

Democratization



Year 7, Issue 36

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Models

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Reflecting on Political and Economic Models

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1. Introduction

We live in an age full of paradoxes. One of the most striking lies in the fact that, while we face complex problems whose solutions are primarily political, the quality of public debate is alarmingly low. In this context, we must make an effort, among other things, to sketch three images, even if only in broad strokes: that of the society we currently inhabit, the one we could become, and the one we wish to be a part of. This task is essential to revitalize politics in a time when freedom, peace, and well-being are at stake. In an effort to contribute to this undertaking, through this article I would like to offer, in a very schematic way, four economic and political models that I consider useful as analytical tools.

First and foremost, it is important to highlight that a model is a theoretical construct that helps us identify the most relevant causal mechanisms present in the portion of reality we are trying to understand. We can think of a model as a script that allows us to tell a plausible and comprehensible story about the object of our study. However, we must be cautious not to confuse the theoretical representation with reality itself. A model should always be used carefully and not applied mechanically to the analysis of real facts and processes, avoiding any attempt to force them to fit the model.

In this essay, I present four models derived from considering two fundamental pairs of categories for analyzing political and economic reality. On one hand, we have the dichotomy between *autocracy* and *democracy*; on the other, the tension between *market processes* and *interventionism*. While the meanings of these notions can certainly be debated, for the purposes of this text, it is sufficient to adopt their most general usage: in the first case, referring to the degree of concentration of political power, and in the second, to the extent of freedom in the economic sphere. The intersection of these categories generates four domains of possibility, within which I outline the following models: *patrimonialist autocratic*, *market autocratic*, *interventionist democratic*, and *popular liberal*. The following graph summarizes this theoretical proposal.

Four political and economic models		
	AUTOCRACY	DEMOCRACY
INTERVENTIONISM	PATRIMONIALIST AUTOCRATIC	INTERVENTIONIST DEMOCRATIC
MARKET PROCESSES	MARKET AUTOCRATIC	POPULAR LIBERAL

Each of these models has its own internal logic, which is expressed through structures that encourage or discourage certain behaviors and through specific causal mechanisms. While they are not, of course, the only possible models, I believe they are particularly useful for understanding our current reality, identifying our future possibilities, and strategically guiding our political action.

2. The patrimonialist autocratic model

This model is based on the seizure of state power by an ambitious and determined minority. Such a capture can occur in various ways, though in contemporary times, the rise of populist phenomena is particularly relevant. The populist leader comes to power through elections, capitalizing on a crisis of political representation, and then works to centralize power in himself and the groups that support him. Among these groups, a significant role is played by segments of the armed forces and the police, since an authoritarian regime –which, though it may not admit it openly, denies the possibility of alternation in power– must be prepared to confront any adversary, even peaceful and democratic ones, potentially through the use of force.

Under these circumstances, the minority in power can administer state resources and instruments at its own discretion. In the statist and socialist version of the model, it seeks to subordinate the economic system to government plans and controls. This takes shape through extensive interventionist legislation, which creates opportunities for corruption and privilege, while also producing various distortions in market processes. For those who hold power, the line between state property and personal income tends to blur –hence the term patrimonialist. This process of appropriation, backed by the state, can even extend to private assets through a perversion of the concept of expropriation, which effectively becomes a form of plunder..

We are thus dealing with an autocratic sector –both civilian and military– that carries out a process of primitive capital accumulation and gradually transforms into a new privileged social class. Despite this, the regime, if it seeks to preserve a degree

of legitimacy, cannot remain entirely indifferent to the support or rejection of various social sectors, especially among the popular classes. It must therefore rely on clientelist mechanisms, which, if necessary, can be turned into instruments of coercion to ensure obedience.

The model's inherent weakness lies in two fundamental aspects. First, there is the insatiable ambition of the dominant minority and of the *enchufados* —those well-connected to the regime— who take advantage of the opportunities created by state interventionism. Second, there is the destruction of incentives for entrepreneurship and wealth creation. This manifests primarily in a chronic fiscal deficit, resulting from increased public spending (driven by a statist economic vision and rampant corruption) and low tax revenues (reflecting a weak and unproductive economy). Debt accumulation and monetary financing —which translates into the corrosive inflation tax— are options available to the regime, though they are not sustainable over time. Ultimately, this model inexorably tends to produce rising prices, shortages, unemployment, and impoverishment, provoking growing frustration and social discontent.

