THE POLITICS OF INSTITUTIONAL CHANGE IN VENEZUELA: OIL POLICY DURING THE PRESIDENCY OF HUGO CHÁVEZ

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Abstract. This article explains institutional change in Venezuela’s state-owned oil company, PDVSA, and Venezuelan oil policy since the election of Hugo Chávez in December 1998, with a focus on the general strike of 2002 and 2003. Drawing on institutionalist theory and interviews with Venezuelan policymakers, we argue that although PDVSA's organizational culture represented a powerful obstacle to reform, a growing contradiction between widely held societal beliefs and PDVSA's culture created a legitimacy problem that Chávez exploited to undermine the traditional power of the organization. The article will show how this legitimacy issue meshed with class politics to bring about comprehensive institutional change in Venezuelan oil policy. It draws on 21 semi-structured interviews conducted in late 2006 with actors who were directly involved in the management of PDVSA and the development of Venezuelan oil policy over the last 40 years.

In December of 1998, Hugo Chávez was elected President of Venezuela with 58% of the vote. Promising to increase social spending and reduce state corruption, a major target of his campaign was Venezuela’s large state-owned oil company, PDVSA. Along with many other presidential candidates, Chávez criticized PDVSA, calling it a “black box” that operated as a “state within a state,” making oil policy decisions without concern for the Venezuelan population (Chávez 2005). Clearly, it was time for a change. But just how would that change be achieved? Was PDVSA strong enough to resist the influence of Chávez and maintain its institutional autonomy and neoliberal oil policies?

The goal of this study is to explain institutional change in PDVSA and Venezuelan oil policy since the election of Hugo Chávez. Drawing on institutionalist theory, we argue that although PDVSA’s organizational culture represented a powerful obstacle to reform, a growing contradiction between PDVSA culture and widely held societal beliefs created a legitimacy problem that Chávez exploited to undermine PDVSA’s traditional power. We will show how this legitimacy issue meshed with class politics to bring about comprehensive institutional change in Venezuelan oil policy. Empirically, this article draws on 21 semi-structured interviews conducted in 2006 with actors involved in Venezuelan oil policy.

The article begins with a historical discussion about the development of PDVSA and Venezuelan oil policy and its impact on contemporary oil politics. Then, drawing heavily on interview data, the article discusses issues of legitimacy and organizational culture as potential sources of institutional change within PDVSA. Lastly,
the article addresses further political factors as they relate to change in Venezuelan oil policy before concluding that a claim to cultural legitimacy was an important variable in Chávez’s achievement of significant institutional change.

**Historical Background and Analytical Puzzle**

In December 1998, Hugo Chávez was elected president of Venezuela with 58% of the vote. Promising to increase social spending and reduce state corruption, he made Venezuela’s large state-owned oil company, PDVSA, a major target of his campaign. Chávez, along with many other presidential candidates, criticized PDVSA, calling it a “black box” that operated as a “state within a state,” making oil policy decisions without concern for the Venezuelan population (Chávez 2005). Clearly, it was a time for a change. But just how would that change be achieved? Was PDVSA strong enough to resist the influence of Chávez and maintain its institutional autonomy and neoliberal oil policies? The goal of this study is to explain institutional change in PDVSA and Venezuelan oil policy since the election of Hugo Chávez.

Concessions to produce oil in Venezuela were first granted in the late 1800s, but it was not until 1919 that exportation began. The first Venezuelan oil policies provided favourable conditions for foreign companies to operate in the country. However, a growing democratic movement throughout the first half of the century pushed not only for the right to democratically elect a president, but also for the sovereign right of every Venezuelan person to the value derived from its national subsoil in the form of petroleum revenues (Betancourt 1978; Coronel 1983; Coronil 1997). Thus, incremental increases in royalties were the norm in the mid 1900s as a popular movement pushed for increased governmental control over Venezuela’s oil resources. Venezuela became a stable democracy in 1958, and by 1976 the Ley de Nacionalización del Petróleo (Petroleum Nationalization Law) transferred ownership of all oil production within the country’s borders to the state. Nevertheless, oil nationalization in Venezuelan was not as radical as it could have been. Rather, corporate structures that existed prior to nationalization were maintained while Article 5 of the Nationalization Law left room for foreign involvement in the Venezuelan oil industry as long as it was deemed to be in the interest of
the Venezuelan state. PDVSA had been created as a semi-autonomous company charged with providing revenues for state social and economic programs. It was owned by the state, but its operations were carried out by former employees of the oil multinationals that controlled Venezuelan oil production prior to nationalization. Therefore, “at midnight, December 31, 1975, the ownership (of oil production in Venezuela) changed, the labels changed, everything changed, and nothing changed at the same time” (Francisco, personal interview, October 2006). The culture and structure of multinational oil conglomerates was maintained.

