

ALEJANDRO MÁRQUEZ-VELÁZQUEZ¹

Freie Universität Berlin, Department of Economics and Institute for Latin American Studies

The resource curse and political cycles in developing countries: Is there a connection? The case of Venezuela²

ABSTRACT The main lesson of the resource curse literature is that developing and natural resource-rich countries need to save most of their oil windfalls in foreign currency to avoid it. Moreover, recent contributions to the political cycle literature predict stronger cycles in these countries. This paper investigates how political cycles might explain low oil windfall savings in countries affected by the resource curse. Using the case of Venezuela, this paper argues that the presence of periods of oil-price explosiveness leads to power concentration and increased public investment in prestige projects aimed at increasing the reelection probabilities of the incumbent or his party. To back the argument the article analyzes the Chavista democratic period of 1999–2016. It will also identify parallels to the 1970–1988 period in Venezuela.

JEL Codes: D72, E62, O11, Q32.

Keywords: oil windfalls, political cycles, resource curse, Venezuela.

¹ Address: Institute for Latin American Studies, Rüdeshheimer Str. 54/56, 14197 Berlin, Germany. Telephone: + 49 30 838 72644. Fax: +49 30 838 55464. Email: alejandro.marquez@fu-berlin.de

² Version: 6.1.2 (work in progress, please do not cite nor circulate).

The 1970s are remembered in the Global North as a crisis prone decade, one in which the dilemmas posed by stagflation dominated the public debate. However, in the major oil exporting countries within the Global South, the memories of the 1970s are related to bonanza times. Nevertheless, the bonanza was short-lived in Venezuela, one of the major oil exporting countries of the developing world at the time, given that since the mid-1970s the country went through its hardest crisis since the beginning of the 20th century. Some authors refer to this crisis as a depression since it went on for about 30 years until oil prices eventually picked up at the end of the 1990s³, as can be seen in Figure 1. In fact, during the 55 year-period depicted in Figure 1 the correlation between a terms-of-trade corrected real GDP per capita⁴ and real oil prices was -0.51. Therefore, Venezuela represents a classic example of the resource curse, which relates to the idea of the abundance of oil-resources hurting the long-run growth perspectives of countries.

Moreover, Venezuela was, until recently, one of the oldest democracies of Latin America. The country witnessed a democratic transition in 1958 and remained a democracy until the late-2000s, according to the Polity IV dataset⁵. The database considers the last years of the Chavez administration as an

³ Agnani and Iza (2011).

⁴ This measure is better for measuring Venezuelan living standards since it takes into consideration the varying international purchasing power of exports, mainly oil (Hausmann and Rodríguez, 2014, p. 19).

⁵ Marshall, Gurr and Jagers (2017).

autocratic regime. For instance, in 2009 the government decided to close more than 30 TV and radio stations⁶. Also, during the same year, the government organized and won a constitutional amendment referendum that removed presidential term limits, despite having organized, and lost, a similar referendum in 2007⁷.

The Polity IV database then considers Maduro's administration as a democracy until 2016. At the end of the previous year, the opposition won the parliamentary election for the first time since Chavez was elected president in 1998⁸. However, in 2017, the *Tribunal Supremo de Justicia*, the highest court in the country, supplanted the parliament because it swore in the three parliamentarians of the Amazonas State, whose election was deemed fraudulent by the *Consejo Nacional Electoral*, Venezuela's institution responsible for organizing elections⁹. Since then Maduro has been ruling without a parliament, and elections of the Amazonas parliamentarians have not been reorganized¹⁰.

Despite the debate on the recent democratic status of Venezuela, the country has usually been considered as one of the oldest democracies in Latin

⁶ Castillo (2009).

⁷ Carroll (2009).

⁸ BBC Mundo (2015).

⁹ Huston-Crespo (2017).

¹⁰ The court's decision was criticized by the prosecutor general of Venezuela, Luisa Ortega Díaz, who was thereafter dismissed by the National Constitutional Assembly, established in 2017 with the aim of drafting a new constitution (Bracho, 2017). The constitutionality of this assembly is disputed and it is not recognized by over 40 countries, including Argentina, Brazil, Colombia, the United Kingdom, and the United States (Infobae, 2017). The institutional crisis of 2017 was accompanied by several demonstrations that left about 127 dead (Niño, 2017).

America, having a democratic status during most of the period depicted in Figure 1. Therefore, the literature of the political business cycle (PBC) applies to the case of Venezuela. This is a literature stemming from the seminal contribution of Nordhaus¹¹. The author builds a model depicting high inflation, increased output and low unemployment before elections and recessions just thereafter¹². The main idea of this line of research is that incumbent governments manipulate the business cycle during electoral periods to try to remain in power.

The insights of the PBC literature seem valid for the Venezuelan case, given that between 1960 and 2014 the previously mentioned negative correlation between a terms-of-trade corrected real GDP per capita and real oil prices was lower during electoral years than during nonelectoral years (-0.42 vs. -0.53)¹³. More recently, Vergne provides evidence in favor of the hypothesis that developing and natural resource rich countries have stronger political cycles than similar countries with less natural resource abundance¹⁴. The author finds evidence of government expenditures shifting towards current expenditures during electoral years, which are more visible to the voter, according to the author. Furthermore, Nieto-Parra and Santiso show that, for

¹¹ Nordhaus (1975).

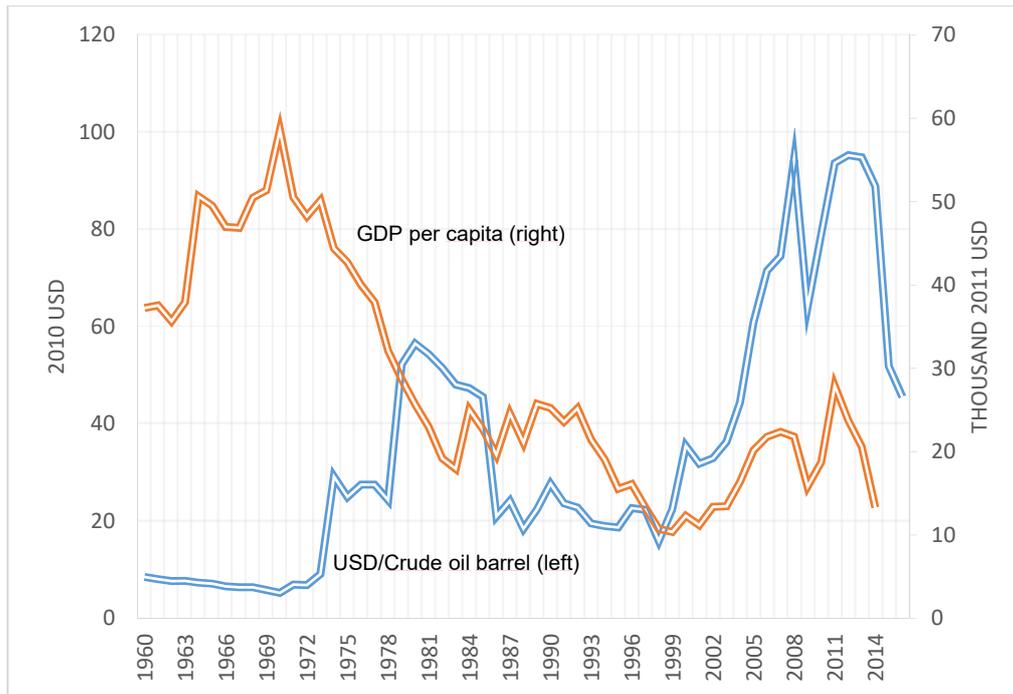
¹² For a recent literature review on the PBC refer to Dubois (2016).

¹³ Own calculations based on data from Feenstra et al. (2015) World Bank (2018a).

