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POLITICAL INSTITUTIONS, POLICYMAKING PROCESSES, AND POLICY OUTCOMES IN VENEZUELA

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Abstract¹

This case study of Venezuela's democratic institution and policymaking processes is part of the broader regional project based on the theoretical framework developed by Spiller, Stein and Tommasi (2003). The framework focuses on the conditions that foster political cooperation among political actors to sustain inter-temporal policy commitments. The study shows that the political institutions that established Venezuela's democracy in the 1960s were deliberately set up to generate a cooperative equilibrium with low stakes of power. Constitutionally weak presidents and strong centralized political parties characterized this institutional framework. Cooperation induced a relatively effective policymaking process and good policy outcomes. However, an oil boom and its aftermath, in the 1970s and 1980s, unraveled the cooperative framework and induced rapid economic decay. The political reforms implemented in the late 1980s to improve the democratic process, although in itself desirable, further weakened the party system and induced a highly uncooperative and volatile policymaking process. The recent political reforms, increasing the stakes of power, have stimulated a complete breakdown in cooperation and a highly polarized political system.

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1. Introduction

Venezuela's democratic history, from 1958 to 2004, offers a striking case study of political institutions and policymaking processes. It used to be the model stable democracy in the troubled Latin American region, but in the last decade it has become one of the least stable and most polarized. It used to have one of the best regional economic performances, but has had one of the worst performances in the last 25 years. Recent studies attribute a significant part of Venezuela's economic decline to the dramatic reduction in per-capita oil income and the increasing volatility of oil prices (Hausmann and Rigobón, 2002; Manzano and Rigobón, 2001; Rodríguez and Sachs, 1999). Political instability and a decline in the quality of policymaking might explain why Venezuela has not returned to a development path, but they cannot explain the size of the initial fall (which was largely an exogenous outcome).

The research project to which this case study belongs evaluates how political institutions have influenced policymaking processes and how in turn the latter influenced the features of public policy outcomes. It is structured under the theoretical framework advanced by Spiller, Stein and Tommasi (2003), focusing on the conditions that generate political cooperation among political actors to sustain inter-temporal policy commitments. Environments in which there are few relevant players, repeated interaction among them, and small discount rates would tend to produce long-term cooperation among the key players. As a result, first-best policies would tend to be stable across administrations and only change significantly in response to economic shocks.² Moreover, according to the framework, cooperative policymaking processes would tend to produce policies with good outer-features such as stability, coherence, public regardedness and flexibility. But as will be argued in the concluding remarks, the Venezuelan case shows that cooperation does not necessarily imply all the good features mentioned.

This paper shows how the political institutions that established Venezuela's democracy induced a remarkably cooperative policymaking process, which generated relatively stable policies. However, the decline in performance prompted by the fall in oil revenue and the institutional and economic reforms that were implemented to deal with it weakened the cooperative incentive structure. As a result, policies became more volatile and shortsighted.

² In order to understand the nature and objectives of this case study, it would be advisable to read the theoretical papers upon which the regional projects are based: Spiller, Stein, and Tommasi (2003) and Oliveira and Scartascini (2003).

To better understand the structure of this project, it is important to distinguish five sets of variables and their behavior in Venezuela:

1) Economic and Social Performance

This project does not directly study the determinants of economic performance. As argued before, the policymaking processes and the policy features only partially determine economic performance. Other variables such as exogenous economic or political shocks may have as much explanatory value. As a result, economic and social indicators only give us indirect evidence about the dependent variable, i.e., the outer features of public policy outcomes. In the country case of Venezuela, this distinction is particularly relevant since economic performance (as well as the other variables) is significantly affected by the presence of a key exogenous variable: oil income.

The stylized evolution of economic performance under democratic rule in Venezuela has been:

- From 1958 to 1978: good economic performance, high growth, low inflation, decreasing poverty, and low unemployment.
- From 1978 to 2004: dismal economic performance, worst per-capita GDP performance in Latin America, high inflation, increasing unemployment, and increasing poverty.

2) The Features of Public Policy Outcomes

Features of public policy outcomes such as stability, flexibility, coherence, public favor, and building of policy capacities are desirable because they tend to contribute to development. According to a variety of indicators, public policies in Venezuela in the last two decades can be generally characterized as having very low quality. For example, the World Bank Institute indicators placed Venezuela among the lowest regional positions on governance quality. Although we do not have comparative data on the first three decades of democracy (1958-1988), the evidence reviewed seems to suggest that the quality of public policies was significantly better and has tended to deteriorate.

Most analyses of Venezuela's public policy point to three distinguishable stylized periods:

- In most policy areas the period 1958-1973 seems to present the best public policy features: stability, coherence, some building of policy capabilities.
- The period 1973-1988 is characterized by a decline in some public policy features, the unraveling of some policy processes, and inefficiency in certain areas. However, in some key areas (e.g. oil industry, central bank), the relative good quality of public policy was preserved.
- The period 1989-2004 is characterized by a progressive and dramatic deterioration of most public policy features: volatility, incoherence, and disinvestment in policy capabilities. There were significant attempts to reverse these trends and some excellent technocratic teams implemented successful reforms in specific areas (oil opening, privatizations), but political instability and lack of state capacity did not allow them to bear significant fruits.

3) The Characteristics of the Policymaking Process

Two periods with significantly different characteristics can be identified:

- The first period from 1958 to 1988 is generally characterized by an institutionalized cooperative process, low number of key players, and repeated interaction. It was the result of the consolidation of a centralized and concentrated party system, with disciplined parties, low fragmentation, low volatility, a marginal Legislature, and controlled delegation by party leaders to a predominant Executive.
- The second period from 1989 to 2004 is generally characterized by the decline and eventual breakdown of cooperation, a volatile process, and many fragmented and polarized actors. Among the new key actors are the military (two coup attempts), civil society groups, and the regional authorities. The last sub-period, President Chávez's administration (1999-2004), has brought a dramatic acceleration of political confrontation and partisan policymaking.

4) *The Institutional Foundations*

Three periods with different institutional frameworks can be distinguished:

- The 1958-1988 period of the Pact of *Punto Fijo* and the 1961 Constitution is characterized by the existence of low stakes of power, a constitutionally weak but informally powerful president (control of oil rents, appointment of governors) and an electoral system with incentives for centralized disciplined parties (closed lists, no regional elections).
- The 1988-1998 period is characterized by weak presidents, regional elections, incentives for political fragmentation and a decline in party discipline. In this period, institutional and political instability were the norm.
- The 1999-2004 period of the Chavez Revolution and the 1999 Constitution is characterized by high stakes of power, a constitutionally powerful president, extreme concentration of power and a weakening of checks and balances.

5) *Oil Dependence and Oil Shocks*

Venezuela has been oil dependent since the 1930s, developing a particular political economy in which the state is financed largely by oil revenue. The dramatic importance of oil performance makes it very difficult to control for the effect of this variable in the analysis. The evolution of oil revenue during the democratic period can be stylized as:

- 1958-1973: decline in real oil prices, increase in oil taxes and output, progressive increase in oil fiscal revenue.
- 1973-1982: oil price boom, fiscal revenue explodes, volatile oil revenue.
- 1983-2002: declining oil price tendency, volatile oil revenue.

For analytical purposes we established the periods of analysis based on the behavior of the independent variables (i.e. institutional foundations). However, in the analytical narrative we identify additional sub-periods marked by how the behavior of the exogenous variables affected other variables.

1.1 A Stylized Story

The power-sharing Pact of *Punto Fijo*, the institutions of the 1961 Constitution, and the search for stability guided the period of 1958-1973. The institutional foundations generated low stakes of power, induced a generally cooperative policymaking process and relatively good policy features. The system privileged stability over flexibility or efficiency. Distribution of oil revenue was a key element. The system evolved into a cartel-like political arrangement. Economic performance was good in part due to a mildly favorable external environment (stability, progressively increasing oil revenue).

In 1973-1982, the oil booms created significant distortions in the political system and the economy. It made the Executive more powerful, increased the stakes of power, and stimulated deviations from cooperation. Abundance increased incentives for inefficiency and corruption. As a result, cooperation declined and the quality of policy suffered significantly. The dramatic oil price fall in the 1983-1988 period induced rapid economic decline and political disenchantment. Nevertheless, in the 1973-1988 period, the basic policymaking rules and the institutional foundations still remained relatively stable. The cartel-like features of the two-party system were exacerbated. The system became closed and rigid. Some of the same features that helped regime survival and policy stability in the first decade started generating bad and rigid public policies.

Political (and economic) reforms were begun in 1989. Combined with a significant change in voter preferences—a product of the previous poor economic performance—they resulted in the deconsolidation of the political system. Fragmentation and volatility became the norm. Policymaking became non-cooperative. The outer features of public policy deteriorated even though some efficient market reforms were introduced. Instability decreased the likelihood of establishing a new cooperative arrangement. The Chavez Revolution prompted the total deconsolidation of the party system. Cooperation broke down completely. The new institutions increased the stakes of power and made cooperation very costly. The quality of policy features seems to be at the lowest level in democratic history.

1.2 Road Map

This study is structured as follows: Section 2 provides an historical background of the institutional origins and transformations that Venezuela's democratic system has faced from 1958-2004. Section 3 presents the characteristics of the policymaking process in the first period

(1958-1988) and its institutional foundations. Section 4 presents the characteristics in the second period (1989-2004) and its institutional foundations. Section 5 describes the outer features of Venezuela's public policy outcomes. Case studies of four policy areas are analyzed to help characterize these outer features.

2. The Rise and Decline of Venezuela's Democratic Party System

Venezuela's first democratic experience in the twentieth century (1945-1948), known as the *trienio adeco*, was short-lived. In 1945, the Acción Democrática (AD) became the ruling party with the help of military groups that ousted President Isaías Medina, and called for democratic elections that it won with a large margin. However, the same military groups that helped it rise to power deposed the AD government in 1948. The party had alienated many powerful groups by its hegemonic way of ruling. Opposition parties, the Church, and business groups generally supported the coup. A 10-year military dictatorship followed, in which AD was proscribed and its members were exiled, prosecuted, and some assassinated. In 1958, the dictator Gen. Marcos Pérez Jiménez was overthrown by a military and popular uprising and democracy was reinstated.

2.1 The Pact of Punto Fijo

The transition to democracy in 1958-1961 was consolidated under a set of institutional arrangements based on a multiparty elite agreement called the Pact of *Punto Fijo*. The pact was agreed upon by the leaders of the three main political parties, Rómulo Betancourt of the social-democratic AD, Rafael Caldera of the Christian-democratic COPEI, and Jóvito Villalba of the center-left-nationalist URD. The contents of the pact included arrangements for power sharing, such as the distribution of Cabinet positions among competing parties, and the implementation of basic common social and economic policies regardless of the presidential and legislative electoral outcomes. In addition, the pact stipulated the need to create corporatist mechanisms that guaranteed that labor unions and business interests, through umbrella organizations such as CTV and Fedecamaras, respectively, would be consulted and incorporated into the policymaking process. The Catholic Church also supported the pact by signing an ecclesiastic agreement with the State in which it committed itself to help moderate conflicts and was guaranteed public financing.

The nature and consequences of the two democratic constitutional moments of 1947 and 1961 clearly reveal the different correlation of forces that prevailed and the learning process that

occurred between them. In 1947, the AD took advantage of its overwhelming popular majority to call for an elected Constitutional Assembly. It received 78 percent of the vote and 86 percent of the seats and used its absolute dominance to impose a constitution very close to its preferences, alienating many relevant actors. But by 1958, the AD's dominance had declined. Betancourt (AD) won the presidency, but this time the party received 49.5 percent of the votes and 55 percent of the seats in Congress (chamber of deputies). Based on the spirit of pact making, the 1961 Constitution was crafted by a special congressional committee co-chaired by Raul Leoni (AD) and Rafael Caldera (COPEI). Party leaders decided that regardless of the electoral outcome of the congressional elections, the committee would be balanced. It included eight representatives from the AD (36.4 percent), four from the COPEI, four from the URD, three from the Communist Party (PCV) and three independents (Kornblith, 1991). AD leaders agreed that the composition of the constitutional committee would over-represent the opposition. As Corrales (2003) has recently argued, the result of this decision was "a constitution designed to prevent single party hegemony."

The pact had an enduring impact on the type of presidential system adopted by the 1961 Constitution, which was aimed at limiting presidential powers, diminishing political polarization, restricting electoral competition, and creating political institutions that would foster consensus for conflict resolution (Rey, 1972). The learning experience from the breakdown of Venezuela's democracy in 1948 allowed political parties to understand the importance of designing institutions to mitigate the stakes of holding power (Rey, 1989). According to Penfold (2001), political leaders explicitly crafted the pact as an institutional arrangement to modify the payoff structure of the game to induce cooperation. The rules, reflected formally in the 1961 Constitution, were basically aimed at creating trust among the different political actors so that even in the case of a unified government in which a political party had control of both the presidency and Congress, formal political institutions would not allow governments to pursue one-sided policies based on this dominant position.

The *Punto Fijo* pact was also designed as a means of excluding certain political actors, such as the Communist Party (PCV), from having a significant role in policymaking. The pact signatories believed it was necessary to exclude the communists in order to provide the United States and the private sector with sufficient guarantees that Venezuela was clearly aligned with a capitalist system in the context of the Cold War. This situation induced the PCV, as well as the

most radical members of AD, to form a guerilla movement. It was significant in Venezuela during the 1960s and came to an end in the early 1970s with the pacification process and the re-entry of the left into the electoral arena. During Betancourt's presidency, in addition to the leftist guerrillas, the emerging democracy also faced two important military coup attempts, one presidential assassination attempt, and other less significant attacks. These threats to democracy helped to strengthen the cooperation between the participants in the pact. Once the external threat vanished in the early 1970s, deviations from cooperation were more common.

As will be developed in the next section, several specific features of Venezuela's presidential system helped to lower the stakes of power and to induce cooperative behavior among competing politicians. Some key institutional features strengthened parties over presidents: 1) a constitutionally weak presidency, with limited legislative prerogatives, 2) the ban on immediate presidential re-election, forcing incumbents to wait 10 years before being able to run again, and 3) the absence of term limits for legislators, allowing long-term careers for party leaders in Congress. Setting fully concurrent elections between presidents and the Legislature induced cooperation between presidents and their partisan ranks, and reduced party fragmentation. Another feature that reduced the stakes of power and induced cooperation among parties was the constitutional provision establishing a proportional representation system to elect the Legislature. This feature guaranteed that minority parties would gain access to seats in Congress. These rules, along with the existence of centralized and disciplined political parties, such as the AD and COPEI, helped consolidate Venezuela's party system throughout the 1960s and 1970s. The existence of centralized and disciplined political parties was to a large extent the direct result of a proportional electoral system with closed lists. This system granted party leaders extreme powers to control and discipline their party ranks. These features of Venezuela's democracy led some authors to typify it as a *partyarchy*, given that party leaders had supreme command over all party and public affairs (Coppedge, 1994).

Finally, the Constitution limited electoral competition by temporarily restricting the direct election of governors and mayors. The objective of limiting Venezuela's federalism—provisionally, since the 1961 Constitution established that a law (enacted by two-thirds of Congress) could activate Venezuela's federalism, as later occurred in 1989—was reduce electoral competition by restricting the number of arenas open to contestation (Penfold, 2003). The dominant political parties believed that increasing electoral competition at a moment of

democratic transition would intensify political polarization and fragmentation, and reduce cooperation among political actors (Penfold, 2002). However, as different authors have noted, although the features limiting competition in the 1961 Constitution contributed to the consolidation of democracy in the short-term, they proved in the medium and long run to have negative consequences from both the political and social points of view (Karl, 1986; De la Cruz, 1998). By limiting political competition, the Pact of *Punto Fijo* and the Constitution planted the roots of a democracy characterized by its centralization and exclusion. It was only in the 1990s that Venezuela's federalism was activated, contributing to the decline of the traditional party structure (Penfold, 2002).

In addition to institutional design, party leaders used the distribution of oil fiscal resources as a key element for inducing political cooperation. Various authors have discussed the relationship between oil revenue and their effect on the party system (Karl, 1986; Rey, 1989; Penfold, 2001; Monaldi, 2002). For example, Karl (1986) argued that oil was the key economic factor that helped create the modern social conditions for the formation of a cohesive party system, and helps explain the continued support for the pact that solidified the democratic transition. According to this argument, without oil there would have been little chance for democracy in Venezuela at the time. Other works have given relatively less importance to oil revenue, emphasizing the institutional aspects of Venezuela's democratic process (Rey, 1989). By themselves, oil fiscal revenue could not explain the origin of institutional arrangements such as the *Punto Fijo* pact. Instead, political leaders strategically used oil income distribution as a utilitarian mechanism to obtain support for the democratic system. According to both viewpoints, it should not be a surprise that the decline of the *Punto Fijo* party system coincided with a general decline in oil fiscal income during the 1980s and 1990s (Penfold, 2001).