In the 1980s, PDVSA embarked on a policy of “internationalization” by expanding its operations overseas and buying into foreign refining and distribution plants such as Veba Oel in Germany and Citgo in the United States.1 PDVSA continued to build corporate strength and was increasingly a source of stability and power in an otherwise disorganized and weakening Venezuelan state. By the mid 1990s, under its president, Luis Giusti, PDVSA received approval to pursue the apertura or “Oil Opening” policy and, in a move that altered the course of Venezuelan oil policy, lowered royalties and invited foreign capital back into Venezuela. In fact, by 1997, the apertura “called for partial privatization of PDVSA’s activities” and the “first steps towards privatization of the domestic distribution and retailing of oil products” (Giusti 1999, 118). Ironically, a company that had been created as a way of returning control of the oil industry to the state was leading the push toward privatizing the Venezuelan oil industry once again. It was the apertura policy and its low royalties, portrayed by many as against the “national interest,” which came under fire during the 1998 Venezuelan presidential campaign. Chávez’s campaign “played on a popular discontent with the status quo” (Roberts 2003, 67), promising to clean up corruption in the government and redesign the Venezuelan political system. Furthermore, and important to the discussion at hand, Chávez promised to “subordinate PDVSA to the Venezuelan state” (Rohter 1999, C1).

While Chávez created a new constitution and increased social spending through a fragmented network of social programs known as Misiones Bolivarianos (Bolivarian Missions), Venezuelan oil policy and PDVSA remained largely unchanged. In 2001, however, Chávez passed a group of 49 laws by decree that increased state involvement
in the Venezuelan economy and society. Significantly, one of these laws amended the hydrocarbons policy and called for a return to high royalties and majority ownership for the state over all oil production in Venezuela. A growing opposition movement viewed the 49 laws as contradictory to the economic creed of its mostly middle and upper class members: a market economy free of political interference. In December 2001, amidst growing tensions between PDVSA’s board of directors and Chávez, a 12-hour strike involving members of the Confederacion de Trabajadores de Venezuela (CTV; the Venezuelan Workers Association), the Venezuelan Chamber of Commerce (FEDECÁMARAS), and independent business owners signified the first wave of widespread organized protest against the Chávez administration. In April 2002, a small PDVSA managerial strike and the firing of a handful of managers was immediately followed by a failed military coup, which took place on the 11th. By 2 December of the same year, an indefinite nationwide general strike was called in which PDVSA played an important role, shutting down the majority of oil operations and exportation from the country. Following a series of events (see Table 1) that served to escalate the severity of the strike within PDVSA, such as the use of violence against striking employees and the firing of several dozen prominent managers who had joined the strike, PDVSA—under the guidance of the small faction of Chávez supporters who had not gone on strike—pursued a Supreme Court decision that on 19 December allowed them to fire striking workers. By February 2003, at least 18,000 workers (almost half of PDVSA employees and most of its managers) had been fired and the company was brought under the control of the Chávez government.

The fact that Chávez gained control over PDVSA did not, however, solve all of the problems faced by his government. As stated by Carlos Baena, “Government dependence on oil revenues has characterized the country’s democratic period … Nowhere in Latin America … is a government as dependent on one sector as is Venezuela on its oil sector” (Baena 1999, 18). With increasing world oil prices during the Chávez era, the government relied on oil revenues more than ever. In fact, by the second week of the strike, PDVSA oil production had dipped to just 400,000 barrels per day from 3.2 million barrels per day before the strike, resulting in losses close to US$40 million per day (ACAN-EFE 2002). The country was crippled economically and
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<th>Date</th>
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<td>1998</td>
<td>Hugo Chávez is elected President of Venezuela, promising to return the oil to the people.</td>
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<td>August 2001</td>
<td>Chávez passes 49 laws by decree, including a new Hydrocarbons Law designed to increase state control over oil production.</td>
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<td>December 2001</td>
<td>PDVSA joins business interests in a short general strike to protest the 49 laws.</td>
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<td>7 April 2002</td>
<td>A small managerial strike in PDVSA results in the public dismissal of seven of the striking workers.</td>
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<td>11 April 2002</td>
<td>Chávez is removed from office by a military coup. Pedro Carmona, president of the national business lobby FEDECÁMARAS, takes over as president of the country. The coup fails, and Chávez is back in office by April 14.</td>
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<td>2 December 2002</td>
<td>A nationwide general strike is called in which PDVSA plays a major role, shutting down oil operations.</td>
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<td>Juan Fernandez, the unofficial leader of the PDVSA opposition, is attacked in his home by unknown assailants.</td>
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<td>4 December 2002</td>
<td>PDVSA protestors are attacked by the National Guard in Plaza la Meritocracia (Meritocracy Plaza).</td>
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<td>8 December 2002</td>
<td>Carlos Ortega, president of the Venezuelan Worker’s Union, announces that the strike will continue indefinitely.</td>
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<td>12 December 2002</td>
<td>Oil Minister Ali Rodríguez is granted the power to replace striking PDVSA managers by an Executive decree. The government begins to contract workers to reopen oil refineries.</td>
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<td>27 December 2002</td>
<td>Juan Fernandez admits that PDVSA was no longer under control of the striking managers.</td>
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<td>3 February 2003</td>
<td>The opposition declares an end to the strike. At least 18,000 workers had been fired by PDVSA, and PDVSA is restructured with members of the Ministry of Energy and Mines assuming leadership positions in the company. The strike has failed.</td>
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would face the worst recession that it had seen for 50 years (Salmeron 2003), with a 9.2% decrease in GDP in 2003 alone (ACAN-EFE 2004) before finally rebounding in 2004. Furthermore, Chávez would be forced to contest and win a recall election in 2004 after a successful opposition signature drive. Regardless, Chávez emerged from the events of 2002 with his presidency intact and, with some help from rising world oil prices,2 cleared the resulting economic and political hurdles, winning another election in 2006 that should secure his rule at least until 2012.

