

Political Institutions, Policymaking Processes, and Policy Outcomes in Venezuela¹

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1. Introduction

Venezuela's democratic history, 1958-2004, offers a striking case study on political institutions and policymaking processes. It used to be the model stable democracy in the troubled Latin American region, but in the last decade has become one of the least stable and more polarized. It used to have one of the best regional economic performances, but has had one of the worst performances in the last twenty-five years. Recent studies attribute a significant part of Venezuela's economic decline to the dramatic reduction in per-capita oil income and increasing volatility of oil prices (Hausmann and Rigobon, 2002; Manzano and Rigobon, 2001; Rodriguez and Sachs, 1999). Therefore, political instability and the 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 initially fall (which was largely an exogenous outcome).

This project attempts to evaluate how the political institutions have influenced the policymaking processes and how in turn the later influenced the features of public policy outcomes. It is framed under the theoretical framework advanced by Spiller, Stein and Tommasi (2003), focusing on the conditions that generate political cooperation among political actors to sustain long-term policy commitments. To better understand the structure of the project it is important to distinguish five sets of variables and their behavior in Venezuela:

1) **Economic and social performance**

In this project we are not directly studying 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 our 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) are 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, average high growth, low inflation, low country-risk, decreasing poverty, and low unemployment.
- From 1978 to 2004, dismal economic performance. Worst per-capita GDP performance in Latin America, high inflation, increasing unemployment, increasing poverty, and high country-risk.

2) **The Features of Public Policy Outcomes**

Features of public policy outcomes such as stability, flexibility, coherence, public regardness, and building of policy capacities are desirable because they tend to contribute to development. According to a variety of indicators, in the last two decades public policies in Venezuela can be generally characterized as having very low quality. For example, the World Bank Institute indicators placed Venezuela in 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 was 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: generally characterized by an institutionalized cooperative process, low number of key players, and repeated interaction. A 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: 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 final 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. The existence of low stakes of power characterizes this period. A constitutionally weak but informally powerful president (control of oil rents, appointment of governors). Electoral system with incentives for centralized disciplined parties (closed lists, no regional elections).
- The 1988-1998 period 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. 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 revenues. 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 revenues 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 revenues.
- 1973-1982: oil price boom, fiscal revenues explode, volatile oil revenues.
- 1983-2002: declining oil price tendency, volatile oil revenues.

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

A Stylized Story

The power-sharing Pact of *Punto Fijo*, the institutions of the 1961 Constitution and the search for stability guided the period 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 revenues 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 revenues).

In 1973-1982, the oil booms created a lot of distortions in the 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 1983-1988 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 started in 1989. Combined with voter preference changes -a product of the previous bad economic performance- resulted in deconsolidation of the political system. Fragmentation and volatility became the norm. The 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 policy features seem to be at the lowest level in democratic history.

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 between 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 (1945-1948) in the twentieth century, known as the *trienio adeco*, was short-lived. In 1945 Acción Democrática (AD) became the ruling party, with the help of military groups that ousted President Isaías Medina, and convoked democratic elections that won with a large margin. However, the same military groups that allowed its rise into power deposed AD's 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 ten-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.

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 subscribed 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 with the State the ecclesiastic agreement, 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 AD took advantage of its overwhelming popular majority to convoke an elected Constitutional Assembly. It got 78% of the vote and 86% of the seats and used its absolute dominance to impose a constitution very close to its preferences, alienating many relevant actors. In contrast by 1958 AD's dominance had declined. Betancourt (AD) won the presidency, but this time the party got 49.5% of the votes and 55% 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 8 representatives from AD (36.4%), 4 from COPEI, 4 from URD, 3 from the Communist Party (PCV) and 3 independents (Kornblith, 1991). AD leaders consented 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 as a founding moment 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 that even in the case of a unified government in which a political party had control both of the presidency and the 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 mean to exclude certain political actors, such as the Communist Party (PCV), from having a significant role in policy-making. 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. The guerilla was very significant in Venezuela during the 1960s and came to an end in the early 1970's 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 1970's deviations from cooperation were more common.

As it 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 ten years before being able to run again, and 3) the inexistence of term limits for legislators allowing long-term careers for party leaders in Congress. Nevertheless, 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 AD and COPEI, helped consolidate Venezuela's party system throughout the 1960's and 1970's. The existence of centralized and disciplined political parties was the direct result of a proportional electoral system with closed lists. This system granted party leaders with extreme powers to control and discipline their party ranks. These features of Venezuela's democracy led some authors to typify it as *partyarchy* given that party leaders had supreme command over all party and public affairs (Coppedge, 1994).

Finally, the Constitution limited electoral competition by restricting temporarily the direct election of governors and mayors. The objective of limiting Venezuela's federalism – in a temporal fashion since the 1961 Constitution established that a law (enacted by 2/3 of Congress) could activate Venezuela's federalism as later occurred in 1989- was to 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, 2003) However, as different authors have noticed, the features limiting competition in the 1961 Constitution, although contributed to the consolidation of democracy in the short-term, proved in

the medium and long run to carry 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* as well as 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, 2003).

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 revenues and their effect over the party system (Karl, 1986; Rey, 1989; Penfold 2001; Monaldi, 2002). For example, Karl (1986) argued that oil was the key economic factor that allowed creating the modern social conditions for the formation of a cohesive party system, and helps explain the continued support to 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 revenues, emphasizing the institutional aspects of Venezuela's democratic process (Rey; 1989). By itself, oil fiscal revenues cannot 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. Therefore, according to these views, 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 in public goods that promoted growth. Presidents Rómulo Betancourt (1958-1963), Raul Leoni (1964-1969) and Rafael Caldera (1970-1974), used oil revenues responsibly, with significantly positive economic and social results. Oil resources were heavily invested in the creation of national education and national health care systems. Resources were also directed towards building roads, highways and dams. According to Hausmann (1995), during this period economic growth was based on the credibility of a fixed and unified exchange rate and on a responsible fiscal policy. Venezuela, as other countries in the region, pursued an import substitution strategy with a 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.

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), expenditures in existing state companies increased dramatically, new state owned companies were created, and the levels of foreign debt started to rise exponentially. By 1976, the government was running a fiscal deficit that reached 14% of GDP forcing the next administration of president Herrera to implement a fiscal adjustment. Nevertheless, a few months after the inauguration of Herrera (1979-1984) another oil windfall allowed the government to abandon the adjustment program and instead increase expenditures. In 1983 oil prices declined significantly, 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 rates system. The Central Bank had 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 Luisini (1983-1988) believed that the negative oil shocks were not permanent and that significant economic reforms could be postponed. As a result, the fiscal deficit by 1988 reached 9.9% of GDP and net international reserves reached its 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 provided 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 large opposition that was 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 observed during 1978-1989 had over the political system, particularly 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 cases of economic underperformance in Latin America. Between 1978 and 1988, GDP per capita decreased at an average of 1.8% per year. This poor performance in terms of economic outcomes had obviously started to undermine voters' confidence in parties such as AD and COPEI. Many voters began to perceive the state as captured by rent-seeking politicians that were not representative of their interests.

The Sources of Political Reforms

From the early 1980s several social actors, minority parties, intellectuals, business groups, and NGOs, demanded to deepen democratization as a means to increase accountability and improve performance. These demands were a natural reaction against a regime in which political parties had pervasively controlled almost all the important spheres of social life. National party leaders had the monopoly over 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) conformed by professionals linked to the political parties and a group of non-partisan academics. The COPRE proposed a significant set of political reforms including the direct elections of governors and mayors, electoral reform to elect a portion of the legislators by plurality, and the democratization of party structures. These propositions confronted an immediate resistance from AD (the president's party), which had an absolute majority in the legislature. They thought that COPRE's recommendations were too radical. Gonzalo Barrios, AD's president, publicly rejected these reforms, particularly the direct election of Governors, "because the country is not historically prepared for this type of reform."⁶ AD was not willing to withdraw its control over the patronage network that regional and local bureaucracies offered the party. AD's national party

⁶ El Universal. June 26th, 1986.

leaders perceived the COPRE's propositions as 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, due to the attention that the candidates Eduardo Fernández of COPEI and Carlos Andrés Pérez of AD, paid to these issues, that AD's national party leaders were forced to pass some of these reforms. 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 as campaign tool against AD who had been publicly opposed to any opening to the political process, possibly expecting that AD would continue blocking the reforms. Pérez campaign in favor of the reforms forced AD to approve some of them in Congress: the mayors' election and the electoral reform to be implemented in 1993. But the election of governors, which AD feared the most, did not pass.

Eventually, AD was prompted to support the election of governors as a consequence of the 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 reform program, politicians interpreted that citizens had increasingly become alienated from the democratic regime and this was violently expressed in the streets.

Economic Reforms, Backlash, and Reversal

Although AD's national party leaders finally accepted to pursue political reforms they were still resistant to accept 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 the fiscal deficit. The program went even further to include trade liberalization, privatization, fiscal and financial reforms, as well as the deregulation of the economy (Naím, 1993; Villasmil et al., 2004).

