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Policy Making in Venezuela

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CONTOURS OF ALTERNATIVE POLICY MAKING IN VENEZUELA

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Contours of ‘alternative’ policy making in Venezuela

1. Introduction

Latin America has been one of the favorite playgrounds for neoliberal economic policy experiments since late 1970s. These policies presumed that by leaving economic decisions to the markets, economies could overcome the problems created during the state-led developmentalist era and achieve international competitiveness, economic growth, and development. The collapse of the Soviet Union further contributed to the dominance of this approach and in early 1990s some were celebrating the end of the “potential for social revolution and progressive reform” and saluting the beginning of an era in which “conservative, pro-business, often democratically elected and pro-US technocrats [were] holding office in many of these countries” (Castañeda 1993:3). However, this triumphalism did not last too long. As neoliberal policies failed to fulfill their promises and instead produced various financial and social crises, one after another, left-oriented leaders took power in Latin America and began, to varying degrees, seeking alternatives to the neoliberal orthodoxy, which was believed to be the major culprit of dismal economic performance and increasing poverty and inequality.

In 2005, *Wall Street Journal* was describing these leaders as a “new breed of pragmatic leftists” that combined “left’s traditional warm-hearted social goals with a new found appreciation for cold economic calculus” (Leiva 2008: xvii). Santiso (2006) argued that as a result of the defeats of both the 1960s’ ‘revolutionaries’ and the 1980s’ ‘free-marketeers,’ a more pragmatic approach of a “political economy of the possible” was on the rise. Much of the policy formulations of these governments and political parties were informed by the Latin American neostructuralism, which sought to replace “market fundamentalism” and humanize “savage capitalism” imposed by neoliberal policies of the recent decades (Leiva 2008: xvii).¹ Among

¹ Latin American neostructuralism, whose beginnings can be traced to ECLAC’s publication of *Changing Production Patterns with Social Equity*, although recognized the primacy of the markets, argued that State intervention was necessary for generating economic growth and development. It was based on the premise that this kind of an approach was the only viable alternative to neoliberal policies and

these, one case stood out, partly because of the fierce and radical rhetoric adopted by its leader, Hugo Rafael Chávez. Since coming to power in 1999, Chávez's rhetoric evolved from an anti-neoliberal, nationalistic one to include strong anti-capitalist tones. Parallel to this, economic programs in Venezuela, both on paper and in practice, radicalized over years. Lebowitz (2007) labels Venezuela as the "bad left" of the continent to draw attention to the more radical nature of the Venezuelan experience in comparison with the other left-leaning governments of the continent. Venezuela went further than others in reversing neoliberal policies, nationalizing key industries, reintroducing extensive social programs and promoting alternatives to the capitalist organization of production. While the view on Chávez's politics and his government's policies varied from seeing him as an authoritarian *caudillo* with populist tendencies to the leader of 21st century socialism, more recently several scholars discussed the radical nature of the economic policies implemented.² Harnecker (2005) notes that the Venezuelan process is distorted by the international media and little understood by the left since "what is happening is a *sui generis* process that explodes pre-conceived schemes of revolutionary processes" (p. 9). Wilpert (2007), by providing an overview of economic as well as social and foreign policies of the Chávez government argues that despite contradictions these policies aim to transcend capitalism and constitute the groundwork for the institutions of a 21st century socialism. Gott (2008) argues that in Venezuela a new model is emerging, while the process is pragmatic and open-ended without a pre-ordained economic or political blueprint, where the policies implemented are original and they do not fit into any existing frame of reference. Ellner (2010a, b) evaluate some of the economic policies of the Chávez government, as they relate to the historical debate between socialists who favor practical policies to increase productivity and those who are concerned with combating the capitalist values and interprets the promotion of cooperatives, worker management and state involvement in economic activity in the context of creating alternatives to capitalism.

"entertaining more radical alternatives that challenge the power of transnational capital is not only unwise and unfeasible but also ultimately unnecessary for achieving growth with equity" (Leiva 2008: xxiv).

² For conservative analyses of the Venezuelan case, see, for example, Castaneda and Morales (2008), or BTI (2010).

This paper contributes to this growing literature by analyzing the economic policies of the Chávez government. These policies mark, in general, a significant departure from the neoliberal orthodoxy with a focus on greater national autonomy, a return to some of the macroeconomic policies of the earlier eras, and increased state involvement in the economy through interventions and social programs; and have resulted in improved social indicators such as declining poverty rates, increasing literacy rates, declining unemployment and so on. These policies, at the same time, provided space for a set of ‘transformative’ initiatives, including experiments with worker co-management, cooperatives and participatory planning, all of which seek alternatives to the capitalist organization of the economy, even though these ‘transformative’ attempts so far have been limited in terms of scope and success. Although the Venezuelan experience could be considered *sui generis*, especially with its dependence on oil and the resultant *rentier* economy and culture, a critical evaluation of the policies implemented in Venezuela would contribute to both discussions on the alternatives to neoliberal policies as well as to the question of what shape a 21st century socialism could take.

Rest of the paper is organized as follows. In the next section, I discuss the break with neoliberal economic policies and analyze different aspects of the macroeconomics policies implemented so far. In the third section, I turn to a discussion of the transformative initiatives of the Chávez government. Last section concludes with an evaluation of these policies and a discussion on their likely future path.

2. Break with neoliberalism

Venezuelan economy is highly dependent on oil production and revenues, where oil and related industries account for a large share of the GDP, 80 percent of exports, and over 50 percent of government revenues. This dependence has been an important factor hindering industrial development and created an economy that exported oil and imported most other products. Specialization in oil production led to the dismantling of agrarian structures and created dependence on imported foodstuff. The economy went through an oil bonanza in the 1970s which came to

an end in the early 1980s.³ Afterwards, especially with the 1989 Carlos Andres Perez government, neoliberal orthodoxy started taking over economic policy making. A sharp decline in international reserves, increased budget deficits, balance of payments and foreign debt problems led the government to collaborate with the International Monetary Fund (IMF) and implement a structural adjustment program.⁴ 1990s were characterized by radical trade and financial liberalization and partial privatization of state-owned enterprises, especially in banking, telecommunications, steel, and transportation industries. In this period, the growth of the manufacturing sector collapsed, the number of large manufacturing enterprises declined sharply, and investment and productivity growth slowed down. High inflation and capital flight persisted following the banking crisis of 1994.⁵ All this, happening in the context of historically low oil prices and the neoliberal policies' utter disregard for the poor, resulted in immense poverty and inequality in the Venezuelan society. For example, in 1998 per capita income was 34.8 percent lower than the 1970 levels (Heston *et al.* 2002). By 1997, the percentage of population under extreme poverty had reached 20.3 percent, official unemployment rate stood at a 15 percent, and the rate of inflation approached 60 percent.

