

THE CAUSES AND EFFECTS OF HUMAN CAPITAL FLIGHT:
THE CASE OF VENEZUELA AND FLORIDA

By

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To my mom, who instilled in me the values of honesty and perseverance and encouraged me to broaden my horizons; and to Liliana, who has inspired and supported me every step of the way.

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LIST OF ABBREVIATIONS

AD	Democratic Action
AN	National Assembly
Bs	bolivars
BsF	strong bolivars
CADIVI	Commission for Currency Administration
CANTV	National Telephone Company of Venezuela
CNE	National Electoral Council
CONAPRI	National Council for Investment Promotion
COPEI	Political Electoral Independent Organization Committee
CTV	Workers' Confederation of Venezuela
CVP	Venezuelan Petroleum Corporation
DED	deferred enforced departure
ECLAC	Economic Commission for Latin America and the Caribbean
ELN	National Liberation Army (Colombia)
FARC-EP	Revolutionary Armed Forces of Colombia – People's Army
FONDEMI	Fund for Microfinance Development
FUS	United Social Fund
GDP	gross domestic product
IESA	Institute of Higher Administration Studies
IMF	International Monetary Fund
ISI	import-substitution industrialization
LOTSJ	Organic Law of the Supreme Tribunal of Justice
LTDA	Law of Land and Agrarian Development
MAS	Movement toward Socialism

MBR-200	Revolutionary Bolivarian Movement-200
MEP	People’s Electoral Movement
MVR	Fifth Republic Movement
NED	National Endowment for Democracy (United States)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PCV	Communist Party of Venezuela
PDVSA	<i>Petróleos de Venezuela, S.A.</i>
PODEMOS	For Social Democracy (acronym also literally spells “we can”)
PSUV	United Socialist Party of Venezuela
RCTV	Radio Caracas Television
SELA	Latin American Economic System
SIDOR	Orinoco Iron & Steel Corporation
TSJ	Supreme Tribunal of Justice
URD	Democratic Republican Union
VIO	Venezuela Information Office
VTV	Venezuelan Television Corporation

Abstract of Thesis Presented to the Graduate School
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This study examines the flow of entrepreneurial human capital from Venezuela to the state of Florida since the election of Hugo Rafael Chávez Frías to the presidency in December 1998. In order to place the large-scale migration of the business community in proper historical context, the study analyzes the long-term trends that affected Venezuelan economic performance and competitiveness during the pre-Chávez Punto Fijo period, which began with the establishment of a power-sharing democracy by the Acción Democrática and COPEI political parties in 1958 and culminated with Chávez's triumph in the December 1998 elections.

A case study of Venezuelan business professionals residing in Florida and Venezuela was employed to gain an in-depth perspective on the deterioration of the business environment and Venezuela's international competitiveness since 1998. The interviews present the principal reasons for emigrating, the challenges faced by skilled immigrants upon arrival to Florida, and the consequences that Venezuela is facing as private enterprises close and entrepreneurs flee the country due to the fear of violent crime and political instability. Though Venezuelan business professionals in the United States are hopeful that they will succeed in their new professions, they recognize that continued human capital flight will leave Venezuela devoid of talent in the future.

CHAPTER 1 INTRODUCTION

Overview

In 1998, Hugo Rafael Chávez Frías was elected president of Venezuela as the populace sought to bring an end to four decades of a power-sharing agreement between the country's three main political parties. Promising to end corruption and solve the country's economic problems, Chávez set out on an ambitious course, receiving the approval of the voters to revamp the constitution and the legislature. More than a decade later, Chávez is still the head of state, though the Bolivarian Republic of Venezuela's economic well-being is far from secure. As Chávez and his supporters have increased their control, a stream of educated professionals and capital has fled the country in increasing numbers, thus calling into question the future of entrepreneurship in Venezuela. This study seeks to determine the causes and impact of these flows on Venezuela and Florida, the state that receives almost 60% of all Venezuelan migrants to the United States (U.S. Census Bureau, 2009).

Problem Statement

There is an ongoing decades-long debate about the net effect of human capital flows from developing to developed nations. The most well-known view, of the so-called "brain drain," postulates that there is a negative net effect on the sending country, as a nation's most intelligent and enterprising citizens are among the first to emigrate. Some scholars have theorized that there are actually related factors that benefit the sending country at levels above and beyond the detrimental results of the migration of educated professionals. I hypothesize that the deteriorating condition of the Venezuelan business environment and the rise of personal insecurity and violent crime have caused a continuing outflow of human capital and entrepreneurial talent, a "business drain," that will have harmful consequences for the well-being of the Venezuelan economy in the

long-run, though the United States, specifically the state of Florida, will benefit from the influx of well-educated members of the business community.

Review of the Literature

Causes of a Human Capital Drain

Altimirano Rua (2006: 19) defines transnational migration as a “thermometer that measures the distinct levels of political and economic stability and instability of countries.” By citing the examples of Peru and Ecuador between 2000 and 2003, when a combined 1.1 million (600,000 Ecuadorians and 500,000 Peruvians) people moved beyond the borders of their respective countries, Altimirano Rua (2006) argues that a strong correlation between a lack of stability, whether economic or political, and emigration is indeed evident.

It is not surprising that political instability can affect the flow of human capital. Castaños-Lomnitz et al. (2004) note not only the well-known example of Jewish scientists such as Albert Einstein, who fled his country of birth shortly before the onset of World War II, but also the exodus of Spanish Republican intellectuals to Mexico during the Spanish Civil War and the flight of many well-educated citizens of the Southern Cone during that region’s domination by brutal military regimes during the Condor years of the 1970s. During that time, the dictatorships made it a priority to “target universities and other academic centers for ideological cleansing and to abate sources of internal opposition and criticism,” leading Andrés Solimano (2002: 10) of the Economic Commission for Latin America and the Caribbean (ECLAC) to suggest that there could be a “direct correlation between the emigration of scientists and intellectuals and the existence of authoritarian regimes that suppress civil liberties and curtail academic freedom.”

Castaños-Lomnitz (2004) describes the popular view of emigrating Mexican elites and middle-class professionals as engaging in something akin to desertion. Though the term “brain

drain” or *fuga de cerebros* has often been associated with scientists and professors, the term, as defined by Dimitris Chorafas in 1970, means the “emigration of professionals and high-level specialists who are searching for a more favorable environment to advance their career and professional development, for whom salary incentives are not a decisive factor” (Castaños-Lomnitz, Rodríguez-Sala & Herrera Márquez, 2004: 25). In this way, the brain drain patterns observed do not only apply to highly technical fields; there is a drain of business talent as well.

The prevailing notion that the flow of human capital can be predicted solely with national income data is revealed to be false; previous studies have revealed, for example, that in the 1970s British university graduates permanently emigrated at a rate 50% higher than that of their Argentine counterparts despite the higher standards of living that could be found at that time throughout Western Europe (Castaños-Lomnitz, Rodríguez-Sala & Herrera Márquez, 2004: 22). Nevertheless, it is still theorized that salary differentials in professional occupations between the origin and destination countries play a major role. However, Portes (2008: 8) feels that the theory of salary differentials “neglects the social context in which such individual calculations are made.” Without these necessary factors, wage factors alone cannot predict the flow of skilled labor (Portes, 2008: 8).

Alejandro Portes describes the study of international migration as a field where there is a continuous “controversy between perspectives that see the outflow not only as a system of underdevelopment but also a cause of its perpetuation, and those that regard migration both as a short-term safety valve and a potential long-term instrument for growth” (Portes, 2008: 7). Although governments may temporarily slow down the impetus of migration through short-term

policy solutions, migrants who bring their families speed up the population outflow, making a return to the home country less likely (Portes, 2008: 7).

Portes (2008: 8) criticizes those who group low-skilled practitioners of manual labor with what he calls “highly-trained professionals and technical personnel.” Instead, he prefers to analyze the distinct groups separately. The high-profile migration of unskilled laborers from Mexico to the United States, for example, provides an example that somewhat supports the traditional, neoclassical economics-based view of migration. That is, that wage differentials provide the impetus for movements (Portes, 2008: 8). Nevertheless, social networks are what support migration patterns and the reliability of remittance flows in the long-term. These networks “link not only migrants with their kin and communities in sending countries; they also link employers in receiving areas to migrants” (Portes, 2008: 9).

In 2000, it was estimated that 5% of skilled individuals worldwide would migrate, compared with rates of 5.1% in South America, 16.9% in Central America, 0.9% in North America, and 42.8% in the Caribbean (Docquier & Marfouk, 2006: 170). The authors note an inverse relationship between population and skilled emigration rate; educated immigrants leave smaller countries at a rate seven times than large countries (Docquier & Marfouk, 2006: 169,172), though in absolute terms those countries most affected by human capital flight are the world’s highly populated countries. Perhaps most interestingly, immigrants in high-income Organisation for Economic Co-operation and Development (OECD) nations such as Australia, Canada, Ireland, the United Kingdom, Japan, Spain, and Italy have higher levels of educational attainment than the native-born, though this may in part be due to the implementation of point-based immigration standards (Docquier & Marfouk, 2006).

At least two works on the Venezuelan brain drain have been published since the 1990s, which certainly has been a turbulent period for the country. The first, published in 1991 by IESA, Venezuela's leading business school, is a compilation of studies that were presented at a symposium dealing with the issue in 1988. Ramón Piñango (1991: 12) describes this migration as the "result of a frustration, of not perceiving opportunities for the realization of professional aspirations," where the flow of talent is simply a career choice. In this interpretation one who emigrates "does so to a country in which he already some contact," whether it be via family, friends, or a professional connection (Piñango, 1991: 12).

Piñango mentions the strong role that the lack of a developed internal labor market has played in influencing emigration, saying that factors such as *particularismo* (the absence of anti-discrimination provisions in private enterprise), the relation between inflation and wages, and the patrimonial nature of private enterprise in Venezuela have combined to "block the emergence of a meritocracy" in the country (Piñango, 1991: 19). This situation is said to be mirrored in the public sector, further pushing otherwise qualified workers to leave for better opportunities.

The other work, written by Iván de la Vega, primarily focuses on the emigration of scientists and other professionals in high-tech fields. De la Vega (2005) differentiates between short-term worker mobility and migration, which is seen as more permanent. During most of the second half of the 20th century, when Venezuelans "were the envy of Latin America," there was little reason to flee the Andean Caribbean nation (Margolis, 2009). Jobs and oil were plentiful, in sharp contrast to neighboring Colombia, where unrest and instability caused hundreds of thousands of Colombians to flee across the border to Venezuela in search of a better life in the 1970s alone. It is estimated that even today there are more than a million Colombians residing in

Venezuela, a figure that is equal to the number of Colombians in the United States (Altimirano Rua, 2006).

The recent trend in emigration away from Venezuela is seen as an aberration, since the 23-year large-scale wave of immigration that began when democracy was re-inaugurated in 1959 and lasted until the onset of the debt crisis in 1982 brought hundreds of thousands of opportunity-seeking immigrants into Venezuela from Europe, Asia, and other parts of Latin America (de la Vega, 2005). Piñango (1991) and de la Vega (2005) both credit the problems brought on in 1982-1983, namely the devaluation of the bolívar, the external debt, rampant inflation, the rapid fall in the price of oil, and the resultant recession as the factors that simultaneously ended the inflow of human capital and brought about the first human capital outflow from Venezuela.

Outflows of human capital may thus be caused by several reasons. Political instability and violence, economic volatility, low perceived future economic prospects, the lack of a meritocratic system of advancement, better educational opportunities abroad, and wage differentials in similar professions can all contribute to an individual's decision to leave his home country.

Consequences of a Human Capital Drain

The danger of large-scale migration flows is that what Solimano (2002: 16) terms the “milieu for knowledge generation” will disappear, causing the sending country to fall into a “phase of stagnation,” as the knowledge and know-how of entire sectors of the population are irreplaceable in the short term. Still, those that believe that this migration is “a permanent and irreversible outflow of human capital” are slowly being outnumbered by scholars who believe that the outflow is accompanied by “brain circulation,” or the return of previous emigrants, so that the human capital drain may actually be only a temporary phenomenon (Solimano, 2002: 5).

Solimano (2002: 6) believes that the only way to prevent the flow of entrepreneurs and their business aptitude is to reduce red tape and fashion business-friendly economic policies that foster the establishment of small enterprises. If these policy changes do not occur, an emigrant who originally leaves the sending country to obtain a graduate degree, for example, will decide “to stay abroad during his whole productive life” (Solimano, 2002: 17).

Docquier and Marfouk (2006: 151-152) note that several studies have found that the prospect of migration “may in fact foster human capital formation and growth in sending countries.” This would occur because higher incomes for college-educated individuals abroad would signal individuals in the home country to expect increased returns on their investment in the pursuit of higher educational attainment. Docquier and Marfouk (2006) estimate that there are between 1 and 4 million educated immigrants, defined as those persons 25 years of age and older with at least a tertiary education living abroad, of which about 90% are living in one of the 30 member nations of the Organisation for Economic Co-operation and Development (OECD).

Unfortunately for many graduates of colleges and universities of the developing world, academic success in the home country does not always translate into a skilled job in North America because “foreign credentials are often not recognized in the destination country” (Kapur & McHale, 2005: 75). Immigrants thus receive a higher return on education acquired in the destination country. Despite the availability of public and private universities throughout the developing world, many students therefore choose to study toward a university degree abroad. For the majority of these students, their destination is the United States or Western Europe. In 2002, for example, there were 1.3 million foreign students studying in OECD countries (Kapur & McHale, 2005). These students have access to some of the best professors and most advanced

facilities anywhere in the world, and the knowledge gained can pay dividends upon return to the host country.

However, as Devesh Kapur and John McHale (2002: 32) of the Center for Global Development state, it is problematic that “many students never return, with nonreturn rates especially high for those from poorer countries.” The overwhelming majority of graduate students in the United States plan to stay after graduation, regardless of the political, economic, or social situation in their home country. Still, although the overall percentage of those surveyed who planned to remain was about 70%, the rate was much lower for students from two Latin America countries, Brazil and Mexico. Only 34% and 32%, respectively, of the students from those countries expected to stay in the United States (Kapur & McHale, 2005: 35).

The prospect of professional migrants returning to the home country hinges on the need for “something to return to” in the home country (Portes, 2008: 16). The positive role of professional migrants abroad in causing change and development in the sending country disappear “when there is no institutional structure” to harness the talents and skills of the diaspora (Portes, 2008: 16). In such a situation, the prospects for positive externalities known as “brain circulation” are severely limited. Such shortfalls in the structural underpinnings of governmental institutions seem to be more likely to be present in the same developing economies that are the main source countries for skilled emigrants.

The new brain gain and brain circulation theories are also criticized by Maurice Schiff (2006: 203), who feels that “the impact of the brain drain on welfare and growth is likely to be significantly smaller, and the likelihood of a negative impact on wealth and growth significantly greater, than reported in that literature.” He believes that the new brain gain literature ignores the impact of unskilled workers emigrating in search of higher wages, thereby deemphasizing the

importance of higher expected returns from educational attainment (Schiff, 2006: 209).

Additionally, attention has not been devoted to the topic of risk aversion, which Schiff (2006: 211) states reduces the likelihood for a “brain-drain induced brain gain.”

Even if there were more individuals in the home country pursuing gains from institutions of higher education, public expenditures would be affected negatively. The use of state funds for subsidizing tertiary education would increase as more students entered public universities, as Schiff (2006: 212) explains:

Spending additional resources on education means that fewer resources are available for other activities. Education is typically provided publicly and is heavily subsidized, although an important part of the costs is borne by the students or their families, the main cost being the opportunity cost of the students’ time.

As more students forgo or delay employment to undertake university courses, personal income and private consumption will decrease, meaning the government will collect less tax revenue while still being responsible for the vast majority of educational costs that “fall predominantly on the state” (Schiff, 2006: 212). As Schiff (2006) notes, two of the three potential responses to the public expenditure pitfall are not effective solutions. Increasing taxes would reduce disposable income, thereby causing a reduction in the demand for higher education and an expected further reduction in the magnitude of the brain gain. Reducing the state’s subsidies for tertiary education would have a similar effect: the cost of university attendance would rise significantly, deterring even more members of the lowest socioeconomic classes from pursuing higher education. The third option involves maintaining educational subsidies so that all may continue to benefit educationally, though to achieve this other public expenditures must be cut. Eliminating public health care benefits or transportation subsidies, for example, would cause private expenditures on these services to rise, meaning that for poor families “household health is likely to be adversely affected” as “the nutrition and health status of the family is likely

to suffer as well” (Schiff, 2006: 213). As Latin Americans who experienced the implementation of the structural adjustment policies of the Washington Consensus could attest, fiscal austerity does not generally breed widespread public approval.

Çağlar Özden (2006) used United States Census data as well as the datasets employed by Docquier and Marfouk (2006) to determine on a regional basis the fraction of college-educated immigrants who were able to obtain salaried positions in the United States (Özden, 2006: 237). It is determined empirically that “ostensibly identical education degrees are not treated equally in the labor market,” even if “individuals have identical age, experience, and nominal education” (Özden, 2006: 237). Latin American skilled migrants to the United States have the lowest probability of obtaining skilled jobs. Multivariable regression analysis reveals that this is primarily the result of three variables: lack of English as a common language, lower average tertiary educational expenditures, and political instability, all of which decrease the likelihood of obtaining a skilled job in the United States (Özden, 2006).

Thus, the net effect of human capital flows from developing to developed countries is disputed: some economists and sociologists feel that positive externalities create a net “brain gain” for the country sending migrants abroad, while the predominant theory maintains that the sending country is invariably made worse off in the short-run and the long-run. Though higher marginal returns from each additional year of schooling may increase educational levels in the sending country, this effect may be offset by the fact that unskilled migrants are also usually able to obtain higher wages in the receiving country. Additionally, skilled emigrants are unlikely to ever return to the sending country unless significant pro-business policy overhauls occur, meaning that, for all intents and purposes, a migrant’s choice is irreversible.

The Entrepreneurial Effect of the Human Capital Drain

Though the predominant brain drain literature has neglected the role that entrepreneurship has played in migration, there are examples of a “connection between ethnic diasporas and entrepreneurship” (Solimano, 2002: 21-22). Some immigrant entrepreneurs, like Hungarian-born financier George Soros and Russian-born Google co-founder Sergey Brin, are well-known, though thousands of other success stories go unnoticed. In Latin America, immigration from Europe and the Middle East enabled the rapid growth of the “textile sector, banking, agriculture, [and] mining sectors” in Argentina, Chile, and Brazil in the 19th and early 20th centuries (Solimano, 2002: 22). Unlike the scientists and technology professionals commonly identified as central figures in the drain of human capital, an immigrant entrepreneur is “prone to risk-taking, has a talent for combining capital, labor, and for entertaining a vision of opportunities and the prospects for profits” (Solimano, 2002: 22).

In a 2002 study, Alejandro Portes, Luis Eduardo Guarnizo, and William J. Haller researched the economic adaptation of entrepreneurs among three Latin American immigrant groups living in the United States. Concentrating on the theme of transnationalism, which emphasizes “the continuing relations between immigrants and their places of origin and how this back-and-forth traffic builds complex social fields that straddle national borders” (Portes et al., 2002: 279), the authors analyzed data from a 1998 survey of Colombian, Dominican, and Salvadorian immigrants living in the Los Angeles, New York, Providence, and Washington, D.C. metropolitan areas. Those groups were selected for their size, relative anonymity, and diverse backgrounds: those from the Dominican Republic are said to have immigrated primarily for economic motives, while Salvadorans in the United States are the product of a civil war that ravaged the country for more than a decade, from 1980 to 1992 (Portes et al., 2002). While both groups are highly clustered, with a large portion of Dominican immigrants residing in the New

York, Boston, and Providence metropolitan areas and Salvadorans concentrated in Washington and Los Angeles, Salvadorans are often said to lack opportunities because their failure to successfully gain political asylum in the United States has led many to toil in “low-paid menial jobs” (Portes et al., 2002: 284).

Meanwhile, Colombians immigrated to the United States during the 1980s and 1990s due to the ongoing “political and drug-related violence” that has characterized the country for decades (Portes et al., 2002: 285). The Colombian immigration differs from the previous two groups in its composition: most migrants have been members of the well-educated urban middle and upper classes. They spread across the country, becoming “more dispersed than other groups,” while the “stigma associated with the drug trade and the perennial suspicion that others may be involved” led Colombian immigrants to be more individualistic and less trusting of the immigrant community at-large (Portes et al., 2002: 285).

Though only about 8% of the survey sample was self-employed, that figure represents “a percentage of entrepreneurs five times greater than those counted by the [United States] census” (Portes et al., 2002: 285). More than half of the self-employed were defined as transnational entrepreneurs, who to be classified as such had to travel internationally for business reasons at least twice annually and respond affirmatively that either: “*The success of my firm depends on regular contact with foreign countries*” or “*The success of my firm depends on regular contact with [Colombia/Dominican Republic/El Salvador, according to respondent’s country of origin]*” (Portes et al., 2002: 284). The researchers found that “membership in this class is associated with high income, acquisition of U.S. citizenship, and the simultaneous preservation of a number of ties with the home country” (Portes et al., 2002: 287-288). Colombians had much lower levels of transnationalism among their entrepreneurial class, perhaps because “groups who came to the

United States to escape political upheaval and general violence in their home country may have no transnational options,” especially if that instability continues into the present time, as it has in Colombia (Portes et al., 2002: 288). Portes, Guarnizo, and Heller found that well-educated and well-connected immigrants are “overrepresented in these economic activities,” meaning that transnational entrepreneurship is likely not a form of economic adaptation, as had been hypothesized previously (Portes et al., 2002: 290). Still, high levels of education or wealth may induce immigrants to avoid entrepreneurialism altogether, as they may have a better chance of achieving success through a salary-based profession (Portes et al., 2002: 293).

Significance

Given the extent of Venezuelan immigration to Florida over the last dozen years, it appears that both Venezuela and Florida are being affected economically. Through interviews with Venezuelan businesspeople who have emigrated to Florida and professionals still residing in Venezuela, along with an analysis of Venezuela’s economic performance and decline during the second half of the twentieth century, I seek to determine the cause of Venezuelan entrepreneurial migration during the regime of Hugo Chávez. My research then examines the results of the “business drain,” thereby contributing to the debate on the net effect of human capital migration.

Organization

This thesis is divided into five parts, including this introductory chapter. The second chapter contains a brief historic overview of modern Venezuela, which incorporates the period from the overthrow of the Pérez Jiménez military dictatorship in 1958 to the present. The third chapter provides a detailed look at the business environment in Venezuela, how the business environment compares to those of its Latin American counterparts, and how economic, political, and social factors have shaped the evolution of the Bolivarian business environment since Hugo

Chávez Frías' election to the presidency in late 1998. From United States Census Bureau data and international and local media coverage it traces the development of Venezuelan communities in the state of Florida. The third chapter introduces a case study of entrepreneurship among Venezuelan immigrants to Florida. It reports the findings of the series of interviews with Venezuelan professionals currently living in the state. The final section analyzes the evidence gathered and presents an outlook for the future of the environment for private business in Venezuela, in addition to offering potential questions for future research.

