

## LIBERALISM OR NEOLIBERALISM. THE VENEZUELAN EXPERIMENT.

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*Abstract: This paper focuses on the so-called “neoliberal” policy experimented in Venezuela during the second term of the social democrat President Carlos Andres Perez 1989-1994.<sup>1</sup> In approaching the updated neoliberal theory, this paper posits that the content of the defaulted Venezuelan version of neoliberalism was not neoliberal; instead, it was an orthodox and classic liberal economic policy. I begin this paper by outlining Venezuela's situation that led to the political and economic crisis in the late '90s. Then, I address the fundamental ideas implanted by the Venezuelan liberal project in contrast with the current neoliberal school's basic concepts. Then, I will continue revising the liberal leaders' reasons offered to explain its failure and how the liberal intent's inconsistencies could explain why the Venezuelan Macroeconomic Stabilization Fund failed in contrast with Norway's successful one.*

- I. Introduction.
- II. The situation in Venezuela led to the crisis in the late '90s.
- III. The Venezuelan Neoliberal Policy.
- IV. "Dutch Disease." Venezuela and Norway.
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# I

## INTRODUCTION.

This paper focuses on the so-called neoliberal policy experimented in Venezuela during the second term of the social democrat President Carlos Andres Perez 1989-1994.<sup>2</sup> In approaching the updated neoliberal theory, this paper posits that the content of the defaulted Venezuelan version of neoliberalism was not neoliberal; instead, it was an orthodox and classic liberal economic policy.

After the experience failed politically, the implementers explained their failure, which did not include economic reasons.<sup>3</sup> A more convincing explanation of the failed intent could be that the fundamental objective was to impose a classical anti-state liberal policy. The project's basic goal differed from the ideas promoted by the neoliberalism update model, which was supposed to consider the socio-political constraints and needs of the socio-political environment in the capitalist context in responding efficiently to its demands. In pointing out the differences between liberalism and neoliberalism approaches, I use a specific example: the Venezuelan Macroeconomic Stabilization Fund's colossal failure.

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<sup>2</sup> JOSE CARUCI/AP, *Carlos Andrés Pérez Twice-elected President of Venezuela whose terms in office were marked by success and social turmoil*, The Times, Monday, December 27 2010, <https://www.thetimes.co.uk/article/carlos-andres-perez-p5nwzvsvr82v>

<sup>3</sup> Juan Carlos Navarro, *Reversal of Fortune: The Ephemeral Success of Adjustment in Venezuela*, September 1995, The World Bank, Private Sector, Development Department, September 1995, Paper No. 6, 2.3., p. 9. <https://documents1.worldbank.org/curated/en/188761468778217339/pdf/multi0page.pdf> See also: Camelia Coupal & Ashlee Rosenthal, *From Paratrooper to Populist President*, Stanford University, March 12th, 2004, p. 5, <https://web.stanford.edu/class/e297a/Venezuela%20-%20A%20Tenuous%20Democracy.doc>

I begin this paper by outlining Venezuela's situation that led to the political and economic crisis in the late '90s. Then, I address the fundamental ideas implanted by the Venezuelan liberal project in contrast with the current neoliberal school's basic concepts. Then, I will continue revising the liberal leaders' reasons offered to explain its failure and how the liberal intent's inconsistencies could explain why the Venezuelan Macroeconomic Stabilization Fund failed in contrast with Norway's successful one.

## II

### THE SITUATION IN VENEZUELA THAT LED TO THE CRISIS IN THE LATE '90s.

Throughout almost the entire nineteenth century, Venezuela suffered continuous armed conflict.<sup>4</sup> A military dictatorship started at the beginning of the twentieth century and remained in power for nearly three decades. An incipient democratic process began after the fall of the dictatorship, but it was interrupted by another military dictatorship that lasted for ten years until 1958.<sup>5</sup> Democracy was established in the early '60s and continued in Venezuela until 1999, when the so-called "socialism of the XXI century" began.<sup>6</sup> Before, the Country lived with governments that could boast democratic credentials and tangible results in public education,

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<sup>4</sup> See generally Pino Iturrieta Elías, *País Archipiélago Venezuela 1830-1858*, Fundación Bigott, Caracas 2001, págs. 9-27. (Book Call Number: F2325 P582 2001 ISBN: 9806428285 World Catalog OCLC Request Number: 50002317, for requesting interlibrary loans)

<sup>5</sup> See generally, Arráiz Lucca Rafael, *Venezuela: 1830 a nuestros días*, Alfa, Caracas, 2014, pags: 25-118. (Book Call Number: F2325 A84 2009 ISBN: 9803542729 World Catalog OCLC Request Number: 664859621, for requesting interlibrary loans.)

