

Venezuela in the Gordian Knot

Venezuela in the Gordian Knot:

*Lessons for Rebuilding
Democracy and Economic
Prosperity*

By

José Noguera-Santaella

Prologue by Humberto Celli-Gerbasi

Translated by Stefanie Butendieck Hijerra
and Piotr Kozak

**Cambridge
Scholars
Publishing**



Venezuela in the Gordian Knot:
Lessons for Rebuilding Democracy and Economic Prosperity

By José Noguera-Santaella

This book first published 2021

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Copyright © 2021 by José Noguera-Santaella

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

ISBN (10): 1-5275-6752-4

ISBN (13): 978-1-5275-6752-8

TABLE OF CONTENTS

Prologue / Humberto Celli-Gerbasi	ix
Introduction	1
1. Democracy commits <i>hara-kiri</i>	8
The day of infamy	
Indicting national security	
The revolutionary offer	
From prodigality to debacle	
The regime of the poor	
2. Democracy in Venezuela	28
Human rights in Venezuela	
3. Building democracy	49
The struggle for direct and secret universal suffrage	
The <i>Adeco</i> Triennium	
Venezuela under a reign of terror	
The return of democracy	
4. The rise and fall of democracy	83
Modernisation and democracy	
Political tolerance in Venezuela	
Building democracy	
The relentless conspiracy	
Why did democracy crumble?	
5. The State and economic growth	116
Why did we become impoverished?	
The State: Player or referee?	
The State: Infrastructure	
The State: Education	
The State: Healthcare	

	The State: Corruption	
	The three fiascos	
6.	Oil, inflation and crisis	129
	A bright beginning	
	The first oil booms	
	Inflation and money	
	The 1983 currency crisis was not about oil	
7.	The oil war made the <i>bolívar</i> plunge	152
	An abrupt change of direction	
	An avoidable crisis	
	The assessment	
8.	A self-fulfilling prophecy	169
	The 1994 banking crisis	
	The banking system	
	Financial subversion	
	Could it have been handled better?	
	The icing on the cake	
9.	21st century inflation	190
	The great boom	
	When the US catches a cold	
10.	Why does a rich country follow poor policies?	209
	The absence of a school	
	Structuralism	
	The macroeconomics of populism	
11.	How can inflation be subdued?	228
	German hyperinflation	
	Hyperinflation in Bolivia	
	The Fuji shock	
	Brazil: the <i>cruzeiro</i> , the <i>cruzado</i> and the <i>real</i>	
	Argentina: the convertibility plan	
	Dollars, euros and currency unions	

- 12. Controversy and compromise of ideas258**
 Macroeconomics before and after the Great Depression
 The Keynesian revolution
 Keynesians and Monetarists: allies or rivals?
 Keynesian versus Monetarist policies
 And the winner is ...
- 13. Macroeconomic policy in modern times283**
 The new neoclassical synthesis
 The trilemma
 Non-existence of the fixed exchange rate
 Rules versus discretion
 The Central Bank's independence
 Interest rates versus money stock
 Monetary policy lessons
- 14. The great game303**
 The coronel's drills
 The seven sisters
 The taxi army
 Concessions to power
 The admiralty wants all the world's oil
 The Gulbenkian's 5%
 I want water, not oil
 Pilgrimage is no longer needed
 The pearls have run out
 Oil and revolution
 The scoundrel's concessions
- 15. A gentlemen's agreement332**
 The Germans visit Mexico
 Objective: oil
 The law of 1943
 Criticisms of the law
Fifty-fifty
 The Arabs want the same as the Venezuelans
 The epicentre moves to the Middle East
 A string of elephants
 Juan Pablo Pérez Alfonzo
 Sheikh Abdullah Tariki
 Wanda's friends

16. The oil is ours, now what?	357
Rathbone's decision	
Venezuela growls	
The great assembler	
A modest start	
Blowouts and elephants	
It works for everything	
Oil nationalisation in Venezuela	
Was nationalisation successful?	
17. From an infant to an adult country.....	380
The Dutch have gone	
Everything is under control	
Is the free market enough?	
The dragons are no longer poor	
18. Epilogue. We can get through this.....	398
References	409

PROLOGUE

A SORT OF SNAPSHOT

Many years ago, a very young man who was starting his undergraduate studies came looking for work at the National Youth Secretariat of *Acción Democrática* (AD). At that time, I was the General Undersecretary of AD. The young man caught my attention, so I inquired about him and noticed that he was majoring in mathematics. I figured he must be very clever and persistent if he studied mathematics, so I arranged to meet with him. I admit that I was frustrated as I had not completed my industrial engineering degree because the AD had made me move from my hometown, Valencia, to Caracas. At that time, my major was not offered in a single university in the capital.

The young man came to my office and said, “My name is José Noguera, Comrade Celli”. The university faction of the party took him aboard, and he immediately undertook his work even as he continued his studies. When he graduated from Universidad Central de Venezuela, he considered joining the field of applied mathematics to pursue a doctorate in computer science or theoretical physics. He had already done some graduate work in computer science, but he eventually chose economics. Time would prove him right, though we could have ended up with our own Einstein. In 1988, he earned a master’s degree in economics at Universidad Católica Andrés Bello with a focus on economic policy. Soon after, he served as Pre-control Director of the Carabobo State Comptroller’s Office and as General Director of the Ministry of Interior for a short time.