The low-stakes institutional framework allowed the country to avoid the authoritarian fate of most other oil exporters. Oil income was distributed to key political actors regardless of who was in control of the presidency. In addition, rising oil income allowed for increasing spending on public goods that promoted growth. Presidents Rómulo Betancourt (1958-1963), Raul Leoni (1964-1969) and Rafael Caldera (1970-1974), used oil revenue responsibly, with significantly positive economic and social results. Oil resources were heavily invested in the creation of national education and national health care systems. Significant resources were also directed towards building infrastructure. According to Hausmann (1995), economic growth

during this period was based on the credibility of a fixed and unified exchange rate and on a responsible fiscal policy. Like other countries in the region, Venezuela pursued an import substitution strategy with the strong participation of the public sector. The state financed private sector initiatives and engaged in the urban transformation of certain regional poles. Despite the strong interventionist bent that this economic model had, fiscal policy remained conservative.

2.2 The Curse of Oil Booms

It was only when the first oil windfall appeared in 1973 that fiscal policy started to be relaxed. Policy discussions revolved around the best manner to invest the fiscal surplus. During the presidency of Carlos Andrés Pérez (1974-1979), expenditure in existing state companies increased dramatically, new state owned companies were created, and the level of foreign debt started to rise exponentially. By 1976, the government was running a fiscal deficit that reached 14 percent of GDP, forcing the subsequent Herrera administration (1979-1984) to implement a fiscal adjustment. Nevertheless, a few months after the Herrera's inauguration, another oil windfall allowed the government to abandon the adjustment program and instead increase expenditures. In 1983, oil prices declined significantly, and as a consequence, a large deficit in the current account pressured the government and forced the Central Bank to devalue and abandon the fixed exchange rate to adopt a multiple rate system. The Central Bank lost more than \$10 billion in international reserves. This crisis hampered economic growth and initiated a deep recession that lasted almost three years. New fiscal adjustments were introduced and protectionist policies were tightened (Hausmann, 1995).

President Lusinchi (1984-1988) believed that the negative oil shocks were not permanent and that significant economic reforms could be postponed. As a result, by 1988 the fiscal deficit reached 9.9 percent of GDP and net international reserves reached their lowest point. Price controls were causing serious shortages of basic foods, and inventory accumulation started to grow as private agents believed that a massive devaluation had to be adopted. This situation proved a serious challenge for Pérez (1989-1993), who had won his second presidency in 1989 under a similar populist platform. Forced by the circumstances, he decided to implement a radical adjustment program.

This attempt to introduce market economic reforms and its consequences, particularly the significant opposition launched by the president's own party (AD), will be explained below. However, it is important to emphasize the impact that the poor economic performance from

1978-1989 had over the political system, particularly regarding the different institutional changes that were adopted to confront discontent, such as the activation of the federal system and the reform of the electoral system. During the 1980s, Venezuela became one of the worst examples of economic underperformance in Latin America. Between 1978 and 1988, GDP per capita decreased at an average of 1.8 percent per year. This poor performance started to undermine voter confidence in parties such as the AD and COPEI. Many voters began to perceive the state as being captured by rent-seeking politicians who did not represent their interests.

2.3 The Sources of Political Reforms

Beginning in the early 1980s, several social actors, minority parties, intellectuals, business groups, and NGOs demanded to deepen democratization as a means of increasing accountability and improving performance. These demands were a natural reaction to a regime in which political parties had pervasively controlled almost all important spheres of social life. National party leaders had a monopoly on the nominations of candidates to the national Legislature as well as to the state and municipal assemblies; they appointed judges according to party loyalty; and they exercised strong discipline over their members (Coppedge, 1994). More importantly, until 1989, regional and local politics had been absent in Venezuela's democracy. Presidents had the right to appoint governors and the mayoral position did not previously exist. Governorships were assigned to members of the political party in power and were used as instruments to foster patronage (Geddes, 1994).

President Luisini (1984-1989) recognized the need to introduce a series of institutional reforms to help solve Venezuela's political accountability problems. He created a *Presidential Commission for the Reform of the State* (COPRE) consisting of professionals linked to the political parties as well as a group of non-partisan academics. The COPRE proposed a significant set of political reforms, including the direct election of governors and mayors, electoral reform to elect a portion of the legislators by plurality, and the democratization of party structures. These propositions met with immediate resistance from the AD (the president's party), which had an absolute majority in the legislature. It thought that the COPRE recommendations were too radical. Gonzalo Barrios, AD's president, publicly rejected the reforms, particularly the direct

election of governors, “because the country is not historically prepared for this type of reform.”³ The AD was not willing to withdraw its control over the patronage network that regional and local bureaucracies offered the party. The AD’s national party leaders perceived the COPRE propositions to be directly aimed at undermining their political power. As a result, the reforms were not even discussed in Congress.

It was only during the 1988 presidential campaign that the AD’s national party leaders were forced to pass some of these reforms due to the attention that the candidates Eduardo Fernández of COPEI and Carlos Andrés Pérez of AD paid to these issues. Pérez had won the party nomination against the fierce opposition of AD national party leaders, and he wanted to weaken their centralized control of the party. Fernández used the reforms as a campaign tool against the AD, which had been publicly opposed to any opening of the political process, possibly expecting that the AD would continue blocking the reforms. Pérez’s campaign in favor of the reforms forced the AD to approve some of them in Congress: the election of mayors and the electoral reform to be implemented in 1993. But the election of governors, which the AD feared the most, did not pass.

Eventually, the AD was prompted to support the election of governors as a consequence of massive riots that occurred one month after Pérez’s inauguration. The outburst took place in eight major cities and began as spontaneous protests against an increase in public transportation fares, which were brought about by a hike in the price of gasoline (Rodríguez, 1996). The country was left in absolute despair after this social commotion. Although most of the blame was placed on Pérez’s reform program, politicians realized that citizens had increasingly become alienated from the democratic regime and this was violently expressed in the streets.

2.4 Economic Reforms, Backlash, and Reversal

Although the AD’s national party leaders finally accepted political reforms, they were still resistant to economic reforms. Forced by the economic conditions, Pérez launched a macroeconomic stabilization program that included the elimination of exchange, interest rate, and price controls; a large devaluation; and a significant reduction of the fiscal deficit. The program went even further to include trade liberalization, privatization, fiscal and financial reforms, and the deregulation of the economy (Naím, 1993; Villasmil et al., 2004).

³ *El Universal*, June 26, 1986.

The AD's leadership was not receptive to such a program because it implied dismantling the patronage structure under which the party had built its political base. The AD also rejected the idea that technocrats, with no linkages to the party, would be made responsible for the implementation of these economic policies. Moreover, Pérez was at the time a party outsider and had proven in his first presidency that he did not like to follow the party's commands. The AD's opposition did not allow the government to pass legislation crucial for the reform program, such as the Value Added Tax. However, the government managed to use its executive authority to open the capital account, liberalize trade, eliminate price controls, and privatize some state owned enterprises. Despite political opposition to the reforms, by early 1992 Venezuela was attracting large amounts of FDI, and the GDP was growing at an annual rate of more than 8 percent (Corrales, 2002; Villasmil et al., 2004).

Despite these economic successes, popular discontent continued and the government still had a low approval rating. In February 1992, a group of middle rank officers, commanded by Lt. Col. Hugo Chávez, attempted a military coup. The coup failed, but a significant proportion of the population justified it, eroding political support for the government. After a second failed coup attempt, in early 1993, the AD decided to go along with other political parties and allow the impeachment of Pérez for misuse of public funds.

Congress elected Senator Ramón J. Velásquez as interim president until elections were held at the end of 1993. Velásquez had accepted the presidency under the condition that he would be able to pass some reforms in Congress to cope with the difficult economic and political situation. The government was facing a large fiscal deficit thanks to a new decline in oil revenue and so the Value Added Tax was finally approved.

In 1993, Rafael Caldera, after leaving the COPEI, won the presidency again without the support of the traditional political parties, setting the stage for a dramatic transformation of party politics in Venezuela. Caldera managed to capitalize on the popular discontent with the AD and COPEI and partially on the market economic reforms pursued by Pérez. Although Caldera did not explicitly support Chavez's coup attempt, he justified Chavez's behavior by arguing that the political parties had abandoned the people and were being transformed into corrupt structures. During his administration (1994-1999), Caldera faced a fragmented legislature, making it difficult for the executive branch to pass legislation. The first part of Caldera's administration witnessed the stagnation and reversal of some reforms (e.g., exchange rate and price controls

were re-established) in the midst of a massive banking crisis. By 1996, Caldera implemented an economic reform program that included an important devaluation and the opening of the oil sector. Despite a recovery in 1997, the administration's popularity remained very low, paving the way for the emergence of Hugo Chávez as a viable political alternative.

2.5 The Chávez Revolution

In his presidential campaign of 1998, Chávez promised to call a Constituent Assembly to craft a completely new constitution and overthrow the *Punto Fijo* establishment. Like Caldera, Chávez won the presidency capitalizing on the increasing discontent with the AD and COPEI. He faced an opposition majority in an even more fragmented Congress than did Caldera, making it very difficult to pass constitutional reforms in the manner prescribed by the 1961 Constitution. So Chávez decided to bypass the Constitution and sign an executive decree to call for a popular referendum on this issue. The decree, although protested by the majority in Congress, was a few weeks later ratified by the Supreme Court, which ordered some modifications.

Unlike the *Punto Fijo* pact and the 1961 Constitutional Commission, Chávez restored the hegemonic practice of the AD during the failed democratic experience of 1945-1948, changing the institutional framework in a unilateral manner without negotiating with other parties (Corrales, 2003). In early 1999, more than 90 percent of the electorate voted in favor of holding elections for a Constituent Assembly with plenipotentiary powers. To elect this Assembly, a majoritarian electoral system was used instead of the proportional system prescribed by the prevailing constitution. The result was a huge over-representation of Chavez supporters. Given the lack of coordination and fragmentation of the opposition, in July 1999 Chávez's coalition managed to obtain 96 percent of the seats with less than 60 percent of the vote. This overwhelming majority approved a constitution that increased presidential prerogatives and in general the stakes of holding power. The Constituent Assembly disbanded the Congress elected the previous year and called for elections for a new unicameral Legislature. It also appointed a new Supreme Tribunal, Comptroller General, Attorney General, and Ombudsman. Under these conditions, opposition parties were marginalized from the foundation of the new political regime, promoting a rapid polarization of the party system.

Chávez's election represented the final breakdown of the consensus mechanisms that were set up by the *Punto Fijo* pact. In 1961, the Congressional Committee in charge of drafting the Constitution designed it to over-represent minority groups. The Constituent Assembly of

1999 instead over-represented the majority and therefore excluded minority groups in the consultation process for drafting the new constitution. The manner in which the new political system emerged signaled the beginning of the complete collapse of cooperation.

3. First Period: The Consolidation of Democracy—Cooperation and Stability (1958-1988)

The paper identifies two major periods during Venezuela's democratic experience in which the explanatory variables—political institutions and policymaking processes—have notably different characteristics. The first period of democratic consolidation (1958-1988), was characterized by cooperation, low political volatility, low fragmentation, and limited political competition. In contrast, the second period (1989-2004), of party system deconsolidation, has been characterized by a significant decline in cooperation, high political volatility, and high political fragmentation.

3.1 The Policymaking Process in the First Period

Under the theoretical perspective of Spiller, Stein and Tommasi (2003), the first period can be generally characterized as having conditions highly conducive to political cooperation: few key political actors, repeated play, and low stakes of power. As will be developed in Section 5, this cooperation seems to be positively reflected in some features of the public policies of the period: they were relatively less volatile than the ones in the second period and some were relatively more effective (e.g. autonomy and efficiency of PDVSA, high growth rate in 1958-1978, health and education expansion, stable international policy, etc.).

As explained in the previous section, the democratic process was brought to life by a political agreement between the three leading political parties. Political leaders gave preeminence to obtaining political stability, given the failure of the first democratic experiment (1945-1948). Concurrent agreements incorporated the umbrella organizations of labor unions (CTV) and business groups (Fedecamaras); as well as the Catholic Church and the military. The only key player explicitly excluded was the communist party (PCV).

The leading characteristics of the policymaking process in this period were:

- 1) Few key players and repeated play (stable actors). Centralized decision-making at the national level. Leading role of parties and the national party leadership.
- 2) Marginal role of the legislature, but significant role of parties.

- 3) Prominent role of presidents. Delegation by the parties and Congress.
- 4) Corporatist arrangements formally incorporating labor and business groups to the policymaking process. Crucial role of oil rent distribution for political stability.

3.1.1 The Key Political Actors Were Few and Stable

The policymaking process included relatively few key players, primarily: the presidents, the national leaders of the two major parties (the AD and COPEI), and the leaders of the two peak corporatist interest groups (the CTV and Fedecamaras). The existence of a highly centralized, disciplined, and non-fragmented party system, and the fact that the concerns of interest groups were channeled through corporatist arrangements with the peak labor and business associations, allowed the president to conduct policy consultation with a very limited number of actors. Compared to the Latin American region and to the second period (1989-2003), the policymaking process in this first period can be characterized as one in which the policy process was concentrated in very few and stable players.

The six presidential administrations in this 30-year period were represented by only two parties: the AD (four times) and COPEI (two times). The same parties generally controlled the leadership of Congress. With a few exceptions, the two parties controlled or heavily influenced the leading corporatist groups and were influenced by them. Parties were typically governed by a president, a secretary general, and a national committee. Party leaders were very stable. In the AD, six fundamental leaders, four of whom became president, led the party from 1958-1988. In the COPEI, three fundamental leaders, two of whom became president, led the party. National party leaders had relatively long tenures and almost all were members of Congress with long legislative careers. National party leaders decided how the party voted in Congress and the congressional delegation dutifully voted according to the party line. Similarly, national party leaders had significant control over congressional nominations.

Inter-temporal linkages among key political actors were strong. It was a repeated game with stable actors. It was very costly for an individual politician to deviate from the cooperative equilibrium of the two-party rule. Minority parties such as the MAS did not have a major policymaking role but were guaranteed access to small prerogatives in order to keep them “inside” the system (e.g., large autonomous budgets for universities and cultural projects controlled by the left).

As can be seen in Figure 1, the party system had relatively low fragmentation. In the first elections of 1958, the effective number of parties (ENP) represented in the chamber of deputies was 2.57. In the next two elections the ENP rose significantly (to an average 4.56), mostly due to two significant splits in the AD (the largest party). However, the system consolidated again into a two-party system in the next four elections from 1973 to 1988. The ENP in that period was on average 2.65. In the elections of 1983, the ENP got to a low point of 2.42. In this first period, Venezuela's party fragmentation was slightly below the Latin American average.⁴ The Latin American regional ENP average was 2.84, while the Venezuelan average was 2.63. The Latin American average for 1978-2000 was 3.25. The Venezuelan average in the second period (1989-2003) increased to 4.6.

Party volatility in Congress was relatively low. In the Chamber of Deputies the Volatility Index was 18.9 percent in the period 1958-1988, below the Latin American average of 22.1 percent.⁵ Moreover, as can be seen in Figure 2, volatility tended to decline until 1988 (to 13.8 percent). The average volatility increased dramatically in the period 1989-2000 to an average of 38.1 percent, compared to a regional average of 23 percent. Volatility in the presidential vote was even lower in the first period (13.9 percent), almost half the regional average of 23.9 percent. It increased dramatically in the second period (52 percent) compared to a regional average of 28 percent. In the second period, Venezuela had the largest presidential vote volatility in the region.

3.1.2 Marginal Role of the Legislature in the Policymaking Process

Policy agreements were negotiated between the presidents, the national party leaders (the *cogollos* in Venezuelan popular jargon) and the peak corporatist groups, and then, if required, they were *rubber-stamped* into law by the disciplined party delegations in the legislature. The national party leaders were key members of the legislature. Also, Congress frequently delegated legislative authority to the president.

Even though the use of informal arenas meant that agreements were less formal than they would have been if made in the legislature and as a result were harder to observe and enforce, the existence of disciplined parties provided a structure that enabled inter-temporal cooperation.

⁴ For the years for which we have comparative data: 1978-1989. Regional averages were calculated using data by Payne et al. (2002).

⁵ For the years for which we have comparative data: 1978-1989. Regional averages were calculated using data by Payne et al. (2002).

Disciplined parties provided an effective alternative mechanism of cooperation to Weingast and Marshall's (1988) U.S. committee system. Also, when the president's coalition had a majority in the Legislature, the president was typically given an enabling law to legislate by decree. Finally, as will be shown below, the executive often created policy-advising commissions with the involvement of the CTV and Fedecamaras (Crisp, 2000).

