

Venezuela: A Welfare State Out of Gas?

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1 Introduction

In 1936 Rafael Caldera, the leader of the Catholic student movement which emerged from the maelstrom of political events following the death of the dictator, Juan Vicente Gómez, helped write a labor law under which would remain in force until 1991. The legislation provided various protections against arbitrary treatment by employers, extensive powers for the state to intervene in labor conflicts, and a system of social benefits which were obligatory on employers. The promulgation of the law by the regime of General Eleazar López Contreras, successor to Gómez, was in response to the surge of social movements and strikes which burst over Venezuela with the end of the 25 year dictatorship. It was a partial fulfillment of the February Program (of 1936), a set of *lopecista* promises to modernize government and utilize more of the petroleum income, which had been streaming into the country since 1922, for the benefit of the masses.

Sixty years later Caldera found himself president (for the second time, the first being 1968-1973) at another crucial juncture of Venezuelan history. He was elected in December 1993 in part because he promised an alternative to the neoliberal policies which his predecessor, Carlos Andrés Pérez, attempted to implement before his term was unceremoniously aborted by Congress a year earlier after two unsuccessful military uprisings. Nonetheless, half way through his term Caldera too decided reluctantly to embrace structural adjustment. He found himself acquiescing to dismantling many of the social benefits and programs he and his generation had built into a seemingly stable Third World version of social democracy. [Lander, 1995: 16; Sosa A., 1981: 249-267]

Caldera, Rómulo Betancourt and other political leaders who emerged in the post 1935 era were the architects of a highly activist state, based in part on the availability of oil rents. They were founders of two political parties which became the crucial mediating institutions between state and society when the system reached maturity after the overthrow of the dictatorship of General Marcos Pérez Jiménez in 1958. The relationship between these leaders and state building was highly dialectical. On the one hand, through party building they mobilized previously marginalized masses of people into civic life; on the other hand they built parties which channelled and co-opted popular movements away from revolutionary or radical demands and limited the scope and impact of participation. [Crisp, 1996: 30-49]

This paper examines the de-legitimation of this system built around oil nationalism and a complicated, heterogenous system of social welfare, based on a combination of state programs and benefits negotiated into collective bargaining agreements. The first section deals with the emergence of political parties and movements and their relationship to the state during the construction of a labor relations system and the welfare system. The next section takes issue in part with a recent, influential interpretation which blames the ultimate failure of the Venezuelan state on its greatest success, extraction of oil rents. However, we agree with the widespread opinion that decline in oil rents has required a significant adjustment in the role of the state,

accentuating its legitimacy crisis. The third part of the paper examines the contraction of welfare services and capacity to maintain the system of labor relations. The fourth part of the paper briefly relates these tendencies to the present political crisis and suggests why dismantling the welfare system with origins in mass mobilization has evoked considerable protest and political instability but not an effective mass opposition based in parties, union organizations, or other popular organizations.

2 Rentier Society and State

2.1 State and Society after Gómez

Although Gómez laid the foundation for a more geographically integrated state and more effective coercive and fiscal apparatuses, the modern interface of state and society in Venezuela dates from the years between 1935 and 1958. Particularly distinctive (relative to the most of Latin America) in the development of the Venezuelan case is the symbiotic relationship between, on the one hand, the relative weakness of the traditional landed oligarchy and, on the other hand, the drastic impact of oil rents on both state and society. Circulation of oil rents in the economy generated an extraordinary acceleration of the processes of urbanization and formation of a commercial and service oriented middle class. By contrast, the industrial working class was relatively small, even by standards of the underdeveloped world, and the bourgeoisie formed principally around the quest for a share of oil rents. The middle class architects of Venezuela's democratic future from the beginning viewed the oligarchy as little more than fiscal parasites. In his column, *Economía y Finanzas*, for the newspaper *Ahora* between 1936 and 1939, Betancourt might occasionally praise a local entrepreneur, but more typical was this portrait of Venezuelan economic elite:

The parasitic character of the plutocrats has in our view a simple explanation. In great part it has to do with people enriching themselves at public expense through political favoritism and receiving juicy hydrocarbon lands during the dance of concessions. These people therefore did not forge their capital in the always risky game of business, did not 'sweat.' . . . [They] lack the adventurous spirit of those who made their fortunes competitively, confronting crises and contending with all the contingencies that threaten urban or rural producers, be they entrepreneurs or farmers." [*Ahora*, 1937]

Betancourt's disdain for the native bourgeoisie might have radicalized his social philosophy, but it must be remembered that Venezuela in 1935 was highly underdeveloped and not far removed from the anarchic nineteenth century. The dictatorship of Gómez was the first extended period of stability in Venezuelan politics since independence; it punctuated an extraordinary century of violence and civil strife. Although Betancourt (and his followers) were viewed as Communist agitators by conservative elites, his response to reports of labor and peasant unrest reveals a preference for a state capable of acting as an intermediary between the labor and capital, not one aligned with labor in class struggle.

