

# The Impact of 21-Century Socialism on Venezuela under Chavez's Governance

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**Abstract.** Venezuela has gone from a country known for its oil production to a country known for its people's misery and outrageously high inflation rate, and Chavez's 21st-century socialism was the beginning of Venezuela's descent into crisis. Therefore, the research topic of this paper is the impact of 21st-century socialism on Venezuela during Chavez's administration. The methodology of this paper is as follows: first, we collect data on various aspects of Venezuela from 2005 to 2012, such as PCGPD, HDI, GINI Index, poverty rate, etc., and then we inquire about the basic measures of Chavez's 21st-century socialism. The two were combined with correlation analysis. The impact of Chavez's administration is: at the beginning of the 21st-century socialism, GDP increased, people's happiness increased, and politics stabilized; however, at the end of the Chavez era, the economy collapsed, social chaos, and inflation became serious. 21st-century socialism had some positive effects on Venezuela for a short period during Chavez's reign, however, at the end of the Chavez era, its economic, political, and social disadvantages became apparent. Additionally, in the latter part of the Chávez era, its economic, political, and social shortcomings became apparent and led Venezuela into an unprecedented crisis.

**Keywords:** 21-Century Socialism, Chavez, Venezuela.

## 1. Introduction

Venezuela has long dominated the top of the global misery list, which indicates that the people in Venezuela live in a dire strait, Venezuela is in the midst of an unprecedented crisis, that is impacting its economy, political life, infrastructure, and society [1]. In recent years, events that can be attributed to both domestic policies in recent years, events that can be attributed to both domestic policies and foreign interactions have compounded to create the state of crisis and instability that currently exists in the Bolivarian Republic of Venezuela. This has led to a humanitarian crisis that has manifested itself in people's daily existence, at the interpersonal and collective levels. However, Venezuela shouldn't end up like this. Venezuela's oil reserves have been high in the world since December 1922, when the country discovered its mega-field, and in 2018 it had 18% of the world's proven oil reserves, ranking first in the world. Not only oil but also many other natural resources such as gold and natural gas [2]. Meanwhile, the north of Venezuela is rich in seafood and the northeast coast produces pearls. With such a wealth of natural resources, Venezuela has still ended up in political chaos, economic collapse, and debt. As a result of research, Chávez's "21st Century Socialism" is believed to have played a significant role in the transformation of the situation in Venezuela. In this article the impact of Chávez's "21st Century Socialism" on Venezuela will be focused on. An in-depth study of the impact of 21st-century socialism on Venezuela can help explore the root causes of the Venezuelan crisis and can be a complement to the diversity of ideologies. At the same time, 21st-century socialism is a good case study for other ideologies, and its image can be used to determine what is wrong with it so that it can be extrapolated to itself, and corrected if it is not.

The existing literature on 21st-century socialism focuses more on his ideology and the origins of Chavezist ideology, as well as specific measures of 21st-century socialism. There is a lack of elaboration on the full range of impacts of 21st-century socialism on Venezuela. This paper will begin with an introduction, followed by an explanation of the impact of 21st-century socialism on Venezuela during the Chavez administration from three perspectives: economic, political, and social, followed by an analysis of the causes of the impact using a discussion section, and finally a conclusion.

## 2. Influence

After Venezuela had successfully weathered the military coup as well as the oil strike, Chávez set his sights on socialism and, in 2005, introduced the concept of "21st-century socialism". Since then, "21st-century socialism" has been established, and its implementation in Venezuela was accelerated when Chávez won during another electoral campaign in 2007. This is when the Statism completely reigned in Venezuela. Until Maduro took office, this was the plan and blueprint for Venezuela's development (although Maduro continued to follow Chavez's lead after he became president). Its impact on Venezuela economically, politically, and socially, respectively, has been all-encompassing and complex, and difficult to describe in simple terms as good or bad.

