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HUGO CHÁVEZ AND THE POLITICAL ECONOMY OF REVOLUTION IN VENEZUELA

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P R O C E E D I N G S

MR. CÁRDENAS: Good morning. I am Mauricio Cárdenas, senior fellow and director of the Latin America Initiative here at the Brookings Institution. Welcome to Brookings this cold morning. We have what I expect is a hot issue, a hot and heated debate, which is the issue of Hugo Chávez in front of us.

We're delighted to launch today a book that took almost 2 years in preparation, a book that was sponsored and highly encouraged by us here at the Latin America Initiative, a book on Hugo Chávez. I really recommend it. On the way out you may buy a copy of it. It's a delight to read and it's a really interesting analysis of what has happened in Venezuela since Hugo Chávez was elected president in late 1998.

The book authors are Javier Corrales, who is here with us. Javier is a very well-known political scientist, holds a Ph.D. from Harvard University, and currently is a professor of political science at Amherst College. His co-author, who couldn't make it to Washington, is Michael Penfold. Michael is also a political scientist who now works at the *Corporación Andina de Fomento*, CAF, in Caracas, Venezuela. But prior to that was an academic, a professor at *Instituto de Estudios Superiores de Administración* in Caracas. They both have a long list of publications on different topics, most of them related to politics in Latin America so that we're delighted that we're doing this event today and you will hear more from Javier and the book later on.

It is a special honor for us here at Brookings to welcome Jorge Castañeda. Jorge Castañeda as you all know is a leading scholar in Latin America. He is Mexican. He currently is distinguished professor of political science and Latin American studies at New York University. He divides his work between New York and Mexico, where he is a very active member of the political debate.

He has recently launched two books in Mexico that have triggered a significant amount of discussion about the future of Mexico, one that was co-authored with Ruben Aguilar, one being *El Narco: La Guerra Fallida*, loosely speaking that would be translated as *The Narco: The Failed War*. It's a great book to read to understand what's going on in Mexico. It does a lot of questioning about the current strategy and precisely because of that it is at the center of the debate in Mexico. The other book, I had the chance of meeting Jorge when he was changing planes at one of the airports at Mexico that has had him traveling all around the country discussing *Mexico: Why Not?,* or *¿Y México: Por Que No?,* which is a very inquisitive analysis of what's going on in Mexico, why is it that Mexico has lagged in the last decade or so in terms of economic growth, in terms of development and what needs to be done. I'm sure it's going to be a very frequently quoted and debated book as the president elections in Mexico approach and it certainly shows the importance and the weight that Jorge carries in this discussion in Mexico.

But his influence goes beyond Mexico. He's a frequent author and op-ed writer in the main newspapers, not only in the Spanish language like *El Pais*, but also a regular columnist at places like the *New York Times*. I could go on and on and talk about his career in government when he was minister of foreign affairs in the earlier years of the Fox administration, so that the list of achievements is large and it would be long to describe here. Jorge has agreed, and knowing that he has written also about Hugo Chávez, to give us a lecture and some initial remarks before we go into the discussion of the book in more detail.

In the context of today's discussion, I have to mention a very interesting book that Jorge co-edited with Mario Morales called *Leftovers,* where he actually does an

analysis of the two varieties of leftist leaders that Latin America has had say in the past decade. They are exemplified by the cases of Hugo Chávez on the one hand and Luiz Inácio Lula da Silva on the other hand so that that is a very fitting book recently published by Jorge on the discussion that we're going to have today.

Without further ado, Jorge, let me welcome you to Brookings and to the podium. As I said, we're delighted that you are here with us and that you made it from New York. After Jorge's initial comments, we're going to into a panel format where Kevin Casas, our colleague here and senior fellow at Brookings will moderate and then we'll hear from the author about the book. Thank you, Jorge, and the floor is yours.

MR. CASTAÑEDA: Thank you, Mauricio, for the opportunity to share a few thoughts with you not really so much about the book although I was able to read the long introduction and part of a chapter that I'm going to try and talk about which is the one on Venezuelan foreign policy, and it's always an honor to share the floor and time with Kevin with whom we've been exchanging now our respective reflections on the drug war in Mexico and I think reaching similar conclusions which for me is a great source of satisfaction.

The point I'd like to make very briefly when I was looking over the chapter on foreign policy and President Chávez's foreign policy is that there is one element which I think in the list of characteristics of soft balancing that the chapter has, and Javier will correct me I'm not accurate about it, there might be one which is not missing at least is perhaps less emphasized and in countries or in governments who have had to deal with Venezuela since President Chávez has been in office and particularly after 2003 and the failure of the general strike and the PDVSA strike is really something that explains I think a great deal about why Chávez can get away with so

much in Latin America without having much of a response by anybody whether it's the United States or whether it's countries which would have a direct interest in perhaps being somewhat more vocal in their criticism of some of his stances, at least international stances. We have the example now of *la Ley Habilitante,* which he rammed through, as you know, before the old Congress left office at the end of December.

Chávez has available to him either because he has financed it and built it himself or because he has taken over the old Cuban network and modernized it, financed it, expanded it, he has available practically in every country of Latin America a very strong local source of support. One could call it a fifth column, one can call it solidarity networks, one could call it social networks that sympathize with the Bolivarian revolution and the ALBA countries in general, but in countries either that have governments that lean toward ALBA or in countries where governments lean away from ALBA, in both cases he has a very strong domestic source of support that if there is ever a fight between that government and any country and Chávez or Cuba for that matter, but let's stick to Chávez for the moment, the government has to pay a very high price domestically. So you have so many examples over the last 12 years of governments that for one reason or another decided that they were no longer going to put up with X whatever, rhetoric, expropriations, violations of human rights or international covenants that have been signed, governments that have a particular affection for one kind of inter-American institution or another, for example the Inter-American Human Rights Commission, they can't really sustain even a rhetorical confrontation let alone a diplomatic confrontation with Venezuela because very quickly they have a domestic problem.

Forget the international problem. That most governments can handle.