Betancourt did urge the government of López Contreras to accelerate and broaden

programs responding to popular concerns. However, his articles for *Ahora* emphasized modernization of Venezuelan society as much as social justice. Betancourt, like many modernizing Venezuelan elites, was deeply influenced by positivism, which presumed the masses had to be educated and prepared to break with the "barbaric" past. [Vilda, 1983: 22-25] *Ahora* itself carried a daily photo essay and commentary on the "backwardness" of some region of Venezuela. Betancourt advocated social spending not simply as welfare but as a necessary investment in the modernization of Venezuela's human capital. Arturo Sosa asserts that Betancourt's conception, which is worth comparing to the logic of neoliberalism embraced by many of his successors, of social policy could be distinguished from the elite model which viewed social problems resolving themselves automatically as a consequence of a well functioning capitalist economy. He quotes Betancourt as follows:

Give land, seeds and tools to the *campesinos*; give them cheap credit . . .; support industries viable in our climate in the cities; in synthesis, increase the possibilities of remunerative employment for Venezuelans and stimulate national production, and the essential economic knot of the Venezuelan problem will begin to unravel itself. And at the same time, do not block but protect the licit organization of economic resistance organizations for sectors less favored in the distribution of wealth. [Sosa, 1994: 283]

Betancourt believed the vast majority of the Venezuelan people could power such a modernization through the vote. However, he argued *not for a state controlled by the masses but one elected by them* and capable of modernizing the country in the interest of Venezuelans of all social classes. Already in the *Ahora* articles social peace took priority over revolution, an attitude which manifested itself in his tempered response to the threat of a military coup while AD was in power between 1945 and 1948 (the *trienio*). In fact, although the *trienio* government registered landslide electoral victories, Betancourt initially had come to power through a military coup, and the government would fall to a *golpe* despite its overwhelming public support. Betancourt looked back on the fateful decision of 1936 to accept the ascension of López to power (rather than insisting on immediate democratic reforms) and laments not the failure to capitalize on the unrest, which threatened the governing elite but the alleged immaturity of the left. "It cannot be denied that during the year 1936 there was practiced in some sectors of the democratic front a policy of alarmism, shrill at times. A policy that did not agitate our consciences toward justice but our passions toward demagoguery." [*Ahora*, February 25, 1939] A wave of peasant unrest in central states in July 1939 brings a warning from Betancourt that land reform must be implemented in order to prevent a civil war between peasants and the army.

Whereas many labor leaders reacted to the 1936 labor law as too much of a compromise of their autonomy and a threat to their unity, Betancourt lamented only its slow and inadequate implementation. In his column of November 10, 1938 Betancourt warned a strike in the public utility sector could have only two outcomes, intervention by the state or occupation by labor, and he clearly preferred the former.

2.2 The Labor Law

Without desire to construct a state capable of stabilizing and harmonizing social conflict, it is difficult to imagine how Betancourt could have endorsed a law authored in part by Caldera, whose objective from start was social harmony. Caldera never considered himself revolutionary in the same way that the youthful Betancourt once did. His intellectual formation was influenced by his contact with Catholic ideological tendencies. In 1934 he attended the International Conference of Catholic Youth in Rome. [Carta y Ramírez, 1987: 55] Repelled by the influence of secular positivism and Marxism within the communist and non-communist left alike, Caldera was able to give voice to social Christian ideas when he and two other colleagues in the newly created National Labor Office were charged with writing a proposal for a new labor law. This initiated the process toward the *lopecista* labor law of 1936 [Carta y Ramírez, 1987: 59]. Although a very different final product emerged in the end, Caldera has never sought to dispel the impression that he was the main progenitor of the 1936 law. [Melcher, 1992]. Perhaps most importantly the law empowered the Labor Ministry to determine an active role in certifying unions, permitted multiple unions within industries and even establishments, and established considerable latitude for the Ministry to sanction strikes. These were tools whereby governing elites could ensure "responsible" labor leadership in a situation where initially a strong, autonomous movement had begun to form. The legislation established the eight hour day and laid the basis for the later creation of a system of obligatory social security. In 1945, under President Isaías Medina Angarita, the law was reformed to guarantee members of executive committees of unions immunity from layoffs without just cause (*inamovilidad*) and allowed them to tend to union matters on company time.

Steve Ellner contends the 1936 legislation itself is not responsible for the highly corporatist nature of Venezuelan labor relations today. [Ellner, 1993: 217] He argues the Labor Ministry has not played a highly interventionist role in labor relations despite its legal powers. Still, legal recognition of unions and certification of elections has remained a particularly powerful resource for the Ministry because of the implications for distribution of subsidies, one form of transference of oil rents to social actors. Venezuelan labor history since 1936 is replete with instances of favoritism and sometimes use of repression to quash or co-opt labor leaders and movements challenging the hegemony of the traditional parties and labor leaders closely associated with them. What seems to be in dispute is less the corporatist nature of system than the question of whether the legislative framework or party system is responsible for the erosion of union democracy.

2.3 Phases of the State-Society Interface

Of more importance for our consideration of the interface between the state and civil society is the subordination of unions and other social organs as the state expanded its influence between 1936 and 1980. Miriam Kornblith and Thais Maingón have argued this development unfolded through four stages. [1985: 35-44; 219-259] The first third of the century (under Gómez) is characterized by the consolidation of military, economic and political power by the

central state, the only agency capable of exercising administrative functions in this era. The second phase, lasting from the late 1930s to the 1950s consists of the state utilizing this capacity and its oil rents to bring about social and economic transformation. While this entire period was characterized by state expansion, the most populist government of the era, the one which most dramatically expanded the state's role in civil society, was the AD government of the *trienio*.