<sup>6</sup> See generally, Allan Brewer Carías. *Dismantling Democracy in Venezuela. The Chavez Authoritarian Experiment*, 7-86, Cambridge Press, (2010)

health, and industrial infrastructure.<sup>7</sup> Yet, the democratic progress and its achievements were not enough. Instead, it promoted a desire for a better democracy.

A social outburst occurred, "El Caracazo," a series of protests in Venezuela during Carlos Andrés Pérez's presidency involving several radical leftist organizations. It began on February 27 and ended in Caracas on March 8, 1989, and during that time, the government security forces took the stress.<sup>8</sup> The Venezuelan Jesuit organization Centro Gumilla prepared an extensive report, and the resulting consensus was that the riot should be deemed a reaction against liberal measures adopted.<sup>9</sup> The official figures report 276 dead and numerous injured; some unofficial reports mention more than 300 killed, and 3,000 persons were missing.<sup>10</sup>

Although Venezuelan representative democracy continued until 1999, the political system within the '90s, called a "Populist System of Conciliation,"<sup>11</sup> was probably headed towards what Ackerman, in his dualist conception of democracy, calls a "constituent moment" or "constitutional politics."<sup>12</sup> The crisis in the bipartisan system revealed a significant decline in trust and disaffection towards political parties.<sup>13</sup>

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<sup>7</sup> Jose Curiel, *Del pacto de Punto Fijo al Pacto de la Habana* (From the Punto Fijo Pact up to the Havana Pact), Cyngular Jose Curiel, Caracas, 2014 (reporting relevant data gathered from official sources and reliable international organizations)

<sup>8</sup> Pedro Trigo, *Cómo vivimos e interpretamos la semana que comenzó el 27F de 1989*, Centro Gumilla, March 3, 2009, accessible at: [http://64.227.108.231/PDF/SIC2009711\\_27-30.pdf](http://64.227.108.231/PDF/SIC2009711_27-30.pdf)

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Juan Carlos Rey. *La Democracia Venezolana y la crisis del sistema populista de Conciliación* (The Venezuelan Democracy and the crisis of the System of Populist Conciliation), 74 *Revista de Estudios Políticos*, Institute of Political Studies, Central University of Venezuela, Caracas, (1991) p. 535-577.

<sup>12</sup> Bruce Ackerman, *We the People Transformations*, Belknap Harvard University Press, (1998), p.6.

<sup>13</sup> Sonia González Fuentes, *Desconfianza política: el colapso del sistema de partidos en Venezuela* (Political mistrust; collapse of the political party system in Venezuela) in: *Los intersticios de la democracia y el autoritarismo - Algunos casos de Asia, África y América Latina* (Interstices of democracy and authoritarianism – Some cases from Asia, Africa, and Latin America), Buenos Aires, Latin American Council of Social Sciences (2006), at 174, [http://biblioteca.clacso.edu.ar/clacso/sur-sur/20100707073749/6\\_gonzalezfuentes.pdf](http://biblioteca.clacso.edu.ar/clacso/sur-sur/20100707073749/6_gonzalezfuentes.pdf)

Some Venezuelan political leaders from that time perceived the need for change. In 1989, the National Congress approved creating a bicameral commission for reviewing the Constitution. In 1990, a highly acknowledged opinion-maker group, "Frente Patriótico," proposed to call a national constituent assembly, an elected autonomous institution different from the Congress, to replace the Constitution.<sup>14</sup> Further, the 1992 congressional debate on this issue led to the consideration of amending the Constitution to include, among other things, provisions for a national constituent assembly as a way out of the political crisis the country was going through.<sup>15</sup> In 1994, Venezuela was also immersed in a deep banking crisis that contributed to diverting interest in constitutional replacement.<sup>16</sup>

The Venezuelan largest oil export was in 1970, with 3.8 million barrels; in September 2023, according to OPEC and Bloomberg, it is 730,000.<sup>17</sup> Venezuela has experienced at least four oil boom prices. In the '70s, the oil price was around \$ 45 per barrel; during the '80s, it was around

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<sup>14</sup> See generally about Constituent Assembly, Humberto Briceño León, *Despotismo Constituyente. Venezuela 2017*, (2018), <http://www.fundacionalbertoadriani.com.ve/documentos/despotismo%20contituyente.pdf>.