AD's leadership was not receptive to the content of such a program. It implied dismantling the patronage structure under which the party had built its political base. AD also rejected the idea that technocrats, with no linkages to the party, were being made responsible for the implementation of these economic policies. Moreover, at the time Pérez was an outsider from the party leadership and had proven in his first presidency that he did not like to follow the party's commands. 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 their 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% (Corrales, 2002; Villasmil et al., 2004).

Despite the 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 the political support of the government. After a second failed coup attempt, in early 1993 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 in the end of 1993. Velásquez had accepted the presidency under the parties' commitment 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 revenues. The Value Added Tax was finally approved.

In 1993, Rafael Caldera -after leaving COPEI- won again the presidency 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 on 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 his behavior by arguing that political parties had abandoned the people and were transformed into corrupt structures. During this presidential period (1994-1999), Caldera faced a fragmented legislature making it difficult for the executive branch to pass legislation. The first part of Caldera's administration witness the stagnation and reversal of some reforms (e.g. exchange rate and price controls were reestablished) 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.

The Chávez's Revolution

In his presidential campaign of 1998, Chávez promised to convoke a Constituent Assembly to craft a completely new constitution and overthrow the *Punto Fijo* establishment. Like Caldera, Chávez won the presidency capturing the increasing discontent against AD and COPEI. He faced an opposition majority in an even more fragmented Congress than Caldera's. This made very difficult passing constitutional reforms in the manner prescribed by the 1961 Constitution. Instead, 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 ordering some modifications.

Unlike the *Punto Fijo* pact and the 1961 Constitutional Commission, Chávez restored the hegemonic practice of AD during the failed democratic experience of 1945-1948, changing the institutional framework in a unilateral manner, without negotiating it with other parties. In early 1999, more than 90% of the electorate voted in favor of convoking 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 the Chavismo. Given the lack of coordination and fragmentation of the opposition, in July 1999 Chávez's coalition managed to obtain 96% of the seats with less than 60% 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 on the previous year and convoked 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.

The election of Chávez 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 was designed to over-represent minority groups. Instead, the Constituent Assembly of 1999 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 in 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 policy-making processes- have notably different characteristics. The first period (1958-1988) of democratic consolidation, 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), 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) Corporatists' arrangements formally incorporating labor and business groups to the policymaking process. Crucial role of oil rent distribution for political stability

1) The key political actors were few and stable

The policy making process included relatively few key players, primarily: the presidents, the national leaders of the two major parties (AD and Copei), and the leaders of the two peak corporatist interest groups (CTV and Fedecamaras). The existence of a highly centralized, disciplined, and non-fragmented party system, and the fact that interest groups concerns 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 thirty-year period, were held only by two parties 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 AD, six fundamental leaders, four of which became presidents, led the party in 1958-1988. In Copei three fundamental leaders, two of which became presidents 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 respecting the party line. Similarly, national party leaders had significant control over the congressional nominations.

Inter-temporal linkages among key political actors were strong. It was a repeated game with stable actors. It was very costly for politicians for an individual politician to deviate from the cooperative equilibrium of the two-party rule. In addition, oil rents were used as an instrument to foster cooperation. Minority parties such as MAS did not have a major policy making role, but were guaranteed access to small prerogatives to maintain them “inside” the system (e.g. large autonomous budget 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) in the chamber of deputies was 2.57 in seats. In the next two elections the ENP in seats rose significantly (to an average 4.56), mostly due to two significant splits in 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 for seats 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.⁷ 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 seats of the chamber of deputies the Volatility Index was 18.9% in the period 1958-1988, below the Latin American average, which was 22.1%.⁸ Moreover, as can be seen in Figure 2 volatility tended to decline until 1988 (to 13.8%). The average volatility in seats increased dramatically in the period 1989-2000 to an average of 38.1%, compared to the regional average of 23%. Volatility in the presidential vote was even lower in the first period (13.9%), almost half the regional average of 23.9%. It increased dramatically in the second period

⁷ For the years for which we have comparative data: 1978-1989. Regional averages were calculated using data by Payne et al., (2002).

⁸ For the years for which we have comparative data: 1978-1989. Regional averages were calculated using data by Payne et al., (2002).

(52%) compared to a regional average of 28%. In the second period, Venezuela had the largest presidential vote volatility in the region.

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 corporatists 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, very often Congress delegated legislative authority to the president.

Even though the use of informal arenas meant that agreements were less formal than would have been if made in the legislature, and as a result harder to observe and enforce, the existence of disciplined parties provided a structure that enabled inter-temporal cooperation. 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 CTV and Fedecamaras (Crisp, 2000).

The relative 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), in 1959-1995, the Venezuelan Congress passed an average of 29 laws per year. In comparison the Brazilian Senate passed over 800 laws per year, the Argentinean Chamber of Deputies over 300, and the Colombian Congress over 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. In 1959-1989 a yearly average of 27 laws and 8 ordinary laws were approved. In 1989-2001 the yearly average output of laws increased to 41 laws (an increase of 52%) and 12 ordinary laws (an increase of 50%).⁹ Part of the explanation for the increase in output might be related to exogenous factors, such as the increasing economic difficulties. Nevertheless, the data clearly 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% of the laws approved and Congress initiated only 13%. 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% were initiated by the executive and only 34% 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%. In the case of ordinary laws the percentage initiated by legislators' increased to 64%, 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 was

⁹ Authors' calculations based on data collected from the Servicio Autónomo de Información Legislativa (SAIL).

extreme. The second period (1989-2001) presents a dramatic increase in the legislators' initiation of approved laws.¹⁰

In the seven legislative terms elected in the first period (1958-1988) a majority of the legislators (60%) lasted only one term in Congress (five years). A small minority (8.3%) lasted four terms or more (that is twenty years or more). However, of those who lasted four terms or more (about 75 legislators) more than 80% 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 high 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% of the legislators lasted just one term, 17% lasted two terms, and only 1% 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% of legislators lasted just one period. That is almost two thirds of the legislators in Venezuela's history were in parliament 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%, whereas in 1963-1973 it declined significantly to 55% as the two-party system consolidated. In the second period, the percentage of new legislators rises again to an average of 78% (82% in the current legislature). Compared to other countries for which there is data, turnover in the first period does not seem particularly high. In Argentina about 80% of the legislators do not get reelected in Brazil the figure is 57%, in Ecuador 73%, in Chile 41% and in the U.S. 17%.¹¹ In contrast in the second period, turnover reached Argentinean levels. In general, it can be said that in Venezuela legislators have been amateurs, with the exception of the national party leaders in the first period.

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 as accorded by the party. The lack of individual member initiative meant that there were very few incentives to specialize or gain expertise. The high 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 that negotiated the budget with the Executive and monitored the bipartisan efforts for having a bipartisan long-term foreign policy.¹²

3) Predominant role of Presidents, delegation by the 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 the Congress previously delegated

¹⁰ Authors' calculations based on data collected from the Servicio Autónomo de Información Legislativa (SAIL).

¹¹ Araujo et al. (2004).

¹² 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.

it through an enabling law, or allowed it as a result of a 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 a *suspension of the constitutional economic rights*). The President could also use some limited *non-legislative* decree authority without the need of Congress approval. For example, he could set the rules (*reglamento*) for 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 by their delegation to the executive. However, party leaders maintained veto power over legislation, setting significant limits to the exercise of presidential power. The cooperative equilibrium made presidents look powerful but their powers were quite limited as would become evident once cooperation declined.

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 the 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 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 cabinet coalition with Copei and 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 that obtained an enabling law was Carlos Andrés Pérez (AD) in 1974. AD had a comfortable majority in both houses of Congress. The oil price boom of 1973 gave unprecedented wealth to the government 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 vigilance committee, the AD majority in the committee made it ineffective as a monitoring device. The opposition members resigned from the commission 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, in 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 had. The windfall 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 represented by the guerrillas and the military in the 1960s, made cooperation a less compelling strategy and, in combination with the oil income, allowed to establish the two-party cartel. Finally, President Lusinchi received decree powers in 1984 to face the economic downturn produced by oil income decline. The powers he was given were more delimited than Pérez's. He used those decree-powers significantly but 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 reestablish the rights (by simple majority), the president had law-decree authority in that area. However, whenever the constitutional rights were reestablished 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 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 very limitedly. Pérez made 67 (average 13 per year) decrees and Lusinchi made 58 (average 12 per year). The other four administrations in contrast made just an average of 12 (3 per year). After 1989, presidents Pérez (second administration, 1989-1993) and Caldera (second administration), used these powers sparingly, they made an average of 3 decrees per year.¹³ In fact, Pérez reestablished 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 only in one occasion the legislature forced the reestablishment of the constitutional rights, presidents knew that if they used this power extensively against the wishes of the legislature they could lose the power.

4) Corporatists' arrangements in the policymaking process

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

Pressure groups were not interested in lobbying individual legislators because, as explained before, the legislators' 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: the *corporatist representation* inside parties and the **presidential consultative commissions**. At the implementation phase lobbying had a formal role through the corporatists members of the boards of directors of the **decentralized public administration**.