In a book chapter revealingly entitled "Human Capital," Betancourt much later looked back on this period and listed the main social accomplishments of this period with subtitles like "More Hospitals, Better Equipped," "Malaria--A Plague Put to Rout," "Obligatory Social Security" (describing dramatic expansion of a program begun in 1940), and "A Decent House for Everyone." [Betancourt, 1979:216-224] For the founder of Venezuela's social democracy, material, not merely moral, considerations were the measure of its worth.

In this third era, according to Kornblith and Maingón, steps toward a more decentralized administrative system were taken, with the central government remained the controlling, dynamic protagonist of this process. This phase, from 1958 to the 1970s, consists not so much of the reduction of central state power as the establishment of a division of labor between the central state, responsible for legitimation and policy functions, and the administrative organs responsible for implementation. Nonetheless, with the passage of time the two functions become more distinct from one another. [Kornblith and Maingón, 1985: 217-218]

The fourth phase consists of the consolidation of this division of labor between the central government and the decentralized administration, say Kornblith and Maingón [1985: 217-218]. This process was accelerated by the oil bonanza generated by the price hikes of 1973-74 and 1978-79, which punctuated the first presidency of President Carlos Andrés Pérez. These years corresponded to the apogee of populism and developmentalism, in contrast to the situation in the rest of the continent where populism and the developmentalist model had already experienced crisis and defeat.

Pérez expanded human services and strengthened labor security. A minimum wage, authorized but never implemented under the 1936 law, was established for the first time, and scaled increases were decreed for other workers. A 180 day period of *inamovilidad* was decreed to prevent layoffs. Price controls were implemented and various regulations introduced to maintain or increase employment. A new *Ley contra Despidos Injustificados* granted workers double severance pay for dismissals not upheld by new tripartite commissions. Management was required to replace all laid-off workers, unjustified or not. [Ellner, 1993: 50-58]

These measures were, of course, resented by the bourgeoisie, which opposed them unsuccessfully through the national federation of business, financial and commercial chambers (FEDECAMARAS). Their pain was eased considerably by subsidies, expanded market demand, and both licit and illicit opportunities for enrichment as brokers in government contracts during the era of abundance. By maintaining a highly overvalued bolivar (4.3 to the dollar) and price controls, the government further subsidized commercial over manufacturing interests. [Ellner, 1985: 50-58]

Kornblith and Maingón concluded, "The new functions and activities of the State, made a reality through the Decentralized Administration, are oriented to direct the process of intervention and production of capitalist social and economic relations." [Kornblith and Maingón, 1981: 259] This was done directly through regulation (control of prices, quality, wages, employment, etc.) and through direct public investment. This project was closely linked to legitimation of the state itself because it was based on a broad social consensus built in the period 1935 to 1960. This system of consensus was essentially a compromise between conservative elites, who distrusted electoral democracy and advocated modernization before the franchise was extended to all Venezuelans, and the democratic left which sought to mobilize all sectors against imperialism (read: the oil companies) and the *gomecista* oligarchy. This "populist system of mobilization" definitively gave way in the Pact of Punto Fijo (1958) to what Rey calls a "system of elite reconciliation," better captured by Sosa in the phrase "populist system of elite reconciliation," recognizing the significant democratic impact that vigorous and participatory electoral competition had on distribution of oil rents in this period. [Rey, 1972; Sosa, 1987]

3 Oil, State, Society

3.1 Oil and National Mythology

The state's success in appropriating international oil rents is relevant to the issue of legitimacy and the state's relationship to society, not only because it has provided material resources to lubricate populist political mechanisms, but also because it has served as an important symbol of national unity and legitimacy. If wars have played a significant role in shaping mass loyalties and identity for many states in the world system, so struggles with the oil companies and consuming nations have shaped Venezuelan political culture.

Fueling expansion of an interventionist public administration was, of course, the state's increased success over time in capturing international oil rents. It has recently become popular to view this success as a mixed blessing, perhaps even a curse. [Romero 1987; Karl, 1997] The popular metaphor these days seems to be "drowning in the devil's excrement" rather than winning the lottery. Revenues realized from oil rents are seen as an exogenous element which has rendered the state too powerful and audacious ("*el estado prepotente*") and society too weak and dependent. This is too narrow a view of state capacity.

Foreign capital entered Venezuelan oil fields in the first third of the century. Renovation of the favorable terms obtained at entry depended upon conjunctural changes in the world economy and also upon the emergence in Venezuela of classes interested in appropriating a greater proportion of ground rent. While Gómez is often criticized for corruption and cronyism and for allowing oil company lawyers to write petroleum legislation, often overlooked is the fact that his regime successfully defended (in 1922) the principle of state ownership of subsoil resources from the landed oligarchy. Had private landed property been permitted to hold ownership, the constellation of class forces hypothetically would have been much more favorable to the elite rather than the populist project of modernization advanced after 1935. The state was considerably strengthened in its subsequent bargaining with the companies, particularly in 1943

when, in the midst of World War II, it exchanged legitimation of past concessions and extension of new ones in exchange for company acceptance of the state's sovereign right to subject earnings to income tax.

Public ownership of the subsoil and ability to subject the companies to taxation formed the basis for the state thereafter to constantly increase its share of profits. The creation of the OPEC reference price system and production quotas after 1968 qualitatively changed relations between host countries like Venezuela and the oil companies. Now Venezuela could not only increase the flow of oil rents by demanding a higher percentage of market-determined profits, it could defend itself against falling prices. Having lost control over production levels and pricing, it was not long (1976) before the companies themselves were requesting negotiations on nationalization.