What is more difficult for them to handle is the domestic issue which of course coincides with the other points that Javier and Penfold mentioned in this chapter, the use of oil. This is clearly the case. For example, we see it without any great nuances in the case of a country like the Dominican Republic, in the case of a president like Leonel Fernández, who is clearly a Democrat, clearly someone who subscribes not only to human-rights considerations but considerations of democracy, collective defense of democracy, et cetera. But Chávez pays half of his oil bill. That's an easy one. That's a no-brainer.

But the other ones are more complicated and they're the ones that have to do with the strength of the r*edes Bolivarianas* in each country. This is something that I don't know how much has been worked upon. I know in the case of Mexico there are an enormous amount of rumors regarding this going back to the middle of the first decade of the century but not much really has been truly confirmed or corroborated. A couple of WikiLeaks cables mentioned the Bolivarian presence in Mexico and a few other countries but it has not been easy to go much further than just rumors.

The case of the Latin Americans is particularly interesting because there what Chávez does is he combines the oil instrument with the local sort of support for the Bolivarian network. First he did it with the Sandinistas in Managua before Daniel Ortega was elected president. And he also did it with the FMLN in El Salvador and continues to do it so that you have this very contradictory situation, for example, in El Salvador, where you have a political party that receives direct funding from Venezuela, but mainly funding through gasoline that the party then sells in gas stations and gets the money from the gas. And you have a president who was elected on that party's ticket who is not Chavista, who is not Bolivariano, who tends to be anti-Bolivariano, but cannot go very far because he has the Bolivariano Party in his government. The minister of the interior, the

minister of defense, the minister of education, the vice president are all Bolivarianos but they have money where they sell gasoline on the streets. So how far can Funes go supposing he wanted to have some form of rhetorical confrontation or diplomatic confrontation on any substantive issue with Venezuela. He has the problem literally in his cabinet. And we could go country by country seeing how this *quinta columna* or *redes sociales* or *solidaria Bolivariana*, exists and it has become a very, very significant issue. It explains I think why, for example, now Insulza goes out and at long last, and I congratulate Jose Miguel for doing it and I understand why he wasn't able to do it before but he did now and -- makes a very strong statement on the *Ley Habilitante* and he is all by himself. He's got all sorts of very nice letters from ambassadors and presidents and foreign ministers but they're all private, he can't make them public and in public all he has is nothing. He's all by himself and he will stay all by himself because there is not going to be practically a single Latin American leader, not even the Canadians. The Canadians, what do they have to lose? I don't think there are any Bolivarian committees in Saskatchewan, but maybe. I don't know, maybe there are.

Nobody is supporting him on this one. He is all alone and he will continue to be all alone. I really think the reason, and that's why I want to emphasize this and I'll stop here because this is not the purpose of our meeting here, that as long as that is the case and as long as no one is willing, no Latin American leader, is really willing to brave the fires, the wrath of the domestic Bolivarian groups and at the end of the day show them up for what they are, tiny little groups like the pro-Cuban groups were before in almost all of these countries, that if you stand up to them, *no pasa nada*. In fact, they're meaningless. They have no real constituency. They have no funding other than the funding Chávez gives them. Their media outlets are very limited in each country

except the cases perhaps of the FMLN in El Salvador, obviously the Sandinistas and Ortega in Nicaragua, but that's about it. Even the MST in Brazil which is now giving President Rouseff a hard time, at the end of the day, and Lula stood up to them many times and they received funding from Chávez, and what happened when they started taking land over and Lula said stop it, they stopped because they really have no significant power. So perhaps I would ask Javier if he would comment on this during the discussion of the book because I think that although there are mentions of it, I think it's a very important part of the soft power, soft balancing, that Chávez has used very skillfully.

Again, Mauricio, thank you for giving me the opportunity to share some thoughts on these matters and thank you for allowing me to congratulate Javier on his book which I'm sure will be immensely useful for all of us who are trying to understand what happens in Venezuela. And thanks a lot also.

MR. CASAS: Thank you very much, Jorge, for those remarks which I think point to a very interesting issue in this debate. Before I give the floor to Javier, I would like to endorse some of the things that my colleague Mauricio Cardénas said. I read the book over the weekend and it's really a terrific book and I would like to congratulate Javier as well. Particularly considering that this is a topic that is full of heat and very little light, here is a book that throws a lot of light on the discussion. I would like to give the floor to Javier so that you can tell us what's in the book and why should the audience buy the book.

MR. CORRALES: Let me begin by expressing my and my co-author Michael Penfold's gratitude for you being here and especially to Mauricio and Brookings for liking this project from the very beginning even when it was just a wish on our part. To support us all the way, at one point many authors just get the benefit of getting two or

three anonymous reviewers, we got anonymous reviewers, but Bookings also provided a meeting with about 15 or 16 people when we were in the middle of the project in order to ensure that we would get it right or at least produce a book that would speak to many folks and not just to Michael and me. So thank you, Brookings, for supporting it. Jorge Castañeda, thank you for coming. Kevin, thank you for giving me the chance.

How can I sell you the book? Let me see. Here is how I'm thinking about the book now today. One could read a book on Venezuela as an exercise on let's study an aberration. Let's study a case that is such an outlier in Latin American politics, in the history of Venezuela, in developing countries, and sure enough you will find a lot about Venezuela that is very difficult for other countries to replicate not the least of which is of course oil, but also important is the psychological complexity of Hugo Chávez. There is a lot about Venezuelan politics and economics under Chávez that is very unique and you can read the book precisely as where did this aberration come from? But you could also read the book, and I'm fine with either reading, as an example of some of the political and economic vices that are still available in the region that in many ways perhaps Venezuela exemplifies and maybe even magnifies but nonetheless are common elsewhere or at least we still see signs of political and economic distortion. Let me give you a few of these as a form of a sampling of what you might find both what's unique about the case and what is actually common with other Latin American countries and developing countries.

