



NOVEMBER 27, 2006 • NO. 2

Corruption, Mismanagement, and Abuse of Power in Hugo Chávez's Venezuela

by **Gustavo Coronel**

Executive Summary

Corruption has existed in Venezuela since at least 1821, when it gained independence. In the 19th and 20th centuries, the level of corruption fluctuated, depending on the government in power. During the government of President Hugo Chávez, however, corruption has exploded to unprecedented levels. Billions of dollars are being stolen or are otherwise unaccounted for, squandering Venezuelan resources and enriching high-level officials and their cronies.

The windfall of oil revenues has encouraged the rise in corruption. In the approximately eight years Chávez has been in power, his government has received between \$175 billion and \$225 billion from oil and new debt. Along with the increase in revenues has come a simultaneous reduction in transparency. For example, the state-owned oil company ceased publishing its consolidated annual financial statements in 2003, and Chávez has created new state-run

financial institutions, whose operations are also opaque, that spend funds at the discretion of the executive.

Corruption now permeates all levels of Venezuelan society. Bureaucrats now rarely follow existing bidding regulations, and ordinary citizens must pay bribes to accomplish bureaucratic transactions and have to suffer rampant neglect of basic government services. All this has been encouraged by a general environment of impunity: officers implicated in major corruption scandals have sometimes been removed from their posts, but they have not otherwise been held legally accountable.

The dramatic rise in corruption under Chávez is ironic since he came to power largely on an anti-corruption campaign platform. To truly fight corruption, the government needs to increase the transparency of its institutions and reduce its extensive involvement in the economy, something that has placed Venezuela among the least economically free countries in the world.

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The history of Venezuela during the last 180 years has been characterized by the persistent and intense presence of corruption.

Background

In 1813 Simón Bolívar, while fully engaged in the war of independence against Spain, issued a decree stipulating the death penalty for corruption in the first Venezuelan republic. He issued a second decree in 1824 and still a third one in 1826, defining corruption as “the violation of the public interest,” establishing the death penalty for “all public officers guilty of stealing ten pesos or more.” The second article of the 1824 decree read: “Those judges who disobey the dispositions of this decree will be condemned to the same [death] penalty.”¹ Yet the history of Venezuela during the last 180 years has been characterized by the persistent and intense presence of corruption in public administration. In 1875 the Venezuelan Ministry of Finance under the regime of dictator Antonio Guzmán Blanco would confess: “Venezuela does not know how much or to whom it owes money. Our books are 20 years behind. . . .” One hundred years later the Venezuelan general comptroller during the presidency of Luis Herrera would describe Venezuelan public administration in almost identical terms, as “a system totally out of control.”²

The dictatorship of Juan Vicente Gómez, from 1909 to 1935, was a period in which the exercise of corruption was limited to the dictator’s immediate collaborators and his extended family, since Gómez did not need elections to stay in power, running Venezuela as his personal hacienda. The 10 years that followed Gómez’s death constituted the first decade of real democracy and transparency in the Venezuelan public sector, thanks to his successors, army generals E. López Contreras and I. Medina Angarita, who were deeply democratic leaders in spite of their military training in Gómez’s army.

Gen. Medina Angarita was deposed in 1945 by a coup led by the Acción Democrática party supported by young army officers. From 1945 to 1948 Acción Democrática conducted a rather transparent three-year government under the brief presi-

dencies of Rómulo Betancourt and the famous novelist Rómulo Gallegos. In 1948 the young military officers who had supported Acción Democrática three years earlier overthrew Gallegos. The leader of the coup, Marcos Pérez Jiménez, established a military dictatorship that lasted 10 years. Corruption during the following decade was high but mostly limited, as in the years of Gómez, to the immediate circle of the dictator, and it was essentially related to commissions obtained through contracting of public works. Venezuelan infrastructure received a vigorous boost with the construction of roads, hospitals, universities, and public buildings.

The increasing discontent of army officers who were excluded from access to Venezuelan public funds promoted a popular revolt in 1958 that successfully expelled Pérez Jiménez from power. After that, Venezuela would not witness another military coup or coup attempt until 1992, when Hugo Chávez tried unsuccessfully to overthrow the elected president Carlos Andrés Pérez. From 1958 to 1999 Venezuela changed democratically elected presidents 10 times. During the first half of that period, from 1958 to about 1975, the country experienced a succession of democratic governments together with a satisfactory level of transparency in the management of national assets. Presidents Rómulo Betancourt, Raúl Leoni, Rafael Caldera, and, for about half of his first term, Carlos Andrés Pérez, can be credited with the consolidation of Venezuelan democracy and the promotion of a society characterized by a strong emerging middle class. During those years Venezuelan democracy became the political model to be imitated in Latin America and was compared favorably by political analysts with the dictatorships of the left and the right still present in the hemisphere.

In the mid-1970s the management of Venezuelan national assets started to deteriorate dramatically. Political events in the Middle East triggered an abrupt increase in global oil prices, and, as a result, Venezuelan

oil income tripled. The ordinary men in charge of the Venezuelan government were exposed to extraordinary financial temptations. Faced with a windfall, President Pérez structured a program that he called “The Great Venezuela.” Under that plan, a tropical version of Mao’s “Great Leap Forward,” the government poured close to two billion dollars into industrial projects in southern Venezuela, which were designed to triple steel production within five years and to build several new aluminum plants. At one point more than 300 state-owned companies existed in the country, none of which was profitable. During the second half of Pérez’s term, as a result of the torrential influx of oil money, corruption spun out of control—it became “democratic.” Up to that moment, graft had been essentially restricted to the ruling clique, but now many Venezuelans started to participate, directly and indirectly, in the abuse and misuse of public funds. At the end of Pérez’s presidency, and in spite of the oil income windfall, Venezuela had managed to fall into debt to the international banks.

From 1975 to 1998 Venezuelan corruption levels generally increased and stayed high. Particularly grave was the period of Jaime Lusinchi, 1984 to 1994. In her research on corruption, sociologist Ruth Capriles Méndez of the Universidad Católica Andres Bello estimates that some \$36 billion was subject to misuse and dishonest handling during that presidency,³ especially through the foreign exchange controls program called RECADI (Régimen de Cambios Diferenciales). Several factors contributed to soaring corruption:

- Weak political and social institutions.
- Lack of adequate administrative norms and controls.
- Large volumes of income coming from petroleum production, a wealth essentially not earned by the work of the majority of the population but generated by a small group of oil industry technical staff.
- Populist political leaders willing to promote a welfare state in order to con-

solidate their political positions rather than lead the country toward stable prosperity through hard work and social discipline. Those leaders persuaded Venezuelans that oil money “belonged” to the government and that some of it could be handed out to the people in exchange for political loyalty. Because of that belief, the use of national assets for personal benefit, among both the political elite and the population at large, lost much of its pejorative meaning.

