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ARTÍCULO

TOWARDS A PROGRESSIVE ECONOMIC DEVELOPMENT AGENDA FOR COUNTRIES ENDOWED WITH NATURAL RESOURCES: LESSONS FROM THE RISE AND DEMISE OF THE BOLIVARIAN REVOLUTION

Leonardo Vera

Vera, L. (2025). Towards a progressive economic development agenda for countries endowed with natural resources: Lessons from the rise and demise of the Bolivarian Revolution. *Cuadernos de Economía, 44*(93), 21-45.

The purpose of this paper is to identify some of the new economic challenges faced by left-wing forces in Latin America, especially in countries endowed with natural resources. We propose a set of progressive policy responses to prevent the regional Left from repeating the missteps of the policy agenda followed by the so-called Bolivarian Revolution in Venezuela. We highlight the need to build an alternative based on what we call "progressive democratic development." Our fundamental message is that the democratic Left has to overcome the misleading dichotomy that indicates that society is organized by the power of the state or

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the market. Instead prominence must be given to civil society. Several ideas are raised about how to work on the behalf of and lend prominence to civil society and the poorest segment of the population, particularly in the context of natural resource rich economies. The essay explores new formulas to manage mining and oil wealth, provide a social protection system to the growing informal sector, and to manage macroeconomic policy in a socially responsible manner.

Keywords: Populism; Bolivarian Revolution; civil society; natural resources; macroeconomic policy.
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Vera, L. (2025). Hacia una agenda progresista de desarrollo económico para países dotados de recursos naturales: lecciones del ascenso y caída de la Revolución Bolivariana. *Cuadernos de Economía, 44(93)*, 21-45.

El propósito de este artículo es identificar algunos de los nuevos desafíos económicos que enfrentan los movimientos de izquierda en América Latina, especialmente en los países dotados de recursos naturales. Proponemos un conjunto de respuestas de política de tipo progresista que eviten que la izquierda regional repita los errores marcados por la agenda de la llamada Revolución Bolivariana en Venezuela. Destacamos la necesidad de construir una alternativa basada en lo que llamamos "desarrollo democrático progresivo". Nuestro mensaje fundamental es que la izquierda democrática tiene que superar la dicotomía engañosa que indica que la sociedad está organizada por el poder del Estado o del mercado. En su lugar, esta debe dar prominencia a la sociedad civil. Se plantean varias ideas sobre cómo darle prominencia y trabajar para la sociedad civil así como para el segmento más pobre de la población, y lo hacemos particularmente en el contexto de economías ricas en recursos naturales. El artículo explora nuevas fórmulas para gestionar la riqueza minera y petrolera, para proporcionar un sistema de protección social al creciente sector informal y para gestionar la política macroeconómica de una manera socialmente responsable.

Palabras clave: populismo; Revolución Bolivariana; sociedad civil; recursos naturales; política macroeconómica.
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INTRODUCTION

During the last decades, young leftist movements in Latin America have moved between the confines of radical populism (and its authoritarian drift) and the remains left by more traditional leftist parties that subtly embraced neoliberalism. Much of the appeal of radical populism in the region came from the expectations of transformation and charismatic leadership of Hugo Chávez and the so-called Bolivarian Revolution. The Chávez phenomenon had strong mobilization and contagion effects beyond Venezuela. But the truth is that any enthusiastic and hopeful vision that for years committed the Latin American Left to the rhetoric and practice of "Chavismo" has faded. The deep political, economic, and social crisis that afflicts Venezuela is not a positive reference for anyone today. This situation raises critical questions for progressive movements in the region that are trying to understand how to flesh out their public policy agendas without falling into macroeconomic malpractice or the institutional breakdown and authoritarian excess seen in Venezuela.

The aim of this work is to identify some of the new economic challenges faced by left-wing forces in Latin America, and in particular in countries endowed with natural resources. We propose an agenda of progressive policy responses that prevent the regional Left from falling prey to the missteps of the policy agenda followed by the Bolivarian Revolution in Venezuela. By highlighting the dangers posed by the populist variant of left-wing forces in Venezuela, as well as the reasons that explain their drift towards semi- or full authoritarianism, we will be able to build an alternative based on what we call "progressive democratic development."

Our fundamental message is that the democratic Left has to overcome the misleading dichotomy born of a claim that society is organized by the power of the state or the market. Instead, we argue that left-wing forces must give prominence to civil society, developing new mechanisms of social and economic inclusion and citizen participation. Several ideas are raised about how to work on the behalf of and lend prominence to civil society and the poorest segment of the population, in particular in the context of natural resource rich economies

New formulas to manage mining and oil wealth, provide a social protection system to the growing informal sector of the economy, and manage macroeconomic policy in a socially responsible manner are presented in this essay.

The paper is organized as follow: Following the introduction, the second section highlights the dangers posed by the populist variant in the region and the need to build an alternative based on what we call "progressive democratic development." We briefly review the recent case of Venezuela and the conditions and reasons that led Hugo Chávez and his successor Nicolás Maduro to undermine what could have been a process of democratic and inclusive change and turn to an authoritarian model of confrontation, institutional weakening, and scarcely responsible macroeconomic management. We argue that in contrast to authoritarian populism, progressive democratic development promotes social cohesion, diminishing social fractures and inconsistencies and connecting people for improved cooperation in conflict resolution. The third section presents civil society as the third pillar that fills the political and economic space untouched by the state and the private sector. Section four warns how rentier states inhibit and weaken the exercise of citizenship and the formation of a strong civil society. Section five explains how rentier states may end up generating huge macroeconomic losses associated with the cyclical asymmetry of fiscal policy. In the sixth section we propose addressing the resource curse to reduce the bad governance associated with the rentier state by directly distributing oil revenues to citizens (through revenue distribution funds). We argue that this institutional arrangement becomes an incentive to engage citizens politically. The seventh section urges attention be paid to inclusive social protection systems where the growing informal sector and the poor may have full access. An idea worthy of exploration here is connecting the provision of wealth to citizens with a contributory system where those who currently lack access to social protection can participate. In section eight we discuss the array of macro policies that may be employed to protect the poor and induce stability in economies highly exposed to sudden changes in the balance of payments. The last section provides a concluding discussion.

