



ANTIGUA REPORT

VENEZUELA: ANATOMY OF CHAVISMO

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WHAT INCIDENTS ALLOWED A *COUP D'ÉTAT* LEADER TO WIN THE PRESIDENTIAL ELECTION?**A Corrupt Currency-Exchange Agency (Recadi)**

During the 1973-1978 Carlos Andrés Pérez tenure, public spending [increased](#) exponentially after an oil-price boom. Venezuela [abandoned](#) the gold standard in 1974 and [nationalized](#) the oil industry in 1976.

Pérez's administration was fiscally irresponsible, so Venezuela struggled when oil prices fell. To tackle the consequences, President Luis Herrera Campins (1979-1984) renegotiated foreign-debt payments and sought to reduce public expenditure.

As a means to keep currency inside Venezuela, Herrera Campins fixed the bolívar-to-dollar exchange rate in three tiers on February 18, 1983, after 20 years of exchange-rate stability. Venezuelans remember this date as the [black Friday](#). One US dollar was [traded for](#) 4.30 bolívares for basic goods and debt; 6 bolívares for non-basic imports; and 7.50 bolívares for exports and travel. On February 23, Campins created a government agency to manage the

exchange system, called [Recadi](#), which became a corruption hub for Venezuela's political and economic elite.

Years later, judicial probes and audits discovered that the agency [was involved](#) in a multi-million-dollar corruption scandal. Recadi employees took bribes, overcharged import prices, and set up fake companies to launder money. In 1989, the Venezuelan government [shut down](#) the agency, and few of those involved got jail time.

The Jeeps Scandal

The Jaime Lusinchi administration (1984-1989) used government funds to buy 65 jeeps for the 1988 electoral campaign. In 1994, Lusinchi's wife, the interior minister at the time, and another high-ranking employee [were sentenced](#) to 1 year in prison.

Bank meltdown (1993-1995)

A widespread [financial crisis](#) in Venezuela led to the government bailing out or taking over 16 banks. These entities held more than 50 percent of deposits, and their assets made up 48 percent of the local financial system. The [estimated cost](#) of the crisis was \$7.3 billion (11 percent of Venezuela's GDP), and many Venezuelans lost their savings or had them returned only years later.

The Corruption Scandal that Landed a President in Jail

In 1994, the Venezuelan Supreme Court [found](#) the impeached President Carlos Andrés Pérez guilty of embezzlement. Prosecutors revealed that in March 1993 he had secretly used around \$17 million to finance the campaigns of like-minded presidential candidates Jaime Paz in Bolivia and Violeta Chamorro in Nicaragua. His trial ended in 1996, and he received a 24-month house-arrest sentence.

WHAT PROMINENT POLICIES DID HUGO CHÁVEZ CAMPAIGN ON?

In a 1998 interview with Peruvian journalist Jaime Baily, Hugo Chávez famously [claimed](#) "I'm not a socialist" and presented himself as an ally of businessmen.

In April 1998, his campaign released a 32-page [document](#) with promises "to transform Venezuela. " Five pillars made up his proposal, but there was no mention of the socialist revolution that was to come:

1. **A new constitution** to restructure the state and democratic institutions.
2. **Social stability:** policies to tackle poverty, expand social-security programs, combat youth unemployment, defend human rights and gender equality, and promote indigenous Venezuelans.
3. **Economic stability:** a competitive but "humane," self-sustaining economy.
 - Oil-industry development with international partners.

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- Environmental regulation with a focus on food security; the promotion of small and medium enterprises, particularly in the tourism and construction sectors.
 - Government supervision of financial institutions; policies to promote private direct investment and incentives to reverse capital flight.
 - Fiscal and monetary reforms to afford the social programs and to provide more autonomy for the central bank; negotiation of foreign-debt payments and a reduction of Venezuela's dependence on other countries.
4. **Territorial decentralization:** more autonomy to local governments but more government agencies in different parts of the country.
 5. **Foreign policy:** ensure Venezuela's sovereignty, tackle drug trafficking and terrorism, promote democracy and human rights throughout the region, and advocate for the environment.

WHAT WERE HIS ORIGINAL CONNECTIONS WITH CUBA?

Rafael Caldera, president of Venezuela from 1994 to 1999, invited Cuban opposition leader Jorge Mas Canosa to the country in early 1994.

[In response](#), Cuba's dictator Fidel Castro invited Hugo Chávez, who had recently left prison after his foiled 1992 *coup d'état* and showered him with honors in the island. The relationship between Chávez and Castro began during that visit, and with time they [only became closer](#), both in ideology and in geopolitical interests.

WHAT WERE CHÁVEZ'S MOST PROMINENT POLICIES THAT COULD BE DESCRIBED AS SOCIALIST?

Nationalizations and expropriations

The enactment of the hydrocarbons law in 2001 forced transnational oil companies to [partner](#) with the state-run oil firm PDVSA as minority parties if they wanted to operate in Venezuela.