¹⁴ Vergne (2009, p. 73).

the case of Latin America during 1990–2006, the shift towards current expenditures is accompanied by increases in primary fiscal deficits¹⁵.

Figure 1. Crude oil barrel's yearly average price and Venezuela's terms of trade corrected GDP per capita



Source: data from Feenstra et al. (2015) World Bank (2018b). Oil prices are an average of the Brent, Dubai and West Texas Intermediate prices.

Therefore, this paper attempts to answer the question of how such strong political cycles might explain low oil windfall savings in countries affected by the resource curse, such as Venezuela. It argues that oil price dynamics affect the political cycle in developing petrostates in the following way. The presence of periods of oil-price explosiveness allows the government

¹⁵ Nieto-Parra and Santiso (2012, p. 560).

to increase public investment both during electoral and nonelectoral years. Such investments are mostly decided by the president, who increases her power during these periods. Oil windfalls are thus spent in expensive and prestige investment projects deemed able of increasing the reelection probabilities of the incumbent or his party. To back the argument the article analyzes the Chavista democratic period of 1999–2016. It will also identify parallels to the 1970–1998 period in Venezuela. Both periods are marked by high oil-price explosiveness.

The following section presents a brief literature review on the economic effects of the oil industry in developing countries, the PBC and oil-price explosiveness. Afterwards, I analyze the most salient economic policies and outcomes in Venezuela accompanying political cycles and oil-price dynamics during two important periods for the country's democracy and oil price evolution. The final section concludes.

The political economy of petro states, electoral cycles and oil-price explosiveness

Developing countries with a petro-state have underdeveloped non-resource tax systems¹⁶. This is often explained by the parallel development of a centralized state and the oil industry, such as was the case of Venezuela in the

¹⁶ Karl (1997, p. 43) and Crivelli and Gupta (2014).

early 20th century¹⁷. In other words, in petro-states society depends on the state and not the other way around, as is usually the case¹⁸. The source of dependence are the windfalls generated by the oil sector. The resource curse literature considers rent seeking as a transmission mechanism between natural resource abundance and relatively low long-term growth¹⁹. Rent seeking being generally understood as activities seeking to “capture property rights from the government”²⁰. Instead of fostering new industrial sectors that would bring forth structural transformation, the petro-state of a developing country focuses its attention on capturing oil rents and thus becomes a prize to be captured by all major actors in society, all of which have vested interests in the further development of the oil industry: international oil firms, political parties, the domestic business elite, unionized labor and the military.

Oil money allows the state to easily address claims of these different groups and Venezuela has been a showcase of the appeasement strategy financed by oil money. Appeasement is defined by Trinkunas as a strategy of civil governments for taking control over the military²¹. It involves adopting policies in favor of and increasing government expenditure towards interest groups with the aim of discouraging their political intervention. By applying

¹⁷ Coronil (1997, p. 83).

¹⁸ López and Barquero (2017).

¹⁹ Tornell and Lane (1999, p. 24).

²⁰ Krueger (1990, p. 18).

²¹ Trinkunas (2000, p. 82).

the appeasement strategy, the government can reduce tensions with all major society groups. For instance, it can appease the labor movement if it uses oil fiscal revenues to reduce inequalities. This was indeed the case of Venezuela up until the 1970s. During its ascending phase, the country managed to be among Latin America's less unequal countries²². Moreover, the government's appeasement practices can also reduce tensions with the business elites with the help of subsidized credits and protectionist measures. This is exactly what happened during Venezuela's import substitution industrialization period²³.

Appeasement financed by oil windfalls tend to promote extreme centralization of power in petro-states and thus usually leads to non-democratic regimes. As argued in the rentier state literature, citizens that do not have to pay much taxes are not that demanding in political terms²⁴. Therefore, in countries in which the centralization of power is concurrent with the development of the oil industry, the demand for democracy is lower. In this respect Venezuela was an exception since its appeasement strategy sustained the de facto two-party system of social democrats (AD) and Christian democrats (COPEI) in place until the early 1990s²⁵. However, the success of this system reduced the chances of the state implementing policies to develop alternative

²² Karl (1997, p. 112)

²³ Karl (1997, pp. 132-134).

²⁴ Beblawi (1987, p. 387).

²⁵ Karl (1997, p. 93).

exporting sectors that could eventually reduce the country's dependence on oil.

The rentier system developed by petro-states allows average income levels to increase faster than productivity, which is a situation that creates currency overvaluation and thus the loss of competitiveness of non-oil exporting sectors. Oil booms compound this problem. Corden and Neary's Dutch disease model, shows how a boom in a natural resource intensive sector leads to deindustrialization, understood in the model as reduced production and exports of the non-booming tradable sector²⁶. In Venezuela, the first oil boom of the 1920s gave a final blow to the country's former top exporting sectors²⁷. The country has been practically only exporting oil ever since.

Moreover, Dutch disease can be a source of the resource curse in natural-resource rich countries, i.e. lower long-term growth rates. The link between Dutch disease-induced currency overvaluation and lower levels of growth is provided by the resource curse literature that mainly evolved around the theoretical works of van Wijnbergen and Krugman, as well as the empirical work of Sachs and Warner²⁸. The transmission channel between the Dutch disease and low growth often included in the models within the theoretical literature is the negative impact of real exchange rate appreciation on the

²⁶ Corden and Neary (1982).

²⁷ Coronil (1997, p. 117).

²⁸ van Wijnbergen (1984), Krugman (1987) and Sachs and Warner (2001).

productivity growth of the non-booming tradable sector. The sector is assumed to be the manufacturing sector, and the productivity growth driver of the economy. Therefore, real exchange rate appreciation caused by a Dutch disease episode will subsequently have a negative long-run impact on growth due to its negative impact on the productivity growth of the manufacturing sector²⁹.

The more recent resource curse literature has given a higher weight to institutional quality as the main driver of low long-term growth in resource-rich countries. In this sense, Mehlum, Moene and Torvik build on the empirical work of Sachs and Warner to show that the resource curse is only present in countries with bad institutions³⁰. The authors refer to these bad institutions as grabber friendly. These institutions create incentives for entrepreneurs to migrate out of productive activities into grabbing activities, i.e. rent seeking. In contrast, countries with good institutions have producer friendly ones, in which rent-seeking activities do not crowd-out productive ones. Moreover, Lederman and Maloney question the existence of the resource curse. The authors provide evidence in favor of the view that once macroeconomic volatility and factor accumulation is controlled for, natural resources neither represent a curse nor a blessing³¹. It remains nevertheless relevant to study if there is a connection

²⁹ van Wijnbergen (1984, p. 53).

³⁰ Mehlum, Moene and Torvik (2006).

³¹ Lederman and Maloney (2008, p. 33).

between political institutions and long-term growth dampening variables such as macroeconomic volatility and problems related to factor accumulation in developing and resource-rich countries.

In this sense, Robinson, Torvik and Verdier develop a theoretical model that explains that in countries where natural resources are publicly owned, the case of many oil-exporting countries, politicians try to increase public employment to improve their chances of getting re-elected³². Therefore, resource-rich countries will only escape the resource curse if they have in place institutions that control this behavior, such as institutions promoting accountability and meritocracy³³. However, this does not mean that resource-rich developing countries necessarily have to save all their oil windfalls, given the prevalence of bottlenecks that hinder growth in several areas such as: infrastructure, education and health. There is a growing literature that underscores that the optimal allocation of oil windfalls comprises a mix of public investment and savings in foreign currency that take into consideration not only development needs, but also macroeconomic stability and the economy's absorption capacity³⁴. However, resource-rich countries that are

³² Robinson, Torvik and Verdier (2006).

³³ Robinson et al. (2006, p. 450).

³⁴ See for instance Agénor (2016) and Matsen and Torvik (2005).

usually considered as having escaped the resource curse are those that have maintained higher saving rates³⁵.

