"Sanctions and the Maduro regime's policy responses to them have accelerated Venezuela's transformation from so-called twenty-first-century socialism to authoritarian capitalism."

How Sanctions Led to Authoritarian Capitalism in Venezuela

BENEDICTE BULL AND ANTULIO ROSALES

In February 2019, US President Donald Trump told an enthusiastic crowd in Miami that "all options are on the table" to pressure the regime of Nicolás Maduro in Venezuela. This phrase, often repeated by Trump's national security adviser, John Bolton, summarized the US strategy of applying "maximum pressure" on the Maduro regime. The Trump administration believed that imposing individual and sectoral sanctions, indicting the regime's leadership, and threatening military intervention would cause the Venezuelan government to crumble.

Weeks earlier, in January, Juan Guaidó, the speaker of the opposition-controlled National Assembly, had been sworn in as the interim president of Venezuela. He was immediately recognized by over 50 countries, most of which were leading democracies in Europe and the Americas. Neither the Venezuelan opposition nor its foreign allies recognized the May 2018 presidential election in which Maduro won a second term. The National Constituent Assembly, a supra-constitutional entity packed with regime loyalists, had called and organized the elections, provoking an opposition boycott. Most opposition parties had been banned, and their candidates were persecuted.

The United States quickly imposed harsh economic sanctions after recognizing Guaidó, aiming to suffocate the Maduro regime's sources of income. State-controlled oil company Petróleos de Venezuela (PDVSA) was no longer able to sell oil to Citgo, its subsidiary in the United States. These measures added to sanctions imposed in August 2017 that prohibited the Venezuelan government from borrowing in US financial markets, and to a number of individual sanctions imposed over the past several years, freezing the assets of top government officials and regime allies and banning them from entering the United States. Sanctions were eventually also extended to third-country companies trading with PDVSA, closing off most possibilities for Venezuela to sell crude oil, which had accounted for around 97 percent of its dollar revenue stream.

The goal of the sanctions was to pressure the military and other levers of power to withdraw support for Maduro and transfer power to the National Assembly, the last democratically elected institution in the country. The refrain that "all options" were on the table signaled that the Trump administration was willing to go beyond sanctions; the threat of military intervention was intended to prompt the Venezuelan army to oust Maduro. But the strategy of maximum pressure failed to bring about regime change. It turned out that there was no agreement on intervention. The only attempt at an armed insurrection was Operation Gideon, a May 2020 operation ineffectively planned and executed by exiles who landed in Venezuela's coastal town of Macuto with a handful of poorly trained armed men.

Latin American states did not support a military takeover, while the United States was preoccupied with its own domestic polarization. The Trump administration used Venezuela as a socialist bogeyman in the 2020 presidential election, seeking to energize the Hispanic vote in Florida. Since 2021, under President Joe Biden, the United States has supported a negotiated solution in Venezuela, yet sanctions have been left in place with only minor exceptions.

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THE SANCTIONS SPIRAL

Even before the introduction of the most comprehensive sanctions—the oil sanctions of January 2019—critics such as economists Mark Weisbrot and Jeffrey Sachs argued that the sanctions on Venezuela were having severe humanitarian consequences. At that point, however, it was virtually impossible to distinguish the impact of sanctions on inflation, poverty, and mortality from existing negative trends. These trends started around 2012, even before the 2014 oil price plunge from over $100 a barrel in January to $44 seven months later, and long before the main sanctions were introduced. They were easily attributed to economic mismanagement and institutional decay.

But economist Francisco Rodríguez and others argued that despite several additional factors that negatively affected the oil sector—including the replacement of sector specialists with military officials in PDVSA's top management—it was the financial sanctions of 2017 that inhibited Venezuela's capacity to recover from the 2014 oil shock. Inflation had already reached three digits by the time those sanctions were imposed, but quickly rose to four digits in the fall of 2017, initiating one of the longest periods of hyperinflation in recorded world history. The 2019 sanctions further limited Venezuela's oil production and contributed to a plunge in gross domestic product per capita of more than 80 percent between 2013 and 2021, though most of this decline occurred well before 2017.

Top-down and targeted liberalization is accompanied by repression and state control.

And yet, by 2021, it was generally concluded that Maduro held power more comfortably than he had before sectoral sanctions were imposed. This chain of events in many ways confirms well-known conclusions from the literature on sanctions. Scholars have shown that sanctions have achieved their goals of changing the behavior of targeted governments in only around one-third of cases. The rate of success is much lower when the aim is to achieve a democratic regime shift.

