The Resource Curse and Oil Revenues in Angola and Venezuela

JOHN L. HAMMOND*

ABSTRACT: According to the theory of the resource curse, poor countries with large endowments of natural resources, especially oil, often do not achieve sustainable economic growth because the size and volatility of oil revenues encourage corruption, mismanagement, and authoritarian governments that fail to invest for the future or provide for the well-being of the majority of their populations. These are not consequences of resource riches per se, however, but of the political conditions under which they are exploited. Angola, a classic case of the resource curse, has experienced corrupt and authoritarian government since independence in 1975. Venezuela appears to have avoided the resource curse under President Hugo Chávez. The concept of resource curse, and accordingly its remedies, are multidimensional, encompassing honest government, sound economic management, and public welfare. The case of Venezuela shows that sound economic management is not sufficient to overcome the resource curse; a political and social revolution is required to serve the interests of the population as a whole.

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theory of the resource curse, oil is an obstacle to development in poor countries.

That experience, though common, is far from inevitable. But to understand what conditions allow oil wealth to contribute to development, one must specify what is meant by development and distinguish among the hypothesized effects of the resource curse. Overcoming the resource curse has been taken to mean promoting economic growth, diversified industrialization, improved social welfare, and government accountability. All these goals are not the same, however, and they may even be incompatible. For example, protecting oil from political control and sequestering revenues in investments outside of the country have been proposed by advocates of the resource curse theory as the remedy for economic inefficiency. Under such conditions, however, oil revenues will not be used to meet social needs. That will be more likely if their use is controlled by the political process.

In this paper I will compare Angola and Venezuela to illustrate alternative ways of using oil wealth. The two countries illustrate three different scenarios: Angola is a classic example of the resource curse, while Venezuela has overcome it, at least to some degree. Venezuela successfully channeled oil revenues into productive investment in the 1980s and 1990s when the national oil company operated autonomously from the state, preventing its revenues from being used to finance social welfare expenditures. Since President Hugo Chávez took office in 1999, Venezuela has reasserted political control of the company and used its revenues for social programs. So oil is not inevitably a “curse.” An oil-rich government can make political choices to use its oil wealth to benefit its people.

The Economy of Oil Production

The price of oil rose from $8/barrel in January 1999 to a record $147.27 on July 11, 2008. Most of that rise came after 2003, when the price fluctuated around $28. The spectacular increase had several causes, including price manipulation by the producer countries through OPEC, supply disruptions due to war in Iraq and civil conflict in Nigeria, the decline in the dollar’s value, and speculative portfolio inflows. But the more structural cause was an increase in worldwide demand, fueled by the industrial and consumer needs of China’s and India’s fast-growing economies.
The boom was followed by an even more rapid crash, to a low of $30.28 on December 23, 2008. By the following October, it rose again above $80. The collapse followed the worldwide economic crash, which rapidly reduced global demand. Further price movements will depend in large measure on how quickly the world economy recovers. But it is the tremendous increase in demand, the price rise, and the concomitant increase in revenues to producer countries that underlay the recent renewal of interest in the theory of the resource curse.

The claim of the resource curse is that, contrary to what might seem to be common sense, poor countries with large oil reserves do not often experience rapid or balanced economic growth. Oil rents encourage inefficient management, corruption, failure to plan for the long term, unresponsive and authoritarian government, and neglect of the needs of the population. Oil production distorts currency exchange rates, disrupts trade relations, and creates vested interests that leave little space for alternative growth models. Windfall revenues encourage excessive spending, even for legitimate purposes, without providing for economic diversification to offset the eventual exhaustion of resources.

Many of these effects are not specific to oil but apply to the exploitation of rents in general, especially mineral rents. Rent refers to the discrepancy between the cost of production of a commodity and its price. When the price of a commodity far exceeds its cost, actors use political means to capture the rent. As Adam Smith observed of ground rent, landlords “love to reap where they never sowed, and demand a rent even for . . . natural produce” (2000, 56). Rent-seeking, in other words, creates a bias toward unproductive activities. Owners of natural resources have perverse incentives to use the rents for consumption and short-term gain rather than investing them for long-term development. In the case of oil, its centrality to the global economy and the high profit on investments that are large in the absolute but small in relation to the expected return make its effects far more acute than is the case for other resources.

Oil as a commodity has several characteristics which underlie the resource curse. First, it is vital to the international economy, a source of energy for electrical power, transportation, and heat. Second, it does not need to be produced, merely extracted. Third, it is

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1 Hereafter, I will refer to oil specifically, rather than to natural resources in general. I remind the reader, however, that other resources have the same characteristics, if in lesser degree.
depletable; oil once extracted is used, making oil revenue more like
the expenditure of an asset than like income. Fourth, production is
capital- and technology-intensive. Fifth, its price is high; its exceptional
value means that it can be sold at prices that generate large profits
relative to the cost of extraction. At the same time, however, its price
is highly volatile on the world market (Humphreys, et al., 2007, 3–4;

These characteristics are exogenous to the national economies of
oil-producing states. Endogenous characteristics, on the other hand,
are related to the fact that oil is frequently produced in an enclave.
Because it is extracted, rather than produced, the oil industry is likely
to be an economic enclave with few forward and backward linkages to
the rest of the economy. It is typically found in a geographical enclave
as well, since the location of oil deposits is random with respect to
the location of population centers and other economic activities. The
high capital and technology demands mean that transnational oil
corporations typically play a major role in production and distribu-
tion, further limiting its contribution to a national economy. Finally,
as a capital-intensive activity, it generates relatively little employment.

Taken together, all these factors often produce perverse incentives
for rent-seeking behavior. This has adverse effects, both economic and
political. On the economic side, the volatility of oil revenues, whether
because of varying cost of extraction over the life of an oil deposit
or fluctuations in the international price of oil, makes planning dif-
cult. Because of its enclave character, oil produces few spinoffs for
the national economy as a whole; in particular, it discourages invest-
ment in infrastructure, social welfare, and education. An oil boom
makes a country vulnerable to the “Dutch disease,” whereby a rapid
increase in the exchange rate weakens domestic production in other
sectors because it becomes cheaper to import many goods rather than
produce them domestically, while goods produced for export become
more expensive in foreign markets — which does not conduce to a
diverse, sustainable economy capable of thriving after the oil boom is
over.2 The producer country becomes dependent on a transnational

2 The terms “resource curse” and “Dutch disease” are often used interchangeably (e.g., Oliveira
and Ali, 2006). In more precise usage, however, the resource curse embraces all the alleged
negative effects of oil on development, while Dutch disease refers to one aspect of the
resource curse, the inflationary effect of a natural resources windfall (in the case of the
Netherlands, it was natural gas).
corporation whose interests are not generally the same as its own (Humphreys, et al., 2007, 4–10; Karl, 1997, 34–37).

