

**VENEZUELA: CONSERVATIVE REPRESENTATION  
WITHOUT CONSERVATIVE PARTIES**

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## ABSTRACT

Why would a powerful elite ever consent to a transition to democracy? Democratic institutions would soon encroach on the interests of the privileged few if political equality were fully enforced. This dilemma is especially central to the study of democracy in Latin America, where social and economic inequality are so great that economic elites are often threatened by pressure to share their wealth and often have sufficient political resources to respond by having democratic governments removed. For this reason political scientists have long held that democratic regimes are more likely to survive where there are guarantees that the fundamental interests of economic elites will be protected, and recently some scholars have proposed that elite interests are best protected, and democracy best preserved, by successful conservative *parties*. There is no better illustration of the crucial role played by accommodation of elite interests than Venezuela's transition to democracy in 1958. Yet this paper argues that Venezuela has not had any significant parties since 1958 that were uncontestedly conservative, nor can it be considered a societal corporatist system. Instead, during the first thirty years of its democratic regime, Venezuela developed effective ways of representing elite interests informally, centered around clientelistic relationships between individual politicians and family-owned economic groups. For decades these informal arrangements enhanced political stability. But they had unhealthy side effects—corruption and inefficiency—which grew increasingly worse, so that when the economic decline began in 1979 and the abuses became widely known, Venezuela entered a period of political instability. The author concludes that the reactions of the two major parties, AD and COPEI, together with their unprecedented defeats in the 1993 and 1998 elections, have opened a dangerous rift between the parties and the private sector.

## RESUMEN

¿Por que una elite poderosa habria de consentir una transición a la democracia? Si la igualdad política rigiera en forma completa las instituciones democráticas pronto afectarían los intereses de los pocos privilegiados. Este dilema es especialmente central para el estudio de las transiciones a la democracia en América Latina, donde la desigualdad social y económica es tan grande que las elites son frecuentemente amenazadas por las presiones para compartir su riqueza y frecuentemente disponen de recursos políticos suficientes para responder a estas presiones haciendo deponer a los gobiernos democráticos. Por estos motivos, los cientistas políticos han venido sosteniendo que los regímenes democráticos tienen más posibilidades de sobrevivir donde existen garantías de que los intereses fundamentales de las elites económicas serán protegidos, y recientemente algunos especialistas han propuesto que la existencia de partidos conservadores exitosos es la mejor protección para los intereses de las elites, y la mejor forma de preservar la democracia. No hay mejor ejemplo del rol crucial jugado por el acomodamiento de los intereses de las elites que la transición a la democracia en Venezuela de 1958. Sin embargo, este trabajo sostiene que Venezuela no ha tenido ningún partido importante desde 1958 que pueda considerarse inobjetablemente conservador y que el sistema social venezolano no puede ser calificado de corporativista. Por el contrario, durante los primeros treinta años de su régimen democrático Venezuela desarrolló formas efectivas para representar informalmente los intereses de las elites, formas centradas en las relaciones clientelares entre

políticos individuales y grupos económicos familiares. Estos arreglos informales incrementaron la estabilidad política durante décadas, pero han tenido efectos colaterales poco saludables -- corrupción e ineficiencia -- que han ido empeorando de modo tal que cuando comenzó la declinación económica en 1979 y los abusos se dieron a conocer, Venezuela ingresó en un período de inestabilidad política. El autor concluye que las reacciones de los dos partidos principales, AD y COPEI, junto con sus inéditas derrotas en las elecciones de 1993 y 1998, han abierto una peligrosa fisura entre los partidos y el sector privado.

Why would a powerful elite ever consent to government of the people, by the people, and for the people? Democratic institutions would soon encroach on the interests of the privileged few if political equality were fully enforced. This dilemma is especially central to the study of democracy in Latin America, where social and economic inequality are so great that economic elites are often threatened by pressure to share their wealth<sup>1</sup> and often have sufficient political resources to respond by having democratic governments removed. For this reason political scientists have long held that democratic regimes are more likely to survive where there are guarantees that the fundamental interests of economic elites—and any other powerful minorities—will be protected.<sup>2</sup> There is no better illustration of the crucial role played by accommodation of elite interests than Venezuela's transition to democracy in 1958. Business leaders intervened against the military and on behalf of democracy at key moments because a series of pacts, in Terry Karl's (and Barrington Moore's) words, "represented a classic exchange, primarily between AD and the entrepreneurs, of 'the right to rule for the right to make money.'"<sup>3</sup>

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<sup>1</sup> Robert R. Kaufman and Barbara Stallings, "The Political Economy of Latin American Populism," in Rudiger Dornbusch and Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991), 20 [15–34].

<sup>2</sup> Robert Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale UP, 1971), 36–40; Arend Lijphart, *Democracy in Plural Societies: A Comparative Exploration* (New Haven: Yale UP, 1977), chapter 2; Michael Coppedge, "Instituciones y gobernabilidad democrática en América Latina," *Síntesis* 22 (julio–diciembre 1994): 61–88.

<sup>3</sup> Terry Lynn Karl, "Petroleum and Political Pacts: The Transition to Democracy in Venezuela," in Guillermo O'Donnell, Philippe Schmitter, and Laurence Whitehead, eds., *Transitions from Authoritarian Rule: Latin America* (Baltimore: The Johns Hopkins UP, 1986), 215 [196–219].

Recently some scholars have proposed that elite interests are best protected, and democracy best preserved, by successful conservative *parties*. Regarding successful democratic transitions, for example, O'Donnell and Schmitter wrote:

Parties of the Right-Center and Right must be 'helped' to do well... The problem is especially acute for those partisan forces representing the interests of propertied classes, privileged professionals, and entrenched institutions... Unless their party or parties can muster enough votes to stay in the game, they are likely to desert the electoral process in favor of antidemocratic conspiracy and destabilization.<sup>4</sup>

Although conservative parties can provide the guarantees elites want, there is no reason to limit our attention to representation through the formal channel of party competition and elections. All that really matters for democratic stability is that economic elites feel secure; it does not matter whether this feeling comes from one conservative party, several conservative parties, conservative factions inside all parties, personal ties to individual leaders, or confidence in the efficacy of bribery and intimidation, as long as the regime is otherwise democratic. The degree to which these informal channels of representation create feelings of security may well depend on the nature of the parties, but the relevant aspect of their nature could be how pragmatic they are, how large, how fractionalized, how

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<sup>4</sup> Guillermo O'Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: The Johns Hopkins UP, 1986), 61–2. This is also the premise of Edward L. Gibson, *Class and Conservative Parties: Argentina in Comparative Perspective* (Baltimore: The Johns Hopkins UP, 1996).

disciplined, how homogeneous, or how corrupt, rather than how far to the left or the right.<sup>5</sup>

Venezuela has not had any significant parties since 1958 that were uncontestedly conservative.<sup>6</sup> Instead, during the first thirty years of its democratic regime, Venezuela developed effective ways of representing elite interests informally, centered around clientelistic relationships between individual politicians and family-owned economic groups. This arrangement was possible because the two main parties, Acción Democrática (AD) and COPEI, were large, powerful, ideologically heterogeneous, factionalized, and thoroughly pragmatic, and because the oil wealth flowing through the state created a prolonged positive-sum game that encouraged consensus. For decades these informal arrangements enhanced political stability. But they had unhealthy side effects—corruption and inefficiency—which grew increasingly worse, so that when the economic decline began in 1979 and the abuses became widely known, Venezuela entered a period of political instability. The violent popular reaction against Carlos Andrés Pérez’s economic shock program in 1989 and the two coup attempts in 1992 were only very indirectly related to these clientelistic practices. But the parties’ reactions to the instability, as well as to their

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<sup>5</sup> When Rueschemeyer, Huber Stephens, and Stephens argued that for the stabilization of Latin American democracies in the 1970s and 1980s, “the real key was political institutions, namely the existence of a party system affording protection to elite interests,” they were wise not to specify what it was about party systems that would afford protection to elite interests. Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992), 216.

<sup>6</sup> Although Karl, “Petroleum and Political Pacts,” op. cit. n. 3, 212, claims that “COPEI, in particular, represented traditional elite interests—a role it played with relative ease owing to its conservative Andean origins,” the rest of her analysis emphasizes the informal relations between economic elites and both major parties.

unprecedented defeats in the 1993 and 1998 elections, opened a dangerous rift between the parties and the private sector.

## No Significant Clearly Conservative Parties

The controversial assertion that there are no significant conservative parties in Venezuela requires some explanation. Many Venezuelans and outside observers consider the Social Christian Party COPEI a conservative party. After all, in the 1940s it received support from business elites and advocates of dictatorship and had close ties to the conservative Church hierarchy, which celebrated the overthrow of Rómulo Gallegos in 1948;<sup>7</sup> in 1959–63 its presence in Rómulo Betancourt's government of national unity was reassuring to business leaders;<sup>8</sup> and its progenitors praised corporatist notions reminiscent of fascism and Francoism.<sup>9</sup> In the 1958 campaign a Unión Republicana Democrática (URD) leader once gave a speech on "Calderismo y Falangismo."<sup>10</sup> And even in 1985,

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<sup>7</sup> Daniel Levine, *Conflict and Political Change in Venezuela* (Princeton: Princeton UP, 1976), chapter 3.

