

VENEZUELA; A CASE STUDY

by

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## ABSTRACT

### VENEZUELA; A CASE STUDY

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A case study of Venezuela is provided to test Marxist theory of political development. The first hypothesis is: three characteristics are inherent in any politically developed nation-State: There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the modern industry; the existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class; as developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*.

Because the evidence provided by the case study of Venezuela supports the first hypothesis, Marxism combined with more recent research is used as a framework for testing the second hypothesis. The second hypothesis is: the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy.

Because the ratio of *wealth produced to wealth distributed* in Venezuela is primarily dependent on profits made by the oil industry, it is hypothesized the oil industry will play a significant role in the stability of the nation's socialist democracy. Marxist theory combined with the work of more recent academic research concerning the sustainability of "redistributive" democracies, is used to analyze quantitative and qualitative trends in the market value of petroleum and measures of democracy. The data supports the finding that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy.

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## CHAPTER 1

### INTRODUCTION

The influences of globalization and capitalism are undoubtedly great in the twenty-first century. With the influence of globalization and capitalism, is it possible for a socialist democracy to be sustained or, would a decline in state ownership and redistributive policies *or* a decline in democracy, eventually occur? And what factors would contribute to the stability and sustainability of a socialist democracy? This paper uses Marxist theory as a framework for analyzing these questions. Socialism, sometimes referred to as Marxism, is derived from the original writings of Karl Marx and is used in this paper as a framework for analyzing and understanding the political development of independent nation-states. Chapter 2 provides a summary of the arguments and assumptions Karl Marx makes concerning the political development of independent nation-States. Next, qualitative and quantitative data on the case of Venezuela's economic and political development between 1920 and 1976 is discussed. The data provides support for the first hypothesis: three characteristics are inherent in any politically enlightened and developed nation-State:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the modern industry.
2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.
3. As developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of

4. a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*. (p. 71-7, 136-37, 158-65, 443 – 490, 556 – 76, 594 - 617)

Because the evidence supports Marxist theory of political development, Marxism along with more recent research is used as a framework to analyze the data for the second hypothesis: the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy

In the second chapter, Marxist theory is explained in greater detail to provide support for the key assumptions and arguments that lead to the first hypothesis. To be clear, this paper tests Marxist theory regarding the political development of independent nation-States. In order to test this theory on the political development of independent nation-States certain criteria must be met, and these criteria are highlighted in the first section of chapter 2. Also in the first section, the arguments Marx makes regarding the political development of nation-States and the assumptions on which these arguments are based, are discussed in greater detail. The second section of chapter 2 provides a brief application of Marx's arguments concerning the political development of nation states as it relates to the case of Venezuela before going into a more detailed analysis in chapters 3 and 4.

In the third chapter qualitative and quantitative data on Venezuela's economic and political developments between 1920 and 1976 are discussed in greater detail. Observations made in chapter 2 concerning the relationship between Venezuela's oil

industry and political development between 1920 and 1976 are elaborated on. The analysis of the data between 1920 and 1976 provides support for Marxist theory concerning the political development of independent nation-States. Because the case study of Venezuela provides support for Marxist theory, Marxism combined with more recent research is used as a framework for analyzing the second hypothesis: the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy

The definitions, methods, and analysis are provided in the fourth chapter. In 4.1, a discussion of economic and political spectrums provides a measure for defining the labels 'socialist' and 'democracy'. Venezuela's economic and political development is measured in two ways: as a constant across time, domestically; and as a more current measure compared to other nations. The observation that Venezuela has developed into a socialist democracy combined with the observations in chapters 2 and 3 concerning the significance of the oil industry, provides a method of testing the second hypothesis. In 4.2, Marxist theory combined with more recent research are explained as a method of testing the hypothesis that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's socialist democracy. Sections 4.3 and 4.4 provide the analysis.

According to Marxism and more recent research *two* factors are significant in the stability and sustainability of Venezuela's socialist democracy: the GDP/cap *and* the

voters' satisfaction with the redistributive system. Therefore, if a positive correlation exists between the market value of petroleum and the nation's GDP/cap and a positive correlation exists between the market value of petroleum and the voters' satisfaction with the redistributive system then that would provide support for the fact that there is a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's socialist democracy. The quantitative and qualitative data support the fact that a positive correlation exists between the market value of petroleum and Venezuela's GDP/cap. Moreover, the data also supports the fact that the voters' satisfaction with the redistributive system, for the case of Venezuela, is the redistributive system created by the nationalization of the oil industry and the *sembrar el petroleo* policies. The qualitative and quantitative data support the fact that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the voters' satisfaction with the current redistributive system. Therefore, the data provides support for the fact that the nationalization of the oil industry in Venezuela created a positive correlation between the market value of petroleum and the stability and sustainability of the current socialist democracy.

Chapter 5 concludes with a summary of this case study of Venezuela and some potential implications to these findings.

## CHAPTER 2

### MARXISM

Marxism is a philosophical understanding of human nature and the interactions of people within society. The part of Marxist theory used in this case study of Venezuela, is the arguments concerning the political development of independent nation-States. The summary and description of Marxism explained in this first section uses the nineteenth century writings of Karl Marx and Friedrich Engels found in The Marx- Engels Reader, edited by Robert C Tucker. The following writings of Marx and Engels were used in this summary and description of Marxism: Economic and Philosophic Manuscripts of 1844; Alienation and Social Class; Society and Economy in History; The German Ideology: Part I; Wage Labor and Capital; Class Struggle and Mode of Production; The Grundrisse; Crisis Theory; Manifesto of the Communist Party; The Possibility of Non-Violent Revolution; The Tactics of Social Democracy; The Eighteenth Brumaire of Luis Bonaparte; Socialism: Utopian and Scientific; On Morality; Versus the Anarchists; On Authority; The Origin of the Family, Private Property, and the State.

#### 2.1 Marxism as a Theory

Marx and Engels' philosophical assumptions of human nature and the interactions of people within society are discussed and used as the bases for

understanding the characteristics of political development within independent nation-States. In order to accept Marxism as a framework of explaining political development, an economic criterion needs to be met; two things need to exist: a developing modern industry and developing world market. This is because Karl Marx's approach to explaining political development is completely dependent upon the existence of, and continued development of, modern industry and the world market.

First, Marx makes an observation based on what he refers to as a fact of capitalism that is ignored by economists of his time in the mid-1800s: unless a worker's compensation *increases directly proportionate* to the wealth created by the worker's time and labor, then capitalism will perpetuate an *ever growing division* of wealth in society; (as so frequently put today) the rich will get richer and the poor will get poorer. "The worker becomes more poor, the more wealth he produces, the more his commodity increases in power and range; the worker becomes an even cheaper commodity the more commodities he makes" (p. 71). Moreover, Marx argues that as a result of capitalism and the development of the world market, society has come to the point where labor (the workers) cannot live without objects and trade, because objects and trade are needed to be produced in order for wealth to be produced, and wealth is needed to live in civil society (p 71 – 75). Therefore, the greater the ratio of *wealth produced to wealth distributed* the less valuable the worker's earnings are in society. In twenty- first century terms, Marx is referring to the ratio of *inflation and cost of living to people's earnings*. The more money that is created and existing in society, the less

valuable money is; therefore, unless the wealth a worker earns *increases directly proportionate* to the wealth that is created in society, capitalism will inherently continue to perpetuate a devaluation of the worker's earnings and a devaluation of the worker's labor and life. Based on this fact concerning pure capitalism, Marx argues that political development of nation-States will have three distinct characteristics:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the modern industry.
2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.
3. As developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*. (p. 71-7, 136-37, 158-65, 443 – 490, 556 – 76, 594 - 617)

The reason Marx argues that these three characteristics will be seen in any developing nation-State is discussed in greater detail below.

First, due to the development of the world market, there is an inherent divide in society between two opposite parts: the possessing class and the proletariat class. The possessing class is owners of capital and land. The proletariat class is those who earn wages and rent land. Marx also refers to the proletariat class as the truly “propertyless” (p 133-5). But the whole of society is determined by “what portion each of these two elements occupy with the opposition” (p 133). In other words, if the whole of civil society were viewed as a Venn Diagram, theoretically, those who possess capital *and* land would be one independent part and the propertyless would be another independent

part; the overlay would be those who either: own land and earn wages or those who own capital and rent land. In the twenty-first century, the overlay could also be describes as the middle class.

According to Marx, this divide between social classes, the separation between have and have-nots, has existed in civil society since the existence of the world market; and the size of the divide is determined by the ratio of *wealth produced to wealth distributed* by the modern industry (p.133-35, p. 445-65). But regardless of what this ratio is, there exists an inherent class division in society based on this ratio.

The second argument Marx makes is, because pure capitalism perpetuates a greater division of social classes, the existence of capitalism throughout history, has politically led to a dictatorship of a small ownership/possessing class over a large proletariat class. Writing about political developments in the 1700s and 1800s, Marx uses empirical evidence to support the fact that throughout the history of civil societies, those who have had ownership also have had ruling power. And because pure capitalism will inherently perpetuate a greater division of *wealth produced to wealth distributed*, the political result has been a small class of people with ownership (and therefore ruling power) over a large class of proletariat. He cites specific examples of slavery, exploitation, and imperialism to prove the existence of these dictatorships throughout history. Therefore, Marx's first two characteristics of political development are:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the modern industry.

2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.

The third argument Marx makes concerning political development is that the political dictatorship of a small possessing class over a large proletariat (or truly propertyless) class will inherently, over the course of developing the world market, lead to a revolution by the proletariat. Marx's argument is that the proletariat class will inherently abolish the dictatorship either through a civil process or through violent uprisings, but the proletariat class will abolish the class structure under which the dictatorship is sustained. In other words, the proletariat will dissolve the ownership of the property by implementing a more equitable distribution of wealth throughout society and therefore, a greater distribution of ruling power (p.220, 469 – 500, 556 – 76, 594 - 617). In order to accept this argument made by Marx, one must first accept the critical assumption on which it is based.

Marx makes his third argument based on a critical assumption regarding human nature: human beings are by very nature, conscious beings, aware of the fact that they exist in a society of class division and self-alienation: different social circles, different levels of wealth, different levels of ownership, different levels of access to education, different life situations (p. 71- 75, p. 133-35). Moreover, the possessing class will “feel satisfied and affirmed” in this class division, the possessing class “experiences it as a sign of its own power and possess in it the appearance of human existence”; while the proletariat class “feels destroyed” in this class division and “sees its own impotence in

the reality of inhuman existence” experiencing an “indignation naturally aroused by the contradiction between human nature and one’s life situation” (p.133 – 35). Marx assumes that with enlightenment (spread of information) and an individual’s awareness of her/his place in global society, a dictatorship of a small ownership class over a large proletariat class will be perceived by the proletariat as inhuman and human nature will prompt a large class of proletariat to organize and overthrow the dictatorship (p. 71-7, 136-37, 158-65, 443 – 490, 556 – 76, 594 – 617). Therefore, over the course of economic and political development, dictatorship of a small possessing class over a large proletariat class, inherently, cannot be sustained.

Marx believes a truly utopian existence of an enlightened global humanity would be humanity without the existence of class division and without a ruling class. However, he acknowledges this is only a utopian existence. Marx argues that as the process of globalization occurs, there will be a process of political development and enlightenment within independent nation-States first. Marx cites the examples of France and England to support the idea that enlightened individuals and nations that acknowledge these three characteristics of political development will come to accept some form of class division as well as some form of wealth redistribution to prevent the inhuman existence of a large proletariat class and therefore, inherently prevent large uprisings and civil war.

According to Karl Marx, as a result of this enlightenment, the more developed societies have come together in the form of individual nation-States to balance the ratio

of *wealth produced to wealth distributed* within the state with the purpose of preserving some sense of order and protection. He argues that as awareness of an individual's position in global society and awareness of the development of the world market grows, individuals have created (and will continue to create) politically organized nation-State societies that, within the nation, accept a certain level of class division *as well as* a certain level of redistribution of wealth in order to avoid the inherent constant revolution and civil war that Marx assumes would occur if the ratio of *wealth produced to wealth distributed* creates a large propertyless class (p. 158 – 65, 443 – 490, 556 – 76, 594 – 617). “Civil society embraces the whole material intercourse of individuals within a definite stage of the development of productive forces. It embraces the whole commercial and industrial life of a given stage, insofar, transcends the State and nation, though on the other hand again, it must assert itself in its foreign relations as nationality, and inwardly must organize itself as a State” (p 163). In his later works, Marx acknowledges the potential of democratic governments to balance the ratio of *wealth produced to wealth distributed* in order to prevent a dictatorship of a small possessing class over a large propertyless class because democracies have extended political power to the proletariat class- in allowing political rights and the ability to hold office.

As stated, Marx believes that at some point human kind will exist in an enlightened global society where the dissolution of private property and dissolution of class is inevitable. But he also believes that the political development of independent nation-States will take place first. Therefore, because global society has not yet reached

the point where all nation-States are politically developed, Marx's explanation of political development is used as a framework for which to analyze the pattern of political development of independent nation-States today:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the modern industry.
2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.
3. As developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*. (p. 71-7, 136-37, 158-65, 443 – 490, 556 – 76, 594 - 617)

If Marxism is correct, then the political development of independent nation-States will eventually yield governments that balance the ratio of *wealth produced to wealth distributed* in order to prevent continuous revolutions and civil war that inherently follows a dictatorship of a small possessing class over a large propertyless class. But in order to test the Marxist view of political development the original criterion of a developing modern industry and world market must exist. Moreover, one must also accept the assumption that as the spread of information continues, dictatorships of a small possessing class over a large propertyless class will be viewed by the proletariat as inhuman and human nature will prompt the class to organize in an effort to abolish the dictatorship and dissolve the class ownership. If this assumption of Marx is correct and the development of the modern industry and world market exists, then the

arguments of Marxism concerning the political development of nation-States can be used as a framework for understanding the political development of nation states.

While there is no way to prove Marx's assumption about human nature, the arguments made by Marxist theory can be tested with a case study of a present day, developing, and independent nation-State. Less than forty years after Marx's death, the modern oil industry began developing in the newly independent nation of Venezuela. This paper tests the arguments of Marxist theory with a case study of Venezuela's economic and political development. The findings are then used as a framework for further analysis.

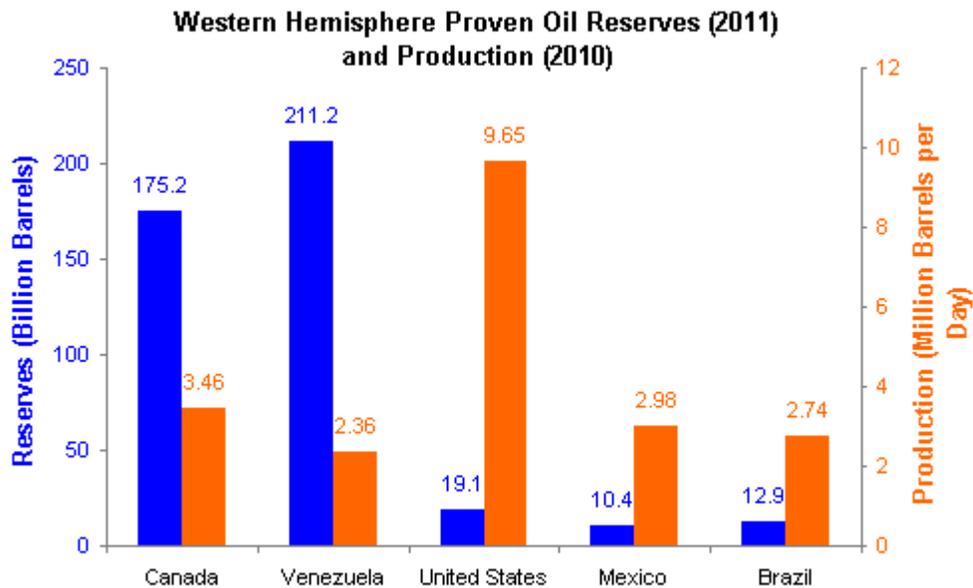
### 2.2.1 Applied Marxism

An application of the arguments made by Marxist theory as they relate to the case of Venezuela is briefly discussed before a complete analysis in chapters 3 and 4. For the purposes of this paper, the application of Marxism to Venezuelan development assumes that the society is inherently built upon a social divide created by the distribution of wealth made from the oil industry. The reason the oil industry is considered the determining factor of social class is because it was the development of the oil industry that brought the unprecedented levels of international trade and economic growth and therefore inherently introduced Venezuela to a new class ownership, the foreign oil companies. "the bourgeoisie developed, increased capital, and pushed into the background every class handed down from the Middle Ages" (475).

For Venezuela, unlike most other nations in Latin America in the early 1900s, the nation experienced a significant political transition to democracy in 1943; a transition from military caudillos and authoritarian regimes that had ruled in most Latin American nations since independence. The significant political change in 1943 that “pushed into the background every class handed down from the Middle Ages” occurred immediately after the development of the oil industry throughout the 1920s and 30s. Moreover, the development of the oil industry brought unprecedented international trade and economic growth and therefore a new divide of social classes. Because the oil industry is considered to be the Modern Industry of Venezuela, according to Marxism, it is the distribution of wealth made from the oil industry that determines the size of the social class divide.

