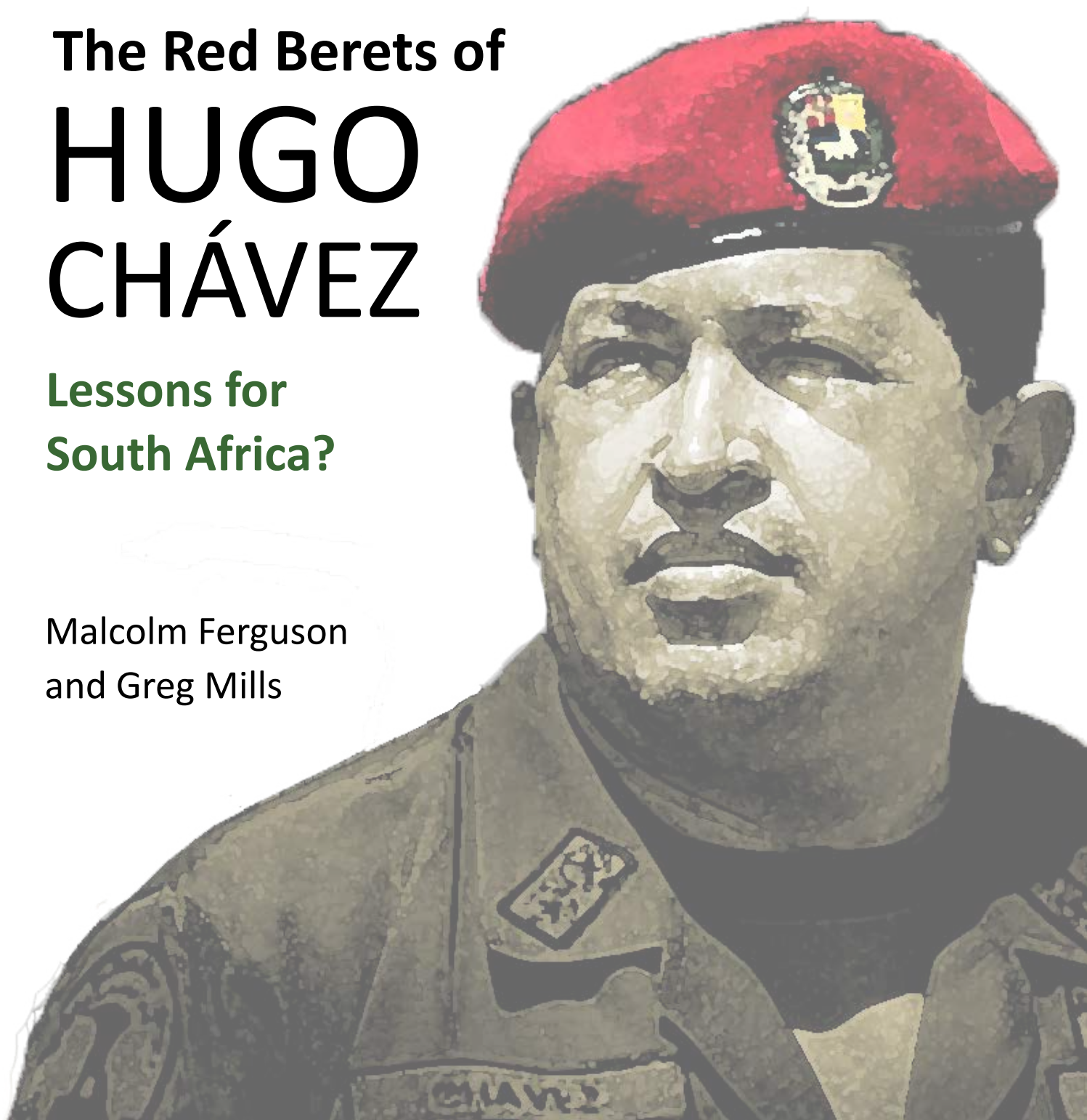


# The Red Berets of HUGO CHÁVEZ

Lessons for  
South Africa?

Malcolm Ferguson  
and Greg Mills



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## Lessons for South Africa?



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The views expressed in this Paper are the authors' own and do not necessarily reflect the views of any person interviewed for this study.

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## Executive Summary

President Hugo Chávez of Venezuela passed away after a two-year battle with cancer on 5 March 2013. The passing of this divisive and outspoken leader prompted critics and supporters alike to assess his achievements and legacy.

Chávez was an exceptionally charismatic and astute politician, possessed of a mischievous sense of humour and an extraordinary common touch, often playing the guitar and breaking into song. Above all, he was a game changer, a man who through force of personality and political ruthlessness radically transformed the character of Venezuelan politics.

His initial success at reducing poverty came at a price, both political and economic. In pursuit of his stated political aims of creating a more equal and socially just society, Chávez deliberately divided Venezuelan society into two camps: those who supported him versus those he described as ‘enemies and oppressors of the

poor.’ The strategy has left Venezuela bitterly fractured both in spirit and economically. It has led to mass emigration and, in conjunction with ceaseless attacks on private business, to the collapse of the productive sector of the economy.

The emergence in South Africa of the Economic Freedom Fighters party or EFF, which models itself on Chávez’s movement, prompts the question of how to address inequality and grinding poverty in this country. Efforts to pursue alluringly simple propositions about expropriation and nationalisation will have precisely the same effects they have had in Venezuela, dividing society even further. They will make enemies of neighbours and demonise some sections of society in order to legitimise confiscations undertaken in the name of the people. But unlike Venezuela, South Africa has a much more diversified economy – and it has the good fortune of not having oil.

## Introduction

The digital signboard at Simón Bolívar International Airport carried an image of Hugo Chávez next to the flight arrival updates. It showed the former president, who died on 5 March 2013, hands clasped together in the rain, his green fatigues wet through. It slowly zoomed in on his face, which looks out as if into the far distant future. As it did the text appeared: *Canta canta compañero. Que no cayo su corazon.* ('Sing, sing comrade. So that your spirits don't fall.')