<sup>8</sup> Karl, "Petroleum and Political Pacts," op. cit. n. 3, 212.

<sup>9</sup> For example, according to one Copeyano historian, "UNE was a compact body, without currents or internal groups, that wanted for Venezuela the union of all Venezuelans; that pursued as its primordial goal the reconstruction of Venezuela as a spiritual and economic unit through the adoption of a healthy and firm nationalist ideal." José Elías Rivera Oviedo, *Los socialcristianos en Venezuela* (Caracas: Impresos Hermar, 1969), 52. These ideas evolved somewhat by the time COPEI drafted its founding *manifiesto* in September 1946, but traces of organicism were still present: "For COPEI...the class struggle is a fact derived from injustice and aggravated by frictions and demagoguery; a fact with antisocial implications that should be overcome by a complementary common effort from capital and labor, with the middle classes intervening as moderating forces, so that labor's rights are recognized and all contribute to the greatness of the nation and the general well-being." (Quoted in Rivera, *Los socialcristianos en Venezuela*, 80.)

<sup>10</sup> *El Universal*, 25 November 1958. The announcement of this speech by URD Party Secretary Luis Miquelena was accompanied by a sketch of fascists beating students.

when I asked 53 AD deputies and senators to locate COPEI on a 1–10 left–right scale, 85 percent placed it between 8 and 10!<sup>11</sup>

Few of COPEI's leaders would locate themselves so far to the right, today or at any time in the last 35 years. COPEI is best understood as a Christian Democratic party. Even though COPEI was never a confessional party, its founders were always motivated primarily by their Catholic identity. Rafael Caldera, who was always preeminent among these leaders until he left the party in 1993, had been active in Catholic Action in his teens and attended Catholic Action conferences at the Vatican and the University of Notre Dame. The first precursor of COPEI was the Unión Nacional de Estudiantes (UNE), which split away from the Federación de Estudiantes de Venezuela (FEV) in 1936 when the leftist FEV leadership called for the expulsion of the Jesuits and other anticlerical reforms. The founders of UNE contested local Caracas elections in the early 1940s as 'Acción Electoral' and 'Acción Nacional' before reorganizing as the Comité de Organización Política Electoral Independiente three months after AD and a military faction seized power in October 1945. COPEI's first statement of principles dwelt at length on ideas borrowed from the social teaching of the papal encyclical *Quadragesimo Anno* (1931), which reversed the reactionary stance of 1891's *Rerum Novarum* by embracing democracy, pluralism, and moderate social reform.

Because COPEI's primary identity is religious, it has never been simple to categorize in left-right terms. The religious-secular cleavage has cross-cut the left-right cleavage at an ever more perpendicular angle during the twentieth century. That is, in the nineteenth century defenders of the Church were always quite conservative; by the 1920s some were more reformist on the social

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<sup>11</sup> Michael Coppedge, "Strong Parties and Lame Ducks: A Study of the Quality and Stability of Venezuelan Democracy," PhD dissertation, Yale University, 1998,

question while others remained reactionary; and by the mid-1960s these conservatives and reformists often shared the religious side of the cleavage with revolutionaries of the Christian left. In COPEI's case most of the founding leaders favored the moderate reformism that was considered progressive in Catholic circles in the 1940s and 1950s, but a few founders were clearly more right-wing, such as Pedro José Lara Peña, who urged Acción Nacional to endorse former dictator López Contreras for president in 1945.<sup>12</sup> Later on COPEI developed tendencies farther to the left, hence the name of its youth wing: Juventud Revolucionaria Copeyana. Although the party was largely unaffected by liberation theology, there was a definite leftist faction in the 1960s called the *astronautas*, whose leaders, most notably Abdón Vivas Terán, are still considered progressive today.<sup>13</sup>

It is true that COPEI has consistently been an anticommunist party, but this opposition was always directed as much against the materialism and atheism of communism as against its revolutionary program. Besides, Christian democratic thought has its own reservations about capitalism and the unbridled play of market forces. COPEI's ideology justifies limiting private property rights to ensure that property is used for some social benefit and defends the notion of a common good, which takes precedence over private interests and is legitimately interpreted and promoted by the state to allow citizens to realize their full potential. While these positions are certainly to the right of communism, they are not as far to the right as the orthodoxy of the IMF and the World Bank. But again, the point is that these positions were developed to locate the party on the religious-secular dimension and therefore have no straightforward implications

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366. Naturally, the partisan views of COPEI's chief rivals should not be accepted uncritically.

<sup>12</sup> Rivera, *Los socialcristianos en Venezuela*, op. cit. n. 9, 64–5.

for its left-right position. Consequently, COPEI's official ideology allows the party to welcome support from people who may diverge greatly in left-right terms but share a commitment to religious guidance in public life.

It is also true that COPEI's leaders were rather slow to make a firm commitment to political democracy as the only legitimate form of government. Rafael Caldera began his professional career as Sub-Director of the Ministry of Labor (at the age of 21!) in the dictatorship of General López Contreras from 1936 to 1938.<sup>14</sup> UNE escaped repression under López Contreras by splitting away from the FEV and taking pains to emphasize that it was just a student union, not a political party; in fact, its statutes prohibited its leaders from being national or state leaders of any political party.<sup>15</sup> When these same leaders founded COPEI in 1946, their goal was to organize a party to ensure that the AD-led October 18 Revolution would fulfill its promises of democracy and social reform. Caldera himself served as Attorney General during the first six months of the Revolutionary Junta. But because the country was polarized at the time between the supporters and opponents of AD, COPEI soon became the chief vehicle for all types of protest against AD. And because the Trienio government was prodemocracy (although not initially democratic), stridently reformist, and anticlerical, COPEI's supporters included not only defenders of the Church but also opponents of social reform and enemies of democracy. Later Copeyanos have tried to distance themselves from these groups as though they were never really in the party at all. But it would be closer to the truth to say that COPEI developed a very prominent right wing in its early years and that even its more reformist founding leaders felt threatened by the arrogant and partisan AD

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<sup>13</sup> Ricardo Combellas, *COPEI: Ideología y liderazgo* (Caracas: Editorial Ariel, 1985), 114.

<sup>14</sup> Rivera, *Los socialcristianos en Venezuela*, op. cit. n. 9, 18.

<sup>15</sup> *Ibid.*, 49.

government and shed few tears when it fell. Even while professing allegiance to the ideals of the October Revolution and claiming not to have participated in the coup of 1948, COPEI offered to collaborate with the new junta to restore political order but without explicitly calling for a democratic regime:

Now that the new provisional government is constituted, we believe it is our duty to offer, without ambition for public office, everything necessary to help the country return to normality, to lead to the pacification of spirits, to impede the development of conflictual situations that would delay the definitive implantation of an institutional organization.<sup>16</sup>

It was the dictatorial rule of 1948–58 that made committed democrats out of the Copeyanos. In 1950, after some COPEI militants had been imprisoned and an AD leader and a member of the junta itself had been assassinated, COPEI changed its official position from ‘Collaboration to Restore Social Peace’ to ‘Critical Expectancy’ but still ran Caldera for president in 1952. However, when junta president Lt. Col. Marcos Pérez Jiménez set aside the election results and assumed dictatorial power for himself, COPEI finally called for “respect for the popular will as manifested in the ballot box, because it is convinced that that is the only point of departure for a solid institutional order.”<sup>17</sup> At this point the party lost most of its far right wing.

COPEI has remained democratic and reformist from 1952 to the present. Caldera signed the Common Minimum Program in 1958, which committed COPEI to an ambitious land reform and other progressive measures. During his 1969–74 presidency Caldera promoted state planning, continued import substitution industrialization, and supported eventual nationalization of the

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<sup>16</sup> “Comunicado de COPEI ante la situación actual,” 3 December 1948, quoted in Rivera, 91.

<sup>17</sup> Rivera, 95.

foreign-owned oil companies. Although Caldera left COPEI to run as an independent candidate for president in 1993, his positions were still representative of those of many rank-and-file Copeyanos, and were little changed from his positions of 25 years earlier. As the author of a populist labor law, a defender of subsidized gasoline prices and exchange controls, and an obstacle to privatization and decentralization, Caldera became a symbol of resistance to economic liberalization. Initially, his most trusted advisor was Finance Minister Julio Sosa Rodríguez, the leader of the Sosa economic group. However, the Sosa group was one that had grown comfortable with the center-left statism of the past and was not a strong promoter of market reforms. By mid-term Caldera's two most trusted ministers were Luis Raúl Matos Azócar, a former Adeco with strong socialist leanings, and Teodoro Petkoff, a former Communist guerrilla who helped found the Movimiento al Socialismo (MAS). It is difficult to reconcile this record with any criteria for a party of the right.<sup>18</sup> True, Caldera acquiesced in Petkoff's 'Venezuela Agenda' shock program in April 1996, but it was an about-face for both of them that was just as startling as similar policy switches by social democratic leaders in other countries.