Since the 1920s, Venezuela’s industry has been primarily based on oil production. During the 1920’s, Venezuela’s oil industry soared: in less than a decade, oil became the central pivot of the economy; between 1920 and 1925, oil's share of total exports leapt from 1.9 percent to 41.6 percent, in 1928 oil accounted for more than 90 percent of the nation’s foreign exchange (Blank p. 20). And in 1929, oil profits provided 76 percent of Venezuela’s export earnings and 50 per cent of the government’s revenues (Yergin p.234, Lieuwen p.48). Throughout the 1920s and 1930s, the development of the oil industry in Venezuela brought significant economic growth that far surpassed any other good previously exported from the nation. Even today, oil remains a primary source of the government revenues and GDP. According to the US State Department,

oil revenues today account for 12 per cent of the GDP and 94 per cent of export earnings (Economy, Venezuela. [www.state.gov](http://www.state.gov)). Moreover, according to the Oil and Gas Journal and the Energy Information Administration, Venezuela has the largest oil reserves in the Western Hemisphere and the second largest oil reserves in the world; and Venezuela currently produces over 2 thousand barrels a day yet only consumes about 7 hundred a day.



Sources: *Oil and Gas Journal*, Energy Information Administration

Figure 1. Western Hemisphere Proven Oil Reserves and Production

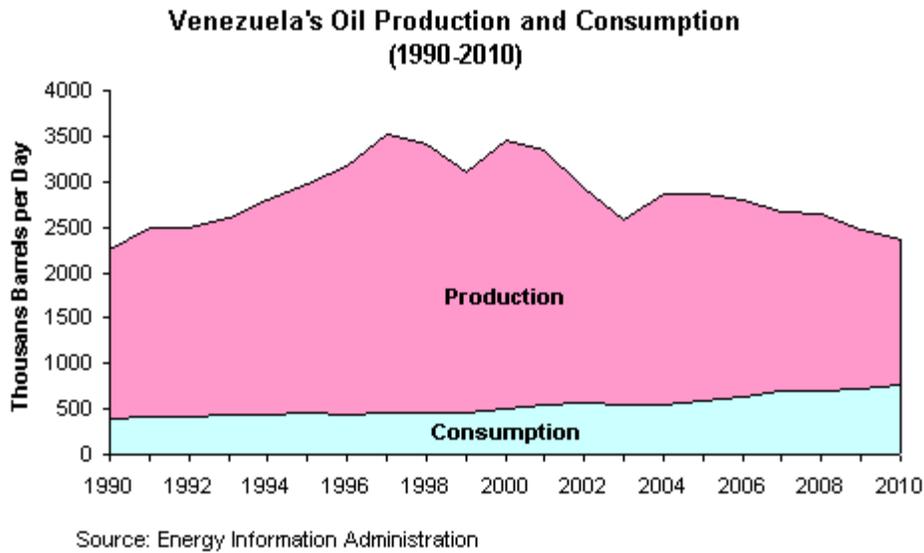


Figure 2. Venezuela's Oil Production and Consumption, 1990 - 2010

Not only does the state owned oil industry provide a significant source of wealth to Venezuela, but the majority of foreign owned oil revenues are taxed as much as 95 percent, providing a yearly estimated \$8 to \$16 billion dollars of further revenue to Venezuela (Parraga and Wallis, Reuters.com). Therefore, because the oil industry is and has been the primary industry in Venezuela since the 1920s, the first argument of Marxism, as it relates to Venezuela is: there is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the oil industry.

The second argument of Marxism is: the existence of this class divide can be observed throughout history and has led to political dictatorships of a small possessing

class over a large proletariat class. In the case of Venezuela, the existence of this class divide based on oil industry wealth has existed since the beginning of the development of the oil industry in the 1920s. Moreover, throughout Venezuela's political history there has also been the existence of political dictatorships of a small possessing class over a large proletariat class. Prior to the political trends toward democracy and prior to the nationalization of the oil industry, Venezuela was ruled by various military dictators. As chapter 3 explains, these military dictators were receiving oil industry profits and using them to keep their authoritarian regimes in power. Moreover, the foreign oil industry owners were exploiting local native populations to maximize the growth of their capital as well as fund military dictatorships as long as it was beneficial for them, economically. The last military regime to hold power in Venezuela was abolished in 1958.

The third argument of Marxism is: as developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*. In the case of Venezuela, democratic maneuvers eventually became the means of the Marxist goal to abolishing the dictatorship, and the nationalization of the oil industry was the means to creating a more equitable ratio of *wealth produced to wealth distributed*. Although violent uprising and revolution are common assumptions of Marxism, it is not the only practical application of the principles behind the theory:

The practical application of the principles will depend, as the Manifesto states, everywhere and at all times, on the historical conditions for the time being existing, and for that reason, no special stress is laid on the revolutionary measures proposed... although in principle still correct, yet in practice are antiquated, because the political situation has been entirely changed. (Marx, Engels. ed by Tucker p 470)

Marx and Engels sight the improved political conditions for proletariat to organize and hold office as reasons why violent revolution is an antiquated application of the principles. As this paper describes in subsequent sections, in the case of Venezuela, the nationalization occurred in a primarily non-violent manner under a democratic government, in which self-proclaimed Marxist revolutionaries held political office. Moreover, the government's profit from the oil industry quickly became the primary source of income for the government's redistributive programs and therefore is a significant factor in maintaining the socialist democracy.

The characteristics of political development that Marx argues can be observed in any developed nation-States can be observed in Venezuela. The subsequent sections provides even further support for the fact that:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the oil industry.
2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.
3. As developments in the world market increase an individual's awareness in global society, the proletariat class organized to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*. (p. 71-7, 136-37, 158-65, 443 – 490, 556 – 76, 594 - 617).

## CHAPTER 3

### 1920 to 1976; DICTATORSHIP TO DEMOCRACY

In order to test Marxist theory on the political development of nations there must be a developing modern industry and world market. For that reason, the analysis of the case of Venezuela begins in the 1920s. By the late 1920s, US and British investors had developed the modern oil industry in Venezuela therefore meeting this criteria. Based on the application Marxist theory to the case of Venezuela, Marxist theory argues that one should be able to observe an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the oil industry. An analysis of the events in Venezuela's economic and political development beginning in the 1920s supports the fact that there was a new class divide within Venezuela as a result of the ratio of *wealth produced to wealth distributed* by the oil industry.

By 1928 Venezuela became the world's second largest producer of oil and the world's largest exporter of oil, so the scope of this analysis begins in the 1920s when Venezuela was a newly independent nation under the military dictatorship of General Juan Vincente Gomez (Lieuwen p48). Not long after the economic loss faced by Standard Oil as a result of the instability of Mexico's oil industry during *Revolución Mexicana*, the British company, Royal Dutch/Shell began to purchase land in Venezuela for drilling. Immediately after Royal Dutch/Shell began drilling for oil, the US company, Standard Oil of New Jersey (Exxon) acquired a large amount of land

from Gomez and began to compete with the British company, Shell (Lieuwen p.48, Kozloff p.14). At the time of these purchases, the Venezuelan people and the Gomez regime lacked the knowledge and experience needed to develop the oil industry into a profitable commodity. Gomez allowed the oil companies to draft their own legislation concerning taxes and royalties on the oil production and wealth; this became known as the Petroleum Law (Lieuwen p.48 Yergin p.235). The Petroleum Law allowed for a 7 per cent tax on the oil profits paid to the Gomez regime (Lieuwen p.48, Yergin p. 235).

In 1929, oil profits provided 76 percent of Venezuela's export earnings and 50 per cent of the government's revenues (Lieuwen p.48). Moreover, Venezuela was able to maintain great oil production internationally during the Great Depression. When the Great Depression hit the United States, Venezuela's oil industry was also hit hard but not for long because Venezuela had become Royal Dutch/Shell's largest single source of oil production and Britain's largest supplier:

...[Venezuela] had been supplying over half of the US crude imports, with 55 percent of its total oil production going to the United States in the form of crude and oil products. ...[During the Great Depression] the companies operating in Venezuela hurried to reorient their exports toward the European market, and Venezuela overtook the United States as Europe's largest supplier. By the mid-1930s, Venezuela had regained its previous high production level (Yergin 258)

Therefore, the Venezuelan oil development and production remained strong throughout the 1930s by increasing the involvement of European companies as well as maintaining development with US companies.

The development of the oil industry leading to Venezuela becoming the world's largest exporter, combined with the Petroleum Law drafted by the foreign investors meant that the foreign investors became the new possessing class and therefore new ruling class; where prior to the development of the oil industry, military caudillos ruled in Venezuela. The modern oil industry had become a significant factor in the ration of *wealth produced to wealth distributed* in Venezuela. And soon, a new division of social class was apparent. In the case of Venezuela, the US and British oil companies were the possessing class, while the native Venezuelan population was the proletariat class and the Gomez regime was the overlay in the divide. And although military caudillos had ruling power in Venezuela both before and after the development of the oil industry; the profits from the oil industry were supporting the rule of the governments that existed after the development of the oil industry. Moreover, there is evidence to suggest that after the development of the oil industry, the various leaders in Venezuela only had ruling power as long as it was economically advantageous to the foreign oil industry. The qualitative data supports this.

First, a divide in social classes based upon the ratio of *wealth produced to wealth distributed* by the oil industry quickly became apparent. As foreign investors moved into the area, the Gomez regime allowed them to build fenced-in and heavily guarded areas. US and British employees created their own development camps within Venezuela, complete with their own schools, hospitals, medical care and stores while the native Venezuelans just outside these camps lacked even the basic of urban

development (Blank 136). Moreover, at first, the Gomez regime was in favor of the fact that the oil companies did not refine the oil in Venezuela to prevent the native population from gaining the knowledge, exposure, and wealth that working for the companies provided (Blank 136). Slaves were shipped in from the West Indies to work in the malaria infested area of Lake Maracaibo where the oil was located:

The stark division of Venezuela into two separate worlds, of being and conceiving, had begun. Some Venezuelans, due to good fortune, connections, and skills, were admitted to the privileged world of the petroleum sector, but for the vast majority, there were the impoverished shack towns and isolated peasant huts. The stark social division was both cause and effect of the growing economic distortion (Blank 137).

Overtime as the foreign oil investors made improvements in infrastructure and transportation in Venezuela, it became cheaper for the companies to hire native migrant workers than to ship in slaves. As a result of this, the other industries in Venezuela could not compete with the oil industry and the oil industry became the primary source of the nation's wealth. Also, the increase in *wealth produced*, led to an increase in cost of living. However, the lack of *wealth distributed* by the oil industry created a large divide between the possessing class and the proletariat class. This is because the nation's GDP rose significantly during this time and so did the cost of living, but the wages and earnings of the workers and native villagers did not increase at the same rate. The qualitative data supports this. First, as the oil industry was experiencing significant developments, the rest of Venezuela's economy did not (Kozloff p. 14 – 17). The revenues received from the oil industry by the Gomez regime were not redistributed

back into other sectors of the economy to diversify development so the oil industry became the primary source of nation's wealth. As a consequence, the nation could no longer supply the agricultural needs to meet the domestic demand and Venezuela had to import food at higher costs (Luiewen 49, Blank 137). The development of the oil industry "brought rapid price increases while the wages of the workers lagged far behind" (Luiewen 49).

Also, not only did the wages earned by these workers fail to keep up with the cost of living, but workers and villagers were also being exploited by the industry owners. The Venezuelan migrant workers that came from the country side to work in the oil fields faced extreme working conditions. Racism toward the Venezuelan workers from the oil industry was widely accepted; and discrimination in the form of longer working hours and less pay than the US and GB workers was institutionalized (Kozloff 14-17). Exploded wells were left unattended, leaking crude oil into several of Venezuela's fresh water sources. In one instance, an exploded well was left pouring nearly one million barrels of crude oil into Lake Maracaibo and the surrounding area and it eventually formed a stream of crude oil (Kozloff 14-17). Pools of toxic oil waste and leaking oil wells could still be seen around Venezuela into the 1990s (Kozloff 14-17). And entire communities were destroyed by these exploded wells as well as fires that burned hundreds of dwellings, at times displacing many to other cities (Kozloff 14 - 17). The traditional villagers living along the Lake Maracaibo were not only devastated by the environmental impacts but the economic impacts were detrimental as the cost of living

increased throughout the 1920s and 1930s. “Living standards were miserably low; there was no government housing; health and education were neglected despite the opulence of the state; agriculture and industry were prostrate” (Lieuwen 49).

The class divide that was created by the development of the oil industry is apparent in the case of Venezuela. But according to Marxist theory, this divide caused by the ratio of *wealth produced to wealth distributed* by the oil industry would also lead to a dictatorship of a small possessing class over a large proletariat class. This dictatorship over a large proletariat class is also apparent in the case of Venezuela. As previously stated, the proletariat class in Venezuela was the native Venezuelans who did not own any of the oil companies or land. The possessing class and the overlay class were the foreign oil companies and the Gomez regime, respectively. Many scholars have identified the various regimes in Venezuela both before and after the development of the oil industry as military authoritarian dictatorships (Ellener and Hellinger 2003, Blank 1984, Lieuwen 1965, Schneider 2010 ). However, the qualitative data supports the fact that after the development of the oil industry, the leadership in Venezuela only had ruling power as long as it was advantageous to the ownership of the oil industry and the dictators of the military caudillos were accountable to the ownership of the oil industry. Therefore, after the development of the oil industry in Venezuela a dictatorship of a small ownership class over a large proletariat class can be observed. However, according to Marxist theory, as developments in the world market increase an individual’s awareness in global society, the proletariat class organizes to abolish the

dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*.

Therefore, if Marxist theory is correct then the political development in the nation would be the result of the struggle between: what was politically advantageous to the foreign oil companies and the inherent dissolution of the bourgeois property (nationalization of the oil industry). The qualitative analysis supports the argument that the various regimes in Venezuela between 1920 and 1976 can be explained as the result of the struggle between what was beneficial for the foreign oil companies and the inherent nationalization of the oil industry, therefore supporting the second two arguments made by Marxist theory: the existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class; as developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*.

Not many scholars would argue that military authoritarian dictatorships had ruling power in Venezuela between 1920 and 1945. First, General Gomez, then General Contreras, and finally General Medina until the military dictatorship fell. The evidence of these dictatorships is apparent. In 1929, the government published a book about the philosophy of the Gomez regime. "According to it, inasmuch as the Venezuelans were a mixed and primitive race living in a backward, pastoral economy, military dictatorship

was not a necessary evil but, rather the best possible form of government” (Lieuwen 49). Gomez also became the nation’s primary landholder, partially from confiscating the property of political opponents (Lieuwen 49). The government also used terror, brutality, torture chambers and censorship to stay in power and of course there was a complete absence of civil liberties (Lieuwen). But although General Gomez and others were the leaders of the dictatorships, the fact that the dictatorships which existed after the development of the oil industry were funded by the oil revenues meant that the oil industry ownership was responsible for maintaining the dictatorships and political power. Also, Marx argues that economic advantages in the oil industry will inherently lead to political advances for the ownership of the oil industry. This is because, according to Marxism, that economic advantage by the industry ownership will inherently yield political advances by that same class:

We see, therefore, how the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange. Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. (Marx, Engels. ed by Tucker p 474-5).

And because the military dictators allowed the foreign ownership to draft Venezuela’s Petroleum Law, then keeping military dictators in power was politically advantageous to the oil industry ownership. The qualitative data suggests that the pattern of political development in Venezuela between 1920 and 1976 is a result of the foreign oil investors acting in their own economic interests coupled with the inherent organization of the proletariat to nationalize the oil industry.

In 1928, a significant challenge to the dictatorship is observed by the uprisings and anti-government rallies lead by university students:

“Ideologically influenced by the First World War, the Mexican Revolution of 1910, and the Russian Revolution of 1917, it was they who first saw that Gomez was more than a national despot, that he also the instrument of foreign control of the Venezuelan economy. For them the battle cries became democracy, economic nationalism, and social justice (Lieuwen 50).