CHAPTER 2 CHAVISMO AND ITS ANTECEDENTS

The populist rhetoric employed by Hugo Chávez in his frequent interactions with the Venezuelan masses generally blames the country's status on the failings of his predecessors, who he identifies as corrupt neoliberals that served as lackeys to the interests of the Venezuelan oligarchy and the United States. Yet, corruption is still rampant in today's Venezuela, though with a different set of beneficiaries. Similarly, the policies favored by the Chávez government are not a break from the past. Rather, many closely mirror failed policies implemented by leaders of the center-left *Acción Democrática* (AD) and the center-right *Comité de Organización Política Electoral Independiente* (COPEI) during the four-decade period that stretched from the inauguration of democracy in 1958 to Chávez's triumph in the 1998 elections.

Though many Venezuelans look back fondly on the business environment of the pre-Chávez era, the recollections are not entirely accurate. Central planning, land reform, nationalizations, capital controls, price controls, foreign ownership restrictions, high public spending, and an overreliance on the export of hydrocarbons were characteristic of the Venezuelan economy for much during the second half of the twentieth century, when entrepreneurs with political clout influenced the government to protect their inefficient enterprises from international competition (Faria, 2008) The country did manage to achieve rapid growth during the 1970s, but by the end of the 1990s real per capita income was at the same levels it was in 1960 (DiJohn, 2009).

This chapter explores the course of events that shaped the Venezuelan business environment and enabled Chávez's rise to power. It then highlights the factors responsible for the further deterioration of the business environment under Chávez's leadership. The chapter

concludes with an overview of how Venezuela ranks internationally in terms of international competitiveness.

Forty Years of Punto Fijo

Though Venezuela's "long-standing history of democratic rule" is often cited (Vanden & Prevost, 2009: 236), a closer examination reveals that this was not exactly the case until well into the second half of the twentieth century, after the fall of the dictatorship headed by Marcos Pérez Jiménez. The inauguration of more than five decades of uninterrupted democratic rule occurred in 1958, when rioting encouraged by the 23rd of January movement (*Movimiento 23 de enero*) forced Pérez Jiménez into exile in the Dominican Republic (Caballero, 1998). Though the leaders of the movement promised to defend the institutions of democracy, officials of three of the main political parties soon undermined it with a power-sharing arrangement (Tarver & Frederick, 2006).

Signed thirty-eight days before the national elections by AD, COPEI, and the less influential *Unión Republicana Democrática* (URD), the Pact of Punto Fijo ensured that under this *partidocracia*, or nominal democracy controlled by an alliance of the main political parties, power would remain in the hands of a few (DiJohn, 2009). De la Barra and Dello Buono (2009) contend that there was little difference between AD and COPEI. Both were social democratic parties that guarded the interests of the elite while working "in close cooperation with multinational corporations" (de la Barra & Dello Buono, 2009: 96).

Still, after 1958 Venezuela's military stayed out of the political sphere, in contrast with the majority of the other countries of the region, where leaders of the armed forces had unseated democratically elected civilian governments. Though AD and COPEI "governed through compromise and shared spoils," the Punto Fijo pact allowed for both freedom of the press and levels of political stability that were uncharacteristic of the region (Sylvia & Danopoulos, 2003:

64). In late 1958, free elections brought AD's Rómulo Betancourt to the presidency. Ten years later, the first peaceful transition of power would occur following the election of COPEI's Rafael Caldera (Hellinger, 2009).

The Presidency of Rómulo Betancourt (1959-1964)

Rómulo Betancourt was elected as president with cross-class support that spanned from the non-communist left to the urban middle class (DiJohn, 2009). Betancourt was not new to the political scene in Venezuela. In fact, he had previously served as president from 1945 to 1948, coming to power via a coup d'état led by AD and the military against Isaías Medina Angarita, who had been president since being indirectly elected by the Venezuelan Congress in 1941 (Caballero, 1998: 84-85). Betancourt and the co-leaders of the 1945 coup followed through on their promise to institute direct elections for the presidency in late 1947, though AD's Rómulo Gallegos, Betancourt's successor, was overthrown by a junta led by Pérez Jiménez and Carlos Delgado Chalbaud after serving only nine months as president (Caballero, 1998: 85-86, 94). Remaining the leader of AD while living in exile, Betancourt oversaw the party's integration into Socialist International and, with the party, "cultivated a radical and populist image" that eventually gained widespread support. (DiJohn, 2009: 198).

As had been the case since oil was first discovered in Lake Maracaibo in 1912, Venezuelan export earnings under Betancourt were heavily dependent on the petroleum industry (Bulmer-Thomas, 2003). To maximize the country's benefit from its reserves, Betancourt's administration proposed the creation of an international cartel, known as the Organization of Petroleum Exporting Countries (OPEC), which was founded in 1960 (Faria, 2008: 522). In addition, Betancourt decreed the creation of the state-owned Venezuelan Petroleum Corporation (*Corporación Venezolana de Petróleo*, or CVP) and blocked foreign oil companies from being granted the rights to new discoveries of oil, thus taking away the incentive for further exploration

(Faria, 2008: 522). With the proceeds gained, Betancourt substantially increased government outlays on social programs (Faria, 2008: 522).

In addition to increased government services for the poor, Betancourt hoped to help the poverty-stricken by engineering his economic policies to achieve a more equitable income distribution. Encouraged by the Soviet Union's apparent success, Betancourt created an agency responsible for the central planning of the economy. In a series of actions that would be repeated by a number of his successors, Betancourt devalued the bolívar and implemented price and rent controls that "wiped out the market for rental dwellings and helped to foster today's slums" (Faria, 2008: 522). Since AD had agreed with the other parties to limit the spread of radicalism, Betancourt set aside his plans for full-scale land reform and instead chose to pursue the redistribution of only the largest of the *latifundios* (Faria, 2008). The government paid market value for the seized land, in the form of 30% cash and 70% long-term government bonds (Tarver & Frederick, 2006).

In 1960, the average Venezuelan worker was more productive on a gross domestic product (GDP) per worker basis than counterparts in Switzerland, Canada, and Australia (Faria, 2008: 520). Under Pérez Jiménez, per capita GDP growth rates had averaged 8.0% between 1950 and 1960. Though Venezuela continued to grow at an annual rate of 6.3% during the 1960s, the policies attributed to Betancourt allowed uncompetitive private firms to survive and played a role in Venezuela's coming economic downturn (Bulmer-Thomas, 2003: 300; Faria, 2008).

The Presidencies of Raúl Leoni (1964-1969) and Rafael Caldera (1969-1974)

Due to the 1961 constitution's provision that prohibited the president from being reelected, Betancourt ceded the leadership of AD to fellow party founder Raúl Leoni, who won the presidential election in December 1963. Leoni stepped up efforts to modernize the economy through import-substitution industrialization (ISI), the policy of establishing import quotas and

high tariff barriers to stimulate the development of infant domestic industries. Venezuelan economist Hugo Faria (2008) argues that the ISI policies pursued under Leoni misallocated scarce government resources and allowed labor unions to gain too much influence. Though oil prices during Leoni's presidency remained stable, changes to the Law of Hydrocarbons and higher taxes on foreign oil companies allowed the state to increase the benefits derived from the oil reserves (Tarver & Frederick, 2006).

COPEI's Rafael Caldera took the oath of office in 1969, completing the first peaceful alternation of power between parties in Venezuelan history (Hellinger, 2009). Though Caldera was nominally a member of a center-right party, his policies further sheltered the Venezuelan economy from abroad by disallowing majority foreign ownership of private companies (Faria, 2008). Additionally, Caldera pushed through the 1971 Hydrocarbons Reversion Law, which provided that the Venezuelan government would gain control of each oil company's assets at the conclusion of the concessionary period (Tarver & Frederick, 2006). Still, Caldera enabled the possibility of future success by rapidly modernizing the country's infrastructure and increasing educational expenditures, and inflation remained at low levels, below 2% per year, throughout the terms of both Leoni and Caldera (Tarver & Frederick, 2006). Despite changing laws that increased the tax burden of businesses and discouraged foreign investment, Venezuela continued to be widely seen as business-friendly by the international community because of its relative political stability (Johnson, 1978: 173-174).

The First Term of Carlos Andrés Pérez (1974-1979)

Elected to the presidency by a 12 percentage point margin (48.7% to 36.7%) over COPEI's Lorenzo Fernández and ten other minor-party candidates that split 14.6% of the vote in an American-style campaign directed by hired political consultants and complete with catchy television and radio advertisements, AD's Carlos Andrés Pérez moved into Miraflores Palace in

early 1974 just as the price of oil was skyrocketing worldwide during the 1973 oil crisis (Tarver & Frederick, 2006; DiJohn, 2009). Oil revenues quadrupled and accounted for 40.8% of gross national income in 1974, Pérez's first year in office (Freije, 2008: 86). The revenues taken in by the treasury increased significantly, from \$3.82 billion in 1973 to \$9.95 billion in 1974 (Tarver & Frederick, 2006: 125).

Spurred on by the increase in oil revenues, Pérez launched a series of initiatives that together “marked the commencement of a patrimonial government” (Faria, 2008: 523). His plan, known as La Gran Venezuela, sought to increase the state's productive capacity through nationalizations and the creation of strong, vertically-integrated state-owned enterprises (DiJohn, 2009). Pérez implemented more price controls and ended the independence of the central bank, bringing it under state control by purchasing all of the shares controlled by the private sector (Faria, 2008). In January 1975, Pérez nationalized the iron industry, kicking U.S. Steel and Bethlehem Steel out of the Guayana region (Tarver & Frederick, 2006). One year later, Pérez nationalized the 19 oil companies operating in Venezuela and combined them with the CVP to found *Petróleos de Venezuela, S.A. (PDVSA)*, the state oil company.

Pérez recognized that not all Venezuelans were benefitting equally from the oil boom, and thus sought to grant educational opportunities to poor and rural residents. He engineered the creation of a scholarship program for Venezuela's underprivileged youth, in order to “nationalize the nation's human resources” (Tarver & Frederick, 2006: 127). Though the program was wildly successful in that regard (75% of the scholarships went to poor residents, and 68% of the beneficiaries lived outside urban areas), the scholarships required that the students study professions related to the iron and oil & gas industries (Tarver & Frederick, 2006). Though the *Programa Gran Mariscal de Ayacucho* managed to bring about a homegrown, skilled class of

scientists and oil engineers, the program created a dearth of qualified professionals in other areas and reemphasized Venezuela's overreliance on the petrochemical sector.

Though the country could have protected itself from the ever-present threat of external economic shocks by emphasizing investment in private enterprise and sectors that were not dependent on the export of primary products, as well as by maintaining a rainy-day fund for excess fiscal reserves, the administration of Carlos Andrés Pérez chose instead to spend extravagantly, thus crowding out private investment (Bulmer-Thomas, 2003: 340-343). Government spending in the five-year term of Pérez exceeded the total sum spent by the state since Venezuela broke off from Gran Colombia in 1830, a period of 143 years (Tarver & Frederick, 2006: 125). The surge in commodity prices throughout Pérez's term allowed the government to attempt to jumpstart domestic industrial production by opening automobile factories and signing joint-venture deals with foreign metal-producing firms (Bulmer-Thomas, 2003: 334). During the same period, Venezuela lent \$850 million to the Inter-American Development Bank, the World Bank, and the International Monetary Fund (Tarver & Frederick, 2006: 125).

Foreign-exchange earnings had risen considerably; the unit value of Venezuelan exports was twelve times as large in 1980 as it had been in 1970 (Bulmer-Thomas, 2003: 332). The gains from the oil boom were widespread; it was said that nearly anyone could afford weekend trips to Miami to purchase the latest fashions, and the phrase "*tá barato, dame dos*" ('it's cheap, give me two') became part of the national vocabulary due to the appreciation of the bolívar (Márquez, 2003). However, temporary price increases rather than an increase in overall output were responsible, leaving the country vulnerable to a crash in commodity prices and the debt crisis of the 1980s (Bulmer-Thomas, 2003: 334-335). Despite the creation of PDVSA, real GDP per

capita was unchanged in the following years, and the country was only momentarily saved from economic disaster “by the spectacular improvement in the [net barter terms of trade] that pushed real gross domestic income up rapidly and gave the temporary illusion of prosperity” (Bulmer-Thomas, 2003: 334).

Until the consolidation of the oil industry in PDVSA by Pérez, the country had been well-known for its business-friendly attitude, even under the leadership of the center-left AD party (Bulmer-Thomas, 2003). Even as Pérez increased state intervention in the economy to the consternation of some members in AD and accusations of corruption were leveled by the COPEI opposition, that reputation held strong, perhaps because Pérez fairly compensated the foreign oil companies and then contracted their services to provide training and instruction to new PDVSA employees (Tarver & Frederick, 2006). Still, by the end of his term AD split into opposing factions of Betancourt’s old guard and Pérez’s reformers, and infighting among the party ranks continued unabated for decades (DiJohn, 2009).

As Carlos Andrés Pérez left office, few could have predicted what would come next. The economy had grown at a faster rate since 1950 than any of its Latin American counterparts, and despite the rapid increase in the price of oil after 1973 Venezuela maintained inflation rates in line with those of the United States (Santos, 2003). By all accounts, 1978 was the peak year economically speaking for Venezuela. Per capita income and private investment as a percentage of GDP have never again reached the levels attained in 1978, the weakness of the economy has forced the devaluation of the bolívar on several occasions, and inflation and unemployment have remained constant problems (Santos, 2003).

The Presidencies of Luis Herrera Campíns (1979-1984) and Jaime Lusinchi (1984-1989)

Luis Herrera Campíns, a member of COPEI, was elected by a narrow margin over the AD candidate in December 1978. Among his first acts was to accuse the Pérez administration of

corruption for misappropriating public funds. In one instance, the Venezuelan government paid \$20 million for a Norwegian vessel known as the *Sierra Nevada*, or \$8.1 million more than the actual sticker price; it was later discovered by a congressional committee that the excess sum was distributed to administration officials and that Pérez was entirely aware of the overpayment (Tarver & Frederick, 2006). In another case, Pérez was accused of giving millions of dollars to a small group of his most ardent supporters known as the *doce apóstolos* (twelve apostles) in return for their assistance during the 1974 campaign (Tarver & Frederick, 2006). Despite the evidence, nothing became of the corruption charges. Even COPEI's congressional officials "were unwilling to label Pérez as morally and administratively corrupt" (Tarver & Frederick, 2006: 135).

Oil prices continued to rise in 1979 and 1980 as a result of the Iranian revolution and the onset of a war between neighboring Iraq and Iran (Tarver & Frederick, 2006). Herrera Campíns removed the price controls implemented by Pérez in an effort to stimulate competition among private firms, thus driving consumer prices lower. Instead, more profligate spending by the government caused the external debt to double to \$32 billion and inflation soared (Faria, 2008; Caballero, 1998). As Jonathan DiJohn (2009: 232) states, external debt "is normally incurred to finance insufficient savings, current account deficits, and fiscal shortfalls, none of which applied to Venezuela over this period."

Debt was not only increasing in Venezuela. The windfall oil revenues, known as Eurodollars, reaped by the OPEC countries in the 1970s were deposited in dollar-denominated accounts in banks throughout North America and Europe. As a result, banks needed to loan out this money to maintain profitability. Latin American governments, as well as other sovereign entities throughout the developing world, accepted floating-rate loans tied to the London

Interbank Office Rate (LIBOR). The oil shocks of 1973 and 1979 caused output to decline and inflation to skyrocket in the United States. To attack this systemic stagflation, the United States Federal Reserve Board under the leadership of Paul Volcker increased interest rates rapidly between 1979 and 1981 (DiJohn, 2009). The higher interest rates caused an appreciation of the dollar and, combined with a sharp decline in commodity prices worldwide, made it increasingly difficult for debtor countries to service their obligations.

As interest rates and inflation rose, capital began to flee Venezuela, to the tune of \$8-10 billion in 1981. In August 1982, Mexico declared a moratorium on its debt payments; much of the region soon followed. The extent of capital flight from Venezuela reached unprecedented levels during 1982 and the first month-and-a-half of 1983, when the average sum fleeing the country totaled \$500 million weekly (DiJohn, 2009: 237). On February 18, 1983, Herrera Campíns finally took action. Capital controls were put in place to stem the flow of capital out of the country, and for the first time in 22 years the *bolívar* was devalued, by 40% (Caballero, 1998; DiJohn, 2009). Herrera Campíns then initiated a dual exchange rate system, where importers approved by a government agency were allowed to buy dollars at a more favorable rate. Not surprisingly, the *Régimen de Cambio Diferencial* (Differential Exchange Regime) became the prime example of corruption in the pre-Chávez era, as the agency's officials had free reign to determine who would and who would not receive the preferable rate (Caballero, 1998; Tarver & Frederick, 2006). For those who had to buy dollars on the black market or at the non-preferential rate, it was in effect a massive devaluation.

Economic progress under Herrera Campíns was nonexistent: unemployment increased to over 20%, and real GDP decreased by 1.2% annually between 1979 and 1983. Though the events of his term were not entirely the fault of Luis Herrera Campíns, a claim made famous by his

declaration that he was “receiving a mortgaged country” (Caballero, 1998: 127), COPEI had lost much of its credibility. The party would not win another presidential election.

Jaime Lusinchi and his AD followers easily won control of the government, though his five-year term produced little besides more inflation and more corruption. Inflation rates continued to be persistently high, at an annual average of over 20% during the entire decade (DiJohn, 2009: 239). The Lost Decade of the 1980s caused per capita GDP to decline at an annual rate of 3.4%, far worse than the overall Latin American rate of -0.9% per annum during the same time period (Franko, 2007: 69). The flight of capital somewhat slowed, but another devaluation of the *bolívar* in 1986 and the expansion of the multiple exchange rate system to three rates (for basic imports, other trade, and the money market) ensured that the capital that had been lost would not return (Tarver & Frederick, 2006). Daniel Hellinger (2009: 474) writes that:

The administration of President Jaime Lusinchi (AD) touched new depths of corruption. Wealthy Venezuelans showed a special fondness for Florida real estate and imported whisky. . . . At the grassroots, petty corruption became a way of life.

The Second Term of Carlos Andrés Pérez (1989-1993)

While still in office, Lusinchi took the strange step of actively campaigning without success against former president Carlos Andrés Pérez in AD’s primary campaign (Tarver & Frederick, 2006). Since per capita income levels had continued to fall from their mid-1970s highs, Venezuelans looked back fondly on the successes (and the excesses) of Pérez’s first term, when he presided over the nationalization of the oil, iron ore, and bauxite industries and the creation of PDVSA. It was widely thought that during a potential second term he would reject the neoliberal reforms encouraged by the World Bank and the International Monetary Fund (IMF), two organizations that he disparaged during the 1988 election campaign as “genocide workers in the pay of economic totalitarianism” and “a neutron bomb that killed people, but left buildings standing” (Ali, 2006). With support for COPEI continuing to falter, Pérez was elected for a

second term with the support of 52.9% of the electorate; COPEI's Eduardo Fernández finished a distant second, with 40.4% of the votes.

Upon taking office in 1989, the newly inaugurated Pérez was faced with oil that was selling for less than half of its 1974 price, more than \$35 billion in foreign debt, and unsustainable government expenditures (Tarver & Frederick, 2006: 140). With a lack of other viable options, Pérez took the advice of cabinet members, later known as the IESA Boys for their association with the Instituto de Estudios Superiores de Administración (IESA), Caracas' private free market-oriented business school, and chose to implement the economic austerity measures recommended by the IMF (de la Barra & Dello Buono, 2009). The IESA Boys, led by planning minister Miguel Rodríguez, thought Venezuela could follow the path that Chile previously blazed under the economic direction of Pinochet's Chicago Boys during the early 1980s (DiJohn, 2009). Thus, Pérez was forced to apply the very series of structural adjustment policies that he had railed against in his campaign speeches in order to obtain loans from international financial institutions. The *Plan de Ajuste Económico* mandated the devaluation of the *bolívar* and heavily reduced social programs and subsidies for public services and transport.

Meanwhile, the poorest members of Venezuelan society had been abandoning the countryside for more than a decade, fleeing to the outskirts of western Caracas where they constructed slums known as *ranchos*. The rapid urbanization was complicating the distribution of clean water and electricity and also was a cause of increasing crime in the cities. The center of the political spectrum that was occupied by the signatories of the Punto Fijo pact "seemed unwilling or unable to cope effectively with the new reality" (Sylvia & Danopoulos, 2003: 65). In protest to the series of policy changes, Venezuelans from all walks of life, but especially the poor, descended on Caracas for a demonstration that the armed forces were ordered to crush. The

result was the *Caracazo*, the infamous mass riot of February 27, 1989, that left hundreds (or maybe thousands) dead in Caracas at the hands of the military and ushered in an era of political instability and weakness (Hawkins, 2003; Tarver & Frederick, 2006).

Ximena de la Barra and Richard A. Dello Buono (2009: 17) call the violent *Caracazo* revolt the “event that first revealed the upsurge of popular resistance that was gathering, no longer seeking recourse through the discredited political parties that remain dominated by elites.” In subsequent months, a general strike took place, more violent clashes with the armed forces occurred, and the country’s universities had to be closed after the police killed 10 student demonstrators during a protest (Tarver & Frederick, 2006: 143). The events of February 1989 also had a profound effect on a 34-year old lieutenant colonel named Hugo Rafael Chávez Frías. Chávez, who with fellow military officers years earlier had covertly formed the subversive Revolutionary Bolivarian Movement-200 (MBR-200) for the purpose of overthrowing Pérez and the corrupt *puntofijista* system, immediately sped up plans for their coup d’état as other career members of the armed forces joined their ranks following the government’s violent response to the *Caracazo* (Sylvia & Danopoulos, 2003).

The attempted *golpe de estado* that occurred in the early morning hours of February 4, 1992, took place in the context of three years of more economic difficulties for the Venezuelan people. Normally, the removal of price controls as mandated by the Pérez administration would have had a positive impact on an economy based on the gains from competition. Unfortunately, consumer prices were also increasing by more than 30% annually. Under circumstances of rapid inflation such as that being experienced in Venezuela, consumers are unable to distinguish between price increases that signal relative scarcity and those that are solely caused by the inflationary environment (Faria, 2008: 524).