The relatively marginal role played by the legislature in the Venezuelan policymaking process can be illustrated by the low number of laws approved compared to other countries in the region. According to Coppedge (1994), from 1959-1995 the Venezuelan Congress passed an average of 29 laws per year. In comparison, the Brazilian Senate passed more than 800 laws per year, the Argentinean Chamber of Deputies more than 300, and the Colombian Congress more than 70. Clearly, these indicators should be used with caution, because they may be the result of differences in the type of output of the legislative process in each country. Calculations based on data collected from the Venezuelan Legislature also show a relatively low yearly output of laws in the first period compared to the second one. From 1959-1989 a yearly average of 27 laws and eight ordinary laws was approved. From 1989-2001 the yearly average output of laws increased to 41 laws (an increase of 52 percent) and 12 ordinary laws (an increase of 50 percent).⁶ Part of the explanation for the increase in output might be related to exogenous factors, such as increasing economic difficulties. Nevertheless, the data tends to support the hypothesis that Congress played a less significant role in the first period compared to the second.

The marginality of legislators in the policymaking process is confirmed by the data on initiation of laws. During the period 1959-1989, the executive initiated 87 percent of the laws approved and Congress initiated only 13 percent. Since some of those laws (like public credit laws) had to be initiated by the Executive, a better indicator might be the initiation of ordinary laws approved, of which 66 percent were initiated by the executive and only 34 percent by members of the legislature. Again, the first period contrasts with the second period in this respect. In the second period (1990-2001), the percentage of laws initiated by the Legislature doubled to 26 percent. In the case of ordinary laws, the percentage initiated by legislators increased to 64 percent, a dramatic shift. Figure 3 shows the evolution of the initiation of ordinary laws by the executive and the legislature. As can be seen, in the period of two-party dominance and lowest party fragmentation (1973-1988), the executive's legislative dominance

⁶ Authors' calculations based on data collected from the Servicio Autónomo de Información Legislativa (SAIL).

was extreme. The second period (1989-2001) presents a dramatic increase in the legislators' initiation of approved laws.⁷

In the seven legislative terms included in the first period (1958-1988), a majority of the legislators (60 percent) lasted only one term in Congress (five years). A small minority (8.3 percent) lasted four terms or more (that is 20 years or more). However, of those who lasted four terms or more (about 75 legislators) more than 80 percent belonged to the parties' national leadership, confirming that leaders did have long tenures. Members of parliament (including both chambers) lasted an average of 1.8 terms and deputies 1.6 terms. Given the relatively low party volatility described before, the most plausible hypothesis is that the turnover rate of legislators is the result of not being re-nominated. In the second period (1989-2004), legislators lasted even less than in the first. 82 percent of legislators lasted just one term, 17 percent lasted two terms, and only 1 percent of its members have been in the legislature in all three terms. Figure 4 shows the number of terms lasted by legislators during the whole democratic history (1958-2000). As shown, 64 percent of legislators lasted just one period. That is, almost two-thirds of the legislators in Venezuela's history were in Parliament for just one term.

As shown in Figure 5, the percentage of new legislators (turnover) tended to decline in the first period. In the first three terms from 1963-1973, it was on average 71 percent, whereas in 1963-1973 it declined significantly to 55 percent as the two-party system consolidated. In the second period, the percentage of new legislators rises again to an average of 78 percent (82 percent in the current legislature). Compared to other presidential countries for which there is data for turnover, the figure for the first period (63 percent) is not extremely high. In Argentina about 80 percent of the legislators are not re-elected. In Brazil the figure is 57 percent, in Ecuador 73 percent, in Chile 41 percent and in the U.S. 17 percent.⁸ In contrast, in the second period, turnover reached Argentinean levels (78 percent).

Party discipline was extremely high in this period. Virtually all votes were counted with raised hands, since perfect discipline was assumed (roll calls were almost never used). In the few instances in which a party member did not want to follow the party line, his alternate member replaced him and voted according to the party line. The lack of individual member initiative

⁷ Authors' calculations based on data collected from the Servicio Autónomo de Información Legislativa (SAIL).

⁸ Araujo et al. (2004). The figure for Venezuela is not perfectly comparable with the other countries. In the case of Venezuela, the figure refers to the percentage of members in Congress who had not been in it before and turnover. The figure for the other countries refers to the percentage re-elected of those who were candidates.

meant that there were very few incentives to specialize or gain expertise. The turnover of congressmen did not contribute to it either. Committees were not very relevant, since they did not have agenda setting or gate-keeping powers. There were open amendments on the floor. Membership in committees had also a high turnover. Committees were reshuffled each year, and most members changed committees each time (Crisp, 2001; Paravisini, 1998). However, there were a few committees like the Finance Committee and the Foreign Policy Committee in which some legislators did develop some relevant expertise and had longer tenures. They were members of the party leadership who negotiated the budget with the Executive and monitored the efforts toward having a bipartisan long-term foreign policy.⁹ In general, it can be said that in Venezuela, legislators have been amateur lawmakers, with the exception of the national party leaders in the first period.

3.1.3 Predominant Role of Presidents, Delegation by Parties and the Legislature

In the 1961 Constitution, as will be explained below, presidents did not have significant legislative prerogatives. The president had legislative decree authority only if Congress previously delegated it through an enabling law, or allowed it as a result of the suspension of a constitutional right. During this period, Congress delegated special legislative powers (*enabling laws*) to the President three times. In addition, Congress generally allowed presidents to have limited legislative decree authority in economic matters (due to the *suspension of a constitutional economic right*). The President could also use some limited *non-legislative* decree authority without needing congressional approval. For example, he could set the rules (*reglamento*) for the detailed implementation of a law, theoretically, as long as the rules did not contradict the law (Brewer Carías, 1980; Crisp, 1997).

Despite being constitutionally weak, presidents dominated the policymaking process. They were often delegated legislative powers and, as discussed above, initiated most of the legislation approved in Congress. The lack of expertise and experience in the Legislature was often compensated for by delegating to the executive. However, party leaders maintained veto power over legislation, setting significant limits on the exercise of presidential power. The cooperative equilibrium made presidents look quite powerful but their powers were limited, as would become evident once cooperation declined.

⁹ The Finance Committee was the only one with gate-keeping power with respect to the budget. Interview with Gustavo Tarre, former leader of COPEI's congressional delegation and chairman of the Finance Committee.

In the case of *enabling laws*, presidents were delegated specific authority to legislate for a period of less than a year on economic and financial matters. The enabling law established limits to the delegated authority and Congress could modify the decree-laws if it desired to do so. Nevertheless, the delegated authority gave the president significant agenda-setting power to establish the status quo. All the presidents with a majority in Congress in the first period (three) obtained this prerogative. In contrast, in this period minority presidents were not given enabling laws. In 1961, President Betancourt was delegated legislative authority for one year. He was authorized to legislate in a variety of economic and public administration matters. He used his powers in a limited way, decreeing 15 laws (Brewer Carías, 1980; Crisp, 1997). Betancourt governed in a Cabinet coalition with the COPEI and the URD, and as a result all the relevant parties participated cooperatively in the design of these laws. Presidents Leoni (AD) and Caldera (COPEI) were not given enabling laws.

The next president who obtained an enabling law was Carlos Andrés Pérez (AD) in 1974. The AD had a comfortable majority in both houses of Congress. The oil price boom of 1973 gave the government unprecedented wealth, and Pérez wanted to use it to implement an aggressive state-led development plan. He dictated 53 law-decrees, about twice the average amount of laws per year produced by Congress in the period (27). Even though Congress established a congressional oversight committee, the AD majority in the committee made it ineffective as a monitoring device. Opposition members in the commission resigned in protest. This episode is illustrative of the decline in cooperation in the policymaking process that occurred during the Pérez administration. In the future, enabling laws were much more restricted than the one provided to Pérez. Moreover, his party decided not to give Pérez an enabling law in his second term (1989-1993). His administration was clearly deviant in terms of the degree of autonomy to implement his preferred policies that the president normally had.

The windfall of oil resources dramatically increased the informal powers of the president in a way for which the political system was not prepared. In addition, the decline of the threat presented by the guerrillas and the military in the 1960s made cooperation a less compelling strategy and, in combination with the oil income, allowed for the establishment of a two-party cartel.

The last administration of the first period, President Lusinchi's, received decree powers in 1984 to face the economic downturn produced by the decline in oil income, though the powers

were more limited than Pérez's. Lusinchi used those decree-powers significantly, but stayed within the boundaries of the delegated authority (Crisp, 1998 and 2000).

The president could also decree the suspension of some constitutional rights, and as long as Congress did not re-establish the rights (by simple majority), the president had law-decree authority in that area. However, whenever the constitutional rights were re-established, the decrees—justified in this manner—ceased to be effective. Throughout this period the economic rights in the constitution were suspended. The crucial economic role of the state provided the rationale for this suspension. Presidents used this authority to systematically intervene in markets (e.g., to fix prices). Again, Pérez and Lusinchi (1984-1989), the presidents with the largest majorities, used these powers extensively, while minority and coalition governments used it limitedly. Pérez made 67 (average 13 per year) decrees and Lusinchi made 58 (average 12 per year). The other four administrations, in contrast, made an average of just 12 (three per year). After 1989, Presidents Pérez (second administration, 1989-1993) and Caldera (second administration) used these powers sparingly, making an average of three decrees per year.¹⁰ In fact, Pérez re-established economic rights during most of his second administration. The clear correlation between single-party majority governments and increased use of this power provides evidence that its use was limited by the legislature. Even though the legislature forced the re-establishment of the constitutional rights on only one occasion, presidents knew that if they used this power extensively against the wishes of the legislature they could lose power.

3.1.4 Corporatist Arrangements in the Policymaking Process

In terms of the participation of interest groups in the policymaking process, very few democracies in the region had so few (and stable) players participating. In Venezuela, there existed single peak dominant associations of labor and business, which were incorporated formally into the policy process. According to Crisp (2000), only Chile and Mexico had similar single peak associations, and only in Mexico were they formally incorporated as often as in Venezuela. In the period 1958-1988, these types of corporatist arrangements were more frequently used and were given more importance than in the period 1989-1998. In Chávez's presidency they have completely broken down.

¹⁰ Data from Crisp (1997, p. 191).

Pressure groups were not interested in lobbying individual legislators because, as explained before, the legislator's job was to rubber-stamp decisions already negotiated by the national party leaders and the Executive. As a result, lobbying at the policy-design phase occurred basically through two formal channels: corporatist representation inside parties and presidential consultative commissions. At the implementation phase, lobbying had a formal role through corporatist members of the boards of directors of the decentralized public administration.

The Confederation of Venezuelan Workers (CTV) was dominated by members of the AD, with COPEI having a minority representation on its board. Other relevant corporatist groups such as the Peasants Federation had a similar party composition. On the other hand, parties had powerful workers' bureaus that had significant representation on the National Committees of the parties and in Congress. In the case of the business umbrella group, Fedecamaras, party involvement was subtler. Nevertheless, many presidents of Fedecamaras were tied to a particular party, and some of the board members were tied to the parties.

All presidents in the period made extensive use of consultative commissions for the design of policy. Between 1959 and 1989, Venezuelan presidents created 330 advisory commissions (Crisp, 2000). These commissions institutionalized corporatist consultation. Citing Crisp (p. 119): "Umbrella groups for capital and organized labor were considered partners in decision making who had every right to make their voices heard on virtually every issue." As a result, four groups clearly dominated the commissions: the AD, the COPEI, the CTV, and Fedecamaras. Another important feature is that most commissions were dominated on a national level, with little representation from the regions (Crisp, 2000). A significant amount of the legislation initiated by the Executive had its genesis in these commissions. According to Crisp (2000, p. 115), the composition of the commissions appointed by AD presidents was: 62 percent government officials, 14 percent business representatives, 7 percent representatives of professional associations, 8 percent labor representatives, 9 percent other. The composition of commissions appointed by COPEI presidents was: 48 percent government, 17 percent business, 8 percent professionals, 8 percent labor, and 18 percent other. The proportions varied with the type of commission, but not to a significant degree.¹¹ As Crisp (2000, p. 116) argues: "Looking at the

¹¹ Crisp (2000) classifies the commissions as: producer, regulatory, planning, service, and promoter of the private sector.

rank of each category of participants named by a given party in each type of commission, the striking feature is how little the relative position of each category of participant changes.” As a result, a change in the governing party did little to alter the access of interest groups to the policymaking process.

Crisp concludes: “This (stability) calls into question the ideological differences between the major two parties and the impact of elections in Venezuela.” One explanation for this apparent puzzle is the high degree of cooperation that existed. As the theoretical framework of Spiller, Stein and Tommasi (2003) suggests, in a cooperative environment parties would not significantly change policies as a result of transfers of power. In the case of Venezuela, the bipartisan distribution of oil rents through formal corporatist arrangements combined with the institutional framework in place reduced the stakes of power and made cooperation possible.

The Venezuelan state created a large amount of governmental agencies and state-owned companies, known collectively as the decentralized public administration (DPA). A significant proportion of policies in the first period were implemented through these agencies. The corporatist groups’ representation in the DPA was also institutionalized. Again the AD, the COPEI, the CTV and Fedecamaras had the most significant roles. In the 1959-1989 period, governments created 362 bureaucratic agencies. Of those, 68 were governed by public law. The creation of DPA agencies peaked in the first Pérez administration (1974-1979). Again, the oil-hike influence and the deviation represented by the Pérez administration are evident. In five years Pérez created a total of 159 agencies (44 percent of the total) and 21 public law agencies (31 percent) (Crisp, 2000).

The corporatist composition of the boards of the DPA also remained relatively stable across administrations. According to Crisp (2000), the agencies created by the AD had the following composition by sectors: 48 percent government, 31 percent economic groups, 10 percent capital, 5 percent professionals, 16 percent labor, and 21 percent others. The agencies created by the COPEI: 62 percent government, 26 percent economic groups, 11 percent capital, 5 percent professionals, 10 percent labor and 12 percent others. Again, the party in power had a minimal effect on the participation of corporatist groups (except that the AD created agencies with more labor participation).

Examples of corporatist participation in DPA agencies are: a) the Agricultural Bank: of the five-member board, three members represented producer and peasant groups; b) the

Venezuelan Investment Fund (FIV): in the assembly were the presidents of the CTV, Fedecamaras and the Banking Association; c) the Industrial Credit Fund had representatives from the CTV, the Industrial Council (an affiliate of Fedecamaras), and the Federation of Small Industrials (Combellas, 1999). Even the Central Bank (BCV) had representatives from the CTV and Fedecamaras on its board until the early 1990s. The DPA served as one of the main channels for distributing oil wealth. Even though it was highly politicized and inefficient, it was also highly cooperative and relatively stable. In this case, cooperation did not necessarily imply efficiency.

3.2 Institutional Foundations of the First Period: 1958-1988

Many characteristics of the political system and the policymaking process in the first period can be partially attributed to the institutional framework set up in the Pact of *Punto Fijo* and the Constitution of 1961. As mentioned before, their key objective was to attain political stability in light of imminent threats from military coup plotters and the leftist guerrillas supported by Cuba. The memory of the failed democratic experience of 1945-1948, when the AD exercised hegemonic power, also weighed heavily on the founders when they designed the institutional foundations of the political system. To a significant extent, the strong disciplined parties, the relatively low fragmentation despite the pure proportional representation system, the centralization of decision-making at the national level, the significant delegation of policymaking to the president, the marginal role of Congress, the lack of expertise of the legislators, the low volatility and low polarization of the party system; were all a result of the institutional foundations. The fundamental institutional foundations were:

- 1) A constitutionally weak president with some significant delegation of informal powers. Limited presidential power reduced the stakes of power, guaranteed the party leaders veto over major policy changes, and reduced the costs of being out of power for the opposition. Given the high degree of inter-party cooperation and the strong and disciplined parties induced by the institutional setting, having a weak president did not generate high inter-branch obstructionism.
- 2) The plurality presidential election held concurrently with all legislative elections, the inexistence of elections for regional executive offices, and the ballot structure engineered to maximize presidential coattails induced a relatively concentrated party

- system. The pure proportional representation system, which tends to produce fragmentation and rarely produces a two-party system, was significantly compensated by the factors mentioned above. The low index of disproportionality of the proportional system provides evidence that it was not the source of party concentration. The proportionality guaranteed a contained political space for minority groups.
- 3) The proportional representation system, with single closed and blocked party lists and with only one ballot for all legislative bodies, strengthened the power of national party leaders over the party legislators. The lack of regional elected offices did not provide alternative opportunities for regional leaders and increased the costs of defecting from the large parties (i.e., those with probability of obtaining the presidency).
 - 4) The very high discipline of parties in Congress, a by-product of the electoral system, did not provide incentives for individual legislators to specialize or acquire legislative expertise. Decision-making was centralized in the national party leadership. The fact that legislators' careers were completely dependent on the party leadership made Congress an institutional skeleton in which decisions made by the party bosses were generally rubber-stamped. As a result, the Legislature was relatively marginalized from the policymaking process. Most legislators did not stay in Congress for long periods; only the party leaders did.
 - 5) The lack of expertise and marginality of legislators in the decision making process and the limits set to presidential powers might explain why party leaders were willing to delegate policymaking to the Executive branch. The corporatist arrangements, such as the presidential commissions and decentralized public administration, allowed for party involvement and "*fire-alarms*" at lower levels of the policymaking process.