The student-led uprising ensued but the leaders were arrested, universities were closed and students were put to work in the streets. Romulo Betancourt and other opposition leaders were exiled. But the next year, in 1929, further opposition led to an invasion by long-exiled opponents of Gómez; however, this was also put to an end fairly quickly. President Gómez used the new found oil wealth and foreign investment given to him in the 1920s as a means to keep his authoritarian dictatorship strong, and keep himself in power (Lieuwen p. 50). In 1930 when Venezuela was still under the military authoritarian rule of General Gomez, the minister of development, Gumersindo Torres, made an official attempt to take some ownership of the oil industry but this attempt was quickly thwarted with the pressure Gomez was facing from US and British embassies:

Torres established the Office of Hydrocarbons in the Ministry of Development, Venezuela’s first official attempt to control oil...Torres began to charge foreign companies with flagrant abuses of Venezuelan law and demand back taxes and reparations. Gomez sided with the foreign companies and fired Torres in 1932. According to Romulo Betancourt, pressure from both the British and U.S. embassies had a hand in the firing. (Blank 137)

Throughout the late 1930s and early 1940s, the oil industry in Venezuela continued to develop and the military dictatorships remained in power as long as the Petroleum

Laws remained in effect. Venezuela's Minister of War, General Eleazar López Contreras, was selected by the assembly to replace Gómez; following General Contreras rule was General Medina's rule. Also throughout the late 1930s and early 1940s the US and British ownership was trying to avoid a violent revolutionist movement that was trying to nationalize the oil industry. Gómez died in 1935 and news of Gómez's death sparked large uprisings and protests against the political and economic structure. There is evidence to suggest that the foreign oil companies were nervous of Communist uprisings and nationalization of the oil industry. The violent uprisings that began after Gomez' death were followed by an aggressive public relations campaign by the US oil subsidiary, Creole. This public relations campaign by Creole was "designed to integrate itself with the government and public at large... [so] "Creole constructed school and stores, provided medical services for workers and their families, operated extensive transportation systems to get workers from their homes to the work sites and back, and took care of sanitation, water supply, and electricity" (Kozloff 17). Throughout the 1930s, the oil companies attempted to "win the hearts and minds of the Venezuelan people" while attempting to quell any uprisings or takeovers of the oil industry. Worried about sabotage and employee uprisings, Creole even went so far as to implement educational programs entitled "Democracy vs Communism" and even instituted educational programs aimed at "indoctrination" of the Venezuelan citizens (Kozloff).

The massive public relations campaign that brought development and education to the Venezuelan people was followed by organized labor movements and strikes by the

oil workers for greater benefits, shorter hours, greater pay (Blank 138, Lieuwen 52). Documents obtained from the FBI under the freedom of information act suggest that the head of Creole was asking the US government for help in preventing large scale strikes; in the documents he wrote that he was aware of plans for sabotage in the company and a union between the oil workers with the National Liberation Army (Kozloff 17-18). Moreover, the price of oil was increasing as a result of WWII and the complete nationalization of Mexico's oil industry was nearly reached, making Venezuela's oil industry even more economically significant to the ownership than in previous years. If Marxist theory is correct and the ownership of the industry was truly facing a violent revolution, than it stands to reason that granting the proletariat and political opposition greater freedoms would be in the interest of the industry ownership.

In 1936, Contreras' granted the right for opposition parties to organize, regardless of their political affiliation, which brought about a re-emergence of exiled opposition and a growth of newly formed political parties (Lieuwen 53, Blank p. 20-23). And subsequent leader, Medina appointed less conservative cabinet members, state presidents and Supreme Court judges (Lieuwen 54, Blank p.20-23). By 1938, under authoritarian rulers, political rights had been granted to the opposition and by 1942 exiled revolutionaries involved in the uprisings of the 1920s returned. Political rights granted to the proletariat (along with the ability to hold office) are the two main reasons Marx cites as the basis for alternative methods to consider in understanding the proletariat's inherent uprising to dissolve the bourgeois property. Although violent

uprising and revolution are common assumptions of Marxism, it is not the only practical application of the principles behind the theory:

The practical application of the principles will depend, as the Manifesto states, everywhere and at all times, on the historical conditions for the time being existing, and for that reason, no special stress is laid on the revolutionary measures proposed... although in principle still correct, yet in practice are antiquated, because the political situation has been entirely changed. (p 470).

Marx sights the improved political conditions for proletariat to organize and hold office as reasons why violent revolution is an antiquated application of the principles. He argues that as political rights are granted to the proletariat class and/or members of this class have the ability to hold office then the organization of this class to dissolve the bourgeois property can occur not just by a violent revolution but through a democratic political system; that a more equitable distribution of wealth can occur through democratic means. Under the dictatorship of General Medina, the Venezuelan government announced a repeal of the Petroleum Law to be replaced with an equitable split of oil industry profits between the government and the oil companies (Yergin p. 258). The days of the old Petroleum Law were officially over and in 1943 Medina declared a new Petroleum Law, taxing the companies fifty percent. It can be argued that because Medina overturned the Petroleum Law meant that keeping Medina's military regime in power was no longer advantageous to the foreign oil industry ownership. Within months of Medina declaring an equitable split of the oil revenues to be implemented, Medina's government was overthrown.

According to Marxist theory, as long as the foreign oil companies were continuing to make economic gains in Venezuela, the industry owners would also experience political advances. The military regimes remained to be politically advantageous to the foreign oil industries because the military regimes were allowing the companies to draft their own legislations. However, when Medina ordered an equitable split of the profits, it no longer remained politically advantageous for the oil industry to have Medina in power. At the same time, the organization of the proletariat class was becoming inevitable as observed by the large strikes and uprisings as well as the oil industry's increased efforts to quell the opposition. Therefore, it can be argued that the democratic government that proceeded Medina's dictatorship can be observed as both what was advantageous to the oil industry and the organization of the proletariat.

“In the initial liberalizing phase, Romulo Betancourt and fellow young Marxist associates formed the Venezuelan Revolutionary Organization (ORVE) which then joined other progressive parties that had sprung up” (Schneider 272). The AD party joined forces with the ORVE in the successful coup and revolution of 1945. The revolution of 1945 was based on redistribution of wealth and developing a more diverse and socialist economic system as well as a democratic government (Schneider p. 272-273). Specifically, developing a more equitable distribution of land and profitable agricultural industry was one of the main goals of the revolution. Moreover, “The revolution of 1945 marked the assumption, for the first time, of political power by a party which represented the people *Acion Democratica* (AD)” (Lieuwen 64, Schneider

p. 273). The Democratic Action party instituted new public health and education as well as increased pay to workers. An overall standard of living increase was felt throughout Venezuela (Schneider 272-274). However, the fundamental problem of near monopolization of the agricultural land had not been solved. "AD was thus forced to the hard conclusion that without land redistribution its whole program for agricultural development must fail" (Lieuwen 83). AD decided to carry out the largest reform of the revolution, agrarian reform.

However, growing opposition to AD's aggressive social welfare programs and agrarian reform was beginning to increase from various political actors. Most importantly, foreign investors such as Exxon and Shell were becoming increasingly concerned with the AD's announcement that Medina's 1943 Petroleum Law would be replaced with an even greater tax on oil (Yergin p. 258). That concern turned out to be legitimate as in 1947 the revolutionary democratic government announced the plans to revise the 1943 Petroleum Law to an even greater taxation of foreign oil (Yergin p. 258). Moreover, the fast acting and far reaching social welfare policies by the AD "catalyzed a classic backlash mobilization, one aggravated by the US Cold War desire for stable anticommunist regimes- particularly one in a major supplier of oil located in close proximity to the Panama Canal" and the oil companies were angered by the revolutionary governments demand that they be required to invest in non-extractive productive activities (Schneider 272-273). Less than one year later, in 1948, a successful coup occurred and the government was overthrown. It can be argued that an

even further increase in oil taxes to promote the AD's social welfare programs would not have been economically advantageous to the industry ownership- the foreign oil companies.

Soon after the new revolutionary government was overthrown, military authoritarian regimes were back in power and the oil companies were no longer facing an increase in oil taxes or demands to invest in other areas. Therefore, Venezuela's revert back to military authoritarian regimes after such a short period of elected officials can be explained by Marxist theory and what was more beneficial to the foreign oil companies. This is evidenced by the fact that the coup in 1948 and subsequent military junta which overthrew Venezuela's brief democratic government "reversed the economic and socialist policies of the AD" (Schneider 273). Specifically, the revolutionary Constitution of 1947 was abolished and the traditionalist Constitution of 1954 was re-instated along with decreased taxes on the foreign oil companies; the AD party was banned, and leaders of the AD party and revolution were once again forced into exile. Four years later, 1952, under Colonel Jiménez, the government announced the cancelation of competitive elections when it appeared as though Jiménez's competitor, from the *Unión Republicana Democrática* (URD) party, may win. The cessation of vote counting was ordered, a plebiscite was instituted and Jiménez was declared winner within hours of the polls closing (Schneider p.274, Lieuwen 94 -98). And the authoritarian ruler remained in power six more years while the foreign oil companies sustained decreased tax rates.

The overall pattern of economic trends that preceded political developments which shifted Venezuela's regimes between authoritarian and democratic and back to authoritarian supports the fact that these shifts occurred as the result of the struggle between what was advantageous to the foreign oil industry and the inherent proletariat dissolution of the bourgeois property. Between 1930 and 1943 the proletariat experienced increased political rights while the threat of full scale revolution was avoided. Between 1943 and 1958 the dramatic shifts to democracy back to authoritarianism both occurred just after changes to the Petroleum Law. The political development between 1930 and 1958 reflects the struggle between what was politically advantageous to the foreign oil companies and the inherent revolution of the proletariat; a revolution that would nationalize the oil industry.

A real-world application of nineteenth century Marxism would suggest that a more reasonable approach to dissolving the bourgeois property in the 1950s would be to do so as part of a political revolution. "The practical application of the principles will depend, as the Manifesto states, everywhere and at all times, on the historical conditions for the time being existing, and for that reason, no special stress is laid on the revolutionary measures proposed... although in principle still correct, yet in practice are antiquated, because the political situation has been entirely changed" (Marx, Engels. ed by Tucker p 470). As stated, Marx sights the improved political conditions for proletariat to organize and hold office as reasons why violent revolution is an antiquated application of the principles. The fact that in the 1940s, the proletariat class was able to

achieve real political power with a significant majority support, within a democratic government, put this class in a position to inherently advance to dissolve the bourgeois property. A more detailed look at what happened after 1958 can be argued to reflect a more modern, socialist political revolution.

If Marxism is correct, then even through another military dictatorship took over the nation in 1948, the inherent uprising of the proletariat was inevitable until the dissolve of the bourgeois property was successful. The qualitative data supports this argument. In 1958, a revolution led by Admiral Wolfgang Larrazábal took place to overthrow Jiménez. The main focus of the junta: to restore the living standards of the citizens by pouring money into employment, education, health needs and food and housing as well as restoring free and fair elections with a democratic government body put the proletariat class in positions of major political power (Schneider 273-275, Lieuwen 94 -98). The economic and political maneuvers that quickly followed the revolution in 1958 set up an institutionalized democratic system led by former revolutionaries.

Venezuela's provisional junta government created a democratic government. Soon after the revolution in 1958, former AD political party leaders who had been exiled during the military dictatorship came together and returned to Venezuela. The newly created government rested, in part, on the Punto Fijo Pact. The Punto Fijo Pact was agreed upon by the political leaders as the basis to a common understanding for the new political power-sharing structure under which the new government would operate.

Coming together in an attempt to prevent another military regime, three political parties: AD's COPEI, and URD became the new political powers in the democratic government. Christian Comité de Organización Política Electoral Independient (COPEI), founded by Caldera in 1946 originally, "as a Christian democratic opposition to the secular, positivist ideology of the AD" had now "shed its character as a confessional party" (Ellner and Hellinger p.29). Although the Punto Fijo Pact established an agreement between these three major political parties, AD and COPEI quickly became the dominant two. Elections were eventually held in December 1958; AD candidate, Betancourt (an opposition leader during the 1920s) won Presidential elections and the AD won a majority of government offices.

However, it is important to keep in mind that the nationalization of the oil industry had not yet occurred and therefore, if Marxist theory is correct, the pattern of political development in the nation would be the result of the struggle between: political advances made by the foreign oil companies and the inherent revolution of the proletariat. And even though great political advances were being made by the proletariat class; this new democratic government was still more advantageous (than a violent revolution) for the oil companies. A qualitative analysis of the events supports the fact that the new democracy created in 1958 was advantageous to the foreign oil companies. First, President Betancourt brokered a deal with foreign investors. He had negotiated for a greater role of state ownership in a mixed economy for better protective tariffs in exchange (Schneider 275). Second, Betancourt and AD began to expel and discourage

Marxism and Communism. The Punto Fijo Pact that created the new political power-sharing structure “excluded the Communist Party, then a considerable force in Venezuelan politics” (Ellner and Hellinger 29). This could be because, as Betancourt states himself, the ability to balance the national goals with the interest of the North Americans was important to the new government, and the US was not in favor of Communism (alfredoandresadel).

Moreover, because of the military coup attempts and guerilla attacks from extreme left-wing parties continued after the 1958 revolution, Betancourt used greater oil revenues to keep the military with the best equipment and quell the Leftist Revolutionary Movement (MIR) which “felt the need for radical mobilization in support of the socialist revolution” (Schneider 275). The Venezuelan government went even further in 1963 to strip revolutionary opposition legislatures of immunity; these legislatures and all known pro-Communist extremists were imprisoned. However, at the same time, Betancourt and the AD party began implementing unprecedented agrarian reform. Agrarian reform (a long awaited goal of the proletariat) combined with Betancourt’s military pressure on opposition resulted in the leftist party, PVC, loss of rural support and the AD’s gain of much of that support. Betancourt and the ADs social policies were able to attract greater support from the rural areas while alienating the far left. Many scholars believe that Betancourt and other political leaders sacrificed the extreme redistribution of wealth advocated by the left wing in order to prevent any further military coups or violent uprisings (Schneider 275-276).

The ten years following the 1958 revolution were marked with the competing democratic parties working to sustain a democracy, as well as solidify their own political support bases. Over the course of the next two elections, Venezuela was primarily a two-party system with AD and COPEI parties winning the presidential elections and, at times, allying for votes. After a victory in 63 and 68 the AD party lost the presidency to COPEI founder, Caldera. However, prior to the following elections, two new political parties were gaining political support: National Democratic Front (FND), a conservative party; and Popular Democratic Front (FDP), a “leftist elements that had deflected from the MIR” (Schneider 276). After the arrival of these new political parties, AD began to decrease in votes while the COPEI had slightly increased votes. In hopes of winning the 1973 elections, the AD party made a political pact with Caldera, (who had by this time) legitimized the MIR and PVC as well as made it a policy during his presidency to “pacify the country, [so] much of the left had begun to abandoned insurgency” (Ellner and Hellinger 29).

After the pact between COPEI and AD the AD party won the elections in 1973, and in fact, along with political ally COPEI, took 85 percent of the votes (Schneider 276). Within just three years of the new coalition government, under President Perez, the oil industry was nationalized and the government’s holding company, PdVSA was created. Under this government, “former guerillas began to appear as members of Congress or even as cabinet ministers, some of them, members of the AD” (Ellner and Hellinger 29). Specifically, Ali Rodriguez, former Marxist revolutionary and guerilla fighter who

had been exiled and then pardoned under Betancourt, became a Congressman and eventually the committee president for the congressional Committee for Energy and Mines; he even openly admitted to putting down arms to join a political revolution of socialist values (Kozloff p.18). And according to the practical application of Marxism, the dissolve of the bourgeois property does not have to be in the form of violent uprising. The uprisings may have been the catalysts of the Marxist goal, but the achievement of this goal occurred within the structure of a young democracy. “The practical application of the principles will depend, as the Manifesto states, everywhere and at all times, on the historical conditions for the time being existing, and for that reason, no special stress is laid on the revolutionary measures propose... although in principle still correct, yet in practice are antiquated, because the political situation has been entirely changed” (Marx p 470).

The improved political conditions that came about in the 1960s and 70s, for proletariat to not only organize but hold office in Venezuela is sighted as a reason by Marx and Engels to consider other practical applications of Marxism (such as political revolution through an institutionalized democracy) as a means to successfully dissolve the bourgeois property. By 1976, Venezuela’s proletariat class had successfully “dissolved the modern bourgeois property” (nationalized the oil industry); the Venezuelan government, including former revolutionaries, became part of the industry ownership. With the success of the nationalization of the oil industry, a redistributive democracy soon took effect.

Between 1976 and 1993; sixty-six cents out of every dollar made from the oil industry went to the Venezuelan government and this money was used in implementing Venezuela's *sembrar el petróleo* (sowing the oil) in order to better distribute the nation's wealth (Kozloff p. 41-43, Karl 116 - 124). The nationalization of the oil industry worked in achieving many of the goals of the revolutionaries, providing democratic stability by distributing government revenues for growing infrastructure and meeting public health and education needs. As such, the third argument Marx makes concerning the political development of nation states is observed in the case of Venezuela: as developments in the world market increase an individual's awareness in global society, the proletariat class organizes to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*.

The case study of Venezuela's economic and political development has yielded several observations:

1. There is an inherent class divide in society and this divide is based upon the ratio of *wealth produced to wealth distributed* by the oil industry.
2. The existence of this class divide has existed throughout history and has led to political dictatorships of a small possessing class over a large proletariat class.
3. As developments in the world market increased an individual's awareness in global society, the proletariat class organized to abolish the dictatorship of a small possessing class over a large proletariat class and institute a more equitable ratio of *wealth produced to wealth distributed*.

Because the case study of Venezuela provides support for Marxist theory and the importance of the oil industry, Marxism is used as a framework for analyzing the second hypothesis: the stability of Venezuela's current socialist democracy is significantly dependent on the market value of petroleum. The fourth chapter provides support for the second hypothesis. The following chapter provides a qualitative and quantitative analysis of oil market prices and Venezuelan political developments between 1976 and 2010. The key terms are defined, the methods are explained, and the second hypothesis is tested.