The resource curse and political cycles

The idea of natural resource rents influencing electoral cycles has also been researched in the literature, as mentioned in the introduction. Due to the lack of empirical evidence, the focus of the PBC literature shifted early on from the outcome variables included in Nordhaus' model to policy instruments³⁶. This is the so-called political budget cycle literature³⁷. For instance, for the case of Latin America, authors such as Barberia and Avelino, as well as Nieto-Parra and Santiso, report political budget cycles for periods ranging from the early-1970s to the late-2000s³⁸. For the case of Venezuela, despite being one of the countries in which primary expenditure was less affected by elections, the impact of electoral years in this variable was much stronger in the 2000s³⁹, a decade in which oil-prices boomed.

In this sense, Venezuela stands out for two reasons. First, in a sample of 42 developing countries for the period 1975–2001 Vergne finds evidence of increases in the government's current expenditures in electoral years being

³⁵ Matsen and Torvik (2005, p. 512).

³⁶ Nordhaus (1975) and Dubois (2016, p. 242).

³⁷ Brender and Drazen (2005, p. 1272).

³⁸ Barberia and Avelino (2011, p. 117) and Nieto-Parra and Santiso (2012, p. 560).

³⁹ Nieto-Parra and Santiso (2009, p. 13).

stronger for natural resource rich countries⁴⁰. Given that Venezuela was the Latin American country with the highest average share of natural resource rents in GDP during 1970–2001⁴¹, it should have also been among the countries with the strongest political cycles in the 1990s, which was not the case. Second, the increase in the country's political cycle intensity in the 2000s contradicts Brender and Drazen⁴². These authors argue that political cycles in established democracies—such as Venezuela's⁴³—should diminish over time, given that voters have more experience and information on the incumbent's incentive to manipulate the budget. One could argue that the behavior of oil prices in the 1990s and 2000s may be responsible for these apparent contradictions⁴⁴.

The literature commonly argues that the manipulation of current expenditures during electoral years takes place because they are more visible for voters⁴⁵. However, there is no consensus as to what constitutes a more visible expenditure. While authors such as Nieto-Parra and Santiso and Vergne argue that current expenditure is more visible, Klein and Sakurai claim that capital expenditures are more visible⁴⁶. However, as argued by Rodríguez,

⁴⁰ Vergne (2009).

⁴¹ Own calculations based on data from World Bank (2018a).

⁴² Brender and Drazen (2005, p. 1292).

⁴³ Brender and Drazen (2005, p. 1278) define an established democracy as one having had competitive elections for the entire 1960–2001 period. Only Colombia, Costa Rica and Venezuela in Latin America qualify as such.

⁴⁴ The only case study found on the political cycle in Venezuela fails to consider the influence of oil prices in the political cycle. See Muñoz (2006).

⁴⁵ Dubois (2016, p. 248), Nieto-Parra and Santiso (2012, p. 566) and Vergne (2009).

⁴⁶ Nieto-Parra and Santiso (2012), Vergne (2009) and Klein and Sakurai (2015).

capital expenditures might need more time to be made visible and, therefore, governments might decide to tilt expenditures towards them a year ahead of elections, as the author finds was the case of Latin America during the 1990–2004 period⁴⁷. The fact that Klein and Sakurai obtain evidence in favor of political cycles in electoral years only for capital expenditures, for the case of Brazil during 2001–2008, might be explained by the fact that they study municipal level elections⁴⁸. The type of capital expenditures of municipalities can be more visible in the short-run, e.g. acquiring an ambulance. Unfortunately, the authors do not test whether capital expenditures increased a year ahead of elections.

Oil-price bubbles and explosivity

Recent literature finds evidence of oil-price bubbles during the 2000s and 2010s. Mayer argues that the increased price volatility of commodities in general during the 2000s is due to the increasing presence of index traders in commodity exchanges, who do not seem to trade based on supply and demand fundamentals⁴⁹. The increased presence of such traders is deemed as evidence of the treatment of commodities as another asset class. Therefore, increased price volatility in combination with an increased presence of financial investors

⁴⁷ Rodríguez (2006, p. 20). Nieto-Parra and Santiso (2012) obtain a similar result for the period 1990–2006.

⁴⁸ Klein and Sakurai (2015).

⁴⁹ Mayer (2010).

might lead to the formation of bubbles. In general, the prices of assets are considered to be within a bubble path whenever they differ from their fundamental value⁵⁰. In this sense, authors such as Lammerding et al. and Parsons find evidence for oil-price bubbles during 2003–2011⁵¹.

However, oil-price explosivity predates the financialization of the oil sector. For instance, Caspi, Katzke and Gupta talk about oil price stagnation during 1941–1973, oil-price explosivity in the 1970s and 1980s, and low and stable oil prices in the 1990s⁵². The authors refrain labelling periods of oil-price explosivity as bubbles because of the lack of futures contract data for the entire period (1876–2014) they analyze⁵³. Interestingly, the creation of the Organization of the Petroleum Exporting Countries (OPEC) in 1960, a producer's cartel interested in stabilizing the market, did not hamper the increasing price volatility of oil in the 1970s and 1980s. Moreover, its inability to behave like a cartel in the 1990s⁵⁴ coincided with a relative stabilization of oil prices in that decade. Finally, during the 2000s, a decade signed by the return of oil-price explosivity or bubbles, the organization renewed its cooperation efforts, under the lead of Venezuela⁵⁵. That government spending increases during booms in

⁵⁰ Brunnermeier (2008).

⁵¹ Lammerding et al. (2012, p. 4), Parsons (2010, p. 109).

⁵² Caspi, Katzke and Gupta (2015).

⁵³ Caspi et al. (2015, p. 3). Shi and Arora (2012, p. 472) find evidence of short-lived bubbles in oil prices during 1985–2010 in the following years: 1986, 1989, 1990, 1996, 2000, 2008 and 2010.

⁵⁴ Almoguera, Douglas and Herrera (2011, p. 165).

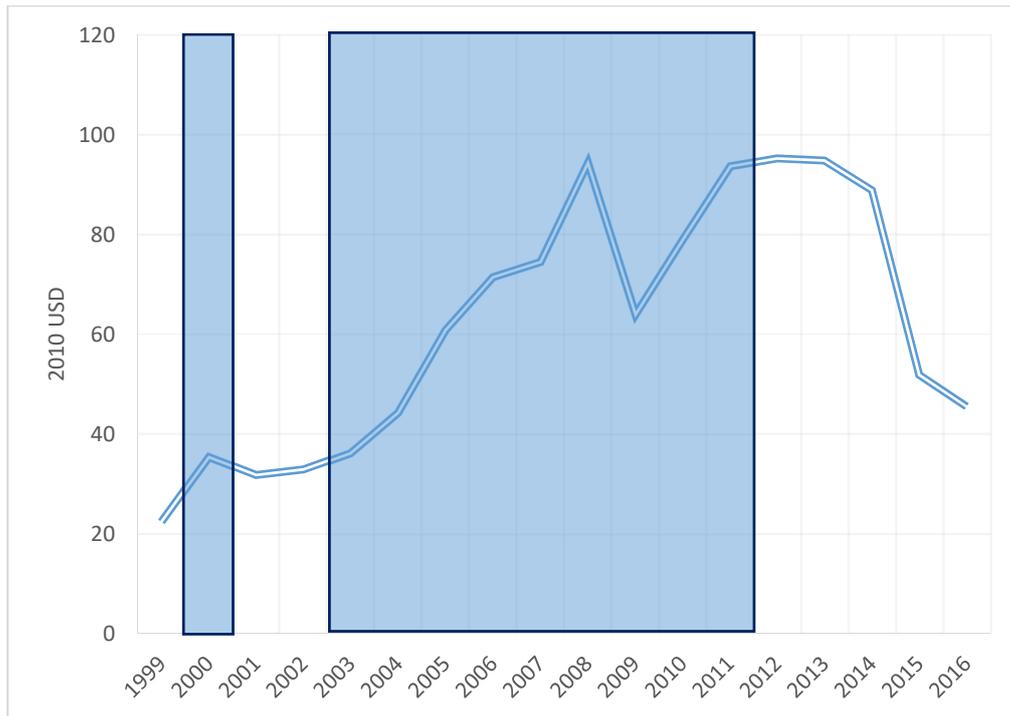
⁵⁵ Hellinger (2017, p. 64).

democratic developing countries has been document in the literature⁵⁶. However, there has been less focus on the direct impact of oil-price explosivity or bubbles on electoral cycles in developing and natural resource-rich countries. The next section studies the impact of the political cycle in Venezuela during and after the 2000s commodities boom on the country's oil windfall saving capabilities.