Chávez was elected within this environment, on a platform of strong anti-neoliberal rhetoric. He argued against privatization and elimination of price controls; called for a reversal of neoliberal policies and a partial moratorium on foreign debt; and promised to humanize Venezuela's economy and put an end to poverty (Pena 1998, Cooper and Madigan 1998, Gutkin 1998). However, the departure from neoliberal policies was uneven, long and scattered throughout the government's tenure. Following Ellner (2008: 110) we can identify three stages: During the first period (1999-2000) priority was given to political proposals such as the new constitution while socioeconomic objectives took a backseat. The second period (2001-2004) witnessed a radicalization and a direct confrontation with the opposition. The last period is when the discussion of a new economic model began

³ For a detailed discussion on the place of oil in Venezuelan economy see Di John (2009).

⁴ *El Caracazo* of the 1989, the massive public uprising and ransacking, was a direct response to the implementation of these policies.

⁵ See Ellner (2008) Chapter 4.

to take priority as the opposition was weakened and the government's hand was strengthened with the increased oil revenues.

Initial years focused on political issues rather than economics and some economic legislation was still in continuity with the neoliberal orthodoxy, such as the 1999 Law to Promote and Protect Private Investment (*FUNDELEC*) and the 2000 General Telecommunications Law (*TST*). The new constitution, one of the first acts of the government, guaranteed economic freedom and private property (articles 112 and 115) and recognized Central Bank independence (articles 311 and 318). However, at the same time, the new constitution included articles that designated a larger role for the state in the economy, as well as articles promoting transformative economic policies, as discussed below. The 2001-2007 development plan included parts about creating a social economy outside the private and public sectors, composed of cooperatives and such, and proposed to achieve economic growth through private investment together with state presence in strategic industries—which reflected a refusal of the free-market fundamentalism (Lebowitz 2006: 91). On the economic front, the government's priority was to get control over the State and the state oil company *Petroles de Venezuela* (PDVSA). In 2001, the government introduced 49 special laws including laws on cooperatives, microfinance, land reforms, fisheries, and oil. The break with orthodoxy was perhaps most evident in the oil policy and involved State's re-appropriation and re-distribution of the oil rent.⁶

⁶ These 49 laws triggered the well-known attempts to unseat Chávez leading to a coup attempt. Lebowitz (2006) argued that these reforms could have been absorbed by the system and they could have even brought more stability to the society. However, as a whole “these new laws—oriented toward meeting human needs and integrated through this specific ideology—were an attack on capital as such. And capital grasped this. Both local capitalists and imperialism, with its particular interest in the continued domination of finance capital and the previous trajectory toward privatization of the oil industry, understood that this articulated package of reforms represented the assertion (implicit and explicit) of an alternative rather than mere isolated changes” (p. 95).

2.1 Redistributing the oil wealth

Given the dominant role of the oil production in the economy, it is not surprising to see that the first large-scale changes took place in this area. The fact that in Venezuela the state has historically been at the center of appropriating and distributing the oil rent to the rest of the society, had created the conditions for inherently more interventionist policies and political institutions (Grinberg 2010). While domestically increasing state control over oil industry, internationally the government set itself out to strengthen OPEC in an effort to increase oil prices. Increased OPEC coordination and adhering to the production quotas, that were previously not followed by the PDVSA in an attempt to target market share rather than price, contributed to the increase in the price of oil (Lander 2008: 13).

In 2001, oil royalties were increased from 16.6 percent to 30 percent. This was a significant increase given that most foreign oil companies had previously negotiated rates much lower than the 16.6 percent. Especially following the failed April 2002 coup and the 2002-2003 shutdown of the oil industry, PDVSA continuously increased its control in the oil sector. In 2005 private companies with operating agreements with the PDVSA were transformed into joint ventures, where the PDVSA would have a majority stake, with the exception of Exxon Mobile who refused to participate in this transformation and whose fields were as a result entirely taken over by the PDVSA (Wilpert 2007: 96). In 2007, the Orinoco Belt joint ventures were turned into PDVSA controlled projects and in May 2009, PDVSA further integrated subcontracting companies into its body in an effort to strengthen state control in the oil industry.

Increased control over the oil industry resulted in a greater share of the oil wealth flowing into the coffers of the PDVSA. The new hydrocarbons law aimed to use the income derived from oil to fund social projects in health and education and to allocate part of the income to a macroeconomic stabilization fund. The redistribution of this wealth to the poorest sections of the society was a priority for the Venezuelan government, given the widespread poverty and immense inequalities. This redistribution took the form of various extensive social programs, called missions, in health, education, provision of basic consumption goods and so

on. These social programs were directly funded by the PDVSA's oil revenues in order to bypass the state bureaucracy as the government considered the state to have inefficient administrative capabilities which could not be reformed quickly whereas it deemed these social programs urgent.

By 2009, there were 25 different missions operating, among which health, education and food missions occupied a large place. *Mision Barrio Adentro*, which began in April 2003, brought 20,000 Cuban doctors to around 1,600 medical offices scattered around in poor neighborhoods to make essential health services accessible to everyone. Over time, this program expanded to bring more advanced health services and train Venezuelan doctors to replace the Cuban doctors.⁷ Education missions included pre-school (*Mision Simoncito*), literacy (*Mision Robinson 1*), primary education (*Mision Robinson 2*), secondary education (*Mision Ribas*), higher education (*Mision Sucre*), and vocational training and job creation programs (*Mision Vuelvan Caras*). Other examples of these social programs included programs for peasant welfare (*Mision Zamora*), mining communities (*Mision Piar*), indigenous populations (*Mision Guacaipuro*), and food distribution (*Mision Mercal*). Mercal, one of the most ambitious of these programs, is a state-run food distribution network. It is estimated that 40-47 percent of the population buy food through it at prices that are on average 41-44 percent lower than market prices (Datanalisis 2006). According to the National Statistics Institute's numbers, households that buy at least one item from Mercal constituted 54.21 percent of total households. A large number of programs were also run to provide infrastructure services such as water distribution, electrification, transportation, housing and so on. The combination of all these missions was to become the 'Christ' mission whose central aim was defined as eradicating poverty by 2012.⁸

These social programs contributed to declining poverty rates, increased literacy and schooling, improved health indicators and so on. In addition to these, oil revenues have been used in many different areas, including supporting industrial initiatives, sponsoring the formation of cooperatives and financing the nationalizations. Part of the oil rent was distributed to other countries in various

⁷ See Muntaner *et al.* (2006) for a detailed overview of this program.