The benevolent view of corruption that prevailed in those decades can be illustrated by a legal decision in a 1982 case of corruption at the Venezuelan Ministry of Agriculture. The tribunal considering the case dismissed it claiming that “the amount involved [some \$20,000] was too small in relation to the total budget of the Ministry.”⁴

In 1997 Pro Calidad de Vida, a Venezuelan nongovernmental organization (NGO) doing anti-corruption work, estimated that some \$100 billion in oil income had been wasted or stolen during the last 25 years.⁵

Enter Hugo Chávez

As the 20th century came to an end, Venezuela was ripe for significant political change. The December 1998 presidential elections gave victory to Hugo Chávez. Both Chávez and his main adversary, Henrique Salas Romer, had promised a radical departure from existing politics, which was still based on a two-party system alternating in power and maintaining high levels of bureaucratic inefficiency and corruption. The Chávez campaign platform consisted of three main proposals: convening a constituent assembly to write a new constitution, eliminating government corruption, and fighting against social exclusion and poverty. His adversary, Salas Romer, attacked the call for a new constitution as populist. In spite of his excellent performance as gover-

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nor of the state of Carabobo, Salas Romer was perceived as a conventional political reformer, while Chávez came across as a spokesman for the poor, oppressed majorities. There is little doubt that, in a country with 60 percent poverty and 30 percent extreme poverty at the moment of the elections, Chávez's promises to eliminate government corruption and fight poverty were decisive factors in his victory.⁶

Chávez had promised to focus on the political issues before tackling the social and economic issues. In his inaugural speech,⁷ Chávez called for a "political revolution" and started a process that would lead, during 1999, to the progressive elimination of most existing political institutions, including Congress, the Supreme Court of Justice, and the Electoral Council. In late 1999 those institutions were dissolved and replaced with new ones staffed by Chávez's followers. In a letter to the Supreme Court of Justice in April 1999, Chávez had threatened the justices with retaliation by the populace if they did not rule in line with his wishes.⁸ He added in this letter that "only the president has exclusive authority on the management of state affairs," thus appearing to place himself above the law. Also during that year he started violating the existing constitution. In July 1999 he promoted 33 army officers over the decision of the Senate, which had the authority to authorize the promotions, according to article 150 of the constitution. That violation was openly denounced by Congressman Jorge Olavarría in a speech given before the president, his cabinet, and the diplomatic corps on Independence Day.⁹ In his speech Olavarría called for Chávez's impeachment, but, predictably, no action was taken.

The New Government Speaks Out on Corruption

In November 1999 the new minister of foreign affairs, José Vicente Rangel, gave a speech at the Centro de Divulgación del

Conocimiento Económico (CEDICE), a Caracas think tank, during a seminar on "Economy and Corruption," held in Caracas.¹⁰ In that speech Rangel put forward what was taken to be the official position of the new government on corruption, which can be summarized as follows:

1. We recognize the existence of a systemic culture of corruption in Venezuela.
2. The citizens have come to identify it whenever they see that hospitals lack essential equipment or drugs because of the theft of the funds that should have been dedicated to the acquisition of those supplies.
3. From now on ethics will play a prominent role in the life of our society.
4. Corruption appears equally under authoritarian and democratic governments and is more perverse in a democracy, since it requires the complicity of many.
5. Corruption has had an enormous cost in Venezuela. It works fundamentally through the contracting of public works. Venezuelans have sent more than \$100 billion abroad. The cost of corruption during the last 20 years, according the NGO Pro Calidad De Vida, is on the order of \$100 billion. The spiritual and social costs of corruption have been even greater.
6. February 4, 1992 (the date of Chávez's attempted coup) has an essentially ethical meaning. The coup was an expression of popular protest against Venezuelan corruption.
7. To fight corruption we must fight against confidentiality and lack of information from banks, financial corporations, and the judicial system.
8. The fight against corruption should involve all of society and all citizens; the organizations of the state; academic institutions; the media; religious institutions; and political, business, and labor associations, in order to reverse the

effects of corruption and allow for the rebirth of our moral and ethical values.

9. We are on the threshold of change, and one of the main objectives of this new government is to eliminate corruption. This is the only way to reinstate democracy in our country. The main risk this government faces is not conducting this fight with audacity and decision, since old corruption tends to be immediately replaced with new corruption.
10. If we want to be a lawful state, we need a judicial system we can trust. Without trustworthy justice, there is no possibility of waging an efficient fight against corruption.
11. As a sign of our determination to combat corruption, we have incorporated in our project of a new constitution a body known as the Civic Power, made up of the comptroller, the attorney general, and the ombudsman, with full authority to investigate and control the functioning of the state and the use of public assets.
12. We will not be dealing in empty rhetoric any longer but in concrete ways to make institutions work.

Almost eight years have passed since José Vicente Rangel, still the second most influential person in the government of Hugo Chávez, made that speech. That has given us more than enough time to evaluate the Chávez regime's performance in relation to one of its primary objectives, that of eliminating corruption.

Financial Performance of Hugo Chávez's Government: An Overview

In the eight years since Hugo Chávez came to power, an estimated \$130 billion of net oil income (after costs of oil production are deducted) has entered the national treasury, although the figure could be as high as \$180

billion. The wide range of the estimates is due to the lack of reliable information on Venezuelan oil production and income since 2001. *Petróleos de Venezuela*, the government-owned oil corporation, ceased publishing its consolidated annual financial statements in 2003 and sent a last filing to the U.S. Securities and Exchange Commission in 2005—two years late, since the figures corresponded to 2003. During Chávez's tenure, Venezuela's national debt, both domestic and foreign, has gone from \$21 billion in 1998 to some \$41 billion in 2005. In addition, the government has announced during 2006 a new issue of bonds for up to \$4 billion.¹¹

From oil and new indebtedness, therefore, the Chávez government has received, up to the third quarter of 2006, between \$175 billion and \$225 billion. That figure does not include all other sources of revenue, such as income taxes. The approved national budget for 2006 amounts to \$40.1 billion, with 47 percent of the revenue coming from oil sales and the rest from income tax and other sources (including new debt and an extraordinary windfall of some \$5 billion due to the seizure of foreign reserves from the Venezuelan Central Bank).

As the Venezuelan state has swept up more and more resources, its management of those resources has become less and less transparent. Both *Petróleos de Venezuela* and the Venezuelan Central Bank have had to transfer significant amounts of money directly to FONDEN, a "development fund" created in 2005 by presidential decree, and to BANDES, a development bank created in 2001, both of which are accountable only to Chávez. In parallel with this irregular management of public funds, the Chávez government dismantled the Macro Stabilization Economic Fund, created by the Venezuelan government in 1998 to serve as a cushion to protect the stability of Venezuelan public finances in times of low oil prices. In addition, during 2001–05 the Chávez government withdrew the fund's assets, in excess of \$3 billion, for ordinary spending. Some of the main irregularities in the management of

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public funds by the Chávez government are discussed next.

Dollar Transfers Abroad Made by the Government

According to the Venezuelan Central Bank, about \$22.5 billion has been transferred to accounts abroad by the Chávez government since 2004. About \$12 billion of that amount remains unaccounted for.¹² Financial analyst and former Venezuelan Central Bank officer José Guerra, interviewed for this report, stated that some of that money has been used by the Chávez government “to buy political loyalties in the region in order to consolidate his political project and some has been donated to Cuba and Bolivia, among other countries.” He added that a more detailed analysis, if made, might indicate that the amounts transferred abroad are far greater, since accounts receivable from oil sales to politically friendly countries also remain unaccounted for.

Gold Reserves Likely Removed from the Venezuelan Central Bank

Reports by the group Militares Democráticos, a group of former or retired army officers that generally opposes the government of Hugo Chávez, claim that the government of Hugo Chávez ordered the transport of a substantial amount of the country’s gold reserves from the Central Bank to Fuerte Tiuna,¹³ the military garrison that has become Chávez’s stronghold. One report quotes Gen. Jorge Luis García Carneiro as alleging that the gold was transferred “under the direct orders of Hugo Chávez.” If confirmed, this would raise questions about transparency.

The Seizure of \$5 Billion in International Monetary Reserves

In June 2005 the Chávez-controlled National Assembly changed the law regulating the Central Bank of Venezuela so that the Chávez government could seize what it defined as “excess reserves.”¹⁴ Under the provisions of this arbitrary change in the law, about \$5 billion was transferred from the Venezuelan Central Bank to the executive, to be used for government programs outside

normal budgetary channels. The lack of financial controls and the diversion of international monetary reserves for ordinary public spending have spurred inflation and eroded the confidence of international investors in the financial stability of the country.

