policy became an excuse to transfer public resources to politically chosen and privately owned "priority sectors" (Naím 1993b, 43).

Oil rents also benefitted the middle classes and the urban and rural poor through the expansion of public-sector employment, cheap imported food and consumer subsidies, and agrarian reform in the countryside. Class conflicts remained muted, while sectoral cleavages were more politically salient, thereby facilitating the expansion of state-owned enterprises and sectoral policies targeted to benefit specific producer, labor, or party-related clients.

By taxing the foreign-owned petroleum sector, the state was able not only to keep domestic taxes low but also to accumulate the resources to satisfy competing demands simultaneously. It mediated struggles over the distribution of material rewards in order to benefit the mass-support bases of the dominant political parties, while avoiding the political and economic risks that a redistribution of wealth and income would have entailed. In fact, during the first two decades, the democratic regime presided over an absolute improvement in the incomes of workers and the middle sectors, although there was not a relative increase in the income of the poorest quintile of the population. Instead, the relative change in the income distribution between 1958 and 1978 benefitted the middle and upper classes, with the share of the top 5 percent declining somewhat (Crisp, Levine, and Rey, 1995).

Venezuela’s version of the SCM, then, became characterized by party-mediated politics and elite pact-making, neocorporatist participation of recognized socioeconomic actors (FEDECAMARAS and the Confederación de Tradajadores de Venezuela, CTV) in policymaking, and extensive state intervention in the economy and in social relations generally. The
extraordinary mobilization capacity of a party system characterized by hierarchy, centralization, and discipline meant that a stable two-party dominant system evolved that facilitated governability but froze participation to those actors involved in the original 1958 scheme. As a result, Venezuela’s "presidential partyarchy" is probably the most extreme case of a centralized party system among democracies in Europe or Latin America (Coppedge 1994 and 1995).

Political parties successfully penetrated civil society to the extent that party slates governed elections in labor unions, universities, and professional associations. Such party influence helped to moderate behavior and keep social peace as important stakes in the system were created for interest groups by the governing parties. Representatives of the peak associations of business and labor sat on numerous government commissions and boards governing state enterprises, though often with more symbolic than substantive influence. Informal tripartite commissions with business, labor and government representatives provided a forum for communication at the national level, while more formal lower-level commissions provided mechanisms for dispute resolution on specific industrial relations issues outside of the court system. Both served as legitimating mechanisms by incorporating socioeconomic groups into the political process while, in the case of labor in particular, preempting the development of a militant sindicalism or a strong workers' party.13 They failed, however, to allow for the incorporation of newly emerging actors, such as independent unions, the informal sector, neighborhood associations, and non-governmental organizations, thus eventually undermining one source of regime legitimacy.

The state became a direct producer of petroleum, aluminum, steel, and energy; owned airlines, hotels, and the national telephone company; controlled licensing of airwaves for radio
and television; and regulated productive activity by granting import and export licenses, controlling prices of basic consumer goods, setting interest rates, and providing lucrative contracts to private enterprise. The state also maintained stable labor relations through a series of inducements and constraints, including the power to recognize unions and declare strikes illegal, participate in tripartite salary commissions with business and workers, declare across-the-board salary increases, and serve as an employer of 20 percent of the labor force (McCoy 1985, 1986-1987, 1989b; Guerón 1993; Crisp 1992).  

All post-1958 governments, whether led by AD or COPEI, presided over this class compromise. The broad outlines of the evolution of this dirigiste matrix are portrayed in Table 1. In the following decades, however, substantial variations in the Punto Fijo system occurred. The first decade of the new democracy was actually one of sharp divisions as conflicting visions for the society erupted into armed struggle, petroleum prices fluctuated, and political parties splintered. It was not until the 1970s that the dominance of the "parties of status" -- AD and COPEI -- emerged and the extraordinary petroleum boom provided the revenues to satisfy multiple social demands simultaneously with very low domestic tax rates.
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<td>1994 (prelim): GDP growth = -3.3%; inflation = 70.8%; bank bailout = 12% of GDP;</td>
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IV. UNRAVELLING OF THE RENTIER MODEL IN VENEZUELA

The real boom of the rentier model took place during the first administration (1974-1979) of Carlos Andrés Pérez (CAP). Growth rates continued above 6 percent, with only modest increases in inflation. This was made possible by a favorable international economic environment associated with the 1973-1974 oil price shocks (petroleum prices jumped from $2 to $14 per barrel) and easy access to cheap international liquidity through Euro-markets, the combination of which signified the massive injection of new resources into the Venezuelan economy. State-owned enterprises (SOEs) also mushroomed in the 1970s, along with massive public sector investment in infrastructure projects, such as hydroelectric generation and heavy industry -- iron ore, steel, and aluminum.

But this boom also exposed the fragility of the Venezuelan petro-state. Venezuela contracted a near-lethal dose of the so-called "Dutch disease" (Karl 1995a). Sharp price shocks and the subsequent massive inflow of foreign exchange led to a significant appreciation of the already overvalued local currency, with drastic impacts on different productive sectors and income groups. Despite CAP's pledge of "sowing petroleum" by investing the huge windfall to boost productivity throughout the rest of the economy, the inflow of foreign exchange proved impossible to manage wisely. During these years, the current account showed a large surplus and international reserves rose rapidly, exceeding $11 billion in 1981. This accumulation of reserves exacerbated "all sorts of illusions and expectations that proved to be the basis for many policy mistakes" (Naím 1993b, 42).

Oil revenues fueled rapid increases in national wealth, but also spurred even larger (and unsustainable) rises in public-sector spending. Whereas Argentina and Brazil had relied on
inflation to mitigate distributive conflicts, Venezuela, as Chile and Uruguay previously, turned to export surpluses to mitigate, albeit temporarily, the growing macroeconomic disequilibria marking the collapse of the SCM model. In 1974, for example, CAP’s lax fiscal policies resulted in a tripling of public-sector expenditures. The problem was that when, as inevitably happened, oil prices fell, causing national wealth to decline, CAP and Luis Herrera Campins, his COPEI successor, and their economic teams found it politically impossible to reduce public spending proportionately. In some years, public spending actually increased at the same time as oil rents were shrinking. In the 1970-1973 period, immediately prior to the boom, public-sector spending averaged 20.1 percent of GDP; subsequently, from 1974 to 1981, public spending exploded to an average of 29.1 percent of GDP, before reaching a high of 37 percent of GDP in 1982.¹⁵

In this supercharged context, the rewards expected from the nationalization (with full compensation) of foreign oil and iron-ore companies in 1975-1976 had virtually unanimous support from all sectors of public opinion, yet proved to be largely illusory. Paradoxically, in fact, nationalization actually accelerated the state’s fiscal crisis.¹⁶

Similar to the fuite en avant that occurred in Brazil and Mexico in the late 1970s, Venezuela’s growing macroeconomic disequilibria in the 1970s were disguised by the expedient of a rapidly rising external debt, which jumped from only $2 billion in 1972 to more than $33 billion by 1982. This increase in the debt burden accounted for 72.9 percent of GDP during these same years; comparable figures for Argentina, Brazil, Chile, and Mexico were 45.1 percent, 20.1 percent, 33.7 percent, and 29.5 percent, respectively (Frieden 1991, 76, 78).¹⁷

Moreover, over 80 percent of the external debt was owed or guaranteed by the public sector (central government, state enterprises, various sectoral development corporations and
autonomous agencies), which lacked adequate control and oversight mechanisms. By 1979, foreign credits accounted for 69.7 percent of total credit to the public and private sectors, up from 39.9 percent in 1972. During the 1974-1981 period, fully 88.8 percent of the expansion of the public-sector deficit was financed abroad (Frieden 1991, 76, 78).

Powerful -- and increasingly corrupt -- political elites and privileged entrepreneurs in manufacturing, finance, construction, and real estate reaped huge profits from the boom in the newly nationalized petroleum and iron-ore companies, while also benefitting handsomely from the arbitrage opportunities provided by external borrowing by the public sector. Their predatory -- but entirely rational -- behavior was subsidized by an overvalued exchange rate, free convertibility, unhindered capital flows, and an interest rate differential in favor of offshore deposits. Thus, while from 1973 to 1981, the state went heavily into debt, the domestic private sector became a net overseas investor by engaging in massive capital flight -- variously calculated between $30 and $80 billion -- largely financed and guaranteed by external borrowing by the government.