## CHAPTER 4

### 1976 – 2010; THE IMPACT OF OIL

A quantitative and qualitative analysis of events and oil market prices after 1976 suggests that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy. The data between 1976 and 2010 supports the fact that a decline in the market value of petroleum brought a threat to Venezuela's socialist democracy in two ways. First, a trend toward neoliberal policy threatened the sustainability of the socialist characteristic of the democracy; and second, the trend toward neoliberal policy increased the possibility of successful revolt and therefore threatened the sustainability of democracy in the nation. Before this analysis, it is important to define key terms in order to understand the concept of socialist democracy. A discussion of economic and political spectrums provides a measure for defining the labels 'socialist' and 'democracy'. Venezuela's economic and political development is measured in two ways: as a constant across time, domestically; and as a more current measure compared to other nations. The observation that Venezuela has developed into a socialist democracy combined with the observations concerning the significance of the oil industry provides a means of testing the second hypothesis. Marxist theory combined with more recent research is used to test the second hypothesis.

## 4.1 Definitions

Certain characteristics of economic and political labels must be defined before analyzing the case of Venezuela. Primarily, it is important to understand that being democratic and being socialist are not mutually exclusive labels. For the scope of this paper, socialism is an economic label used to describe a nation's economy that measures more socialist than capitalist on the economic spectrum (this measurement is provided below). Democratic is a political label used to describe a nation's regime that measures more democratic than totalitarian on the political spectrum (this measurement is provided below). What it means to measure socialist or measure democratic is better understood with the concept that *the functions and operations of a nation's economy and the functions and operations of a nation's government can be represented as points on economic and political spectrums*. These spectrums are discussed below.

It is generally accepted that a nation's economy will fall somewhere on a spectrum between two economically extreme ends: Socialism and Capitalism. Socialism, also known as Marxism, is primarily based on the writings of Karl Marx and Friedrich Engels. Pure socialism is represented by total state ownership and equally distributed wealth. Therefore, prevalence of state ownership and redistribution of wealth in a nation's economy would be indicative of socialist economies. On the other end of the economic spectrum is the free market, also known as capitalism:

A true free market economy is one in which there is no government intervention whatsoever – there are no taxes or state-funded amenities. Everything within the economy is owned by private individuals and prices for

any and all products and services are determined by the price mechanism. All decisions are made by these private buyers and sellers, and the free market assumes that they will act in their own self-interest. (The Economic Spectrum)

Therefore, no state ownership and no redistributive policies would be indicative of capitalist economies. Because socialism and capitalism are identified as the ends of this economic spectrum, it can be argued that a nation's economy can be identified as more socialist than capitalist without being purely socialist. It is unlikely that a nation's economy has developed into pure socialism or pure capitalism; it is more likely that a nation's economy is somewhere on the economic spectrum in between these two extremes.

To identify the economic development in Venezuela, three variables are considered: national identity, state ownership, and redistribution of wealth (social spending). The first factor to consider is the identity of Venezuelan voters and leaders. From 1958 to 2010, Venezuela (as discussed more below) was functioning as a democracy. Therefore, if the majority of voters identified themselves as socialist, in an atmosphere of free and fair and competitive elections, one would expect to see candidates elected who represent her or his self as socialist (Sökefeld 2001 p.533-34). In other words, if a candidate who is elected campaigned on socialist policy and professed to be anti-capitalist; then it can be assumed that the majority of voters identify themselves as socialist. Even if, the candidate makes it to office and does not uphold the campaign promises, the fact remains that the voters elected someone who professed to be socialist. An analysis of elected presidents is presented as a means to measure the

national identity. As the qualitative analysis 4.4 discusses in greater detail, throughout the history of Venezuela's current democracy (since 1958) presidential candidates who claimed to be socialist and anti-capitalist have always been elected. And if the presidential candidate instituted neo-liberal reform when in office (as was the case throughout the 1980s and 1990s), he was not re-elected.

Since becoming a democratic state in 1958, Venezuelan presidents, military members, political leaders, and citizens have identified themselves and socialist revolutionaries (Schneider 2010, Jones 2007, Kozloff 2006, Ellener and Hellinger 2003). Venezuela's first democratically elected president after the revolutionary junta in 1958 was President Betancourt who was a political leader during the protests and uprisings in 1928 and 1929, and also publicly declared himself as a revolutionary aimed serving the interests of the poor. Betancourt claimed to work on balancing a relationship with North America (and JFK) while at the same time, pushing for a democratic Venezuela that served the interests of the poor (alfredoandresadel). More recently, Venezuela has been led by the democratically elected, self-proclaimed socialist revolutionary Hugo Chavez. President Chavez identifies himself and his nation as socialist. Chavez believes he and his nation are involved in a "revolution for the people" and "for the poor" against industrial and political empires, such as the United States and Great Britain. Moreover, Chavez also believes socialism is better than capitalism. (Russia Today, Chacama, TeleSUR).

Also, as this paper discusses in greater detail in the qualitative analysis section of the chapter, Venezuelan voters have consistently elected leaders who campaigned on denouncing neoliberalism and globalization while publically supporting socialist policies. And an analysis of the economic policy of the presidents and election trends reveals that those who have instituted socialist policy have been re-elected while any president who instituted neoliberal reform was not re-elected; therefore, the data suggests that the national identity of Venezuela is a socialist identity. The second factor to consider is state ownership. The trend in Venezuela's state ownership is measured as a constant, overtime, domestically.

Soon after Venezuela transitioned to a democratic regime in late 1958, the new government began the process of nationalizing several industries, including the oil industry. The Venezuela Guyana Corp. (CVG) is one example of increasing state ownership in the early days of democracy. The CVG was a state corporation created in 1960 and, "was charged with the responsibility of planning and developing the resource-rich Guyana region of eastern Venezuela. The CVG functioned as a holding company managing a number of diverse state and joint ownership enterprises engaged in steel, aluminum, and electricity production." (Blank 145). Within the first year of CVG's creation, the newly nationalized iron industry also came under the management of the corporation (Blank 145). However, it was not only the steel, iron, electricity, and aluminum industries that the state was increasing ownership of in the early days of democracy, but the oil industry was well on the way to nationalization too. In 1960, two

innovative domestic reforms of the oil industry were enacted into law: the policy of “no more concessions” and a state-owned company, the *Corporacion Venezolana de Petroleo* (CVP)... the twin objectives of the CVP were to enable the Venezuelan state to “directly intervene in all phases of the industry” (exploratory, production, and marketing) and to assure to Venezuela an increased share of the industry’s profits (Blank 141).

As stated in chapter 3, President Betancourt brokered a deal with foreign investors; he had negotiated for a greater role of state ownership in a mixed economy for better protective tariffs in exchange (Schneider 275). Between 1958 and 1988, state ownership increased from 4 to 42 percent (Hagerty 1990). Not only did the newly instituted democratic government significantly increase state ownership throughout the 1960s and 1970s, but the recent trends in Venezuela are also moving toward increased state ownership. Over the past decade under President Hugo Chavez, Venezuela has been increasing the state ownership of the oil industry as well as several other key industries such as: steel, telecommunications, cement, agricultural industries, natural gas and banks (CNN World, Lynch-USA Today, McCormick-Reuters.com). Therefore, the data suggests that since the foundation of democracy in 1958, Venezuela’s economy has been significantly increasing state ownership from the 4 per cent industry it owned in 1958. The increase in state ownership over time supports the assertion that Venezuela’s economic development measures more socialist than capitalist.

After considering the first two factors: Venezuela's national identity and the trends in state ownership, the third factor to consider is the prevalence of redistribution of wealth. This factor is measured both as a constant, overtime, domestically and as a more recent measure in comparison to other nations. Redistribution was immediately instituted under the new democratic regime throughout the 1960s and 70s. According to scholars of Venezuelan agrarian reform and actual data, in competition for rural support in Venezuela's new democracy, Betancourt and early democratic leaders instituted unprecedented agrarian reform as well as rural investment. (Soto 2006, IIDARA 1993). However, the current redistributive system began with the institutionalization of the AD party's *sembrar el petróleo* policies of the 1970s that were based on redistribution of the oil revenues (Karl 1997, Elliner and Hellinger 2003). Currently, the national oil company PDVSA "promotes [Fondespa](#) (The Fund for Social and Economic Development within the Country), which has the task of promoting social development through a transparent and fair distribution of oil revenues" (Oil for the People, PDVSA).

Because an increase in the redistribution of wealth would, by its very nature, provide people with wealth they previously did not have; it is assumed that if redistribution of wealth in Venezuela was increasing overtime, then one could measure a decline in poverty. The data on Venezuela shows that the percent of people living at or below the national poverty line has significantly decreased overtime.

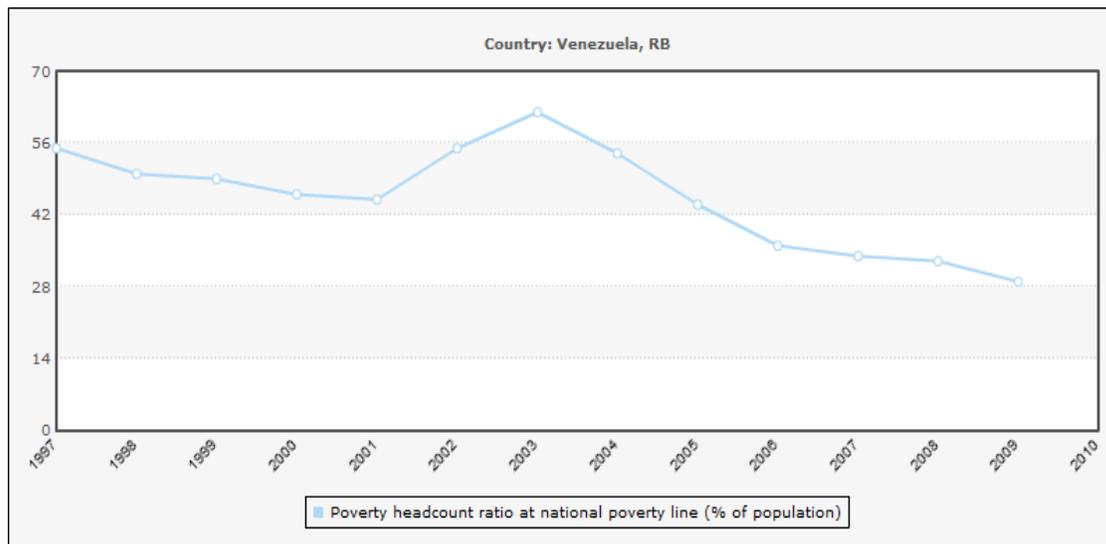


Figure 3. Poverty Headcount at National Poverty Line, percent of population

The data indicate that the percent of the population in Venezuelan living at or below the national poverty line has decreased by nearly half since the 1990s from fifty-five per cent to twenty-nine percent. Moreover, it is worth noting that the measure for the national poverty line over this same period had not been altered in a way to skew the percentage of population above the poverty line, therefore an actual decrease in poverty had occurred during this time (Weisbrot et al 2006).

Other variables used to measure the trends in redistribution of wealth overtime, are trends in social spending. The Venezuelan government has been steadily increasing social spending over the last fifteen years on services such as: food, healthcare, and education (Indicadores, Karl 1997, Kozloff 2006). One example of the increased social spending includes improving access to healthcare. The Barrio Adentro program is a government subsidized program that provides free health care to more than fifty percent

of the population (Rico, R. and Alva C). The Mircal program is another example of redistribution. The Mircal Mission provides government subsidies of food discounted between 40 and 100 percent (Mircal Mission, PDVSA). Education spending has also steadily increased over time as well. The data from the Venezuelan government indicate that government funding of public education has more than quadrupled in the last 10 years.

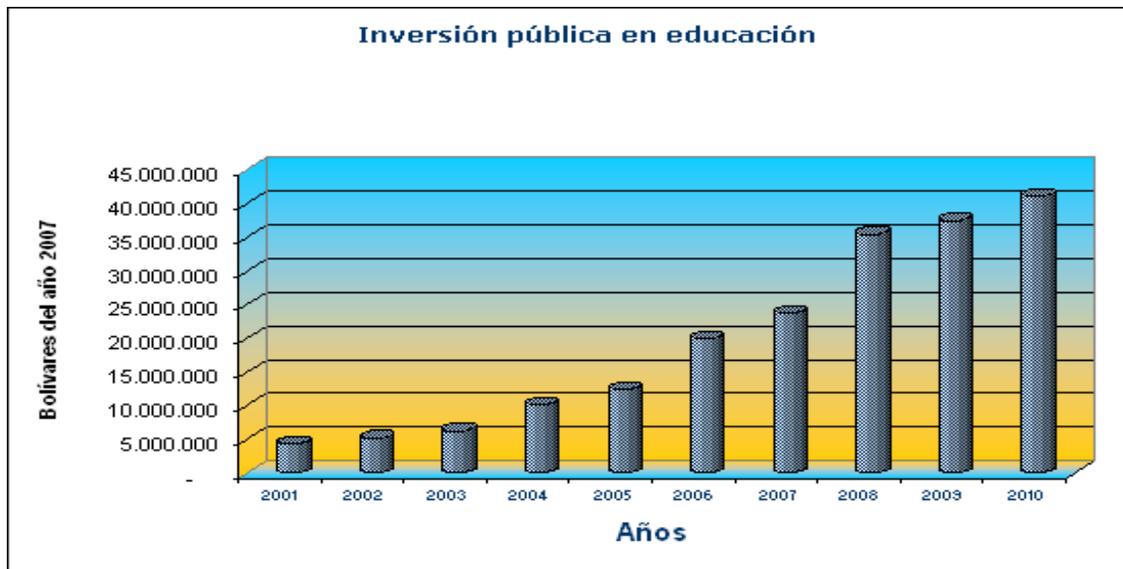


Figure 4. Spending on Public Education

The data provided by the Venezuelan government suggests that the yearly public spending on education has increased from under 5 million bolivars to 40 million bolivars. Moreover, Misión Robinson (a publically funded education initiative) claims that education spending has increased from roughly 3 to 7 percent of the GDP (Misión Robinson). But not only does the Venezuelan government report a significant increase in public spending on education over the last ten years, this information is also

supported by World Bank data. While the World Bank data does not support the increased spending as per cent of GDP, it does support the fact that actual dollars spent on public education has significantly increased over the past decade. The World Bank data suggests that the actual dollars spent on education has quadrupled because public expenditure on education in Venezuela has remained at 4 and 5 per cent of the GDP, despite the fact that the GDP has significantly increased. Therefore, keeping education spending at 4 and 5 percent of the nation's GDP, while the nation's GDP more than quadruples, indicates the actual dollars spend on education has more than quadrupled.

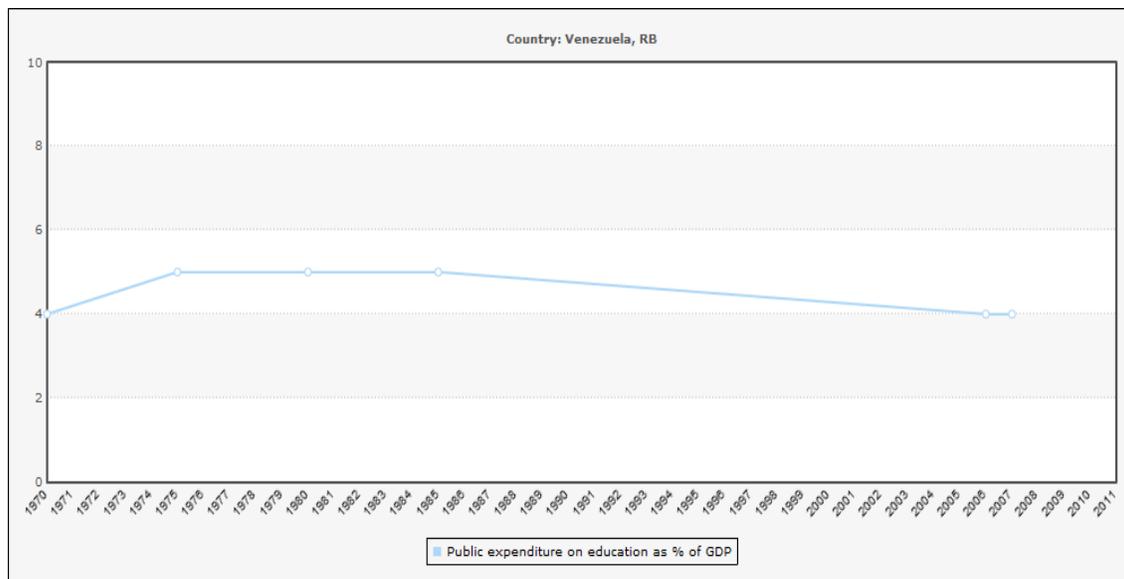


Figure 5. Public Expenditure on Education, as percent of GDP

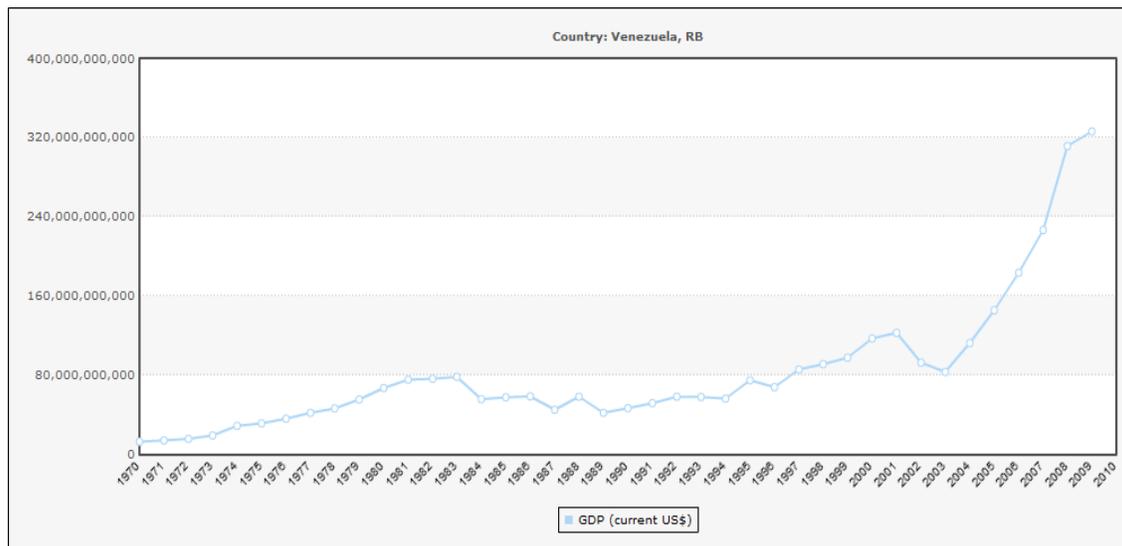


Figure 6. Venezuela's GDP, current US \$

World Bank data suggests that the per cent of GDP spent of education has not increased as the Venezuelan government claims; however; even using the conservative estimates from the World Bank, there has been an overall significant increase in education spending. And if an increase in education spending has actually occurred, then it is assumed one could measure an increase in the literacy rate and percent of population who have completed primary education. Trends in these variables support the fact that an increase in education spending has occurred. Below is the data used to measure these trends in Venezuela, overtime.