<sup>15</sup> Manuel Rachadell, *Evolución del Estado venezolano 1958-2015 de la conciliación de intereses al populismo autoritario* (Evolution of the Venezuelan State 1958-2015 from the reconciliation of interests to the authoritarian populism) Administrative Law Study Foundation, Editorial Jurídica Venezolana, Caracas (2015), at 106-111. (This work shows a study on the process where the need for a constitutional change emerged within the 90's in Venezuela.)

<sup>16</sup> *Id.*

<sup>17</sup> DW, José Toro Hardy, *Solo "un cambio de modelo político" podría salvar la industria petrolera de Venezuela*, <https://www.dw.com/es/solo-un-cambio-de-modelo-pol%C3%ADtico-podr%C3%ADa-salvar-la-industria-petrolera-de-venezuela/a-54653754> . OPEC, Monthly Report-September 2023, p. 49, <https://momr.opec.org/pdf-download/> Bloomberg Línea, <https://www.bloomberglinea.com/latinoamerica/venezuela/produccion-petrolera-de-venezuela-crecio-mas-de-5-e-n-primer-trimestre-de-2023/>

\$ 70; between 2006 and 2010, an average of \$ 90; between 2012 and 2014, about \$ 107;<sup>18</sup> and in September 2023, OPEC basket oil price is \$ 88.51.<sup>19</sup>

During the second term of President Carlos Andrés Pérez (1989-1994), the oil income was 8 billion dollars; in contrast, between 2012 and 2014, under President Hugo Chávez's mandate (completed by Nicolas Maduro -Chavez's handpicked successor-), oil income was 28 billion dollars.<sup>20</sup> The oil income meant for the second term of Carlos Andrés Pérez was approximately 20% of the state treasury's total income, while for Hugo Chávez 2004-2014, it was nearly 70% of the total income for the state.<sup>21</sup> For 2023, the oil income will cover 63% of the state budget.<sup>22</sup> Today, Venezuela has the largest estimated oil reserves in the world.<sup>23</sup>

### III THE VENEZUELAN NEOLIBERAL POLICY.

President Perez, in 1989, called the Venezuelans' Chicago boys to the government.<sup>24</sup> They designed an economic and political program, essentially an anti-state policy, called "The "Great Turnaround," which was considered neoliberal by almost everybody: the national and international media, the opposition, their allies, academia, and ordinary people. As Singh & Purdy pointed out correctly, neoliberalism is a standard part of many disciplines' scholarly

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<sup>18</sup> Luis Zambrano Sequín, Foro: *El petróleo y la política macroeconómica en la Venezuela contemporánea*, Academia Nacional de Ciencias Económicas y el Instituto de Estudios Superiores de Administración, Caracas, (2015), grafico No. 2, at 22,

<https://www.ucab.edu.ve/wp-content/uploads/2017/09/Petroleo-y-Politica-Macroeconomica-Venezuela.pdf>

<sup>19</sup> OPEC, Basket Oil Price, [https://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](https://www.opec.org/opec_web/en/data_graphs/40.htm)

<sup>20</sup> Zambrano, *supra* note 18, Graphic 7, at 36.

<sup>21</sup> *Id.* Graphic 8, at 39.

<sup>22</sup> Euronews, 05/12/2022, Mayela Armas, <https://es.euronews.com/next/2022/12/05/venezuela-economia-presupuesto>

<sup>23</sup> Elizabeth Díaz Zúñiga, *La evolución del petróleo y su panorama actual*, Johannesburgo, Mayo 2020, 7, <https://www.ig.com/es/ideas-de-trading-y-noticias/historia-del-petroleo>

<sup>24</sup> Navarro, *supra* note 3, 3.5, 3.6, 3.7, 12-13.

lexicons and is widely used in Latin America; nevertheless, the Venezuelan neoliberal plan was no more than a classic liberal program without a functional new social and political consensus used toward securing safe boundaries between the claims of capital and those of labor.<sup>25</sup> The up-to-date term neoliberalism refers to policies in the competing conflict between the imperatives of market economies and nonmarket values supported by the necessities of democratic legitimacy.<sup>26</sup>

The President Perez adjustment program was known for its comprehensive nature, reformist aims, and actions that touched almost every governmental sector. The package was consistent with the rest of the reforms launched to respond to a previous severe crisis of both the balance of payments and fiscal accounts.<sup>27</sup> According to their designers, it was aimed to address the short-term goal of restoring macroeconomic equilibriums and reversing the causes of the macroeconomic troubles.<sup>28</sup> The neoliberal project restructured governmental agencies, privatized state enterprises, and liberalized trade. It eliminated subsidies and price controls for all kinds of products, changing the import-substitution model governing for three decades and substituting it with an export-oriented economic strategy.<sup>29</sup> Navarro affirmed: “Positive results came very earlier than policymakers expected in several important areas, including the balance of payments, exchange rate, foreign exchange reserves, export performance, and growth above all, even inflation was being brought under control.”<sup>30</sup>

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<sup>25</sup> David Singh Grewal & Jedediah Purdy, *Introduction: Law and Neoliberalism*, 77 *Law & Contemp. Probs.* 1, (2014).