The coup d'état of February 4, 1992, was nearly successful. All but one of the lieutenant colonels managed to achieve his objectives; Maracaibo, Valencia, and Maracay were captured by the rebel leaders, but Chávez's soldiers failed to control the state television station and the Miraflores presidential palace (Tarver & Frederick, 2006). The coup d'état failed to topple Pérez, who had returned to metropolitan Caracas' Maiquetía International Airport following the World Economic Summit in Davos, Switzerland, and was en route to Miraflores. After being arrested by armed forces loyal to the elected government, Chávez was incredulously allowed the opportunity to speak before a national television audience in an effort to convince the remaining factions to lay down their arms and prevent further bloodshed (Tarver & Frederick, 2006). Standing in front of the cameras and dressed in military fatigues and his red paratrooper's beret, Chávez recited a statement of about one minute and ten seconds, parts of which made him a national hero in eyes of many:

Friends, lamentably, for now the objectives we considered were not achieved in the capital city. That is to say, we here in Caracas have not managed to take power. You did it very well over there, but now is the time to avoid more bloodshed. It is time to reflect; new situations will come and the country must definitively get on the path to a better destiny. (Chávez Frías, statement to the Venezuelan people, Feb. 4, 1992; <http://www.youtube.com/watch?v=VBUo-pYeVfQ>; translated by author)

The attempted coup and *por ahora* speech catapulted Chávez into the national spotlight, and a large portion of Venezuelans surveyed in the aftermath of the failed coup actually expressed support and admiration for Chávez, who they believed was fighting to liberate the country from the corrupt decades-long *punto fijo* power-sharing agreement (Tarver & Frederick, 2006). In the National Assembly, members of COPEI and some AD congressmen refused to condemn the coup; former president Rafael Caldera used the opportunity to attack the corruption and shortcomings of Pérez and AD. Nine months later, another coup was attempted when a group of senior military officers unrelated to the MBR-200 bombed military and civilian

installations throughout the country and broadcast an unsuccessful call to arms (Tarver & Frederick, 2006).

The second failed coup seemed to signal the end of the road for Carlos Andrés Pérez. A week later, regional elections confirmed the end of the two-party system as left-wing parties *La Causa R* (Radical Cause) and *Movimiento al Socialismo* (MAS) gained support despite rising abstention rates (Tarver & Frederick, 2006). Although Chávez was imprisoned in Estado Miranda's notorious Yare prison, his influence was becoming greater than that of either main political party. Banding together to prevent more social unrest, the National Assembly twice voted across party lines in 1993 to indefinitely suspend and later impeach Pérez from the presidency on charges of corruption; they later banned him from ever seeking public office again (Tarver & Frederick, 2006).

The Second Term of Rafael Caldera (1994-1999)

The 1993 presidential elections occurred with Pérez and Chávez both imprisoned. Caldera resigned from COPEI, the party he had created in 1946, after party members unhappy with Caldera's "manipulative and politically opportunistic" rhetoric following the coup of February 4 chose to instead nominate Estado Zulia governor Oswaldo Álvarez Paz (Tarver & Frederick, 2006: 146). Despite being 77 years old, Caldera quickly managed to organize a coalition of 17 political parties that included the centrist URD party and the three most influential left-wing parties, MAS, the Communist Party of Venezuela (PCV), and the People's Electoral Movement (MEP). To gain support from poor Venezuelans who had demanded the release of Chávez, Caldera campaigned almost entirely on the promise that he would pardon the conspirators of the 1992 coup (Tarver & Frederick, 2006). The ploy was successful; Caldera's *Convergencia* alliance received only 30.5% of the total vote, but was able to outpace AD's Claudio Fermín (23.6%), Álvarez Paz (22.7%), and *La Causa R's* Andrés Velásquez (21.9%).

The results of the election indicated an alarming rise in apathy as well as the confirmation that AD and COPEI were no longer national forces. As recently as the 1988 elections, the two parties had combined to receive 93.3% of the vote. In 1993, that percentage fell by more than half, to 46.3%. Only 60.2% of the electorate voted in December 1993, a fall of 21.7 percentage points from the 81.9% that voted to elect Carlos Andrés Pérez in 1988 (Consejo Nacional Electoral, 2006).

The country that Caldera inherited in his second term was, like the situation earlier faced by Pérez, completely different than the peaceful, prosperous one that he governed from 1969 to 1974. In 1994, the first year of Caldera's term, a severe financial crisis hit the Venezuelan economy. As inflation rose above 40% and the government was forced to repeatedly devalue the bolívar, several of the country's largest banks failed (Santos, 2003). Once again, controls were put in place to prevent capital from flowing out of the country. Social upheaval continued, and Caldera responded by suspending freedoms guaranteed in the 1961 constitution (Tarver & Frederick, 2006).

As the 1998 presidential elections neared, Venezuela was in disarray. Its leader, Caldera, had turned 80 years old in 1996. The economy, long the envy of Venezuela's less prosperous neighbors, fought helplessly against a tide of inflation and oil prices below \$10 per barrel. Though economic growth turned positive by the 1990s, the country grew at one of the slowest rates in the region – per capita GDP only increased at an annual rate of 0.3% (Bulmer-Thomas, 2003: 383). Over the course of the twenty year period between 1980 and 2000, the percentage of households below the poverty line steadily increased. In 1980, 35% of Latin American households were living in poverty, compared with only 22% in Venezuela. By 2000, a year after Chávez's inauguration, the Venezuelan percentage had doubled to 44%, while the Latin

American rate remained constant at 35% (Bulmer-Thomas, 2003: 387). Real per capita capital endowment in Venezuela, which in 1970 was 30% of the developed country average, fell to 9% by the end of the millennium (Baptista, 2003: 65). The period had been so turbulent that historians H. Micheal Tarver and Julia C. Frederick described it as the age of “Chaos, Futility, and Incompetence” (Tarver & Frederick, 2006: 139).

The 1998 Election

The MVR (*Movimiento Quinta República*) party, formed by Chávez and his band of unsatisfied political outsiders, were able to capitalize on the inability of AD, COPEI, and civil society to overcome the hardships of the preceding decades (Sanoja, 2009). AD’s 1998 candidate, Luis Alfaro Uceró, was said to employ a “Stalinist approach to party discipline” that typified “all that is wrong with Venezuela’s politics” (*The Economist*, 1998a), while Chávez’s two other opponents, Henrique Salas Römer (*Proyecto Venezuela*) and former Miss Universe Irene Sáez (COPEI), did little to differentiate themselves from the failed policies of the previous years. His attacks on the market economy were widely popular among the working class, and even supporters of the free market like *The Economist* magazine wrote on various occasions leading up to the election that Chávez “is not quite the ogre he is painted as” (*The Economist*, 1998a) and that “the fears surrounding Colonel Chávez may be overdone” (*The Economist*, 1998b).

The principal theme of Chávez’s campaign, however, was that he would put an end what he, along with an increasing number of Venezuelans, believed were forty years of failed policies and corruption (Marcano & Barrera Tyszka, 2007). Even those who opposed Chávez desired change; yet, the opposition’s candidates “seemed unaware of the fact that the country was changing,” as none of the three provided a credible platform nor discussed where they stood on the issues (Marcano & Barrera Tyszka, 2007: 18). Days before the election, AD and COPEI’s

party leaders scrambled together for one final power-sharing hurrah. The party officials decided that they would withdraw their sponsorships of the faltering candidacies of Uceró and Sáez and together place their hopes on Salas Römer.

In the end, however, Venezuelans placed their faith in Chávez to reverse the trends of widespread corruption and economic deterioration that had plagued the country for decades. Chávez, whose platform also called for an increase in the minimum wage and wise spending on windfalls from the vast supplies of oil, received more than 56% of the vote in the December 1998 election. The election of the former paratrooper, who had been denied a visa to visit the United States the previous year and released from prison only three years before that, assured the demise of the Punto Fijo Pact and Venezuela's traditional party structure, but it was unclear what would replace them (de la Barra & Dello Buono, 2009).

The Chávez Era

Promising to end “all the corruption that Venezuelan democracy had accumulated” during its twentieth-century reign, Chávez prepared for office with high approval ratings and even higher hopes (González de Pacheco, 2003: 339). His approval ratings during the first months of his presidency were astronomical. Eight months into his first term, 85% of the populace approved of his performance (*The Economist*, 1999b). During his campaign and first months in office Chávez refrained from using inflammatory rhetoric (de la Barra & Dello Buono, 2009). The fears of the wealthy were downplayed by the Economist Intelligence Unit, who upon Chávez's inauguration had stated that he was “appearing statesman-like and prudent, wooing business, investors and multilaterals alike” (Economist Intelligence Unit, 1999: 7). In a wide-ranging interview with CNN en Español that was taped on the eve of the 1998 presidential election, Chávez stated that there was no existing tension between him and the private media, that he would not nationalize any private industry or business, and that he would pursue foreign

investment from and friendship with the United States (Primera, 2008). Perhaps most perplexingly, he stated unequivocally that Cuba was a dictatorship (Primera, 2008). He then told Globovisión: “I am not a socialist. I think that today’s world, the Latin America of the future, needs a step forward; we are moving away from socialism” (Primera, 2008).

Three weeks before his February 1999 inauguration, *The Economist* (1999a) reported that Chávez intended to “show his uneasy counterparts and foreign investors that he is, after all, a man with whom they can safely do business.” He was said to be making taking all of the right steps for pragmatism: visiting Argentina and Brazil to discuss Venezuelan inclusion in the Mercosur regional integration and free-trade project, jetting through Western Europe and Canada to ease political and business leaders, joining with Colombian leader Andrés Pastrana in Cuba to discuss a resolution to the political turmoil, and even being welcomed to the White House by Bill Clinton (*The Economist*, 1999a). Even his choice of cabinet members and ministers was also reassuring, as he allowed the outgoing technocratic finance minister to stay on and included a mix of academics and military officials to serve under him (*The Economist*, 1999a). There was not much that the business community and foreign investors could criticize.

Chávez had campaigned that reform would be impossible under the same constitution that was carefully constructed by AD and COPEI leaders in 1961. To ensure success, he and the MVR capitalized on his initial popular support by calling elections for a constituent assembly that would be responsible for drafting the new constitution. Over 90% of the seats in the constituent assembly were won by supporters of the president (Gott, 2005: 144). The Venezuelan public approved the new constitution by popular referendum on December 15, 1999. The constitution extended the presidential term from five to six years, mandated a new presidential election to be held the next year, allowed the president the possibility of re-election, provided the

option of impeachment via popular referendum, and disbanded the bicameral legislature, both houses of which were under the control of an opposition coalition headed by AD, in favor of a single National Assembly that was to be implemented following the 2000 elections (Tarver & Frederick, 2006). Additionally, the country was rebranded with a new name in honor of its founding father, Simón Bolívar. The land that had for 159 years been known as the Republic of Venezuela would henceforth be referred to as the *República Bolivariana de Venezuela* (Bolivarian Republic of Venezuela).

Interestingly, Chávez's primary rival in the 2000 presidential election was Zulia governor Francisco Arias Cárdenas, a fellow graduate of the Academia Militar de Venezuela who had joined Chávez's MBR-200 in 1985 and commanded the battalions that successfully captured the city of Maracaibo during the February 4, 1992, failed coup d'état. Arias was one of Chávez's many former allies who had "turned away from what they perceived to be an increasingly radical, personalistic project" (Hawkins, 2003: 1143). Despite the highest unemployment in the region and negative economic growth of 7.2% during 1999, Chávez won with 59.8% of the vote, compared with only 37.5% for Arias Cárdenas (Hawkins, 2003: 1143; Consejo Nacional Electoral, 2006). In 2005, Chávez and Arias Cárdenas reconciled, and the once-again Chavista has since been designated as Venezuela's Ambassador to the United Nations and Deputy Foreign Minister for Latin American and the Caribbean.

Chávez's MVR party won 91 of the 165 seats in the 2000 parliamentary elections, thereby placing the legislative branch of government firmly in-step with the ideals of Chávez and reducing the Punto Fijo-era parties to what could be deemed as "electoral insignificance" (Hawkins, 2003: 1142). The composition of the National Assembly has been overwhelmingly

pro-Chávez since its inception, in part due to the fact that the opposition parties have boycotted some elections, such as the most recent 2005 legislative elections (Tarver & Frederick, 2006).

Radicalization of the Chávez Regime

With an entire six-year term ahead of him and the support of the unicameral National Assembly assured, Chávez became “more and more aggressive toward the middle and upper classes” immediately after the 2000 election season, finally reverting to the populist, pro-poor and anti-rich rhetoric that had gained him national attention upon his 1994 release from Yare. (Tarver & Frederick, 2006: 152). After visiting Fidel Castro in Havana numerous times and undertaking a state trip to visit Saddam Hussein in Baghdad (Marcano & Barrera Tyzska, 2006), Chávez angered middle- and upper-class households with his approval of Resolution 259, which intended to rewrite the textbooks of public and private school with “praise-filled descriptions of the 1992 coup and the Bolivarian Revolution” (Marcano & Barrera Tyzska, 2006: 143).

Shortly after the 2000 election, the National Assembly passed an Enabling Law, which granted Chávez the right to rule by decree for a one-year period in order to pass sweeping reforms that might be able to resuscitate the struggling economy (Nelson, 2009). Chávez did not take advantage of his emergency powers until the day the Enabling Law was set to expire; then, in the span of a few hours, Chávez decreed 49 controversial new pieces of legislation that “shocked many people, *chavista* and anti-*chavista* alike” (Nelson, 2009: 40). Among the new laws announced were a tax on all withdrawals from banks, a more progressive tax system, a hydrocarbons law that would direct even more funds from the sale of oil to the state, and a land reform law that would allow the government to expropriate land from private citizens; the law was “so vague that the government could legally take any land it wanted – which it did” (Nelson, 2009: 40). Chávez then carried through with threats to nationalize key industries and reduce the control that he claimed oligarchs held over the country (París, 2003). Fearful of Chávez’s threats

to redistribute land and wealth, many of the elite fled the country in search of security in the United States.

The Events of April 2002

Chávez's extremely polarizing decision to appoint a new board of directors, made up entirely of Chavistas with no prior oil background, for PDVSA, the state independent oil company, caused a two-month general strike that began in February 2002 and culminated with the still-disputed events of April 8-14, 2002, when Chávez was removed from office and subsequently restored to power (Nelson, 2009). On April 8, Chávez announced on television that several of PDVSA's top executives were to be immediately discharged from their posts. They were to be replaced with officials friendly to the regime (Nelson, 2009).

The next day, the country's largest labor union (*Confederación de Trabajadores de Venezuela*, or CTV) and chamber of commerce (*Fedecámeras*) joined forces with opposition political parties to hold a protest march that would end at the PDVSA headquarters. The marchers, almost a million Venezuelans, then continued marching to Miraflores (Nelson, 2009). Chávez supporters and elected officials, meanwhile, had organized a counter-protest that blocked the path of the marchers. As the two groups neared, the "national guardsmen and pro-Chávez thugs clashed with the protestors," blocking side streets and escape routes so that the marchers would be forced to continue on Avenida Baralt (Tarver & Frederick, 2006: 152; Nelson, 2009: 261). From an overpass known as Puente Llaguno that overlooks the Avenida Baralt march route, Chávez's supporters fired shot after shot at the unarmed protestors, killing more than a dozen (Nelson, 2009).

Instead of allowing the nation's private television channels to cover the massacre of the civilians, Chávez began a lengthy speech in order to control the airwaves and prevent the public from finding out about the unfolding events (Tarver & Frederick, 2006). Under Venezuelan law,

all national television stations are required to interrupt their programming whenever the executive wishes to speak to the nation; these broadcasts are termed *cadena*s (chains) because the video feed originates with the *Venezolana de Televisión* (VTV) state network and passed on to the private channels.

Inside Miraflores and surrounded by the protestors, Chávez ordered the military high command to initiate the top-secret *Plan Ávila*, the same plan of action that the military used to kill thousands of civilians during the *Caracazo* (Nelson, 2009: 52-53). The generals refused to comply (Nelson, 2009: 121-132). As the evening wore on, the country's labor and business leaders condemned the actions of Chávez (Nelson, 2009: 132). The military commanders soon followed: dozens of high-ranking officials announced on national television that "they refused to recognize Chávez as the legitimate ruler" of the country because "the rights of the people as outlined in the constitution had been grossly violated" (Nelson, 2009: 133).

According to researcher Brian Nelson (2009: 154-155), several generals were able to convince Chávez to resign and accept safe passage to Cuba, an event that Chávez supporters now dispute. In the early morning of April 12, Chávez was taken to Fort Tiuna by General Manuel Rosendo (Nelson, 2009: 158). Pedro Carmona, the president of Fedecámaras, was announced as the interim president (Nelson, 2009: 158). Yet, Carmona's term in office lasted less than two days. He lost the support of the CTV labor union when he went behind the back of its president, Carlos Ortega, to negotiate with other business leaders (Nelson, 2009: 160-161). The military's support, meanwhile, quickly evaporated when Carmona and his Attorney General appointee, Daniel Romero, announced that they were dissolving the National Assembly and the National Electoral Council, dismissing the Supreme Court, and annulling the Enabling Laws and the 1999 Constitution (Nelson, 2009: 196-197).

As Chávez supporters took to the streets to protest, General Efraín Vásquez Velasco, the head of the army, appeared on Globovisión and listed twelve demands for Carmona, including the “restoration of the National Assembly” and respect for the country’s institutions, constitution, and elected individuals (Nelson, 2009: 225). Sensing that the tide had turned against him, Carmona fled from the palace just as the Presidential Honor Guard was retaking it from the coup leaders (Nelson, 2009: 226). Hours later, Chávez was returned to power by sympathetic members of the military, and the short-lived coup was over (Nelson, 2009). It does seem somewhat strange that, as Daniel Hellinger (2009) points out, that the two most significant events in recent Venezuelan history were failed coups d’état.

Accusations of U.S. Involvement

Since the failed coup, there have been widespread accusations that the United States had been actively plotting with Venezuelan opposition leaders to overthrow Chávez since his election in 1998, and that the CIA was responsible for the coup attempt (Nelson, 2009). Through various fronts operated from the U.S. Embassy in Caracas, the Bush administration was accused of spending at least \$30 million for the sole purpose of “destabilizing the democratically elected government of Venezuela” (de la Barra & Dello Buono, 2009: 22).

The United States’ position is that it actually warned Chávez over the rumors of the impending coup days before it occurred (Nelson, 2009: 280). Nelson (2009: 281) agrees with the position of the U.S. government, saying that the “all-consuming focus on the war on terror has meant a complete lack of U.S. policy toward Venezuela.” The embassy staff in Caracas had been banned from “all meetings with dissident military officers” in the months before the coup (Nelson, 2009: 279). It is clear, says Nelson (2009: 282), that the crisis was not “a well orchestrated conspiracy led by a few shadowy figures,” but instead “was a complex and confusing event that was influenced by dozens of self-serving actors.”

A year after the attempted coup, the Venezuelan government opened the Venezuela Information Office (VIO) in Washington, D.C. in order to swing public opinion in the United States in favor of the Chávez regime (Forero, 2004). In one twelve-month period, from 2003 to 2004, Chávez's government directed nearly \$2 million to the VIO to promote Bolivarian ideals throughout the United States (Forero, 2004).

Back at Home in Miraflores

Though Chávez was once again the head of state, the opposition further destabilized the already volatile situation by calling a general strike in December 2002. Faced with a complete economic shutdown, Chávez instructed the armed forces to seize supermarkets and storehouses and distribute their contents to the poor (Tarver & Frederick, 2006: 153). He then unilaterally fired 18,000 PDVSA employees who had supported the strike, accusing them of corruption and misconduct (Tarver & Frederick, 2006: 153). Although courts ordered the immediate reinstatement of the dismissed workers, Chávez and PDVSA's new chief executive simply decided to ignore the court's order (Tarver & Frederick, 2006: 153).

Chávez has created a system of *misiones bolivarianas* (Bolivarian missions) that have the stated goal of eliminating poverty and illiteracy, but opposition advocates claim that they are actually "underhanded means of spreading socialism" (Tarver & Frederick, 2006: 154). Each of the constantly expanding missions has a specific purpose. For example, *Misión Barrio Adentro* provides healthcare to impoverished areas; its clinics are staffed with doctors that the Cuban government sends in return for oil. *Misión Mercal* has created a system of small socialist markets that enable the poor to purchase a limited selection of foods at prices heavily subsidized by the government. *Misión Robinson* aims to teach illiterate adults how to read and write. *Misión Zamora* targets land redistribution, providing government-owned rural land and property seized

from private landowners to the poor in order to reduce the over-urbanization of Caracas, Maracaibo, and Valencia and increase the domestic food supply.

The missions have won Chávez international acclaim and provided support for the popular view that he is an empathetic ruler who deeply cares about those mired in poverty, though Francisco Rodríguez, who served as chief economist of the National Assembly until 2004, claims (2008: 50) that the “‘Chávez is good for the poor’ hypothesis is inconsistent with the facts.” Cristina Marcano and Alberto Barrera Tyszka (2007), meanwhile, believe that the missions are simply another method to help Chávez consolidate his power. The presidency fully controls the purse-strings of the missions, the missions operate without being independently audited, and participants are given or denied access “according to a system of partisan affiliations and loyalty to the government” (Marcano & Barrera Tyszka, 2007: 269).

Opinions clearly differ on how well the Chávez government is achieving its goal of narrowing the income gap between rich and poor. Tariq Ali, a noted British-Pakistani historian and writer, claims that Chávez’s anti-globalization and anti-imperialist leanings are a positive force, one that has been the target of “a massive disinformation campaign” engineered by *The Economist* and the *Financial Times* (Ali, 2006). What Chávez really wants, writes Ali, is only “to make modest changes to the country's social structure,” by using revenues from the sale of oil to fund Bolivarian missions that bring about positive gains for Venezuela’s most impoverished citizens in the areas of health, education, and housing (Ali, 2006). The Bolivarian government has thus, according to Ali, taken care to “slowly and cautiously implement social-democratic reforms, reminiscent of Roosevelt's New Deal and the policies of the 1945 Labour government,” though these efforts at reform were unacceptable “in a world dominated by the Washington consensus” (Ali, 2006).

Despite economic troubles, defections from key allies, and rebukes from international organizations like Amnesty International, Human Rights Watch, Reporters Sans Frontières, and Socialist International, Hugo Chávez has managed to remain in power for more than eleven years, enough time to become one of Latin America's leading voices on the world stage. Although Chávez pledged a week before his 1998 election that he would spend only one five-year term in power, he has since been reelected twice (in 2000 and 2006) and survived a 2004 recall referendum whose results were questioned in the international community.

CHAPTER 3 THE BUSINESS ENVIRONMENT UNDER CHÁVEZ

Overview

Four factors have precipitated the exodus of the business community from Venezuela during the Chávez era: rising levels of crime and violence, the consolidation of power in the executive branch at the expense of the opposition, fears that the national government would expropriate private businesses and seize private property, and the introduction of economic policies that engendered inflation and hampered the ability of firms to freely engage in commerce. The Venezuelan economy under Chávez has been marked by volatility despite a decade-long upward trend in the price of crude oil.

The spot price of a barrel of Venezuelan Tia Juana crude oil rose 1437% during the first decade of Chávez's presidency, from an average of \$8.98 per barrel during the week of the 1998 presidential election to its peak average of \$137.98 per barrel in July 2008. Oil prices then turned sharply negative in the midst of the worldwide economic downturn, but have since rebounded to nearly \$80 per barrel as of March 2010 (U.S. Energy Information Administration, 2010) (Figure 3-1). The persistently high prices enabled Chávez to lavishly spend revenues received from the sale of oil on a wide array of domestic social missions, as well as on international projects in order to gain influence on the world stage.