The Confederation of Venezuelan Workers (CTV) was dominated by members of AD. Copei had a minority representation in its board. Other relevant corporatists groups such as the Peasants Federation had a similar party composition. On the other hand, parties had powerful workers bureaus that had a significant representation in 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 related to a party and some of the board members were related to the parties.

All presidents in the period made extensive use of **consultative commissions** for the design of policy. Between 1959 and 1989 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

¹³ Data from Crisp (1997), p. 191.

make their voices heard on virtually every issue.” As a result, four groups clearly dominated the commissions: AD, Copei, CTV, and Fedecamaras. Another important feature is that the national level dominated most commissions, 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’s presidents was: 62% government officials, 14% business representatives, 7% representatives of professional associations, 8% labor representatives, 9% other. The composition of commissions appointed by Copei’s presidents was: 48% government, 17% business, 8% professionals, 8% labor, and 18% other. The proportions varied with the type of commission, but not to a significant degree.¹⁴ As Crisp (2000, p.116) argues: “looking at the 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 existent. 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 and 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: 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 is also institutionalized. Again AD, Copei, CTV and Fedecamaras had the most significant role. In 1959-1989 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. Pérez -in five years- created a total of 159 agencies (44% of the total) and 21 public law agencies (31%) (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 AD had the following composition by sectors: 48% government, 31% economic groups, 10% capital, 5% professionals, 16% labor, and 21% others. The agencies created by Copei: 62% government, 26% economic groups, 11% capital, 5% professionals, 10% labor and 12% others. Again the party in power had a minimal effect on the participation of corporatist groups (except that AD created agencies with more labor participation). Examples of the corporatists participation in DPA agencies are: A) The Agricultural Bank: of the five member board, three represented producer and peasant groups. B) The Venezuelan Investment Fund (FIV): in the assembly seated the presidents of the CTV, Fedecamaras and the Banking Association. C) The Industrial Credit Fund, had representatives from: the CTV, the Industrial Council (affiliate of Fedecamaras), and the Federation of Small Industrials (Combellas, 1999). Even the Central Bank (BCV) had representatives from the CTV and Fedecamaras in its board (until the early nineties). The DPA served as one of the main channels for

¹⁴ Crisp (2000) classifies the commissions as: producer, regulatory, planning, service, and promoter of the private sector.

distributing the 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, its key objective was to attain political stability, having imminent threats from military coup plotters and the leftists guerrillas supported by Cuba. The memory of the failed democratic experience of 1945-1948, when AD exercised hegemonic power, also weighted heavily on the founders when they designed the institutional foundations of the political system. 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 the Congress, the lack of expertise of the legislators, the low volatility and low polarization of the party system; were all to a significant extent a result of the institutional foundations. The fundamental institutional foundations were:

- 1) A constitutionally weak president with some significant delegation of informal powers. The 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 was significant because it guaranteed a space for minority groups.
- 3) The proportional representation system with single closed and blocked party lists, 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 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 the career of legislators was 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 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.

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 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 the 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 (1990s), once the president 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** (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**, in particular 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 4.6.¹⁵ The South American average excluding Venezuela was 5.4 points. In Latin America, only Perú (before Fujimori) had a president with as limited legislative powers as Venezuela's.¹⁶

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

¹⁵ Including all constitutions covered by the authors in the period 1958-1992.

¹⁶ 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).

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.¹⁷ The evidence suggests that the power to delay the approval of legislation a few weeks did not give the president much muscle to negotiate.¹⁸

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 intensively those decree powers. Other proactive power is the exclusive initiative for legislation in specific areas. Here again the Venezuelan president had no prerogatives.¹⁹ 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 convoke a referendum to approve certain legislation, without the need of Congress' approval. In Venezuela, this option was not provided by the 1961 Constitution.²⁰ 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 the Congress could increase indirectly the overall spending by understating mandatory expenditures such as debt payments. Shugart and Carey (1992) gave a score of zero in this category.²¹

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).²² 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.²³ The power to appoint governors makes a significant difference, especially in a country that is formally federal.²⁴

The literature has identified an alternative indirect source of presidential authority, the **partisan powers**, given by the president's support in the legislature. The number of significant parties and the discipline and cohesion of parties, can all affect the partisan support for the president. However, it is important to differentiate this type of power from the 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, the real capacity to use the 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 quite powerful, but such powers were contingent on other factors such as the strong

¹⁷ The lack of use of the presidential veto does not necessarily imply that it was not effective, because it could be 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.

¹⁸ Interview with Gustavo Tarre.

¹⁹ The only exception was the budget law, which is introduced by the executive in all regional democracies.

²⁰ 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.

²¹ 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.

²² 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.

²³ Corresponding to a minimum of 15% of the budget.

²⁴ 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.

party system, the right to appoint governors, and the control of a significant oil rents. Once these factors changed, the weak formal powers became evident, as will be shown occurred in the 1990's. Presidents enjoyed relatively high partisan powers in the first period. They never faced a majority of one opposition party and had very strong disciplined parties backing them. Between 1958 and 1988, three of the six presidents (50%) had a partisan majority in the lower house. Four out of six (67%) had majorities in coalition with other parties. In contrast in the second period (1988-2003) of the four administrations, none had a single party majority in the lower house, and only one (25%) - Chávez 2000-2005- has had a majority in coalition with other parties.²⁵ The Latin American regional average, for the period 1978-2002, was 30.2% % (of time the presidential administration had a presidential party majority in the lower house) and 54.1% (had a majority coalition).²⁶

Presidential Elections, Concurrency, and its consequences

Presidents were elected by plurality for five-year terms in direct elections and concurrently with the legislative elections (for all seats). The voter until 1993 had just one ballot (*tarjeton*) to vote for both the president and the legislature. One card with the color and symbol of the party (and since the seventies 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 the presidential coattails.²⁷ The presidential election -due to its winner-takes-all nature- tends to produce a strategically concentrated vote, and combined with high coattails produces high party concentration. An additional element that promoted concentration was the inexistence of regional elections. The evidence seems to point at the significance of coattails and vote concentration. As can be see in **Figure 7**, 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 the dissatisfaction with AD and Copei started to increase.

Until 1999 Venezuelan presidents had non-immediate reelection (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) (Coppedge, 1994). The lack of immediate presidential reelection combined with the inexistence of term limits for legislators provided and advantage for party leaders.

The Legislative Branch and the Party System

As shown before, 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% of the time). However, the party

²⁵ Own calculations based data from Consejo Nacional Electoral (CNE).

²⁶ Latin American data from Payne et al. (2002)

²⁷ 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.

leadership was very stable and remained in Congress. 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 to discipline and control their party's rank and file. The institutional restrictions on political competition and the control of oil rents allowed 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, medium sized compared to the Latin American region. Five countries in the region have larger average district magnitude and ten countries have lower average district magnitude (Taagapera and Shugart, 1989; Payne et al., 2002). To make it further 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 in 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).²⁸ As can be seen in [Figure 7](#), 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 mixed member personalized proportional system implemented since 1993. In relative terms, compared to the region, the Venezuelan system has become more disproportional.

It is clear then that the low fragmentation of the party system in the first period cannot be attributed to 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 1990's cannot be explained by the change to a mixed member electoral system in 1993 that 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 in a time of electoral realignment.²⁹ Changes in the ballot structure might have also contributed.

The legislature in Venezuela was bicameral until 1999. Although the existence of two chambers could imply having an additional key 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.³⁰ 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 magnitude produces more disproportionality, the largest parties tended to have slightly larger proportion of the senators than of the deputies. This

²⁸ A larger index reflects a system that over-represents large parties and under-represents smaller parties.

²⁹ The electoral realignment produced by the decline in electoral support for AD and COPEI can be partly attributed to the poor economic performance of 1978-1988.

³⁰ 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 exist high malapportionment.

majoritarian tendency favored AD and Copei. Moreover, malapportionment in the Senate was significant. Poor, rural, and unpopulated regions were over-represented. AD and Copei did better in these areas than 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.

The single closed and blocked list electoral system constituted a powerful disciplinarian 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), pooled the votes of party candidates (no intra-party rivalry) and limited internal competition. Shugart and Carey (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, the party leaders did not have incentives to identify the candidates with highest voter support. Their choice of 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 AD. In AD the National Executive Council (CEN) that governed the party had significant control over the nomination process. The regional party authorities sent a list with three times more names than the magnitude of their district. The CEN reserved the right to pick from outside the list one third of the candidates 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 there was only a nationally elected executive with significant resources at its disposition, increased the economic costs of entry (e.g. national campaign finance). Also, the fact that there were only two relevant parties in 1973-1988 minimized the 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.

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 did

not come from the region they governed. Governors had almost no influence in the approval of the national budget. Governors that 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.

