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THE EFFECT OF DECLINING OIL PRICES ON POLITICAL CORRUPTION IN VENEZUELA

by

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March 2019

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Mired in turmoil, the current state of Venezuelan politics is rife with political corruption and abuses of power. This thesis uses resource curse theory and governance datasets to analytically study changes in Venezuela over time to identify how the 2014 petroleum market crash affected the instances of political corruption. The argument shows that, when petroleum rents plummeted, financial and political incentives caused the focus of the Venezuelan government's corruption behaviors to change from controlling the economy's profits to regime survival. The governance data used reveals that in the period surrounding the 2014 petroleum market price decline, incentives behind political corruption shifted from cashing in on oil profits to consolidating political power, which affected the types of corruption actions used by government officials. The findings in this thesis demonstrate that governments without institutional constraints are likely to use different kinds of politically corrupt activities to stay in power during periods of decreased petroleum rent than they do when experiencing windfall incomes. The lack of institutional constraint in Venezuela caused by the willful abuse of power, as well as insufficient government capacity, signals that hurried efforts to rebuild Venezuela must emphasize the quality of governance and the policing of corruption before focusing on repairing the economy.

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THE EFFECT OF DECLINING OIL PRICES ON POLITICAL CORRUPTION IN VENEZUELA

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ABSTRACT

Mired in turmoil, the current state of Venezuelan politics is rife with political corruption and abuses of power. This thesis uses resource curse theory and governance datasets to analytically study changes in Venezuela over time to identify how the 2014 petroleum market crash affected the instances of political corruption. The argument shows that, when petroleum rents plummeted, financial and political incentives caused the focus of the Venezuelan government's corruption behaviors to change from controlling the economy's profits to regime survival. The governance data used reveals that in the period surrounding the 2014 petroleum market price decline, incentives behind political corruption shifted from cashing in on oil profits to consolidating political power, which affected the types of corruption actions used by government officials. The findings in this thesis demonstrate that governments without institutional constraints are likely to use different kinds of politically corrupt activities to stay in power during periods of decreased petroleum rent than they do when experiencing windfall incomes. The lack of institutional constraint in Venezuela caused by the willful abuse of power, as well as insufficient government capacity, signals that hurried efforts to rebuild Venezuela must emphasize the quality of governance and the policing of corruption before focusing on repairing the economy.

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LIST OF ACRONYMS AND ABBREVIATIONS

CORPOELEC	Corporacíon Eléctrica Nacional
DC	Developed Country
EOI	Export Oriented Industrialization
ERCAS	European Research Centre for Anti-Corruption and State-Building
FDI	Foreign Direct Investment
IOC	Independent Oil Company
ISI	Import Substitution Industrialization
LDC	Less Developed Country
MUD	Democratic Unity Roundtable
NOC	National Oil Company
PdVSA	Petróleos de Venezuela, S. A.
USP	United Socialist Party

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

In 2014, the world market oil price plummeted.[1] The drop caused a marked downturn in Venezuela's economy. Coinciding with the economic decline, Venezuelan political elites have exerted a massive effort to centralize control and systematically remove elements of national democratic governance. Resource curse theory insinuates that political corruption is an expected outcome of poor fiscal policy and petroleum-oriented institutions. However, resource curse studies have primarily focused on political decisions made during times of windfall incomes, not drastic market declines. This thesis seeks to fill a gap in the resource curse literature. When petroleum rents plummet, do financial and political incentives cause the Venezuelan government's corruption behaviors to change? To answer this question, this thesis examines instances of political corruption in Venezuela before and after the market decline. Studying Venezuela's behavior during this period may provide insight into how incentives driving Venezuelan political corruption shift from controlling the economy's profits to regime survival during petroleum market declines?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

Millions of lives and likely trillions of dollars are wrapped up across numerous states that rely heavily on petroleum extraction and sale as a chief export. Other petro-states, countries that depend on petroleum rents for more than half of their total export commodities, include Iraq, Libya, Algeria, Bolivia, and Ecuador.[2] Resource curse literature shows mixed findings among different resources; however, most relevant scholars agree petroleum has the most pronounced likelihood of adverse outcomes for state export dependence. Consequently, the broader implications of this study apply to any state that extracts and exports a commodity before some refinement process, but most significantly

[1] "Crude Oil Prices—70 Year Historical Chart" Macrotrends, accessed March 16, 2018, http://www.macrotrends.net/1369/crude-oil-price-history-chart.

[2] Rosamond Hutt, "Which Economies Are Most Heavily Reliant on Oil?" World Economic Forum, May 10, 2016, https://www.weforum.org/agenda/2016/05/which-economies-are-most-reliant-on-oil/.

to those who rely on petroleum exports. In-depth analysis of Venezuela alone cannot directly be externalized to answer questions in other states; however, the research model offers an example of conducting a detailed study into the political corruption of a petroleum-dependent state.

Another justification for the significance of this work lesson is the relevancy for an economy reliant on base goods to attempt to diversify its export partners abroad. Venezuela exports nearly half of its crude oil to the United States.[3] This reliance means that one internal decision in a foreign country, such as tariffs or importation bans to products coming from Venezuela, could have catastrophic effects. When sanctions or other actions are carried out by the policy decisions of foreign governments, the downstream effects can be significant for the population of the affected country. Any state that has high percentages of its trade with a single nation runs the risk of that economy's health relying on the decisions of only a few foreign actors.

While Venezuela's situation represents an extreme case, one can find relevancies to other economies across the globe. Several countries in the Middle East, such as Saudi Arabia and Iran, have mainly relied on petroleum exports for their economy over the last half-century. Papua New Guinea holds vast oil reserves. Many other Latin American countries have yet to diversify their economies from metal ores. Just like Venezuela, many other nations base their economies on unrefined goods that limit the ability of that government to make economic policy decisions on a long-term scale. If those countries rely on the export of a low number of goods, particularly ones prone to market fluctuation, they too may be vulnerable.

With these factors in mind, it is necessary to study resource-rent dependent countries with the market price fluctuation in mind to find how those countries react to changes, including significant price drops, not just windfalls. Because most resource curse theory study is in regard to windfall incomes, the information supporting this theory during price drops is scant. Is there a correlation between falling prices and shifting political

[3] The Observatory for Economic Complexity, "OEC—Venezuela (VEN) Exports, Imports, and Trade Partners," accessed February 14, 2018, https://atlas.media.mit.edu/en/profile/country/ven/.

corruption? If so, what factors lead to developments in corruption following the market drop-out? By studying severe declines in available petroleum-rent, researchers may glean as much government corruption behavior information as during times of windfall increases.

C. LITERATURE REVIEW

1. Resource Curse Theory

Resource curse literature has developed through the decades, progressing from general mineral-rent reliance as the basis to specifically petroleum export-reliant economies.[4] This review of the resource curse literature explains the current state of resource (petroleum) curse theory. The definition used in this work regarding the resource curse is adopted from Michael L. Ross, who defined it "as the adverse effects of a country's natural resource wealth on its economic, social, or political well-being."[5] While scholars such as Haber and Menaldo have expressed some doubt as to adverse effects, Ross explains why the Haber and Menaldo study included false assumptions and omissions that created erroneous results.[6] Ross also categorizes the relevant literature into related subfields of research, which this thesis uses as a launching point. Following the summary of pertinent literature, the argument illuminates two fields of study within the resource curse genre by focusing on the market dropout rather than exogenous shocks. Furthermore, this work represents a fine-grained analysis of Venezuela's political climate, rather than generalizing levels of democracy across multiple countries.

In the political science field, the resource curse has attracted scholarly interest for decades. In that span, academics have amassed a wealth of information, nuance, and research about the curse. Chief among the topic's sub-focus areas have been Venezuela's history of petroleum wealth, quasi-democratic structure, and social strife. While researchers have extensively studied Venezuela, the information they have unearthed more

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[4] Michael L. Ross, "What Have We Learned about the Resource Curse?" *Annual Review of Political Science* 18, no. 1 (May 11, 2015): 239–59.

[5] Ross, 240.

[6] Stephen Haber and Victor Menaldo, "Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse," *American Political Science Review* 105, no. 01 (February 2011): 1–26. https://doi.org/10.1017/S0003055410000584; Ross, 247.

often seems to pinpoint new directions for future scholars than it resolves the questions asked. As Ross demonstrates, there are three general claims supported by resource curse literature regarding petroleum's effect on political legitimacy:

1. Increased stability for authoritarian style regimes
2. Expansions of political corruption, and
3. The fomentation of violence in countries of low to middle income, especially when marked by ethnic marginalization.[7]

This thesis draws mainly from scholars who have studied either of these first two resource curse assertions, petroleum's effects on democratization or authoritarian rule, and political corruption. Several previous scholars have addressed the question of whether increases in petroleum rent income led to adverse impacts on the quality of a resource curse state's democratic or authoritarian resiliency: Liou and Musgrave Brückner et al., Haber and Menaldo, Wacziarg,.[8] The results of each of these studies were mixed, lending as much confusion as illumination.

Each of these studies looked at the relationship between increases in petroleum-rent and the quality of the democracy in question. Liou and Musgrave studied the 1973 oil price shock, finding that increases in petroleum money do not necessarily have adverse impacts on democracy and in fact, some countries experienced the opposite.[9] Brückner similarly demonstrated improvements in democratic institutions following increases in petroleum market income.[10] Haber and Menaldo's research also points to benefits in democracy resulting from reliance on petroleum and labeled it a small "resource blessing" rather than a curse.[11] Haber and Menaldo significantly increased the timeline for their study, assessing each country's level of democracy starting in 1800 rather than the 1970s, as most

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[7] Ross, "What Have We Learned about the Resource Curse?"

[8], Yu-Ming Liou and Paul Musgrave, "Refining the Oil Curse: Country-Level Evidence From Exogenous Variations in Resource Income," *Comparative Political Studies* 47, no. 11 (September 2014): 1584–1610, https://doi.org/10.1177/0010414013512607; Markus Brückner, Antonio Ciccone, and Andrea Tesei, "Oil Price Shocks, Income, and Democracy," *Review of Economics and Statistics* 94, no. 2 (May 2012): 389–99. https://doi.org/10.1162/REST_a_00201; Romain Wacziarg, "The First Law of Petropolitics," *Economica*, December 2011. https://doi.org/10.1111/j.1468-0335.2011.00902.x; Haber and Menaldo, "Do Natural Resources Fuel Authoritarianism?"

[9] Liou and Musgrave, "Refining the Oil Curse."

[10] Brückner, Ciccone, and Tesei, "Oil Price Shocks, Income, and Democracy."

[11] Haber and Menaldo, "Do Natural Resources Fuel Authoritarianism?"

researchers had been doing.[12] Wacziarg concluded that oil price shifts in the economy did not dictate changes in a country's democratic index scores.[13]

In response to Haber and Menaldo's findings, which were purported to cast doubt on the validity of the resource curse's net effects to democracy, Ross and others called their research into question. In separate works, Ross and Wright et al. argued that Haber and Menaldo's use of an extended timeline without a dummy variable in their statistical model for a separate period starting in the 1970s or 1980s, when petroleum nationalizations mostly occurred, their data was incorrectly weighted.[14] Ross and Andersen argue nationalization swept across petro-states like a wave in the 1960s and 70s, drastically altering how much of the petroleum money would be handled by states' governments.[15] By giving the same amount of statistical merit to more than a century and a half before petroleum nationalization occurrences, as the period following it, the data becomes misleading.[16] Haber and Menaldo included 60 years in their timeline prior to petroleum being barreled at all, let alone the period before interstate petroleum trade.[17] Wright et al. also substantiated Ross and Andersen's response.[18] Another reply to the Haber and Menaldo claim was to clarify the difference between short-term and long-term impacts. While short-term windfall rents may increase regime stability in the near-term, perhaps the same is not true if researchers extend the time horizon.[19]

Continuing with Ross's petroleum curse research categorization, studies focusing on political corruption extensively link the economic phenomenon to the quality of

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[12] Haber and Menaldo.

[13] Wacziarg, "The First Law of Petropolitics."

[14] Ross, "What Have We Learned about the Resource Curse?" 247; Joseph Wright, Erica Frantz, and Barbara Geddes, "Oil and Autocratic Regime Survival," *British Journal of Political Science* 45, no. 02 (April 2015): 287–306. https://doi.org/10.1017/S0007123413000252.

[15] Jørgen J. Andersen and Michael L. Ross, "The Big Oil Change: A Closer Look at the Haber–Menaldo Analysis," *Comparative Political Studies* 47, no. 7 (June 2014): 993–1021, https://doi.org/10.1177/0010414013488557.

[16] Andersen and Ross, 995.

[17] Andersen and Ross, 997.

[18] Wright, Frantz, and Geddes, "Oil and Autocratic Regime Survival."

[19] Ross, "What Have We Learned about the Resource Curse?," 247.

government institutions, the effectiveness of governance, the rule of law, and economic development.[20] Similar to the first division, the findings of the research falling under this category have varied to some extent. However, in general, there is a consensus as to the negative impact to being a petro-state on the quality of institutional development and a direct relationship with increased political corruption.

As in the research on regime resiliency, much of the corruption research focuses on state responses to a windfall or price shock coming from petroleum. One finding in this line of work shows that petroleum-rent windfalls have a slight positive impact on a state or region's public goods expenditure. However, the provisions and social transfers increase less than should be expected with money lost to the political system.[21] In similar research, Andersen et al. studied the transformation of oil wealth into offshore assets, hidden by the political elite from their constituents; their research found that when political institutions are weak, exogenous shocks result in increased instances of hidden wealth.[22]

A more nuanced look at the impact of institutional quality illustrates natural resources rents are abused when the institutions in a country are more "grabber-friendly," showing that resource income does not lead to aggregate population income increase, while states with "producer-friendly" institutions do lead to population income increase Mehlum et al.[23] Mehlum's finding falls in line with Terry Lynn Karl's *The Paradox of Plenty: Oil Booms and Petro-States,* in which she describes the negatively deterministic fate of institutions and economic policies developed by states already reliant on resource extraction before developing democratically.[24] Similar research by Wiens demonstrates

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[20] Ross, "What Have We Learned about the Resource Curse?"

[21] Francesco Caselli and Guy Michaels, "Do Oil Windfalls Improve Living Standards? Evidence from Brazil," *American Economic Journal: Applied Economics* 5, no. 1 (June 2018): 208–38, https://doi.org/10.1257/app.5.1.208.

[22] Jørgen J. Andersen, Niels Johannesen, David Dreyer Lassen, and Elena Paltseva, "Petro Rents, Political Institutions, and Hidden Wealth: Evidence from Offshore Bank Accounts," *Journal of the European Economic Association* 15, no. 4 (June 17, 2015): 818–60, https://doi.org/10.1093/jeea/jvw019.

[23] Halvor Mehlum, Karl Moene, and Ragnar Torvik, "Institutions and the Resource Curse," *The Economic Journal*, 2006, 21.

[24] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997).

that resource-dependent countries with well-developed institutions do not share the same fate as those with weak institutions, showing the resource curse is dependent on institutional quality.[25]

An important note on corruption is to say that an increase in expenditure on public goods does not necessarily mean those institutions are strong or fiscally responsible. If those institutions give a small percent of the windfall income to the citizens in the form of public goods, that technically is an improvement, although the majority of the revenue still falls into the coffers of the political elite, especially in nationalized institutions where there may be no competition and little oversight. It stands to reason, according to the resource curse theory, that an increase in petroleum rent would lead to a slight increase in social goods expense. However, the governments are not incentivized to spend responsibly with windfall incomes and subsequently over-expand.

The severely negative aspects of the resource curse take place later, either when the market price drops, leading to an overextended government unable to fund itself at a lower level of oil-rent income, or when the over-expansion itself has been so drastic that it surpasses the oil-rent from a stable market. It is for these reasons that studies demonstrating democratic increases following windfall incomes do not disprove the resource curse; instead, they support a portion of it.

Dunning offered several insights about the historically democratic organization of welfare expenditure; the funding for social spending comes from petroleum, not from the wealth of the elites.[26] Thus, during periods of political or economic stability, the lower-class majority was taken care of, and the elites were not bothered by the expense, creating two different but not conflicting views of responsibility for welfare expense.[27] This relationship agrees with the research demonstrating some increases in social welfare expense following rent increases. Venezuela's democracy has at various times been both

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[25] David Wiens, "Natural Resources and Institutional Development," *Journal of Theoretical Politics* 26, no. 2 (April 2014): 197–221, https://doi.org/10.1177/0951629813493835.

[26] Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes*. Cambridge Studies in Comparative Politics (Cambridge, New York: Cambridge University Press, 2008).

[27] Dunning, 153

stabilized and de-stabilized by oil-rent, which has continually funded the government.[28] Consequently, this means the Venezuelan institutions have also changed over time.

Looney's work on the "Chavistanomics" restructuring of public goods expenses and organization of critical institutions chronicles the patrimonial structure Chávez put in place.[29] Chávez's administrative actions started with creating a constituent assembly and rewriting the Venezuelan constitution, and then he set his sights on other institutions including the existing labor union.[30] Chávez placed numerous military officials across the government in various institutions, partially because of his lack of political background and expertise. These institutions were then funded with cash flow from petroleum rent, overseen by the respective military officers Chávez placed there.

Chávez's plan of entrusting people with cash created a massive corruption issue, as well as reintroducing a system of patrimonialism into Venezuela's societal fabric, something it had not seen in decades. Researching the resource curse requires moving in and out across a timeline. While Haber and Menaldo, along with others, may argue petroleum resources lead to greater democratization, the timeframe used in their study is such a broad view that it lends no insights to the underlying democratic institutions.[31] Focusing on the developments of institutions and the prevalence of corruption in greater detail may allow further comprehension into democratic development, both internally as well as externally.

The patrimonial network set in place by Chávez remains at the time of writing this thesis. After Chávez's passing, his chosen successor Nicolás Maduro took over the reins just before the significant drop in the petroleum market in 2014. Chávez's guiding policies remained despite the petroleum rents drying up. In the lack of funding, the government has

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[28] Dunning.

[29] Robert Looney, "Chavistanomics," *The Milken Institute Review*, Third Quarter (2007), http://hdl.handle.net/10945/40675.

[30] Looney, 6.

[31] Haber and Menaldo, "Do Natural Resources Fuel Authoritarianism?"

increased the supply of money exponentially, causing runaway hyper-inflation.[32] The government has also garnered stronger ties since 2014 with the governments of both China and Russia, partially in cash for oil loans.[33] The cause of the 2014 petroleum market drop is itself grounds for a wealth of research and information. However, that topic falls outside the confines of this work. It is not necessary to delve into the motivations abroad for the price drop; instead, the focus remains on Venezuela's reactions to it.

While researchers have paid much attention to public goods spending and regime stability following windfall increases, little work has narrowly focused on the backside of an unstable market. Researchers must study government corruption across a broad spectrum; it stands to reason the most detrimental actions and humanitarian crisis-related corruption would be during times of severe political strains for survival, not heydays of windfall rent.

2. Political Corruption

Scholars focusing specifically on political corruption cover a vast range of perspectives with nearly as many different definitions or interpretations of political corruption as there are centuries since the topic was first discussed. Ranging from Aristotle's explanations of what causes each different form of government to enter into "a state of corruption" to modern scholars, scholar's approaches are numerous.[34] Due to the interrelated issues between differing approaches, the method used in this thesis is narrowed to a majority legal and economic tactic, while also considering how these structures can be affected by the elites, as well as what might incentivize this activity.

In the 1960s and 1970s, some researchers such as Friedrich and Nye endeavored to challenge the view of corruption as simply immoral and not requiring further study; arguing

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[32] Robert Looney, "Venezuela's Economic Collapse," *Milken Institute Review*, accessed March 16, 2018, http://www.milkenreview.org/articles/venezuelas-economic-collapse.

[33] Looney.