<sup>26</sup> *Id.* at 3

<sup>27</sup> Navarro, *supra* note 3, 4.9, 19.

<sup>28</sup> *Id.* 1.1, 1.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* 1.6, at 2.

It did not design any inclusive instruments to satisfy efficiently and coherently the democratic-social demands different from those requested by capitalism imperative's allocation needs. According to The World Bank, the project was based on structural reform, trade liberalization, elimination of price and exchange controls and subsidies, termination of financial repression, complete privatizations, and restructuring of fundamental public agencies.<sup>31</sup> The design ignored that Venezuela was not living in the golden age of capitalism; the "trente glorieuse" ages, as is well known, created a shelf of political, economic, and social consensus in the United States and Western Europe after the end of the II World War. At the neoliberal implementation time, the relationship between Venezuela's political spectrum and the most potent economic actors was not peaceful or friendly. Worse than that, the leaders did not intend to build or negotiate a new political and economic consensus about their plan. The political leaders and the top financial groups disregarded how to deal with the democratic demands. It seems they took the democratic achievement for granted.

As a commentator stated, "Democratic citizens tend to hold a set of expectations about economic and political life that may go beyond or even contradict market logic: for instance, a reasonable level of economic opportunity, distributive fairness, workplace security, community and solidarity, and civic equality."<sup>32</sup> Neoliberalism "[H]as supported the affirmative use of political power to restructure areas of law and social life along market lines, from labor relations to universities to the professions."<sup>33</sup> The classic opposition between "market" and "state" as traditionally presented is rhetorical; the neoliberal position is not "market against the state," it

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<sup>31</sup> *Id.* at 1.6, 4.1- 4.3.

<sup>32</sup> Singh & Purdy, *supra* note 25, at 4.

<sup>33</sup> *Id.* at 4.



is not "more market, less state," but rather a request for a specific kind of state.<sup>34</sup> Singh & Purdy emphatically indicated: "Understanding neoliberalism's role in recent legal developments should concern all those who agree, as Philip Mirowski has recently written, 'that current market structures can and should be subordinate to political projects for collective human improvement.'"<sup>35</sup>

The Venezuelan liberals' policymakers stated positive macrocosmic results sooner than expected, just in the capitalists' zone, including the balance of payments, exchange rate, foreign exchange reserves, export performance, inflation, and economic growth. According to The World Bank publication, the fiscal deficit went down from 9.4 percent of the GDP in 1988 to 1.1 percent in 1989 and then to a surplus in 1990; the balance of payments exhibited a positive turnaround, particularly the current account and reserve accumulation started to improve at a fast velocity, getting \$12.5 billion in 1990; price liberalization and 140 percent devaluation created a price shock in the second quarter of 1989, contributing to an 80 percent inflation rate for that year; still, from October 1989 on, the monthly inflation rate was about half of the January and February rates.<sup>36</sup> The reforms were to turn the economy into a competitive, export-oriented one with much less state intervention. The public sector became a liberal state concentrated in a market correction.<sup>37</sup>

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<sup>34</sup> *Id.* at 8.

<sup>35</sup> *Id.* at 9.

<sup>36</sup> Navarro, *supra* note 3, at 16 4.4 (Table 2 contains information concerning the evolution of the main macroeconomic indicators in the years directly relevant to evaluating the short-term impact of the stabilization program of 1989, at 17)

<sup>37</sup> *Id.* at 19, 4.9

Pérez followed a new economic plan in February 1989, which included a devaluation of the currency, increases in gasoline prices, and the eradication of subsidies.<sup>38</sup> As DiJohn commented, a negative view of the state had dramatically influenced the mainstream view of politics: "For instance, models of the welfare state have been replaced by models which view the state as either 'predator,' 'bandit,' 'populist,' or 'grabbing hand.'" <sup>39</sup>