3.2.1 The Executive Branch

The literature on the Venezuelan presidency appears to show a remarkable contradiction. Comparative studies, such as those by Shugart and Carey (1992) and Payne et al. (2002), argue that the Venezuelan president (before the 1999 Constitution) had the weakest legislative powers of any president in the Latin American region (and among the weakest in all other world presidential systems). In contrast, most of the literature focused on the Venezuelan political

system argues that Venezuela suffered from a significant degree of hyper-presidentialism, following the tradition of powerful caudillos that historically prevailed in the region (Coppedge, 1994; Crisp, 1997; Corrales, 2002).

Here it is argued that even though in equilibrium the Venezuelan president seemed very powerful since he had the leading policy role, his powers were in fact significantly restricted by the 1961 Constitution. As explained before, the framers, who were the leaders of the parties, set those restrictions deliberately to limit potential deviations. To a large extent, the behavioral appearance of power was the result of the limited delegation by the national party leaders of strong and disciplined parties in a cooperative environment. However, it is also true that the Venezuelan president had some relevant formal and informal powers that have not been generally incorporated in the comparative literature and that varied between the two periods in study.

As will be explained below, in the second period (the 1990s), once the president's partisan powers and other informal powers declined, the president began to look relatively weak. Eventually, the 1999 Constitution increased the presidential powers dramatically, changing the policymaking process and increasing the stakes of power.

The literature classifies the constitutional powers into legislative powers (law-making authority, reactive and proactive) and non-legislative powers (power to appoint and remove Cabinet and other officials) (Shugart and Carey, 1992; Payne et al., 2002). Under the Constitution of 1961 (derogated in 1999), the Venezuelan president had very limited legislative powers, especially if compared with the Latin American region (which in average had stronger powers than the other presidential systems in the world). Venezuela had the lowest value in the index of legislative powers developed by Shugart and Carey (1992). This index is calculated using the simple addition of a point value ranging from zero (low) to four (high) assigned in six categories of legislative power. The six categories are package veto, partial veto, decree power, exclusive introduction of legislation, budget power, and referendum. The Venezuelan president had the weakest level of power of any Latin American country in all six categories (zero points in all). The Latin American regional point average in the period 1958-1988 was 4.6.¹² The South

¹² Including all constitutions covered by the authors in the period 1958-1992.

American average excluding Venezuela was 5.4 points. In Latin America, only Peru (before Fujimori) had a president with as limited legislative powers as Venezuela's.¹³

Legislative powers include reactive powers such as the power to veto legislation (partially or the whole law). Most presidents can use their veto as a negotiation tool with the Legislature, but in Venezuela the veto served only to delay the approval of legislation, since the same simple majority that could approve a law could override the president's veto. In practice, the veto was used only a few times and was always overridden by Congress.¹⁴ The evidence suggests that the power to delay the approval of legislation for a few weeks did not give the president much muscle to negotiate.¹⁵

The authority to legislate by presidential decree is one of the most significant proactive powers. The Venezuelan president did not have autonomous decree power, unless enabled or allowed by Congress. That is why Shugart and Carey (1992) gave zero points to Venezuela in this category. However, as was discussed above, in practice some presidents used those decree powers intensively.

Another proactive power is the exclusive initiative for legislation in specific areas. Here again, the Venezuelan president had no prerogatives.¹⁶ This lack of prerogatives contrasts with other countries such as Brazil and Chile where this power is extensive in many areas (Payne et al., 2002). An additional presidential legislative prerogative is the power to call for a popular referendum to pass certain legislation, without the need of Congress' approval. In Venezuela, this option was not provided by the 1961 Constitution.¹⁷ The presidential prerogatives in the approval of the budget were also below the regional average. According to the Constitution, the Executive introduced the budget proposal in Congress, which could change the amount allocated to the items in the proposal but could not increase the overall level of spending. In practice, Congress could increase indirectly the overall spending by understating mandatory expenditures

¹³ Other countries had much higher scores, for example: Brazil 7 points (1946), Chile 12 points (1969), Colombia 8, Ecuador 6, and Uruguay 6 (Shugart and Carey, 1992).

¹⁴ The lack of the use of the presidential veto does not necessarily imply that it was not effective, because it could be that the off-the-path threat of its use induced a more favorable equilibrium for the president. However, that does not seem to be the case in Venezuela.

¹⁵ Interview with Gustavo Tarre.

¹⁶ The only exception was the budget law, which is introduced by the Executive in all regional democracies.

¹⁷ As will be shown, below this is one of the areas where the Constitution of 1999 promoted by President Chávez increased the presidential prerogatives dramatically.

such as debt payments. Shugart and Carey (1992) also gave Venezuela a score of zero in this category.¹⁸

The Venezuelan president had non-legislative powers of Cabinet formation and dismissal in line with most Latin American countries (Shugart and Carey, 1992; Payne et al., 2002).¹⁹ However, one crucial element that has not been captured by the comparative literature on presidential powers is the authority to appoint and dismiss governors. Before 1989, the Venezuelan president could freely appoint and dismiss all governors. In practice this meant that the president had control over the Constitutional allotment of the national budget to the regions.²⁰ The power to appoint governors makes a significant difference, especially in a country that is formally federal.²¹

The literature has also identified an alternative indirect source of presidential authority, partisan powers in the legislature. The number of significant parties and the discipline and cohesion of parties can all affect partisan support for the president. However, it is important to differentiate this type of power from those that are constitutionally provided. The constitution provides the formal rules of the game. In contrast, the partisan powers are an equilibrium result derived from the interaction of political institutions and other social and political factors. In practice, real ability to use formal constitutional powers is constrained and expanded by these other factors. The argument advanced here is that the constitutionally weak Venezuelan president seemed in equilibrium to be quite powerful, but such powers were contingent on other factors such as the strong party system, the right to appoint governors, and the control of significant oil rents. Once these factors changed, the weak formal powers became evident, as occurred in the 1990s.

Presidents enjoyed relatively high partisan powers in the first period. They never faced a majority opposition and had very strong disciplined parties backing them. Between 1958 and 1988, three of the six presidents (50 percent) had a partisan majority in the lower house. Four out of six (67 percent) had majorities in coalition with other parties. In contrast, of the four

¹⁸ Which seems slightly low using their criteria. In other countries such as Argentina or the United States, the constitutional powers of the president relative to the Congress seemed even lower.

¹⁹ According to Shugart and Carey (1992), the score for non-legislative powers in Venezuela (1961 Constitution) is 12, the same as the regional median and slightly above the mean of 11.8.

²⁰ Corresponding to a minimum of 15 percent of the budget.

²¹ Imagine for example that in Argentina or Brazil the president appointed all regional and local authorities; it would imply, in practice, a significant increase in the presidential powers in other areas of the policymaking process, such as budget approval and implementation.

administrations in the second period (1988-2003), none had a single party majority in the lower house, and only one (25 percent) -Chávez 2000-2005- has had a majority in coalition with other parties.²² The Latin American regional average, for the period 1978-2002, was 30.2 percent (of time the presidential administration had a presidential party majority in the lower house) and 54.1 percent (majority coalition).²³

3.2.2 Presidential Elections, Concurrency, and its consequences

Presidents were elected by plurality for five-year terms in direct elections concurrent with the legislative elections (for all seats). Until 1993, the voter had just one ballot (*tarjetón*) to vote for both the president and the Legislature. One card with the color and symbol of the party (and since the 1970s the photo of the presidential candidate) had to be marked to vote for the president, and next to it a smaller identical card had to be marked to vote for both chambers of the Legislature. Voters could not split their vote between chambers. The combination of plurality (as opposed to runoff) with concurrency, and the structure of the ballot maximized presidential coattails.²⁴ The presidential election—due to its winner-take-all nature—tends to produce a strategically concentrated vote, and combined with high coattails, produces high party concentration. An additional element promoting concentration was the inexistence of regional elections. The evidence seems to point to the significance of coattails and vote concentration. As can be see in Figure 6, the difference between the vote for the top two presidential candidates and the vote for their parties (in the period 1958-1988) was always below 10 percentage points, with the exception of the 1988 election, when dissatisfaction with the AD and COPEI started to increase.

Until 1999, Venezuelan presidents had non-immediate re-election (could run again only when two presidential periods had elapsed, after the end of their presidency). Coppedge (1994) gives a prominent role to this institutional feature. He argues that it made all presidents “lame ducks,” at the same time promoting party factionalism by maintaining former presidents as powerful actors that could eventually become presidents a second time (as did Caldera 1969-1974 and 1994-1999; and Pérez 1974-1979 and 1989-1993). The lack of immediate presidential

²² Authors’ calculations based on data from Consejo Nacional Electoral (CNE).

²³ Latin American data from Payne et al. (2002)

²⁴ In their comparative project, Payne et al. (2002), argue that the combination of plurality with concurrency maximizes the tendency towards concentration of the party system.

re-election combined with the absence of term limits for legislators provided an advantage for party leaders.

3.2.3 The Legislative Branch and the Party System

As explained above, the legislature was characterized by low party fragmentation, despite the pure proportional representation system. Parties were highly disciplined and the national party leadership decided the vote of their congressional delegation. As a result, individual legislators played a relatively marginal role in the policymaking process. Most legislators were amateurs, lasting an average of 1.8 periods of the 7 constitutional periods (26 percent of the time). However, party leaders were very stable and remained in Congress for longer periods. To a large extent, these characteristics of the party system can be derived from the institutional foundations. In particular, the type of electoral system and the inexistence of regional elections for executive officials provided national party leaders with powerful tools with which to discipline and control their party's rank and file. The institutional restrictions on political competition and the control of oil rents allowed the AD and COPEI to create a *cartel* that enjoyed a high degree of stability.

Between 1958 and 1988, legislative elections were done using a pure proportional representation (PR) system with single closed and blocked lists, applying the D'Hondt electoral formula. There were 23 districts equivalent to the states. The average district magnitude was 6.1, which was medium sized compared to the Latin American region. Five countries in the region have larger average district magnitude and 10 countries have lower average district magnitude (Taagapera and Shugart, 1989; Payne et al., 2002). To make it even more proportional, some additional deputies were allocated to reflect the national party share of the vote (up to a maximum of five). The ballot was structured so that there was only one vote for all legislative bodies.

The Venezuelan proportional representation system had on average an index of disproportionality of 4.4, below the Latin American regional average of 5.4, suggesting it did not significantly over-represent larger parties (Payne et al, 2002).²⁵ The index of disproportionality in the lower house for Venezuela varied between 3.5 and 5.7 in the 1958-1988 period. The index has significantly increased in the last two elections (1998 and 2000), partly as a result of the

²⁵ A larger index reflects a system that over-represents large parties and under-represents smaller parties.

mixed member personalized proportional system implemented in 1993. In relative terms, the Venezuelan system has become more disproportional compared to the region.

It is clear then that the low fragmentation of the party system in the first period cannot be explained by the proportional representation system. Instead, the PR system guaranteed that all minorities were represented in the Venezuelan Legislature. As explained above, the low fragmentation had other institutional foundations: the concurrency with plurality presidential elections, the ballot structure, and the inexistence of regional elections. Likewise, as will be discussed below, the increased fragmentation that occurred in the 1990s cannot be explained by the change to a mixed member electoral system in 1993, which in fact should have, *ceteris paribus*, produced a less fragmented system given the increase in the index of disproportionality. Instead, it can be partially explained by the introduction of regional elections at a time of electoral realignment.²⁶ Changes in the ballot structure might have also contributed.

Venezuela's legislature was bicameral until 1999. Although the existence of two chambers could imply having an additional veto point, the fact that both chambers were elected concurrently, for the same period, and until 1993 by casting the same ballot, reduced the difference in composition of both chambers. However, their composition was still different due to the difference in district magnitude and malapportionment.²⁷ Senators were elected in districts of smaller magnitude, two per state, compared with deputies' districts with a wide range of magnitudes averaging six. As a result, since lower district magnitudes produce more disproportionality, the largest parties tended to have a slightly larger proportion of the senators than of the deputies. This majoritarian tendency favored the AD and COPEI. Malapportionment in the Senate was significant. Poor, rural, and unpopulated regions were over-represented. The AD and COPEI did better in these areas than the smaller parties. The high party discipline and their similar origin limited the independent role of the two chambers. In practice, as has been argued, the relevant players were national party leaders. Both chambers of the legislature simply rubber-stamped most decisions negotiated by party leaders. In all the periods in which the president had a working majority in the lower house he also had one in the upper chamber.

²⁶ The electoral realignment produced by the decline in electoral support for the AD and COPEI can be partly attributed to the poor economic performance of 1978-1988.

²⁷ Malapportionment refers to the degree to which the geographical distribution of seats matches the distribution of the population. For example, if an unpopulated state is equally represented in the Senate as a highly populated state, there exists high malapportionment.

The single closed and blocked list electoral system constituted a powerful disciplinary tool in the hands of the party leadership. The Venezuelan system allowed the party leadership to control the nominations (who gets in the list) and the order of election (who gets elected first), pool the votes of party candidates (no intra-party rivalry), and limit internal competition. Shugart and Carey's (1992) index of party leadership strength due to the electoral system gives Venezuela a value of 8, above the regional average of 6. Only three countries in the region have a higher index.

Under the Venezuelan system, individual legislators did not have any incentive to cultivate personal vote. Voters did not vote for candidates but for party cards. District magnitude in the lower chamber was high enough to create free-rider incentives for individual legislators in the campaign. The constitution or the laws did not regulate the internal party nomination procedure. However, since the personal electoral connection was so tenuous, party leaders did not have any incentives to identify candidates with highest voter support. Their choice of the composition and order of the list had little impact on the voter's decision. As a result, endogenously the parties' nomination processes had a strong tendency to be controlled by the national leadership.

One of the most centralized parties and the model for most other parties was the AD. In the AD, the National Executive Council (CEN) that governed the party had significant control over the nomination process. Regional party authorities sent a list with three times more names than the magnitude of their district. The CEN reserved the right to pick one third of the candidates from outside the list and had free reign in establishing the order of the list. In practice, this meant that the CEN decided who could get elected (Crisp, 2001). Other parties had slightly more democratic nomination procedures, but in all parties, the national party leadership had the strongest influence.

In terms of voting thresholds, there were low formal entry barriers for new parties. However, in practice the fact that there was only a nationally elected executive with significant resources at its disposal increased the economic costs of entry (e.g., national campaign finance). Also, the fact that there were only two relevant parties in the 1973-1988 period minimized incentives for party defection. As can be expected from the institutional incentives provided by the system, party discipline in Venezuela was near perfect. There were extremely few episodes

of legislators voting across party lines. In the period 1973-1988, when the party system consolidated, there were also very few party splits or significant defections.

3.2.4 The Federal Structure

Before 1989, even though the country was formally federal, no regional executive authorities were elected. Governors were freely appointed and removed by the president. The lack of regional elections had significant consequences for the party system. Governors did not have any incentive to cultivate their personal vote. On the contrary, they had to be completely loyal to the president. Governors were often personally connected to the president or the national party leaders and on occasion did not come from the region they governed. Governors had almost no influence in the approval of the national budget, and those who did not follow the orders of the president could be immediately dismissed. Local legislatures, like municipal councils and state assemblies, were elected. However, until 1979 they were elected with the same vote for the legislature, i.e., voters could not split their vote. Starting in 1979, the municipal councils were elected separately, but using the same electoral system that was used for the legislature.

3.2.5 The Judiciary

Congress elected the Supreme Court by simple majority in a joint session. Magistrates (and their alternates) were appointed for nine-year periods in a staggered process in which one-third was elected every three years. In order to increase the number of magistrates, a two-thirds majority of a joint session was required. They could be re-elected. Since the legislative term lasted five years, no congressional majority could elect more than two-thirds of the magistrates. As a result, the composition of the Supreme Court did not completely follow the legislative majorities. Evidence of the independence of the Court seems mixed. Most magistrates were selected in a negotiation between the leadership of the AD and COPEI.²⁸ However, the Court did sometimes serve as an enforcer of constitutional limits to presidential power, and presidents generally did not control the Court. Nevertheless, it is not clear whether the Court could enforce rules against the wishes of the leadership of both parties.

A keystone event occurred during the first non-AD presidency of Caldera. Until 1969, the executive and the legislature jointly appointed regular judges. The AD, which was out of the presidency for the first time, proposed a law to create the National Judicial Council appointed by

²⁸ Apparently, some minority parties had some influence over the selection of just a few magistrates.

Congress—where the AD had a plurality, but no majority—to appoint all of the country’s judges. Caldera attempted to block the law by challenging it before the Supreme Court. The Court allowed the approval of the law, and Congress elected the National Judicial Council, without the support of the COPEI (Crisp, 1997). In general, the lower courts elected by this Council were considered more politicized and less independent than the Supreme Court.

