

Executive Summary Backgrounder

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If the Real Simón Bolívar Met Hugo Chávez, He'd See Red

James M. Roberts

If Simón Bolívar had returned to Venezuela in 2007 for his 224th birthday, he would have encountered a large man sporting a red shirt named Hugo Chávez exploiting his legacy. Although President Chávez claims to be Bolívar's worthy successor, the Liberator would see red when comparing Chávez's "21st century socialism" with the reality of his regime. Bolívar would be embarrassed to see Venezuelans being oppressed by the same kind of Latin American caudillo (strongman) from which he fought to free them two centuries ago. Bolívar championed a unified South America and strong constitutional government to provide the same freedom, equality, and prosperity that he saw developing in North America. He opposed precisely the type of one-party, personalized, dictatorial rule that is embodied by Hugo Chávez.

A self-declared enemy of the U.S., Chávez aims to dominate the Caribbean Basin and Andean region and fulfill the long-time dream of his hero and mentor, Cuban dictator Fidel Castro. Chávez is a much bigger threat than officials in Washington seem to realize, and they need to wake up fast.

Consolidating Power. Steadily tightening his grip on power in the "Bolivarian Republic" of Venezuela, Chávez has hollowed out democratic institutions and stoked class conflict. He has packed the courts and the National Assembly, putting loyalists on the bloated state payroll. In January 2007, the National Assembly granted him power to rule by decree. Since his re-election in December 2006,

Chávez has moved steadily from socialist theory to authoritarian practice. He is rigging the rules to stay in office indefinitely while his draconian media-control laws stifle dissent. In May 2007, Chávez closed down RCTV, Venezuela's oldest television channel and the strongest remaining opposition voice. Now he is free to jail his opponents. Chávez has ordered his troops to greet one another with "Patria, Socialismo, o Muerte" (fatherland, socialism, or death), and officers in his politicized military are in command of provincial governments and the police.

Petroleos de Venezuela SA (PdVSA), the state-owned oil company, has become a large slush fund for Bolivarian schemes, from social welfare cash transfers to billion-dollar arms purchases. Chávez is killing his golden goose by diverting so much revenue that PdVSA cannot afford the modern technology to keep it globally competitive. Since Chávez took office, PdVSA production has dropped by 50 percent, although high oil prices have masked the loss. Billions have vanished into non-transparent accounts set up by Chávez as piggy-banks for his regime.

This paper, in its entirety, can be found at:
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His power base is drawn from the millions of Venezuelans subsisting on less than \$2 per day. He has given them billions in non-productive government subsidies, but the handouts have not improved their lives. They suffer from rising crime (Caracas has the Western Hemisphere's highest murder rate) and inflation (also the hemisphere's highest). The infrastructure is deteriorating. Income inequality has not improved. Reports of massive corruption by Chávistas undermine Chávez's claims that his revolution is morally superior to the "savage capitalism" that he professes to be fighting.

Petro-Diplomacy. Chávez is buying friends with "petro-diplomacy," spending at least \$2 billion per year to prop up Castro's dictatorship and billions more to fund PetroCaribe. He intends to control all defense, economic, social, and foreign policies in the region through the Bolivarian Alternative for the Americas, his socialist trade scheme. Bolivarian Circles promote leftists such as Evo Morales in Bolivia, Rafael Correa in Ecuador, Lopez Obrador in Mexico, and Ollanta Humala in Peru. Chávez berates Washington Consensus political and economic reforms, calling the International Monetary Fund and World Bank tools of U.S. domination. He claims that "21st century socialism" will empower and prosper people, but his retrograde statist policies and iron-fisted tactics—old wine in even older bottles—doomed (among many other countries) the Soviet Union, Cuba, and Zimbabwe.

To damage U.S. interests, Chávez expropriates from U.S. oil companies while steering billions in lucrative contracts to oil companies from China, Russia, Iran, Belarus, and other authoritarian capitalist nations. The quantity of narcotics smuggled to the U.S. via Venezuela has soared. Even more alarmingly, Chávez is spending billions on unnecessary land, sea, and air weapons that threaten Venezuela's neighbors and are leading to a renewed regional arms race. His adventurism is threatening next-door Colombia, a firm U.S. ally.

The Venezuela Problem. Distracted by problems elsewhere, the U.S. has tried to discredit Chávez by ignoring him, but Washington has been

slow to recognize the magnitude of the threat posed by Chávez and Castro. Venezuela has the largest proven oil reserves in the Western Hemisphere. If Chávez succeeds in blocking access to Venezuelan oil, the U.S. will become even more reliant on the volatile Middle East. The U.S. has wisely refused to react directly to his taunts and threats, but to counter his many challenges and provocations, the Administration must deliver the message of good governance, the benefits of the free market, democratic principles, and respect for the rule of law more aggressively.

To isolate Chávez politically and economically, Congress should approve pending trade promotion agreements with Peru, Panama, and Colombia as originally negotiated. The Administration should pursue additional free trade agreements with Paraguay and Uruguay. Relations with Brazil should be improved, starting with elimination of U.S. tariffs on Brazilian ethanol. Congress and the Administration also should extend Andean Trade Preferences to Bolivia and Ecuador beyond the February 2008 expiration date and continue to press both countries to pull back from Chávez.

The Administration should increase regional security cooperation through joint programs with friendly governments to battle transnational terrorism, crime, and narcotics trafficking. To tackle the income disparities and deep-rooted poverty that Chávez is exploiting but not solving, Congress should increase funding for the region from the Millennium Challenge Corporation. The Administration should ask the Organization of American States to censure Chávez for his crackdown on press freedom.

Conclusion. The U.S. should counter Chávez by increasing support for market-based democratic institutions, lest his efforts bear bitter fruit. A strong and resolute U.S. government should avoid repeating past mistakes and instead act to encourage true reform in the region.

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Background

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A self-declared enemy of the U.S., Chávez aims to dominate the Caribbean Basin and Andean region and fulfill the long-time dream of his hero and mentor, Cuban dictator Fidel Castro. Chávez is a much bigger threat than officials in Washington seem to realize, and they need to wake up fast.

The Liberator Versus the Oppressor

Simón Bolívar was born into a wealthy aristocratic family in Caracas on July 24, 1783. After the tragic death of his young wife, he studied for several years in Europe amidst the ferment of Enlightenment liberalization philosophies.

Bolívar also visited the young United States of America and returned to his native Venezuela flush

Talking Points

- Hugo Chávez's policies are an imminent threat to the United States. Venezuela has become a hub of narcotics trafficking, and its rapid military buildup will likely lead to a renewed regional arms race.
- The Bush Administration should seek international censure of the Chávez government's crackdown on press freedom.
- The Administration should restart negotiations with Brazil for a Free Trade Area of the Americas agreement, and Congress should permit imports of Brazilian ethanol.
- Congress should approve pending trade promotion agreements as originally negotiated with Panama, Peru, and Colombia to continue the momentum for job-creating growth from free trade.
- Congress should increase funding for the Millennium Challenge Corporation to address the income disparities and need for reforms that Chávez is exploiting.
- Congress should hold hearings on the threats to U.S. national and energy security posed by the increasingly totalitarian and militaristic Chávez regime.