The Creation of a Development Bank, a Treasury Bank, and a Development Fund That Operate without Transparency or Undermine the Central Bank’s Independence

In 2001, by executive decree, the government created BANDES, a development bank annexed to the Ministry of Finance, and in 2005 the Chávez-controlled National Assembly created a development fund, FONDEN, to spend “excess” international reserves. Both institutions are under the complete control of the Chávez government without any independent oversight or checks whatsoever. The fund was to have up to \$6 billion, to be used at the discretion of the executive. However, by mid-2005 the fund already had \$7.5 billion coming from unspecified sources, probably Petróleos de Venezuela and the Venezuelan Central Bank, the only institutions that could have such a significant amount of money in their systems. The money, according to Finance Minister Nelson Merentes, would be used for “infrastructure” and social projects. The truth is that the money in this fund has become a parallel budget and is being used without any transparency or need for legislative approval. This is a situation that leads, almost inevitably, to large-scale corruption. The Ministry of Finance targeted the fund to accumulate as much as \$17 billion by the end of 2006.

In addition, a new Banco del Tesoro (Treasury Bank) was created in 2005 to collect some of the taxes and customs duties that would normally have gone into the Central Bank or the national treasury, or both. The decision to create this bank, reports Manuel Suárez-Mier, in a note from the Bank of America, dated August 12, 2005, “virtually guarantees that any resemblance of an independent central bank in Venezuela will vanish and represents the additional erosion of the country’s institutional landscape.”¹⁵

Losses and Bankruptcy at the Venezuelan Central Bank.

BBO Weekly financial news editor Miguel Octavio estimates that the total losses of the Venezuelan Central Bank for 2006 alone are nearly \$2 billion, the result of financing credit operations to reduce monetary liquidity. This liquidity, claims Octavio, was created “on the basis of reserves which are no longer in the hands of the Central Bank. Thus, the Bank does not receive sufficient cash flow from its investments to pay for all the interest due on these instruments.”¹⁶ Caracas banker Oscar García Mendoza has denounced the withdrawal of 6 billion bolivars by the government from the Venezuelan Central Bank, alleging that that action has put the bank in technical bankruptcy. The government has not replaced that withdrawal, and it is unlikely to do so in the future. García Mendoza has filed suit against the government in the Supreme Tribunal of Justice demanding that the central government compensate the bank for the withdrawal. But he fears that the government will solve this situation by conducting a major devaluation of the bolivar. If so, he says, “This would be robbery . . . to devalue is to steal.”¹⁷

Favorable Deals for Friendly Banks in the Acquisition of Latin American Bonds

According to the *Financial Times*, a select group of Venezuelan private banks is profiting from the acquisition of Argentinean bonds by the Venezuelan government, at the expense of the national treasury.¹⁸ The *Financial Times* spoke to U.S. financial analysts who said that “although the benefits for Argentina [the seller] are clear, they are less so for the Venezuelan government, since the profits are not being accumulated by the government but by a few private banks.” According to reports, the two banks at issue are the Banco Occidental de Descuento and the Fondo Común owned by Victor Vargas and Victor Gil, members of the new wealthy class emerging under the umbrella of the revolution.¹⁹ Neither responded to requests by the *Financial Times* for comment. In reselling \$100 million worth of bonds, the banks would profit by up to \$17 million. In the *Daily Journal*,²⁰

Cato Institute adjunct scholar and journalist Carlos Ball estimated that the favorite banks of the government could make up to \$607 million in profits if they bought the \$2.4 billion in Argentinean bonds from the Venezuelan government and resold them, because of the difference between the official exchange rate and the free market rate of the bolivar.

Where Is This Performance Leading the Venezuelan Financial Sector?

These and other irregularities in the management of public finances by the Chávez government have led José Alejandro Rojas, minister of finance during the first years of the Chávez presidency, to make very grave predictions about the immediate future of the Venezuelan economy. According to Rojas: “The financial crisis might not come due to a drought but to an excess of liquidity. It would seem that the way [for the Venezuelan government] to go from a market economy to a centralized economy is through the destruction of the existing financial system.” Rojas adds: “The monetary policy [of Chávez] is one of progressive controls: exchange controls, total control over the use of public funds, parallel budgets and an increasing state control of the economy, all of which is creating an exaggerated increase of liquidity. As liquidity increases without a real growth of the economy, the currency becomes progressively devalued. The loss of autonomy of the Venezuelan Central Bank and the disorder in the management of the financial resources on the part of the government are leading to a significant financial crisis that could eliminate private banking and justify state intervention.”²¹

Corruption Flourishes in the Revolution

The elimination of corruption in government was one of the three main electoral promises made by Hugo Chávez and probably the one that was most decisive in his victory. The two-party system that had held power in the country for four decades had allowed cor-

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ruption to become systemic and “democratic,” in the sense that large sectors of the population were engaged in it. In interacting with the government bureaucracy there was little that an average Venezuelan citizen could do without having to bribe someone. Intolerable delays took place if there was no bribe. Corruption had become a way of life in Venezuelan society. Abundant oil income and democracy, two factors that should be positive, had combined to produce a highly damaging mixture, destroying the work ethic of a great portion of the Venezuelan population.

Oil income should have been a blessing, but it became a curse, given how rapidly it surged from the 1970s on. Democracy should have led to progress but not in the populist, paternalistic manner fostered by Venezuelan political leaders during the last 40 years of the 20th century. The combination of abundant oil rent and populism led to increasing dependence of citizens on the welfare state. Generation of wealth by the many, the main characteristic of developed societies, took a back seat to the distribution of oil wealth by the government, with the sectors of society friendliest to government getting the largest segments of the oil pie.

At first, the oil wealth was so large in comparison with the relatively small population that, for many years, government had enough money to keep most Venezuelans happy. As time went by and population increased without a corresponding increase in oil income, popular dissatisfaction started to intensify. With less pie to go around, more and more of the population was excluded from the distribution of the oil wealth. By the 1990s governments realized that a change in social values and attitudes had to take place in the country and that oil income alone would not be enough to drive the country forward. By his second term (1989–93), President Pérez clearly understood this, but when he tried to introduce limited economic reforms leading to less government paternalism, he ran into a violent popular reaction. Withdrawal symptoms from government dependence proved to be too strong to be

accepted by the country. The resulting backlash opened the way for Chávez’s attempted coup and, later, for his electoral victory.

Chávez has chosen to take the path of least resistance. He saw what had happened to President Pérez and his attempts to reform. He was not prepared to follow that route for two reasons: one, because he knew it would not be popular and, two, because he did not believe it was the correct path. In 1992 Chávez had rebelled violently against Pérez’s attempts to introduce austerity measures. Therefore, he brought to his presidency ideas shared by millions of Venezuelans, who strongly believe that Venezuela is a very rich country and that poverty exists only because oil wealth has remained in the hands of the few. If only the oil wealth were better distributed, Chávez felt, Venezuela would experience a true revolution.

Wealth redistribution has been a constant of the Chávez presidency, as has a total neglect of the creation of new wealth. Chávez has been taking away from the haves, the rich and the middle class, in order to give handouts to the have-nots. That has led to the progressive impoverishment of the average Venezuelan, even as it has increased the level of corruption in Venezuelan society.

Defining Government Corruption

In its broadest sense, government corruption can be defined as the violation of the public interest for personal or partisan gain. That broad definition clearly goes beyond simple graft and the stealing of public funds. It involves the use and abuse of political power to consolidate that power in order to obtain higher status and material wealth. It also includes actions that erode the ethical standards of the society being governed, even if no material loss takes place.

Under that definition, the eight-year period of Chávez’s government has been hypercorrupt, surpassing all preceding governments in both incidence and intensity of corruption. The main causes of this hypercorruption are (a) the record oil income obtained by Chávez’s government during his eight years in power; (b) the very mediocre management team that

Chávez has put together; (c) the ideological predilections of Chávez, which have led him to neglect his duties as president of all Venezuelans to try to play a messianic role in world affairs; and (d) Chávez's belief that the path to follow in Venezuela was that of oil income distribution in the form of direct handouts, rather than a more long-term policy of structural solutions to reduce Venezuelan poverty and improve health and education.