In a recent article in *International Affairs*, political scientist Daniel Drezner laid out many of the problems with contemporary sanctions strategies. Among them is the lack of feasible demands on targeted states: vague, broad demands can make any potential bargain difficult or impossible. States imposing sanctions that hurt the economies of targeted countries hope that the pain will force regime change, but it rarely does. This has been true in the case of Venezuela. But that does not mean sanctions have had no impact.

Sanctions are not simply a unidirectional foreign policy tool that ends with their imposition on another actor. As sanctions "land," targeted governments respond, and their policies tend to have unintended consequences. In Venezuela, the Maduro government implemented a series of measures to counter the impact of the sanctions and, with time, was able to use them in its favor. The regime employed targeted repression and harassment against political opponents, especially the elected members of the National Assembly. It also intervened directly in opposition parties by banning key leaders from political participation and using government-allied courts to reassign their party symbols to friendlier challengers. This confirms one conclusion from the specialized sanctions literature: sanctions tend to lead to less democratic regimes, not more democratic ones.

Moreover, the Maduro regime carried out substantive changes in the economy, transforming the socialist rentier model that it had maintained until then—a model rooted in tight controls on profits, prices, and currency allocation. The result has been an arbitrarily regulated, neopatrimonial form of capitalism that cements Maduro's power, while transferring assets and resources to new elites and opening market opportunities for them. This is what we label a new authoritarian capitalist economy.

With this concept, we seek to highlight that Venezuela is moving back toward a system where private ownership of the means of production is the rule, and economic agents operate for profit. Yet there is frequent state intervention that denies certain individuals' fundamental political and economic rights. The division of the public and private spheres is generally determined by the state. Laws and regulations are not equally applied or motivated by the common good, but implemented in order to ensure regime survival and provide personal wealth for regime supporters. Sanctions and the Maduro regime's policy responses to them have accelerated Venezuela's transformation from so-called twenty-first-century socialism to authoritarian capitalism.

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STRUCTURAL ADJUSTMENT, VENEZUELA-STYLE

Seeking to safeguard the economy and ensure regime survival in the context of hyperinflation and sanctions, the Maduro regime undertook a series of economic reforms that resembled in many ways the structural adjustment programs that were prescribed for many developing nations by international financial institutions (IFIs) in the 1990s. But this time the measures were not encouraged by IFIs, nor were they carried out in exchange for sanctions relief.

Faced with hyperinflation, the government drastically restricted credit, forcing banks to keep nearly 100 percent of deposits as legal reserves. Prices rose so rapidly, soaring more than 100,000 percent in 2018, that the state could not keep up the supply of bank notes, so people relied on electronic payment systems. Trust in the Venezuelan currency, the bolívar, eroded. Sanctions on individuals and businesses linked to the government forced well-connected Venezuelans to use their dollars within the country, rather than invest them abroad.

The progressive erosion of the national currency reached a tipping point in March 2019, when a nationwide blackout that lasted over a week impeded electronic transactions. Regular citizens began using US dollars to pay for essentials. The resulting multicurrency system is uneven both geographically and in terms of social strata. In rural areas, for example, coffee beans and gold have been used as mediums of exchange. Meanwhile, cryptocurrency transactions and electronic payments in dollars have become commonplace, often with the help of migrants who settle transactions abroad for goods and services provided in Venezuela—especially in urban areas with better infrastructure, including Internet service.

In this emerging multicurrency system, the bolívar is no longer the most widely accepted means of payment. Currently, over half of transactions in Venezuela are carried out in US dollars. In 2022, the government began allowing formal bank accounts and transactions to be conducted in dollars. This informal and ad hoc dollarization has provided an escape valve to alleviate the extreme pressure from hyperinflation and sanctions.

The dollarization of the economy went hand in hand with a policy of trade liberalization intended to ease severe scarcities of goods. This allowed the private sector to purchase end products from abroad without taxes or legal or sanitary import restrictions. The open-door policy stimulated the rise of luxury retail stores known as *bodegones*, where customers began to find not only essential products but also high-end food items at prohibitively high prices. This model later expanded to include supermarkets, as well as electronic devices and other products.