Concomitantly, real per capita GDP declined precipitously, and by 1985 was a whopping 25 percent less than in 1973 when the oil boom began. Even more alarming, along with Argentina and Brazil, Venezuela showed the most dramatic increases in urban poverty in Latin America between 1980 and 1990. As Naím has caustically observed, this "was a striking example of an inverted Midas touch. The system was systematically turning gold -- or oil -- into poverty" (1993b, 43).

The economic manifestations of the crisis of the petro-state in Venezuela, clearly evident by the mid-1980s, were similar to those accompanying the implosion of the state-centric model
elsewhere in Latin America: a ratcheting up of balance of payments constraints, a skyrocketing fiscal deficit, rising inflation, and so on. The flirtations with "macroeconomic populism" (Dornbusch and Edwards 1991) by both Carlos Andrés Pérez and Luis Herrera Campins proved no more successful than elsewhere.

The political consequences in each country varied, however. In Argentina and Brazil, economic crisis under military dictatorship led to a change in regime and the return to civilian rule. Following failed experiences with heterodox shock programs under Raúl Alfonsín (1983-1989) and José Sarney (1985-1990), more unconventional politicians adept at the art of "bait and switch" neopopulism, such as Carlos Menem (1989-1995) and Fernando Collor de Mello (1990-1992), took the lead in implementing neoliberal reforms.22

In Mexico, the debt crisis led Miguel de la Madrid (1982-1988) to initiate more orthodox policies, although it was during the sexenio of his successor, Carlos Salinas de Gortari (1988-1994), that market-oriented restructuring rapidly accelerated. But, as the 1994 electoral victory of Ernesto Zedillo and the ensuing financial crisis demonstrated, the consequences of marketization for economic growth, social equity, and transition to a more democratic regime remain highly ambiguous (Heredia 1994). In Chile, the economic travails of the early 1980s led the Pinochet dictatorship to deepen its market-driven capitalist revolution and to postpone political liberalization and democratic transition until the end of the decade. The civilian governments of Patricio Aylwin (1990-1994) and Eduardo Frei Ruiz-Tagle (1994- ) thus inherited a restructured and more dynamic economy but also a variety of authoritarian enclaves and the legacy of an incomplete democratic transition (Silva 1992, 1993; Garretón 1994; Vergara 1994; Acuña and Smith 1995).
Besides petroleum wealth, what was also unique about the unraveling of the Venezuelan statist model was the fact that it already had a well-established democratic regime when economic decline exacerbated its political flaws. Venezuela’s challenge, therefore, was not to adjust to havoc wreaked by unaccountable authoritarians, but to cope with a deepening social crisis and to initiate a transition toward the market under the more complex conditions of competitive electoral politics. The response was not regime change, as ultimately occurred in Brazil and the Southern Cone (although not yet in Mexico). Rather, as in Colombia, with the Liberal and Conservative parties, the governments of COPEI and AD proved ineffectual in reforming the economy, incorporating new groups, and in reversing the unraveling of the class compromises undergirding its pacted democracy. By 1989, the multiple disequilibria characterizing the crisis of the Venezuelan dirigiste model were unmistakable (see Table 1). The collapse had been postponed by deficit spending and borrowing made possible by oil rents, but the pressures were growing.

V. DEMOCRACY UNDER PRESSURE: CRISSES OF LEGITIMACY AND GOVERNABILITY

The refusal to adjust was unsustainable, although the presidential campaign of 1988 gave no hint of any awareness of this fundamental fact on the part of the AD and COPEI political elites. To the contrary, expectations were high that the victory of erstwhile populist big-spender Carlos Andrés Pérez heralded a return to the "good old days" of the 1970s. This made his announcement of a radical reform package of neoliberal restructuring all the more shocking. The so-called Gran Viraje (great turnaround) initiated by CAP offers abundant evidence that allegedly technically "sound" economic reforms, no matter how long overdue, may not only fail to produce
sustained economic growth but can also make for "voodoo politics" if they aren’t supported by a democratic consensus and implemented by democratic means.

CAP’s failure was both economic and political. Although economic orthodoxy along the lines of the "Washington Consensus" prevailed in the new discourse of the executive and in terms of macroeconomic strategy, policies never advanced much beyond short-term stabilization efforts. The Pérez government successfully carried out the policies on its comprehensive reform agenda that could be implemented by the cabinet: trade liberalization, exchange rate liberalization, eliminating restrictions on foreign investment, lifting of price controls, freeing interest rates and moving from indirect, generalized to direct, targeted subsidies for the poor. Between 1989 and 1992, fiscal and trade deficits were eliminated, inflation spiked but then subsided to around 30 percent, and growth spurted to 9.7 percent and 7 percent in 1991 and 1992, respectively. Nevertheless, CAP failed to generate popular support and parliamentary approval for his proposals for far-reaching structural adjustment and microeconomic reform: tax reform, financial reform, sustained privatization, social security and pension fund reform, and labor legislation changes. Instead, neoliberal restructuring was perceived by a highly organized political system as a hostile attack by an isolated executive and his technocratic team, who made little effort and little headway in selling structural adjustment policies politically, even to the president’s own party. CAP and his technocrats thus enjoyed neither the political consensus that supported civilian governments in Chile nor the largely unchecked authority of Menem in Argentina or Salinas in Mexico.

Echoing recent experiences in East Europe, Russia, and elsewhere in Latin America, anecdotes of illicit enrichment of a powerful minority, combined with impoverishment for the
majority and widening social cleavages, contributed to the widespread perception of corruption in high places in the government and among business elites. Continued erosion of the state’s capacity to provide collective goods, frustrated expectations for continued social mobility, growing alienation, and declining electoral participation among the electorate were the conditions that led to a challenge of democratic institutions.

By the eve of CAP’s inauguration, in February 1989, popular perceptions of the narrow opportunities for participation in the electoral and policymaking arenas -- a key factor in post-1958 legitimacy -- were turning decidedly negative. This was reflected in a January 1989 poll in which the most important political reform expected from the new government was to increase the direct participation of the people (Myers, 1995). The demand for greater citizen participation in the nation’s politics coexisted with serious and growing voter alienation from the electoral process, as demonstrated by voter turn-outs (in a country with obligatory voting) which had declined from 90 percent in the 1970s to less than 50 percent in the 1988 general elections.

Another concern among citizens that indicated potential legitimacy problems and an acute sense of injustice stemmed from the slide toward poverty on the part of the working classes and, especially, broad sectors of the middle classes.23 Perceptions of declining opportunities for social mobility in a context in which one-half of the population now lived below the poverty line were reflected in January 1989 polls in which respondents said the most important improvement President-elect Pérez should make was to create a Venezuela "more concerned with the people," while controlling the cost of living and creating employment were the highest policy priorities (Myers, 1995).
The new government was immediately put to the test. The five days of spontaneous and
disorganized riots -- known as the *caracazo* -- that broke out on February 27, 1989, only 23 days
into the administration’s term, led to widespread looting and the death of hundreds of people
(some NGOs speak of more than a thousand). These riots came in response to surprise hikes in
bus fares, the effects of which were exacerbated by a long-term decline in real income and the
growing perception that speculative hoarding by retailers and ineffective action by an uncaring
and ineffective government were pandering to the wealthy while placing basic foodstuffs beyond
the reach of many consumers. In the year following the launching of Pérez’ economic
stabilization package, such perceptions hardened. According to public opinion polls, the principal
fear expressed by 73 percent of respondents concerned the cost of living and removal of price
controls, while 29 percent feared rumors of *coup d’etat*. Confidence that the country would be
prosperous 4 or 5 years in the future was also low in a late 1991 poll, despite the nearly 10
percent economic growth rate that year: 62 percent replied they had little or no confidence, while
only 15 percent were very or quite confident (Templeton 1992).

Declining confidence and alienation were fed by a deepening disillusionment with state
performance. Indeed, the petro-state had sown the seeds of its own delegitimation: Broad sectors
of the population interpreted the erosion of the state’s problem-solving capacity as the result of
rent-seeking bureaucrats long reaping rewards in exchange for favoritism to specific groups.
Venezuelans increasingly complained about the lack of basic services, such as potable water,
functioning sewage systems, and working telephones. Personal safety also became a top concern
as crime rates skyrocketed, and although *caracazo*-type riots were not repeated, constant street
protests, student and labor strikes, and periodic bursts of violence gave the impression of a
breakdown of social order. Regardless of ideology, many Venezuelans no longer looked to the state to solve their problems, but rather began to see it as the source of problems. In many cases, the new social movements and citizens' groups that were proliferating so rapidly in civil society were not organizing with the aim of accessing or controlling state power, but to gain autonomy from the state and the parties that controlled it.