Typology of Government Corruption under Chávez

For the purposes of this discussion, it is useful to classify corruption in the Chávez government under three main categories: grand corruption, bureaucratic corruption, and systemic corruption.

Grand Corruption. This category covers corruption derived from major policy decisions by the highest decisionmaking levels of government, in this case the president, and includes the following:

- **Chávez's acceptance of foreign contributions for his presidential campaign and during his presidency.** During 1998 and 1999 at least one foreign bank, Spain's BBVA, allegedly contributed substantial amounts of money to Chávez's presidential campaign and, later, to his presidency. The former president of the bank, Emilio Ibarra, admitted authorizing two deposits, one for \$525,000 in 1998, made to the Curacao-based Maduro and Curiel's Bank NV, for a company called Concertina NV (a company set up by Luis Miquilena, Chávez's campaign manager) and the other for \$1,000,000 made after Chávez had been elected, for the purpose of financing Chávez's followers' campaigns for the Constituent Assembly.²² Partly because of these alleged violations, Ibarra was to be tried in Spain at the start of 2006, with the prosecution seeking a two-year prison term. The current status of the case is unknown.

- **Violations of the Constitution of 1961 in order to convene a Constituent Assembly with supraconstitutional powers.** This resulted in the dissolution of the democratically elected National Congress and of other democratic institutions. Although elected in democratic elections in 1999, Chávez went on to dismantle the main democratic institutions in the country, with the complicity of the majority of the members of the existing Supreme Court of Justice. A Constituent Assembly, stacked with his followers and given supraconstitutional powers, unconstitutionally dissolved Congress and most other existing democratic institutions during 1999 and replaced them with institutions staffed by people loyal to Chávez. This was a clear case of political corruption and a progressive coup d'état that ended with all Venezuelan political institutions under the control of the government and eliminated effective checks and balances. From that moment on, for all practical purposes, Venezuela ceased to be a democracy.
- **Expenditures of up to \$17 billion in the last four years, mostly to buy weapons and political loyalties around the world.** During the last four years Hugo Chávez has been on a \$4 billion shopping spree for weapons in Russia, Spain, and other countries and has been promising or actually disbursing significant amounts of money to Latin American and Caribbean countries in exchange for promises of political loyalty and support for Chávez's objective of obtaining a seat on the Security Council of the United Nations. On January 27, 2006, I published an estimate of these expenditures, based on data from the Center of Economic Research in Caracas, amounting to \$17 billion,²³ directly controlled by Chávez. The spending has included plans to build refineries in several Latin American countries and donations to politically friendly governments, such as the \$30 million

Bureaucratic corruption has exploded during the Chávez government.

Venezuela is giving Cuba a subsidy on the order of \$2.2 billion to \$2.3 billion per year.

Chávez gave Bolivian president-elect Evo Morales on the occasion of his January 2006 visit to Caracas. This huge disbursement was made without consulting the people of Venezuela.

Bureaucratic Corruption. This category includes violations of laws, norms, and regulations by government employees or non-government accomplices. This type of corruption can involve extortion, bribery, the stealing of public funds, abuse of political power, nepotism, and many other varieties of illegal or unethical use of public assets for private gain. Given the enormous amount of oil income during the last eight years and the almost total absence of proper government controls, bureaucratic corruption has exploded during the Chávez government. Some of the most remarkable manifestations are described below.

- **Government contracting is mostly being done directly, without following existing bidding regulations.** The law that regulates the acquisition of goods and services by the Venezuelan government says that all contracting should follow proper bidding procedures, except in cases of national emergency, which can be declared only by the Executive Cabinet or by the General Comptroller's Office. Faulty bidding procedures and the lack of any bidding at all have been identified by Transparency International as the main causes of corruption in Third World countries. Multilateral organizations such as the World Bank and the Inter-American Development Bank have established stringent procedures to guarantee that all projects in which they participate as lenders are conducted according to proper bidding procedures. However, the Venezuelan government, especially during the last three to four years, has practically done away with bidding in public-sector contracting. According to the Venezuelan chapter of Transparency International, today 95

percent of all known public contracts are awarded without bidding.²⁴

In the state of Carabobo alone, current governor Luis Acosta Carlez has openly admitted to 800 cases of no-bid contracts, involving tens of millions of dollars.²⁵ The governor declared, in every case, emergency conditions of questionable validity or that were not defined as such by the proper authorities, as stipulated by law.

What is happening in the state of Carabobo is also happening all over the country and in all sectors of the government. The complete disregard for proper administrative procedures is due to two main factors: indifference toward, or ignorance of, the law on the part of bureaucrats and the knowledge that they will not be punished. Although it is impossible to quantify the financial damage to the nation attributable to these disorderly procedures, there is no doubt that the level of corruption associated with this approach to contracting is extremely high.

- **The social programs run by the military in 2000–02.** Soon after he came to power, Chávez established a program called Bolívar 2000, run by the armed forces, designed to do social work. Conceptually it was sound. It had to do with the fact that Venezuela had a large—and largely idle—military force, seemingly active only during the military parades of the July 5 and 24 every year. Why shouldn't the military be put to work on social programs to improve the social situation of the Venezuelan poor? To most Venezuelans that sounded like a good idea.

According to journalist Agustín Beroes, however, the execution of the program was not good.²⁶ The Bolívar 2000 program was run by Army Commander Victor Cruz Weffer and was assigned about \$300 million. After only one year, the program was terminated because of uncontrollable waste and corruption in which an estimated \$150 million went unaccounted for. The most frequent mechanisms of corruption operating in this program included

false invoicing and the signing of contracts with nonexistent suppliers. When General Comptroller Eduardo Roche tried to investigate in earnest, he was replaced by Clodobaldo Russian, who remains at his job five years later. Parallel to this failed program another was initiated, the so-called Fondo Único Social (Central Social Fund), led by Commander William Fariñas, another one of Chávez's fellow conspirators during the unsuccessful 1992 coup. This program received about \$400 million from the government and was oriented toward health services, housing, and educational subsidies. In essence, FUS was a typical direct subsidy program conducted without careful planning. FUS gave \$500,000 to an organization run by the wife of Commander Fariñas's driver, Horacio Pérez. Beroes estimates that the irregularities connected with this program have cost some \$30 million.

• **The acquisition of the presidential airplane.** During a 2001 trip to the Middle East, Chávez had the opportunity to travel in an Airbus 319 owned by a member of the royal family of Qatar. After returning to Venezuela, he declared that he wanted one just like it. In clear violation of article 314 of the Venezuelan constitution and of the law regulating government expenditures, the plane, an A319-133X, was acquired at a cost of more than \$65 million, without proper budgetary provisions.²⁷

• **“Sweet” corruption at the agro-industrial complex Ezequiel Zamora.** A prominent case of corruption has taken place since 2004 in the Ezequiel Zamora agro-industrial complex, located in the state of Barinas, Chávez's home state. The National Assembly took the unusual step of investigating it after a public accusation by journalist Eleazar Díaz Rangel, who is otherwise sympathetic to the Chávez government. As a result of the investigation, Minister of Agriculture Antonio Albarrán, the director of the Sugar Mill complex, Army General Delfín Gómez, and 17

members of the armed forces involved in the project were sent to the criminal courts. The Venezuelan National Assembly has accused the group of taking about \$1.3 million from the accounts of the sugar-processing plant run with the help of Cuban advisers.²⁸ The case has not yet been decided. According to another source, the 62nd Army Engineers Unit has been accused of squandering \$1.5 billion of the \$2.6 billion appropriated for the complex.²⁹ This too has not been resolved. Minister Albarrán admitted to malfeasance for not revealing these facts when he became aware of them on September 23, 2005. By his own admission, he withheld the information because, he claimed, the country was in the midst of parliamentary elections and his revelation would have created a scandal damaging to the Chávez government.