The regime's response to this economic and social decline will be, in accordance with its nature, repression and its progressive transformation into a police apparatus. This, in turn, will signify the definitive loss of its legitimacy. The plundering of public coffers, so to speak, will become inevitable, driving some form of purge and unleashing distributive conflicts, distrust, and defections within the patrimonialist minority. This minority —or a faction of it— transformed into a corrupt and ostentatious oligarchy, may continue to exert its dominance for some time over a decimated, impoverished, and scattered population. However,

the model is almost inevitably destined to collapse by its own logic, and its transformation into another model, such as the market autocratic, is foreseeable —especially since this will be the most convenient option for part of the dominant minority..

3. The market autocratic model

This model combines the authoritarian exercise of state power by a dominant minority with a market economy based on private property. The primary source of wealth for those in power does not come from the appropriation of public resources, but rather from their participation in business activities under favorable conditions that they themselves can secure. This is especially true if that minority, both in its civilian and military components, possesses capital accumulated, for example, within the framework of a prior patrimonialist dynamic. In this regard, one possibility is that a rigged process of privatizing state-owned enterprises can serve as a means for the powerful minority and their associates to conveniently insert themselves into the business sphere.

Although in this model the market process tends to be free, the autocratic nature of the regime facilitates the implementation of interventionist policies favoring certain influential sectors —such as protectionist measures against foreign competition. Since this is an autocracy, the rule of law does not fully exist, and discretion in the exercise of power is omnipresent. Therefore, private investors are usually part of the dominant minority or, at best, must not be perceived by it as a threat to its power. Nevertheless, this does not eliminate the risk of arbitrary actions that violate property rights. The autocratic minority can always appropriate the assets of others, especially if its prospects of remaining in power are threatened or shortened.

In any case, if that minority decides to refrain from plundering public finances or limits such plundering, the market autocratic model could offer some fiscal and macroeconomic stability. Furthermore, thanks to the presence of a more or less active business dynamic, the economy could experience growth, generating jobs and generally improving living conditions. However, the subordination of business activity to the autocratic minority acts as an obstacle that will restrict the entry of investors and, consequently, limit growth.

The stability of the model faces various political challenges. The absence of democratic rules makes the succession of the ruling leader a delicate issue that can trigger conflicts within the autocratic elite. Additionally, international trade and financial relations with democratic countries may be negatively affected. Possible demands for democratization from a more prosperous and dynamic society could also put pressure on the regime, generating political difficulties with economic and social consequences. Ultimately, the model is unstable due to the inherent contradiction between economic freedom and political domination.

4. The interventionist democratic model

This model starts from the premise that democracy is the best way to solve collective problems, especially the question of who should govern. In this political regime, those aspiring to exercise public representation compete for the electoral support of the majority and often need the backing of economically and socially powerful groups to succeed.

In this case, property rights are respected, though not absolutely. Property is assigned an imprecise social function,

which can manifest in various regulations limiting its use, usufruct, and disposal. Moreover, although the market dynamic is assumed necessary to ensure the functioning of a modern economy, it is also recognized as generating various problems that require state intervention. One of these problems is inequality, which justifies the redistributive emphasis of public policies and the characteristic fiscal structure of this model.

In theory, this model could generate a “virtuous cycle” of economic growth: increased public spending, higher income, greater consumption capacity, creation of business opportunities, increased private investment, growth in production, expansion of employment sources, higher tax revenue, and a renewed expansion of public spending. However, this expansion dynamic, largely driven by public expenditure, has its limits.

The competition among political actors, and their willingness to intervene actively in the economic process, combined with the demands for state support from various groups and sectors, results in an increasingly dense and complex web of laws, regulations, and policies. The image of a state with countless “power outlets” that enables the proliferation of “*enchufe*” practices aptly illustrates this point. This proliferation of interventions progressively hinders genuine entrepreneurial activity, which becomes less attractive compared to the alternative of rent-seeking through access to centers of state decision-making. As a result, public spending and state intervention continue to expand—not only for reasons of economic and social strategy, but also as an expression of a state captured by interest groups and sectors, including a vast bureaucracy.