The volatility across the economic, social, and political spectra have served to prevent the development and expansion of a business sector independent of the mammoth petroleum industry, except for a few isolated success stories that include the development of a nascent shrimp industry that exports over 95% of its production to the United States and Europe (Penfold, 2007). More than seven thousand private companies closed in Venezuela between 1998 and 2004 (Oppenheimer, 2007: 236), coinciding with a fall in private investment to only 6% of

GDP (Penfold, 2007). Many of those firms failed to diversify risk, which they could have done by focusing on exports and cross-border operations with nearby countries (Penfold, 2007). Other firms that remained open did so by integrating their activities with the oil and gas sector and expanding ties with the Chávez government (Penfold, 2007).

Crime and Violence

Despite its long-standing reputation as the South American continent's bastion of democratic and peaceful rule, Venezuela has become an increasingly violent society. Roberto Briceño-León (2009: 20) has classified the countries of Latin America based on how their murder rates compare with the 2002 world average of 8.8 homicides per 100,000 inhabitants. Argentina, Chile, Costa Rica, Uruguay, and Paraguay have homicide rates below the world average and are classified as "low violence" countries. Peru, Nicaragua, Ecuador, the Dominican Republic, and Panama comprise the "medium violence" countries, with homicide rates up to double the world average. Brazil and Mexico are categorized as "high violence" as the two countries in the region with a homicide rate more than double but less than triple the world average. Venezuela, along with Colombia, Honduras, and El Salvador, is classified as a country with "very high violence."

The situation has deteriorated to the extent that more violent crime takes place in Venezuela than Colombia, despite Colombia's ongoing armed conflict and the presence of the *Fuerzas Armadas Revolucionarias de Colombia – Ejército del Pueblo* (Revolutionary Armed Forces of Colombia – People's Army, or FARC-EP), the *Ejército de Liberación Nacional* (National Liberation Army, or ELN), and organized paramilitary groups (Briceño-León, 2009). Fear of crime accordingly is the main worry throughout the country. In fact, every survey conducted in Venezuela during 2008 concluded that Venezuelans believed that insecurity was the principal problem affecting the country's residents (Briceño-León, 2009).

Steadily Increasing Crime Rates since 1999

In 2007, there were 49 homicides per 100,000 residents in Venezuela, meaning that its citizens were murdered at a rate approximately 6 times the world average (Briceño-León, 2009: 20-21). Though there was a marked increase in number of homicides from 1987 to 1993, when the rate increased from 8 to 21 murders per 100,000 Venezuelans, the rate stabilized between 19 and 22 homicides per 100,000 persons during the period from 1993 to 1998 (Briceño-León, 2009: 31). Since Chávez took office, however, the rate has skyrocketed even during years with high levels of economic growth (Figure 3-2). The homicide rate per hundred thousand inhabitants nearly doubled (from 20 to 38) during the first four years of Chávez's presidency alone (Briceño-León, 2009: 31).

Between 1998, when Chávez was running for office, and 2007, the number of homicides in the country more than tripled, increasing from 4,550 to 13,157 according to statistics that may underestimate the actual figures; in some cases, violent crimes such as homicides are never reported to the authorities (Briceño-León, 2009: 27-28). Meanwhile, nearly every other country in Latin America either experienced a decrease in the homicide rate or saw its rate remain steady over the course of the preceding decade. Only in Guatemala and El Salvador were there also significant increases in the numbers of homicides per 100,000 residents.

Lack of Coexistence in a Polarized Society

Briceño-León (2009: 30) partially blames the violent crime problem on the ongoing political crisis and the resulting "important breaking-off of citizen coexistence" under the Chávez regime, but he also asks rhetorically:

What other difference can we find in the politics and the social and economic situation of Brazil, Mexico and Venezuela? Better yet, if we were to concentrate on a classic crime explanation that would link homicides, violence and crime to the material social conditions and were to additionally accept as true the official data that affirm that in Venezuela poverty and inequality have been reduced, that

unemployment has been reduced and that the population's incomes, consumption, and attention to the poor in terms of health and education have increased, why, then, in Venezuela has violence and crime increased when it should have decreased? (Briceño-León, 2009: 30)

Briceño-León (2009) claims that the government has paid little to no attention to the problem of violent crime, and instead has provoked more acts of violence by engaging in populist rhetoric that blames the middle and upper classes for the country's problems. Chávez has supported and developed this social polarization between the *chavistas* (his supporters) and the *escuálidos* (Chávez's term for the opposition; lit. 'squalids'). The two blanket groups hold radically different views on society, the meaning of democracy, and politics (Villarroel, 2009).

Despite the countless hours that Chávez spent hosting his weekly television program *Aló Presidente* and initiating hundreds of *cadena*s (chained broadcasts that are required by law to supersede all other television and radio programming in the country), during his first decade in office the president referred to violence and crime only a few fleeting times; in those instances, he only did so to "make comparisons with Cuba where, in his opinion, there is no crime because there is not the aspiration that foments capitalism" (Briceño-León, 2009: 31). Less than 3 in 10 Venezuelans approved of how the government is confronting the problem of insecurity and violence, and 54.6% hold little or no confidence in the ability of Chávez to resolve the atmosphere of insecurity (Briceño-León et al., 2009c: 171).

Meanwhile, acts of violent crime have been deemed acceptable and heroic by Chávez himself. The president has hailed the April 11, 2002, shooters on Puente Llaguno as heroes by building a monument to commemorate them, and his failed coup d'état of February 4, 1992, that left scores of civilians and military members dead is celebrated as a national holiday with parades, speeches, and celebrations. Chávez even went as far as to proclaim that it was acceptable for poor Venezuelans to rob and steal if they were hungry (Briceño-León, 2009: 32).

A 2008 survey conducted by the Venezuelan Observatory of Violence revealed that 53% of the population felt that the president's language encouraged the climate of violence and insecurity in the country, while only 18.1% feel that his discourse corresponded to how a head of state should behave (Briceño-León, 2009: 34).

Leopoldo López, the former mayor of the Chacao municipality located in eastern Caracas, has expressed his view that violent crime in Venezuela is a human rights issue of grave concern, because such crime violates the most fundamental right of human beings -- the right to live a free and full life (López, 2009). Nevertheless, 93% of murders go unsolved in Venezuela and criminals are free to roam the streets with impunity (López, 2009).

Effect on the Business Environment

The problem of crime in the largest cities of the country has significantly transformed the Venezuelan way of life. Residents have ended evening get-togethers earlier, changed modes of transportation, and avoided certain zones altogether (Monteferrante, 2003). Seventy-nine percent of Venezuelans fear being attacked or robbed in their own home, 80.3% are fearful of being attacked or robbed while walking on the streets of their neighborhood during daytime hours, 91.5% fear being attacked or robbed while using modes of public and private transport, and 92.2% fear being attacked or robbed in other parts of the city (Briceño-León, Ávila & Camardiel, 2009a: 133, 137). Fear has truly "become a condition of daily life" for the Venezuelan populace (Briceño-León et al., 2009a: 130).

As levels of fear have increased in step with rates of violent crime, Venezuelans have sought to avoid becoming victims of crime by spending less time in public places, thereby causing a noticeable effect on the economy (Briceño-León et al., 2009b). In addition to eschewing outings to restaurants, movie theaters, and parks, residents are spending less time interacting with their neighbors, civic networks, and the greater community (Briceño-León et al.,

2009b). Over 63% of the population has reduced the number of hours it spends shopping while 43.8% have reduced their working hours in order to avoid being outdoors during the nighttime hours, when the risk of crime victimization is thought to increase (Briceño-León et al., 2009b: 141). Reductions in hours worked represent both a loss of wages for the employee and a loss of production for the employer.

Business owners have been forced to devote a significant percentage of revenue to the protection of their company as the likelihood of being a victim of a burglary, robbery, or other property crime has increased. A 2001 study of 200 private firms, 58% of which were classified as small- or medium-sized businesses, by the National Council for Investment Promotion (CONAPRI) found that 89% of the surveyed businesses used an average of 5% of their gross sales to provide security (Penfold, 2002: 33). Some even paid *vacunas* (slang for bribes; literally vaccines) to groups of criminals or the police. Fifty-six percent of businesses reported that they had lost an amount equivalent to 3% of gross sales due to vandalism, assault, robbery, arson, or other general delinquency (Penfold, 2002: 33). Forty percent reported no lost sales, though this figure included many establishments that were the victims of crime but received compensation from their private insurance providers (Penfold, 2002: 33). Half of all business owners and nearly 75% of small and medium enterprises never reported any crime to the police (Penfold, 2002: 34). Those business owners that did gained little by calling the police: only 7% of the incidents were resolved (Penfold, 2002: 34).

In a survey published in 2002, entrepreneurs cited the ubiquity of criminal behavior as a primary factor that makes doing business in Venezuela extremely difficult. On a scale of 1 to 5, with 1 signifying that the factor did not complicate business operations at all and 5 signifying that the factor made business much more problematic, the business owners assigned an average

score of 4.3 to crime, robbery, and disorder (Penfold, 2002: 32). The rampant crime that takes place throughout Venezuela's cities has a real effect on the entrepreneurial class. In this situation, all but the burgeoning sector of private security companies are harmed.

Concentration of Power

The Venezuelan Constitution of 1999 immediately altered the political landscape of the country by enabling the Chávez to use his political capital to create and transform institutions that would give his the president and his MVR supporters to consolidate control over the state and the economy (Oppenheimer, 2007). In subsequent years, Chávez consolidated his control over the state through both constitutional and unconstitutional means.

Judicial Involvement in the 2002 and 2004 Crises

Adherence to the norms of judicial independence set forth by the United Nations has gradually evaporated during Chávez's tenure. The 1999 Constitution created a new 20-member Supreme Tribunal of Justice (TSJ) selected by the Constituent Assembly. The court system to be replaced had been extremely corrupt, like other pre-Chávez Venezuelan governmental institutions; in 1998 only 0.8% expressed confidence in the ability and impartiality of the judiciary (Human Rights Watch, 2008: 41). Thus, the idea of a new court won the overwhelming backing of all socioeconomic groups (Human Rights Watch, 2008).

Until 2004, the Supreme Tribunal was widely regarded as polarized and split between government loyalists and opposition members. Its justices returned key decisions in both the aftermath of the 2002 crisis and the lead-up to the 2004 recall referendum. In August 2002, the court decided to the indignation of Chávez that there was not enough evidence to try Generals Efraín Vásquez Velasco, Pedro Pereira Olivares, Héctor Ramírez Pérez, and Daniel Lino José Comisso Urdaneta for their alleged participation in the coup that April. Two years later, the five-member electoral chamber of the TSJ overturned the National Electoral Council's (CNE)

ruling that the recall referendum could not take place because 32.3% of the recall petition's 2,708,510 signatures were invalid (Human Rights Watch, 2008: 44). However, the Chavista-majority constitutional chamber of the TSJ then overturned the electoral chamber's ruling, forcing the opposition to quickly solicit hundreds of thousands of new signatures before the effort to recall Chávez could move forward (Human Rights Watch, 2008: 45).

The Implementation of the Organic Law

In response to the lack of unquestioned support Chávez in the TSJ, in May 2004 the National Assembly passed the Organic Law of the Supreme Tribunal of Justice (LOTSJ). The new law packed the court with 12 new justices that could be approved with a simple majority in the National Assembly; the existing 20 justices had to have been selected by two-thirds of the AN. The Organic Law also allowed for the appointments of justices to be "nullified" by a simple majority of the AN if they are determined subjectively to have undermined the court's prestige or operation, thus bypassing the Constitution's requirement that justices can only be impeached with a two-thirds majority vote in the National Assembly (Human Rights Watch, 2008: 47-48).

The Organic Law placed the judiciary at the behest of the executive and the legislature, essentially eroding the judicial branch's independence and ability to check and balance the other branches of government. The author of the anti-Chávez ruling concerning the 2002 coup d'état was removed by simple majority within a month, and the electoral chamber justices who had ruled against the CNE soon "requested their retirement in order to avoid the consequences of the sanction" that would be administered by the National Assembly (Human Rights Watch, 2008: 52). The twelve new seats and five vacancies were filled carefully with Chávez-friendly judges, leading congressman Pedro Carreño to happily exclaim that "in the list of potential candidates there is no one who will act against us" (Human Rights Watch, 2008: 53).

Control over the courts did not stop at the national level. By law, six members of the TSJ comprise a Judicial Commission that is responsible for appointing and dismissing lower-level judges. The man appointed as chairman of the commission, Luis Velázquez Alvaray, was a United Socialist Party of Venezuela (PSUV) congressman recently appointed by his colleagues in the AN as one of the new TSJ justices. The commission dismissed over 400 of the country's 1732 judges, substituting them in the process with regime-friendly replacements (Human Rights Watch, 2008: 54). Just over a year later, Velázquez Alvaray was accused of mismanaging millions of dollars in government funds and suspended (*The Economist*, 2006). Velázquez Alvaray responded by accusing military intelligence of being controlled by drug traffickers and saying that the "Palace of Justice should be blown up" because of the rampant corruption (*The Economist*, 2006).

Political Discrimination as Government Policy

Although the Venezuelan Constitution of 1999 prohibits political discrimination, opponents of Chávez have been blacklisted, sometimes officially, and thereby unable to compete for and win government contracts for their businesses (Human Rights Watch, 2008). In 2003, many Venezuelans opposed to Chávez signed a petition to hold a recall referendum via the process set out in the 1999 Constitution. Immediately, Chávez declared that signatories of the petition would be held accountable for their actions; in his view they were committing treason by "signing against the country," rather than Chávez personally (Human Rights Watch, 2008: 17). It is important to note, however, that signing the recall petition did not signify that the individual was opposed to Chávez; some supporters signed the petition in order to be able to prove via the referendum that support for Chávez was still strong. In early 2004, Chávez ordered the president of the CNE to turn over the petition forms to Luis Tascón, who was serving both in the National

Assembly and as Chávez's campaign manager, supposedly to check for falsified signatures (Human Rights Watch, 2008: 17).

The *Lista Tascón* (Tascón list) was then posted online by the congressman, where it remained for months despite affirmations from government ministers and the president of PDVSA that they were using the list to determine which employees to hire and which should be fired from their posts (Human Rights Watch, 2008: 30-31). A former employee of the government agency Fund for Microfinance Development (FONDEMI) revealed to Human Rights Watch (2008: 28) that she had been instructed by her superiors to use the Tascón list to deny loans for small businesses whose owners had signed the recall petition. Similarly, a small cooperative in Nueva Esparta state that had produced school uniforms for the Single Social Fund (FUS) was released from its contract with the government because such contracts could not be awarded to undeserving businesses "that have shown their willingness to remove the top leader of the Bolivarian revolution, our President Hugo Rafael Chávez Frías" (Human Rights Watch, 2008: 28).

In April 2004, Tascón himself told the state's main radio network, *Radio Nacional de Venezuela*, that he had realized that the list was being used by government officials as a discriminatory tool and had informed Chávez that action should be taken to prevent such use. Chávez did not comment on the issue until April 2005, well after the recall referendum, when he stated that the "famous list certainly fulfilled a useful role" during the campaign (Human Rights Watch, 2008: 18).

A more technologically advanced descendent of the Tascón list soon surfaced during the 2005 legislative election season. Government loyalists had created a searchable database of all of the country's registered voters. The software enabled government officials to quickly determine

whether the citizen had, for example, voted in previous elections, participated in the recall efforts, or signed a related counter-recall petition. The portability and convenience of the software program enabled it to spread rapidly throughout the myriad government agencies, even at the state and local levels. Nonpartisan NGOs claimed that functionaries then used the information to deny contracts and services to business owners who supported the opposition (Human Rights Watch, 2008).

Silencing Critics

The government of Hugo Chávez has asserted its will against both media outlets and individuals hostile to the regime. Although by all accounts the country's leading media outlets were sympathetic to Chávez during his election campaign, they soon turned hostile to the Bolivarian government. In order to prevent the views of the opposition from reaching the Venezuelan people during elections seasons, Chávez has taken the same step he did during the April 2002 crisis: rely on the power of the *cadena* (Oppenheimer, 2007). In 2003 and 2004 alone, Chávez called a total of 294 *cadenas*, many of which ate up regularly scheduled radio and television programming for hours (Oppenheimer, 2007: 242).

Gustavo Cisneros, Venezuela's richest citizen and the owner of the popular Venevisión television network, was one of Chávez's earliest and most ardent supporters. Alberto Muller Rojas, a retired general who broke with Chávez in 2010, confirmed that Cisneros directly provided Chávez with cash in addition to the benefits he reaped from extended free airtime during the 1998 campaign (Marcano & Barrera Tyszka, 2007). However, a disagreement between Cisneros and Chávez over the National Telecommunications Commission caused the two to split, and Venevisión joined with the other national networks to support the opposition throughout the 2002 coup (Marcano & Barrera Tyszka, 2007).

Though Chávez proclaimed in early 2004 that Cisneros was a *capo* actively conspiring against the Bolivarian government, a subsequent meeting with Chávez brokered by former U.S. president Jimmy Carter encouraged Cisneros to avoid arrest by moving his family abroad and agreeing that Venevisión would self-censor itself (Marcano & Barrera Tyszka, 2007: 19; Faria, 2008: 532). During the 2006 election cycle, analysis of Venevisión's programming revealed that it had devoted 84% of its election coverage to Chávez and PSUV, the umbrella party that resulted from the merger of MVR and the other Chavista parties (Romero, 2007). In contrast, opposition candidate Manuel Rosales received only 16% of the network's coverage (Romero, 2007).

In 2007, the government revoked the broadcasting license of Radio Caracas de Televisión (RCTV), thereby violating the terms of freedom of speech guaranteed by the Venezuelan Constitution of 1999 (Faria, 2008: 531). RCTV, the country's oldest and most-watched broadcasting network, was shut down because of its role in the 2002 coup, when it devoted only half of the screen to the government *cadena* while simultaneously broadcasting the violence spreading throughout downtown Caracas on the other half of the split-screen (Nelson, 2009: 73; Human Rights Watch, 2008: 67). Perhaps not coincidentally, the network had earlier accused the government of violating the civil rights of the Venezuelan people (Faria, 2008: 531). RCTV simply moved to a cable-only broadcasting format, but in January 2010 the network was again shut down, for refusing to interrupt its programming to broadcast one of Chávez's *cadenas*, as was required by law. Because of governmental hostility and regulations, Reporters Without Borders (2009) placed Venezuela 124th in the world in its annual Freedom of the Press rankings.

The Bolivarian government has taken action on numerous occasions against political opponents, either by categorizing them as traitors, by accusing them of minor corruption-related

crimes to make them politically ineligible, or by imprisoning them. Raúl Baduel, a general who played a crucial role in restoring Chávez to the presidency in April 2002 (Nelson, 2009), was arrested less than a year after opposing the proposed 2007 constitutional reforms and distancing himself from the Chávez camp (Baduel, 2007) on charges of misappropriating funds. He continues to be held without trial (Human Rights Watch, 2010).

Also targeted by Chávez was Francisco Usón, a general who broke with Chávez on April 11, 2002, when Chávez ordered the activation of *Plan Ávila* (Human Rights Foundation, 2007). Usón, a trained military engineer, was arrested in 2004 for slander for responding to “technical questions about how a flamethrower operates” (Human Rights Foundation, 2007) in a televised interview after a fire in a punishment cell at a military facility killed two soldiers and severely burned six more. General Usón, who was sentenced to five-and-a-half years in prison, is identified as a political prisoner and prisoner of conscience by the Human Rights Foundation (2007).

Oswaldo Alvarez Paz, the 1993 presidential candidate of COPEI, was arrested and imprisoned in March 2010 after stating in an interview that Venezuela was becoming a haven for drug traffickers, a fact that was previously confirmed in reports by several international organizations (de Córdoba & Molinski, 2010). Each charge of conspiracy faced by Alvarez Paz carries a maximum sentence of 16 years (Crowe & Lunhow, 2010). Days later, the arrest of Guillermo Zuloaga, the head of television network Globovisión, was ordered by pro-Chávez attorney general Luisa Ortega, who accused him of “spreading false information” about Venezuela in a speech to the Inter-American Press Association (Crowe & Lunhow, 2010). Ironically, the comments that prompted the arrest were: “It’s impossible to talk about media

freedom in a country where the government uses force to close media” (Crowe & Lunhow, 2010).

Additionally, in 2008 Chávez’s auditor general banned hundreds of politicians from seeking office due to charges of alleged corruption, though nobody was convicted (*The Economist*, 2008). The bans were said to be targeting Leopoldo López, the popular young opposition mayor of Chacao who could have posed a threat to Chávez in the 2012 presidential elections (*The Economist*, 2008). López, who at the time of the ban held a thirty-point lead over the Chávez-backed contender for the Caracas mayoral race, was forced to abandon his political ambitions (Diehl, 2008).

During the 2004 recall referendum, the pro-Chávez electoral authorities were accused of preventing expatriate Venezuelans from voting by any means necessary. In Miami, there were 50,000 registered Venezuelan voters. Those who came to vote at the consulate on Brickell Avenue were turned away after hours of waiting outside the office building, for the reason that the elevators were out of order (Oppenheimer, 2007: 242).

By 2007, Chávez’s cult of personality had expanded so much that he claimed that his opponents could not prevent him from being reelected indefinitely, as mandated by the 1999 Venezuelan constitution that Chávez himself created, saying “this is a revolution and we came to stay; you cannot replace Picasso while he is painting the Guernica” (Primera, 2008). One year later, Chávez channeled Louis XIV as he stated succinctly in response to accusations that he was an autocrat: “*Yo ya no soy yo. Yo soy el pueblo*” (Primera, 2008). Or, in the words of the Sun King, “*L’état, c’est moi.*”

Effect on the Business Environment

One hundred fifty-six of the legislative body’s 167 seats were held as of 2009 by the PSUV and its allies; the remaining eleven seats were held by the dissident leftist parties For

Social Democracy (PODEMOS) and the Populist Humanist Front. The AN has not asserted its independence from the executive branch in recent years, and has even granted Chávez the ability to create laws by decree for extended periods of time, thereby completely circumventing the entire legislative branch of the national government. The subservience of both the legislative and judicial branches of government to the executive sharply undermines confidence in the stability of the economy.

Expropriations

Nationalization of Private Firms

Though Chávez repeatedly stated that he would not confiscate the assets of private enterprises (Sylvia & Danopoulos, 2003: 69), he has certainly done so since being elected. Furthermore, to compete with the private sector he has ordered the creation of new government-owned enterprises such as Conviasa, an airline created in 2004 by an executive order (Faria, 2008: 526). From its hub at Simon Bolívar International Airport in Maiquetía, Conviasa operates flights to over a dozen domestic airports as well as Tehran (Iran) and Damascus (Syria).

The aftermath of Chávez's reelection in December 2006 immediately took on a similar tone to the post script of the president's previous electoral triumphs. After the 2004 defeat of the recall movement, for example, Chávez had announced for the first time at the World Social Forum in Porto Alegre that he was building "Socialism for the 21st Century" (Contreras, 2007). During 2007, the Chávez government nationalized CANTV, a telecommunications firm, for \$1.3 billion; energy suppliers Electricidad de Caracas and CMS Energy for a total of \$1 billion; and the local operations of joint-oil ventures with BP, Chevron-Texaco, ConocoPhillips, ENI, Exxon-Mobil, Statoil, and Total for \$6.7 billion (*The Economist*, 2008).