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with republican ideals and intent on achieving independence. He admired the system of checks and balances on power established in the U.S. and wanted the same for the people of South America. In the United States, for the first time in his life, he saw “rational liberty at hand.” Beyond the achievement of independence from England, Bolívar saw the American Revolution as “a great social movement, which would improve as well as liberate” the lives of its citizens.¹

Comparing the U.S. with the reality of a South American continent ruled from afar by the Kingdom of Spain with Napoleon’s older brother Joseph Bonaparte on the throne, Bolívar lost respect for Napoleon and considered him a traitor to his early republican ideals. At his December 1804 coronation ceremony, an impatient Napoleon famously grabbed the coronet and crowned himself emperor. Although in Paris at the time and invited to the ceremony, Bolívar was by then thoroughly disillusioned with Napoleon and refused to attend.²

Bolívar returned home and vowed to end the rule of the autocratic European powers. His crucial victory at the Battle of Boyaca in August 1819 led to the creation of the Angostura Congress and Gran Colombia—a federation of present-day Guyana, Venezuela, Colombia, Panama, and Ecuador—which named Bolívar president.

In his roles as president and liberator, Bolívar adhered to governing principles that contrast starkly with those of Chávez.

- Bolívar fought against the rule of the mob; Chávez uses a “mobocracy” to maintain power.
- Bolívar resisted any role for the military in Venezuela’s civilian political institutions; Chávez is steadily militarizing them.³

- Chávez exploits racial tensions to acquire power; Bolívar was “committed to racial equality.”
- Although he used caudillos in his battles to gain independence from Spain, Bolívar was never one himself. In fact, he despised the caudillos, referring to them as “tyrants,” who were interested only in their own power and never saw the bigger picture. Bolívar would have instantly recognized the “neo-caudillo” in Chávez.⁴

However, Bolívar and Chávez are depressingly similar in one way. Ironically, the first country where Bolívar had to share power with the caudillos was Venezuela. He could not afford to fight the caudillos and liberate Gran Colombia at the same time. Perhaps that is why “caudillism” is so ingrained in Venezuela.

Frustrated by political fragmentation, Bolívar gradually became more authoritarian. He flirted with proposals from the landed classes that he roll back the hard-won political liberalization and agree to become president of Colombia for the rest of his life, to be succeeded by a monarchy.⁵ Chávez has dropped hints recently that he plans to be president of Venezuela for a long time. In Minsk on June 29, 2007, with Belarus strongman Alyaksandr Lukashenka, Chávez predicted that both leaders “will stay in power for another 20 years.”⁶

Notwithstanding his failings, Simón Bolívar was a constitutionalist. The populist socialism of Castro and Chávez would have been heresy to him. Bolívar’s biographer John Lynch states the consensus view of history:

By exploiting the authoritarian tendency which certainly existed in the thought and action of Bolívar, regimes in Cuba and Venezuela claim the Liberator as a patron for their policies, distorting his ideas in the

1. John Lynch, *Simón Bolívar: A Life* (New Haven and London: Yale University Press, 2006), pp. 39 and 151.
2. *Ibid.*, p. 25.
3. Gustavo Coronel, “Corruption, Mismanagement, and Abuse of Power in Hugo Chávez’s Venezuela,” Cato Institute, Center for Global Liberty & Prosperity *Development Policy Analysis* No. 2, November 27, 2006, p. 2, at www.cato.org/pub_display.php?pub_id=6787 (June 19, 2007).
4. Lynch, *Simón Bolívar*, pp. 269, 289, and 304.
5. *Ibid.*, pp. 142 and 262–266.
6. “Chávez: U.S. Treats Venezuela, Belarus As Dictatorships,” *El Universal*, June 29, 2007, at http://english.eluniversal.com/2007/06/29/en_pol_art_Chavez-us-treats-ve_29A892137.shtml (July 5, 2007).

process. Thus the Bolívar of liberty and equality is appropriated by a Marxist regime, which does not hold liberty and equality in high esteem but needs a substitute for the failed Soviet model.⁷

If Hugo Chávez ever holds a ceremony to crown himself with his red beret as emperor, the ghost of Simón Bolívar will surely not be in attendance.

Learning from Allende's Mistakes. If Chávez is not another Bolívar, then who is he? The real Hugo Chávez fits the mold of some of his leftist heroes: Omar Torrijos of Panama, Juan Velasco of Peru, Che Guevara, and (obviously) Fidel Castro.⁸ Almost as soon as Castro toppled the notoriously corrupt Batista government in 1959, he proclaimed that he would establish communism throughout the hemisphere, using armed guerrilla violence (and later urban terrorism) to achieve power.

In the early 1970s, with Castro's support and thousands of Cuban "advisers," Salvador Allende attempted to transform mineral-rich Chile into a worker's paradise by gaining political power through constitutional mechanisms. Fortunately for Chile, President Allende created economic chaos, hyperinflation, and unemployment. He lost public support, and democracy was eventually restored.

Venezuela has been an even bigger target for Castro because of its oil and close proximity to Cuba. Early on, he focused on destabilizing it,⁹ and he began grooming Chávez as soon as the two met in 1994 after Chávez was released from prison for leading a coup attempt in 1992.¹⁰ Castro did not want to miss another opportunity as he had in Chile, so he coached Chávez to avoid the mistakes made by Allende. Following Allende's example, Chávez has used every legal means available to

acquire and tighten his hold on power. Unlike Allende, however, Chávez has been more careful.

Slowly Tightening His Grip on Venezuela

When Chávez led the unsuccessful coup attempt against the democratically elected Venezuelan government in 1992, he made plain his belief that democracies can and should be overthrown by force. Since taking office in 1999, President Chávez has steadily tightened his grip on power in Venezuela. He dissolved the National Assembly, and then his party, using rigged election rules, gained control of every seat in the Assembly, which "in January 2007 granted him 'special decree powers' for 18 months, under which Mr. Chávez is empowered to issue decrees in 11 key areas without having to seek legislative approval."¹¹ He has packed the courts at every level with party apparatchiks.

Especially since his December 2006 re-election—which political opponents claim he manipulated—Chávez has been moving steadily from dictatorship to a sort of "tropical authoritarianism." Chávez has "resorted to autocratic and authoritarian practices to consolidate his rule" and has "few, if any, checks and balances" on his "extraordinary concentration of power."¹² He is currently choreographing a change to his Bolivarian Constitution that would permit him to remain in office indefinitely.¹³ Among the constitutional "reforms" Chávez announced on August 15, 2007, are provisions that "would extend presidential terms from six to seven years and eliminate current limits on his re-election." Chávez "also wants the central government to have greater control over local government and would end the autonomy of Venezuela's Central Bank—potentially funneling billions of dollars in foreign reserves" into the regime's coffers.¹⁴

7. Lynch, *Simón Bolívar*, p. 304.

8. Richard Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela* (London and New York: Verso, 2005), pp. 35–36, 60, 124, and 178.

9. James R. Whelan, *Out of the Ashes: Life, Death and Transfiguration of Democracy in Chile, 1833–1988* (Washington, D.C.: Regnery Gateway, 1989), pp. 250–251, 314, and 340–345.

10. Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela*, p. 124.

11. Economist Intelligence Unit, "Venezuela: Threats and Bluster," May 14, 2007.

12. Michael Shifter, "Hugo Chávez: A Test for U.S. Policy," *Inter-American Dialogue Special Report*, March 2007, at www.thedialogue.org/publications/2007/spring/venezuela.pdf (June 7, 2007).