### 2.1 The impact of "21st century socialism" on Venezuelan economy

Economically, just by looking at the data, Venezuela's economic situation seems to have improved. Between 2004 and 2008, Venezuela's GDP rose steadily and fiscal revenues improved because the oil strike was over, which indicated that Venezuela was enjoying a relatively political peace, and international oil prices increased. At the same time, public expenditure expanded in line with the surge in oil rents, and asset liquidity increased. As a result of expansionary fiscal and monetary policies, total domestic demand also expanded to 17.3%, exceeding the average annual GDP growth rate of 10.4% at the time, and as a result, the volume and value of imports surged. The surge in the price of oil also contributed to the development of the non-oil industries. As can be seen in Table 1, the Non-oil PCGDP also increased a lot. At this point, Venezuela's economy seemed to be moving in a better direction [3].

**Table 1.** Venezuela, Average Annual Growth rate [4]

Period	GDP	PCGDP	NOGDP	NOGDP	AGDP	PCAGDP	PCMAGDP	PCTGDP
		DP	DP	CGDP				P
				P				
1998-2003	-3.3	-5.1	-3.1	-4.9	1.6	-0.3	-6.3	-5.1
2003-2008	10.4	8.5	12.0	10.1	3.6	1.9	7.3	6.0
2008-2016*	--	-4.2	-3.9	-4.8	-2.3	-3.7	-6.5	-5.8
1998-2012	2.7	0.9	2.4	0.6	1.9	0.1	-0.6	-0.5
2012-2016	-6.6	-7.9	-5.8	-6.3	-4.7	-6.0	-10.2	-9.1
1998-2016	0.6	-1.1	0.5	-1.0	0.4	-1.3	-2.8	-2.5

Note: \*=data for 2016 are preliminary estimations.

GDP=Gross Domestic Product, PCGDP= Per Capita GDP, NOGDP=Nonoil Per Capita GDP, AGDP=Agricultural GDP, PCAGDP=Per Capita Agricultural GDP, PCMAGDP=Per Capita Manufacture GDP, PCTGDP=Per Capita Tradable GDP

However, there is a potential hazard behind this situation. Among the "21st century socialist" economic policies, the most significant and influential one is the nationalization of private enterprises. Although the earliest nationalization can date back to January 1, 1976, which is when PDVSA was established, in 2004, Venezuela made a plan to intensify its nationalization of oil, to achieve "full oil sovereignty," and has taken a series of separate measures: in October 2004, royalties from the Orinoco heavy oil belt were raised to 16 percent, and in May 2006, the royalties from the Orinoco heavy oil belt were raised to 16 percent. In March 2006, PDVSA signed an agreement with a foreign oil

company to convert the partnership to a joint venture; in 2007, Venezuela took over control of the Orinoco Heavy Oil Belt project and issued a decree stating that the state would own at least 60 percent of the shares, among other things [5]. At the same time, the Chávez government nationalized the Caracas Electricity Company, which indicates the nationalization of the electricity industry, and in 2007, the Chávez government nationalized the communications sector by acquiring an 86.2% stake in CANTV [6].

The nationalization policies have increased mistrust between Venezuelan and foreign companies, increasing the risk of investment in Venezuela, which in turn has reduced foreign direct investment and led to significant disinvestment. In addition, excessive nationalization and state regulation have led to capital flight and a lack of innovation, without which Venezuela would not be able to develop better technology to exploit oil. The balance of payments capital account is not promising. At this point, the state was officially transformed from a manager to a controller, state intervention was once again strengthened, and the balance between the state and the market was once again tipped to the side of the state. The market lost its innovative power and dynamism and was unable to stimulate the private sector and foreign investment. It is worth mentioning that the value of non-oil exports increased, yet the share of oil exports in total exports increased and even reached 94.1% [3]. In other words, Chavez and his "21st Century Socialism" have not changed the oil-oriented development model, but rather increased Venezuela's dependence on the oil industry. The monolithic nature of the economy has also made Venezuela's economy extremely unstable, almost to the point of fluctuating with the price of oil on the international market (I am still looking for a graph that shows the GDP and the oil rents at the same time). In 2009-2010, this pitfall had its consequences. As a result of the economic crisis, international oil demand decreased, and oil prices stagnated. Therefore, Venezuelan fiscal revenues decreased significantly, and so did the PCGDP as well, which proved that the international price of oil played an important role in the Venezuelan economy.