Following the defeat of the constitutional referendum at the ballot box in December 2007, Chávez temporarily took on a more moderate tone by appearing to heed the populace's disapproval of proposed intelligence gathering and educational curriculum laws. To gain back some of the lost confidence of the business community, Chávez pledged that no more nationalizations of private enterprises would take place (*The Economist*, 2008).

Yet, as *The Economist* (2008) reported months later, “with Mr Chávez moderation rarely lasts, and he has now veered left again,” by nationalizing firms across a wide array of industries, giving the government a further foothold in construction, manufacturing, and agriculture. In March 2008 the government nationalized the country's largest producer of dairy products, Lacteos Los Andes, for \$200 million, as well as Cealco, a manufacturer of freezers and refrigerators, for an undisclosed sum. In April, Chávez ordered the immediate nationalization of the local operations of Cemex (Mexico), Holcim (Switzerland), and Lafarge (French), three giants of the cement industry. The trend of nationalization continued in May, when steel manufacturer *Siderúrgica de Orinoco C.A. (SIDOR)* was reincorporated into the public sphere for the sum of \$1.7 billion only 11 years after being privatized by the government of Rafael Caldera (*The Economist*, 2008).

The banking industry was to be the next target. In July 2008, the Bolivarian government took control of Venezuela's third-largest bank (though with compensation as well the express approval of the bank's ownership), Banco de Venezuela, a subsidiary of the Spanish-owned Banco Santander conglomerate. Following the nationalization of the bank, a professor at Instituto de Estudios Superiores de Administración (IESA), one of South America's leading business schools, gloomily predicted “I don't think this will be the last bank to end up in state hands, and it's going to be happening in other sectors too” (Gustavo García, in *The Economist*, 2008).

In December 2009, the Chávez government expropriated seven private banks. Chávez then threatened further nationalizations in the banking sector: “You want me to nationalize the banks? I have no problem with that because the banks don’t want to extend credit to the poor” (Bandell, 2009). Banking regulations, some of which have been imposed by presidential decree, have further limited the outlook for Venezuelan private enterprise by setting interest rates and requiring that at least half of the loans made by banks that remain in private hands are directed toward government-designated industries and projects at reduced rates (*The Economist*, 2008).

The most recent targets of the Chávez administration have been firms in the food and beverage industry. In March 2009 the government expropriated the lone rice mill of Cargill, a corporation based in the United States, as punishment for selling rice for prices above the fixed price ceiling, though Cargill claimed it was selling a type of rice whose price was not regulated by Venezuelan law (Rondon, 2009). Two months later, the government seized Cargill’s pasta factory for failing to meet the government-imposed production quota (Daniel, 2009). Polar, the nation’s largest producer of foodstuffs and beer, has repeatedly been targeted. Various plants and warehouses operated by Polar and its subsidiaries have been seized by the national and pro-Chávez local governments since 2005 (Ixer, 2005; Rondon, 2009; Crowe, 2010). During the first two months of 2010 the government took possession of the *Éxito* and *Cada* supermarket chains, both of which had been owned by Groupe Casino, a French multinational corporation. The stores have been renamed *Bicentenario*, in honor of Venezuela’s bicentennial celebrations (Smith, 2010).

Confiscation of Private Property

As part of the Bolivarian missions project, Chávez proposed the creation of *Misión Zamora* to facilitate the de-urbanization of Venezuela’s largest cities and the creation of self-sustainable agricultural collectives. In 2001, after being granted the right to rule by decree,

Chávez announced the *Ley de Tierras y Desarrollo Agrario* (LTDA; Law of Land and Agrarian Development) that expanded on agrarian reforms previously undertaken under the governments of AD's Rómulo Betancourt and Carlos Andrés Pérez. The law outlawed the existence of the *latifundio*, defined as any farm covering an area of more than 5,000 hectares (Marcano & Barrera Tyszka, 2007). Nevertheless, there were only about 900 such farms among Venezuela's 350,000 to 500,000 units of production at the time of the decree (Marcano & Barrera Tyszka, 2007: 147).

More controversially, though, were other provisions inserted into the LTDA. The law raised property taxes considerably; some of the revenues would be directed to the missions. Additionally, the state would direct how each private farm would use its resources. If central planning officials wanted more rice to be produced, for example, they could conceivably order livestock farms to sell off their animals and begin cultivating rice (Marcano & Barrera Tyszka, 2007: 146-147). This, Chávez proclaimed, would "subordinate the possession of land to productivity and national interest with the goal of achieving high levels of agroalimentary self-sufficiency" (Marcano & Barrera Tyszka, 2007: 146).

Effect on the Business Environment

The constant threat of having one's life work expropriated without recourse at the whim of a single individual cannot engender confidence in the environment for business, regardless of the growth opportunities that the country may provide. Restrictions on the freedom to set prices and the freedom to choose which goods to produce further harm the private sector, which is already beleaguered from having to compete for market share with the government's heavily subsidized products.

Economic Policy

Chávez inherited in 1999 an economy beset by failed policies of previous administrations and low oil prices as a result of increasing production throughout the world. Even in the OPEC

cartel, member states were surreptitiously disregarding production quotas that were previously agreed upon (Marcano & Barrera Tyszka, 2007). After inviting the OPEC leaders to a conference that was held in Caracas in 2000, Chávez was able to gain assurances from the OPEC leaders that they would abide by new production quotas, so that the limited supply of oil would ensure higher oil prices worldwide (Marcano & Barrera Tyszka, 2007: 165). Double-digit growth rates spurred by the rapid increase in the price of oil between 2004 and 2006 slowed in 2007 and 2008 and turned negative by 2009 as commodity prices decreased during the global economic downturn (Rodríguez, 2008; ECLAC, 2009).

Though the introduction of the missions has brought about the internationally accepted view that poverty is being reduced, Venezuelan economist Francisco Rodríguez (2008) claims that there is no evidence that Chávez's policies are helping the poor. Instead, Venezuela's Gini coefficient actually increased from 0.44 to 0.48 in the six years since Chávez took office, meaning that the income gap between rich and poor has grown wider (Rodríguez, 2008: 53). Government spending ballooned from 18.8% of GDP in 1999 to 29.4% of GDP in 2004 as Chávez distributed more than 150 dollars monthly to the unemployed and other low-income Venezuelans in advance of the recall referendum (Oppenheimer, 2007: 246; Rodríguez, 2008: 51). A 2007 survey revealed that only 22% of Venezuelans believe that Chávez has reduced poverty, while half believe that his policies have made it worse (Rodríguez, 2008: 56)

Despite the expansion of government sector jobs, urban unemployment has increased throughout Chávez's tenure in office, in part because more than 7,000 private firms have closed (Oppenheimer, 2007: 236). Additionally, official government human development statistics revealed some worrying conclusions. Ninety-one of every thousand babies were born underweight in 2006, compared with only 84 in the year 1999 (Rodríguez, 2008: 53). The

percentage of Venezuelan households without running water increased from 7.2% to 9.4% during the same timespan, while the percentage of households living in homes with dirt floors increased from 2.5% to 6.8% (Rodríguez, 2008: 53). Spending on health, education, and housing, meanwhile, is “lower today [2008] than it was in 1992, the last year in office of the ‘neoliberal’ administration of Carlos Andrés Pérez” (Rodríguez, 2008: 54). Studies undertaken by Rodríguez and his colleagues at IESA have determined that reductions in infant mortality and illiteracy are not statistically significant from reductions achieved in previous administrations or countries throughout the region (Rodríguez, 2008).

Chávez’s administration has continually pursued an expansionary monetary policy, thereby ensuring that high inflation rates would continue to be the norm in Venezuela (Figure 3-3). From 2003 to 2008, real liquidity increased by 218% and real spending increased by 137% (Rodríguez, 2008: 57). In 2008, Chávez and the Central Bank announced the introduction of the *bolívar fuerte* (*BsF*), a nominally new currency that was actually the same as the old *bolívar* (*Bs*), but with three zeros removed. Instead of being pegged at 2147 Bs per dollar, the new official rate would be set at 2.147 BsF per dollar. Venezuelans often continue to quote prices in *bolívares*; for example, the black market rate would be expressed as 6,500 Bs/dollar, not 6.50 BsF/dollar.

Reimplementation of Capital Controls

High oil prices since the turn of the century have masked the extreme economic volatility faced by the non-petroleum sector in Venezuela and temporarily turned attention away from the effects of the government’s February 2003 imposition of foreign exchange controls and price controls (Penfold, 2007). The controls are said to have been implemented in order to conceal some of the Venezuelan economy’s structural issues, namely the lack of international

competitiveness for non-oil Venezuelan goods and the fact that government spending was far outstripping revenues (Penfold, 2007).

Such controls are not new to Venezuela. Rómulo Betancourt introduced price and exchange controls in 1960 (Guerra, 2004: 43). A fixed exchange rate was maintained until February 1983, when Luis Herrera Campíns announced a dual-rate fixed exchange on Black Friday (Guerra, 2004: 43). Though Carlos Andrés Pérez allowing the *bolívar* to float upon taking office in 1989, Rafael Caldera later reintroduced capital controls at the onset of 1994's banking crisis (Guerra, 2004: 43). The exchange rate regime was switched to a crawling band in 1996, and Chávez maintained that regime until February 2002, when he instituted a managed float system that lasted for one year, until the reintroduction of capital controls (Guerra, 2004: 43).

As the legislative elections of September 2010 approached, Chávez announced the devaluation of the *bolívar* and the reintroduction of the dual fixed-rate exchange system that marked the apogee of corruption under COPEI's Luis Herrera Campíns and AD's Jaime Lusinchi during the 1980s. For most purposes the *bolívar* suffered a devaluation of 100%, from 2.15 *bolívares fuertes* (BsF) per dollar to 4.30 BsF per dollar (Lyons & Crowe, 2010). However, a special exchange rate for imports of "essential items" that include food and medicine, at 2.60 BsF per dollar, was announced (Lyons & Crowe, 2010). By retaining the extremely overvalued essential items rate, Chávez has ensured that domestic production of staples will continue to suffer, because despite the high tariff barriers in place it is still cheaper for firms to import foods at the 2.30 rate than to produce them domestically (Lyons & Crowe, 2010).

The devaluation allows the government to double its local currency intake from the sale of oil, which occurs in dollars (Oppenheimer, 2010). International observers and members of the opposition claim that the devaluation is politically motivated, as it will enable the government to

ramp up social spending in advance of September 2010's legislative elections (Oppenheimer, 2010; Lyons & Crowe, 2010). Government officials and some international economists, however, point to the fact that devaluation will "narrow a growing budget shortfall" and make Venezuelan exports more competitive (Lyons & Crowe, 2010). Meanwhile, inefficient entrepreneurs again benefit from reduced competition, as importing goods with government approval once again become more expensive (Faria, 2008).

A third exchange rate, the parallel rate, represents what Venezuelans pay for a dollar when they are unable to get authorization from the *Comisión de Administración de Divisas* (Commission for Currency Administration, or CADIVI) to purchase dollars. At the time of the devaluation, the black market rate hovered between 6 and 7 BsF per dollar (Lyons & Crowe, 2010).

Reintroduction of Tariffs and Import Quotas

In order to stimulate domestic production, Chávez has built up tariff walls torn down by previous administrations. Similar to Rómulo Betancourt and Raúl Leoni, Chávez has made it more difficult for Venezuelans to import all types of goods, including food, clothing, and vehicles, but also high-tech devices and industrial inputs like machinery and spare parts that are not produced in Venezuela (Faria, 2008). The tariffs, which often exceed 35%, are "abused by inefficient entrepreneurs in connivance with government officials" (Faria, 2008: 526). Consequently, the barriers to trade implemented by the Chávez administration are actually viewed in a positive light by business owners fearful of being harmed by the increased competition that trade liberalization would bring (Faria, 2008). In addition to protecting uncompetitive entrepreneurs from international competition, import tariffs and quotas distort the equilibrium of the market by raising the price and increasing the scarcity of consumer products.

Choosing to Direct Government Spending Abroad

Instead of directing the windfall revenues to benefit the well-being of the Venezuelan people's economy, Chávez has been generous with Venezuelan government funds, to say the least, in order to gain support and influence on an international scale. In 2000, Chávez was accused by Colombian president Andrés Pastrana's administration of providing financial support to the *Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia, FARC) (Oppenheimer, 2007: 248). Since then, accusations of Chávez's involvement with the FARC guerrillas have not ceased. In 2009, documents retrieved from a computer of deceased FARC commander Raúl Reyes revealed that Chávez's relations with the FARC dated to at least 1992, when the guerrilla group provided him with \$150,000 for his role in the coup against Carlos Andrés Pérez (Lemoine, 2009).

Chávez is also accused of using oil to gain the "political subservience" of countries in the region (Vargas Llosa, 2006). Hundreds of thousands of barrels are sent by Venezuela to Cuba and Bolivia each month at little to no cost, and Chávez even provided low-cost heating oil to inner-city residents in the northeastern United States (Vargas Llosa, 2006; Oppenheimer, 2007).

For this Vargas Llosa (2006) states:

Chávez buys influence through oil. It is a form of blackmail. At OPEC, Chávez fights for increasing prices, making life hard for poor countries that import oil, and then offers those very nations oil subsidies they have no choice but to accept. . . . Chávez is denying his nation its wealth from oil, somewhere between \$40 billion and \$50 billion a year. . . . He sponsors 30 countries, including some in Africa, in order to buy their vote for a seat at the U.N. Security Council.

In total, Chávez spends more than 10%, or upwards of \$4 billion, of the government budget on foreign expenditures designed to expand his "petrodiploamacy" (Marcano & Barrera Tyszka, 2007: 223; Vargas Llosa, 2006). These investments "would include donations to social welfare projects, solidarity-based investments such the purchase of Argentinean debt bonds, the

construction of bridges, the paving of highways, and the injection of capital to develop projects in foreign countries” (Marcano & Barrera Tyszka, 2007: 223). Meanwhile, as evidenced by the electrical crisis that arose in Venezuela in 2010, domestic infrastructure continues to suffer from outdated equipment and technology.

International Competitiveness

Currently, the World Bank (2009) ranks Venezuela 177th out of 183 countries in terms of the ease of doing business. Only six African nations fare worse; Cuba is unranked. Colombia, Venezuela’s Andean neighbor, is ranked 37th, good enough for first place in Latin America. Among Latin American nations with similar per capita income levels, Chile is ranked 49th, Mexico is ranked 51st, Panama is ranked 77th, Uruguay is ranked 114th, and Argentina is ranked 118th, 59 places ahead of Venezuela.

The World Bank Doing Business rankings are derived from ten distinct categories: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business (World Bank, 2009). In terms of processes needed to start a small business of between 10 and 50 employees in Caracas, it was determined that sixteen separate procedures need to be undertaken. These activities, which include such steps as registering the business at the *Registro Mercantil* (local mercantile registry) and undergoing a thorough inspection by the Labor Inspectorate, take an average of 141 days and 24% of per capita GDP to complete (World Bank, 2009: 6-7).

The Index of Economic Freedom, a collaborative effort by the Wall Street Journal and the conservative Heritage Foundation, places Venezuela 174th out of 179 ranked countries in the 2010 edition of its annual rankings (Figure 3-4, Figure 3-5). Only Myanmar, Eritrea, Cuba,

Zimbabwe, North Korea are ranked below Venezuela's cumulative score of 37.1 on a scale of zero to one hundred, where scores below fifty are indicative of unfree, repressed economies.

Canada's Fraser Institute publishes the Economic Freedom of the World indicators annually. The latest rankings, covering 141 economies and released in 2009, show Venezuela in 138th place, last in the region and ahead of only Angola, Myanmar, and Zimbabwe. Meanwhile, in 2009 Venezuela was ranked 113th out of 133 countries in the World Economic Forum's annual Global Competitiveness Report. Competitiveness is defined in this context as "as the set of institutions, policies, and factors that determine the level of productivity of a country" (World Economic Forum, 2009: 4). Twelve separate "pillars" of competitiveness comprise each country's score. Venezuelan institutions and labor market efficiency are currently classified as the worst in the world, while goods market efficiency and business sophistication have the dishonor of being ranked only one rung from the bottom (World Economic Forum, 2009: 324).

Each pillar, meanwhile, is divided into as many as 19 sub-pillars that are also ranked according to a grading system. These sub-pillars are then classified as either "competitive advantages" or "competitive disadvantages." Of the 110 total sub-pillars identified in the 2009 report, 104 of the factors are categorized as competitive disadvantages. Seventy-three of those sub-pillars are ranked below 100th, and 26 are ranked 130th or below. Venezuela is determined to be one of the two worst countries in the world in terms of property rights, intellectual property protection, diversion of public funds, judicial independence, favoritism in decisions of government officials, wastefulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations, transparency of government policymaking, reliability of police services, agricultural policy costs, business impact of rules on foreign direct investment, burden of customs

procedures, degree of customer orientation, cooperation in labor-employee relations, hiring and firing practices, restriction of capital flows, local supplier quantity, state of cluster development, nature of competitive advantage, and value chain breadth (World Economic Forum, 2009: 325).

For Venezuela, only six competitive advantages are identified. Two advantages, national savings rate and government debt, fall under the macroeconomic stability pillar, but they are overshadowed by the spiraling inflationary tendencies that will be discussed later in this chapter. Life expectancy, tertiary enrollment, and the domestic and foreign market size indices are also considered to be advantages for Venezuela (World Economic Forum, 2009: 325). The Venezuelan business owners surveyed most frequently mentioned foreign currency restrictions and the lack of policy stability as their top concerns, though the inefficiency of the government bureaucracy, labor restrictions, inflation, corruption, access to financing, and crime and theft were all named among the most problematic factors for doing business in the country by at least 5% of the surveyed entrepreneurs (World Economic Forum, 2009: 324).

A Swiss research institution, IMD International Business School, compiles the annual World Competitiveness Yearbook. The rankings place 57 economies in order of their competitiveness, which is based on criteria that include economic performance, government efficiency, business efficiency, and infrastructure. The 2009 rankings placed Venezuela last among the 57 nations with a score of 39.060 (International Institute for Management Development, 2009).

Summary

The factors described in this chapter combined to weaken the business environment and limit the effectiveness and potential of the Venezuelan economy during the first decade of the 21st century. Instead of reducing poverty, narrowing the income gap, and encouraging the development of diverse private enterprise, the actions (or lack of action, in the arena of crime and

violence undertaken) by the government of Hugo Chávez discouraged investment (Figure 3-6) and innovation and created a more polarized society. The reality of Venezuela is perhaps best captured by IESA professor Hugo Faria (2008: 525):

Venezuelans lack the right to earn payments in a hard currency, to pay low taxes, to spend their income on the cheapest goods produced in any part of the world, to convert the fruits of their labor into any currency they wish, to pursue work and ownership in any activity deemed legal, to charge as sellers whatever price they consider suitable for goods and services, to charge as bankers the interest rate of their liking and to extend or deny credit to anyone as they consider appropriate, to contract freely in the labor market, and to have their rights safeguarded by a well-functioning judicial system that protects private-property rights and punishes violators of these rights.

Though Hugo Chávez and the PSUV do not deserve all of the blame for the state of the Venezuelan economy in the early 21st century, they failed to rectify the misdeeds of previous governments and in many cases further weakened the business environment. The promises that Chávez made while campaigning as a political outsider never came to fruition. Corruption has not abated; instead, it has become more rampant. Political discrimination ensures that those friendly to the regime will occupy government posts at all levels, and the absence of judicial independence eliminates the possibility of a fair trial. The implementation of capital controls, rampant inflation caused by government spending, lack of central bank autonomy, and fear of expropriation have prevented the emergence of a vibrant non-oil private sector. It is therefore unsurprising that many Venezuelans would choose to look internationally for opportunity, security, and prosperity.



Figure 3-1. Weekly spot price FOB in dollars per barrel, Venezuelan Tia Juana Light, 1998-2009. Source: U.S. Energy Information Administration, 2010.

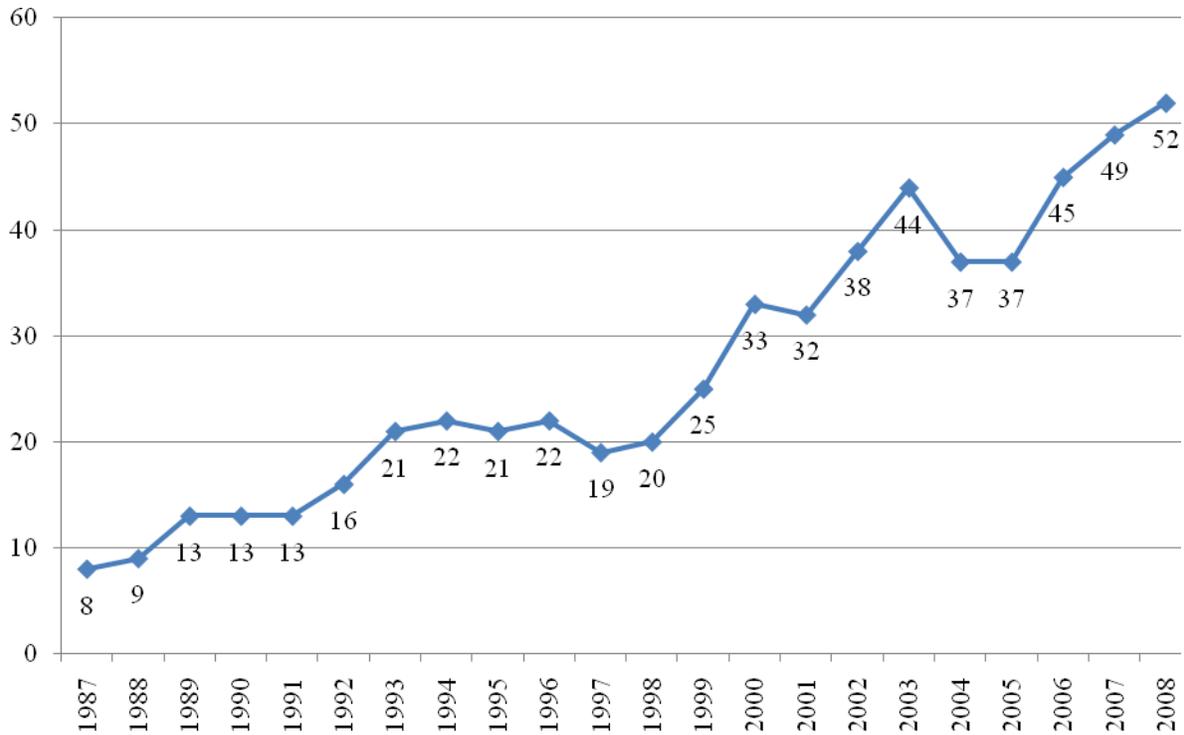


Figure 3-2. Homicides per 100,000 residents. Venezuela, 1987-2008. Source: Briceño-León, 2009.



Figure 3-3. Bolívars per dollar, 1998-2010 (at official rate). Source: Datastream.