The Judiciary

Congress elected the Supreme Court by simple majority in a joint session. Magistrates (and their alternates) were elected for nine-year periods in staggered process in which a third was elected every three years. In order to increase the number of magistrates a 2/3 majority of a joint session was required. They could be reelected. Since the legislative term lasted five years, no Congress 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. The evidence of the independence of the Court seems mixed. Most magistrates were selected in a negotiation between the leadership of AD and Copei.³¹ However, the Court did sometimes serve as an enforcer of the constitutional limits to the presidential power. Presidents generally did not control the Court. Nevertheless, it is not clear that 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. AD, who was out of the presidency for the first time, proposed a law to create the National Judicial Council appointed by Congress -where AD had a plurality, but no majority- to appoint all the country's the 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 Copei (Crisp, 1997). In general, the lower courts elected by this Council were considered much 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 as a result of the profound transformation that political institutions experienced in the last fifteen years. In contrast to the first period 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. For example, as will be discussed in Section 5, 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.

³¹ Apparently, some minority parties had some influence over the selection of just a few magistrates.

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 reelection.
- 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 by 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 increase 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, in 1993 it surged to 4.7 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).³² Venezuela transformed from one of the least fragmented party system to the third most fragmented in Latin America.³³

Volatility has also dramatically increased in the second period. In terms of lower chamber seats, the average volatility in 1990-2000 was 38.12%, way above the Latin American average of 23%. Venezuela again moved from being one of the least volatile countries in the region to the second most volatile.³⁴ Compared to the first period, average volatility more than tow folded (see Figure 2). In terms of volatility in presidential party vote the increase is even more dramatic. It reached 52.8% and 59.5% in the lections of 1993 and 1998 respectively. On average, Venezuela has had the highest volatility in presidential vote in the region in the last ten years. In terms of fragmentation and volatility, Venezuela became increasingly similar to countries such as Brazil and Ecuador, and Perú.

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 twenty years, in which political parties had managed to exercise significant control over the armed forces,

³² Venezuelan data from own calculations based on CNE data. Regional data from own calculations based on data from Payne et al. (2002)

³³ Only Brazil and Ecuador have a higher fragmentation.

³⁴ Just surpassed by Perú. Venezuelan data from own calculations based on CNE data. Regional data from own calculations based on data from Payne et al. (2002)

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.

The Legislature

The transformation of the policymaking process along with the multiplication of relevant policy actors at the national, regional level 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 it was done before. While in the first period, legislators initiated on average just 13% of all the laws approved; in the second period the figure two-folded to 26%. In the case of ordinary laws the change was also dramatic, increasing from an average of 34% in the first period, to 62% in the second (see Figure 3).

Between 1989-2004, 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. In particular, given that Venezuela has the largest vertical fiscal imbalance in Latin America and the rules of 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 AD, Copei, MAS and even Chavez's MVR have split-off during the period 1989-2003 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.

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. Different versions of a mixed electoral system were used for the legislative elections of 1993, 1998 and 2000. In 1993, 60% of the deputies were elected by closed and blocked list, while the remaining 40% were elected in single-member plurality districts. In 1998, the rules were changed again to elect 50% of the deputies by list and the other 50% 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, using instead a majoritarian system in statewide (and one national) multi-member districts to elect all the

representatives.³⁵ In the 2000 legislative elections, the mixed system was readopted, but this time with 35% deputies elected by list and 65% in multimember plurality districts.

These changes 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. As a consequence of this uncertainty, party leaders had a harder time trying to discipline their party members. New parties were created as factions in traditional parties split-off.

The Executive Branch

It is possible to distinguish two distinct sub-periods in terms of presidential powers between 1989-2004. In 1989-1998, presidents were weak. In contrast, since the approval of the 1999 Constitution the presidency has been significantly powerful. 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, in the 1990s the executive branch had less influence in the legislative process. In the first period, close to 90% of all legislation was initiated by the Executive. In contrast, in this second period, this figure declined to 74%. In terms of ordinary laws, the Executive initiated only 38%, compared to 78% in the previous period (see Figure 3).

In 1998, Congress approved the separation for the first time of the legislative and presidential elections due on that year. Congressional elections were set to coincide instead with regional and local elections, 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 the presidential legislative prerogatives.³⁶ Most significantly, the presidential power to call for popular referendums to: approve or eliminate laws, approve constitutional reforms, or convoke a Constitutional Assembly with plenipotentiary powers; significantly 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 represent a challenging

³⁵ In each district multiple seats were awarded to the candidates that individually got more votes.

³⁶ According to the methodology used by Payne et al. (2002) Venezuela is now around the Latin American average in terms of presidential legislative prerogatives.

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 reelection was permitted. As a result, a Venezuelan president may rule for a longer continuous period (twelve years) than any other Latin American president, where 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%) 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 legislative and the Executive branch.

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: a) The increasing competition and higher number of electoral arenas at the sub national level; and b) The possibility of reelection 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.

1) Increasing competition and higher number of electoral arenas

During the 1958-1988 period entry barriers were relatively high since the presidential and congressional elections were held concurrently, maximizing presidential coattails. Moreover, entry into Congress was decided by the national party leaders, which 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 twenty states and three hundred 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 level. 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, AD and Copei largely dominated the electoral market (90% of the governorships). However, during the following elections its dominance waned, new political organizations emerged and decentralized parties such as MAS obtained significant power for the first time. By 1998, AD dominated only 34.7% of the governorships, Copei 21.7%. MAS 13%, MVR 17.7% and regional parties 12.9% (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% 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 Copei in 1989. He later abandoned the party due to internal disputes with its national leadership and created a regional party called Proyecto Carabobo (in 1995) 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 1989-2000. 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% of the total). By the year 2000, AD had to establish alliances with an average of 6 parties to win just 12.5% of the governorships (see Figure 8). However, 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, Copei was very dependent on these alliances to win. The average percentage of votes contributed by other parties supporting Copei's gubernatorial candidates increased from 7.1% in 1989 to 40.3% 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, MVR allied on average with 8 parties and the alliances provided them with 18.3% of the votes. In 2000, MVR allied on average with 9 parties receiving 9.7% of the votes from other partners. This same trend holds true for parties such 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 reelection. As the importance of the alliance 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.

2) Re-election and non-concurrent elections

The immediate reelection 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 reelection had greater opportunity to distance themselves from national party leaders and even disassociate themselves from the party structure. The fact that their reelection depended to a great extent on their performance and not on the 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 reelection and eight managed to win. In 1995, only three governors could run as incumbents and two of them were reelected. In 1998, 17 incumbents out of 21 governors were reelected. In 2000, 15 governors were up for reelection and 5 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 AD (Claudio Fermín, mayor of Caracas) and Copei (Oswaldo Alvarez Paz, governor of Zulia), in confrontation with the traditional leadership. Again in 1998 Irene Saéz, the independent mayor of Chacao, won Copei's nomination, but in exchange the party controlled most legislative nominations.

In sum, the introduction of the reelection 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 reelection rule also fostered internal conflicts between the party authorities at the national level and the new party leaders at the regional and local level. 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 AD, Copei and MVR.

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 got support from the Supreme Court. The modernization of the Court, with the assistance of the World Bank, 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, AD and Copei.

Despite the changes that occurred in the early 1990s in the judicial system, the perception of judicial independence is today worse than ever (World Competitiveness Report, 2002). During Chávez presidency the government has generally controlled the Court that was appointed by the Constituent Assembly with an 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 the Tribunal decisions. This would effectively end any remaining independence 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 fifteen years (1958-1973) were characterized by cooperation stability and effective performance. The next fifteen years (1974-1988) of oil boom and bust are characterized by less cooperation, ineffectiveness and some inflexibility. The last fifteen years (1989-2003) are characterized by the marked decline and final breakdown of cooperation, policy instability, and reform reversal.

1958-1973: Cooperation with a relatively stable oil market

From 1958 to 1973, there were features of public policies that suggest 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 oriented to induce economic growth and minimize political conflicts: 1) Fixed nominal exchange rate rule, allowing a significant degree of real exchange rate stability and reducing uncertainty; 2) fixed nominal interest rate rule; and 3) the fiscal rule: spend what you earn (in oil revenues). 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 revenues, which substantially decrease the possibility of financing the fiscal deficit. In this sense, it is a balanced budget rule. Second, the rule emphasize *how much can spend the government* and not *how much it has to earn*. The rule says that if oil income decreases, the government has to decrease public expenditures 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 didn't incur in significant deficits or other forms of fiscal opportunism. Inflation was kept strictly under control, averaging 2.6% per year and the exchange rate remained fixed until 1983. In addition, public expenditures were systematically oriented to improve 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%, 14.2% and 18.2% respectively. Analogously, education expenditure (as a share of the total budget of the government) increased from 4.5% in 1957 to 18.6% 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 oriented to minimize political conflicts, and the special characteristics of the economy and the external environment, which provided favorable conditions necessary to allow these policies to remain in time. 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 revenues for the government. In fact, during the period 1958-1973, oil fiscal revenues were smoothly increasing at an average rate of 5.5% 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 outstanding economic performance. From 1958 to 1973, GDP per capita experienced a remarkable high rate of growth, averaging 2.1% per year. The unemployment rate decreased from 10.8% in 1959 to 4.94% in 1973.³⁷

1973-1989: Cooperation in the middle 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 (just in 1974 there was a 165% increase in fiscal revenues), which in turn dramatically distorted the policy choices of Venezuela's governments.