⁸ For details on these social programs see <http://www.gobiernoenlinea.ve/miscelaneas/misiones.html> and D'Elia and Francisco (2008).

forms, including donations, lending and selling of oil with advantageous financing terms. For example, through PetroCaribe, a 14-country energy agreement launched in 2005, “Venezuela provides \$9.7 billion worth of oil to member-states, of which \$3.7 billion is financed over 25 years at 1% interest. This guarantees supply for countries with small economies” (PDVSA 2010).⁹

2.2 Macroeconomic policies

Fiscal policy Recapturing a larger portion of the oil rent enabled the government to follow an expansionary fiscal policy without increasing the budget deficit. Since 2001, the size of fiscal spending has been over 25 percent of the GDP. Increases in public sector and contractors’ wages as well as in social spending constituted a significant part of the spending, although a large portion of the social spending continued to be financed not through the central government budget but through PDVSA funds as the government wanted to bypass the inefficient and corrupt bureaucracy and directly transfer resources to the poor. However, this situation created two problems. First, many functions of the state were doubled, once through the PDVSA funded missions and the regular public spending channels. Second, this created some unrest among the middle classes – teachers, doctors, etc. – who thought the poorer sections of the society were being supported at the expense of the programs that supported them. More recently, as the effects of the global crisis reached the country, the government attempted to keep the expansionary nature of the fiscal spending, while also announcing certain expenditure cuts with a view to minimize the impact of these cuts on the low income classes. Furthermore, two funds, the National Development Fund (Fonden) and the joint China-Venezuela Fund¹⁰ kept the spending high through investments in various areas

⁹ A portion even went to the US through the CITGO-Venezuela Heating Oil Program which “provides heating oil at discounted rates to individuals and communities in need, started in 2005 after the disaster of Hurricane Katrina. In 2009, the program was expanded to serve 202,000 households, 245 homeless shelters and 250 Native American communities in 25 states. Some 49 million gallons of discounted heating oil was distributed” (Embassy of the Bolivarian Republic of Venezuela to the US 2010).

¹⁰ This fund was established as part of the strategy to diversify and increase trade partners. While China contributed to the fund through loans granted by the Development Bank of the People’s Republic of China as part of the bi-national agreement, Venezuela agreed to deliver 100 thousand barrels of oil per day over three years” (BCV 2009: 69).

including public works and housing, energy, basic industries and mining and agriculture (BCV 2009: 57). However, all in all government spending declined creating a pro-cyclical looking fiscal policy (Vera 2011).

On the revenue side, tax collection has historically been problematic in Venezuela and reorganizing the country's tax system has become one of the main goals of fiscal policy in this era. As a result of increasing oil royalties, the share of oil revenue in total revenues has increased from around 25 percent in 1998 to almost 40 percent in 2008. SENIAT (Integrated National Service for Customs and Tax Administration) used new legislation and forced many companies such as McDonalds, GM, H-P to pay taxes (Ellner 2008: 126). A "Zero Evasion Plan" together with "Banking Debit Tax" and a tax on financial transactions were introduced. While in 1998 tax revenue was 10.33 percent of the GDP, by 2005 this ratio went up to 14.63 percent. Income taxes on people and companies went up from 2 percent of GDP in 1999 to 3.2 percent in 2006 showing an improvement. Sales tax, a regressive form of taxation, remained quite a large portion of the overall tax revenue and was increased in 2009 from 9 percent to 12 percent to compensate for the reduction in public resources (BCV 2009: 57). Still, compared with other Latin American countries tax burden in Venezuela, standing at 13.6 percent of the GDP, was 1.4 percentage points below the average of the whole region (BCV 2009: 165).

No radical steps were taken in terms of the external debt other than cutting off the relationship with the IMF after paying off all the debt owed to the fund. External debt was paid in full despite some initial debate on it and this gave the government the ability to use the bond market when it needed to raise funds. Moreover, an increase in the interest paid on domestic borrowing as a percentage of GDP can be observed throughout this period. In 1998, domestic interest payments were a mere 0.7 percent of the GDP while it increased as much as 3 percent of the GDP in 2003, and 2.1 percent the following year, only to fall down to the 1998 levels in 2007. This has been one of the factors that contributed to the growth of the financial sector by 37.0 percent in 2004, by 34.6 percent in 2005 and by 39.2 percent in 2006. To put these numbers in perspective, the growth of the public sector was only 12.5, 4.1, and 2.9 percent in the respective years (Weisbrot and Sandoval 2009).

Monetary policy The changes in monetary policy during the Chávez administration have been slower as the central bank independence was recognized by the new constitution and the Bank administrators used this autonomy to follow a contractionary monetary policy with the aim of reducing inflation and maintaining high levels of reserves. After 2003, the policy aimed decreasing interest rates in order to augment the aggregate demand while price controls were introduced to control inflation. The prices of basic consumption items, especially foodstuff, were subjected to price controls while the government subsidies through *Merval* also helped keep the prices low. The regime of price controls, introduced in February 2003 and jointly administered by the ministries of commerce, agriculture and land, and food, covered around 37.6 percent of the basket of goods and services that the consumer price index (CPI) is composed of (BCV 2009).¹¹ In 2009, 30 percent of the CPI basket was under price controls (BCV 2009). However, the inflation rate, although on average lower than the earlier period, still remained high, hovering between 15 to 35 percent. Two main forces kept inflation high in this period. First, the limited availability of foreign currency for non-essential imports (as discussed below) which led the importers who could not acquire foreign currency for their imports through legal ways prefer the parallel foreign exchange market where the dollar trades, on average, almost 3 times more than the legal rate. Various studies showed the significance of pass-through effects for the price increases in Venezuela (Mendoza 2007). Second, private enterprises, most of which had monopolistic positions, incessantly increased prices to appropriate more revenue and at the same time to force the government's hand. At times, enterprises either reduced output or began hoarding to increase prices by creating artificial scarcity. As a result, the government took over some factories or firms since the price controls were undermined by hoarding or by not using the factories to full capacity.

As part of the new monetary policy, rules on credit allocation and limits on interest rates were introduced in order to support certain sectors. In 2009, commercial banks had to allocate 21 percent of their gross portfolio to the

¹¹ Maximum retail prices were set for basic products including sugar, milk, cheese, corn oil, white rice, coffee, precooked corn flour etc.

agricultural sector, 3 percent to microcredit, 10 percent (6 percent long term and 4 percent short term) to housing and 3 percent to the tourism sector. (BCV 2009). Interest rates are also regulated according to economic sector. For example, in 2009 the rates were set, for credit cards at 28.6 percent whereas for agriculture at 12.8 percent and mortgage rates were set at a low 12.3, probably as a token to middle class. (BCV 2009: 188) In the last couple of years the crisis led the Central Bank to adjust interest rates downwards in order to counter the decline in economic activity by increasing domestic credit. In fact, the National Assembly passed a new law at the end of 2009 that increased the Central Bank's powers to create financing for programs considered priority by the government (BCV 2009: 57-8). Manufacturing was promoted as the highest rate that the banks were allowed to charge for credits to companies in the manufacturing sector was 19 percent while the banks had to allocate at least 10 percent of their portfolio for this activity (BCV 2009: 60).¹²

Exchange rate policy Introduced primarily to deal with the capital flight, capital and exchange rate controls were also used to allocate currency to much needed imports of necessities and limit the imports of luxury goods. It is estimated that around the April 2002 coup, 1.6 billions of dollars of capital flew the country (Gracia and Reyes 2008:30). In March 2003, under the *Comision de Administracion de Divisas (CADIVI)* a new regime of foreign exchange management was introduced. This commission is responsible for the management and coordination of the exchange rate regime as well as the allocation of foreign currency to different sectors of the economy.¹³ In order to acquire foreign currency for imports, firms had to prove that there was either no domestic production of the item to be imported or that domestic production was not sufficient. CADIVI published two lists, one that included products that require certificate of insufficiency or no domestic production and

¹² On the other hand, the Central Bank also uses standard tools to deal with the overall needs of the economy. For example, in the face of the crisis it took measures to deal with the lack of liquidity in short-term money markets by reducing the required reserve ratio (BCV 2009: 58).