FIRST CHALLENGE: BETWEEN AUTHORITARIAN POPULISM AND PROGRESSIVE DEMOCRATIC DEVELOPMENT

In this section we will first highlight the dangers posed by the populist variant in the region and secondly the need to build an alternative based on what we call "progressive democratic development." To illuminate the dangers posed by left populism and in urgent recognition of the need for new alternatives, fragments of the failed social experiment of the so-called "Bolivarian Revolution" led by Hugo Chávez are presented and analyzed.

As an illiberal response to the failures of social democracy and its neoliberal counterpart, populism always stands in tension with democracy. The reasons have been well explained by Weyland (2013). Populist leaders sustain their influence via personal appeals rather than intermediary organizations and as a consequence they see any institutions outside of their control as obstacles to be bypassed or overcome. To boost their personal predominance, populist leaders strive to weaken constitutional checks and balances and to subordinate independent agencies to their will. Moreover, populist leaders treat opponents not as adversaries in a fair and equal competition, but as profound threats, and they seek all means to defeat and marginalize them. Thus, under populism, the space for civil society shrinks, and democratic culture, values, and the democratic system are threatened.

If we believe that young and old democracies alike fail to adequately fulfill the hopes for participation, social justice, and security placed in them, then any alternative should embody a respect for the fact that the greater the democratic engagement by all sections of society in public affairs, the greater will be its legitimacy. As such, to ensure strong democracies, it is essential to incentivize and empower people to participate and influence the decisions that affect their lives and to have oversight over those who make decisions on their behalf. It is in this way that a progressive vision of a new model of society could be promoted on the basis of sustainable equality and well-being for all.

The evolution of populism under the Bolivarian Revolution

Even though populism simultaneously faces different paths and takes a variety of forms (each with different political consequences), in the case of Venezuela, Chávez's large and ambitious social and political project of change had to rely on populism to establish, step-by-step, a new political hegemony. Chávez's initial and moderate populist discourse capitalized on the failures of previous administrations in dealing with the growing problem of poverty and the exclusion of Venezuela's poor from the mainstream activities of society. However, after years of high political confrontation, he realized that without the construction of a new hegemony, a radical revolution could not crystallize. In pursing of political hegemony Chávez eroded institutional checks and balances, marginalized the opposition through discriminatory legalism, and severely skewed political competition. Moreover, polarization became a key issue in Venezuela, where the divisions between Chavistas and anti-Chavistas was so intense that outsiders were called in several times to try to bridge the divide. When people increasingly perceive and describe politics and society in terms of "us" versus "them," exacerbate intolerance and discrimination, and diminish societal trust, polarization becomes toxic and democracy is undermined. Unfortunately, this type of left-wing populism can end up doing more damage to democracy than even the right-wing, neoliberal populism of the 1990s. Worse still, hegemonic execution lacking positive dialogue or discussion with other critical actors of the political and social fabric led, in the case of Venezuela, to large and serious public policy errors with a high social cost.

Chávez's handpicked successor, Nicolás Maduro, who won an April 2013 special presidential election and who was re-elected for a second six-year term in May 2018, perpetuated this personalist and top-down hegemonic style. Under his mandate, the policy of repression aimed at silencing dissent and exercising social control in Venezuela has remained in full force and effect, posing a constant and evident danger to civic space in the country.

As president elect (right after President Chávez passed away in March 2013), Maduro had to face increasing pressures on the country's main external and fiscal accounts. The most debilitating problem for the economy was an inadequate supply of foreign exchange. In mid-2014, things became worse as global oil prices tumbled and Venezuela's economy started to present debt fatigue. The lack of foreign exchange resulted in even tighter exchange controls and chronic domestic shortages of basic goods and essential inputs that, coupled with monetary disorder and expectations of exchange rate realignments, were major contributors to the country's high and accelerating inflation. Still, the country was able to maintain its external obligations by draining its meager foreign currency and gold reserves. Despite the deepening economic collapse and suggestions that the country ought to default, Maduro's government denied the default and kept repaying the debt. Indeed, in order to maintain debt service, the government stopped paying almost anything else. At the time, Santos (2017) described the situation better than anyone: "Default has been barely avoided up until now, at the expense of a deep humanitarian crisis" (p. 61).

Though the immediate trigger for Venezuela's economic crisis was the crash in world oil prices, the deepest damage to the economy came from previous years of economic mismanagement. Under Chávez, the government engaged in a pro-cyclical fiscal policy, drained international reserves, and borrowed heavily in foreign currency. It also promoted widespread expropriations and nationalizations, and implemented broad price and currency controls. These policies not only deterred domestic and foreign investment, but made the economy highly vulnerable to domestic and international shocks.

The crisis allowed a coalition of opposition parties to score a stunning political victory in the legislative elections of December 2015. The response of the regime to this result was to grow more authoritarian. The government rushed the appointment of 13 new justices before the start of the new National Assembly and devoted most of 2016 to trying to bypass congress, using Supreme Court rulings to declare invalid and illegal any of its laws or resolutions.

As unrest brewed amid the economic chaos and extreme political tensions, Maduro consolidated his power through political repression, censorship, and electoral manipulation. Corrales (2023) points out that just between 2013 to the present, Venezuela went from semi-authoritarianism to full-fledged authoritarianism. After the parliamentary elections of 2015, the Maduro administration either stopped electoral processes altogether, or made them so irregular that they ceased to have any semblance of fairness.

As the tension continued, early in 2017 the pro-government Supreme Tribunal of Justice (TSJ) dissolved the opposition-led National Assembly, and protests increased greatly in intensity throughout Venezuela following the decision. As April arrived, the protests grew into the most combative since a wave of unrest in 2014. In November 2017, after a frustrated civilian rebellion that spiraled into a humanitarian crisis, Venezuela defaulted on its external debt.