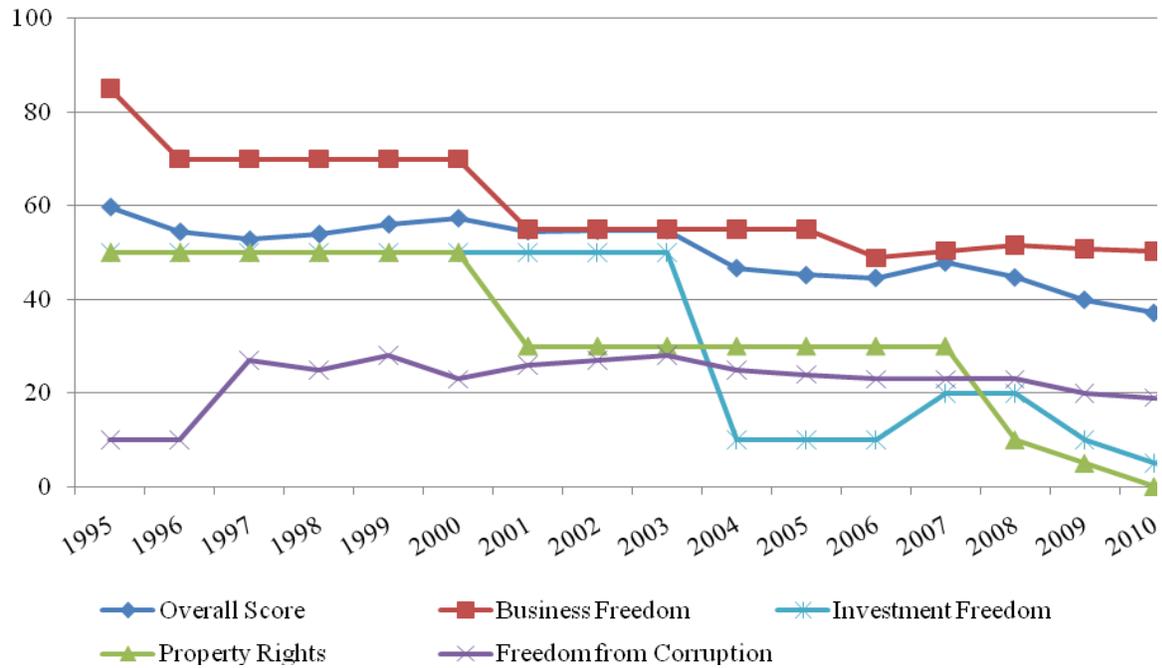


Figure 3-4. Economic freedom in Venezuela, 1995-2010. Higher scores indicate higher levels of economic freedom. Source: The Heritage Foundation, 2010.

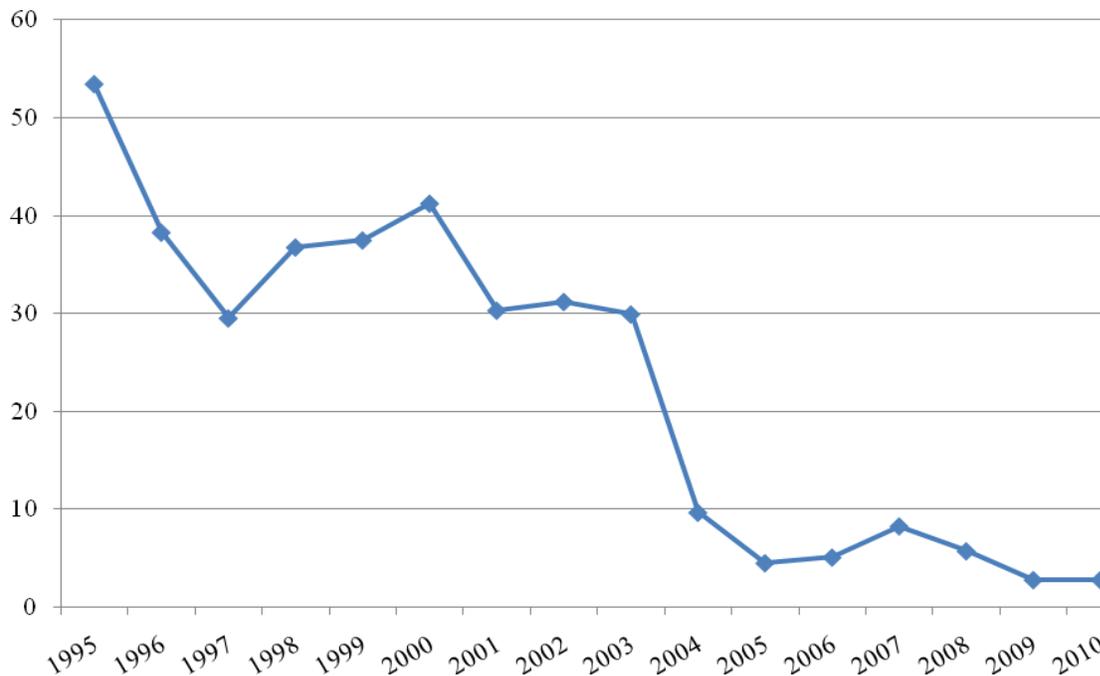


Figure 3-5. Venezuela's economic freedom compared with the world, in percentiles. Value indicates that Venezuela has a higher level of freedom than that percentage of countries, as of the report year. Higher values are preferred. Source: The Heritage Foundation, 2010.



Figure 3-6. Foreign direct investment in Venezuela, 1997-2008 (in US\$ millions). Source: ECLAC, 2009.

CHAPTER 4 EMIGRATION OF THE VENEZUELAN BUSINESS COMMUNITY

Since the rise to power of Hugo Chávez, there has been a large net population outflow from Venezuela. As the political and economic stability of Venezuela has decreased, more than one million Venezuelans have fled to more stable surroundings (Margolis, 2009). Like Colombia in the 1980s and 1990s, Venezuela is a country greatly affected by the levels of emigration caused by violence and political upheaval (Kapur & McHale, 2005). Venezuelan émigrés are said to be “looking for prosperity and business opportunities,” in addition to searching out safe havens from the insecurity and instability present throughout the country (Penzini López, 2004). The highly skilled of Venezuela have the highest propensity to emigrate in the world, with a brain drain score of 8.31 on a scale of zero to ten (Table 4-1).

A September 2002 survey of Venezuelan households conducted by the Datanálisis polling firm found that 41.9% of Venezuelans were ready to emigrate, an 8.1 percentage point increase over the results received from a corresponding survey two years earlier. The survey was conducted months before the general strike that paralyzed the Venezuelan economy in the fourth quarter of 2002 and the first quarter of 2003; by the time that *El Nacional* reported on the survey in December 2002, the percentage of Venezuelans wanting to leave was surmised to have increased even more (Sayago, 2002). Though the Datanálisis survey was conducted more than seven years ago, it is still important to analyze the results. Although identical conclusions may not be reached if a similar survey were conducted today, the issues central to emigration in 2002 are just as valid for discussion in 2010.

The study determined that the primary factors influencing a desire to emigrate were “the practically null opportunities of economic progress (a situation made more and more severe by rampant unemployment) and the problems of personal security” (Sayago, 2002). The young were

the group with the greatest desire to leave the survey. Fifty percent of those between the ages of 15 and 24 expressed their willingness to emigrate. As age increased, the readiness to leave decreased. Members of the middle class, “key bastions of society and the last that any nation wants to lose,” for they “contribute fundamentally to economic and social progress,” were most affected and most willing to leave Venezuela (Sayago, 2002). Still, portions of all social strata felt that it was necessary to leave.

For the upper classes (members of the A and B socioeconomic strata), feelings of personal insecurity outweigh economic worries. One respondent said that “I’m doing well in the economic sphere despite Chávez, but I feel that I am risking my life and the lives of my family” (Sayago, 2002). They complained of the ongoing economic crisis, the fall in living standards, and the rise in poverty that accompanied the first years of the Chávez mandate. All of these factors, they said, had augmented the wave of violent crime that was so greatly affected the large cities of the country. The salaries found in professional positions were no longer enough to justify remaining in one of the world’s most dangerous countries, while it was undergoing such a rapid descent into uncontrolled violence (Sayago, 2002).

Even as Chávez’s government claimed it was increasing equality and opportunities for the poorest socioeconomic strata, Venezuelans at the bottom of the pyramid saw the lack of economic opportunity as their primary motivating factor for emigration. Though members of the D and E groups overwhelmingly support PSUV and Chávez, who frequently rails against capitalism and *el imperio*, they felt that they “do not have an alternative, but everyone who leaves for the United States has one because that is a country of opportunity for everybody,” citing Venezuelan baseball stars Omar Visquel and Andrés Galarraga and model Patricia Velásquez as examples of “pure luck associated with the act of going specifically to the United

States, not with any time of personal effort” (Sayago, 2002). Like Chávez, they blamed the rich (or *the oligarchy*, using the popular Chavista terminology) for the situation of the country, thereby justifying one person’s view that “there is nothing wrong with robbing those who have robbed us” (Sayago, 2002).

Though members of the poorest socioeconomic groups also desire to leave the country, Venezuelan emigration occurs primarily among people with the highest levels of educational attainment and social status, in contrast with migration patterns of other Latin American countries (Sayago, 2002). Internationally, the concern about this intense, rapid migration centers on the idea of a Bolivarian brain drain “gutting universities and think tanks, crippling industries and hastening the economic disarray that threatens to destroy” the country (Margolis, 2009).

A recent report by the Sistema Económico Latinoamericano (Latin American Economic System, SELA) revealed that the emigration of highly skilled Venezuelan professionals to member states of the OECD increased by 216% between 1990 and 2007 (Margolis, 2009). Venezuela’s once-burgeoning scientific research sector is also floundering: 9,000 Venezuelan scientists are employed in the United States alone, compared with only 6,000 in Venezuela (Margolis, 2009). More than 7,000 private businesses closed between 1999 and 2004 as their owners fled the country for opportunity abroad (Oppenheimer, 2007). For many Venezuelans, their favored destination lies only a few hours by plane to the north.

Venezuelans in Florida

The United States has long been a choice destination for Latin Americans because of the country’s wealth and promise of opportunity, but also for its political stability and proximity to the Latin American region. Florida’s proximity to Venezuela certainly helps. Multiple non-stop daily flights from Miami to Caracas, Maracaibo, and Valencia permit Venezuelans to return home to conduct business or visit relatives in less than four hours. Short one-stop connections to

Florida's other major airports in Tampa and Orlando add only about an hour to that journey, making it possible to enjoy lunch in Central Florida and dinner in Caracas.

According to a 2004 opinion piece published in *El Nacional*, one of Venezuela's leading newspapers, Venezuelans often choose to relocate to the Miami for business and linguistic reasons (Penzini López, 2004). Although Venezuelans of direct southern European descent are able to easily obtain Portuguese, Italian, or Spanish work visas valid for use throughout the European Union, the four-and-a-half to six-and-a-half-hour time difference between the Old Continent and Venezuela complicates multinational business operations (Penzini López, 2004). In order to obtain a business visa, the United States' immigration laws require that foreign entrepreneurs maintain a parent company in the country of origin, and the short distance between the Southeast and Venezuela enables business owners to operate their companies almost effortlessly (Penzini López, 2004).

The 1990 United States Census identified only 47,997 people of Venezuelans residing within the 50 states; that figure increased by 100.2%, to 96,091, by the 2000 decennial U.S. Census (U.S. Census Bureau, 2009). Between 2000 and 2008, the Venezuelan population more than doubled again, according to the Census Bureau's conservative estimates (U.S. Census Bureau, 2009). Of the estimated 210,000 Venezuelans in the United States at the time of the 2008 American Community Survey, about 60% live in the state of Florida (U.S. Census Bureau, 2009) (Figure 4-1). A total of 35% of the nationwide figure resided in two Florida counties, Broward and Miami-Dade, though sizeable groups had also relocated to the Orlando, Tampa Bay, and Jacksonville metropolitan areas (U.S. Census Bureau, 2009) (Figure 4-2, Figure 4-3). According to U.S. Census Bureau statistics, Venezuelans are not as highly concentrated in the Miami area as was expected based on worldwide reports in daily newspapers. Broward and

Miami-Dade counties are home to 34.6% of the nation's Venezuelan population, compared with 54.4% of the nation's Cuban population and 35.6% of the nation's Nicaraguan population (U.S. Census Bureau, 2009).

If one thing is certain about the Venezuelan population in Florida, it is that nobody knows with any certainty how many Venezuelans there are. Altamirano Rua (2006) postulated that 150,000 college-educated Venezuelans had emigrated since the events of April 11-14, 2002. MercoPress (2007) estimated in 2007 that 300,000 of the 1.5 million Venezuelans living overseas resided in Florida. *El Nacional* calculated that there were 500,000 Venezuelans living in the United States in 2004, including 200,000 in the Miami-Ft. Lauderdale area. Of those, the majority is said to have arrived after 2002, in response to ever-increasing political and social tensions. Some Venezuelans prefer not to register at the Chavista-controlled consulates; others who were admitted to the United States on tourist visas may fear that they will be reported to immigration authorities for overstaying the maximum trip duration. Thus, there is a lack of reliable statistics available from the consulates. Accordingly, only 15,000 Venezuelans were registered at the Miami Consulate General at the time of the 2004 recall election (Penzini López, 2004).

Originally, the majority of Florida's first Venezuelan exiles were young single professionals, but increasing levels of violence throughout the country, especially in Caracas, have caused more families to move overseas to provide safety for their children (MercoPress, 2007). Now, almost all Venezuelans arrive as family units, though the household heads are still young members of the professional class (Alconada Mon, 2007). Many had previous contact with the state, either through vacation, family connections, or educational experience.

As was the case with the migration of the first Cuban immigrants to South Florida following the Cuban Revolution, the Venezuelan migration is a largely upper- and upper-middle class phenomenon. Fifty-one percent of Venezuelans in the U.S. hold a bachelor's or advanced degree, a figure that outpaces all other Hispanic/Latino groups and nearly doubles the 27.7% attainment of the general U.S. population (U.S. Census Bureau, 2009). It is no secret that many Venezuelans in Florida are well-off and that the United States is "a paradise for those who have money" and are able to obtain visas (Fernández, 2008).

The *New York Times* reported in 2008 that the arrival of Venezuelan migrants has been a boon for the business of banks in the Miami area (Semple, 2008). The capital flight numbers in the billions of dollars, confirming the interesting philosophy of Miami-area banks that "when Latin America is doing well, we are doing well. When Latin America is doing badly, we are doing well" (Semple, 2008). Despite the efforts of Chávez to impose controls to prevent the exodus of dollars, departing Venezuelans have managed to work around these restrictions through various maneuvers (Katz, 2007). Though many, including the thousands of Petróleos de Venezuela, S.A. (PDVSA) technicians and engineers fired during the 2002-2003 general strike, are unable to continue in their previous professions, they have started anew by using their expertise and entrepreneurial talent to succeed in the United States (Abbadly, 2006; Miller, 2010).

Westonzuela and Doralzuela

Since Hugo Chávez was first elected in late 1998, many Venezuelans have moved to the Miami-Ft. Lauderdale suburbs of Weston and Doral, two communities that have become so well-known for their Venezuelan populations that they are frequently referred to as *Westonzuela* and *Doralzuela* (Semple, 2008). Weston is a planned community of 65,753 residents (U.S. Census Bureau, 2009). Hemmed in on the north and west by the Florida Everglades and on the south and east by the sprawl of suburban Fort Lauderdale, Weston has become home for many of

the “artists, lawyers, physicians, managers, and engineers . . . leaving the country [of Venezuela] by droves” (Margolis, 2009). The city of Weston, which also boasts one of the nation’s largest Colombian communities, has a lower percentage of its residents living in poverty than any other city of similar size in the United States (Grech, 2007). Further to the south, just west of Miami International Airport in Miami-Dade County, lies the census-designated place of Doral, which had an estimated population of 39,011 in 2008, 74.5% of which speak Spanish as a first language (U.S. Census Bureau, 2009).

Today, Venezuelans are the largest Hispanic/Latino group in both Doral and Weston, according to the United States Census Bureau’s American Community Survey (U.S. Census Bureau, 2009). The most recent estimates reveal that 18.1% of Doral’s 39,011 residents are of Venezuelan ancestry, compared with 11.4% of Weston’s 65,753 residents (U.S. Census Bureau, 2009). In Doral, a survey administered by the city’s planning department determined that 17% of employees of local businesses were born in Venezuela, a figure which ranked second to Cuba’s 31% but outpaced that of the United States, at 7% (City of Doral, 2008: 21).

Both locales are filled not only with restaurants serving *arepas*, *cachapas*, and other Venezuelan dishes, but also the American offshoot of a famous Caracas beauty school, a low-cost medical clinic for Venezuelan immigrants without health insurance, and several Venezuelan-American business organizations (Grech, 2007). At least five newspapers for the Venezuelan community are being published, and the introduction of an anti-Chávez radio station calls to mind the Miami Cuban community’s anti-Castro radio broadcasts (Semple, 2008).

A typical issue of the *Venezuela Al Día* or *El Venezolano* weekly editions is filled with the latest news from Venezuela, anti-Chávez editorials, and dozens of advertisements. Heavily represented among the advertisements are Venezuelan-owned import-export enterprises, but also

Venezuelan restaurants, Venezuelan shops, and the offices of Venezuelan doctors and lawyers. Another full-page ad announces a Franchise Expo that franchisers have targeted to the Venezuelan community. Winn Dixie, a supermarket chain, purchased a half-page advertisement in a December 2009 issue of *Venezuela Al Día* to announce that *hallacas*, tamales wrapped in plantain leaves that serve as the traditional holiday-season food in Venezuela, had arrived and were available for purchase (*Venezuela Al Día*, 12/18/2009 issue, p. 12).

Return of the Golden Exiles?

On a warm Saturday morning in early 2003, thousands of Cubans and Venezuelans gathered in the streets to celebrate and to protest. The scores of marchers could have just as easily been protesting the foreign policy of the United States in Havana's Plaza de la Revolución or the Avenida Libertador of Caracas. Instead, they had congregated on Calle Ocho in Miami as exiles participating in a "Mega March" organized by the entrenched Cuban-American community to denounce the political activities of Hugo Chávez.

Leaders of local organizations like the Junta Patriótica Cubana threw their support behind the event, which featured the opposition mayor of Caracas and two Venezuelans who had been crowned Miss Universe and another who had been crowned Miss World, to express their backing for democracy in a "parallel alliance against dictators with a military base" (Elliott, 2003). Those interviewed expressed their desire to help the Venezuelan people avoid Cuba's fate: the loss of democratic rule (Elliott, 2003). Florida International University's Eduardo Gamarra, the director of the university's Latin American and Caribbean Center, commented that there was an "overwhelming sense that the revolution in Venezuela [was] going through a similar stage of where the Cubans were in 1959," when the Cuban middle and upper classes that would become known as the Golden Exiles fled Fidel Castro to establish a new life in Miami (Elliott, 2003).

Castro and his self-proclaimed protégé, Hugo Chávez, have indeed become fast friends in recent years as they seek to extol the virtues of their political ideology. Thus, it is convenient to compare the first groups of migrants to flee their regimes for the security of the Floridian peninsula. The groups share many similarities, such as income levels and professional class, which are easily noticeable. Nevertheless, it is wrong to assume that immigrants from Venezuela during the Chávez era are carbon copies of their Cuban predecessors. It is highly unlikely that the Venezuelans, nor any other group of immigrants, will again be the beneficiaries of the unique set of circumstances that allowed Cuban-Americans to become the Golden Exiles.

Nevertheless, the international media has repeatedly made the assumption that Venezuelans in Florida, as well-educated Latinos fleeing a left-leaning regime, are following in the footsteps of Castro-era Cuban immigrants to the state. Articles about Venezuelan immigration to the United States say that Latin America has seen this story played out before (Margolis, 2009), that “Cuba and Venezuela have parallel lives” (Fernández, 2008), and that the influx of Venezuelans represents an exodus equal to that experienced by Cuba in the 1960s (MercoPress, 2007; Semple, 2008). Despite parallels such as the class composition of the two groups of exiles and similar location preferences, there are significant differences between Cuban exiles of the 1960s and Venezuelan migrants in the Chávez era, in terms of U.S. government policy, the international geopolitical structure, the demographics of their destination region, and contact with their homeland.

When the first Castro-era exiles arrived to South Florida half a century ago, they found a “sleepy Anglo resort town” devoid of any experience with immigrants from Latin American and content to serve as a suburb of its larger neighbor, Miami Beach (Alberts, 2006: 138). It was a

quintessentially Southern city, a slow-moving place that survived simply by catering to the needs of the many snowbird retirees from the northern United States (Grenier & Pérez, 2003).

Almost overnight, the culmination of the Cuban Revolution brought about a mass exodus of Cubans to South Florida. Members of the Cuban elite “saw their life chances and opportunities limited by the new order,” and thus comprised a large percentage of those who immigrated to the United States in the aftermath of the Cuban Revolution (Pérez, 2009: 139). The nationalization of the industrial sector also ensured that business owners were some of the first to leave the island (Alberts, 2006). These members of the professional and entrepreneurial classes had tertiary educational attainment levels much higher than the general United States population, like today’s Venezuelans, and rejected the involvement of the state in the economy in favor of the ideals of capitalism (Grenier & Pérez, 2003: 52).

The most extensive wave of Cuban migration, though, occurred between 1965 and 1973 under a Memorandum of Understanding signed by the governments of Cuba and the United States. This memorandum, which gave priority to Cubans with relatives already residing in the United States, favored the pre-revolutionary middle- and upper-class and led to a further consolidation of the Batista-era elite in the Miami area (Pérez, 2009: 139)

Similarly, public opinion and fear of communism in the United States allowed the government to use Cuban migration trends as a political weapon in the fight against the Soviet Union and its allies (Grenier & Pérez, 2003: 22). Cuba’s Golden Exiles were granted refugee status that permitted them to “enter without the restrictions imposed on most other nationality groups” (Grenier & Pérez, 2003: 23). They benefitted from federal and local programs that provided massive amounts of aid with little fanfare that “greatly enhanced their endeavors” (Stepick et al., 2003: 38-39). The opportunities provided to potential Venezuelan migrants by the

U.S. Government, meanwhile, are few and far between. Thus, Venezuelans seeking to move to the United States permanently and legally must first possess a visa, which can take years to receive. In the post-Cold War era in which we live:

Venezuelan emigrants do not qualify as political refugees and enjoy no special advantage in the fierce competition for the 400,000 H1B work visas issued yearly by the U.S. for highly skilled migrants, three quarters of which go to Indians, who have an edge because they can speak English. (Margolis, 2009)

Both the Bush and Obama administrations have refused to recognize deferred enforced departure (DED) for Venezuelans in the United States who have overstayed temporary tourist or educational visas. DED status would suspend the deportation of immigrants who may be at risk of politically-motivated danger upon return to their country of origin (Campos Mello, 2009). Although such status has been granted to Liberians, Nicaraguans, Chinese, Haitians, and Salvadorans, among others, during the last two decades, it has not yet been granted to Venezuelans.