First of all, this notion that we're dealing with a semi-authoritarian regime. On the one hand we don't have a lot of semi-authoritarian regimes in Latin America anymore. There has been a complete transition to democracy and the fact that you get a semi-authoritarian regime in Venezuela now seems to be an aberration. However, you

can also read that as an example of an incumbent's advantage. One could read this book as saying presidents in Latin America develop majorities and when they have those majorities they assault institutions. It's automatic, perhaps not as much but it continues to happen. It's also an example of the incumbent doesn't get defeated. In Latin America only two presidents running for office have been defeated since the late 1980s. Only two: Hipólito Mejía in the Dominican Republic and Daniel Ortega in Nicaragua. The rest of the time they get reelected, and Chávez is an example of this very interesting Latin American trend.

On economics, nobody matches the level of stateism in Venezuela with 400+ nationalizations so far. There are many folks who argue this is a path that is way behind in Latin America and in many developing countries. There is no question about that. You could on the other hand read this as an example of how easy it is for regimes to suddenly generate demand for stateism. One of the things that we observe in Venezuela is that the moment that the state expands, people clap, the opposition weakens and checks and balances become inoperative. In the 1990s, everybody questioned every privatization. In the 2000s, almost nobody questioned the expansion of the state, acquisition of more and more property, even though this is a perhaps extravagant abuse of state power. And with Chávez we get perhaps a complete blank check, but in Latin America we are now seeing more efforts on the part of many countries, even Brazil, to return to some forms of stateism with their distortions and problems and how the system of checks and balances tends to become very distorted once this process gets started.

On oil dependence, again, Venezuela is the one and only petro state. That means that it has a level of dependence on oil revenues that no other country can

match and that makes Venezuela unique. But Venezuela is under Chávez representative of the excesses of commodity dependence in general and most economists who have studied Latin America's performance in the 2000s have said growth is great as in Venezuela, but we have had more dependence on commodities. And Venezuela shows what could go wrong when you exacerbate that dependence. Levels of inefficiency increase, the incentives for the state to try to have a business-friendly environment decline, the tax system becomes distorted and in many ways many Latin American countries have found that the 2000s has been an era in which they can go back to reliance on a model of development that the region didn't see since the late 1920s and the Depression which is commodity dependence, exports and in Venezuela we see perhaps an exaggerated version of this other Latin American characteristic.

Finally, and this is one way to address what Jorge Castañeda was talking about, Venezuela's petro diplomacy. No Latin America country can afford the type of subsidies that the Venezuelan government spends. Again this is an argument on behalf of this would be a book about an outlier. But as Jorge Castañeda said, and I'm glad that he said it, what is interesting is not just that there is support in all Latin American countries, and you're absolutely right that we should have said more about that, but the other point in Jorge's remark is the silence on the part of the Latin American community with the erosion of checks and balances in Venezuela and how this is something that leaders can notice. It seems that the Venezuelan case shows that you can pretty much engage in all forms of irregularities prior to election day and as long as your election is run fairly regularly and freely and without many mishaps, you can pretty much get away with everything to use Jorge's pharse because the inter-American system is not prepared for these types of weakenings of democracy.

One way to read the book is to say this incredibly sophisticated system in the Americans in order to try to defend democracy could very well be ill-equipped for the new types of threats that can emerge from democracy, what in Spanish could be called *golpes de destado* instead of *golpes de d'estado*. Essentially the international sanctioning mechanism is very weak and this could be bad news, and if Venezuela were able to get as far, imagine other countries that may not want to go that far but may still want to erode checks and balances to some extent. They pretty much can learn from the Venezuelan case that the path is clear for them.

Finally and I'll stop. Nobody wants to do revolutions anymore except Hugo Chávez. In Latin America it seems that this idea of overturning the status quo is passé, there is not enough energy, no people tend to feel like being this crazy doesn't pay off politically and one could read the Venezuela book as one crazy regime that wants to have a revolution in the 21st century through elections. You could also think of revolution as what the word also means and the second definition of revolution is funny. One definition of revolution is complete change. A second definition of revolution is let's go back to the beginning. Let's do a full circle.

A lot of what we see in Venezuela billed as it is as revolutionary is very old news and to those of you who have studied Venezuela, those of you who have studied Latin American populism will be able to recognize that the regime repeats so many of the mistakes that we, everybody in this room and even in these countries, have seen, for example, exchange rate controls. Venezuela and many Latin American countries know that this produces distortions especially in your trade and yet rather than a revolution, the first definition, we get revolution's second definition in Venezuela which is repeating mistakes and that second definition of revolution is less unique, it's more

common in Latin America and in many developing countries so that you could even read this book as an illustration of a revolution that is common to the region rather than unique to Venezuela.

I don't care how you read it. I care that you read it. Thank you very much for coming, and I understand we have copies outside. It's very portable so it's not very heavy in terms of weight and I hope you enjoy it. Thank you.

MR. CASAS: Not to speak of the electronic version.

MR. CORRALES: Thank you.

MR. CASAS: Thank you, Javier. Now to Mauricio. Mauricio, what struck you about the book? Why were you so keen on bringing this book to Brookings?

MR. CARDÉNAS: Thank you. Not too much physical weight, but certainly intellectual weight that you will carry if you buy it. Here is how I think about the book. I see here in the audience at the very least three former U.S. ambassadors and high former senior officials especially from the State Department and a friend in the back, Leopoldo Martinez, a former member of the assembly in Venezuela. We are a group of people who are in the business of doing commentary or analyzing countries, so when you read this book if you're like me, you read it with the goal of saying, yes, I want to understand what happened in Venezuela say during the last 12 years. I want to have a story that makes sense of this very complex situation. But I also want a story with some predictive power. I want to understand what's going to happen in the future with Hugo Chávez.

Of course the authors are very serious and they don't go into the business of forecasting and predictions and discussing when is it that Hugo Chávez is going to fall and how and under what circumstances so they don't get into that

speculative territory. They're in the business of helping us understand what has happened. They do a very good job in that sense because they weave together some elements that I guess are what is the essence of the regime and those elements essentially have to do with politics. The politics of weakening the system of checks and balances internally and the politics of silencing other countries through subsidies, aid, contracts, et cetera. So that it's the business of silencing opposition both internally and externally that has been crafted in a very remarkable way by Hugo Chávez in accumulating power for his own benefit.