Political problems are a corollary. Most of the world’s poor oil-producing states are weak states. Many of them became independent less than half a century ago and others whose national existence goes back further also have poorly developed institutions. The presence of oil tends to aggravate that condition. First, oil can be an incentive to internal political conflict, especially in ethnically divided states, as groups compete for control of the resources (Collier and Hoeffler, 1999; Karl, 2007, 28–29; for a contrary view, Fearon, 2005). Even in the absence of overt conflict, states fail to develop strong institutions.

Extraordinary rents are an incentive to corruption and authoritarianism. A government living on oil revenues does not need to develop a strong tax base or cultivate popular support through consistent programs. Deals with transnational corporations offer abundant opportunities to demand bribes and kickbacks. J. S. Nye defines corruption (in part) as “behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains” (1967, 419). Corruption is an important part of the resource curse syndrome. Especially in oil-rich societies with weak governments, legitimate opportunities for enrichment are scarce, and the magnitude of oil rents from international companies is vast compared with other possible sources of wealth. Officials can readily divert revenues from the public treasury to which they are officially destined. The significance of corruption is therefore not only a matter of morality. Nye’s definition emphasizes the formal duties of public office, which can be defined relatively clearly. “Corruption,” therefore, can be taken as a descriptive term implying no necessary moral judgment; that is how I take it in this paper. The opportunity for illegitimate appropriation is a structural feature of the economy.

Unaccountable rulers neglect the welfare of the population; in particular, they fail to promote education and health programs. They can maintain power by coopting or coercing different segments of the population. Overall, rent-rich governments tend strongly to authoritarianism and inefficiency in development and welfare programs (Humphreys, et al., 2007, 10–14; Karl, 1997; 2007, 16–25). In particular, they do not invest adequately in education — thereby neither providing for social welfare needs nor producing human capital, creating a further impediment to development (Gylfason, 2001).
Not all of these effects occur at any one time in any one oil-producing country. Nevertheless, they are sufficiently common to account for the surprisingly poor growth records of oil-producing countries as a group. Resource-poor countries grew four times as fast as oil-producing countries between 1970 and 1993. Many oil-producing countries lost ground after the collapse of the two oil booms of the 1970s. One of the countries examined in this paper, Venezuela, was a catastrophic example: between 1979 and 1999, real per capita income fell by 27% (Karl, 2007, 5; Wilpert, 2007, 13).

There are exceptions, however. None of these outcomes is foreordained or intrinsic to the production of oil. All of them depend on the nature of political institutions in an oil-producing country, and are, at least in principle, susceptible to change through effective public policies. That those policies are rarely adopted is a testament to the fact that weak institutions are self-reinforcing and rents reward corruption and authoritarianism. Countries that are exceptions to the resource curse, such as Norway, differ significantly from the typical oil producer either in the economy of oil production or in the allocation of revenues in the national budget. In this paper I will contrast Angola and Venezuela. Angola has enormous oil revenues but a corrupt, authoritarian government which does little for the welfare of its people. Venezuela under Hugo Chávez, in contrast, has to a degree escaped the resource curse: in particular, it has generous social programs funded by oil.

It might be argued that the comparison of these two countries is misleading, because they are so different in so many respects. However, as Terry Lynn Karl shows in *The Paradox of Plenty* (1997), the resource curse has arisen in countries at many different levels of development. The five countries she examines closely (Iran, Nigeria, Algeria, and Indonesia, as well as Venezuela), she argues, are heterogeneous in every respect except the possession of oil; yet all of them went through similar crises as a result of the oil shocks of the 1970s (1997, 32). That Venezuela since 1999 is an exception, when it was the type case in *The Paradox of Plenty*, shows that political changes can create conditions to overcome the resource curse.

The resource curse is a complicated phenomenon with many dimensions. In this paper I will emphasize three: deficient social welfare provision, poor economic management, and corruption. Many accounts of the resource curse treat all of these indistinctly. But they
do not always occur together and their remedies are not always compatible. In particular, a drive for economic efficiency within the oil sector and the provision of social welfare benefits may demand different policies. Welfare benefits are costly and, especially in the age of neoliberalism, have been seen as candidates for budget-cutting to promote economic growth. In comparing Angola and Venezuela I will argue that in searching for a cure for the resource curse it is necessary to specify for which of its aspects a cure is sought.

The Oil Sectors of Angola and Venezuela

Angola and Venezuela have very different histories with regard to oil exploitation. Angola became the largest producer in Africa in 2008, supplanting Nigeria. Oil contributes about 45% of the country’s GDP, 90% of exports, and 90% of government revenues (Table 1). Oil from Angola, like that of the other countries on the Gulf of Guinea, is mostly offshore. These countries’ oil is attractive to foreign (especially U. S.) companies because it is high in quality and close to major markets, notably the United States, and because its offshore location reduces the political risk (but concomitantly accentuates its enclave character and lack of linkages with the local economy).

Oil was discovered in Angola in 1955 and exploitation began under the Portuguese colony. By 1973 it was Angola’s chief export, amounting to 30% of exports. Oil exploitation continued during a 13-year war of liberation, culminating in independence in 1975, and a civil war that lasted from 1977 to 2002. The national oil company Sociedade Nacional de Combustíveis de Angola (Sonangol) was established in 1976, based on the departing SACOR, the Portuguese oil concessionaire under the colony. Sonangol is the sole concessionaire for oil exploration and

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production in the country (Alexander and Gilbert, 2008, 18–20; Energy
Information Administration, 2008a, 3; Ferreira, 2006, 25).

Most of Angola’s oil is in Cabinda, an enclave territorially sepa-
rated from Angola, sandwiched on the coast between the Republic of
the Congo and the Democratic Republic of the Congo. It has both
onshore and offshore oil. Angola exports 90% of its crude oil, mostly
to the United States and China. Its domestic consumption in 2007 was
approximately 60,000 barrels per day (bpd), of which approximately
two thirds was refined at the country’s sole refinery in Luanda, the
rest imported. A new refinery is being developed in Lobito (Energy
Information Administration, 2008a, 2–5).