¹³ In 2009 "most of the liquid foreign currency, 68.1 % was earmarked for the private sector through exchange operators, for a total of USD 21,290 million, down 39.8 % from 2008. Of this amount, the sectors that posted the highest participation were imports of goods and services (70.1%) and credit card expenses (15.7%). The share of the allotted amount for foreign investment fell from 4.3% in 2008 to 2.5% in 2009" (BCV 2009: 65).

another one that included products that do not require this. In 2009, the number of products that did not require a certificate was reduced. (BCV 2009 68).

There were two devaluations in 2004 and in 2005, 20 percent and 12 percent respectively, and in 2010 a dual exchange rate system was introduced, similar to the one that existed in the 1980s.¹⁴ Priority imports such as food and medicines, technological equipment for industrial and agricultural production, imports made by the public sector, payments to the students studying abroad and pensions to those living abroad would be paid for at a rate of 2.60 *bolívars* per dollar, while a rate of 4.30 would be used for the rest, such as imports of automobiles, beverages, tobacco, cell phones, computers, home appliances, and textiles.

The latest devaluation and the introduction of the dual exchange rate system is likely to have three effects in the short run. First, the government will be able to increase its revenues through the dollars it gets from oil exports. Second, it will also increase the repayment of the public debt, more than half of which was drawn up in dollars. Third, given the large import component of consumption, the cost of living will also increase. The government hopes that this last effect, in the long-run, will promote import substitution as imports now cost 20 to 100 percent more. This is expected to lead local producers to a better position which might start producing what was formerly imported to strengthen the industrial and agricultural base of the economy.

Trade policy While the domestic policies increasingly deviated from their neoliberal precedents, government abandoned free trade policies as well. Venezuela announced its withdrawal from the Free Trade Agreement of the Americas (FTAA) and embarked on a series of new international unions with the aim of diversification

¹⁴ In fact, even before the introduction of the formal dual exchange rate system, the fixed exchange rate system created a black market and in effect a dual exchange rate in the economy. Its efficacy in preventing capital flight was debatable as other methods were developed within this system to transfer funds: "In December 2007, the Venezuelan Minister of Finance declared a critical level of 2,300 millions of dollars reached for capital flights by way of the external travel quotas and the purchases on the web thanks to a system of pre-paid cards, but it announced simultaneously that this system by cards would be ended at the end of 2007" (Nakatani and Herrero 2008: 17). Errors and omissions in the balance of payments was around 2,864 million in 2006, 1,981 millions in 2007. Furthermore, the government and the PDVSA issue bonds in dollars and sell these to domestic banks at the official exchange rate then banks can turn around and sell these dollar-denominated bonds in international markets and make a profit as well as contribute to capital flight. In fact, this possibly further contributed to the above-mentioned growth of the financial sector.

of foreign investment and trade and promoting Latin American integration. These policies, while involving political aims such as establishing a counterweight to the US hegemony in the region, also brought a new framework for international trade. The establishment of the Bolivarian Alliance for the Americas (ALBA) in contrast to FTAA, brought a new understanding and further closeness between Latin American countries. ALBA, led by Venezuela, Cuba and Bolivia seeks a new structure for trade and economic cooperation and create a regional protected and integrated trade zone. The ALBA experiment can be seen as a “middle-ground strategy of group delinking” (Hart-Landsberg 2010) through which the participating governments aim to provide the necessary protection for their economies while also by acting together hope to provide their domestic enterprises with larger markets they need both for economies of scale and also to access resources and technology. So far, ALBA initiatives included bilateral trade agreements between state enterprises through which exchanges of goods, technical and financial support for investment, oil, and social services take place. ALBA also created a Regional Monetary Council with its own currency, *sucre*, and plans to establish a financial structure that would involve a central clearing house, a monetary council and regional reserve and emergency funds.¹⁵

There has also been a movement towards bilateral trade agreements around specific exchanges where, oil trade, for example, has been tied to specific investments in Venezuela or to the import of capital goods to expand industries, especially in agreements with Brazil, China and India. Preferential terms for oil together with low interest financing were extended to Latin American countries. One significant example of the new trade framework was the oil exchanges with Cuba, where direct bartering of oil with medical services, education, and pharmaceuticals, represent a planned approach to trade.

¹⁵ Hart-Landsberg (2010) summarizes the developments in this regard so far: “several countries have ... deposited agreed upon amounts of their respective national currencies into a special sucre fund. These monies are then converted into sucre. At this point, the sucre exists only as a virtual unit of account, with an exchange value of \$1.25, and is being used only for targeted trade of specific commodities. The first sucre-denominated transaction, involving Venezuelan rice exports to Cuba, occurred in January 2010. Bolivia, Nicaragua, and Ecuador also have plans to engage in sucre-denominated trade. ALBA’s long-term goal is for the sucre to become an international reserve currency much like Euro” (p.).

State involvement and nationalizations Turning back to the domestic economy, we observe that through various nationalizations state involvement in the economy has continuously increased. The largest nationalizations took place in the oil sector and reinforced state oil company as the main controller of oil in the country. Initial nationalizations included local operations of oil joint ventures of BP, Chevron-Texaco, Conoco-Phillips, ENI, Exxon Mobil, Statoil, and Total. Later on nationalizations in related activities were carried on, including companies that provided services to the PDVSA.

Furthermore, the large-scale privatizations of the neoliberal era were reversed through nationalization of the telecoms provider CANTV, electricity providers Electricidad de Caracas and CMS Energy. Companies in industries that were deemed necessary for certain social policies were taken over, especially in cases where the companies refused to fully comply with the government's requirements. For example, cement companies were nationalized in an attempt to direct cement production to the domestic market and contribute to the housing projects of the government. A recent priority of the government has been nationalization of strategic companies in the food production, processing and distribution sector including producers of aluminum and cardboard food packaging. For example, in August 2009, the military occupied the plants of Fama de America after it was declared that the company was responsible for the coffee shortages and later in 2010 Exito and Cada, two big food retailers were nationalized. In 2010, glass producer Owens-Illinois, which produced bottles for foodstuff, was nationalized. As part of the broader aim of guaranteeing food security and decreasing import dependence, lubricant and chemical company Venoco, fertilizer company Fertinitro and agricultural supplies company Agroislenya were nationalized as they were all accused of price speculation. In the case of Agroislenya, the prices of the products of this company such as fertilizers, agrochemicals, and seeds were brought down.

In some cases pressure from the workers was effective in pushing the government to nationalize a firm. For example, Venepal, a paper company, was the first firm taken over "in the public interest" in 2005 after being occupied by the workers (Lebowitz 2006: 103). In the case of the iron and steel company SIDOR, a company that was privatized under a previous government, nationalization was a

response to the demands of the workers where a serious dispute between the workers and the company ensued in 2008.