• **Corruption at the Supreme Tribunal of Justice.** In early 2006³⁰ a scandal involving the Supreme Tribunal of Justice held the attention of the nation for a brief period of time (no corruption scandal lasts more than one or two weeks in the Venezuelan press, as it is quickly superseded by a new one). The minister of the interior, Jesse Chacón, accused one of the leading members of the tribunal, Luis Velásquez Alvaray, of corruption. Some people saw this accusation as a political maneuver designed to eliminate a prominent member of one government faction. Chacón accused Velásquez Alvaray of pocketing significant amounts of money from commissions and overpricing in the acquisition of real estate for the tribunal.

Surprisingly, Velásquez Alvaray counter-attacked, accusing Vice-President Rangel, Minister Chacón, and National Assembly president Nicolás Maduro of being at the head of an extensive criminal judicial group called the “Gang of the Dwarfs.” According to Velásquez Alvaray, this group acted principally in the protection of drug traffickers. In addition to pointing a finger at these three high government officers, Velásquez Alvaray

The Electoral Registry is deeply corrupted.

The Chávez government has generated two lists of voters to retaliate against.

also accused the brother of Minister Chacón, bank owner Arne Chacón, of pressuring him to get the judicial system to deposit its funds in Arne Chacón's bank. He also accused some of his colleagues at the Supreme Tribunal of Justice of being connected with drug trafficking. These allegations remain unresolved. Velásquez Alvaray is said to be in Madrid, Spain.

• **The oil supply agreement signed with Cuba, a gigantic loss for the nation.** One of the most damaging examples of the Chávez government's political and economic corruption is the oil supply agreement with Cuba.³¹ Fidel Castro and Hugo Chávez signed this "integral cooperation agreement" in Havana in October 2000. The agreement pledges Venezuela to supply Cuba for 15 years with volumes of Venezuelan hydrocarbons, starting at 53,000 barrels per day. In December 2004 this volume was increased to 90,000 barrels per day.

Several characteristics of this oil supply agreement are irregular and highly damaging to the Venezuelan nation: First, the form of payment, including 15-year financing at 2 percent interest of 25 percent of the volume, is a gift to Cuba that can be estimated at some \$400 million per year at current oil prices; second, Cuban delays in paying or outright refusal to pay should have triggered an interruption of supply, which has not taken place. This is bureaucratic negligence on the part of the Venezuelan government and means that some \$1.3 billion per year is not being collected, either in a timely fashion or at all; Finally, Cuba's real consumption of hydrocarbons is probably lower than claimed. There are indications that Cuba is reexporting some of the petroleum supplied by Venezuela, possibly as much as 25,000 barrels per day. At current prices that would represent a further loss of some \$500 million per year for the Venezuelan nation.

In total, therefore, Venezuela is giving Cuba a subsidy on the order of \$2.2 billion to \$2.3 billion per year. This is an

enormous amount, sorely required by Venezuela for the improvement of the quality of life of its citizens.

• **Corruption at the National Electoral Council.** The performance of the Venezuelan National Electoral Council, under the political control of Chávez, has led to widespread distrust of it among Venezuelans. As a result of this distrust, in December 2005, 75 percent of eligible voters, according to official figures, abstained from voting for the election of members of the National Assembly. The figures given by the opposition placed abstention at 85 percent. The reasons for this widespread distrust are several: First, the members of the council are all Chávez followers, with one exception. That means that the decisions made by this body have always favored the interests of the government. Until several months ago, the president of the council, Jorge Rodríguez, was also the adviser of Peruvian candidate Ollanta Humala, while still president of the Venezuelan Electoral Council. Second, the naming of these members has not been done according to proper constitutional procedures.

Third, reports by international observers (the Organization of American States, the European Union, and Spanish Congress) during the last two electoral events, in 2004 and 2005, found that the NEC's activities lack transparency. Fourth, the Electoral Registry is deeply corrupted. It includes, according to the council, almost 17 million voters, a statistical improbability since Venezuela has a population of 26 million, 60 percent or more of whom are too young to register. It is presumed, therefore, that millions of foreigners have been given Venezuelan papers in a very short time in order to swell the registry, which has grown 8 to 10 times faster than normal in the last two years. Gustavo Adolfo Fabregat, a 57-year-old Uruguayan information system expert who resides in South Carolina, has made an analysis of the Venezuelan

electoral roll and describes some of the many irregularities, such as the existence of 39,000 voters over one hundred years old.³² This is a number equal to that of the same age group in the United States, where the population is 10 times greater. Of these 39,000 people, 17,000 were born in the 19th century, and one is 175 years old and still working! Nineteen thousand voters were born the same day and year in the state of Zulia. There are thousands of people sharing the same address. This would make hilarious reading if it were not so tragic.

Fifth, the voting machines used by the government belong to a company alleged to have had connections to the government until the *Miami Herald* denounced this perceived conflict of interest.³³ The company that owns the machines, Smartmatic, was created in 2000. Reports have linked its owners to Chávez and other members of his government.³⁴ But Smartmatic and the Venezuelan government deny the company has ever had any type of relationship with the Chávez administration. This company received a no-bid government contract for \$100 million in 2004, just a few months before the August 2004 Venezuelan presidential referendum, in which the machines were used for the first time. The results of that referendum were questioned by the opposition but validated by the observers of the Carter Center and the OAS.³⁵

In addition to the irregularities listed above, the Chávez government has generated two lists of voters to retaliate against: one, a list of those who asked for the referendum against the president, the Tascón List, named after Luis Tascón, a pro-Chávez member of the National Assembly that put it together, and, two, a list of those who had, in fact, voted to revoke him, the so-called Maisanta List, after the grandfather of Hugo Chávez, a small Venezuelan caudillo of the 19th century whom Chávez has installed as one the icons of his revolu-

tion. On several occasions, Chávez went on TV to threaten citizens who had voted against him in the referendum and allowed the use of the lists to dismiss many Venezuelans from their jobs, to refuse them identity papers, and, in general, to treat them as second-class citizens. This practice of “apartheid” is still in force in Venezuela, and many Venezuelans have emigrated after being persecuted because of their political beliefs. In April 2006 a Venezuelan magistrate of the Supreme Tribunal of Justice came to the United States on a tour of half a dozen cities to talk about the “wonderful” revolution of Hugo Chávez. During his talk in Washington, at the School of Law of American University, he spoke of how the revolutionary government of Chávez had included all Venezuelans. He was immediately challenged by several young Venezuelans in the audience, including a lawyer who had been dismissed from her job in Venezuela for signing the petition to hold the presidential referendum.³⁶

• **Corruption in the state-owned petroleum company, *Petróleos de Venezuela*.** Corruption in the most important Venezuelan state-owned corporation takes many shapes. It includes the naming of six presidents and boards during the last seven years, in an effort to control the company politically. That turnover has shattered management continuity and coherence and has practically destroyed the capacity of the company to prepare and follow strategic plans. As a result, the six-year plan of the company is the same one prepared before Chávez came to power, a plan that has been waiting for six years to be put into effect. If it had been implemented at the proper time, the company would now be producing about 5 million barrels of oil per day. In fact, it produces only about 2.7 million barrels per day.

Add to that the fact that the minister of mines and petroleum is also the president of the company, which may be not only a

Chávez has repeatedly used oil to buy loyalty.