The firing of the bulk of PDVSA’s management was the culmination of a deeply rooted ideological conflict about how the country’s oil reserves should be managed and represented a fundamental change in direction for PDVSA and Venezuelan oil policy. While PDVSA had been allowed to pursue a productionist policy in the 1990s under Luis Giusti, Chávez’s return to a rentist strategy was a decisive break from a policy pathway that had increasingly favoured partnerships with private enterprise and expansion outside of Venezuela’s borders. This event raises questions as to why Chávez was able to achieve significant institutional change in the face of a strong and largely autonomous institution, PDVSA, which was moving toward privatizing the Venezuelan oil industry (Giusti 1999). Specifically, what conditions allowed Chávez to achieve change in 2002? In addition, given that Chávez was elected promising institutional change in PDVSA, why did it take him four years to achieve major change in PDVSA?

To answer this question, we turn to organizational institutionalism (e.g., Campbell 2004; Dimaggio and Powell 1991), an approach that emphasizes “normative and cognitive ideas” (Campbell 2004, 17) as the main source of institutional stability (or change). According to organizational institutionalism, institutional stability stems from shared cognitive and normative ideas and, more specifically, from the congruence between an organization’s normative foundations and broader cultural beliefs that are present throughout society. From this perspective, tensions between an organization’s norms and dominant social and cultural ideas can lead to a legitimacy crisis and, ultimately, institutional change within that organization. Moreover, proponents of organizational institutionalism “maintain that, because organizational environments are often uncertain, people’s interests are ambiguous and thus their actions are motivated more by institutional routines,
habits, rituals, cues, and scripts than interests” (Campbell 1998, 381). Thus, normative mechanisms operating as cognitive maps can motivate the decisions of institutional actors.

As we argue, the reason that it took so much time for to achieve major change in PDVSA was its embedded organization culture, which had been developing since the 1970s. As for the conditions that allowed Chávez to achieve major change in 2002, they largely stem from a legitimacy issue that made PDVSA look out of touch with the popular beliefs and demands that Hugo Chávez articulated in his political discourse in order to increase his support among the country’s poor. From this perspective, in Venezuelan oil policy one can speak of a strong relationship between legitimacy issues, class politics, and institutional change.

**Legitimacy, Organizational Culture, and the Politics of Institutional Change**

In the 1990s PDVSA underwent significant changes related to its corporate policy as many of its managers became active in the Venezuelan state. As stated by a former PDVSA economist, it was during the *apertura* that PDVSA’s power exceeded that of simply an oil institution. “This [the 1990s] is when PDVSA becomes an actor that is outside of the limits of a state owned company ... PDVSA becomes really really powerful ... and the planning office of PDVSA had become the economic policy decision makers in the country” (Ernesto, personal interview, September 2006). While PDVSA had previously tried to maintain sufficient distance from the Venezuelan state, recognizing the weakening government and the opportunity for PDVSA to expand its institutional power within the Venezuelan state, Giusti sent PDVSA employees to the government and to the negotiating tables with international institutions such as the International Monetary Fund. For instance, a former PDVSA manager told us that, during the 1990s, “managers from PDVSA were put inside the MEM [Ministry of Energy and Mines], in the top branch, in order to ensure that they were in line with the policies established here in PDVSA. So PDVSA was the real policy-making institution in oil” (Livan, personal interview, October 2006). It is clear, then, that PDVSA became a political actor in and of itself during the 1990s.
Using his institutional resources, Giusti, himself a product of the neoliberal organization culture of PDVSA,\(^3\) was able to push forward a new pathway in oil policy with little resistance as he flexed PDVSA’s technical muscle and gained power over the government in oil policy decision-making and beyond. Although Giusti could not initially pursue the privatization of PDVSA,\(^4\) he was able to pursue a free market model in Venezuelan oil production and, paradoxically, try to break the monopoly of his own company over Venezuelan oil production.\(^5\) Utilizing his political knowledge and location at the helm of a powerful institution, Giusti was able to convert an already existing institution into a new direction and a new role in the Venezuelan state.\(^6\) Thus, the actor’s social location, knowledge, and institutional assets were all important factors in his ability to achieve institutional conversion.