Since Chávez's death, it is becoming increasingly apparent that the system *el comandante* created resembles a rickety house of cards rather than the solid foundations of the new society he had promised.

The black market exchange rate between the new Bolívar Fuerte and the US dollar has dropped precipitously, the local currency losing two-thirds of its value on the black market during 2013. This led to a surge in inflation and a shortage of basic goods as the government responded by imposing price controls to suppress the inflation, attempting to externalise the problem as being one of market speculators, profiteers and, in its own words, 'parasites'.

The system *el comandante* created resembles a rickety house of cards rather than the solid foundations of the new society he had promised

But it was the government's own system that gave speculators space to leverage the widening differential between so-called CADIVI<sup>1</sup> dollars at the official exchange rate and informally traded dollars at the black market rate. Thousands of travellers thronged through the airport. Flights in and out of Venezuela were booked up months ahead as citizens purchased their \$3 000 foreign exchange allowance at the official rate and quickly round-tripped to exchange their stipend at the unofficial rate, pocketing the difference.

Earlier the Venezuelan government had seized the Manpa toilet paper factory in the northern state of Aragua in an attempt to reduce shortages.

National Guard officers took control of the plant and were ordered to monitor production and roll out distribution.

This was merely the latest in a long line of state interventions. Still earlier the government was forced to import millions of stock items to counter a chronic shortage, which the regime of President Nicolás Maduro blamed on unscrupulous traders. His vice-president, Jorge Arreaza, said authorities would 'not permit hoarding of essential commodities, or any faults in the production and distribution process.'<sup>2</sup>

The government, never short of conspiracy theories, believed it was, in toilet paper parlance, being ripped off. In response to the crisis, Maduro requested emergency powers over the economy, enabling him to rule by decree, a step further down the path of authoritarianism and populism initiated by Chávez's Bolivarian revolution.

Ply as it might, the government had only itself to blame. Toilet paper was not the only product in short supply. The country was beset by regular shortages of food essentials including milk, sugar, cooking oil and the corn flour used to make *arepas*, Venezuela's national dish. According to the central bank's scarcity index, one-fifth of goods were not available in the government-subsidised supermarkets established by Chávez.<sup>3</sup>

By late 2013 inflation was running at more than 50 per cent per year according to official statistics, but as much as 40 per cent per month unofficially.<sup>4</sup> The black market rate of the Bolívar Fuerte to the US dollar was ten times the official one. At the latter rate Venezuela was the most expensive place in the world to stay and survive, with a Burger King Whopper meal, for example, costing \$22. But everyone only pretended to be paying such amounts, while quietly changing their money on the black market.

The government sought to deflect the blame. Having ordered the seizure of the Daka electronic stores in November 2013 after accusing them of overcharging, Maduro said he would turn his attention next to those stores selling toys, cars, food items, textiles and shoes. He blamed Venezuela's economic woes on 'sabotage' by opposition forces. An opposition leader, Henrique Capriles Radonski, responded by saying that the situation proved the failure of

the government's policies as 'a failed puppet of the Cuban government'.<sup>5</sup>

The seizures were politics by other means. The government, facing municipal elections in December 2013, was desperate to create the impression that a profiteering conspiracy was behind the shortages and burgeoning inflation, not the government itself. In Catia, a poor neighbourhood of Caracas, activists in black uniforms with orange stripes, identified as members of the *Revolutionary People's Liberation Movement* – or 'collectives' – forced shops in the west of the city to open at 10:00 am and sell at 'fair prices', noting that after they had finished with the electrical

appliances, they would do the same with hardware, clothing and footwear.

The merchants, meanwhile, pointed out that in many cases, after selling the inventory in question, they would close their doors forever because of fees charged by these so-called 'collectives'.<sup>6</sup> Behind the windbag revolutionary speeches, the omnipresent banners and slogans exhorting the people to higher ideals and further action, lay old-fashioned threat and menace to keep the opposition at bay. Anything went in the interests of maintaining the privilege of the revolutionary elite, including its Cuban allies, and attempting to contain the failure of the regime's policies.

## Starving in the Midst of Plenty

Venezuela is a place of contradictions. It has a fantastic endowment of natural resources, including the world's largest reserves of oil and significant stores of gold, coltan, copper, bauxite, and nickel. It possesses rich farming areas and enjoys abundant rainfall. Yet the past 15 years of economic folly have destroyed local industry, and most food, like everything else, is imported. The country's problems have been externalised and epitomised by the great 'imperial power', the United States, yet the United States is Venezuela's number one import and export partner.

Even after 15 years of redistribution led by Chávez, the bulk of the Latin American nation's 30 million people continue to live in barrios like Petare, slums that climb the mountainsides and sometimes overlook wealthier suburbs.

There are long waiting lists to purchase cars, which cost as much as ten times the price elsewhere, although petrol is ridiculously cheap, at six Bolívares for a tank of 65 litres. At the official exchange rate of 6.3 Bolívares to the dollar that would be \$0.95 per tank. Per litre it would be \$0.014. At the prevailing 'parallel rate' of 65 it is just \$0.0014. So it is basically free: in other words, it is my right. With vast oil reserves, it is not generating wealth that has been Venezuela's principal problem; it is how to manage it.

Hugo Chávez was a charismatic and pugnacious politician.<sup>7</sup> He placed the marginalised at the heart of national political concerns and defied stereotyping, rising quickly to become a global icon, the only

Venezuelan politician since Simón Bolívar widely known outside Latin America.

Combining superb oratory, a biting sense of humour and a relentless focus on entrenching himself in power, Chávez sought common cause with the downtrodden through the liberation mythology of the Bolivarian revolution. He built an ideological and business partnership with Castro's Cuba while externalising his problems by blaming the local elites and the 'imperialist' United States. He was at once comical and dictatorial, a showman and a bogeyman, an autocrat and a democrat, launching a 1992 coup and mercilessly squashing one in 2002.