4. Second Period: The Deconsolidation of Democracy—Decline and Breakdown of Cooperation: 1989-2004

This section describes the changes in the policymaking process due to the profound transformation experienced by political institutions in the last 15 years. In contrast to the first period, which was characterized by few and stable actors, resulting in cooperative agreements, the second period has been characterized by multiple actors, high electoral volatility, and institutional instability. As a consequence, it has been more difficult to generate cooperative agreements among politicians or to create an adequate environment for sustainable reforms and long-term policy commitments. As will be discussed in Section 5, for example, during this period there has been a dramatic decline in the autonomy and capacity of the few pockets of professional bureaucracy that were created in the past, and Cabinet instability has significantly increased. In fact, after the election of Chávez in 1998 and the draft of a new Constitution in 1999, political cooperation has experienced a complete breakdown. The new constitutional framework—which increased the stakes of power—has fostered political instability and polarization.

The most significant institutional changes that occurred at the beginning of this period were:

- 1) The introduction of direct elections for governors and mayors in 1989. These regional authorities were elected for three-year terms, with one immediate re-election.
- 2) The modification of the legislature’s electoral system from pure proportional representation to a mixed-member system of personalized proportional representation in 1993. The system continued being globally proportional, but a portion of the legislators were elected in electoral districts by plurality, establishing a personal electoral connection and increasing the system’s disproportionality.

As will be argued, these changes helped to significantly weaken the power of traditional parties and national party leaders. Also, in the context of a change in electoral preferences, these institutional transformations contributed to increased party fragmentation, volatility, and legislator turnover.

In general, the policymaking process in the second period was characterized by:

- 1) Many and volatile key players.
- 2) More prominent role of the Legislature and the Judiciary, declining role of parties.
- 3) Less predominant role of presidents (until 1999).
- 4) Decline in influence of corporatist groups.
- 5) Increased role of the military.
- 6) Key role of regional authorities. Decentralization.
- 7) Increased stakes of power since the 1999 Constitution.

The effective number of parties (ENP) in the chamber of deputies increased dramatically. In the previous period of two-party dominance (1973-1988), the ENP was on average just 2.6. As shown in Figure 1, it surged to 4.7 in 1993, and in 1998 it rose again to a maximum 6.1. In 2000, due to the significant share of Chávez's party (MVR), it declined to 3.44, but among the opposition parties, fragmentation was even higher than in 1998. The average ENP of the second period (4.74) is significantly higher than the regional average in the period (3.5).²⁹ Venezuela went from being one of the least fragmented party systems to the third most fragmented in Latin America.³⁰

Volatility has also dramatically increased in the second period. In terms of lower chamber seats, the average volatility in 1990-2000 was 38.12 percent, way above the Latin American average of 23 percent. Venezuela again moved from being one of the least volatile countries in the region to the second most volatile.³¹ Compared to the first period, average volatility more than doubled (see Figure 2). In terms of volatility in presidential party vote, the increase is even more dramatic. It reached 52.8 percent and 59.5 percent in the 1993 and 1998 elections, respectively. On average, Venezuela has had the highest volatility in presidential voting in the

²⁹ Venezuelan data from authors' calculations based on CNE data. Regional data from authors' calculations based on data from Payne et al. (2002)

³⁰ Only Brazil and Ecuador have a higher fragmentation.

³¹ Just surpassed by Peru. Venezuelan data from authors' calculations based on CNE data. Regional data from authors' calculations based on data from Payne et al. (2002)

region in the last 10 years. In terms of fragmentation and volatility, Venezuela became increasingly similar to countries such as Ecuador and Peru.

In addition, during this period, civilian control over the military has been dramatically weakened, resulting in a higher risk of democratic breakdown. This situation contrasts with the previous 20 years, in which political parties managed to exercise significant control over the armed forces, helping to consolidate democratic rule. During 1989-2004, different factions within the armed forces attempted three failed military coups (two in 1992 and one in 2002). The increasing influence of the armed forces on civilian affairs has become even more salient after the election of Chávez.

4.1 The Legislature

The transformation of the policymaking process, along with the multiplication of relevant policy actors at the national and regional levels, implied that transaction costs increased substantially, making it more difficult for political players to credibly commit. Unlike the first period, in which political exchanges were conducted at low transaction costs in small groups, in this period transactions were negotiated among a larger number of players in more open and conflictive arenas. Paradoxically, as a result of the decline of party elite agreements, the legislature has played a much more significant role. National party leaders could not easily broker deals outside of Congress, as was done before. While in the first period legislators initiated on average just 13 percent of all the laws approved, in the second period the figure doubled to 26 percent. In the case of ordinary laws, the change was also dramatic, increasing from an average of 34 percent in the first period to 62 percent in the second (see Figure 3).

Between 1989 and 2004, legislators have become less disciplined and more specialized. Factions within parties and individual representatives have been able to undermine the power of party barons on specific policy issues. Key legislation approved at the national level (either by Congress or by executive decree), had to be negotiated with regional actors. Proponents had to introduce regional considerations to gain the support of governors and mayors. For example, legislators have been able to push reforms to deepen fiscal transfers to the regions despite the opposition from national party authorities and the national executive. Regional leaders have powerful incentives to extract more resources from the center, especially since Venezuela has the largest vertical fiscal imbalance in Latin America and the rules of the distribution of fiscal resources have become more discretionary. The indiscipline of legislators was not only

expressed in the increasing independence on policy issues vis-à-vis the party leader, but also by splitting off from the parties that had nominated them. Factions within consolidated political parties such as the AD, COPEI, MAS (and even Chávez's MVR) have split off during the period 1989-2004, creating their own independent legislative groups. Paravisini (1998) and Crisp (2001) found some evidence of the increased specialization of legislators—in issues relevant to their constituents – as a result of the closer electoral connection provided by the election in plurality districts of a significant proportion of the Legislature.

4.2 Electoral Reforms

Institutional instability has created weaker inter-temporal linkages among politicians and policy-makers. These linkages have been debilitated by continuous changes in the institutional rules as well as increased political uncertainty due to the risk of breakdown of the democratic regime. The rules of the political game have been in permanent flux. After decades without significant modifications, electoral rules were changed four times and the constitution was rewritten, considerably modifying the incentives of political actors; in fact, different versions of a mixed electoral system were used for the legislative elections of 1993, 1998 and 2000. In 1993, 60 percent of the deputies were elected by closed and blocked list, while the remaining 40 percent were elected in single-member plurality districts. In 1998, the rules were changed again to elect 50 percent of the deputies by list and the other 50 percent in multimember plurality districts of varying magnitude. In 1999, in the elections of the Constituent Assembly, the constitutional mandate to use a proportional formula was completely abandoned in favor of a majoritarian system in statewide (and one national) multi-member districts to elect all the representatives.³² In the 2000 legislative elections, the mixed system was readopted, but this time with 35 percent deputies elected by list and 65 percent in multimember plurality districts.

These institutional reforms contributed to the erosion of the strict control that party leaders exercised over nomination procedures. This in turn weakened party discipline in the Legislature. In addition, the lack of a stable electoral system did not help to consolidate electoral incentives, increasing the levels of uncertainty that politicians faced when building their careers.

³² In each district multiple seats were awarded to the candidates who individually received more votes.

4.3 The Executive Branch

It is possible to distinguish two distinct sub-periods in terms of presidential powers during the period 1989-2004. In 1989-1998, presidents were weak. In contrast, since the approval of the 1999 Constitution, the presidency has gained considerable power. In 1989, presidential powers were substantially reduced with the introduction of the direct election of governors and mayors. Presidents lost control over part of the budget (the constitutional allotment to the regions) and over the discretionary appointment and dismissal of governors, which had been a potent negotiation tool. In addition, the decline in oil fiscal income and the market-oriented reforms, which limited discretionary subsidies and reduced rent-seeking opportunities, also reduced the political currency of presidents (Villasmil et al., 2004).

Due to the decline in presidential power, the executive branch in the 1990s had less influence in the legislative process. In the first period, close to 90 percent of all legislation was initiated by the executive. In contrast, in the second period, this figure declined to 74 percent. In terms of ordinary laws, the executive initiated only 38 percent, compared to 78 percent in the previous period (see Figure 3).

In 1998, Congress for the first time approved the separation of legislative and presidential elections, with elections to be held that year. Congressional elections were set to coincide instead with regional and local elections, held a few weeks before the presidential elections. This modification was designed by the traditional parties to reduce the coattail effects that a potential landslide-victory by Chávez might produce on the legislature. Instead, the parties planned to build their support in Congress based on the strength of their regional governments (and the regional authorities' coattails). As a result, these legislative elections generated the largest political fragmentation in Venezuela's history (more than six effective parties). Moreover, the separation of legislative and presidential elections will be the norm in the future, since the 1999 Constitution set a five-year legislative term and a six-year presidential term.

In contrast to the previous constitution, the 1999 Constitution significantly increased presidential legislative prerogatives.³³ Most significantly, the president was given the power to call for popular referendums to approve or eliminate laws, approve constitutional reforms, or call for a Constitutional Assembly with plenipotentiary powers, all of which significantly

³³ According to the methodology used by Payne et al. (2002), Venezuela is now around the Latin American average in terms of presidential legislative prerogatives.

strengthened the executive's bargaining power. As a by-product, the Constitution is now extremely easy to change if the executive is willing to do so and has the necessary popular support. This might present a challenging problem in the future for reconsolidating democracy and the rule of law in Venezuela. In addition, the presidential term was increased to six years (from five) and one immediate re-election was permitted. As a result, a Venezuelan president may rule for a longer continuous period (12 years) than any other Latin American president (the regional median is five years).

Finally, changes in the party system, particularly the fragmentation and emergence of less cohesive and disciplined parties, have undermined the partisan powers of the president. In the first period, three of the six presidents (50 percent) had a partisan majority in the lower house. Four out of six had majorities in coalition with other parties. In contrast, since 1988, no administration has had a presidential party majority and only one administration has had a majority coalition with other parties (Chávez). This situation has increased the confrontations between the Legislature and the Executive branch.

4.4 The Rise of Federalism

Although Venezuela was formally federal for more than a century, it was only in 1989, after the initiation of the direct elections of governors and mayors, that the dormant federal system was activated. There are two key institutional elements of Venezuela's federalism that transformed its party politics: the increasing competition and higher number of electoral arenas at the sub-national level, and the possibility of re-election for governors and mayors, as well as the non-concurrency between regional and presidential elections. These institutional features provided new regional political actors with an opportunity to gain independence vis-à-vis the national authorities.

4.4.1 Increasing Competition and Higher Number of Electoral Arenas

During the 1958-1988 period, entry barriers were relatively high since presidential and congressional elections were held concurrently, maximizing presidential coattails. Moreover, entry into Congress was decided by national party leaders, who had control over the nominations. Instead, with the introduction of the direct election of governors and mayors, traditional political parties characterized by hierarchical and inflexible organizations had to present individual candidates in more than 20 states and 300 municipalities. This meant that

party leaders had to gradually loosen centralized control over the nomination of candidates in order to effectively compete in these contests. Increasing the number of electoral arenas also implied reducing the entry barriers to competition. Minority parties attempting to win elections at the national level could now compete more effectively at the regional and local levels. These parties could build their organization at the national level based on their success at the regional level.

During this period, several new political parties, such as Causa R, Proyecto Venezuela, Convergencia-Lapi, MVR, PPT and Primero Justicia used federalism as a springboard to enter into the political system and build a national party organization. In the first election for governors in 1989, the AD and COPEI largely dominated the electoral market (90 percent of the governorships). However, during the following elections their dominance waned as new political organizations emerged and decentralized parties such as MAS obtained significant power for the first time. By 1998, the AD dominated only 34.7 percent of the governorships, COPEI 21.7 percent, MAS 13 percent, MVR 17.7 percent and regional parties 12.9 percent (see Figure 7).

One illustrative example of how political careers were built in this period is the rise of Andrés Velásquez and his party, Causa R, which had been a marginal party in the previous period. He was able to build the party starting with his victory as governor of the state of Bolívar in 1989. His effective performance allowed Velásquez to compete in the presidential elections of 1993 and receive 22 percent of the vote. Causa R continued its success by later winning the mayoralty of Caracas in 1992 and the governorship of Zulia in 1996. Another example is Henrique Salas Römer, the governor of Carabobo, Venezuela's largest industrial state: He first won the governorship with the support of the COPEI in 1989. He later abandoned the party due to internal disputes with its national leadership and created a regional party in 1995 called Proyecto Carabobo, which was later relabeled Proyecto Venezuela when he decided to run for the presidency in 1998. Primero Justicia entered the political scene by winning in the well-off municipalities of eastern Caracas.

The multiplication of electoral arenas not only provided an incentive for some political parties to pursue an electoral strategy aligned with regional interests, it also forced national parties to use alliances with other political organizations to compete effectively in these different arenas. National political parties became increasingly dependent on party alliances between 1989 and 2000. The AD established alliances with an average of 2.2 parties in the regions where it was

able to win in the 1989 gubernatorial elections (and won 55 percent of the total). By the year 2000, the AD had to establish alliances with an average of 6 parties to win just 12.5 percent of the governorships (see Figure 8). However, the AD's reliance on these alliances, in terms of the average percentage of votes that these parties added to their candidates, was relatively low. In contrast, the COPEI was very dependent on these alliances to win. The average percentage of votes contributed by other parties supporting the COPEI's gubernatorial candidates increased from 7.1 percent in 1989 to 40.3 percent in 2000. Even parties that as newcomers were able to win the presidency, such as President Chávez's MVR, used alliances to win regional elections. In 1998, the MVR allied on average with 8 parties and the alliances provided them with 18.3 percent of the votes. In 2000, the MVR allied on average with 9 parties, receiving 9.7 percent of the votes from other partners. This same trend holds true for parties such the MAS, Proyecto Venezuela, and Causa R. One important consequence of the emergence of these alliances is that incumbent governors could shift partners more easily to assure re-election. As the importance of the alliances increased, the independence of incumbent governors also increased, allowing them to break with the party that initially supported them or to negotiate in more favorable terms with national party leaders.

4.4.2 Re-Election and Non-Concurrent Elections

The immediate re-election of governors and mayors in contests that were organized separately from national elections also increased the independence of these political actors. Governors and mayors running for re-election had greater opportunity to distance themselves from national party leaders and even disassociate themselves from the party structure. The fact that their re-election depended to a great extent on their performance—and not on coattails from presidential candidates backed by centralized parties—created incentives for governors to behave more independently. In fact, governors quickly used their fiscal and administrative resources to control and expand existing local party machinery. During the 1992 gubernatorial contests, 18 incumbents ran for re-election and eight managed to win. In 1995, only three governors could run as incumbents and two of them were re-elected. In 1998, 17 incumbents out of 21 governors were re-elected. In 2000, 15 governors were up for re-election and five of them obtained it. Intra-party politics in this period revolved around the conflict between the new regional leaders and the old party leadership. In 1993, regional leaders were able to win the presidential nominations

in the AD (Claudio Fermín, mayor of Caracas) and the COPEI (Oswaldo Alvarez Paz, governor of Zulia), in confrontation with the traditional leadership. Again in 1998, Irene Saéz, the independent mayor of Chacao, won the COPEI's nomination, but in exchange the party controlled most legislative nominations.

In sum, the introduction of re-election for governors and mayors and the fact that they were elected on a separate basis from their national counterparts created incentives for these new political actors to gain independence and challenge their party bosses. The federalization of Venezuelan politics also implied that these governors, in the context of a decaying party system and the deepening of the decentralization process, could build their own political organizations to support their careers. The re-election rule also fostered internal conflicts between party authorities at the national level and new party leaders at the regional and local levels. These tensions remained unresolved and on occasion forced regional players to separate themselves from their parties. In this sense, federalism enacted a dual dynamic: the formation of new regional political parties and the split-off from hierarchical political parties such as the AD, COPEI and MVR.

4.5 The Judiciary

The fragmentation of the party system and the decline in party discipline during the period 1989-2003 undermined the strong grasp that national party barons exercised over the judicial system. Increasing civil society demands for expanded access to justice and judicial independence received support from the Supreme Court. With the assistance of the World Bank, the modernization of the Court was initiated. The Court assumed a more politically autonomous and activist role. The increasing judicial independence of the Court can be illustrated by its leading role in the impeachment of President Pérez in 1992 and by its many rulings—to resolve conflicts over elections—that negatively affected the largest parties (the AD and COPEI).

Despite the changes that occurred in the early 1990s in the judicial system, the perception of judicial independence is today very low (World Competitiveness Report, 2002). During the Chávez presidency, the government has generally controlled the Court, which was originally appointed by the Constituent Assembly using the overwhelming government majority. Moreover, in 2004 the Chavista majority in the Legislature passed a new Supreme Tribunal law, adding new magistrates in order to obtain a firm grip on Tribunal decisions. This effectively ended any remaining independence on the part of the highest court.