That is very well explained. That is essentially a story that began even during the period of economic crisis where you would think that the room for maneuvering for the administration was limited even at a time of low oil prices, this is 1999, 2000 and 2001, so this idea that to accumulate power you need to have high oil prices is a myth. He could do that with his own political capital, change the constitution, introduce reelection, eliminated the Senate, began this special relationship with the countries of Latin America especially the ALBA countries, so that it is not just oil which is the explanation that we always get. It's the oil and if oil prices are high then Hugo Chávez can do whatever he wants. No. He was very successful even when oil prices were low. So it's a political maneuver to change the status quo and essentially change the system of checks and balances as I said and accumulate powers.

So the political logic is impeccable. We've seen the last episode of this with the *Ley Habilitante* with even more accumulation of presidential powers and we have I guess lots of examples of this. One that comes to mind that is very important is when he changed the rules of the game in reducing the powers of the elected mayors that were in the hands of the opposition. Gerrymandering is another very important element of this

political story.

Then there is another element of Chávez's vision and ideology which is the economic model. That model is less discussed in the book. Of course the book is written by two very prominent political scientists. So you could think of this as the tension between politics and economics. At the end what is going to cause the collapse? Is it going to be the politics or is it going to be the economics of the regime?

What are the economics of this regime? The economics of this regime are essentially what they call endogenous growth. Endogenous growth is a new model where basically Chávez wants to seize control over productive assets. The use of strategic assets is interpreted in a very loose way. Strategic at the beginning was infrastructure, cement, the media, but now strategic is applied to the production of glass or the production of food, et cetera. So the idea of seizing assets and the nationalizations that Javier alluded to is at the core of the economic model. Then there is another element which is a heavily controlled economy not just because of nationalizations but also because of the regulation in the different markets, price caps, a very tight exchange rate control where the system basically decides who gets access to foreign exchange and at what rate, essentially a very controlled economy.

Not surprisingly because if as you said revolution means going back to the beginning, well we know what these economic ideas produce in return. They produce very low investment rates, they produce very low economic growth, lots of inefficiencies and that's what we're beginning to see. If you look at the economic data from Venezuela, you see that private consumption, private investment and GDP have been falling since 2008 which means that the economy is not just under the effects of the global recession, it is more likely that the Venezuelan economy is in an economic implosion. That means

that despite the fact that the world economy is recovering, Venezuela continues to contract.

SPEAKER: Mexico, too. Mexico is growing very healthy now.

MR. CARDÉNAS: It's the wrong economic ideas and it's the wrong economic model that really if you are in the business of predicting the future that I think are going to change the current status quo mainly because the model has failed, everywhere else it has been adopted, it is a model that basically has a very negative effect in terms of economic growth and it produces as we have seen in Venezuela as well a very high inflation rate.

Of course in terms of elections and when it comes to elections, you can offset some of those costs with clientelism and Chávez has been very effective in using clientelism, but we know that the capacity of clientelism through the different subsidies and social programs is limited and that I think was well illustrated by the elections for the National Assembly this past September where the popular vote was won by the opposition despite the fact that because of gerrymandering of the elections the government still has the control of the majority of the seats, but we've already seen the effects of bad economic management and bad economic results on electoral results.

Is this something that can allow us to predict that then if the economy continues in this direction, Chávez will lose the presidential elections in December 2012? Or will there be another change to the political institutions that will allow him to survive? For example, the decision of changing the system of elections from direct elections, popular elections, to some electoral college where he has control of it? Things like that. Are we in the direction that Chávez will lose the elections and we'll have a smooth transition into something else or change will be a lot more disruptive? I think here all

options are open.

If you look at the literature on what the authors call the institutional resource curse which is this issue that when there is a lot of a national resource rent, it is not just this Dutch disease type of effects that you weaken the other sectors that produce exports, it is something that is much more complex, that you weaken the whole institutional setting, and Venezuela is a good example. That literature says that the institutions in Venezuela could change even more and the president could accumulate even more powers and that he can remain in power. But at the same time we know that there are some limits and I think this change of the *Ley Habilitante* is showing that even Hugo Chávez had to backtrack and reduce his presidential powers from 18 months to just 6 months and I think that probably was a reflection that he felt pressure from the international community. And it was in this very same auditorium where Arturo Valenzuela a couple of weeks ago said that this was really an undemocratic practice and that the U.S. wanted the OAS to be involved and to say very explicitly, which is what Jorge alluded to when he mentioned that Secretary General Insulza had done the right thing.

So there could be limits from the international community and there could also be limits from the internal political landscape that Chávez is already understanding that he has some constraints so that he cannot change the institutions entirely for his own benefit looking into the future.

To conclude I think that it's the economy in the end that's going to dominate, that the economic model is the wrong model, the economic model is not going to produce good results. Oil prices can go up again but that's not going to change things because the economy has been weakened at its roots, there's been lack of investment in

the past few years, capital is leaving Venezuela and those things at the end involve heavy costs in terms of employment, in terms of growth and in terms of inflation for the citizens. So I think those things are to be taken into consideration.

A lot of these authors who talk about the institutional resource curse also talk about conflict, that when there is oil and when you change the institutions, if you don't have limits you get into conflicts, you get into wars and that's very much the case in Africa. So another scenario is that we see in Venezuela something that we haven't seen until now which is internal conflict, a society divided and a society that rather proceeding through democratic channels is a society where things become more violent. Let's hope that that does not happen, but if we look at history that's what has happened in most countries under these circumstances. So that's another completely different chapter but that's a possibility we cannot rule out.

Again, if we look at the history of this situation that the authors have called the institutional resource curse, many times conflict comes along with it. In Venezuela we've seen an exacerbation of crime rates, violence that is much related to the effects of an increase in common crime, it's not as a result of conflict, but we already have in Venezuela the country with the highest crime rate in Latin America and it's only a small margin between a situation with high crime and a situation with conflict between two groups in society.

So you can come out of this meeting with a projection being as optimistic as saying the institutions that we have today will prevail, there will be elections, the economy is in the sacks and therefore the opposition will win the presidential elections in 2012. That's an optimistic kind of view. But you can also see a very pessimistic scenario where from something that has been bad we get into something that is worse which is a

more divided society very close to internal conflict.