3.2 The State Creates Bourgeois Civil Society

The ultimate measure of success from 1935 remained "sowing the oil" in such a way as to ensure sustained, capitalist development when oil income could no longer subsidize the economy by transforming oil rents in human capital and infrastructure. At some point civil society, including a functioning internal market integrated on favorable terms with the world economy, was to become sustainable. The state was to create not to dominate civil society, but tendencies during the period of the oil bonanza were disturbingly contradictory. Civil society seemed to become more, not less dependent on the state.

A decision of great consequence on the part of Pérez in his first term was his insistence, consistent with prior Venezuelan governments, to freeze the private sector out of "basic sectors," principally mining, metallurgy, oil, and petrochemicals. This predilection of the Venezuelan state can be attributed on the one hand to deep suspicions held by political elites about private, domestic elites. These suspicions are deeply ingrained historically and ideologically. Prior to the arrival of foreign oil companies, most capital formation in Venezuela was carried out by local and foreign commercial and financial elites. In a country with an unbroken history of civil conflict and instability, there was little security and few outlets for investments of any size. When oil rents began to circulate with greater velocity and volume in the 1920s, the Venezuelan bourgeoisie was ill prepared to transform them into capital for economic development rather than speculation. This historical fact deeply affected the development of the project of Betancourt and AD, and persisted as a consensus until the attempted "*gran viraje*" of Carlos Andrés Pérez in his second term. Even where the state sought to promote a partnership with private capital, such as in the automotive sector, the highly politicized nature of the process contributed to a highly dependent bourgeoisie more oriented toward rentierism than entrepreneurship.

Perhaps in the absence of the oil boom in 1973-1974, a shift toward a more traditional capitalist system might have transpired. However, the boom ensured this would not happen. Fernando Coronil, in his recent book *The Magical State*, describes the impact of the OPEC oil bonanza on state relations with the bourgeoisie in terms that might have been taken from the earlier cited *Ahora* columns of Betancourt.

As the massive inflow of petrodollars made profits increasingly unrelated to production, money making as a goal became an independent activity, an end that defined its own means. This fact had momentous significance. It involved a shift away from the ensemble of values associated with capitalist production toward those related to commercial and financial speculation. While the ideology of production became more transparently ideological, the practice of speculation generated its own legitimating ideology. The ideal model of the conquering bourgeois, the builder of society, receded before that of the businessman, or rather, the wheeler and dealer (*el negociante*) a clever seeker of personal fortune. Quickness, adaptability, and improvisation were valued over constancy, continuity, and discipline. [Coronil, 1997:318]

Ultimately, it was not the oil which ran out, as Venezuelan elites had feared since the era of Gómez. What failed was the non-oil sector. [Mommer, 1998] And the solution offered by neoliberalism could not have been more contradictory to the *betancourtista* project: The oil sector itself would be opened to foreign investment, and the state would retreat from civil society and the market. The solution to the country's grave problems would be placed in the hands of a bourgeoisie enjoying very little legitimacy in the eyes of the masses, who would most have to sacrifice in the *gran viraje* (great turnaround) ahead. It is not hard to imagine, then, why neoliberalism, should weaken the political consensus underlying Venezuelan democracy.

3.3 Contradictions in the Mode of Accumulation

The legitimacy of the Venezuelan political system had been built on accumulation of capital via appropriation of international ground rent. As long as foreign companies owned the oil industry, imperialist exploitation could be identified as the primary cause of Venezuelan underdevelopment. However, once the industry was nationalized and Venezuelans could say "*el petróleo es nuestro*," the formidable nationalist myth surrounding Acción Democrática (AD), the party founded by Betancourt and by far the most influential political organization in Venezuelan politics since independence, could no longer be sustained. As the boom years drew to a close, corruption and financial problems grew more visible, if not acute, and less susceptible to resolution through the politics of distribution and elite reconciliation. The dream of social and economic development benefitting the masses through an activist state substituting for the bourgeoisie receded.

In sum, the project of social and economic transformation which took place in Venezuela between 1935 and 1985 was a product, on the one hand, of popular mobilization (spontaneous and organized), and, on the other hand, of elite efforts to both exploit and control social forces unleashed after the death of Gómez. Its success was predicated upon increasing oil rents, a process important because it provided the material basis of patronage, development, and satisfaction of competing demands, and it provided a powerful nationalist mythology that legitimized the post-1958 political order. The dismantling of many programs which passed on a portion of rents to the mass population would bring the entire model into question. Yet, this is precisely what the government has found itself constrained to do under structural adjustment.