Though I was as yet unaware of the success that he would find in various parts of the world, at that point I was happy to see that my intuition had not failed. As Secretary General of *Acción Democrática* in 1989, I asked the party’s technical commission to draft several reports about the economic reforms that the

government intended to introduce and their effects on the Venezuelan economy. In each case, the technical commission asked José Noguera to prepare the reports and submit them to the National Executive Committee and to the upper leadership. On several occasions, the cabinet was shaken by the irrefutable logical arguments that he developed based on solid elements of economic theory. His rigorous mathematical training had made him stand out. I feel incommensurable joy when I remember my colleagues and friends from those years exclaiming, “Wow, Humberto, what a pupil you had in José Noguera!” I relish José’s success as my own and am proud that that young man who once knocked on the door of *Acción Democrática* is now a world renowned scholar and researcher.

José began his journey at the State University of New York at Buffalo, where he earned a PhD in economics. His dissertation explains a theory of the origins of money. Although much has been written on this topic, no one had developed a theory to explain its origins with such a high level of mathematical rigor. His progress within the academy since 1988 dispels any remaining doubts about the magnitude of this Venezuelan’s achievements. After working as a lecturer in the Mathematics Department at Buffalo State College, José moved to Prague to work as assistant professor at CERGE-EI in Karlova University. He spent six years there conducting research on the transition of former socialist economies of Central and Eastern Europe, the former USSR, and on the likely expansion of the Eurozone to the East.

José was a visiting professor at the National University of Kiev, the University of Warsaw, Michigan State University and the University of New Hampshire and an associate researcher at the Center for Latin America Studies of Michigan State University and the Respekt Institute in Prague, Czech Republic. While living in the United States, he wrote a theory to explain why democracies fall and has used it to explain every democracy that has existed since the end of the 19th Century, including Venezuela. Currently, José is a full-time professor at the Universidad de Santiago de Chile, where he is the founding director of the master and doctoral programme in economics and founding director of the Centre of Research in Finance. Since moving to Chile, José has focused on the oil market and its

interaction with macroeconomics and is the author of a theory that explains structural changes in the oil market, its overall relationship with macroeconomics, and its connection to the macroeconomics of oil exporting countries in particular.

Within this spectacular body of accumulated experience and knowledge, I want to highlight his expertise in the transitions of formerly communist economies in Europe, as this makes him a reliable source on the changes that will soon occur in Venezuela. It is my hope that the people who will participate in the changes that our country will undergo know who to surround themselves with, and more importantly, listen to people like José who draw on their knowledge and expertise.

That young José Noguera has become a monument of success and an example for thousands of young Venezuelans and Latin Americans.

He has published several dozen books and scientific articles, and he recently offered us *Venezuela in the Gordian Knot. Lessons for Rebuilding Democracy and Economic Prosperity*. This book was written by a great professor and researcher of economics, however it does not overwhelm the reader with concepts that only experts know. It is meant to be understood by anyone who takes the time to open it. As the author puts it, “I made a great effort to keep the vocabulary simple enough to be accessible to non-experts without compromising the depth of my ideas and analysis”. These lessons for the rebuilding of Venezuela explain the break between a long period of growth and one of decadence, and how and why Venezuelan democracy was weakened and is falling apart. It also analyses successful and unsuccessful experiences of economic reconstruction in different parts of the world, elucidating key components for the economic reconstruction of our country.

The eighteen chapters are meant to be read separately based on the reader’s inclination and interests.

I invite you to read Dr. Noguera’s work. I am certain that it will clarify how proposals and solutions are developed for the progress and prosperity of Venezuela.

Humberto Celli

INTRODUCTION

In the 9th century BC, after the kingdom of Phrygia (present-day Turkey) was left without a king, its inhabitants consulted the oracle of Telmissus, which affirmed that the next man to enter the city driving an ox-cart would be king. And so it was that a peasant named Gordias became King of Phrygia. Gordias' son, the legendary King Midas, showed his gratitude by dedicating that cart to the god Sabazios whom the Greeks identified with Zeus. He tied the spear and yoke of the cart to a post with a knot made of cornel bark, a shrub commonly found in southwest Asia. Roman historian Quintus Curtius Rufus wrote that the knot was so sturdy and tangled that it was impossible to tell how it was tied.

When Alexander the Great arrived in Phrygia in the 4th century BC, the knot was still there. The oracle had said that whoever untied the knot would be king of all of Asia. Alexander unsuccessfully struggled to untie the knot and thought that what was really important was to untie the knot no matter how it was done, so he drew his sword and cut it in half with a single blow. Alexander would later conquer Asia, reaching as far as northern India.