It is important to note the cultural element behind Giusti’s success in pursuing privatization. In fact, there was a distinct cultural milieu that was strategically implemented within the company. As a manager who had been with PDVSA throughout its history told me, “political party, or parties and politics were not present here [in PDVSA] from 1975. But ideological politics, yes” (Livan, personal interview, October 2006). The ideological politics that Livan is referring to were efforts by PDVSA management to ensure that its workers believed in the role of PDVSA as an autonomous, business-oriented institution, as “a government company, but also as a private company” (Juan, personal interview, August 2006), and as “an energy consortium, able and willing to compete worldwide” (Javier, personal interview, August 2006). This was achieved through special courses, such as Mision Cooperativa (cooperative mission), in which “the management talk about the company, what is their morale and so on, to create a protocol ... it was a one-week course in Caracas ... the Mision Cooperativa was against the government ... They said the politicians should keep out” (Andres, personal interview, November 2006). The fact that the management of PDVSA’s operational companies was opposed to government involvement is not surprising considering the cultural background from which PDVSA descended. When one bears in mind that the operational companies were born from private, multinational companies, and that the original vision stated that PDVSA was to be free of political interference in order to allow its efficient
operation, one would expect that the management would be opposed to government interference and that they would adopt a paradigm of corporate business practices from the world of privatized, multinational companies. A statement made by a former PDVSA employee, speaking of the time shortly after nationalization, exemplifies the origins of this mentality:

There were steps taken at that time. One, PDVSA, and I think that was very important, PDVSA you know we have to ensure operational continuity, financial strength, and make sure that the investments and maintenance of our installations are kept properly. We were not operating according to any given government policy or anything like that; we were operating in order to ensure that we would maximize the value of the resource, in order to fulfill commercial requirements, fulfill environmental requirements, to make the most out of the oil that was exported. (Javier, personal interview, August 2006)

PDVSA had been designed as an autonomous institution from the start. A hands-off governmental policy set up with the Nationalization Bill had produced a political legacy of institutional autonomy and created a business-oriented culture opposed to government interference. The bottom line was privileged above the needs of the government. It is no wonder, then, that the paradigm adopted by its subsidiaries supported the business mentality that the best policy was to act as a private corporation.

With a dominant organizational culture opposed to government involvement and a business-first mentality, Giusti was able to push forward neoliberal policies in the 1990s. He was able to create a "semi-private" corporation and redirect Venezuelan oil policy and the role of the company within Venezuelan governance. His actions, however, did not account for an essential form of institutional support: ideological support from the Venezuelan population. While forms of social change such as increasing poverty followed the enactment of a host of neoliberal policies implemented by the pre-Chávez Venezuelan government, oil policies that reduced state revenues further exacerbated the weak fiscal position of the state and its inability to offer social policies that could both help the poor and increase its
legitimacy among the majority of the population, especially the poor. With a legacy, established early in the country’s democratic history, of state-sponsored public welfare and the normative claim to oil as a sovereign right (Coronil 1997), broader Venezuelan cultural norms were fundamentally different from PDVSA corporate culture. These cultural tensions would come to the forefront during the Chávez presidency.

When Chávez took power in 1998 he was faced with a monumental challenge: convert the largely autonomous and extremely powerful state-owned (but certainly not state-run) oil company, PDVSA, into a revenue machine for the Venezuelan state once again. Although Giusti had succeeded in changing the direction of Venezuelan oil policy and was pushing toward privatizing the oil industry, Chávez was able to achieve a “re-nationalization.”

As one political commentator puts it, “When Chávez came into office he was a complete outsider” (Osmel, personal interview, October 2006). Not only was Chávez unassociated with either of the dominant Venezuelan political parties, AD and COPEI, but he also promised a programmatic break from past governments, such as the second presidency of Carlos Andrés Pérez (1989–93) and the second term of Rafael Caldera (1994–99), that had promoted neoliberal policies. Specifically, Chávez’s policies, while fragmented in some respects (Gratuis 2006; The Economist 2002), rested upon an underlying interventionist paradigm that opposed the neoliberal paradigm that had dominated Venezuelan politics in the 1990s.

Although a neoliberal paradigm with a core value of an economy free of political interference was behind political reforms in Venezuela in the 1990s, it also provided some of the background ideas that drove corporate policy in PDVSA from the beginning. Linked to the idea of freedom from government influence was the idea that PDVSA was a semi-private company grounded in the concept of meritocracy. The concept of meritocracy, which would become a key point of contention in 2002, is based on the idea that promotions within the company would be made purely on performance within the company “to make sure the people that were contributing the most were receiving the highest positions within the company. And making sure that [there was a] merit point system within the organization, to make sure that the most capable were promoted, like in any other company that
you will see anywhere else in the world” (Javier, personal interview, 16 August 2006). Based on the model of successful multinational organizations, meritocracy was seen as an equitable promotional policy to guarantee that only people with the ability to successfully manage the organization would become high-level managers within PDVSA. Further, a meritocratic corporate policy would ensure that overtly political promotions could not be made; it would help to ensure that PDVSA maintained its institutional autonomy by only promoting successful managers who held the core beliefs of the corporate culture to the highest levels of management. By ensuring that only the best and brightest individuals were promoted based on their performance, PDVSA would remain a competitive multinational business, free from government influence.