Few of the leaders Caldera left behind in COPEI were as ideological, in either a left-right sense or a religious sense, as he was. Rather, they were notable more for their pragmatism but still not uniformly conservative. At most

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<sup>18</sup> The criteria used in this paper for 'Right' and 'Center-Right' are those I defined for a comparative study of Latin American party systems. Parties of the Right are: (1) parties that target heirs of the traditional elite of the nineteenth century without moderating their discourse to appeal to middle- or lower-class voters; (2) parties that employ a fascist or neofascist discourse; or (3) parties sponsored by a present or former military government, as long as they have a conservative (organicist, authoritarian, elitist, looking to the past) message and are not primarily personalist vehicles for particular authoritarian leaders. Parties of the Center-Right are parties that target middle- or lower-class voters in addition to elite voters by stressing cooperation with the private sector, public order, clean government, morality, or the priority of growth over distribution.

COPEI is very broadly a center-right party, although some of its leaders and positions have been left of center, and a classification limited to left-right positions misses the religious dimension of the party's program and image.

If COPEI is not a party of the right, would some other party qualify? The most obvious candidate is the Cruzada Cívica Nacionalista (CCN), which was the vehicle of Marcos Pérez Jiménez in 1968 and won nearly 11 percent of the vote. Some object that this party had no ideology other than support for the former dictator, who at any rate had some aspirations of becoming a populist dictator in the mold of Juan Perón or Colombia's Rojas Pinilla. The CCN subsequently contested several elections without the endorsement of Pérez Jiménez but quickly degenerated into an opportunistic microparty. There have been other small parties with a conservative aura that are probably better classified as personalist, such as Nueva Generación Democrática (1983–93) and Opinión Nacional (OPINA, 1968–93). The best candidate for a Venezuelan conservative party is the Frente Nacional Democrático (FND), led by businessmen and some former officials in the authoritarian government of General Isaías Medina Angarita (1941–5), among whom Arturo Uslar Pietri is the best known. Uslar ran for president in 1963 and came in fourth with 16 percent of the vote, backed by a coalition called Independientes Pro-Frente Nacional. Without Uslar as a candidate the FND won only 2.61 percent in 1968 and .25 percent in 1973, and subsequently disappeared. The Movimiento de Acción Nacional (1963–73), led by journalist Germán Borregales, was also usually considered a right-wing party but was more personalistic than the FND and even less successful.<sup>19</sup> The ultimate reason for the electoral failure of conservative parties is probably that few Venezuelans want to vote for them. An expert-validated classification of

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<sup>19</sup> Robert J. Alexander, "Venezuela," in Robert J. Alexander, ed., *Political Parties of the Americas: Canada, Latin America, and the West Indies*, Vol. 2:

parties in 11 Latin American countries supports this: the mean left-right tendency in Venezuela has consistently been left- or center-left-leaning in all its democratic elections. None of the other countries has had a tendency this consistent. This does not mean that the left is particularly strong in Venezuela; only that the center-left has been strong, and the right and center-right comparatively weak.<sup>20</sup> The few conservative parties in Venezuela therefore have been rather personalistic, unsuccessful, or short-lived, and usually all three, which is sufficient reason for considering them insignificant.

To complicate matters further, in some ways AD could be accused of being a center-right party because (1) it has always been passionately anticommunist; (2) it took responsibility for the violent repression of the guerrilla movements of the 1960s; (3) although it has a large base of support in organized labor, the union leaders regularly defer to party leadership, which many times has meant calling off strikes and restraining demands;<sup>21</sup> (4) some AD leaders have

close

ties to certain business leaders. Despite these qualifiers, most observers would call AD a center-left party at least until 1989 because of its historic support for the expansion of state production and state regulation, its periodic interventions on behalf of the working class, the precipitous nationalization of the steel and oil industries in 1975–6 by Carlos Andrés Pérez, and its general support for ISI until very recently. But what is to be made of the fact that Pérez initiated a shock program of economic liberalization in his second presidency; or the fact that AD's

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*Guadeloupe–Virgin Islands of the United States* (Westport, Conn.: Greenwood Press, 1982), 725.

<sup>20</sup> Michael Coppedge, "The Dynamic Diversity of Latin American Party Systems," *Party Politics* 4 (October 1998): table 3, 558.

<sup>21</sup> Michael Coppedge, "Parties and Society in Mexico and Venezuela: Why Competition Matters," *Comparative Politics* 25 (3, April 1993): 253–74.

1993 presidential candidate, Claudio Fermín, ran on a model economic liberalization platform? The more closely one examines the records of any of these parties, the less clear it is where they belong on a left-right spectrum.

### **Reverse Clientelism**

One way to make sense of these inconsistencies and contradictions is to recognize that AD and COPEI are ideologically diverse: each spans a range of positions from the center-left to the center-right or right. A picture of the frequency distributions of each party's leaders on the ideological spectrum would look like overlapping bell curves. The midpoint of AD's curve would be slightly to the left of center, while COPEI's would be slightly to the right.<sup>22</sup> At a very general level of analysis, it makes sense to call AD center-left and COPEI center-right. Figure 1 displays the evolution of the major blocs of parties in Venezuela as defined in this general way. According to this figure, Venezuela has always had significant representation of the Right or Center-Right. (The 'Center-Right' basically reflects the vote for COPEI.)

But such general characterizations are not very useful for predicting which policies each party will support, because much depends on which leader is making policy. While most of COPEI is to the right of most of AD, there are many prominent AD leaders who are to the right of Caldera or Luis Herrera Campíns (president from 1979 to 1984), such as Claudio Fermín (1993 presidential candidate) or Carmelo Lauría (Minister of the Presidency under Carlos Andrés Pérez in his second term).

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<sup>22</sup> In my 1985 survey I asked 80 AD leaders where they would locate themselves on a 1–10 left–right scale. Their answers spanned the full range from 1 to 10, with about 40 percent at 5—the most centrist position on the left—about 20 percent at a more leftist 3, and a small but significant number on the right half of the scale. See Michael Coppedge, *Strong Parties and Lame*

The centrism and internal diversity of the two main parties in the seventies and eighties made it risky for economic elites to throw all their support behind one party, for two reasons. First, if they backed the wrong party, they would lack access after the elections. But second, even if 'their' party won, important policy decisions could still be made by one of the party leaders

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Figure 1

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**Evolution of Ideological Blocs in Venezuelan Elections, 1946–97**

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Year

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The vertical distance between lines on the graph represents the percentage of the total valid vote won by parties in the corresponding bloc in national election to the chamber of deputies.

Sources: 1946–93: Michael Coppedge, "A Classification of Latin American Political Parties," Kellogg Institute Working Paper #244 (November 1997); 1997 Consejo Nacional Electoral Website, "Total País – Diputados Congreso List." <<http://www.elecciones98.cantv.net/199.htm>>.

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unsympathetic to elite interests. If formal representation through a conservative party were as important for democratic stability as some have claimed, Venezuela's party system of the seventies and eighties would have to be considered dysfunctional. But Venezuelan parties and economic elites developed informal channels of representation that compensated for the absence

of a significant conservative party. In some ways the informal practices described below enhanced governability, especially in the short and medium terms. But in other ways they contributed to the fragility of Venezuelan democracy in the 1990s.

One important informal channel was *tráfico de influencias*, or influence peddling. Individual politicians accepted cash, goods, and services from certain firms or conglomerates and in exchange offered their business patrons influence over appointments, legislation, or policy implementation. It is fitting to call these politician-conglomerate relationships reverse clientelism. They were like clientelism in that they consisted of voluntary but asymmetrical face-to-face relationships between two people. It was 'reverse' clientelism because unlike the usual clientelism, in which patrons exchange material favors for political support, politicians exchanged political favors for material support. Venezuelans increasingly consider this practice corrupt.<sup>23</sup>

Although much of the evidence for reverse clientelism is circumstantial or anecdotal, it is common knowledge in Venezuela.<sup>24</sup> In my own fieldwork

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<sup>23</sup> Obviously, the same practice is rampant in the United States, where it is called campaign finance.