Venezuela is a failed state that is entangled in a Gordian Knot. It has the largest oil reserves and was the largest oil exporter in the world, yet its institutions are weak, power and wealth are held by just a few individuals, and the policies that the government implements are marked by populism, cronyism and corruption. The current government was fraudulently elected and is not recognised by the 60 most important democracies in the world. It has lost control of its assets abroad and failed to interact with other states as a full member of the international community. The country fails to make collective decisions because the Executive and Judicial Branches *de facto* do not recognise the Legislative Branch, which is controlled by the opposition. As such, they block all its decisions. Venezuela's borders are occupied by Colombian ELN guerrillas and it is unable to provide basic

services such as water and electricity to its people, which has caused around 5 million people to flee the country to escape poverty.

Between 1980 and 2015 the country suffered eight currency crises. These occurred in 1983, 1986, 1989, 1994, 1996, 2003, 2010 and 2013. There was also a banking crisis in 1994, and as these lines were being written the country was undergoing an episode of hyperinflation. By 2019, Venezuela's per capita income was approximately the same as it had been in 1940, with the disadvantage that life is much more complex now. Common citizens buy a greater variety of products that were not available to our parents and grandparents 80 years ago, such as Internet connections and all kinds of electronic equipment and appliances. Investment has been falling and the increase in income inequality and poverty levels are astonishing.

The following questions are intriguing: Is Venezuela a democracy? What made its democracy develop? Why made it fall? What factors explain its economic decline? What factors explain its various currency crises? Were there other policy alternatives? How can inflation be lowered to a single digit? How should monetary institutions be designed? What would a sound macroeconomic policy that allows Venezuela to avoid repeating its past experiences look like? Why have successive governments implemented such misguided economic policies? What is Venezuela's oil policy exactly? Has it been effective after nationalisation? Why hasn't a non-oil industry grown? How can the country industrialise? What lessons can Venezuela learn from the successful experiences of other countries?

This book seeks to answer these questions based on an analysis of Venezuela's economic policy. It explains how the malfunctioning of institutions made democracy fall, why its macroeconomic policy failed and the consequences of alternative policy choices. The problems are approached as a whole, examining how diverse aspects of the economy, politics and society have interacted to create modern day Venezuela: a country with 50 years of recurrent currency and financial crises and an impoverished population that has been deprived of its freedoms. It examines the role of economic factors such as inflation, production and unemployment, as well as others such as education, health, corruption, crime or justice administration that

have a significant influence on the economy, politics and social welfare. Unfortunately, an extensive study of each of these factors is beyond the scope of this book. Instead, the book raises the global problem in its maximum dimension and delves into the most important economic issues and comments on others. All efforts have been made to use vocabulary that is simple enough to be accessible to the non-expert reader without compromising the depth of the book's ideas and analysis. The mathematics is limited to a few tables and the interpretation of percentages.

One feature of this book is the analysis of the international environment that has shaped the development of politics and the economy of Venezuela. For example, the Mexican Revolution and the Second World War facilitated the *fifty-fifty*. And OPEC may have never existed if it was not for Czech-American journalist Wanda Jablonski and the Six-Day War that triggered the wave of oil nationalisations of the 1970s.

Chapter One describes the coup attempts of 1992, the process that brought Hugo Chávez and later Nicolás Maduro to the presidency and the *Chavismo* programme set out in “The Tree of the Three Roots” document. It also looks back on the regime's 20-year rule, documenting the dramatic increase in poverty. **Chapter Two** addresses whether or not Venezuela is a democracy comparing the UN Charter of Human Rights to what is happening in the country. **Chapter Three** recounts the political struggles for democracy, the legacy of Juan Vicente Gómez, the historical process that led to universal suffrage, the crimes of Pérez Jimenez's dictatorship and the return to democracy. **Chapter Four** describes the rise and fall of Venezuelan democracy and explains why those events occurred. It begins by discussing the legitimacy of political regimes and the theory of modernisation and analyses how political intolerance underlies the collapse of the democratic experiment of 1945 and the democracy that was apparently consolidated in 1999. **Chapter Five** asks why Venezuelans have become impoverished. Why did a country that grew steadily for 55 years enter a free-fall until losing more than one third of its purchasing power capacity? Non-economic factors played a fundamental role in this process, which suggests that the solutions may also lie outside of the economic sphere. This section of the book ends by listing the three fiascos of the Venezuelan

economy: monetary, oil and industrial policies. The rest of the book is devoted to studying these fiascos.

Chapter Six analyses the 1983 crisis. It briefly recounts the development of the economy from the beginning of oil exploitation up to 1974, analysing the causes of the oil booms of 1974 and 1979 and the government administration of Carlos Andrés Pérez and Luis Herrera Campins. Various basic macroeconomic concepts are set out that allow the reader to understand the background to the crises.

Chapter Seven analyses the oil price war of the 1980s, the Jaime Lusinchi administration, its famous “rudder around” and the expansive policy that led to the 1989 currency crisis. It explains why its dynamic was different from that of the 1983 crisis and why this crisis was avoidable.