The state thus faces an increasingly severe financing problem, and the fiscal deficit becomes structural. Although borrowing may provide the government with some room to maneuver, sooner or later an adjustment will be required, one that entails reducing public spending and increasing the tax burden on economic activity. This, in turn, will discourage private investment and generate discontent across various sectors. One option for raising revenue would be monetary issuance, but the resulting inflation would have harmful distributive effects, impoverishing broad segments of the population. Fiscal adjustments will also affect different sectors unevenly, and ultimately, the state will become a source of inequality.

Social expectations regarding the state's ability to guarantee well-being will thus come into question, and the legitimacy of political actors, and of the democratic system itself, will be eroded. This could pave the way for a populist phenomenon of one kind or another. The breakdown of the model, at least in terms of its democratic character, will become highly likely.

5. The popular liberal model

The popular liberal model regards freedom as the foundation of the social order. Consequently, it sets limits on power in all its forms. First, although the state must be strong, it must also be limited in scope and in the management of public resources. Its primary goal should be to guarantee a framework of justice in which respect for liberty and property rights is fundamental. Second, public representatives must be elected democratically and subject to effective systems of transparent management and accountability. And third, business activity must be free and not subject to arbitrary state intervention, though it must still follow

rules that prevent monopolistic practices and protect the rights of users and consumers.

In this model, solidarity is also an essential value. It is expressed primarily through a subsidiary social policy focused on developing individual capabilities. This enables people to take responsibility for their freely chosen life projects. In this way, harmony is achieved between a framework of justice that respects human dignity and an economic dynamic based on competition and innovation.

For this model to function, it is crucial to focus less on wealth redistribution and more on increasing productivity. Only an economy that grows sustainably through rising productivity can guarantee the expansion of income (both profits and wages) and the tax revenue needed to fund an enabling –but not interventionist– state.

The existence of a limited –though not minimal– state implies disciplined management of public finances and monetary policy. Limits on public spending and debt, along with central bank independence, are essential components of this model. Equally crucial is preventing interest groups and political actors from shaping laws and public policies for their own benefit, thereby harming the common good. In this regard, political competition within the framework of a limited state makes it harder for political power to become concentrated, which in turn hinders its use by economic actors to avoid competition by securing privileges. Furthermore, one could argue that competition, by obstructing the concentration of economic power, reduces the risk of disproportionate influence by interest groups in the political

process. Ultimately, all of this helps preserve both economic stability and the fairness of institutions.

This model also emphasizes that the mere existence of formal institutions does not guarantee the sustainability of a liberal and democratic order. Its viability ultimately depends on popular support. This involves three key elements: liberal values and practices deeply rooted in a significant portion of the citizenry; civil initiatives independent of the state and aimed at addressing collective problems in a spirit of solidarity; and a citizenry willing to mobilize in defense of justice. It is important to note that the “people” referred to in this model is not a mass of undifferentiated, atomized individuals, but rather a political people: a plurality of citizens aware of their condition as a political and historical community, willing to unite in defense of a shared conception of justice. To be clear, this is not merely a matter of public morality, since a just institutional order is, in fact, an indispensable framework for the progress of most people, considered individually.

The main weakness of this model lies in the fact that it is easier for small groups to solve their collective action problems in order to satisfy their particular interests than it is for broad sectors of the citizenry to defend the general interest. Although certain historical junctures, such as the fall of a tyranny, may present opportunities for the emergence of the people in the sense previously described, the challenge lies in ensuring that this people mobilizes whenever liberty and justice are under threat. In this context, it is almost unnecessary to underscore the importance of having leaders genuinely committed to the creation of a liberal order grounded in popular support.

6. Additional comments

These are the four political and economic models that I have briefly outlined here for reflection. However, we could imagine other approaches. For example, hybrid models that result from combining aspects of two or more of the models discussed above. We could also examine more complex models that incorporate dimensions not addressed here, such as culture, wealth distribution, or territorial dynamics. Another interesting line of inquiry would be to outline the mechanisms by which one model might evolve into another. Nevertheless, in this essay, I have limited myself to presenting the four aforementioned models, treating them as theoretical tools rather than descriptions of any specific reality.

I want to emphasize that, in the social and historical sciences, the true intellectual challenge lies in understanding reality, not in validating theoretical models. We should not seek to identify the one model to which a particular reality would neatly correspond. Instead, we must assess which model—or combination of models—allows us to construct a reasonable narrative about the circumstances we are studying, while keeping in mind that none of those models may be entirely satisfactory. Theoretical models are, I insist, tools for understanding reality. They are both necessary and insufficient, as we cannot engage with the infinite complexity of reality without relying on the simplifications that models provide.