Angola joined OPEC in 2007. It received a quota of 1.9 million
bpd. As of January 2008, its proven reserves were calculated at 9.0 bil-
lion barrels, up from 8.0 billion a year earlier. Extensive explorations
are going on both onshore and offshore, and further major discover-
ies are expected (Energy Information Administration, 2008a, 1–2).

Production has risen rapidly: from 701,000 bpd in 2000 it more
than doubled to 1.7 million bpd in 2007 (Oliveira, 2007, 603; Energy
Information Administration, 2008b, 148). It is carried out by Sonangol
in partnership with foreign companies. ExxonMobil, BP, Shell, and
Total, the major partners, work primarily under production sharing
agreements (PSAs) and to a lesser degree joint ventures (JVs). In a
PSA, the foreign partner pays the costs of exploration and develop-
ment; it then takes all the profit from the “cost oil” until it has recov-
ered its investment, then shares “profit oil” with the government,
so the government does not share any risk in exploration. Under a
joint venture, the foreign concessionaire and the government share
investment costs. An advantage of the PSA to the producing country
is that the oil company bears all the initial cost and risk. But since
the host government only begins to receive money from “profit oil,”
unevenness in the flow and variations in the international price of oil
make the host country’s income more uncertain than the company’s

Venezuela’s oil sector is larger and its history longer than Angola’s.
The first well was drilled in the second decade of the last century
(1912 or 1913, according to different sources; Lander, 2001, 26; Wil-
pert, 2007, 87) and the first international oil company, Shell, became
involved in 1917. Oil was nationalized in 1976 and a single national
oil company, Petróleos de Venezuela SA (PDVSA), was created.
Most of the relevant data on the size, production, and potential of the oil sector in Venezuela are politically contested. For example, the Venezuelan embassy in Washington claims a production of 3.3 million bpd; according to the U. S. Department of Energy’s Energy Information Administration, it is 2.8 million. Similarly controversial is the size of its reserves: 89 billion barrels of crude oil, according to the embassy; 80 billion, according to the EIA. In addition, its Orinoco Belt has reserves of 1.2 trillion barrels of extra-heavy crude (embassy estimate), more difficult and more expensive to extract and refine (Gobierno Bolivariano de Venezuela, 2008; Energy Information Administration, 2007).

There is no disagreement, however, that Venezuelan oil is economically, politically, and strategically important, both domestically and internationally. Oil accounts for about 80% of Venezuela’s exports, half of total government revenues, and one third of GDP (Table 1). It is the ninth largest oil producer in the world, the sixth largest in oil exports, and the fourth largest source of U. S. oil imports, amounting to 1.41 million bpd in 2006.

The Curse of Angola

Angola can be regarded as the quintessential case of the resource curse — for Tony Hodges (2004), it is “a graphic example of how developing countries with large natural resources — in particular oil and other minerals — are among those most prone to poor governance, armed conflict and poor performance in economic and social development.” Angola possesses immense mineral wealth: in addition to being the largest oil producer in Africa, it is the world’s fourth largest source of diamonds. This wealth financed 25 years of civil war beginning in 1977, two years after independence from Portugal. The hallmarks of the resource curse have followed: a corrupt, rent-seeking government which made secret deals with foreign oil companies and completely disregarded the well-being of the population.

As a Portuguese colony, Angola had been underdeveloped and impoverished. In 1960 its main export was coffee. Unprocessed agricultural goods constituted 56% of exports. But in the 1960s, the colonial power began to develop its oil, at first in the Cabinda enclave (Ferreira, 2006, 25; Hodges, 2001, 90–91).
The liberation struggle against Portugal began in 1961. Three competing factions emerged: the Popular Movement for the Liberation of Angola (MPLA), the National Front for the Liberation of Angola (FNLA), and the National Union for the Total Independence of Angola (UNITA). They were at odds with each other as much as with the colonial power (Hammond, 1988, 47–51; Marcum, 1978).

The independence settlement nominally created a coalition among the three forces, but they quickly fell into fighting among themselves. Angola became a pawn in the cold war and each of the factions had foreign patronage: the MPLA from the Soviet Union and Cuba, UNITA from South Africa and the United States, and the FNLA from Zaire and, during the independence struggle, China. After a rapprochement between the governments of Angola and Zaire in 1978 and 1979, however, the FNLA lost its sanctuaries and rapidly crumbled (Hodges, 2001, 39). The war continued between the MPLA and UNITA. Despite their differences in ideology and international alliances, both were centralized and dominated by a single leader, the MPLA by President José Eduardo dos Santos (after the first president, Agostinho Neto, died in 1979) and UNITA by its leader Jonas Savimbi.

In power, Dos Santos and the MPLA rapidly turned authoritarian. Espousing Marxism–Leninism, the MPLA adopted a model of socialism based on a centralized command economy. It concentrated rule in the president and created a series of mechanisms to keep itself in power and enrich its agents. It purged factional rivals after a 1977 coup attempt. Thousands were killed in the repression that followed.

Health and education programs implemented immediately on independence quickly collapsed as the war dominated the country and the elite became more concerned with enriching itself than with promoting egalitarian development (Vidal, 2008, 205–13). In a precedent that was to take on much greater magnitude with the oil boom, military expenditures were channeled outside the normal budgetary process and kickbacks were routine. With the economy in shambles, and with the waning of the cold war, in the 1980s the MPLA began to contemplate abandoning its centralist economic model for market-oriented reforms; in 1990 the MPLA formally foreswore its Marxist–Leninist ideology and the one-party system.
But officeholders’ rent-seeking continued apace. Newly privatized firms were appropriated by the politically favored. The creation of an ostensible multiparty system only increased the number of people to be bought off (Hodges, 2008; Munslow, 1999; LeBillon, 2001). Corrupt and incompetent government compounded the ravages of the war, which devastated the economy and displaced hundreds of thousands as refugees (Birmingham, 2002, 173; Ferreira, 2006, 27). After an aborted peace settlement in 1991, the war continued until Savimbi was killed in combat in 2002. The insurgency then collapsed and a peace agreement, now a lasting one, was reached. While conflict with UNITA ceased, the Front for the Liberation of the Enclave of Cabinda (FLEC) continued small-scale guerrilla operations.