4 Structural Adjustment and Dismantling the Venezuelan Welfare System

4.1 A System Built on Indemnizations and Payments

While Betancourt's retrospective book [1979] praised the democracy for its progressive and extensive system of social welfare and activism, in reality even during the years of boom in Venezuela never established a complete and consistent social safety net upon which all citizens could count. For one thing, the system of social and labor security, whose basic structure was created in Venezuela after 1936 and above all in the 1940s, has been closely linked to the system of relations between employers and workers and its regulation by labor legislation. Despite the social philosophy of the union sector which sought legal guarantees of job stability limits on the decision making autonomy of management, *the central feature of this system has been monetary indemnization*. An alternative legislative proposal introduced in 1936 by a Senator familiar with the Mexican labor law would have strengthened union influence and reduced management autonomy in regard to dismissals, but this was rejected in favor of the system of indemnization. [Melcher 1992: 67] This was reinforced often through collective bargaining. For example, during the *trienio* the oil workers union, FEDEPETROL, attempted to restrain management prerogatives over dismissals. Management resisted and the *adeco* government broke the impasse by getting the two sides to agree to larger indemnizations instead. [Lucena, 1982: 349-354]

Under the Venezuelan system as it evolved, management indemnizations include payment of the individual worker in case of accidents or work-related illnesses. More important in terms of the functioning of the system, however, are *prestaciones sociales*, that is, indemnizations for accumulated seniority and termination which must be paid a worker at the end of an employment contract. These were introduced in the 1936 law but not immediately implemented because of resistance by employers, who contended the burden would be too great for small firms. Eventually the system of payments was re-confirmed and accepted in 1938, but only to be calculated for years subsequent to 1936. Later, the labor movement managed to establish that such payments could not be renounced and would have to be paid in any case, even if a worker had been fired for just cause and if the worker retired voluntarily. Workers also benefited from the requirement that the payments accumulate over years worked and be calculated upon the last year of employment. Changes in subsequent years to the formula for determining the salary base for calculating benefits also increased worker benefits. These provisions ensured that many on them could retire after a certain number of years and use their payments to acquire a house, a piece of land, a store, and workshop or a microbus, proving a basis for a certain degree of economic independence in later years.

In 1974, the Pérez administration's *Ley contra Despidos Injustificados* (Law Against Unjust Dismissals) doubled dismissal payments in an attempt to deter layoffs. Many employers complained the system was abused by workers seeking dismissal in order to obtain an indemnization. Another innovation by Pérez was the establishment of a trust to hold accumulated, unpaid social benefits, to be financed by payments by firms and government into special funds in banks authorized for such a purpose. In addition, employers were obligated to pay interest on such accumulated worker benefits according to a fixed quota pegged to the rate of

inflation (which was increasing) in order to protect them somewhat from a strong devaluation. Only the largest companies and some public institutions created these funds. Upon the bankruptcy of many banks and insurance firms in 1994 and 1995, the state had to assume responsibility to guarantee them.

As the system of pensions and other aspects of the obligatory social security system were always weak and precarious, social benefits came to constitute the central focus of workers who saw in them the most important source of security in old age and in case of unemployment. (Unemployment insurance did not come into existence until the 1990s.) Nevertheless, the willingness of employers to make payments was never very high, and in many cases workers had to content themselves with payment much below what corresponded to them.

Women workers made use of the system as a kind of maternity leave. Under Venezuelan law, women were entitled to three months unpaid leave for childbirth. In the absence of legally guaranteed *paid* maternity leave, women working in small and medium enterprises in the private sector (where maternity leave was not commonly part of collective bargaining contracts) women would usually work late into their pregnancies, often until the day of birth itself, then resign from their positions, collect their social benefits, and after exhausting this reserve return often to the same job.

Upon the unleashing of inflation after the devaluation of the bolívar in 1983, the system was condemned in increasingly hostile terms by employers since the provision for calculating benefits on the previous (last) year's salary progressively increased the sums they had to pay in case of dismissal or retirement. One of their common tactics was to freeze salaries and pay increases in the form of special benefits for nutrition and transportation, which were not considered part of the base salary for calculation of social benefits. The Supreme Court later ruled the device illegal, but it remained a common practice. When in 1991 Congress approved the new Organic Labor Law without changing the existing system for indemnities, FEDECAMARAS, the main business organization, raised a storm of protest and demanded the fixing of annual benefit payments, i.e., demanding employers be freed from increases due to inflation. Caldera, then president of the Congressional Commission charged with elaborating the new law, accepted a compromise whereby the existing rules were maintained but delegating to the social organizations (e.g., unions, business groups) in conflict responsibility for devising changes. At the time the labor movement was not disposed in any way to concede on this point. Caldera refused to take a further public position on the matter.

4.2 Collective Bargaining

Around 1945, labor relations, above all levels of salaries and other payments, began increasingly to be determined by customary practices or, more usually, by collective contracts between employers and unions which has been organized within firms or branches of industry. AD promoted expressly this modality during its tenure of government in the *trienio* (1945-48), and its Labor Minister, Raúl Leoni, very actively intervened in negotiations and in the content of

the contracts, pressing businesses to accept the system, while reining in unions so that they would not exceed the limits considered prudent by the government. The official role of the Labor Ministry was complemented by the activity of AD, now clearly hegemonic in the union sector. Both party and government sought to dampen worker demands for co-gestion schemes and other infringements on managerial autonomy in return for material benefits that varied greatly from firm to firm, sector to sector.

For example, a Christmas bonus, came to be legally established as a kind of substitute for profit sharing. The latter was incorporated into in the 1936 law, and the formula for calculating it established in 1938. However, employers resisted the system, and unions were constantly appealing to the government to enforce the system. The *trienio* government "resolved" the issue by transforming profit sharing into a single payment at Christmas and separating the size of the payment entirely from the profitability of the enterprise.