5. Characterization of Public Policies in Venezuela (1958-2004): From Cooperative Distribution of Oil Rents to Crisis and Instability

The outer features of Venezuela's democratic public policies have experienced significant transformations through time that can be linked to the combined effect of changes in the policymaking process and changes in exogenous conditions (mainly oil income). The first 15 years (1958-1973) were characterized by cooperation, stability and effective performance. The next 15 years (1974-1988) of oil boom and bust were characterized by less cooperation, ineffectiveness and some inflexibility. The last 15 years (1989-2003) have been characterized by the marked decline and final breakdown of cooperation, policy instability, and reform reversal.

5.1 1958-1973: Cooperation with a Relatively Stable Oil Market

From 1958 to 1973, there were features of public policies that suggested effective inter-temporal cooperation among policy actors. Economic and social policies were relatively stable and bipartisan. Health and education coverage were rapidly expanded. Import substitution industrialization advanced with government financing. Oil policy was consensual and economic performance was very good.

According to Hausmann (1990), Venezuela's economic management during this period was characterized by three simple, stable and coherent rules geared toward inducing economic growth and minimizing political conflicts: 1) the fixed nominal exchange rate rule, allowing a significant degree of real exchange rate stability and reducing uncertainty; 2) the fixed nominal interest rate rule; and 3) the fiscal rule: spend what you earn (in oil revenue). Hausmann (1995) explained the conservative fiscal rule of the period as: "The fiscal rule according to which 'government spends according to its earnings' has two sides. First, the most salient, is to limit public expenditure according to level of ordinary revenue, which substantially decrease the possibility of financing the fiscal deficit. In this sense, it is a balanced budget rule. Second, the rule emphasizes *how much the government can spend* and not *how much it has to earn*. The rule says that if oil income decreases, the government has to decrease public expenditure and not increase internal taxation. The society granted the State a license to spend according to the oil income. There is no license to increase internal taxation or to monetize the fiscal deficit."

These rules were effectively maintained through the first three presidential terms. The stability of the rules reflected cooperation rather than stringent legal or constitutional

commitment mechanisms. The Executive did not incur insignificant deficits or other forms of fiscal opportunism. Inflation was kept strictly under control, averaging 2.6 percent per year and the exchange rate remained fixed until 1983. In addition, public expenditures were systematically geared toward improving health and education services and infrastructure, which was consistent with the long-term goal of providing the political system and the economy with a sound basis. For instance, from 1957 to 1973, the average enrollment per year in primary, secondary and university education increased 6.4 percent, 14.2 percent and 18.2 percent, respectively. Analogously, education expenditure (as a share of the total budget of the government) increased from 4.5 percent in 1957 to 18.6 percent in 1973 (Echevarría, 1995).

The remarkable stability of these policies was clearly related to the workings of the policymaking process, which induced a long-term cooperative agreement geared to minimizing political conflicts, and to the special characteristics of the economy and the external environment, which provided the favorable conditions necessary for the policies' longevity. Regarding the latter, it is important to note that the rules were set on the assumption that oil income was going to be a relatively stable and increasing source of revenue for the government. In fact, during the period 1958-1973, oil fiscal revenues were smoothly increasing at an average rate of 5.5 percent per year (Santos, 2003). The gold-dollar-based international exchange rate system and the limited movement in international capital also provided an environment in which the rules could work. The internal coherence of the policies adopted during this period resulted in a good economic performance. From 1958 to 1973, GDP per capita experienced a relatively high rate of growth, averaging 2.1 percent per year. The unemployment rate decreased from 10.8 percent in 1959 to 4.94 percent in 1973.³⁴

5.2 1973-1989: Cooperation in the Midst of Oil Booms and Busts

The increase in oil prices from 1973 to 1977 marks a change from the previous period because it allowed an outstanding increase in the expenditure possibilities of the government (in 1974 alone, for example, there was a 165 percent increase in fiscal revenue), which in turn dramatically distorted the policy choices of Venezuela's governments.

During the first Pérez administration (1974-1979), oil revenues were used to finance an ambitious plan of development based on the nationalization of the oil and iron industries, the

³⁴ Source: Banco Central de Venezuela.

creation of state-owned enterprises, investments in public infrastructure and generalized subsidies. In general these were much more ambitious extensions of previous policies. Nevertheless, the increase in fiscal revenue promoted a departure from the previous fiscal conservatism, according to which government expenditure is limited to the income received during the period. In his first year in office, President Pérez created a fund to set apart a significant fraction of the extraordinary fiscal revenue for long-term investments. It soon vanished and the Pérez administration not only spent the extraordinary fiscal revenue, but also used its favorable position in the international banking system to increase the external debt position of the country (from \$600 MM in 1973 to \$10.800 MM in 1977). Another effect of the expansion of government was a considerable exacerbation of corruption. National party leaders were worried that Pérez was trying to construct an independent personal political base rather than working for the party-based structure that had worked in the previous 15 years. In summary, Pérez took advantage of the positive external shock to promote his particular agenda (a deviation from cooperation), but within the general principles of the cooperative agreement. In addition, the change in exogenous economic conditions (increase in oil income) and the resulting larger influence of public expenditures in the political system promoted a new set of policies geared toward generating *private* benefits for key political actors.

Even though the decline of oil revenue during the late 1970s showed the economic vulnerabilities of this set of policies, there were some elements that induced politicians to avoid economic reform and maintain the significant distortions during the following two presidential terms. First, political actors could reasonably expect that the decline in oil revenue was transitory. Second, the main political actors considered that structural adjustment would undermine the foundations of the political system, given that expenditure policies were directly geared toward benefiting the main constituencies of the political parties. As a consequence, the balanced budget rule was abandoned for a relatively high level of public expenditure (using external debt to finance negative external shocks). Later on, in 1983, the government was forced to abandon the fixed exchange rate (which was replaced by an exchange control system that lasted until 1989).

Although during the Herrera (1979-1983) and Lusinchi (1984-1988) Administrations some policies were changed because of the deterioration of economic conditions, it is remarkable how both administrations systematically tried to avoid any short-term negative distributive

impacts on their key constituencies. Naim and Piñango (1988) have pointed out that the fundamental and common feature of policies during this period was a clear aversion to political conflict, which translated into the use of oil income as an instrument to decrease social tensions. The side effect of this approach was the multiplication of fragmented policies resulting in a lack of coordination and long-term sustainability, as well as ineffectiveness.

From the early 1980s to today, per capita oil fiscal income has had a declining tendency with high volatility. In contrast with the previous performance, Venezuela became one of the most striking cases of economic underperformance in Latin America after 1978. Between 1978 and 1988, the growth rate of the GDP per capita became very volatile and decreased an average of 1.8 percent per year.

5.3 1989-2004: Decline and Breakdown of Cooperation

From 1988 to today there has been a decline in cooperation, and policy goals have become contradictory and highly volatile. The second Pérez Administration (1989-1993) tried to implement a systematic reform program. The reforms were geared toward promoting the development of a market economy by correcting the distortions accumulated during the previous decade. The drastic change in the orientation of public policies was a clear departure from those of the previous three decades. The administration faced the open rejection of its policy proposals by the most important political actors (including the governing party, the AD). Public disputes between the executive and the legislature were common, and some crucial reforms were not allowed to pass in Congress (e.g., tax reform). Venezuela was one of the few Latin American countries in which the initial reformer was politically defeated and reforms were reversed (Villasmil et al., 2004).

President Caldera's (1994-1999) electoral campaign was based on an open rejection of the market reforms. The advent of a massive banking crisis in 1995 allowed the Legislature to grant special decree powers to President Caldera. He used them to re-establish most economic controls. By 1996, the deterioration in economic conditions forced Caldera to undertake some reforms. The main policy measures included a partial opening of the oil sector to private investment, an increase in gasoline prices, and an increase in the VAT rate. In order to obtain support for these reforms, public sector wages were increased 117 percent. In addition, total transfers to local and regional governments increased by 2.25 percentage points of the GDP, due to an increase in revenue earmarking.

During the Chávez administration (1999-2004) there has been a radical change in policies once again. Policies have become more volatile partially as a result of political instability. There has been a reversal of many reforms implemented during the previous administrations. Cabinet turnover has significantly increased. Governance and institutional quality has notoriously declined.

5.4 Overall Quality of Public Policies

From 1988 to today, abundant evidence exists that suggests an increasing deterioration in the quality of public policies, not only compared to the previous periods, but also compared to the performance of other Latin American countries during the same period. For example, the relative position of Venezuela in the different components of the Global Competitiveness Report (GCR) reveals that the country is one of the worst performers in the world in areas related to public policy outcomes. In the 2002 survey, Venezuela held among the lowest positions in the national business environment index (72 out of 80 countries), public institutions index (73), contract and law sub-index (77) and macroeconomic stability (77). These results are consistent with a situation in which it has become increasingly difficult to achieve inter-temporal agreements among policymakers.

The World Bank Institute's Governance Indicators also reflect the low and declining quality of Venezuela's policies and institutions. In all six indicators, Venezuela has declined between 1996 and 2002. In the Political Instability index, Venezuela is in the 17 percent range (percentile), while the Latin American average is 48 percent.³⁵ In the index of Government Effectiveness, Venezuela has declined from 24 percent to 10 percent, while the regional average has been above 40 percent. In Regulatory Quality, the indicator has fallen from 45 percent to 35 percent, while the regional average has been above 50 percent. In the Rule of Law index, Venezuela has fallen from the 29 percent percentile to 13 percent, while the regional average has been above 40 percent. Finally, in the Control of Corruption index, there is again a decline from 28 percent to 19 percent.

Eduardo Lora's Structural Reform Index indicates that Venezuela has had one of the poorest performances in the region in terms of the advancement of reform. In fact, Venezuela has been systematically below the Latin American average during the period 1985-1999.

³⁵ There are almost 200 countries in the database. The percentile rank reflects the percentage of countries that did worse in the indicator than the case studied.

In terms of Cabinet stability there is also a significant decline. As can be seen in Figure 9, in the 1958-1988 period, Cabinet members lasted an average of 2.13 years in their positions (in a five-year term). Similarly, there were 2.3 ministers per Cabinet position per term. In contrast, from 1989 to 1993, ministers lasted only 1.4 years, increasing to 1.8 years from 1994-1999, and declining again to 1.3 years in the 1999-2004 period. That dramatic change in Cabinet stability reflects political instability and volatile policies.

5.4.1 Features of Specific Policies

In order to evaluate the features of Venezuela's public policies some characteristics of two crucial policy areas, fiscal policy and public administration policy, are evaluated. Later, two additional areas, decentralization policy and oil policy, are briefly discussed.

Fiscal Policy

Since some elements of fiscal policy have already been discussed in the previous sub-section, here just a few additional elements are briefly discussed. In particular, the volatility and ineffectiveness of fiscal policy in the second period is illustrated.

As explained, oil wealth management through fiscal policy during the first 15 years of democracy had some remarkable features that suggested inter-temporal cooperation among political actors (Hausmann, 1995). From 1958 to 1973, there were no episodes of significant fiscal deficit and public debt remained at very low levels. Increased public expenditure was directly related to increased oil fiscal revenue. Non-oil fiscal taxation remained relatively low and stable. Public spending priorities were clearly geared toward infrastructure health and education services, and toward promoting the industrialization of the country through an import-substitution strategy.

The use of oil to finance the government was a relatively costless alternative for political actors, because it produced a high flow of income by taxing a very narrow group of economic agents through a relatively simple administrative structure. In contrast, in order to obtain an equivalent flow of non-oil revenue, the government needed a substantially larger base of taxation and a more complex administrative structure. Therefore, the latter alternative was particularly unattractive given the objective of minimizing social tensions. In addition to the remarkable stability and coherence of the fiscal policy during this period, there are indications of its flexibility to adapt to changes in exogenous conditions. One example is provided by the

significant fiscal cuts implemented by the Betancourt administration in the face of a declining real oil price.

The oil crisis of 1973, with the subsequent increase in oil prices, is clearly another defining moment in Venezuela's fiscal history. During the 1970s, the conditions of the international oil market provided the government with an average level of oil revenue that was 3.5 times that of the previous decade. In addition, oil prices also became very erratic, increasing the volatility of fiscal revenue during the late 1970s and the 1980s. The response of the Pérez, Herrera and Lusinchi Administrations was to deviate from the fiscal discipline of the previous period, running large deficits and acquiring a significant amount of foreign debt in order to finance policies based on relatively high levels of public expenditures. However, during the period 1958-1986, the relatively low level of modifications to the presidential budget proposals in the legislature seems to illustrate that there was significant cooperation in fiscal policy (Puente, 2003b).

Fiscal Policy in the Second Period: 1989-2004

By 1989, fiscal problems were acute. The second Pérez Administration presented a fiscal reform program to correct the fiscal imbalances, proposing a tax reform to increase non-oil revenue and a stabilization fund to reduce fiscal volatility. However, as explained in the previous section, the policymaking process had become less cooperative, so these reforms were blocked in Congress. In addition, the Gulf War produced an influx of oil revenue that reduced the urgency of fiscal reforms. As a result, the structural fiscal deficit continued.

In the following years, fiscal policy continued to lack cooperative features. The most important tax reform that could finally be approved was the value-added tax law (VAT), which was accepted under extremely exceptional political circumstances. It passed into law during the 1992-1993 interim presidency of Ramón Velásquez, after two coup attempts and the impeachment of Pérez. However, in order to obtain the legislative support necessary to pass the law, a large share of the VAT revenue had to be earmarked for a special fund to finance the investments of regional governments (FIDES). For the first time in Venezuela's history, governors and mayors had become a powerful force in the national legislature, a sign of times to come. Moreover, in his first year in office, President Caldera reduced the VAT while maintaining the FIDES. By 1996, the extreme adversity of the fiscal and economic problems (due to the banking crisis) forced the Executive to adopt a program of adjustment, which

included increases in non-oil taxes and in the domestic price of gasoline, as well as the partial opening of the oil sector to foreign investment. Once again, an increase in oil prices in 1996 allowed the government to increase fiscal expenditure and halt other reforms. The favorable conditions in the oil market did not last long, however, and by late 1997 and early 1998, fiscal conditions were again deteriorating.

State governors continued to influence fiscal policy during these years. In particular, in late 1996, new legislation established a minimum level of transfers (about 15-20 percent) from the VAT revenue to FIDES and, at the beginning of 1998, the Legislature approved a law in which a share of oil royalties had to be transferred to the states.

Even though an effective tax reform has been elusive, tax policy has been very volatile. Since 1992 the income tax law has been reformed five times, the value-added tax nine times, and the tax on banking transactions has been “temporarily” established four times (Briceño, 2002). Similarly, Puente (2003b) found that the activity of Congress in the budgetary process, measured by the average absolute difference of congressional changes to the Executive’s budget for each year, increases substantially from 1986 onward. In the period 1973-1985, Congress usually approved the budget presented by the government with relatively few changes. However, in the period between 1986 and 1998, only three annual appropriations involved changes of less than 5 percent, six involved changes of more than 26 percent, and one more of than 36 percent. In this sense, it is possible to identify two different patterns of congressional activity in the period: one characterized by a low level of congressional involvement in the budget process (1973-1985) and another with a high level of involvement (1986-1999).

Public Administration and Bureaucracy

Even though there has never been an effective civil service system in Venezuela, the evidence seems to point to the fact that in the first three administrations of the democratic era, the quality of bureaucracy was significantly better than its quality in the last two decades. In 1960, during the Betancourt administration, the Public Administration Commission (CAP) was created with the assistance of the United Nations. The CAP recommended the enactment of the Administrative Career Law and the creation of the Central Personnel Office. Both reforms were aimed at creating the institutional basis for the professionalization of the civil service. Politicians in Congress blocked attempts to pass the reforms suggested by the CAP. During the coalition governments of Betancourt and Leoni, all political parties in the *Punto Fijo* Pact wanted to carry

out their own bureaucratic recruitment and consequently were reluctant to delegate entry into the public administration to an autonomous civil service (COPRE, 1990). President Betancourt used his executive decree powers in 1960 to pass a regulation on Government Personnel. Although this regulation provided a minimum legal framework to govern public servants, it reflected a lack of long-term commitment to a civil service policy. In 1965, President Leoni passed some guidelines that would regulate the human resources system on some issues such as hiring, transferences, dismissals, promotions and salary raises. In 1968, Rafael Caldera (COPEI) won the election, having a minority in Congress. The AD, now out of power but with a large presence in Congress, decided to approve the Administrative Career Law to create a civil service and limit the Executive's power over the bureaucracy. During the period 1958-1973, although there was no political commitment to create a professional civil service, the bureaucracy worked relatively well in terms of its capacity to respond to or cope with the population's needs. The coverage of the public services was considerably expanded and the foundations of some model organizations, such as the Central Bank and the National Library, were established.

Paradoxically, even with the civil service law, the bureaucracy began a process of progressive decline after 1973. The goals of the law were distorted and it was reduced to being a guarantee of job stability for public employees. Political party affiliation was the principle criterion used to determine entry, and for the first time salaries were not adequate enough to attract qualified people into the civil service. There was virtually no performance evaluation for civil servants, and the process of training was totally set aside. During Pérez's first administration, the central government grew significantly. The number of ministries increased from 13 to 17, and there was also a tremendous growth in the decentralized public administration.³⁶

However, the nationalization of the oil industry in 1976 and the creation of the state-owned oil monopoly (PDVSA) showed a long-term commitment to the company's autonomy and efficiency. Similarly, other pockets of efficiency were maintained, for example, in the Central Bank and in some state-owned companies (such as Edelca, a large hydroelectric generator, and the Caracas Metro).