By the end of 2017, President Donald Trump began aggressively tightening sanctions against Maduro's administration. The Trump administration cut off the access of the Maduro regime to the U.S. financial system and barred U.S. companies and citizens from purchasing Venezuelan debt.

Following his re-election, Maduro's government faced increasing international isolation. The critical point was Venezuela's presidential election in 2018, which proved to be minimally competitive. President Maduro and the PSUV's control over the CNE, courts, and constituent assembly (which had assumed most legislative functions) weakened the opposition's ability to campaign. State media promoted government propaganda. No internationally accredited election monitors were present. The government coerced public workers to vote and placed food assistance card distribution centers next to polling stations. The EU did not recognize the election results and pledged to consider further measures against the government. The Lima Group countries did not recognize the election results, removing their ambassadors from Caracas. Beginning in January 2019, in the middle of the presidential crisis and after having first applied sanctions to individuals, the U.S. imposed additional economic sanctions on the petroleum, gold, mining, food, and banking industries.

At the end of the day, the economic and financial sanctions on the Maduro government have deepened an already harsh nightmare for the Venezuelan population. Chávez and Maduro undermined what could have been a process of democratic and inclusive change, believing that their model of confrontation, international isolation, institutional weakening and macroeconomic mismanagement would consolidate a different society project for Venezuela, when in reality they have led the country to dystopia.

How did a left-wing populist government end up becoming an authoritarian regime? The case of Venezuela seems to tell us that the key is not about intention but rather capacity. The populism engendered by the Bolivarian Revolution wielded extraordinary economic and political strength and some critical and practically unique policy and coercive tools.

Elsewhere (Vera, 2003) we have outlined the thesis that by taking full control of the oil industry Hugo Chávez had the possibility of intensifying the political conflict and cornering his political adversaries, without losing legitimacy. His legitimacy was able to be maintained thanks to the fact that he was able to install a patron-client relationship and an electoral regime where he could use, to his advantage, the resources provided by the oil super cycle. Thus, the government experience of the Bolivarian Revolution offers clues as to why twenty-first century progressive governments have repeatedly failed to turn away from extractivism. Distributive social programs financed by the oil boom leveraged overwhelming support for Chávez among the popular classes. But all this support did not much help to empower civil society, but rather to build hegemony over it. This type of political regime has been defined by Levitsky and Way (2002) as "competitive authoritarianism." It is precisely through this political arrangement that Chavismo took advantage of its command over oil revenues to constantly legitimize itself, while also promoting the legal (and constitutional) changes that would undermine and finally eliminate political alternation and the systems of checks and balances that are characteristic of democratic regimes.[1]

A second key aspect for explaining the increased capacity to convert a democracy into a hybrid or fully authoritarian regime was the alliance that Chávez was building with the military sector.[2] This civil-military alliance is what would later enable Maduro to use extensive violence as a means of preventing any uprisings and crushing its dissidents (Romero, 2020), as well as to stay in power even in times when extraordinary oil revenues ceased to exist.

Progressive democratic development

If the Bolivarian project could not be translated into political action that could provide fair and progressive responses for society, what regional alternatives exist for the Left?

In contrast to authoritarian populism, progressive democratic development promotes social cohesion. By virtue of its many connotations, the idea of social cohesion is difficult to encapsulate in a single definition, but it can be understood as a symbolic societal asset consisting of the ability of the social structure to manage rules, networks, and bonds of social trust (ECLAC, 2007). A cohesive society encourages everyone and collective groups to participate and share in the community's success. It lessens social fractures and inconsistencies and connects everyone for the easy resolution of conflict. Social cohesion seems to also have a positive relationship with economic growth.[3]

While a cohesive society could be understood as a prerequisite for political democracy and social stability, it is a participatory spirit supported by democracy in which interest groups can enjoy a sense of belonging and can shape the laws and norms ruling collective life, thus safeguarding social cohesion. Consequently, democratic practice and social cohesion are mutually reinforcing formulas.

Government actions may help to broaden democratic participation and inclusive activities. For instance, by agreeing on certain values and enforcing certain norms for coexistence such as tolerance for diversity and reciprocal treatment. The reduction of social inequalities should also be prioritized, ensuring equal access to public decision-making for all societal groups, e.g. through representation system instruments and affirmative action. Thus, rather than abstract principles of equality, affirmative action programs are needed since these prioritize vulnera-

[1] In the region, other leftist governments have risen to power, but democratic alternation and electoral institutionalism have curbed their hegemonic ambitions.

[2] To understand the central character that the armed forces would play as a political actor and its frequent influence on the civil government during the so-called "Bolivian Revolution," it is worth looking at the works of Jácome (2014), Ramos (2018), and Trinkunas (2021).

[3] In exploration of this, economists have taken a pragmatic approach to including social cohesion in quantitative analyses. Whether operationalized by trust, civic cooperation, income inequality or ethnolinguistic fractionalization, economists consistently find a positive relationship between social cohesion and economic growth.

ble sectors as a complement to representation. Moreover, common ground can be strengthened through greater participation in decision-making mechanisms and through the public expression of aspirations. To achieve this, the role of citizens and "citizenship-building" must be recognized and promoted.

Progressive democratic development is in no way counter to liberal democracy. Here we should recall that a democracy is liberal in that it limits governmental authority and protects individual rights against government power, but liberal democracy may be insufficient to reach certain goals and fail to be fully democratic. Where inequality prevails, going beyond the protection of individual rights becomes important. Neither is progressive democratic development an agenda of razing or weakening the state, as proposed by certain variants of neoliberalism. As Bresser Pereira (2009) rightly points out, the state is our instrument of collective action par excellence, and as such it must fulfill its special regulatory mission and provide public goods.

