

# INTERNATIONAL POLITICAL ECONOMIC ANALYSIS OF VENEZUELA'S XXI CENTURY SOCIALISM

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## ABSTRACT

*The study of Venezuela is current and important in the Latin Americana context because of the immense impact former Venezuelan President Hugo Chávez had on Latin American countries. This paper's hypothesis is that in the long run Chavez's XXI Century Socialism is not sustainable, and it will be proven in each of the three sections of the paper corresponding to economic, social and political issues. The main conclusion of the paper is that the Venezuelan 21<sup>st</sup> Century socialism is not sustainable because of worsening economic problems (especially budgetary deficits, increasing inflation and unemployment rates, and high dependence on oil) social issues (increasing crime rates amidst reduction in poverty and income inequality), and political conundrums (spiking corruption, descending democracy index, prevalent lack of rule, harassment of the press and the opposition).*

**Keywords:** Sustainability, Social justice, Economics, Politics, Hugo Chavez

## INTRODUCTION

The study of the economic, political and social conditions of Venezuela is current and important in the Latin American context because of the immense impact former Venezuelan President Hugo Chávez had on Latin American because his alternative to neoliberalism enjoys the explicit support of several Latin American governments.

This paper's hypothesis is that Chavez's-XXI Century Socialism is not sustainable from economic, political and social standpoints in the long run. It will analyze his socio-economic policies in the context of a possible stable long-term economic growth and political stability against the background of heavy reliance on high oil prices for public revenues, persistent high levels of corruption, high crime rates, the Bolivarian Revolution's near total dependence on a populist leader and the zero-sum nature of a polarized society unwilling to compromise.

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The main contribution of this research to the study of the Venezuelan XXI Century socialism is to have built a body of knowledge inter-relating economic, political and social issues inherent to the sustainability of the system. The references cited herein have studied the topic without encompassing the three approaches mentioned above.

The paper is structured into three sections: the first section deals with Venezuela's economic situation with special attention to the role of oil exports, the second section is dedicated to political issues, and the third section is geared towards the social situation.

## SECTION I – ECONOMIC ANALYSIS

### 1.1 Real GDP, inflation, unemployment.

The relationship among real GDP growth, inflation and unemployment rates is shown in table No. 1, which demonstrates that during 2004, 2005 and 2008 the increase in demand was a result of decrease in unemployment and at least partially responsible for the increase in the inflation rate. Nevertheless, this was not due to higher wages, but instead occurred thanks to the global commodity price boom, which also helps to explain the uncertain fluctuating nature of inflation in Venezuela. It is interesting to note that while the stock market has shown a growing trend, basically as a result of the increasing oil price, the average real wages have been constant or even decreasing due to the spike in the inflation rate, especially as of 2008 (Corrales, 2012). A loss in real GDP growth translated into a loss of formal jobs in the market and compounded by an increase in inflation, led to an increase in poverty and erosion of social justice.

**Table No. 1 – Economic performance, Inflation & Unemployment in the period 2000 – 2012**

Percentages	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP	3.7	3.4	-8.9	-7.8	18.3	10.3	9.9	8.8	5.3	-3.2	-1.5	4.2	5.6
Inflation	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	30.9	25.1	27.2	27.6	20.1
Unemployment	14.0	13.4	16.0	18.0	15.1	12.2	10.0	8.5	7.4	7.9	8.5	8.2	7.8

Source: The Economist Intelligence Unit

Table No. 1 also shows that unemployment has steadily decreased since 2004 and remained at around eight percent from 2010 – 2012, except during the second and most recent recession when unemployment grew slightly from 7.4 percent in 2008 to 8.5 percent by the end of 2010. Furthermore, it illustrates the globalized nature of the world economy and Venezuela's integration into it. The global recession that began in the fourth quarter of 2008 clearly affected the economy, as it shrunk from 5.3 percent in 2008 to -3.2 percent the following year. The country's dependence on the international market for its oil exports and the slowdown in demand from developed nations (especially in the US economy, which is the number one buyer of Venezuelan oil) were thus a direct cause for the reductions in GDP rates during the 2009 – 2011 periods. It follows then that the decreasing trend in unemployment would reverse during the second recession of 2009 – 2011 as it did when it increased slightly by .6 percent in 2010. Although the 4.2 percent growth in 2011 brought down the unemployment rate to 8.2 percent, it still remained .8 percent higher than in 2008. In a snapshot: a fluctuating real GDP was caused by dependency on irregular revenues primarily derived from oil exports, variable but high inflation rates, and gradually decreasing, but still relatively high rates in unemployment.