Hugo Chávez placed the marginalised  
at the heart of national political  
concerns and defied stereotyping

In adding to the playbook of authoritarian democracies, Chávez not only fed off and widened existing wealth divisions, but created new ones. His populist alternative, focusing on its revolutionary symbols and slogans, the plight of the poor and the dispossessed and the use of direct transfers as a means of instant social justice, has become a model for those elsewhere that seek a rapid way out from poverty and inequality.

But a year after his death the country is a long way from turning into a 'sea of happiness'.<sup>8</sup> The Bolivarian revolution launched 15 years earlier is eating itself, proving Thatcher's aphorism: 'The problem with socialism is that eventually you run out of other people's money.' The problem in Venezuela is not only about money, however, but also about the erosion of basic political freedoms, contrary to the apparent spirit of the *Bolivarianistas* but completely in line with their intent to maintain power.

Venezuela's growing economic crisis – which had already started to reveal its broad scale and extent by the time of President Chavez's death – has escalated into civil unrest across the country. At the time of writing, more than 30 people have died since mid-February in near-daily protests around Caracas and in other cities in Venezuela. While it is clear that the protest movement has not drawn any significant support from the country's poorest people – who are, by and large, shielded from the worst of the crisis by heavily-subsidised prices for food, daily necessities and fuel – the rapidly rising cost of living makes the cost of subsidising these basics a growing drain on the public purse.

'The problem with socialism is that eventually you run out of other people's money'

This has forced the government of President Maduro to consider the unthinkable: an increase in the price of the country's heavily-subsidised fuel. And with more and more of the nation's basic foodstuffs now being imported – including maize from South Africa – and with the national currency (the Bolivar

## A Brief History of Elitism

It is of little surprise that Chávez, born in 1954 as the second of seven children of school teachers, felt so impassioned about these two worlds. Sent to live with his grandmother, Rosa, Chávez was to describe his childhood as 'poor ... very happy' but where he experienced 'humility, poverty, pain, sometimes not

Fuerte) now officially devalued once again to an unprecedented level (the currency has lost 800 per cent of its value in the past year), it seems to be a question of how long and how much.

When confronted with these types of crises and their political base is threatened, governments the world over have shown an ability to engage in myriad measures to stave off the inevitable. Venezuela, undergirded by strong revenues from high oil prices, has the ability to prolong the crisis. Nevertheless, once the crisis starts to impact the government's political base, the country's poor – as it will inevitably, given the unsustainable cost of subsidising life necessities – some effort to accommodate the opposition and define a shared political solution will be necessary. Otherwise, Venezuelans will be doomed to far worse misery.

There is growing political pressure from many quarters for President Maduro to move towards a political accommodation to end the crisis. Forty per cent of the nation's voters now define themselves as uncommitted. With government support currently sitting around 30 per cent, and memories of Maduro's hotly contested (and disputed) election in 2013 fresh in Venezuelans' minds, the ingredients for dramatic political change may be in place.

Chávez died probably at the peak of his popularity, since the economic policies that underpinned his Bolivarian revolution were largely illiterate and unsustainable, predicated on short-term redistribution and spending rather than long-term growth and investment. His attempted revolution was riddled with contradictions and fundamentally dependent on conflict as a strategy. Where there was once envy between Venezuela's classes, following Chávez, there has been hatred.

Regardless, his popularity spoke volumes about the historical polarisation of Venezuelan society.

having anything to eat', and 'the injustices of this world'.<sup>9</sup>

Chavez carefully airbrushed his childhood to fit in with his political self-image. After all, his father had been a proud member of COPEI, one of the 'putrid' ruling parties, and despite his modest

teacher's salary, all seven of his children went on to college education and decent careers. The state provided subsidised housing (Chávez lived in such a house with his grandmother) and free, rickety education and healthcare. 'All this,' Rory Carroll reminds us, 'became heresy. *El comandante*, the nation was told a thousand times, was born in extreme poverty, a mud hut, and grew up in a venal, vicious system.' By so shaping the narrative, Chávez was able to portray his 1992 coup not as a military uprising, but as 'the cry of an oppressed people'.<sup>10</sup>

Enrolling in the Venezuelan Academy of Military Sciences at the age of 17, Chávez later studied political science at Simón Bolívar University in Caracas. He developed a doctrine of Bolivarianism, inspired by the Pan-Americanist philosophies of the 19th century Spanish–Venezuelan revolutionary. In a military career lasting 17 years, he rose to the rank of lieutenant-colonel. On 17 December 1982, Chávez established the *Revolutionary Bolivarian Movement-200* (MBR-200) that was to form the basis of his eventual rise to power.

Bolívar was the great Latin American liberator, bringing independence to the northwest of South America – today's Venezuela, Colombia, Panama, Ecuador, Peru and Bolivia. Yet he died penniless, rejected and dejected in Santa Marta on the Colombian coast while waiting to escape to Europe in December 1830 at the age of 47. He summed up his life: 'There have been three great fools in history: Jesus, Don Quixote and I.' Bolívar's dream of a *Gran Colombia*, a unified republic comprising Colombia, Venezuela and Ecuador, did manifest, but quickly disintegrated despite (and perhaps because of) his dictatorial powers. The grand republic started amidst violence and some of its elements have since continued in that vein.

The post-independence period in Venezuela was characterised by instability, autocracy and even anarchy, the country being ruled by a series of military dictators, the *caudillos*, and shaken by an almost uninterrupted chain of civil wars until the late 1800s. A theatrical pattern of despotism and reformism was developing, which continues today.

In 1908, then President Cipriano Castro was overthrown by his junta colleague, General Juan Vicente Gómez. Under Gómez's rule, oil was discovered in Zulia state and transformed the economy.

By 1929, Venezuela was the second-largest oil producing country (behind the US) and the largest oil exporter in the world. By 1935, the time of Gómez's death, the country's per capita income was the highest in Latin America.

But with this sudden gush of foreign money came other problems which have since blighted the economy, including 'Dutch Disease' – the strengthening of the currency due to foreign inflows to the cost of diversification. For example, while agriculture accounted for about one-third of economic production in the 1920s, by the 1950s this had reduced to just one-tenth.