After 1958 the regime of labor conditions and social security came to be formulated mainly by the collective bargaining contracts signed in different enterprises and in several specialized industrial branches, such as oil and construction. In these contracts there appeared an increasingly number of clauses relating to improvements beyond merely increasing wages and salaries or addressing conditions such as the length of the work day. For example, the clauses included additional bonuses for marriage, money to buy toys for children at Christmas, scholarships and student grants for children, and payments for paid pre- and post natal leaves, which remained a part of the Labor Law but only implemented under the aegis of the Venezuelan Institute for Social Security in a few, restricted regions of the country where it operated facilities. Such provisions were often negotiated by workers, employees and functionaries of the public sector into contracts.

Over the years there were thus created archipelagos of labor and social benefits differentiated according to the strength of the organized labor movement according to the corresponding branch of industry. When in 1985 the process of forming a new Organic Labor Law was initiated by Caldera, it was intended that many of the commonly contracted benefits would be included as articles in the law. The system described above brought about considerable diversity in the job security, working conditions and income among workers, thereby weakening the impetus to seek labor and social legislation covering all sectors.

4.3 Pensions and Health Care

The same situation applied to pension payments and health care. The Venezuelan Institute for Social Security (IVSS) created a general system of quotas for workers and employers. After a period of years of contributions by both, the fund would begin to pay the corresponding pensions. However, benefits were small and many workers (e.g., self employed) were not incorporated. Apart from the IVSS there emerged other plans with very diverse practices regarding eligibility for retirement and in payments required among enterprises and above all among public entities, such as employees in universities and the Ministry of Education. Workers with more lucrative social security plans had less reason for solidarity with other workers.

Similarly diverse coverage emerged in health services. The oil companies and other large foreign firms provided clinics and other medical services of their own, a practice used as well in some universities (e.g., the Central University and the University of the Andes) and the Ministry of Education (IPASME). Life insurance and the system of HCM (Hospitalization, Surgery, and Maternity) were commonly contracted with private insurance companies with their own bureaucracies. Many of these provisions were included in collective bargaining contracts. Workers in these sectors, generally among those with the highest incomes, were separated in this way from the a general system of social solidarity.

The rest of the population remained subject to social security, if they had a responsible employer. That is, if an employer diligently deposited the quotas corresponding to the employee and the business to the fund. The sums fixed were very small, and it is well known that the financial discipline shown toward IVSS was very low. IVSS served only a restricted part of the workforce; with respect to medical attention it did little more than provide care in its own clinics in the largest cities. The high rate of unemployment and the growth of the informal sector, along with the complete lack of coverage in certain areas of the country has caused a great part of the population to be left out of the system completely. The IVSS vacillated between inefficiency and corruption, and not surprisingly it earned the indifference of those whose rights were to assured in this way.

4.4 Other Forms of Payments and Subsidies

Another feature of the social benefits system was the creation of mutual saving depositories in enterprises and state entities, where workers could choose to allocate part of their salary toward the goal of obtaining later economic credit toward purchase of a home or vehicle or to cover medical expenses. Unions won clauses in collective contracts providing for payment of premiums by the employer on such contributions. In this way, the acquisition of a home came to form part of a limited and highly differentiated system of social cooperation.

In all other respects, the population depended upon the intervention of the state, which offered gratuitous service for sanitation and health (hospitals and ambulances of the MSAS), programs of housing construction and environmental or social health (Workers Bank/INAVI - Malariologia). Money for these costly programs came from petroleum income and formed part of the distribution (or division) of oil rents, channeling some part of it to the poorest strata of the society. This was legitimated by oil nationalism and the traditional discourse of "social justice" by political parties dating back to the 1920s.

A good part of social policy of the country is carried out through the device of indirect subsidies that were implemented to maintain a low cost of living for the population with few resources but in most cases also benefited the upper and middle sectors. It is worth mentioning the (1) fixing by the state of low rates for water, electricity, gas, and gasoline, (2) the fixing of maximum prices for basic foods such as corn meal, meat, eggs, sugar and coffee, and (3) limits placed on public transport rates and special fares for students. In many cases the government

subsidized through direct compensatory payments to producers or merchants and in the case of state enterprise foregoing payment.

Finally, the state increased its involvement on the social and work environment as a consequence of expenditures and the increased circulation of rents during the world oil crisis of the 1970s. The process of inflation provoked emergency economic legislation authorizing President Pérez the right to govern by decree, and many measures of a social character were introduced that, nonetheless, were not always incorporated into the legal system. Jobs were created (elevator operators, bathroom attendants, etc.), minimum salaries were fixed, and there were created special programs whose continuation depended upon the will of the government -- for example, the distribution of powdered milk, which came to be of primordial importance in creating political clienteles in poor barrios.

4.5 Changes in Collective Bargaining and the Role of the State

In the 1970s and above all in the 1980s, dramatic economic changes brought about by the oil boom and bust created a situation where the usual collective bargaining process lost the flexibility necessary to adjust the income of workers to the levels of inflation. (See Table 1) In addition, collective bargaining only covered a small percentage of workers, so that for many increasingly the state was seen as the agent for bringing about social justice through the power of decrees. For this reason, general increases in wages and salaries began to be decreed throughout the country and for all categories of workers. When in 1979 the government of President Luis Herrera Campins resisted decreeing another general increase, the CTV (Confederation of Venezuelan Workers) introduced into the National Congress a bill of "Law to Raise Wages and Salaries," denoted the "Ley CTV," which was approved against the outcry of the business community. From this point onward it became common practice on the part of the Congress or government in turn to decree general increases in wages and salaries as the predominant solution to the problem of inflation.