## **2.2 The impact of “21st century socialism” on Venezuelan politics**

Politically, Chávez's "21st-century socialism", which he has been emphasizing as a people's democracy, participatory democracy, and a democracy in which the people are the protagonists, and which he hopes will "overhaul the institutions of the state to achieve a true participatory democracy," seems to have had an impact contrary to his aspirations. In 2007, Chávez amended the constitution, proposing the perpetual reelection of the president, which was rejected, and in 2009, Chávez amended the constitution again, proposing that the president, state legislators, congressmen, and mayors be re-elected. This time the proposal was passed. Between 2009 and 2010, the state increased its control over the economy and established a communal power or communal system controlled by executive power rather than autonomy, effectively reducing the functions of local governments and autonomous states [6]. The above policies and excessive state intervention in the economy also illustrate the excessive concentration of power in the Chavez administration. Many democratically oriented organizations or projects ended up in corruption and misuse of public funds. After Chávez implemented these policies, it is not hard to realize, that Chávez's legacy to Venezuela before his death was an authoritarian regime.

## **2.3 The impact of “21st century socialism” on Venezuelan society**

Socially, Chávez's contribution was significant. From the beginning, whenever international oil prices rose, Chávez expanded public expenditure [7]. Even during the world financial crisis, when both private consumption and foreign investment declined, the Chávez government used monetary policy to stabilize public spending. He asked the Central Bank and PDVSA to fund FONDEN to protect welfare. He also implemented the market goods program, which subsidized food in stores so that people could buy cheap food. He also used the Robinson Program to provide basic literacy to the community, laying the foundation for education. In 2009, his welfare policies, poverty alleviation policies, and the elimination of inequality led to a rise in the HDI to 0.731 and a drop in the Gini index from 0.481 in 2003 to 0.410 in 2008 [3]. However, later in his administration, to win votes,

Chavez began to blindly expand public expenditure, even using external debt and a large increase in real money supply to ensure the expansion of public expenditure. The public debt increased drastically. The country's economy could no longer afford such policies and measures, yet Chávez did not stop himself, especially when his health deteriorated due to cancer. This set the stage for Venezuela to fall into a debt crisis and high inflation rates.

In general, under Chávez's "21st century socialism," Venezuela has not developed democratically and upward as it had hoped, but rather, as compared to other Latin American countries, has had lower GDP growth, higher inflation, lower international currency reserves, and more autocracy.

### **3. Discussion**

#### **3.1 Interpretation of the reason of the economic breakdown**

The above analysis of various aspects of Chávez's "21st century socialism" policies shows that Statism has basically reigned the nation during Chávez's rule, and that Statism has had certain benefits for Venezuela, such as economic growth in the short term, and a relatively stable oil industry in the short term. The state's control over the oil industry also made the industry relatively stable in the short term, and the population enjoyed real welfare policies in the short term. However, the Statism implemented by Chávez was overly centralized and authoritarian and caused the Venezuelan economy to collapse. PDVSA is a large Venezuelan state-owned enterprise, yet most of the company's revenues directly or indirectly fund health and education programs and other economic development. There is still a hierarchy of management within the company, and wages vary widely among employees. And most Venezuelan SOEs have failed to implement worker self-management mechanisms. The company's technology has not been innovative, and the speed and quality of oil extraction has remained stagnant.

At the same time, Venezuela's economic situation can be summarized as a single import/export economy [1]. Venezuela's economic development is relatively backward and its manufacturing sector is relatively underdeveloped, while the country's domestic demand is expanding due to expansionary finances, which has led to a heavy dependence on commodity and technology imports, while Venezuela's economy is heavily dependent on oil exports, which is an imbalance in trade and can easily make Venezuela lose its sovereignty in trade. Venezuela's dependence on commodity imports also has a lot to do with the overvaluation of the Venezuelan currency, the bolivar. On June 8, 2009, the official exchange rate was 2.15 bolivars to the dollar, while the black market rate was over 6 bolivars to the dollar. This also illustrates that if goods are imported at the official exchange rate, they are also priced well below the cost required for domestic production. The result is that domestic goods cannot compete with imported goods. So in order to boost domestic production, Venezuela has to devalue its own currency. The Venezuelan government also wants to stimulate the domestic economy through its own investments, which increases the fiscal deficit. The government, which held the power to print money, began printing large amounts of money in hopes of filling the gap in the national treasury. At the beginning of 2008, the Venezuelan government also began to implement currency reforms [8]. Yet this series of problems and solutions seemed to lead Venezuela in another direction - inflation. The backdrop for inflation is the fall in international oil prices based on an economy that is overly dependent on oil exports.