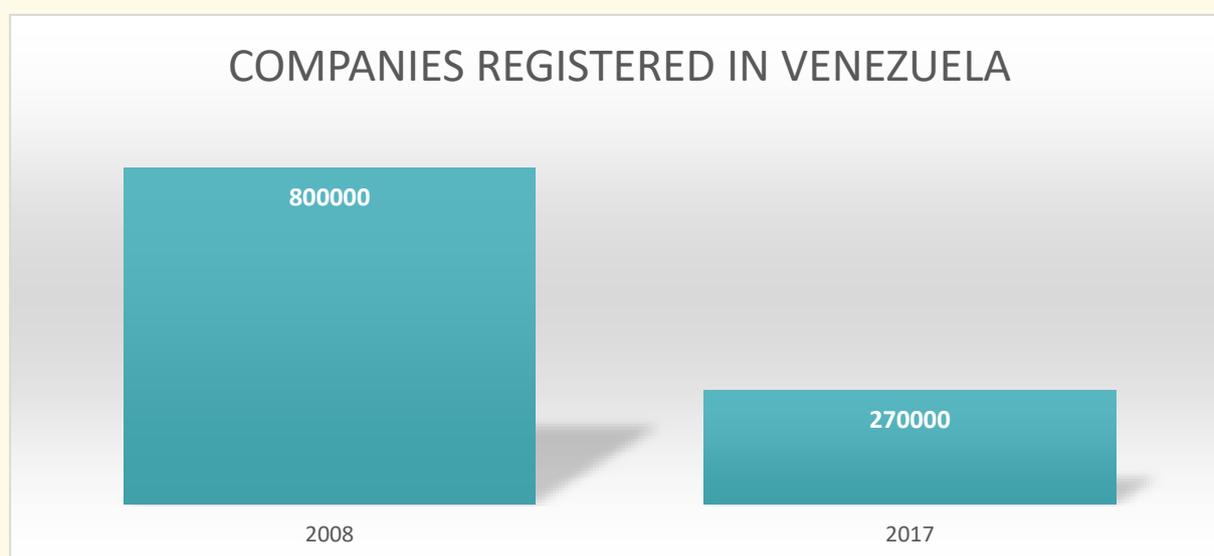
In 2005, Chávez decreed the [expropriation](#) and redistribution of "under-exploited" lands, and since 2007 the government has [issued](#) laws and decrees to nationalize several industries:

- In 2007, energy and communications companies.
- in 2008, dairy manufacturers, the entire cement industry, the domestic gasoline market, the steel industry, and mining fields.
- 2009: rice producers and oil-related companies. The government also intervened in multinational companies like Coca-Cola, Smurfit Kappa, and Hilton hotels, took control of the ports of Maracaibo and Puerto Cabello, and expropriated the Aeropostal airline, 10,000 hectares of land for food production, and sugar plants.
- 2010: supermarket chains and food distributors.

According to the BBC, from 2007 to 2009 the government [allocated](#) more money for expropriations payments and nationalizations (\$23.3 billion) than for PDVSA's oil production (\$21.9 billion). This figure does not include what the Venezuelan government had to pay to those companies that disputed the expropriations. [For example](#), Venezuela had to pay \$46.4 million to Tidewater, \$1.6 billion to Exxon Mobil, and \$455 million to Owen Illinois.

According to Venezuelan think tank CEDICE, many expropriations [lacked](#) due process and fair, timely compensations. In 2010, Chávez [issued a decree](#) to let workers occupy firms, thereby circumventing the legal and economic costs of a formal expropriation.

More than 800,000 companies [were registered](#) in Venezuela in 2008, but fewer than 270,000 business remained in operation by 2017. From 2002 to 2016, the Venezuelan regime expropriated almost 700 firms, according to the National Commerce Council, a private Venezuelan trade union.



Price Controls

- In 2003, Chávez [imposed](#) an exchange-rate regime to prevent investors from taking their US dollars abroad.
- That same year, Chávez imposed price controls on basic goods. At first, the list named 45 basic goods and seven services, but by 2013 the list had grown to 97 products.
- The government mandated [33 minimum-wage increases](#) from 1999 to 2016. In total, the minimum wage rose from 120 to 15,051 bolívares during that period. The minimum wage has grown exponentially over the last two years; it amounted to [3 million bolívares](#) in June 2018, barely a few dimes.
- In 2014, the Venezuelan regime [capped profits](#) for businesses at 30 percent and punished "price speculation" with up to 12 years in jail.
- At the end of 2015, Maduro again [changed](#) the regulatory system and announced new price controls: (1) maximum sale prices for almost all businesses and (2) fixed

"fair prices" for a basket of basic goods.

Labor Regulations

In 2012, the Chávez administration [enacted](#) extremely tight labor legislation known as the Labor Law for Men and Women Workers. It established a 40-hour working week and different fees for extra time and night work; imposed a hiring quota of disabled workers for all businesses; prohibited outsourcing; increased maternity leave; made new parents unfireable for two years; and forced businesses to share at least 15 percent of annual profits with employees—along with many other measures.

