

**Promoting Institutional Reforms in Latin America**

**Pursuing a Reform Agenda—The Venezuelan Experience**

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Venezuela finds itself at a particularly significant crossroads of its political and institutional development which is not only fraught with dangers, but pregnant with opportunities to develop a successful reform agenda in the coming months and indeed years.

In order to place our present efforts in perspective, however, I would like to dedicate a few moments to what has been the evolution of the involvement of business organizations and business sponsored study institutions or “think tanks” in the formulation of public policies in general.

The overthrow of dictator Marcos Perez Jimenez on January 23<sup>rd</sup> of 1958 marks the beginning of modern Venezuelan democratic institutions. The period between 1958 and 1963 can be considered as one of consolidation of the incipient democracy, beset by authoritarian threats both from disgruntled elements in the military forces on the one side, and extreme leftist attempts to control Venezuelan oil engineered from Castro’s Cuba on the other.

During this period the first evidences of cooperation of business organizations and the Venezuelan labor movement in support of democratic political parties in the face of totalitarian threats, were instrumental in consolidating democracy. One of the most palpable evidences of this cooperation was a 1959 general strike called jointly by the umbrella business organization Fedecamaras (established in 1945) and the Venezuelan Confederation of Labor CTV (founded in 1936) to avert a coup engineered by army general Castro Leon against the democratic government of Rómulo Betancourt. At the same time the labor movement gave full support to the governments fight against the Cuban led guerilla movement contributing to its defeat and “pacification” of the guerilla leaders with their incorporation into the democratic political process by the end of the 1960’s.

During the ensuing years, business and labor pursued their particular agendas. The main efforts of the labor movement were dedicated to organizing workers in government agencies and State owned companies. Private business labor relations, however were characterized by generally peaceful negotiations as was evidenced by the fact that during

the past 40 years there have been very few strikes in the private sector, and most of those that have occurred are in companies that have been privatized and had a history of poor labor relations as government owned companies.

By the middle of the 1980's, however, it became clear that the Venezuelan development model built on tariff protected import substitution, oil revenue based populist income distribution and rigidly centralized political parties, was in dire need of major reform. It was during this period that CEDICE was formed in 1984, promoted by business leaders, and conceived as a public policy institute dedicated to:

***“The spreading of economic and political knowledge, granting priority to all conditions that allow the principles of individual liberty, limited government and property rights”.***

Of the many institutions that had fallen prey to cronyism and perverse legislation where labor regulations and the social security structure. Initially the CTV and labor organizations were reluctant to face reform of these institutions, to a great extent due to pressures from member unions that controlled clientelism in the Venezuelan Social Security Institute (IVSS). Business organizations, on the other hand had proposed profound changes, including a change to a Chilean style defined contribution pension system, elimination of a perverse inflationary calculation of mandated severance pay benefits, and the outright dismantling of the corrupt and inefficient IVSS that was purportedly administered on a “tripartite” basis, but in practice managed at the ruling government’s will.

By the middle of the 1990's it was evident even to the CTV that the IVSS was unsustainable; social security was effectively being “privatized” *ex officio*, by virtue of unions demanding private medical coverage and pension schemes in lieu of the practically non existent IVSS benefits. A change in the CTV leadership and a macro economic adjustment program was initiated in 1996 by the Government of Rafael Caldera who considered himself the “father” of Venezuelan labor legislation. The fact that he did not have a congressional majority, prompted him to initiate a “tripartite negotiation” encompassing Fedecamaras, CTV, and government economic and social ministers under

the rationale that an agreement reached by the forces of business and labor would be readily accepted by Congress.

These historic negotiations, initiated in late 1996, concluded in March of 1997 with the signing of a “Tripartite Agreement” that produced a Labor Reform Law and an umbrella Social Security Law enacted in November of 1997 and specific pension, health, unemployment, and housing laws approved in November of 1998. The rise to power of Hugo Chavez in the December 1998 elections, however, paralyzed the enactment of the social security systems laws, was followed by constitutional changes, and in the ensuing turbulence provoked by resistance to the Chavez regime’s attempts to establish autocratic rule the reforms are still pending in the country’s agenda.