#### **3.2 The downside of the state of Venezuelan economy under the comparison with Dubai**

Venezuela has to pale in comparison to Dubai, which also civilized the world with its oil economy. Dubai exported its first barrel of oil in 1969, and since then it has entered the era of oil economy, with the rapid rise of the oil industry [9]. Dubai's rulers know that the country's oil reserves are not abundant and that the high level of oil will lead to a homogeneous industrial structure, resulting in structural unemployment, inflation and reduced competitiveness. In view of the non-renewable nature of oil, the goal of diversifying the economy was set. Dubai began a strategic restructuring of the city's industrial structure from a single oil resource-based development model to a diversified, modern,

service-oriented urban economic development model. Today, Dubai is a world-renowned free trade port [8]. Venezuela has much richer natural resources than Dubai, but it has been stuck in a single resource-based economic model. Neither diversified industries nor technological innovations have been developed. The Venezuelan government is in a cocoon of complacency.

### 3.3 The causal downside of the state of Venezuelan politics

During his tenure, Chávez has implemented a series of welfare policies aimed at reducing the gap between the rich and the poor and social equality have indeed increased the happiness of the people and have also reduced the rates of household poverty and extreme poverty, both of which have continued to decline from 37.9% and 15.3%, respectively, in 2005 to 21.2% and 6%, respectively, in 2012 (Table 2).

**Table 2.** Poverty rate in Venezuela [10]

Time	Household poverty rate (%)	Household extreme poverty rate (%)
2005	37.9	15.3
2006	30.6	9.1
2007	28.5	7.9
2008	27.5	7.6
2009	26.7	7.5
2010	26.9	6.9
2011	26.5	7
2012	21.2	6

During 2011-2012, social public spending as a percentage of GDP has reached 22%. He has continued to promote high welfare policies such as publicly funded housing, free health care, and free education, and public spending has been expanding. But Chavez's welfare policies are blind. Chavez wants to achieve absolute equity in distribution, but this political orientation has led to a series of contradictions. His nationalization and rejection of foreign investment have hindered business innovation and led to a lack of capital for state-owned enterprises, to the detriment of the country's long-term interests. The high level of welfare and the centralized distribution of resources also deprived the population of the incentive to compete, not to mention the fact that Venezuelan society was not sufficiently productive and that the population's incentive to produce was seriously undermined [9]. At the same time, expanding public spending has put enormous pressure on the state's finances at a time when oil prices have stagnated or even declined. The welfare provided by Chavez has exceeded the limits of Venezuela's productivity, and the state treasury is in perennial deficit. The initial goal of achieving social justice has been transformed into winning the popular vote. Such a "super-welfare" policy is one of the reasons why Venezuela is in crisis.

## 4. Conclusions

The conclusion that can be drawn from this paper is that 21st-century socialism was indeed a great attempt by Chávez and did have some beneficial effects on Venezuela in the short term. For example, GDP increased between 2003 and 2008, people's happiness and poverty rates increased and decreased respectively, and social equity improved (as evidenced by a decrease in the Gini index). However, Chavez's 21st-century socialism has not fundamentally changed the Venezuelan economic system and has reinforced Venezuela's dependence on the oil economy. At the same time, excessive political centralization and the prevalence of Statism have led to high levels of political corruption in the country. Excessive expansionary finance and expanding public spending have led to an increase in Venezuela's foreign debt and serious inflation. The Venezuelan people have also suffered from the

effects of the Venezuelan crisis. After the late Maduro came to power, he chose to continue to inherit Chavez's 21st-century socialism and Venezuela's economy continued to deteriorate.

Current research is still lacking in the study of the theoretical roots of socialism in the 21st century, and future research should begin to explore the roots of Chavez's ideas about the emergence of socialism in the 21st century and examine whether there is a problem with the theory itself.

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