The proliferation of *bodegones* throughout the country was incentivized by the import liberalization policy and facilitated by the use of US dollars internally. Due to the notoriety of these businesses, political scientist Guillermo Aveledo Coll has labeled the emerging era of the Bolivarian regime as the *pax bodegónica*, characterized by top-down and targeted liberalization that is accompanied by repression and state control. It is defined by arbitrary concessions granted by those who control the state, rather than a process of institutional rethinking and inclusive deliberation.

The Maduro government has allowed the silent privatization of many state-owned assets. Some have been transferred back to previous owners, others sold to new investors. This privatization campaign has occurred largely under the guise of "strategic alliances" between the government and private capital. An important feature has been secrecy. It is little known who the beneficiaries of these sales are, how much capital the government has been able to obtain in the process, or how the assets were chosen for privatization.

Behind the secrecy is the infamous anti-blockade law approved by the National Constituent Assembly in October 2019. Under this measure, oil fields are subject to lease, sale, or transfer—contradicting the requirement of state control stipulated by the Law of Hydrocarbons, which calls for joint ventures to have 50 percent or more state ownership. In this way, the Maduro government has carried out a privatization policy and an opening of the oil sector without directly changing the legal framework inherited from the Chávez era.

As currency and price controls were lifted, spaces for market and regulatory experimentation were created and new sources of income emerged. Along with privatizations, the government encouraged alliances between state-controlled firms and private capital in certain markets, especially in the retail, construction, service, and mining sectors. A few international allies gave Maduro a lifeline by purchasing oil and gold at large discounts, providing food and other basic necessities in return.

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Russian state energy giant Rosneft was the first that came to the rescue. Through subsidiaries Rosneft Trading and TNK Trading, it assisted PDVSA with transhipment of oil. When these companies also became targets of sanctions, firms registered in small tax havens stepped in. New trade relations were also established with other sanctioned countries, including Turkey, Syria, and Iran. From these new ties emerged a new elite associated with the government and the armed forces. Many of these elites established businesses importing cheap goods from new trading partners. Others benefited from the thriving illegal economy enabled by the government, including drug trafficking, human trafficking, illegal mining, and the smuggling of gasoline and various other products. The divide between illegal actors (such as drug-trafficking organizations) and legitimate economic actors became increasingly blurred.

Meanwhile, state expenditures were slashed and public sector salaries were cut. The steep pay reductions forced the vast majority of public sector employees to participate in additional economic activities, such as running their own businesses, while spending little time at their official jobs. Thus, the cuts contributed to strengthening the private sector and weakening the public sector.

The Venezuelan state has reduced its sphere of action in society.

The Maduro regime's responses to the sanctions and the ensuing hyperinflation led it to impose an economic agenda that in many ways resembled structural adjustment, but in the name of "anti-blockade" and anti-imperialist policies. Unlike the structural adjustments of the 1990s, this agenda was not accompanied by public discussion of the national budget, significant tax reforms, or broader negotiations with creditors and IFIs.

PRIVATE SECTOR INFORMALIZATION

Alongside the government, private enterprises also carried out new strategies in response to the sanctions. One of the most immediate consequences of the financial sanctions was that Venezuela's private companies were cut off from international credit and the ability to pay and be paid by international suppliers and customers.

Though the sanctions did not technically target private companies, few foreign banks or private entities were still willing to do business with Venezuelans. This avoidance, commonly called "overcompliance," was due to fear of being targeted by US third-party sanctions. Some private companies tried to circumvent such obstacles by establishing bank accounts in other sanctioned countries, such as Russia, Turkey, Serbia, and various Caribbean islands, in order to "triangulate" payments and credits through these jurisdictions and third countries.

Another strategy employed by the private sector was to enter into more informal activities. This was partly a direct result of the sanctions, as formal businesses were cut off from markets and finance. But it was also indirectly linked to the sanctions' impact on government finances. As its income diminished, the state's dependence on taxes collected from businesses increased. Taxes were raised and collected more frequently, and enforcement became more politically motivated, driven by the aim of creating a government-friendly private sector. This in turn motivated increased "informalization."

At the same time, after years of strained relations, the private sector emerged as a potential ally of the state for solving practical problems. The relationship between the Bolivarian governments and the private sector had been difficult from the start. The 2002 coup attempt led by the main Venezuelan business federation, FEDECAMARAS, and an expropriation spree in the late 2000s were low points. Though many private companies thrived in Venezuela during the years of the oil boom and state-subsidized dollars (2003–14), the business sector, much like the political opposition, was battered by policy restrictions.