As the Pérez government deepened neoliberal reforms, its 9.7 percent GDP growth in 1991 made Venezuela one of the world's fastest growing economies. However, this spurt of growth was not accompanied by an explicit effort to improve the profoundly inequitable distribution of wealth and income. The Pérez administration made social spending a higher priority; social spending for the 1990-1993 period averaged 32 percent of public expenditures, up from 27.6 percent for the previous 1982-1989 period. However, in the context of austerity and neoliberal restructuring, the CAP government's effort to redirect subsidies and implement social programs to target the poor, rather than the middle class, had little effect. An extremely weak social service delivery system and the lack of a systematic focus on social policies by the government's economic team impeded any real improvement in such basic services as hospitals and schools. Further, real public investment in electricity, water, garbage collection, and telephones stagnated or declined between 1989-1991 (Nafín, 1993b, 67-68, 73-78).

Perhaps not surprisingly, improved macroeconomic performance did little to renew public confidence or to bolster support for democracy. The most dramatic signs of delegitimization of the democratic rules of the game were the attempted military coups of 1992 and the show of popular support for the February coup leaders. The military grievances that led to these coup attempts, first spearheaded by the nationalist Movimiento Bolivariano Revolucionario 200 (MBR-200), were
evident long before CAP’s *Gran Viraje*. Rooted in threats to the armed forces’ corporate interests having to do with conflicts over promotions, salaries, boundary disputes, and moral outrage over governmental corruption, discussions about an intervention apparently began in 1983 among a group of nationalistic junior officers. However, threats to the military’s corporate interests only lead to intervention when combined with a clear loss of legitimacy and conflict-solving capacity on the part of civilian elites and when the military is exposed to popular discontent. All of these conditions were met in Venezuela in 1992, when dissident military factions attempted coups in February and again in November.27

The residual strength of the *Punto Fijo* system was visible as the military high command backed the democratic order and put down the coup attempts. Popular reaction in support of the anti-corruption and anti-elitist message of the coup leaders, however, demonstrated the widespread frustration with ruling elites and belied the extent of the crisis of legitimacy of specific political institutions.28

In a May 1992 poll (taken between the two coup attempts), a plurality of respondents preferred an alternative to the current party system, with 40 percent wanting a democracy without the current parties and 8 percent preferring a military government (Myers 1995). Thus, continued support for democracy as a regime coexisted with strong disillusionment with political institutions in Venezuela. It is interesting to note that although rejecting a military regime, Venezuelans held the armed forces as an institution in high esteem. In contrast to other Latin American countries with more recent experiences of military rule, the Venezuelan military had an 81 percent favorable response in August 1993. The Supreme Court had a 71 percent favorability rating, and even Congress had a 55 percent favorable response.29
Of all the country’s political institutions, the parties were the most negatively viewed by the population. In fact, attitudes toward the traditional political parties had declined to the point that in August 1993, two-thirds of respondents viewed AD unfavorably and one-half viewed COPEI unfavorably. On the other hand, only 30 percent viewed the leftist Causa R negatively. It was the parties that were seen as the most corrupt of all the political institutions, and significantly, in the wake of the coup attempts, corruption had surpassed economic problems as the number one reason for dissatisfaction with the democratic regime (USIA 1993).

Perhaps most striking, it was the urban sectors from poor to rich who were the least satisfied with the functioning of democracy and the most willing to support a non-democratic government under some circumstances, while the rural sectors were the most pro-democratic. Levels of education also matter -- the higher the level of education, the more discontent with democratic performance. In fact, in the face of economic crisis and political uncertainty, up to one-third of Venezuelan respondents asserted that non-democratic forms of government are preferable under some conditions (USIA 1993). Lack of confidence in the government’s capacity to address the country’s most pressing problems was also reflected in the opinion that a military regime would be better able to protect against crime and ensure social order.

By 1993, Venezuela’s democratic institutions and political culture were clearly under great pressure. President Pérez and his government failed the test, succumbing to a combination of hubris, a failure to generate popular support for neoliberal reform, and an inability to maintain cohesion within their own Acción Democrática party or to cultivate parliamentary support from COPEI. Elements of political vendetta were also crucial in the drumbeat of corruption charges against the president that finally culminated in Pérez’s suspension from office in May 1993 and
his subsequent arrest and trial by the Supreme Court. Nevertheless, the remarkable resiliency of the political system was demonstrated in June 1993 by Congress' selection of Ramón J. Velásquez as interim president to serve the remainder of Pérez's mandate. Velásquez secured emergency powers from Congress to enact two more elements of Pérez reform program -- a value-added tax and a new banking law. The VAT, however, was never fully implemented and was partially repealed under the next administration.

New elections for president, Congress, and state assemblies in December 1993 led to the 1994 inauguration of Rafael Caldera, the septuagenarian former president. Radical reform seemed to have run its course, but this did not imply a return to the status quo ante of two-party duopoly. Caldera, a founder of the Christian Democratic party COPEI, broke with his party and ran as an independent, supported by MAS, Convergencia Nacional, and a diverse coalition of 16 smaller parties. Campaigning on a platform of anti-corruption, anti-poverty, and a revision of the neoliberal reforms, Caldera was elected president with a mere 30.5 percent of the vote. Caldera's alliance, Convergencia and MAS, won only 61 out of a total of 250 congressional seats.
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<td>30.7</td>
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<td>43.6</td>
<td>30.5</td>
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<td>12.4</td>
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<tr>
<td>Percentage not voting among all eligible voters</td>
<td>7.9</td>
<td>9.2</td>
<td>5.6</td>
<td>3.5</td>
<td>12.4</td>
<td>12.7</td>
<td>18.2</td>
<td>39.8</td>
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<sup>a</sup> Includes PCV, MAS, MEP, MIR, Causa R, Liga Socialista; 1993 figures broken down by party.

<sup>b</sup> For 1968, the vote for MEP (17.4% for president, 12.9% for congress) was included in the left total, as it is for other years.

<sup>c</sup> Rafael Caldera won the presidency with 30.5% of the vote, including MAS, MEP, Convergencia, PCV, and 13 other parties.

<sup>d</sup> Includes additional small party votes for Caldera (2.9%) and other candidates (1.1%).

<sup>e</sup> Congressional results are percentages of total seats won by each of the five parties in Congress.

**Sources:** 1958-1988 data from Hellinger (1991, Table 6.1); 1993 data from the Consejo Supremo Electoral.
The 1993 elections confirmed the trend away from a two-party dominant system, as the votes for AD and COPEI together declined from 75 percent in the 1973 through 1988 congressional elections to only 55 percent in 1993. Even more telling, the two traditional parties together consistently won over 85 percent of the presidential vote between 1973 and 1988, but only 47 percent in 1993. Voters registered their alienation from the political process not only by voting against the "parties of status" -- AD and COPEI -- but also by abstaining in large numbers from the election entirely: From 22 percent in the 1988 national elections, abstention jumped to 43.8 percent in 1993 and to 54 percent and 46 percent in the 1989 and 1992 municipal-gubernatorial elections, respectively. In short, the 1993 elections signals a new twist to the Punto Fijo system. The introduction of uninominal congressional districts for 1993, combined with the anti-establishment protest vote, had produced a Congress in which the president’s alliance held only 24.4 percent of the seats and in which four dominant political forces emerged, challenging the bipartisan duopoly control of AD and COPEI.

Caldera’s first year in office was marked by ambiguities and contradictions on both the political and the economic front. He came into office promising to reverse the Gran Viraje but he immediately faced a financial crisis of great magnitude as Banco Latino, the second largest bank in the country, failed, followed by thirteen others in 1994. After abandoning proposals for a constitutional amendment that would have allowed him to dissolve the Congress "when it does not carry out the will of the people," Caldera settled for a declaration of a "state of economic emergency" that gave him the power to govern by decree to restore economic stability. After the currency took a nosedive in May, Caldera selectively used his extensive executive powers to impose price and exchange controls and to suspend constitutional guarantees regarding
arbitrary arrest and freedom of expression as well as financial activity and property rights. Caldera justified these actions "in the name of social justice and solidarity."

Relations with Congress, where AD and COPEI far outnumbered Caldera’s supporters, vacillated between cooperation and confrontation in a dangerous game of constitutional brinkmanship. In this atmosphere, it is hardly surprising that by July 1994, 35 percent of Venezuelans would express support for an *autogolpe* by President Caldera to dissolve Congress, while 29 percent went so far as to support a military uprising by Lt. Col. Hugo Chávez Frías, the leader of the February 4, 1992, coup attempt, who had been pardoned by Caldera (FBIS 1994).