Especially after the withdrawal of the competing cold war powers, the civil war was a naked struggle for power, in which “minerals provided both the prize of victory and the means for achieving it” (Hodges, 2004). The MPLA controlled the oil, and UNITA controlled the extraction of diamonds. The government actively sought foreign partners to explore and drill for oil starting in the 1980s, not only in Cabinda but off the coast of Angola proper. Even with war raging, oil production mounted steadily, from 120,000 bpd in 1982 to 701,000 bpd in 1997 (Oliveira, 2007, 603). Corruption was rife. Foreign concessionaires’ signature bonuses, in the millions of dollars, were deposited abroad and much of the revenue was sequestered in a secret “parallel budget” with no public accountability. As James Ferguson puts it, “neither the oil nor most of the money it brings in ever touches Angolan soil” (2005, 378).

Since the end of the war, the combination of increased production and record prices for oil has spurred dramatic economic growth, bringing an ostensible boom. Cumulative economic growth reached 67.5% between 2003 and 2006 (20.6% in 2005, 18.6% in 2006), mainly due to oil production (Centro de Estudos e Investigação Científica, 2007, 18–19; International Monetary Fund, 2006; Council on Foreign Relations, 2007).

Most of the population received no benefit, however (Table 2). Though oil wealth drove per capita GDP up to US$2,335 (at purchasing power parity) in 2005, edging Angola into the ranks of middle-income countries, income distribution is extremely skewed. The poverty rate is estimated at 68%. Angola also ranks among the lowest in the world on other social indicators: the Human Development Index stood at
.446 in 2005. Its combined (primary, secondary, and tertiary) school enrollment ratio was 25.6% and life expectancy was 41.7 years (United Nations Development Program, 2007, 232).

The national budget shows little effort to alleviate poverty or improve the standard of living of the population. Expenditures on education and health, as a proportion of GDP, actually fell from 2001 to 2005: education from 3.3% to 2.1%, health from 2.8% to 1.4% (Central Intelligence Agency, 2008; Rocha, 2006, 55–57). A rough but serviceable measure of a country’s effort to improve its population’s well-being can be derived by comparing its GDP per capita to its human development index. A country whose HDI is significantly higher than would be predicted from its average income can be assumed to be devoting substantial efforts to improving the social level; conversely, an HDI significantly lower than its GDP per capita would predict suggests a weak government effort. Angola’s rank is 128 of 174 countries in GDP per capita, and 162 of 177 countries in HDI, so the social level of the population is much lower than its wealth should make possible. On two of the components of HDI it is nearly the worst-off country in the world: its school enrollment ratio is ranked 170 of 172, and its life expectancy 174 of 177 (See Table 2).

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3 The Human Development Index is a measure of the social well-being of the population, based on per capita income, literacy, school enrollment, and infant mortality. It is computed for all countries and published annually by the United Nations Development Program in its Human Development Report (2007). It ranges from zero to one.
Authoritarian governing practices established during the war have continued into the present. The human rights record was rated as poor by most observers, including Human Rights Watch (2004) and the Department of State (2008), which reported unlawful killings by police, military, and private security forces; arbitrary arrest, detention, and torture in life-threatening prison conditions; lack of due process in an inefficient and overburdened judicial system; and forced evictions.

In particular, corruption continued to be widespread and accountability was limited, although some steps had been taken to increase transparency. The country has been deemed one of the most corrupt in the world by a variety of sources. In its ranking of 163 countries in 2006 from the least to the most corrupt, Transparency International gave Angola a rank of 142, with a score of 2.2 on a ten-point scale (an improvement from rank 98 out of 102 with a score of 0.3 in 2002) (Transparency International, n.d.). The Transparency International ratings have been criticized for being based on reputation, not hard data; but the evidence from closer studies suggests if anything an even worse record. Corruption has been documented by journalists (Africa Confidential, 2008; Gumede, 2006; Shaxson, 2007) and academic researchers (Hodges, 2001; 2004; Ferreira, 2005; 2006; LeBillon, 2001; Munslow, 1999). It has been denounced by the IMF (2006), the Department of State, in its annual human rights reports (DOS, 2008 and earlier years), and nongovernmental organizations — in the United States, Human Rights Watch (2004); in the United Kingdom, Catholic Relief Services (Gary and Karl, 2003), Global Witness (2001 and 2004), and Chatham House (Vines, et al., 2005); in South Africa, the Institute for Democracy in South Africa (Alexander and Gilbert, 2008). The U. S. Council on Foreign Relations (2007), more measured in its pronouncement, nevertheless emphasizes the need for reform and points to ways that the government, given the will, could produce it. Angola demonstrates the close connection, noted by Amartya Sen (2000) among others, between observance of civil and political rights, on the one hand, and economic and social rights, on the other.

Secrecy keeps the wheels of corruption rolling. Though legally all oil revenue is required to be deposited in the National Bank of Angola, in fact much of it goes into the parallel budget, deposited in special accounts, often abroad, for the presidency and Sonangol, the national oil company. Offshore money laundering, overinvoicing of procurement and sales, loans backed by future oil production (a
deliberately deceptive method of borrowing), and overpriced military procurement are all rife (Global Witness, 2004, 40). Transnational oil companies cooperate in these practices because the oil (in steadily increasing quantities) is too big a prize to resist. With respect to the underreporting of oil revenue, the Economist Intelligence Unit said that “Angola is clearly in a class of its own” (quoted by Gary and Karl, 2003, 33).

The government has also directly threatened oil companies that have responded to pressures for disclosure. In February 2001, BP offered to release data on its payments to the government, but reneged when Sonangol threatened to terminate its contract for violation of contractually guaranteed confidentiality (Global Witness, 2004, 56).

Calls for transparency, accountability, and efficient management in the collection and expenditure of revenue are frequently heard from NGOs, but the case of Sonangol illustrates the difference between efficiency and probity. From its founding in 1976, Sonangol was kept independent and free of the race for spoils, the anti-corporate mentality, and the state-led economic management that the MPLA put into practice in the rest of the economy. Over time it has become a major international player with diversified holdings including air and maritime transport subsidiaries, telecommunication, insurance, marketing and trading subsidiaries in the United States, the United Kingdom, Hong Kong, and Singapore; its socially beneficent activities include scholarships for children to study abroad and financing of two Angolan football teams (Oliveira, 2007, 599–605).