The liberalization chief architect was the Planning Minister Miguel Rodríguez. He envisioned that Venezuela would follow the post-1982 Chilean model of neoliberal reform.<sup>40</sup> The plan did not privilege any consumer-citizens as the classical liberal model.<sup>41</sup> In the current highly complex world, neoliberalism cannot be a "hands-off" antiregulatory as classical liberalism proclaimed; neoliberalism works through choices about shaping social and economic life to secure consensus, which was not in the Venezuelan's case.<sup>42</sup>

At some point in Venezuela, things started to go wrong. The political sustenance for the reform program weakened severely. Following a couple of years of applying the reform on the political front in 1992, Hugo Chavez, a middle-rank military official, failed two coup d'états. In 1993, President Pérez was impeached and convicted in a very controversial process. That same year, Rafael Caldera, a founder of the Social Christian political party, won his second presidential election, supported by a left-wing coalition. Hugo Chavez confronted an indictment for the attempted coup d'état, but Caldera subsequently granted him a preemptive pardon (sobreseyó). Indeed, all the symptoms indicated that those liberals or neoliberals had lost the battle.

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<sup>38</sup> Bruce Lusignan, Venezuela: *A Tenuous Democracy "From Paratrooper to Populist President"*, Stanford University, ENGR 297B, Camelia Coupal, Ashlee Rosenthal, March 12th, 2004, at 4.

<sup>39</sup> Jonathan DiJohn, *Crisis States Programme, The Political Economy of Economic Liberalisation in Venezuela, Development*, Research Centre, LSE (2004), at 3 (footnote10)

<sup>40</sup> *Id.*

<sup>41</sup> Singh & Purdy, *supra* note 25, at 14.

<sup>42</sup> *Id.*

Venezuela needed to be more effective in getting rid of this economic plague. Grotesque government policies, soaring levels of corruption and authoritarianism, and an irresponsible political agenda amplified the political crisis. A testimony of it is the Venezuelan governmental Macroeconomic Sovereign Stabilization Funds, including the ones established during the democratic times. All failed catastrophically, particularly Chávez's, due, among other causes, to a dissipated use of the management's resources, widespread corruption, inconsistencies, and lack of a coherent economic policy to improve the quality of Venezuelan life. The "Great Turnaround" also failed because of the lack of a coherent plan to build a solid consensus, excessive policies in advancing the capitalist imperative, and a mixture of economic and political decisions without a plan to respond efficiently to democratic-social demands.<sup>43</sup>

A World Bank journal has offered several explanations for the liberal project's failure, but without having observed the social structure complexity.<sup>44</sup> The plan did not prioritize any critical view or conception of the population's needs or demands as an essential variable for success. The failure was attributed to events unrelated to the economic program; the explanation pointed out the weak governance capacity, the unpreparedness of the new policy's population, and the uncertainty among individuals concerning their role in the reform process and its result.<sup>45</sup> The confrontation within the private sector added significantly to the political and social instability atmosphere that produced the liberalization. The interest groups

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<sup>43</sup> Harish Kumar, Aditi Toshniwal & Sumedha Gupta, *The Resource Curse Play: A Comparative Study of Norway and Venezuela* (September 15, 2016), IOSR Journal of Economics and Finance, Volume 7, Issue 5, 13, IV, 16-17.  
[https://www.researchgate.net/publication/331904059\\_The\\_Resource\\_Curse\\_Play\\_A\\_Comparative\\_Study\\_of\\_Norway\\_and\\_Venezuela](https://www.researchgate.net/publication/331904059_The_Resource_Curse_Play_A_Comparative_Study_of_Norway_and_Venezuela), (also available at SSRN: <https://ssrn.com/abstract=2981510> )

<sup>44</sup> See generally, Navarro, *supra* note 3.

<sup>45</sup> *Id.* at 3 1.9, 11 3.2, 21 4.16, 39 7.9.

undermined the reformist drive, especially the national investors, opposing the internationals because of their inability to compete with them on prices.

At the end of the 90s, Venezuela's political crisis symptoms were evident, including the deterioration in the leading political parties' legitimacy. In those times, the main political parties, along with the national corporative leaders, neglected the widespread political crisis, contributing to destabilizing democracy.<sup>46</sup> Consequently, the programmers' greatest mistake was to abandon creating efficient machinery to manage the political and social-democratic demands; notably, one of its neglected critical pieces was the Macroeconomic Stabilization Fund.<sup>47</sup>

#### IV

#### "DUTCH DISEASE." VENEZUELA AND NORWAY.

The "Dutch disease" is known from the '60s economic crisis in the Netherlands after discovering North Sea natural gas.<sup>48</sup> It is a paradoxical economic phenomenon; the fast development of one area of the economy causes a decline and underdevelopment of other sectors and the overdependence on exporting such commodities. The critical result, among others, is the extensive appreciation of the domestic currency. The oil industry requires significant capital investments but is not a labor-intensive process, which explains why its revenue is often called rent.<sup>49</sup>

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<sup>46</sup> *Id.* at. 17, 20.