<sup>24</sup> It is probably impossible at this point to estimate accurately how widespread these practices are, but for documentation of specific cases of influence peddling, see the *Diccionario de la corrupción en Venezuela* (2 vols.) (Caracas: Editorial Capriles, 1990); Héctor Malavé Mata, *Los extravíos del poder: Euforia y crisis del populismo en Venezuela* (Caracas: Ediciones de la Biblioteca y Consejo de Desarrollo Científico y Humanístico de la Universidad Central de Venezuela); and Terry Lynn Karl, "The Political Economy of Petrodollars: Oil and Democracy in Venezuela," PhD dissertation, Stanford University, 1982. For insightful analyses of Venezuelan corruption, see Rogelio Pérez Perdomo and Ruth Capriles, eds., *Corrupción y control: Una perspectiva comparada* (Caracas: Ediciones IESA, 1991), and Moisés Naím and Antonio Francés, "The Venezuelan Private Sector: From Courting the State to Courting the Market," in Louis W. Goodman, Johanna Mendelson Forman, Moisés Naím, Joseph S. Tulchin, and Gary Bland, eds., *Lessons of the Venezuelan Experience*

interviewing AD deputies, senators, and labor leaders I encountered many politicians who lived beyond their visible means of financial support. For example, national deputies in 1985 earned a salary of roughly US \$20,000 and were prohibited from practicing law or similar professions while serving in Congress. The party itself paid no salary to its leaders. Most came from middle- or lower-class backgrounds; very few were independently wealthy. Those from the interior collected travel and per diem that was merely adequate to cover their frequent trips to the capital for legislative sessions. Many of the deputies I interviewed appeared to be living more or less honestly within these constraints. But there were several—especially those holding or seeking party office—who somehow could afford a suite of offices in a respectable building, salaries for two or three aides and a chauffeur/bodyguard, and frequent travel to regional party headquarters all over the country. These leaders usually were reluctant to talk about the source of their financing, but two in particular admitted that they had a corporate ‘patron’ who provided financial backing for their political ambitions.<sup>25</sup> Another party leader revealed that the private jet he used while campaigning was on extended loan from a wealthy businessman. The more ambitious politicians were more commonly involved in this sort of influence peddling because they were the ones who both needed the most funding for their political campaigns and were in the best position to grant favors.

Political connections were crucial to success in Venezuelan business. This was in large part due to the power of the large and interventionist state. Antonio Francés described this aspect of the business environment well:

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(Washington, DC: Woodrow Wilson Center Press, and Baltimore: The Johns Hopkins UP, 1995), 165–92.

<sup>25</sup> Author interviews nos. 83 (18 January 1985), 89 (10 July 1985), and 78 (11 Dec. 1985) with AD national deputies, all in Caracas.

The Venezuelan firm feels the presence of the state at practically every step. In order to establish an industry, sign a collective contract, import materials, or export his products, the entrepreneur must obtain official permits and complete paperwork that is sometimes very complex and costly. From the state the entrepreneur requests, and often obtains, purchase orders for his products, credits to expand his plant, subsidies to boost consumption, construction of infrastructure, the supply of all kinds of public services, and inputs for his production manufactured by enterprises belonging to the state. The entrepreneur fears official intervention, the denial of import or export licenses, price controls at barely profitable levels, supply shortages, and the reduction of import tariffs that protect his market. The entrepreneur secretly hopes that the state will act as his safety net [*fiador de último recurso*], saving him in case of bankruptcy, and keeping the workers of the enterprise off the street. The state has been for Venezuelan private enterprise that extravagant, irascible, somewhat unpredictable, but easily influenced [*influenciable*] and soft-hearted father, whose magnanimity one can count on in spite of everything.<sup>26</sup>

Some say that the Venezuelan state has always played this powerful role because of the country's small oligopolistic economy and dictatorial past.<sup>27</sup> Others claim that it is a more recent product of the oil economy.<sup>28</sup> Still others would say that Venezuela was typical of a general Latin American pattern inherited from colonial mercantilism.<sup>29</sup> But whatever the causes were, the important questions here are how firms coped with this large interventionist state and how their strategies were affected by the nature of the political parties.

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<sup>26</sup> Antonio Francés, "Abundancia, confusión y cambio: El ambiente en el que se desenvuelven las empresas y sus gerentes en Venezuela," in Moisés Naím, ed., *Las empresas venezolanas: Su gerencia* (Caracas: Ediciones IESA, 1989), 103–4 [93–113].

<sup>27</sup> Naím and Francés, "The Venezuelan Private Sector," op. cit. n. 24.

<sup>28</sup> Karl, "The Political Economy of Petrodollars," op. cit. n. 24.

Reverse clientelism developed due to the simple operation of supply and demand: businesses needed political connections, and politicians needed funding for their campaigns. To be sure, politicians who controlled the spoils of office were less in need of funding, because the state provided abundant resources that were easily diverted for partisan or factional purposes. And state resources were preferred because they came with fewer strings attached, and more specifically, fewer strings that might prove embarrassing to a politician with a reformist image. For this reason, I suspect that these patron-client relations between economic elites and individual politicians were more common in the opposition party and in the 'Out' faction of the governing party.<sup>30</sup> They therefore represented not so much a direct purchase of immediate influence as a hedge against the risk of future exclusion. Acting as the patron of a rising party leader was simply a way to reduce the uncertainty in a very risky and political business environment.

If the gamble paid off, the payoff could be huge. The patron of the president could expect privileged access on general policy questions; small regulatory favors such as import licenses and tax breaks; diplomatic appointments; exclusive bids on lucrative state contracts; and sometimes the ability to designate trusted associates to fill a few seats in Congress or a powerful cabinet post, such as Finance Minister. Many of these conglomerates—especially those with nonhispanic names—began as import-export firms long ago, profited handsomely from the explosion of consumer spending that accompanied the rapidly growing oil economy, and then diversified into banking, services, and light manufacturing. At first, presidents named

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<sup>29</sup> Hernando De Soto, *The Other Path: The Invisible Revolution in the Third World* (New York: Harper and Row, 1989), 209–29.

<sup>30</sup> For an analysis of 'In' and 'Out' factions in AD, see Coppedge, *Strong Parties and Lame Ducks*, op. cit. n. 22.

ministers from among the managers of the holding companies owned by traditionally powerful families such as Mendoza, Vollmer, Boulton, Phelps, Blohm, and Delfino.<sup>31</sup> Table 1 is a partial listing of ministers whose prior professional experience was in business rather than in party politics.<sup>32</sup> This table is not an exhaustive list, and is not meant to imply that cabinet appointments were the only path of influence. It merely documents the tendency of all governments to welcome representatives of some economic groups or powerful families into the cabinet.

In the 1970s, however, Carlos Andrés Pérez set out to raise a new group of lesser entrepreneurs called the ‘Twelve Apostles’ to great wealth—and possibly greater political reliability—with virtually unlimited state assistance.<sup>33</sup> Pérez used the huge windfall of petrodollars from the first OPEC oil shock to finance an ambitious expansion of heavy industry and infrastructure, which also stimulated private firms in construction, cement, finance, and other accessories to the state-owned sector. The convictions of former President Jaime Lusinchi (1984–9) and his former mistress, Blanca Ibañez, for their dealings with shady businessmen indicate that at least one president tried to follow in Pérez’s footsteps, although on a smaller scale. Partly as a result of this selective stimulus, the number of important *grupos económicos* has multiplied in the last twenty years.

The pragmatism of AD and COPEI helped make reverse clientelism possible. Neither party was especially rigid in its programs after 1958. Both

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<sup>31</sup> Domingo Alberto Rangel, *La oligarquía del dinero*, 3rd ed. (Caracas: Editorial Fuentes, 1972).

<sup>32</sup> This table is based on my own reputational survey of a score of Venezuelanists and Venezuelan social scientists and consultants. I thank Víctor Hinojosa for research assistance in compiling a list of ministers in each cabinet and doing preliminary research on their business ties.

<sup>33</sup> Karl, “The Political Economy of Petrodollars,” op. cit. n. 24.

aimed at the general goals of creating

Table 1

Venezuelan Cabinet Ministers with Business Ties

<b>President and Years</b>	<b>Position</b>	<b>Minister</b>	<b>Business Group or Family</b>
Betancourt 1959–4	Finance Agriculture	Andrés Germán Otero Héctor Hernández Carabaño	Mendoza Vollmer
Caldera 1969–74	Finance Finance	Julio Sosa Rodríguez Pedro Tinoco	Sosa Mendoza, Cisneros
Pérez 1974–9	Federal District Planning	Carmelo Lauría Lesseur Gumersindo Rodríguez	Banco de Venezuela Tinoco
Herrera 1979–84	Finance	Luis Ugueto	Ugueto Family Banco Orinoco
Lusinchi 1984–9	Finance Governor Dto. Federal	Manuel Azpurua Arreaza Carmelo Lauría Lesseur	Mendoza Banco de Venezuela
Pérez 1989–93	Chief of Staff PDVSA Education	Carmelo Lauría Lesseur Gustavo Roosen	Banco de Venezuela Grupo Polar
Caldera 1994–9	Economy Agriculture	Julio Sosa Rodríguez Ciro Añea Fonseca	Banco Orinoco

Sources: Karl, "The Political Economy of Petrodollars," op. cit. n. 24; Rangel, *La oligarquía del dinero*, op. cit. n. 31; Judith Ewell, *Venezuela : A Century of Change* (Stanford, Ca.: Stanford UP, 1984); personal communications from Margarita López-Maya, José Molina Vega, and Francisco Monaldi; research by Víctor Hinojosa.

jobs, promoting nontraditional industry, improving the infrastructure, and raising the standard of living, but neither had any firm commitments to specific means to any of these ends. The parties' openness to many development strategies made it easy for individual party leaders to take whatever self-serving policy a patron wanted and justify it within the broad lines of party doctrine.