The government's main literacy program, Misión Robinson, claims to have yielded a 5 percent increase in the literate population and World Bank indicators also suggest that literacy has increased: by ten percent since 1981.

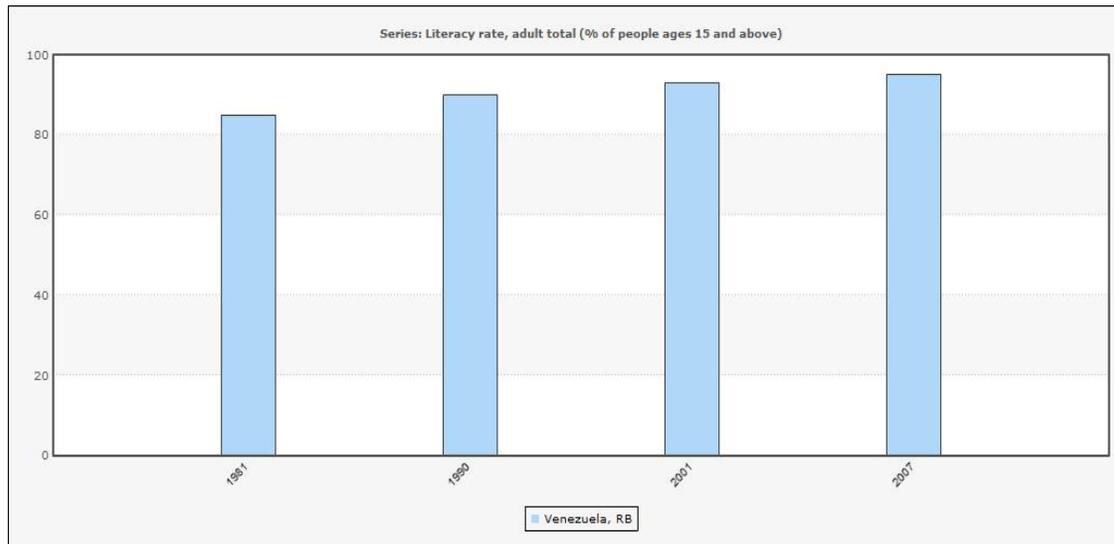


Figure 7. Literacy Rate, Adult Total (percent of people age 15 and above)

According to data from the World Bank, Venezuela's literate adult population increased from eighty-one per cent in 1981 to ninety-one per cent in 2001. Further data from the World Bank also suggests an increase in the amount of people who have completed primary education.

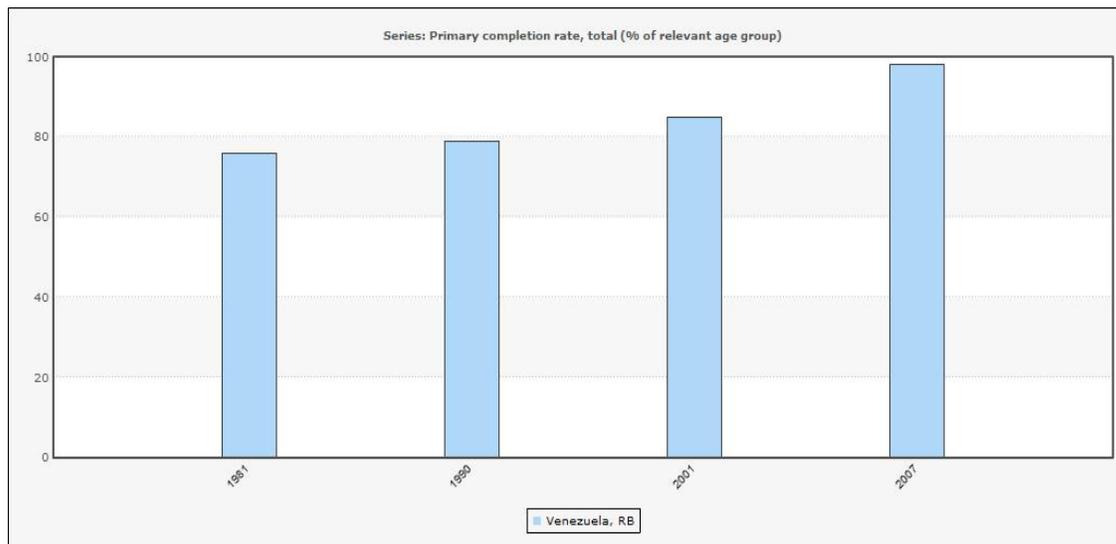


Figure 8. Primary Completion Rate, Total (percent of relevant age group)

The data suggest that the percent of people who have completed primary education has increased by over twenty per cent since 1981. The World Bank data indicate that the percent of people (within the relevant age group) who completed primary education has increased from seventy-six to ninety-eight per cent. The data used to measure trends in Venezuela, overtime support the fact that there has been an overall shift toward greater redistribution. However, other data compares the redistribution of wealth in Venezuela with the over trend internationally.

Other data suggests that over the past few decades the overall distribution of wealth in the world economy has shifted in a manner opposite of Venezuela's. Internationally, within individual nations, the distribution of wealth has yielded a particular pattern of increasing the disparity between the wealthy and the poor (Rosling). However, over the past few decades the opposite has occurred in Venezuela. In fact, the distribution of

wealth in Venezuela has been yielding a pattern of decreasing the disparity between wealthy and poor. It is clear from the data that the income gaps between economic classes in Venezuela are closing. World Bank data shows that between 1981 and 2008 the *only class to experience loss* of income share has been the highest class. Moreover, the share of income held by the lowest classes had *all increased* in that same time.

Table 1 Distribution of Wealth

VENEZUELA	1981	1987	1993	1998	2003	2006
Income share held by highest 20%	60	57	47	53	52	49
Income share held by second 20%	6	7	10	8	9	10
Income share held by third 20%	11	12	15	14	14	15
Income share held by fourth 20%	19	20	22	22	22	22
Income share held by lowest 20%	3	3	5	3	3	5

Therefore, while the trends in the distribution of wealth within individual nations around the globe have experienced an overall trend of increasing the disparity between the economic classes, Venezuela has been decreasing those disparities. These trends in the distribution of wealth in Venezuela are indicative a greater redistribution of wealth.

In order to identify Venezuela as a nation that, economically, has developed more socialist than capitalist, three factors were considered: national identity, state ownership, and redistribution of wealth. The trends in national identity, state ownership, and redistribution were measured using various qualitative and quantitative data; both overtime, domestically as well as a more recent look comparing Venezuela's trends to

those in other nations. The data supports three things. First, Venezuela has a socialist national identity. Second, between 1958 and 2010 the state ownership has increased significantly. And third, between 1980 and 2010, the level of redistribution of wealth has been increasing significantly. Because the evidence suggests that Venezuela has a socialist national identity and because the state ownership and redistribution have been trending upward, Venezuela's economic development is identified as more socialist than capitalist. For the scope of this paper, socialism is an economic label used to describe a nation's economy that measures more socialist than capitalist on the economic spectrum, therefore, Venezuela is labeled socialist.

However, socialist, is just an economic label. Venezuela's political development since 1958 is identified as a democracy. For the scope of this paper, democracy is a political label used to describe a nation's government that measures more democratic than totalitarian/authoritarian on the political spectrums, this measurement is provided. What it means to measure democratic is better understood with the concept that the functions and operations of a nation's regime can be represented as points on a political spectrum. The generally accepted political spectrum has two extreme ends: democracy and totalitarianism. Democracy is defined as *providing a democratic process for governing*, and a *democratic process* is defined as having several criteria met:

1. *Effective participation*. Before a policy is adopted by the association, all members must have equal and effective opportunities for making their views known to the other members as to what the policy should be.
2. *Voting equality*. When the moment arrives at which decisions about policy will finally be made, every member must have an equal and effective opportunity to vote, and all votes must be counted equal.

3. *Enlightened understanding.* Within reasonable limits as to time, each member must have equal and effective opportunities for learning about relevant alternative policies and their likely consequences.
4. *Control of the agenda.* The members must have the exclusive opportunity to decide how and, if they choose, what matters are to be placed on the agenda. Thus democratic process required by the three preceding criteria is never closed. The policies of the association are always open to change by the members, if they choose.
5. *Inclusion of adults.* All, or at any rate, most, adult permanent residents should have the full rights of citizens that are implied by the first four criteria. (Dahl 38)

The other end of the political spectrum is totalitarian/authoritarian. Totalitarianism has been characterized by previous political scholars with various characteristics, all of which are opposite democratic. Some of these characteristics cited include: a regime under the complete control of one dictator or one party, limitless state power, and restrictions on citizens' rights such as political rights and free speech, widespread terror, and a monopoly of the economy ([Borkenau](#) 1940, [Armstrong](#) 1961, [Friedrich](#) and [Brzezinski](#) 1967, [Kirkpatrick](#), 1982). Because democracy and totalitarianism are two ends on a political spectrum, this paper assumes it is possible for a nation's regime to measure more democratic than totalitarian. The data on the nation of Venezuela support the fact that, since 1958, the functions and operations of Venezuela's government have been more democratic than authoritarian.

The task of measuring democracy is clearly a difficult task. The task of measuring democracy throughout previous research has been conceptualized as thick or thin (Held 2006, Coppege 1999). A thick concept of democracy is a multifaceted, multi-dimensional approach with a larger amount of variables to consider. A thin concept of

democracy is a single measure and less-complex with a smaller sample size of one or two criteria. According to previous research both of these approaches have strengths and weaknesses, and for this reason, both thin and thick variables are used to measure the functions and operations of Venezuela's government. Using Dahl's previously criteria for a democratic process as a means to choose variables, both thin and thick measures of democracy are analyzed. The first variables analyzed are the thin measures: *the percentage difference of votes between the nation's top two presidential candidates, the electoral process, political pluralism, political rights, civil liberties*. Next, the thick measures of democracy are analyzed: *the Fitzgibbon Index* and the *Economist Intelligence Unit Democracy Index*. A sample of data derived from thin and thick measures of democracy is used from various sources to support the fact that the functions and operations of Venezuela's government are more democratic than totalitarian. Venezuela's political development is measured in two ways: thick and thin; and analyzed in two ways: as a constant across time, domestically; and as a more current measure compared to other nations.

The first variable analyzed is the *percentage difference of votes between the nation's top two presidential candidates*. If a nation's government functions and operates with a democratic process (as cited above) with free and fair and competitive elections, then it is assumed presidential candidates would win by smaller margins. In order to put these percentage differences in perspective, the data collected on Venezuela is compared to the data collected on the US. The graph below compares the *percentage*

*difference of votes between the nation's top two presidential candidates* (the percentage difference represents the difference in popular vote) for the previous twelve presidential elections in Venezuela and the US. For Venezuela, these twelve elections were between 1958 and 2006; for the US, these twelve elections were held between 1962 and 2008. For instance, election number 1 represents the 1958 presidential election in Venezuela where the AD party candidate had 49.18 per cent of the popular vote and the URD candidate had 30.67 per cent of the vote, therefore the percentage difference between the top two candidates was 18.5 percent. The election number 1 also represents the 1962 presidential elections in the US where the Democratic candidate won over the Republican candidate by a difference of 22.6 per cent of the popular vote.

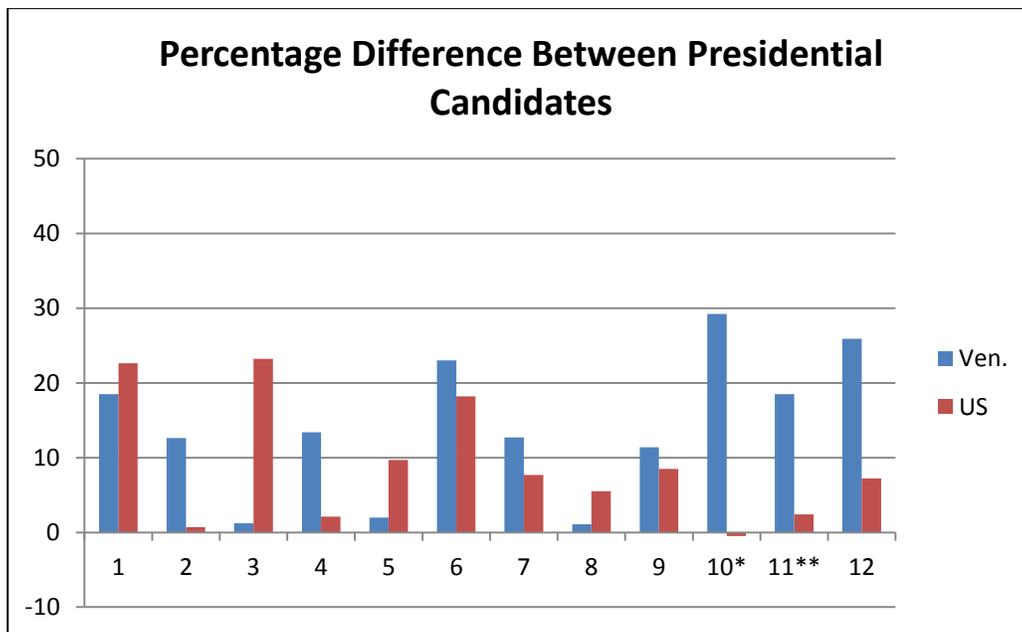


Figure 9. Percentage Difference Between Presidential Candidates

As the chart shows, the ranges are comparable. The Venezuelan range is (1.1 - 29.2); the US range is (-0.5 - 23.2). One obvious outlier is the tenth election data point which represents the year 2000 (for both Venezuela and US) and is asterisked for two reasons: because the winner of the US elections did not have a majority of the popular votes so the percentage difference is actually *negative*. Moreover, the 2000 election in Venezuela is an obvious outlier with almost 30 percentage point difference for the winner, Hugo Chavez. The observation of these two outliers: a negative number in the US and such a high number in Venezuela could arguably warrant the need for an explanation. While this paper does not seek to explain how a negative number is representative of a democratic process with free and fair and competitive elections; an explanation for Venezuela's outlier is provided. As this paper discusses later, due to Venezuela's unique circumstances around the time of this election, including the Bolivarian Revolution, this significance can qualitatively be explained as still representative of a democratic process with free and fair and competitive elections. Moreover, the eleventh data point represents the year 2004 (for both Venezuela and US) and is asterisked because it was a recall election for the citizens to vote whether or not to keep Chavez in office. Due to the election results of 2000 and growing opposition to Chavez, the opposition was able to get enough signatures required by the Constitution to conduct a recall election. The voter turnout in the 2004 recall election was the largest in Venezuelan history (Morris – Frontline PBS.org). The electoral process was reviewed and endorsed by international observers, including the Atlanta-based Carter

Center and the Organization of American States (Morris). Results of the 2004 recall election held that the majority of voters elected to keep Chavez in office. Therefore the eleventh data point combined with more qualitative information later provides an explanation for the outlier, the tenth data point.