Its revenues do not contribute to development, however. Instead, as Ricardo Soares de Oliveira shows, it accumulates riches at the service of the President and his clique. The paradoxical condition of effective management in the company, protected from the corruption which is otherwise general, leads Oliveira to characterize Angola as a “successful failed state” (2007, 617) — successful at the purpose for which it is intended, enriching the elites, even as it fails to provide for the country as a whole. Sonangol calls into question the assumption that efficient management will put oil revenues at the service of the public good.

While having officially abandoned socialism, the MPLA still practices a centralized model of development, emphasizing high technology, big projects, and international borrowing. The welfare of the population is not a serious consideration.
Venezuela: Escaping the Resource Curse?

“Very little happens in Venezuela that does not have to do, directly or indirectly, with oil,” according to the scholars Luis E. Lander and Margarita López Maya (2002). The oil history of Venezuela is very different from that of Angola, going back to the beginning of the last century. It is also a much more developed country. But as Karl shows, oil has had similar effects on countries with very different prior developmental trajectories (1997, 32). The western hemisphere’s largest oil reserves have been even more fateful for Venezuela than have Angola’s for its own history.

The case of Venezuela is crucial to the study of the resource curse, for two reasons: first, oil has been central to Venezuela’s fortunes under Hugo Chávez, but the Chávez regime has partially escaped the resource curse. Second, as I have mentioned, Venezuela (before 1999) occupies a central place in the most widely read discussion of the resource curse, Karl’s The Paradox of Plenty (1997). Venezuela under Chávez is an exception in two senses: to the general rule of the resource curse in poor oil-producing countries, and to its own history. I will examine what it is that has allowed Venezuela to escape the typical pattern.

If the oil story in Angola is one of failure to serve public purposes, the story in Venezuela is in some ways the opposite. During the boom years of the 1970s, oil was the essential underpinning of a social democratic project, with generous welfare provisions and great developmental ambitions. After the bust, though PDVSA remained nationalized, it operated much as a private transnational oil company, pursuing capitalist efficiency and insulating itself from political demands. Though it eschewed the overtly corrupt practices which have characterized Angola, the result was similar to that in Angola in one sense: oil revenues financed investment for the growth of the company, largely by acquiring foreign assets. They did not contribute to the needs of the population, and living standards deteriorated. One alleged effect of the resource curse is corruption and lack of transparency; another is an unresponsive government that disregards social needs. In the former respect, Venezuela after the bust escaped the resource curse; in the latter respect, it exemplified it.

Under President Hugo Chávez, Venezuela has taken a different path. The Venezuelan government is using its oil revenue to underpin
his political project of “twenty-first century socialism” — economic development under the aegis of an interventionist state, economic redistribution and political incorporation for the poor masses of the population, and Third World solidarity in defiance of the United States. It promoted the revival of production quotas for OPEC countries to raise prices and revenues (aided, to be sure, by the huge increase in worldwide demand) and has dedicated a substantial share of those revenues to social programs in education, health, and subsidized consumption. It has asserted national control over its petroleum resources, challenging transnational oil companies. Asserting control and financing domestic programs have made oil a political weapon. The example of Venezuela demonstrates that the resource curse is not inevitable but is the consequence of deliberate policy choices, and can be exorcised by a government that applies the necessary political will.

Dominated by transnational oil companies in the early 20th century, the Venezuelan oil industry began to shake off that domination with a 1943 hydrocarbons law raising taxes and giving the government greater control. Since the 1960s, Venezuela has worked to manipulate the international oil market in its favor. It was a major initiator of OPEC in 1960.

At the time of the first oil price shock, oil had given Venezuela grandiose ambitions. When Carlos Andrés Pérez became president in 1974, he announced that he would use the new revenues to fund ambitious projects to create *la Gran Venezuela*. Planning to “sow the oil” and reap a diversified, sustainable economy, Pérez created a welfare state with medical and social security programs and massive industrialization projects involving vast investments, many of which failed to come to fruition. In Karl’s account, Venezuela now experienced the resource curse at its worst. At the same time, these ambitions exemplified what Fernando Coronil has called the “magical state” with prospects based on oil’s “power to awaken fantasies” (1997, 2).

While the dream held, Pérez nationalized all oil holdings in 1976, creating Petróleos de Venezuela SA (PDVSA) and compensating foreign owners. The second oil price shock in 1979 led to even greater excess under Pérez’s successor, Luís Herrera Campíns. With the oil bust, Venezuela borrowed heavily from international banks to sustain government programs. Through boom and bust, however, the government did not plan seriously for the future or build state structures

Crisis came in 1989. Pérez was reelected president in 1988 on a populist platform. But immediately after he took office in 1989, under pressure from the IMF, he announced a package of austerity measures. Rioting broke out across the country, especially in Caracas (the *caracazo*) where the brutal response left hundreds dead. Pérez was forced out of office in a corruption scandal in 1993, leaving his successors saddled with the collapse.

The 1980s and 1990s also saw what Bernard Mommer (who later became deputy oil minister under Chávez) characterized as two parallel but opposite conspiracies. The first was in the military. Young officers led by Hugo Chávez, disgusted at the corrupt government, founded the Bolivarian Revolutionary Army (EBR-200, later renamed Bolivarian Revolutionary Movement) on the 200th anniversary of the birth of Simón Bolívar. Two coups were attempted in 1992, the first led by Chávez. Both coups failed, and Chávez was jailed for two years, but he began to attract the popular acclaim that was to win him the presidency seven years later.

The second conspiracy was among PDVSA executives. They had an essentially capitalist vision which aimed to restore sound management and operate the firm independent of the national executive to maximize profits. They undercut OPEC by pumping as much oil as possible even when the price was low and OPEC was calling for restrictions. They “internationalized” the company by investing abroad in refineries and distribution facilities (including the U. S. gasoline company Citgo, wholly owned by PDVSA), won court decisions to bring back foreign investment under very favorable terms, evaded Venezuelan taxes through creative accounting, and sequestered profits outside of the country and the Venezuelan treasury (Lander, 2001; Mommer, 2003).