NO STATE-MARKET DICHOTOMY: THE ROLE OF CIVIL SOCIETY

Debates over the determinants of economic development have routinely hinged on disagreements over the proper boundaries between the state and the market. During the last decades, a false dilemma of Markets vs. the State has monopolized public debate and political narratives in Latin America. This view ends up perpetuating an outdated view of state-market relations reminiscent of a Cold War mentality. The question is not whether the public sector or the private sector should control the economy. The question is what the balance between the two should be. Partisan soundbites that label political opponents as "socialists" or "greedy capitalists" will not help us make wise choices toward striking that balance.[4] By trying to prolong this debate, the discussion today has almost completely left aside the positive role that organized civil society can play in promoting progressive economic development.

Civil society has been defined in many different ways, but most commonly the term refers to the varied forms of social organization that lie between the individual and the state as an expression of the basic human desire to socialize with others through voluntary association. But beyond this broad and incomplete definition, a basic characteristic of civil society lies in the attitudinal capability of its members to pursue certain common goals.

Civil society is a vibrant ingredient of democracy and a building block of social cohesion and development. In a country blessed with democracy, peace, and stability, civil society fills the space untouched by government and the private sec-

[4] Besides, since the end of the Cold War it seems clear that the debate is no longer about capitalism vs. socialism, but between varieties of capitalism (Cheang & Lim, 2023).

tor. Civil society organizations play multiple roles. They are an important source of information for both citizens and government. They may monitor government policies and actions and hold government accountable. They defend citizen rights and work to change and uphold social norms and behaviors. They engage in advocacy and offer alternative policies for government, the private sector, and other institutions. They may deliver services, especially to the poor and underserved, and above all in fragile and conflict-ridden countries. Of course, there are associations built around strong and strict vertical ties (such as drug cartels and predatory networks of corruption) that rest upon relations of exploitation and coercion. Socially positive associations, by contrast, tend to take the form of voluntary, horizontal, non-exclusive networks that serve to resolve collective action problems or to reduce transaction costs (Skidmore, 2001).

The "revolutionary project" of the Left as led by Hugo Chávez in Venezuela was certainly inclined toward the promotion of associativism. However, the logic that followed has rested upon relations built around strong vertical ties. The most far-reaching and best-known experience was that of the Communal Councils (Consejos Comunales). Communal Councils are community organizations created at the request of President Chávez in the year 2006 to advance and develop a framework of participatory democracy as established by the Constitution of 1999. Thus, Communal Councils were given a leading role to manage projects and public policies aimed at responding to community problems in direct relationship with the state. Wilde (2017) argues that the structural design of the Communal Councils bears some similarities to initiatives such as the much touted participatory budgeting model in Porto Alegre, Brazil, but there are also key differences. While the Porto Alegre system was funded and organized by a mix of both well-organized neighborhood organizations and municipalities, by contrast the Venezuelan Communal Councils depend and receive their funding directly from centralized state agencies and adopted the form of patronage networks in which organized but disadvantaged groups depend on a powerful government bureaucracy that provides resources as compensation for political support. Moreover, in the face of weak institutional frameworks, these civil society organizations can become tools for consolidating political hegemony. Thus, a state-dominated design and strategy geared at local communities, though effective at drumming up some political support, was nonetheless poorly suited to the task of fostering social capital.

Most academic studies of Community Councils have focused on their institutional design instead of developing empirical research that went beyond the anecdotal. However, Diaz (2007) and Garcia-Guadilla (2008) review several experiences of running a series of community focus groups. García-Guadilla (2008), for instance, finds that the main struggle within the Community Councils was between the possibility of receiving resources to meet local needs (while being co-opted by the government), and the preservation of autonomy as a social movement (at the expense of entering into conflict with the government).

There is no question that due to their grassroots, bottom-up nature and rather small scale of operation, that non-profit organizations such as the Community Councils in Venezuela can become appealing partners for public policymakers who wish to involve organized civil society in the policy process. But these organizations should no longer be perceived merely as a target of public governance initiatives as promoted by state agencies.

(NEO)EXTRACTIVISM AND THE RENTIER STATE: HARDLY A MODEL TO FOLLOW

Exportable natural resources are commodities with special characteristics. These include their unique role as the motor of foreign currency generation, their ability to deplete, their price volatility (and consequent boom–bust cycles), their especially high capital intensity and enclave nature, and their exceptional generation of extraordinary profits (rents), that in many countries profit the state.

Natural resource extraction has been at the heart of many economies in Latin America and the Caribbean (LAC), and competing evidence discusses whether natural resource wealth throughout the years has been a blessing or a curse for these countries. On the negative side we find claims and certain evidence pointing to Dutch Disease type problems, as well as weak institutions and poor governance fueled by natural resource rents (Toscani, 2017).

Even though no such thing as an automatic resource curse seems to exist in countries endowed with natural resources, resource-wealthy states very often develop a system of economic incentives through which the resource curse operates. The so-called rentier state theory, a construct which categorizes some economies in terms of their disproportionate reliance by a state on inherited sources of mineral rents, predicts societies characterized by weak ties between the government and its citizens and autocratic paternalism.

Since governments in these economies are reliant on the mineral sector for income, and are correspondingly less reliant on other sources of income, the social contract in such countries thus differs from those in which taxation and representation are more important. With low tax pressure, the sense of citizenship is lost and there is little that a precarious civil society can demand in terms of public services from the government. Neither does the government feel compelled to account for the resources it obtains, especially those coming from extractive activities. Thus rentier states inhibit and weaken the exercise of citizenship and the formation of a strong civil society.

Instead, rentier-state political systems tend to be characterized by autocratic paternalism, with the government redistributing mineral wealth through infrastructural development, public education, and healthcare and subsidies (particularly for energy and other utilities). When these public policy efforts are supported by a pro-cyclical fiscal policy bias, problems will arise sooner or later, as several experiences in Latin America have demonstrated in the past.