Overall, comparing the results of Venezuela's previous twelve presidential elections to the US' previous twelve presidential elections supports the fact that Venezuela's elections are as democratic, if not more, than the US elections. Therefore, if the US electoral process is a democratic process with free and fair and competitive elections than Venezuela's is as well. This paper assumes the US electoral process to be a democratic process therefore this paper measures the Venezuelan electoral process to be democratic as well.

The next variable analyzed is the measured rank of the *electoral process and political pluralism* as provided by the Economist Intelligence Unit's publishing of the "Democracy Index". The democracy index ranks the category of the "electoral process and pluralism" on a scale 1 to 10. 1 represents the least fair electoral process with no pluralism and 10 represents completely fair electoral process and full pluralism. Therefore, it can be said that one represents a true authoritarian regime and ten represents a true democracy. Because the rankings range from 1 to 10, it is assumed if a nation is more democratic than authoritarian, then the nation would rank above 5. The data on Venezuela is provided in the chart below. In order to put these rankings in

perspective, the chart below represents a comparison of the Economist's ranking of the electoral process and pluralism in three nations: Venezuela, the US and Russia.

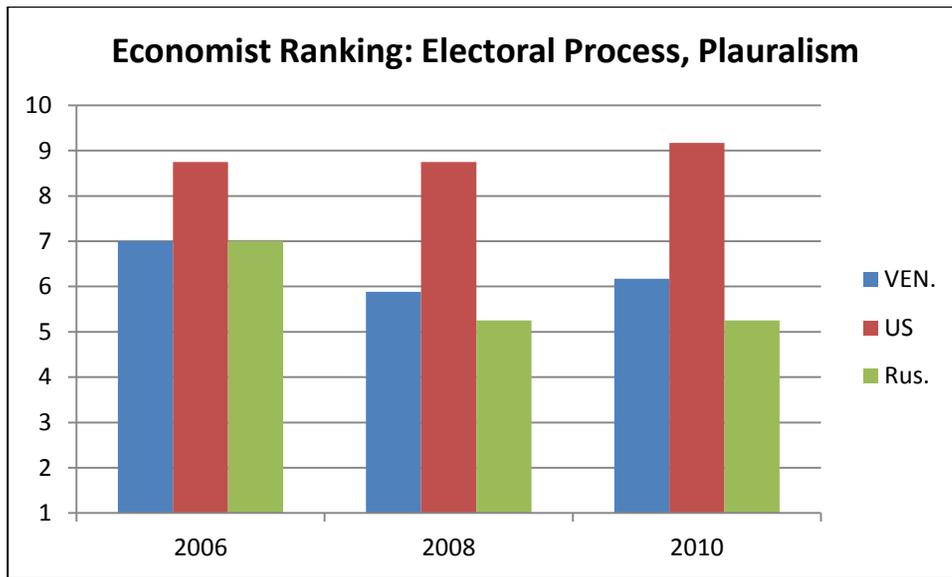


Figure 10. Economist Ranking: Electoral Process, Pluralism

The data supports the fact that Venezuela has consistently ranked more democratic than authoritarian when measuring the electoral process and pluralism. While the sample size is small, the years in which the Economist has published this data, Venezuela has ranked above 5 when measuring their electoral process and pluralism. Therefore, because Venezuela has consistently ranked above 5, the electoral process and pluralism in the nation are measured to be more democratic than authoritarian.

The next two variables considered are *political rights* and *civil liberties*. Data provided by the Freedom House is used to measure these two variables in Venezuela. Freedom House ranks the political rights and civil liberties of people around the world. The operations and functions of the governments are analyzed and ranked according to

how free the nations are. When providing a measure for political rights and civil liberties, Freedom House uses a rank system of 1 for most free and 7 for least free. Because the scale ranges from 1 to 7, it is assumed the rank of 4 is a neutral rank—neither democratic nor undemocratic. Any rank less than 4 is considered to be democratic and any rank greater than 4 is considered undemocratic. Data on Venezuela is provided in the chart below.

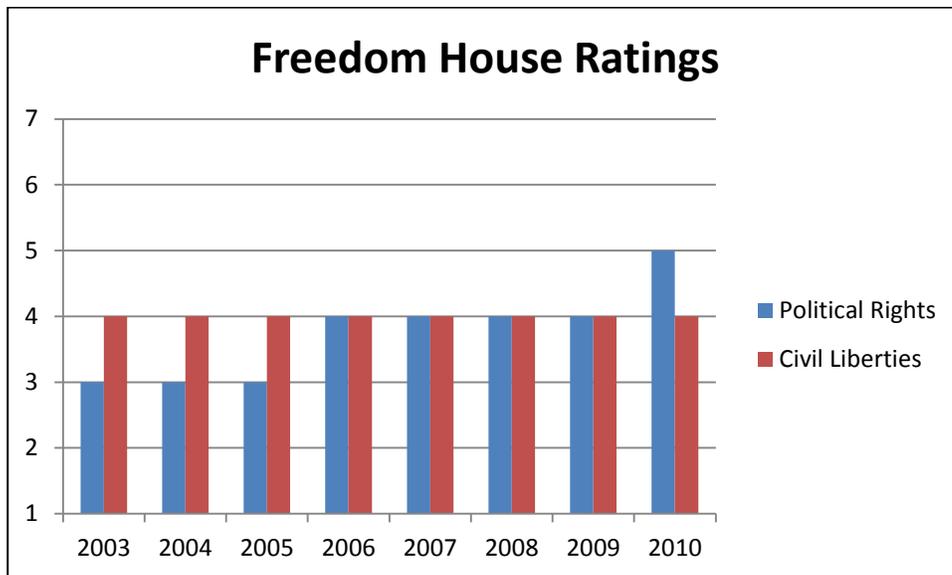


Figure 11. Freedom House Ratings

The data from Freedom House supports the fact that Venezuela's overall scores on political rights and civil liberties are neutral. Moreover, although the majority of scores for Venezuela over the last several years are neutral, there are more rankings below 4 than above 4. While the year 2010 does have a political rights rank above 4, this is only one year and it is too soon to conclude that there are any trends toward authoritarianism.

Overall, the Freedom House data suggests that Venezuela is neutral, if not more democratic than authoritarian with more scores below 4 than above 4.

An overall analysis of the thin measures of democracy indicates that the functions and operations of Venezuela's government have been trending away from authoritarian and toward democratic. All of the data suggest Venezuela measures somewhere between neutral and most democratic, therefore Venezuela is considered to measure more democratic than authoritarian.

The measures provided so far: *the percentage difference of votes between the nation's top two presidential candidates, the electoral process, political pluralism, political rights, and civil liberties*, have all been thin measures of democracy. But an analysis of thick measures of democracy is also provided to support the fact that Venezuela is more democratic than authoritarian. Next, the thick measures of democracy are analyzed: *the Fitzgibbon Index* and the *Economist Intelligence Unit Democracy Index*. Venezuela's political development is measured in two ways: as a constant, overtime domestically and as a constant, overtime compared to other nations. The Fitzgibbon Index is the first thick measure of democracy provided and analyzed.

The Fitzgibbon Index analyzes fifteen different variables when measuring democracy in twenty Latin American nations:

1. An education level sufficient to give the political processes some substance and vitality
2. A fairly adequate standard of living
3. A sense of internal unity and national cohesion
4. A belief by a people in their individual political dignity and maturity
5. An absence of foreign domination

6. Freedom of press, speech, assembly, radio, and so on
7. Free elections; honestly counted votes
8. Freedom of party organization; genuine and effective party opposition in the legislature; legislative scrutiny of the executive branch
9. An independent judiciary; respect for its decisions
10. A public awareness of the collection and expenditure of governmental funds
11. An intelligent attitude toward social legislation; the vitality of such legislation as applied
12. Civilian supremacy over the military
13. A reasonable freedom of political life from the impact of ecclesiastical controls
14. An attitude toward and development of technical and scientific government administration
15. An intelligent and sympathetic administration of whatever local self-government prevails (Fitzgibbon, Russell).

The fifteen different variables are representative of the democratic process defined by Robert Dahl. Moreover, the amount of variables considered in this measurement clearly makes the Fitzgibbon Index another thick measure of democracy. Political Scholars use these variables to assign a score to the individual Latin American nations and then ranks the nations, 1 through 20 with 1 being the most democratic and 20 being the least democratic. The data on Venezuela, as it compares to other nations in the region, is provided in the graph below of the Fitzgibbon Index rank between 1945 and 2005.

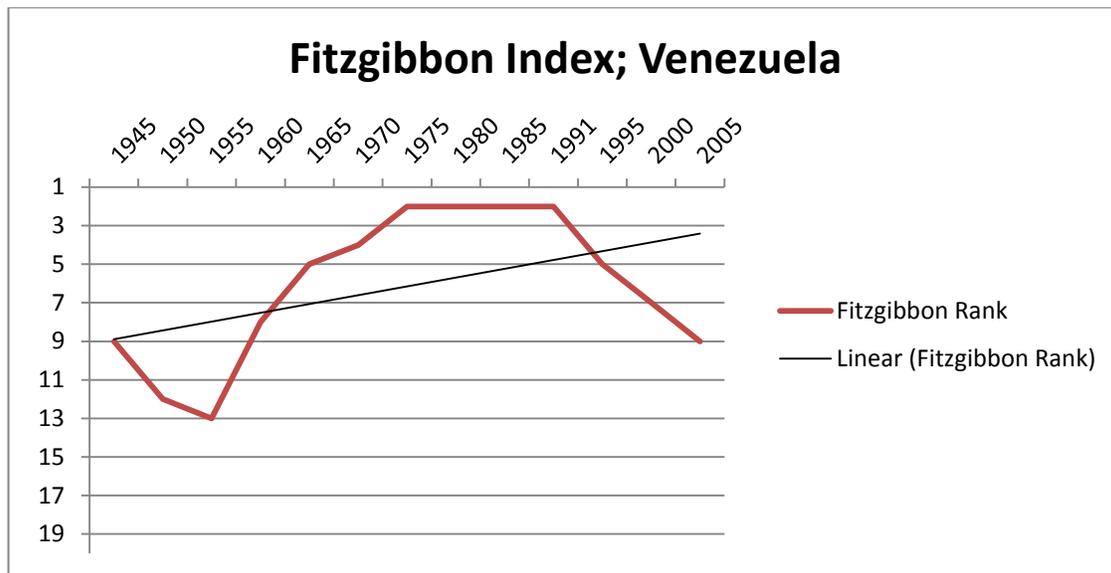


Figure 12. Fitzgibbon Index for Venezuela

The chart above represents the Fitzgibbon Index of Venezuela with a trend line. Because the Fitzgibbon Index ranks nations on a scale of 1 to 20, it is assumed that nations ranked 1 to 10 are the more democratic nations in Latin America and the nations ranked at 11 to 20 are the least democratic nations in Latin America. The data on Venezuela supports the fact the Venezuela was ranked between 1 and 10 every year (except between 1950 and 1958 when Venezuela was under a dictatorship as described in chapter 3). Moreover, the trend line indicates an increase, overtime, in Venezuela's measure of democracy. And as with the Freedom House rankings, while there may be a sign of a more recent trend away from democracy, it is too soon to conclude that at this time. Therefore, the overall data on Venezuela provided by the Fitzgibbon Index

indicates Venezuela measures more democratic than most of the other Latin American nations.

A thick measure of democracy is also provided by an analysis of the Economist Intelligence Unit. The Economist Intelligence Unit considers five variables when measuring democracy: electoral process, pluralism, civil liberties, the function of government, political participation and political culture (Kekic –The Economist Intelligence Unit). It is assumed in this measurement that free and fair competitive elections are inherent in a democracy, as well as the protection of basic human rights; “basic human rights include freedom of speech, expression and the press, freedom of religion, freedom of assembly and association, and the right to due judicial process” (Kekic). It is also assumed that the government is capable of implementing democratic decisions and that the political culture allows for peaceful transition of power after the electoral process (Kekic). And finally, this measure of democracy also assumes that “active, freely chosen participation of citizens in public life” is required for a healthy democracy (Kekic).

The various presupposed assumptions in the Economist’s measurement of democracy, combined with the five variables used rank these assumptions into the measurement of democracy, incorporate the widely accepted criteria of Dahl’s democratic process. Moreover, the Economist’s measure of democracy includes additional criteria such as political culture. The Economist measure of democracy is considered a legitimate thick measure of democracy. The democracy index ranks these

categories on a scale 1 to 10. As with the previously cited measure of *electoral process and pluralism*, it can be said that one represents a true authoritarian regime and ten represents a true democracy. Because the rankings range from 1 to 10, it is assumed if a nation is more democratic than authoritarian, then the nation would rank above 5. The data on Venezuela is provided in the chart below.

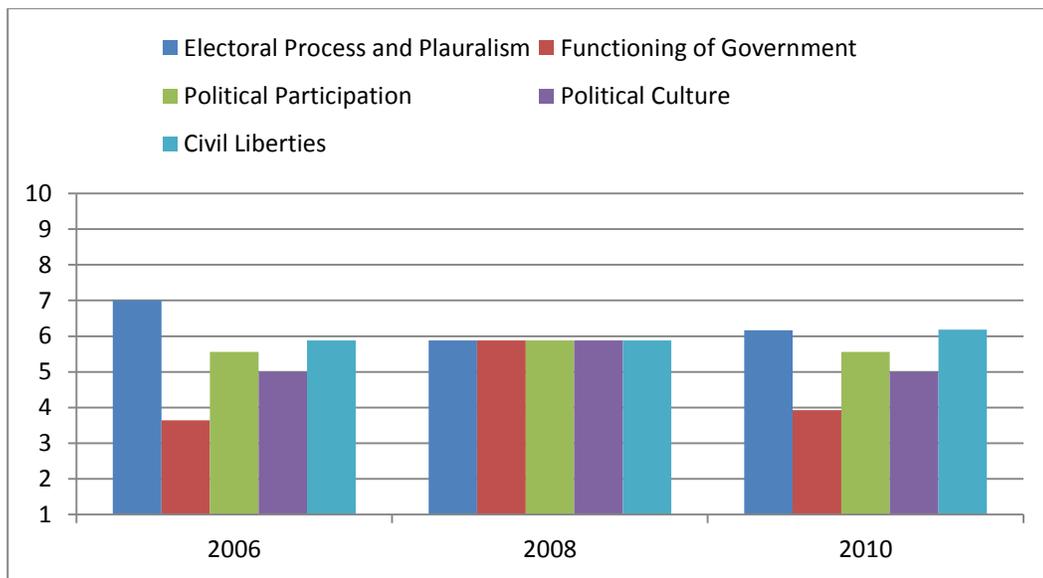


Figure 13. Economist Intelligence Unit Rankings by Category

According to the Economist Intelligence Unit, Venezuela is considered a hybrid between democratic and totalitarian. However, as the data indicates, almost every single category each year has been ranked at or above 5. Because the overall data on Venezuela suggest that these measures of democracy are, more often than not, ranked above 5; Venezuela is considered more democratic than authoritarian. And although the complete thick measure of democracy provided by the Economist Intelligence Unit's

ranking does not identify Venezuela as a democracy; it does not identify Venezuela as an authoritarian regime either.

Overall, an analysis of thin and thick measures of democracy as they relate to Venezuela reveals several things. First, the data on Venezuela support the fact that Venezuela has free and fair and competitive elections. An analysis of the *percentage difference between the top two presidential candidates* supports the fact that Venezuela's electoral process is at least as democratic as the US and because it is assumed that the US' electoral process is democratic, than Venezuela's is as well. An analysis of *the electoral process, political pluralism, political rights, civil liberties*, all support the fact that Venezuela functions more as a democracy than an authoritarian government. The thick measures, however are not as favorable for Venezuela as the thin measures are. The two thick measures analyzed support the fact that Venezuela is somewhere between neutral and democratic on the political spectrum. Therefore, because the thin measures support the fact that Venezuela is more democratic than authoritarian and the thick measures support the fact the Venezuela is somewhere between neutral and democratic, an overall analysis supports the fact that Venezuela measures more democratic than authoritarian. For the scope of this paper, democracy is a political label used to describe a nation's government that measures more democratic than totalitarian/authoritarian on the political spectrums, this measurement has been provided and supports the fact that the functions and operations of Venezuela's

government measures more democratic than authoritarian, therefore, Venezuela is labeled as a democracy.

Overall, an understanding of the economic and political spectrums supports the fact that Venezuela's position on the economic spectrum measures more socialist than capitalist. Moreover, the thin and thick measures of democracy data support the fact that the functions and operations of Venezuela's government measure more democratic than authoritarian/totalitarian. Therefore, for the scope of this paper, Venezuela is considered a modern day socialist democracy. By defining Venezuela as a modern day socialist democracy, this allows one to analyze the factors contributing to the sustainability of such economic and political position. A quantitative and qualitative analysis is provided in the next section to test the significance of the market value of petroleum on the stability and sustainability of Venezuela's socialist democracy.

#### 4.2 Methods

The observation that Venezuela has developed into a socialist democracy combined with the observations concerning the significance of the oil industry provides a means of testing the second hypothesis. Chapters 2 and 3 used qualitative and quantitative data to support Marxist theory of political development. Marxist theory combined with more recent research is used to test the hypothesis that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the sustainability of Venezuela's socialist democracy.