Despite these noxious economic conditions, Chávez had proven to be quite resilient to the strong opposition from the previously powerful vested interests of the traditional political elite in Venezuela. He was able to keep his hold on power thanks in large part to profligate government spending on social

programs, which mitigated the negative effects on unemployment and poverty during periods of economic hardship.

The country experienced two recessions under the current administration regime's stewardship: the first lasting from 2002 – 2004 and the second occurring shortly after the global financial crisis, from 2009 – 2011. Dependence on oil exports crushed the economy during the first recession and hurt it badly during the 2008 global recession. The year 2002 was perhaps the single worst year during the past 14 years with both a record-high decline in the real GDP, a soaring 31.2 percent inflation rate, and one of the highest unemployment rates for the entire 2000 – 2011 period. The immense decrease in the real GDP growth rate from 3.4 percent in 2001 to a grave -8.9 percent the following year was a direct consequence of the two general strikes called for by FEDECAMARAS, Venezuela's largest business association and one of the government's opponents during the fourth quarter of 2001 and the second quarter of 2002 (Weisbrot, 2008). Therefore, before Chávez was able to consolidate his power in 2004, a combination of inadequate GDP structure and an unstable political environment negatively impacted economic performance.

In addition, *Petróleos de Venezuela S.A. (PDVSA)*, the now state-owned oil company, also called for a lockout in December 2002, just barely eight months after a faction within the military launched a brief coup d'état against Chávez; he was back in power a mere 48 hours after his overthrow. The strikes and the lockout disrupted the nation's primary flow of income, which in turn decimated the economy and sent it into a tailspin for two years. Nevertheless, relative politico-economic stability did ensue once the president renationalized the oil industry and took control of PDVSA in 2004. The renationalization of PDVSA helped the economy to recover, albeit slowly at first. The drastic decline in real GDP during 2002 and 2003 is a perfect example of the volatile nature of economies dependent on a single export commodity for their major source of revenue. More importantly, dependency on oil profits shows a lack of long-term vision and many critics agree that Chávez failed to diversify the economy (Plummer, 2013). Many of the economic policies implemented did not resolve the nation's imbalances, but instead served as quick fix solutions intended to keep the economy afloat while failing to address the deep structural problems Venezuela currently face.

Today, Venezuela's economic conditions have deteriorated to a point where the government had to devalue the currency again in early February 2013, this time by more than 30 percent against the US dollar. Moisés Naim, a scholar at the Carnegie Endowment and Venezuela's former minister of industry and trade, stated that "since 1983, the country has suffered 10 massive devaluations" and during the past 14 years the government devalued the currency by a total of 992 percent.<sup>1</sup>

Naim argues that bad economic policies are to blame for the devaluation. Furthermore, the devaluation will not fix fiscal deficit and other macroeconomic imbalances for two main reasons: (a) the currency is woefully misaligned and (b) the petrol subsidy allowing Venezuelans to fill their tanks at only 12 cents a gallon (which costs the government \$21bn billion a year or seven percent of gross domestic product) greatly distorts the economy. The inadequate policies that Naim refers to comprise government controls on prices, imports, foreign exchange and interest rates, all of which have contributed to a decrease in supply and a spike in inflation. The situation worsened because the decrease in supply was accompanied by an increase in demand thanks in part to easy credit and public largesse. Naim states that "in 2012 alone the money supply expanded 62 percent while public spending grew 52 percent."<sup>2</sup> As a result, Venezuela still has one of the world's highest inflation rates – currently at more than 30 percent and set to rise higher.

The increase in government spending on social programs assumes that there is strong fiscal balance, but that is not the case for as can be seen from Table No. 2, which shows that the deficit in the budget has been increasing since 2007 from -2.8 to -15.1 in 2012.