<sup>47</sup> Dijohn, *supra* note 39, at 16.

<sup>48</sup> Center for public impact, a BGC foundation, The Government Pension Fund Global (GPFG) in Norway, (footnote 3), <https://government-excellence.com/wp-content/uploads/2018/10/Case-study-The-Government-Pension-Fund-Global-GPFG-in-Norway-1.pdf>

<sup>49</sup> *See generally:* Rudd '96, David, *An Empirical Analysis of Dutch Disease: Developing and Developed Countries*, (1996). Honors Projects. Paper 62, [http://digitalcommons.iwu.edu/econ\\_honproj/62](http://digitalcommons.iwu.edu/econ_honproj/62)

One way to cure or prevent the "Dutch disease" is creating macroeconomic stabilization funds or sovereign wealth funds for those countries with extensive natural resources or a rise in the international price of an exportable commodity such as oil. The stabilization fund is a mechanism to strengthen the economy due to falling revenues and public spending in periods of negative fall in prices in the oil markets by saving resources in boom periods.<sup>50</sup> Unfortunately, some democratically elected governments carry a populist tendency to run enormous deficits and, therefore, the propensity to redistribute the income of future generations ineffectively because policymakers will always be subject to pressure for extra spending.<sup>51</sup>

The International Forum of Sovereign Wealth Funds (SWF), established in 2009, defined it as "[S]pecial purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives and employ investment strategies, including investing in foreign assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and receipts of commodity exports."<sup>52</sup> Numerous governments have formed distinct types of funds owned directly by the government or belonging to the social security system, among

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<sup>50</sup> Luis Cermeno, mayo 15, 2019, *El Fondo De Estabilización Macroeconómica: Crónica De Una Crisis Que Tuvo Alternativa*, Pro-Economía, 1,

<https://proeconomia.net/el-fondo-de-estabilizacion-macroeconomica-cronica-de-una-crisis-que-tuvo-alternativa-ii/>

<sup>51</sup> *Id*

<sup>52</sup> Erling Steigum, *Sovereign wealth funds for macroeconomic purposes*, BI Norwegian Business School, Oslo , 1, (2013),

[https://biopen.bi.no/bi-xmloi/bitstream/handle/11250/2366231/CME\\_wp2012\\_04.pdf?sequence=1&isAllowed=y](https://biopen.bi.no/bi-xmloi/bitstream/handle/11250/2366231/CME_wp2012_04.pdf?sequence=1&isAllowed=y)

them Australia, Canada, Denmark, Japan, Korea, Spain, USA, Australia, France, Ireland, New Zealand, Norway, Poland, Portugal, Sweden, Saudi Arabia, Thailand, China, and Russia.<sup>53</sup>

Most of those countries are members of "Le Groupe d'Etats contre la Corruption" (GRECO), created in 1999 by the European Council to monitor the respect of anti-corruption rules by the state members.<sup>54</sup> This organization has a very comprehensive system to accomplish its goals. According to GRECO, Norway is a row model for preventing corruption in parliament, judges, and prosecutors. They use the dynamics of collective expertise and pressure to accomplish individual governments' actions to build durable policies against corruption and bring justice to those who abuse their position for personal gain to the detriment of society. Norway ranks among the least corrupt countries globally, and businesses are led with high transparency.<sup>55</sup> Norway is an example of the legal framework, and the laws are enforced robustly to fight corruption.<sup>56</sup> The GRECO program and its experience are a cornerstone against corruption, but a strong convergence should be needed between a collective conscience and a genuine political will. Otherwise, it will not be possible to defeat this cancer, at least in Latin America.

Several Venezuelan governments intended to implement such funds. Indeed, President Rafael Caldera (1969-1974), President Carlos Andres Pérez (1989-1993), and President Hugo Chavez (1999-2013) have failed colossally in implementing this tool. In contrast, the Norway governmental fund has been very successful.

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<sup>53</sup> Blundell-Wignall, A., Y. Hu and J. Yermo (2008), *Sovereign Wealth and Pension Fund Issues*, OECD Working Papers on Insurance and Private Pensions, No. 14, 4 & 6.