This transformation of PDVSA, known as the *apertura*, or opening to foreign investment, is seen differently by different observers. For Karl, it represented reform in response to a crisis, a solution to the resource curse. For Hellinger, Mommer, and Wilpert, it represented the sacrifice of national sovereignty and the general good of the population to the interest of international capital, a perpetuation of the resource curse in a different form.
Since 1999, and especially since 2004, Venezuela’s oil policy has been the opposite: redirection of PDVSA to serve public purposes and allocation of the revenues to meet the needs of the population. This turnabout is inseparable from Chávez’ nationalist revolution, bolstered by the soaring price of oil.

Chávez was elected president in 1998, anticipating a wave of progressive presidents in Latin America in the new century (Hammond, 2008). Immediately on taking office in 1999, he called a referendum to convokе a constituent assembly, then an election for the assembly, and finally a referendum on the new constitution. Chávez’s positions and his supporters all won handily. The constitution rings with revolutionary pronouncements promising direct participation in politics and economic and social benefits for the people (Wilpert, 2007, 21, 29–44).

When Chávez was elected, the price of oil had hit a low point, eight dollars, following the 1997 worldwide slump. He apparently had no clear plans for PDVSA, although the new constitution guaranteed state ownership of the company (though existing production agreements with foreign companies were untouched). In OPEC, on the other hand, Chávez persuaded fellow members in 2000 to revive production quotas (Lander, 2001, 28–30; Wilpert, 2007, 97).

At home Chávez issued a series of progressive decree-laws in November 2001, including an agrarian reform law and a hydrocarbons law which nearly doubled the royalties paid to the treasury by PDVSA or foreign companies (Wilpert, 2007, 95). These measures and, even more, its loss of influence led the opposition to start organizing, first an attempted coup on April 11, 2002, then a strike in PDVSA beginning in December. The two-month shutdown crippled production, which fell from over three million bpd to a low of 25,000 during the strike; it cost over seven billion dollars (Lander, 2005, 12). According to company sources, however, production had risen again by mid-2004 almost to pre-strike levels. Others disputed the claim but agreed that the company had made a surprising recovery (Forero, 2004). The opposition’s next major assault was a recall referendum in August, but Chávez won handily with 59% of the vote.

In response to these assaults, Chávez radicalized the revolution, in economic policy generally, oil policy in particular, and social welfare policy. He moved to extend control over PDVSA. Approximately
18,000 employees (about half the company’s workforce) who had struck were fired. In 2005, joint ventures were imposed on foreign companies to replace the existing operating agreements, with Venezuela taking majority control and changing the taxation rules to raise revenue and make evasion more difficult. In 2007 the remaining production sites under private control were nationalized, affecting production of heavy crude in the Orinoco oil belt.

The significance of government control over the nation’s oil is far greater than the economic value of the revenue. Because primary commodity dependence has long been a mechanism of imperialist domination, challenges to foreign companies and to privatizing domestic interests are an assertion of national sovereignty and a victory over imperialism. Chávez harnesses oil production to his foreign policy, offering discounted oil to neighboring countries to promote Latin American integration and counter U.S. influence in the region. Reliance on and reinforcement of OPEC asserts the power of resource producers over against the wealthier consumer nations. Subsidies for heating oil for poor communities in the United States form part of the rhetorical barrage against the imperialist enemy (Ellner, 2008, 118–20; Weisbrot and Sandoval, 2008, 22; Wilpert, 2007, 25, 96–99).

The domestic counterpart of anti-imperialism is the empowerment of the poor and working class, and the elevation of their symbolic and material status. The government has created social projects, known as misiones, to provide health care, education, job training, housing and urban infrastructure in the massive shantytowns, agrarian reform, and subsidized food. The missions are organized locally, involving local participants in the execution (if not necessarily in the planning and initiation) of the projects. The significance of these missions is greater than the provision of services; greater, even, than the opportunity for poor people to organize and participate in running their communities. In today’s Venezuela the poor are accorded a status and recognition that reverses the inferiority to which they had been relegated throughout the country’s history. As Coronil (2008a, 3) puts it, “now it is impossible to participate in politics in Venezuela without recognizing the centrality of common people.”

The prospects for Chávez’s revolution will depend on the future course of the price of oil and on the government’s success in avoiding the resource curse. Given the heavy dependence of the Venezuelan economy on oil, the resource curse theory would predict that the
current prosperity is all too vulnerable to the recent price decline. Many analysts today have suggested that Venezuela is headed for another bust. As already mentioned, all assessments of the Venezuelan economy appear to be highly ideological. Those who sympathize with the Chávez government are eager to credit it with a viable strategy for sustainable economic growth, while its opponents wish to prove corruption, mismanagement, and a coming economic collapse (see, for example, the debate between Rosenberg, 2007, and Oil Wars, 2007, about the management of PDVSA; that between Rodriguez, 2008, and Weisbrot, 2008, about poverty reduction; and the collection of views of supporters and critics of Chávez’s oil policy in Coronil, 2008b). I will evaluate the occurrence of the resource curse in Venezuela on the basis of four criteria: corruption, social spending, sustainable economic growth, and the response to the price collapse in 2008. I will argue that, while the outlook is mixed, there are signs that Venezuela’s development strategy has defeated the resource curse.

**Corruption.** Political favoritism in hiring and kickbacks in purchasing are widely rumored. Venezuela ranked 138 on the 2005 Transparency International Index, just above Angola (Transparency International, n.d.). Corruption is intrinsically hard to verify. It has been widely reported in academic and journalistic sources as well as in everyday conversation among Venezuelans, although in his first campaign for president, Chávez promised to attack it vigorously. Complaints are even common among Chávez supporters, especially in the grassroots organizations. But some academic accounts mention corruption only in passing, as if taking it for granted, without specific allegations (Corrales, 205, 107; Ellner, 2008, 184; McCoy, 2005, 120; Ortiz, 2004, 87–90).

The most detailed accusations are leveled by Gustavo Coronel of the conservative Cato Institute in Washington. Coronel, claiming that corruption under Chávez has reached record levels, uses a broad definition of corruption that mixes allegations of financial irregularity with admittedly political criteria. He seems to view any expansion of government power as necessarily corrupt. His examples range from political control of the oil company and subsidies to oil purchasers abroad such as Cuba and poor communities in the United States to inadequate garbage collection. It is only by that broad definition that he can claim that “the eight-year period of Chávez’s government has been hypercorrupt, surpassing all preceding governments in both incidence and intensity of corruption” (Coronel, 2006, 8).
Gregory Wilpert, an acknowledged sympathizer of the Chávez regime, recognizes the prevalence of corruption, while also pointing out that it is longstanding, an extension of the clientelism that has been an integral part of Venezuela’s political and economic history (Wilpert, 2007, 212–15). But its magnitude in Venezuela does not appear to be comparable to that of Angola or other oil-producing countries on the Gulf of Guinea. It appears that national control of oil production in Venezuela precludes corruption in the assignment of contracts to international oil companies that elsewhere rises to the billions of dollars.