## 1.2 Budget balance, public and total debt as percentages of GDP

**Table No. 2 – Budget Balance and Debt during the 2000 – 2012 periods**

% / GDP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget balance	4.5	-4.6	-1.0	0.2	2.5	4.1	-1.6	-2.8	-2.6	-7.9	-10.	-12	-15.
Public debt	28.2	31.7	44.3	47.4	38.8	33.1	24.0	19.1	14.0	18.2	18.3	25.1	27.3
Total debt	36.1	31.9	39.5	45.7	34.5	30.8	23.8	21.0	16.7	16.8	14.2	18.9	19.5

Source: The Economist Intelligence Unit

We can also see that during the past twelve years the government has had a budget surplus in only four years. What is most disturbing is that the president somehow managed to overspend every single year since 2006 during a period of high oil prices and windfall profits, especially during 2011 and 2012. Beginning in 2000 the public debt as a percentage of GDP steadily increased year after year until 2004 when it began to gradually decrease to reach only 14 percent in 2008. For the subsequent two years, the public debt stabilized at a relatively low percentage rate of only 18.2 and 18.3 percent in 2009 and 2010. The highest public debt registered reached 47.4 percent of the GDP in 2003 when there was actually a budget surplus of 0.2 percent.

While public debt is relatively low, the Venezuelan government must maintain a high level of expenditures in order to keep up with the social needs, demands and expectations that social programs have promised to meet. Thus, the Bolivarian Revolution is essentially “a state-led approach to development that emphasizes the redistribution of the country’s oil wealth in favor of the poor through a variety of social programs.”<sup>3</sup> The recent consecutive deficits in the budget can be attributed to government spending on the so-called Bolivarian Missions. Revenues derived from exports are also used to service the debt burden, which is going to make it increasingly difficult to implement expansionary fiscal policy during potential future recessions if the government continues to have deficits in the budget; consequently, social programs will be negatively affected as well. Venezuela’s foreign reserves are decreasing as the government digs into its coffer to maintain the economy going and its international creditors happy (Devereux, 2012). Any decrease in social spending is a highly dangerous political move and Mr. Nicolás Maduro, the current president, will face the probability of quickly losing support from different pro-Chavez factions (“chavistas”) within the government if he cuts back on any of the “misiones” (cash transfers to the population). An increase in taxes is highly unlikely considering the unpopularity of such a measure amongst the population and the government’s inability to efficiently collect tax revenues from the populace. Venezuela will most likely continue to borrow from either domestic or international lenders and further increase its debt burden.

The foreign trade and current account balances show positive results as can be seen in the following table.

### 1.3 Trade and current account balances as percentages of GDP

**Table No. 3 – Trade Balance and Current-Account Balance during the 2000 – 2012 periods**

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Trade balance	16.7	7.5	13.4	16.7	22.6	31.7	32.0	23.3	44.1	18.0	27.1	46.2	34
T.bal.(% / GDP)	14.2	6.1	14.4	20.0	20.1	21.8	17.4	10.1	14.0	5.4	6.9	14.6	8.84
Current-Acc. bal (% of GDP)	10.1	1.6	8.2	14.1	13.8	17.2	14.4	7.5	10.8	1.8	3.1	8.6	3.9

Source: The Economist Intelligence Unit

Since 2000 Venezuela has had a surplus in the balances of payments and current-account as percentages of GDP. Furthermore, Venezuela has had a positive trade balance as well throughout the past 12 years, yet it fluctuated for the most part except for the period 2001 – 2006 when each year the surplus in the trade balance was greater than the previous year. The trade balance as a percentage of the GDP has also fluctuated, but in 2011 it was nearly at the same level as it was in 2000. In this context it is important to analyze the role of exports in the GDP structure, as shown in the following table.