[34] Aristotle. Politics: A Treatise on Government. Translated by William Ellis A. M. 4th, E-book ed (New York, NY: E. P. Dutton & Co., 1928).

there is a possibility for certain benefits to a state gained through corruption, depending on the different public office positions or cultural factors involved.[35]

Work by Gillespie and Okruhlik sought to differentiate the study of corruption into separate approaches—legal, market, and political—allowing for more precise definitions of corruption incidences and enabling researchers "to systematically study cleanups, that is, government-announced campaigns to curb or eliminate corruption."[36] Johnston added to this work by focusing on institutional reforms to combat corruption, driven by social empowerment through liberalization and better governance.[37]

Rose-Ackerman illuminated that at times public servants may act in the public interest while also benefitting privately.[38] Rose-Ackerman differentiates "bribery, fraud, and self-dealing" to study the underlying incentive structure, demonstrating that corruption can be dissected into components and examined analytically from an economical-political perspective.[39] Within this structure, she uses a definition of corruption as public officials misusing office for individual gain.[40] Although her description is somewhat vague, it allows for enough leeway to include deal making that both benefits the politicians and the public; referencing Friedrich and Nye's contributions from the preceding decades.[41]

As illuminated by Jiang, whether one takes a legalist, moral, or public-office approach to defining corruption, they all carry an issue of who it is that determines what is

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[35] Carl J. Friedrich, "Opposition, and Government, by Violence," *Government and Opposition* 7, no. 01 (January 1972): 3–19, https://doi.org/10.1111/j.1477-7053.1972.tb00830.x.

[36] Kate Gillespie and Gwenn Okruhlik, "The Political Dimensions of Corruption Cleanups: A Framework for Analysis," *Comparative Politics* 24, no. 1 (October 1991): 77, https://doi.org/10.2307/422202, 1.

[37] Michael Johnston, "Fighting Systemic Corruption: Social Foundations for Institutional Reform," *European Journal of Development Research* 10, no. 1 (June 1998): 85, http://libproxy.nps.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=6418870&site=ehost-live&scope=site.

[38] Susan Rose-Ackerman, "Corruption," *The Encyclopedia of Public Choice*, ed. Charles K. Rowley and Friedrich Schneider, 1st ed., 67–76, Dordrecht, The Netherlands: Springer Science, 2004.

[39] Rose-Ackerman, 67.

[40] Rose-Ackerman, 67.

[41] Rose-Ackerman, 67.

acceptable.[42] It is precisely for this reason that organizations such as Transparency International conduct opinion surveys of members of all classes, avoiding the strictly legal or economic approaches to the issue. However, as previously discussed, public opinion surveys are not quantifiable and are subject to influences from a myriad of sources such as the media, propaganda, and others. As explained by Uslaner, there is likely no perfect definition of corruption that meets all criteria.[43] Efforts to change laws or keep laws known to be harmful to the public also illustrate examples of political corruption at the expense of the Venezuelan people. Research that avoids political and legal lines because of the elites' control over them may intentionally avoid the very thing they aim to study.

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

This work endeavors to compile data provided by each of the previously mentioned sources and pull from scholarly literature to systematically analyze increases in Venezuelan political corruption. The thesis also seeks to demonstrate a gap in existing resource curse literature regarding corruption. Specifically, a lack of available petroleum-rent income for Venezuela leads to political elites retaining their power—both financial and political—through alternative, illicit means. One potential explanation for this occurrence is that political elites may elect to supplant their decreasing petroleum rents by undertaking illegal activities such as espousing drug trafficking and money laundering, as well as engaging in other forms of corruption.

Another theory posed by scholars such as McCoy and Myers describe the political shifts in Venezuela as entering a hybrid regime "grey zone" of democracy with the rise of Hugo Chávez in the 1990s. They argue the dissolution of the *Punto Fijo* system was due to the changes in the domestic environment, such as urbanization, unequal distribution of wealth, and economic modernization. Furthermore, they admit these changes were

[42] Guoping Jiang,"Corruption—Theories and Perspectives," *Corruption Control in Post-Reform China*, by Guoping Jiang, 11–29, Singapore: Springer Singapore, 2017, https://doi.org/10.1007/978-981-10-4050-4_2, 16.

[43] Eric M. Uslaner, *Corruption, Inequality, and the Rule of Law: The Bulging Pocket Makes the Easy Life (*Cambridge: Cambridge University Press, 2008,) 9.

influenced by oil, though they believe the differences were still similar to changes occurring elsewhere in Latin America.[44]

A third perspective offered by Katz decries United States' economic intervention in the region through failed imperialist policies—first by pushing import substitution reforms, then later through export-oriented economics to maintain access to South American resources, such as petroleum.[45] Katz argues "the ALBA governments can reach their progressive goals only if they radicalize, confront the ruling classes, and begin to eradicate the primary-export model."[46] Katz's view is an acutely political left from of dependency theory, the idea that developed economies intentionally force Latin American countries to focus on the export of base good commodities. Dependency theory is excellent at explaining events that have happened but fails to grant enough political agency to the current Latin American governments.

Another explanation for Venezuela's possible political corruption development is to focus specifically on political overexpansion. Two experts who have focused more explicitly on this subject are Kennedy and Snyder. Kennedy's contribution in *The Rise and Fall of Great Powers* was to illuminate the decline caused by economic overstretch.[47] While Venezuela is not considered a great power by most scholars, its relative economic might compared to much of the rest of South America in previous decades could demonstrate otherwise.

Snyder's "Myths of Empire" focused on three possible explanations for over expansion of an empire or state, the third of which was domestic issues caused by "cartelized political systems."[48] In these systems the "power assets—including material

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[44] Jennifer L McCoy and David J. Myers, *The Unraveling of Representative Democracy in Venezuela* (Baltimore, MD: Johns Hopkins University Press, 2008), http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=3318353, 263.

[45] Claudio Katz, "Dualities of Latin America," Ed. Marjorie Woodford Bray and George Leddy, *Latin American Perspectives* 42, no. 4 (July 2015), 10–42.

[46] Katz, 38.

[47] Paul M. Kennedy, The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000, 1st Vintage Books edition (New York: Vintage Books, 1989).

[48] Jack L. Snyder, *Myths of Empire: Domestic Politics and International Ambition*, Cornell Studies in Security Affairs (Ithaca, NY: Cornell University Press, 1991), 31.

resources, organizational strength, and information—are concentrated in the hands of parochial groups" who can collectively "logroll" to ensure their interests are met within the political sphere, inclining the entire state apparatus toward overexpansion.[49] Neither Kennedy nor Snyder based their descriptions of overexpansion on resource curse theory. However, the arguments they both pose can easily be related to the resource curse depending on one's interpretation of the state's predisposition toward a hyper-focus on windfall rents to fund government spending.

When the Venezuelan people elected Chávez, he sought to control the economy using a system he already knew, the military, by forming a web with loyal lieutenants across Venezuela's critical infrastructure and economic activities. Uneducated in other forms of diplomacy, Chávez used a centralized and patrimonial structure to instill control over Venezuela's economy. During Chávez's time in office, the incentives driving his actions led him to increase control of Venezuela's energy sector to benefit financially from the country's easily largest earner. During troubled moments in his administration, this political structure allowed him to stay in power. Maduro later adopted the lesson of using politically corrupt centralization to maintain control. Maduro has increasingly used various forms of political corruption to remain in office following the 2014 petroleum market crash, mainly by spreading the patrimonial structure across more of Venezuela's government institutions and civic organizations. Rather than reassess policy decisions, the Venezuelan politicians have doubled-down on illicit means to control the economy, bankrupt government institutions, and derail the political opposition, to stay in power.

E. RESEARCH DESIGN

This research makes use of available databases such as the Index of Public Integrity, the Bertelsmann Index and the World Bank World Governance Indicators data, as well as scholarly literature on the resource curse and Dutch disease to assess the levels of political corruption following periods of petroleum-rent drop-offs in Venezuela. Previous studies on the resource curse effects in Venezuela, as well as elsewhere, typically rely on large-

[49] Snyder, 31–32.

scale cross-regional data sets. This study seeks to diverge from that approach by focusing more narrowly on Venezuela alone.

Confining the study to Venezuela focuses the research to better understand the political situation in-country, rather than looking for broad multi-national trends. It is the opinion of this researcher that a focused study of petroleum's influence on politics in Venezuela may lend more insight into understanding how the institutions and incentives of political elites shift, potentially leading to policy recommendations not gained through broad strokes research. This approach also requires understanding the drivers of corruption, specifically as they relate to politics in Venezuela.

It seems to be no secret that political corruption has risen in Venezuela. This thesis joins the conversation by analyzing the political institutions, elite incentives, petroleum industry–civilian relationship, and incidences of corruption, to see how the occurrences have changed. What has driven a transformation in corruption—was it politicians wanting to stay in power?

Measuring corruption is hindered by numerous obstacles. Those who study governments cannot always rely on scandals like the Brazilian Odebrecht Scandal to expose new information. Those who perpetuate corrupt behavior use any means to conceal evidence of any wrongdoing. An organization such as Transparency International can be an important tool to get around this hurdle and is, in fact, useful, as it illustrates how people within a society feel about their government. Perception-based data, however, lack the structural integrity of hard facts or dollar amounts.

Transparency International recently published an article covering government transparency and bribery in Latin America, concluding that corruption has increased in recent years.[50] This work supports the research question pursued by the thesis, as the article explicitly states that 87% of those polled in Venezuela believe corruption is on the rise in

[50] Coralie Pring, *People and Corruption: Latin America and the Caribbean*. Transparency International, 2017, https://www.transparency.org/whatwedo/publication/global_corruption_barometer_people_and_corruption_latin_america_and_the_car.

their country.[51] However, the survey cannot account for extraneous factors such as press coverage of the recent Odebrecht scandal allegations between President Maduro and the Odebrecht company.[52] Public perception is open to all nature of influences. Unveiling a scandal can make significant advances against corruption but in itself does not necessarily mark an increase in corruption because it does not mean there were no other previously undisclosed instances of corrupt dealings.

The Bertelsmann Index (BTI) offers a different way to assess corruption within governments, albeit indirectly. The BTI reports analyze individual components of government accountability and transparency within each of a series of constituent sectors over time. The BTI reports detail countries' levels of civil-political participation, the status of the rule of law, and the stability of democratic institutions. Furthermore, through a series of individual Country Reports published every two years in the case of Venezuela, the BTI project compiles its data into a Transformation Atlas, which allows one to see the changes that have taken place over time.[53]

Mungiu-Pippidi and Dadašov also employ an indirect approach to measuring corruption based on the "comprehensive theory of governance" in creating their Index of Public Integrity (IPI).[54] Their work focuses on the institutional frameworks inherent in democracy relating to public-sector integrity. The IPI, similar to the BTI reports and BTI Transformation Atlas, allows for systematic evaluation of political corruption within state governments, although again in an indirect fashion. Systematic work contributes to the sense of continuity of data, as well as externalization from one region to another using a

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[51] Pring, 10.

[52] Alexandra Ulmer, "Venezuela Ex-Prosecutor Gives U.S. Evidence on Maduro Officials," *Reuters*, October 13, 2017, https://www.reuters.com/article/us-venezuela-politics-usa/venezuela-ex-prosecutor-gives-u-s-evidence-on-maduro-officials-idUSKBN1CI269.

[53] Bertelsmann-Stiftung, "Transformation Atlas 2018," BTI Transformation Atlas: Venezuela 2018, accessed May 18, 2018. https://atlas.bti-project.org/share.php?1*2018*CV:CTC:SELVEN*CAT*VEN*REG:TAB.

[54] Alina Mungiu-Pippidi and Ramin Dadašov, "Measuring Control of Corruption by a New Index of Public Integrity," *European Journal on Criminal Policy and Research* 22, no. 3 (September 2016): 415–38, https://doi.org/10.1007/s10610-016-9324-z.

methodical foundation.[55] The IPI specifically assesses a country's scores across six categories: Judicial Independence, Administrative Burden, Trade Openness, Budget Transparency, E-Citizenship ("electronic empowerment of citizens"), and Freedom of the Press.[56] The principal issue with data from the IPI set is its recent creation, meaning there is very limited historical information.

At the time of writing this thesis, Venezuela's economy is in a state of disaster. According to estimates of the 2017 GDP growth, Venezuela's economy fell 12% in 2017, to a ranking of 221 out of 222 for global GDP growth rates, ahead only of the Gaza Strip.[57] Rather than narrowly focusing on current events, however, this work builds upon the scholarly work of previous authors who studied the relationship between the petroleum rent economies and democratic systems of governance.

F. THESIS OUTLINE

Following a recommendation made by Liou and Musgrave, this thesis represents a qualitative study of Venezuelan political corruption, rather than a cross-national quantitative approach.[58] Furthermore, the research aims to supplement contemporary resource curse literature by filling a gap through the study at the point of market decline, rather than exclusively during windfall incomes.

The thesis consists of six chapters. Chapter I details the research question asked, the significance of that question, and summarized relevant literature on the topic. Chapter II investigates the political and economic factors behind the financial collapse after the 2014 market downturn. Chapter III describes the energy crisis and its relation to the corruption of Venezuela's resource wealth management, as well as details the connection to the humanitarian crisis. Chapter IV uses data derived from various sources to analyze

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[55] Mungiu-Pippidi and Dadašovm, "Measuring Control of Corruption by a New Index of Public Integrity."

[56] Mungiu-Pippidi and Dadašovm, 8.

[57] Central Intelligence Agency, "The World Factbook" Country Comparison: GDP—Real Growth Rate, accessed February 15, 2018, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2003rank.html#ve.

[58] Liou and Musgrave, "Refining the Oil Curse," 1604.

political corruption changes within the Venezuelan government regarding profit and survival. Chapter V concludes the work with summarizes findings and related recommendations.

This thesis investigates the development of political corruption in the state of Venezuela, approaching the subject through the lens of resource curse literature. Petroleum curse literature examines the core incentives of resource-dependent countries; as such this work is one of the political motives, exploring how those incentives have developed in Venezuela in recent history. Though much of the research and findings relate to current events, every effort is made to avoid a simple chronicling of events, and instead to investigate the drivers behind shifting incentives.

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II. A SOCIALIST ECONOMIC DECLINE?

Recent upheaval in Venezuela allows critics to make haphazard connections between the socialist government and the weak economic prospects in the country following the 2014 oil market crash. This line of argument holds Hugo Chávez and Nicolás Maduro responsible for the poor economic policies of the political left turn. However, it is not sufficient nor altogether accurate to comprehensively blame socialism for the factors that lead to Venezuela's political and economic crises. The argument contains several truths. Following Chávez's rise to power, he actively undermined the ability to develop new legitimate business possibilities. Chávez made private business operations challenging through taxation and intentionally outdated laws. However, blaming socialism ignores the preexisting economic and political conditions in Venezuela, as well as the public sentiment directed against the government that democratically carried Chávez into office.

Chapter II explores the political background in Venezuela, along with the economic conditions both before and after the political shift to the left. This chapter demonstrates that absent a left turn, the financial situation in Venezuela was still significantly challenging because of a dependence on petroleum, leaving the nation subject to market prices regardless of political orientation. Decades of resource rent-dependence and Dutch disease, combined with inadequate economic policies made self-resurrection after the 2014 petroleum market crash a challenging prospect.

A. ECONOMIC THEORY

The definition of resource curse theory provided in the first chapter broadly points to detrimental results across a country's economic, social, and/or political realms. Adding Karl's understanding of the resource curse, the actual cause of Venezuela's hyperinflation and democratic regression is not the market decline itself, but rather it is the result of deterministic institutions and economic policies formed prior to the drop in oil prices.[59] This distinction is particularly significant for two reasons. First, the argument offers a

[59] Karl, The Paradox of Plenty, 26.

richer explanatory power of Venezuela's case of the resource curse by exploring the underlying incentives rather than merely pointing to Venezuela's reliance on petroleum export and the market drop. The second reason is that influences behind Venezuela's downward spiral arguably go back decades, not just to the 2014 market crash, or to Chávez's rise to power in 1998. Furthermore, these roots of the economic breakdown are present across the country's institutions, not narrowly confined to the energy or petroleum sector. Additionally, Karl argued the influence of rent-seeking on a developing country's institutions becomes almost irreversible due to the structures put in place.

Another theory often used in correlation with Venezuela, mainly because of the petroleum extraction, is the Dutch disease. When a nation has one particular sector of its economy (petroleum) that suddenly earns vast wealth, it drives up the currency value, causes inflation, and results in a shift away from other sectors (agriculture, or manufacturing). Foreign currency and goods are then imported to fill the abandoned market areas. The money earned from the lucrative industry (petroleum) is then spent in sectors now run by outside investments, and on inflation, driving currency value down. The country is left with a dependence on foreign markets and decreasing currency values, effectively spending the newfound petroleum wealth abroad and consequently damaging the domestic economy long-term.[60]

The Dutch disease argument seems a compelling theory to describe the withering of Venezuela's domestic economy. With such massive petroleum extraction sector growth, oil export quickly overshadowed other portions of Venezuela's economy. The local economy at this point was relatively small and mainly geared toward the upper class. However, the Dutch disease does not explain why, when the oil price plummets, other sectors do not eventually bounce back and take up some of the slack if the petroleum market is continually depressed. Additionally, the Dutch disease does not cover the government's time horizon in policy making or specific actions like reverting to outdated patent laws, ill-structured for today's modern era, agrarian reclamation efforts or Venezuela's

[60] Investopedia, "Dutch Disease," September 29, 2005, https://www.investopedia.com/terms/d/dutchdisease.asp.

Hydrocarbon Law. These critiques are not to say the Dutch disease is not a significant factor in Venezuela; instead, extraneous influences not covered under the theory drastically magnified the malady.

B. PETROLEUM-BASED ECONOMY

Venezuela's economy has an acute reliance on petroleum export. Venezuela's export revenue from petroleum fell more than $50 billion (in 2016 dollars) between 2011 and 2016.[61] Petroleum embodied more than 80% of Venezuela's exports, nearly 70% of which was crude, the remainder refined, totaling more than $21 billion in trade.[62] In 2017, Venezuela's total economy continued to contract, nearing 9%.[63] Chief among the reasons for the decline is the stagnating production within the country. This problem is compounded by a domestic energy crisis, as well as some U.S. refineries reporting quality issues with Venezuelan crude, consequently pushing the refineries to reduce or stop purchasing Venezuelan oil.[64]

At the time that the Venezuelan economy most desperately needs the cash flow from oil production and export, it is less and less able to capitalize on its national resource wealth. Despite the 2016 uptick in petroleum prices, Venezuelan oil production continues to decline due to poor maintenance, lack of workers, falling capacity, and other matters expounded upon in Chapter III.[65] Simultaneously, the deepening economic crisis in Venezuela only increases the incentive for politicians to harness petroleum rents somehow, ever-sharpening the resource curse's hold on the country.

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[61] Asmeret Asghedom, "Country Analysis Brief: Venezuela" (Washington, DC: U.S. Energy Information Administration, June 21, 2018), https://www.eia.gov/beta/international/analysis_includes/countries_long/Venezuela/archive/pdf/venezuela_2018.pdf, 1.

[62] The Observatory for Economic Complexity, "OEC—Venezuela (VEN) Exports, Imports, and Trade Partners."

[63] Asghedom, "Country Analysis Brief: Venezuela," 1.

[64] Asghedom, 2.

[65] Igor Hernández and Francisco Monaldi, "Weathering Collapse: An Assessment of the Financial and Operational Situation of the Venezuelan Oil Industry," *Harvard University*, Center for International Development at Harvard University, no. 327 (November 2016), https://EconPapers.repec.org/RePEc:cid:wpfacu:327.