Chapter Eight offers an overview of the second administration of Carlos Andrés Pérez. It analyses the 1994 currency and financial crisis and discusses the banking regulations and the state of the banking system as well as the relationship between the crisis and macroeconomic and political events. It ends with a discussion of how the Asian crisis paved Hugo Chávez’s path to power. **Chapter Nine** analyses the dictatorships of Hugo Chávez and Nicolás Maduro, the design of the economic policies that they designed in order to remain in power, and compares Chávez administration with the management of democracy. The text also analyses the first oil boom of this century, the 2003 and 2010 currency crises and how the mortgage crisis, the oil market and poor policy design contributed to today’s hyperinflation. The chapter concludes by stating that the gap between Venezuela and developed nations has always been greater during Chavismo than during democracy.

Chapter Ten asks why a rich country repeatedly implements deficient policies. Over the course of 50 years, Venezuela has used the same policies and obtained the same outcomes, and there is no evidence to suggest that it is about to change. The chapter discusses the country’s schools of economics and social sciences, analysing them as a potential source of intellectual support for any society and government. It briefly reviews the neo-Marxism and structuralism that forms the foundation of the ultimately unproductive macroeconomic policy proposed by ECLAC and adopted dogmatically in Latin America.

Moreover, it shows how the macroeconomics of populism lead to hyperinflation and impoverishment. **Chapter Eleven** asks how to break inflation in high inflation economies. It examines the orthodox approach that was applied in Germany, Bolivia and Peru and explains why each economy responded differently; the initial success and ultimate collapse of the currency board in Argentina; and the dollarisation experience and how a “non-cosmetic” currency substitution can subdue high inflation by employing Brazil as a case study.

Chapter Twelve points to the Venezuela that we wish to build and examines the current state of macroeconomic knowledge, explaining how modern macroeconomic policy should be developed to avoid the catastrophe that has developed over the last 50 years. It offers a brief account of the evolution of ideas and how the models are reconciled in a single theory: “new neoclassical synthesis”. The discussion serves as a foundation for the study of the different types of macroeconomic policies, emphasising that the differences between them are empirical and not ideological. It ends with a discussion of recent advances that have refined the neoclassical synthesis and enjoy a broad consensus in the academic circles and central banks of developed countries. **Chapter Thirteen** continues with the “trilemma”: all macroeconomic objectives cannot be achieved simultaneously and therefore the government must decide which restriction to choose. It goes on to explain the impossibility of adopting a fixed exchange rate in present-day Venezuela, the conduct of a modern central bank, and the convenience of an independent central bank.

The next three chapters turn to the oil issue. **Chapter Fourteen** studies the formation and functioning of the oil market during the 20th century, recounting its history, its importance for military security, and the diplomatic conflicts it caused between Germany, the US, France, the United Kingdom, Russia and the Armenian entrepreneur Calouste Gulbenkian. It narrates how the search for water ended with the discovery of oil in Bahrain and Saudi Arabia, and how oil rescued the pearl-based economy in Kuwait. It describes the “first” Mexican oil account and culminates with history of the beginnings of oil in Venezuela. **Chapter Fifteen** analyses the oil policy after the death of Juan Vicente Gómez and shows how the world scenario facilitated the passage of the *fifty-fifty* law. The chapter ends with an overview

of three key figures: Juan Pablo Pérez Alfonzo, Sheik Abdullah Tariki and Wanda Jablonski.

Chapter Sixteen explains how a decision made by Monroe J. Rathbone, former president of the Standard Oil Company of New Jersey, led to the creation of OPEC, and narrates the role of Wanda Jablonski and the work of Pérez Alfonzo and Tariki. The chapter focuses on OPEC's low efficiency in its early years and the importance it later acquired. It examines how the Six-Day War led to a wave of nationalisation, completely changing the oil market structure, and explores oil policy after its nationalisation by differentiating between its implementation under democracy and under Chavismo.

Chapter Seventeen examines Venezuela's industrial policy and the explanations that were offered for its development: the Dutch disease, the oil curse and the disproportionate size of the state. However, the data do not support any of these explanations. Lastly, the chapter analyses the experiences of industrialisation policies based on import substitution and free trade. It illustrates the Chilean case, the "Asian" model implemented in Japan, and the "dragons" of South Korea, Taiwan, Hong Kong and Singapore. Although there are common elements in the Asian cases, there were also important differences. Nevertheless, all of them obtained extraordinary success. An analysis of the differences between these processes offers important lessons for an appropriate and successful industrialisation strategy in Venezuela. Based on the analysis of previous chapters, Chapter 18 offers observations that lead us to conclude that Venezuela can break out of the ruins where it currently stands and return to the path of development if adequate policies are implemented.