13. Steven Dudley, "Exasperated by Chávez, More Venezuelans Leave," *The Miami Herald*, May 1, 2007, p. A1.

Chávez has revised Venezuela's criminal code to impose penalties of up to 40 months in prison for expressing "disrespect" for the president or the government. Venezuela "is reverting to one-man rule of the most corrupt and primitive Latin American type."¹⁵ Chávez has militarized the government of Venezuela, once one of oldest democracies in Latin America but now rebranded by Chávez as a Bolivarian Republic. He has put fellow military officers in charge of most of the provincial state governments, as well as the police forces. They also hold other traditionally civilian public administration posts. Under Chávez, Venezuela is becoming the same kind of command-economy police state that Cuba became when Castro took power in 1959.¹⁶

Although Chávez has not yet gone as far as the Soviets in banning freedom of religious expression, he has clashed repeatedly with the Roman Catholic Church, most recently during Pope Benedict XVI's May 2007 visit to Latin America.¹⁷ Chávez has tried "to limit the influence of the Catholic Church and missionary groups in certain geographic, social, and political areas." In October 2005, President Chávez accused missionaries from the New Tribes Mission, a U.S.-based religious group, of "contaminating the cultures of indigenous populations as well as carrying out illicit activities with the group's small aircraft."¹⁸ In October 2005, the U.S.-based Church of Jesus Christ of Latter-day Saints (Mormons) quietly withdrew all of its non-Venezuelan (mostly American) missionaries¹⁹ after strong hints that harm might come to them.

In May 2007, Chávez refused to renew the license of RCTV, Venezuela's oldest and most popular television channel, thereby taking it off the air. It was also the only remaining station with nationwide coverage that carried content not controlled by Chávez. Although this sparked numerous protests, some of them violent, RCTV programming remains off the air in Venezuela, although it is again available on cable television. RCTV was the most powerful voice of the opposition, reaching into most people's homes across the country with reports and analysis that questioned many aspects of Chávez's reign. Chávez has also threatened to close down cable channel Globovision, the only other television channel that has strongly criticized the government.

Venezuela now has no "over the air" television stations free to air views critical of Chávez or his regime. Only two cable channels, Globovision and now RCTV, criticize the government, but lower-income groups generally do not have access to cable television.

Diverse organizations and individuals from both the left and the right have criticized Chávez's treatment of the media, including the European Union, the Inter-American Commission on Human Rights, various Members of the U.S. Congress, the Chilean Senate, Reporters without Borders, and Human Rights Watch.²⁰

Chávez has responded to his critics by calling them "fascists" and making "chilling threats of retribution." His response to both the protesters and any media organizations that oppose him is an iron fist.

14. Fabiola Sanchez, "Opponents of Venezuela's Chavez Vow to Fight Proposed Constitutional Reform," Associated Press, August 16, 2007, at www.lexis.com/research/retrieve/frames?_m=5f89699f0109836741433fed430bcc3&csvc=fr&cform=free&_fmtstr=XCITE&docnum=1&_startdoc=1&wchp=dGLzVlz-zSkAk&_md5=0520efd25f2bbb475d8ee3ce37610f0d (August 17, 2007).

15. David Frum, "Democracy's One-Man Wrecking Crew," *National Post*, June 2, 2007.

16. Juan Forero, "Venezuela Poised to Hand Chávez Wide-Ranging Powers," *The Washington Post*, January 31, 2007, p. A1.

17. Patrick J. McDonnell, "Latin American Groups, Leaders Decry Pope's Remarks on Conquest," *Los Angeles Times*, May 23, 2007, p. A9.

18. U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, "International Religious Freedom Report 2006: Venezuela," September 15, 2006, at www.state.gov/g/drl/rls/irf/2006/71478.htm (July 6, 2007).

19. "LDS Missionaries Evacuate Venezuela," *Deseret News* (Salt Lake City), October 26, 2005, at <http://deseretnews.com/dn/view/0,1249,635156281,00.html> (August 8, 2007).

20. Benedict Mander, "Protest at Chávez's TV Clampdown," *Financial Times*, May 31, 2007, at www.ft.com/cms/s/df73c472-0fba-11dc-a66f-000b5df10621%2Cdwp_uuid%3D8fa2c9cc-2f77-11da-8b51-00000e2511c8.html (June 12, 2007).

So far, his tough stance has worked. High oil prices have allowed him to buy off many potential political opponents. “Chávez cannot appear to be weak among his own people, or to be another Allende,” said Steve Ellner, a political scientist at Oriente University in eastern Venezuela.²¹

PdVSA: From Oil Company to Social Welfare Agency. In Bolívar’s day, tobacco, not oil, was Venezuela’s big export. However, the temptation to divert revenues was the same then, and Bolívar opposed it strenuously. He ordered revenue from tobacco to be “ploughed back into production.”²²

Faced with a similar situation, Hugo Chávez has done just the opposite. He has spent the huge revenues generated by Petroleos de Venezuela SA (PdVSA), the giant state-owned oil company, to extend his political power and enrich his supporters. Billions have vanished into Fonden, the non-transparent national development assistance fund created by Chávez.²³ According to critics, Chávez’s social spending has made PdVSA resemble a state piggybank more than an oil company and has left the company with little focus. PdVSA has been spending nearly twice as much on social programs as it spent on its oil and gas operations.²⁴

PdVSA recently borrowed \$4.5 billion from the central bank “to obtain resources...in order to strengthen its 2007–2008 budget,” according to Finance Minister Rodrigo Cabezas. Jose Guerra, former director of the Central Bank of Venezuela, questioned the need for the funds, given record high oil prices that should provide the company with plenty of cash. “Something is happening (at PdVSA) that is weakening its cash flow.”²⁵ Minister of Energy Rafael Ramirez, a fanatical Chávista, is also the President of PdVSA—a clear conflict of interest.

Analysts report that higher oil prices have masked the decline in Venezuelan oil production. “Since Chávez took over, production in the state-run oil fields has fallen almost 50 percent, say analysts at PFC Energy, who spoke on condition of anonymity rather than risk the wrath of the Venezuelan government.”²⁶ The Chávez regime denies this allegation, but tellingly, the public company no longer publishes monthly, quarterly, or annual results. PdVSA’s managers are overwhelmed by too many projects, including energy integration and plans for new pipelines, refineries, and liquid natural gas plants, along with taking majority control of major projects in the Orinoco Belt.²⁷

Cursed with Oil. Oil has rightly been termed “the devil’s excrement” because of the noxious effects it has on the politics of its possessor. Former Minister of Economy Moises Naim notes that Venezuela is unique in Latin America for having a government that claims to be wealthy rather than poor.

The popular misconception that Venezuela is a wealthy country has been perversely translated by the bulk of Venezuelans into “I live in a rich country, yet I am poor. Therefore someone stole my money.” Chávez has ably exploited the resentment fostered by this myth, which, Naim maintains, explains the significant number of poor people and income inequality. In addition to reciting this version of Venezuela’s history, Chávez follows up in his speeches by pointing the finger of blame at the U.S. for imposing the painful Washington Consensus market reforms of the 1990s that seemed to reward only the elites and foreign investors through large-scale privatization.

However, as Naim points out, “Venezuela’s problem is not too much globalization but too little.”

21. Simon Romero, “Chávez Looks at His Critics in the Media and Sees the Enemy,” *The New York Times*, June 1, 2007, p. A6.

22. Lynch, *Simón Bolívar*, p. 162.

23. Steven Dudley, “Oil Spawns New Wave of Newly Rich,” *The Miami Herald*, July 17, 2006.

24. Gordon Platt, “Oil Bonds Boost Venezuelan Bolívar,” *Global Finance*, June 2007, at www.gfmag.com/index.php?idPage=493 (August 8, 2007).