C. VENEZUELAN POLITICAL ECONOMY

Beginning in the 1920s, the sheer might of the "petroleum-based technological imperium" overwhelmed Venezuela's domestic and international economic bureaucracy.[66] The exploration and capitalization of petroleum in the region catapulted a relatively unsophisticated military dictatorship into a liberal democracy in just over a generation.[67] Venezuelans experimented with democracy, initially placing Romulo Betancourt in office and subsequently electing Rómulo Gallegos. However, Gallegos would not serve as president, due to a coup led by Pérez Jiménez and others. What followed was a military controlled administration with the first civilian president's assassination and the subsequent merely a puppet for the junta. Eventually, Pérez Jiménez would himself serve as president before Venezuela rose out of dictatorship following another coup in 1958 and several decades of a democratic political structure.[68]

Dunning distilled a critical lesson of Venezuelan politics during the approximately 40 years preceding Hugo Chávez's first election in 1998, starting in the 1950s with Pérez Jiménez, that carries through to the modern day.[69] Dissection of Pérez Jiménez's military dictatorship and the coup that removed him are primarily outside the focus of this thesis; however, the relevant component is that a crucial method Jiménez used to gain public support was to embark on large-scale social welfare projects using channeled petroleum funds. This method of gaining public support would shift back and forth to some degree in the successive democratic administrations. However, politicians' reliance on petroleum funds for welfare expense never wavered.

Despite Venezuela's democratic governance, the organization of social welfare expense continued to be funded by petroleum, rather than through taxation. Politicians spent oil-rents on education and public health. They also used oil funds to quell unrest

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[66] David J. Myers, "Venezuela: The Stressing of Distributive Justice," in *Latin American Politics and Development.* ed. by Howard Wiarda and Harvey Kline. 227–269. 4. ed. (Boulder, CO: Westview Press, 1996), 235.

[67] Myers, 234-235.

[68] Myers, 235-236.

[69] Dunning, *Crude Democracy*.

between social classes, appeasing the elites' desire to minimize redistribution taxation, while simultaneously funding small-scale agrarian reform and welfare sector subsidies and direct finance.[70] This relationship between petroleum prices and public expenses was well established long before Chávez's rise to power. The connection means those dependent on government welfare expenses were as much beholden to the petroleum market as they were to their government. The funding relationship consequently signifies that Venezuela's wealthy elites were never responsible for funding social funding themselves, instead, they left it up to the market. One method of attempting to regulate this market that at the time was predominantly foreign controlled was the creation of the Organization of Petroleum Exporting Countries (OPEC).

One could argue that the Venezuelan government's use of petroleum rent to fund social welfare-type expenses perfectly fits the description Karl offered when describing poor economic policies made by resource (petroleum) rent-dependent states, with inadequately developed institutions structured around resource extraction.[71] Looking at Venezuela specifically, the country did not have a long-standing history of democracy before the windfall strikes in the early 1900s. Instead, Venezuela had a military junta, and only later emerged democratically.

Venezuela's democratization superficially fits Haber and Menaldo's conclusion that the presence of oil wealth may increase democratization.[72] However, the study merely argues past Terry Lynn Karl's statement. Rather than actually assessing the resource curse as is described, the research inadequately measures the Venezuelan democracy.

Haber and Menaldo's work used two measures for governance, one a simple binary value of democracy or authoritarianism, and the other a grade of what they termed the polity score.[73] This polity score was "an index of the competitiveness of political participation, the openness and competitiveness of executive recruitment, and the

[70] Dunning, 165.

[71] Karl, The Paradox of Plenty.

[72] Haber and Menaldo, "Do Natural Resources Fuel Authoritarianism?"

[73] Haber and Menaldo.

constraints on the chief executive."[74] Compelling as this polity measure may seem, the study does not include an assessment of economic policy decisions, or particularly relevant to this case, a look at the sources of social welfare type expenses. Consequently, Karl's perspective on the resource curse is not challenged by Haber and Menaldo's work as they failed to assess the institutions or their policies and only measured their existence.

When developed countries (DC) and international organizations such as the World Bank and International Monetary Fund (IMF) transitioned from asserting that the Import Substitutional Industrialization model (ISI) was the key to developing less developed countries (LDC), to the more neoliberally-influenced Export-Oriented Industrialization (EOI), much of Latin America failed to see the potential advancements.[75] However, as Katz demonstrated, DCs often benefit disproportionately from the expanded trade and cheaper goods that LDCs bring to the market.[76]

Katz refers to the issue that the commodities for which Latin American countries have a comparative advantage internationally are base, unrefined goods, such as metal ores or petroleum; this argument is called the Dependency Theory. While some countries export automobiles, computers, and other high value-added products or services, Latin American countries sell minerals that other countries often refine elsewhere, not capitalizing on the processed form or its shipping.

What Katz omitted is that for EOI to be most effective it requires a significant amount of protective governance and a hybridization of different economic practices. Venezuela has experimented with both ISI and the neoliberal Washington Consensus in previous decades. Neither of these models proved adaptive enough to maintain economic prosperity for the state in the long-run. More importantly, however, the country never conducted ISI or EOI as economists suggested. Venezuela and others partially experimented with neo-liberal trade theories but only adopted portions of it, leaving

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[74] Haber and Menaldo, 4.

[75] John Rapley, *Understanding Development: Theory and Practice in the Third World*, 3rd ed. (Boulder, CO: Lynne Rienner Publishers, 2007).

[76] Katz, "Dualities of Latin America."

taxation reform and infrastructure investment off the table.[77] Dependency theory goes a long way toward explaining problems in Venezuela, as well as other Latin American countries. However, Katz fails to grant the Latin American politicians any credence in solving their own problems, besides political radicalization. Perhaps Katz would be correct if the Bolivarian Revolution were genuine; however, every evidence is to the contrary in terms of benefiting the Venezuelan people.[78]

What economists call the four Asian Tigers – Hong Kong, Singapore, Taiwan, and South Korea – provide an example of more successful economic and political development through hybrid systems of governmental support for the domestic economy and expanding international trade.[79] For Export-Oriented Industrialization (EOI) to be successful, these states had to find ways of choosing competitive businesses and protecting them, however, not to the extent that would take place in the ISI form of development, or to the degree typically used in Latin American countries.[80] These governments built their respective industries with the intention of moving goods to the global market and helped them along the way through infant industry model (IIM) practices.[81] It is important to note that none of the four Asian Tigers is particularly known for local mineral or petroleum resources, though Singapore does have a significant refining capability. These countries were forced to look outside their borders to develop their economies.

While Venezuela has exported petroleum internationally, the country's ability to deliver finished or refined commodities has only decreased in the previous decades. By relying narrowly on the rent of an export commodity that has undertaken little to no processing, the majority of Venezuelans are entirely at the whim of the global market. The price of a good that requires intensive processing elsewhere is at the very lowest level of the value-added process, aside from when it is still in the ground. What's more, the

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[77] Beatriz Armendariz and Felipe B. Larraín, *The Economics of Contemporary Latin America* (Cambridge, MA: MIT Press, 2017).

[78] Bertelsmann-Stiftung, "Transformation Atlas 2018," 36.

[79] Rapley, *Understanding Development.*

[80] Armendariz and Larraín, *The Economics of Contemporary Latin America,* 80.

[81] Rapley, *Understanding Development,* 139.

Venezuelan petroleum industry continues to spiral downward through lack of investment, workers, and maintenance. The country resorted to importing crude petroleum to supplement to ailing trade. In 2016 the country with the largest oil reserves imported $1.77 billion worth of refined petroleum.[82]

Before Venezuela can successfully undertake EOI aside from petroleum export, however, numerous things would need to take place. First, EOI requires foreign direct investment (FDI), which would be unlikely in the current climate. Second, numerous other obstacles exist, not the least of which is the government pressure against any domestic or international market economic activity influenced by IMF or World Bank organizations taking place. Venezuela would need to overhaul its Intellectual Property Rights (IPR) code. As part of Chávez's neopatrimonialism structure, he reverted to a "1955 law [that] does not provide protections consistent with current international norms."[83] Despite having joined the World Intellectual Property Organization (WIPO) in 1984, Venezuela is currently one of the most challenging countries in the world in which to establish a copyright or patent.[84]

Socialistic business practices and import substitution versus export orientation are currently low on the list of priorities for Venezuela, however. More pressing factors dampening economic possibilities include, but are not limited to, political corruption, authoritarian government repression, and an ongoing humanitarian crisis spilling across borders into the neighboring region. With such dark clouds hanging over prospects in the country, it is imperative to ask, how did the country get to this state? Additionally, by focusing on what is needed to right the ailing ship, one misses the motivation behind the so-called Bolivarian Revolution. As stated by Katz, politicians undertook these rebellious endeavors against the international system to affect "the social relations of power and

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[82] Paula Rincon, "How Venezuela Has Resorted to Importing Oil as its Core Industry Faces Collapse," *The Independent*, April 16, 2018, http://www.independent.co.uk/news/world/americas/venezuela-oil-imports-economy-industry-heavy-refining-efficiency-a8307161.html.

[83] International Trade Administration, "Venezuela—Protecting Intellectual Property," United States Department of Commerce, Export.Gov, accessed February 14, 2018, https://www.export.gov/article?id=Venezuela-Protecting-Intellectual-Property.

[84] World Intellectual Property Organization, "Venezuela (Bolivarian Republic of)," accessed February 16, 2018, https://wipolex.wipo.int/en/legislation/profile/VE.

[limit] the aggression that big capital had initiated with the dictatorships and bloody wars to destroy the heroic deeds inaugurated by the Cuban Revolution."[85] The politicians must address the underlying poverty and inequality before lasting development will take place.

As previously mentioned, many roots of the downturn lay in the framework already planted by Chávez's predecessors. The three administrations that followed the ousting of Pérez Jiménez, those of Betancourt, Leoni, and Caldera, were marked with the legitimacy of the state by reintroducing the private sector, balancing finances and increasing the scope of public goods delivery.[86] However, a crucial lesson regarding this period is that these public interest ventures were undertaken using profits from oil. The political decisionmakers appeared to use a longer time horizon for policy-making than is evident in later administrations. Presidents like Betancourt and later Caldera endeavored to draw down their country's dependence on the market and the United States, as well as to increase their domestic market capacity, but that never happened, and the reliance on petroleum, never changed.[87]

These early democratic administrations promoted social reform through democracy rather than revolution, rivaling the communist influence from Cuba, which at times came to violent opposition.[88] The model Venezuela undertook during this period was the ISI method of economic development.[89] The results of ISI were disappointing, and the Venezuelan economy remained heavily concentrated on petroleum export, beholden to market fluctuation. Consequently, the Venezuelan politicians only halfheartedly attempted ISI policies.

Making the economy more unstable during the 1970s and 1980s, many Venezuelans saw interstate cooperation with neighbors as economically dangerous due to

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[85] Katz, "Dualities of Latin America," 29.

[86] Myers, "Venezuela: The Stressing of Distributive Justice."

[87] Myers, 237.

[88] Brian Loveman, *No Higher Law: American Foreign Policy and the Western Hemisphere Since 1776* (Chapel Hill, NC: University of North Carolina Press, 2010), 291.

[89] Armendariz and Larraín, *The Economics of Contemporary Latin America*, 149.

labor in competing markets being cheaper, potentially leading to domestic inflation.[90] Despite opposition, Caldera convinced Congress to approve inter-state trade relations with Colombia, Ecuador, Peru, and Bolivia, mainly to rival the emerging competition from Brazil's expanding economy, as well as in response to diminishing returns of the ISI model.[91]

Following Caldera's term, President Pérez's first time in office saw massive petroleum revenue, which, he used to invest in long-term projects while continuing to ignore the idea of diversifying the state's income. Furthermore, with the windfall-type income flooding in, he chose to nationalize both the petroleum and iron industries, as well as created several other state institutions.[92] In classic rentier state fashion, Pérez's successor, Herrera, inherited massive expenses for these large investments during an unpredictable time for oil prices market. When petroleum prices did rise, Venezuela was already teetering on the verge of needing to implement austerity measures, a neoliberal-influenced means to cover expenses, Herrera was unprepared and therefore unable to capitalize.[93] What followed were OPEC quotas controlling Venezuelan production, a massive deficit and a debt crisis like the rest of Latin America during the 1980s.[94]

During the 1980s and 1990s, oil prices were significantly lower than they had been throughout the 1970s.[95] The market drop, political strain with other OPEC leaders, and stagnation across Latin America caused by faltering ISI practices forced Herrera's successors, Lusinchi and Pérez, to undertake financial restructuring in favor of more neoliberalist theories. During Lusinchi's term, he drew down on foreign capital reserves, cut state spending across numerous industries and attempted to regain balance, though significantly devaluing the bolivar in the process. When Pérez returned to office, he quickly

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[90] Myers, "Venezuela: The Stressing of Distributive Justice," 237.

[91] Myers, 237.

[92] Myers, 237–238.

[93] Myers, 238.

[94] Myers, 239.

[95] "Crude Oil Prices—70 Year Historical Chart," Macrotrends.

made it clear to the public that they were running a massive deficit and that domestic foodstuffs were being kept artificially and unsustainably low, due to inflation.

In Pérez's first attempt to address the economic strains, the austerity measures led to rioting that resulted in the deaths of over 300 people nationwide from panic and violence in the streets.[96] Pérez dramatically reorganized public goods expenditure, slashed trade barriers by joining General Agreement on Tariffs and Trade (GATT), made Venezuela a more accessible target for FDI, and even privatized before selling many of the national infrastructure industries of his predecessors, including the national airline and communication networks and much of the domestic banking industry.[97] Despite Pérez's moves to balance the budget, the Venezuelan economy embarked on a series of peaks and valleys over the following years. Inflation in Venezuela fluctuated rapidly in the late 1980s and early 1990s. However, due to the nationalization of the most significant industries in Venezuela, most citizens did not benefit from increased income and only saw limited purchasing power due to unpredictable inflation. Furthermore, none of these moves addressed the social-expenditure oriented around politicians using oil rents to pay for public goods.

During this period of increased Venezuelan GDP and the citizen disquiet that accompanied what many Venezuelans saw as disproportionate distribution, societal bonds began to erode.[98] Rather than address the contentious dynamics of political order between the elites and the ordinary citizen, however, the politicians sought to streamline oil profits, which they believed was the metric for success. There was a growing divide between the haves and have nots. Junior military officers even lacked the funds to purchase vehicles or maintain housing. The links between junior and senior levels within the military, as well as military-political support, became untenable. The people began to riot, the protests culminated in the 1992 failed coup effort led by Hugo Chávez and a second, deadlier, but ultimately unsuccessful, coup attempt against Pérez.

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[96] Myers, "Venezuela: The Stressing of Distributive Justice," 240.

[97] Myers, 240.

[98] Myers, 241.

Within 15 months of the failed coup, the Venezuelan Supreme Court convinced the Senate to allow President Pérez to face trial for misusing government funds, thus bringing in temporary administrations, followed by Caldera's return to office for a second term.[99] None of these presidents was able to resolve the social divide that had been created and, at the end of Caldera's term, Venezuela elected presidential candidate Hugo Chávez. Despite lacking a clear party ideology during his campaign, Chávez rode a wave of anti-globalization and populist fervor that appealed to the Venezuelan people, offering better wealth distribution, marking Venezuela's political left.[100]

D. VENEZUELA'S LEFT TURN

Venezuela's shift to the political left took place under the label of socialism, yet it also embodied a heavy theme of nationalism. The twenty-first-century Latin American "Radical Left" politicians, as termed by Ellner, idolize national heroes such as Simón Bolívar, who championed the fight to rid Latin American of foreign empires.[101] The radical left turns also carried a strong wave of populism. These politicians found popular support by advocating for increased social expenditures and anti-American rhetoric regarding United States' free-trade agreements, which were characterized as a holdover of the Washington consensus-type neoliberal agenda and espoused by the outgoing conservative politicians.[102]

During Chávez's early time in office, he moved quickly. Within the first two years, he oversaw five separate votes: the first to convoke a constituent assembly for the purpose of rewriting the constitution; a second "to elect members of that assembly; a third to win approval for the charter it produced; a fourth to hold new elections for president, governors and mayors; and fifth, to dismantle the institutions of the existing labor movement."[103] The

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[99] Karl, *The Paradox of Plenty*, 184.

[100] Looney, "Chavistanomics."

[101] Steve Ellner and William Robinson, *Latin America's Radical Left: Challenges and Complexities of Political Power in the Twenty-First Century*, Blue Ridge Summit (Lanham, MD: Rowman & Littlefield Publishers, 2014), http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=1647459, 264.

[102] Ellner and Robinson, 33.

[103] Looney, "Chavistanomics," 6.

members he had chosen were party supporters, whom he also used to enact his economic model, Plan Bolivar 2000. Due to Chávez's lack of political knowledge and established party, he mostly called on military personnel to oversee critical aspects of his social development agenda, which consisted of entrusting mass amounts of cash to military officials without oversight; the purpose was to fund welfare-type centers with the goal of mitigating poverty's hardships rather than further developing opportunities.[104] Furthermore, by using military officers instead of politicians, Chávez was able to create a patrimonial system, with himself at the helm. This system did not rely on efficiency, effectiveness, or political acumen, instead, it created a move toward the centralization of power that eventually enabled Chávez to gain control over Venezuela's economic powerhouse, the petroleum industry.

Both government institutions and the state oil company initially opposed many of Chávez's actions. Chapter III describes how the newly established *colectivos*—government-sponsored gangs—helped Chávez survive a mismanaged coup attempt early in his administration. Despite some opposition, high oil prices and massive social expenditure during Chávez's time in office allowed him to carry enough public favor with his base to stay in power. In his testimony before Congress, Venezuela expert Harold Trinkunas explained how Chávez did not use taxation to fund social welfare projects, instead, Chávez used petroleum export rents similar to previous administrations, in addition to cash-for-oil deals with China[105]

Nicolás Maduro inherited Chávez's neopatrimonial government structure in 2013. Maduro's time in office repeated the same lessons Chávez taught him, consolidating power and invalidating political opposition to manage instability. The petroleum market dive in 2014 caught an over-leveraged Venezuela unprepared for such a significant decline. Maduro increased the money supply 120-fold over the next five years, funding the progression further along the path of centralization, to remain in office.[106] The massive

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[104] Looney, 6.

[105] U.S. Congress, The Venezuela Crisis: The Malicious Influence of State and Criminal Actors before the Committee on Foreign Affairs Subcommittee on the Western Hemisphere, September 13, 2017.

[106] Looney, "Venezuela's Economic Collapse"; Bertelsmann-Stiftung, "Transformation Atlas 2018."

printing helped fuel a runaway inflation rate. The government response was to create a cryptocurrency called PETRO.

The PETRO is, in fact, a "government IOU" that takes the place of a government bond.[107] The Venezuelan government described the PETRO as a backed cryptocurrency, where one PETRO is equal to one barrel of oil. The government supposedly stockpiled the relevant oil barrels in Atapirire; an area demonstrated to possess only dilapidated oil rigs no longer capable of extracting, and no evidence of stored petroleum.[108] The economic crisis also spurred an energy crisis, covered in Chapter III.

During both Chávez's and Maduro's administrations, there exists a seemingly constant flow of anti-imperialist, anti-American propaganda. While the presidents issued a very populist anti-American rhetoric, the petroleum trade between Venezuela and the U.S. remained steady. However, amidst all of the rhetoric, Venezuela's energy policies have driven the industry to its lowest production levels in 70 years, even being forced to increase its importation of petroleum from the U.S.[109] While dependency theorists may argue Venezuela is reliant on foreign markets for most commodities, increasing the amount of petrol imported serves as a clear indication for systemic policy failure in the country with the most proven petroleum reserves on the planet.

Maduro gained reelection for a second term in 2018 despite the country's rampant hyper-inflation and humanitarian crisis. However, the election brought international and domestic condemnation by more than 50 foreign governments and independent observers.[110] The only stronghold of political resistance remaining as of January of 2019 was limited to the National Assembly, which won an opposition majority in 2015.[111] As

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[107] Looney, "Venezuela's Economic Collapse."

[108] Nick Cunningham, "Venezuela's Oil-Backed Petro is an Imaginary Currency," Business Insider, accessed September 6, 2018, https://www.businessinsider.com/venezuelas-oil-backed-petro-is-an-imaginary-currency-2018-9.

[109] Rincon, "How Venezuela Has Resorted to Importing Oil as its Core Industry Faces Collapse."