Factions in AD and COPEI were equally pragmatic. During each presidential term the supporters of the president in the governing party would form a faction of 'Ins,' while the more marginal leaders who were more concerned about choosing a winning presidential candidate for the next term would form a faction of 'Outs.' These factions would struggle for control of the party and the right to nominate the next candidate, but their struggles were devoid of issues with any economic or social content.<sup>34</sup> This feature of the parties made ties to individual party leaders not only possible but necessary, because an economic group would have no confidence that the party would choose an ideologically sympathetic candidate, and there were no factions to support that had any reliable left-right position, either. The most reliable actors to support were therefore individual leaders.

#### **Why Venezuela Should Not Be Considered Corporatist**

Some scholars contend that Venezuela either was or increasingly was becoming a societal corporatist system until the 1980s, with formal representation of peak associations of labor and capital on numerous policymaking boards.<sup>35</sup> There were, in fact, numerous state boards and

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<sup>34</sup> Coppedge, *Strong Parties and Lame Ducks*, op. cit. n. 22, chapter 6.

<sup>35</sup> For the standard definition of societal corporatism, see Philippe Schmitter, "Still the Century of Corporatism?" in Frederick B. Pike and Thomas Stritch, eds., *The New Corporatism: Social-Political Structures in the Iberian World* (Notre Dame: University of Notre Dame Press, 1974), 85–131. For applications of the corporatist model to Venezuela, see Jennifer L. McCoy, "Labor and the State in a

commissions whose charters stipulated that certain of their board members were to be appointed by the Confederación de Trabajadores de Venezuela (CTV) and one of the business associations, usually the Federación de Cámaras de Comercio y Producción (FEDECAMARAS), which is the largest and oldest one. The state delegated to these boards the authority to set official consumer prices, allocate foreign exchange, and make other important regulatory decisions. If these boards were autonomous and made authoritative, final decisions, then one would have to conclude that the main channel for private sector representation was this formal corporatist channel, not the informal channels emphasized above. This conclusion would imply that corporatism is the best explanation for any degree of security that economic elites felt in the absence of a significant conservative party.

I continue to insist on the greater importance of the informal channels for three reasons.<sup>36</sup> First, most of these state boards and commissions were not well institutionalized. That is, they were created by one government but abandoned by the next, or were dismantled or overridden when they tried to make important decisions, or simply never functioned after being authorized by law.<sup>37</sup> Second, business leaders had little reason to be reassured by representation in these

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Party-Mediated Democracy: Institutional Change in Venezuela,” *Latin American Research Review* 24 (1989): 35–67; Ricardo Combellas, *La democratización de la democracia* (Caracas: IFEDEC, 1988), 95–121; and Brian Crisp, “Limitations to Democracy in Developing Capitalist Societies: The Case of Venezuela,” *World Development* 22 (October): 1491–509.

<sup>36</sup> For a more extended discussion of this point, see Coppedge, “Parties and Society in Mexico and Venezuela,” *op. cit.* n. 21, 260–1.

<sup>37</sup> For example, the Comisión sobre Costos, Precios, y Salarios (CONACOPRESA) lost the authority to make binding decisions soon after it began operations, was boycotted by the business representatives, and eventually was abandoned by the CTV as well. Moreover, many of its lower-level commissions never became operational. Eduardo Arroyo Talavera, *Elecciones*

bodies because they were almost always tripartite (labor-business-government) boards in which business representatives were in the minority. During AD governments (all of the governments from 1996 to 1993 with the exception of Luis Herrera from 1979–84) this lineup could not have been reassuring to business because the CTV was dominated by AD and frequently deferred to its leadership, so any tripartite commission was stacked in AD's favor. If AD government appointees sided with business against labor, it would have been because of informal ties outside the commission.

The final reason for skepticism about the relevance of corporatist representation is that it is doubtful that FEDECAMARAS's delegates were very representative of the peak association that appointed them. FEDECAMARAS has always found it difficult to unite its members behind a common position. On the one hand, there is a deep division between the very large firms, which are better able to compete and adapt and are accustomed to having their way, and the medium-sized and small firms. On the other hand, there are intense rivalries among the large firms, which have a long history of competing aggressively with one another for shares of the same small market. Rather than submit to the outcome of negotiations among official representatives of the state, labor, and an amorphous conglomeration of business interests, the large firms preferred to minimize the importance of the formal process while continuing to cut customized deals for themselves directly with the state:

Such a context of highly personalized, informal, ad-hoc, and often illicit, transactions between businesses and individuals working for the state significantly shaped and constrained the development of institutionalized forms of business representation... Institutions created to formally represent business faced great difficulty in providing their individual members with more profitable government representation services than those they could muster on their own.

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*y negociaciones: Los límites de la democracia en Venezuela* (Caracas: Fondo Editorial CONICIT/Pomare, 1988), 227.

Furthermore, the fragmented and oligopolistic structure of the business sector has made it difficult to articulate under a common institutional setting the interests of different sectors and even different companies... The owners and top managers, in whom the real decision power of the company rested, concentrated on direct and personalized dealings with politicians and high-level bureaucrats. Active participation in the institutional activities of the affiliated chamber was often delegated to middle ranking managers—usually former government officials who had little power or influence in the firm.<sup>38</sup>

This pattern of private-sector representation is strikingly similar to that found in Mexico during the same period.<sup>39</sup>

How, exactly, did reverse clientelism enhance governability in the short and medium terms? Particularistic business-party ties should have inspired resentment rather than contentment because they necessarily gave privileged state access to a few firms while discriminating against the rest. Economic elites remained loyal to the democratic regime in spite of the access of the few privileged firms, not because of it. In order to account for the continuing loyalty of the excluded, one would have to appeal to nonparty factors such as the negotiation of a rough policy consensus during the transition in 1958 and the state's ability to 'buy' support from all important groups with its oil wealth.

But reverse clientelism did enhance stability in a different way: by keeping the economic elite divided and conquered. Business leaders were not happy about their relationship with the state. In fact, they grumbled about it in public for decades. If they had grumbled *en masse*, as a solid bloc, it would have been a

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<sup>38</sup> Naím and Francés, "The Venezuelan Private Sector," *op. cit.* n. 24, 178 and 181.

serious blow to the regime. The reason they never did this was because they all believed that their interests were best served by maintaining their personal political connections. Reverse clientelism, like clientelism at the grass roots, discouraged clients from organizing horizontally to achieve common ends.

#### **Representation of Economic Elites after 1979**

In 1979 Venezuela entered a long period of economic decline in which real wages fell below the level they had reached in 1976 and never recovered. In this economic environment some economic and political leaders questioned the consensus on oil-financed state-led development that Venezuela had been following for more than 20 years, and a few concluded that some sort of economic liberalization was necessary to restore economic stability and growth. In the elections of 1988 and 1993 the two main parties consistently ran candidates who favored economic liberalization, but they ran into a wall of massive public opposition. Following their unprecedented defeat in 1993 both parties adapted to the political environment by marginalizing leaders who favored economic liberalization. This ushered in a period from 1994 to 1998 in which the increasingly united conservative interests had no effective channels of representation. The rest of this paper describes the development of this dangerous tension in party-business relations in four phases, corresponding to the governments of Jaime Lusinchi (AD, 1984–9), Carlos Andrés Pérez (AD, 1989–93), Rafael Caldera (independent, 1994–9), and Hugo Chávez Frías (independent, elected in 1998).

#### **The Lusinchi Government**

Venezuela's economic problems began, ironically, during the oil boom of the mid-1970s, when Carlos Andrés Pérez squandered the windfall of

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<sup>39</sup> Roderic Camp, *Entrepreneurs and Politics in 20th-Century Mexico* (New York: Oxford UP, 1989), chapters 7 and 8.

petrodollars in a mind-boggling orgy of free spending and irresponsible borrowing. By the late 1970s unchecked deficit spending caused the annual inflation rate to creep up from less than five percent to twenty percent in 1979. The next president, Luis Herrera Campíns of COPEI, began his administration with an attempt at fiscal restraint, but in the second oil boom of 1980–1 he abandoned austerity and led the government to spend and borrow lavishly once again. The cost of these seven years of mismanagement were magnified in 1982 when the debt crisis hit all of Latin America, raising the cost of servicing Venezuela's \$35 billion debt while cutting off most foreign investment and lending. This problem was compounded for Venezuela because oil prices began falling at the same time and kept falling until 1986, leaving the country with less and less hard currency to meet its international obligations.

Conflict between Central Bank President Leopoldo Díaz Bruzual and Finance Minister Julio Sosa paralyzed the government in the face of this looming financial catastrophe. Business confidence evaporated, and capital flight accelerated. Finally, on 18 February 1983, Díaz Bruzual devalued the Bolívar by nearly 40 percent and established the *Régimen de Cambios Diferenciales* (RECADI) to administer exchange controls. This was an extremely traumatic event for middle-class Venezuelans, who over the decades had grown accustomed to cheap imports and affordable vacations in the United States and Europe, made possible by a very overvalued exchange rate. The day of the devaluation was dubbed 'Black Friday,' and it meant that the good life was over.