25. Fabiola Sanchez, “Venezuela Dismisses Concerns over Sharp Fall in Foreign Reserves,” Associated Press, May 11, 2007.

26. Danna Harman, “Venezuela’s Oil Model: Is Production Rising or Falling?” *The Christian Science Monitor*, May 31, 2006, at www.csmonitor.com/2006/0531/p04s01-woam.html (June 18, 2007).

27. Benedict Mander, “Instrument of Revolution,” *Financial Times*, May 8, 2007, p. 5.

Market reforms would have worked if they had been fully implemented, but they never were. Naim also blames the rise of Chávez on the failure of Acción Democrática and Comité de Organización Política Electoral Independiente (COPEI), the two major political parties, which were weakened by over 50 years of pervasive corruption among Venezuelan politicians who yielded to the temptations posed by easy oil money.

Naim believes that the Chávez era has a low probability of making Venezuela's poor more prosperous and free. He predicts that the Chávez administration's failure after eight years in office to deliver on its promises of a better life for the majority will "create political instability that could lead to the erosion of civil liberties."²⁸

No Better Off Under Chávez. The reality is that the Chávez regime has not reduced extreme poverty and income inequality. According to the United Nations Development Program's Human Development Index, Venezuela's score showed virtually no improvement between 1995 and 2003.²⁹

Similarly, Venezuela's Gini coefficient, a measurement of income inequality, has improved only marginally in the Chávez years. According to World Bank statistics, Venezuela's Gini Index in 1998 was 50 and improved to only 48 by 2003.³⁰

Nevertheless, the handouts to the poor have made Chávez popular. According to analysts like Edmond Saade, president of the Venezuelan American Chamber of Commerce and Industry:

The poor are getting free food and free medical attention and this makes them feel better, even if they are not being empowered to become producers and to break away from the paternalistic "revolution." The spending spree, however, has not been accompanied by long-term investment.³¹

Full Nationalization of the Economy. In December 2006, Chávez was re-elected to another six-year term in a landslide while major opposition parties stayed on the sidelines in protest.³² Almost immediately, in January 2007, an emboldened Chávez "shocked the market by declaring the energy and telecommunications sectors to be 'strategic' and therefore subject to nationalization."³³

His first targets were major U.S. corporations. His government began to buy back controlling interests in a number of Venezuelan firms from U.S. companies that had invested in Venezuela during the market reform era in the 1990s. In February, Chávez forced Verizon to sell its 28.5 percent stake in CANTV, the country's biggest telecommunications company, and his government is buying back all remaining CANTV shares traded on the New York Stock Exchange.³⁴ Chávez also instructed AES, a U.S. firm, to sell back at a loss its 82 percent interest in Venezuela's largest private utility company.³⁵

In his most dramatic move toward centralization, on May 1, Chávez ordered PdVSA to take 78 percent interest in joint ventures in the Orinoco heavy oil fields. ExxonMobil and ConocoPhillips,

28. Moises Naim, "The Venezuelan Story: Revisiting the Conventional Wisdom," Carnegie Endowment for International Peace, April 2001, at www.carnegieendowment.org/publications/index.cfm?fa=view&id=652 (June 8, 2007).

29. U.N. Development Program, "Human Development Index Trends," at http://hdr.undp.org/statistics/data/indic/indic_12_1_1.html (June 18, 2007).

30. World Bank, *World Development Indicators Online*, at <http://go.worldbank.org/B53SONGPA0> (June 11, 2007; subscription required). The Gini Index measures income inequality on a scale from 0 to 100, with 100 being perfect inequality and 0 being perfect equality.

31. Dudley, "Oil Spawns New Wave of Newly Rich."

32. U.S. Department of State, "Background Note: Venezuela," February 2007, at www.state.gov/r/pa/ei/bgn/35766.htm (June 29, 2007).

33. Economist Intelligence Unit, "Venezuela: Threats and Bluster."

34. "Venezuela Gets Control of Telecom; Caracas Aims to Delist CANTV from the NYSE," *The International Herald Tribune*, May 10, 2007.

35. Associated Press, "AES Swings to 1st-Quarter Loss on Charge from Sale of Stake in Venezuelan Power Company," June 21, 2007.

two major U.S. companies, were forced to abandon their multibillion-dollar investments.³⁶

Banks and steel companies appear to be next on his acquisition list. Many observers accuse Chávez of using nationalizations to distract people's attention from the problems that his government has created. The Venezuelan private sector has been in turmoil since the nationalizations began.³⁷ Meanwhile, Chávez is swelling the ranks of already bloated government ministries with jobs for his supporters, straining the budget.

One measure of the loss of economic freedom in Venezuela under Chávez is its ranking in the annual *Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*. In 1998, before President Chávez took office, Venezuela ranked 107th out of 154 countries.³⁸ By 2007, after eight years of Chávez in office, Venezuela's ranking had dropped to 144th out of 157 countries.³⁹

Ignoring the disastrous lessons of Soviet collectivized agriculture, Chávez has targeted private producers and large landowners for nationalization, saying that they are not producing enough. He has directed "regional and municipal governments to expropriate food growers and cattle ranchers with idle capacity, and to investigate private industries that are attempting to block the new socialist-based enterprises."⁴⁰ Other cattle ranches and large landholdings are being taken over with the excuse that their ownership titles cannot be traced to colonial times, and Chávez is giving the land to squatters. Even chicken farmers are not beyond the reach of

Chávez, who said that if they "and ranchers refuse to take their animals to the slaughterhouse, we will seize the cows within the framework of the constitution and the country's laws."⁴¹ Among proposed constitutional "reforms" announced by Chavez on August 15, 2007, are provisions that will enable his regime to expropriate virtually all land in Venezuela:

[Chavez's] new property rights regime envisage[s]... "communal and collective" forms of ownerships. Large landholdings, the so-called "latifundios" against which the government has battled since the 2001 Land Law was introduced, will simply be considered a banned type of ownership.⁴²

The clear threat to any kind of investment has had the predictable result of creating ongoing shortages of staples—including eggs, milk, meat, chicken, and cooking oil—that disproportionately affect the poorest Venezuelans.

Rising Crime. A recent State Department notice warns:

U.S. citizens contemplating travel to Venezuela should carefully consider the risks to their safety and security. Violent crime, including express kidnappings, has increased in Venezuela, particularly in major cities and along the border with Colombia. In Caracas, violent crime has become an everyday occurrence.⁴³

According to a 2005 U.N. report, more people die from gunfire in Venezuela than in any other country on earth. The rise in lawlessness can be

36. International Petroleum Finance, "Orinoco Projects Change Hands," May 3, 2007.

37. Jens Erik Gould, "Venezuela Disavows 1980s-Era Bonds," *The New York Times*, March 7, 2007, p. C1.

38. Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick, *1998 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc. 1998), pp. 363–364.

39. Tim Kane, Kim R. Holmes, and Mary Anastasia O'Grady, *2007 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc. 2007), pp. 389–390, at www.heritage.org/index/countries.cfm.