When Chávez came to power, he challenged the meritocratic ideal by appointing actors who were politically aligned with his project but had not always come up through the ranks of PDVSA. Underlying Chávez’s approach to governing PDVSA was an interventionist paradigm that promoted direct state involvement in the Venezuelan economy and, concurrently, PDVSA. Thus, Chávez’s economic policies and politicization of PDVSA can also be seen as a clash between two contradictory sets of ideas, one set emphasizing corporate autonomy and the other valuing state control over the economy.

Janet Kelly and Pedro A. Palma (2004) hold that the traditional role of the Venezuelan state was reinforced when Chávez was elected. “The short-lived effort to liberalize the economy between 1989 and 1993 generated deep and even violent conflict, thus reinforcing the traditional bias toward seeking growth and income redistribution through government action” (Kelly and Palma 2004, 202–203). Chávez’s election is also portrayed as affirmation that most Venezuelans preferred that the government “take the lead” and that they “distrust leaving the development to the forces of the unguided market (i.e., neoliberalism)” (Kelly and Palma 2004, 203). Chávez had gained power as part of a campaign that played upon the traditional role of the state as the landlord to redistribute oil rents to the population. Despite the fact that the neoliberal basis of the dominant corporate culture within PDVSA was aligned with the move toward privatization in the 1990s, it is important to note that there was an ideational legacy in Venezuelan society that promoted the state and,
in turn, PDVSA as the provider of social and economic resources aimed at fighting poverty and supporting the Venezuelan population at large. This had been a key factor leading to the nationalization of the Venezuelan oil industry and had defined the role of PDVSA at nationalization: providing the state with funding through the extraction of rents from its subsidiaries (Coronil 1997).

In late 1996 survey data showed that 87.8% of respondents blamed “political elites” and the “national government” for the crisis of poverty facing the country (Gil Yepes 2004). According to José Antonio Gil Yepes (2004), this was a result of the Venezuelan population’s claim to oil as a national right. That is, because Venezuela’s wealth is tied directly to its oil reserves and the oil wealth is owned by all of its citizens, the oil wealth should be distributed in a way that makes all Venezuelans prosper. However, Venezuela was experiencing extremely high poverty rates—as high as 60.94% (Weisbrot, Sandoval, and Rosnick 2006). “Thus, those who distributed the oil wealth must have stolen it” (Gil Yepes 2004, 241) and, as a result, it was the mismanagement of oil wealth by the government and political elites that was responsible for “the economic and political crisis” (Gil Yepes 2004). Thus, Chávez, by promising to clean up corruption in the government and regain control over the national oil wealth, was playing upon deeply embedded public sentiments about the role of the government and oil in Venezuela. A historically embedded understanding of the state as the distributor of oil rents (Coronel 1983; Coronil 1997; Romero 1997) was in line with Chávez’s promise to regain control over PDVSA and the national oil wealth along with it. PDVSA’s neoliberal organizational culture spawned practices that were not in line with broader Venezuelan normative beliefs about the proper use of the national subsoil. Despite PDVSA’s immense institutional power and endogenous support for privatization, Chávez promised to change the direction of the company and Venezuelan oil policy to bring it in line with public sentiments. Chávez’s vision was in line with popular sentiments as to the legitimate role of the government in managing the national oil wealth; the vision of PDVSA’s leadership was not. Thus, a crisis of legitimacy was manifest in the rhetoric that brought Chávez to power, and historically established normative mechanisms played a significant role in expediting institutional change in PDVSA.
Chávez claimed to have the popular mandate to pursue change in all arms of the Venezuelan government, including PDVSA. However, he would have to gain control over the highly autonomous institution. During his campaign for the presidency, Chávez reinforced a discourse that attacked the legitimacy of PDVSA, calling it a “state within a state” operating with little mind to the interests of the general population and thus creating an imperative for change. During December 2002 Chávez further promoted a discourse that served to delegitimate PDVSA in the public eye by arguing that the actions of PDVSA’s managers went against the interests of the Venezuelan population. Connecting PDVSA management to an exploitative international ruling elite that had been constructed as an enemy of the Venezuelan population since the dictatorship of Gómez in the early 1900s, Chávez used a strategic discourse to create what Robert H. Cox refers to as a reform imperative (Cox 2001). For example, on 19 December, over two weeks after the beginning of the general strike, Chávez stated that the time had come to “clean up PDVSA” (cited in Agence France Press 2002), saying that

PDVSA belongs to all Venezuelans ... [B]ehind the attempt to paralyze PDVSA there is nothing but a new attempt at a coup to try to bring down the legitimately-established government ... This petroleum elite, which for years managed the enterprise that belongs to all Venezuelans, has now removed its mask. Behind an alleged meritocracy there was always hidden a deep anti-national and anti-Venezuelan sentiment. (cited in Agence France Press 2002)

While Chávez’s politicization of PDVSA had been a rallying point for striking individuals, Chávez linked the idea of “meritocracy” to the elite group in charge of the petroleum wealth that should be the property of all Venezuelans, framing PDVSA’s striking management as the enemy of the Venezuelan people. The “meritocracy” had attempted to sell the national subsoil and was thus acting against the national interest. Chávez was there to take it back, and, the government, allegedly acting in the name of the Venezuelan people, did just that. Chávez linked the idea of meritocracy to an elite group that had been segregated from Venezuelan society, and, as such, he was able
to maintain a claim to legitimacy and sufficient popular support during the strike.