Jaime Lusinchi's 1983 landslide restored AD to power in the wake of the unpopular Herrera administration. Lusinchi took office talking about austerity, and he did slow the increase in public spending and borrowing, eliminate a few subsidies, and eventually renegotiate the debt, but he never attempted the kind of privatization or sweeping liberalization of trade, interest rates, prices, and foreign exchange that was being initiated by his contemporaries in Chile, Mexico,

and Bolivia. The fundamental problems in the Venezuelan economy therefore went unaddressed during the Lusinchi government, and in the meantime oil prices continued to fall. By his last year in office, inflation had surpassed 30 percent—the highest rate in Venezuela since the turn of the century.

In the steadily worsening economic environment of the Herrera and Lusinchi governments a division developed in the private sector that would soon challenge the informal representation of business interests through reverse clientelism.<sup>40</sup> Simply stated, part of the private sector stayed put in a center, or even center-left, position within the statist consensus of the past, while a growing part of the private sector shifted to the neoliberal right. The larger traditional economic groups that were accustomed to receiving particularistic favors from the state, as well as the newer or smaller firms that had good personal connections with the Herrera or Lusinchi administrations, continued to lobby privately for preferential treatment by a large state, because business as usual would help them compete with their rivals in the domestic economy while protecting them from foreign competition. The Mendoza group, for example, succeeded in placing one of its managers, Manuel Azpúrua, with the Lusinchi administration as Minister of Finance. At the same time a group of entrepreneurs friendly with Lusinchi's personal secretary and mistress, Blanca Ibáñez, were showered with government contracts and other state favors as long as Lusinchi was president. Also, an AD-affiliated businessman from Zulia named Beto Finol parlayed his powdered milk company into a diversified business empire with help from Lusinchi, whose campaigns he managed and helped fund.<sup>41</sup>

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<sup>40</sup> For an analysis of a strikingly similar process in Mexico, see Blanca Heredia, "Profits, Politics, and Size: The Political Transformation of Mexican Business," in Douglas Chalmers, M. de Souza, and Atilio Borón, eds., *The Right and Democracy in Latin America* (New York: Praeger, 1992), 277–302.

<sup>41</sup> Confidential interview no. 78, Caracas, 11 December 1985.

However, other firms—those that had never benefited from special government favor or that now found themselves without good political connections—reacted to the economic crisis by organizing and calling for more transparent rules of the economic game. In 1984 a group of businessmen, consultants, and academics founded the Grupo Roraima, which published a series of studies critical of the politicized and statist environment in Venezuela and calling for thorough economic and political liberalization.<sup>42</sup> Although this group survived only a few years, it spoke eloquently for a growing part of the Venezuelan private sector, and some of its most active directors and researchers—José Antonio Gil Yepes, Marcel Granier, Rogelio Pérez Perdomo, and Elías Santana—went on to become well-known advocates for the market.

Most of the leaders of the leading parties wanted nothing to do with this economic liberalism. They judged—correctly, it seems, for at least the next decade—that the voters would punish any moves to the right, and probably also that a leaner state would provide them with fewer opportunities to build and maintain support through clientelism, reverse or otherwise. But because both AD and COPEI were pragmatic and heterogeneous, a small number of leaders in each party found some of these new ideas attractive. In COPEI, General Secretary Eduardo Fernández seems to have decided quietly to support moderate economic and political liberalization before he emerged as COPEI's presidential candidate in the late 1980s. He was not nominated because of his economic positions, however; in fact, he was virtually alone in his programmatic stance within his party. During the campaign of 1987–8 VenEconomy reported

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<sup>42</sup> Grupo Roraima, *Proposición al País* (Caracas: n.p., 1984); Grupo Roraima, *Más y mejor democracia* (Caracas: Grupo Roraima, 1987). For information on other promarket groups, see Naím and Francés, “The Venezuelan Private Sector,” op. cit. n. 24, and Margaret Martín, “When the Model Ran Out: Institutions and Ideas in Transition in the Case of Venezuela 1979–1992,” paper

that “Fernández is the only COPEI leader of any weight calling for economic and political change. Not even his closest allies within the party have joined him in these pledges.”<sup>43</sup>

In AD the situation was similar: most of the party leadership was quite happy with Lusinchi’s gradualist heterodoxy, but a few leaders quietly converted to a promarket orientation. Again, one of those converts became the party’s presidential candidate for 1988—Carlos Andrés Pérez. And as in COPEI, the candidate was chosen for reasons that had nothing to do with his positions on economic issues.<sup>44</sup> Pérez seems to have changed his mind to favor the market only in the late 1980s, perhaps even after his nomination. As a respondent in October 1985 in my survey of AD leaders (for which he waived confidentiality), Pérez opposed subsidy reductions, real wage cuts, import liberalization, privatization, tight money, elimination of price controls, and elimination of barriers to foreign investment, while favoring exchange controls, increased public investment, and export subsidies.<sup>45</sup> As president little more than three years

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presented at the 1993 annual meeting of the American Political Science Association, The Washington Hilton, 2–5 September 1993.

<sup>43</sup> The pledges referred to were summarized by VenEconomy as “redistributing political power, reorienting the economy around an externally oriented, supply-side model and growing private investment, industrial investment and exports, all within a climate of harmonization and relative liberalization of the economy.” VenEconomy, *The Economic Outlook for Venezuela, 1988–1993* (Caracas: Veneconomía S.R.L., June 1988), 25.

<sup>44</sup> See chapter 6 of my *Strong Parties and Lame Ducks*, op. cit. n. 22, where I use the results of my survey of 80 top leaders of AD to compare the policy preferences of the factions backing different aspirants to the nomination. They were indistinguishable in terms of economic policy, and had much more to do with whether their members were insiders in the Lusinchi administration and whether they believed Pérez could win another general election.

<sup>45</sup> It is of course possible that CAP was not telling me the truth. Even in 1985, however, he claimed to approve of the ‘Black Friday’ devaluation and favored tax

later, he did exactly the opposite of all these things. In the more center-left context of AD it would have been more costly to publicize such a conversion, so Carlos Andrés Pérez cleverly allowed his supporters to believe whatever they wanted about his policies, by speaking only in general terms about what he would do in office. Sophisticated voters, such as the editors of VenEconomy, could not decide even six months before the election whether Pérez would be a ‘populist’ or a ‘developmentalist’ if elected.<sup>46</sup> Unsophisticated voters probably expected that he would somehow return Venezuela to the boom of the 1970s.

### **The Pérez Government**

Once elected, Pérez appointed to his economic cabinet a team of radically promarket technocrats largely recruited from the Instituto de Estudios Superiores de Administración (IESA).

These ministers—among whom were Miguel Rodríguez, Moisés Naím, Ricardo Hausmann, Gerver Torres, and Julián Villalba—became known as the ‘IESA Boys,’ by analogy to the ‘Chicago Boys’ of Pinochet’s Chile. This team designed the shock *paquete* that Pérez announced two weeks after his inauguration. One could attribute the president’s conversion to the advice of this team, or to the influence of Pedro Tinoco (a ringleader of the ‘Twelve Apostles’) or the Cisneros economic group, or to pressure from the IMF. But my own impression is that CAP became persuaded on his own to follow the liberal path, learning from the mistakes of his first government and those following it and from the experience of his friend Felipe González in Spain. Then, consistent with his saying that “the President must advise his advisers,” which he was fond of repeating, he sought out advisers who had the technical expertise to realize his goals.

Pérez’s *Gran Viraje* introduced severe disruptions into the private sector. The policies had been developed and implemented with practically no business input, to minimize watering-down by lobbies. The old practitioners of reverse clientelism were therefore cut off from their accustomed access route to the state. The new entrepreneurs were better off because they were getting policies close to what they had wanted, but they suffered as well because the change came without warning and gave them little time to prepare for competition. In the

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increases and a unified exchange rate, which could have been controversial positions better concealed.

<sup>46</sup> VenEconomy, *The Economic Outlook for Venezuela*, op. cit. n. 43, 25–7.

short term the *paquete* brought instability to the private sector, to the point of what Moisés Naím has called an 'oligopolistic war':

The competition introduced by the reforms upset the delicate equilibrium between rival groups, itself the result of years of intermittent wars, collusion and market-sharing agreements. Whenever competition appeared, it seldom expressed itself through prices or other marketing tactics, all of which had been inhibited by the interventionist policies of the government... Rivalries were essentially directed at gaining control of certain strategically placed companies that would in turn ensure greater control, protection, or influence over the actions of other companies contending in the same markets.<sup>47</sup>

These rivalries became quite nasty in the early 1990s as firms resorted to hostile takeovers, fake press releases designed to drive down a rival's stock prices, industrial espionage, and blackmail.<sup>48</sup>

Mass reaction to the *paquete* could not have been more negative: rioting and widespread looting broke out in all the major cities and lasted for three days. Brutal repression of the disturbances, now known as the *Caracazo*, resulted in hundreds of deaths. One of the important reasons for the violent rejection of the economic program was shock: few Venezuelans thought such drastic reforms were necessary. As Figure 2 shows, the number of people reporting that their economic situation was better than that of the year before reached its low point on Black Friday in 1983 but increased fairly steadily during the Lusinchi government (ending January 1989). Elites were aware of terrible problems building due to the fiscal deficit, the overvalued Bolívar, and waning investment, but in the popular mind the rate of deterioration was slower than it had been at