40. Economist Intelligence Unit, "Venezuela Economy: Shortages Prompt Takeover Threats," June 18, 2007.

41. Doug MacEachern, "World Media Too Kind to Venezuela's Tyrant," *The Arizona Republic*, June 3, 2007.

42. Marion Barbel, "Constitutional Reform Plan for Venezuela Mixes Enhanced State Control with Extended and Unlimited Terms," *Global Insight*, August 16, 2007, at www.lexis.com/research/retrieve/frames?_m=5f89699f0109836741433fed430bcc3&csvc=fr&cform=free&_fmtstr=XCITE&docnum=1&_startdoc=1&wchp=dGLzVlz-zSkAk&_md5=0520efd25f2bbb475d8ee3ce37610f0d (August 17, 2007).

43. U.S. Department of State, "Public Announcement: Copa America," June 22, 2007, at http://caracas.usembassy.gov/news_en.asp?news=130 (June 25, 2007).

traced in part to an increasingly corrupt police force, the example set by the government's expropriations of private property, and the polarized atmosphere of class warfare that Chávez has encouraged. The homicide rate has doubled since Chávez took office in 1999,⁴⁴ and Caracas suffers from the highest homicide rate of any city in the Western Hemisphere.

Rising Inflation. High oil prices have allowed Venezuela to bring in billions in hard currency reserves, but Chávez is spending them even faster. His generous handouts to the poor and other public works spending are causing the government's budget deficit to grow just as GDP growth is slowing, in part from Dutch disease.⁴⁵ "There is fear that all of Chávez's different spending projects will lead to a depletion of funds," said Francisco Rodriguez, a former chief economist at Venezuela's National Assembly who teaches at Wesleyan University.⁴⁶

Not content with the massive inflows of funds from high oil prices, Chávez is borrowing even more. "PdVSA has borrowed \$12 billion so far (in 2007)—returning to the capital markets for the first time in a decade—despite being in the midst of an oil boom."⁴⁷ Foreign exchange controls have also stoked excess liquidity.

Chávez is funding massive public works, such as a billion-dollar Orinoco bridge, a \$400 million first phase of "Steel City," and a sprawling hydroelectric plant. To Caracas economist Jose Manuel Puente, these programs resemble Venezuelan government-funded projects of the 1970s, when steel, paper, and aluminum factories ended up as costly white elephants. "Steel City may collapse, too," says Puente. "21st century socialism, unfortunately, is too much like socialism of the 20th century, which

failed and whose lessons apparently the president has not learned."⁴⁸

Ironically, Chávez has ignored many other needed repairs to infrastructure. The only bridge connecting Caracas with its airport was closed for 18 months until a new bridge was finally opened in June 2007. "The number of major electricity blackouts increased from 49 in 2004 to 80 in 2005, and major highways and bridges are in need of substantial repairs."⁴⁹

Many question how long Venezuela can maintain such a high level of public expenditure. Although high oil prices have kept the economy growing, there has been virtually no job-creating private investment. The heavy public spending has caused inflation to skyrocket so much that Chávez recently threatened to nationalize grocery stores if they did not limit price increases. One attempt at reducing liquidity in the system, PdVSA's issuance of \$7.5 billion in bonds, largely failed when the bonds were used for capital flight to avoid foreign exchange controls, thus reducing central bank dollar reserves.

Venezuela's inflation rate reached 20 percent in 2006—the highest in the region.⁵⁰ Under Chávez, inflation is virtually the same as it was in 1999 when he took office.⁵¹ Of course, this means that the Venezuelan people, especially the poor, have suffered from the cruelest tax of all—loss of their purchasing power to inflation.

Worse Corruption. Corruption has existed in Venezuela since before the country gained its independence in 1821. The river of oil revenue that began to gush after the first oil shock in the 1970s has only intensified the problem. Simón Bolívar hated corruption and mandated the death penalty for any judge or public official "guilty of stealing ten

44. Jose Orozco, "Whose Revolution?" *Ottawa Citizen*, May 19, 2007.

45. Mander, "Instrument of Revolution."

46. Simon Romero, "Chávez Rattles Takeover Saber at Steel Company and Banks," *The New York Times*, May 7, 2007, p. A6.

47. Mander, "Instrument of Revolution."

48. Chris Kraul, "Chávez's Grand, Risky Dream: The Fiery Venezuelan Leader Is Pouring Oil Wealth into Projects to Bring Industry to Poor Parts of His Country," *Los Angeles Times*, June 23, 2007.

49. Coronel, "Corruption, Mismanagement, and Abuse of Power in Hugo Chávez's Venezuela," p. 2.

50. Fabiola Sanchez, "Chávez Threat to Nationalize Banks Prompts Venezuela Stock Fall," Associated Press, May 5, 2007.

51. Economist Intelligence Unit, "Country Profile Report: Venezuela," 1998–2006.

pesos or more.”⁵² More than a century later, Lieutenant Colonel Hugo Chávez’s anger at the extensive corruption that he saw in the 1970s and 1980s under the socialist governments of President Carlos Andres Perez led him to become a leftist.⁵³

Ironically, the level of corruption in Venezuela is now as bad as, if not far worse than, it was then. The difference is the scale, lopsidedness, and inefficiency of the Bolivarian regime’s spending. Just as in the past, billions from the windfall of oil revenues have simply disappeared. Although the Chávez treasury has taken in as much as \$225 billion from oil and new debt, the government’s transparency in handling those funds has diminished.⁵⁴ In Transparency International’s Corruption Perceptions Index, Venezuela has dropped from 130th place out of 158 countries in 2005 to 138th out of 163 countries in 2006,⁵⁵ the worst showing in Latin America.

Under Chávez, corruption permeates all levels of society. Bureaucrats rarely follow existing bidding regulations and demand bribes from ordinary citizens while they neglect basic government services. A general atmosphere of lawlessness prevails. Government officials and others connected to the regime drive new cars and wear designer labels.

Analysts say these *nouveau riche* are concentrated in the oil, finance, construction, and government service sectors. They are buying luxury condos and jetting off to Miami, just as the corrupt class that they ousted had done. Pundits call them the “Boliburguesia,” short for Bolivarian bourgeoisie. “They buy everything: watches, bags and pens,

whatever, said one Montblanc store employee, and they only use cash, especially the military.”⁵⁶

Chavez’s 21st Century Socialism. Although an apt student of history and charismatic military leader,⁵⁷ Chávez has no real understanding of the democratic free-market economies of the West. While Simón Bolívar favored the economic liberalism of Adam Smith and advocated free trade with few restraints on land ownership and labor flexibility,⁵⁸ Chávez’s role models appear to be Joseph Stalin, Mao Zedong, and Castro.⁵⁹ Perhaps Chávez has forgotten that the Soviet bloc collapsed under the weight of its inefficiency and corruption.

Tutored in economics by Castro, Chávez either ignores the disastrous economic outcomes of communism or blames them on the West. Chávez wants to “accelerate Venezuela’s transformation into a society where a ‘new man’ is free of selfish urges and devoted to the common good.” Yet “nine years into Chávez’s rule, some analysts say [that] the idea of creating a ‘new man’ and a classless society has even less chance of success in Venezuela than past attempts in other countries, from Russia to Nicaragua and Cuba.”⁶⁰ As U.S. Secretary of Commerce (and Cuban–American) Carlos Gutierrez recently noted, while people around the world have been enjoying prosperity, buying homes, and earning higher wages, the average monthly income in Cuba is about \$10, and pensioners receive about \$4 a month.⁶¹

Notwithstanding the proven failure of the socialist economic model, President Chávez has set his

52. Coronel, “Corruption, Mismanagement, and Abuse of Power in Hugo Chávez’s Venezuela.”

53. Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela*, pp. 36–37 and 71–80.