Finally, I want to express my gratitude to the many colleagues and friends from whom I have received support in the process of writing this book. In particular, I must express my gratitude to Humberto Celli, from whom I have learned a great deal about the world of politics and with whom I have had conversations over several years that have made me notice the absence of an extensive, in-depth and technical analysis of the collapse of the economy and democracy in Venezuela, the significance of its social situation and, even more importantly, the lack of proposals that address its problems and solutions with a global vision of State. I am also very grateful to Omar Barboza

and Atilio Maldonado, who have devoted some of their time to fruitful conversations surrounding the difficulties of Venezuela and for their support and their faith in my ability to write a book of this nature. Their encouragement made me decide to write this book. I am indebted to Moisés Bitán, Isabel Massín and Juan Carlos Zerpa for their support throughout the years. They helped make this project a reality through the extensive conversations that we shared, which have helped enrich my ideas, and their unconditional companionship in moments of success and in times of affliction. I am also indebted to Johan Perozo and Carlos Emilio Aguilar, who helped bring this project to life. I am grateful to Nélida Peraza de Saade for having read, reviewed and edited the entire original manuscript. My gratitude is also extended to Celina Áñez, Marjuly Bravo, Virginia Celli, María Cristina Nieves, Elvira Pérez, María Eugenia Rodríguez, Carlos Rojas Malpica, and Baldomero Vásquez for taking the time to read some chapters and offer important observations. Many thanks to Norberto Mazza, Bernabé Gutierrez, Edgar Zambrano, Eduardo Gómez Sigala, David Morán, Ramón Pineda, Pedro Vargas and Gustavo Velasquez for spending their time listening to my ideas and for allowing me to share them with the public.

Last but not least, I am grateful to my soul mate, Ysbel Nayibe, and my daughter Estefanía, who have endured hardships throughout the writing of this book.

Any error in the contents of this work is the sole responsibility of the author.

DEMOCRACY COMMITS *HARA-KIRI*

The day of infamy

At midnight on 3 February 1992, also known as “D” day at “H” Hour, a group of mid-range army officers gathered at the *Movimiento Revolucionario 200*. They were inspired to save their homeland, and their plan was to overthrow the democratically elected government of President Carlos Andrés Pérez. The leader of the insurrection was Lieutenant Colonel Hugo Rafael Chávez. The rebels had three goals. First, to assassinate President Pérez at Maiquetía Airport upon his return from the annual meeting of the World Economic Forum. They also intended to assassinate Humberto Celli and Eduardo Fernández, the Secretaries General of the country’s two main political parties, *Acción Democrática* and *Copei*, respectively. Second, they planned to capture the garrisons of Caracas, Maracaibo, Valencia, Maracay and San Juan de los Morros and to occupy the capital. Third, they intended to seize the *Venezolana de Televisión* and the regional radio stations to summon the public and the other garrisons to join the rebellion. Despite the alerts that they received from the country’s intelligence services, the military high command and political leadership did not take the attempt seriously [Carratú 2012].

Captain René Gimón Álvarez unveiled the plan on the evening of 2 February. The military high command reacted by reinforcing security in Caracas and its surroundings. As a result, the seditious officers did not dare to take over the airport. On the night of 3 February, Defence Minister Fernando Ochoa Antich and Interior Minister Virgilio Ávila Vivas met the President at the airport and informed him of the situation. The President asked them to meet with him at his office the next day, but the insurrection began that same night. The rebellion at Fort Mara

was easily controlled. In Maracaibo, Lieutenant Colonel Francisco Arias Cárdenas took over the Libertador Barracks, arrested Governor Oswaldo Álvarez Paz and then set out to survey the city. In the interim, General Richard Salazar persuaded the rebels who remained in the barracks to surrender. When Arias returned, he surrendered without a fight [Ochoa 2007; Reportzulia News 2011].

The rebels captured the Armoured Brigade of Valencia and the Garrison of Maracay as planned and headed to the capital. Once in Caracas, Lieutenant Colonel Yoel Acosta Chirinos occupied the Francisco de Miranda Base and the General Aviation Command. The Codazzi Regiment attacked the Ministry of Defence and the Army's General Command. A company of paratroopers attacked the Navy's General Command, and Captain Miguel Rodríguez Torres attacked La Casona, the Presidential residence. In Tazón, Colonel Norberto Villalobos blocked the entrance to Caracas with 40 trucks to prevent the Armoured Brigade from accessing the city. After several hours of combat, the insurgents surrendered.

Meanwhile, Captains Ronald Blanco La Cruz, José Vielma Mora and Antonio Rojas Suarez and a team of 40 soldiers entered the Miraflores Presidential Palace using two tanks to break through the entrance gates. Several were wounded in the subsequent 15-minute battle including the commanders of the attack, Blanco La Cruz and Rojas Suárez. The insurgents left the Palace but kept it surrounded. President Pérez managed to evade the siege and went to the *Venevisión* TV station, addressing the population every five minutes and calling on the rebels to lay down their arms [Carratú 2012].

Once in Caracas, instead of reinforcing the Miraflores takeover as planned, Hugo Chávez went to the Military Museum. He remained there, pale faced, observing the events without making any decisions. He surrendered two hours later. Once arrested, Minister Ochoa Antich allowed Chávez to appear on a live TV broadcast where he made a short but forceful speech in which he admitted to being responsible for the coup attempt, and asked the other insurgents to surrender by announcing that they would postpone their subversive plans "for now". The attempt caused the unjustified death of 35 young soldiers who were tricked into participating in a rebellion [*Diario Versión Final*

2011, p. 9; Yáñez 2006; Carratú 2012; Giusti and Hernández 2012].