[110] Harold Trinkunas, "The Venezuelan Opposition's High-Stakes Assault on Maduro," *Foreign Affairs*, January 25, 2019, https://www.foreignaffairs.com/articles/venezuela/2019-01-25/venezuelan-oppositions-high-stakes-assault-maduro.

[111] Trinkunas.

Maduro began his second term in January of 2019, the National Assembly leader, Juan Guaidó, made several public statements denouncing Maduro as illegitimate, leaving the office of president vacant.[112] The National Assembly then officially recognized Guaidó as an interim president, until a legitimately elected president took office.[113] The United States, Canada, and many others quickly recognized the revitalized opposition leader officially, as an attempt to oust Maduro and return the country on a path for resolution.[114] The result is a renewed hope for change and a contested presidency.

Over the previous 10 years, many of the Venezuelan politicians have been the target of economic sanctions levied by the U.S. While the populist rhetoric espoused by the Venezuelan government decried a U.S. economic war against the country, it was not until the end of January in 2019 that the U.S. government levied sanctions against *PdVSA*, making any transactions with the oil company illegal in the U.S.[115] Before that point, the U.S. sanctions were almost entirely targeted economic actions singling out specific individuals in the Venezuelan government, with notable exceptions being the November 2018 Trump-signed sanction that made gold trading with Venezuelan officials illegal, a sanction aimed against the purchase of the PETRO cryptocurrency, and sanctions that restricted Venezuela's access to debt equity markets that had allowed Venezuelan officials the ability to sell debt as a commodity, sometimes receiving kickbacks.[116]

E. ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES

Throughout the previous half-century, the Organization of Petroleum Exporting Countries (OPEC) played a prominent role in how the global petroleum market, developed to the extent that scholars have written numerous books solely about OPEC's history and impact. What is relevant for this work is the role OPEC plays in the international trade of

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[112] Trinkunas.

[113] Trinkunas.

[114] Trinkunas.

[115] Mark Sullivan, "Venezuela: Overview of U.S. Sanctions," CRS Report No. IF10715 (Washington, DC: Congressional Research Service, February 1, 2019), https://crsreports.congress.gov/product/pdf/IF/IF10715, 2

[116] Sullivan, 2.

petroleum, as well as Venezuela's particular involvement in the organization. However, OPEC's role in the Venezuelan crisis as an organization or significant factor is minimal.

Juan Pablo Pérez Alfonzo, one of OPEC's principle founders, once said, "Don't study OPEC… it is boring. Study what oil is doing to Venezuela, what oil is doing to us."[117] According to the OPEC website, "OPEC is a permanent intergovernmental organization of 14 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries."[118] OPEC was formed in 1960 by the governments of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, chiefly in response to the international owned companies (IOC) known as the Seven Sisters that still controlled most of the global petroleum market and consequently oil prices.[119]

OPEC's ability to control the market is impossible to conclusively analyze through the decades, though scholars have long debated OPEC's mastery over prices. However, there is no doubt OPEC severely impacted the market between 1971–1973, when OPEC managed to significantly raise prices in response to the political actions of non-OPEC states during the Yom Kippur or October War.[120] The event was significant because the 1973 oil crisis established the image of OPEC as a successful cartel, though in truth the oil crisis was predominantly due to the domestic U.S. response led by President Nixon's administration.[121]

Critics or members of non-OPEC countries often refer to the organization as a cartel that endeavors to manipulate oil prices in their favor. The actual validity of OPEC's ability to control oil prices has been called into question by some scholars and experts.[122] OPEC's

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[117] Karl, *The Paradox of Plenty*, xv.

[118] Organization of Petroleum Exporting Countries, "OPEC: About Us," 2019, https://www.opec.org/opec_web/en/17.htm.

[119] Bassam Fattouh and Anupama Sen, "The Past, Present, and Future of OPEC," in *Palgrave Handbook of the International Political Economy of Energy*, ed. Thijs Van de Graaf, Benjamin Sovacool, Arunabha Ghosh, Florian Kern, and Michael T. Klare, 73–94, Palgrave Handbooks in IPE (London, England: Palgrave Macmillan, 2016), 74–75.

[120] Fattouh and Sen, 76.

[121] Jeff Colgan, "The Emperor Has No Clothes: The Limits of OPEC in the Global Oil Market," *International Organization* 68, no. 03 (2014): 599–632, https://doi.org/10.1017/S0020818313000489, 614.

[122] Colgan, "The Emperor Has No Clothes."

method of price control is to administer quotas to member states to dictate the quantity of oil produced. However, research shows OPEC countries cheated on their allocated quota 96% of the time between 1982 and 2009.[123] Following the OPEC-Russia agreement to cut production in late 2016, OPEC and Russia have somewhat successfully cooperated to drive oil up in value. Even if OPEC alone has historically been unable to dictate oil prices, still enjoys the global specter as a cartel with the potential to inflict pain across the market to non-OPEC states, should it decide to do so.[124]

The 2014 oil market drop that sparked Venezuela's downward spiral has arguably ended, exemplified by the cooperative response of OPEC and Russia, along with other less prominent producers, who collectively agreed to cut production in December 2016.[125] There have been brief, but significant shifts in the oil market since the cooperation began, perhaps more politically motivated than economic. However, the partnership between Russia and OPEC has been mostly consistent since 2016.[126] So while OPEC may not have had much success in controlling the market for decades, recent data shows its collaboration with Russia may be proving successful as of early 2019.

Despite the December 2018 OPEC and Russian decision to reduce output, the agreement held Venezuela's commitment to production quotas as effectively exempt.[127] All politics or sanctions aside, raising the market price would help the beleaguered Venezuela in the short term, though increased oil prices would do nothing for the lack of Venezuelan oil infrastructure maintenance or dependence on export rents.

Not all of OPEC is on the same playing field. Saudi Arabia is commonly agreed upon to be the most influential country within the group; however, a single state is by

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[123] Thijs Van de Graaf and Aviel Verbruggenlie, "Saving OPEC: How Oil Producers Can Counteract the Global Decline in Demand," *Foreign Affairs*, December 22, 2014, https://www.foreignaffairs.com/print/1071321, 2.

[124] Colgan, "The Emperor Has No Clothes," 627.

[125] Dmitry Zhdannikov, "OPEC, Non-OPEC Agree First Global Oil Pact since 2001," Reuters, accessed October 19, 2018, https://www.reuters.com/article/us-opec-meeting/opec-non-opec-agree-first-global-oil-pact-since-2001-idUSKBN13Z0J8.

[126] Dmitry Zhdannikov, "OPEC, Russia Agree to Slash Oil Output despite Trump Pressure," *Reuters*, December 7, 2018, https://www.reuters.com/article/us-oil-opec-idUSKBN1O60NO.

[127] Zhdannikov.

definitional logic, not a cartel. Yet, the combination of Saudi Arabia and Russia, even if the agreement expands beyond the list of OPEC members, signifies a strong alliance, and increases the possibility of a functioning cartel. Although the questionable success for decades of OPEC's existence begs the question, why did it stick around? If one considers the political benefits of joining OPEC, however, there seem to be several possible explanations for most member states' continual desire to be considered a part of OPEC. In addition to the continual fear of market control, OPEC membership also carries with it the diplomatic representation that is of the approximate equivalence of a state's possession of nuclear arms.[128] Membership within this political club signifies increased diplomatic visibility, recognition, and market power.[129]

Furthermore, the cartel image has worked well for OPEC member state politicians within their own respective countries as well. Venezuelans also experienced the local impact of OPEC's specter when Hugo Chávez claimed credit at home for rising oil prices.[130] Though there is no proof to necessarily support the claim, Chávez was able to capture Venezuelan votes and popularity because the market changed.[131] The one truth that OPEC membership carries throughout the organization's history is a domestic political benefit to being an affiliate.

Some critics argue Saudi Arabia intentionally squeezed the market in 2014 to kill off a struggling Venezuela, thus signaling the culpability of OPEC in Venezuela's downward spiral. However, the threat to Saudi Arabia is not Venezuela; the danger is the growing natural gas fracking industry causing a decline in demand for petroleum. Natural gas is a cleaner, more efficient fuel than oil and therefore negatively impacts demand for petroleum. Saudi Arabia gains far less by pushing Venezuela off a cliff than it does if the U.S. fracking industry was not able to compete against lower oil prices.

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[128] Colgan, "The Emperor Has No Clothes," 618.

[129] Colgan, "The Emperor Has No Clothes."

[130] Colgan, 625.

[131] Colgan, 616.

F. ANALYSIS OF THE POLITICAL ECONOMY

Juan Pablo Pérez Alfonzo was correct in his remarks regarding focusing on OPEC.[132] Concentrating on OPEC diverts one's attention abroad, likely to Saudi Arabia and to some extent Russia. The study of Venezuela's political-economic situation should focus on petroleum at home, where the politicians made domestic political decisions to capitalize on petroleum extraction. If OPEC as a petroleum management function does not reach into Venezuela's politics to regulate the country's oil exportation, being that Venezuela is effectively exempt from the recent quotas, then the question shifts to, who controls Venezuelan oil?[133] The relationship regarding Chávez, Maduro, and *PdVSA*, the Venezuelan national oil company is analyzed at length in Chapter III.

The economic calamity in Venezuela is more of a domestic issue than an OPEC – or Saudi – led push to control the global market in 2014. The oil market drop served as a spark that ignited an already assembled kindling of political and economic factors. As the resource curse theory would predict, the government expansion and overspending, mixed with insufficient future planning both before and after Chávez's and Maduro's administrations led to the economy's fall. The unsound economic policies and failure to diversify its economy precede the Venezuelan left turn by decades. Petroleum was the social welfare funding source already in the 1950s, and that never wavered.

The Venezuelan administration argues that it is the target of an economic war waged by the U.S. However, the evidence shows that sanctions have targeted the government officials themselves, rather than the country as a whole. Furthermore, the sanctions that break that mold only do so to stop illegal tactics used by some Venezuelan officials to hide their activities through gold trading, or receiving kickbacks. These types of activities are not examples of a country with the market odds stacked against its development, as is expressed in dependency theory. Instead, these types of behaviors are instances in which a government increasingly uses corrupt and illegal practices to fund its survival amidst declining petroleum rent.

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[132] Karl, The Paradox of Plenty, xv.

[133] Zhdannikov, "OPEC, Russia Agree to Slash Oil Output despite Trump Pressure."

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III. WHY IS THE ENERGY SECTOR OF THE WORLD'S MOST OIL RICH COUNTRY FAILING?

Chapter II discussed Venezuela's political economy in detail. One of the core tenets from Chapter II is Venezuela's reliance on oil extraction and export throughout the preceding century. With this dependence in mind, it should not be shocking that petroleum extraction is essential to Venezuela's energy sector. What may be of surprise, however, is how vital hydropower is to Venezuela's energy sector. Chapter III focuses on the energy sector, particularly the current energy crisis within Venezuela, relating the matter to the sinking trend of Venezuela's economy. This chapter explores how the relationship between the Venezuelan government and *PdVSA* changed over time, going from a semi-autonomous energy sector, to one that is entirely under the thumb of the Venezuelan politicians, as well as explaining why this is such a significant change in association. This lack of investment and focus on centralized control of profits allows the continuation of the present administration in the face of growing adversity.

The lack of investment in energy infrastructure across both hydropower and petroleum, combined with political corruption and poor economic policies, have coalesced into an energy crisis. When investigating the ailing energy sector, one's predisposition is often to point at the extraction of petroleum as the causal factor behind Venezuela's ailing economy, attributing the decline to Venezuela's over-reliance on the commodity as one of simple economics; with drops in price, naturally comes an economic downturn. However, Venezuela's energy sector troubles are multi-faceted. At this time, Venezuela is undergoing a significant energy crisis, but the affliction is more complicated than mere changes in petroleum prices. Venezuela's energy sector problem is essentially twofold, with one aspect relating to petroleum extraction and refining and the second being Venezuela's reliance on hydropower. Understanding the intricacies of the energy sector problems in Venezuela, encompassing both the hydropower and petroleum portions, lends significant insight into how the country with the largest proved oil reserves in the world

has a failing economy, as well as explains, in part, the developing humanitarian crisis.[134] Furthermore, by investigating the incentives relevant to the capture of petroleum rents, one sees that the current administration benefits from more from controlling Venezuela's economy than it would profit from increasing the efficiency of the country's energy sector.

At the time of writing this thesis, Venezuela is suffering from country-wide energy issues, from electricity blackouts to falling oil production. The questions one asks become; are these issues related? What is causing these problems? More importantly, how is the country that controls the world's largest proven oil reserve failing economically? The media coverage is quick to report the outward migration from Venezuela into the surrounding states of Colombia, Brazil, Trinidad and Tobago, and others. Concurrent with the migrant exodus are reports of widespread famine and violent crime in Venezuelan cities. Additionally, there are numerous reports of drinking water shortages, gang- and military-controlled access to water, and poor water quality. The following explores how these issues are all related to energy concerns. More importantly, this chapter examines the government control over the *PdVSAa* and how Chávez and Maduro coopted Venezuela's almost sole source of income into a personal cashbox, giving themselves control over the Venezuelan economy.

A. THE ROLE OF HYDROPOWER

Venezuela suffers from a self-induced lack of energy diversification. The importance of hydroelectric power to many Latin American countries may seem unimportant to the casual visitor. However, near-sole reliance on hydropower has had profound negative consequences in Latin America, including Venezuela, totaling 66% of its electricity generation in 2015 from hydropower and the remainder from fossil fuels.[135] In 2016, Venezuela produced over 115 billion kilowatt-hours of total electricity, dropping almost 10% from the year before due to mechanical and maintenance issues in electricity

[134] Meredith Kohut and Isayen Herrera, "As Venezuela Collapses, Children Are Dying of Hunger," *The New York Times*, December 17, 2017, sec. World, https://www.nytimes.com/interactive/2017/12/17/world/americas/venezuela-children-starving.html.

[135] Asghedom, "Country Analysis Brief: Venezuela," 19.

facilities.[136] However, the drop in 2016 electricity production was mainly due to the widespread drought caused by an El Niño weather pattern.[137] It is difficult to pin down exact numbers regarding Venezuela's reliance on hydropower because the amount of electricity produced is so highly dependent on weather patterns and maintenance issues. While the amount of hydropower Venezuela's *Corporacíon Eléctrica Nacional (CORPOELEC)* created in 2016 was 66% of national production, it had been higher in previous years.[138] In 2010, the Guri dam alone produced 73% of the country's electricity.[139] The annual percentage of electricity generated by hydropower shifts based on rainfall and dropping capitalization from aging facilities, while fossil fuels and rationing are used to make it through drought-stricken periods.

The most significant problem with hydropower in Venezuela is not total potential, but rather actual electrical generation. In the past, Venezuelan hydropower has been nearly synonymous with the 10-Gigawatt (GW) Guri hydropower dam.[140] In recent years, however, Venezuela has doubled down on hydropower, building additional, albeit significantly smaller dams. The first was the 771-megawatt (MW) hydropower facility known as the Fabricio Ojeda dam finished in 2015, the second is the 2.16 GW Tocoma dam, also known as the Manuel Carlos Piar Project, that is still under construction.[141] However, there is a vast difference between the stated or designed energy capacity, and actual electricity generation. According to the World Energy Council, "Venezuela has the second highest hydropower capacity in South America with an installed capacity of 15,393

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[136] Asghedom, 19.

[137] Andrew Cawthorne, "Drought-Hit Venezuela Waits for Rain," *Reuters*, sec. The Wider Image, Guri, Venezuela, accessed November 15, 2018, https://widerimage.reuters.com/story/drought-hit-venezuela-waits-for-rain.

[138] Asghedom, "Country Analysis Brief: Venezuela," 19.

[139] Sonal Patel, "Venezuela's Power System on Brink of Collapse," *POWER Magazine*, March 1, 2010, http://www.powermag.com/venezuelas-power-system-on-brink-of-collapse/.

[140] Argus, "Widening Blackouts Stifle Venezuela Oil Production," Argus Media, November 1, 2018, https://www.argusmedia.com:443/en/news/1784924-widening-blackouts-stifle-venezuela-oil-production.

[141] World Energy Council, "Hydropower: Venezuela," 2016, https://www.worldenergy.org/data/resources/country/venezuela/hydropower/; Argus, "Widening Blackouts Stifle Venezuela Oil Production."

MW."[142] However, according to an internal energy report in mid-October of 2018, *CORPOELEC*, the state-run electricity company indicated that nearly two-thirds of Venezuela's installed thermal and hydropower electricity "generation capacity was out of service because of damaged equipment and chronic shortages of natural gas and diesel feedstock."[143] Add to these problems the humanitarian crisis, with citizens fleeing the country in droves, and you have declining personnel to maintain or operate equipment.

In addition to the issue of reduced electricity generation, many of the turbines that are still running are near the point of failure, either from critically low water levels or lack of maintenance.[144] Venezuelan politicians have previously shown that their typical response in the face of infrastructure failure is to build more power plants that are tied to the same outdated and failing grid lines, rather than fix or maintain the facilities they already have or install additional grid capacity. In recent years, foreign loan funding heavily influenced this incredibly expensive modus operandi. With new facilities comes more maintenance that does not occur, condemning even new power plants to eventual failure. Over the last few decades, Venezuela built new facilities. However, the system consisting of substations and transmission lines connecting them to cities and refineries was never upgraded or sufficiently maintained. The transmission system now essentially requires a complete rebuild or at least a massive overhaul. According to the October 2018 report, the Guri dam is operating at less than half capacity, with eleven turbines inoperable. Argus Media reported that "*Corpoelec* engineers conservatively calculate the cost of repairing Guri's turbines, completing Tocoma and upgrading the transmission system in a period of five years at more than $10bn."[145]

Reduced electricity generation in Venezuela has numerous downstream effects. Two examples of these effects are the impacts on refrigeration and the availability of drinking water. In the midst of the humanitarian crisis in Venezuela, there is a critical

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[142] World Energy Council, "Hydropower: Venezuela."

[143] Argus, "Widening Blackouts Stifle Venezuela Oil Production."

[144] Argus.

[145] Argus.

shortage of potable water. Caracas, despite its proximity to the sea, is approximately 3,000 feet above sea level. The city's elevation means drinking water is pumped from the lower elevation sources on the coast, using electric pumping facilities.[146] In addition to maintenance related issues, similar to other portions of Venezuela's critical infrastructure, unreliable electricity means Caracas often goes completely without drinking water, combined with constant proper filtration problems.[147] The result is millions of Venezuelans lack access to clean drinking water and are forced to rely on the rain, particularly during dry seasons, when the electricity is at its least reliable causing blackouts and power rationing.

The second humanitarian-related problem stemming from the unreliability of Venezuela's electricity is food refrigeration. While potentially millions of Venezuelans continue to lose weight from malnutrition, food is likely to spoil if it is required to be refrigerated or frozen for prolonged periods. Furthermore, both random and scheduled blackouts affect supermarkets and other storage locations just as often as the individual citizens, potentially ruining food before Venezuelans who are going hungry have the chance to get their hands on it.[148]

A different sort of downstream consequence of unpredictable electricity is the impact on petroleum extraction and refinery facilities. Lack of reliable power to the petroleum processing facilities causes further damage to the economy, lowering the ability for those facilities still functioning to produce either crude or refined petroleum for export. When coupled with the departure of facilities personnel, this likely accounts for the significantly falling production and decreased petroleum quality reported by importing refinery facilities abroad.[149] Furthermore, the country's leadership, both Chávez, and Maduro have blamed poor energy output and lack of clean water on El Niño events and

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[146] David Brennan, "Venezuela's Capital is Running Out of Water as Hospitals Forced to Cancel Operations," *Newsweek*, August 15, 2018, sec. World, https://www.newsweek.com/venezuelas-capital-running-out-water-hospitals-forced-cancel-operations-1074253.

[147] Brennan.

[148] Kohut and Herrera, "As Venezuela Collapses, Children are Dying of Hunger."