The revolution taking place in Venezuela during the last eight years has been more successful in creating an instant class of the new rich than in solving the problems of poverty.

violation of the laws of the country but a major error of strategic management since the organization is now being managed and monitored by the same person. Further evidence includes Chávez's dismissal, on a television program, of almost 20,000 technical and managerial staff in 2002, in open violation of Venezuelan labor laws. That mass layoff significantly diminished the operational efficiency of the company. Not only has production been decreasing steadily in the last three years, but refinery stoppages, oil spills, industrial accidents, and widespread interruptions in the normal operations of the company have increased dramatically. Moreover, the international marketing of Venezuelan oil has fallen into the hands of brokers and intermediaries, instead of being run by the marketing division of the company. Those brokers have political connections with the Chávez government and serve as go-betweens with clients, collecting significant commissions at the expense of national income.³⁷

Chávez has repeatedly used oil to buy loyalty. In November 2005 he ordered Petróleos de Venezuela's U.S. affiliate, CITGO, to distribute subsidized fuel oil to "poor" communities in several states of the United States for purposes of political propaganda. These subsidies are absorbed by CITGO, but a substantial portion of the cost is actually paid by the U.S. government through tax deductions. The Chávez government also supplies thousands of barrels of oil per day to Caribbean countries, essentially in exchange for their political loyalty. The mechanism of payment allowed by the Chávez government is in the form of agricultural products such as bananas and beans. This will inevitably produce significant losses to the Venezuelan nation.

Finally, the Chávez government gives China, on terms that are not known to Venezuelans, the licenses owned by the Venezuelan Research Center for China to produce Orimulsion, an emulsion of

heavy oil and water that competes favorably with coal for heating purposes and industrial use. This array of irregularities, all of which squander Venezuelan wealth, is the result of the politicization of the Venezuelan state petroleum company.

Systemic Corruption: The Interface between Government and the Private Sector. In addition to bureaucratic corruption that constitutes the major component of corruption under the Chávez government, there is a third category involving the interaction of state and private actors in a contaminated social system. This type of corruption can involve important amounts of money or small favors, which are qualitatively identical. The term "petty corruption," although sometimes applied, tends to be misleading as it suggests that there are transactions that are "more" corrupt than others because they involve larger amounts of money. Systemic corruption includes the liaison between government officials and private buccaners to do business at the expense of the public good, as well as bribes, extortion, and illegal appropriation of public monies for personal gain. This sort of corruption has exploded during Chávez's tenure, promoted by the immense amounts of public expenditure and the policy of handouts favored by the government. Some of the most prominent examples include the following:

• **The emergence of a new rich, "revolutionary" class.** The great amount of oil income freely used by the government has created what *El Nuevo Herald* and the *New York Times* have called a new class of wealthy "revolutionaries."³⁸ According to these reports, a new bourgeoisie has been created in the country: "They drive Hummers and Audis; use Cartier watches and Mont Blanc bags. They buy luxury apartments and fly to Miami in private jets. And they always pay cash," reads the *El Nuevo Herald* report. This sudden wealth, says economist José Guerra in *El Nuevo Herald*: "can only be explained by

the close association of these new rich with the government.” One of the main examples of this sudden new class of wealthy people is Wilmer Ruperti, who receives an inordinate number of contracts from the state-owned petroleum company. Ruperti has been investigated, both in Venezuela and in the United States, because of some of the transactions made with the oil company and with CITGO, but nothing has resulted from these investigations. Last year Ruperti bought at Christie’s, for \$1.6 million, two pistols that belonged to Simón Bolívar, as a present to the government. An employee of one of the Mont Blanc shops in Caracas stated to *El Nuevo Herald* that their customers, especially the military, only use cash.

• **Government-controlled private corporations.** When government officers own a company but conceal this fact by working through private intermediaries, corruption can reach very high levels. Kenneth Rijock, a financial analyst for law enforcement agencies who previously served time in prison for money laundering, notes that government-controlled corporations have flourished under Chávez, especially corporations that produce and distribute food.³⁹ The major agribusiness organization that government officials control, he says, is the PROAREPA group, the main supplier of food to the government handout programs. PROAREPA, Rijock says, owns a large group of companies, including Almacenes y Transportes de Cereales, which is “rumored to be owned by Chávez’s brother Adan.” The officers of record of PROAREPA, says Rijock, include Ricardo Fernandez Barrueco, a close friend of high-level government officials and of certain of President Chávez’s relatives. According to Rijock, Fernandez was investigated for customs-related offenses, and he deals with the government food distribution organization PROAL, but the investigation was terminated in February 2001 for reasons

not explained. Rijock also mentions the seafood sector as a sector where this type of business prevails

El Nuevo País, a Venezuelan daily, has reported that in August 2005 Arne Chacón, brother of Minister of the Interior Jesse Chacón, made a \$10 million offer to buy the company INDULAC, a very large dairy-processing company in western Venezuela.⁴⁰ The question posed by Patricia Poleo, the journalist reporting the story, is “Where did Mr. Chacón, a retired navy lieutenant, obtain the \$10 million required to buy this company?”

Juan Carlos Zapata, editor of *Descifrado*, a Venezuelan publication, has written a more general report in which he describes the emergent new power structure surrounding the Chávez government.⁴¹ From this analysis one thing is clear: the revolution taking place in Venezuela during the last eight years has been more successful in creating an instant class of the new rich than in solving the problems of poverty of the immense majority of Venezuelans. The situation strongly resembles the oil windfall of the 1970s, except that now there is more waste since there is more money.

According to Zapata, a new “revolutionary” bourgeoisie is being born under Chávez. But this group is far from being truly revolutionary. As time goes by it will tend to become closer to international capital, and there is little that Chávez can do to prevent that. What will happen then? asks Zapata. The “revolution,” he suggests, will simply replace one financially dominant class with another. Political loyalty and ideology will be sacrificed to the desire for wealth. Zapata lists the names of some of the members of this new financial aristocracy.

An *Economist* article published at the same time as Zapata’s article reports that the brother of the minister of the interior, Jesse Chacón, was “illegally lobbying for a bank,” which he eventually bought without really paying for it, and which

A new “revolutionary” bourgeoisie is being born under Chávez.

A cursory examination of real estate acquisitions in Florida reveals names that are familiar on the Venezuelan bureaucratic scene.

may have been the source of the \$10 million he later offered to INDULAC.⁴²

Analyst Kenneth Rijock claims that the Chávez government is “engaged in a massive money laundering operation” in order to transfer dollars derived from the oil bonanza overseas, for the benefit of the top members of the government.⁴³ This operation, Rijock says, seems to be modeled after similar schemes by Fidel Castro. He claims that the transfer mechanisms include moving the money through Swiss banks and the possible acquisition of one such bank for these purposes.

• **The case of Hugo Chávez’s personal lawyer, Esther Bigott de Loaiza, and her \$18 million retainer.** Esther Bigott de Loaiza was for some time the personal lawyer of Hugo Chávez. In that capacity she made excellent contacts and obtained important contracts from government agencies. One in particular has created quite a scandal, the product of a very damaging decision by the government lawyer Marisol Plaza, who, according to the government, incorrectly accepted as valid some promissory notes, called the Bandagro Bonds, after the bank that issued them, back in 1981. One hundred million dollars worth of these bonds have been held since 2004 by Skye Ventures, an Ohio-based investment company controlled by David Richard, that has sued the Chávez government for payment of the face value plus interest.⁴⁴ The government hired lawyer Biggot de Loaiza and allegedly gave her a retainer of \$18 million to defend the nation against this legal action, according to court papers. That money was apparently deposited in a New York City branch of a U.S. bank, under authorization of Finance Minister Nelson Merentes. Apparently that money should have also covered payment to a U.S.-based lawyer named Claudia Silvestre. However, Silvestre claims she never got paid. She tried, unsuccessfully, in a legal action against Bigott de Loaiza in New York Supreme Court to get her

money, some \$2.6 million, but relief was denied for lack of jurisdiction. That legal action was the reason the alleged \$18 million, payment to Bigott de Loaiza became known. Bigott de Loaiza has denied she was being paid such amounts.