In any case, it does not take great insight to recognize the usefulness of each of the models outlined above in interpreting particular periods of Venezuela's contemporary historical trajectory. For instance, the patrimonial autocratic model helps us

broadly understand the order that emerged with the Chavista-Madurista revolution. Similarly, the market autocratic model outlines a potential path for that revolution, one that certain political and business actors may have attempted to pursue, albeit without success thus far. These two models, then, help illuminate some of the contradictions within the ruling regime.

On the other hand, the interventionist democratic model not only helps us understand the pre-Chavista reality, but also what could emerge once the current autocratic regime comes to an end. The popular liberal model, for its part, outlines the functioning of a political and economic order that has become conceivable after the destructive years of socialist revolution. For now, it prefigures a desirable reality and serves as a reference point for transformative political action. The differences and points of convergence between this model and the interventionist democratic model will, I hope, become a central topic in the public debate that will be reborn with our democracy.

However, the analysis of Venezuelan reality and the possibilities it contains, considered through the lens of the models presented, remains a subject for another essay.

From Soldiers to Drug Lords: Drug Trafficking as an Enemy of Democracy in Latin America

Democratization

*"The drug trafficking phenomenon
is one of the most terrifying threats
to freedom and justice in the world."*

Luis Carlos Galán Sarmiento

On April 30, 1984, the Republic of Colombia received news that would mark a turning point in its political system and spark a social transformation across the country and the entire continent.

That night, history was split in two: the Minister of the Interior was assassinated¹ on the orders of a drug cartel, marking the beginning of a new phenomenon in society —the war between drug cartels and the State.²

1 Jimmy Nomesqui Rivera, "La muerte de Rodrigo Lara, 40 años del magnicidio por el que comenzó la guerra contra el narcotráfico en Colombia", *Infobae*, April 30, 2024, <https://www.infobae.com/colombia/2024/04/30/la-muerte-de-rodrigo-lara-40-anos-del-magnicidio-por-el-que-comenzo-la-guerra-contra-el-narcotrafico-en-colombia/>

2 "Guerra contra el Estado: extradición y sometimiento de los narcos, Relato histórico del conflicto armado interno en Colombia", Comisión de

For the first time in Latin American history, the war was not between regular armies or guerrilla groups. Criminal organizations had decided to challenge the State with the sole purpose of bringing it to its knees and establishing a narcocracy in the country. Their method was *plata o plomo*, a phrase attributed to Pablo Escobar, meaning “take the bribe or take the bullet.” Corruption was used as a tool of coercion to infiltrate every institution of the State and subordinate them to the power of the cartels. Alongside violence, fear was used to break the will of anyone who, for ethical or moral reasons, refused to accept the criminals’ bribes.

This created an atmosphere of corruption and violence that spread throughout Latin America. The political, economic, and social conditions of our continent provided the perfect breeding ground for drug trafficking to establish itself as a new path to economic and social advancement. Over the years, this phenomenon has evolved, and drug cartels have transformed from mere financiers operating within the political system into a new political elite that makes decisions about the course of the countries where they hold influence.

For years, we have witnessed democracy lose ground across the world, just as the most longed-for “end of history” predicted by Francis Fukuyama,³ appeared to come true: with the end of the Cold War and the defeat of communism, a global wave of democratization would follow. Liberal democracy would thus

la verdad, <https://www.comisiondelaverdad.co/guerra-contra-el-estado-extradicion-y-sometimiento-de-los-narcos>

3 Francis Fukuyama, *El Fin de la Historia y el Último Hombre: La Interpretación más Audaz y Brillante de la Historia Presente y Futura de la Humanidad*, Editorial Planeta, Barcelona, 1993.

become the dominant model worldwide. This led to excessive confidence among political and economic elites and, consequently, to a systematic erosion of democracy as the most desirable form of government for 21st-century citizens. Political organizations turned into mere electoral machines: they stopped responding to citizens' demands and, with the arrival of a more globalized world, political discourse became trivialized, replacing ideas with votes and real political work with likes on social media.