54. Coronel, “Corruption, Mismanagement, and Abuse of Power in Hugo Chávez’s Venezuela.”

55. Transparency International, *Corruption Perceptions Index 2005*, October 18, 2005, at www.transparency.org/policy_research/surveys_indices/cpi/2005 (August 8, 2007), and *Corruption Perceptions Index 2006*, November 6, 2006, at www.transparency.org/policy_research/surveys_indices/cpi/2006 (August 8, 2007).

56. Dudley, “Oil Spawns New Wave of Newly Rich.”

57. Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela*, pp. 35–40.

58. Lynch, *Simón Bolívar*, p. 160.

59. Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela*, pp. 94 and 189.

60. Bernd Debusmann, “Obstacles to 21st Century Socialism in Venezuela,” *The Scotsman*, June 20, 2007, at <http://news.scotsman.com/latest.cfm?id=964842007> (June 20, 2007).

61. Carlos M. Gutierrez, “The People of Cuba Deserve Better,” remarks to Cuba Democracy Advocates, Coral Gables, Florida, July 21, 2006, at www.cafc.gov/cafc/rls/70858.htm (July 6, 2007).

country on a backward journey, complete with state ownership of all assets, monstrously inefficient bureaucracy, a growing military machine, and state-owned factories that produce inferior goods. This retrograde policy of 21st century socialism harkens back to the statist and protectionist import substitution policies based on Argentine economist Raul Prebisch's widely discredited dependency theory. Caudillos in South America implemented "import substitution" in the 1950s and 1960s with disastrous consequences.⁶² One of the worst outcomes occurred in Argentina under the rule of Juan Peron, another populist strongman.⁶³ "From 1880 to 1930 Argentina became one of the world's 10 wealthiest nations based on rapid expansion of agriculture and foreign investment in infrastructure."⁶⁴ By 2005, it was in 33rd place.⁶⁵

Reaching Beyond Venezuela

President Chávez's number one goal is to reduce the role and influence of the United States. He asserts that the international financial institutions (IFIs), especially the International Monetary Fund (IMF) and the World Bank, are mere instruments of U.S. domination and imperialism.

Typically, Chávez ignores the 60 years of sustained prosperity that millions of people around the world have enjoyed under the Bretton Woods system. Although they clearly need reforms to mesh better with today's globalized economy, the IFIs continue to be useful as instruments to encourage difficult but ultimately productive reforms. The vague alternatives to the IFIs put forth to date by Chávez would clearly point countries in the opposite direction toward socialism.

Chávez wants to abolish the Washington Consensus, a series of policy reforms needed for an economy to enter the modern world—macroeconomic discipline, microeconomic liberalization, and participation in the global economy—that was put together in 1989 by IMF economist John Williamson. The IFIs have prescribed these measures to press governments to limit spending, raise interest rates, and open their economies to foreign trade and investment.⁶⁶

Chávez fiercely rejects that advice, mistakenly blaming it for the series of financial and political crises that struck Venezuela beginning in 1989.⁶⁷ In fact, these reforms succeeded in beating back inflation, increasing capital inflows and investment, and contributing to modest growth in Latin America. Chávez took advantage of the disillusionment caused by the reforms' failure to reduce extreme poverty and income inequality or to deliver the hefty economic growth that is dramatically reducing poverty in China and India.

To further his goal, Chávez has paid off Venezuela's IFI debt. Blaming IFIs for continued poverty throughout Latin America, he has declared that he will pull Venezuela out of the lending bodies.⁶⁸ He has also used his country's oil wealth to pay off IFI loans of Ecuador, Bolivia, and Argentina. With their loans paid off, the IFIs have little leverage to keep those countries on the right track.

Meanwhile, investors have begun selling Venezuelan bonds amid confusion over Chávez's announcement that the country would exit the IMF. Investors could demand quick payment of billions of dollars of these bonds if Chávez follows through and leaves the fund, setting off a possible default.⁶⁹

62. Daniel T. Griswold, "Open Trade: An Important Milestone," in Marc A. Miles, ed., *The Road to Prosperity: The 21st Century Approach to Economic Development* (Washington, D.C.: The Heritage Foundation, 2004), pp. 82–84.

63. Al Harberger, "Latin America's Ill-Fated Import-Substitution Policy," interview, Public Broadcasting System, October 3, 2000, at www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_alharberger.html#1 (June 28, 2007).

64. U.S. Department of State, "Background Note: Argentina," July 2007, at www.state.gov/r/pa/ei/bgn/26516.htm (August 8, 2007).

65. World Bank, "Total GDP 2006," World Development Indicators database, July 1, 2007, at <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf> (June 28, 2007).

66. Juan Forero and Peter S. Goodman, "Chávez Builds His Sphere of Influence," *The Washington Post*, February 23, 2007, p. D1, at www.washingtonpost.com/wp-dyn/content/article/2007/02/22/AR2007022201875_pf.html (June 7, 2007).

67. Gott, *Hugo Chávez and the Bolivarian Revolution in Venezuela*, pp. 50–55.

68. David Luhnnow and Peter Millard, "How Chávez Aims to Weaken U.S.," *The Wall Street Journal*, May 1, 2007, p. A2.

Petro-Diplomacy. Chávez seeks to drive out U.S. investment—and influence—from Venezuela and has targeted major U.S. corporations.⁷⁰ In March 2007, he unveiled a number of proposed oil-related deals with China. China National Petroleum Corporation and PdVSA will develop the biggest chunk yet of Venezuela's Orinoco River region in the same area where Chávez is nationalizing the projects of U.S. companies. Orinoco heavy crude will be ferried to China in a jointly owned “super fleet” of tankers and processed there at three new refineries. Chávez has also favored state-run companies from other authoritarian capitalist countries, including Vietnam, Iran, and Belarus.⁷¹

The ambitious Mr. Chávez is also trying to force U.S. oil companies out of the Caribbean market altogether. He has committed more than \$20 billion to various energy and trade cooperation agreements with Caribbean and Latin American nations.⁷²

Cuba, the Dominican Republic, and nearly every member of the 15-nation Caribbean Community have joined PetroCaribe. Chávez promises that PetroCaribe beneficiary countries will get 25-year loans at 1 percent interest, but they must purchase only PdVSA oil products through government-owned fuel distribution companies. Although Chávez has garnered plenty of favorable press from PetroCaribe, relatively little oil has actually been delivered under its terms. Meanwhile, Chávez angrily opposes a U.S.–Brazil biofuels assistance initiative meant to compete with the PetroCaribe plan.⁷³

ALBA. Chávez is pushing a high-tariff South American customs union that he would run to defeat the U.S. goal of a hemispheric free trade agreement. He has joined with leaders of the MERCOSUR trade bloc countries (Argentina, Brazil, Paraguay, and Uruguay) to thwart American attempts

to restart the Free Trade Area of the Americas (FTAA) negotiations.