⁵⁶ See for instance Alesina, Campante and Tabellini (2008).

The Chavista democratic period of 1999–2016: building railways to nowhere

Figure 2. Crude oil barrel's yearly average price and bubbles (shaded areas) during 1999–2016



Source: data from World Bank (2018b). Oil prices are an average of the Brent, Dubai and West Texas Intermediate prices. Bubbles taken out of Caspi et al. (2015, p. 12), Lammerding et al. (2012, p. 31), Parsons (2010, p. 109) and Shi and Arora (2012, p. 472).

Chávez's arrival to the presidency in 1999 coincided with an increasing trend of international oil prices, as can be observed in Figure 2. Moreover, at least one oil-price bubble formed during the 1999–2015 period, according to several studies. This is the one related to the global financial crisis in 2008. Other

studies underscore the bubble of the year 2000, related to the Dot-com bubble, and find evidence for longer lasting bubbles right before and after the global financial crisis⁵⁷. Overall, the average price of crude oil more than quadrupled between 1999 and 2012, peaking at a little more than USD 95, in 2010 USD, as Figure 2 shows.

Bubbles aside, the increasing trend in oil prices observed between 1999 and 2012 enabled a large influx of hard currency for the government. The institutional arrangement for saving this windfall, i.e. a sovereign wealth fund, was in place since the beginning of the Chavez administration. The *Fondo de Inversión para la Estabilización Macroeconómica* (FIEM), created in 1998 during the last year of the Caldera administration⁵⁸, was later renamed *Fondo de Estabilización Macroeconómica* (FEM) under the Chavez administration. The FIEM contemplated saving and spending rules for the state's oil-related revenues depending on the development of the current oil price with respect to its average during the last five years⁵⁹.

During the oil-price boom that started in 1999, President Chávez amended the laws governing the FIEM to give him more discretionary power over it. During the first months of his administration in 1999 the spending rule of the FIEM was flexibilized. This meant that once the fund surpassed a

⁵⁷ See Figure 2's note.

⁵⁸ Guerra (2004, p. 110).

⁵⁹ Guerra (2004, p. 111).

threshold of 80% of the yearly average revenue generated by oil exports during the last five years, resources should be transferred for spending at the federal and regional levels and returned to *Petróleos de Venezuela* (PDVSA), the state-owned oil company, to be spent as decided by the president⁶⁰.

The saving rule was also modified several times. In contrast with the flexibilization of the spending rule, the first reform to the saving rule was stricter. According to the fund's first reform, savings should enter the FIEM whenever the oil price surpassed the 9 USD per barrel mark. However, shortly after this reform, successive reforms in 2002 changed the saving rule to planned increases in contributions going from 6% of the total oil-related fiscal revenue in 2004 to 10% in 2008. Finally, a reform in 2003 further flexibilized the spending of the FIEM⁶¹. All this spending flexibilization made the fund lose its economic significance given that since 2003 the value of its assets has remained under USD 1 billion, compared to its peak value of USD 7 billion in 2001⁶².

With the *de facto* dismantling of the FEM, the government set up another sovereign wealth fund in 2005, the *Fondo de Desarrollo de la Nación* (FONDEN). It is estimated that during the 2005–2013 period 115 USD billion

⁶⁰ Guerra (2004, p. 112).

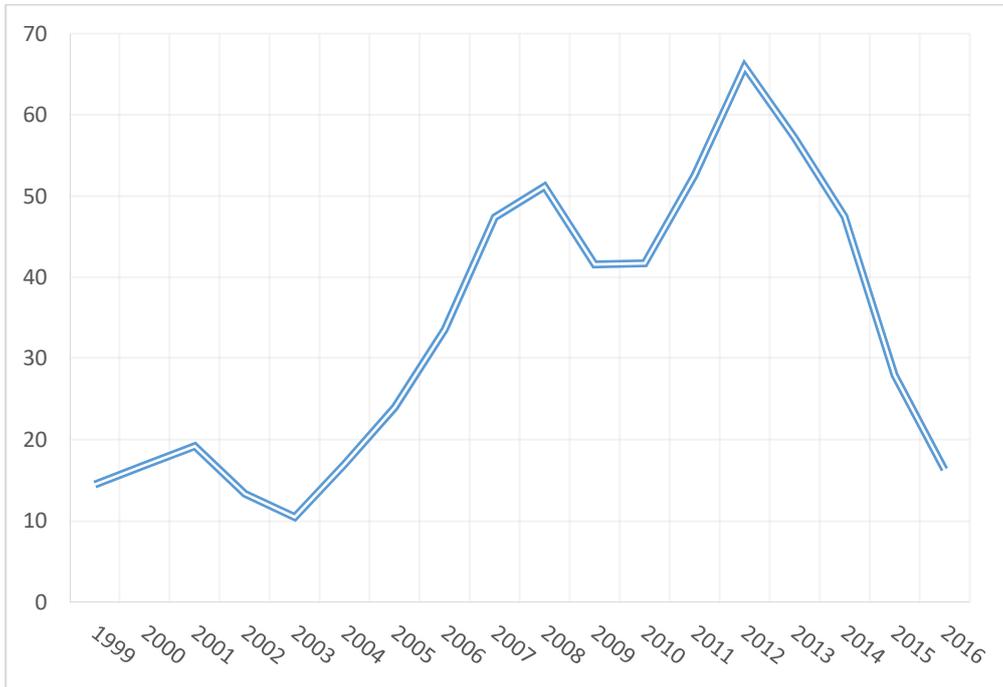
⁶¹ Guerra (2004, pp. 112–113).

⁶² Sovereign Wealth Fund Institute (2018a, 2018b).

were fed into the fund⁶³. Unfortunately, since its creation, transparency regarding the fund's balance and investment portfolio has been rather low⁶⁴. This supports the idea that FONDEN was designed from its beginning as a fund for which the president had discretionary power over its spending. Despite the lack of public available data, it is safe to say that probably there was not much money left in FONDEN's balance by 2013. This could explain the sharp negative trend in imports seen in Venezuela between 2012 and 2016, as can be observed in Figure 3. Imports in 2016 represented less than 25% of their peak value in 2012.

⁶³ Vera (2015, p. 564).

⁶⁴ Ellsworth and China (2012).

Figure 3. Imports of goods (current USD, billions, FOB)

Source: BCV for 1999–2015 (n.d.) and the World Bank for 2016 (2018a).

Venezuela's petro-diplomacy

The oil windfalls were only partly directed to the above-mentioned sovereign wealth funds though. The Chávez administration oversaw a rise in oil diplomacy, mainly targeted towards the Central American and the Caribbean region. Here the Bolivarian Alliance for the Peoples of Our America (ALBA) and Petrocaribe are two cases in point. ALBA is an integration scheme created in 2004, whose member countries mainly belong to the aforementioned regions. The vast majority of the ALBA projects' financing stems from PDVSA⁶⁵.

⁶⁵ Girvan (2011, p. 175).