That same morning, while the government received the support of foreign governments and institutions throughout the country, former President and lifetime Senator Rafael Caldera, the founder of the *Copei* Party, which had alternated its power with *Acción Democrática* over the previous 35 years, unexpectedly justified the coup attempt. Caldera questioned the intention of the coup plotters to assassinate the President and accused the political leadership of failing to assume their true role. The latter stated that he did not feel that the people had “the same enthusiastic, determined and fervent reaction for the defence of democracy”, and that it was “... difficult to ask people to immolate themselves for freedom and for democracy, when they think that freedom and democracy are not capable of feeding them”. Caldera argued that “democracy cannot exist if people do not eat”. The message was direct. Caldera questioned democracy as a political system.

Suddenly, the old phantoms of Marxist guerrilla militarism and the heirs of *Gomecismo* were stirred up and a destabilising campaign began to discredit political parties with fake denunciations of corruption, often exaggerated and without evidence. Taking part in this campaign were various media outlets, and the so-called “Notables” and influential figures such as José Vicente Rangel and Attorney General Ramón Escobar Salom. Instead of defending democracy, the impressively short-sighted democratic parties became immersed in internal fights and discredited President Carlos Andrés Pérez. For its part, the radical left organised marches, violent protests and massive banging of pots and pans to create an atmosphere of social unrest to justify a new uprising.

Meanwhile, in the barracks, Rear Admirals Hernán Grüber Odremán and Luis Cabrera Aguirre and Air Force General Efraín Visconti Osorio began to plan a new insurrection. On 27 November at 2:30 am, the air bases Libertador and Mariscal Sucre in Maracay and the Francisco de Miranda in Caracas rose up in a new attempted coup. At the same time, a group of insurgents attacked *Venezolana de Televisión* and shot the watchmen -who had surrendered- killing him. However, the rebels started to have difficulties. Their bid to attack Yare Prison

failed and the Marine Corps' rebel officers were arrested at dawn, making it impossible for them to offer support. The Army and National Guard remained loyal to the government, which meant that the coup leaders had no ground troops. From Maracay, the insurgents took off in two F-5 airplanes and began to indiscriminately drop bombs on Caracas. However, two F-16 fighter jets piloted by soldiers who were loyal to the government took off from Barquisimeto and shot down an F-5 and forced another to turn back. After an intense battle, the insurgents surrendered. The attempted coup resulted in over 200 deaths.

Indicting national security

What the military did not achieve by force, civilians would achieve by violating the law. In 1989, President Pérez transferred 250 million bolívars to the State Security Department of the Ministry of Internal Affairs. His aim was to take 17 million dollars from an unforeseen expense fund that he could use at his discretion with prior approval from the Council of Ministers. The purpose was to finance security and avoid the assassination of the new President of Nicaragua, Violeta Chamorro, who feared for her life after winning the elections against the Marxist-oriented Sandinista Party. The plan had been to keep it a secret, but the transaction was discovered and the Attorney General accused the President of misuse of public funds and embezzlement. The government argued that Central America is a strategic area and that peace in the region contributed to internal security. The Attorney General argued that the transfer should have been made to the Ministry of Foreign Affairs since it was a foreign policy issue. The difference between the two positions rested on a fine interpretation of the term "State security". Meanwhile, the opposition and some media outlets campaigned hard to create an image of a guilty president and pressed for the dismissal of several Supreme Court justices. The governing party, *Acción Democrática*, maintained a silent complicity. On 2 May 1993, the Court announced that there were grounds to prosecute the President and suspended him from office. The fate of Venezuelan democracy was decided that same day.

The trial was extremely flawed. The Court allowed Attorney General Escobar Salom to play the roles of both accuser and actor of good faith. President Pérez was denied the right to mount a defence. This irregularity was upheld by Judge Hildegard Rondón de Sansó through her vote. President Pérez was dismissed from the Presidency without a final sentence, as established by law. The Court wanted to force the President and his ministers to reveal the use of the secret funds even though the law forbade it. Although this situation revealed the political nature of the process, the seriousness of the trial rested on the fact that it legitimated the actions of the militarist coup plotters by arguing that corruption existed and that President Pérez had to be impeached. On 30 May 1993, former President Pérez was sentenced to two years and four months of house arrest for mismanagement of public funds, but was acquitted of embezzlement due to the lack of solid evidence. Octavio Lepage assumed the presidency for 15 days and Congress appointed Ramón J. Velásquez as provisional president until the end of the presidential term.

The anti-democratic spirit remained in the presidential elections of 1993. *Acción Democrática* nominated Claudio Fermín and *Copei* nominated Oswaldo Álvarez Paz. Both proposed reforms and defended democracy's capacity to solve the country's problems. The *Causa R* party nominated Andrés Velásquez. Rafael Caldera split *Copei* and received the support of the leftist *MAS* (Movement to Socialism) party as well as a coalition of many small left-wing parties, most of which were Marxist oriented. Caldera and Velásquez questioned the ability of democracy to solve the country's fundamental problems and presented themselves as the great reformers that Venezuela needed. Rafael Caldera was elected president with 30.5% of the votes.

With weak support in Congress, Caldera sought the support of Luis Alfaro Ucero, leader of *Acción Democrática*. In return, Caldera would support Alfaro's presidential candidacy during the next elections. Although the jailed insurgent army officers never expressed their intention to participate in democracy, Caldera cancelled their trials, unsuccessfully seeking to neutralise coup plotters and calm the destabilised political environment.