### 1.4 Structure of the GDP

**Table No. 4 – Structure of Venezuela’s GDP during the 2000 – 2012 periods**

(% of GDP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Consumption	51.7	54.9	53.5	54.8	49.2	46.8	47.0	51.1	51.5	62.9	55.9	55.2	58.9
Government	12.5	14.2	13.0	12.9	12.0	11.1	11.7	12.5	11.9	13.7	11.2	11.5	12.2
Investment	21.0	24.1	21.9	15.5	18.3	20.3	22.3	25.0	22.1	23.5	18.7	17.7	19.9
Exports	29.7	22.7	30.4	33.9	36.2	39.7	36.5	31.1	30.8	18.1	28.5	29.9	25.8
Imports	18.1	19.4	18.1	16.7	19.2	20.5	22.1	25.1	21.0	20.4	17.6	19.7	22.9

Source: The Economist Intelligence Unit

Private consumption is the largest component. After fluctuating from 2000 – 2004, from 2006 – 2009 private consumption increased every year only to dip again in 2010 and 2011. Consumption has increased predominantly thanks to government spending; minimum wages hikes and improved access to credit (CIA, 2013). Private consumption should be at least 50 percent of the GDP structure for the nation to depend more on the domestic market for its revenues than on the international market. According to the data presented in Table # 4, a decrease in consumption will impact the economy more than a decrease in government spending. The second largest component is exports, which have averaged at approximately 30 percent of GDP during the past 12 years. Export commodities include: petroleum, which comprised 97 percent of exports in 2012, bauxite and aluminum, minerals, chemicals, agricultural products, and basic manufactures. Its largest export markets are the US at 40.2 percent, China at 10.5 percent, India at 5.5 percent and Cuba at 4 percent (CIA, 2013). Although the US remains the primary market for Venezuelan oil exports and Venezuela is the United States’ fourth largest supplier, China is a new export partner because “Chávez has sought to develop an alternative market for its oil with the government of China<sup>4</sup>.”

The regime has made attempts to promote South-South solidarity through oil diplomacy expressed in such measures as the PetroCaribe program (Isbester, 2011). His government granted special deals to dozens of smaller, poorer, energy dependent nations in the region through programs such as the abovementioned Petrocaribe and the Bolivarian Alliance for the Americas (ALBA), where Venezuela sells these nations petroleum below market price in exchange for goods and foodstuffs. State-owned oil company PDVSA says in one of its reports that Venezuela sent 243,500 barrels of oil a day to 16 countries across the region in 2011, which represents about 8% of its official oil production or about 10% of what market analysts estimate is the company's output. A separate agreement was signed with Cuba where Venezuela essentially trades oil for Cuban teachers and doctors to support his *misiones*. Yet critics highlight that with high oil prices bringing in \$100/barrel, the Venezuelan oil supplied through preferential deals could have generated \$8.9bn of income in 2011, and instead of giving away its important resources and importing food and professionals, Venezuela can and should produce its own food and develop its own professionals (Uchoa, 2013).

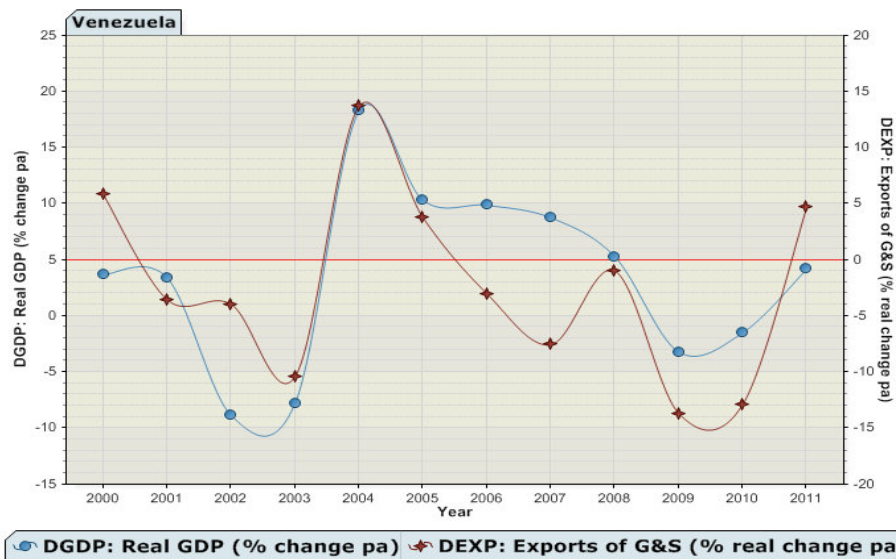
Considering large amounts of money are necessary for maintaining and updating the oil industry, former PDVSA director and government critic, Eddie Ramirez, argues that “money could have been used for [oil industry] maintenance, which the state-owned company postponed because of cash flow problems” (Uchoa, 2013). More importantly, as the former US Ambassador to Venezuela, Charles Shapiro stated, “selling rather than subsidizing oil to other countries is easier and less politically risky than devaluing the Venezuelan currency, the *bolívar*, which is sold in the black market at about four times the official rate<sup>6</sup>.”