Petrocaribe is a subsidiary firm of PDVSA that was established in 2005 and that offers long-term preferential payment of the oil bill of Central American and Caribbean countries, which do not need to belong to ALBA. The amount of development assistance provided by Venezuela placed the country during 2006–2007 only below China and India, and on par with Saudi Arabia, in the list of the largest donors from the Global South, in absolute terms⁶⁶. It is estimated that the country donated between 0.71% and 1.52% of its GNI during these years⁶⁷. The approval of all this financing was completely at President Chavez's discretion, as reported by officials from recipient Caribbean states⁶⁸.

Power concentration, oil windfalls and electoral pressure

The increase in the discretionary power of the president over the domestic and international use of oil windfalls converted them into a de facto parallel budget, without parliamentary oversight. This was made possible by several enabling acts (*leyes habilitantes*) granted by the parliament since 1999. Enabling acts allow the Venezuelan president to rule by decree, according to the country's 1999 constitution⁶⁹. The scope and duration of these acts can be very broad and long, as they are not directly framed in the constitution⁷⁰. Presidents Chávez and Maduro ruled by decree over more than a third of their time in

⁶⁶ United Nations Economic and Social Council (ECOSOC) (2008, p. 10).

⁶⁷ ECOSOC (2008, p. 11).

⁶⁸ Girvan (2011, p. 168).

⁶⁹ Asamblea Nacional Constituyente (1999).

⁷⁰ Tavares Duarte, Soto Hernández and Chirinos Portillo (2008, p. 48).

power during 1999–2016⁷¹. The increasing power concentration observed in this period is also reflected in the worsening of country's the polity score during 1999–2012. In fact, between 2009 and 2012 the negative values of the polity variable signaled more commonalities with autocratic regimes than with democratic ones. Nevertheless, Venezuela's democratic features regained strength between 2013, the year President Chávez died, up until 2016⁷².

Nevertheless, the argument of failing to save oil windfalls because of power concentration is contradicted by the fact that oil exporting countries like the United Arab Emirates and Saudi Arabia, with much higher power concentration than Venezuela⁷³, have some of the largest oil-funded sovereign wealth funds⁷⁴. However, unlike Venezuela, these countries do not face political cycles, given that they are not democracies. It is therefore worthwhile investigating whether electoral cycles are observed in government spending. Next section analyzes the trends observed in public investment in the 1999–2014 period.

⁷¹ Based on data from *Correo del Orinoco* (2013) and *El Demócrata* (2015). During 2016 Maduro ruled by decree thanks to several emergency decrees approved by the *Tribunal Supremo de Justicia*, despite the parliament's repeal of the decrees (*Diario Las Américas*, 2017).

⁷² Marshall et al. (2017).

⁷³ Marshall et al. (2017).

⁷⁴ Sovereign Wealth Fund Institute (2018b).

*Public investment's electoral cycle***Table 1. Average capital expenditure as a share of total government expenditure (%) during 1999–2014**

	Two years ahead of elections	Other years	One year ahead of electoral year	Other years
All years	18.70	19.13	19.48	18.81
Years with oil- price bubbles	18.48	20.72	21.87	19.26
Years without oil-price bubbles	19.35	16.91	15.91	18.02

Source: own calculations based on data from the Economic Commission for Latin America and the Caribbean (2016) and Figure 2.

The share of public investment decreases by 0.43 percentage points during 1999–2014 two years ahead of the electoral year and increases by 0.67 percentage points of total government expenditure one year ahead of the electoral year, as shown in Table 1. This is consistent with the idea of the government tilting public expenditure towards shorter term visible investment projects before elections. This result is in line with those presented by Nieto-Parra and Santiso and Rodríguez for the Latin American region during previous

periods⁷⁵. Moreover, the electoral cycle in public investment in Venezuela appears to be driven by oil-price bubbles. Its share in total public expenditure rises more strongly (+2.61 percentage points) a year ahead of the electoral year whenever there is an oil-price bubble, as seen in Table 1.

The share of public investment tends to be larger in general whenever there is an oil-price bubble. The exception occurs two years ahead of the electoral year. In contrast, the absence of oil-price bubbles reduces the share of public investment in general, except for the case of two years ahead of the electoral year. This suggests that oil-price bubbles tend to tilt public investment cycles towards shorter term investment projects. Moreover, there is an inverted political cycle in public investment a year ahead of elections, since its share decreases whenever there are no oil-price bubbles.

Oil-price bubbles allowed then the Venezuelan government to tilt its expenditures more strongly towards public investment in general and specially a year ahead of electoral years. Therefore, if Venezuela suffered from the resource curse during this period, its public investment strategy might be an important explanatory factor. Moreover, contrary to one might think, investment growth exceeded consumption growth during most of the 1999–2014 period. In fact, while annual investment growth was higher in average 3 percentage

⁷⁵ Nieto-Parra and Santiso (2012) and Rodríguez (2006).

points during this period, between 2003 and 2007 the difference reached an average of 31 percentage points⁷⁶. Investment growth was driven by public investment, which grew at an annual average of 10% during the entire period. In contrast, private investment presented a negative annual average growth rate of -1%.

The rise of prestige public investment projects

Until 2012, the asset in which the government increased the most its investment was transportation equipment. These investments were most probably related to the government importing buses and trains for massive public transportation projects including the subway expansion in Caracas and its suburbs, the creation of the subway networks of Maracaibo and Valencia, and the creation of bus rapid transit systems in many cities, including Barquisimeto and Mérida. However, public investment in transportation equipment contracted at an average annual rate of almost -23% between 2013 and 2014⁷⁷. Public transportation projects suffered since the death of President Chávez in early 2013. The most notable delays are to be found in the railway projects. For instance the Tinaco-Anaco line, a project that intended to link the two cities, located in the Venezuelan Llanos more than 400 km away from each

⁷⁶ Banco Central de Venezuela (BCV) (n.d.).

⁷⁷ BCV (n.d.).

other, with a Chinese bullet train was abandoned in 2016 after it had four years of delays⁷⁸.

The nature of the projects prioritized by public investment supports the idea of them being prestige projects aimed at increasing the reelection probability of President Chávez. This fact, combined with the negative trend in private investment, did not lead to the emergence of new economic sectors that could diminish the country's dependence on oil. The non-oil economic sectors that did grow, were more of the non-tradable nature, as predicted by Dutch disease theory. Up until 2012, the non-oil sector presented a respectable average annual growth rate of 4.3%⁷⁹. However, with the break of the increasing oil price trend starting in 2013, this sector showed an average annual contraction of 0.7% until 2014, the last year for which official data is available. The two non-oil sectors that most grew during the boom, i.e. between 1999 and 2012, were the finance and insurance sector, with an average annual growth rate of 12.8%, and the communications sector, growing at 11% on average per year. Such growth rates imply that the GDP generated by these sectors during the boom almost quadrupled.

⁷⁸ Goodman (2016).

⁷⁹ BCV (n.d.).

Resource curse despite high investment rates

At first sight, one could argue that Venezuela did not suffer from the resource curse during 1999–2014, at least when comparing the country with the Latin American region, since their growth rates were not remarkably different. However, the much higher share of investments over GDP up until 2012 in Venezuela, when compared to the region⁸⁰, should have translated into higher growth rates. Investment during 1999–2012 averaged about 33% of GDP in Venezuela⁸¹. During the same period average annual GDP growth was 3.7%. In contrast, in Latin America and the Caribbean annual investment shares over GDP averaged little more than 20%. Despite these much lower investment rates, the average annual growth was only slightly lower at 3.15%⁸².

The difference in investment rates was also maintained during 2013–2014, years of decreasing oil prices. In Venezuela the share of average share of investments increased during the post-boom years of 2013 and 2014 to little more than 36%⁸³. However, this increasing share only reflects a slower fall of investment, as every GDP component fell during this period, given that the average annual GDP growth rate plunged to -1.3%. Moreover, average investment also increased in the Latin America and Caribbean region, yet

⁸⁰ Excluding high-income economies.