As the vice-president Jaua commented in 2010 that government interventions were not against the 'private' sector but against 'monopolistic elements' of the economy (Reardon 2010), nationalizations did not take the form of expropriation, but the owners were compensated at market prices. One of the main reasons for paying generous compensations was to avoid legal penalties for not abiding by bilateral treaties on investments signed by the country. If Venezuela were to withdraw its signature from bilateral treaties on investment and leave World Bank's tribunal on investment issues, International Center for the Settlement of Investment Disputes, its assets (especially PDVSA's assets abroad) could be seized in retaliation. In fact, in 2008, Exxon Mobile, tried to seize 126 billion dollars of PDVSA assets through Dutch and British courts when parts of its operations were nationalized in Venezuela.

2.3 Land reform

Land reform, once a popular project in Latin America which nonetheless failed in most cases, was placed at the center of the new government's policies through a law introduced in November 2001. While land reforms in Venezuela date back to 1960s, these were not really implemented and about 75 percent of the private agricultural land remained in the hands of only 5 percent of the landowners, while 75 percent of the smaller landowners owned only 6 percent of the land (Wilpert 2007:110). The land reform law was not particularly radical in its reach as it essentially targeted idle agricultural land and land that was acquired illegally or illicitly and did not ask for an immediate redistribution of land and it stipulated that the current owners of the idle land would first be asked to put the land into agricultural use and in cases when they failed to do so they would be compensated at the market value of the land. This stipulation showed one of the major aims of the land reform, which was to increase the agricultural use of the land in an attempt to increase food production and agricultural security given that a very large portion of foodstuff is imported. In the process, the other aim was to provide the landless poor peasants

with means of production for their survival. With the help of the *Mision Ezequiel Zamora* 1.5 million hectares of land was turned over to peasants in 2003. By the end of 2005, three million hectares were distributed to more than 130,000 families (Wilpert 2007: 112). *Mision Campo Adentro* was also designed to help peasants with education, credit and agricultural machinery. Most of the land redistributed in this period included State land while occupations by landless peasants prompted more and more expropriation of estates. More recently, attempts were made to accelerate the land reform through new nationalizations. In 2010 the National Assembly approved a change on the initial Land Law that made it easier for the landless tenant farmers to obtain land (Suggett 2010b). However, land reform still faces two main problems. First, there is direct resistance by landlords. According to news reports more than 200 landless peasant leaders were killed by hired gunmen as they organized to occupy land and get titles. Second, many difficulties arise at the level of implementation due to personal or institutional rivalries/complex laws etc. (Bruce 2008: 75).

3. Socialism and transformative experiences

As the Chávez government increasingly deviated from neoliberal policies, a more radical rhetoric was adopted. Whereas in 1999 he had declared “our project is neither statist nor neoliberal; we are exploring the middle ground, where the invisible hand of the market joins up with the visible hand of the state: as much state necessary, and as much market as possible” (Gott 2000: 172), in 2005 he would announce that “it is impossible for capitalism to achieve our goals, nor is it possible to search for an intermediate way... I invite all Venezuelans to march together on the path of socialism of the new century (Forrero 2005).” In contrast to previous socialist experiences where central planning and abolition of private ownership of the means of production took the center stage, the socialism project in Venezuela was deliberately left vague. Harnecker (2005) notes that the process is ideologically undefined, especially on the economic front as it does not assume Marxism as the guiding ideology but rather Bolivarianism which, while politically speaking of Latin American integration, does not propose radical economic transformation. Ellner

(2010a) remarks that “although all revolutionary movements are divided over conflicting aims, the Chavista movement is particularly characterized by the lack of clear priorities. Indeed, the Chavista official discourse of ‘21st century socialism’ is admittedly ill-defined” (p. 94) and goes on to explain that this is partly because of the immense inequalities which led to the prioritization of social goals among many Chavistas.

While many, especially those in the opposition camp argued that the government was trying to turn the country into a copy of Cuba, Azicri (2009) points out that “in contrast to Castro, Chávez is not a communist, but he is not an anticommunist either. As he has admitted, his knowledge of Marxism is superficial. His support for twentieth-century socialism is not based on Marxist-Leninist values and practices. His socialist vision anticipates vaguely a system ‘based in solidarity, in fraternity, in love, in justice, in liberty and in equality’” (p. 103). The two projects contrast with each other in many aspects. Instead of an all out modification, the social transformation in Venezuela has been limited. The state did not assume an overall socioeconomic control but took partial steps to control strategic industries. The institutional structures of the economy and politics also significantly differ as Venezuela assumes political and economic pluralism in contrast to the single-party system and the state-controlled economy of Cuba and similarly the extent of the state’s control of social and cultural life remained quite limited compared with Cuba’s all-inclusive control system.

In any case, four major changes in this context can be identified: First, the constitution and certain legislation introduce goals about creating an alternative productive model. Second, establishment of cooperatives as an alternative form of production constitutes a search for a non-capitalist organization of the economic system. Third, initiatives such as the establishment of community councils and participatory budgeting experiences attempt to transform the system by increasing participation by the masses. Finally, there are various experiments and debates about worker co-management in nationalized enterprises.

Even though some articles of the new constitution are in continuity with the free-market view of the economy, it also includes many progressive elements-a reflection of the balance of power among different sectors when the constitution

was drafted. As such the constitution guarantees “economic, social, and cultural rights” and emphasizes the need for universal social policies aimed at achieving social equity and overcoming the political inequalities as well as the cultural exclusions with an eye towards participation and social inclusion. It includes articles on overall human development of the citizens to be achieved through “strategic, democratic, participative and open planning.” Lebowitz (2006) summarizes this as follows:

In Article 299’s emphasis upon ‘ensuring overall human development’; in the declaration of Article 20 that ‘everyone has the right to the free development of his or her own personality’; in the focus of Article 102 upon ‘developing the creative potential of every human being and the full exercise of his or her personality in a democratic society’; in Article 62’s declaration that participation by people is ‘the necessary way of achieving the involvement to ensure their complete development, both individual and collective’; in the identification of democratic planning and participatory budgeting at all levels of society; in Article 70’s focus upon ‘self-management, co-management, cooperatives in all forms’ as examples of ‘forms of association guided by the values of mutual cooperation and solidarity’; and in the obligations, as noted in Article 135, that ‘by virtue of solidarity, social responsibility, and humanitarian assistance, are incumbent upon private individuals according to their abilities’ – the elements of a socialism of twenty-first century are there in ideal form (p. 72).