Social spending. Part of the resource curse argument is that governments of poor oil-producing countries are unresponsive to the needs of their populations because the rulers live off the rents generated by high oil revenues, so they are more concerned with their constituency in the international oil business. This is clearly not a characteristic of the current Venezuelan government. Social spending has increased massively under Chávez, especially in the areas of health, education, and food subsidies — from 8.2% of GDP in 1998 to 13.6% in 2006. On a per capita basis, social spending increased by 170% between 1998 and 2006. These figures do not include social spending by PDVSA, which itself amounted to 7.3% of GDP in 2006. Counting PDVSA’s share, total social spending was 20.9% of GDP in 2006. In the aggregate, real social spending per capita had increased by at least 314% over 1998 (Weisbrot and Sandoval, 2008, 10–12).

In practice, all the “missions” are funded by oil revenue. In some cases the relation is direct. Venezuela sells oil to Cuba at discounted prices; in exchange, Cuban medical personnel provide primary care to Venezuelans. An adult education mission is run directly by PDVSA and the electric company CADAFE; its headquarters are in PDVSA’s offices (Collier, 2006; Gobierno Bolivariano de Venezuela, 2006; Gobierno en línea; Wilpert, 2007).

These social programs have improved the living standards of the population (Table 2). GDP per capita stood at US$6,632 in 2005 and the Human Development Index was .792. Life expectancy was 73.2 years and the school enrollment ratio was 75.5%. The poverty rate declined from a peak of 55.1% in 2003 to 26% at the end of 2008. If we make the same comparison of HDI and GDP per capita as for Angola, we find that while the country’s GDP rank is 88 of 174 countries, its HDI rank is 74 of 177 countries. In life expectancy it ranked
61 of 177 countries and in school enrollment, 76 of 172 countries (UNDP, 2007, 230; Weisbrot and Sandoval, 2008, 10–12; Weisbrot, et al., 2009, 9, 15). That the social welfare measures are better than would be predicted from GDP (just the reverse of Angola) suggests the effectiveness of government social welfare programs.

Social programs are costly, and Venezuela’s depend heavily on oil revenue. I will address the effect of the 2008 price collapse below.

**Investment and economic growth.** The greatest claimed burden of the resource curse is that dependence on oil, however profitable, does not guarantee economic growth. In Venezuela, however, quantitative economic growth in the present century has been spectacular. Turmoil in response to the PDVSA shutdown meant major disruptions in 2002 and the first quarter of 2003. During those two years GDP fell. Recovery began in the second quarter of 2003 and has continued at least to the end of 2007. The country attained double-digit GDP growth levels in 2004, 2005, and 2006 (Weisbrot and Sandoval, 2008, 9).

The picture is mixed with regard to investment and diversification — “sowing the oil” to create an economy less dependent on oil. Some critics have argued that Chávez’s nationalization of oil extraction and some non-oil industrial firms has scared away foreign investment (Romero, 2008). But investment has nevertheless been strong, both in the public and private sectors. Gross fixed capital formation, which stagnated during the first years of the Chávez administration and then collapsed during the PDVSA strike, has come back strong, exceeding the levels of before the strike by a wide margin: its real growth was 49.7% year-over-year in 2004, 38.4% in 2005, and 26.6% in 2006. For the first three quarters of 2007, it was up 24.6% year-over-year. Oil Minister Rafael Ramírez said in January 2008 that PDVSA invested US$5.8 billion in 2006 and $10 billion in 2007, and would invest US$15.6 billion in 2008, which would increase oil production to 5.8 million bpd (Alvarez, 2007; PDVSA, 2008; Weisbrot and Sandoval, 2008, 21).

To diversify the economy, the government is investing in small producer cooperatives. It is clear, however, that the economy remains concentrated in the oil sector, and outside of that sector, growth in manufacturing has not been as strong as growth in finance and other services (Weisbrot and Sandoval, 2008, 8; Wilpert, 2007, 76–81).

Inflation posed a threat to economic growth in 2007 and the first half of 2008 as food and energy prices surged worldwide, but
then abated with the worldwide decline in demand. The Chávez government has successfully pursued a policy of keeping public debt, especially foreign debt, low (it has in fact been reduced) and maintaining a balance of payments surplus which should help to contain inflation (Weisbrot and Sandoval, 2008, 15–16; Weisbrot, et al., 2009, 19–20).

After the price collapse. If Venezuela did not succumb to the resource curse during the oil boom, its response to the loss of oil revenue since the sudden, steep price collapse that began in July 2008 is an important further test. As of this writing (October 2009), it is too soon to be certain, but there are signs that Venezuela has some resources that will enable it to weather the storm better than might be expected.

Venezuela has attempted to protect itself against the price decline by conservative budgeting and promoting output controls in OPEC (Mouawad, 2008). What appeared to be a conservative accounting measure estimated oil revenues at $60 a barrel for 2009; after the collapse the price recovered to above that level. Finance Minister Alí Rodríguez, presenting the 2009 budget to the National Assembly, anticipated curtailment in financing for the missions — though he did not say by how much (Morgan, 2009).

If evaluations of the present status of Venezuela’s oil industry are politically contested, projections of its future are even more so. Some economists predict a complete economic collapse. Others have argued for a conservative fiscal policy to prevent a recurrence of inflation. But according to Mark Weisbrot and Rebecca Ray (2008), the key issue is the current account balance. Inflation, in their view, is less of a danger to continued economic growth than is the prospect of having to cut imports. The current account balance has been strongly positive for several years, allowing the country to accumulate a dollar reserve that provided a cushion to protect the economy at least to the end of 2008. Weisbrot and Ray argued (in November 2008) that if oil remained at $50/barrel, the accounts balance would remain positive. It is too soon to tell whether the recent price recovery will be sustained and prevent a deficit in 2009. But assuming recovery from recession at the global level, the price of oil will remain higher than at the end of 2008. In the meantime, Venezuela’s ample cash reserves — $40 billion in the Central Bank, $37 billion in other accounts, amounting to 23% of GDP — provide an enormous cushion against a trade deficit.
Conclusion

Why has Venezuela avoided the resource curse (at least partly and for a time), while Angola has not? Can Venezuela’s success offer guidance for other countries facing the threat?