The fall in oil prices and unbridled public spending in the 1980s sowed the seeds for Chávez's populist movement

Under Gómez's successor, Eleazar López Contreras, the country underwent a gradual process of top-down, managed democratisation. This reform process was hastened by a 1945 coup which ushered in a democratic regime and was then set back by a further coup in 1948. The military junta led by Marcos Pérez Jiménez ignored the results of the election it staged in 1952 until it was forced out in January 1958. Yet much of the infrastructure of modern Venezuela was laid down during his rule, including contemporary power supply and transmission, and Venezuela's road network.

Two parties – Democratic Action (AD) and COPEI (*Comité de Organización Política Electoral Independiente*, the Social Democrats) – thereafter dominated politics until Chávez's ascendancy four decades later, a long period known as *Punto Fijismo* on account of the political pact that gave rise to it. In spite of challenges from left-wing guerrilla movements and economic instability caused by fluctuating oil prices, the system held.

But the fall in oil prices and unbridled public spending in the 1980s sowed the seeds for Chávez's populist movement. With the devaluation of the (old) Bolívar in 1983, standards of living fell sharply

and political instability rose. Hundreds were killed in the *Caracazo* and *Guranazmo* riots of 1989 and two attempted coups followed in 1992, one staged on

4 February by Chávez when troops under his command stormed the presidential palace in Caracas.

## The Rise of Hugo Chávez

Pardoned in March 1994, Chávez was elected president in a landslide in 1998. Briefly ousted in a 2002 coup following popular demonstrations, he was quickly returned to power. He learnt one lesson from this attempted *golpe* ('coup'). Following the 1989 Caracas riots, the army had developed a *Plan Ávila*, designed to stop protests. But during the coup in 2002 the military opposed Chávez's attempted activation of this plan, teaching him both to consolidate power, among other things by purging the army, and to rely on his own resources in so doing.

During his 15 years in government, Chávez perfected his brand of populist politics, using state resources to buy support and international relations to cement it

Chávez also survived an August 2004 'recall' referendum to quickly consolidate his power in subsequent elections. The recall mechanism was introduced into Venezuelan law in 1999 under the new Constitution drafted at Chávez's behest by the National Constituent Assembly that he had set up. Under its provisions, an elected official could be recalled via a referendum if a petition gathered signatures from at least 20 per cent of the relevant

electorate. Thus, to order a presidential recall vote in 2004, 2.4 million signatures were needed.<sup>11</sup>

This proved to be a messy business. In August 2003, about 3.2 million signatures were presented by *Súmate*, a Venezuelan civil association, but were rejected by the National Electoral Council (CNE) on the grounds that they had been collected prematurely. Three months later, in November 2003, the opposition collected a new set of signatures, with 3.6 million names delivered in four days. The CNE again rejected the petition, saying that only 1.9 million were valid. The Supreme Court reinstated over 800 000 of the disputed signatures.

The list of signatories was subsequently collected by the government and posted online in what became known as the 'Tascón list'. Signatories working in government and the state oil company *Petróleos de Venezuela SA* (PDVSA), among other parastatals, were discriminated against as a result of their preferences. Eventually, voters defeated the recall attempt with a 59 per cent 'no' vote in favour of Chávez, an outcome sullied by credible allegations of fraud.<sup>12</sup>

Chávez was re-elected in December 2006 and again, for a third term, in October 2012, having by this time dispensed with a two-term limit which his own constitution had previously introduced. After his final election victory, he was not sworn in due to his declining health. During his 15 years in government, Chávez perfected his brand of populist politics, using state resources to buy support and international relations to cement it.

## Democracy with a Snarl

While apparently a democrat working in the interests of the majority, Chávez and his followers learnt to use more authoritarian measures to intimidate and tie down their opposition, 'right out of the Cuban manual', reflected one opposition leader. As their

position became more tenuous, menace quickly supplanted the pretence of democracy.

A PSUV poster plastered up around Caracas in October 2013, when Chávez's successor, Nicolás Maduro, had been in power for half a year, demonised, quite literally, the leaders of the opposition



as the *Trilogía de Mal* – the ‘Trilogy of Evil’. The three leaders were presidential candidates Henrique Capriles Radonski, who got 49.12 per cent of the vote in the April 2013 election; Leopoldo López, a prominent opposition party organiser; and María Corina Machado, an outspoken anti-government parliamentarian who once called Chávez a thief to his face.

The poster blamed them for Venezuela’s crisis: ‘They’re stealing your electricity. They’re stealing your food. They’re stealing your peace. No more violence’, it insisted. The communications and information minister did not deny that the government was behind the posters and described the opposition leaders as ‘violent beings, militants of hatred and bitterness ... They are the fascists. Not those posters.’ Maduro referred to the three politicians as ‘mercenaries’ and ‘fascist parasites’.

But such blatant criminalisation of the opposition is a step up in a dangerous game which Chávez had started 15 years earlier.<sup>13</sup>

The ‘eyes of Chávez’, posters and T-shirts with only his eyes visible, have become a metaphor for the Big Brother state

Miguel Enrique Ontero’s grandfather and father before him ran Venezuela’s *El Nacional* newspaper group. He says the government aims for ‘communications hegemony’, for which the means are, first, ‘physical aggression’ towards journalists. ‘In the last ten years there have been 1 200 cases of violence against journalists, and no prosecutions. Seven years ago,’ he said in November 2013, ‘they bombed our newspaper offices. The suspect stayed in custody for just two hours, imagine – two hours.’

Second, says the Cambridge graduate, ‘the powers of participation are controlled by the government. The justice system is not independent, the attorney-general and auditor-general are both militants in the ruling party, and the opposition is marginalised from all key commissions in parliament. The government also,’ third, ‘changes laws in favour of their point of view, including the Law on Social Responsibility

on Radio and Television, which gives officials total power over radio and television which, as a result, are almost completely silent. The government has also created, bought up and shut down radio and television stations, with direct access now to four television stations.’ With approximately 850 radio stations countrywide, an estimated 500 were controlled by government.