<https://www.oecd.org/finance/private-pensions/40345767.pdf>

<sup>54</sup> Le Groupe d'Etats contre la Corruption (GRECO),  
<https://www.coe.int/fr/web/greco/structure/member-and-observers>

<sup>55</sup> Norway Corruption Report, Last Updated: May 2020,  
<https://www.ganintegrity.com/portal/country-profiles/norway/>

<sup>56</sup> GRECO,  
[https://www.coe.int/en/web/greco/home/-/asset\\_publisher/1xOP5Yph48Zi/content/norway-a-role-model-for-preventing-corruption-in-parliament-and-among-judges-and-prosecutors?inheritRedirect=false](https://www.coe.int/en/web/greco/home/-/asset_publisher/1xOP5Yph48Zi/content/norway-a-role-model-for-preventing-corruption-in-parliament-and-among-judges-and-prosecutors?inheritRedirect=false)

Corruption in Venezuela has been rampant, ranging from an increasing seizure of natural resources by the economic and political elite to an authoritarian government. Today, Venezuela is the ninth most corrupt Country in the world.<sup>57</sup> Three levels exist: corruption at the topmost policymaking level, bureaucratic corruption at the government, and systemic corruption between the government and private sector. Venezuela's encounter with bribery dates back to the 70s when the Country experienced an oil windfall, which tripled fiscal income. The easy and sudden wealth exposed the public administration to extraordinary temptation. Subsequently, corruption went out of control and has remained high ever since.

In the middle of the oil boom prices in the 1970s, the government created the Venezuelan Investment Fund (FIV), which received significant off-budget resources.<sup>58</sup> In the late '90s, the Investment Fund for Macroeconomic Stabilization (FIEM) was recreated.<sup>59</sup> The original design was relatively conventional, with clear saving and spending rules, but the Chávez administration modified it,<sup>60</sup> deferring its management to his fully discretionary hands. The FIEM was rendered useless by the constant changes to its rules. Essentially, with the approval of each new budget law, a shift in the fund came. It turned out to be inoperative to the point that from 2006 to 2008, few additional savings were added despite high oil prices. The last attempt at savings was originating another fund in 2005, the National Development Fund (FONDEN), coexisting with the prior one.<sup>61</sup> The total FONDEN spent was \$9.85 billion in 2006, of which \$3.68 billion was

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<sup>57</sup> Kumar, Toshniwal, & Gupta, *supra* note 43, at 17.

<sup>58</sup> Osmel Manzano & Jose Sebastian Scrofina, *Resource Revenue Management in Venezuela: A consumption-based poverty reduction strategy*, Universidad Catolica Andres Bello and Instituto de Estudios Superiores de Administración, (2013), p. 9, [https://resourcegovernance.org/sites/default/files/Venezuela\\_Final.pdf](https://resourcegovernance.org/sites/default/files/Venezuela_Final.pdf)

<sup>59</sup> Kumar, Toshniwal, & Gupta, *supra* note 43, at 16.

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

transferred to the Ministry of Finance, \$1.52 billion to the Ministry of Energy and Oil, and \$1.09 billion to the Ministry of Defense. Those resources did not consist of social development projects.

According to the New York Times, Venezuela has the highest poverty rate in Latin America, surpassing Haiti.<sup>62</sup> In 1999, 22.6 percent of Venezuelans were in extreme poverty.<sup>63</sup> A study by three Venezuelan universities shows extreme poverty grew from 22.6 percent in 2014 to 79.3 percent in 2019.<sup>64</sup> The same report specified: "79.3% of Venezuelans cannot cover the food basket."<sup>65</sup> In 2018, 86 percent of all Venezuelans had salaries insufficient to allow an adequate living standard – compared to the average of 47 percent in Latin America.<sup>66</sup> In 2019, a Harvard Kennedy School of Government professor, Ricardo Hausmann, described Venezuela's economic situation as "the biggest economic collapse in human history outside of a war or state collapse."<sup>67</sup>

In 1969, the Norwegians discovered one of the world's largest offshore oilfields, and they decided to create a fund to protect the economy from ups and downs in oil income. It serves as a long-term strategy and protects the Norwegian economy's future as a reserve to benefit future generations from the oil wealth. In 1990, the Norwegian parliament passed

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<sup>62</sup> New York Time, Sheyla Urdaneta, Anatoly Kurmanaev & Isayen Herrera, *Venezuela, que fue una potencia petrolera, llega al fin de una era*, New York Time, 7 de octubre de 2020, <https://www.nytimes.com/es/2020/10/07/espanol/america-latina/venezuela-petroleo-maduro.html>

<sup>63</sup> María Gabriela Ponce Zubillaga, *La Pobreza en Venezuela: Mediciones, Acercamientos y Realidades. 1997-2007*, Temas de Coyuntura 53, 73 (Dec. 2009), <http://revistasenlinea.saber.ucab.edu.ve/temas/index.php/temasdecoyuntura/article/viewFile/1090/980> .