³⁷ Source: Banco Central de Venezuela

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 industry, 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 revenues 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 revenues for long-term investments. These wishes quickly vanished and the Pérez administration not only spent the extraordinary fiscal revenues 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 fifteen years. In summary, Pérez administration's policies 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 of the oil income) and the resulting larger influence of public expenditures in the political system, promoted a new set of policies oriented to generate *private* benefits for key political actors.

Even though the decline of oil revenues 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 revenues 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 oriented to benefit 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 substituted by exchange control system that lasted up to 1989).

Although during the presidential period of Herrera (1979-1983) and Lusinchi (1984-1988) 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 is a clear aversion to political conflict, which translated in the use of the oil income as an instrument to decrease social tensions. The side effect of this approach was the multiplication of fragmented policies resulting in lack of coordination and long-term sustainability, as well as ineffectiveness.

From 1979 up to today the oil fiscal income has had a declining tendency with high volatility. From 1973 to 1978 GDP per capita growth was 2.4% per year in average and unemployment remained very low. However, in contrast with the previous outcomes, after 1978 Venezuela became one the most striking cases of economic underperformance in Latin America. Between 1978 and 1988, the growth rate of the GDP per capita became very volatile and decreased an average of 1.8% per year. By the year 1988, the unemployment rate was 7.3%.

1989-2004: Decline and breakdown of cooperation

From 1988 up to date, there has been a decline in cooperation and policy goals have become contradictory and highly volatile. The second administration of Pérez (1989-1993) tried to implement a systematic reform program. The reforms were oriented towards promoting the development of a market economy by the correction of 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, 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 legislative approval of special decree powers to President Caldera. He used them to reestablish 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 in 117%. In addition, total transfers to local and regional governments increased by 2.25 % points of GDP, due to an increase in revenue earmarking.

In the Chávez administration (1999-2004) there has been a radical change in policies once again. Policies have become more volatile and incoherent than ever before, in part 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 dramatically declined.

Overall Quality of Public Policies

From 1988 up to today there exist abundant evidence 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 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 was in 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 there are increasing difficulties to achieve inter-temporal agreements among the 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% (percentile) while the Latin American average is 48%.³⁸ In the index of Government Effectiveness, Venezuela has declined from 24% to 10%, while the regional average has been above 40%. In Regulatory Quality the indicator has fallen from 45% to 35%, while the regional average has been above 50%. In the Rule of Law index

³⁸ 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.

Venezuela has fallen from the 29% percentile to 13%, while the regional average has been above 40%. Finally, in the Control of Corruption index again there is a decline from 28% to 19%.

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

In terms of cabinet stability there is also a significant decline. As can be seen in Figure 9, in 1958-1988, 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, in 1989-1993 ministers lasted only 1.4 years, in 1994-1999 it increased to 1.8 years and in 1999-2004 it has declined again to 1.3 years. That is a dramatic change in cabinet stability that reflects political instability and volatile policies.

5.1. 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 discussed. Later two additional areas: decentralization policy and oil policy are briefly assessed.

5.1.1. 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, the oil wealth management through fiscal policy during the first fifteen years of democracy had some remarkable features that suggest 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. The increase of public expenditures was directly associated to the increase of oil fiscal revenues. Non-oil fiscal taxation remained relatively low and stable. Public spending priorities were clearly oriented to infrastructure health and education services, and promoting the industrialization of the country through the 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 revenues, the government needed a substantially larger base of taxation and a more complex administrative structure. Therefore, the later 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.

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 an average level of oil revenues that was 3.5 times the one of the previous

decade. In addition, oil prices also became very erratic, increasing the volatility of fiscal revenues during the late 1970s and the 1980s. The response of the administrations of Pérez, Herrera and Lusinchi was to deviate from the fiscal discipline of the previous period, running large deficits and acquiring a significant position in foreign debt in order to finance policies based on relatively high levels of public expenditures. However, during the period 1958-1986, the relative low level of modifications to the presidential budget proposals in the legislature, seem to illustrate that there was significant cooperation in fiscal policy (Puente, 2003b).

Fiscal Policy in the second period: 1989-2004

In 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 revenues and a stabilization fund to reduce fiscal. However, as explained in the previous section, the policymaking process had become less cooperative, thus these reforms were blocked in Congress. In addition, the Gulf War produced an influx of oil revenues that reduced the urgency of fiscal reforms. As a result, the structural fiscal deficit continued.

In the following periods, 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 agreed 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 revenues had to be earmarked for a special fund to finance the investments of regional governments (FIDES). For the first time in Venezuela's history, the governors and mayors had become a powerful force in the national legislature, a sign of the 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 the increase in oil prices during 1996 allowed the government to increase fiscal expenditures and halt other reforms. The favorable conditions in the oil market didn't last long and by the late 1997 and 1998 the fiscal conditions were deteriorating again. 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%) from the VAT revenues 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 the Congressional changes to the Executive's budget for each year, increases substantially since 1986. In the period 1973-1985 the 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%, and one more of than 36%. 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).

5.1.2. Public Administration and Bureaucracy

Even though in Venezuela there has never been an effective civil service system, the evidence seem to point 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, with the assistance of the United Nations, the Public Administration Commission (CAP) was created. CAP recommended: (1) to enact the Administrative Career Law and (2) to create 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 do 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 with a civil service policy. In 1965, President Leoni passed some guidelines that would regulate the human resources system on some issues such as: hiring, transfers, dismissals, promotions and salary's raises. In 1968, Rafael Caldera (Copei) won the election, having a minority in Congress. 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 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 having the civil service law, after 1973 the bureaucracy began a process progressive decline. The goals supposed to be accomplished by the law were distorted and it reduced itself to being a guarantee of job stability for public employees. The political party affiliation was the principle criteria used to determine entry. More importantly, for the first time, salaries became inadequate to attract qualified people into the civil service. There was virtually no performance evaluation for civil servants. The process of training was totally left on the side. During the first administration of Pérez, the central government grew significantly. The number of ministries passed from thirteen to seventeen. There was also a tremendous growth in the decentralized public administration.³⁹ However, the nationalization of the oil industry in 1976 and creation of the state-owned oil monopoly (PDVSA), showed a long-term commitment with 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.

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 spoil system and the excessive centralization. The spoil system was based on the government use of oil fiscal revenue to distribute particular benefits (positions, scholarships, contracts, subsidies) among its partisans.

³⁹ 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 Gomez in 1928.

These benefits also included entry into a stable job within the public administration. Loyalty and submission were the bases of bureaucracy rather than meritocracy. Although with the important exceptions mentioned above: PDVSA, the Central Bank, etc.⁴⁰ In these cases, there had been a totally different human resources notion based on merits, continued assessment and education. Politics had little or nothing to do with 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, the public administration performance declined significantly, even though some significant reforms were implemented in the early nineties to try to reverse its progressive deterioration. Those reforms included:

- 1) A new salary scale with better payment 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 few public organizations 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 of 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 Congress ratification (with a two-thirds majority).

However, by 2004 all of those reforms have been completely reversed. In 2002, the wage ratio was 6 (González, 2002). SENIAT and MIC show the same features of the rest of the bureaucracy. The technical advisory offices have been disbanded. The pockets of efficiency mentioned before (PDVSA, the Central Bank, the Caracas Metro) 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 member unless they respond to the 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 can explain 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: the political objectives (higher support to political parties and democracy) and the social-economic objectives. Population's needs and demands were very simple and the oil windfalls proved to be more than enough to meet those requirements. Nevertheless, in 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 its origin in the significant decline of the salaries of public servants relative to private sector salaries (i.e. the opportunity cost). In 1965 on average public sector salaries were more than 2.3 times the average private sector salaries, in the 1970s this ratio declined to less than 2 and became very

⁴⁰ El BCV has been described as an example of successful public sector human resource management (Reid and Scott, 1994).

volatile. By the mid nineties 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 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 in the next three administrations. Then it increases with 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 (10th percentile) as well as other (e.g. Global Competitiveness Report), as was shown above, the Chavez administration should probably be given a score of 1 or 2 in Geddes index. Chávez has had the most openly partisan selection strategy of any administration in Venezuela's democratic history. It is important to notice that in Geddes index Venezuela is either at the regional average or above in terms of meritocracy. Only Brazil, Chile, and Perú with Fujimori, get higher scores. In other words, in general the Venezuelan bureaucracy was relatively similar in terms of its meritocracy/ patronage to the ones in other Latin American countries. However, today Venezuela is clearly at the very bottom of the region.

5.1.3. 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. Besides that, the process remains structurally fragile, especially its financial side, and vulnerable to attempts to reverse it given the regions dependence on vertical intergovernmental transfers.

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

Decentralization policy had significant developments during the second presidency of Pérez. 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 was slowed down. However, still governors obtained additional resources, from oil revenues, 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 significantly re-centralize the policymaking process due to the power and significant political base of governors and mayors.