• **Drug trafficking: Venezuela as a “gateway to heaven,” because of the absence of border controls.** The Caracas daily *El Universal*, quotes the 2006 *International Narcotics Control Strategy Report* as saying: “Rampant corruption and a weak judicial system are the main reasons for the prominent role Venezuela is now playing as a key transit point for drugs leaving Colombia for the U.S. The Colombian guerrillas, FARC, ELN and the Auto Defensas de Colombia, move freely through Venezuela, unchallenged by the authorities.”⁴⁵

The attitude of the government has been ambivalent; on the one hand, it has made some efforts to combat drug trafficking, and, on the other hand, it has refused the extradition of alleged drug dealers and even released some of them, as was reportedly the case with Mateo Holguín Ovalle in March 2006. A report by Andy Webb-Vidal for *Jane’s Intelligence Review*, May 2006, asserts that cocaine trafficking operations are shifting toward Venezuela and notes that drug seizures have skyrocketed the last 10 years, from 2.7 tons in 1995 to almost 60 tons in 2005.⁴⁶ Seizures, authorities estimate, represent only about 10 percent of total traffic.

One of the most recent seizures of drugs originating in Venezuela took place in the state of Campeche, Mexico, when the authorities captured a DC-9 and a Falcon jet. The DC-9 had 5.5 tons of cocaine aboard. The growing drug industry in Venezuela allegedly has intimate connections with high-level members of the Venezuelan National Guard. The report stated that several generals of this force, including Alex Maneiro and Frank Morgado, as well as three other officers, have been denied U.S. visas because of their

alleged involvement in the trafficking. Venezuelans, says Webb-Vidal, “are becoming more integrated into the supply chain, rather than merely acting as couriers.” A former member of FARC, quoted by Webb-Vidal, says that, during the time he operated in Venezuela in activities related to drug trafficking, some 30 tons of cocaine worth about \$750 million in Miami were moved into Venezuela by the FARC each year. The report claims that alleged prominent drug traffickers of Colombian origin are believed to be based in Venezuela, including Diego Montoya Sánchez, Wilber Varela Fajardo, Juan Carlos Ramírez, and Salomón Camacho Mora. It is hard to believe that the increase in drug trafficking in Venezuela would not also increase corruption in the Venezuelan military and among government bureaucrats.

• **Corruption at the second and third levels of government bureaucracy.**

Living beyond one’s means is probably the most revealing sign of corruption. In Chávez’s Venezuela, where salaries of ministers average some \$5,000 per month and even high-level bureaucrats earn only between \$3,000 and \$4,000 per month, the style of living of lower-level bureaucrats is more in tune with incomes of about \$15,000 per month. Luxury goods, including cars and even private planes, are bought in an abundance never seen before; 18-year-old scotch whisky is the drink of choice; and power lunches usually last between three and four hours, at a cost of some \$100 per person. As already mentioned, payment for most of these transactions is almost always in cash.

A cursory examination of real estate acquisitions in Florida reveals names that are familiar on the Venezuelan bureaucratic scene. A recent report by *Exceso*, a Venezuelan magazine,⁴⁷ reveals several examples of houses and condos in Caracas where members of the Chávez government live, a type of housing that is very expensive by Venezuelan standards and certainly

beyond the reach of bureaucrats earning rather modest salaries.

• **The plight of the average citizen.** In this wild collective hunt for oil booty, in which the powerful few obtain most of the spoils, the ordinary Venezuelan citizen is invariably a latecomer. He or she will have to wait in line to receive his or her meager share. A small job at a state agency requires total loyalty to the government, a modest scholarship for a son requires months of pleading and persuading. Obtaining a passport or an identity card usually involves days or weeks of getting up at 4:00 a.m. to get in line with hundreds of others, hoping that passports have arrived and that the person at the bureaucratic desk happens to be in a good mood. Paying taxes or even the electric bill requires considerable patience and hours of waiting. Corruption flourishes in such an environment. Since Venezuelans have to go to work or to school, they cannot afford to waste time, and most end up bribing the bureaucrat or accepting extortion. Almost every bureaucratic transaction requires that payment be made or expedited.

Infrastructure problems, especially regarding roads and electricity, also plague the country. The number of major electricity blackouts increased from 49 in 2004 to 80 in 2005, and major highways and bridges are in need of substantive repairs.⁴⁸ In fact, the main bridge on the highway connecting Caracas with the international airport collapsed in early 2006, and some 40,000 cars have to travel on a provisional road that seems to have become permanent. As another example of inattention to basic government functions, garbage frequently remains uncollected in the cities and towns of the country.

The crime rate has made Venezuela one of the most dangerous countries in the world. A statistical summary from sources such as Latinobarometro, the Inter-American Development Bank, PROVEA (a human rights group based in Caracas), and other organizations shows

The crime rate has made Venezuela one of the most dangerous countries in the world.

Eight years is more than enough time to evaluate Hugo Chávez's anti-corruption policies.

that, during the period 1998 to 2005, homicides in Venezuela increased by 128 percent, violent deaths increased by 74 percent, deaths by fire arms increased by 36 percent, kidnappings increased by 426 percent, and Caracas homicide rates were the second-highest in South America after Recife, Brazil.⁴⁹

The Chávez Anti-Corruption Record: Broken Promises and Failed Policies

Eight years is more than enough time to evaluate Hugo Chávez's electoral promises and the effectiveness of his government's anti-corruption policies. This evaluation can be made by using objective international measures, such as the Corruption Perception Index produced every year by Transparency International, as well as other indices that examine economic freedom and quality of governance, such as the *Economic Freedom of the World* annual report, published by the Fraser Institute, and the *Human Development Index* of the United Nations. A more subjective, impressionistic comparison of what the government of Hugo Chávez said it would do and what it has done in the realm of transparency and honesty is also worthwhile.

International Indices

The 2005 *Corruption Perception Index*, published by Transparency International, ranks Venezuela 136th out of 159 nations.⁵⁰ In 2000 Venezuela ranked 73rd out of 90 nations. Although in both years Venezuela ranked near the bottom, a meaningful comparison is not easy to establish because of the different number of countries included in the rankings. More accurate is the composite score obtained during these two years, since the factors used in making up this score are essentially the same. On a scale of least corrupt (10) to most corrupt (1), Venezuela went from 2.7 in 2000 to 2.3 in 2005, a significant deterioration. In contrast, a country like neighboring Colombia, in spite of its signifi-

cant political and social problems, went from a score of 3.2 in 2000 to 4.0 in 2005, a significant improvement.

Those scores are based on surveys done independently and involve thousands of people being consulted, both in the countries being ranked and abroad. In the case of Venezuela and Colombia, the scores were established with the help of 10 and 9 independent surveys, respectively. It is curious to contrast Vice President Rangel's change in attitude from when he gave his speech in 1999 with his later reaction to Transparency International's 2005 ranking. In 1999 he spoke of the enormous cost of corruption in Venezuela and of the need to mobilize all institutions in the fight against it. In 2005 he dismissed the ranking by making the unsubstantiated claim that Transparency International was a discredited institution, alleging incorrectly that it charged a "tariff" to countries for their position on the corruption table.⁵¹

Venezuela's ranking in the 2006 *Economic Freedom of the World* index is 126 out of a group of 130 nations, very close to the bottom of the ladder, only above the Republic of Congo, the Democratic Republic of Congo, Myanmar, and Zimbabwe. A comparison of the scores through the years is, again, revealing. In 1970 Venezuela had a rating of 7.6 on a scale of 0 to 10. In 2000 the rating was 5.5, and today it is only 4.4. According to the index, Venezuela is the country that has experienced the largest fall in economic freedom since 1980.⁵² The bottom 10 countries in the ranking are African, with the exceptions of Venezuela and Myanmar.