The 1997 tripartite agreements which were similar to the economic agreements reached in Spain with the “Pacto de Toledo” that preceded Spain’s incorporation to the European Monetary Union, demonstrated, the virtues of Labor/ Business cooperation in the formulation of public policy of an economic and social nature.. This experience in social dialogue permitted leaders from both sides of the labor/capital divide to know each other better, to develop negotiating strategies, and in general to eliminate ideological considerations from the search of solutions to practical problems. As a business promoted think tank, CEDICE was and continues to be involved in many cost/benefit analysis aspects of this relationship, and has developed excellent relations with the INAESIN (Instituto de Altos Estudios Sindicales) which is, if you will, a labor movement sponsored CEDICE.

As was the case in 1959/63 when democracy was threatened, new found cooperation between CTV and Fedecamaras was to serve both of them in good stead as Venezuelans found it necessary to again resist the threats of authoritarianism and totalitarian rule.

**There are moments in the lives of countries and institutions that “to remain neutral is to take sides”,** and this has been the case in Venezuela since the beginning of Hugo Cvhavez’s term in early 1999.

The bright side of Chavez's five years in power, which the regime makes an effort to sell internationally, is that he was elected democratically, and operates under democratic principles, in spite of the fact that over half of the political organizations that originally supported him, including many of the democratic left, now oppose him.. The dark side is that the core chavista agenda is anything but democratic, represents the resurgence of extreme left populism that pretends to weld an alliance between leftist military forces, drug money financed guerillas, Castro's Cuba, indigenous movements from the Andes to Chiapas, and through OPEP becoming a linchpin between these movements and Arab Fundamentalism.

Towards the interior of the country, this dark side of chavismo has evidenced itself in a blatant attempt to destroy any existing institution that "the revolution" cannot control. In this respect the Chavez "revolution's" Stalingrad came with a referendum through which he attempted to destroy or control CTV and resoundingly lost, the rejection by Venezuelan society of 47 Enabling Law decrees that restricted, and in some cases eliminated private property and labor freedoms.

As a reaction to these arbitrary decrees a 24 hour general strike called jointly by the forces of labor and business took place on December 10<sup>th</sup>, 2001. These events mobilized opposition to the attempt to establish authoritarian rule during all of 2002 with demonstrations that at times assembled more than a million people in the streets of Caracas, prompted his overthrow for a brief interlude in April of 2002, produced a record two month strike last December, and reduced his majority in National Assembly from a two thirds majority of 110 to a sliver thin one of 83 ( out of 165 legislators).

Since the beginning of this year, as a byproduct of OAS mediation of the Venezuelan political crisis, the democratic forces of Venezuela, united under the umbrella of the "Coordinadora Democrática," designed a strategy of "democratic encirclement", with the purpose of forcing the Chavez government to comply with the 1999 Constitution and submit to a recall Referendum. Through its control of supposedly independent institutions

such as the Supreme Court, the government has used delaying tactics in an effort to avoid being submitted to the public will, but these efforts have been unsuccessful due to popular and international pressures. Between November 28<sup>th</sup> and December 1st, almost 4 million Venezuelans signed petitions (3,602,051 to be exact), out of 2.4 million required to activate the Recall Referendum, and in the face of threats to public employees of being fired if they signed, and harassment of electors by some military forces and chavista activists during the petition process.

The political result of this recent event, is that both government and opposition forces now know that a referendum ( which must be held in mid April at the latest and in which the voting is secret) would probably yield over 5 million votes, revoking Chavez who received only 3.7 million votes in the 2000 election. An interim President to serve out the 2 years remaining in the presidential period must be elected 30 days after the Recall

It is in this supercharged political environment, that CEDICE has had to pursue its objectives related to a reform agenda. Our activity in this respect has been developed in two directions, namely:

- 1.- Identifying and promoting a new consensus that has become evident in Venezuelan society.
- 2.- Studying and determining the nature of what is known as “the informal economy” which now harbors over 55% of Venezuela’s labor force.