[149] Asghedom, "Country Analysis Brief: Venezuela," 4.

sabotage committed by political opponents, despite having no information to support claims of oppositional involvement.[150]

Formally, *Petróleos de Venezuela, S. A.* (*PdVSA)*, claims the unreliable nature of the electric grid has not affected petroleum extraction; however, due to the electrical infrastructure layout and the design of the extraction facilities it is impossible for the statement to be true.[151] Furthermore, the data clearly shows a recent and accelerated decline in overall petroleum production.[152] One must delve into the organizational history and relationship of *PdVSA* to Venezuela's political left to understand why *PdVSA* would issue false information.

B. *PDVSA* AND POLITICS: AN EVENTUAL CO-OPTION

Starting in the 1970s, when Venezuela nationalized the petroleum industry, *PdVSA* has been the central link between Venezuelan petroleum extraction, economy, and politics.[153] *PdVSA* is the central hub around which revolves the rest of Venezuela's economy, oil policy, mineral law, and contractual agreements with international oil companies (IOCs). One cannot study energy issues in the country adequately without delving into *PdVSA* history, practices, and leadership.

Arguably the most critical moment regarding *PdVSA* since the company's nationalization was the election of Hugo Chávez and his actions that quickly followed. As discussed in Chapter II, Chávez's election meant a political left-turn for Venezuela. One of Chávez's first targets in this leftward movement was the Venezuelan NOC. *PdVSA* supported a worker-led general strike against Chávez's attempts to impose control over

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[150] Anthony Boadle, "Chavez Hails Rain during Venezuela Power Crisis," *Reuters*, April 7, 2010, https://uk.reuters.com/article/idINIndia-47525020100408; Sonal Patel, "Venezuela Faces Existential Power Troubles," *POWER Magazine*, June 1, 2016, http://www.powermag.com/venezuela-faces-existential-power-troubles/.

[151] Argus, "Widening Blackouts Stifle Venezuela Oil Production."

[152] Asghedom, "Country Analysis Brief: Venezuela," 7.

[153] Asghedom, 6.

petroleum extraction in 2002 that led to Chávez's brief ousting from the presidency.[154] The strike and subsequent coup d'état attempt were sparked in April of 2002 after Chávez announced on television that he was appointing a partisan board to oversee *PdVSA* operations, as well as firing numerous executives within the company's leadership.[155]

What started as a strike in opposition to Chávez's broadcast and the apparent attempt at centralization of power over the NOC developed into a coup that was briefly successful in ousting Chávez, though loyalist forces ultimately put down the uprising. The event was all the more controversial because the effort resulted in the deaths of nineteen people, involved violence from co-opted criminal organizations loyal to Chávez, and the brief self-appointment of Pedro Carmona as Venezuela's interim-president.[156] Carmona immediately named a portion of his own cabinet as well as "summarily dismissed the National Assembly, the state governors, and municipal leaders (all of them democratically elected); disbanded the Supreme Court; and fired the attorney general and the people's defender," in addition to changing the Bolivarian Republic of Venezuela's name officially back to Venezuela, among other decrees.[157] Carmona had taken the opposition movement too far and effectively bankrupted the coup.

The events of 2002 are significant, not only because of their political complexity, but also because they describe what some call the second nationalization, or re-nationalization of Venezuela's petroleum industry. Despite having been nationalized by politicians in the 1970s following the peak of OPEC's oppositional stance against the western powers, *PdVSA* enjoyed a comparatively high level of autonomy for a NOC. The degree of independence before Hugo Chávez was similar to the Saudi Arabian national oil company, Saudi Aramco.[158] However, Chávez's designation of *PdVSA* executives whom he could trust meant *PdVSA*'s semi-autonomy was gone. *PdVSA* became an arm of the

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[154] Looney, "Chavistanomics," 11; Fernando Coronil, "Venezuela's Wounded Bodies: Nation and Imagination During the 2002 Coup," *NACLA Report on the Americas* 44, no. 1 (January 2011): 33–39. https://doi.org/10.1080/10714839.2011.11725529.

[155] Coronil, "Venezuela's Wounded Bodies," 34.

[156] Coronil, 36; "Venezuela: A Mafia State?," 24.

[157] Coronil, "Venezuela's Wounded Bodies," 36.

[158] Seznac, "Politics of Oil Supply."

Venezuelan state, functioning as the cashbox for the Bolivarian Revolution rather than an internationally competitive oil company. Initially, production of oil by the NOC returned to normal levels.

PdVSA rebounded after the strike/coup attempt, despite Chávez's changes and the actions of those he empowered within the company's leadership, which included fired nearly half of the employees across the country.[159] *PdVSA* benefited from high oil prices before the 2008 global financial crisis and again following the recovery, partially due to OPEC actions, demonstrated by Figure 1. The company became an employment haven, hiring roughly 70,000 additional employees in the following years.[160]

PdVSA's initial successes also allowed Chávez to broker a close lending relationship with the Chinese government.[161] The loans were mainly cash-for-oil contracts and allowed Chávez and later Maduro to fund substantial infrastructure plans. This type of deal was also more easily made with the military appointees that Chávez placed on the company's executive board. This relationship expanded over the years but became a significant concern to China following the 2014 market crash. Cash-for-oil type investments forced the Venezuelans to continue sending oil to China, forgoing potential profit during dire straits that could have paid for other loans. Furthermore, the company's profits were pilfered in the process by Venezuelan political leadership looking for easily attainable cash, leaving little to no money for reinvestment in facility maintenance, or the expansion of production.[162]

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[159] Seznac, 52.

[160] Seznac, 52.

[161] SC. W. H., The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 1.

[162] Seznac, "Politics of Oil Supply," 52–53.

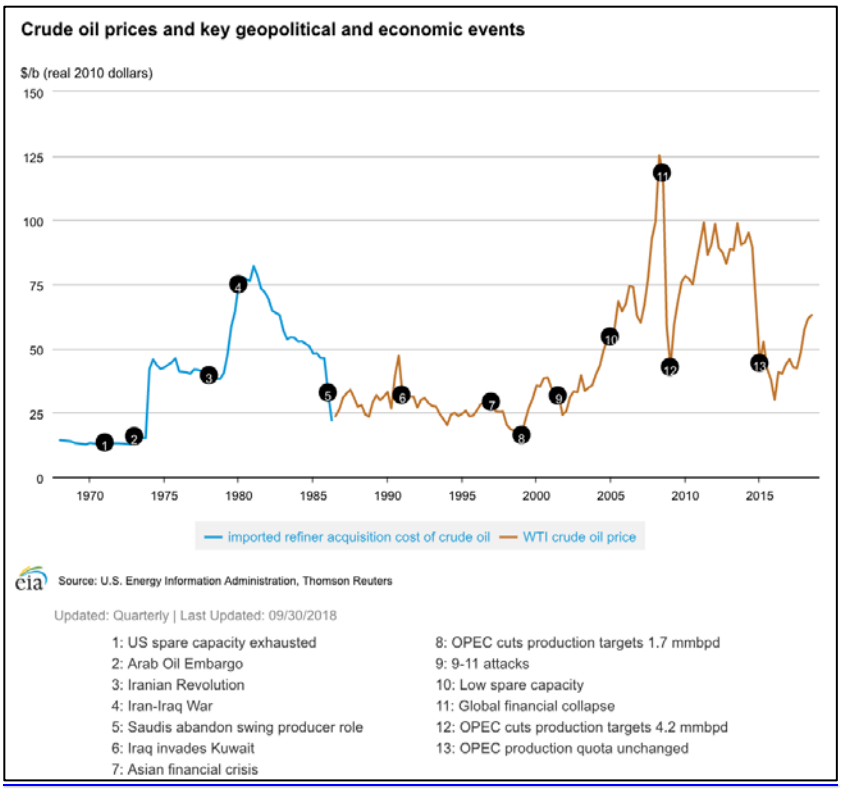

Figure 1. Crude oil prices and key geopolitical and economic events.[163]

Decreasing reinvestment in *PdVSA's* infrastructure following Chávez's takeover of the company's leadership, coupled with the Hydrocarbons Law passed in 2002, carried into Maduro's continuation of Chávez's policies predisposed the Venezuelan economy to spiral downward following the 2014 petroleum price crash depicted in Figure 2.[164] The high cash yields hid the costs of inefficiency from lack of maintenance and reinvestment during the periods of beneficial oil prices that Chávez and Maduro enjoyed. However, soon after Maduro took over for Chávez in 2013, due to Chávez's ailing health, the market shifted drastically in 2014.[165] The sudden loss in oil profits exposed failing infrastructure across the energy sector.

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[163] Source: U.S. Energy Information Administration, "Energy & Financial Markets: World Crude Prices."

[164] Stacy Rentner, "Venezuela: How a Hydrocarbons Law Crippled an Oil Giant," *Hastings International and Comparative Law Review* 27, no. 2 (2004): 17. https://repository.uchastings.edu/hastings_international_comparative_law_review/vol27/iss2/4, 365.

[165] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela."

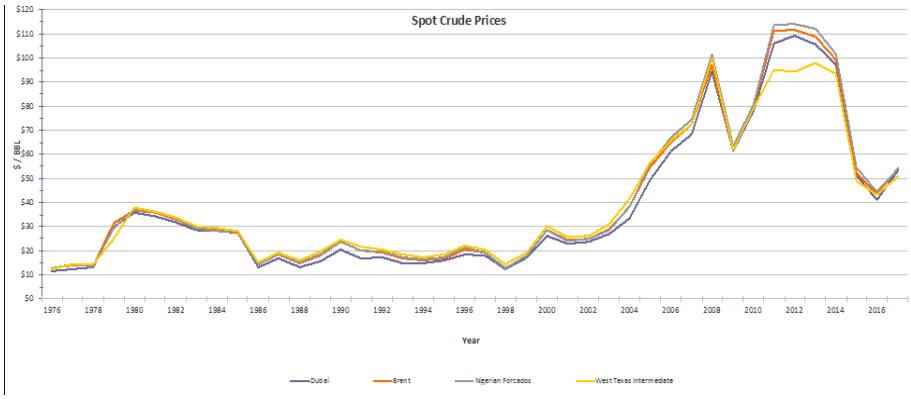

Figure 2. Historical spot crude prices.[166]

More recent developments have shown the number of oil rigs operating in Venezuela has halved due to personnel quitting, continued lack of maintenance, and shortages of payments to IOCs involved in joint ventures.[167] In addition to Venezuela's inability to fully pay the joint venture (JV) participants, data shows that *PdVSA's* capacity for independent operations has also declined significantly since 2010, growing increasingly reliant on the partner companies totaling approximately half of all production in 2017.[168]

C. HARMFUL VENEZUELAN ENERGY POLICIES AND PRACTICES

As Venezuela nationalized its petroleum industry in the 1970s, the law prior to Hugo Chávez's election required any new oil project to include *PdVSA* as a partner. In 2001, however, Chávez passed the *Decreto con Fuerza de Ley Orgánica de Hidrocarburos* (Hydrocarbons law.)[169] Article 22 of the Hydrocarbons law stipulated that joint oil or gas ventures cannot take place without "*PdVSA* having a majority stake."[170] Article 44 of the same law nearly doubled the royalty percentage the government would receive from private investors from 16% to 30%.[171] While OPEC members typically have higher royalty

[166] Source "International Energy Statistics."

[167] Asghedom, "Country Analysis Brief: Venezuela," 3–4.

[168] Asghedom, 7.

[169] Rentner, "Venezuela," 352.

[170] Rentner, 361.

[171] Rentner, 362.

percentages for private companies than non-nationalized oil-producing states, the increase to 30% made Venezuela's royalties the highest in the world, by a large margin.[172] Particularly when coupled with contentious politics, the Hydrocarbons law strongly discouraged future oil production in Venezuela for outside investors.

An additional drawback from the majority requirement is that *PdVSA* lacks the capacity to be a majority stakeholder in every new venture. Even if *PdVSA* was healthy, the country with the largest proven oil reserves has the ability for expansion well beyond what a single company could fund. It is simply unrealistic and illogical to think one company could be responsible for so many potential ventures. The amount of cash required to support more than half of every new project would be an enormous upfront cost. Furthermore, even if *PdVSA* somehow could manage the financial and logistical requirement, the largest stakeholder also shoulders the majority of the risk should the venture prove unsuccessful, or if oil prices crash.

In addition to the largest proven oil reserves, Venezuela also possesses the world's eighth largest proved natural gas reserves, behind only the U.S. in the Western Hemisphere.[173] The natural gas in Venezuela is strongly linked with the petroleum reserves. Venezuela has mostly used this gas for reinjection into the oil wells to improve production numbers, rather than capture it. Though the vast majority of Venezuela's electricity comes from hydropower, approximately half of the portion generated by fossil fuels comes from natural gas.[174] Though Venezuela has enormous reserves of natural gas that the country could use for electricity or export, the Venezuelans have chosen to use it mostly for petroleum extraction. The lack of natural gas use is partly due to the Hydrocarbons law disincentivizing gas capture investments since JVs would pay such exorbitant taxes that there is not enough room for profit. Additionally, *PdVSA* would have to front at least half of the cost of building such facilities and cannot afford to do so financially.

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[172] Rentner, 363.

[173] World Energy Council, "Gas: Venezuela."

[174] World Energy Council.

Another concern regarding natural gas in Venezuela is the heavy use of flaring, rather than reinjection. Flaring is an environmental concern due to the very high greenhouse gas impact. If one looks at a night map showing light around the globe, there is a considerable dot of light in the Northeastern portion of Venezuela; however, this is not Caracas or any other large city, it corresponds to the concentration of oil extraction facilities and their continually flaring gas emissions.[175]

There are a couple of potential explanations for the use of flaring. First, Venezuela's flaring of natural gas is not new, so the declining operation of the plants is not likely to be a single cause. Second, as was previously stated, *PdVSA* and ventures with IOCs have not made significant investments in the infrastructure to capture and contain or burn the natural gas, besides reinjecting it. Therefore, if the standard gas pressure is already attained within a well, the excess would potentially need to be flared, even when the facility is operating as designed. Investment in these facilities could capture excess gases, whether due to excess pressure, already attained operating levels, or decreased production. The facilities could then use the captured gases for generation capacity improvements or export. However, the increased efficiency means little to an administration caught in turmoil. Maduro stands to gain significantly more from control over *PdVSA* than he could achieve by modernizing the industry. As domestic protests embattle Maduro's administration, the further his patrimonial reach extends, the more stable his hold on power. What started as Chávez's motive to control the economy is now a means to control political survival.

D. RELATIONSHIPS ABROAD

Buried underneath the gloomy outlook for *PdVSA*'s economic prospects, are Venezuela's relationships with the foreign governments of Cuba, Russia, China, and others.[176] Mainly, cash-for-oil loans from China–along with Cuban intelligence capability–offered Maduro a lifeline. Russian investments are also a problem, though not as

[175] Stevens, Joshua, "Earth at Night Map," Suomi NPP VIIRS data, NASA's Goddard Space Flight Center, NASA, 2016, https://www.nasa.gov/specials/blackmarble/2016/globalmaps/BlackMarble_2016_3km.jpg.

[176] SC. W. H., The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 5.

significant.[177] These enabling actions allowed the political elites to keep the energy sector's policies static, regardless of the humanitarian crisis taking place.

As disclosed in the previous chapter, Maduro often decries U.S. sanctions as the cause of the Venezuelan economy's problems. These statements, however, are not grounded in fact. The U.S. sanctions have target individuals in the Venezuelan government that used their access to traffic drugs, profit from relationships with terrorist organizations, move gold to circumvent targeted sanctions, and profit from hiding Venezuelan debt in international markets.[178] The U.S. sanctions did not directly affect petroleum trading, Venezuela's almost sole legitimate source of income at the time of this research, until January of 2019.[179]

E. CONCLUSION AND ANALYSIS

Venezuela's energy concerns are man-made and, despite the anti-U.S. rhetoric, predominantly self-induced. The underlying issues in the energy sector date back before Chávez and Maduro. However, they have willfully ignored the evidence showing that action is needed to overhaul the infrastructure, invest in maintenance, and potentially above all, change the irresponsibly restrictive Hydrocarbons law. High oil prices that masked the lack of efficiency demonstrated to politicians that the policies were failing, and the infrastructure needed significant repair; however, following the price drop, corrective action was not taken. One prominent explanation for the lack of correction following the 2014 oil market decline is the co-option of *PdVSA's* that was started by Chávez and continued by Maduro. Furthermore, foreign powers enabled the prolongation of policies known to be failing, despite the obvious economic, energy, and humanitarian crises.

Chávez learned early in his administration that the patrimonial political architecture he established would allow him to remain in office during the turbulence that comes with the instability in the petroleum market. This lesson allowed him to create a framework that

[177] SC. W.H., 8.

[178] Sullivan, "Venezuela: Overview of U.S. Sanctions," 1.

[179] Sullivan, 2.

would later enable Maduro to double down on centralization efforts, particularly when the petroleum profits did not rebound as they had done during Chávez's time in office. As the economic prospects continued looking dim for Venezuela, Maduro increasingly espoused illegal activities and relationships, expanding the patrimonial framework across various *colectivo* organizations, legitimate government institutions, and the military leadership.

An essential lesson from an in-depth analysis of Venezuela's energy sector is the importance of the singular electric grid, mainly run from one hydropower source, the Guri dam. This dam operates as a linchpin in a failing system. Without diversification of energy production from this one source and movement beyond hydropower as the overwhelmingly preferred method of electricity generation, Venezuelan citizens will continue to suffer, particularly during droughts. The unreliable electricity and resulting blackouts, both scheduled and not, contribute to crime in darkened cities, famine, reduced access to clean drinking water, and compromised healthcare in hospitals that cannot keep the lights on or equipment running.[180] However, increasing investment into the energy infrastructure does not help Maduro survive the current political situation in the same way that centralization does; therefore, the issues persist, fueling human suffering.

Despite Venezuela's oil and natural gas reserves, the country's electricity runs almost entirely on hydropower and refuses to capitalize on natural gas. A conversion to burning natural gas for electricity would alleviate drought concerns for power, be relatively environmentally clean, and reduce or eliminate gas flaring. However, the natural gas market does not afford the same opportunities for windfall profits and is therefore used to further petroleum extraction. Though technology for gas extraction has improved in recent years, Venezuela is not able to capitalize on the advancements because of the Hydrocarbons law. Rather than seeking energy independence, or reliable electricity for its citizens, Venezuelan officials continue to focus on the centralization of power at the expense of potential growth in its economy and relief from poverty for its citizens, because that is what allows Maduro to stay in office.

[180] Kohut and Herrera, "As Venezuela Collapses, Children Are Dying of Hunger."

IV. REGIME SURVIVAL AMID CHAOS?

Chapter II demonstrates the significance of the petroleum industry to Venezuela's political economy, while Chapter III illustrates the gravity of the situation that Venezuela faces in its energy crisis, as well as points to political corruption relating to the energy sector. This chapter focuses on how political corruption has evolved as an overarching theme regarding politicians and their responsibilities toward the people of Venezuela. Investigating Venezuelan political corruption has numerous obstacles and even pitfalls, some of which are systemic within the field. Having noted the limitations of studying political corruption in previous chapters, this chapter shifts toward what can be researched. This chapter demonstrates that throughout the Chávez and Maduro administrations, the incentives driving political corruption evolved from money-grabbing toward increasing political centralization and regime survival, with the period surrounding the 2014 petroleum market crash being particularly significant in the shifting motives.

Studying the incentives and government institutions regarding corruption, however, invites a subtle assumption that merits mention. While all study of corruption implies some motivation at work, namely the quest for personal gain, different approaches put more or less weight on the idea of incentives. Researching political corruption in this manner implies the actors are rational and acting on potentially dynamic motives, not basing their decisions on cultural or historical factors. The assumption further infers that the petroleum market crash in 2014 altered the incentive structure, encouraging political actors in Venezuela, which in turn may have impacted their behavior.