The index helps to illustrate the connection between economic freedom and corruption. Countries with a low level of economic freedom are characterized by exchange controls, a large level of government consumption as a percentage of total consumption, investment largely concentrated in state enterprises, a judicial system not independent of the government, military influence in the political process, high and variable inflation, restrictions on access to foreign capital markets, price controls, and bureaucratic red

tape. That perfectly describes Chávez's Venezuela. This and other studies also show the strong correlation between corruption and low levels of economic freedom.

In 1975 Venezuela was ranked 34 in the group of UN member countries, with a score of 0.716 on the UN's *Human Development Index*, which measures broad indicators of human well-being. That year Venezuela had a higher ranking than South Korea, Chile, or Mexico. In 2000 Venezuela was ranked 46, with an index of 0.776. In 2005 Venezuela is ranked 76 with an index of 0.772, much lower than South Korea, ranked 28, Chile, ranked 37, and Mexico, ranked 53. This shows a clear deterioration when compared with other countries' rankings and when measured by its rating. In particular the fall by 30 places in the ranking in the last six years is dramatic. Development in Venezuela has come to a standstill while other countries are passing Venezuela by. This is in spite of the immense amount of income received by the country during that period.

A Legacy of Corruption

Broken Promises. Hugo Chávez came to power promising an all-out fight against corruption. At the time, he may very well have meant it. Most Venezuelans agreed with the need for more honesty and transparency in government, and they wanted a clean break with the past. They voted for Chávez to install an honest democratic government.

But the record shows an enormous gap between Chávez's promises and Venezuelan reality. Today Venezuela is not a democratic country. It is aligned with some of the most dictatorial regimes on the planet: those of Mugabe, Kim II Sung, Ahmadinejad, Assad, Gahdafi, and Castro and with armed, irregular forces that practice drug trafficking or global terrorism, such as the Colombian FARC and ELN and the Lebanese Hezbollah. Chávez's promise of an all-out fight against Venezuelan corruption has turned into a fight against the U.S. government. Most of the energy and resources of the Venezuelan government have been placed at the service of this objective.

The fight against the United States has helped to generate large-scale corruption in the Chávez government, through the use of immense amounts of Venezuelan money to further a global anti-U.S. alliance. That money, irregularly taken from its legitimate owners, has been used to buy political loyalty from other countries in the region. At least five countries in the region—Mexico, Peru, Chile, Nicaragua, and Bolivia—have denounced the intervention of Chávez in their internal political affairs, and three of them (Mexico, Peru, and Chile) have recently demanded that Venezuela retire its ambassadors, and the Bolivian Congress, in October 2006, was discussing the possibility of naming the Venezuelan ambassador *persona non grata*.

Failed Policies. Chávez's policies have promoted corruption rather than combated it. Although then-foreign minister Rangel acknowledged, in his 1999 speech, the existence of a systemic culture of corruption in the country, the Chávez government has done nothing to change that culture—except to make it worse. The concentration of political power in Chávez's hands, the rapid turnover of ministers and other high-level bureaucrats, the absence of debate in the National Assembly about important national economic and political issues, and the lack of checks and balances in the system have contributed to a dramatic increase in corruption. Prominent cases of corruption in Chávez's government, such as the ones described in this paper, have not been punished. A few bureaucrats, such as Luis Velásquez Alvaray and Antonio Albarrán, have been dismissed from their posts but have remained undisturbed.

In his 1999 speech, Rangel also called for a trustworthy judicial system. This has not happened. From the Supreme Tribunal of Justice downward, the judicial system is rotten. The members of the Supreme Tribunal of Justice, dressed in full regalia, stood up at the end of their inaugural session in January 2006 and sang: "Uuh ah, Chávez no seva" (Chávez is not going).⁵³ Could such a grotesque event ever take place in a country with independent institutions?

Studies show the strong correlation between corruption and low levels of economic freedom.

The record shows an enormous gap between Chávez's promises and Venezuelan reality.

Rangel has also called for the elimination of confidentiality in banks, financial corporations, and other state and private organizations. Yet, the Chávez government remains a black box, much more so than any previous government. *Petróleos de Venezuela*, the most important state-owned corporation, no longer publishes annual reports. The management of national funds is done in total secrecy and without accountability to the people. The Chávez government makes the major decisions; when it provides information on those decisions, it does so only after the fact.

Rangel mentioned in his 1999 speech that, as a sign of the Chávez government's determination to combat corruption, a fourth power called the Civic Power was being incorporated into the new constitution. In practice this has turned out to be a cruel fraud against the people. The three members of the Civic Power—the general comptroller, the ombudsman, and the attorney general—have all performed dismally, siding at all times with the government, failing in their duty to control executive abuses of power and to punish corruption in government. As a result, the Civic Power has been completely discredited in the eyes of the people.

Rangel warned in his 1999 speech that the main risk the new government faced was timidity and delay in the fight against corruption. After eight years it has become evident that timidity and delay reign. However, as long as there is substantial oil income, Chávez will continue his policy of massive handouts, which tends to mask the presence and damaging effects of corruption. Many of the Venezuelan poor will tend to tolerate corruption as long as they get a piece of the pie. Protests will intensify only when there is not enough money to go around.

Finally, in 1999 then-foreign minister Rangel criticized mere rhetoric and promised that the new government would adopt concrete policies designed to make institutions work. In fact, the Hugo Chávez government has been dominated by rhetoric. The new political leadership's attitude toward corruption is even more permissive than that of previous governments.

Conclusion

Corruption has dominated the Hugo Chávez government as never before in Venezuela's history. The reasons seem clear. Corruption occurs when there is motive, opportunity, and impunity of action. In the case of the government of Hugo Chávez, all three of those factors are present to a large degree.

Motive

A common motive for bureaucrats' engaging in corruption is low income. The Venezuelan bureaucratic system has traditionally made a point of paying low salaries, basing that practice on pretensions of austerity in the management of public funds. The result has been negative. Since bureaucrats are poorly paid, many resort to corruption to increase their income. Low-level bureaucrats resort to asking for payment from the public to do the most basic tasks. High-level bureaucrats resort to asking for commissions from private contractors in order to assign them work. When authority is highly concentrated in a few officers or in one person, as is currently the case in the government of Chávez, national assets can be transferred to individuals in positions of power without any kind of control. The bureaucrats who came to power with Chávez felt excluded for many years from participating in what they felt was partly theirs. Now that they *are* the government, they feel that it's their turn to prosper.

Opportunity

Opportunity for corruption arises when administrative controls and procedures are absent, when there are few checks and balances, and when bureaucratic turnover is high, preventing the consolidation of a stable organizational culture with a tradition of efficiency and honesty. The Chávez government has been particularly disorganized. There are few controls or checks and balances because of the concentration of political power at the top. High-level bureaucratic turnover has been very high, with as many as five or more ministers

taking turns at any particular cabinet post. In fact, Venezuelan cabinet changes are so frequent that up-to-date lists are difficult to maintain.⁵⁴ At more subordinate levels the turnover is also high. When combined with an overall lack of accountability, that promotes irregular management of public assets.

Impunity

In addition to motive and opportunity, impunity is a major contributing factor to both the incidence and the intensity of corruption. The very high volumes of oil money being received by the Venezuelan government, together with the lack of controls and the existence of a bureaucracy ready to obtain its share of the booty, becomes a strong incentive for corruption, especially if punishment is absent. The cases described in this paper illustrate the waste or illegal appropriation of billions of dollars, but not one single corrupt officer or businessperson has yet gone to prison as a result. A few of those officers who have obviously enriched themselves have been removed from their posts, but no further action has been taken against them. They live rich and unmolested lives. This is exactly the opposite of what the nation was promised by candidate Chávez.

Meaningfully reducing corruption in Venezuela would require eliminating motives and opportunity for corruption and punishing those responsible. After eight years of Hugo Chávez, it's entirely clear that the battle against corruption in Venezuela cannot begin until Chávez has gone.

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