When we analyze the already long history of an oil dependent economy such as Venezuela, many of the characteristics of a rentier state seem to be present. A portion of the oil rent that comes from abroad goes to the government directly. The state may be completely autonomous from society, winning popular acquiescence through "developmentalism" or wealth distribution programs. Even tax pressure over non-oil sectors is below the average we find in Latin America.

However, the rentier state argument developed as an explanation for why democratization does not occur in oil dependent economies does not fit entirely well the Venezuelan case. One of the most important things to have happened in Latin America since World War II was the emergence of Venezuela as one of the constitutional democracies of the region. Several interpretations are put forward by experts to account for Venezuela's oil democracy during the years predating the Bolivarian Revolution. Levine (1978), for instance, points to the robustness of the political institutions set up during the second democratic transition by the so-called "Pacto de Punto Fijo" of 1958 and the Constitution of 1961. Curiously, with the decay of the social contract under the Pacto de Punto Fijo[5] and the emergence of the Bolivarian Revolution, the prevalence of the monopolistic and unaccountable use of power, clientelism, politicking, political corruption, and the institutional weakness of the state have dictated how oil wealth is governed.

THE CYCLICAL ASYMMETRY OF FISCAL POLICY SHOULD BE AVOIDED

Since the late 1990s, a large body of empirical studies have concluded that fiscal policy tends to be more procyclical in developing countries than in advanced economies. Pioneering work by Gavin and Perotti (1997) also finds fiscal policy to be highly procyclical in Latin America.

The importance of fiscal policy decisions in resource dependent countries has also led to some empirical studies on this topic (see for instance Cespedes & Velasco, 2014; Coutinho et al., 2022, as well as Erbil, 2011). The work of Coutinho et al. (2022) uses a panel dataset that covers the 1962–2011 period and includes data for 84 resource dependent countries. They provide evidence that fiscal policy in resource dependent countries tends to be strongly procyclical, meaning that the

[5] We must note that, despite having shown signs of strength for many years, since the 1990s Venezuelan democracy began to show symptoms of fragility amid a decadent and uncertain economic context. It is precisely at this time that certain pre-hegemonic manifestations began to emerge on the scene. Two coup attempts in 1992 forewarned these tendencies.

increase in government consumption in good times tends to exceed the increase in GDP, and conversely the drop in bad times tends to exceed the fall in GDP.

There are several theories that try to explain the strong procyclical behavior of fiscal policy in resource dependent economies, but here we want to emphasize the political economy aspect of fiscal policy across oil exporting countries that are subject to the tutelage of competitive authoritarianism. This seems to us to be the case of Venezuela during a prolonged part of the Bolivarian Revolution.

In resource dependent economies where political regimes are characterized by competitive authoritarianism, the government derives its legitimacy from the mobilization of oil wealth, and the evolving role of government spending toward sustaining political support can be maintained as long as commodity (or oil) prices are high or trending upward. But this effort generates downwardly inflexible expenditure commitments and problems may arise when oil prices go down. Here the ability of the government to respond to downturns will depend on how much access it has to the international financial market. If international financial markets are open, instead of an adjustment in public spending, the government will prefer to borrow money abroad, deepening its indebtedness.

During his government, Hugo Chávez took advantage of this option, massively indebting the country even at times when crude oil prices were high (Vera, 2015). Public spending increased in good times but it did not adjust at all during bad times. This reaction was in tune with the “debt-overhang” hypothesis of Manzano and Rigobon (2001), according to whom the over borrowing by resource-dependent countries during commodity booms may extend, even during the downturn, until the country loses access to international financial markets. When this happens the country has to cut expenditures dramatically to be able to service their debt.

A lack of access to international markets just at the beginning of the reversal of the cycle of rising oil prices was the situation that Nicolás Maduro confronted when he assumed the presidency in 2014. With no access to the international market and wanting to address an awful external debt repayment profile, Maduro opted during his term for a massive adjustment in public spending that would leave hundreds of public works unfinished and seriously undermine social protection systems.

Beyond the macroeconomic losses associated with the cyclical asymmetry of fiscal policy, dealing with higher-than-expected oil revenues is easier, but still difficult to do efficiently. In a resource-dependent economy that politically behaves as a populist competitive authoritarianism, spending money quickly during the boom often means spending it poorly. The lack of more citizen-friendly institutional and procedural conditions very often leads to corruption and bad policy decisions. Moreover, overshadowing every project that begins when oil prices are on the rise is the threat that it may be scrapped when they fall.

ADDRESSING THE RESOURCE CURSE THROUGH REVENUE DISTRIBUTION FUNDS

If a resource dependent economy is exposed to poor fiscal policy management that leads to macroeconomic imbalances and waste, what can be done to avoid it, or mitigate its effects?

In a number of countries that depend on the export of nonrenewable resources, governments have put in place fiscal rules or guidelines and/or nonrenewable resource funds (such as stabilization and saving funds) with the expectation that these institutional mechanisms might help in the implementation of fiscal policy.

Ossowski (2013) assesses the experience and earlier evidence of resource dependent countries that adopted fiscal rules and illustrates the difficulties involved in designing and implementing every rule in these countries. In particular, the frequent changes to rules and compliance problems in many cases highlight the challenges of designing and implementing rule frameworks.

Oil stabilization funds have been increasingly used by oil dependent economies as an instrument to cope with oil revenue volatility. However, the creation of such funds is found to have no impact on the relationship between oil export earnings and government expenditure in countries where no sound and transparent fiscal and macroeconomic policies were implemented (Davis et al., 2003; Fasano-Filho, 2000; Ossowski et al., 2008). Moreover, some oil funds have operated outside existing budget systems and are often accountable to only a few political appointees. This makes such funds especially susceptible to abuse and political interference.

Savings funds are sometimes referred to as intergenerational savings funds because they have decades-long investment horizons. By using their savings funds to convert today's resource wealth into renewable financial assets, governments can share the windfalls with the generations of tomorrow. Besides, by investing overseas, savings funds in commodity-rich countries can also help prevent Dutch Disease. But successful savings funds are often set up by commodity-rich and low population countries and not all resource dependent countries have the same demographic pressures and survival aspirations. Immediate survival needs or exposure to unexpected risks conspire against the existence of such long-term funds. Saving the wealth from natural resources while the bulk of the population suffers enormous needs may not be the best economic solution nor the most socially accepted in many countries.