This assumption is significant, as researchers like Karl and Wiens have debated the issue of agency vs. structural design concerning the resource curse.[181] This debate centers around the idea that the decisions made during the building of political institutions in developing countries predestined or inclined the political actors toward the incentives around which they built the institutions – petroleum in the case of Venezuela. The argument contends that the political institutions were designed to capitalize on petroleum rents and

[181] Karl, *The Paradox of Plenty*, 10; Wiens, "Natural Resources and Institutional Development," 199.

therefore present overwhelming obstacles to constrain the political actors, going against their deliberate incentive structure.

The agency vs. structure debate argues that countries that industrialized after petroleum discovery are doomed to suffer the resource curse and the corruption associated with it because the incentive structure goes against political self-constraint.[182] The work presented in this chapter, however, maintains that overly deterministic views do little to address political problems of the future, or even the present. As fitting as the argument may seem, it is exceedingly deterministic. Without granting the agency to political actors to hold them accountable for corruption, despite whatever odds or incentives present, the resource curse dooms countries to never-ending misery.

This chapter analyzes data garnered from the World Bank Governance Indicators, the Index of Public Integrity, as well as the Bertelsmann-Stiftung (BTI) Transformation Atlas and 2018 Venezuela Country Report. The individual categories and definitions of these tools do not correspond perfectly, nor does the timeline for available statistics. Instead, the data provides a balanced interpretation of the trends in Venezuelan corruption and governance. This chapter analyzes the governance trends in Venezuela alongside the political developments that took place in the country, to investigate incentives behind politicians' behaviors and assess institutional constraint on corruption.

A. SHIFTING INCENTIVES

Incentives are merely the motivations that encourage a particular activity. In the case of political corruption, incentives are the force or forces that compel a political actor or group of actors to commit some behavior that benefits the individual(s), at the expense of the general public. Politics by its very nature is about governance, control, and power. In this context, incentives for corruption are the factors that incline government officials toward gaining increased control, be it financial or political.

[182] Wiens.

B. WORLD BANK GOVERNANCE INDICATORS

The Worldwide Governance Indicator (WGI) project run by the World Bank compiles data from more than 200 countries, gathering information across a series of governance quality metrics that chronicles a country's governance over time. The data used in the WGI project consists of information from various sources including various private sector groups, government think-tanks, non-government organizations, and expert survey institutes, among others. WGI analysts then process the information to create a summative score for each year in the more than 20 years' worth of material. WGI data covers six different governance indicators: voice and accountability, political stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and the Control of Corruption (Figures 3 through 8.)

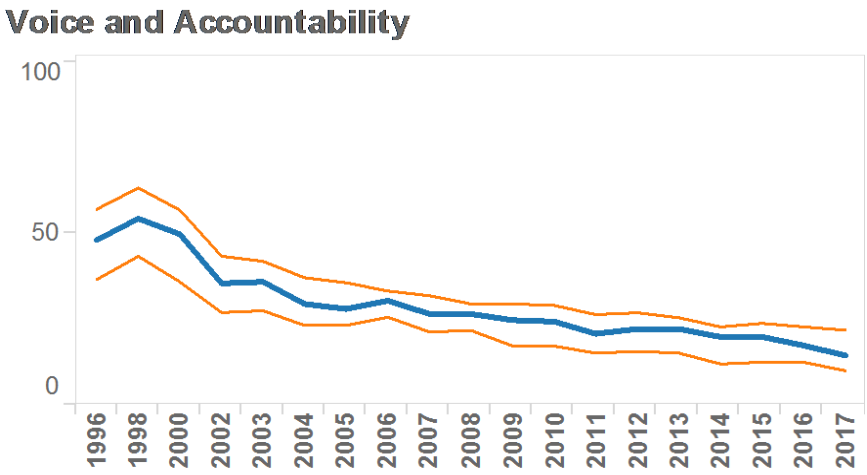

Figure 3. The relationship between the Venezuelan citizens and their government.[183]

[183] Source: Daniel Kaufmann Aart Kraay, and Massimo Mastruzzi. "Worldwide Governance Indicators: Venezuela, RB." The World Bank Group, The Worldwide Governance Indicators, 2019. www.govindicators.org," The inner, thicker blue line shows the country's scores Venezuela's percentile rank on each of the six aggregate governance indicators. The outer, thinner red lines indicate the margins of error.

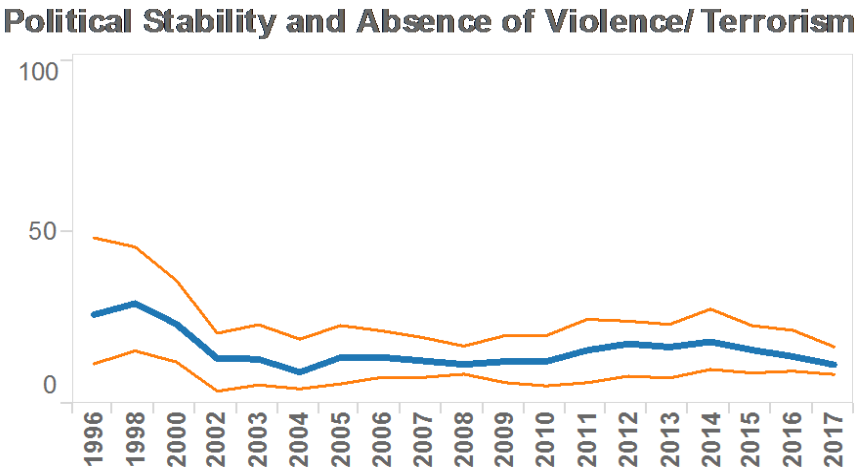

Figure 4. The rate of Venezuela's "political stability and absence of violence/terrorism."[184]

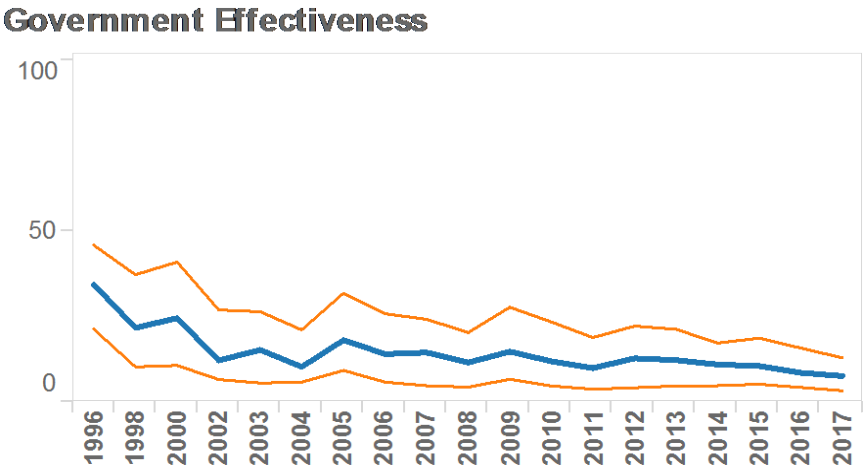

Figure 5. The effectiveness of Venezuela's government in policy coordination and implementation.[185]

[184] Source: Daniel Kaufmann Aart Kraay, and Massimo Mastruzzi. "Worldwide Governance Indicators: Venezuela, RB." The World Bank Group, The Worldwide Governance Indicators, 2019. www.govindicators.org."

[185] Source: Daniel Kaufmann Aart Kraay, and Massimo Mastruzzi. "Worldwide Governance Indicators: Venezuela, RB." The World Bank Group, The Worldwide Governance Indicators, 2019. www.govindicators.org."

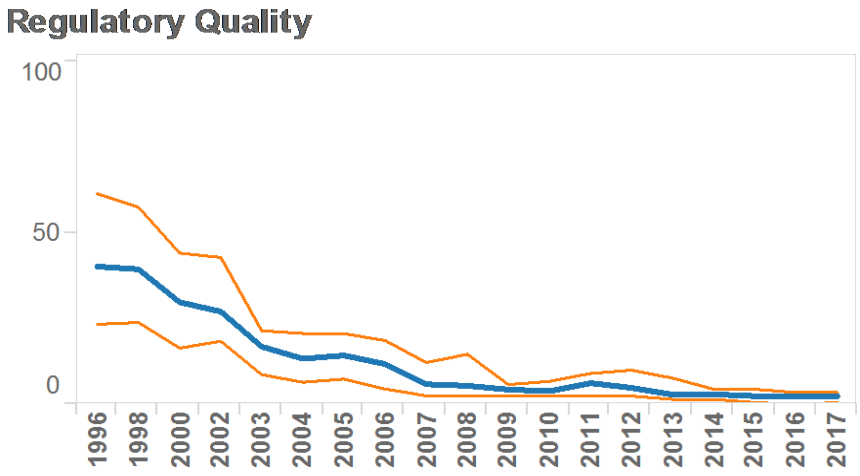

Figure 6. Shows the Venezuelan government institutional health regarding the regulatory capacity of the country's institutions and legal system.[186]

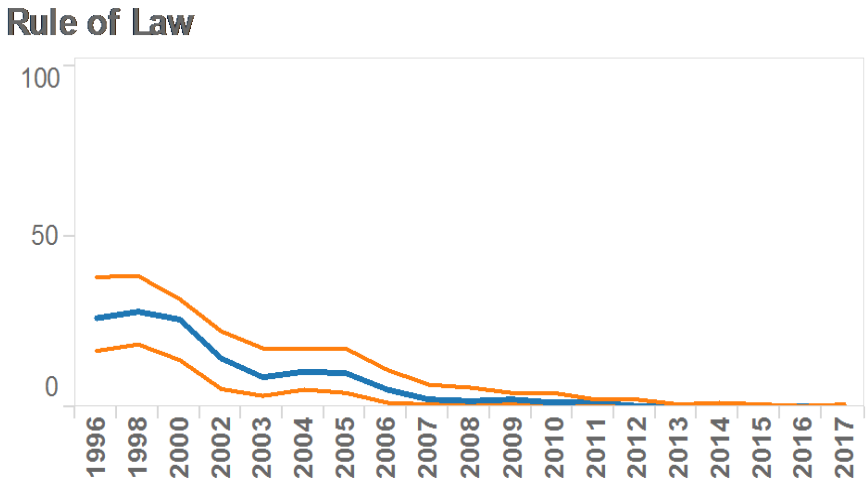

Figure 7. Demonstrates Venezuela's "rule of law," assessing the monopoly on the use of force, government capacity to uphold laws per its constitutions, and crime rates.

[186] Source: Daniel Kaufmann Aart Kraay, and Massimo Mastruzzi. "Worldwide Governance Indicators: Venezuela, RB." The World Bank Group, The Worldwide Governance Indicators, 2019. www.govindicators.org."

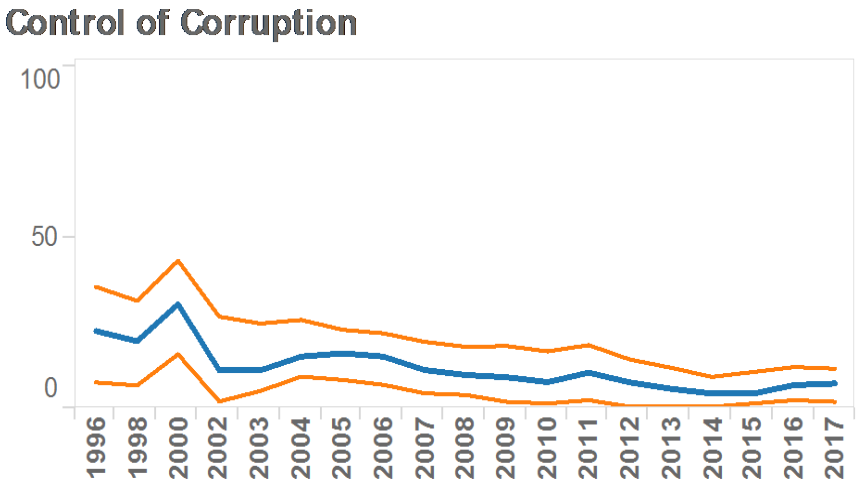

Figure 8. Demonstrates the Venezuelan government's institutional control over political corruption.[187]

C. WORLD BANK DATA ANALYSIS

The extended time for which the data is available is the longest of the three different research groups, allowing a brief glimpse at pre-Chávez governance, as well as Chávez's and Maduro's periods in office. Interestingly, the quality of governance was declining in particular measures before Venezuelans elected Chávez in 1998. The measure for "government effectiveness," "regulatory quality," and the "control of corruption," were all declining before Chávez was elected.[188] These scores correlate strongly to the social unrest described in Chapter II, which culminated in Chávez's election in 1998.

Following Chávez's election, what had previously been the upward progression turned negative in "voice and accountability," "political stability and absence of violence/terrorism," and "rule of law." The "control of corruption" and "government effectiveness" metrics trended upwards for approximately two years, before shifting back down, while "regulatory quality" continued its previous negative trending.[189] On the

[187] Source: Daniel Kaufmann Aart Kraay, and Massimo Mastruzzi. "Worldwide Governance Indicators: Venezuela, RB." The World Bank Group, The Worldwide Governance Indicators, 2019. www.govindicators.org."

[188] Kaufmann, Kraay, and Mastruzzi.

[189] Kaufmann, Kraay, and Mastruzzi.

whole, none of these governance indicators were high before Chávez was elected, some of which were already trending down. Furthermore, Chávez managed a few years of improvements across some areas.

Hidden among the longer timeline is another subtle lesson to be gained from the data. Starting in 2010 almost every indicator shows subtle signs of improvement for a brief period. The "voice and accountability," "political stability and absence of violence/terrorism," "government effectiveness," "regulatory quality," and "control of corruption" metrics all saw slight progress in 2010 or 2011.[190] As covered in the BTI section for "consensus-building," that period corresponds to a rise in the global market.[191] The improvements were modest at best, and short-lived. Within one to three years, depending on the particular metric, all scores were again declining.

One particular measure stands out following the slight rise and fall of some metrics starting in 2010. In 2014, the score for "political stability and absence of violence/terrorism" commences a steeper decline. The downward trend in 2014 corresponds with the fall in the global petroleum prices as explained in previous chapters. This metric also predates the MUD opposition's winning of the National Assembly majority in 2015, showing the violence in Venezuela was already an increasing problem for politicians.

The lowest point for the "control of corruption" seems to have taken place in 2015, showing a very slight but noticeable improvement between 2015 and 2017.[192] This period corresponds with the administrations moves to declare the National Assembly in contempt, along with the back-door dialogues between Maduro and MUD officials that combined to delay and effectively derail the opposition's attempt to recall Maduro from office.[193]

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[190] Kaufmann, Kraay, and Mastruzzi.

[191] U.S. Energy Information Administration, "Energy & Financial Markets: World Crude Prices," U.S. Energy Information Administration (EIA), accessed November 30, 2018, https://www.eia.gov/finance/markets/crudeoil/spot_prices.php; Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 32.

[192] Kaufmann, Kraay, and Mastruzzi, "Worldwide Governance Indicators: Venezuela, RB."

[193] British Broadcasting Centre, "Venezuela's Recall Referendum Drive Halted," *BBC News*, October 21, 2016, sec. Latin America & Caribbean, https://www.bbc.com/news/world-latin-america-37724322; Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

D. INDEX OF PUBLIC INTEGRITY

The Index of Public Integrity is a data set compiled using the European Research Centre [sic] for Anti-Corruption and State-Building's (ERCAS) IPI data markers for 2015 (Table 1) and 2017 (Table 2). ERCAS compares this series of measures against the surrounding region – Latin America and the Caribbean in the case of Venezuela – as well as globally, for each state on which the ERCAS has sufficient data.

1. Index of Public Integrity data tables

Tables 1 and 2 demonstrate Venezuela's governance and the ability of its institutions to constrain political corruption by assessing judicial independence, administrative burden, trade openness, budget transparency, e-citizenship, freedom of the press.

Table 1. 2015 Scores for Venezuela.[194]

Components	Component score	World Rank	Regional Rank	Income Group Rank
Judicial Independence	**1**	**109/109**	**17/17**	**40/40**
Administrative Burden	**1**	**109/109**	**17/17**	**40/40**
Trade Openness	**1**	**109/109**	**17/17**	**40/40**
Budget Transparency	**1**	**102/109**	**16/17**	**38/40**
E-Citizenship	**5.55**	**54/109**	**9/17**	**39/40**
Freedom of the Press	**1.7**	**102/109**	**17/17**	**38/40**
Total Score	**1.88**			
Country Rank	**109/109**			

[194] Adapted from "Index of Public Integrity." ERCAS European Research Centre for Anti-Corruption and State-Building, 2015. https://integrity-index.org/country-profile/?id=VEN&yr=2015.

Table 2. 2017 Scores for Venezuela.[195]

Components	Component score	World Rank	Regional Rank	Income Group Rank
Judicial Independence	**1**	**109/109**	**17/17**	**40/40**
Administrative Burden	**1**	**109/109**	**17/17**	**40/40**
Trade Openness	**1**	**109/109**	**17/17**	**40/40**
Budget Transparency	**1**	**102/109**	**16/17**	**38/40**
E-Citizenship	**5.6**	**55/109**	**10/17**	**39/40**
Freedom of the Press	**2.01**	**102/109**	**17/17**	**38/40**
Total Score	**1.94**			
Country Rank	**109/109**			

2. Index of Public Integrity analysis

The Index for Public Integrity (IPI) data is significantly restricted in its timeline, as it only provides data from 2015 and 2017 measures of Venezuelan governance. Therefore, the IPI offers supporting evidence for the last few years of information. However, the IPI does not cover the entire period for Chávez's and Maduro's administrations, the particular developments after the 2014 market crash, or any of the time before Venezuela's left-turn. The data covered in the IPI tables is similar to the World Bank and BTI methods of assessing governance and functions as a validity check to the other measures, more than a primary source of information.

Governance in Venezuela scored the lowest in both of the IPI's two tables, 2015 and 2017.[196] The IPI data shows a slight rise in "e-citizenship" and "freedom of the press" scores between 2015 and 2017, corresponding with the minor improvement demonstrated in "control of corruption" in the World Bank data.[197] However, Venezuela's "e-citizenship"

[195] Adapted from "Index of Public Integrity," ERCAS European Research Centre for Anti-Corruption and State-Building, 2017.,https://integrity-index.org/country-profile/?id=VEN&yr=2017.z

[196] "Index of Public Integrity."

[197] "Index of Public Integrity"; Kaufmann, Kraay, and Mastruzzi, "Worldwide Governance Indicators: Venezuela, RB."

world and regional rankings each managed to fall by one position during that period, showing the slight improvement in the score was nevertheless a relative decline in comparison.[198] The rest of the data provided in the two indices lines up similarly to the BTI and World Bank information, however, almost all rankings remained stagnant for the two years covered, at the lowest position globally.[199]

E. BERTELSMANN-STIFTUNG

The Bertelsmann-Stiftung project is an organization that compiles data solicited from international experts who use rigorous methods to analyze and compare governance metrics across a series of categories every 2 years in order to measure government transformations through time. The organization particularly measures markers of democracy and the health of the market economy in the respective country. These findings are then compared against other countries, as well as against the same country across different reporting periods.

1. Transformation Atlas

Figure 9 is the BTI's Transformation Atlas, comparing Venezuela's governance traits from the 2018 report, against the 2006 report. On the BTI organization's website: https://www.bti-project.org/en/reports/country-reports/detail/itc/ven/, the years are changeable for each country report the BTI has conducted. The years 2006 and 2018 were selected to account for the greatest amount of time possible with the data available.

[198] "Index of Public Integrity," 2015.

[199] "Index of Public Integrity."