Chávez and Castro created the Bolivarian Alternative for the Americas (ALBA) as Latin America's answer to the FTAA. ALBA members are to receive petroleum-funded benefits even more generous than those in the PetroCaribe program. Chávez's hidden agenda is to use ALBA to coordinate common defense, economic, and foreign policies and to control the education and health ministries in every ALBA country. At the heart of ALBA is a rejection of capitalist values, which the member countries would replace with “solidarity” and “complementary”—rather than “exploitative”—trade. Venezuelan professor Demetrio Boersner believes that Chávez may require ALBA member nations to break their commercial ties with the United States.⁷⁴

In late April 2007, Chávez invited Cuban Vice President Carlos Lage, Sandinista President of Nicaragua Daniel Ortega, Socialist President of Bolivia Evo Morales, and left-leaning Haitian President Rene Preval to an ALBA Summit in Barquisimeto, Venezuela. Four other neighboring countries (Ecuador, Uruguay, Dominica, and St. Vincent and the Grenadines) sent observers. At the summit, Chávez announced an ALBA financial cooperation fund of \$250 million. “The enemy is still the same: capitalism,” said Ortega. “Only the form of struggle has changed.”⁷⁵

Other summit participants criticized the FTAA as a capitalist scheme to exploit the resources of poor countries in the region. They condemned the IMF and the World Bank as “tools of U.S. policy.” Bolivia and Venezuela announced that they would withdraw from a World Bank mechanism for the resolution of investment disputes known as the International Centre for Settlement of Investment

69. Romero, “Chávez Rattles Takeover Saber at Steel Company and Banks.”

70. International Petroleum Finance, “Orinoco Projects Change Hands.”

71. Luhnnow and Millard, “How Chávez Aims to Weaken U.S.”

72. Mander, “Instrument of Revolution.”

73. Natalie Obiko Pearson, “Venezuela, Brazil at Odds over Ethanol Ahead of South American Energy Summit,” Associated Press, April 15, 2007.

74. Steven Dudley, “Chávez in Search of Leverage,” *The Miami Herald*, April 28, 2007, p. A9.

75. *Ibid.*

Disputes (ICSID). Bolivian President Morales said of ICSID's rulings, "The transnationals always win."⁷⁶ Chávez even threatened to pull Venezuela out of the Organization of American States if its Inter-American Human Rights Court rules against him in a case relating to press freedom.

To date, neither PetroCaribe nor ALBA has brought many tangible political benefits to Chávez. In 2006, Venezuela lost its effort to win a seat on the U.N. Security Council, and in a recent vote for the presidency of the Inter-American Development Bank, even PetroCaribe beneficiaries went against the Chávez candidate.

ALBA has received a lukewarm reception in the ABC countries (Argentina, Brazil and Chile), which are reluctant either to join Chávez's Bush-bashing, anti-U.S. pact or to let him into MERCOSUR as a full member. While Chávez hosted his ALBA Summit in April, President George W. Bush met with Brazilian President Luiz Inacio Lula da Silva. The two leaders struck conciliatory notes about future hemispheric trade rules.

The Growing Security Threat to the United States

Hugo Chávez's policies are an imminent threat to the United States. Under the Chávez regime, according to the 2007 International Narcotics Control Strategy Report (INCSR) issued by the U.S. Department of State, Venezuela has become "one of the principal drug-transit countries in the Western Hemisphere." The success of U.S.-funded programs is putting pressure on narcotics traffickers in Colombia and causing them to shift their smuggling toward Venezuela and other countries.⁷⁷

The INCSR also charges that Venezuela's "rampant high level corruption, weak judicial system and

lack of international counternarcotics cooperation are increasingly enabling a growing illicit drug transshipment industry." It reports that "organized crime is flourishing" under Chávez and that "seizures of illicit drugs within Venezuela dropped sharply in 2006, while seizures by other countries of drugs coming out of Venezuela more than tripled."⁷⁸ In 2006, Chávez barred the Drug Enforcement Administration from operating in Venezuela, accusing it of operating spy networks in the country.⁷⁹

U.S. drug war czar John Walters reports that "Latin American cartels are using commercial airports and ports in Venezuela as a 'safe base' to ship increasing quantities of cocaine."⁸⁰ Haiti is a major transit country for cocaine being smuggled from Venezuela to the U.S. A recent State Department report alleged that small planes operating at night fly from Venezuela to numerous airstrips on the south coast of Haiti. The planes deliver cocaine, which Haitian "mules" then carry to the northern coast of Haiti or to the Dominican Republic for shipment to the U.S. On the return flights, the planes allegedly carry weapons and laundered drug money back to Venezuela. The Venezuelan government dismissed the report as a "provocation" and a "lie."⁸¹

A Military Threat to His Neighbors? Venezuela may soon purchase nine Russian *Kilo*-class diesel submarines at a cost of more than \$2 billion. A Chávez military adviser boasts that the Russian submarines would make Venezuela's navy the strongest in the region. Chávez has already bought \$3 billion worth of Russian weapons, including 53 military helicopters, 100,000 Kalashnikov rifles, and 24 Su-30 fighter jets. A government spokesman defends this heavy arms buildup as necessary "to defend Venezuela's coast and to ensure [the safety] of routes by which its exports leave."⁸² Chávez is also shop-

76. Associated Press, "Venezuela to Sell Off US Refineries," *Taipei Times*, May 1, 2007, p. 10, at www.taipeitimes.com/News/worldbiz/archives/2007/05/01/2003359053 (August 15, 2007).

77. U.S. Department of State, Bureau of International Narcotics and Law Enforcement Affairs, "International Narcotics Control Strategy Report, 2007," March 2007, www.state.gov/p/inl/rls/nrcrpt/2007/vol1/html/80855.htm (June 20, 2007).

78. *Ibid.*

79. Phil Gunson and Steven Dudley, "Terror Suspect Arrest Fuels Tension with Caracas," *The Miami Herald*, June 6, 2007, p. A1.

80. Marc Champion, "U.S. Raises Heat on Venezuela over Drug Trafficking," *The Wall Street Journal*, May 9, 2007, p. A1.

81. "Haiti: Preval Takes Advantage of Caracas-Washington Squabble," *Caribbean & Central America Report*, May 17, 2007.

82. Associated Press, "Venezuela Considers Buying Russian Subs," *South Florida Sun-Sentinel*, June 15, 2007, p. A21.

ping for an integrated air defense system from Belarus with a range of 200–300 kilometers.⁸³

A far-fetched notion to some, Chávez could possibly risk a Falklands-like conflict by using his new arsenal to pursue Venezuelan land claims against neighboring Colombia, Guyana, and Holland, which controls the Dutch Antilles islands of Aruba, Curacao, and Bonaire. Chávez might also be tempted to grab the massive oil and natural gas reserves of nearby Trinidad and Tobago. With such an attack in mind, the government of the Netherlands has sent military forces to the islands. Venezuela would have a huge tactical advantage, however, unless Holland's NATO allies, especially the U.S., stepped in to help.⁸⁴

In the short term, the weapons purchases have served Chávez and his cronies by providing fat kickbacks for the boliburguesia military officers and apparatchiks. They have also significantly worsened the already serious problem of weapons proliferation in the hemisphere.

Chávez has ratcheted up tensions in other ways too. He recently ordered his troops to “prepare for a guerrilla-style war against the United States,” claiming that the U.S. is trying to undermine his government and plans to invade Venezuela and seize its immense oil reserves. Chávez has ordered his troops to greet one another with “Patria, Socialismo, o Muerte” (fatherland, socialism, or death) and has warned his soldiers to “think and prepare everyday for the resistance war, that's the anti-imperialist weapon.”⁸⁵ Chávez has called for a common ALBA defense pact of Venezuela, Cuba, Nicaragua, and Bolivia to become “more independent of U.S. influence.”⁸⁶

In addition, Chávez has been receiving help from

military and intelligence advisers from the Castro government since before the 1992 coup attempt. Castro has sent 20,000 Cuban doctors to Venezuela whose extracurricular duties include propaganda, intelligence gathering, and reportedly Chávez's personal security.