MR. CASAS: Thank you, Mauricio. I would like to give Javier the chance to respond to some of the comments raised here, but before we do that I would like to throw a couple of questions into the mix. The first one goes to some of the things that were mentioned by Mauricio toward the end. I'm struck in a way by the lack of political violence in Venezuela. To me it seems that that's a sign of how profoundly rooted democratic culture in Venezuela is. I don't know if I'm right. My question would be given what Venezuela has gone through over the past 10 or 12 years, how much of that democratic culture is still there in Venezuela? Number one.

Number two is a much more concrete one. If you had to pin down the most-important factor upon which Chávez's political survival depends, what would it be? Would it be oil prices? Would it be the evolution of the security situation which is deteriorating very, very rapidly? Would it be support from the Army? Would it be the ability of the opposition to coalesce? What would it be, the single most-important factor?

MR. CORRALES: Let me say something about the notion of no violence because you're absolutely right that one could imagine that the level of polarization that Venezuela is exhibiting now should soon translate into armed conflict between the parties and we haven't had it. Venezuela has been peaceful now for a long, long time. In the early 1960s there was a little bit of an insurrection but that was not that extensive. One reason is that the folks who like armed conflict are in office. The former guerrillas are in office. Those who believed in that are with no question about it in office so that they're not necessarily ready to pick up arms as opposition forces.

But it could very well be that we end up in a situation where the state represses or that opposition figures become so discouraged that they could resort to

violence. I would say that from the studies that I have seen it's difficult for high-income countries, upper-middle and high-income countries, to turn to violence. The argument about the impact of the oil curse leading to violence, research shows that it's usually in very poor countries. The reason why this is the case is that in high-income countries there are other means for actors to make a living. In a very low-income country there is no business other than war so you resort to war. But in Venezuela, this is what's so interesting. It's socialism with a consumption boom. When did you see that? Venezuela is giving you this. So that because there is this level of income, this is a break on violence in my opinion or the polarization turning into violence. It could happen.

We also know that once it happens it's easy to disengage, to get the actors to disengage from violence. I can imagine many horrible scenarios in which this could occur, but in some ways despite what I said, it's not that surprising that there has not been that much violence because again guerrilla folks are in office and it's a high-income country with a consumption boom. Most people in Venezuela do not want violence and this is true of the government of course and the opposition.

We don't know what might happen with Chavismo in opposition. This is the big question. We could have a peaceful transition and election or maybe Chávez could step down, but they have arms and wings of it could become armed opposition. That presupposes one big if and that is that Chávez becomes an opposition and we know that Chávez has been always working to avoid ending up in the opposition and he's succeeding.

What is the one thing that would keep him? I agree with Mauricio that there is a lot of emphasis on oil, but what as happened now is that there is so much institutional control by the government that they're all self-reinforcing. Yes, the military,

but also the Supreme Court, also now the media, pretty soon most of the trade unions, that it is very difficult. What is that game where you stick little sticks and you move them one by one? And one of those sticks might produce the balls to drop. I don't know which of those sticks it would be because there are many sticks at the moment holding him in office and oil is one of them. He survived a pretty steep decline in 2008-2009 and oil is recovering and he seems to be okay. The reason is that now Chavismo is a conservative moment and it's conservative because a new round of folks were brought into office. They have been given control of all of these institutions and now this is a movement that is intensely pro-status quo. We will defend the gains and we will avoid the situation in which the others come back, *el novel beran*, which is the new slogan, that it's very solid because it is now a movement of defending what has been gained and because the gains made by the Chavistas are so spectacular that everybody knows in the Chavista movement that that is a regime worth defending. So I wouldn't know.

It could very well be that it's the military that will be able to signal to perhaps soften some of the aspects of the regime. One of the weird things about writing a book on Venezuela or one of the weird things for somebody who is writing a book about Venezuela but who did most of his training on Venezuela in the 1990s is that we never studied the military in Venezuela. That was a dead end. This was considered to be a case where the military was just not a salient issue. And now it is perhaps the most salient issue in Venezuelan politics and we don't know. We don't have a history of scholarship. We don't have access to this institution. It's something that I wish more people would do. I see a lot of people studying the barrios and the neighborhoods, but maybe somebody could to an interesting infiltration into the military and get us some information about what's going on there because there is reason to believe that the

military is now the key power broker in the Chavista movement. So there is no one stick. There are too many.

MR. CASAS: Thank you. Unless Mauricio or Jorge have a comment, we will throw it open. The only thing I would ask is please that you identify yourselves when you ask your question, and please be very concrete with your questions.

MS. BABBITT: My name is Hattie Babbitt and I'm with NDI. Of the many institutions you discussed, one of the ones you did not discuss at much length are the police. I was struck recently in Venezuela at the really complete lack of professional training for any of the police partly as the result of the way the capacity to hire police was given to the various mayors and so forth, and a level of corruption much deeper than I had expected and a level of violence, not political violence, just violence from the barrios on up. I wonder if anyone would like to comment, perhaps Jorge given the security situation in parts of Mexico and certainly Javier on the relevance of that in the election in 2012.

MR. CASAS: Perhaps we can take two or three.

MR. HERNANDEZ: (inaudible) Hernandez. I'm a Venezuelan student. On Mr. Corrales' previous intervention he spoke that there was no questioning of the status in Venezuela. I wanted to ask you to expand on that comment. I'm a Venezuelan and every time there's an announcement of expropriation it's highly scrutinized and highly criticized and something that you have seen sometimes is that as appropriations have been compensated and for you as a business owner or a landowner you have to choose to be paid something or nothing. But I believe that the nationalization of those appropriations have been highly criticized and I wanted to expand on that. Thank you.

MS. SHOT: Thank you. Sonia Shot with Global Vision Venezuela.

Javier Corrales mentioned that it's not actually rare that in Latin America revolutions occur and there's not been this action in Venezuela. I would like to know why we are always looking for a change because revolution means searching for a change and why we can't get the change we need? If you can comment on the role of the international community especially the U.S. and the political and economic situation in Venezuela.

MR. CASAS: Javier and then Jorge if you want to make some comments.