The 1994 Caldera administration began with financial challenges linked to a serious currency crisis and the bankruptcy

of one third of the private banks. His populist economic policy led to a new currency crisis in 1997, forcing him to sign an agreement with the International Monetary Fund and implement a macroeconomic stabilisation programme quite similar to the one he had strongly criticised Carlos Andrés Pérez for introducing. By 1998, the government and the major political parties were discredited, broke and had nothing to offer. Alfaro Ucero, a candidate supported by *Acción Democrática* and the government, never earned more than 3% of public support. Irene Sáez, a charismatic former Miss Universe, initially emerged as a favourite, but her popularity soon waned. In that environment, Luis Miquilena, an old leftist militant who had belonged to the “black communists”, convinced Hugo Chávez to abandon his subversive plans and run for office. Chávez enjoyed the support of military groups, the leftist *MAS* party, the Marxist left, and, paradoxically, some conservative groups. Chávez criticised the political parties and promised to “refund” the democratic system by respecting property rights, stimulating foreign investment, and governing for a “single” electoral period. Voters participating in the 1998 presidential elections had to choose between the promise of Chávez’s social reforms and the fear of a non-democratic option from all other groups. Henrique Salas Römer, an independent uncharismatic candidate who had been a popular governor of Carabobo state, capitalised on this. On 6 December 1998, Hugo Chávez was elected president with 56.2% of the votes. Venezuelan democracy had committed *hara-kiri*.

The revolutionary offer

In 1936, John Maynard Keynes wrote: “...The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist. Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I

am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil". Keynes could very well be describing early 21st century Venezuela. Who was the long-dead philosopher or economist behind the insurgents? What arguments did they use to justify their insurrection? The insurgents repeatedly expressed that the coup was motivated by:

- 1) the corruption of the military high command;
- 2) the mismanagement of President Carlos Andrés Pérez's administration;
- 3) the succession of Venezuelan territory to Colombia in the Gulf of Venezuela;
- 4) the repression used during the riots of 27 February 1989;
- 5) the use of members of the Armed Forces in social programmes;
- 6) the deterioration of the socio-economic conditions of the members of the Venezuelan Armed Forces; and
- 7) the subordination of the Armed Forces to corrupt civilian leadership.

Legally, coup plotters justified the attempt with a very *sui generis* interpretation of Article 132 of the Constitution, according to which the Armed Forces had to "ensure national defence, the stability of democratic institutions and respect for the Constitution and the laws". Yet there was not a single threat to national security in Venezuela, only a 34-year democratic tradition and rule of law that manifested as independent powers. The insurgents named themselves the spokesmen of the Armed Forces because they were mid-level officers. Though they focused on Carlos Andrés Pérez's mismanagement, new elections were barely a year away. The border problem with Colombia had not been discussed in over a decade. The repression of the riots on

27th February 1989 was carried out by mid-level soldiers belonging to Chávez's generation. It was shameful to mount a military insurrection solely to obtain higher salaries for the Armed Forces. Corruption is fought with transparency, not with rebellions.

However, all those reasons were simply excuses. The military coup leaders had been preparing this conspiracy for 20 years. Why did they rise up? They set out their arguments in the "Tree of the Three Roots" [Chávez 1980], a document that contains ideas that had haunted Central Europe a few centuries before and that provided the foundation for German nationalism and the totalitarian ideologies of the 20th century. The origin of these ideas dates even further back to Ancient Greece, when Plato spoke about teleology, a philosophical approach that accounts for an end goal to everything in existence, particularly humankind. These ideas faded away with Ancient Greece only to reappear briefly in the 1st century BC with Neoplatonism. They disappeared again for a thousand years, making a return in Europe during the Middle Ages [Noguera 2015].

Descartes rejected teleology by asking how a stone can know its "mission" if stones do not think, and instead proposed rationalism. Francis Bacon and John Locke proposed empiricism as a way to acquire knowledge. These new philosophical currents made the scientific Revolution of the 17th century possible as well as the emergence of liberalism that led to the Century of Enlightenment. The latter questioned the legitimacy of monarchies, demanding that they be replaced by republics. These ideas set the stage for the French Revolution.

During the 18th century, Romanticism emerged in the arts, music and literature. This movement sought to free the spirit and creativity from the rigidity of logical thought. German historicism followed, advancing the notion that the individual does not always make the best decision and must place social interest before personal interest. Historicism asserts that, unlike physics, there are no natural laws in the social sciences, and thus rejects the law of supply and demand. It also rejects deduction as a method for developing economic laws. According to historicists, everything in society evolves according to historical and geographical conditions, and different societies have different patterns of behaviour. Therefore, historicists study the regularities of the

history in each country to find such patterns, although they emphasise that these patterns do not constitute laws of nature.