The ‘eyes of Chávez’, posters and T-shirts with only his eyes visible, have become a metaphor for the Big Brother state. But they are among the more obvious manifestation of government attempts to intimidate and control the population. While some media outlets have been shut down completely, such as *Radio Caracas Television*, former Venezuelan diplomat, Milos Alcalay, notes that ‘the methods are more sophisticated’, involving the sponsorship of alternative media, the use of heavy fines to create self-censorship, the transfer of power from the legislature to the executive, and control of civil society through a law preventing foreign funding. This is all part, he notes, of a ‘strategy seeking enemies outside and in who are intent on sabotage, in the government’s terms.’

The government has used these stations to broadcast repetitive propaganda including the *cadena*s, seemingly endless presidential broadcasts that all stations are required to carry, even if it means interrupting regular programming. The programmes have offered a caricature of a totalitarian state and are used ‘to insult and threaten the opposition and individuals, including me’, highlights Ontero. In his 14 years in power, Chávez spoke on his *cadena*s for a total of seven months and one day; while Maduro speaks on his *El Noticiero de la Verdad* (‘News of the Truth’) twice every day.

The Chávez and Maduro regimes have also used government-organised protests as a means of destabilising more legitimate public events. By 2013, over 400 such contrived public displays were being organised daily by government, ‘serving as spoilers,’ says Catholic University’s Beningo Alarcon, ‘to prevent true public protests’.

Nelson Bocaranda Sardi, who runs a popular daily opposition radio programme from his Caracas studio, says that self-censorship is a very effective tool against opposition organs. ‘People are afraid – afraid that they will not have their licence renewed, or they

will not receive controlled dollars [at the official rate] to buy equipment or newsprint. Since we have to import everything now,' he says, 'and since they control the dollars, they control everything.'

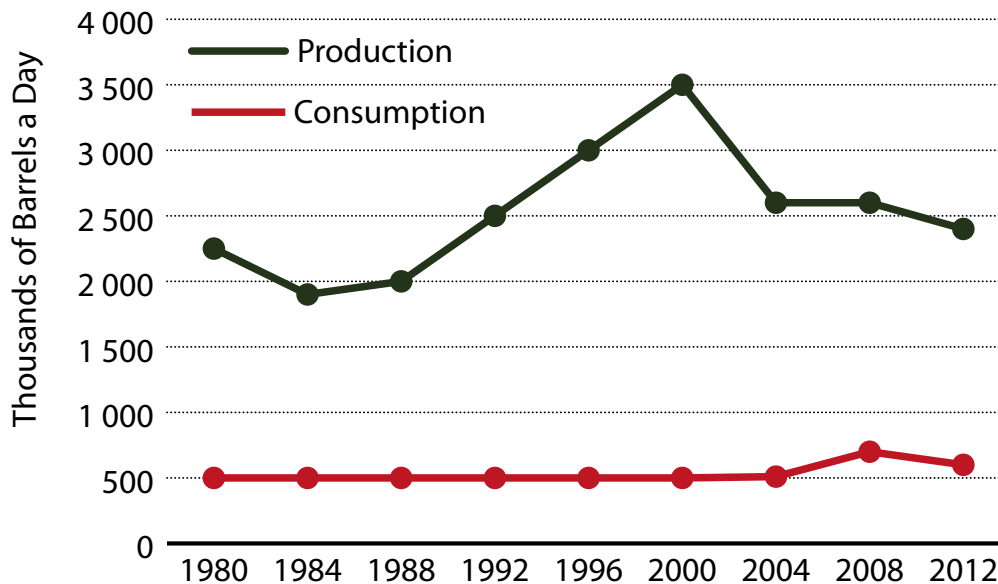
This is just part of a wider strategy aimed less at national unity than fomenting division to ensure the Chavistas' continued hold on power. From philosophy to private property, the goal was just the same. Just as Chávez was willing to target and appropriate the assets of those business people who opposed him politically, government supporters are keen to berate the private sector for not doing enough. 'Government,' says Argelio Perez, editor of the pro-government *Diario VEA* newspaper 'is in a huge battle for social and political change with those who want to prevent it and who are trying to resist their loss of privilege.' This 'investing class' is roundly criticised by the government for 'exfiltrating money' from the country and for other 'economic crimes', including over-invoicing and profiteering.

Such a demonisation strategy has its limits, since the government realises ultimately that it cannot run

things without the private sector. Teodoro Petkoff, once the planning minister under Chávez's immediate predecessor, Rafael Caldera Rodríguez (1994–1999), now with the opposition newspaper *Tal Cual* ('That's the way it is'), says that the 'government has learnt that it needs the private sector. Indeed, under Chávez the weight of oil has become heavier since for him, power was the issue. And power comes from money, and money comes from oil.'

The problem is that the more desperate the conditions, the more radical the government has become – but the pages in the state cheque book are running out. While oil has been the historical means to ensure support and power in Venezuela, under the Chávez regime this source of income has become even more important as the engine of redistribution because other sectors have atrophied, some by design, others neglect. Not for nothing does the state oil company PDVSA operate under the banner *Revolución Gasífera Socialista*. But it has its limits, as Chávez and, especially, Maduro have found out.

**Figure 1: Venezuela Oil Production and Consumption**



## The Socialist Petroleum Revolution

Venezuela has the world's largest known oil reserves, some 297 billion barrels, or 24.8 per cent of world share, more than Saudi Arabia (264 billion barrels, or 22.2 per cent).