All of this has generated a wave of autocracies that differ markedly from the old 20th-century dictatorships, both in Latin America and Europe. These regimes present a democratic façade, showcasing the ability to hold elections, allowing for the existence of opposition political organizations, and maintaining certain limited freedoms, such as freedom of expression. In this way, they build a democratic veneer within which autocracies are actually consolidated: through the systematic erosion of institutions, they pervert the system, giving rise to a perfect dictatorship –far more sophisticated and, in some cases, enjoying high levels of public approval. This approval is often fueled by deliberate polarization through a “good vs. evil” narrative, rooted in Carl Schmitt’s “friend and enemy” theory:⁴ the idea that “if you’re not with me, you’re an enemy of the nation,” rather than merely a political adversary, as would be expected in a normal democracy.

In this context, we have witnessed the rise of two major phenomena that are impacting the Western world: terrorism and drug trafficking. Each operates from the shadows, infiltrating

4 María Concepción Delgado Parra, “El criterio amigo-enemigo en Carl Schmitt. El concepto de lo político como una noción ubicua y desterritorializada”, *Cuaderno de Materiales*, Revista de Filosofía, N° 23, 2011, <https://www.filosofia.net/materiales/pdf23/CDM11.pdf>

Western societies through seemingly insignificant avenues: culture, education, and social media. At the same time, and in even more aggravated fashion, they exploit systemic failures such as the corruption of governing elites, severe inequality, poverty, economic crises, and institutional breakdown. Corruption has become systemic, especially within the judicial and security branches, where low salaries and lack of proper training have led law enforcement bodies to become the institutions most distrusted by society.

According to *Latinobarómetro*,⁵ the countries with the highest levels of public trust in the police in 2023 were Chile, Uruguay, and Colombia. On the other hand, nations such as Mexico, El Salvador, and Venezuela —countries where the rule of law is absent, considered by some experts to be failed states, and where only Mexico can still be classified as a democracy, albeit one plagued by high levels of corruption, inequality, and abuse of power— were marked by low public confidence in their police forces.

In a continent where most countries have weak states and political systems riddled with corruption, criminal organizations see an opportunity to penetrate the State in order to serve their own interests. Paola Bautista de Alemán, a Venezuelan politician and academic, offers an insightful analysis of how these organizations have consolidated and weaken democracy. While in the 20th century the war among cartels, or between cartels and the State, was the arena in which they operated, in the 21st century, this phenomenon has evolved. The political crisis has

5 Juan Manuel Caicedo, “Autoridad y privilegio: confianza en la policía en Latinoamérica”, *Revistas Uniandes*, April 1, 2022, No. 110, <https://revistas.uniandes.edu.co/index.php/colombia-int/article/view/2983/1763>

led many Latin American states down the path toward becoming failed states.⁶

In this analysis, we can see how the absence of the State becomes the perfect breeding ground for the consolidation of criminal organizations. A State that is unable to guarantee control and security over its own territory, where levels of inequality are rising, administrative corruption is growing significantly, and the mechanisms of popular election are weakening, ultimately paves the way for criminal organizations to usurp its role.

A clear example of this is the loss of territory by the Colombian state in the 1990s.⁷ The vast majority of land transport routes, roads and highways, were taken over by various fronts of the narco-terrorist organization FARC-EP. The so-called *pescas milagrosas*,⁸ or massive kidnappings, demonstrate how these organizations are capable of seizing significant geographic areas through violence. However, the advance of these criminal groups is not limited to territorial control.

The main strategy of these criminal groups in the 21st century has been to penetrate State institutions. Threats and bribes are no longer the only means used to control a few officials willing to turn a blind eye to their crimes. These organizations have evolved

6 Rodrigo Castellanos, “¿Qué es un Estado fallido?”, *El Orden Mundial*, November 17, 2020, <https://elordenmundial.com/que-es-estado-fallido/>

7 Luís Javier Orjuela Escobar, “El Estado Colombiano en los Noventa: Entre la Legitimidad y la Eficiencia”, *Revistas Uniandes*, <https://revistas.uniandes.edu.co/index.php/res/article/download/5060/4868/23173>

8 Javier Alexander Macías, “«Pescas milagrosas»: así funcionó la estrategia que financió a las Farc”, *El Colombiano*, May 8, 2021, <https://www.elcolombiano.com/colombia/paz-y-derechos-humanos/asi-funcionaban-las-pescas-milagrosas-de-las-farc-FE15007534>

to the point of infiltrating entire institutions and, little by little, have been transforming these failed states into what Bautista has called “Gangster States”.⁹ The goal of these organizations is not only to profit from criminal activity, but to gain greater control over political power in order to make their business more lucrative and ultimately seize total control of the State.