What's more, Venezuela suffers from a greatly diminished export capacity, in part thanks to the government's nationalization of private companies and expropriation of private property, which is turned over to corrupt and incompetent “chavistas”. The majority of non-oil products exported by Venezuela are under the hands of inept state-owned companies. Naim argues that the devaluation will not increase exports, despite the more competitive exchange rate (Naim, 2013). As is often the case, those at fault in the Venezuelan government will not assume responsibility for their mistakes. In fact, Maduro and his allies have already blamed shortages on the private sector and the instability on the “antipatriotic opposition in cahoots with foreign enemies.”<sup>7</sup>

Before the current administrations Venezuela produced many goods and today the country relies heavily on imports to meet even the most basic needs of its citizenry. In fact, “shortages of staples like milk, meat and toilet paper are a chronic part of life...often turning grocery shopping into a hit or miss proposition.”<sup>8</sup>

Government spending on the other hand accounts for a relatively small percentage of the GDP. When this indicator fluctuates between 20 to 30 percent, it normally reflects a true move to the left. It is interesting to note that government spending has hovered anywhere between 11 – 14 percent of the GDP. Chavez's proposed commitment to social justice is further threatened by the close relationship between the real GDP growth rate and the rate of growth of exports of goods and services as a percentage of GDP as shown in the following graph.

**Graph Relationship between real GDP and Exports**



Source: The Economist Intelligence Unit

In 2003, exports and real GDP grew at exactly the same rate and began to simultaneously decrease in 2004, although exports decreased at a much faster and steeper rate than real GDP. The economy began to grow out of the recession in 2009 as exports began to grow during the same year. Finally and more importantly, the economy has been in a generally declining trend since the 2004 peak and although it experienced upward swings from 2007 – 2008 and from 2009 – 2011, the real GDP nevertheless remains well below its potential.

The last component of the GDP structure for analysis is gross fixed investment, which has averaged 22.5 percent from 2000 – 2011. If these investments were economically justified through cost and benefit analyses, they would suggest healthy prospects for Venezuela’s future production capabilities. Although the economy is mainly service-based, making up 60.4 percent of the economy, it nevertheless has robust industry sector (35.8 percent of the economy). Even so, a much smaller percentage of the labor force, only 21.8 percent, works in the industry sector (CIA, 2013). The good level of gross fixed investment can be attributed to “increased interest from non-traditional partners (in particular China) in some key sectors such as energy and housing” (Economist, 2012). Nonetheless, investment is decreasing in relative terms, basically due to the implemented anti private sector and anti FDI policies.

It is interesting to analyze the relationship between inward foreign direct investment (FDI) not only to GDP, but also to general investment as shown in the following table.

**1.5 Inward FDI in relation to GDP and total investments.**

**Table # 5 – Inward and Outward Investment in Relation to GDP**

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Inward FDI (US\$bn)	5.0	4.0	0.8	2.0	1.5	2.8	-0.5	1.6	1.2	-2.5	1.2	5.4	2.0
IFDI/GDP, %	4.0	3.0	0.8	2.4	1.3	1.9	-0.3	0.7	0.4	-0.8	0.3	1.7	0.5
Inward FDI/I%	19.1	12.5	3.8	15.8	7.2	9.4	-1.2	2.8	1.7	-3.3	1.7	9.7	2.4