Cooperatives Promoting and protecting cooperatives was one of the stipulations of the constitution and a new law in 2001 required the State to provide free training and extended credit for cooperatives. One of the key ideas was that the cooperatives could respond to the needs of the related persons better than the capitalist enterprises. While cooperatives provide a means to include large numbers of unemployed and underemployed people, they are also considered beyond that as an essential part of the new economic model to be created whose “*raison d’être* is collective well-being rather than capital accumulation” (MINEP 2005: 12). Pineiro (2009) notes that the promotion of cooperatives reflect the administration’s presumption that the

democratic, egalitarian, and solidaristic principles that define it serve not only to replace the wage-labor relation with that of associated workers within enterprises, but also transcend the capitalist logic of the Venezuelan economy with one in which human beings and their needs for development are at the center. [Therefore] several public programs and regulations, and especially the discourse of the governmental institutions aim at motivating cooperatives to produce not just for the benefit of their members, but also for the satisfaction of local community needs as well as those of Venezuelan society in general (p. 310).

In 2004, Ministry for Popular Economy (now called Ministry of Communal Economy) was created in order to coordinate the “social economy” which was to include cooperatives and micro-businesses. Its main task was to provide assistance and infrastructure to cooperatives and micro-businesses, ensure markets for the products of cooperatives, and help manage contracts with institutions and state companies through business summits. Furthermore, “endogenous development zones” that were to be developed would be composed of cooperatives and supported by the infrastructure established by the ministry. From 2004 on, the government began using part of its oil revenues to encourage formation of worker cooperatives. Some cooperatives were created through a program ran by the ministry and *Mision Vuelvan Caras*, which trains people from marginal sectors, helps them create cooperatives by financial, technical and advisory support. In fact, this program helped the establishment of many cooperatives by the poor who had little experience in the formal economy. While before 2000 there were about 2,500 cooperatives registered ¹⁶, by 2006 100,000 cooperative with about 1.5 million members have been formed. Of these 52 percent was in the service sector, 32 percent in production and 10 percent in transportation (Lucena 2007). These cooperatives include artisans, agricultural producers and peasants, local neighborhood committees for infrastructure maintenance, subcontractors for PDVSA and other public institutions.

The success of this experiment was debatable. According to SUNACOOOP (2009), out of 262,000 registered cooperatives about 60,000 were active. Some

¹⁶ Venezuela has a history of cooperatives where in the 1960s cooperatives in Lara were promoted extensively by Jesuit Priests and the US Alliance for Progress in order to undermine support for the guerillas that set up in the mountainous region (Martínez *et al.* 2010: 311).

others estimate that the survival rate of the cooperatives was much lower, around 30,000 active cooperatives. Historically, there have been two main concerns about cooperatives. First, whether cooperatives can be efficient and productive enough to be able to compete and survive without external support such as the large state subsidies. Most cooperatives remained dependent on state for support and contracts, while deficiencies in administrative and technical skills also led to problems. Second, how far cooperatives neutralize their members' ability and will to struggle for more fundamental social change, by turning them into separate units of capitalist production competing with each other thinking for profit and market criteria. In this period, many cooperatives were established that competed with each other for inputs and clients. Some cooperatives, in order to get higher prices, preferred selling their products to capitalist distributors and intermediaries instead of supplying their local markets where there is need or selling them to *Merval* (Pineiro 2009: 317). A significant portion of the newly established cooperatives included about 5 members, which was the legal minimum required by law, and they were family members. They also refrained from accepting new members. In some cases, cooperatives were formed only to get the start-up capital provided by the government and/or the advances on contracts granted by the public sector. In the worst cases, existing small companies were transformed into cooperatives only on paper in order to take advantage of subsidies, tax exemptions or preferential treatment in the awarding of public sector contracts. Part of the failures was due to state bureaucrats preferring private enterprises for contracts instead of the newly formed corporations on the grounds that the cooperatives did not have the expertise, experience and capital needed (Ellner 2010b: 74). Some of these failures led even those who initially supported the formation of cooperatives and advocated using them for social transformation to later dismiss the cooperative idea or at least to be more cautious and skeptical about the whole experience. SUNACOOOP and other state institutions sought ways to increase controls. For example, the cooperatives are now required to get a 'certificate of fulfillment of responsibilities,' get their balance sheets approved by a certified accountant and demonstrate that they engage in work within their communities. While these new requirements might

help with some of the problems, they at the same time create more bureaucracy and potentially higher costs for the cooperatives.

Clearly this huge experiment demands more research and discussion in order to assess the desirability and viability of cooperatives in forming an alternative economic organization, especially in terms of work incentives, management, and social contributions of the cooperatives.¹⁷ It seems like both the successes and failures of the cooperatives and the way they were supported and coordinated would shed light into possibilities of organizing forms of production that significantly differ from capitalist enterprises. Despite all these problems, Lebowitz (2006) suggests that a combination of state industry and cooperatives could underlie a new productive model in which large state companies could incorporate modern technology and speed up economic development while cooperatives could be clustered around and articulated with these as suppliers and processors (p. 110).

Community councils By 2006, the center of government's discourse as well as priorities shifted from cooperatives to community councils. A new legislation passed in 2006 led to the formation of over 20,000 community councils in Venezuela (MINPADES 2007). Community councils were thought "as a way of introducing participation in the drafting and implementing of local policies" They were established through neighborhood assemblies, based on 200-400 households in the cities and 20 households in the rural areas. These councils diagnose community needs and priorities, decide on and design projects for their neighborhoods, and receive funding from the public sector at national, state, and municipal levels. In 2006, about 12,000 community councils received 1 billion bolivares and 2007 about 6 billion bolivares (MINPADES 2007). The relationship between the community councils and municipalities remained sensitive as many mayors were opposed to the power changing hands for fear of losing control over economic decisions. Moreover, community councils also provided the political mobilization and this has been an essential element in the Chávez government's survival of many elections (Ellner 2010 S&S 68). It has been argued that, like the cooperatives, the community councils also face problems of inefficiency and misuse of funds. On the plus side,

¹⁷ For detailed studies on the cooperatives see Pineiro 2005, 2007, and 2009.

again similar to the cooperatives, they provide large numbers of poor with participation, skills, and empowerment. (Ellner 2010b: 68).¹⁸

Worker co-management Another radical experiment in this era has been with increased workers' participation and control at the workplace. The impulse for worker's control was given by the nationalizations of several companies that were taken over by the workers during the nation-wide lock-out staged by the opposition in 2002-03. In one of the leading examples, a veteran leftist leader, Carlos Lanz, was appointed as the president of ALCASA, an aluminum company, in order to promote workers' participation in decision making. In an interview, Lanz pointed out that "this was not the kind of co-management ... that European social democracy and even Christian democracy has promoted, especially in W. Germany in the post-war period which came down to handing out shares and a few seats for workers representatives on the board... We see co-management as tied to workers' control of the factory, as a proposal for transition towards socialism, towards another system of production" (Bruce 2008: 106). Accordingly, the aim was to transform the organization of production by giving workers control over all types of decisions.¹⁹ Similarly, worker participation structures emerged in an oil refinery during the lock-out, in El Palito. However, this experiment was cut short the following year as it was deemed too risky to experiment with worker participation in strategic sectors of the economy, the worker participation was eliminated and the appointment of Lanz was reversed.