<sup>64</sup> ENCOVI, Encuesta Nacional de Condiciones de Vida (2019-2020) <https://www.proyectoencovi.com/informe-interactivo-2019>

<sup>65</sup> *Id.*

<sup>66</sup> Corporación Latinobarómetro, Informe 2018, at 70, [https://www.latinobarometro.org/latdocs/INFORME\\_2018\\_LATINOBAROMETRO.pdf](https://www.latinobarometro.org/latdocs/INFORME_2018_LATINOBAROMETRO.pdf) .

<sup>67</sup> Colleen Walsh, Understanding Venezuela's Collapse, The Harv. Gazette (Feb. 12, 2019) <https://news.harvard.edu/gazette/story/2019/02/harvard-expert-tries-to-make-sense-of-venezuelas-collapse/>.



legislation creating The Government Pension Fund Global. According to the regulation, the fund should only be invested abroad. It is now one of the world's most significant funds, owning almost 1.5 percent of all shares in the world's listed companies in around 9,000 companies worldwide.<sup>68</sup>

Norway has a broad political consensus on how the fund should be managed. The Budget surpluses are transferred to the fund, while deficits are covered with the fund money; thus, the authorities can spend more in hard times and less in good times. The Norwegian Parliament and the Ministry of Finance have transferred the management of the Fund to Norges Bank.<sup>69</sup> For thirty years, the Government of Norway has been saving money for its citizens through its sovereign fund. Indeed, the government has obtained an asset of over 1 trillion dollars for its population of just 5.33 million people. That puts Norwegian citizens among the wealthiest on earth based on the fund's holdings alone. The returns have been extraordinary; in 2017, the fund returned 131 billion dollars.<sup>70</sup>

Norway's experience exemplifies how resource-rich countries like Venezuela can help people implement the correct economic and political framework. In Venezuela, it is vital to restrain the illegal usage of revenues. The government should emphasize a stable entry of oil wealth through mechanisms like well-managed Norway's Pension Fund. Since oil reserves are public

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<sup>68</sup> Norges bank, Investment Management, About the Fund, <https://www.nbim.no/en/the-fund/about-the-fund/>

<sup>69</sup> *Id.*

<sup>70</sup> Jeff Megayo, *Norway's Oil Fund: Lessons for African Sovereign Wealth Funds*, Noteworthy The Journal Blog, Dec 29, 2020, (also see graphic: "Growth of the Fund over the years"), <https://blog.usejournal.com/norways-oil-fund-lessons-for-african-sovereign-wealth-funds-eac49b905634>

goods in countries like Venezuela, the government must responsibly bear the duty of managing and employing its vast reserves through a rigorous and transparent mechanism.<sup>71</sup>

## V

### CONCLUSION

With different emphases and purposes in Venezuela, before and after the so-called "socialism of the XXI century" started, the capitalist imperative request to allocate the revenues has prevailed over the democratic demands. It happened in some circumstances and still happens profusely by pseudo-legal means and illegally through undue influences, corruption, and political leaders captured by the national and transnational interest to benefit old and new elites.

The liberal policy implemented since 1989 was essentially an anti-state plan according to the orthodox liberal canon; thus, the state was perceived as a "bandit" incapable of legitimately and honestly managing economic resources. The inherent and total inability of the state to do it effectively is a weak oversimplification. The sovereign funds are efficiently managed and owned by states worldwide and managed by their governments responding efficiently to democratic demands, as demonstrated in the Norway case.

Following the Venezuelan liberal failure, the antiliberals' doers of the socialism of the XXI century devastated the Country.

Democracy requires a broad consensus to implement neoliberal and social-economic policies, not just to reproduce the capitalist imperatives but also to secure the citizens' long-term well-being, as Norway has done. Otherwise, the cost would be extreme poverty even if the Country is as wealthy in natural resources as Venezuela.

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<sup>71</sup> Kumar, Toshniwal, & Gupta, *supra* note 43, see III, (Sep. - Oct. 2016), p. 20,