MR. CORRALES: To the question of the police, questioning stateism and the desire for revolutions and big changes, as for the police, this is an amazing mystery. There is no question that Chávez has had 11 years to deal with this problem and his consistent policy response is I'm not going to deal with it. This is a war that he knows he cannot win, so why start it? To win the war against crime requires a competence at the level of the state that he doesn't have. To do a war against the drug trade requires links with the United States so he doesn't want to do it. What is so interesting is how come this isn't politically costly to him. It is somewhat. There is no question that this is perhaps the most-important issue in the electorate but I think Chávez feels that engaging in a war against crime will force him to attack some important supporters, some important folks so that he is willing to allow for this level of impunity.

It is perhaps Chávez's second redistributionist policy, the fact that there is crime, so some folks like Chavisma and they think that this is another form of redistribution of wealth from those to have to those who have a lot many times because crime occurs now against poor folks in the barrios by professional muggers, but it's a form of distribution. And it's also a form of population control that he seems to be okay with so that allowing for crime produces this negative outcome that the population is

exhausted from it and drained from it but the cost of doing something about it is very high as well so that he's letting it go. It's remarkable how little effort is being done on the front of crime, both street crime and drug shipment crime in Venezuela. Venezuela does not have the capacity to handle it so that they're going to let that continue.

I might have misspoken. Of course the opposition is horrified by the stateism, but one of the things that we observed in the 1990s when we were studying privatization is that one of the most-important critics of the privatizations themselves were members of the ruling parties. I wrote a book about that and many others have written how the presidents needed to make sure that their own parties came onboard and this was always a difficult battle within the ranks of the incumbents. This is what you don't have in Venezuela. The way that the opposition decries the nationalizations is not that strident as say for example the way one would decry raising the price of gas. Yes, they complained but this doesn't seem to be an electorally winning issue for the opposition. I may be wrong, but it's this general quiescence about the expansion of the state especially coming on the heels of a decade, the 1990s, when there was so much scrutiny of large transactions by the state in the form of privatization. I think it's interesting for Venezuela and also applicable to other countries.

Why do Latin Americans like to have these big foundational moments? We also have this in literature. I don't know. I may say that revolution is probably overstated. This demand for starting from scratch and throwing things out is very strong in Latin America. We are all familiar with the list of problems in the region from economic problems to the collusion of politicians to the oligopolic concentration of wealth. The list of grievances is very large but one could confront grievances through reform but there is this idea of political revolution. I have become convinced that it is an element, that this

desire to see things to be started from scratch is an undemocratic element. It is an undemocratic element because it classifies the status quo as indiscriminately objectionable and therefore we don't want to deal with this, and in a democracy you cannot have that kind of an attitude toward the political system. You have to work with the forces that you have rather than to try to reform.

But you're absolutely right that it's strong. It's not predominant in Latin America but it continues to be an important preference of not a trivial number of leaders and civilians and it is one of the areas where I think there is a democratic deficit, this pocket of citizens and leaders who long for big sweeping changes, revolutionary as they often call them.

MR. CASAS: Jorge, how serious a political problem is crime in Latin America in general?

MR. CASTÉNADA: This is one of I think the mysteries of Venezuela at least. Javier I'm sure looked at the exit polls from December, I haven't looked at them carefully, but the impression one has is that perhaps the two most-important factors in Chávez's less-successful performance in the elections than before are, one, the (speaking in Spanish), the problems with food supply but, two, the violence in the barrios. The criminality or delinquency or violence is becoming an electoral problem, perhaps not a political one, but an electoral one. Still, one would think that Caracas is the most violent city now in Latin America. It makes Juarez look like Chevy Chase or something like that, so that one would think that there would be a serious price to pay and so far there isn't really that much of a price to pay given the levels of violence in Caracas and on weekends which is a tradition, also. It didn't start with Chávez, but it has gotten much worse.

I tend to agree without knowing much about it with Javier's explanation that this is not a fight Chávez wants to pick and he doesn't want to pick it because he would have to, and Ambassador Babbitt brought up, follow Calderón's road which is to use the army. He doesn't have a police force so that if he wanted to declare a war on crime and/or on drug trafficking, he would have to use the army and he's much too smart to do something silly like that which is no reflection on Calderón of course, just that he is much too smart to do something like that. He's not going to use his main source of support and get it involved that directly in crime fighting. Even in drug enforcement I think the army helps some of the traffickers do what they have to do but it's done carefully and cautiously without making that much of a mess about it.

On the other point that someone mentioned, I think Sonia did, the question of American policy and Javier didn't mention it, it's very strange but if you really look with the exception of maybe a couple of days before the April 2002 coup, and I still have my doubts about that. I don't know John if you still have your doubts about it. But I have my doubts about how involved the Americans were. With that exception you find very little difference between Bush's 8 years and now Obama's 2 years of benign neglect or doing what Ambassador Maestro said from the very beginning, look at what he does and not what he says, he's been doing a lot of what he's been saying but still the United States has continued to maintain a policy of looking the other way, of really not engaging Chávez at least in rhetorical confrontation, which has probably been a good idea. But it is an idea which obviously puts others in a difficult situation because if you had somebody else do this, every Latin American leader is scared, one, of the fifth column; two, of his colleagues leaving him or her alone; but three, of thinking that the United States is on your side and then finding yourself without even the United States on your

side, which makes life difficult because why do you want to pick a fight with this guy if the Americans don't want to pick a fight with him?

MR. CASAS: Ok, another round.

SPEAKER: Thank you, Kevin. This question is, I'm puzzled that everything we read about Venezuela is in terms of what Chávez is up to and it's not clear to me whether he's a strategic threat or just mischief. To that question, does Chávez run his own show or does he have a politburo? Does he have a Insulza? Does he have a baria? Because no one ever mentions anybody. Occasionally the foreign minister. But it seems to me that we attribute all of these things that we heard this morning and others to Chávez. It seems like he's a genius or is he just improvising or does he have a system? And again does it present a strategic threat to the region? I guess I would ask Mr. Corrales first.