⁸¹ BCV (n.d.).

⁸² World Bank (2018a).

⁸³ BCV (n.d.).

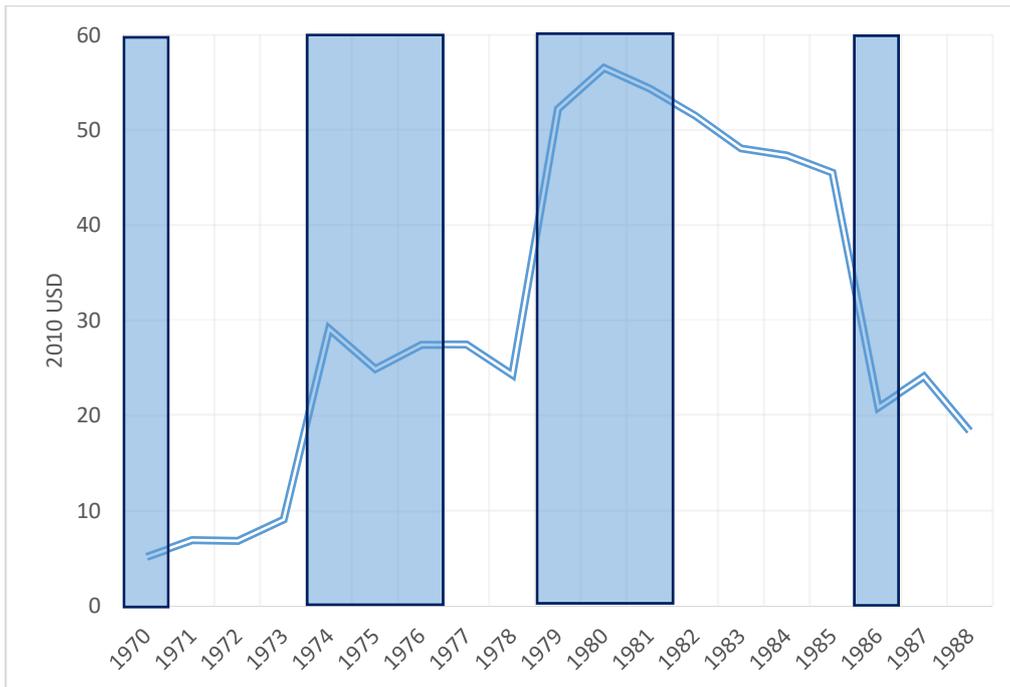
barely, to almost 21% during the post-boom period of 2013–2016⁸⁴. Growth was also negatively affected in the region, yet to a much lower degree, since growth decelerated to an annual average of 0.65% for the 2013–2016 period.

In sum, the largesse provided by the oil price bubbles during this period allowed for the existence of an electoral cycle in public investment. However, higher investment levels did not translate into higher growth rates, using Latin America and the Caribbean as a comparison group. Power concentration during the period helps explain the priorities given to investment projects, which more than seeking to foster new economic sectors to lessen the economic dependence on oil, aimed at increasing the reelection probabilities of the incumbent or his party.

⁸⁴ World Bank (2018a).

The oil-price shocks of the 1970s–1980s and a failed import substitution industrialization

Figure 4. Crude oil barrel's yearly average price and explosivity (shaded areas) during 1970–1988



Source: data from World Bank (2018a). Oil prices are an average of the Brent, Dubai and West Texas Intermediate prices. Explosivity periods taken out of Caspi et al. (2015, p. 12).

Oil price increases were much higher during the 1970s and early 1980s than during the previously analyzed period. Between 1970 and 1980, oil prices increased more than tenfold in real terms, peaking at more than USD 56, in 2010 USD, as Figure 4 shows. According to Caspi et al. this period presented

four episodes of oil-price explosivity⁸⁵. The longest two were related to the 1973 oil price shock of the Yom Kippur War, and to the Iranian Revolution in 1979 and the beginning of the of the Iran–Iraq War in 1980. Despite the similarities of the oil-price cycle of this period to the most recent one, the fact that Venezuela suffered from a “great depression” of about 30 years between the mid-1970s and the mid-2000s⁸⁶, and thus became a poster child of the resource curse, need not to repeat itself in the case of the current recession, which started in 2013.

The idea of the need to avoid a massive influx of petrodollars in the Venezuelan economy to prevent it from overheating was already present during the first years of the Pérez administration, which started in 1974. This was precisely the mission of the *Fondo de Inversiones de Venezuela* (FIV), created that same year. The FIV received an initial endowment of USD 3.23 billion⁸⁷ and should have received half of the government’s oil-related revenues afterwards. The idea behind the creation of the FIV was to decrease the state’s oil-revenue dependence by forcing it to increase non-resource taxes, including among others the inheritance and property taxes⁸⁸. Unfortunately, the FIV never worked as initially intended. For instance, the fund was never fed

⁸⁵ Caspi et al. (2015, p. 12).

⁸⁶ Agnani and Iza (2011).

⁸⁷ Equivalent to about 2018 USD 13 billion. Own calculation based on U.S. Bureau of Economic Analysis (2018).

⁸⁸ Karl (1997, p. 131).

in accordance to what was originally planned⁸⁹. Apart from the initial endowment in 1974, the fund received little more than USD 2.3 billion until 1977⁹⁰. If the saving rule had been respected, at least USD 12.7 billion should have been fed into the FIV during this period⁹¹.

Venezuela's energy cooperation

The FIV allowed Venezuela to play an important regional role by financing the country's development cooperation towards its poorer Central American and Caribbean neighbors, and thus making the country one of the pioneers of South-South cooperation. In this respect, the Pérez administration signed the Puerto Ordaz Accord in 1974⁹². The agreement was signed between Venezuela and all the independent Central American countries of the time for the period 1975–1980. Two Caribbean countries, Jamaica and the Dominican Republic later joined. The agreement consisted in soft loans with long repayment periods for the part of the oil bill of these countries accrued to an oil price above USD 6 per barrel. If, however, the recipient countries managed to obtain co-financing from an international financial institution for a development project financed with these loans, their interest rates were further decreased, and the repayment period extended, prior approval of the FIV. Such an arrangement made the FIV

⁸⁹ Karl (1997, p. 136).

⁹⁰ Palma (1985, p. 13).

⁹¹ Based on the oil exports revenues given in Palma (1985, p. 11).

⁹² Grayson (1985, p. 392)

Venezuela's de facto Official Development Assistance agency. Given that the barrel of oil was much higher than USD 6 during this period, and that the agreement covered most of these countries oil imports, the development aid provided by Venezuela was substantial.

The oil explosivity observed in 1980 at the end of the Puerto Ordaz Accord, as can be seen in Figure 4, led Venezuela and its partners to continue their energy cooperation. After failing to obtain support from the OPEC for establishing a global South-South cooperation agreement not based on religious or regional affinity, Venezuela started to collaborate with Mexico to continue with its development cooperation efforts⁹⁵. The collaboration was formalized in 1980 in what became known as the San José Accord and followed a similar logic than that of the Puerto Ordaz Accord. It is estimated that the initiative represented in 1980 the disbursement of about USD 560 million, in equal terms from Mexico and Venezuela every year in soft loans to the nine recipient countries, the same of the previous accord plus Barbados⁹⁴.

Power concentration, oil windfalls and electoral pressure

In contrast to its regional pro-development character, internally FIV posed a challenge to avoiding the misuse of oil windfalls. Since its inception, the fund

⁹⁵ Grayson (1985, p. 394).

⁹⁴ Based on figures in Grayson (1985, p. 395). This amount represents almost 2018 USD 1.5 billion. Own calculation based on U.S. Bureau of Economic Analysis (2018).

lacked oversight from the Congress, the bicameral Venezuelan parliament of the time. President Carlos Andrés Pérez justified such a lack of oversight because of the FIV's international functions. The FIV was thus directly under presidential supervision (Karl, 1997, p. 131), and became a parallel budget. The fund thus allowed President Pérez to extend throughout his administration the power gained during 1974, when the Congress approved an enabling act he asked for.