Despite overt government blacklisting in the form of the Tascón List, the document spread by Chávez supporters that contained the personal data of every signatory of the 2004 recall referendum petition, it is quite difficult for Venezuelans to receive political asylum in the United States (Alconada Mon, 2007). Many unsuccessfully cite their inclusion in the Tascón List when applying, and are subsequently forced to return to Venezuela (Alconada Mon, 2007). The fact is that Cubans are the beneficiaries of a unique Cold War (Grenier & Pérez, 2003: 1), while Venezuelan immigrants are the product of a completely different era.

The Miami to which these first Cuban exiles moved was completely different than the global city of today. Downtown consisted of a three-block radius surrounding the courthouse. Policemen even remarked to one Cuban woman in 1959 that had the easy job of searching for two Hispanic individuals. Since there were so few Latinos in the region, they said that the

process would be quick and simple (Alberts, 2006: 139). Alberts argues that the locale's "experiences were clearly unique, as no other city had ever been so rapidly and profoundly transformed by a single immigrant group" (Alberts, 2006: 149).

In contrast, the Miami to which Venezuelans are fleeing is completely different. Latinos, mainly Cuban exiles and their children, control virtually all of Miami-Dade's institutions (Stepick et al., 2003: 139). Long waves of immigration from Latin America and the Caribbean have made the city relevant internationally, transforming it into Latin America's economic capital (Stepick et al., 2003: 10). Its status as a hub for regional banking and trade has truly made it a multicultural, multilingual "Gateway to the Americas" (Stepick et al., 2003).

Despite the proximity of Havana to Miami, Cuba's Golden Exiles had far lower levels of contact with Cubans in Cuba during their first years on the Florida peninsula than Venezuelans in Florida have maintained with their countrymen in Venezuela. Though they expected to soon be able to return to Cuba, as soon as Castro was undoubtedly removed from power, the economic embargo that was imposed in 1962 severely limited Miami Cubans' contacts with the island. In contrast, many Venezuelan migrants to the Miami area regularly visit Venezuela. Multiple daily flights on American Airlines, LAN, and Santa Barbara Airlines connect Miami with Caracas and Maracaibo, in what some have described as a new *punte aéreo* (air bridge) (Campos Mello, 2009). Venezuelans throughout Florida are permitted to vote in Venezuelans elections at the consulate in Miami, while billions of dollars of business are conducted, legally, between Venezuela and the state of Florida every year.

Case Study

In early 2010 I conducted a series of 12 interviews with Venezuelan businesspeople. Eight (five males and three females) of the participants lived in Venezuela at the time of the interview and four (all male) resided in Florida. The participants in this study were selected

through the snowball sampling method. I began by asking personal contacts in the Venezuelan communities of Tampa, Jacksonville, Orlando, and Gainesville to refer me to entrepreneurs who would be willing to discuss their experiences. Those key informants also assisted in setting up interviews with contacts in Venezuela. The interviews were conducted in a semi-structured format. Each interview was derived from an interview guide designed to bring about discussion on topics central to this study. The guide contained questions relating to the Venezuelan business environment, the decision process surrounding migration, and the challenges faced by immigrant entrepreneurs.

The interviews were conducted in a variety of formats. Those interviews that took place with persons residing in the United States were conducted either in-person or via telephone, based on the preference of the person being interviewed. Those interviewees were asked if they preferred to do the interview in English or Spanish. All but one chose English. The interviews with persons residing in Venezuela were primarily carried out using Skype, though a small number of interviewees preferred to answer questions via email.

Finding potential interviewees was not difficult; persuading them to participate was an entirely different story. To protect the anonymity of the individuals who shared their views and experiences, the names and locations of employment are not revealed in this study. Since it was agreed that the individuals would remain anonymous, they are referred to in the results section by pseudonyms which I assigned (Table 4-2). Even with this in mind, many ultimately declined to participate. In more than one instance, a potential participant agreed to meet me at a specific time and location in order to take part in the interview before later reconsidering and withdrawing from the interview process altogether.

On another occasion, a key informant who introduced me to one interviewee stated that I should ask the interviewee about his friend and neighbor, the owner of a Venezuelan restaurant. The interviewee claimed that he did not know the individual, even when I mentioned her by name. One interviewee suggested that this was due to fear instilled by the Chávez regime's attacks on free speech. Another key informant stated that the reluctance was due to the illegal status of many Venezuelans in Florida, though this seems likely because the individuals in question were proprietors of licensed businesses.

Evaluation of the Pre-Chávez Business Environment

The participants had a positive, yet somewhat tempered, view of the Punto Fijo-era Venezuelan business environment. Félix, Luis and Carlos agreed that the key to the pre-Chávez business environment was its stability, in part due to the legal security offered by the independent judiciary. While Jorge, a small business owner, admitted that the economy "was no longer booming," as it had during the 1970s, he and other Venezuelan entrepreneurs were comforted by the fact that "there was certain coherence in the implementation of plans and solutions."

Rafael, however, disagreed with the assertion that there was stability and coherence. Although the country was better off than it is now, he said, all politicians are equal in that they focus on "trying to obtain personal benefits instead of really helping the people." Still, Rafael concedes that there were available private sector jobs and high levels of commercial activity. "We were happy and nobody realized it," he said, "and now we miss all that we once had."

Antonio, who is in the process of opening a store in the Orlando area, argues that the business environment pre-1998 was exactly what precipitated the rise of Chávez to the presidency. The blunders committed by the governments of the Punto Fijo period, he says, ensured that the basic needs of large sectors of the population were being completely ignored.

When combined with the onset of the Asian financial crisis that rapidly spread to Latin America in 1997 and pushed oil prices even lower, it became a perfect storm under which Chávez the outsider was the only beneficiary.

Paola, an economist, recognized that Venezuela had been “suffering from macroeconomic problems that were starting to be persistent” and overdependence on oil, but still thought that enough confidence in the economy was generated by the government’s dealings with the private sector. Small firms still sought to “capture market niches” and search for opportunities based on ideas that had been successful in other countries. People still believed, said Paola, in Venezuela’s economic potential. Alberto claims that, unlike today, the people did not depend entirely on the state. Instead, there was innovation that drove private investment and generated economic opportunities. Despite the economic hardships during the second terms of Carlos Andrés Pérez and Rafael Caldera, said entrepreneur and professor Pilar, Venezuela still “had a future and there was hope.”

Deterioration of the Business Environment

Because of Chávez’s attacks on and hostility toward private firms, Luis says that there is little motivation for anyone to invest. There are fewer opportunities, and the “the state is omnipresent in all commercial activities.” Félix agreed, stating that the market for professional labor has been drastically affected because everyone believes that the state wants to expropriate every private enterprise. Adriana, meanwhile, said that Chávez has made his one objective perfectly clear: to eliminate all private enterprises completely, as soon as possible.

Under Chávez, says Alberto, the central bank has been unable to control inflation because of the government’s insistence on printing money whenever it wishes to pursue new projects. The fact that there is “no separation between fiscal and monetary policy,” explained Félix, means that the state will never moderate its behavior. Instead of being guided by accepted economic

principles, institutions like the central bank are directed by what Adriana calls “political factors that have very particular objectives that benefit an ideological model.” The inability or unwillingness of the state to control the monetary liquidity, remarked Luis, “exposes Venezuelans to the biggest tax of all: inflation.” Such persistent inflation invariably causes purchasing power to decrease, and Félix believes that Venezuela is no exception. He says that the middle class has been hit hardest by the effects of inflation under Chávez, because they receive no assistance while the poor benefit from subsidized goods and the rich move all of their monetary assets to foreign banks.

The overvalued, fixed exchange rate unfairly penalizes entrepreneurs who wish to export their goods, says Luis. In effect, the state “is expropriating each family’s savings in bolívares.” Félix echoed Luis’ comments, criticizing the dependence on imports created by the artificially overvalued exchange rate. Because of the state’s exchange rate policy, Adriana believes that there is no longer an incentive to produce goods and services; it would be impossible to export them, and there is not enough internal demand to justify the necessary effort. The deterioration of the business environment discourages entrepreneurs from even trying to offer products to other Venezuelans, says Adriana, because the economic capacity of the country is so low that nobody would be able to be a consumer of those goods and services.

Insecurity and Chávez’s hostility toward private firms have forced entrepreneurs to close shop and flee the country, meaning that domestic production and employment are subsequently reduced and the “overall productive capacity has become very low.” Alberto said that the resultant loss of purchasing power from the forced devaluations of the bolívar means that Venezuelans are unable to afford the necessary food for their families and capital inputs for their firms, products which must be imported from abroad. For this reason, remarked Alberto, “the

store shelves are always empty.” The country is thus left in economic stagnation, a term mentioned independently by three participants.

The root of all of Venezuela’s economic problems, said Alberto, is that “everything depends on the state.” No sane person, Venezuelan or non-Venezuelan, would ever choose to invest in a country with so much dependence on an entity that is incapable of performing its duties, said Alberto. As an example, Alberto alluded to PDVSA, the employer for which he worked during the 1970s and 1980s. Where production reached 3.6 million barrels daily at the time of Chávez’s election, mismanagement and the atmosphere of firing and targeting supporters of the opposition has caused production to drop to only 2.25 million barrels daily. Current PDVSA employees, who Alberto says are untrained and unqualified, have damaged the firm’s equipment so badly that it would be much cheaper to construct new refineries than repair the old ones. Likewise, said Alberto, Venezuela is not stuck in its current electric crisis because of a drought or because private firms and the oligarchy use too much electricity, as the government claims, but because of acute mismanagement. The government, said Alberto, is almost incapable of electrical generation and transmission, and it does not know how to effectively distribute the little electricity it does produce.

The Decision to Emigrate

Fernando, an MBA student at a university in Florida, lived in Venezuela until he was 25. After graduating from college with a degree in business administration, he was hired by a large mobile telecommunications firm and was quickly promoted to serve as a personal account manager for 25 of Venezuela’s richest individuals. As their special contact, he was responsible for every aspect of their relationship with the firm, such as immediately replacing stolen cell phones and arranging for devices to be used internationally on a moment’s notice. He initially did not plan to leave Venezuela; in fact, he was in the process of starting his own business – a

firm that would import new technological innovations and then market and introduce them to corporate clients. Corruption, though, was too widespread. Although “you can do anything you want if you pay the government enough money,” as Fernando told me, he refused to spend the equivalent of thousands of dollars in bribes and then wait hundreds of days for government approval.

Every participant cited personal insecurity as the principal reason that people are choosing to leave the country. Fernando said that it was no longer safe anywhere in the country, but especially in the Caracas metropolitan area. He said that increasing levels of crime serve as more of a threat to private property than the government does, and provided an example of a hardworking entrepreneur who works night and day to be able to save up enough money to purchase a new car, only to have it stolen at gunpoint in broad daylight the next day. In contrast, “nobody can take away what you’ve earned in the States,” Fernando told me. “You can’t walk on the street in some places without being robbed, kidnapped, or killed, and for that reason I decided to move.”

Rafael received a university degree in electrical engineering, but later returned to school to complete an MBA. Although he worked full-time as an estimating engineer for PDVSA, he and his wife also owned a private elementary school. Although it was clear to him that Chávez “wanted to convert Venezuela to communism and socialism,” Rafael did not plan on leaving Venezuela until December 2002, when he was fired from his post at PDVSA for supporting the general strike. He says that he and his co-workers are “considered enemies of the government,” and are thus unable to receive government businesses licenses or seek employment with any major company. He moved to Saudi Arabia for the next few years in order to work in the oil

industry, while his wife and two children remained in Venezuela. By 2007, he and his family were able to move to Florida, but their business did not survive the move.

Eduardo, like many other college-educated Venezuelans, was trained as an engineer but found employment outside the saturated oil engineering sector. He first worked for a utility company in his hometown of Barquisimeto after graduating from college during the early 1990s, but sensing an opportunity he created a business two years later. For the next five years, he made frequent trips to Panama and the state of Florida, where he purchased contact lenses, glasses, and frames from wholesale distributors and then sold them from his stores. But one day while Eduardo was stuck in traffic with his wife and one-year old daughter shortly after Chávez took office, a man walked up to the car and stuck a gun in Eduardo's mouth, threatening him for driving too slowly a few miles back. That was all the impetus needed to force Eduardo and his family to leave the country.

As a store-owner and part-time consultant with a degree in economics, Antonio understood that the Venezuelan economy had been faltering, even before the rise to power of Chávez. Still, for many years he resisted the temptation to move away from Maracaibo, the lively second city of Venezuela that he had called home his entire life. As business slowed and demand for his consulting services diminished, he began to recognize that the instability and lack of application of laws was becoming more severe. He first persuaded his oldest daughter to learn English and pursue graduate education in Florida; the rest of the family followed her in early 2010.

Félix, Fernando, and Luis mentioned the loss of purchasing power as a secondary, but important, reason for departure, while Paola felt that it is also a general lack of opportunities for advancement in the private sector that has led Venezuelans to flee the country. Only Jorge, Luis,

and Adriana specifically stated that the political climate was one of the main reasons for Venezuelans to move abroad, though all of the participants blamed Chávez for the deterioration of the social environment and the country's rampant violence. Félix and Adriana agreed with Carlos' assertion that when there is "little hope for a future," there is nothing a person can do other than to seek out a better quality of life elsewhere.

The participants still living in the country often think of leaving. Though Pilar says that it is a constant thought running through her mind, it would be a "last resort." Félix says that he will leave if the government causes freedom of expression to be further eroded, while Alberto is considering joining his children in Florida. Each interviewee still residing in Venezuela stated they had family members who had fled the country; all had relatives living in the United States and all but one had family members living in the state of Florida. Three of the eight participants said that their relatives had left the country in 1999 and 2000, following Chávez's first election. The relatives of the remaining five did not leave until after 2004, when the recall referendum failed.

Effects of Emigration on Venezuela

Not one participant believed that continued entrepreneurial emigration would have a positive effect on Venezuela. Félix, who himself will consider leaving if no progress is made at reestablishing freedom of expression and the separation of powers, believes that emigration is causing the quality of educational institutions to decline in addition to forcing much of the economy into the informal sector. In short, he said, Venezuelan society is "quickly moving backward." Pilar repeated the assertions made by Félix, saying that the combined forces of emigration and government hostility would quickly eliminate entrepreneurship and the environment for business in the near future. Carlos said bleakly that entrepreneurship and the

business environment are nearing total collapse after years of deterioration. Unless something changes, said Jorge, the drain of talent will leave Venezuela as “a country of ghosts.”

Experiences in Florida

Eduardo’s goal was to leave Venezuela as soon as possible after their brush with death. As he was initially unable to secure a residency visa in the United States, he contacted a friend living in Montréal who encouraged him to apply for Canadian residency. In the meantime, he studied French daily in preparation for his family’s move. His wife, whose family had emigrated from Syria to Venezuela shortly before her birth, already spoke French and Arabic. Upon their arrival, Eduardo was unable to find employment. Though his old acquaintance encouraged him to stay and continue to look for work while temporarily being supported by the Canadian safety net. Eduardo, who already had become frustrated with the freezing Québec winter, refused. His American visa had finally been approved, and Eduardo moved to Miami with his brother.

Within a few months, Eduardo became aware that he intensely disliked Miami. The people he encountered were rude; he was especially put off by one group. He exclaimed that “Cubans try to piss you off all the time!” They, he said, “think they own Miami.” Shortly thereafter, he contacted a classmate from his elementary school in Barquisimeto who was living in a smaller city a few hours to the north. There, he and his wife felt comfortable enough to immediately rent an apartment. While they studied English, Eduardo and his wife purchased a retail franchise. Within two years, they had saved enough money to purchase a new four-bedroom house. Though he said that he continues to work long hours, Eduardo said that he is happy to have found success. Although he enjoys spending time with other Venezuelans living in the area, Eduardo has no desire to return to Venezuela.

As it turns out, Fernando had an advantage over most other Venezuelans – he was born in the United States while his father was attending graduate school. Though he had only lived in the

United States until he was two years old and had never learned English, he was a U.S. citizen by birth. Thus, he was able to move to the country and seek out employment. That, he says, has “been a huge advantage for me.” Fernando knew that he wanted to live in Florida because of its climate and prominent Latino population, which made him feel very comfortable. Though he initially considered living in Miami, he disliked that it was also a divided, violent city. Venezuelans in the United States, he said, do not like to only associate among themselves, as he feels other Latino groups (especially Argentines, Colombians, Cubans, and Nicaraguans) in the Miami area did. Instead he chose to move to the central part of the state, where he says that he still is able to find any Venezuelan product he desires at a number of Venezuelan-owned businesses.

Fernando learned English and was then hired as a personal banker. Now, after receiving his MBA he plans to create a project management start-up firm that he hopes to expand to the Spanish-speaking countries of Latin America, which he thinks have great potential despite the complex issues faced there by international firms. Fernando admits that he would even do business with the Venezuelan government, because “there is a lot of money there,” but he would not return there permanently and subject his family to violence and fear. As long as there is an opportunity, said Fernando, “people will try to come here; they will try to chase the American dream.”

Antonio chose to move to Central Florida because of his previous knowledge of the area. As a parent, he had taken his children to theme parks in the region, and personal contacts had informed him that he would be able to survive initially despite being a monolingual Spanish speaker, which he may not have been able to do in other parts of the country. As a recent arrival, Antonio spends most of his nights studying English. He still consults some firms in Venezuela,

and has been marketing his services throughout the state of Florida. Antonio remains optimistic, saying that he will officially open a Florida branch of his business within the next year.

Compared to Antonio, Rafael has had an easier time adjusting to life in the state. Because of his career at PDVSA and his time working in Saudi Arabia, he already spoke English and had received advice from numerous professional acquaintances, many of whom migrated to the United States before him. Despite being well-paid during his career as an engineer, Rafael has been harmed financially by the inability to sell his home in Maracaibo, which he blames on the economic situation and atmosphere of violence caused by Chávez. He and his wife wish to open another private school here, but realize that they will be unable to due to the necessary capital and licensing requirements. Rafael knows that through education and experience he is qualified to work in many fields, yet is unable to find meaningful employment at his skill level. In the meantime, he will continue to do freelance consulting for the oil industry, a single-employee profession that he says is among the most common for Venezuelans residing in Florida.

Predictions for the Future of Venezuela

Luis said that Venezuela has no future, because no long-term plans are capable of being made by the government. As a young father, he sadly says that “my children will grow up in another country.” Rafael agrees, saying that “there is no light at the end of the tunnel.” Carlos, on the other hand, is looking forward to September 2010’s parliamentary elections with great anticipation. He believes that if the opposition can band together in unity, they will be able to change the course of the country and end Chávez’s stranglehold on power by the time of the presidential elections in 2012. Still, he admitted, failure to achieve victory in 2010 would assure that Venezuela becomes “a second Cuba.”

Even if there were an immediate regime change, Pilar believes that it would take two decades “working at full speed” in order to return to the pre-Chávez economic conditions.

Fernando thinks that it will take generations to fix the damage that Chávez has caused.

“Everyone that has left the country will have to one day be able go back. We will have to show them what we have learned, not only here in the States but around the world, to build this country [Venezuela] from the ground [up].” For now, though, he will not return to Venezuela because “there is no respect for new ideas.” Until there is, the current pattern will continue.

Summary

Since 1998, the Venezuelan population in the state of Florida has grown rapidly as well-educated members of the middle class seek to escape the ever-present threat of crime and violence as well as the economic uncertainty that accompanies the populist regime of President Hugo Rafael Chávez Frías. The loss of private-sector jobs caused by the closure of private enterprises since the rise of Chávez is significant, and Venezuelans believe it could take decades for the country to regain the ground that it has lost due to economic mismanagement by the state. Conversely, the flow of human capital to Florida is slowly becoming a boon for the state’s economy. After adapting to their new surroundings, Venezuelans are using skills gained in their native country to open new businesses that in the future will allow for greater connections between the state and Latin America.

Table 4-1. Inequality and the propensity of the highly skilled to emigrate

Country	Brain drain (10=high, 0=low)	Percent income held by top two deciles
Venezuela	8.31	53.1
Colombia	8.05	60.9
South Africa	7.92	64.8
New Zealand	7.17	46.9
Philippines	7.08	52.3
India	6.85	46.1
Slovak Republic	6.62	31.4
China	6.22	46.6
Korea	5.89	39.9
Canada	5.88	39.3
Malaysia	5.62	53.8
Turkey	5.54	47.7
Russia	5.52	53.7
Sweden	5.52	34.5
Poland	5.38	40.9
Italy	5.36	36.3
Indonesia	5.00	44.9
France	4.95	40.2
Mexico	4.86	58.2
Estonia	4.63	41.8
Hong Kong	4.62	47.0
Denmark	4.59	34.5
Hungary	4.48	39.9
Singapore	4.42	48.9
Australia	4.30	41.3
Belgium	4.27	34.5
Greece	4.24	40.3
United Kingdom	4.22	43.0
Iceland	4.11	37.0
Slovenia	4.11	35.4
Brazil	4.07	63.8
Portugal	4.04	43.4
Thailand	3.97	48.4
Israel	3.94	42.5
Switzerland	3.66	40.3
Finland	3.46	35.8
Czech Republic	3.40	35.9

Table 4-1. Continued

Country	Brain drain (10=high, 0=low)	Percent income held by top two deciles
Germany	3.32	38.5
Japan	3.17	35.7
Austria	3.12	33.3
Ireland	2.86	42.9
Norway	2.84	35.8
Netherlands	2.81	40.1
Spain	2.71	40.3
Chile	2.68	61.0
United States	1.45	46.4

Source: Kapur & McHale 2005, p. 82

Table 4-2. Case study participants

Pseudonym	Location	Profession
Adriana	Venezuela	Electrical engineer
Alberto	Venezuela	Economic consultant, fmr. PDVSA engineer
Antonio	Florida	Store owner, consultant
Carlos	Venezuela	Small business owner, fmr. PDVSA executive
Eduardo	Florida	Franchisee, educated as engineer
Félix	Venezuela	Industrial engineer
Fernando	Florida	MBA student
Jorge	Venezuela	Small business owner
Luis	Venezuela	Financial advisor, professor
Paola	Venezuela	Economist
Pilar	Venezuela	Store owner, professor, former engineer
Rafael	Florida	Freelance consultant, fmr. school owner and PDVSA engineer

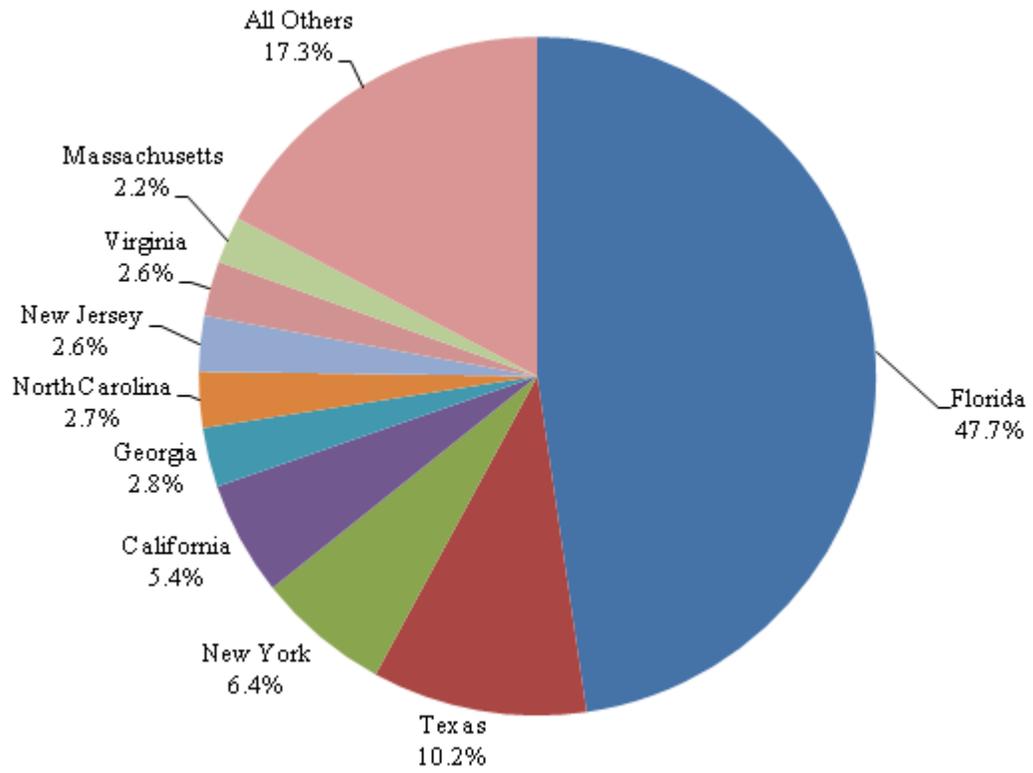


Figure 4-1. Location of Venezuelans in the United States by state, 2009. Source: U.S. Census Bureau, 2009.