Other two leading examples included two nationalized companies, INVEPAL, a large producer of paper in the country which was occupied by the workers before the nationalization, and INVEVAL, a valve company. In the first case, workers formed a cooperative that owns 49 percent of the company and it still maintains wage differentials and also hires wage labor. In the second case, instead of stock ownership the workers formed a factory council which serves as the decision-making unit and all workers participate in. Wage differentials were also eliminated in order to avoid tensions and improve workplace democracy (Ellner 2010b).

¹⁸ For a very detailed study of the participatory planning experiences in the Torres municipality of the state of Lara see Harnecker (2008).

¹⁹ See Bruce (2008) pp. 111-119 for an overview of this experience.

However, in some cases these experiments did not receive the full support of the state bureaucrats. In an interview, secretary general of the INVEVAL union stated that the bureaucrats did not cooperate with them in their efforts to acquire basic components while PDVSA management did not grant them contracts for their products. The workers attempted to overcome these obstacles by carrying their case to Chávez, who ordered the creation of a state-owned fund to supply the company with the parts they needed. (Ellner 2010b). In another example, in *Fama de America*, coffee producer that was nationalized in 2009, state management opposed worker councils. In *La Gaviola*, sardine factory nationalized in May 2009 was taken over by the workers who refused entry to the management which was seen as responsible for a drop in production and an agreement was reached when the management agreed to certain demands (Sugget 2010a). Ellner (2010b) points out two issues in this regard. First, some bureaucrats together with some ‘unethical’ Chavista politicians still favor private business groups. Second, some Chavista officials and politicians express fear that experimental decision-making forms, such as worker participation or community councils, would undermine their own authority.

The future of worker management in Venezuela seems uncertain. In 2009, following a meeting with the workers in the Guayana region where state-owned heavy industries are located, the government responded positively to the workers’ demand for increased worker participation and co-management structures. A year later a group of directors chosen by workers were sworn in at the Venezuelan Corporation of Guayana (GCV) (Pearson 2010). Lebowitz (2006) points out that there are two main issues in regards to worker management and these are not particular to Venezuela. First, whether co-management is possible in strategic industries. Second, whether worker management can go beyond worker self-interest to solidarity within society. Ellner (2010b) adds “Organized discussion on worker management schemes would confront such essential issues as whether to prioritize socialist values and social objectives as opposed to economic output, and whether to insert the company in the market economy or depend on the state for both raw materials and sales” (p. 74).

5. Which way forward?

The disappointment that neoliberal policies has created led to a search for alternatives in many Latin American countries and strong social movements opened the way for alternative policies. Venezuela went further than other countries in the region not only in significantly reversing neoliberal policies but also introducing initiatives that seek to transform capitalism into what at times was called 21st century socialism. Two questions arise in this regard. First, do the alternative economic policies introduced within the last decade represent a viable and desirable alternative to neoliberal orthodoxy? Second, do these policies together with the transformative initiatives represent a transition to a new type of socialism or are they likely to create just another type of capitalism, a capitalism with a human face? These questions do not seem to have straightforward answers as we are talking about an ongoing process and more detailed research and discussion are required to assess the success and failures of the Venezuelan experience so far. However, we can outline some tentative conclusions and speculate about the likely path of the economic process in relation to the political process.²⁰

Table 1 summarizes major economic and social indicators for the last 10 years. This table shows that apart from the years of political turmoil when a coup attempt and a prolonged capital strike took place (2002-03), the economy recorded high rates of growth with a high rate of gross fixed capital formation which started to slow down around 2008. The dependency on oil makes the Venezuelan case *sui generis* and we observe that this dependence still prevails despite attempts to diversify economic activity through some policies as discussed above. The relatively small decline in the share of the oil sector in the economy is not met with an increase in manufacturing; instead, the sectors that grew turned out to be services and finance. In this regard, the effectiveness of the fiscal, monetary and exchange rate policies need to be considered. While expansionary fiscal policy was accompanied by a monetary policy

²⁰ The discussion focuses on the economic issues. Clearly, many other factors will affect the outcomes of the process and there are many other issues such as high crime rates, which are usually considered to be one of the most serious problems in the country; housing shortages; corruption and clientalism; the sharp political divisions within the society; the over-reliance of the process on Chavez's leadership and so on..

that aimed to direct credit towards priority areas, including the manufacturing sector, the fixed exchange rates led to an overvaluation of the domestic currency, undermining the effects of these policies on investment. On the other hand, while the unemployment rate is below its previous levels, at 7.5 percent it still is high and the recession that started in 2010 is likely to increase it. Similarly, even though inflation rate was brought to a level lower than the earlier era, it still constitutes one of the highest rates of inflation in the world and when compared with the wage index we observe that despite continuous increases in the wages, they cannot keep up with the inflation rate, leading to a real income loss for the workers. The price controls are either ineffective in this regard, or their effect is limited.²¹

Perhaps the most successful area has been the social programs. As a result of massive spending through *missions* aimed at tackling poverty head on, poverty rates were brought down significantly, even though poverty has not been eradicated yet. Households living under poverty constituted 43.9 percent of all households in 1998 and 23.8 percent in 2009. Those living under extreme poverty were 17.1 percent of all households in 1998 and 5.9 percent by 2009. The results of these social programs can also partly be observed through the improvements in the Human Development Index. There is also some improvement in the income distribution through a small redistribution from the richest 20 percent to the rest of the population.²²

Economic policies in Venezuela certainly do not constitute a planned transition to socialism, but are rather shaped by the outcomes of an often conflictive nonlinear process. Although the break with most neoliberal policies is visible and the policies put in place often clash with certain capitalist interests, there is no clear break with capitalism as such. Furthermore, the experiments with cooperatives, worker co-management, and community councils, despite their limited implementation and success so far constitute a significant political challenge for capitalist interests. These initiatives also speak to debates on socialism and alternative ways of organizing production, work incentives, participative democracy, and workplace decision-

²¹ For more detailed analyses of the macroeconomic performance of Venezuela during Chávez years, see El Troudi (2010), Weisbrot *et al.* (2009), Weisbrot and Ray (2010), Bilbao (2008).

²² For a more detailed look at social achievements see MPD (2008). Still, some argue that the Chávez administration did not really prioritize the well-being of the poor. See the debate between F. Rodriguez and M. Weisbrot (Rodriguez 2008a, 2008b, Weisbrot 2008, Weisbrot and Rosnick 2008).

making and as such require further in-depth research and discussion to assess their viability and desirability.