During the last decade Venezuela's considerable oil wealth – averaging 2.7 million barrels per day,<sup>14</sup> making it the world's fifth largest exporter – has provided the equivalent of \$1 000 per family per month, or \$200 million per day in government income. While the subsidy scheme has reduced malnutrition from 15 to just five per cent of the country's 30 million people, poverty has remained high. Despite this income and the country's socialist orientation, an estimated 28 per cent of the population still lives in poverty.<sup>15</sup>

On comparable data Venezuela's poverty is twice Costa Rica's and four times Chile's, two nearby countries that do not enjoy such bounty.<sup>16</sup> Moreover, given that the price of a barrel of oil is about ten times what it was when Chávez was first elected in 1998, the record of his Bolivarian Revolution appears far worse. Indeed, two of the (many) ironies of the Chávez era is that the socialist revolution has depended on the global free market for a high oil price, where its main purchaser is the country most often denigrated by Caracas – the United States.<sup>17</sup> There are several reasons for this poor performance, and for the shortages.

First, oil production declined after Chávez took office in 1999 by roughly a quarter, and oil exports have dropped by nearly a half. In part this is because domestic consumption has doubled thanks to subsidies. Reduced demand from Venezuela's major

customer, the United States (down from 1.7 million bpd to about one million by 2013), and a failure to invest in production facilities also played a role.

Output has been reduced by a blend of hostility to foreign investment and mismanagement of the state oil company *Petróleos de Venezuela* (or PDVSA), including the firing of 40 per cent of the workforce, including management and 20 000 others, after a 2002 strike. By comparison neighbouring Colombia has increased its oil production from 200 000 bpd to one million bpd, on account, it is said (somewhat chauvinistically) by Venezuelans, of their countrymen having left for there after the PDVSA meltdown.

The nationalisation exercise was a short-term gain for the 'Supreme Commander's' populism, but it had a longer-term cost to the economy

Such problems were compounded by a 2006 re-nationalisation of both upstream and downstream projects (after oil companies were originally nationalised in 1976), forcing a renegotiation of contracts with foreign entities. Under these new conditions PDVSA was to receive a minimum 60 per cent project share. While 16 companies, including Royal Dutch Shell and Chevron, went along with the new rules, Exxon Mobil, Conoco Philips and others resisted.

## The Result?

The nationalisation exercise was a short-term gain for the 'Supreme Commander's' populism, but it had a longer-term cost to the economy. Venezuela's huge reserves, including its Orinoco field, estimated perhaps to hold as much as 513 billion barrels of recoverable oil, could potentially make the country one of the top three world producers. But these are effectively off-limits to foreign companies because of uncertain property rights, erratic management of the

economy and political volatility. Capital flight led to the re-imposition of currency controls (which had been abolished in 1989) and several currency devaluations as the country increasingly exported what it produced and imported what it consumed.

These developments pose a major self-inflicted economic threat to Venezuela. The country depends on oil for 95 per cent of its exports and 45 per cent of its budget.<sup>18</sup>

Second, money has been wasted on Chávez's grand projects, both domestically and regionally. Billions of dollars have been channelled into secretive development funds, with little or no accountability. Regional fellow ideological travellers – including the Castro brothers' Cuba, Evo Morales' leftist regime in Bolivia, the *Farabundo Marti National Liberation* front led by Mauricio Funes in El Salvador, and the Sandinistas in Nicaragua under Daniel Ortega – have all received cheap oil and money.

Domestic programmes were aligned to political needs, as well as trying to do good. In the run-up to the 2012 presidential election, for example, Chávez made low-income and social housing a priority, launching a plan to build three million homes by 2018. As a result, during the first quarter of 2012, the construction sector expanded by 30 per cent compared with the same period a year before. There was nothing wrong in improving housing, especially among the poor, but again the sustainability was questionable, and state housing construction was lower under Chávez than under his predecessors.<sup>19</sup> In addition, many of the construction companies (and workers) were from abroad, notably Turkey, China and Iran.

Money has been wasted on Chávez's grand projects, both domestically and regionally

In this, PDVSA has had to focus increasingly on social investments rather than the oil sector, compounding its production challenges.

A third reason is that the government has printed more and more money to cover its deficit, with money supply increasing at an estimated 60 per cent each year between 2010 and 2013. Foreign exchange has become scarcer in this environment, and inflation has spiralled. All the while the state has attempted to ignore the market – and to become the market.

Maduro said that he wanted to set legal limits on businesses' profit margins on all goods. Unsurprisingly, price controls have suppressed incentives to produce – with some goods now being sold as something else (including milk) on which no price

controls exist or across the border in Colombia (such as coffee, or electronics) where they fetch higher prices. This includes a burgeoning trade in petrol given the highly subsidised Venezuelan price, where the cost of refining is as much as ten times greater than the retail amount. The borders are porous precisely because they are controlled by the military, which is behind much of the smuggling, illustrating that state weakness or failure is often by deliberate design because of such interests.

Price controls have suppressed incentives to produce

This applies also to the exchange rate differential, where in Venezuela (as with Zimbabwe in the 2000s before the scrapping of the local dollar), this differential is used and 'flipped' by those with access to government foreign exchange, making extraordinary profits in the process. It is inevitably a short-term game, with the government inserting itself at the centre of every transaction.

As one coffee producer put it, 'You can't sell to whom you want. You can't buy from whom you want, and you cannot set the price'.<sup>20</sup> Rentals were also set at peppercorn levels, sometimes as little as the cost of a roll of toilet paper, offering little inducement to home ownership.

And as shortages have kicked in, the crime rate has multiplied – Caracas is now the sixth most dangerous city in the world, with 98.7 homicides per 100 000 people compared to 55.2/100 000 inhabitants countrywide.<sup>21</sup> The response has been to put the National Guard onto the streets.

Yet violent criminality, poor governance and corruption go hand-in-hand: Venezuela ranked at 165/174 on Transparency International's 2012 Corruption Perception's Index;<sup>22</sup> and 181st (from 189 countries, ahead only of Myanmar, Democratic Republic of Congo, Eritrea, Republic of Congo, South Sudan, Libya, Central African Republic and Chad) on the 2013 World Bank's *Ease of Doing Business* rankings.

These problems have been of the government's own making. Venezuela matched high levels of social spending and foreign aid with a costly price

and labour regime, kept afloat solely by oil revenues. Contradictions have become the norm. Under the Bolivarian Revolution, it has been impossible to fire anybody. Yet businesses could be expropriated on a whim. While businesses were expected to operate within the law, including the exchange rate regime, they have become hostage to government dispensing dollars or paying its bills timeously.