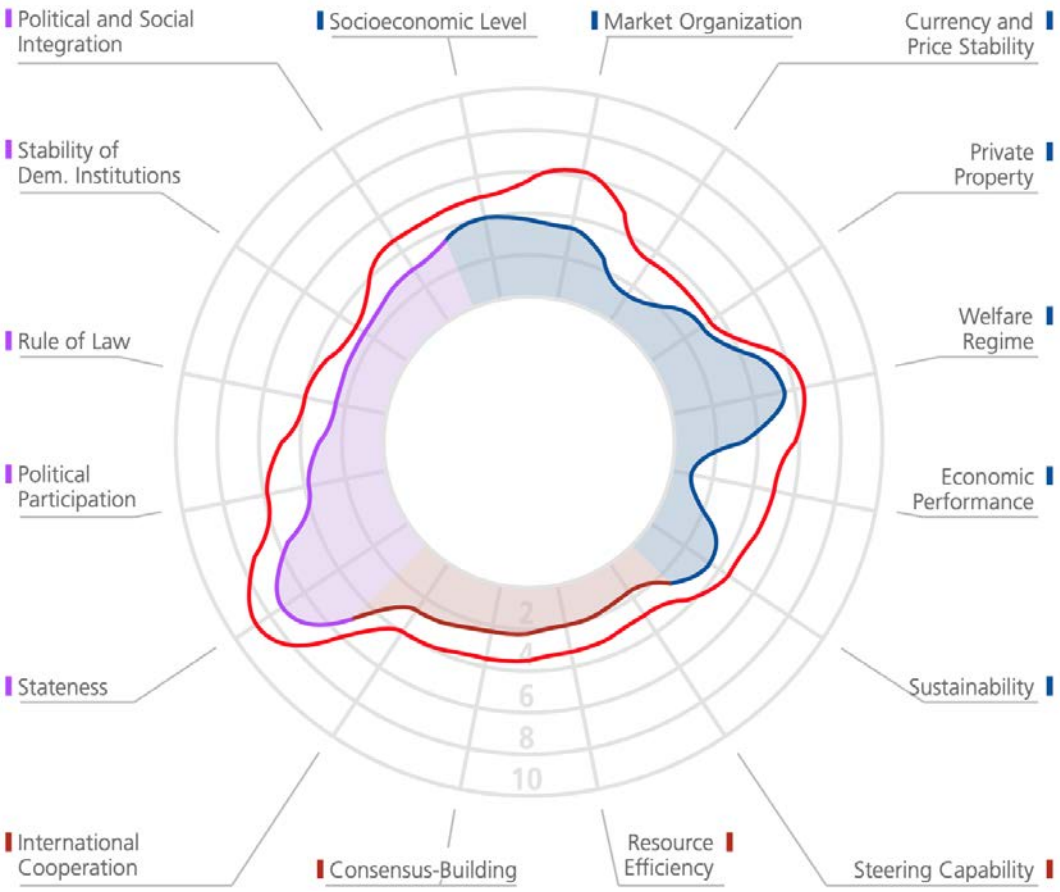

Figure 9. Venezuela Transformation Atlas: 2018 (blue shaded) compared to 2006 (red line).[200]

[200] Source: Bertelsmann-Stiftung, "Transformation Atlas 2018," BTI Transformation Atlas: Venezuela 2018, accessed May 18, 2018, https://atlas.bti-project.org/share.php?1*2018*CV:CTC:SELVEN*CAT*VEN*REG:TAB.

Table 3. Analysis of BTI report results from 2006 and 2018.[201]

Findings	2006 / World Rank	2008 / World Rank	2010 / World Rank	2012 / World Rank	2014 / World Rank	2016 / World Rank	2018 / World Rank
Status Index	5.1 / 73	4.7 / 84	4.5 / 94	4.5 / 97	4.6 / 92	4.0 / 105	3.5 / 110
Democracy Status	5.2 / 70	4.8 / 76	4.3 / 86	4.4 / 85	4.5 / 85	4.0 / 89	3.8 / 93
Market Economy Status	4.9 / 77	4.6 / 90	4.8 / 88	4.5 / 93	4.7 / 90	4.1 / 106	3.1 / 116
Governance Index	3.0 / 103	2.1 / 119	2.2 / 122	2.2 / 122	2.5 / 121	1.9 / 126	1.9 / 125
Level of Difficulty	3.8	3.8	4.0	4.3	3.9	4.1	4.0
Governance Performance	3.5 / 101	2.5 / 117	2.5 / 120	2.5 / 119	2.9 / 120	2.2 / 123	2.2 / 124
Trend from Previous Reporting Period							
Democracy	Down	-	-	-	-	Down	-
Market Economy	Down	-	-	-	-	Down	Down
Governance	Down	Down	-	-	-	Down	-

Table 3 was adapted from the BTI data showing Venezuela's transformation between each country report since 2006, and how Venezuela ranked against other countries globally, for which there is data available. The Y-Axis of the table shows the broader measured governance categories; each measure comprises various individual components. For the full assessment of the constituent metrics, the BTI Venezuela country report is contained in the following section.

2. Bertelsmann-Stiftung Country Report: Venezuela

The BTI organization organizes its data into the three categories of Political Transformation, Economic Transformation, and Governance. It then further divides each

[201] "Transformation Atlas 2018." Component scores based on 1–10 scale, World Rank score is out of 129 countries assessed.

of these fields into multiple subcategories that are further delineated in the BTI Country Report, showing the components used to measure each trait. Not all of these subcomponents are relevant to this thesis.

a. Political Transformation

(1) Stateness

The state of Venezuela has been undergoing a profound structural change in recent years. The 2018 BTI country report score of coherence as a state, with a government that has a "monopoly on the use of force" that has dropped from an eight to five, leading to whole areas that the police have effectively turned over to the *colectivos*, connected to the government and funded through mining interests or drug trafficking.[202] These groups are hyper-politicized gangs Chávez coopted during the Bolivarian Revolution. The *colectivos* use violent theft, coercion, murder, and illicit trafficking of various materials, besides the extremely preferential treatment in food distribution from the government.[203] Many of the different *colectivo* groups and the government officials associate through senior military and National Guard leadership that bring political influence, money, and weapons to the bargaining table.[204]

Venezuela's state administration has declined in recent years, but not as much as one might suspect. The ranking, based on a 1–10 scale fell from a seven in 2006 to a five in 2018.[205] However, Chávez reorganized the control of legal functions, along with other social services including foodstuff to the state-run *misiones* – socialist government-run community centers.[206] These *misiones* are hyper-politicized, and inefficient, though providing a crucial piece of political investment for public support. The *misiones* control other portions of civil infrastructure as well, such as health care and education; diverting traditional funding means without improving the quality of goods delivery.

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[202] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 6.

[203] Bertelsmann-Stiftung, "The Devolution of State Power."

[204] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 6.

[205] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 7.

[206] Looney, "Chavistanomics."

(2) Political Participation

Between 2006 and 2018 the BTI score for political openness fell from eight to four.[207] Venezuela managed to hold relatively free elections until 2015 when the opposition to the United Socialist Party (USP) won a two-thirds majority in the National Assembly despite the USP pressuring the public to vote for the incumbent party, significantly skewed campaign financing with public resources, and a biased judge of the election's fairness.[208] The newly opposition-controlled National Assembly started a campaign to recall Maduro with a well-timed referendum that would have sparked a new presidential election, rather than placing Maduro's vice-president in office, as long as it takes place in 2016 and not the following year.[209]

Following the 2015 election and subsequent referendum effort, the administration cut the National Assembly's ability to function through several means. In contrast to constitutional procedure, the administration declared a state of emergency, convinced the Supreme Court to hold the National Assembly in contempt, reinstated two USP members to the assembly whose terms had expired, and blocked regional elections.[210] The administration also had the Supreme Court declare fraud in the referendum process across several states and opened a dialogue with the opposition to buy time until the actual threat of the referendum had passed.[211]

The Supreme Court has not once ruled against the administration; it declares all media coverage as false propaganda that claims the administration and party officials' families are complicit in drug trafficking, money laundering, and other forms of

[207] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 6.

[208] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 8.

[209] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36; British Broadcasting Centre, "Venezuela's Recall Referendum Drive Halted."

[210] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 8.

[211] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

corruption.[212] While the Odebrecht scandal rocked Brazil's political elite, Venezuela's elite remains untouched, despite Maduro's direct implication in the bribery scheme.[213]

It is not only the National Assembly that the administration has infringed upon, but the individual right to assemble, as well as the freedom of the press, are also systematically attacked by the government.[214] Protests in Venezuela have repeatedly been met with police and military violence, leaving hundreds of dead in the last two years. The "association/assembly rights" score dropped from seven in 2006 to four in 2018; the most significant decline occurred in 2014.[215] The "freedom of expression" score declined from a five to a four, where it has stayed for several years, there is still some access to oppositional media in Venezuela; however, journalists are routinely harassed or arbitrarily jailed.[216] The sole remaining elected opposition to the administration's control over the country is the National Assembly, which, according to Maduro, has no legal power.[217]

(3) Rule of Law

The BTI measures the "separation of powers" across municipal, state, and national levels, as well as the authority of the legislative, an "independent judiciary," citizen, and electoral echelons. Both of these two measures scored a two in 2018.[218] The power separation score oscillated between a three and a two the entire period between 2006 and 2018, never scoring higher than a three, while the judiciary shows a downward trend across the 12 year range, flattening out at two for the last six years.[219] A separate score for the "prosecution of office abuse" has fluctuated between a two and three for the last 12 years,

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[212] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 9.

[213] Nicholas Casey, "Maduro Becomes Latest Leader Accused in Huge Bribery Scheme," *The New York Times*, October 20, 2017, sec. World, https://www.nytimes.com/2017/10/12/world/americas/venezuela-odebrecht-maduro-corruption.html.

[214] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 9

[215] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 9.

[216] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 9.

[217] SC. W. H., The Venezuela Crisis: The Malicious Influence of State and Criminal Actors, 2.

[218] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 10.

[219] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 10.

most recently staying at two.[220] The corruption of the Supreme Court is not the only example of a compromised judiciary: the entire legal system is full of partisan, biased judges. An assessment delivered by the International Commission of Jurists in 2014 read: "A judiciary characterized by the lack of independence, as in Venezuela, cannot effectively fulfill its role in maintaining the rule of law. ...the justice system is itself being abused, made to serve as a mechanism for the persecution of political opponents and dissidents."[221]

There were two informants linked to a U.S. Drug Enforcement Agency (DEA) inquiry into how two of the Venezuelan First Lady's nephews were murdered inside the country.[222] A U.S. court managed to convict the two nephews, leading to the admission that they used diplomatic passports and the Venezuelan President's personal ramp at the country's main airport for their trafficking, as well as naming other senior members within the government who act as drug trade kingpins.[223] Another example of criminal activity involving Venezuelan passports includes diplomats selling Venezuelan passports abroad; one investigation implicated the former vice president of Venezuela, El Aissami, while he was in a previous position. Allegedly, while acting as the minister of the interior, El Aissami sold more than 170 passports, mainly to people in the Middle East, including some with links to the U.S.-declared terrorist organization, Hezbollah.[224]

Given the effective government immunity for coopted security forces and *colectivos,* there is little to no incentive for pro-government forces to abide by the country's laws. The BTI score for Venezuelan "civil rights" has steadily declined since 2008; it currently is at a four.[225] As of January 2017, there were 55 documented cases of torture

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[220] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 11.

[221] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 10.

[222] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 11.

[223] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 11.

[224] Kay Guerrero, Rafael Romo and Drew Griffin, "Passport Office Bust: Workers Charged with Selling ID's to Syrians," CNN, April 7, 2017, http://www.cnn.com/2017/04/07/americas/venezuela-government-workers-syrian-passport-sales/index.html.

[225] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela."

committed in Venezuela's security-force detention facilities before the International Court in The Hague.[226]

(4) Stability of Democratic Institutions

In blatant violation of the standing Venezuelan constitution, the sole group of democratically elected officials lacks legal authority to carry out their historic mission, legislation. Many of Venezuela's other democratic institutions similarly exist on paper; it is the workers within the institutions and authorities granted to them that are corrupt. Both the BTI measures for the "performance of democratic institutions" and the "commitment to democratic institutions" have wavered over the previous 12 years between twos and threes.[227] The measurements show a clear disagreement between the public's commitment to democratic institutions and the government's efforts to systematically undermine them.

(5) Political and Social Integration

Politics in Venezuela became incredibly polarized over the last two decades between the USP and the fractured opposing democratic group, the MUD. Intriguingly, the citizen party-membership appears to be more centered on attitudinal traits than socioeconomic variables, making the basis or rooting of political parties challenging.[228] The BTI score for the "party system" has fluctuated between four and three across the entire 12-year reporting period.[229] The polarization between the politicians themselves is characterized by the USP's "rentier-populism, while opposition supporters tend to favor some sort of liberalism."[230] The health of Venezuelan "interest groups" scored a three, having declined from a four in 2014. The groups that remain active are highly politicized either pro- or anti-USP affiliation. The National Assembly attempted to include interest groups in 2016, but due to the lack of legislative authority, the efforts went nowhere.[231]

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[226] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 11.

[227] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 13.

[228] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 14.

[229] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 14.

[230] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 14.

[231] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 14.

The ranking of "social capital" in Venezuela—the extent to which civilians believe they can trust one another—held steady at a five through multiple reports until the 2014 study, where it began to drop, showing a four in 2016, and a three in 2014.[232] The sudden drop shows the corrosive political situation has infected the public perception of one another. Whether through rising levels of violence, increasing resource scarcity, the deteriorating financial system, or other factors, all of these components appear to be taking their toll on the trust Venezuelans feel for their fellow citizens

b. Economic Transformation

(1) Level of Socioeconomic Development

For the second year in a row, Venezuela won the ignominious honor of being the world's most distressed economy according to Cato Institute's World Misery Index, this is despite it still technically ranking within the "high development" group in a 2015 Human Development Report.[233] Financial data is incomplete; however, the Venezuelan government has only released bits and pieces of data, particularly from the central bank, which has not published price index and shortages data for more than three years.[234]

Venezuela's private sector, which has been under attack since Chávez initially came to office, has continually contracted throughout Chávez's and Maduro's administrations. The domestic economy has seen a host of countless problems, ranging from rampant inflation, the expanding black market, talent/brain drain as citizens with means leave the country, failing health and education programs, dependency on government handouts funded through oil rents, and many others.

(2) Organization of the Market and Competition

The Venezuela government strictly outlawed market competition under "fair prices" legislation that established strict price controls on products, cut the ability to

[232] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 15.

[233] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 16.

[234] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 24.

generate profits, and carries prison-time penalties for violators.[235] As with other legal matters, the enforcement is biased and easily subject to manipulation through reporting by politicized groups or partisan supporters of the government.[236]

Venezuela's "banking system" saw a three-point drop between 2006 and 2012, and made slight improvements over the next couple years, but the progress halted between 2014 and 2016, then began to weaken again by 2018.[237] Due to runaway inflation in Venezuela, even extremely high-interest rate loans through the banking system effectively lose banks money, and consequently, private loans are rare. The banking system has a well-established history of operations in the country and has weathered the collapse better than one might suspect. However, consistent political intervention through strict tariffs, currency manipulation, the cryptocurrency PETRO, exchange rate policy, currency printing, and others, continue to erode the industry's ability to subsist in the present conditions.[238]

(3) Currency and Price Stability

The Venezuelan government under Maduro doggedly pursued willful hyper-inflation and blatant disregard for prudent foreign exchange policy as a political objective. Venezuela has a two-tiered exchange rate that allows it to manipulate its currency at will. In 2017, the difference between the official exchange rate for the Venezuelan Bolivar (VEF) and the U.S. dollar was 10 to $1; however, "the parallel market rate of VEF 3,800 to $1," could be devalued whenever the government deems it necessary.[239] The tiered exchange system was intended to facilitate an internal domestic market monetary value, separated from the government's ability to manipulate international trade prices through devaluations. However, the internal official market value of the Bolivar varies wildly from the black-market rate the majority of the Venezuelan people actually experience.[240]

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[235] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 18.

[236] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 18.

[237] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 20.

[238] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 20.

[239] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 20–21.

[240] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 30.

(4) Private Property

The most significant threat to Venezuelans' right to private property is the almost complete lack of the rule of law; however, there have also been countless incidents of government seizure and expropriation due to the courts' complicity lack of oversight.[241] Multiple international organizations and firms have filed for arbitration due to property expropriations, including from U.S., Canadian, and Chinese firms.[242] Due to centralized price control and the inability to profit on sales, many companies cannot purchase the necessary stockpiles of goods, leading to rampant shortages that exacerbate the humanitarian issues felt by many Venezuelans.[243]

(5) Welfare Regime

Much of Venezuela's social security infrastructure operates out of the government-controlled *Misiones* on a "pay-as-you-go pension system" that was poorly administered even during times of high petroleum rent financing.[244] "The basic food basket" available at the *Misiones* is equivalent to the cost of 12 monthly pension salaries given to those receiving benefits, which is also on par with the minimum wage, meaning the difference has to be paid for by the beneficiary to receive the food.[245] Many of the foodstuff intended for distribution through the *Misiones* wind up being traded on the black market or stolen. Due to often empty store shelves and a government-controlled agricultural sector, food scarcities drive the prices up.

(6) Economic Performance

The harshest drop in the BTI Country Report is unsurprisingly the economic performance data, showing a significant decline in "output strength" since 2014. More pointedly, the most noticeable drop between reports across the period was in 2014, when

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[241] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 30.

[242] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 22; Rucinksi, "China's Sinopec Sues Venezuela in Sign of Fraying Relations."

[243] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 22.

[244] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 23.

[245] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 23.

the scores plummeted from a five to a two, though the 2018 finding was a one.[246] Much of the economic performance data information garnered from experts is at best an educated guess. The Venezuelan government became much more tightly controlled regarding the release of information about the economy following the crash. The tighter control supports the political rhetoric that Venezuela is not in a state of humanitarian crisis and does not require aid.

(7) Sustainability

One of the rallying cries the Venezuelan populists used to gain support from the marginalized was to unite under a theme of "ecosocialism," in defense of the environment and the indigenous people in the country. Mining and the petroleum industry are no cleaner than when the political left turn occurred. Venezuela uses almost exclusively hydropower for electricity generation, however, still manages to have "the highest levels of carbon pollution in Latin America, mainly because of its wasteful use of fuel."[247] Maduro opened a biological-diversity preserve for mining operations, and in 2016 did away with the Ministry for the Environment institution, once a groundbreaking organization for other Latin American countries to follow.[248] The "ecosocialism" catchphrase won a lot of encouragement and votes in Chávez's time; however, the movement the effort was in name only, having amounted to nothing.[249]

c. Governance

(1) Level of Difficulty

Governance prospects in Venezuelan grew increasingly complex over the administrations of Chávez and Maduro, while the petroleum or resource curse symptoms were already present with windfall rents going into poorly executed social welfare funds and a contracting domestic economy due to the Dutch disease. However, there is a

[246] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 24.

[247] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 25.

[248] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 25.

[249] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 25.

difference between the presence of symptoms and what the left turn has done to compound upon them. In 2016, the Institute for Economics and Peace classified Venezuela as the fourth-most violent country in the world, according to its Global Peace Index ranking.[250] The administrations took the already existent political divide, split along socioeconomic lines, and they weaponized it. Protests grew increasingly violent in recent years, as did the security-forces' and *colectivos'* armed response.[251]

d. Governance Performance

(1) Steering Capability

The BTI's governance performance metric for Venezuelan policy "prioritization" is currently at a two, due to the stated Bolivarian Socialism policy objective of "democratic centralism," with a directed, or command economy, controlled by the central government.[252] The democratic centralism policy is democratic in name only, with all power effectively residing in the administration and its submissive institutions. The ratings for policy "implementation" sit at two, and "policy learning" a one for the last two country reports.[253]

At one point during Maduro's tenure, he "staged 90 cabinet reshuffles in 45 months, mainly rotating through a limited pool of top USP figures."[254] When a minister of any department changes, it has downstream effects, requiring his or her staff to move with the incoming and outgoing members.[255] There is a severely limited ability to maintain a steady course of policy objectives with such continuous movements at the upper levels. The likeliest achievement gained from this type of constant motion is regime survival for the one doing the manipulation.[256]

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[250] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 28.

[251] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 28.

[252] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 28.

[253] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 29.

[254] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 29.

[255] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 29.