**The unifying strategy of these two activities is that, if we are to successfully promote a market oriented reform agenda, it is not enough to discuss its nature in the halls of academe or amongst those who already believe in market oriented capitalism, but we must reach out to those social and political forces that can either block or successfully support the proposed reform agenda.**

This strategy is in line with the actions CEDICE has taken in the past few years, through programs such as its Economic Training for Journalists Program, and the Leadership and Vision Program aimed at young future leaders from different walks of life and all of the political spectrum.

The strategy also adapts itself to the dynamics of social interaction in Venezuelan Society, with its long history (dating back over 50 years as we have seen above) of productive “social dialogue” between business and labor forces, as well among political forces that, with the exception of some of the more radical elements surrounding the “chavista revolution” have become quite pragmatic in their approach to the implementation of public policies.

Cedice participates in two key committees of the Coordinadora Democrática: The Country Consensus Committee, responsible for preparing a Transition Government Program, where our Academic Director, Carlos Sabino is a member, and the Strategy Committee where I am a member as representative of Fedecamaras.

Sabino’s involvement has resulted on the Committee’s using Cedice’s Consensus findings as one of the basic elements in their work. Also, through his presence there, we are now entering the stage of presenting specific policy formulations prepared by Cedice academics in matters such as monetary policy, social security reform and regional integration, among others.

My presence in the Strategy Committee, in addition to permitting us to explain the economic impacts of various courses of action to politicians normally not conversant with these realities, has resulted in our personally confirming the wide ideological and social spectrum present in the opposition movement which belies government claims that chavismo represents “the poor”, whereas everyone who opposes it represents “the oligarchy” .

Because of the high political level and diversity in the Strategy Committee, as a result of the recent “petition landslide”, we are starting to receive feelers for the first time, from chavista political groups, government officials, and high level army officers, interested in knowing how they would stand in an “eventual” transition and transfer of power. I must say that this delicate political process is being handled with great political realism, under the conviction that democratic chavismo definitely has space and a role to play in future Venezuelan politics.

On another level, Cedice’s investigations into the workings of the informal sector, is an attempt to approach the reform agenda from the most basic of grass roots levels. The informal economy is a problem in all of Latin America, and in Venezuela it has acquired massive proportion, now encompassing a majority (55%) of employed individuals.

Up to the moment of our Sabana Grande informal economy project, no institution had taken unto itself the methodical study and analysis of informality in the country. Consequently, our first findings in this area have been received with wide spread interest from all actors involved. These initial results have prompted us to decide the formation of a permanent Informal Economy Analysis Unit as an integral part of Cedice’s organization. The head of this unit, Vladimr Zanoni who accompanies us in this meeting, has already presented his study in the Coase Institute Seminar, so I will not enter into the details of the results.

I do want to point out, however, that establishing our organization as a reference in this field permits us to maintain and develop contacts at the grass roots level, where we are finding that the political lines become blurred and it becomes easier to get anti and pro Chavez participants to work together.

Eventually, we foresee that these efforts will tie in quite well with the incorporation of private business at the municipal level, in view of their interest in preserving or recuperating property values in areas affected by informal commerce. In fact we are already receiving requests in this direction from many cities in Venezuela.

In conclusion then, Cedice's strategy for contributing to a reform agenda is a two pronged affair. On the one hand we try to influence national public policy through our involvement with national political, social and labor leaders and the presentation of policy initiatives to them and to public opinion. On the other hand we connect we work at the grass roots and municipal level through our involvement with the informal economy.

We believe that this approach will produce positive results in the difficult months and indeed years of transition that will hopefully prepare Venezuela for the challenges of the twenty first century.