The government has, in turn, blamed ‘corrupt capitalists’ and ‘parasites’ for the troubles, drawing a link between opposition politicians, corruption, criminality, smuggling and capitalism. Restaurants are forced to display their prices outside, an attempt to prevent charging at market (that is, black market) rates, to avoid being issued with an *infractor* notice, essentially a final warning. But the problem lies not with businesses trying to stay alive, but with government’s cocktail of currency controls, price caps and import controls. The problem comes when everybody owns everything but nobody owns anything, making it very difficult to contemplate even trading let alone investing in this business environment.

The inability to get to grips with the huge wealth divides and the related challenges of moving beyond distribution of oil income as the only method of wealth creation has long plagued this rich – on paper at least – nation. The bad economic lessons from Venezuela include how not to squander today’s wealth for short-term political popularity; while transfers might offer an alluring simplicity and prospect for the marginalised, this approach is a short-term bet.

Chávez died in March 2013 after a very public two-year battle with cancer. Some believed that he had been poisoned by the United States, given his nationalisation of its oil companies’ assets and constant baiting of the White House. But Venezuela’s primary foe does not lie outside, but rather within, in the form of its own government policies.

The bad economic lessons from Venezuela include how not to squander today’s wealth for short-term political popularity

Chávez not only focused on consumption rather than investment, but created a parallel government, where he increasingly centralised powers rather than distributing them to local authorities. Rather than improving existing institutions such as schools, universities and hospitals, he created new ones; he built militias rather than strengthening the police and army; and created *comunas* (‘neighbourhoods’) rather than empowering municipal government. Checks and balances were deliberately eroded. For example, the president of PDVSA, Rafael Darío Ramírez, is also the Minister of Energy and Mines. This pattern of patronage is repeated throughout the economy.

## Comparisons with Other Latin American Nations

Chávez’s achievements can be assessed by comparing them with those of Venezuela’s Latin American peers.

Between 1995 and 2010, a period comparable to Chávez’s time in office, over 40 per cent of Latin America’s population moved into a higher economic class, according to World Bank figures. More than 50 million people joined the middle class and Latin America is currently the only region in the world in which there is a narrowing of the inequality gap.

This change was driven by the so-called ‘Pink Revolution’, which saw a whole group of newly elected political leaders coming to power in Latin America as a result of democratic elections in the

1990s, bringing to an end decades of military and authoritarian dictatorships, which had become the norm in the region. The process of democratic change which swept through the region brought mostly moderately left political leaders to power who were highly responsive to constituents’ cries for greater social justice.

Newly elected politicians in countries as diverse as Chile, Brazil, Argentina, Peru, Panama, Colombia, Costa Rica and even Mexico all embarked on policies intended to promote sustained economic growth and poverty alleviation. All of these governments in one manner or another also implemented strategies

to improve education and social services and ramped up efforts to increase the social wage through redistribution, often by way of direct social grants.

A programme in Mexico known as *Oportunidades* (opportunities) rewarded parents through the school system by providing food vouchers and a life necessities basket, provided their children attended school. This programme had a double impact: it led to a dramatic improvement in school attendance while at the same time ensuring that family living standards improved. It was so successful that it was taken up in a slightly amended form in Brazil, where it was known as *Bolsa Familia* (the family purse) and subsequently implemented throughout Latin America under the auspices of the UNDP.

Expansionary budget policies were widely adopted throughout the region. They coincided with a period of economic growth, which saw Latin America's economies advance by approximately 3.3 per cent annually over the decade up to 2010. By contrast, Venezuela's economy grew at just 2.8 per cent, despite a seventeen-fold increase in the price of oil during Chávez's rule.

The share of poverty-stricken households in the region as a whole dropped meaningfully from 43.8 per cent of the regional population in 1999 to 29.9 per cent in 2011, according to the UN's Economic Commission for Latin America. A few standout examples such as Peru, Brazil and Panama, fared even better than Venezuela's remarkable turnaround under Chávez. Poverty rates in Peru, in particular, dropped sharply from 54.7 per cent in 2000 to 31.3 per cent in 2010.

In other words, the remarkable improvements in poverty reduction achieved by the Chávez government, making use of massive growth in oil revenues, were equalled or surpassed in other Latin American countries that did not implement such socially and politically destructive policies.

According to World Bank studies, the basis of this remarkable macro-trend throughout Latin America was not, as it was in Venezuela, the result of a single-minded radical redistribution of income generated by record high oil prices. Instead it was a balanced combination of factors, most prominent among

them a sustained period of steady economic growth accompanied by dramatically improved education standards, which improved the quality of employment for those entering the labour market and consequently allowed them to attain substantially improved wages. These two factors, plus improvements in the social wage occasioned by government policies of directing social grants to the poorest sectors of society, brought about similarly remarkable turnarounds in poverty levels throughout the whole Latin American region.

The social divisions as a result of Chávez's policies have created a substantial class of politically excluded and alienated people

Viewed against this background, Chávez's achievements lose much of their lustre. Despite Venezuela's oil bonanza, it achieved neither more nor less than the orthodox policies of promoting economic growth and wellbeing pursued by social democratic governments throughout the region. The big difference was that these region-wide policies, which followed the same objectives as Chávez did, came without the enormously high social, political and economic price which Venezuela paid because of Chavismo.

This raises legitimate questions about President Chávez's strategies for reducing poverty. The alternative approach followed in Brazil, Chile, Peru and elsewhere came without the widespread nationalisations of factories, industries, farms, shops and businesses and most importantly, without the division of society into those supporting Chavismo versus those who were characterised as 'enemies of the poor.' The social divisions created in Venezuela as a result of Chávez's policies have created a substantial class of politically excluded and alienated people, who form the backbone of growing opposition to the government.