Rather than saving a share of revenues in a trust fund and building up the fund over time, we argue that a more robust approach is the idea of revenue distribution funds. The idea has been supported in the past by Palley (2004), Sala-i-Martin and Subramanian (2003), Sandbu (2006), and Weinthal and Jones (2006).

A natural resource distribution fund would distribute revenues coming from royalties associated with the exploitation of natural resources such as oil, gas, lithium, copper, and other minerals directly to citizens.[6] Hence, instead of going to the government treasury, a share of a country's revenues from natural resource extraction (royalties) are distributed on a per capita basis at regular intervals.

In the previous sections we argued that one of the main problems affecting resource dependent economies such as Venezuela's is that oil revenues that the government gets are used to buy political consent through patronage and permanent distributive policies, which tends to waste and weaken institutions. Starting from this premise, the logical conclusion is that the best way to deal with the problem is to prevent the state and government officials from appropriating the oil resources directly. Therefore, if this "easy revenue associated with the mineral or oil rent" (and the incentives for waste, corruption, and patronage generated by it) is eliminated, much of the problem would disappear.

An important contribution of natural resource revenue distribution systems is that it may significantly remedy "political failures" by creating a sense of citizen ownership, in turn prompting buy-in to the political system. The reason is that citizens eligible for fund payouts would have an incentive to monitor natural resource activities and governments, and participate in the political process to guard their benefits. This revenue distribution system creates an entitlement, and with that entitlement comes political buy-in and participation, just as entitlement to social protection programs encourages political engagement within many economies. So, in essence you are not only promoting the participation of civil society, but empowering it.

To the extent that the state companies remain the single producer of natural resources, they must be subject to full transparency and accountability. Its financial accounts and production figures must be audited and made public, while its top management and board of directors must be subject to public accountability and control. While this is difficult when these companies are under the care of the state, things could be different where there is a civil society interested in protecting its interests.

Moreover, by distributing oil wealth to the people, and letting them spend it on what they deem is needed for their welfare, even low-income self-employed workers belonging to the enormous informal sector that characterizes the countries of the region have the opportunity to be contributors to some type of public social protection system that is tailored to them. This is the very issue that we want to address next.

[6] Royalties are typically either specific levies based on the volume of oil, gas or other mineral extracted, or ad valorem levies based on the value extracted.

A NEW WELFARE SYSTEM: FULL COVERAGE FOR THE MOST VULNERABLE

Latin America and the Caribbean faces a "highly complex and uncertain" labor market where informality stands out as a heterogeneous and multifaceted phenomenon. Workers in the informal economy perform productive activities outside regulatory frameworks and conventional labor standards. They usually do not pay taxes on income and capital, or contribute to social security systems, but neither do they benefit from contributory social insurance benefits or tax credits. Consequently, they are often subject to precarious working conditions, exploitation and hazards, and are exposed to, and unprotected from, idiosyncratic and covariate risks associated with business cycles, weather, and health shocks, as well as life-course contingencies.

The lack of social protection constitutes a significant source of vulnerability for workers in the informal economy. It is for that reason that their coverage as well as inclusion should be at the top of the agenda of left-wing forces in the region. If this excluded or poorly attended population do not have access to healthcare and an at least basic level of income security, they are likely to be trapped in a vicious cycle of vulnerability, poverty, and social exclusion.

Perhaps one of the biggest problems that the region's social protection systems have revealed over the years is that in essence they were initially a too faithful reproduction of European social security. But this contributory approach is not a good fit for developing countries, where formal and stable employment are not common. This model is also increasingly unsuitable for the changing nature of work in which traditional employer-employee relationships are no longer the norm. Rethinking this model is a priority.

Although over the years reforms have tried to adapt the systems to the risks and needs of local populations and the financial limitations of each country, what we have today in terms of social protection is far from a coverage of gaps. If the main objective of social protection is to cope with the risk of poverty and vulnerability, a summary vulnerability and risk profile will help to determine the country-specific social protection needs.[7]

Policymakers have many choices in designing an inclusive social protection system in the region, but key prerequisites seem to be full coverage and minimal discrimination in the access and quality of services. Both fiscal and political sustainability depend on design and capacity to fund the system, but also on the government's ability to maintain macroeconomic stability and regulate financial markets effectively. An ideal system would provide coverage to all citizens, and all citizens would contribute if they want to belong to the system. Indeed, if country's revenues from natural resource extraction (royalties) are distributed on

[7] Social protection differs from "safety net" approaches, which are non-contributory transfers designed to provide regular, predictable and targeted support to poor and vulnerable people.

a per capita basis at regular intervals, then every citizen can have the opportunity to make a minimal contribution to the system. These may allow for a "social protection floor" consisting of a nationally defined set of basic social security guarantees that should ensure, at a minimum, universal access to essential healthcare and basic income security. In this case the usual distinction between contributory and non-contributory systems disappears.

SOCIALLY RESPONSIBLE MACROECONOMICS

Social protection programs are built primarily to mitigate the impacts of shocks or to help people cope with risks if they occur. But social protection instruments are generally not considered for risk reduction; for this, other instruments are available. Sound macroeconomic and development policies are ways to reduce or eliminate economic risks. We argue that pro-poor macroeconomic management should be a major component of risk and poverty reduction strategy, in particular, as much as for the promotion of human development in a progressive development agenda.

However, we argue that in economies plagued by poverty, inequality, and welfare gaps, traditional macroeconomic indicators such as output or income growth, or even the rate of unemployment, may dismiss large inequalities between income classes, regions, and genders, to the detriment of basic considerations for human well-being, poverty alleviation, and the environment. These conventional metrics converted into macroeconomic goals give an idea of how society is doing on average from a productive and income point of view, but they tell us very little or nothing about the extremes.