³⁶ According to Bigler (1981), 163 new entities were created; this is 2.86 times more created entities than in any other government since Juan Vicente Gómez in 1928.

In 1984, the Lusinchi administration created the COPRE, a presidential commission to study political and institutional reforms. In 1989, the COPRE presented a proposal for Public Administration reform. It was based on a diagnosis of two main dysfunctions: the spoils system and excessive centralization. The spoils system was based on the government's use of oil fiscal revenue to distribute particular benefits (positions, scholarships, contracts, subsidies) among its partisans. These benefits also included entry into a stable job within the public administration. Loyalty and submission, rather than meritocracy, were the basis of the bureaucracy. There were the important exceptions mentioned above: the PDVSA, the Central Bank, etc.³⁷ They relied on a totally different human resources notion based on merits, continued assessment and education. Politics had little or nothing to do with the selection and compensation of an employee. In fact, in these institutions, human resource management was generally conducted under special regulations that allowed them to bypass the public administration procedures.

In the second period, 1989-2004, public administration performance declined significantly, even though some significant reforms were implemented in the early 1990s to try to reverse its progressive deterioration. Those reforms included:

- 1) A new salary scale with better pay for the top positions, closer to their opportunity cost. Increasing the wage ratio of top salaries over minimum salaries to 16.
- 2) Structural reforms in a few public organizations such as the Tax Authority (SENIAT) and the Ministry of Industry and Commerce (MIC). In those cases, competitive compensation and career development were reinforced in order to attract and maintain qualified personnel.
- 3) The creation of independent technical advisory offices in Congress and the Ministry of Finance. The creation of these organizations was tied to loans given to the Venezuelan government by the Inter-American Development Bank.
- 4) A new law for the Central Bank of Venezuela that strengthened its autonomy and eliminated the corporatist nature of its board of directors. The appointment of the president of the Bank by the Executive began to require congressional ratification (with a two-thirds majority).

³⁷ The BCV has been described as an example of successful public sector human resource management (Reid and Scott, 1994).

However, by 2004 all of those reforms have been completely reversed. In 2002, the wage ratio was 6 (González, 2002). The SENIAT and the MIC are displaying the same features of the rest of the bureaucracy. The technical advisory offices have been disbanded. The pockets of efficiency mentioned before (the PDVSA, the Central Bank, the Caracas Metro, etc.) have had a significant decline in their meritocracy and autonomy. After the oil industry strike (December 2002-January 2003), roughly 18,000 workers were dismissed. As a consequence, PDVSA crude oil production has declined from 2.3 to 1.6 millions of barrels per day. The Central Bank faces strong political pressure, and President Chavez has threatened to fire its board members unless they respond to government requests.

The above characterization of the civil service policy shows that political parties have to a large degree used public employment as a distributive mechanism throughout the democratic period. During the first years of democracy, the government's priority was political stability and not economic efficiency. Consequently, this explains why there was practically no effort to build the foundations of a real civil service system. However, during those years, it was possible to satisfy both political objectives (higher support to political parties and democracy) and social-economic objectives. The population's needs and demands were very simple, and the oil windfall proved to be more than enough to meet those requirements.

During the first three administrations, some of the best professionals in the country were civil servants. At the time salaries were competitive. One of the most important reasons for the decline of the Venezuelan bureaucracy has been the significant decline of public servant salaries relative to private sector salaries (i.e. the opportunity cost). In 1965, public sector salaries were on average more than 2.3 times the average private sector salary. In the 1970s this ratio declined to less than 2 and became very volatile. By the mid-1990s, the ratio was less than 1 (Baptista, 2001). Part of the explanation for the dramatic erosion of public sector salaries has to do with the huge expansion in public sector employment that occurred during the oil booms. After oil revenues declined it was difficult to cut back personnel or nominal wages. However, real wages in the public sector suffered a dramatic decline.

According to the Appointment Strategy Index developed by Geddes (1994), Venezuelan governments from Betancourt to Lusinchi undertook a compartmentalization strategy that was characterized by:

- A. Political selection of top administrative personnel by the president on the basis of competence and loyalty.
- B. Informal meritocratic recruitment and promotion based on performance in agencies the president deems most crucial to his program.
- C. Recruitment of rest of bureaucracy through customary patronage channels controlled by the president, party, and coalition partners.

Geddes (1994) gave the first three democratic presidential administrations an index of 5 (where 0 represents pure patronage and 10 pure meritocracy). In contrast, the index declined to an average of 3.66 for the next three administrations. Then it increased during Pérez's second administration to 7 (the last one covered in the study). Taking into account the low scores recently obtained by the Venezuelan bureaucracy in the World Bank Governance indicators (in the 10th percentile) as well as others (e.g., the Global Competitiveness Report) mentioned above, the Chávez administration should probably be given a very low score in Geddes' index. Chávez has had the most openly partisan selection strategy of any administration in Venezuela's democratic history.

It is important to note that in Geddes index Venezuela was either at the regional average or above it in terms of meritocracy. Only Brazil, Chile, and Peru (under Fujimori) received higher scores. In other words, in general, the Venezuelan bureaucracy used to be relatively similar in terms of its levels of meritocracy/patronage to those of other Latin American countries. However, today Venezuela is clearly at the bottom of the region.

Decentralization Policy

It can be argued that decentralization in Venezuela not only began belatedly in comparison with other Latin American countries, but also that it has been a very volatile policy. As a consequence, Venezuela has advanced in decentralizing its public sector, but has not moved as fast as other countries in the region. In addition, the process remains structurally fragile, especially in terms of its financial side, and is vulnerable to attempts to reverse it given the regions' dependence on vertical intergovernmental transfers.

Until the late 1980s, federalism in Venezuela was a legal formality. Under both authoritarian and democratic governments, the president appointed governors. It was only in 1989 with the direct election of governors and mayors that a decentralization policy became a

reality. Once it began, the decentralization policy came to be an illustrative case of volatility. The destiny of the process depended largely on the preferences of politicians in charge of the government at the time.

The decentralization policy experienced significant developments during Pérez's second presidency. In 1989, several laws were enacted, providing a legal base for decentralization, and many competencies and resources were transferred. The provisional government of Ramón Velazquez (1993-1994) gave a greater push to decentralization. The FIDES, a fund for regional investment, was created with earmarked tax funds and a Ministry of Decentralization was created. In Caldera's administration, decentralization slowed down. However, the governors still obtained additional resources from oil revenue through their influence in Congress. Finally, with Chávez, decentralization has been severely affected. The process leading to the transfer of concurrent competencies to the states has been blocked. However, Chávez still has not been able to fully re-centralize the policymaking process due to the power and significant political base of governors and mayors.³⁸

Oil Policy

Oil policy represents one of the most stable and cooperative policies in Venezuela's democratic history, but such cooperation has not always brought welfare enhancing policies. From 1958 to 1975, all governments systematically increased the taxation of the foreign-owned oil companies working in the country. Governments also provided incentives for rapidly increasing production, but at the same time did not renew oil concessions, setting the companies' horizon in 1983. As a result, companies began to disinvest and exploited the oil fields already in production more intensively. A decade later, as could be expected, the lack of investment produced a decline in production.

The cooperation of all the parties involved in the policy process to extract more resources from the oil companies was remarkably effective. However, its long-term effects were very negative. The specific nature of this sector—its high level of sunk costs—provides part of the explanation for this shortsighted behavior. It allowed politicians to postpone the costs of a predatory strategy for more than a decade.

³⁸ In the regional elections of October 2004, Chavez's party (MVR) won all but two of the governorships. This situation may allow the president to significantly re-centralize some areas of public decision-making. Health and police services are going to be re-centralized according to the current administration.

The decline of the oil industry was eventually reversed with nationalization in 1976. The creation of the state-owned oil company, PDVSA, offers a remarkable example of a high degree of cooperation, this time with very positive consequences. The company was structured so as to minimize politicization and maintain operational and financial autonomy. As a result, it was the most efficient institution of the Venezuelan state.

Oil policy continued being remarkably cooperative until the 1990s. The opening of the oil sector to foreign investment was supported by the AD and COPEI, but was radically opposed by Chávez. After winning the election, he eliminated the financial and operative autonomy of the PDVSA. A dramatic decline in the quality of the company has occurred. The breakdown in cooperation again is highly visible.

6. Concluding Remarks

The analysis of the outer features of public policies in Venezuela tends to support the general hypothesis of the theoretical framework proposed by Spiller, Stein, and Tommasi (2003), namely that under conditions favorable for cooperation, such as those which prevailed in the first period (1958-1988), policies tend to have some desirable outer features such as stability and coherence. This conclusion is particularly evident if one compares the first period with the non-cooperative policymaking process that has prevailed in Venezuela in the last 15 years. In this second period, public policies have been increasingly unstable, incoherent, and shortsighted.

In the first period, policies were relatively coherent, stable and bipartisan. Despite the alternation of two parties in power, in many areas policies could be characterized as *state* policies rather than *governmental* policies. Leading examples were foreign relations, oil policy, industrialization policy, education policy, and health policy. Fiscal policy was relatively well managed until the oil shocks of the 1970s significantly distorted the policy process. The bureaucracy was relatively effective, well paid, and stable in the first two decades, and even after the oil booms and busts, “pockets of efficiency” such as the PDVSA and the Central Bank were preserved. Oil policy was stable and coherent but shortsighted in the first two decades, although the creation of the PDVSA in 1976 reflected a high level of cooperation and long-term commitment among the political actors.

In contrast, the second period has been characterized by high policy volatility and the lack of long-term policy commitments. Fiscal and tax policies have been erratic and inflation has

remained high for regional standards. Bureaucratic autonomy has dramatically eroded. The pockets of efficiency have been almost fully disbanded. Oil policy has been incoherent and short-sighted, and decentralization of public services has been volatile and incoherent.

In the Venezuelan case it is clear that the cooperative policymaking process that prevailed in the first three decades of democracy was to a large extent the result of the institutional foundations that were deliberately put into place by the *Pact of Punto Fijo*. The Constitution significantly limited the stakes of power. This was especially relevant in a country where considerable stakes were involved in the control over oil revenue. In particular, presidential powers were significantly constrained relative to regional standards. The institutional framework also stimulated the existence of strong, centralized and disciplined political parties. In addition, some of its features reduced the fragmentation induced by a proportional electoral system. All these elements contributed toward generating a remarkably cooperative policymaking process.

The dramatic decline in cooperation that has occurred in the last decade and a half can be partially attributed to the popular discontent generated by the poor economic performance of the 1980s, which was largely due to the exogenous fall in oil fiscal revenue. Nevertheless, the institutional reforms of the late 1980s also contributed to changing the incentive structure of the polity, weakening the party system and making the policymaking process less cooperative. The election of regional authorities and the change in the electoral system weakened party discipline and promoted political fragmentation. Combined with the decline in oil fiscal revenue, these reforms also engendered a relatively weak executive branch.

Using a “partial equilibrium” perspective, these institutional reforms should have produced only positive results and in fact from the perspective of the quality of public services and democratic accountability, they seem to have been quite effective (De la Cruz, 1998). A closed and centralized political system became more open, decentralized, and competitive. However, these reforms might have contributed to unraveling the cooperative equilibrium that had prevailed, without providing an alternative incentive structure to induce cooperation. In that sense, the “general equilibrium” perspective provided by Spiller, Stein, and Tommasi (2003) allows for a different take on the Venezuelan institutional reforms.

Although during the first period the policymaking process showed remarkably cooperative features, it failed to deliver policies that promoted long-term growth or effectively

dealt with external shocks. From a theoretical perspective this apparent puzzle might be explainable. The optimal strategy for cooperative politicians might not entail advocating public policies that foster economic development *if* those policies are detrimental to their political survival. For example, cooperation in some contexts might take the form of a political cartel to stay in power and exclude others from it. Moreover, in the case of governments financed by oil rents whose magnitude does not depend on the general quality of public policies, political cooperation might not necessarily imply efficiency.

In the case of Venezuela, under the resource abundance provided by oil, the favorable conditions for cooperation seem to have fostered the creation of a political cartel devoted to distributing oil rents among political clients. The oil resources, and some of the institutions that fostered cooperation, also undermined the ability of new political competitors to enter into democratic contestation, representing high entry barriers. In other words, cooperation was collusive, limiting democratic competition. As a result, the cartel implemented policies that were unsustainable once oil rents declined, and due to its closed nature, it was slow to adapt to changes in the political environment, leading to its demise.

In addition to the literature arguing that the poor economic performance of the last two decades in Venezuela and in other oil-exporting countries can be attributed largely to oil income decline and volatility; there exists a growing literature showing that a dependence on oil rents produces a strong tendency toward authoritarianism and institutional decay.³⁹ The causal mechanisms that produce this result are still debated. Among the leading hypotheses are: 1) the stakes of power are very high in oil-dependent societies, and control of the oil revenue generates a high prime for holding onto power; 2) oil dependence allows for low levels of non-oil taxation, which lead to a lack of accountability in the use of fiscal revenue and weaken the state's administrative capacity; 3) oil resources can be spent on patronage, weakening the opposition and the rise of democratic pressures, 4) oil revenue can be used for repression; 5) since the state controls most resources, civil society and private entrepreneurs are less autonomous; and 6) oil rents generate a tendency toward corruption (Karl, 1997; Ross, 2001; Sala-i-Martin and Subramanian, 2003; Lam and Wantchekon, 2003; Isham et al., 2003). This literature provides a complementary explanation for the decline of the *Punto Fijo* democracy. One very simplified

³⁹ Examples of the first literature are Hausmann and Rigobón, 2002; Manzano and Rigobón, 2001; Rodríguez and Sachs, 1999. The institutional literature includes Karl, 1997; Ross, 2001; Sala-i-Martin and Subramanian, 2003; Lam and Wantchekon, 2003; and Isham et al., 2003.

version would be that the elite *Punto Fijo* pact allowed for the creation of a limited democracy by significantly reducing the stakes of power, avoiding the authoritarian fate of other oil-exporters and failed democracies in the region. However, the oil boom and following bust induced economic decline and institutional decay. The efforts to reform the economy and the political institutions contributed to the collapse of the political system by weakening the bases of the cooperative equilibrium that was in place.

There exists also a significant political science literature stressing that the Venezuelan institutional framework of *Punto Fijo* lacked representativeness, accountability, and transparency (Karl, 1986; De la Cruz, 1998; Crisp, 2000). Karl (1986) argues that the transition to democracy based on elite pacts, such as *Punto Fijo*, can be successful in stabilizing democracy, but tends to produce exclusionary political systems. In the case of Venezuela, the radical left was deliberately left out of the elite pact. In the 1960s, these groups formed a significant guerrilla movement supported by Cuba. By the end of the decade the insurgency was defeated and most of its leaders became involved in political parties that got a small share of the vote. The restrictive nature of the political system was exacerbated after the oil boom and a two-party system emerged. According to this perspective, the “deficit of democracy” eventually led to the demise of the political system.

From the perspective of theoretical framework developed by Spiller, Stein, and Tommasi (2003), it is interesting to note that in Latin America, with the exception of Costa Rica, the only three civilian regimes (Colombia, Mexico, and Venezuela) and two democracies (Colombia and Venezuela) that survived uninterruptedly since the 1950s, were regimes with limited competition. The three regimes generated policymaking systems that were rather cooperative and for a while achieved good performance, but eventually all faced problems of legitimacy and performance that led to institutional reforms that reduced the cooperative nature of the system. One interesting line of further research would be studying the relationship between the competitive characteristics of the political regime, the cooperation it induces in the policymaking process, and its long-run sustainability.