By connecting PDVSA to both national and global neoliberal interests that were exploiting the nation’s natural resource with little regard for the “national interest,” or lowering royalties in order to promote increased production, Chávez reinforced the idea that PDVSA’s management was part of the exploitative elite, thus making it look illegitimate. Much like during the Gómez era and the push for nationalization, oil was depicted as a scarce resource to be exploited to the greatest benefit of the population with the least possible exhaustion of reserves. As the state had long been established as the guarantor of oil wealth and the landlord who would redistribute oil wealth to the population, Chávez played upon public sentiments that had emerged before nationalization: the idea of oil as a symbol of national sovereignty. When Chávez and Rodríguez redesigned oil policy to implement production cuts and increased royalties, “the role of PDVSA, condemned by Chávez as a ‘state within a state,’ was thus redefined in line with the broader national interest” (Buxton 2003, 125). A policy that returned control of PDVSA to the state and maximized revenues was thus framed to match public sentiments regarding the role of oil in Venezuelan society.

While neoliberal ideas shared by the majority of PDVSA workers and opposition groups such as FEDECAMARAS contributed heavily to the conflict in 2002, it is also clear that there were variables specific to PDVSA that encouraged its involvement in the events of 2002. The meritocratic employment policy of PDVSA and the concurrent resistance to politicization represent a programmatic reflection of a legacy of neoliberal policies within PDVSA. While the corporation was not a perfect meritocracy, the idea of meritocracy was deeply embedded as a core value of PDVSA and was recruited as a political frame to create further opposition to the Chávez government. For instance, the defense of meritocracy was cited by the small group of managers that went on strike before the 11 April coup, and, when PDVSA’s position was “radicalized” in the second week of the strike, it was a result of the appointment of managers that did not abide by a meritocratic corporate policy. Despite the fact that meritocracy had been bypassed in the past, that there was a degree of politicization in PDVSA before the Chávez era, and that Chávez himself only made
a handful of appointments that challenged meritocracy, the idea of PDVSA as a meritocracy was exploited by the media and the leaders of the strike to create further animosity between PDVSA employees and the government. The idea of meritocracy had been a key idea cited in protest of Chávez’s actions with regards to PDVSA, and, as the strike escalated, was recruited as a key part of the framing process that appealed to the core beliefs of many PDVSA employees in order to create further opposition. At a time of crisis, the value associated with maintaining a meritocratic ideal was a catalyst in determining the position taken by institutional actors.

Although Chávez did not achieve lasting success in effectively reducing poverty in the first four years of his presidency, he was able to strongly associate the direction that he was taking the country with a popular vision of public interest. An initial decrease in poverty over the first two years of his presidency showed promise while he began to alter the institutional organization of the Venezuelan state. The Bolivarian Constitution—the product of the first year of Chávez’s presidency, which promised to provide a number of social services to the Venezuelan poor—and highly publicized, albeit fragmented, social programs known as misiones were the source of hope for Venezuela’s urban poor. By framing the perceived interest of the Venezuelan poor as the centrepiece of his vision for Venezuela and PDVSA, Chávez garnered the support of a constituency that comprised the majority of Venezuela’s population: the urban poor. He had originally been elected with more support from the urban poor than middle and upper class citizens, and even after the strike, a Mercanalisis poll conducted toward the end of May 2003 reported that lower classes (e.g., the poor and people living slightly above the poverty line) showed the greatest support for Chávez at 40%, with an additional 43% “neutral” as to whether or not they would vote for Chávez in the upcoming recall referendum, while middle and upper classes showed a much lower level of support (Pulgarin 2003). While Chávez pushed for increasing redistribution of oil rents, he continued to derive his main support from lower class, poor Venezuelans who, notably, also represented the majority of the Venezuelan population. Thus, the direction that Chávez wished to take Venezuelan oil policy and PDVSA was aligned with long-held class-related beliefs about the role of the state in Venezuelan oil production. By redistributing the oil
wealth to the urban poor through social missions, Chávez claimed, he would alleviate poverty in the nation.