Public investment's electoral cycle

Table 2. Average capital expenditure as a share of total government expenditure (%) during 1970–1988

	Two years ahead of electoral year	Other years	One year ahead of electoral year	Other years
All years	33.48	31.70	31.75	32.16
Years with oil- price explosiveness	35.85	39.04	NA	37.84
Years without oil-price explosiveness	26.36	28.02	31.75	25.65

Source: own calculations based on data from Karl (1997, p. 165) and Figure 2

The share of public investment increases by 1,78 percentage points during 1970–1988 two years ahead of the electoral year and decreases by 0.41 percentage points of total government expenditure one year ahead of the electoral year, as shown in Table 2. This is consistent with the idea of the government tilting public expenditure towards longer term visible investment projects before elections. However, during periods of oil-price explosivity, this trend is not observed. Nevertheless, oil-price explosivity, in general, increases the share of public investment. In contrast, in the absence of oil-price explosiveness, the share of public investment in total government expenditure increases more strongly one year ahead of elections, by 6.1 percentage points. This suggests that in the absence of oil-price explosivity public investment cycles tilt towards shorter term investment projects.

The rise of prestige public investment projects

Despite strong increases in investments in non-oil sectors the dependence on oil did not diminish during the 1970s. The Perez administration oversaw what Di John (2014) labelled a big push natural-resource-based industrialization. This implied a strategy switch towards the second stage of import substitution industrialization, which included the creation of state-owned conglomerates in sectors such oil and petrochemicals. In 1976 the oil sector was nationalized and the state-owned oil enterprise *Petróleos de Venezuela (PDVSA)* was created. The following year the state-owned petrochemical enterprise *Petroquímica de Venezuela (Pequiven)* was created. Although the share of

exports of chemicals and health related products increased from 17% in 1970 to 25% in 1979, the share of oil exports barely changed from 72% in 1970 to 69% in 1979 (Simoes and Hidalgo, 2011).

Conclusion

Periods of oil-price explosivity increased the share of public investment in total government expenditure in Venezuela, during the two periods analyzed. Moreover, the political cycle of public investment seemed to be affected by oil-price explosivity in different ways. In the 1970–1988 period, when oil-price explosivity was mostly driven by geo-political tensions, the government tilted its public investment towards longer-term projects ahead of elections, while it shifted its investment towards short-term projects ahead of elections whenever no oil-price explosivity was observed. In the most recent period, characterized by the presence of oil-price bubbles, explosivity was associated with the government tilting its expenditure towards shorter-term investment projects.

The Venezuelan state failed to save its oil money in both the 1970s and 2000s, despite the existence of sovereign wealth funds during both periods. Nevertheless, oil windfalls were in part kept outside the country, and thus diminished to some extent the spending effect of the Dutch disease to take place. Unfortunately, during both periods these oil windfalls were spent abroad as Official Development Assistance and not invested in foreign firms. Such an

outcome was facilitated by the power concentration in the hands of the president.

That the country has almost without interruption suffered from the resource curse since the mid-1970s, has not to do with low investment rates. These were much higher in Venezuela than in the Latin American region during 1999–2014, and the share of public investment was much higher in the country during the 1970–1988. The problem arose in the type of investments undertaken, mostly in prestige projects, given that the average growth rate in the recent period was like that of the region or that the country was not able to diversify away from oil during the previous one.

References

- Agénor, P.-R., 2016. Optimal fiscal management of commodity price shocks. *J. Dev. Econ.* 122, 183–196.
- Agnani, B., Iza, A., 2011. Growth in an oil abundant economy: The case of Venezuela. *J. Appl. Econ.* 14, 61–79.
- Alesina, A., Campante, F.R., Tabellini, G., 2008. Why is Fiscal Policy Often Procyclical? *J. Eur. Econ. Assoc.* 6, 1006–1036. <https://doi.org/10.1162/JEEA.2008.6.5.1006>
- Almoguera, P.A., Douglas, C.C., Herrera, A.M., 2011. Testing for the cartel in OPEC: non-cooperative collusion or just non-cooperative? *Oxf. Rev. Econ. Policy* 27, 144–168. <https://doi.org/10.1093/oxrep/grr007>
- Asamblea Nacional Constituyente, 1999. Constitución de la República Bolivariana de Venezuela.
- Banco Central de Venezuela, n.d. Importaciones de bienes FOB según sectores y destinos económicos.
- Banco Central de Venezuela, n.d. Producto interno bruto y sus componentes.
- Banco Central de Venezuela, n.d. Formación bruta de capital fijo por tipo de activo y sector institucional.
- Banco Central de Venezuela, n.d. Producto interno bruto por clase de actividad económica.

- Barberia, L.G., Avelino, G., 2011. Do Political Budget Cycles Differ in Latin American Democracies? *Economía* 11, 101–134. <https://doi.org/10.1353/eco.2011.0001>
- BBC Mundo, 2015. Oposición obtiene amplia victoria en las elecciones. BBC News Mundo.
- Beblawi, H., 1987. The rentier state in the Arab world. *Arab Stud. Q.* 383–398.
- Bracho, D., 2017. Fiscal Luisa Ortega Díaz fue removida de su cargo por la ANC. *Panorama*.
- Brender, A., Drazen, A., 2005. Political budget cycles in new versus established democracies. *J. Monet. Econ., Political economy and macroeconomics* 52, 1271–1295. <https://doi.org/10.1016/j.jmoneco.2005.04.004>
- Brunnermeier, M.K., 2008. Bubbles. *New Palgrave Dict. Econ.*
- Carroll, R., 2009. Hugo Chávez wins referendum allowing indefinite re-election. *The Guardian*.
- Caspi, I., Katzke, N., Gupta, R., 2015. Date stamping historical periods of oil price explosivity: 1876–2014. *Energy Econ.*
- Castillo, M., 2009. U.S. report: Chavez moving to silence media critics - CNN.com. CNN.
- Corden, W.M., Neary, J.P., 1982. Booming Sector and De-Industrialization in a Small Open Economy. *Econ. J.* 92, 825–848. <https://doi.org/10.2307/2232670>
- Coronil, F., 1997. *The magical state: Nature, money, and modernity in Venezuela*. University of Chicago Press.
- Correo del Orinoco, 2013. Se han aprobado 4 en la Revolución Bolivariana. Todo lo que necesitas saber sobre la Ley Habilitante.
- Crivelli, E., Gupta, S., 2014. Resource blessing, revenue curse? Domestic revenue effort in resource-rich countries. *Eur. J. Polit. Econ.* 35, 88–101.
- Di John, J., 2014. The Political Economy of Industrial Policy in Venezuela, in: *Venezuela Before Chávez: Anatomy of an Economic Collapse*.
- Diario Las Américas, 2017. Maduro extiende por octava vez decreto de estado de excepción y emergencia económica. diariolasamericas.com.
- Dubois, E., 2016. Political business cycles 40 years after Nordhaus. *Public Choice* 166, 235–259. <https://doi.org/10.1007/s11127-016-0313-z>
- Economic Commission for Latin America and the Caribbean, 2016. *CEPALSTAT Statistics and Indicators [WWW Document]*. URL http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i (accessed 8.23.18).
- ECOSOC, U., 2008. Trends in South-South and triangular development cooperation: background study for the Development Cooperation Forum. N. Y. U. N. 9–10.
- El Demócrata, 2015. Ley Habilitante: la carta todopoderosa de Maduro para dictar cualquier ley. *El Demócrata*.
- Ellsworth, B., China, E., 2012. Special Report: Chavez's oil-fed fund obscures Venezuela money trail. *Reuters*.