When the sectoral sanctions were first imposed, many businesses approved of them as a means of putting pressure on the government. But as the sanctions started to affect businesses directly, sentiment shifted. This contributed to divisions within the opposition, with which much of the private sector was associated.

As state finances became increasingly strained, parts of the government approached the private sector to reestablish working relations. The National Council for the Productive Economy was reactivated, and the few Venezuelan companies still able to secure independent income in dollars were courted by the government. New business groups benefited from targeted liberalization or used long-term connections and contracts with the government to take advantage of new market opportunities.

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In another relatively new trend, some private sector firms that have been able to survive the crisis now offer better wages than the public sector. Although sanctions have not terminated conflicts and tensions between the government and the private sector, they have forced the government to facilitate private investment and business activities, strengthening the capitalist features of the economy.

RISING INEQUALITY AND REPRESSION

Maduro achieved success with the policy changes on two fronts. First, the targeted liberalization reforms allowed for some relief in the long-lasting economic crisis. After seven years of continuous contraction, in 2021 the Venezuelan economy finally saw growth again, and the painful cycle of hyperinflation ended that year. Second, Maduro's hold on power has solidified. The strengthening of the regime is a result not only of policy changes, but also of mistakes by the opposition.

The so-called interim government, led by Guaidó, devoted its political strategy to maintaining the support of foreign powers and controlling the assets of the Venezuelan state abroad, instead of focusing on building a movement and consensus within the country. As the political scientist Maryhen Jiménez has explained, this created problems of accountability, lack of coordination, and intra-opposition divisions that the government cultivated and exploited. Sanctions also contributed to dividing and weakening the opposition. There was an increasing divide between those who believed sanctions would contribute to the regime's collapse and others who saw sanctions as a means of weakening the economy that would bring them few political gains.

The opposition was thus unable to capitalize on the bottomless social crisis generated by the Bolivarian revolution. As a result of the combination of policy failures and sanctions, the Venezuelan state has reduced its sphere of action in society. Social protection policies have been reduced or eliminated. Targeted economic liberalization and deregularization have led to increasing informality among businesses and workers.

Wages have been decimated, particularly in the public sector. In fact, the state has virtually stopped paying significant wages to its workers; instead, it compensates the labor force through non-wage remuneration, such as irregular bonus payments and boxes of food. Wages in the business sector are often triple those in the public sector, contributing to rising inequality among different swaths of workers in the country. On average, the private sector wage is around $60 a month, whereas monthly pay in the public sector rarely reaches $20. Wage differentials also leave a profound gulf between managerial positions and unskilled workers.

According to the ENCOVI survey on quality of life, conducted by a consortium of Venezuelan universities, Venezuela's Gini coefficient, which measures income inequality, reached 56.7 in 2021. Venezuela had gone from having among the lowest inequality in Latin America to the highest in the course of a decade. The survey also revealed an increase in the poverty rate measured by income, with more than 90 percent of households under the poverty line. Though the increasing dollarization of the economy has allowed some businesses to survive and even grow, workers often are not remunerated in dollars, leaving the poorest struggling to make ends meet.

The social consequences of the crisis and the targeted liberalization carried out by the government include the largest wave of migration in the Western hemisphere in recent history. According to the Interagency Coordination Platform for Refugees and Migrants, an umbrella organization composed of United Nations agencies, civil society organizations, and NGOs, over 7 million Venezuelan migrants have fled the country, mostly for economic reasons.

The decline in state action also translates into deficient public services, from failing infrastructure to poor provision of utilities. This relinquishing of state responsibilities contrasts with the highly interventionist and purportedly redistributive state that defined the early years of the Bolivarian revolution. It also highlights the privatization of responsibility for sectors ranging from health and education to communication, basic infrastructure, and sanitation.

Meanwhile, the state has invested in its capacity to exert repression, targeting not only its political opponents but also what traditionally had been considered its base of support. Recent scholarship has revealed the repressive apparatus's increasing focus on massive campaigns targeting the poor.

The UN Office of the High Commissioner for Human Rights has issued several reports alleging violations of the rights of the Venezuelan political opposition. The UN-supported Independent Fact-Finding Mission has also reported gender-based

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violence carried out by the security forces, as well as the collusion of state officials in the violation of workers' human rights in the gold mines of Bolívar state. These reports reveal that the chain of command in the security services and the military, possibly rising to the top level of government, may have ordered torture and the inhumane treatment of prisoners.