5.1.4. Oil Policy

Oil policy represents one of the most stable and cooperative policies in Venezuela's democratic history. Such cooperation not always brought welfare enhancing policies. In 1958-1975 all governments systematically increased oil taxes to the foreign owned companies working in the country. Governments also gave incentives to rapidly increase production and at the same time, did not renew oil concessions, setting the companies' horizon in 1983. As a result companies began to disinvest and exploited more intensively the oil fields already in production. A decade after, 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 to the oil companies was remarkably effective. However, its long-term effects were very negative. The specific nature of this sector, its high level of sunken assets, 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.

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 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. However, the opening of the oil sector to foreign investment was supported by AD and Copei, but opposed radically by Chávez. After he won the elections, eventually eliminated the financial and operative autonomy of PDVSA. A dramatic decline in the quality of the company has occurred. The breakdown in cooperation again is highly visible.

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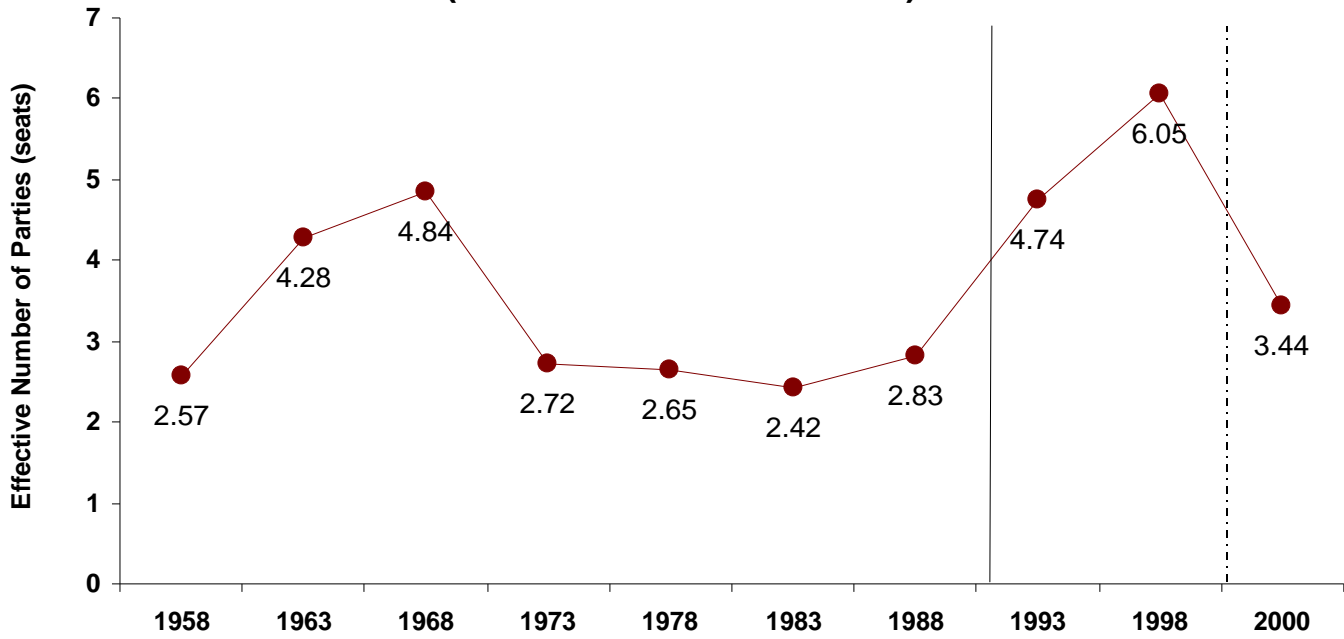
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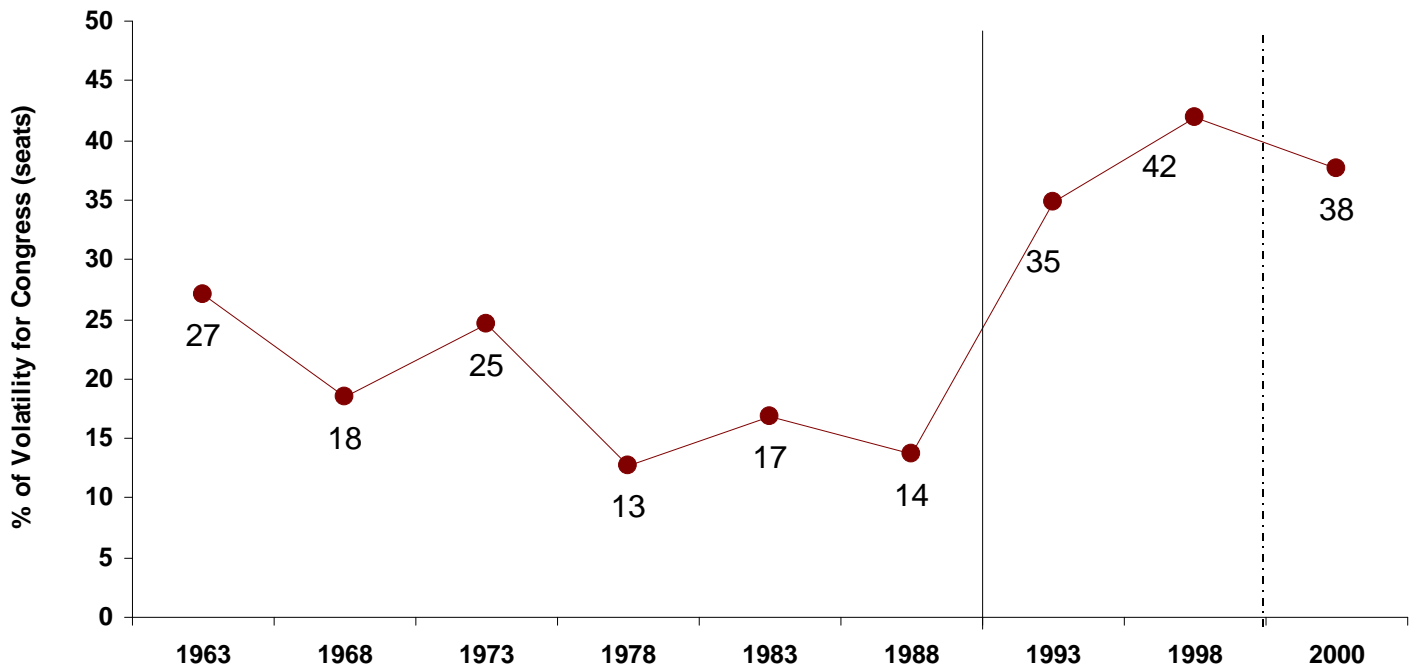
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Figure 1
Effective Number of Parties in Venezuela
(seats in the lower house)



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)