Even while Chávez faced organized opposition from a significant portion of society in 2002, he was able to delegitimize the actions of those engaged in the attempted coup and general strike in a way that gathered support for his presidency. In fact, in an evaluation of how good Chávez’s actions were for Venezuela, opinion polls conducted in mid April of 2002 report a steep rise in support for Chávez while he also received increasing support between November 2002 and February 2003—the time of the strike itself.10

**Beyond Issues of Legitimacy**

Although the timing of exogenous events in the form of oil shocks had contributed to PDVSA’s expansion into international markets in the 1980s and economic crisis had helped PDVSA gain power and push forward the *apertura* in the 1990s, Chávez benefited from external events in his push to gain control over PDVSA as well. Particularly, rising international oil prices that resulted from international political instabilities and a resurgence of OPEC, among other things, allowed Chávez to expand social spending during the early years of his presidency, a major factor in his ability to provide the social programs that, as discussed above, helped secure support from Venezuela’s urban poor. Thus, exogenous events provided the material conditions needed to promote the programs essential to maintaining public support. Therefore, the assumption of historical institutionalism that exogenous events can ignite institutional change holds true. However, that is only one possible factor leading to institutional change. In Venezuela as elsewhere, endogenous institutional and ideational factors play a major role in path-departing institutional change.

The timing of specific events during the 2002 strike was another important factor in Chávez’s success. During the strike, the procession of a number of key events (see Table 1), such as an attack upon Juan Fernandez, a leader of striking PDVSA workers, and on PDVSA protestors in the first several days of the strike, and Chávez’s subsequent firing of top managers, served to escalate the strike in PDVSA and provided the mandate to rid PDVSA of workers opposed to Chávez’s policies and vision for the company and the country. In fact,
it has been argued by some that these were strategic actions pursued by Chávez to create the opportunity for change. For instance, several participants in this study cited the National Guard’s use of excessive force in Plaza la Meritocracia as a strategy intended to escalate the strike (Jaime, personal interview, September 2006; Esteban, personal interview, September 2006; Bruno, personal interview, October 2006).

A last consideration that is important to note is the fragmented internal politics and constant battle of ideas within PDVSA. Although we have presented a somewhat cohesive overview of the ideational struggles that allowed Chávez to achieve path-departing change in oil policy, there were always competing groups and ideas within PDVSA subtly affecting the direction of the company and its policies. While the idea of meritocracy was an important one in framing an argument against Chávez and, ultimately, was a strong determinant in escalating the magnitude of the 2002 strike within PDVSA, there were also people within PDVSA that did not buy into the idea of meritocracy. Furthermore, a group of PDVSA employees who were aligned with Chávez and who knew the company’s operational procedures were put in place as the management of the company after the firing of top oil workers during the strike, thus allowing production to resume during and after the strike. For instance, a long-time manager with PDVSA explained that

We created a group. A very high high level technical group. But we were in disagreement with the policy for the board of directors or the authority at this moment in PDVSA. Even though President Chávez, even though we were in the power, we have the president, we were a minority in PDVSA. We were persecution and those in power didn’t give us opportunity and we had a meeting, I don’t know what this is in English, clandestinia …

Interviewer: Clandestine?

Participant: Yes, clandestine, out of PDVSA into the university, into the military facility, in order to discuss into the future how we can take the real power of PDVSA, to put PDVSA in order to take the real sovereignty and maximize the return to the pueblo, the people, the Venezuelan people.
We were, from 1998 until 2002, you know we have a lot of meetings. (Inti, personal interview, November 2006)

Without this faction of the company that supported Chávez, the new policy direction and institutional conversion that occurred would not have been possible. Thus, it is not accurate that widely held societal beliefs that conflicted with the dominant internal ideas of PDVSA simply won out over PDVSA. Rather, the conflict of ideas that was apparent in the greater Venezuelan society was also evident within PDVSA; the only difference is that while Chávez’s policies were supported largely by the urban poor, as evidenced by the strike, his policies did not receive a great deal of support from the PDVSA elite, and this was the basis for a conflict between PDVSA and the Venezuelan state. The presence of actors who held contrasting ideas about the perceived interests of the Venezuelan population were important in determining the direction of the company during and after the strike. Without these actors who actively supported Chávez, institutional change might not have been achievable. Thus, we cannot simply make the claim that PDVSA changed because it was not in line with objective societal interests. Rather, institutional change is a result of both shared social and political understandings about the legitimacy of state policy and the actions of political actors who mobilize material and ideological resources in a way that supports what they perceive as their best course of action.

Conclusion

Between the beginning of his presidency in 1998 and the end of the general strike in 2003, Hugo Chávez was able to achieve significant change in PDVSA. This was not simply a product of his personal will as the Venezuelan president, but rather a historical legacy that produced deeply embedded normative ideas about the role of the state in the management and distribution of oil wealth made institutional change possible. Specifically, a long-held popular idea of the national subsoil as the property of the populace and a legacy of the state as the moderator of oil wealth lent legitimacy to Chávez’s claims that PDVSA was not acting in the interests of the Venezuelan population by favouring private interests in Venezuelan oil production. He was
elected on the idea that returning oil money to the people through redistributive programming was the legitimate course of action. His actions toward PDVSA only furthered an impending crisis of legitimacy in which Chávez’s government confronted the largely autonomous and highly powerful institution and was able to regain control over the company with, importantly, a claim to legitimacy fostered by the sentiments of deeply embedded Venezuelan normative beliefs. Although, as noted above, institutional change in PDVSA cannot be reduced to a question of cultural legitimacy, it is clear that cultural norms were an important variable in Chávez’s success in gaining control over PDVSA.