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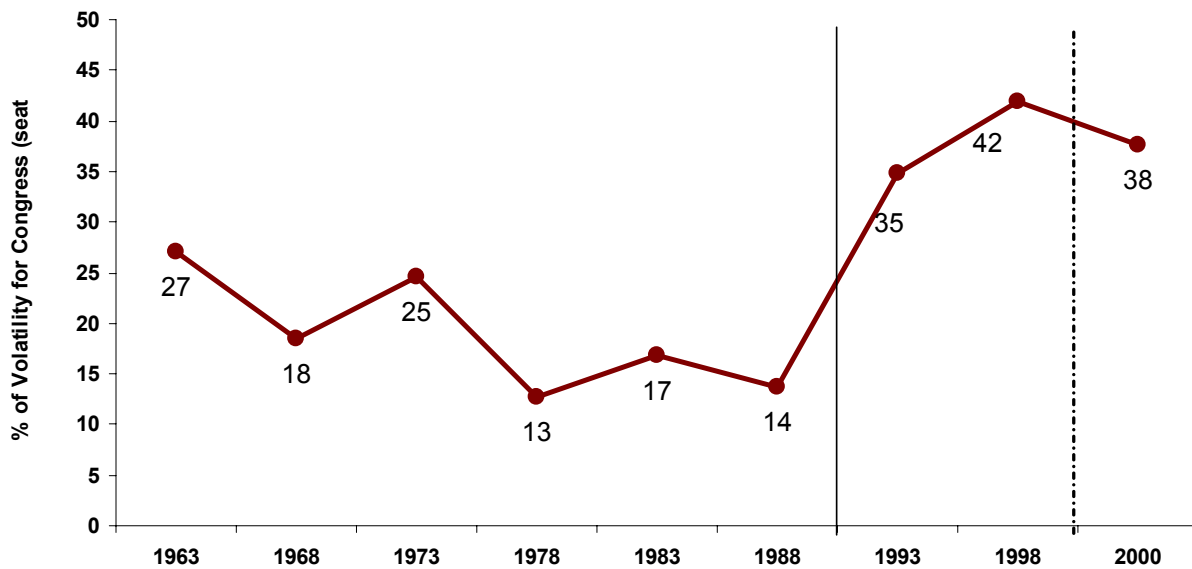
Figures

Figure 1
Effective Number of Parties in Venezuela
(seats in the lower house)



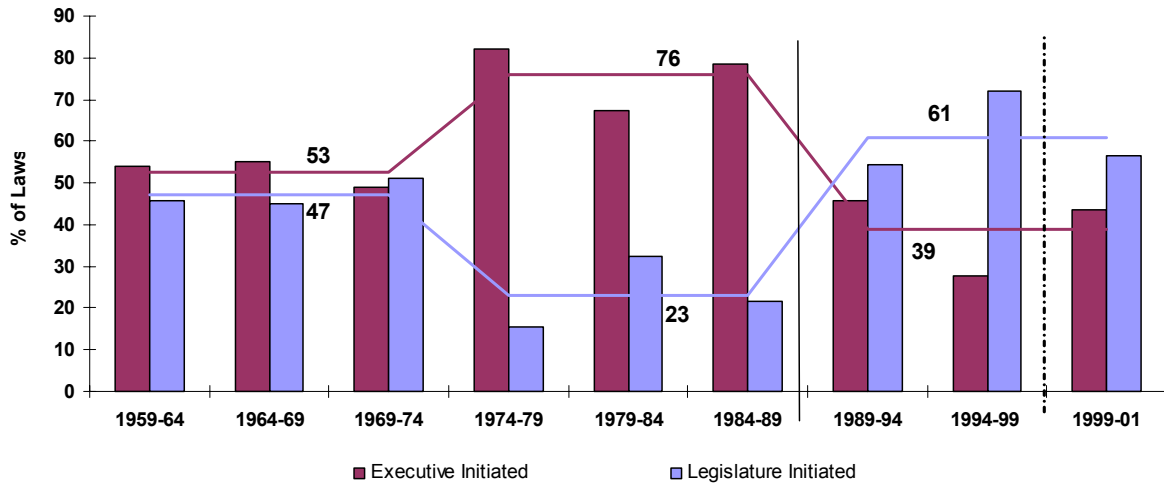
Source: Authors' calculations based on data from Consejo Nacional Electoral

Figure 2
Volatility in the Lower Chamber of the Legislature in Venezuela



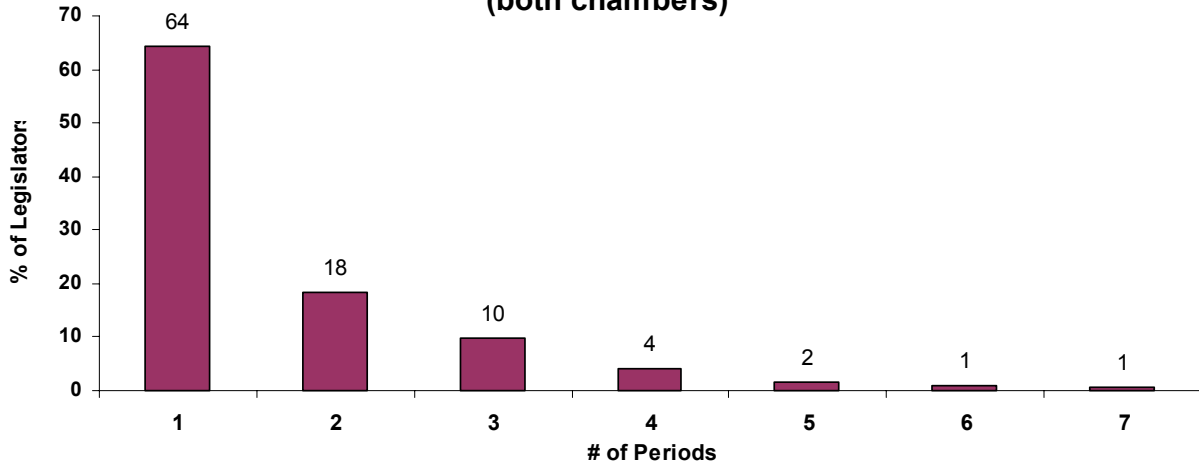
Source: Authors' calculations based on data from Consejo Nacional Electoral

Figure 3
Initiation of Legislation by Branch (Ordinary Laws)



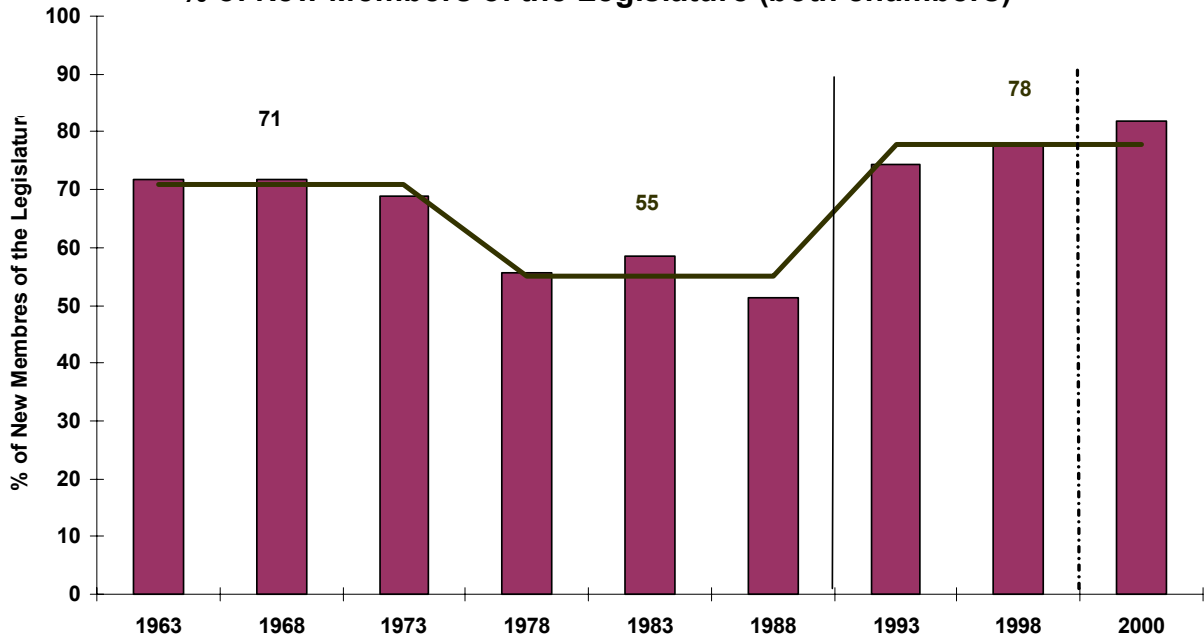
Source: Authors' calculations based on data from Servicio Autónomo de Información Legislativa

Figure 4
Periods Lasted by Members of the Legislature (1958-2000)
(both chambers)



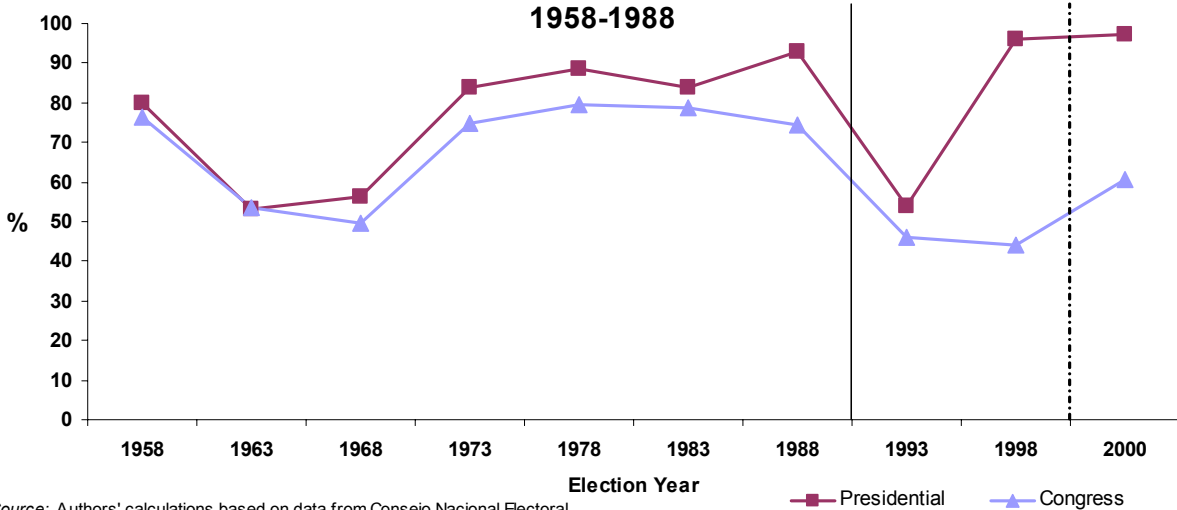
Source: Authors' calculations based on data from Servicio Autónomo de Información Legislativa

Figure 5
% of New Members of the Legislature (both chambers)



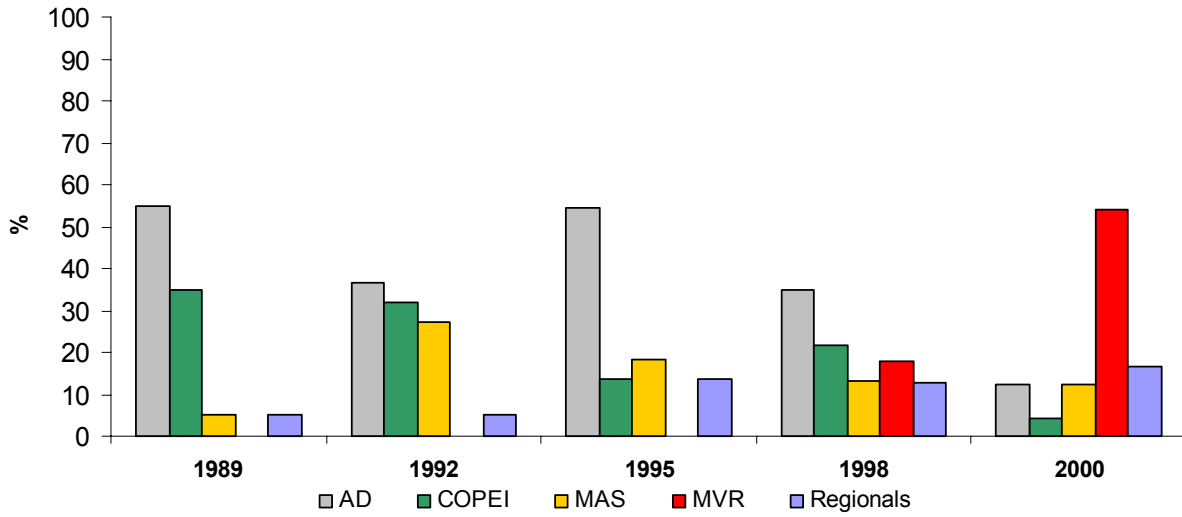
Source: Authors' calculations based on data from Servicio Autónomo de Información Legislativa

Figure 6
% Vote for the top two candidate and parties
1958-1988



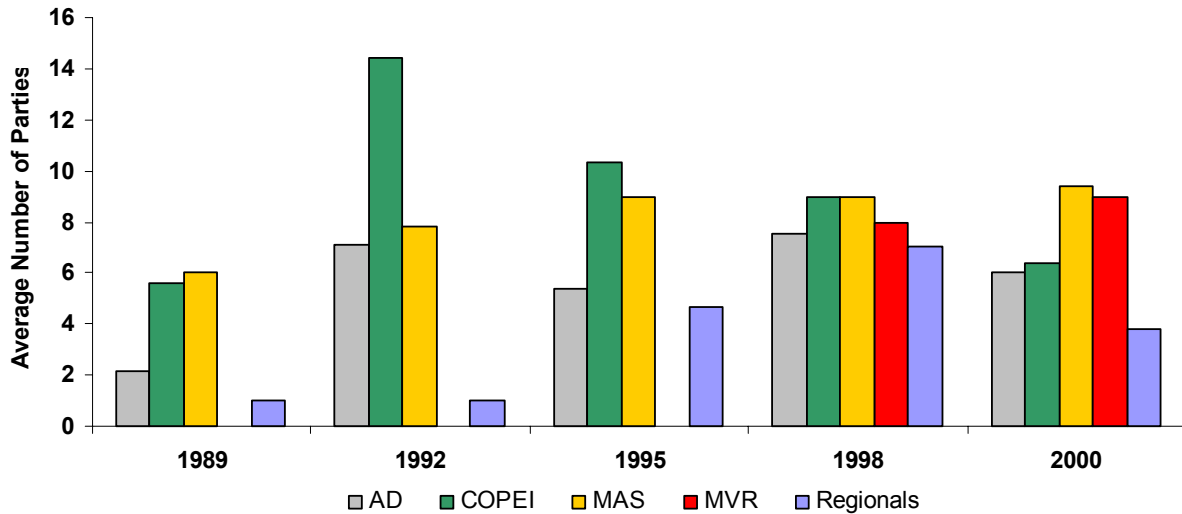
Source: Authors' calculations based on data from Consejo Nacional Electoral

Figure 7
Share of Governorships by Political Party in Venezuela



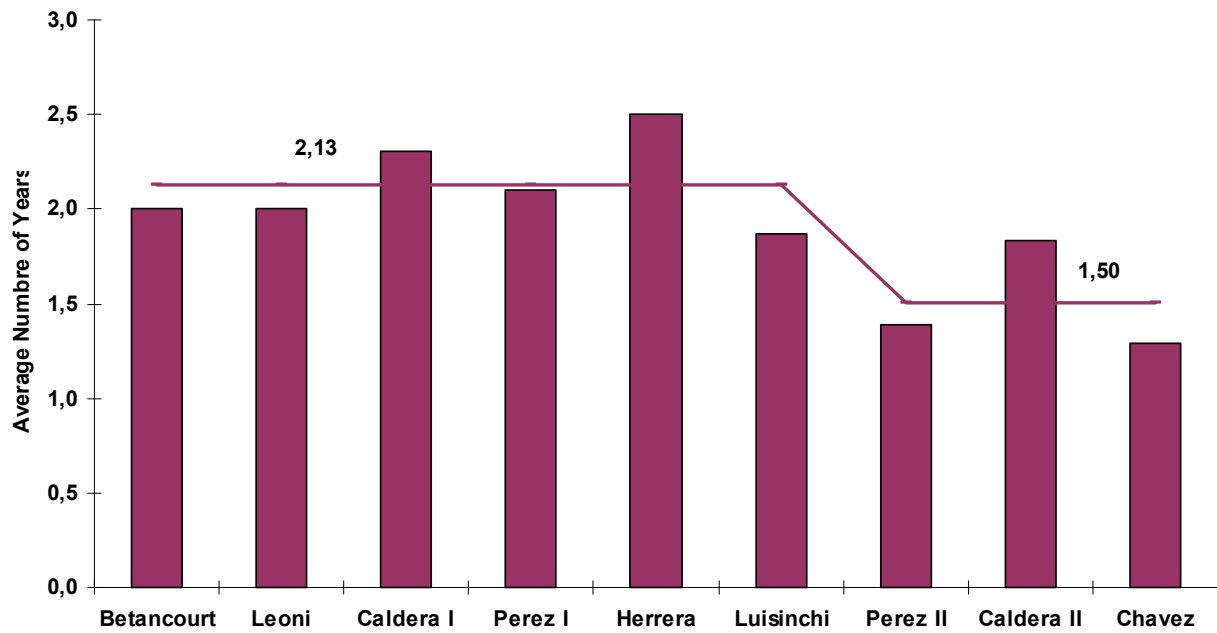
Source: Authors' calculation base on data from Consejo Nacional Electoral

Figure 8
Average Number of Parties in Alliance



Source: Authors' calculation base on data from Consejo Nacional Electoral

Figure 9
Average Number of Years Lasted by Cabinet Members



Source: Gacetas Oficiales de la República de Venezuela, 1958-2004.