## Lessons for South Africa

Inequality and widespread poverty blight South Africa's society. As a nation we have to dedicate ourselves to the notion that inequality and grinding poverty for large segments of our society are not only a blight on our nation, they are unsustainable and unconscionable and have to be addressed as a matter of national priority. While this is certainly a stated priority of the ANC as governing party, it is not always clear that opposition parties to the government's right embrace this priority as wholeheartedly as they need to.

The impact of improved education in Venezuela as well as in Latin America as a whole has proved to be the single most powerful dynamic driving economic growth

Promoting the idea of expropriation and nationalisation as a seemingly simple solution to South Africa's dire inequalities resonates among the poor. But these policies will have precisely the same effects as in Venezuela. Namely, they will divide society more than ever and will lead to the demonisation of the opposition to justify and legitimise confiscations. This will end in the gradual dismantling of the productive and industrial base of our society.

Unlike Venezuela, South Africa does not have a single commodity that can produce the enormous bounty which oil has been for the Chávez government. Even the seventeen-fold increase in government revenues achieved as a result of oil price increases during the Chávez years eventually became insufficient to support the vast social project his administration embarked upon. Ultimately, after a decade and a half, it has started imploding under its own weight.

In contrast, the model chosen and followed by numerous other Latin American leaders, who have delivered equally impressive improvements in the condition of the region's poor, have proved to be not only sustainable, but also enduring.

The overriding lesson however, is the importance of education – something which South Africa has simply not got right. The impact of improved education in Venezuela as well as in Latin America as a whole has proved to be the single most powerful dynamic driving economic growth and the improvement of circumstances that cause inequality and poverty. It is the absolute priority 'must do' for South Africa.

One of the many lessons from Chávez's revolution is that it is very difficult to build a country (and an economy) based on conflict, without social peace. Polarisation, while a useful ploy to gain and retain power, is ultimately costly for all – opposition and government alike.

A state-run economy is no more an efficient long-term answer to poverty than it was in the Soviet Union. There is no substitute for the private sector. Natural resources, if employed correctly, can be a helpful endowment towards success; how the proceeds are used (spent or invested) is critical. Finally, while redistributive spending might be a means of ensuring political support and power, a mix of raised expectations, state capture and lack of long-term private sector investment eventually turns all promises hollow.



Just up from the Assembly, near the large mural where Chávez, Fidel Castro, Che Guevara, Simón Bolívar and José Martí, the father of the Cuban Revolution, were depicted playing draughts, stood a small wiry man in a Chavista red T-shirt with a bullhorn, constantly berating the opposition and the church and singing the praises of Maduro and Chávez. When we stopped to listen, he held out his hand: *'Nada para mi?'* he asked, 'Nothing for me?' Railing radicalism tinged with expectations of a hand-out summed up the inheritance and challenge facing Chávez's successors, whatever their political affiliation. This is a lesson for others who seek to emulate *el comandante*, too, beyond Venezuela.

## Endnotes

- 1 CADIVI (*Comisión de Administración de Divisas – Commission for the Administration of Currency Exchange*) is the government body administering currency exchange in Venezuela.
- 2 At <http://www.bbc.co.uk/news/world-latin-america-24185342>.
- 3 At <http://www.bbc.co.uk/news/world-latin-america-22526622>.
- 4 See Steve Hanke's analysis at <http://www.cato.org/blog/venezuelas-house-cards>.
- 5 See <http://www.bbc.co.uk/news/world-latin-america-24897407>.
- 6 *El Universal*, 14 November 2013.
- 7 For an excellent summary of the Chávez phenomenon, see Rory Carroll, *Comandante: Hugo Chávez's Venezuela*. London: Penguin, 2013.
- 8 See the BBC Radio Documentary on the toilet paper crisis, September 2013 at [http://downloads.bbc.co.uk/podcasts/worldservice/docarchive/docarchive\\_20130926-0100a.mp3](http://downloads.bbc.co.uk/podcasts/worldservice/docarchive/docarchive_20130926-0100a.mp3).
- 9 Bart Jones, *Hugo! The Hugo Chávez Story from Mud Hut to Perpetual Revolution*. Hanover, New Hampshire: Steerforth Press, 2007, cited at [http://en.wikipedia.org/wiki/Hugo\\_Ch%C3%A1vez#Jon07](http://en.wikipedia.org/wiki/Hugo_Ch%C3%A1vez#Jon07).
- 10 Carroll, *op cit*.
- 11 For the historical details including the controversy around registration and the voting and tabulation process, see [http://en.wikipedia.org/wiki/Venezuelan\\_recall\\_referendum,\\_2004](http://en.wikipedia.org/wiki/Venezuelan_recall_referendum,_2004).
- 12 <http://arxiv.org/pdf/1205.3009.pdf>.
- 13 For a discussion on these developments, see <http://www.newyorker.com/online/blogs/newsdesk/2013/11/chavez-successor-sees-a-trilogy-of-evil.html>.
- 14 This is the May 2013 figure. At <http://www.eluniversal.com/economia/130612/venezuelan-oil-output-slides-246-in-may>.
- 15 With thanks to Alberto Trejos for these figures. Statistics are notoriously unreliable and politicised in Venezuela and a source of much dispute.
- 16 With thanks also to Professor Trejos for this point.
- 17 By 2012 the United States was importing 40 per cent of Venezuela's oil production, some 760 000 bpd, with China at estimated at 500 000 bpd. See <http://www.nasdaq.com/article/venezuela-awash-in-oil-but-riddled-with-corruption-inefficiency-cm122707>.
- 18 See [http://www.nytimes.com/2013/03/09/world/americas/venezuelas-role-as-oil-power-diminished.html?\\_r=0](http://www.nytimes.com/2013/03/09/world/americas/venezuelas-role-as-oil-power-diminished.html?_r=0).
- 19 At <http://www.bbc.co.uk/news/business-19813533>.
- 20 BBC, *ibid*.
- 21 <http://www.reuters.com/article/2013/05/14/us-venezuela-crime-idUSBRE94D01120130514>.
- 22 At <http://cpi.transparency.org/cpi2012/results/>.