Mixed economic signals abounded as the interventionist measures were followed, in September 1994, by a moderately orthodox "Stabilization and Economic Recovery Program." The goals of this stabilization effort were to hold 1994 inflation to 65 percent and to reduce price increases in 1995 to less than 30 percent, to reduce the fiscal deficit to around 2.5 percent in 1994 and to achieve fiscal equilibrium in 1995, and to achieve 2 percent GDP growth in 1995. A more strategic goal pursued by the new stabilization plan was to hasten the transition from excessive state reliance on oil rents. This was to be accomplished by increasing non-petroleum revenues from 8 percent in 1994 to 12.2 percent of GDP in 1995, thus raising receipts from non-oil sources to an historic high of 55 percent of total governmental revenue. In fact, however, inflation in 1994 reached 70.6 percent and the combined fiscal and quasi-fiscal deficit (including the bank bailout) was estimated to be 15.2 percent of GDP. Moreover, despite official optimism, the economic panorama for 1995 and beyond remained quite troublesome, as indicated by the evolution of the principal indicators presented in Table 3.
Table 3
Principal Macroeconomic Indicators, 1988-1995

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<tr>
<td>Population (mn)</td>
<td>18.4</td>
<td>18.8</td>
<td>19.3</td>
<td>19.8</td>
<td>20.3</td>
<td>20.7</td>
<td>21.2</td>
<td>21.6</td>
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<tr>
<td>Real GDP growth (%)</td>
<td>6.2</td>
<td>-7.8</td>
<td>6.8</td>
<td>9.7</td>
<td>6.8</td>
<td>-0.4</td>
<td>-3.3</td>
<td>-2 to -6.5^</td>
</tr>
<tr>
<td>Fiscal deficit as % of GDP</td>
<td>7.7</td>
<td>1.6</td>
<td>1.1</td>
<td>5.8</td>
<td>-3.2</td>
<td>-3.3</td>
<td>-7.3^</td>
<td>-2.1 to-9.3^</td>
</tr>
<tr>
<td>Annual inflation (e.o.p., %)</td>
<td>29.5</td>
<td>84.3</td>
<td>40.8</td>
<td>34.2</td>
<td>31.4</td>
<td>38.1</td>
<td>70.8</td>
<td>70 to 120^</td>
</tr>
<tr>
<td>Lending interest rate (e.o.p., %)</td>
<td>8.5</td>
<td>22.6</td>
<td>28.2</td>
<td>29.8</td>
<td>33.9</td>
<td>48.8</td>
<td>40.0</td>
<td>55.0</td>
</tr>
<tr>
<td>Deposit rate (end period, %)</td>
<td>8.9</td>
<td>29.2</td>
<td>27.7</td>
<td>31.1</td>
<td>35.4</td>
<td>53.7</td>
<td>46.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Exports (fob, $bn)</td>
<td>10.2</td>
<td>13.3</td>
<td>17.5</td>
<td>15.2</td>
<td>14.1</td>
<td>14.0</td>
<td>15.7</td>
<td>14.3 to 14.9^</td>
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<tr>
<td>Petroleum exports ($ bn)</td>
<td>8.2</td>
<td>10.0</td>
<td>13.9</td>
<td>12.3</td>
<td>11.2</td>
<td>10.8</td>
<td>10.2</td>
<td>11.0</td>
</tr>
<tr>
<td>Imports (fob, $bn)</td>
<td>11.5</td>
<td>7.0</td>
<td>6.6</td>
<td>10.0</td>
<td>12.2</td>
<td>11.1</td>
<td>7.7</td>
<td>10.3 to 10.5^</td>
</tr>
<tr>
<td>Trade balance ($bn)</td>
<td>-1.3</td>
<td>6.3</td>
<td>10.9</td>
<td>5.2</td>
<td>1.9</td>
<td>2.4</td>
<td>8.0</td>
<td>4.0 to 4.4^</td>
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^ The consolidated public sector budget deficit, including the bank bailout (12.0 percent of GDP), is estimated to be 15.2 percent.
^ Minimum and maximum projections for 1995.

As he entered his second year in office, it was clear that Caldera confronted even more difficult governability problems than his predecessor. Faced with tenuous relations with Congress and economic emergencies, Rafael Caldera, like Carlos Andrés Pérez before him, increasingly resorted to ruling by decree during his first year in office. The distinction between efficacy and effectiveness of regime decisionmaking is pertinent here: The problem in Venezuela was to achieve regime efficacy in searching for satisfactory solutions to difficult economic problems.

The administration of Carlos Andrés Pérez pooled a great deal of expertise to devise economic solutions, but refused to go through the old political channels it deemed inadequate to ensure that the solutions would be perceived as satisfactory. Neither did the government construct a new politics to go with the new economy; instead the administration ignored the political parties, informed rather than consulted with economic groups about the policies through the Office of Concertation, and failed to communicate the depth of the economic crisis and the sacrifices needed to overcome it to the populace at large. In the end, the government failed to find solutions
to basic problems that would be accepted by a majority of citizens. The Pérez administration neither built a sufficient coalition of potential "winners" nor adequately compensated or isolated the potential "losers," leading to incomplete economic reform and an aborted presidency.

Rafael Caldera campaigned on a platform of anti-corruption and pledged to reverse CAP’s neoliberal economic policies but, when faced with the banking crisis and a huge deficit, was forced simply to contain the financial hemorrhage and then to announce his own version of a stabilization program. Nevertheless, the difficult decisions, such as raising gas prices and containing government spending, were postponed until a more propitious moment, apparently out of fear of another social explosion. The prospects for a program that aimed to rein in inflation and control the fiscal deficit by relying on increased revenues, while spending remained constant in real terms, were dubious.35 Caldera’s first year was thus spent in crisis containment and a search to reconcile the promises of social equity with the realities of resource constraints.36

Caldera’s vacillation between populist overtures to a restless population and liberal orthodoxy goes to the core of Venezuela’s dilemma. According to one Venezuelan observer,

Neopopulism may simply [perpetuate] the sense of inertia and decay and in the long-run precipitate serious social unrest. Neoliberalism, conversely, could precipitate huge organized industrial labour protests and military discontent, especially among young officers. Since the latter would be more likely to be rapid and the former slow in their outcomes it is perhaps understandable that Caldera -- mindful of what happened in 1989 when he "remade" his name following the [caracazo] riots -- should have remained true to his instincts.... In this sense, a weakness of the social market model in a society such as Venezuela is that it promises to hurt large proportions of the politically mobilized population who rely on rents. At the same time it presupposes on the part of political elites a high degree of compassion, far-sightedness, self-sacrifice, and courage. It also assumes that economic elites are not themselves clients of the system. Finally, it requires very short-term real costs while offering only very long-term hypothetical returns (Herrera 1994, 5).
VI. ALTERNATIVE SCENARIOS FOR THE FUTURE

Faced with this daunting dilemma, what are the short-term prospects for democracy and economic recovery in Venezuela? We visualize three basic alternative politico-economic scenarios that may unfold in the next several years.\(^{37}\)

1. Attempted Resurrection of the Old Matrix. The Caldera government appears to be attempting to resurrect the Punto Fijo political and economic model centered around the state and political parties, especially as it functioned during the incumbent’s previous administration, but without the vices surfacing with the petro-boom of the 1970s. Under this scenario, the government continues to rely on interventionist economic policies to attempt to contain the negative effects of macroeconomic disequilibria, improve the lot of the poor, and restore national pride. Opening the petroleum sector to foreign capital to expand petroleum production capacity, the government attracts foreign investment in oil, but fails to do so in other economic sectors. Economic growth is tepid, and the government faces serious loss of support in the Congress and among the populace, leading to problems of governability and resurgent perceptions of threats to the social order.

Although this scenario is the most probable course for Venezuela in the short term, it is not likely to prove sustainable for long. Clientelism and corruption cannot be weeded out without reform of the economy, the polity, and the state; growth cannot resume without a more efficient private sector and improved public infrastructure and delivery of social services. This scenario is one form of "muddling through" that could turn increasingly authoritarian (although a Fujimori-style autogolpe is unlikely) as political support erodes and the government is forced to
rely on emergency decree powers to maintain economic order and on the security forces to maintain social order.