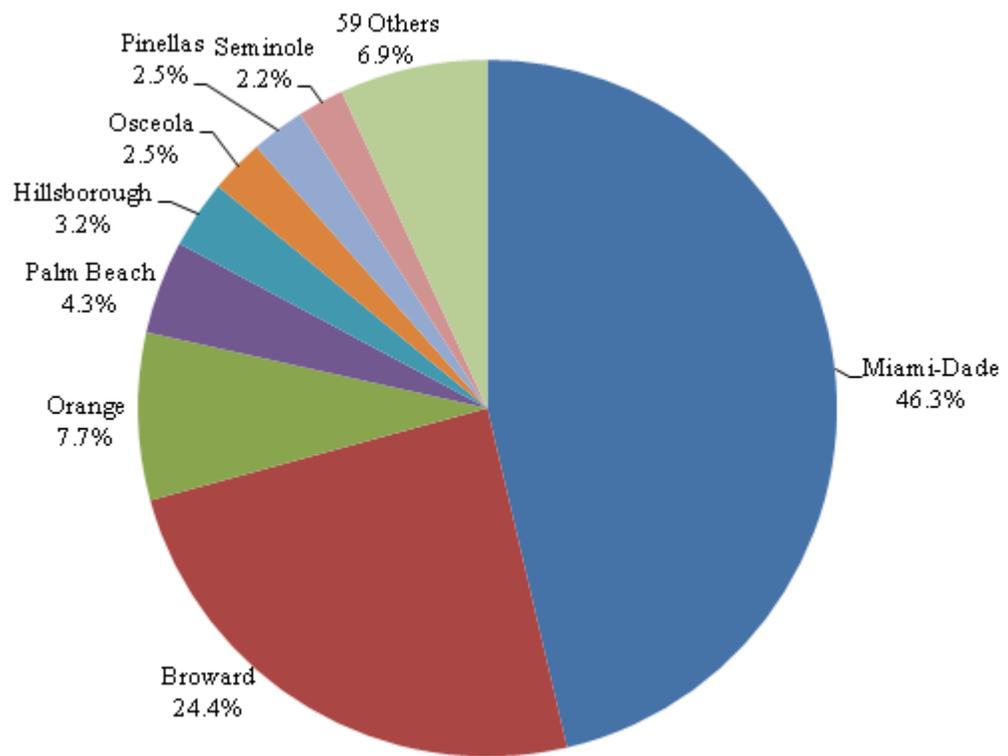


Figure 4-2. Venezuelans in Florida by county, 2009. Source: U.S. Census Bureau, 2009.

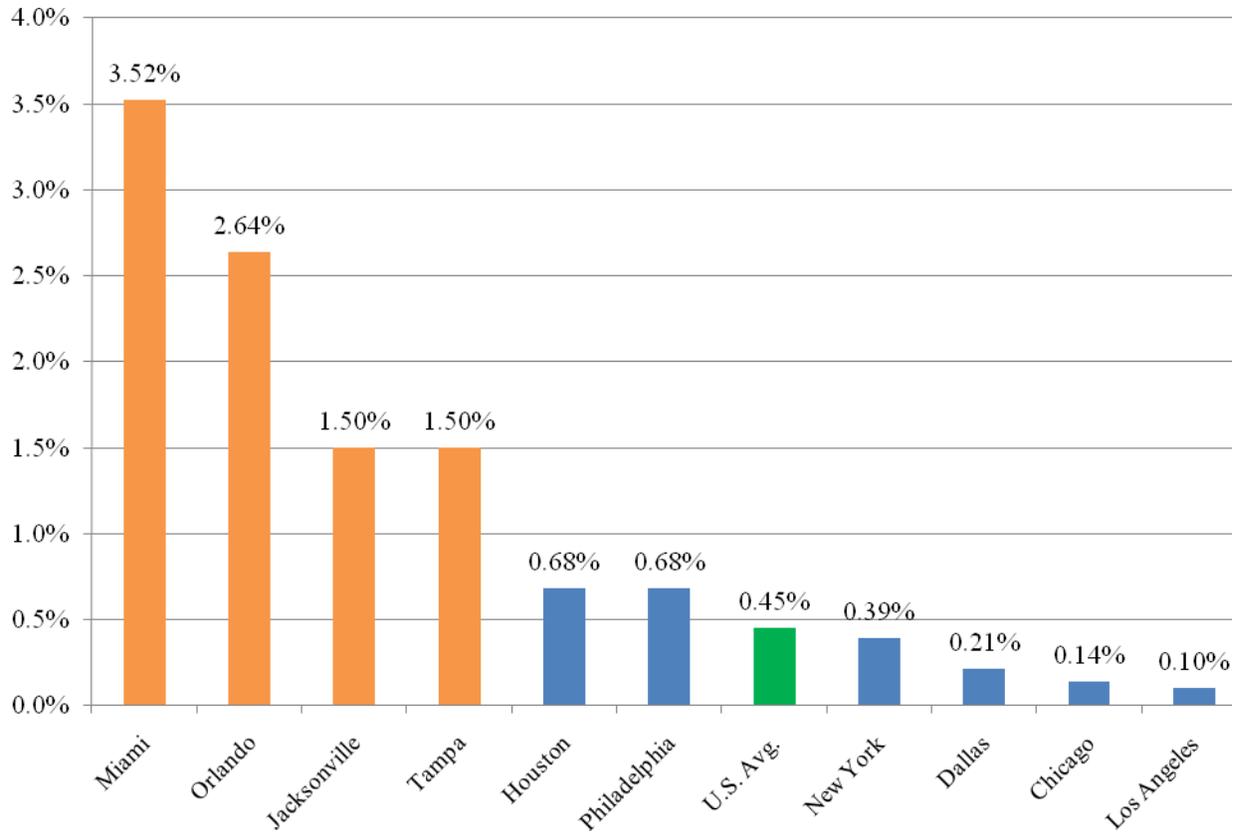


Figure 4-3. Venezuelans as a percentage of the total Hispanic/Latino population, selected metropolitan areas. Source: U.S. Census Bureau, 2009.

CHAPTER 5 CONCLUSION

This study was designed to investigate the cause and effects of Venezuelan entrepreneurial migration to the state of Florida during the presidency of Hugo Rafael Chávez Frías. I analyzed the long-term trends that affected Venezuelan economic performance and competitiveness during the pre-Chávez Punto Fijo period, which began with the establishment of a power-sharing democracy by the Acción Democrática (AD) and COPEI political parties in 1958 and culminated with Chávez's triumph in the December 1998 presidential election. After tracing the factors that have caused a continuing deterioration in the Venezuelan business environment since 1998, I conducted a series of open-ended interviews with Venezuelan business professionals to determine the principal reasons for emigrating, the challenges faced by skilled immigrants upon arrival to the state of Florida, and the consequences that Venezuela is facing as human capital flows out of the country. This chapter draws upon the themes raised during the interviews and attempts to place them in the context of the related literature; it additionally presents the limitations of this study and offers questions that would be worthwhile topics for future research.

Research Findings

Pre-Chávez Business Environment

The Venezuelan economy and business environment significantly deteriorated between the 1958 election of Rómulo Betancourt and the 1998 election of Hugo Chávez. Due to widespread corruption, a lack of policy continuity, high levels of government spending, and an overwhelming overreliance on revenue from the export of one commodity, oil, Venezuela experienced high levels of volatility and virtually no economic growth during those four decades.

Despite the country's Punto Fijo-era economy being termed a "growth disaster," the Venezuelans who I interviewed expressed moderately positive views about the pre-Chávez

business environment. Though the interviewees recognized that the economy was in a steady state of decline after AD's Carlos Andrés Pérez left office for the first time in 1979, they still believed that hope and optimism prevailed in the face of adversity and economic difficulties. It was recognized even then that Venezuela relied too much on its petroleum, but private investment and innovation helped to drive the economy. Perhaps most significantly, Venezuelans did not depend on the state.

Emigration from Venezuela

Unanimously, every Venezuelan whom I interviewed agreed that personal insecurity was either the reason he chose to leave or the reason that compels most Venezuelan emigrants to flee the country. Although none of the Venezuelans stated that Hugo Chávez was the main reason for departure, they held him responsible for the wave of violent crime that has swept across Venezuela during his tenure. When asked if he would return to Venezuela if Chávez managed to fix the problem of personal insecurity, Fernando laughed and said that the scenario would be impossible because Chávez refuses to acknowledge the problem exists.

Human capital outflows caused by violence are mentioned sparingly in the related literature, but there are many similarities between the Venezuelan situation and the case of Colombian entrepreneurship in the United States described by Portes et al. (2002). Fleeing the drug-related violence that spread through that country during the 1980s and 1990s, middle-class Colombians moved to the United States in search of security for their families. The Venezuelans living in Florida who I interviewed were, like the Colombians in Portes' study, distrustful of other individuals and wary of other Latino groups, especially Cubans, in Florida.

As was determined by Özden (2006), an immigrant's experience in a skilled profession in the sending country does not generally translate to a corresponding salaried position in the United States, because of language issues and other factors. Despite Eduardo being trained in the

field of engineering, he was unable to find employment as a civil engineer and instead eventually opened a franchise in an entirely unrelated line of work. Rafael is facing a similar situation: the two meaningful professions (as an estimating engineer and a private elementary school owner) he once enjoyed in Venezuela have for the time being been replaced with the small amount of work he is able to obtain as a freelance oil-sector consultant.

Thus, it can be expected that, economically speaking, the gains from Venezuelan professional immigration to Florida are not as large as would have been achieved under a scenario in which skills obtained through education and professional experience were easily transferred across international and linguistic borders. Despite the difficulties encountered by Venezuelan professionals seeking to find jobs or start businesses in Florida, they do not plan to return to their home country unless the political, economic, and social environments change drastically, thereby making a net brain gain for Venezuela unlikely in accordance with the findings of Kapur & McHale (2005), Portes (2008), and Solimano (2002).

Significance

Human capital flight is a subject that has been studied by economists and sociologists in numerous locales throughout the world. My study focused on contemporary entrepreneurial migration to the state of Florida from Venezuela, a country plagued by high levels of inflation, a polarized political atmosphere, and a violent crime rate that ranks among the world's highest. This study analyzed the historical events that have shaped the deterioration of the current Venezuelan business environment and cleared the path for the rise of populist president Hugo Chávez, finding that today's economic policies are a continuation of, not a break from, the failed strategies of the pre-Chávez Punto Fijo period.

My research found that increasing levels of crime and violence during the presidency of Hugo Chávez are the primary cause of the massive emigration of middle- and upper-class

business professionals from Venezuela in search of more security and better opportunities elsewhere; politics or economics alone seem to have little to do with the decision to emigrate. For many that choose to migrate to the state of Florida, they are often faced with the difficult challenge of starting a new business or finding a suitable profession at an equivalent skill level to the job that was left behind. Still, Venezuelan immigrants are unlikely to consider moving back to their home country. Venezuela is becoming worse off economically and intellectually because of the departure of some of its most entrepreneurial and talented citizens, and it is clear that these trends will not reverse unless significant, responsible reforms are undertaken by the Venezuelan government.

Limitations and Topics for Future Research

Of the Venezuelans I interviewed, all were staunchly anti-Chávez. It would have been worthwhile to hear the opinion of at least one pro-Chávez entrepreneur. There are some entrepreneurial individuals, often known as the *boliburgueses* (Bolivarian bourgeois), who have advantageously aligned themselves alongside the government, and they have thus benefitted from the spoils of government contracts and favors. Despite their success in Chávez's Venezuela, do they still consider emigrating? How do they feel about Chávez's threatening attitude toward private enterprise?

Because of a lack of personal connections and access, I was also unable to interview any members of the lowest socioeconomic strata, who lack the ability to emigrate from Venezuela despite the desire to do so. I think that it would be extremely informative to hear from individuals in these socioeconomic groups who aspire to be entrepreneurs. Though members of these strata historically have formed the base of support for Chávez and the PSUV, do those with entrepreneurial tendencies share the same political leanings? Are they being harmed or helped by the vast network of missions and subsidized goods? Do their fledgling businesses receive

assistance from the government, or are they being crowded out by public sector initiatives and regulations?

Furthermore, while the Venezuelans I interviewed claimed that personal insecurity was the primary motivating factor for emigration, I do not believe that violence can so easily be disentangled from economics and politics. What is driving Venezuela's rampant violence? Is Venezuela's deteriorating business environment a cause or an effect of the increase of crime throughout the country? What role does the extreme polarization of the country, encouraged and exploited by Chávez, play? If addressed, these topics (while far from being an exhaustive list) would provide valuable insight into this important issue of Venezuelan human capital and migration that lies at the heart of the field of Latin American studies.

APPENDIX A
INTERVIEW GUIDE

1. What was your occupation in Venezuela?
 - a. Did you own your own business?
 - b. Do you still have your own business in Venezuela?
 - c. What is its relationship to the business here?
2. What is your educational attainment?
 - a. Did you attend university in Venezuela, in the United States, or elsewhere?
 - b. If you have children, at what age did they leave? Where have they been educated?
3. What is your occupation in the United States?
 - a. Do you own your own business in the U.S.?
4. Do you still maintain business connections with Venezuela?
5. When did you leave Venezuela?
6. What was your primary reason for choosing to leave Venezuela?
 - a. Why did you decide to move to Florida?
7. Do many of your family members still live in Venezuela?
 - a. What percentage now live in the U.S.?
 - b. What percentage live in a country other than the U.S. or Venezuela?
8. Have your views on Hugo Chávez changed over time?
 - a. What did you think of Chávez in 1992, after his attempted coup?
 - b. What did you think of Chávez in 1998, when he ran for president?
9. What was your opinion of the Venezuelan business environment before 1998?
10. How has the business environment changed during Chávez's tenure in office?
 - c. Did any of these changes affect your business or you personally?
11. How would you characterize the attitude of the government toward private enterprise?
12. How has the fixed exchange rate affected the Venezuelan economy?
13. What will be Venezuela's future?
 - a. If young Venezuelans continue to leave the country to attend universities, what will happen to education, entrepreneurship, and the business environment in the future?
14. Do you plan to move back to Venezuela?
 - a. If yes, what would have to change?
 - b. Would you ever consider moving back to Venezuela while Chávez is president?

APPENDIX B TIMELINE OF EVENTS

July 5, 1811	Independence declared from Spain
1811-1823	Venezuelan War of Independence
1822	República de Gran Colombia formed by the provinces of Cundinamarca, Venezuela, and Quito following the decisive victory over Spanish forces at Carabobo and the signing of the Constitution of Cúcuta.
January 13, 1830	Venezuela secedes from Gran Colombia and declares independence
October 18, 1945	<i>Golpe de estado</i> by AD and military against President Isaías Medina
1945-1948	<i>Trienio</i> period led by Rómulo Betancourt and Rómulo Gallegos
November 24, 1948	Military junta led by Marcos Pérez Jiménez and Carlos Delgado Chalbaud
July 28, 1954	Hugo Rafael Chávez Frías is born in the town of Sabaneta, Barinas state.
January 23, 1958	Rioting throughout the country forces Pérez Jiménez to resign.
October 31, 1958	Punto Fijo Pact power-sharing accord signed by AD, COPEI, and URD.
1960	OPEC proposed and formed by government of Betancourt (AD).
1971	Hydrocarbons Reversion Law signed by Rafael Caldera (COPEI).
1973	First oil shock.
1975-1976	Carlos Andrés Pérez nationalizes the iron and petroleum industries; PDVSA created.
1979	Second oil shock.
February 18, 1983	Venezuela defaults on its debt, the bolívar is devalued and a dual exchange rate is announced.
February 27, 1989	The <i>Caracazo</i> occurred as Venezuelans protested Pérez's Economic Adjustment Plan. Up to 2,000 are killed after Pérez orders the army to crush the riot.
February 4, 1992	The MBR-200 revolutionary group, led by 37-old Lt. Col. Hugo Chávez, initiates a coup d'état. The attempt fails, and Chávez is sent to Yare prison. A second, unrelated <i>golpe</i> also fails nine months later.

- 1993 Pérez is suspended from office and later impeached in charges of corruption. Rafael Caldera splits from COPEI and wins the presidential election.
- March 27, 1994 Caldera announces government's decision to drop the charges against Chávez, causing his immediate release.
- December 6, 1998 Chávez (MVR) elected as president with over 56% of the vote.
- December 15, 1999 New constitution, which changes the name of the country to the Bolivarian Republic of Venezuela, allows the president to be re-elected, and combines the bicameral legislature into a single National Assembly, is approved with 72% support.
- July 30, 2000 Chávez wins re-election to a six-year term following the guidelines of the new constitution.
- November 2001 Chávez announces 49 new laws by decree powers given to him by the Enabling Law. The new legislation includes the Law of Land and Agrarian Development, which calls for the elimination of large landholdings.
- April 8, 2002 Chávez announces the dismissal of PDVSA's top executives.
- April 9-10, 2002 Two-day general strike announced by CTV and Fedecámaras in support of the ex-PDVSA leaders.
- April 11, 2002 Hundreds of thousands march in Caracas in support of the strike. The protestors clash with Chávez supporters blocking the path of their march to Miraflores Palace. Masked pro-Chávez gunmen shoot into the crowd from bridges and the rooftops of buildings, causing dozens of deaths. Chávez orders the military to activate *Plan Ávila* and shoot the opposition protestors. The military's high command refuses, and demands on national television that Chávez resign.
- April 12-13, 2002 After Chávez is taken into custody by the armed forces, the military announces Pedro Carmona as the head of the provisional government. Carmona announces the dissolution of the National Assembly and the Supreme Court. The Presidential Guard, still loyal to Chávez, retakes Miraflores and forces Carmona to announce his resignation.
- April 14, 2002 Chávez returns by military helicopter to Caracas and resumes his presidency.
- December 2, 2002 Two-month general strike begins. GDP falls by 25% compared to the same period a year earlier. 18,000 PDVSA employees are fired by Chávez at the conclusion of the strike.

February 2004	Tascón List, which contains signatures of recall referendum supporters, is compiled on Chávez's orders. The document is used to blacklist opposition supporters from government and private sector jobs.
May 2004	Organic Law of the Supreme Tribunal of Justice court-packing law is passed.
August 15, 2004	A recall referendum is held to determine if Chávez should be removed from office, as allowed by the 1999 constitution. The referendum fails 59% to 41%, though accusations of fraud are raised by polling experts.
January 2005	At the World Social Forum in Porto Alegre, Brazil, Chávez announces for the first time that he is building "Socialism for the 21st Century."
December 4, 2005	The opposition boycotts the parliamentary elections, giving Chávez-aligned parties control of 156 of the National Assembly's 167 seats.
December 3, 2006	Chávez, gaining nearly 63% of the vote, wins a second six-year term over opposition challenger Manuel Rosales.
December 28, 2006	Chávez announces that the government will not renew the over-the-air broadcasting license of RCTV. The network moves to cable.
Jan.-Feb. 2007	Chávez nationalizes the largest telephone and electric companies and expels foreign oil companies engaged in joint venture projects with the government.
December 2, 2007	Chávez's constitutional reform referendum, which would abolish term limits and implement 68 other reforms, fails; the 51% to 49% margin is Chávez's first defeat.
March-July 2008	Chávez orders the expropriation of a dairy producer, a cold storage firm, the local operations of three foreign cement manufacturers, the country's largest iron and steel manufacturer, and the Venezuelan subsidiary of Banco Santander.
July 2008	Barrel price of Venezuelan Tia Juana Light oil reaches \$137.98.
February 15, 2009	A redesigned referendum passes with 55% support; term limits for all public officials are abolished.
December 2009	Chávez seizes seven private banks.
January 8, 2010	Chávez announces that the bolívar will be devalued by 100%. A dual exchange system is also introduced; government officials will decide which importers will receive the preferential dollar exchange rate.

- January 24, 2010 RCTV is banned from the airwaves one day after refusing to broadcast a government message.
- March 22, 2010 Opposition leader Oswaldo Álvarez Paz (COPEI) is arrested after stating in a television interview that Venezuela has become a haven for drug traffickers, assertions that had earlier been confirmed by international governmental and non-governmental organizations.
- March 25, 2010 Globovisión President Guillermo Zuloaga is arrested after stating at an Inter-American Press Association meeting that freedom of the press no longer exists in Venezuela.

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BIOGRAPHICAL SKETCH

David Michael Harmel was born in Columbus, Ohio. He was raised in St. Petersburg, Florida, and earned the distinction of National Merit Scholar and class valedictorian of Northeast High School. He attended the University of Florida, where he graduated Phi Beta Kappa and summa cum laude with a Bachelor of Arts in Economics and Spanish in 2008. While pursuing his undergraduate education, he studied abroad in Paris, France, and completed an internship at the U.S. Small Business Administration's Office of International Trade. His undergraduate honors thesis on the determinants of population change was supervised by Dr. Lawrence Kenny.

In 2008, David enrolled in the Master of Arts in Latin American Studies (MALAS) program at the University of Florida, where he specialized in Latin American Business Environment and served as a graduate assistant for Dr. Christopher Birkbeck, Bacardi Family Eminent Scholar, and Dr. Terry McCoy, Professor Emeritus and Director of the Latin American Business Environment Program. As a MALAS student, David participated in a Financial Markets Study Tour in Chile and traveled to Argentina, Colombia, and Uruguay.