Overall, it is clear that, more than five years after the general strike of 2002–03, major institutional change has taken place in Venezuelan oil policy. The Chávez government has a firm hold on PDVSA and is pushing to rebuild the company in line with the redistributive vision that got Chávez elected in the first place. Where he takes the company through the end of his tenure as Venezuelan president remains to be seen.

Notes

1 This expansion was based on the argument that securing downstream outlets for Venezuelan oil was important to establishing stable supply networks, especially in times of crisis.

2 Riding on high oil prices, Venezuela’s GDP rose by 17.9% in 2004 and 9.3% in 2005 (World Bank 2006). Chávez was able to use increasing oil revenues to significantly increase social spending, and, while poverty spiked in 2004, by the end of 2005 poverty rates were down to 43.7% of the population. While that may seem like a large number, it represents a 6% decrease from the poverty rate of 49.99% recorded when Chávez took power in 1999; see Weisbrot et al. (2006).

3 Giusti had risen through the ranks of the Shell-descended division of PDVSA, Maraven, and was himself a product of the competitive, productionist ranks of PDVSA’s operational subsidiaries.

4 PDVSA was responsible for providing the national wealth and would leave the Venezuelan government without the shaky economic footing that it already stood on. Furthermore, PDVSA’s role in the country was clear, and the government still held nominal power to reverse decisions made by PDVSA. A move toward privatization against the government’s will could still be met with government intervention.
5 It is reasonable to assume that, as he has stated, Giusti believed privatization would benefit the Venezuelan population in the long run, based on neoliberal assumptions that increased production and increased economic exchange lead to increased economic prosperity for all. See Giusti (1999).

6 This confirms John Campbell’s idea that the social and political location of institutional reformers can help them promote institutional change. See Campbell (2004).

7 The Pact of Punto Fijo had established a power sharing agreement in 1958 in which the two dominant political parties, AD (Democratic Action) and COPEI (Christian Democratic Party), had agreed to respect each other’s interests as well as that of private enterprise and other sources of political and economic power within Venezuela in the name of democratic stability. See Buxton (2003); Hillman (1994); Crisp (2000); Grindle (2000); Baena (1999); McCoy and Myers (2004). As argued by Angel Alvarez, this system of “pacted democracy” had also worked to minimize the emergence of formalized class politics in Venezuela, as the dominant parties both took a moderate stance and engaged in little ideological or programmatic debate. See Alvarez (1996).

8 It is important, however, to note that Chávez was not the first president to appoint political actors to the board of PDVSA. For instance, one participant in this study reported that as early as the “late ’80s, early ’90s, instead of promoting people from the ranks, they started naming political appointees” (Rafael, personal interview, 19 September 2006). In fact, Giusti himself was not next in line when he was appointed as president in 1993. His promotion “was seen by the highest ranking people in PDVSA first as a violation of meritocracy” (Ernesto, personal interview, 15 September 2006). Thus, Giusti himself had bypassed the meritocracy in his promotion to president.

9 While poverty rates initially fell during Chávez’s presidency, instabilities, particularly those brought on by the attempted coup and general strike of 2002, saw the percentage of the population living below the poverty line climb from 45.38% in the second half of 2001 to 62.09% in the second half of 2003 (Weisbrot et al. 2006).

10 When asked “How would you evaluate the actions taken by Hugo Chávez Frias for the welfare of the country?” 44.7% of those surveyed from a stratified sample of 1,300 in April 2002 said he was doing moderate to good, good, or very good, up from 34.4% the month before. Furthermore, between November 2002 and February 2003, those responding “moderate to good,” “good,” or “very good” increased from 32.6% to 35.1%. While still a minority, it does display a rise in public evaluation of Chávez even while the country was experiencing an economic and political crisis that crippled the nation’s economy (Gil Yepes 2004).
Competing corporate cultures existed in PDVSA from the very beginning. As a long-time employee of a multinational corporation explains, nationalization was done in such a way that the cultures of the different companies working in Venezuela were respected. For instance, the Exxon affiliate was represented in the local company called Lagoven. So Lagoven, which was an affiliate of PDVSA, maintained all the corporate culture that Exxon brought to Venezuela in their previous affiliate, Creole Petroleum Corporation. So Creole, actually Lagoven, was almost an extension of Creole, as Maraven was an extension of Shell, with the same management, same standards, and same corporate culture (Rafael, personal interview, 19 September 2006). For instance, Luis Giusti, as an employee of Maraven, had support from a faction of the company that believed in his business strategy while others were opposed. When Roberto Mandini was assigned as president of PDVSA in 2000, he came from one of these competing cultures; he had worked for Corpoven before the merger in 1997 and had been an open critic of Giusti’s policies during Giusti’s period at the helm of the company (Bruno, personal interview, 18 October 2006). Thus, PDVSA did not present a united front; to speak of PDVSA as a cohesive and unified organization ignores internal divisions that we must be aware of when discussing institutional change.

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