2. *Democratic Collapse with Alternative Outcomes.* The Caldera government’s failure effectively to address the country’s deeply rooted sources of political and economic disequilibria, perhaps combined with an exogenous shock such as a drop in oil prices or the incapacitation of a popular president, could conceivably lead to an intensification of social unrest and economic deterioration. As Venezuela "touches bottom," the population and the military turn on the government. Two outcomes are possible -- *democratic reequilibration by force* or *collapse into anarchy.*

In the first alternative -- the employment of force to restore democracy -- an interim government, backed by the military, oversees the negotiation of new rules of the game. A stringent austerity program is implemented, foreign capital courted, and democratic institutions eventually reformed and restored, either under military tutelage (exclusionary version), or through broad negotiations with social and political actors (inclusionary version). In the second possibility, a collapse into anarchy might usher in a period of recurrent crisis punctuated by ephemeral stabilizations if political and economic elites are unable to agree on an interim power-sharing arrangement or to negotiate new rules of the game. A divided military would probably be unable to maintain central authority or to impose its political choices. In extreme cases, it is even possible that different groups control different regions of the country.

Democratic collapse into anarchy is not very likely, though certainly not impossible. A temporary breakdown of democracy followed by democratic reequilibration under military tutelage is a more plausible scenario in the event of exogenous shock.
3. Democratic Renewal and Economic Recovery. It is possible that COPEI and AD will manage to retain their majority status in the party system, but with more open internal politics (e.g., primaries and greater democratization of decisionmaking) and with smaller regionally based parties that add more diversity in Congress and a stronger challenge to the traditional duopoly. Economically, international oil prices remain stable, foreign investment provides crucial capital and technology to PDVSA, the government eases price and exchange controls and finds politically palatable and financially affordable means to implement needed austerity measures (e.g., gas price increase, tax reform, reduced government payrolls). After a period, perhaps lasting several years, of economic stagnation, economic recovery begins, centered in the private sector. The government utilizes representative institutions and concertation mechanisms to find an acceptable formula to achieve modest improvements in both growth and equity through democratic compromise and collective burden-sharing.

Although less likely in the short term than Caldera's attempts to resurrect the old petro-state model, this third scenario, with a revamped activist state and strong collective actors, has the greatest promise for achieving long-term democratic reequilibration. Moreover, we believe it is the scenario most likely to accelerate transition toward a new matrix of political, economic, and social relations. It will require, however, strong leadership to stimulate collective action and negotiate acceptable compromises to lead Venezuela toward a path of democratic renewal.

VII. CONCLUSION

Venezuela is at a crossroads. As we have suggested, Venezuela can move forward toward an outcome that achieves economic growth under democratic conditions, or it can revert to the past, attempting to reinvent old models relying on petroleum rents and a narrow circle of leaders
making decisions in the name of the people. It is even possible that Venezuela could experience a collapse of the democratic regime altogether. The problem is that the old models are elusive in a changed world, and new models have not yet been clearly defined.

We have argued that the dynamics of the collapse of the old dirigiste matrix in Venezuela were threefold. First, governability in the past was strengthened by the state’s ability to ameliorate social conflict and meet basic needs through distribution of externally derived rents rather than redistribution through domestic taxation. Social mobility and optimism about one’s economic future were an important source of legitimacy for Venezuelan democracy (Crisp, Levine, and Rey 1995). As we have seen, however, the collapse of oil prices and the resulting fiscal crisis of the state and general slide toward poverty in the 1980s and 1990s undercut this component of the matrix.

Second, the very organizational success of this model based upon an extremely strong form of party-mediated politics and a somewhat weaker form of neocorporatist policymaking eventually ossified and became progressively exclusionary. Expanded political participation in the electoral and policymaking arenas -- a key source of post-1958 regime legitimacy -- was weakened by a game of electoral politics increasingly dominated by two highly centralized political parties and a policymaking style virtually excluding all social groups except the officially sanctioned labor and capital peak associations. The symptoms of this increasingly narrow basis of participation were also reflected in the serious and growing voter abstention from the electoral process.

Third, the petro-state’s multiple economic roles -- entrepreneur, regulator, employer, and provider of social welfare -- gradually lost coherence and their capacity to generate sustained
growth. This activist and entrepreneurial state became bloated, inefficient, and incapable of providing even basic services and personal security. The petro-state had sown the seeds of its own demise as public and private "political rent-seeking" eventually led to inefficiency, corruption, and vulnerability to fluctuating oil revenues.

To achieve democratic reequilibration will require not only political and institutional reform but also a reorientation of the socioeconomic model to restore governability and legitimacy to the democratic regime. In the short term, the dilemma of democracies undergoing marketization is how social and political actors can learn to negotiate their contradictory interests within democratic institutions when economic conditions must decline for the foreseeable future. In the longer term, the challenge is to articulate a strategy capable of strengthening state administrative and regulatory capacity while, at the same time, promoting a market logic emphasizing productivity over rent-seeking, enhancing more pluralist democratic politics with multiple channels of participation, and placing a much higher priority on arresting poverty and improving social equity.

In the post-1958 Venezuelan model, free-riders abounded in a context in which oil rents paid for the realization of collective goals, and conflict revolved around the distribution of benefits in a positive-sum game rather than the distribution of costs. The social contract entailed a democratic class compromise in which consent was obtained from major actors because sacrifices were not required of them; marginal actors not benefitting from oil rents were ignored politically. Even during the lean years of the 1980s, a refusal to acknowledge the mounting economic constraints was manifested in mushrooming fiscal deficits and public borrowing that allowed for the continued practice of the negotiated distribution of goods among included groups.
It was not until the second Pérez administration in 1989 that the model collapsed, due to a sheer inability to sustain it.

The fundamental immediate issue was, and remains, how to overcome the dilemma of collective action so that private or partisan interests could be subordinated to the collective good during the "Latin Americanization" of Venezuela -- when the struggle among groups to shift the costs of economic stabilization to others contributed to new forms of distributive conflict not previously experienced. In this context, political leaders may choose between two general strategies: 1) imposition of a solution through "Hobbesian" means or 2) negotiation of a solution through cooperation, compromise, and positive social learning.

"Hobbesian solutions," whereby elected and technocratic elites in democratically elected governments impose new rules of the game without negotiation with majoritarian political parties and without consultation with capitalist interests and organized labor, have achieved some success in countries ranging from Argentina under Menem to the more extreme case of Fujimori’s autogolpe and authoritarian measures in Peru. Hobbesian solutions achieve greater success in a context of high levels of political and economic uncertainty provoked by hyperinflation, threat of a military coup, or violent domestic insurrections (Smith 1993; Acuña and Smith 1994), but are less sustainable in the longer term without recourse to openly authoritarian measures. Carlos Andrés Pérez’ Gran Viraje and Rafael Caldera’s use of "economic emergency" were unilateral attempts to impose new rules and to motivate individual actors to sacrifice individual or group interests for the longer-term benefit of the society through Hobbesian stratagems.

A strategy relying on negotiation, in contrast, seeks voluntary compliance from social and political actors in order to achieve collective goals such as economic stabilization and market-
oriented restructuring. This solution implies some sort of redistribution of political and economic resources and a sharing of the costs that is acceptable to all the major actors. This more inclusionary strategy can take the form of parliamentary negotiations or neocorporatist bargaining to incorporate the fundamental actors into the process of policy formulation and implementation. It also requires a state capable of monitoring compliance and/or providing compensation to reduce uncertainty and induce actors to comply with any accord reached. (Bresser Pereira, Maravall, and Przeworski 1994; McCoy 1992; and Acuña and Smith 1994).

Venezuela, in theory, seemed already to possess the conditions to implement the inclusionary, negotiation strategy. In contrast to much of Latin America, the Venezuelan advantages include a strong two-party dominant system with potential majoritarian parties in legislature; coherent peak associations for capital and labor, with labor tied to a multi-class political party; a democratic political culture and history of concertation and pact-making; and a revenue base that could fund compensation policies. In practice, however, these advantages became increasingly illusory in the 1980s and 1990s. All attempts to forge grand political accords and durable social pacts after 1986 failed (Navarro 1995).

By 1994, the party system had splintered so that four major political forces were represented in the Congress (see Table 2 above). The CTV labor confederation was not unified, nor did it control many of the actors who led the protests and strikes since 1989: unorganized urban poor, students, and professional organizations and labor federations targeting the state as employer (Ellner 1993). The business organization, FEDECAMARAS, did not represent a unified position of the private sector or have the ability to ensure compliance of its constituents with any negotiated solution. State administrative and regulatory capacity were weak and oil prices continued to be volatile, causing unpredictability in policymaking.
Even more difficult were the underlying attitudes impeding a collective solution to the crises. In the early 1990s, Venezuelans were tempted to look back with nostalgia to a past that could no longer be replicated. Citizens tended to blame a scapegoat -- corruption and thievery of public officials in general and President Pérez, and later bankers, in particular -- for the country's economic woes rather than recognize the reality of a bankrupt economic model. The obsession with removing Pérez from office reflected the collective delusion that one individual was the source of the multiple problems facing the country.