All in all, there is nothing inevitable about whether the Venezuelan process will create a radical transformation of the economy or turn out to be a new variety of capitalism with some populist characteristics. Among the most important factors that are likely to determine the future path of the Venezuelan experience are the degree of support by the masses, the internal composition and conflicts of the Chavista movement and the international context. While it is widely acknowledged that the Chávez administration empowered the masses both through economic and political processes, continuous improvement in macroeconomic conditions and living standards seem to be a crucial ingredient for securing this support. In fact, the opposition parties, that were inattentive to the needs of the poor before, realizing the significance of this promise not to do away with the social programs designed for the poor but rather argue that they would be better qualified to run such programs. Moreover, the internal dynamics of the Chávez administration and the Chavista movement in general will be the other major significant factor in determining the future path of the process. The Chavista movement itself is not a homogenous entity. Following Ellner (2008), two major strands can be identified within the movement: a soft-line current and a hard-line current. While the former considers the government's economic and political achievements so far, especially the social programs, as sufficient and argues for consolidating these rather than seeking a deeper structural change; the latter current envisions more fundamental changes which involve not an immediate break with capitalism but a long (maybe decades long) process in which capitalism would gradually be replaced with a mixed economy centered around state companies together with small- and medium-sized cooperatives, which will challenge the capitalist entities.²³ Similarly, Lebowitz (2006) points out that within the movement there are leaders who are supporting the social programs and the redistributive policies of the government so far but are opposed to a more radical transformation toward socialism (p. 115). A reflection of these tensions sometimes can be observed in the rhetoric of Chávez himself, too:

²³ See Ellner (2008), especially Chapters 6 and 7, for a thorough discussion of the *Chavista* movement and its internal composition.

I am obliged to slow down the pace of the march. I have been imposing a speed that is beyond our collective capacity... I accept that has been one of my mistakes... we cannot allow ourselves to be dragged along by extremist currents.. we have to seek out alliances with the middle classes, even with national bourgeoisie... we haven't abandoned socialism. Under capitalism, a minority are very rich, the majority are poor or very poor. Only by way of socialism [can we improve the situation] little by little. The terrible inequality created during 100 years of capitalism will not be removed in 1 year or in 10. [It will not take] as much as 100 years, but at least several decades [will be necessary] (*Alo Presidente*, 6 January 2008, quoted in Gott 2008: 490).

No matter which way the process evolves in Venezuela, its significance already goes well beyond the country as it showed that it is possible to break with neoliberal policies and put the discussion on socialism back on the map. As such, the experiences in this process are certain to keep attracting the attention of scholars and activists alike and lead to further in-depth analyses and discussions. It is hoped that this paper may provide some contribution to these endeavors.

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Table 1: Economic and Social Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP growth rate	0.3	6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	9.9	8.2	4.8	3.3
Public	-2.1	-5.2	3.0	-0.6	-11.1	-1.3	12.5	2.8	2.7	7.4	16.3	0.9
Private	1.1	-6.9	4.2	4.9	-5.8	-8.9	17.2	12.9	11.3	7.5	-0.1	-4.5
Sectoral composition of the GDP (as a percent of total)												
Oil sector	18.74	19.18	18.91	18.13	17.07	18.15	17.45	15.59	13.91	12.31	12.04	11.55
Non-oil sector	72.15	71.43	71.78	72.20	74.49	74.75	73.35	74.60	75.27	76.30	76.55	77.53
Mining	0.65	0.60	0.67	0.67	0.76	0.79	0.76	0.71	0.70	0.65	0.60	0.55
Manufacturing	17.36	16.60	16.82	16.87	16.08	16.24	16.68	16.80	16.56	16.44	15.92	15.41
Electricity and Water Supply	2.05	2.13	2.15	2.18	2.45	2.64	2.42	2.44	2.33	2.12	2.14	2.31
Construction	7.27	6.39	6.41	7.04	7.07	4.64	4.91	5.34	6.34	6.77	6.71	6.95
Trade and Repair Services	8.21	8.26	8.42	8.51	8.08	7.92	8.61	9.44	9.94	10.73	10.71	10.15
Transport and Storage	3.51	3.16	3.43	3.27	3.21	3.21	3.38	3.51	3.66	3.83	3.79	3.59
Communications	2.48	2.73	2.69	2.81	3.16	3.26	3.11	3.45	3.88	4.30	4.85	5.50
Finance and insurance	2.39	2.16	2.06	2.05	1.93	2.34	2.72	3.37	4.51	4.86	4.42	4.46
Real estate	9.95	10.09	9.80	9.81	10.69	10.89	10.23	10.00	9.88	9.67	9.47	9.60
Community and personal services	4.48	4.69	4.56	4.50	4.95	5.35	4.94	4.85	5.14	5.28	5.51	5.88
General Government services	10.64	10.77	10.68	10.59	11.57	13.16	12.36	12.10	11.35	11.08	11.14	11.80
Other	5.71	6.10	6.19	6.10	6.62	6.97	6.32	6.45	6.08	5.91	5.95	6.14
Gross fixed capital formation (real annual change)	5.5	-15.5	2.6	13.8	-18.3	-37.0	49.7	38.1	29.5	25.3	-3.3	-8.2
Inflation rate (I)	29.9	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9
Wage index (annual change)	20.4	21.5	20.2	14.7	7.8	12.0	19.8	16.8	17.8	23.7	20.5	21.6
Private	26.7	22.4	15.6	12.7	8.8	12.1	14.2	14.5	13.7	21.4	23.1	22.2
Public	0.8	19.0	37.6	22.1	5.3	11.7	36.1	22.7	26.9	29.2	15.4	20.2
Unemployment rate	11.0	14.5	13.2	12.8	16.2	16.8	13.9	11.4	9.3	7.5	6.9	7.5
Official exchange rate	546.55	604.69	678.93	722.66	1158.93	1596.00	1915.20	2144.60	2144.60	2144.60	2.14	2.14
Poverty												
Percentage of households living under poverty	43.9	42.0	40.4	39.0	48.6	55.1	47.0	37.9	30.6	28.5	27.5	23.8
Percentage of households living under extreme poverty	17.1	16.9	14.9	14.0	21.0	25.0	18.6	15.3	9.1	7.9	7.6	5.9
Income distribution												
GINI Coefficient	0.4865	0.4693	0.4772	0.4573	0.4938	0.4811	0.4559	0.4748	0.4422	0.4237	0.4099	0.40676 *
poorest 20	4.06	4.36	3.95	4.45	4.40	4.01	3.53	4.63	4.73	5.09	5.41	6.01 *
Quintile 2	8.49	9.10	8.62	9.93	7.94	8.83	7.60	8.35	9.35	10.40	10.54	9.97 *
Median	13.02	13.22	13.53	13.07	12.64	12.96	12.94	15.87	14.45	14.24	15.06	15.24 *
Quintile 4	21.07	21.41	21.63	23.00	20.88	21.37	21.15	18.78	22.09	22.56	22.26	23.23 *
Richest 20	53.36	51.90	52.28	49.55	54.13	52.83	54.77	52.36	49.37	47.71	46.73	45.56 *
Human Development Index	0.7828	0.7835	0.7836	0.7958	0.7933	0.7880	0.8007	0.8102	0.8180	0.8253	0.8277	
Fiscal Expenditure (as a percentage of GDP)												
Total	0.21	0.20	0.22	0.25	0.26	0.28	0.26	0.26	0.30	0.26	0.26	0.27
Education		0.03	0.05	0.05	0.05	0.05	0.05	0.04	0.06	0.05	0.05	0.06
Health		0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.01	0.02	0.02
Social security and welfare		0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04
Indirect tax revenue as a percentage of non-oil tax revenues	80.30	81.40	80.60	77.20	78.20	79.80	80.60	79.00	73.20	70.00	69.90	67.80