MS. GIACAMAN: This is Viviana Giacaman with Freedom House. I was pleased to hear that Javier you were putting Venezuela in a broader context because I think that that Venezuelan exceptionalism hasn't been helpful and it's often studied in that way. In order to put Venezuela in a broader context, let me share that we released our annual survey of political rights and civil liberties 2 weeks ago in which we look at every country in the world and one of the findings for this year was that we see a trend where authoritarian or semi-authoritarian governments in the world are acting with much more confidence. They are not receiving any sort of resistance from their democratic counterparts and they are sort-of acting together in a much more cohesive way.

Jorge offered an explanation of why Venezuela has not met resistance as of the fifth column. But also my question is whether you think that the peer-to-peer support by other semi-authoritarian or authoritarian governments around the world helps

him.

MR. MASTOOK: John Mastook, a former U.S. diplomat. First a quick comment. In April 2002 we didn't know what the hell was going on. We couldn't figure it out for a couple of days, and nobody else did either. The big mistake was probably following the lead of the Rio Group who pretty much accepted that Chávez was gone, but that's for another day. I have not heard any mention of the word Iran, China, Russia. Here in Washington there is a lot of talk about linking Venezuela with those three countries in one way or another particularly around Iran, recently and of course China which is the flavor of the year. I'd like to hear some comment.

MR. NELSON: Joan Nelson, American University. I was intrigued by statements on the one hand from Mauricio Cardénas about economic erosion in Venezuela, and Javier's emphasis on a consumption boom in Venezuela. Those are not necessarily contradictory but it would be enlightening to discuss a little bit the recent distributive effects of economic trends.

MR. CASAS: Javier, and Mauricio if you want to tackle the last question.

MR. CORRALES: Let me start by answering the notion of semi-authoritarianism as the new trend in political regimes. I have seen the data from Freedom House and everywhere and we now live in a situation where old-fashioned autocracies are dropping or declining, democracies aren't necessarily expanding but we see more of Venezuela's semi-authoritarian regimes expanding and there is no question that they form a club of mutual support that is hard to beat. In many ways the expansion of semi-authoritarian regimes erodes any project from the West to expand democracy. All that institutional architecture that was developed in the 1980s and 1990s to help democracy now has met its rivals which is other countries that either are authoritarian or

semi-authoritarian and are willing to help each other significantly which makes me jump into the question of Iran, China and Russia.

Of all three I would worry less about the China picture. China has made a political decision not to help Chávez in his political fight with the United States. It is willing to help Chávez and Venezuela in developing oil but not to pick a fight with the United States and in many ways China is an ally of the United States more in Venezuela than it is an ally of Chávez.

With Russia and Iran, with Russia the key problem is that Russia is an arms vendor of big magnitude and Venezuela buys them and so of course this is going to be a very solid relationship. With Iran, again there is all this mystery behind it. Everybody is trying to find evidence of something that smells, sounds, looks nuclear. We might find it. I don't know. But the evidence is just not there so a lot of the discussion is preemptive and in Washington the arguments about preemption matter and I think even if we don't have the evidence there is the question. One of the things that has changed if I may say so on the question of is it a strategic threat or not, I don't think that Venezuela has become a lesser or a greater strategic threat than it was 3 or 4 years ago, but what I find is that the tolerance in the United States is declining. Although it is absolutely true that in terms of White House policy there has been continuity to treat this as a low-level fever, the Republicans are now in the opposition and when the Republicans were in office and the White House produced a policy of benign neglect, the Republicans went along with it. But now that they're in the opposition, the Republicans are not willing to go along with this as partisan politics so that in Washington we now see alarms sounding off more frequently coming from the opposition and this is a new dynamic in our relationship with Venezuela.

It could very well be that Venezuela becomes a rogue state, but the truth of the matter is that now in the United States the big opposition party has lost its patience with Venezuela so that arguments about doing something preemptively are going to be more vigorously made in Washington and we already see that. That is something that we need to think about how Washington itself in dealing with Venezuela deals with Congress which is the key question. We should continue to expect closer and greater ties between Venezuela and semi-authoritarian regimes and full-blown authoritarian regimes, Russia and Iran. It makes sense economically but especially politically.

On the economic question and the consumption boom, let me say something if I may, Mauricio, on how these are not incompatible. The consumption boom was the result of pro-cyclical management of the economy. In boom times you overspend and now you have the deficit and this is producing a consumption shrinkage of sorts but it hasn't been that severe. You also have in Venezuela the result of the Dutch disease for the first time ever. Venezuela is a petro state and in my opinion didn't have as much of the Dutch disease. The Dutch disease occurs whenever you have a commodity that becomes so valued abroad that it distorts your exchange rate, it makes your other exports uncompetitive and it makes your imports very affordable so that you see an arrival of huge imports and the data is unmistakable on this under Chávez where what you see is a massive import bill financed oil and the overvalued exchange rate. This import bill is not only killing the economy much worse than anything that was done during the era of neo-liberalism and it's a sign of a distortion, but in terms of meeting the demands of consumers it does its job. This high import bill is brought to you by socialism in the 21st century and this is why you get this huge effect of a huge economic distortion nevertheless pleasing those who have consumption power. This is why the economy

might not necessarily be that noxious at least in the short-term.

MR. CASAS: Mauricio?

MR. CARDÉNAS: It's good that you mentioned the contradiction because there is a contradiction. I don't think there is a consumption boom in Venezuela and I'm not basing my comment on speculative remarks. *Banco Central de Venezuela* still does a relatively good job in terms of the official statistics at least at the level of the aggregate national account. If you go to their website and you look at their quarterly information, up until September of last year shows that without any ambiguity there has been a decline in private consumption and in private investment. It's true that in the past, say in the initial yeas of the revolution in the mid-2000s when oil prices were peaking, there was a consumption boom and the economy recovered very fast after the strikes, but that certainly has not been the case for almost 2 years. The economy is contracting. Last year Venezuela's GDP contracted by about 4 percent, this year it's expected to contract again despite the fact, and it is very important to say this, that Latin America as a whole is expanding like crazy so that Latin America is going through a very good phase in terms of economic Russia but Venezuela is certainly the exception. I think it's because the economic model as I said before is a failed one and it's not going to give results. So I think that the consumption boom is no longer part of the equation. Quite on the contrary, we have a situation that is becoming very dire for the Venezuelans.