Nevertheless, there are some encouraging signs that may lead Venezuela toward a scenario of democratic renewal and economic recovery in the long term. First, the collective action dilemma of providing public goods may be progressively solved through taxation on domestic economic activities rather than dependence on external oil rents. Albeit grudgingly, the growing acceptance of Venezuelans to share the burden and responsibility for the costs of collective goods is demonstrated in the 1995 budget, in which domestic sources of revenue are planned to outweigh petroleum revenues for the first time in decades. More generally, ongoing debates about the fundamental role of the state and the relationship of citizens to it may eventually lead to a revised social contract and a new basis of democratic class compromise -- a prerequisite for democratic renewal in Venezuela.

Second, a more pluralist politics with multiple channels of participation is emerging as a result of the political and electoral reforms already in place. Politics is becoming more decentralized in Venezuela with the direct election of mayors and governors for the first time in 1989. Not only is revenue-sharing with local governments one consequence of these reforms, but also greater accountability of elected officials to the voters. Within the political parties, the surge
of political leaders with regional bases and open primaries have challenged the control of the party central committees.\textsuperscript{45} The introduction of uninominal (single-member) legislative districts in 1993 also makes representation more transparent and accountable to the voters and may result in less party discipline in the Congress. Although in the short term, these reforms are likely to result in a decline in governability, in the longer term they point toward the potential stabilization of a party system with two major national parties and smaller regionally based parties.

Paradoxically, while new modes of participation and greater accountability have resulted from the political and electoral reforms, voter apathy and abstention surged in the same time period. This reflects a continued lack of confidence in the political class and parties and, perhaps, the need for further reforms. For example, a number of important reforms are still pending in 1995, five years after the parties had agreed in a Pact for Reform to pass laws within one year to enhance internal party democracy, modify party financing, further reform the electoral process, and depoliticize the judicial system and electoral authorities.\textsuperscript{46}

If electoral participation is declining, however, other forms of participation are mushrooming in Venezuela. One of the most exciting and dynamic developments in contemporary Venezuelan political life is the explosion of organizations in the civil society in the 1980s and 1990s. The development of associational life opens new space and opportunities for political participation and thereby a new source of regime legitimacy.\textsuperscript{47}

Third, Venezuela is in the midst of a transformation toward a still inchoate "market-centric" matrix of political, economic, and administrative decentralization in which the state will act more as regulator than as a producer of goods or guarantor of collective consumption. Since 1989, the Venezuelan government has attempted to establish new economic rules of the game and
a new role for the state, but with only partial success. Carlos Andrés Pérez accomplished only a portion of his economic reform agenda, primarily in the areas of stabilization and liberalization, and failed to garner the political support needed for economic restructuring. Rafael Caldera spent his first year in office trying to stave off a total economic collapse in the wake of a severe banking crisis, giving mixed signals of his vision for a new economic role for the state.

In the literature on economic reform in fragile democracies, there is a growing alternative view to the conventional "Washington Consensus" that market-oriented reforms are sufficient to generate conditions for growth. Both perspectives recognize that a transition to a more market-oriented economy does not imply the elimination of a significant state role, but rather the reorientation of its role. The specific policy mix of reform and nature and degree of state intervention is disputed, however. While the "Consensus" calls for improved state capacity (e.g., physical infrastructure and in the definition and protection of property rights), the alternative view goes much further in also arguing that an effective and efficient state capacity is crucial to regulate the newly emerging markets and to coordinate resource allocation with a view to mobilizing national savings and to stimulating private investment through strategic public-sector expenditures.48

In order for the state to play an effective role promoting the market, it must have a legal system capable of generating confidence and ending impunity and corruption and an administrative capacity to mobilize the resources required to impose sanctions on transgressors who violate agreed-upon rules (O'Donnell 1994). State administrative capacity in Latin America in general, and in Venezuela in particular, however, is notoriously weak (Naím 1994a, 1994b). An extremely inadequate social service delivery system, lax regulatory and legal frameworks,
declining public investment in infrastructure and basic services, and a civil service with weak technical capacity must all be corrected in Venezuela.

There obviously is no clear blueprint for "transforming the state from problem to solution." Here we simply reiterate the importance -- recognized by both the "Consensus" and its critics -- of enhancing state capacity and stress that to achieve economic reform will require the ability to collect taxes, reduce consumption expenditures while maintaining public investment in infrastructure and human resource development, compensate for short-term social costs of stabilization through labor market and incomes policies and carefully targeted subsidies, streamline public employment and create a civil service based on merit rather than patronage, and create autonomous regulatory capacity inside and outside the executive branch. Such reforms will improve performance and help restore one of the bases of regime legitimacy.

Finally, international conditions matter in assessing the prospects for democratic reequilibration and sustained economic development. In addition to the obvious importance of stable oil prices, the reverberations throughout the hemisphere of the "Tequila effect" set in motion in late 1994 by the Mexican peso devaluation crisis underscore the crucial role of investor confidence for privatization and bond markets to finance Venezuela's fiscal deficit. Foreign capital will also be crucial to finance the expansion of PDVSA's exploration and production capacity. The crisis of the "emerging markets" also highlights the downside of globalization and interdependence and the significance of competition from other Latin American countries in Venezuela's macroeconomic performance and its success in searching for a new and more viable insertion into world markets.
The danger to democratic reequilibration in Venezuela is that the society, in the throes of circumstances in which social, political, and economic crises combine with a moral crisis, "hovers between decomposition and a rallying of collective energy" (Maier 1994, 51). Despite the country’s current despair, the emergence of civil society, political and electoral reforms, the debate over the reform of the state and its role in the economy all point to the possibility of a scenario of democratic renewal with a restoration of legitimacy and governability, and with a more dynamic economic performance and more equitable distribution of income and wealth. Whether Venezuelans will choose this possibility remains to be seen.
NOTES

1. Particularly insightful discussions of transition and consolidation in a burgeoning literature can be found in ODonnell (1992), Mainwaring (1992), and Valenzuela (1992). Karl (1991), Schmitter and Karl (1993), and Shin (1994) provide surveys and critiques of the literature. For useful edited volumes, see ODonnell, Schmitter, and Whitehead (1986), Drake and Silva (1986), Baloyra (1987), Malloy and Seligson (1987), and López and Stohl (1987). The meaning of a transition is straightforward -- the replacement of an authoritarian regime by a civilian government. Consolidation (sometimes referred to as the "second transition") concerns the institutionalization of representative government and the crystallization of a new democratic regime. According to ODonnell (1992, 48-49), one of the key requirements for democratic consolidation is that "...democratic actors no longer have as one of their central concerns the avoidance of a (sudden or slow) authoritarian regression and, consequently, do not subordinate their decisions (and omissions) to such a concern." He also highlights the "habitual nature" of practices compatible with the reproduction of democratic institutions and the requirement that the "procedural consensus" be consistent with the "extension of similarly democratic (or at least non-despotic and non-archaic) relations into other spheres of social life." Przeworski's discussion of consolidation is similar but also underscores that "democracy is consolidated when compliance - - acting within the institutional framework -- constitutes the equilibrium of the decentralized strategies of all the relevant political forces" (1991, 26).

2. The structural dilemmas of democracy transcend levels of socioeconomic development, such as balancing majority interests and minority rights, trade-offs between representation and governability, the inherent inefficiency of incrementalism and democratic compromise, and the collective action dilemma of promoting the common good over individual or partisan interests. Nevertheless, the capacity to solve problems within the structural constraints of democracy may vary according to the strength of a society's democratic political culture (and consensus on the rules of the game), the degree of institutionalization of its representative institutions, and its resource constraints.

3. See Sheahan (1987) for excellent comparisons of macroeconomic policy-making and the development trajectories of these countries during this period.

4. See Frieden (1991) for an illuminating discussion of the effects of cheap international liquidity in the 1970s that highlights the different national responses to a similar international economic environment.