Despite this repression, a number of civil society organizations have taken the lead in demanding that the government provide solutions to acute problems such as hunger and lack of health care and public services. These groups are also attempting to limit abuses of power, denouncing harassment, and calling on international actors to put pressure on the government. A platform of civil society organizations known as Foro Cívico campaigned for reform of the National Electoral Council (CNE) and promoted two opposition-linked candidates for the CNE board in 2021, ahead of the 2024 presidential election.

Activists have also focused on making wage demands in sectors including universities and health care. Other groups are working on issues such as environmental protection and women's bodily autonomy. Their efforts demonstrate the remarkable resilience of Venezuela's civil society despite the asymmetry of power with the Maduro regime.

SANCTIONS AND VENEZUELAN DEMOCRACY

Sanctions can have long-lasting effects on targeted countries, including unintended consequences. In the case of Venezuela, the haphazard opening of the economy by Maduro's authoritarian regime, and the ensuing processes of informalization and illegalization, have been among the unintended consequences of sanctions. They have transformed the state-dominated model of the Bolivarian revolution into a form of authoritarian capitalism.

The government has blamed the sanctions for its own policy failures, trying to generate a "rally around the flag" effect, while the economic opening has created new business opportunities for a small elite. Taken together, these factors have contributed to the consolidation of the Maduro regime. The question is how long this dynamic of authoritarian capitalism and regime consolidation can last, given the empowerment of new and old business actors, as well as international pressure for democratic concessions in return for sanctions relief.

Since 2019, several rounds of negotiations between the government and the opposition have been brokered by Norway. The easing of sanctions has been at the core of the government's negotiating agenda. Previously, the United States declined to fully back the negotiations and create clear pathways toward lifting sanctions based on concrete conditions. This reduced the credibility of sanctions relief as an incentive to forge an agreement on a democratic transition.

The Russian invasion of Ukraine and the subsequent rising demand for different sources of energy in the global economy have prompted Washington to rethink its Venezuela sanctions policy and promote the reactivation of negotiations. This has led to new talks focused on securing somewhat fair electoral conditions for the 2024 presidential race. The talks have spurred the Venezuelan opposition to reorganize its strategy around movement-building and internal coordination to prepare for a joint campaign.

In November 2022, the government and the Unitary Platform of the opposition reached a partial agreement on a formal return to the negotiating table. This agreement would allow for approximately $3 billion of Venezuelan state funds that had been frozen abroad to be released into a UN-managed trust fund to finance humanitarian work. At the same time, the US Treasury Department issued an extension of Chevron's licenses to produce oil under its four joint ventures with PDVSA. Though most of the funds would be channeled back to the United States to pay off existing debt, the Chevron deal gave rise to new optimism in government as well as private sector circles.

Moreover, the economic space opened by the government has increased the bargaining power of the business sector, which may have weaned itself off dependence on oil rents and the state. This emerging force is still politically timid, but it is capable of supporting civil society projects and activism. The challenge for the parties organized around the Unitary Platform is to harness these connections and incorporate different sectors' demands into a cohesive agenda to rebuild state capacity in order to serve the population.

The business sector can become a balance between government and opposition interests. Productive negotiations may lead to improved governance mechanisms, such as power-sharing arrangements to manage Venezuelan assets abroad and deploy foreign aid for humanitarian purposes.

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Programs of this kind are sorely needed, and both sides hope to demonstrate results to their constituents ahead of a potential return to electoral competition in 2024. Power-sharing mechanisms would necessitate the international community's active involvement in accountability measures and oversight to prevent large-scale corruption.

In such a scenario, the transformation toward authoritarian capitalism might prove to be a transitory stage. Yet whatever the prospects for an agreement on lifting sanctions and holding free and fair elections, the sanctions have had severe consequences that no agreement can remedy in the short term: the collapse of public services and the flourishing of illegal actors that benefit from a dysfunctional state, territorial control, and informal economic structures.

Sanctions have also transformed the nature of the Bolivarian coalition. To remain in power, what used to be a centralized and redistributive rentier political movement has engineered an economic adjustment, liberalized currency controls, and opened some markets. Now the political and economic forces that this authoritarian capitalism has empowered will determine the pace of change in Venezuela's future. ■

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