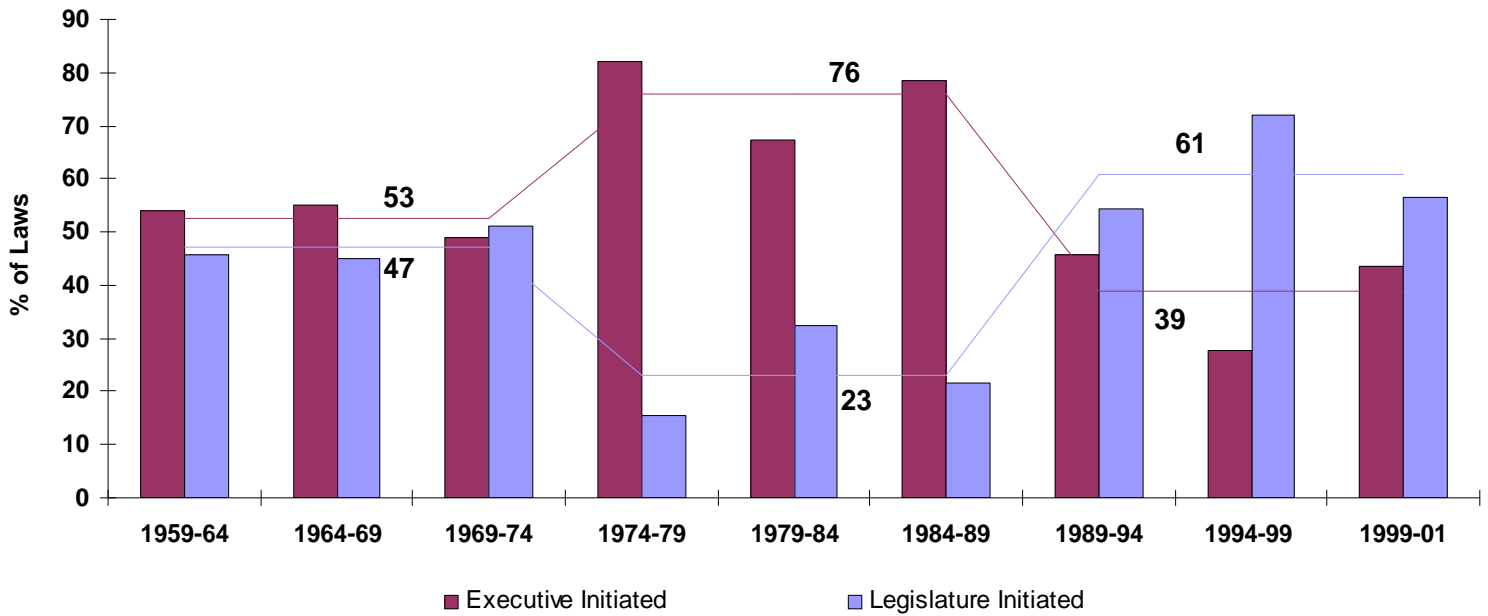
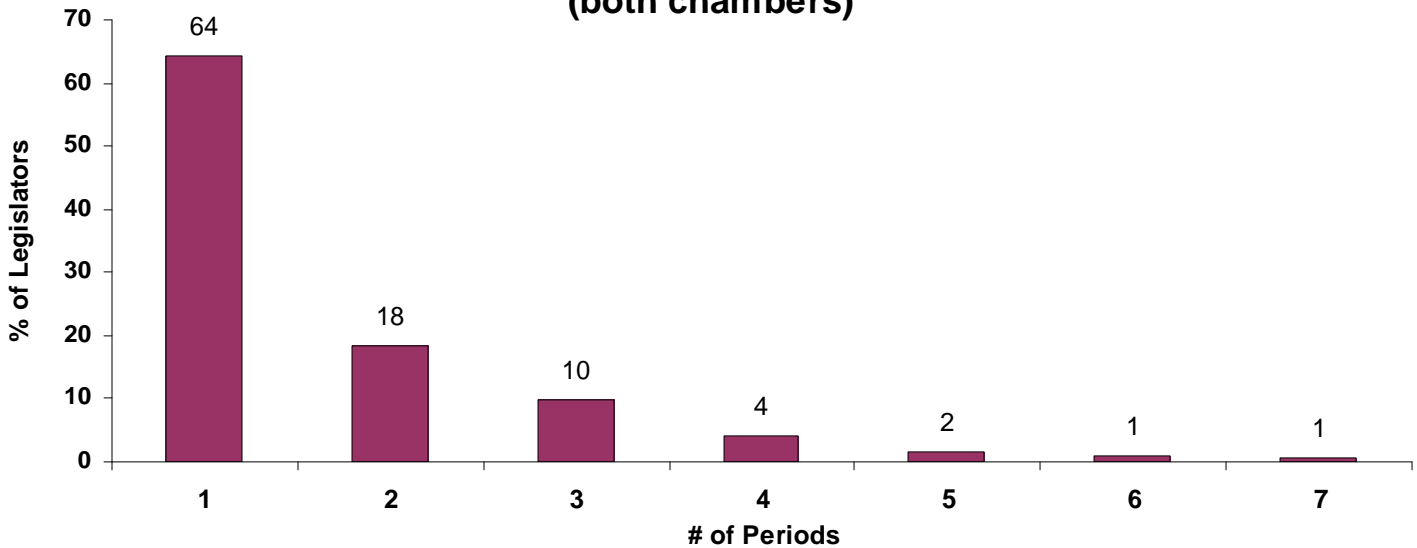
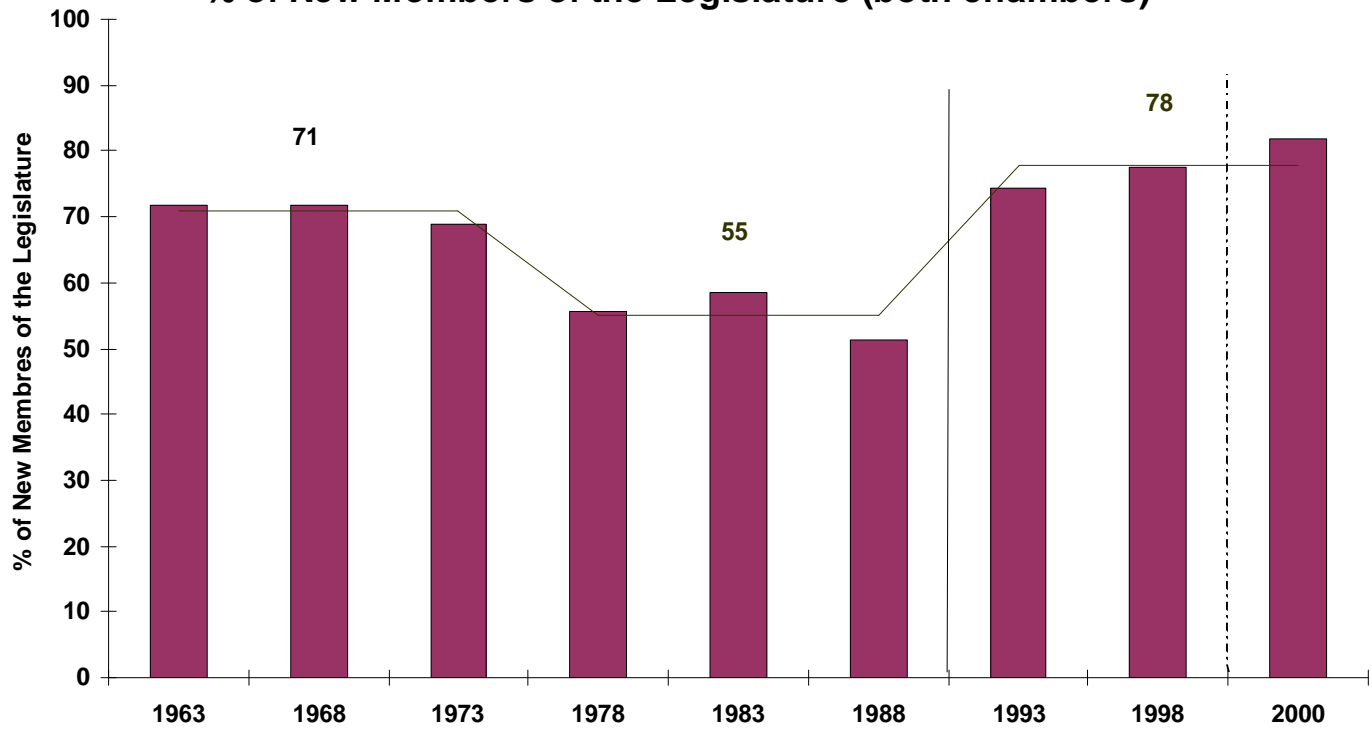


Figure 4
Periods Lasted by Members of the Legislature (1958-2000)
(both chambers)



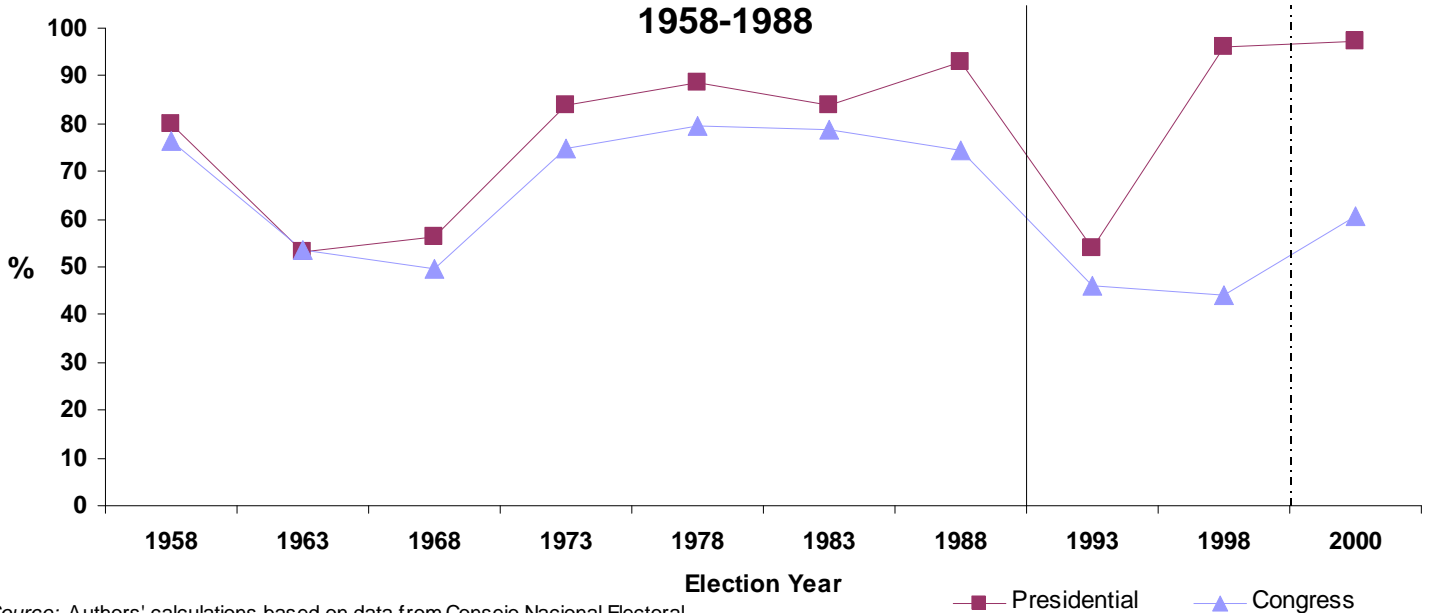
Source: Authors' calculations based on data from Servicio Autónomo de Información Legislativa