5. For the standard description of this "consensus," see Williamson (1990). The success of neoliberal restructuring varied considerably from country to country, with critics skeptical about the capacity of these projects to achieve sustained economic growth with equity under conditions of democratic consolidation (Smith, Acuña, and Gamarra 1994a). For arguments that these reforms may trigger an "explosive path" of adjustment without necessarily generating stable economic growth, see Fanelli, Frenkel, and Rozenwurcel (1994) and Bresser Pereira, Maravall, and Przeworski (1994). For alternative explanations of the convergence around market-oriented policies, with different emphasis on statist, coalition, social learning, geopolitical and ideological

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6. The Latin American SCM (and especially the Venezuelan petro-state) would be an interesting one for theoretical work bringing together the French "Regulation School" and the work of U.S. scholars focusing on "social structures of accumulation." See Kotz, McDonough, and Reich (1994) for the current state of theoretical and empirical work in this field.

7. The Mexican peso crisis in December 1994 is a recent example of the leverage of international capital and bondholders. See Smith (1992) for an analysis of how this leverage operated at an earlier period in Argentina. "Mobile capital" in the context of open markets creates veto power, but capital flight (one aspect of mobility) can also occur with closed markets, as the result of black currency markets, for example. In short, the issue is probably less one of the empowerment of capital due to open or closed markets than one of the identity of capitals, e.g., opening to global financial markets brings new (international) players in the game at the same time as existing (domestic) players redefine their relations with the state and take advantage (or not...some fail) by tapping into international sources of liquidity/credit and enter into new patterns of alliance/competition with international capital. See Mahon (1994, Chap. 5) for an excellent analysis of the logic and functioning of mobile capital in constraining and shaping economic policies. However, this is not a zero-sum game -- the leverage of capital may go hand-in-hand with the strengthening of state power in new areas as a necessary prerequisite to successful marketization. On this "neoliberal paradox" and its implications, see Kahler (1990) and Acuña and Smith (1994).


9. Terry Lynn Karl (1995b) makes a strong case that the petro-state is not comparable to other kinds of states. Also see Karl (1995a) for a more extensive comparative treatment of petro-states.

10. Among the best examples of the large literature on democracy and petroleum in Venezuela, see Levine (1973), Karl (1986) and (1995), Naím and Piñango (1984), and Urbaneja (1992).

11. For an excellent discussion of the role of petroleum rents, see Baptista and Mommer (1987) and España (1989).

12. For a more detailed treatment of these pacts, see McCoy (1988).

13. There is an extensive literature on the role of parties and pacts in Venezuela, including Martz (1966), Levine (1973), and Karl (1986). For a discussion of the role of socioeconomic actors in
policymaking through tripartite commissions and through the political parties, see McCoy (1989a), Crisp (1992), and Salamanca (1988).

14. Ellner (1993) critiques the neocorporatist view, arguing that the state did little to control labor and that labor’s participation in government policymaking was minimal, at best.

15. These expenditure figures correspond to the "consolidated public sector" calculation published by the Banco Central de Venezuela (various years), and include the central government, the 30 largest nonfinancial public-sector firms, the state petroleum company (PDVSA), the Fondo de Inversiones de Venezuela, and the autonomous agencies of the central government; state and municipal governments and various other small public-sector firms are not included, although their relatively small expenditures do not significantly alter the broader picture of the public deficit. Figures were provided to the authors by Rafael de la Cruz.

16. It is important to remember, however, that in 1976 oil prices were still high, and most analysts forecasted new increases. Nevertheless, the problem was that the nationalized petroleum sector required immediate, and massive, new investments to sustain exploration and production levels, thus adding to the state’s fiscal difficulties.

17. See McCoy (1989b) for a discussion of the peculiar structure of Venezuela’s external debt: Fully one-third was short-term debt in 1982, due in 1983. While long-term debt service as a proportion of exports was lower than the other four large Latin American debtors, Venezuela’s per capita debt was the highest among this group of five debtor countries.

18. The lack of control mechanisms by either the executive or the legislative branch meant that many state agencies were left free to incur external debt on their own initiative. When attempts were made to institute needed controls, the parastatal enterprises began to borrow from public financial institutions, which, in turn, increased their own overseas borrowing. Consequently, when Pérez returned to office in 1989, the real amount of the foreign debt was not completely known. For a detailed account of the process of indebtedness and its impact on state finances, see Rodríguez (1991).

19. From 1974 to 1978, the output of intermediate and capital goods industries jumped by 49 percent, while output in traditional manufacturing sectors rose by 25 percent. The share of the former two sectors in total industrial output increased from 39 percent, in 1968, to 49 percent, in 1978 (Frieden 1991, 203).

20. According to various estimates, capital flight between 1976 and 1984 alone represented between 38.3 percent and 87.7 percent of the total foreign debt in the latter year. See Frieden (1991, 81-82) for a discussion of the sources and methodologies employed.

21. Venezuela’s urban poor (income of less than $60 per month) grew from 18 percent to 33 percent of the population, while extremely poor "indigents" (monthly income of less than $30) grew from 5 percent to 11 percent of the population. Based on data compiled by ECLAC and

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cited in *Chronicle* (1994). According to ECLAC (1994, 44), the distribution of income also became more inequitable during this period.

22. These heterodox experiments might be interpreted in terms of schizophrenic "half-way" attempts between trying to prolong or resurrect the bankrupt SCM and a market-based transition toward more orthodox policies with an export orientation. For analyses of the heterodox experiments, see Smith (1989) and Sola (1991). See Smith (1992), Acuña (1994), and Sola (1994) for discussion of the subsequent shift to more orthodox policies of structural adjustment in Argentina and Brazil.

23. The impoverishment of the middle strata and privileged sectors of the working class is particularly problematic. Their discontent due to reduced standards of living and greater financial insecurity may be exacerbated by the greater wealth and ostentatious enrichment of the upper classes and due to the perception that neoliberal reforms favor the elites. Nelson observes that this "sense of injustice may well be more corrosive of confidence in democratic institutions and market solutions than the hardship itself, which many people (particularly members of the middle classes) are prepared to view as temporary" (1994, 59). The unorganized "forgotten" masses may suffer in silence, unable to overcome barriers to collective action to further their common interests.

24. According to one count, in the three years following the February 27, 1989, riots, street protests and demonstrations led by students, neighborhood associations, and others, number 5,000. Of those, 2,800 resulted in violence (Ellner 1993, 89).

25. As Charles Maier has noted in a recent study of moral crises in Western societies, today "citizens do not so much confront their states with demands as they back away in disillusion" (1994, 49).

26. In fact, comparing 1990-1993 with the period from 1982 to 1989, data reveal a decline in real per capita social expenditures from $346 dollars to $306 dollars, while in terms of GDP, social expenditures decline from 9.5 percent to 8.5 percent. See ECLAC (1994, 162).

27. This is a large a complex subject that has elicited a very uneven literature. In addition to Agüero (1995), see Rangel Rojas (1993), Daniels (1993), Müeller Rojas (1992), Sonntag and Maingón (1992), and the special issue of *Politeia* (1992) on the first 1992 coup attempt.

28. A poll taken in November 1993 showed that 55 percent of respondents believed the February 4, 1992, coup attempt was justified, while only 37 percent did not. Nevertheless, these sentiments probably reflected sympathy for the complaints listed by the coup leaders, rather than support for a change in political regime. In fact, the same poll showed very little change in attitudes toward the proper role for the armed forces in Venezuelan politics between 1973 and 1993: In both cases roughly one-third of respondents agreed with each of the following statements: The military should always respect constitutional government; the military should back the popular will when the political regime does not correspond to the aspirations of the people. It is the latter sentiment that seems to have been evoked by the coup attempt. One-quarter of respondents
replied that the military should act in politics only when they perceive constitutional noncompliance (Myers and O’Connor 1994).

29. Compare this with U.S. citizens attitudes toward their Congress: Polls showed a consistent downward trend in approval of the way Congress handled its job from 42 percent in January 1990 to only 17 percent in January 1992 (Ladd 1993).

30. These results contrast with perceptions that in other Latin American countries it is rural, less-educated citizens who tend to be more conservative and more likely to favor authoritarian solutions. The USIA poll surveyed four social groups: urban elites (middle- and upper-class residents with high school or university education), university students, urban popular masses (lower-class and slum residents with less than high school education), and rural residents with less than high school education.