Source: The Economist Intelligence Unit

Attacks on capitalism and the private sector have created an uncertain and unstable environment for investors, hindering FDI and consequently growth. Despite Chávez's nationalization frenzy (the government more recently nationalized the gold-mining sector in late 2011) investment flows have generally remained positive throughout the past twelve years. It should be born in mind that part of this investment was governmental. Even so, in 2011 inward FDI flow as a percentage of fixed investment was almost 10 percent less than in 2000. During the whole period the inward FDI stock as a percentage of GDP has shown a declining trend, especially after 2005. Thus, in 2011 inward FDI stock was 16 percent less than it was in 2000 and 35.2 percent less than it was at its peak in 2003. The renationalization of the oil industry in 2004 is one factor in the decreasing rate of inward FDI stock, as well as the nationalization of several other industries.

The lack of respect for private property, government expropriations, and nationalization of various industries instigates capital flight as well; foreign companies will not invest in Venezuela if legal safeguards and protection do not guarantee their investments. The implemented strict foreign exchange controls have had immense negative effects including increased corruption, decreased productivity in the formal private sector, and a thriving black market for dollars. As long as Venezuela operates within the capitalist economic model, the next leader of the country will need to tone down the extreme leftist rhetoric and reconcile the public and private sectors if he wishes to promote economic growth, if only for the sake of maintaining higher social justice levels and political power.

## **SECTION II - POLITICAL ANALYSIS**

Chávez came to power thanks to the increasing inequality Venezuelan society experienced during the 1980s and 1990s when President Carlos Andrés Pérez implemented neoliberal market reforms worsening the economic situation for large portions of the population, and undercutting labor unions and peasant associations. Eventually, Pérez's actions led to an increase in the informal workforce and the parallel black market, reducing revenues for the government.

The exclusion of new social groups from the political system further delegitimized representative democracy in the eyes of many Venezuelans and helped bring an end to the old political order. This paved the way for a charismatic, politically cunning populist leader to take control of the government. Sadly, Chavez's brand of socialism has divided the country between supporters and opponents of his democratically elected government. The "chavistas" form the backbone for his Bolivarian Revolution that also includes sectors of the military, factions of the political left and the largely unincorporated masses of the previously disenfranchised and marginalized poor majority. Therefore, Venezuela's president helped create a zero-sum game, one where he and his supporters reap the benefits of the nation's rich natural resources while those in opposition face discrimination and are excluded from receiving government benefits. Such discrimination contradicts and adversely affects any altruistic attempt at true social justice. Former Adjunct Political Science Professor at the University of Toronto, Katherine Isbester, maintains that "no democracy can sustain a zero-sum organization of power."<sup>9</sup> Democracy has undoubtedly weakened under Chávez's control, so much so that capture and control of the state have become essential for contending social groups to ensure the protection of their rights and interests. The result is fierce loyalty to the president from "chavistas" and intense rejection of his administration from the opposition.

The authors of this paper believe that the nation has come close to falling prey to authoritarianism. Democracy has been undermined democracy by concentrating more power in the executive branch with the support of the poor majority of the population, the military, a biased legislature and a compromised, corrupt judiciary. The accomplishment of these significant political changes was done through changing the constitution and effectively diminishing democratic checks and balances on the other branches of the



government. Chávez was able to revoke legislation, recall oppositional politicians and even rule by decree for a period of 18 months; all of this enabled him to circumvent the legislative process and enact legislation favorable to his politico-economic agenda. To make matters worse, the new 1999 constitution also gave the military an explicit role in politics. These are all signs of a weakening of democracy that hinders economic growth and reduces social justice in the long term.

Venezuela is thus a hybrid democracy where the executive remains very strong, the legislature is comparatively weak and the judiciary suffers from a high degree of politicization (Economist, 2011). The democracy index scores a country on the following five criteria: electoral process and pluralism, functioning of government, political participation, political culture and civil liberties; Venezuela ranks 97<sup>th</sup> and has an overall score of 5.08 compared to Norway, considered a full democracy, which ranked at number one with an overall score of 9.8 out of 10. Other infamously illiberal Latin American countries such as Guatemala and Nicaragua rank higher than Venezuela. For example, elections in Venezuela have substantial irregularities that often prevent them from being both free and fair. During the recent presidential election Chávez dramatically increased social spending to win political support of those directly benefitting from his social programs. In addition, government pressure on opposition parties and candidates is also common as the 2004 recall referendum demonstrated when the government published the names of all those who had signed their names in opposition to Chávez; many public employees who signed were subsequently fired from their jobs. Furthermore, harassment of and pressure on opposing to the regime journalists is common to this day.