A more useful approach in evaluating an economy's state or progress is to focus primarily on how the poorest people are faring. Following Basu (2000) and Subramanian (2011), the criterion that we want to advocate for—as an initial stab—is to look at the economic condition of the poorest 20 percent of the population. In other words, instead of bothering with the per capita income of the nation as a whole, we should be concerned about the per capita income of the bottom quintile. Instead of equating a country's progress with the growth rate of per capita income in general, we should look at the growth rate of the per capita income of the poorest 20 percent of the population.

One of the main reasons we do look at income and income growth of the poorest 20 per cent is that this quintile objective is likely to correlate better with other non-economic indicators. Additionally, if the focus is on quintile income, we will automatically capture some of the social indicators emphasized in broader notions of human or sustainable development.

Identifying specific macroeconomic policies that are significantly associated with the position and income growth rates of those in the poorest quintiles is hardly an easy task. But we know that proper management of both procyclical and adverse shocks and mechanisms of crisis avoidance should be top priorities for any pro-poor approach. Unfortunately, there is not much discussion within the progressive Left on the kind of macroeconomic and financial policies governments ought to follow to reduce the vulnerability of countries to either adverse external shocks or policy-induced crises.

Ocampo (2016), for instance, remarks on the heavy influence of balance of payments on the short-term macroeconomic dynamics of developing countries. Presumably, the dependence of domestic business cycles on external shocks, whether positive or negative, generates strong pressures for macroeconomic policy to behave in a procyclical way. These procyclical impacts exacerbate economic fluctuations, which in turn have near-term adverse effects on welfare that are especially pronounced for low-income groups in developing countries.

A factor that may mitigate the strength and length of crises influenced by the external vulnerability of developing countries is the combination of massive self-insurance through foreign reserve accumulation, administered exchange rate flexibility and some sort of macroprudential policies and capital controls. Foreign exchange reserve management allows sterilized accumulation of foreign exchange reserves during booms, which then operates as "self-insurance," enhancing the policy incentive for macroeconomic management during the succeeding crisis. Administered exchange rate flexibility may also allow central banks to combat appreciations more aggressively than depreciations. Thus, unlike the "fear of floating" that seems to be present in some Latin American countries (see Libman, 2018), the inflation-targeting monetary regime (adopted in many countries in the region) could follow the East Asian approach that instead displays "fear of appreciation." Macroprudential policies and temporary capital controls may help support financial stability.

Countercyclical fiscal policies can play a role but face strong economic and political economy constraints. Fiscal stabilization funds can make a contribution to mitigate boom and bust cycles. They can also help guard against the problem of Dutch Disease by ensuring that some of the revenues are directed to the accumulation of foreign assets. This helps prevent exchange rate appreciation, which undermines international competitiveness and good jobs in the tradeable industrial sector. However, to work well, fiscal stabilization funds need good governance.

The Venezuelan experience sheds some lessons on why fiscal stabilization funds may fail due to lack of good governance. In the late 1990s, the oil stabilization fund, FIEM (Investment Fund for Macroeconomic Stabilization), was created during a period of low oil prices. The original design was relatively conventional, with clear saving and spending rules, but it was quickly modified by the Chávez administration, making it more discretionary. Indeed, the fund was rendered useless by the constant changing of rules. The fund effectively became inoperative to the point that from 2006 to 2008 there were few additional savings added despite high oil prices. With the advent of the global crisis in 2008-2009, the fund did not have the ammunition to allow for countercyclical action, and finally ran out of resources.

Under such conditions, our suggestion has been that by distributing a portion of the natural resource wealth to the people and letting them spend it on what they deem is needed for their welfare, less would be left in the hands of the state to run a procyclical fiscal policy. Of course, by transferring resources that may be owned by the public sector to the private sector, the problem of waste and corruption can be mitigated, but not the procyclicality of spending. By constraining the state from running a procyclical fiscal policy, the key to appropriate countercyclical management now requires the availability of policy mechanisms to manage the boom-bust cycles that may befall the private sector. If the possibility of overheating the economy during a boom hinges then on people's spending behavior, the best way to avoid procyclical private spending (at least in the expansion) is by prompting people to make contributions to an inclusive social security system.

Thus, in economies exposed to what Ocampo has called "balance of payments dominance," socially responsible macroeconomic management will require a very different arrangement than the one we frequently see in the left-wing populist governments of the region. Taking care of international reserves and appropriate flexibility in the exchange rate will be important to avoid an external crisis. The exposure of the public sector to the resource boom must be minimized in order to avoid boom-bust cycles and especially the abrupt spending cuts or massive indebtedness that often occurs when extraordinary revenues cease. On the other hand, the arguments for directly distributing natural resource revenues to citizens do not have to reproduce boom-bust cycles if an inclusive and contributory social protection system can be put together from the public sphere.

Unfortunately, the case of Venezuela during the Bolivarian Revolution is not the best example of socially responsible macroeconomic management. Elsewhere, Vera (2017) has explained explained that while Hugo Chávez governed, despite the prolonged oil boom, the Venezuelan economy was conducted without being able to build self-insurance with proper reserve management, obsessively fixing the exchange rate, overvaluing the currency, and promoting an immense outflow of capital as a consequence of the fragile governance associated with polarization. Maduro inherited an economy that was very poorly prepared to handle immensely negative terms of trade shock, like the one the economy faced starting in late 2014. His administration decided to solve the external imbalance through import compression and a tightening of the existing exchange control.[8] As very often happens with exchange controls, the parallel market became very significant and dominant, and its very dynamics led rapidly and almost simultaneously to drastic shortages, a dramatic fall in domestic output, and skyrocketing inflation.

[8] Santos (2021) points out that the economy was forced to cut its imports by 80.6% between 2012 and 2018.