31. 1993 polls in Brazil, Chile, and Venezuela showed the following results: 1) "Democracy is preferable to any other type of government, no matter what the conditions in the country." Chile: agree - 74 percent, disagree - 17 percent; Venezuela - agree - 68 percent, disagree - 29 percent; Brazil: agree - 47 percent; disagree - 20 percent; military and democratic regimes the same - 20 percent. Comparing these 1993 Venezuelan results with those of a 1994 poll of seven Latin American countries (excluding Venezuela) again showed Brazil and Venezuela to have the highest proportion of people believing that a non-democratic government may be preferable under some circumstances. On satisfaction with the functioning of democracy, the same polls showed the following results: Chile - very or somewhat satisfied - 62 percent, very or somewhat unsatisfied - 35 percent, Brazil: satisfied - 22 percent, dissatisfied - 66 percent, and Venezuela: 31 percent satisfied versus 66 percent dissatisfied. Despite the high levels of dissatisfaction, a plurality of Brazilians still believed a democratic government was better than a military one at six governmental tasks: maintaining good relations with other countries, providing economic opportunity, guaranteeing individual liberties, insuring equal justice, protecting against crime, and reducing government corruption. In contrast to Brazil, Venezuelans believed the military was better than a democratic government at maintaining civil order, protecting against crime, and reducing government corruption -- three issues of high concern to Venezuelans. See USIA (1993), (1994a), (1994b), and (1994c).

32. In the course of 1994, the government took over effective control of almost the entire banking system. The government bailout surpassed $8.5 billion (approximately 12 percent of GDP), accounting for about two-thirds of all domestic deposits. Compare the magnitude of the Venezuelan financial crisis with that of the U.S. savings and loan bailout, estimated to cost 3.3 percent of GDP over a thirteen-year period (Hubbard 1994, 381).

33. See Smith and McCoy (1995) for additional details on these events. See Payne (1995) for a comparison of Caldera’s use of executive power with similar means employed by Alberto Fujimori, César Gaviria, and Carlos Menem, among others. For Caldera’s defense of his government’s policies, see Caldera (1994).
34. For the details of the Sosa Plan I, see *El Universal* (1994a and 1994b) and *El Globo* (1994). See *El Diario de Caracas* (1995) for the package of 12 additional measures -- the Sosa Plan II -- announced in mid-January 1995. Although the government's plans envisioned that the oil sector would remain central to the economy's future, it was announced that, for the first time since nationalization in 1976, Petróleos de Venezuela (PDVSA), the world's third largest oil company, would solicit tenders to open exploration and production to private capital. For details on the opening of the petroleum sector, see *Financial Times* (1994). This step actually was a continuation of policies initiated in 1992 under CAP and during the interim government of Ramón Velásquez, which signed a "strategic association" agreement in January 1994 for a $5 billion project between PDVSA, Shell, and Mitsubishi for the exploitation of natural gas. This opening to private capital was necessary because the state taxes about 82 percent of PDVSA's proceeds from the export of petroleum, leaving PDVSA hard-put to raise the approximately $48 billion needed for its five-year plan to double production by the year 2000.

35. In fact, Venezuela performed worse than any other medium-to-large Latin American economy in 1994 (until the Mexican peso crisis in December) on several grounds: It was the only country in recession, the only country with accelerating inflation, and the worst performer in the region in terms of equities and fixed-income instruments (Porzecanski 1994).

36. The 1995 budget promised to make progress in education, health, and security. But it will take more than just spending -- a massive effort will be required to improve bureaucratic technical capacity, social service delivery systems, and public infrastructure that have been allowed to deteriorate for more than a decade.

37. See Acuña and Smith (1994) for a more extended exercise in analyzing alternative scenarios for Latin America. They argue that the most probable scenario for Venezuela is a "dual democracy" (roughly similar to the successful variant of the second scenario presented below), although the second most probable scenario is that of "inclusionary democracy" with an activist state and strong collective actors (roughly equivalent to the third scenario presented below).

38. See Jácome (Forthcoming) for a discussion of political learning in Venezuela, and Geddes (1993) for a discussion of the collective action problems involved in administrative and institutional reforms and in building state capacity.

39. The social contract between the state and society specifies the rights and obligations of both citizens and rulers. Debates over the role of the state in regulating the economy, providing social welfare, and managing income distribution, as well as the mechanisms that mediate the interactions between the state and actors in society, are all fundamental aspects of the social contract. See Ludlam (1991) for a theoretical discussion and application to the case of Gorbachev's Soviet Union.

40. In game theory, a "Hobbesian" solution may be found through the presence of a hegemon, operating above and beyond the game to assure the Pareto-optimal outcome by acting authoritatively to redefine the payoff structure so as to neutralize the costs of cooperation and reduce the benefits of defection.
41. As early as 1985, a public opinion survey showed that 86 percent of respondents blamed corruption, while 74 percent blamed bad administration for the crisis of confidence discerned by one-half of the population at that time. In a March 1992 poll, when respondents were asked what they believed were the principal causes of the February coup attempt, 75 percent cited economic problems, while 66 percent cited administration problems of corruption, bad government, poor public services, and Pérez' government (Templeton 1992).

42. Pérez' adversaries tried at different points to remove him by means of a military coup, popular referendum, and early elections. In the end, it was an allegation of abuse of public funds that would finally succeed in his suspension from office in June 1992.

43. Venezuela's tax incidence is still quite low, however, in regional and global perspective. The Economic Intelligence Unit reports that the 1995 budget revenues coming from income tax are expected to equal only 2.5 percent of GDP (double the 1994 rate), while all non-oil revenues (VAT, bank tax, luxury tax, customs tax) will amount to 12.2 percent of GDP (1994). Compare this to a Latin American average for tax revenues of 14 percent of GDP, a middle-income country average of 19 percent, and an industrialized country average of 24 percent (Naím 1994b). With oil revenues, on the other hand, Venezuelan government income will increase from 16.9 percent of GDP in 1994 to 21 percent in 1995 (EIU 1994).

44. For a more complete discussion of these reforms and the proposals of the presidential Comisión para la Reforma del Estado (COPRE) regarding decentralization, see Ellner (1993-94) and de la Cruz (1992).

45. Oswaldo Alvarex Paz, then governor of Zulia, defeated party leader Eduardo Fernández in primaries to choose COPEI's presidential candidate. Claudio Fermín, then mayor of Caracas, defeated party establishment candidate Carmelo Lauria to become AD's presidential candidate. Andrés Velásquez, governor of Bolívar, was Causa R's presidential candidate.

46. The inability of Congress to agree on the new members of the Supreme Electoral Court by early 1995 is one more symptom of declining governability and ability to depoliticize key institutions.


48. For various aspects of these arguments, see Bresser Pereira, Maravall, and Przeworski (1994), Cavarozzi (1992), Fanelli, Frenkel, and Rozenwurcel (1994), and Acuña and Smith (1994). For example, Marcelo Cavarozzi calls for a new developmental state requiring a mix of deregulation and reregulation, noting that this "...requires that the state walk a narrow path of letting the market operate without choking it and, at the same time, playing a coordinating and overseeing role that private firms left to themselves would not assume (Cavarozzi 1992, 682). Similarly, Fanelli, Frenkel, and Rozenwurcel argue that "stabilization-cum-growth recovery implies a reconstruction of the state's ability to perform coordinating and promoting functions. This requires a far-reaching political effort to formulate and implement social rules and discipline."
Together with the aforementioned external agreement, a political sustainable fiscal pact and a social agreement appear essential" (1994, 110). It is interesting to note that the Inter-American Development Bank, long an proponent of the "Washingtonian" view, has recently advanced interesting ideas for "strengthening civil society," in a partial conceptual shift in recognition of the horrendous social costs and potential destabilizing consequences of deepening poverty. See IDB (1994).

49. Evans is surely correct in noting that "Reconstructing the state is an amorphous and frustrating task, a project of decades if not generations. Nonetheless, enhanced state capacity remains a requirement of effective economic policy, including sustained structural adjustment. Pretending otherwise would be a dangerous form of utopianism. Transforming the state from problem to solution must be a central item on any realistic Third World policy agenda" (1992, 181).

50. We want to be clear that this possibility depends upon the implementation of a strategy that contrasts sharply with the more orthodox recipe of the "Washingtonian" version of economic adjustment. We believe that a "social democratic" strategy (see Bresser Pereira, Maravall, and Przeworski 1994) may be Venezuela’s best chance to achieve a stable macroeconomic equilibrium, but at a higher growth rate than more orthodox policies could deliver. In addition, this strategy’s priority on substantial reform of the party and electoral systems and strengthening collective actors in civil society -- especially popular social movements and labor unions -- and promoting their participation in the decision-making process make distributive properties of this scenario less regressive than in conventional neoliberal models (Acuña and Smith 1994).
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