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<sup>47</sup> Moisés Naím, *Paper Tigers and Minotaurs: The Politics of Venezuela's Economic Reforms* (Washington, DC: The Carnegie Endowment for International Peace, 1993), 96.

any time since 1978. And in the popular mind the economic performance that followed the application of the shock program was far worse. In 1989 consumer prices rose 84.5 percent, GDP fell 7.8 percent, and per capita GDP declined 10 percent in less than a year;<sup>49</sup> it was by far the worst performance in anyone's memory. As Figure 2 shows, reports of personal economic decline hit a new low that year. As Kurt Weyland has argued, the fact that the shock program took effect when the crisis was not as deep as in Bolivia in 1985 or Argentina in 1989 and even seemed to be waning, taught ordinary Venezuelans that economic liberalization was unnecessary and bad and reinforced their desire to return to comfortable statist policies of the past.<sup>50</sup>

This 'lesson' learned at the mass level proved very difficult to unlearn. Opposition to economic liberalization remained strong even in 1990–2, when the economy was making a vigorous recovery. Inflation fell to the 30–40 percent range, production grew at an average annual rate of 7.6 percent (9.7 percent in 1991, aided by the Gulf War windfall), and foreign investment poured in. Venezuelans recognized some improvement in their personal economic situations, as Figure 2 shows, but gave Pérez and his policies none of the credit for the turnaround. I believe the reason for this is that the bad economic performance in 1989, and generally in the preceding 15 years, became linked to two other powerful issues that emerged at the same time.

The first of these issues was corruption, which was inherent in the reverse clientelism that AD and COPEI had been practicing for years. Throughout the early 1990s the media were filled with story after story about corrupt activities

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<sup>48</sup> Naím and Francés, "The Venezuelan Private Sector," op. cit. n. 24, 177–8.

<sup>49</sup> Source: Inter-American Development Bank.

<sup>50</sup> Kurt Weyland, "Risk-Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly* 40 (1996): 197–9.

during the Lusinchi administration. It turned out that RECADI had been used as a gigantic source of illegal enrichment. Its sole reason for being was to allocate subsidized dollars among multitudes of claimants, a function made necessary and possible by the policy of maintaining different exchange rates for different purposes. Access to

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Figure 2

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**Percent Reporting Better Personal Economic Situation, 1975–92**

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Percent

Year

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Source: Andrew Templeton, "The Evolution of Popular Opinion," in Goodman, et al. eds., *Lessons of the Venezuelan Experience*, op. cit. n. 24, 107.

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subsidized dollars became the easiest route to riches in the 1980s, and for some firms it was crucial for solvency during the debt crisis. The Lusinchi government used RECADI fraudulently and politically: friends of the government received cheap dollars easily, even when they forged abroad as a hedge against inflation or sold on the black market at a handsome profit, some of which found its way back into government and party officials' pockets as kickbacks. RECADI was disbanded when Pérez unified exchange rates in 1989, but not before billions of dollars had been funneled through it. This abuse of RECADI is the best example of the magnitude of the economic interests at stake in reverse clientelism.

As far as the public was concerned, Venezuela's economic decline had little to do with falling oil prices, rising interest rates, declining terms of trade, low productivity, or any of the standard explanations; the principal reason was thought to be mismanagement and corruption. Templeton reports that 69 percent of the population had heard of the RECADI scandals by 1992 and 79 percent of these understood that corruption was involved.<sup>51</sup> When asked what single factor was the principal cause of the crisis, more respondents (48 percent) chose "bad government/corruption" than "economic factors" (37 percent), and when asked which factors had "much" responsibility for the crisis, 86 percent—the largest number—chose corruption and 74 percent chose "bad administration of nation's resources."<sup>52</sup>

The second issue that became linked to bad economic performance was the rejection of *partidocracia*. Even before the electoral defeat of AD and COPEI in 1993 there was clear evidence of popular disillusionment with the two

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<sup>51</sup> Templeton, "The Evolution of Popular Opinion," op. cit. Figure 2 (source), 91.

<sup>52</sup> Ibid., 88–9. The other responses were: 59 percent for "world economic situation," 50 percent for "decline of moral values," 43 percent for "lack of leadership," and 30 percent for "egoism [selfishness] of Venezuelan people."

traditional parties. Abstention was one sign: before 1978 it had never exceeded 10 percent, but in 1978 and 1983 it rose to 12 percent, and in 1988 it hit 18 percent. (In 1993 it soared to 41 percent.) Other evidence comes from public opinion polls. When asked which party's positions were closest to their own, only 18 percent of Venezuelans replied "none of the above" in 1988; but when the same question was asked in September 1991 the proportion of nonsympathizers had nearly tripled, to 45 percent.<sup>53</sup> A different survey in late 1991 asked what sort of person respondents would like to have as president in four or five years; only 14 and 12 percent said they would like someone from AD or COPEI, respectively, while three times as many said they would *not* like such a person.<sup>54</sup> David Myers reports that in October 1988 (2 months before the election) 51 percent of respondents claimed to have "little or no positive feeling" for AD, and 67 percent lacked sympathy for COPEI; by June 1992, those percentages had risen to 71 and 75 percent, respectively.<sup>55</sup> The disillusionment with parties holds up in comparative perspective as well: in the LatinBarometer cross-national survey conducted in 1995, only 6 percent of Venezuelans had confidence in their political parties. Confidence in parties was higher in Spain (32 percent), Uruguay (28 percent), Mexico (23

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<sup>53</sup> Alba Sánchez, "Poll Respondents Reject CAP, Support Caldera," translation of article in *El Nacional*, 26 Jan. 1992, D-2, in *Foreign Broadcast Information Service—Latin America Report* 92-037 (25 Feb. 1992): 25-7.

<sup>54</sup> Templeton, "The Evolution of Popular Opinion," op. cit. Figure 2 (source), 100. The ratios were more nearly even for various sorts of independent candidates.

<sup>55</sup> David J. Myers, "Perceptions of a Stressed Democracy: Inevitable Decay or Foundation for Rebirth," in William Smith, Jennifer McCoy, Andrés Serbín, and Andrés Stambouli, eds., *Venezuelan Democracy under Stress* (Coral Gables, FL: North-South Center and INVESP, 1995), 128 [107-37].

percent), El Salvador (22 percent), Brazil (22 percent), Peru (17 percent), Bolivia (14 percent), Colombia (12 percent), Chile (12 percent), and Ecuador (12 percent). Only in Guatemala was it as low.<sup>56</sup>

This interpretation in which Venezuelans tended to equate economic crisis with corruption and the abuses by the two main parties is even more directly confirmed by a study conducted by Alfredo Keller. Based on survey research, Keller concluded that by 1993 Venezuelans were divided primarily by their pro- and antisystem inclinations. Half were trapped in the clientelistic mindset of the past, expecting a strong leader to come along and punish corrupt politicians and restore the good life to which all Venezuelans are entitled, although preferably within a democratic framework. Another 15 percent were more radical, totally alienated, and supporters of a coup or other complete break with the past, such as the coup attempted by Lt. Col. Hugo Chávez Frías in February 1992. Only 35 percent were firmly committed to change within the rules of the existing game, and 80 percent of those favored only gradual change. A CSIS report summarizing Keller's findings observed that

four basic factors have become symbols of what must be changed in Venezuela. In order of importance, these are 1) ex-President Pérez, 2) corruption, 3) the party hierarchy, or *cogollos* [the inner circle of national party leaders in each party in whose hands tremendous power was concentrated], and 4) the economic package. The more radically placed a person is along the motivational continuum, the more simplistic his analysis of these symbols. At the radical extreme, the four symbols became virtually synonymous... changing the social, political, and economic situation is a function of changing these symbols; eliminate Carlos

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<sup>56</sup> LatinBarometer data reported in *La República* (Lima, Peru), 14 July 1993, and reproduced in Jonathan Hartlyn, "Democracia en la actual América del Sur: Convergencias y diversidades" *Síntesis* 22 (July–December 1994): 26–31 [17–51].

Andrés Pérez, corruption, the *cogollos*, and the economic package, and the problems will have been eliminated as well.<sup>57</sup>

I have argued elsewhere that by the 1970s Venezuelan parties had become too strong: their internal discipline was so rigid that they lost responsiveness to the rank and file, and their obsession with penetrating and controlling other organizations in civil society blocked informal channels of popular representation between elections.<sup>58</sup> These practices provided sufficient reason to expect Venezuelans to become disillusioned with AD and COPEI. This claim was

never meant to imply that large numbers of Venezuelans subscribed to any sophisticated critique of the parties' shortcomings with respect to high democratic ideals, although such a critique had become virtually the conventional wisdom among the Venezuelan intelligentsia by the late 1980s. Rather, all that is intended is that the *partidocracia* I described caused or perpetuated other problems, such as mismanagement, waste, corruption, inefficiency, unresponsiveness, and overpromising and underdelivering, which saturated the environment in which all Venezuelans lived, and were more directly responsible for the disenchantment that citizens increasingly felt. The nature of the parties in Venezuela was largely responsible for the growing rejection of the 'establishment' in the 1990s, even though many ordinary citizens were not conscious of the ultimate source of the problem.