According to Marxism and more recent research two factors are significant in the stability and sustainability of Venezuela's socialist democracy: the GDP/cap and the voters' satisfaction with the nation's redistributive system. Therefore, if a positive correlation exists between the market value of petroleum and the nation's GDP/cap and a positive correlation exists between the market value of petroleum and the voters' satisfaction with the nation's redistributive system; then there would be a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's socialist democracy.

To analyze the stability and sustainability of Venezuela's current socialist democracy, the per capita income (GDP/cap) of the nation must be considered (Benhabib and Przewonski 2005). This is because the sustainability of democracy is a function of two things: the GDP/cap and the possibility of successful revolt (Benhabib and Przewonski 2005). A nation with a higher GDP/cap has a greater probability of sustaining democracy, also supporting the fact that with a greater amount of income, the nation has greater potential of sustaining a redistributive program that is acceptable to a majority of citizens, therefore decreasing the likelihood of a successful revolt (Benhabib and Przewonski 2005). Even if one were to consider other factors to sustaining a redistributive democracy, such as: education, political participation, complexity of social structure, inequality, and ethno-linguistic fractionalization; none eliminate the role of income (Benhabib and Przewonski 2005). However, if the GDP/cap significantly decreases or revolt is successful, there is a decrease in the probability of sustaining

democracy. One of the theorems shown by Benhabib and Przewonski 2005 to be true is that democracy will always be sustainable if wealth is sufficiently equally distributed, or if the probability of a successful revolution is sufficiently small. And because the distribution of wealth is dependent on the nation's GDP, the GDP/cap becomes a major factor in the sustainability of democracy. A quantitative analysis supports the fact that a positive correlation exists between the market value of petroleum and the GDP/cap. Therefore, the quantitative data supports the fact that there is a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's socialist democracy.

Also, according to Marxism and according to Benhabib and Przewonski (2005), if the majority of voters are not satisfied with the nation's redistributive system, the possibility of successful revolt increases- threatening the stability of the socialist democracy. A qualitative analysis supports the fact that there is a positive correlation between: *the market value of petroleum and the voters' satisfaction with the nation's redistributive system*; and this satisfaction is also linked to the likelihood of successful revolt. This factor only became a function of the market value of petroleum *after* the nationalization of the oil industries. As the qualitative analysis shows, when the market value of petroleum has significantly decreased, the sustainability of Venezuela's *sembrar el petroleo* policies decreased as well, threatening the stability of Venezuela's socialist policy. Moreover, the stability of Venezuela's democracy decreased as a result of two coup attempts and the Bolivarian Revolution. The qualitative data further

supports the fact that Venezuela's socialist policy increased as the market value of petroleum increased. Moreover, the voters' satisfaction with the nation's redistributive system increased (and the possibility of successful revolt decreased) as the market value of petroleum increased. Therefore, the qualitative data supports the fact that there is a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's socialist democracy.

The following sections provide a quantitative and qualitative analysis of the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy.

#### 4.3 Quantitative Analysis

According to more recent research, the GDP/cap is a significant factor in the sustainability of Latin American democracies and redistributive democracies. Because Venezuela is both a Latin American democracy and a redistributive democracy, the GDP/cap is assumed to be significant. In the case of Venezuela, a significant correlation exists between the GDP/cap and market value of petroleum. This correlation is observed both before and after the nationalization of the oil industry.

		GDP_cap	OIL_prices
GDP_cap	Pearson Correlation	1	.970**
	Sig. (2-tailed)		.000
	N	18	18
OIL_prices	Pearson Correlation	.970**	1
	Sig. (2-tailed)	.000	
	N	18	18

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Figure 14. PRE – nationalization (1960 – 1976) Correlations

		GDP_cap	OIL_prices
GDP_cap	Pearson Correlation	1	.503**
	Sig. (2-tailed)		.005
	N	30	30
OIL_prices	Pearson Correlation	.503**	1
	Sig. (2-tailed)	.005	
	N	30	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Figure 15. POST – nationalization Correlations (1977 – (2007)

However, in order to test whether or not the nationalization of the oil industry created a positive correlation between the market value of petroleum and Venezuela's current socialist democracy, the qualitative data must be analyzed. While the GDP/cap is a significant factor in the stability of democracies, according to Benhabib and Przewonski (2005) and Marxism, the voters' satisfaction in a redistributive democracy must also be considered as this has the potential to influence the stability of democracy as well. The qualitative data supports the fact that after 1976, not only is a positive correlation observed between the market value of petroleum and GDP/cap but the

*sembrar el petroleo* policies created a positive correlation between the market value of petroleum and the voters' satisfaction with the redistributive system. Therefore, the data supports the hypothesis that the nationalization of the oil industry created a positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy. The qualitative analysis is provided in the following section.

#### 4.4 Qualitative Analysis

As the data in 4.1 indicate, Venezuela's current form of redistributive system began with the *sembrar el petróleo* policies after the nationalization of the oil industry. Therefore, the qualitative data between 1976 and 2010 is analyzed. The democracy that was achieved in Venezuela in 1958 appeared, to many scholars, as a stable democracy in Latin America; one that lasted not three years, but for over three decades without any significant coup attempts or military overthrow or opposition uprisings. The unsuccessful coup attempt against President Perez, by Hugo Chavez in the early 1990s took political analysts by surprise (Elliner 10). By the late 1990s, the unsuccessful coup attempt and subsequent Bolivarian Revolution, combined with the fact that the markets had opened up and neoliberal reform was taking place were threatening the stability and sustainability of Venezuela's socialist democracy. The voters' dissatisfaction with the redistributive policies of both the AD and COPEI parties along with the political

instability that occurred throughout the 1990s with Chavez' coup attempt and later, Bolivarian Revolution can qualitatively be correlated with certain economic factors taking place in the oil industry. A qualitative analysis supports the fact that a significant decline in oil prices preceded these events.

As previously stated, the development of Venezuela's socialist democracy was based on an ideologically socialist predication, using the oil wealth as the primary source of revenue to fund redistributive policies. The nationalization of the oil industry and subsequent *sembrar el petróleo* policies had occurred at a time when the market value of petroleum hit unprecedented highs. Throughout the 1970s, the Venezuelan government had significantly more money to fund redistributive policies. However, the oil market boom of unprecedented levels reached its peak in 1980 and the market value of petroleum began to rapidly and significantly decline. As a result of this, Venezuela experienced a significant decline in GDP and by 1983, Venezuela could no longer afford to pay its \$38 billion debt as well as sustain the current funding for the redistributive programs (Jones 2007, Kozloff 2006, Karl 1997). The nation was facing an economic crisis. President Herrera of the COPEI party, attempted to solve the economic crisis with neoliberal deregulation and cutting public spending (Jones 2007, Kozloff 2006, Karl 1997).

The neoliberal economic policies supported by Herrera and COPEI party reflected a trend away from socialism and toward free market policies. The deregulation and opening of the markets occurred at a time when the market value of petroleum

significantly declined. In 1983 the COPEI party lost the elections and AD party candidate Luchini took office. The change in leadership between COPEI and AD is representative of the public's dissatisfaction with the economic policies of the Herrera administration. After AD party Luchini took office, oil prices continued to decline even more, reaching significant lows by 1986. In response to the economic decline, Luchini instituted sharper cuts to public spending, austerity measures, and greater neoliberal reform as well as renegotiating the debt (Jones 2007, Kozloff 2006, Karl 1997). The administration had agreed to institute austerity measures at the suggestion of the World Bank and IMF in order to maintain payment of foreign debt and the ability to borrow more. By the end of Luchini's presidency in 1989, Venezuela had experienced economic collapse. The nation had devalued the currency, unemployment and inflation ensued, and an absolute majority of citizens lived in poverty (Jones 2007, Kozloff 2006, Karl 1997).

The chart below represents Venezuela's government spending (as per cent of GDP) between 1978 and 2007. According to data from the World Bank, during the years of neoliberal reform, government spending significantly decreased.

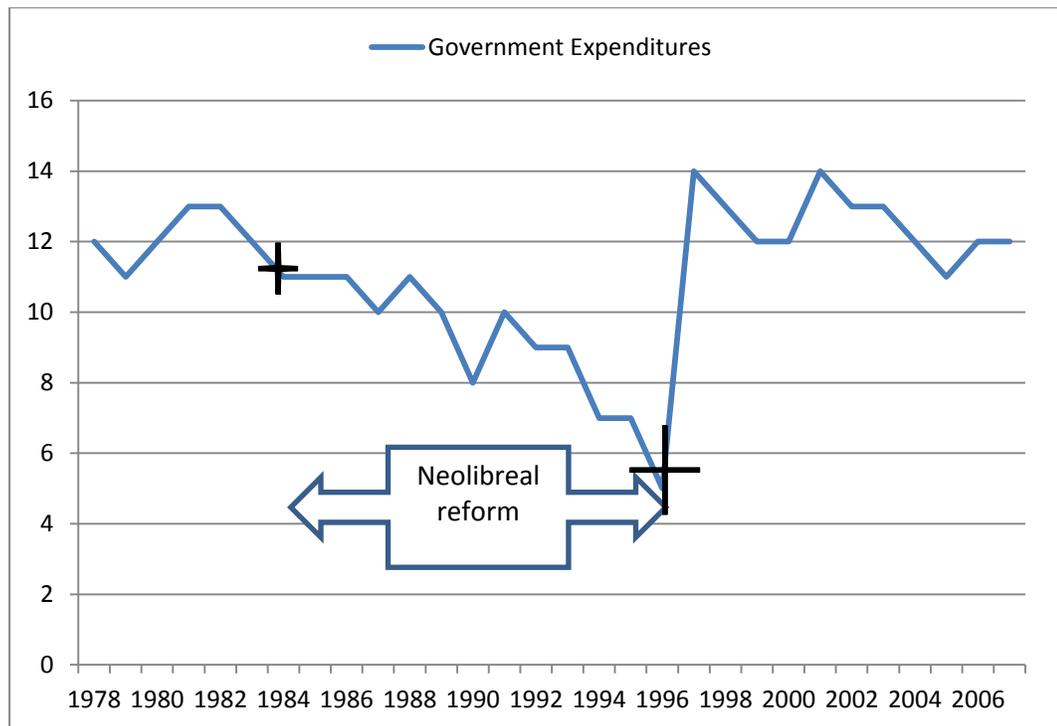


Figure 16. Government Expenditures

According to Marxist theory, democratic governments that allow the proletariat class political rights and the ability to hold office are more likely to keep the distribution of wealth balanced, in order to prevent a growing divide of social class and inherent uprising of the proletariat. After the economic collapse in Venezuela, democratic means were used to try and create a greater distribution of wealth, as can be seen by the voting patterns after the institution of neoliberal reform. The Venezuelan voters were attempting to elect a president that would decrease the neoliberal policy and increase the distribution of wealth. Public opinion at this time grew to resent the two-party system of AD and COPEI; the government was regarded as corrupt and electoral

participation declined (Jones 2007, Kozloff 2006). The presidential elections that were held in 1988 saw the re-emergence of President Andres Perez. Perez, of the AD party had been the nation's President when the oil industry was nationalized. He also ran on a campaign that denounced the US for its capitalism as well as the IMF for its neoliberal economic policies (Jones 2007, Kozloff 2006). Many scholars agree that many voters were taken by surprise when Perez began his term in 1989 with greater neoliberal reforms and negotiations with the IMF (Karl 1997 p.179-182).

Perez and the new administration began “devising a plan for the neoliberal restructuring of the country in accordance with IMF and World Bank guidelines... reforms that required the elimination of welfare programs, subsidies, and price and wage regulations [and] posed a dire threat to the poor” (Kozloff 44). However, the majority of citizens were poor, and what quickly followed were uprisings and protests that disrupted business and transportation in several Venezuelan cities (Jones 2007, Kozloff 2006, Karl 1997). On 27 February of 1989, “student protests in Caracas soon took on the character of popular revolt” (Kozloff 45). The popular uprising, known as *caracozo* turned Caracas into full scale anarchy in the capital and martial law was declared the next day, sending military troops into the area who responded with a “harsh wave of repression and human rights violations” as protestors cried “The people are hungry”; “The people are angry”; and “Enough of the deceit” in response to the growing austerity measures. (Kozloff 45).

According to scholars of Venezuelan politics, the growing public protests and the *caracozo* led the military to begin to question socioeconomic policies. Moreover, serious signs of dissent were present in the military (Jones 2007, Kozloff 2006, Ellener 2003). Military officer, Hugo Chavez, a long outspoken critic of the two- party system had formed the conspiratorial movement Movimiento Bolivarian Revolucionario 200 (MBR 200) in 1982 and as a result of the *caracozo* the growing MBR began to organize a full scale coup against the Venezuelan government. Also as a result of the uprisings and *caracozo*, Perez agreed to increase production of crude oil providing temporary economic relief; however he also opened more of the oil industry up to foreign investors (Jones 2007, Kozloff 2006, Ellener 2003). On the 4<sup>th</sup> of February, 1992, Lieutenant Col Hugo Chavez and six thousand troops attacked the capital of Caracas and three other cities in a rebellion against “the dictatorship of the IMF, the dictatorship of the Punto Fijo Pact [(the 1958 decision that instituted the current form of two-party system)], and the dictatorship of the Venezuelan oligarchy” (Kozloff 470). However, Chavez was unsuccessful at his coup attempt and was imprisoned. While in custody, Chavez was able to address the citizens on national television. Dressed in military uniform, Chavez not only took responsibility for the coup attempt and lives that were lost, but also he continued to support his decision for a revolution of the poor to rise up (Jones 2007, Kozloff 2006). The coup attempt led by Chavez, and his speech that followed, increased public awareness of the Bolivarian Revolution and can be argued to have increased

public support for the movement as several significant political events immediately took place after Chavez was jailed.

In 1993 President Perez was charged with corruption and removed from office by the Supreme Court; he was eventually convicted in 1996 (Jones 2007, Kozloff 2006, Ellener 2003). Also, the winner of the 1993 presidential elections was not from the AD or COPEI parties. Rafael Caldera won the 1993 presidential elections. Caldera had distanced himself from the neoliberal agenda and organized a new political party in alliance with the socialist movement, MAS, Movimiento al Socialismo (Schneider p. 275). Upon becoming president in 1994, Caldera pardoned Chavez and he was released from prison. Then in 1996, the Supreme Court heard a case by Congressman Ali Rodriguez (former guerilla fighter pardoned by Betancourt) who challenged the decisions by Guistini (head of the PdVSA) that opened up the oil industry to increased foreign ownership (Jones 2007, Kozloff 2006). Guistini, who had been educated in the US and worked for Shell Oil prior to coming to work for the PdVSA, filled the PdVSA's board of directors with executives of foreign companies (Kozloff 2006). The PdVSA and the Venezuelan government dramatically reversed the redistributive trends that had previously occurred in Venezuela. Between 1976 and 1993 sixty-six cents out of every dollar went to the Venezuelan government, but by 1994 it was half that (Jones 2007, Kozloff 2006). Moreover, in 1996 PdVSA entered into a joint venture with the US Company SAIC (Science Applications International Corp) to manage PdVSA's IT operations. SAIC was a company that worked with the US Department of Defense on

providing everything from “intelligence gathering to missile defense to Iraq reconstruction for the Pentagon; “The list of SAIC executives reads like a who’s who of Washington insiders. Former NSA director Bobby Ray Inman, former Defense Secretary Melvin Laird, and ex- CIA director Robert Gates all served on SAIC’s board of directors at one time or another” (Kozloff 11).

Moreover, PdVSA was consistently ignoring OPEC quotas that were meant to reduce the production of oil in order to increase the demand and price. Because Venezuela was the founding member of OPEC and ignored the organizations own quotas, other nations followed suit and the cost of petroleum was declining even further (Jones 2007, Kozloff 2006). The actions of PdVSA head, Gustini and the US’ growing involvement in PdVSA angered not only Chavez but Congressional Committees as well. The removal of President Perez, the demise of the two-party system, and the Congressional challenges to PdVSA policy that shortly followed Chavez’s coup attempt and speech, only heightened Chavez’s interests in a successful socialist revolution. Chavez soon found international support against neoliberalism and globalization among the Zapatistas movement in Mexico. The National Army of National Liberation of Mexico that was calling on socialist reform and an end to the oppression of the indigenous people had gained international notoriety as a symbol against globalization, and Chavez flew to Mexico after being released from prison to join in Zapatista movements (Jones 2007, Kozloff 2006). It was in Mexico City that Chavez announced his plans to run for President of Venezuela in the 1998 elections. Chavez won the

elections with significant majority support, 56.2 percent of the vote- the largest percent of votes to any democratic candidate up until that time in Venezuela's history (Jones 2007, Kozloff 2006).