Table 1 Annual Growth Rates in Real Wages and Consumer Prices, 1986-1995

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995*
Consumer Prices	11.5	28.1	29.5	84.5	40.6	34.2	31.4	38.1	60.8	59.9
Wages	-4.3	-15.1	-8.8	-15.8	-7.9	-8.2	3.8	-6.8	-11.0	-7.0

Source: IADB, 1996: p. 428.

*Provisional Data

In sum, the system of social and labor security can be characterized through the 1990s as very segmented, with strong elements of a private system interspersed with state programs, but without establishing a national system of welfare and labor rights or even the "possibility of developing modalities of great reach and importance." [Valera-Martínez, 1997] A study by the InterAmerican Development Bank categorized the Venezuelan Health Care system, along with that of Mexico and Colombia among comparable Latin American countries, as "segmented,"

defined as "the coexistence of subsystems of social security insuring the workers of the formal sector, health ministries attending to some public-health interventions and providing personal health care services for the lower and middle classes, and a very large and diverse private sector covering the richest, the poorest, and increasingly the middle classes." [IADB, 1996: 308-309] The IADB description fails to reflect the large number of the poor not covered by public or private systems, but it ably captures its complexity and segmentation.

This dispersion and differentiation of social and labor regimes and their coverage of only limited sectors did not stir great protest in the population, nor did it create among political and social leaders competing ideological visions nor even broad policy debates. There had not developed among the people in general a sense of social solidarity, nor among the rich a sense of responsibility or sensitivity to protest by the poor. Nor did there emerge populist political parties and affiliated organizations of masses promoting such an agenda. The "magic wand" to resolve or smooth over problems was found in clientelistic and temporary actions or in the form of sort range and programs revocable at any moment, and their financing "assured" by a national budget nourished with oil rents. A system of legally guaranteed rights to welfare and social security failed to develop.

Once the financial situation of the country changed due to foreign debt and an increase absorption of oil income to service it, along with a diminished capacity of the Venezuelan State to appropriate petroleum rents (falling prices and changes in the corresponding legal structure), so also did the official discourse regarding social and labor security change. As the primordial goal of the political system was state-fostered common "development," neoliberal discourse had no difficulty invoking the alternative idea of individual development, suggesting that "economic liberties" had been repressed during the years of great oil income. In their criticism, neoliberals contended it was necessary to restore them, wresting them from a wasteful and administratively incapable state as a necessary and pertinent goal to achieve now this developmental goal.

4.6 Summary of the Changes in the Regime of Social Benefits

The "reforms" and changes initiated after 1989, implemented despite many obstacles and delays and against forms of resistance of different intensity, were as follows:

1. Changes (1997) in the regime of social benefits, mainly annual payments corresponding to value of each year's salary. This was a concession to employers' demands to eliminate increases resulting from inflation, which cause payments owed on accumulated indemnities to rise to very high nominal levels. This is a major component of what populist politicians call the "social debt."
2. Vigilance of the state over collective contracts in order to hold down levels of salary increases, depending on the national financial goals set by agreements with the International Monetary fund, above all in the public sector.

3. The elimination of IVSS and its replacement by a new social security system. This new system is embodied in a “model law” (*ley marco*) envisioning creation of a mixed system of private and public funds. This law passed the legislature in 1998 but still has not been adequately defined nor begun to function, leaving workers without the (inadequate) old system and no new one to take its place.

4. Failure to extend and enforce labor laws for many growing sectors and new forms of labor, such as informal employment and subcontracting.

The fundamental pillar of the traditional system of social security in Venezuela, social payments, was bankrupt essentially by 1997, when the main union organization, the CTV, representative of workers agreed to join the Tripartite Preparatory Commission for a New System of Social Security, composed also of state representative and business sectors (FEDECAMARAS and CONSECOMERCIO). The CTV accepted the invitation in exchange for the rhetorical promise by the business community that this change would result in benefits for labor because it would lead to new employment and more easily negotiated wage increases. Up to this date there has been produced not a single change in the economic and social reality. The Caldera government maintains that accumulated social benefits through July 1997 for the lowest strata of workers have been effectively paid, as foreseen in the agreement, but workers in private firms are protesting they have not received what is due them. In addition, the payments now exist as money deposits (in many cases nothing more than accounts transfers), whose interest fails to keep pace with the violent rate of inflation which spasmodically rocks the economy at annual rates between 40 to 100 percent. As elsewhere in Latin America, the cost of paying interest on the foreign debt and restructuring the economy has given rise to a “social debt,” which has been the rallying cry of dissident politicians like Colonel Hugo Chávez, leader of the first coup of 1992, who emerged as a favorite to win the presidential election of 1998.

Independent of the system of social security, in the areas of medical attention and public health, the Venezuelan state had constructed until the 1980s a system of hospitals, dispensaries, sanatoriums, polyclinics and nursing facilities, covering the country with a relatively dense and efficient network of free medical, epidemiological and other health services for the population lacking resources to afford them. Budget reductions, part of the neoliberal adjustment measures, eliminated many of these programs, closing many dependent services, above all in rural and peripheral areas. Under guise of decentralization, ownership of clinics and other facilities was transferred to decentralized state and local governments. These entities often instituted a fee-for-service system, excluding in increasing measure the poor from access to health care. Apart from this, many times equipment was allowed to deteriorate without replacement, and the provision of free or cheap medicinal goods was eliminated. Delays in adjusting the pay of medical personnel in public clinics has unleashed already various medical strikes of increasing harshness and duration, affecting principally services to the most economically vulnerable sector of the population.