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<sup>57</sup> Technical Appendix to Robert Bottome, Rita Funaro, and Patricia Garip-Bertuol, "The 1993 Venezuelan Elections: Postelection Report," Center for Strategic and International Studies Latin American Election Study Series, Vol. XII, Study 1, Washington, DC, 15 February 1994, 15–19; this summarizes Alfredo Keller, "El escenario socio-político venezolano," Consultores 21, S.A., May 1993.

<sup>58</sup> Coppedge, *Strong Parties and Lame Ducks*, op. cit. n. 22.

For the election of 1993 both AD and COPEI nominated presidential candidates who possessed a clear commitment to the continuation of economic liberalization. Neither choice was a result of that orientation, however, as factional struggles in Venezuelan governing parties had become, since the late 1960s, personalistic nomination campaigns decided by guesses about who was most likely to win the general election rather than by the attractiveness of the candidates' ideas and platforms.<sup>59</sup> COPEI's Osvaldo Alvarez Paz won because of his record as the effective and honest first elected governor of the large state of Zulia, and AD's Claudio Fermín also had a regional base of support as the former mayor of Caracas. But during the presidential campaign neither made any secret of his economic positions, which delighted the growing class of new, market-oriented business leaders. The potential for representation of conservative interests through parties and elections looked promising.

These promarket candidates, however, ran into a wall of public opposition. After sharing upwards of 90 percent of the presidential vote since 1973, AD and COPEI's combined share was halved to 46.3 percent in 1993. And for the first time since the 1960s it was a four-way race, because Andrés Velásquez, the former governor of Bolívar (home of Ciudad Guayana) and leader of the new-unionist La Causa R, made a strong showing in the polls and ended up nearly tying Fermín and Paz's totals. In this fragmented field the winner was Rafael Caldera, who had left COPEI when it became clear that General Secretary Eduardo Fernández would not allow him to win the nomination. As an independent candidate backed by his own vehicle Convergencia Nacional, the Movimiento al Socialismo, and a coalition of 17 small parties ranging from the right to the communists, Caldera staked out a clear center-left and anti-establishment (although not antidemocratic) position and was rewarded by the voters for it.

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<sup>59</sup> Ibid., chapter six.

## **Representation of Conservative Interests since 1994**

The representation of conservative interests deteriorated during the Caldera government (1994–9) and with the election of Hugo Chávez Frías in December 1998 because neither the more market-friendly business leaders nor those who hoped to protect themselves through reverse clientelism got what they wanted. The more market-friendly leaders wanted clear policies and liberal policies that they believed necessary for a healthy economy; but the economic situation continued to get worse. A few of the would-be insiders had connections to the Caldera government, but not most; and Chávez's election created a fear that all would be frozen out.

Conservative interests were not well represented in the Caldera government itself. There was some token representation because Caldera's first minister of finance was Julio Sosa, who has long been identified with one of the largest and oldest family economic groups. However, Sosa appeared to be a figurehead minister, appointed because he was an old personal friend of Caldera's who would be reassuring to investors, and he resigned after the first year. The chief architect of Caldera's economic programs for the first two years was Luis Raúl Matos Azócar, a strongly pro-union ideological social democrat who had been expelled from AD during the Pérez administration. Caldera and Matos reestablished exchange controls, fixed certain prices, refused to raise gasoline prices even when they had fallen to less than ten cents a gallon, halted privatization, talked about rescheduling the foreign debt, and generally put the brakes on the economic liberalization process. It would be hard to argue that they rolled back the market reforms substantially, but their seven programs in two years were certainly incoherent, which was profoundly disturbing to business elites of all types. For example, when Caldera decreed a bonus for private sector

workers in March 1996, a vice president of FEDECAMARAS complained that “with this isolated measure what the government is doing is throwing gasoline on the inflationary fire.”<sup>60</sup>

Conservative interests were not well represented in Congress, either. Both AD and COPEI reacted to their electoral defeat by turning away from economic liberalization. This was most dramatic in AD, where General Secretary Luis Alfaro Uceró led a purge of all of Fermín’s followers from the National Executive Committee and by January 1996 expelled 10,936 activists at all levels who either broke with the party line in the 1995 regional elections or were suspected of being *carlosandresistas*.<sup>61</sup> In COPEI the change was less dramatic, but the party’s two most vocal advocates for the market, Eduardo Fernández and Osvaldo Álvarez Paz, were marginalized within the national leadership, and nominal control of the party machinery passed to the populist former president Luis Herrera and his protégé, Donald Ramírez. These internal party changes meant that conservative interests, which had no close ties to the government, had little influence with the major opposition parties, either.

In April 1996 the Caldera government adopted a neoliberal economic shock program.<sup>62</sup> The indecisiveness appeared to end when the government

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<sup>60</sup> Aurelio Concheso, quoted in Humberto Márquez, “Venezuela: Sindicatos marcharán contra bonos a trabajadores,” InterPress wire service report, 8 March 1996.

<sup>61</sup> Humberto Márquez, “Venezuela: Acción Democrática cierra filas contra Pérez,” InterPress wire service report, 31 January 1996.

<sup>62</sup> Oddly enough, the architect of the program was Teodoro Petkoff, a MAS leader and former Communist guerrilla who became convinced that a drastic neoliberal program was the only way out and who threatened to withdraw from the governing coalition if the government did not take decisive action. Caldera made Petkoff responsible for the package by appointing him Planning Minister and favoring his ideas over those of Finance Minister Matos Azócar. Like the advocates of market reforms in AD and COPEI, Petkoff was in the minority within his own party; but after Petkoff was given the most responsible government post

freed all prices, slashed the gasoline subsidy, raised the sales tax, radically devalued the currency, and let the exchange rate and interest rates float. Perhaps because these measures were accompanied by various benefits and wage increases, there was no repeat of the *Caracazo*, but the package was welcomed by the World Bank, making it possible to resume negotiations on a new credit from the Bank. At the same time oil prices began to rise, yielding much-needed foreign currency, which the government pledged to spend on reducing the foreign debt. But the success was brief. By the end of 1997 the government had backed off on some of these policies in the face of strikes by teachers and doctors, and a social security reform that was supposed to resolve conflicts over unpaid (and unpayable) benefits mollified few. Worse yet, oil prices continued to fall, rendering the Venezuelan state less and less able to pay for social programs, service its foreign debt, balance the budget, and reduce inflation further.

The level of threat to conservative interests rose during 1998. At the beginning of the year Hugo Chávez Frías, the leader of the February 1992 coup attempt, reemerged as a viable presidential candidate. By March he had captured the lead in the polls from Irene Sáez Conde, who would have been a relatively reassuring probusiness, efficiency-minded independent. By contrast, Chávez employed populist and extreme nationalist rhetoric, frequently lamenting the poverty and hunger that so many Venezuelans were suffering. It was never completely clear during the campaign whether he was truly on the left or just using a populist discourse. Nevertheless, he did win the electoral backing of several left-of-center parties and the prospect of his election did undermine business confidence. During 1998 the state failed to find buyers for its aluminum companies, the economy contracted one percent, and the stock market fell 45

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ever won by a Masista, the party could not resist giving him a chance. If his plan worked, they reasoned, the party could rise on the coattails of a new Mitterand or

percent. But Chávez was doubly threatening to conservative interests: in addition to the prospect of

continuing state-centered center-left policies, his talk of eradicating the old corrupt party establishment threatened to take away the safety net of reverse clientelism that the two parties had built up over decades.

To recapitulate: after 1979 economic decline motivated some business leaders to wean themselves from the old statist diet of subsidies, protection, and favors and to move to the right. Other business leaders were content to continue business as usual, but their numbers and influence dwindled as the crisis deepened. The vast majority of ordinary citizens resisted the shift to the right, and most of the leaders of the parties conformed to the majority view. When two of the few party leaders who favored economic liberalization led their parties to historic electoral defeats in 1993, the defenders of the economic and political status quo felt that their strategy was vindicated and marginalized the minority pro-market leaders and their followers. During the Caldera government, then, the traditional practitioners of reverse clientelism were unsympathetic to the pro-market firms and not in a position to help the more traditional firms, and the presidency was in the hands of an independent also unsympathetic to neoliberalism, whose ability to do favors for traditional firms was constrained by the need to protect his anticorruption image and whose incoherent policies were deepening the crisis, hurting all firms alike.

With the election of Chávez there were credible fears that these tendencies would be intensified. Business interests were left without much effective representation, formal or informal. Chávez may turn out to be no different from his predecessors: a president willing to cut deals and do business as usual, exchanging policy favors for material support. Indeed, in the last few

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Cardoso.

months of his campaign he took pains to reassure domestic and international business leaders that he was a 'reasonable man' who welcomed foreign investment, and he succeeded in winning the grudging acquiescence of some, including the Boulton group and part of the Cisneros empire. But if Chávez turns out to be as radical as he originally claimed to be, Venezuela may finally provide a true test of what happens when conservatives interests are poorly represented through both formal *and* informal channels.