The resource curse is a complex phenomenon. To review, the three main problems that proponents of the resource curse theory point to are corrupt diversion of revenues, economic mismanagement, and neglect of the living standards of the population.

Most of the remedies proposed for the resource curse address the issue of corruption. They concentrate on “good government” measures to assure transparency and accountability to avoid corruption or political interference. Often recommendations express an optimism about the prospects of reform that is belied by the conditions they are addressing: for example, hopeful observers claimed that the end of the war in Angola offered an “unprecedented opportunity” (the phrase is used by Hodges, 2004, and Human Rights Watch, 2004, 3) to institute transparent and accountable use of oil revenues.

Some who call for reform and an end to corruption see a solution in civil society. If its organizations were strengthened, they could compel rulers to comply with their demand for honesty in government. Many advocates of this solution come from NGOs and regard their own organizations as exemplars of civil society. Some offer more detailed proposals in the same vein: they call for countervailing political and social pressures, for building the political capacity of groups that do not share the interests of corrupt governments and international oil companies, for instituting a merit-based civil service, for taxation not based on oil, and for democratic institutions to rein in the alliance between multinational oil companies and political leaders (Alexander, 2008, 23–24; Gary and Karl, 2003).

Oliveira and Ali (2006) place their confidence in the transnational oil corporations’ embrace of corporate social responsibility. Others who have less confidence in the good faith of corporations nevertheless also see them as the appropriate pressure point. A coalition of NGOs proposed the “Publish What You Pay” initiative in 2002, a plan to require oil companies to disclose the royalties they pay to producer countries. In 2003, British Prime Minister Tony Blair offered an alternative, the Extractive Industries Transparency Initiative, calling on
producer countries to comply voluntarily. Neither proposal, however, carried any means of enforcement. And when BP offered to disclose its payments to Angola, as mentioned earlier, Sonangol forced it to back down (Alexander and Gilbert, 2008, 72; Shaxson, 2007, 217–18).

None of the proposals to put an end to corruption, therefore, offers much prospect of a change in the relation between the Angolan government and its oil industry. Any demand that the corrupt put an end to their corruption has an air of unreality, since it asks them to surrender their power and privilege voluntarily. All these proposals require a change in political will, but none explains what might produce it. If such a change would harm the interests of the oil oligarchy and the transnational corporations, they have the power to prevent it (Hodges, 2008, 198). Corruption is a systematic consequence of the political economy of oil production, as I have emphasized. It is encouraged by the centralization of political authority that the delinking of oil from the national economy permits, and the rent-seeking that provides a perverse incentive, as Smith recognized.

The term “corruption” of course carries a moral connotation; but its causes and consequences must be understood independent of any moral (or moralizing) evaluation. Corruption can take many forms; the form most consequential in poor oil-producing societies is the diversion of oil revenues from the public treasury by government officials at great cost to the majority of the population.

Those who focus on the inefficiency associated with the resource curse propose technical solutions to stave off its economic effects. For example, they argue that to protect an economy from inflation and the Dutch disease, revenues should be sterilized by being held outside the country in a sovereign wealth fund (Humphreys and Sandbu, 2007, 194–233; Karl, 1997, 66). PDVSA isolated oil revenues from political control during the period of apertura — revenues were reinvested, often outside of the country, so that they could not be spent for political purposes. That is no guarantee against corruption, however, as the case of Sonangol shows. It reaps money through corrupt oil-related transactions and invests it around the world, functioning somewhat like a sovereign wealth fund (Africa Confidential, 2008, 10–11). Keeping money outside the country is hardly a guarantee of transparency.

Even if it were, it raises the question: in whose benefit is the resource curse being exorcised? Achieving sound management and economic efficiency will not necessarily benefit the entire population.
Reform advocates from the NGO world generally call on governments to account for their revenues honestly so that the money will be applied to improving the welfare of their populations. But they appear to assume that better social policies will follow automatically from transparency and honest government. That is not necessarily the case.

Others who call for transparency and efficiency are fundamentally concerned about profit maximization without regard for the uses to which the profits are put. If oil is the patrimony of a nation and all its citizens are entitled to share in its rewards, however, oil wealth belongs to them by right. If profit maximization is the goal, those who appropriate the profits violate that right whether appropriation proceeds by legal or illegal means.

Economists who privilege efficiency have learned too well the lesson of Adam Smith, cited earlier, that rent-seeking creates a bias toward unproductive activities. This unproductive bias must be guarded against; it is nevertheless not a necessary consequence of rent-seeking. If rent-seeking means using monopoly power to get the highest price for natural resources, it is no different from the capitalist pursuit of gain in general. The producer who forces the price of oil up is engaging in rational behavior. Successful rent-seeking will produce income for the benefit of some people on the side of the producer. The question is for whom.

The goals of efficiency and public benefit can conflict with each other unless the first is put explicitly in the service of the second. My argument is that Venezuela has done so, and overcome this more fundamental aspect of the resource curse.

How then do we explain Venezuela’s success in addressing the resource curse and using its oil to fund the welfare of the whole population? Some claim that the Bolivarian revolution is purely personalistic, due to the ambitions, ideology, and ego of President Chávez. But his program of 21st century socialism goes well beyond personal self-aggrandizement. Venezuela is addressing the resource curse with a fundamental social revolution and has decided to operate according to principles of international third-world solidarity and redistributing the benefits of the oil revenue. This offers the best opportunity to make oil work as a blessing rather than a curse.

When PDVSA adopted “sound” management practices in the 1980s and 1990s and curbed the spending that some scholars identify
with the resource curse, it made the oil company an independent entity that operated without regard for national goals. This policy brought efficient capitalist management, but it deliberately excluded applying oil revenues to the development of the country. With Chávez’s election the orientation changed: PDVSA was newly subject to political direction — contrary to good business practices, according to some, but operating in the international environment to maximize returns and domestically to harness oil revenues in the service of investment in human and physical capital and general welfare.

Venezuela has not only found a cure for the disease. It has also found a cure for the cure.

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