The Welfare State

- The Robinson Mision, [created](#) in 2003, aimed to reduce illiteracy in the country. Literacy campaigns [targeted](#) high-school students. According to official figures, 4 percent of the population remain illiterate. The government also created the Ribas and Sucre Mission (2003) for poor young people to complete high-school and university education, for free.
- In 2003, Chávez [created](#) a program to install medical dispensaries staffed with Cuban physicians in poor neighborhoods. That same year, Chávez, with Castro's assistance, [implemented](#) the National Vaccination Plan. The government claims that it has delivered 56,320 vaccines to more than 28 million people.
- In 2005, the Venezuelan government created a development fund that gave \$100 billion to projects inside and outside the country.
- The Venezuelan regime [began](#) a program to renovate rural homes in 2009: installing fully equipped bathrooms and doors, roofing, and painting. According to official data, 569,218 rural homes have been renovated. Since 2011, a housing program has built 1,926,448 houses for poor Venezuelans.

The Chávez administration [created](#) plenty of subsidies to sell both gasoline and imported products at lower prices.

HOW DID THE *CHAVISTAS* GENERATE HYPERINFLATION?

Oil accounts for the vast majority of the Venezuelan government's exports. The mismanagement of the oil industry since 1999 [undermined](#) its productivity, and a drop in oil prices left the vast welfare state severely underfunded. Therefore, the Venezuelan regime printed [more and more](#) money to finance public spending and keep government approval rates high.

The last time that the Venezuelan Central Bank published inflation figures was in December 2015, despite a [constitutional mandate](#). In February 2017, the opposition-led National Assembly [began reporting](#) its own inflation metrics.

WHAT ALLIANCES DID CHÁVEZ FORM, AND TO WHAT ENDS?

- **Cuba-Venezuela:** ideological, political, and [military support](#) from the Castro regime.
- **Oil diplomacy:** as part of his foreign policy [to counter](#) US influence, Hugo Chávez sought allies in the Middle East. Venezuela [set up](#) alliances with Iran, Syria, Libya, and Belarus. Chávez even overtly supported dictators Muammar Gaddafi and Bashar al-Assad.
- **Petrocaribe:** the program [provided](#) subsidized oil to Caribbean countries in exchange for political support in international forums, such as the OAS.
- **ALBA & Mercosur:** in a similar manner, the Bolivarian Alliance was created in 2004, which included Venezuela, Cuba, Bolivia, Nicaragua, Dominica, St. Vincent & the Grenadines, and Antigua & Barbuda. Venezuela provided these countries with funds and foreign aid to gain their political support and expand the socialist agenda throughout the region. In 2013, all Mercosur countries admitted Venezuela to the group, although its membership is currently [suspended](#).
- **FARC:** Since the Colombian Marxist guerrilla group [shares](#) important ideological interests with the Venezuelan regime, their [relationship](#) was important for Chávez's regional "Bolivarian project." In 1995, the FARC allegedly provided guerrilla training to Chávez, and then during his mandate guerrilla members were able to [roam freely](#), poach [natural resources](#), and [smuggle drugs](#) throughout Venezuela. Maduro backed the [agreement](#) that FARC signed with the Colombian government in 2016.

WHAT MADE VENEZUELA THE WORLD'S LEAST FREE NATION, ACCORDING TO THE FRASER INSTITUTE?

According to CEDICE, [the main policies that undermine economic freedom](#) in Venezuela are:

1. **Price controls:** in 2015 alone, 28,000 businesses closed, and another 20,000 shut down in 2016. Price controls resulted in widespread shortages and skyrocketing prices in black markets.
2. **Tight labor markets:** the *Chavista* regime [mandated](#) privileges for workers, such as vacation bonuses, higher extra-time costs, and profit sharing. Firing personnel is extremely difficult, and legislation eliminated trial periods. In 2017, analysts [estimated](#) that more than half of Venezuelan workers were in the informal economy, given the highly regulated labor market.
3. **Exchange-rate controls:** these hamper exports and particularly the import of basic and luxury goods. This policy has led Venezuela to abandon trade agreements, such as those with the Andean Community and the G3 (Mexico, Colombia, and Venezuela). Further, in 2008 Chávez removed three zeros from the currency and [issued](#) the bolívar fuerte. In turn, Maduro has recently replaced it with the sovereign bolívar to remove five more zeros.

Other factors undermining economic freedom, per Fraser's report:

4. **Size of the government:** when Chávez died in 2013, the Executive branch had 32 departments. Now it has 40. The *Chavista* regime has constantly created, eliminated, and merged ministries. The regulatory environment is always changing.
5. **Legal system and property rights:** the executive branch has [co-opted](#) the judicial branch, and there is little property-rights protection in courts. Chávez promoted the [creation of comunas](#), groups with 250 families joined by geographical proximity and cultural similarities, and legally granted them "social" property.
6. **Starting a business:** Venezuelans need at least 230 days to open a business due to myriad regulations and bureaucratic red tape.

FURTHER READING

["Six Reasons Why Venezuela Has Real Socialism,"](#) *Epoch Times*, by Fergus Hodgson

["Venezuela Announces Car Census to Ration Gasoline,"](#) *Antigua Report*, by Paz Gómez

["Ecuador Loses Control of Border as Millions Flee Socialist Venezuela,"](#) *Epoch Times*, by Paz Gómez

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