Currently, widespread corruption is a huge impediment to achieving a democratic polity. In fact, Venezuela ranks 165 out of 176 countries in Transparency International's Corruption Perception Index and on a scale of one through 100, 100 being the least corrupt, Venezuela has an incredibly low score of 19 (Transparency International, 2012). The rampant corruption is not only a result of the foreign exchange controls enforced on the country, but also of the weak rule of law and incredible impunity as well (IBAHRI, 2007). Corruption is a major factor in the ineffectiveness of the current administration to unify the nation under a better-managed politico-economic agenda.

### **SECTION III – SOCIAL ANALYSIS**

The World Bank considers Venezuela to be an upper middle-income nation and it is also the wealthiest Andean country (The World Bank, 2013). Despite this, unemployment is high at 8.2 percent, 27.4 percent of the population lives below poverty, and wealth is still concentrated at the top. Even though living standards for the majority of Venezuelans have dramatically improved, decreasing levels of poverty and inequality was a general trend in other Latin American countries for the past decade as well (McLeod, 2011). Since 2004 the current administration has reduced poverty by half and extreme poverty by 70 percent, given millions access to healthcare for the first time, and doubled college enrollment with free tuition for many students, considerably reducing inequality.

Social indicators such as the infant mortality rate, life expectancy at birth, and literacy are all relatively good with a total of 19.75 deaths/1,000 live births, 74.23 years average life expectancy and 93 percent of the population over the age of 15 with the ability to read and write (CIA, 2013). This explains why the United Nations Development Program's Human Development Index gives Venezuela a high score, ranking it at 71 out of 187 states (UNDP, 2013). The index takes into consideration three dimensions when computing the score including: health, education and living standards and four indicators including: life expectancy at birth, mean years of schooling, expected years of schooling, and gross national income per capita. In 2011 the GDP per capita adjusted for purchasing power parity was one of the highest in the region at an estimated \$13,200 (CIA, 2013). Finally, thanks in part to social programs and overall

government spending on the poor, the country has a relatively low Gini Coefficient: .39 out of 1. Many Venezuelans that previously felt hopeless, disassociated from society and neglected by their government, now feel they have a voice and could make themselves heard. Consequently (although liberal democracy has undoubtedly suffered) many of the people who voted, supported and benefited from the regime, truly believe theirs is a functioning democracy and therefore support democracy as the best form of government more so than any other Latin American nation. According to a poll done by Latinobarómetro in the question “democracy is preferable to any other type of government,” Venezuela ranks with the highest percentage in the continent.<sup>10</sup>

Despite these optimistic data, Venezuela is plagued with violence and high crime rates. Homicides have actually increased dramatically in Venezuela during the past 12 years. Thus, a major concern for Venezuelans today is the soaring crime rate in the nation and “most polls show Venezuelans are more concerned about crime than they are about all other issues put together.”<sup>11</sup> Crime statistics speak for themselves. (Arsenault, 2012)<sup>12</sup> states that “during 2012 Venezuela registered 19,336 murders and became one of the western hemisphere’s most violent countries.” The Maduro administration has to deal with the fact that even neighboring countries with deadly drug cartels and drug trafficking violence such as Mexico and Colombia have far lower murder rates with 15 per 100,000 inhabitants for the former and 38 per 100,000 for the latter compared to Venezuela’s 67 per 100,000. According to data released by the United Nations in late 2011, only two countries in the Americas, El Salvador and Honduras, have higher murder rates. It is widely believed that a decrease in poverty and inequality inevitably lead to a decrease in crime, but despite the current administration’s great help reducing both poverty and inequality during the past 12 years, “the Bolivarian Republic experienced more than 144,294 murders...and the murder rate has increased more than three-fold since Chavez took office.”<sup>13</sup>