Liberal ideas were persecuted and censored by the absolute monarchies of Germany, Austria and Russia during the first half of the 19th century. Germany adopted historicism as an official doctrine and converted Georg W. F. Hegel into a kind of 'official' German philosopher. Hegel changed the meaning of the word "dialectic" to refer to a process in which ideas evolve because of inherent contradictions. In the beginning there is an idea or thesis that contains an inherent contradiction called antithesis; then the thesis and the antithesis reconcile in a synthesis that gives rise to a new thesis. According to Hegel, society evolves dialectically and history can be reconstructed using logic and without using archaeological or statistical evidence. Thus, the present finds its explanation in the past and the future in the present. Here is where the teleological element lies.

According to Hegel, as families need each other to satisfy their needs, the happiness of each one is intertwined with that of the others, which forces laws to be created that benefit everyone, and therefore to the constitution of the State, which bases its existence on the customs of each society. Therefore, the State is the ethical spirit where the individual, the family and society find their full freedom. As such, the Hegelian concept justifies the existence of a strong State, which in turn justifies an absolute monarchy. These ideas became the philosophical foundation of Marxism and the nationalist movements of the 20th century, including Nazism, fascism and militarism.

What does Hugo Chávez have to do with this 19th century story? The answer is "everything." There is a direct ideological nexus with the "Tree of the Three Roots". The document begins by stating that the 20th century was a "lost century" for Venezuela and that this was why they promoted "profound changes". The data do not support this claim. According to the Maddison Historical Database, between 1900 and the year of the attempted coups, Venezuela's per capita income calculated at 2013 prices increased from US\$1,643 to US\$16,712, or 917% in 92 years for an annual average of 2.66%. This is a very high figure compared to, for example, the historical growth rate of 2.1% in the United States. Similar progress was witnessed in healthcare, education, infrastructure and other sectors.

The document draws on the ideas of Simón Bolívar, Simón Rodríguez and Ezequiel Zamora. But neither Bolívar nor Rodríguez were historicists, let alone Marxists. They were men of Enlightenment who proposed a liberal republic. Ezequiel Zamora advocated for a liberal and federal state, which is the opposite of what the insurgents of 1992 proposed. So, what is the role of these three historical figures? They are necessary because they support the teleological, historicist and Hegelian approach of *Chavismo*. In its last chapter, the document states that “in the Bolivarian thought, a teleological vision occupies a relevant place, that is to say a long-range vision, whose focus transcends time and is located in the ultimate goal of conquering a model of society different from the existing one”. It also proposes the creation of a new society in “20 years” in which man’s happiness prevails, although it does not offer any concrete objectives. Nevertheless, it proposes the creation of an “original society model” and “solidarity as a way of life” in the economic, ideological and political dimensions.

Like historicists, “The Tree of the Three Roots” states that the history of each country is unique, and therefore it is here where the path to development ought to be found. This is where the importance of these historical figures lies. Given that they do not accept the existence of laws to explain societal behaviour, it would be wrong to take models and experiences from other countries, including Venezuela itself. Hence, the development strategy should be based on an approach of “trial and error until nailing one of them”. Moreover, it states that “originals ought to be the institutions and their government. And original the means of finding both”, and then concludes that the “model from its genesis to its development ... obeys the same dilemma of inventing new institutions ... or of going astray”. Finally, the document proposes to convene a constituent assembly to approve a new Constitution. The crucial failure of the “Tree of the Three Roots” is that by not proposing any goal or concrete strategy, it advocates for a leap into the void.

From prodigality to debacle

What has the Chávez revolution achieved after 20 years in power? How much does a Venezuelan earn after two decades of Chavismo? How has per capita income evolved? Could the government have done a better job? How much does the country produce? In other words, what is its gross domestic product (GDP)? According to the World Bank's World Development Indicators, between 1998 (the last year of the pre-Chávez era) and 2018 (the last year reported), Venezuela's real GDP at 2010 prices decreased from 296.4 billion dollars to 222.2 billion dollars, falling 25%. Venezuela lost a quarter of its national income in 20 years. If we take in consideration a large population that must be provided food, clothes and other goods and services, according to the same source, we find that the purchasing power parity of per capita income fell by US\$15,544.8 to US\$9,401.6. Strictly speaking, each Venezuelan has lost an average of 40% of their income, yielding an annual decrease of 2.5%.

Yet that appalling rate underestimates how drastically the wellbeing of Venezuelans has been impacted. Most advanced countries mainly grow due to technological development. They grow by improving existing products and creating new ones, such as the Internet, new medicines, mobile phones, etc. If Venezuela aspires to become a developed country, its income per capita must grow at a rate higher than that of developed countries. A reference that is commonly used in the economic literature is the 2.1% annual growth rate of the United States economy over the last 160 years. If we use these figures, we observe that Venezuela has moved away from the developed world at a rate of -4.6% year-on-year, that is, 61% between 1998 and 2018. In other words, Venezuela has moved 61% further away from development. Although the Venezuelan government has not issued official figures since 2015, the World Bank estimates align with Venezuelan figures. The country's real GDP is expected to decline further in 2019 and 2020. The total balance of the revolution has been a disaster.

What explains the poor performance of the Venezuelan economy? Is it a result of a regional problem or is it country-specific? The world has never seen an economic disaster of that magnitude in the absence of wars. This illustrates the meagre