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



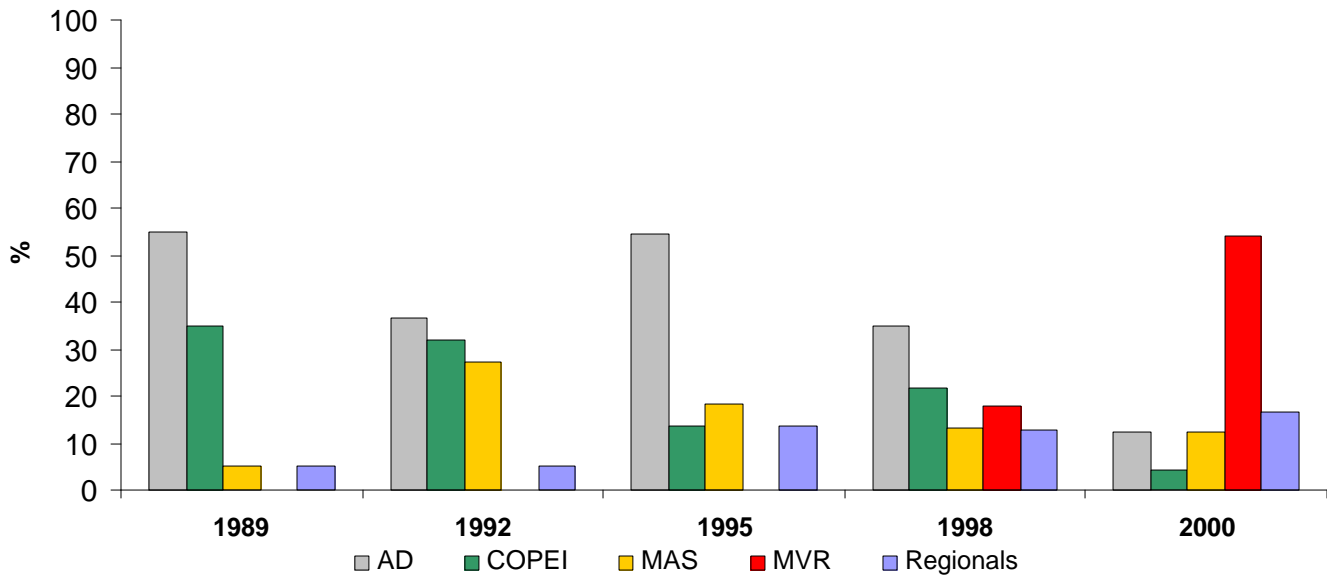
Source: Authors' calculations based on data from Servicio Autónomo de Información Legislativa

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



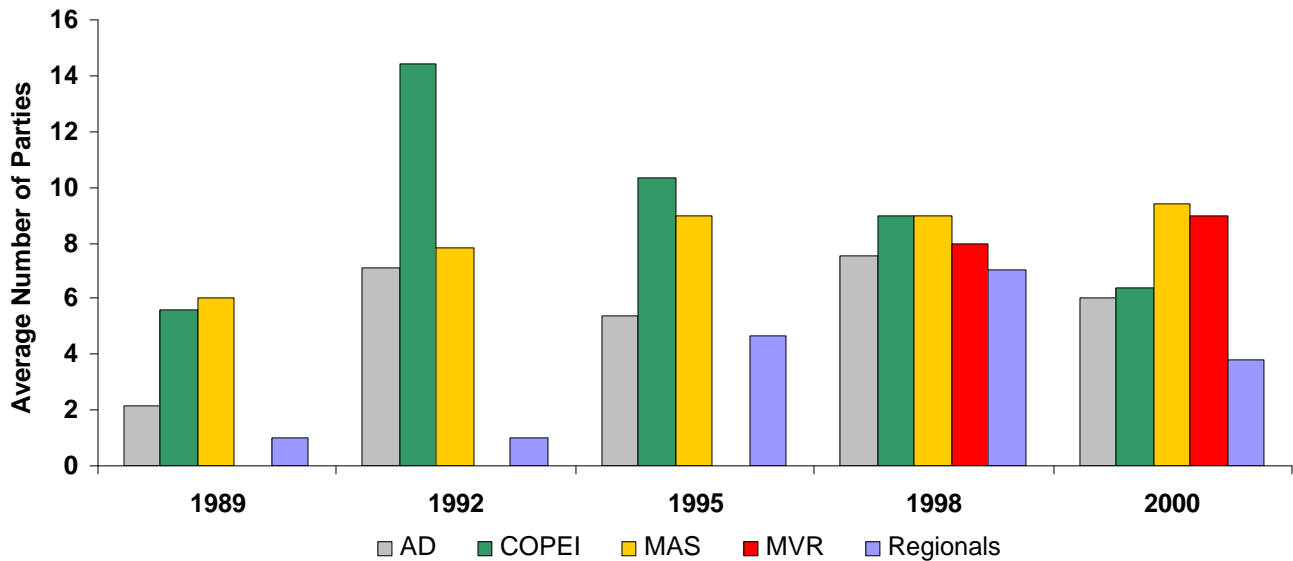
Source: Authors' calculations based on data from Consejo Nacional Electoral

Figure 7
Share of Governorships by Political Party in Venezuela



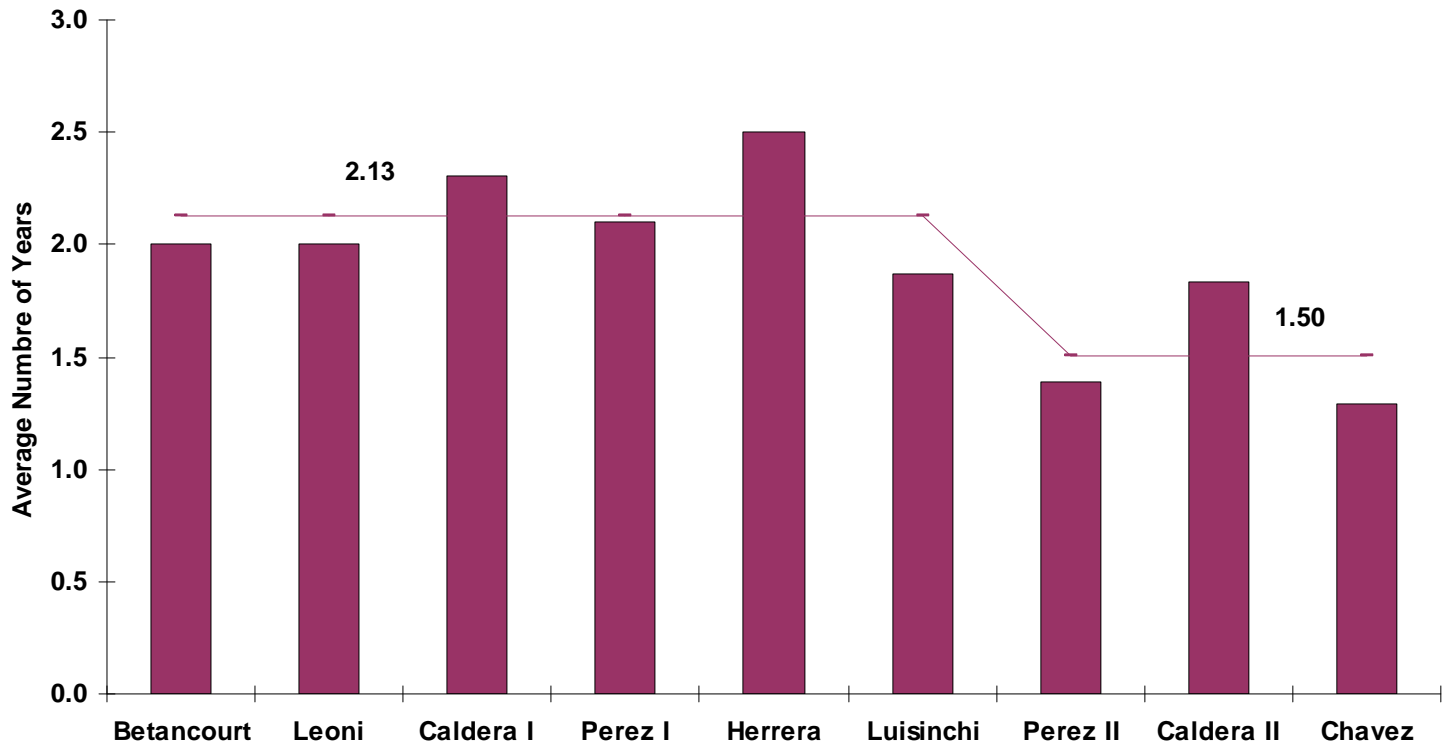
Source: Authors' calculation base on data from Consejo Nacional Electoral

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.

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