In an effort to reduce public spending and privatize public enterprises, the government is proceeding to eliminate or diminish progressively the enormous quantity of subsidies mentioned

above -- electricity, water, natural gas and the price of gasoline are being adapted to their “real costs.” The increase in rates has reached scandalous proportions, and not without provoking sporadic protests (the most violent of which by far was the Caracazo explosion of 1989), but without movements successfully forming themselves into strong, organized opposition. Fixing of maximum prices has been reduced to a handful of products, substituted by subsidies for the organization of popular markets and fairs for specific popular consumer items. The immediate effect was the reduction of consumption of meat, milk, gasoline among the lowest income sectors.

Within the overall structure of policies of adjustment it is recognized that many measures were having severe effects on the standard of living on the part of the population with least resources. In response, the government proceeded to implement special programs of direct aid with specific targets: payment of nutritional grants and the allocation of clothing or student packs to school children of the poor sectors, programs allocating powdered milk for poor mothers of small children, specific student transport fares, programs for maintenance of public works. All these programs have a charitable character and do not create benefit rights or guarantees for continuation. That is to say they can be eliminated without changes in law.

5 Conclusion: Impact and Political Implications

From 1935 through the 1980s, there is little doubt that the overall quality of life in Venezuela significantly improved for virtually all strata of the population. As Table 1 shows, that hardly has been the case since the early 1980s. Trudie Coker argues that the deterioration of economic and political rights in Venezuela can be directly linked to the state's attempt to maintain a relatively level of public capital formation and paying the debt while maintaining fiscal autonomy. Meanwhile, the percent of the national budget devoted to social programs did not decrease much. Marshalling data from a variety of sources, she demonstrates how real per capital spending on social programs declined from 2,069 bolívares in 1987 to 1,099 bolívares in 1994. Infant mortality due to malnutrition increased from 29.7 deaths per 100,000 in the population in 1988 to 60.2 deaths by 1990. Rates of children leaving elementary education have increased. Coker cites data showing that the percent of workers covered by collective bargaining contracts has shrunk from 7.9 percent in 1980 to 1.7 percent since 1994. [Coker, 1998] Hence, more families were being thrown onto the public safety net precisely at a time it was shrinking

The increased standard of living which Venezuelans had seen this century up to 1983 was not simply the result of the influx of oil rents. The distribution of these revenues to the masses was the result of a successful mobilization of workers by political organizations and leaders who constructed a corporatist system heavily dependent upon progressively increasing their share of oil rents, ultimately moving beyond capture of such rents to successfully, but for a decade increasing the absolute levels of such rents through concerted action with other oil exporting countries. The contraction of the volume of rents inevitably would make necessary an adjustment in the model. Why, despite increased signs of extreme political instability and popular rebellion, threatening the very life of the political parties founded by Betancourt and Caldera, has the impact of adjustment on the poor not been more effectively cushioned? Why has Caldera, despite his condemnation of the underlying causes of instability and his successful populist campaign of 1993 found himself continuing to dismantle the welfare system? Our analysis suggests the following conclusions.

First, it is important to recognize the way in which the welfare system and system of labor rights was constructed around a system of payments and indemnities, many of which had a weak basis in law. Both employers and politicians had motives and resources to respond in segmented fashion to demands of varying intensity from different social sectors. Payments and subsidies linked to an apparently ever-expanding budget yielded political benefits more readily, and they required less administrative and juridical development than a system of social security and labor rights rooted in law. While the business sectors vigorously decried the cost of many of these measures, a variety of subsidies, lucrative contracts, and the voluminous circulation of oil revenues in the economy ultimately assuaged their protests.

The populist system of mobilization laid the basis for development of a welfare system in the name of social justice, however uneven and segmented it has been from the start. The transition from the *trienio* onward, especially after 1958, to a populist system of reconciliation diluted the momentum for expansion of the system. However, with oil revenues and populist politics now as the motor, a system of labor and social protections and benefits continued to develop in haphazard fashion, increasingly uneven and segmented. This sporadic and haphazard process accelerated during the era of the oil boom, but even more so than before, benefits had weak and shallow juridical roots. The system of reconciliation served to circulate a portion of oil rents, but demobilization implied by the Pact of Punto Fijo, ensured by the Left's (partly self-inflicted) defeat in the 1960s armed struggle, combined with weak legal guarantees, left the working class, the poor, and even the middle class with few weapons to defend the system of social security and welfare from devastating cuts, burdening the popular sector with the bulk of sacrifices demand in structural adjustment.

While at the grassroots level, for example in extended families and in neighborhood associations, a sense of social solidarity has not entirely been extinguished, the weak juridical basis and segmented system inhibited the re-emergence of a unified, politically effective response. However, the people were hardly inert. The violent Caracazo of 1989, the street protests which drove Pérez from office after two serious coup attempts, and the emergence of third party and independent candidacies for the presidency have all raised the specter of radical, if not revolutionary change. Unfortunately, such popular resistance -- rioting, support for military conspirators, and renegade electoral candidates -- is unlikely to result in change until a more coherent vision of the state's role in supporting labor and social rights is articulated and brought to public attention. The signs of popular anomie were clear, but the campaign and elections of 1998 gave little indication that development of a more effective popular alternative was imminent.

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