[256] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 29.

(2) Resource Efficiency

Regarding Venezuelan government resource management, both the "efficient use of assets" which scored a two, and "policy coordination" also measures a two; fell from higher ratings in 2014.[257] The "anti-corruption policy" metric has scored a consistent two since 2008 when it fell from a three.[258] There is a very different tone between what Chávez and Maduro announced as the governments' official policies, and the actions they have carried out. The head of the General Comptroller's Office himself violated the Law against Corruption and the Public Service Ethics Code when he "appointed 13 direct family members to senior positions in his agency."[259]

Venezuela's lack of the rule of law allows near-complete immunity for criminal enterprise, so long as it does not go against the regime. A Jones Day Anti-Corruption Index from 2015 showed that the Venezuelan government makes no enduring effort to combat corruption and that the problem is systemic to the point of being present throughout every level of Venezuelan society.[260] Venezuela is a party to the UN Convention against Corruption, as well as the Inter-American Convention against Corruption. However, an OAS report from 2015 shows that the government office charged with fighting corruption in Venezuela lacks the personnel, equipment, and money to do its work.[261]

(3) Consensus-Building

Venezuela's political climate, characterized by hyperpolarization, finds politicians from opposing sides of the table with little common ground. Since 2008, the "consensus on goals" score for the Venezuelan government has remained at a three, with one side focusing on survival and the other bent on its removal from office.[262] The Union of South American Nations (UNASUR) and the Vatican backed efforts to foster conversation

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[257] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 30–31.

[258] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 31.

[259] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 31.

[260] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 32.

[261] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 31.

[262] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 32.

between opposing politicians in Venezuela proved unsuccessful, due to government's disinterest in following already negotiated terms.[263] The "anti-democratic actors" metric for 2018 was scored at a two, having fallen from a three in 2014. Intriguingly, the same score was a five in 2006, fell to a two in 2008, and rose to a three between 2010 and 2014, showing a slight increase during years that saw a higher petroleum price, before the drop in 2014.[264]

After years of crushing poverty and violence, populist ranting is all that remains of the Venezuelan government's political rallying cry; the "supposedly elitist/ oligarchical/fascist opposition, which rhetorically underlies the government's strategy, is merely an artifact of propaganda."[265] The Venezuelan people did not have a significant ethnic or religious divide, rather one of class differences, which the economic collapse of the country primarily erased. Furthermore, despite not having profound, visible differences between Venezuelan's, the BTI metric for "cleavage/conflict management" is a one; the score fell from a three in 2014, having been a one for the previous six years.[266] The score for the linkage between Venezuelan citizens and the government, "civil society participation" wavered between three and four for six years, before leveling out at a three, due to the existence of appointment and selection requirements for official appointees, but only in writing, not in practice.[267]

(4) International Cooperation

Over the last several years, Venezuela grew increasingly isolated. Maduro refuses to accept international aid for the starving citizens because he denies the existence of a humanitarian crisis. Instead of receiving food and medical care for the people, Maduro receives intelligence assistance, loans, and military hardware from Cuba, China, and

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[263] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 32.

[264] U.S. Energy Information Administration, "Energy & Financial Markets: World Crude Prices,"; Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 32.

[265] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 33.

[266] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 33.

[267] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 33.

Russia.[268] The BTI score for "effective use of support" from international organizations sits at a two after Maduro drove the score down from a three in 2014.[269] The metrics for "credibility" and "regional cooperation" are two, and four, respectively. The "credibility" score fell from a four in 2006, due to increasing Venezuelan debt on foreign loans. Maduro cooperated with the Brazilian Odebrecht S.A. construction company for several sizeable infrastructure projects before the Petrobras-Odebrecht scandal broke, implicating Maduro among numerous others with accepting bribes.[270]

In recent years, the Venezuelan government has created massive foreign debts, undergone a highly-suspect cryptocurrency endeavor, and stymied every diplomatic effort to aid the Venezuelan people. Chávez, and later Maduro, used petroleum as a leveraging trade commodity against U.S. involvement in the region, creating the Bolivarian Alliance for the Americas (ALBA, 2004), as well UNASUR (2008), and the Community of Latin American and Caribbean States (2012).[271] The examples of regional cooperation show little promise, as Venezuela's petroleum production output is falling, leaving less leveraging power on the table. The government's "checkbook diplomacy," is beginning to fail.[272]

e. Strategic Outlook

The BTI Country Report for Venezuela offers a dismal financial prospective future, with a continuing depression of the economy and numerous obstacles that need to be overcome politically before a reversal is possible.[273] The report further states that Maduro's exit is a requirement for any government credibility in future attempts to rebuild or repair the economic damage.[274]

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[268] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 34.

[269] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 34.

[270] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 34.

[271] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 34.

[272] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 35.

[273] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

[274] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

The harm caused by the Venezuelan government is not just economic. Not a single BTI governance indicator is higher in 2018 than it was in 2006.[275] Across the board, the quality of governance has declined significantly, predominantly in the absence of law and order, core fundamental concepts for any government. Externally supported measures, such as the Vatican and UNASUR talks only serve as a distraction, sowing disunity among the political opposition and offering the administration conciliatory opportunities that further enable Maduro's survival.[276]

Maduro's exit from office would allow the country a moment to change direction, focus on the economy and its inhibiting obstacles, and bring in aid for the people. Every policy decision made by Maduro and Chávez should be revisited from the ground up, but prioritization on the elements most detrimental to the economy and long-term rehabilitation should be addressed, focusing on a longer time-horizon for policy-making. The road to recovery will be long, but removing Maduro must happen first if the government is to have any chance of recovery.[277]

3. BTI data analysis

In reviewing the BTI country report data, not a single indication measured showed a net improvement between the 2006 and 2018 rankings, demonstrating politicians had already created problems before the 2014 petroleum market drop. There were, however, brief and short-lived improvements across several measures. Most notably the "banking system" metric between 2006 and 2012 showed some progress, in addition to other governance and cooperation markers around the 2014 period that coincided with the distraction dialogue conducted between the USP and party known as Democratic Unity Roundtable (MUD).[278]

Maduro's tactic of increased centralization by force to create regime stability is directly supported by his creation of the *Fuerzas de Acciones Especiales*, or Special Action

[275] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela."

[276] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

[277] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

[278] Bertelsmann-Stiftung, "BTI 2018 Country Report—Venezuela," 36.

Forces (FAES) in 2017.[279] This police organization was formed in 2017 during a period of heightened protests and evolved into what many consider death squads that use oppressive tactics in support of the government. The FAES's officially stated mission is to fight terrorism and crime, though it has significantly increased the death count in the country through its military-like employment of violence.[280] Maduro formed the *FAES* in 2017 by collecting agents from various police organizations, as well as individuals who started out in *colectivos* to counter the rising protest movement.

One additional explanatory component is to elaborate on the USP expropriation tactic, particularly regarding agricultural reclamation. The Venezuelan government did not limit property expropriation to foreign corporations. Chávez, and later Maduro also undertook a hard-hitting agrarian land reclamation and redistribution program that preferentially rewarded political supporters by allowing *campesinos,*(rural farmers) to squat on lands to lay claim statistically aimed at political rivals by targeting their properties for redistribution.[281] The government undertook the project with the stated aim of improving sustainability practices and confronting inefficient colonialist-era distribution patterns to strengthen the agricultural sector's efficiency.[282] However, one would be hard pressed to demonstrate the full extent of the damage caused to the agricultural industry.[283]

F. CUMULATIVE DATA ANALYSIS

The data assessed cumulatively in this thesis appears to point in the same direction, declining quality of Venezuelan governance and its ability to constrain political corruption over the last two decades, starting before Chávez took office, though significantly accelerating during his presidency, and Maduro's after him. There are also several

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[279] "The Armed Groups Propping up Venezuela's Government."

[280] "The Armed Groups Propping up Venezuela's Government."

[281] Michael Albertus, "The Role of Subnational Politicians in Distributive Politics: Political Bias in Venezuela's Land Reform Under Chávez," *Comparative Political Studies* 48, no. 13 (November 2015): 1667–1710. https://doi.org/10.1177/0010414015600457.

[282] Daniel Lavelle, "A Twenty-First Century Socialist Agriculture? Land Reform, Food Sovereignty and Peasant–State Dynamics in Venezuela," *The International Journal of Sociology of Agriculture and Food* 21, no. 1 (October 18, 2013): 133–54.

[283] Albertus, "The Role of Subnational Politicians in Distributive Politics."

indications that around the 2010–2011 timeframe there were subtle signs of improvement, followed by significant declines around the 2014–2015 period. These improvements correspond to increased oil prices and were short-lived.

Regarding political corruption, there was a significant presence long before the 2014 petroleum market crash, and indeed the problem predated Chávez as well. What did start in the 2014 time-frame, was a series of complex political maneuvers by both the socialist USP politicians and the MUD democratic opposition. The strengthening opposition was primarily a result of the continually low oil prices, as Venezuelan citizens elected MUD candidates to the National Assembly when they realized Maduro's inability or disinterest in improving the economic situation.

The bolstered opposition to the USP and its political maneuvering led to a shift in the political strategy undertaken by the Maduro administration, evidenced by a glimpse of progress in several governance factors, though the benefits were more dubious than the MUD politicians realized at the time. As is mentioned in various sections of the BTI report, as well as supported in the data, the political incentive for Maduro increasingly became regime survival, rather than bankrolling petroleum rents. Maduro's efforts to stall the MUD opposition allowed him the opportunity to strengthen the lateral political structure by expanding and bolstering the patrimonial web, increase illicit financial movements, and crucially, delegitimate the National Assembly.

V. CONCLUSION

The intention behind this thesis was to investigate the political corruption in Venezuela using petroleum curse theory as a lens through which to view changes that occurred following the 2014 petroleum market crash. To create a baseline, I studied the developments of political corruption in Venezuela throughout the country's history, both before and after the political left turn that took place when Chávez was elected president. Then, I considered developments in Venezuela's political corruption around the time of the 2014 petroleum market price drop to see if the incidences of corrupt behaviors were affected by the change in oil prices. Following a close examination, the data supports the hypothesis proposed in the first chapter of this thesis. The incentives driving political corruption reformed following the 2014 petroleum market crash, shift from politicians' capture of oil rents to their political survival.

Chapter II of this thesis discussed Venezuela's political and economic history as background information before and after Chávez's election, as well as following the political transition to Maduro. By analyzing the political economy across this longer timeline, it established a reference standard, allowing me to investigate political developments in Venezuela throughout the preceding century, without laying biased and unfounded claims that the country's current problems are the results of socialism. Chapter II also explains that Venezuela's inability to successfully adopt ISI economic development was mainly because the politicians failed to redress the relationship between the civilians and their government, particularly regarding taxation and education. The disunity between government practices and the Venezuelan people, along with traditional resource curse theory, demonstrate that the relationship between Venezuelan politicians and civilians was flawed for decades, long before the political left turn.

Chapter III developed the relationship between the Venezuelan presidential administration and the economic heart of Venezuela, the *PdVSA*. This chapter paid particular attention to how the presidents throughout Venezuela's history interacted with the *PdVSA*. This chapter explored the changing nature of political control over the *PdVSA*, demonstrating that Chávez's actions to instill likeminded leadership over the national oil

company (NOC) cowed the economic powerhouse into a subservient subject, systematically limiting its ability to weather market fluctuation or develop its operations responsibly. Issues within the contracting *PdVSA* remained relatively masked by high oil prices, allowing the government to cash in on high petroleum rent until the 2014 market drop. The chapter also explains relationships that Chávez and Maduro developed with their Russian and Chinese counterparts, trading in oil allotments and investing in large infrastructure projects.

Chapter IV investigated the quality of Venezuela's governance by analyzing metrics that rate the characteristics of government actions and institutional health according to its constitution and history. The data provided in this chapter reveals that Venezuelan governance and political corruption did change in measurable ways around the time of the 2014 petroleum market crash. Namely, the Venezuelan administration altered corruption tactics as the corruption incentives shifted from cashing in on petroleum rents to surviving the political upheaval.

Numerous scholars regard Venezuela's political economy tribulations as the result of a market dependency caused by the developed countries (DC), forcing Venezuela, along with other less-developed countries (LDC) in Latin America, to export only base commodities, rather than higher capital goods. As discussed in multiple chapters and supported by the data in Chapter IV, this theory describes past events but lacks the ability to capture present and future policy decisions. Notably, the dependency theory does not grant enough political agency to Latin American politicians. Chapter IV demonstrates that even when flawed civic relationships exist, Venezuelan politicians can significantly alter their political and economic environment. Rather than viewing the Venezuelan humanitarian and financial crisis as a result of aggressive capitalism, the situation is a domestically-caused disaster. Efforts to expand the Venezuelan market in previous decades were only weakly undertaken, without strict adherence to the required elements advised by economic and political experts.

As explained in earlier chapters and supported by the data in Chapter IV, the use of government centralization measures and illicit relationships was already present in Venezuela before the 2014 petroleum market crash. However, around the time of the price

drop in 2014, the USP leadership undertook a series of complicated political maneuvers to stall the political opposition's efforts to recall Maduro, as well as doubled-down on illicit relationships with *colectivos* and other organizations, particularly with the use of military and national guard leadership. These groups allowed the administration to embed themselves across a myriad of illegal markets, including drug smuggling, money laundering, fraud, and financial manipulation, among other activities. Direct causation for the USP actions is not likely to be entirely due to the market decline; instead, it was a complicated response to declining oil rent and political opposition that gained strength in light of the USP's weakening validity amidst the failing economy.

The data analyzed for this thesis supported the initial hypothesis. However, future researchers can develop the topic further by accumulating additional governance information in the years to come. Resource curse theory allows researchers to look past overly relied-upon assumptions of political and religious ideologies or cultural arguments. Resource curse theory enables the research of government institutional quality, their development over time, and the incentives that drive corruption. However, the data available to empirically study political corruption regarding institutional constraints is limited and will take time to accumulate.

While the data supported the thesis's argument, there were limitations to the availability of data that impacted the ability to conduct this research. One particular issue was the lack of historical data on political corruption and governance. While the data used met these requirements, the timelines were limited, and in one case did not even reach back to the entire Maduro administration. Future research efforts would be significantly benefited by more empirical data that measures political corruption and the institutional health of governments.

This thesis represents the study of one particular country's case of petroleum curse theory amidst declining petroleum market rents. Research should be done to analyze reactions to market declines in other countries. Furthermore, the resource curse theory provides an illuminating perspective regarding resource-rich countries and their ability to responsibly manage mineral endowments. Further work is needed to amplify the available

information on this topic, mainly since researchers conducted most resource curse theory work on windfall income periods, rather than significant market declines.

The prognosis for Venezuela's resource curse in the future is incredibly uncertain. The information gathered to support this thesis stopped at the end of January 2019. At that point, Venezuela's presidential administration was contested between Maduro and Guaidó, who was widely regarded internationally as the legitimate president. Venezuela's economic and humanitarian future is acutely dependent on how this disagreement is resolved. Maduro's loss of legitimacy is seemingly complete; however, the mainly illicit relationships his, and Chávez's, administrations developed domestically and abroad, enabled the beleaguered dictator to retain power thus far. Maduro's time in office may be only a matter of time. However, whether his presidency lasts days, months, or longer, significant harm will befall the Venezuelan people during that time. Guaidó, the Head of the National Assembly who declared himself interim-president due to Maduro's illegitimacy following corrupted elections, created an outlet toward re-democratization of the country's government. However, the last time there was a brief claim of interim presidency, political control went back to Chávez after only a couple days, mainly due to his criminal network of *colectivos*. Furthermore, even re-democratization leads to substantial questions of institutional legitimacy, Chinese- and Russian-owned debts, fiscal policy, the military organization, embedded *colectivos*, and countless others. Whatever happens with Guaidó and Maduro, the road toward a financially healthy Venezuela will take decades, not weeks or months.

Assuming Maduro leaves office in the near future, the road toward rebuilding Venezuela will be a long one. Regarding this genuine possibility, the next administration will have a grave obstacle on its hands; it must overcome the incentive to cash in before fixing the problems that allowed these events to transpire. First and foremost, efforts during the rebuilding phase must include measures to curb political corruption. Resource curse theory, the media frenzy, countless businesses, organizations, and politicians will eagerly knock on the next Venezuelan president's door, looking for opportunities to cash in on the resource wealth. There has likely never been a moment wrought with more political incentive to cash in on Venezuelan oil.

The Venezuelan people must revisit the responsibility of higher social classes and taxation for the lower levels of society. Failing to address this dynamic will reignite the social upheaval that brought Chávez to power. The energy sector should be allowed enough autonomy to function, invest in maintenance, and diversify where financially beneficial. When Chávez started strangling the golden egg laying goose, he severely affected his economy's ability to withstand market fluctuation. Investing in infrastructure may never appear attractive when approached through a short-time horizon approach. However, Venezuela's failing infrastructure is killing its people from malnutrition, lack of reliable medical services, and potable water. The energy sector is also declining its ability to profit from petroleum and is almost entirely dependent on the weather. These issues and others must be addressed.

The United States also has a significant lesson to learn in the Venezuelan turmoil. By vehemently supporting Guaidó and pushes for democracy, the U.S. appears to be leaning toward a strong market-based relationship with future Venezuelan politicians. The U.S. is uniquely capable of influencing Venezuela's rebuilding by way of economic and political might. Should the U.S. doggedly push for structural reform and measures to curb corruption, the efforts would stand to benefit Venezuela far greater than just seeking improved business dealings. The political developments between the U.S. and Venezuela as of early 2019 have the potential to support Kat's dependency theory argument perhaps more than at any other time in Venezuela's history. If the U.S. and Venezuelan democrats do not seek real reform, the idea that U.S. politicians only care about Venezuelan oil will be almost impossible to refute.

For resource commodity-dependent countries besides Venezuela, the example presented stands to support existing resource curse theory. The Venezuelan government demonstrates that the loss of profit will eventually lead to declining political support, once the money and political favors run out. Even Maduro's anti-protest police force, the *Fuerzas de Acciones Especiales*, or Special Action Forces (FAES) support will likely diminish its support once the benefits from the contracting petroleum industry, lower oil prices, and political dealings with China, Russia, and Cuba run out. The protracted lesson shows that some level of autonomy is necessary for the NOC to function properly, as well

as excessive taxation will stifle the industry's ability to weather market fluctuations. The call for economic competitiveness for NOCs is not a new lesson; Saudi Arabia has demonstrated this for decades. However, the temptation to strangle the golden-egg-laying goose tends to win out over economic prudence, though Venezuela represents an extreme case.

For the political leader of a resource-dependent economy in the shoes of Chávez, facing high oil prices and enough political stability to pass domestic measures, the inevitable market fluctuations will come. Chávez and Maduro represent politicians with an inability to see past sustained market fluctuation or depression. Democracy requires some level of taxation across the social classes, perhaps as much to harvest political buy-in from citizens as for the money itself. However, even in an authoritarian country, which Venezuela effectively became through this process, political dissent will grow out of continual economic depression. The price fluctuations in the petroleum market do not constitute a stable enough treasury to maintain political support forever; one must plan for the times when oil prices will fall, through education reforms and opportunities in other sectors.

In closing, if resource curse theory has taught us anything, it is to be meticulous about the institutional incentives regarding petroleum. The most relevant institutional relationships have been seriously affected by the events over the last two decades. Restoration efforts after such cataclysmic economic and social upheaval should primarily focus on reconstructing a properly functioning government and with sound civic and governance institutions. Moreover, the rebuilding will require an immense and all-encompassing rooting out of corruption across the entire country's networking of infrastructure and institutional relationships. The situation in Venezuela got to the point where it currently is as of early 2019 because of resilient connections between criminal organizations, lawless activities, and government personnel. Replacing one person may be necessary, but it is not sufficient to correct the decades of institutional abuse and willful mismanagement. The Venezuelan government must be cautious against rebuilding so quickly that it seeks out profits in the place of healing, and perhaps find an opportunity for a different political future than the curse of petroleum.

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