The Venezuelan case is therefore important because it provides an additional reason for reanalyzing the relationship between poverty and crime. The authors of this paper believe that several reasons can explain the apparent contradiction in Venezuela, including the lack of rule of law, which has deteriorated since 1999; Transparency International gave Venezuela a score of -1.6 on a scale of 2.5 with -2.5 being the worst score possible. The police and justice system are also very corrupt and criminals often can get away with murder if they pay the right price. Another major reason is the highly polarized nature of politics in Venezuela between “chavistas” and the opposition; government opponents accuse police officials of colluding with or turning a blind eye to local thugs that support the government. The deep polarization of society is of major consequence for Venezuela’s prospects for future economic growth and social justice since there is no possible compromise at sight. This situation has translated into a disruptive class warfare that has created a severe disunity amongst average Venezuelans and political gridlock regarding the most effective way to tackle pertinent issues plaguing the nation, such as insecurity. Sociologist and founder of the Investigative Institute of Citizen Security, Luis Cedeño, argues that other factors include the massive circulation of weapons, prevalence of poor illumination in public areas, alcohol consumption, drug trafficking and organized crime (Arsenault, 2012). Whatever the reasons may be, the regime was incorrect to assume that redistributing the country’s oil wealth to alleviate poverty would reduce crime.

According to the CIA World Fact Book Venezuela’s current concerns include: a weakening of democratic institutions, political polarization, a politicized military, drug-related violence along the Colombian border, overdependence on the petroleum industry with its price fluctuations, and irresponsible mining operations that are endangering the rain forest and indigenous peoples (CIA, 2013).

## CONCLUSION

This paper has confirmed the hypothesis that the XXI Century Socialism is not sustainable from economic, political and social points of view. Economically, Venezuela experiences the following problems: a) increasing fiscal deficits, b) very high rates of inflation, c) acute scarcities of staples, d) governmental use of its reserves for bankrolling Chávez's "misiones," is considered by critics to be ineffective and poorly managed; e) its high dependence on oil. f) an extremely unproductive private sector, bogged down by antiquated foreign exchange controls meant to deter capital flight, but actually squeezing supply and causing the inflation rate to spike; g) reiterated devaluation of the bolívar. The devalued currency coupled with inflation erodes consumer purchasing power; consequently, social justice suffers in the end; h) the economy is further distorted by consumption fueled by subsidies, direct cash transfers and other entitlements.

From a political standpoint, the Bolivarian Revolution has failed to truly implement XXI Century Socialism in Venezuela in many ways. Although one can say that a sort of revolution happened at the polls, a socialist revolution has not occurred in Venezuela, at least not in the traditional Marxist understanding of a bottom-up revolution led by a proletarian class that completely overthrows the capitalist economic model. Venezuela's near complete dependency on oil exports for its revenues, and therefore most of its public spending, makes it so that the country not only functions within the global capitalist economy, but it is heavily dependent on it for economic growth. The structure of the Venezuelan economy has not been changed at all despite the increase in the oil price which could have taken advantage of to improve infrastructure. The democracy and corruption indexes show negative numbers given the prevalent lack of rule, government harassment of the press and the opposition, and the lack of transparency of the last election that gave a very narrow advantage to the current president. Given Maduro's lack of charisma, and the strengthening of the opposition after Chavez's death, the political stability managed by the former president will most likely soon unravel as a majority of Venezuelans start to feel the consequences of the inadequate economic decisions made under his leadership within the upcoming months.

From a social point of view, social tensions and class divisions are also prominent features characterizing Venezuelan society today, which must be overcome if there is to be any reconciliation and unity amongst the different social classes. Although the Gini coefficient and poverty rates undoubtedly improved under Chávez's rule, they were largely due to windfall revenues from oil exports as opposed to a productive, robust and well managed economy. The most acute sign of social injustice in Venezuela is the growing crime rate, which occupies the third place in Latin America after El Salvador and Mexico. Strengthening democratic institutions and the state are tenable foundations for sustainable economic growth guided by sound macroeconomic policies capable of maximizing social justice to new levels.

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