Hugo Chavez in the early 1990s and his ability to increase in populism and implement the Bolivarian Revolution were preceded by significant economic factors in the oil industry. Primarily, the significant decline in oil prices that occurred in the mid-1980s and subsequent neoliberal and austerity measures preceded the population's dissatisfaction with the redistribution system. Once Chavez took office, he immediately began implementing his Bolivarian Revolution. The main goal of this revolution was decentralization (Jones 2007, Kozloff 2006, Ellener 2003). The Punto Fijo Pact was immediately abolished, a new Constitution of 1999 was instituted, granting the citizens greater power through referendums and an overall revolutionary transformation of the state that granted people the protagonist role in government. According to article 72 of the new constitution, all popularly elected offices and judgeships are revocable in the second half of their electoral periods. The recall petition must have at least 20 percent of the registered voters in the electoral district and cannot be attempted more than once in the same term... Not only could the people remove elected officials, but gathered in an assembly, they could impose their will on the local, regional, and national governments. According to the constitution, the decisions reached by "assemblies of citizens" are binding... Finally, the constitution envisioned the "constituent power" as being supreme in that it overrode other branches of government

(Gobierno Bolivariano de Venezuela, Ministerio de Comunicacion e Informacion). The Bolivarian Revolution and the *chavistas* who supported it, not only transformed the entire governing system that had previously existed, but the neoliberal reforms instituted in the 1980s and 90s were almost instantly being reversed by Chavez.

Chavez strengthened alliances with other OPEC nations by adhering to the OPEC quotas. When Venezuela adhered to the quotas, other nations followed suit, only strengthening the alliances and driving up the cost of oil (Nelson 2009 Jones 2007, Kozloff 2006). Between 1999 and 2001, Venezuela was meeting or exceeding OPEC quotas, cutting production by nearly 1,000 barrels a day (World Bank). The decrease in oil production combined with 9/11 and the US invasion of Iraq drove the market value of petroleum to new, unprecedented highs. Late in 2002, just three years into his first term, Chavez soon had the means to re-institute the redistributive social policies of the 1970s. Chavez almost immediately fired Gustini (the previous head of PdVSA) as well as other members of the executive board and began adding members from his new MVR party (Nelson 2009 Jones 2007, Kozloff 2006). In 2002, Chavez redefined PdVSA's role to include funding of the nation's social programs and announced that at least ten percent of PdVSA's annual investment budget must be spent on social programs (Nelson 2009 Jones 2007, Kozloff 2006). Within weeks of Chavez's changes to PdVSA and his announcement for a renewed nationalization of the oil industry, Chavez was facing an opposition coup attempt. The opposition came from wealthy Venezuelan businessmen as well as Washington.

Unlike the mass popular support by the citizens encompassed by the Bolivarian Revolution and the 2000 recall election, the opposition that threatened the Venezuelan government in 2002 came from a much smaller, but wealthier class of citizens. For instance, multi billionaire Gustavo Cisneros, who had earned his money through various media outlets and international companies operating throughout Latin American and the US had allegedly allied with former US ambassador to Venezuela and corporate lobbyist of Bacardi and Lockheed Martin to bankroll the coup (Nelson 2009 Jones 2007, Kozloff 2006). The Bush Administration brought in the old Iran-contra team to work with the US agency, the NED, to bankroll millions of dollars in US government grants to Chavez's opposition (Jones 2007 p. 304-307). And one week before the coup attempt against Chavez, a CIA document circulated to about 200 top Washington officials outlining the details of the plan (Nelson 2009 Jones 2007, Kozloff 2006). At the same time, word had reached Chavez of the impending attack and he was hiding out on a remote island while prominent Venezuelan businessmen met with US officials at Cisneros mansion (Nelson 2009 Jones 2007, Kozloff 2006f). "In the early hours of April 12, Carmona left directly from Cisneros' office to be sworn in as Venezuela's new president... The IMF promptly recognized the new coup government and offered financial assistance" (Kozloff 69).

However, Cisneros and his neoliberal agenda were set back when the coup attempt failed after popular opposition. The voters of Venezuela ousted Cisneros and reinstated Chavez as President. Upon arrival back into the presidency, Chavez was even

more outspoken of neoliberalism and Washington. On national television he announced the people had a clear choice: “Either capitalism, which is the road to hell, or socialism, for those who want to build the kingdom of God here on Earth” (Kozloff 70). Ultimately, the coup attempt that attempted to oust Hugo Chavez and reinstate a neoliberal agenda failed without the mass popular support that had propelled the Bolivarian Revolution. Moreover, the nation was not facing drastic austerity measures as it had during the late 1980s and early 90s. Redistribution of wealth was increasing and therefore, a greater number of voters were satisfied with the redistributive system. And according to Benhabib and Przewonski (2005) the fact that the median voter was satisfied with the redistributive system instituted by Chavez, meant that the possibility of successful revolt was small. It can be argued that the overall voter satisfaction with Chavez’s redistributive programs were too high to threaten their sustainability. Chavez was able to maintain his popular support through the 2000 recall election and coup which temporarily ousted him. And both times, Chavez remained or regained power democratically. Therefore, the likelihood of successful revolt was not high enough to threaten the socialist characteristic or democratic characteristic of Venezuela because the opposition to Chavez did not have widespread support.

The qualitative analysis of events between 1976 and 2010 support the fact that when the market value of petroleum significantly decreased, so did the stability and sustainability of Venezuela’s socialist democracy; first with neoliberal reform and next as two coup attempts shortly followed. The data suggests that when the market value of

petroleum significantly declined, austerity measures and neoliberal reform created a greater division of classes that left a majority of Venezuelans in poverty. The austerity measures and neoliberal reform brought a decline to Venezuela's socialist policy of state ownership and redistribution. The growing division of classes led to the growing dissatisfaction with the nation's redistributive system and the possibility of successful revolt increased as two coup attempts temporarily brought political instability that threatened Venezuela's democracy. While the market value of petroleum was on the decline during the Bolivarian Revolution, the revolution was a successful democratically instituted revolution. However, as the market value of petroleum increased, so did Venezuela's socialist policy and support for President Chavez. As a result, the opposition was successful at a coup attempt or subsequent neoliberal reform. Therefore, for the case of Venezuela, the qualitative data supports the fact that there is a positive correlation between the market value of petroleum and the voters' satisfaction with the nation's redistributive system and possibility of successful revolt. Moreover, the quantitative data also supports the fact that there is a positive correlation between the market value of petroleum and the nation's GDP/cap. As a result of these two observations, it can be argued that the nationalization of Venezuela's oil industry created a significant positive correlation between the market value of petroleum and the stability and sustainability of the nation's current socialist democracy.

## CHAPTER 5

### CONCLUSION

A case study of the economic and political development in Venezuela has provided some insight into the political development of independent nation states. Qualitative and quantitative data on Venezuela was analyzed to test the arguments made by Karl Marx regarding the political development of nation states. Because the analysis supports the arguments made by Marx, Marxist theory and more recent research was used to make further observations regarding the importance of the oil industry in Venezuela. The data collected on Venezuela provides support for the fact that the nationalization of the oil industry created a significant positive correlation between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy. The implications to these findings provide some avenue for analysis in the future.

Will another decrease in the market value of petroleum trigger another decrease in socialist or democratic stability and sustainability? Or, perhaps, can an increase in socialist policy lead to a decrease in democratic stability and sustainability? Chavez has been able to remain in power for over ten years while the market value of petroleum has steadily increased. And based on this paper's analysis, it can be assumed that Chavez will remain in power as long as the following conditions are present: (1) *the market*

*value of petroleum remains or exceeds the price levels it was between 2000 and 2010;*  
(2) *a redistributive system exists that satisfies the majority of voters.* However, with the same president in office for such a long period of time, will a decrease in democracy eventually occur? As some of the more recent data collected on Venezuela suggest, there may be a recent trend in Venezuela's political development that shows a decrease in democratic measures. However, any conclusive support for this trend warrants further time-analysis.

The qualitative and quantitative data collected on Venezuela's economic and political development between 1920 and 2010 are not sufficient to measure recent trends but have been used to test Marxist theory of political development as well as the relationship between the market value of petroleum and the stability and sustainability of Venezuela's current socialist democracy.

APPENDIX A

FIGURE 17: OIL PRICES AND EVENTS

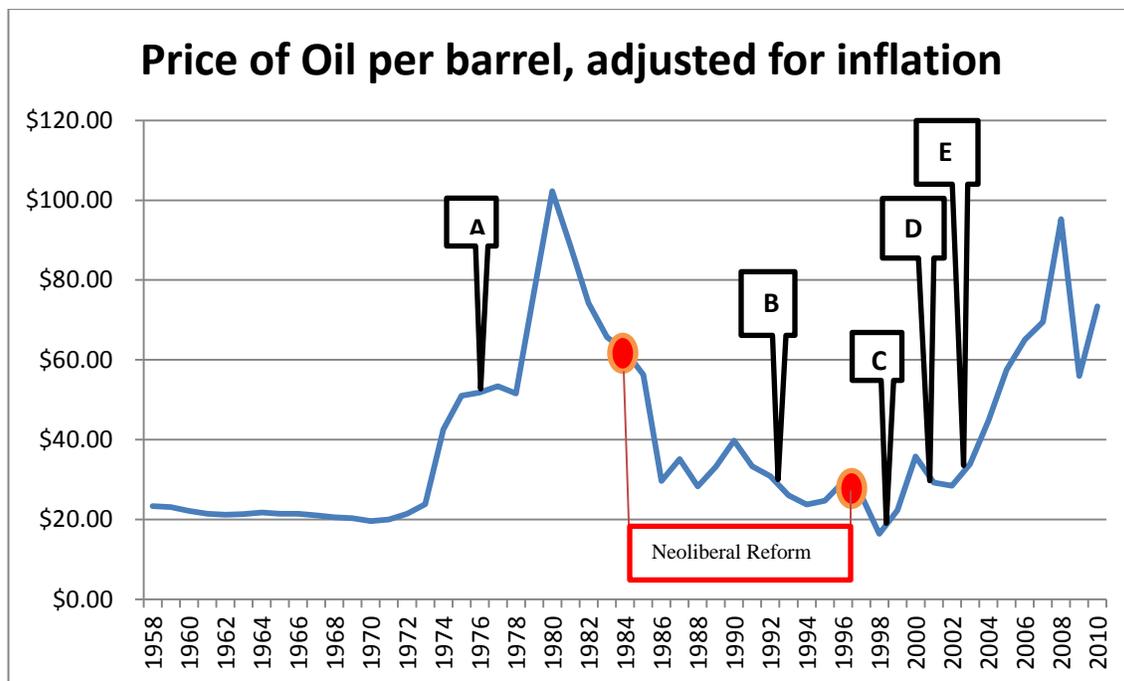


FIGURE 17: OIL PRICES AND EVENTS

- A** – Nationalization of the Oil Industry
- B** – Coup attempt by Chavez
- C** – Chavez elected ; Bolivarian Revolution
- D** – Recall election, Chavez wins
- E** – Coup attempt against Chavez

APPENDIX B

CHARTS' CITATIONS AND RAW DATA

**EIA Data:** [www.EIA.gov](http://www.EIA.gov)

**World Bank data:**

[http://databank.worldbank.org/ddp/editReport?REQUEST\\_SOURCE=search  
&CNO=2&country=VEN&series=&period=](http://databank.worldbank.org/ddp/editReport?REQUEST_SOURCE=search&CNO=2&country=VEN&series=&period=)

<b>YEAR</b>	
<b>1997</b>	55
<b>1998</b>	50
<b>1999</b>	49
<b>2000</b>	46
<b>2001</b>	45
<b>2001</b>	55
<b>2003</b>	62
<b>2004</b>	54
<b>2005</b>	44
<b>2006</b>	36
<b>2007</b>	34
<b>2008</b>	33
<b>2009</b>	29

**Poverty Headcount at National Poverty Line, (per cent of population)**

<b>1970</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>2006</b>
4	5	5	5	4

**Public Spending on Education (as per cent of GDP)**

<b>1970</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>2006</b>
12993115056	31413164179	67135122864	57935742247	183477522124

**Venezuela's GDP (current US \$)**

<b>1981</b>	<b>1990</b>	<b>2001</b>	<b>2007</b>
85	90	93	95

**Literacy Rate, adult total (per cent of people age 15 and above)**

<b>1981</b>	<b>1990</b>	<b>2001</b>	<b>2007</b>
76	79	85	98

**Primary Completion Rate, total (per cent of relevant population)**

For US			For Venezuela	
Election YEAR	Per cent DIFFERENCE		Election YEAR	Per cent Difference
1962	22.6		1958	18.5
1966	0.7		1963	12.6
1972	23.2		1968	1.2
1976	2.1		1973	13.4
1980	9.7		1978	2
1984	18.2		1983	23
1988	7.7		1988	12.7
1992	5.5		1993	1.1
1996	8.5		1998	11.4
2000	-0.5		2000	29.2
2004	2.4		2004	18.5
2008	7.2		2006	25.9

**Percentage Difference between Presidential Candidates**

Venezuela Election Data: [www.cne.gob.ve](http://www.cne.gob.ve)

US Election Data:

[http://www.ropercenter.uconn.edu/elections/presidential/presidential\\_election.html](http://www.ropercenter.uconn.edu/elections/presidential/presidential_election.html)  
and [www.fec.gov](http://www.fec.gov)

YEAR	US	VEN	RUSSIA
2006	8.75	7	7
2008	8.75	6.58	5.25
2010	7.86	6.17	5.25

**Electoral Process, Pluralism ; Economist Intelligence Unit Democracy Index**

(data: [www.EIU.com](http://www.EIU.com))

<b>YEAR</b>	2003	2004	2005	2006	2007	2008	2009	2010
<b>Pol_Rights</b>	3	3	3	4	4	4	4	5
<b>Civil_Lib</b>	4	4	4	4	4	4	4	4

**Political Rights, Civil Liberties; Freedom House Rankings** (Data: [www.FreedomHouse.org](http://www.FreedomHouse.org))

<b>Year</b>	
<b>1945</b>	9
<b>1950</b>	12
<b>1955</b>	13
<b>1960</b>	8
<b>1965</b>	5
<b>1970</b>	4
<b>1975</b>	2
<b>1980</b>	2
<b>1985</b>	2
<b>1991</b>	2
<b>1995</b>	5
<b>2000</b>	7
<b>2005</b>	7

**Fitzgibbon Index** (Data: <http://www2.kenyon.edu/Depts/PSci/Fac/klesner/fitzgibbon/FitzgibbonRankingsHistorical.pdf>)

<b>YEAR</b>	<b>I.</b>	<b>II.</b>	<b>III.</b>	<b>IV.</b>	<b>V.</b>
2010	6.17	3.93	5.56	4.38	5.88
2008	6.58	4.29	5.56	4.38	5.88
2006	7	3.64	5.56	5	5.88

**Economist Intelligence Unit Overall Rankings** (data: [www.EIU.com](http://www.EIU.com))

- I. Electoral Process and Pluralism
- II. Functioning of Government
- III. Political Participation
- IV. Political Culture
- V. Civil Liberties

**Pre and Post Nationalization Correlations: market value of petroleum and GDP/cap**

Market value of petroleum data, price per barrel:

[http://inflationdata.com/inflation/Inflation\\_Rate/Historical\\_Oil\\_Prices\\_Table.asp](http://inflationdata.com/inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp)

GDP/cap data: [www.WorldBank.org](http://www.WorldBank.org)

YEAR	PRICE	GDP/cap
1960	\$22.15	1138
1961	\$21.44	1136
1962	\$21.19	1211
1963	\$21.39	1261
1964	\$21.75	1040
1965	\$21.47	1059
1966	\$21.48	1077
1967	\$21.04	1081
1968	\$20.53	1147
1969	\$20.36	1154
1970	\$19.65	1217
1971	\$20.00	1310
1972	\$21.44	1393
1973	\$23.87	1644
1974	\$42.58	2375
1975	\$51.00	2477
1976	\$51.78	2761

**PRE-Nationalization**

YEAR	PRICE	GDP/cap
1977	\$53.41	3111
1978	\$51.58	3288
1979	\$77.05	3812
1980	\$102.26	4449
1981	\$88.55	4849
1982	\$74.24	4779
1983	\$65.69	4756
1984	\$62.26	3293
1985	\$56.28	3318
1986	\$29.62	3287
1987	\$35.13	2467
1988	\$28.32	3101
1989	\$33.24	2184
1990	\$39.80	2381
1991	\$33.36	2561
1992	\$30.85	2830
1993	\$26.09	2751
1994	\$23.76	2619
1995	\$24.73	3397
1996	\$29.32	3033
1997	\$26.12	3739
1998	\$16.44	3901
1999	\$22.30	4105
2000	\$35.76	4819
2001	\$29.23	4963
2002	\$28.50	3683
2003	\$33.86	3257
2004	\$44.81	4309
2005	\$57.57	5481
2006	\$65.03	6795
2007	\$69.51	8252

**POST-Nationalization**

YEAR	per cent of GDP
1978	12
1979	11
1980	12
1981	13
1982	13
1983	12
1984	11
1985	11
1986	11
1987	10
1988	11
1989	10
1990	8
1991	10
1992	9
1993	9
1994	7
1995	7
1996	5

YEAR	per cent of GDP
1997	14
1998	13
1999	12
2000	12
2001	14
2002	13
2003	13
2004	12
2005	11
2006	12
2007	12

**Government Expenditures as per cent of GDP**

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