The one question on the economics of Chávez is oil production. As you know, oil production was at its peak at very close to 3 million barrels per day. There is debate about what is production today, but some people argue that it's 2.3 so that there has been a significant decline. Is Chávez going to reverse that? Is heavy crude oil from the Orinoco belt going to rescue the regime? Is production going to go up again? No

one knows. There is a lot of investment going on. Many international corporations are playing in Venezuela and are doing the exploration with PDVSA but no one knows.

Let me say in this context a word that connects to the point that John mentioned about China. It is certainly the case that China and Venezuela have been increasing their level of commercial and investment relations. Last year the Chinese approved a $20 billion loan to Venezuela and we all heard about that and that certainly is going to be part of these investments in heavy oils. The point I want to highlight here is that normally these loans are simple contracts between the entity that is receiving the funds and the government is giving them, in this case the Chinese Development Corporation and on the other hand the *Fundo de Invesiones de Venezuela*, the recipient entity. The Chinese did not want to do it that way. They wanted a law enacted from the National Assembly specifying in detail all the terms of the contract.

To me, and this is my reading, the fact that this was elevated to a law where it's actually stipulated that Venezuela will pay back the loan with sales of 300,000 barrels of oil per day into the future shows that the Chinese themselves were a little bit uncomfortable by leaving this just in contracts by the Chávez administration. They wanted to have this as a law so that they can show this law in the future and they get their money paid back regardless of the changes and transitions in the political landscape in Venezuela. That to me shows pragmatism on the part of the Chinese that they know that in the future they may have to deal with a different government.

MR. CASAS: We have 5 more minutes and we can take a couple more questions.

MS. TORRES: Maruja Torres, Simón Bolivar University. I love your book and the chapter on foreign relations is excellent, but I must disagree with one single

detail. You say that Chávez when he was a student at Simón Bolivar already showed his anti-Americanism. That's not true. I was his professor at that time and later on after the coup and after he was out of jail, he came to my seminar on the military and he shared the seminar with the military people from the embassy. He was very curious of the United States because he wanted to come here. One day he told us that the Americans denied his visa and I don't know if Ambassador Maestro can tell you if it's true. Chávez lies a lot. After that he changed. He was very, very surprised. He related bitterly and Fidel Castro visited him as a head of state and that made a difference.

MR. WALSER: Ray Walser with the Heritage Foundation. We've done a very excellent job of -- horizon so a final one is that Cuba seeing that we supposedly face a substantial change in the private-public relationship on the island. Where do you see the relationship between Venezuela and Cuba going? Are there going to be any substantial changes in the coming year or are we still simply waiting for the Castro brothers to pass from the scene?

MR. CASAS: I'd like to pick Jorge's brain on that, Cuba and Venezuela and then give Javier the last word.

MR. CARDÉNAS: Javier mentioned that everyone has been pointing to this sort of symbiotic relationship that Cuba could only with great difficulty survive without the Venezuelan subsidy today. We've said that so many times about Cuba over the past 50 years and they've survived everything (speaking in Spanish). I can understand that they could put up with this, too, but it would be a tough one. Conversely, I do think that Chávez would not be comfortable placing his security in the hands of the Venezuelan military or security people. He would not be happy with that. The rings of security around him, *los amigos* (speaking in Spanish), have been really decisive in the case of

Chávez as they were with Fidel for 50 years in terms of guaranteeing physical integrity. And if Chávez were to have to do without them I think he would be very uncomfortable and in a much more precarious situation.

So you have a total radical mutual dependence between the two regimes. Neither of the two can really survive without the other. As long as that is the case and both remain relatively stable which is so far true, I think that neither will collapse. What would happen if either of the two were unable to continue to provide to the other what they provide now? That could be a very significant change, but I don't see that happening and I don't think anyone else does really. Javier of course knows more but I don't see either of the two ceasing to provide what they provide to the other.

MR. CORRALES: Yes, we know that Raul Castro doesn't like Hugh Chávez but that means nothing. The truth of the matter is that, I have said this before and I am sorry if you have heard this but it's worth repeating nevertheless, what each country is providing the other is very cheap for the sending country. The amount of oil and the subsidy that Venezuela sends to Cuba is peanuts. The doctors in the intelligence service that Cuba sends, they have a surplus of that so that it's peanuts. So it's an incredibly solid trading relationship that is going to survive.

There is no question that Chávez is become more stateist. We know now that in Chávez, Raul Castro is about to fire 1.5 million and hoping that that would produce some kind of a private sector. It's a problem but they're moving in different directions and my point is that it doesn't matter; their relationship is going to stay very solid. As I once learned when I met a Cuban doctor sent by Cuba to Venezuela who was loving in Venezuela. He was a little upset and annoyed by the crime wave, but other than that not bad compared to Cuba. So he's the biggest Chavista. He is the one. I'd never

want this relationship to end because it gets me to leave the other person which were his words. So interestingly even these medical doctors and all this labor that goes there under conditions that are in violation of some ILO stipulations are actually now supporters of the status quo so that this is not a policy that is contested even from below in Cuba.

I love the story that I am a professor and I wish I had a student that is famous. I've never had one. I don't know if you feel proud of that. I'll tell you one story. I teach this class on Cuba and the revolution and I really like to feel at the end of the class that the students will end the semester by saying what a failed model. How terrible. Let's hope for something else for Cuba. That's my goal. One student said to me once, I loved your class. I'm more Marxist than ever before. So I'm wondering that was me? Was that you that gave us Chávez? Of course not. Teachers don't matter that much in terms of ideology, but I'm glad you shared that story and I will stand corrected. Thank you.

MR. CASAS: Thank you very much. That was wonderful, that was very interesting and the issue is not going away is it? We're going to continue the discussion and we'd certainly like to have you along for the ride. For the time being thank you very much to all of the panelists, Jorge, Mauricio and particularly Javier, and also thank you giving us a wonderful book. I would like the audience to join me in a round of applause.

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