Over the years of 2012–2020 the economy of Venezuela suffered one of the largest economic contractions in modern economic history, according to Rodriguez (2021) having lost 71.8 percent of its per capita income. Rodriguez (2021) also points out that the Venezuelan output fall is the sixth largest contraction in world history and the largest in Latin American history since 1950. On top of this, after 2017 the country spent almost four years in a hyperinflationary situation. This destructive combination of high inflation and deep depression turned the Venezuelan case into a social catastrophe. All this seems to show that socially non-responsible macroeconomic management became the worst enemy of the social protection system, as well as the social policies that the Bolivarian Revolution tried to put together.

CONCLUSIONS

Standard indicators used to quantify the importance and the impact of raw material extraction processes in Latin American countries (see Ocampo, 2017) seem to show a significant re-primarization of the structure of exports in the region, particularly as a result of the commodity price boom that started in 2003–04 and lasted for about a decade. Data from ECLAC (2022) shows that commodities represented 39% of total exports of the region in 2021, of which energy, minerals, and metals accounted for 24% (of total exports).

A current and potential high share of "pure" rents from raw material extraction processes can be observed today and are to be expected in Andean states (oil in Ecuador, Colombia, and Venezuela, mining in Peru and Chile, gas and maybe lithium in Bolivia, Chile, and Argentina). In some South American countries with a more diversified internal economic structure, relatively smaller extractive sectors are becoming more important. This can be observed in Argentina in mining, and is expected in Brazil after the discovery of new oilfields.

The relevant question is whether this pattern will end up generating a (neo)extractivist model where the rentier state is empowered and civil society and institutions are weakened to the point of recreating the well-known resource curse. The question and warning are not naive given the present risks of consolidating a populist and authoritarian state model, especially in societies plagued by inequalities of income, wealth, and opportunities. In that sense, the study of the Venezuelan case is appropriate, as well as instructive.

We have argued that in an economy where the state becomes more and more dependent on the rent attached to natural resources, to convert a democracy into a hybrid regime and later into pure authoritarianism does not only depend critically on intentions, but also on capacity. The Bolivarian Revolution attained this capacity by taking advantage of the resources provided by the oil super cycle and by taking full control of the oil industry and the rent associated with it. Chávez, in particular, had the option of installing a patron-client relationship that provided political and electoral dividends. The macroeconomic side of authoritarian populism is well known for its peculiar formula for managing the natural resource boom. Immediately with the boom, domestic spending jumps (led by formidable government spending), the exchange rate remains fixed, the real exchange rate appreciates, and the sum effect is one of a feeling of prosperity because of the affordability of imports. Nicolás Maduro ended up collecting the damages of this macroeconomic array and decided to impose an adjustment never seen before in the Venezuelan economy. With an economy in full disarray, and lacking the resources provided by the oil boom, Maduro decided to handle social discontent by moving towards a repressive political regime. This certainly cannot be the way forward for any truly progressive force.

Left-wing forces and especially left wing governments should be aware of the dangers posed by populism and the extractivist rentier state model. They should avoid the instrumental use of oil rent to exploit electoral opportunities and alter the fundamental social contract between citizens and the state, namely the country's constitution (especially constitutional changes that prolong the duration of administrations in office, potentially reduce political alternation, and the ability of voters to change their preferences).

In contrast with the strict vertical ties and patron-client relationships that derive from authoritarian populism, progressive democratic development rests upon the voice of the citizenry, alternation, and voluntary, horizontal, and non-exclusive networks that serve to resolve collective action problems. Moreover, if the regional Left opts for a model of society that leaves aside the state-market dichotomy and increasingly centers civil society, our proposal to redirect the income that originates from the ownership of natural resources towards citizens therefore takes on clear strategic meaning.

The natural resource trust funds that would directly distribute natural resource revenues to citizens possess several economic and political economy advantages. Institutional arrangements of this type create a sense of citizen ownership and stimulate participation in the political process to safeguard the benefits of the exploitation of natural resources. Thus, the inherited condition of being nations rich in natural resources, instead of becoming a curse, can become an incentive for the strengthening of organized civil society. Moreover, by taking a big share of the rent out of the hands of government, not only would pressures to overspend in extremely good times be restrained, but so too would the risk of waste and corruption be reduced.

While economic development surely involves the accumulation of public capital and in turn the provision of essential public services and infrastructure, this requires the government to rely on normal fiscal principles to determine appropriate levels of taxation and financing. In essence this is to convert the state into one that notionally does not have ownership over the natural resource but that still can tax the extractive activity.

Economic development also requires the accumulation of private capital based on the decentralized decisions of individuals. Our proposal is to put an extra wealth endowment into the hands of individuals that can help remedy a persistent problem in developing countries: the failure to develop an inclusive and universal social protection system.

Traditional welfare and social security systems in Latin America have serious barriers for those outside the formal economy to access social protection and insurance schemes since many have low incomes and are therefore unable to save and contribute.

We are not against tax financed schemes since both contributory and tax financed schemes play complementary roles and generate lifecycle benefits. Our concern, from a perspective of progressive economic development, is to facilitate access to social security for those who do not have it through the regular provision of natural resource wealth, turning them into active contributors and helping to sustain the system.

We have also argued that a pro-poor macroeconomic conduction should be a major component of risk and poverty reduction strategy under a progressive development agenda.

In particular, acting during the boom-bust cycle with an appropriate mix of foreign exchange reserve management, exchange rate flexibility, and macroprudential policies may not only enhance the policy options for macroeconomic management during bad times, but may further avoid the advent of a crisis.

Fiscal policy can always play a useful countercyclical role, but it faces strong constraints to operate as such due to political economy considerations. It may be true that by taking resources provided by natural resources out of the hands of government, this could reduce the risk of wasteful spending and corruption. Nonetheless, in the end, if fiscal policy has to be evaluated, it should be in terms of its overall impact on various dimensions of well-being. Here is where we can take the spirit of our proposal and focus on the performance of the bottom 20 percent in various dimensions of well-being, such as income, life expectancy, and sundry health indicators.

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