Colluding with Iran. Iran and Venezuela are two of the world's top oil-producing countries. President Chávez has very close ties with Iranian President Mahmoud Ahmadinejad, and the two often refer to each other as “brother.” A man recently accused of plotting to bomb JFK airport was arrested aboard a Venezuelan airline flight from Trinidad to Caracas, where he was to pick up an Iranian visa. Venezuela and Iran are members of a radical subgroup in the Organization of Petroleum Exporting Countries (OPEC) that wants to maintain higher oil prices by reducing production and to use oil as a political weapon.⁸⁷

Mimicking his Holocaust-denying Iranian “brother,” Chávez has made anti-Semitic comments:

The world is for all of us, then. But it so happens that a minority, the descendents of the same ones that crucified Christ, the descendants of the same ones that kicked Bolívar out of here and also crucified him in their own way over there in Santa Marta, in Colombia—a minority has taken possession of all the wealth in the world.⁸⁸

Bolívar did indeed die at age 47 of tuberculosis in Santa Marta on December 17, 1830, but there is no evidence that his death was the result of a Zionist conspiracy.⁸⁹

Ahmadinejad has sent teams to advise Chávez on ways to fortify his stranglehold on Venezuela. It is likely that Iranian experts at media manipulation

83. Agence France-Presse, “Chávez to Head to Russia, Belarus, Iran, in Latest Bid to Heckle US,” June 25, 2007.

84. James Dunnigan, “The Dutch Defend Their World Empire,” StrategyPage.com, February 25, 2007, at www.strategypage.com/dls/articles/20073805022.asp (June 27, 2007).

85. Associated Press, “Chávez Tells Venezuelan Soldiers to Prepare for War with U.S.,” June 25, 2007, at www.foxnews.com/story/0,2933,286521,00.html (June 25, 2007).

86. Jorge Rueda, “Hugo Chávez Calls for Leftist Nations' Defense Pact,” *The Miami Herald*, June 7, 2007.

87. Gunson and Dudley, “Terror Suspect Arrest Fuels Tension with Caracas.”

88. Frum, “Democracy's One-Man Wrecking Crew.”

89. Lynch, *Simón Bolívar*, p. 278.

advised Chávez to step up his crackdown on dissent. The two leaders have signed economic agreements worth billions of dollars, many of them in the energy field.⁹⁰ On a 2006 visit to Tehran, Chávez said, “We will stand with Iran under all circumstances.”

Venezuela also has joined with Syria and Cuba in supporting Iran’s nuclear development program.⁹¹ Chávez has asked Iran for assistance in building a nuclear reactor and could eventually obtain nuclear weapons from Iran. There are reports that Iranian scientists may already be working at uranium mines in the lower Orinoco River basin, and Bolivia may soon grant Iran concessions to mine for uranium in Bolivia’s eastern lowlands, where Chávez has positioned troops.⁹²

Slow Washington Response. Until recently, the United States has been too busy to worry about Venezuela. September 11 distracted top U.S. policymakers from paying enough attention to Latin America in general and Venezuela in particular. Moreover, although Washington officials saw the democratically elected Chávez as thuggish and did not like his increasingly undemocratic practices, they did not see him as directly threatening U.S. interests. Now that it has become clear that he is a direct threat, Washington has finally begun to act.

In contrast, Cuba’s attention to Venezuela has been sustained and effective. That is because Havana has had the need, the opportunity, and the means to be the most significant foreign influence in the Venezuelan crisis.⁹³

What the U.S. Should Do

What should Washington do to counter Hugo Chávez? Chávez will continue his efforts to turn Venezuela’s neighbors against the United States through petro-diplomacy and rhetorical rants against the U.S. and free markets. The Bush Administration has wisely refused to react to his taunts and threats, but it must deliver the message of good governance, the benefits

of the free market, democratic principles, and respect for the rule of law more aggressively.

Specifically, the Bush Administration should:

- **Push for the Organization of American States to censure the Chávez government for its crackdown on press freedom.**
 - **Attempt to restart negotiations with Brazil toward a Free Trade Area of the Americas agreement.**
 - **Pursue bilateral FTAs with Paraguay and Uruguay** to isolate Chávez and to ensure that they continue to play by the rules of the free market. Linking trade agreements to commitments to good governance and free-market practices allows the U.S. to deal with Latin American countries based on their actions and practices.
 - **Work actively with neighbors and allies to combat security threats** through cooperative efforts to battle transnational terrorism, crime, and trafficking in illegal substances. This would create permanent working relationships and serve to counter anti-American messages.
- For its part, Congress should:
- **Immediately permit duty-free imports of Brazilian ethanol** as an incentive for Brazil.
 - **Approve the trade promotion agreements as originally negotiated with Panama, Peru, and especially Colombia** to continue the momentum for job-creating growth from free trade in the region. Free trade agreements are one of the best tools the U.S. has to counter anti-American and anti-democratic forces in Latin America.
 - **Increase funding for additional focused, efficient development assistance to the region through the Millennium Challenge Corporation** to address income disparities and the need for economic and political reforms that Chávez is exploiting rather than addressing.

90. Martin Arostegui, “Chávez Presses Allies to Back Iran; Tehran Offers Trade Concessions,” *The Washington Times*, May 10, 2007, p. A9.

91. Gunson and Dudley, “Terror Suspect Arrest Fuels Tension with Caracas.”

92. Arostegui, “Chávez Presses Allies to Back Iran.”

93. Moises Naim, “A Venezuelan Paradox,” *Foreign Policy*, No. 135 (March/April 2003), at www.foreignpolicy.com/story/cms.php?story_id=9 (June 7, 2007).

- **Hold new hearings about the national and energy security threat**, both to the U.S. and to Venezuela's neighbors, from the increasingly totalitarian and militaristic Chávez regime, which appears to tolerate narcotics smuggling and has a clear anti-U.S. agenda.
- **Extend Andean Trade Preferences for Bolivia and Ecuador** before they expire in February 2008. Although their leftist leaders have personally embraced Chávez, both countries have distanced themselves somewhat from his actual policies. Extending trade preferences would be a gesture of cooperation that would give the U.S. more leverage to press these countries to return to the path of market-based democracy.

Conclusion

Historically, the United States has been Venezuela's main trade and investment partner and its biggest oil market, but global energy demand is growing. Vene-

zuela has the largest proven oil reserves outside of the Middle East, and although the U.S. market is close by, Hugo Chávez wants to diminish its importance. This would make the U.S. even more reliant on oil from the volatile Persian Gulf.

Chávez aspires to counter U.S. influence in Latin America and the Caribbean by uniting the region under a socialist regime that he would lead. He can be expected to continue his petro-diplomacy and rhetorical rants against the U.S. and free markets.

Unless the U.S. increases its presence through additional support for democratic market-based institutions, Hugo Chávez's aspirations could bear bitter fruit. A strong and resolute U.S. government should seek to avoid repeating past mistakes and instead act to encourage true reform in the region.⁹⁴

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94. Helle C. Dale, "Nuance in Chávez's Rhetoric Tells of Future Plans for Region," Heritage Foundation *WebMemo* No. 1360, February 15, 2007, at www.heritage.org/Research/LatinAmerica/wm1360.cfm.