- Feenstra, R.C., Inklaar, R., Timmer, M.P., 2015. The Next Generation of the Penn World Table. *Am. Econ. Rev.* 105, 3150–3182.
- Girvan, N., 2011. IS ALBA A NEW MODEL OF INTEGRATION? REFLECTIONS ON THE CARICOM EXPERIENCE. *Int. J. Cuban Stud.* 3, 157–180.
- Goodman, J., 2016. Chinese bullet train in Venezuela stalls as alliance derails. AP News.
- Grayson, G.W., 1985. The San José oil facility: South-South cooperation. *Third World Q.* 7, 390–409.
- Guerra, J., 2004. La política económica en Venezuela, 1999–2003. Cdch Ucv.
- Hausmann, R., Rodríguez, F., 2014. Why did Venezuelan Growth Collapse?, in: Hausmann, R., Rodríguez, F. (Eds.), *Venezuela Before Chávez: Anatomy of an Economic Collapse*. The Pennsylvania State University Press, University Park, PA, pp. 15–50.
- Hellinger, D., 2017. Oil and the Chávez Legacy. *Lat. Am. Perspect.* 44, 54–77. <https://doi.org/10.1177/0094582X16651236>
- Huston-Crespo, P.M.E., 2017. ¿Es legal lo que hizo el TSJ de Venezuela? Acá la respuesta. CNN.
- Infobae, 2017. La lista de los 40 países democráticos que hasta el momento desconocieron la Asamblea Constituyente de Venezuela. Infobae.
- Karl, T.L., 1997. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press.
- Klein, F.A., Sakurai, S.N., 2015. Term limits and political budget cycles at the local level: evidence from a young democracy. *Eur. J. Polit. Econ.* 37, 21–36. <https://doi.org/10.1016/j.ejpoleco.2014.10.008>
- Krueger, A.O., 1990. Government failures in development. *J. Econ. Perspect.* Vol. 4, 9–23.
- Krugman, P., 1987. The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher. *J. Dev. Econ.* 27, 41–55.
- Lammerding, M., Stephan, P., Trede, M., Wilfling, B., 2012. Speculative bubbles in recent oil price dynamics: Evidence from a Bayesian Markov-switching state-space approach. *Cent. Quant. Econ.* 23.
- Lederman, D., Maloney, W.F., 2008. In Search of the Missing Resource Curse. *Economía* 9, 1–56. <https://doi.org/10.1353/eco.0.0012>
- López, L., Baquero, G., 2017. *VENEZUELA ENERGÉTICA: Propuesta para el bienestar y progreso de los venezolanos*, First Edition. ed. Cyngular Asesoría 357, C.A. / Editorial Dahbar, Venezuela?
- Marshall, M.G., Gurr, T.R., Jagers, K., 2017. *Polity IV Project: Political Regime Characteristics and Transitions, 1800–2016*.
- Matsen, E., Torvik, R., 2005. Optimal Dutch disease. *J. Dev. Econ.* 78, 494–515. <https://doi.org/10.1016/j.jdeveco.2004.09.003>
- Mayer, J., 2010. The financialization of commodity markets and commodity price volatility, in: Dullien, Sebastian, Priewe, J., Márquez, A. (Eds.), *UNCTAD the Financial and Economic Crisis Of*. pp. 73–98.

- Mehlum, H., Moene, K., Torvik, R., 2006. Institutions and the Resource Curse*. *Econ. J.* 116, 1–20. <https://doi.org/10.1111/j.1468-0297.2006.01045.x>
- Muñoz, R.E., 2006. Ciclos político económicos: teoría y evidencia empírica. *Rev. Temas Coyunt.*
- Nieto Parra, S., Santiso, J., 2009. Revisiting Political Budget Cycles in Latin America (SSRN Scholarly Paper No. ID 1456845). Social Science Research Network, Rochester, NY.
- Nieto-Parra, S., Santiso, J., 2012. Revisiting Political Budget Cycles in Latin America. *Oxf. Handb. Lat. Am. Polit. Econ.* <https://doi.org/10.1093/oxfordhb/9780199747504.013.0021>
- Niño, L., 2017. 2017 para Venezuela: un año de protestas sociales, polarización política y crisis económica. *Fr.* 24.
- Nordhaus, W.D., 1975. The political business cycle. *Rev. Econ. Stud.* 42, 169–190.
- Palma, P.A., 1985. 1974-1983: una década de contrastes en la economía venezolana. *Academia Nacional de Ciencias Económicas.*
- Parsons, J.E., 2010. Black Gold and Fool's Gold: Speculation in the Oil Futures Market [with Comment]. *Economía* 10, 81–116.
- Robinson, J.A., Torvik, R., Verdier, T., 2006. Political foundations of the resource curse. *J. Dev. Econ., Special Issue in honor of Pranab Bardhan* 79, 447–468. <https://doi.org/10.1016/j.jdeveco.2006.01.008>
- Rodríguez, J.A., 2006. ¿Responden el gasto e inversión públicas a ciclos económicos y políticos? *Latinwatch.*
- Sachs, J.D., Warner, A.M., 2001. The curse of natural resources. *Eur. Econ. Rev.* 45, 827–838. [https://doi.org/10.1016/S0014-2921\(01\)00125-8](https://doi.org/10.1016/S0014-2921(01)00125-8)
- Shi, S., Arora, V., 2012. An application of models of speculative behaviour to oil prices. *Econ. Lett.* 115, 469–472. <https://doi.org/10.1016/j.econlet.2011.12.126>
- Simoes, A., Hidalgo, C.A., 2011. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development.
- Sovereign Wealth Fund Institute, 2018a. FEM - Macroeconomic Stabilization Fund [WWW Document]. URL <https://www.swfinstitute.org/swfs/fem/> (accessed 8.20.18).
- Sovereign Wealth Fund Institute, 2018b. Sovereign Wealth Fund Rankings [WWW Document]. URL <https://www.swfinstitute.org/sovereign-wealth-fund-rankings/> (accessed 8.20.18).
- Tavares Duarte, F. del V., Soto Hernández, M.E., Chirinos Portillo, L.M., 2008. Elemento material de los decretos con fuerza de ley propiamente dichos en la constitución de la República Bolivariana de Venezuela de 1999. *Rev. Derecho* 23–54.
- Tornell, A., Lane, P.R., 1999. The voracity effect. *Am. Econ. Rev.* 89, 22–46.
- Trinkunas, H.A., 2000. Crafting civilian control in emerging democracies: Argentina and Venezuela. *J. Interam. Stud. World Aff.* 42, 77–109.

- U.S. Bureau of Economic Analysis, 2018. Gross Domestic Product: Implicit Price Deflator [GDPDEF] [WWW Document]. URL <https://fred.stlouisfed.org/series/GDPDEF> (accessed 8.30.18).
- van Wijnbergen, S., 1984. The “Dutch Disease”: A Disease After All? *Econ. J.* 94, 41–55.
- Vera, L., 2015. Venezuela 1999–2014: Macro-Policy, Oil Governance and Economic Performance. *Comp. Econ. Stud.* 57, 539–568.
- Vergne, C., 2009. Democracy, elections and allocation of public expenditures in developing countries. *Eur. J. Polit. Econ.* 25, 63–77. <https://doi.org/10.1016/j.ejpoleco.2008.09.003>
- World Bank, 2018a. World Development Indicators.
- World Bank, 2018b. World Bank Commodity Price Data (The Pink Sheet).

Appendix

Table 3. Average current expenditure as a share of total government expenditure (%) during 1999–2014

	Electoral year	Non-electoral year
All years	80.48	79.35
Years with oil-price bubbles	79.33	77.94
Years without oil-price bubbles	81.24	81.04

Source: own calculations based on data from the Economic Commission for Latin America and the Caribbean (2016) and Figure 2.