This new form of political power, where violence, corruption, and social control enable the consolidation of criminals in positions of authority, can be observed across several Latin American countries, with the most notable cases being Mexico, Colombia, and Venezuela. In northern Mexico, we see how cartels exercise full control over municipalities. A clear example is when security forces capture a drug lord, only for that cartel’s militias to launch such a massive revolt that the State is forced to release the captured boss.¹⁰ Likewise, in some border municipalities of Colombia and Venezuela, the national currencies have lost all value. In certain local shops, such as small grocery stores, transactions are carried out using contraband goods, including drugs, gold, gasoline, and diesel fuel.¹¹ Moreover, the mayors either have no real authority or those who are elected have been appointed by the will of these

9 Paola Bautista de Alemán, “Tres rasgos del Estado gangsteril en Venezuela”, *Forma*, July 28, 2023, <https://red-forma.com/edicion-2/tres-rasgos-del-estado-gangsteril-en-venezuela-paola-bautista-de-aleman/>

10 Abdiel Sepúlveda, “Ovidio Guzmán: La captura y liberación del hijo de «El Chapo», raíz del primer Culiacanazo”, *El Universal*, August 30, 2024, <https://www.eluniversal.com.mx/tendencias/ovidio-guzman-la-captura-y-liberacion-del-hijo-de-el-chapo-raiz-del-primer-culiacanazo/>

11 Daniel Pardo, “Qué hay detrás del insólito auge de estaciones de gasolina en Cúcuta, la ciudad colombiana fronteriza con Venezuela”, *BBC Mundo*, November 7, 2022, <https://www.bbc.com/mundo/noticias-america-latina-63323077>

irregular groups, forcing the population to vote for the candidates designated by the organization.

But how are such levels of obedience achieved within these communities? The truth is that violence plays a significant role, but it is not the decisive factor. The absence of the State creates needs in the population that the money from these organizations fills, thereby earning loyalty and legitimacy.

Since 2016, the Venezuelan state has been criminally exploiting the natural resources of the southern Bolívar State. This has resulted in the infamous Orinoco Mining Arc,¹² comprising legal and illegal mines where gold, diamonds, and coltan are primarily extracted. In many of these locations, the absence of public services is total, paving the way for criminal gangs to take control of the area and act as authorities: they repair roads, aqueducts, and electrical installations, provide security and cleanliness in public spaces, and, broadly speaking, ensure the traditional order that one expects in their community.

This rather twisted criminal system operates on two pillars: payment for these *de facto* services and absolute loyalty in the face of any external threat. In the first case, each resident must pay what is called a “vacuna,” an extortion fee that, if not paid monthly, results in punishment, sometimes even death. This replacement of traditional political power, for example, a mayor, creates a dependency of the inhabitants on the criminals. Thus, when the State becomes inconvenient for these organizations and decides to act against them, residents often play roles as

12 Ramón Cardozo Álvarez, “El Arco Minero venezolano: una política depredadora”, *DW*, May 25, 2022, <https://www.dw.com/es/el-arco-minero-venezolano-una-pol%C3%ADtica-depredadora/a-61934013>

informants or collaborators, or family members end up working for the criminal organizations. They come to see the State or its security forces as those disrupting the established order. All of this leads to the complete loss of that territory from the monopoly of legitimate violence, turning it into an operational theater for criminal benefit.

This cycle multiplies across many more areas, and in some cases, it is the criminals themselves who decide to become active participants in political life, either through economic influence or direct involvement in public affairs. Gradually, drug lords gain increasing influence: they control media outlets, large retail chains of clothing, appliances, supermarkets, shopping centers, restaurants, and sports teams. The public knows where this wealth comes from but prefers to remain silent or turn a blind eye. The State itself fosters the growth of these major drug lords because, through these underground economies,¹³ they can finance electoral campaigns and contribute to illicit enrichment for their personal coffers. In sanctioned countries, they also use money laundering to evade sanctions on government officials. Slowly but surely, we see their growing influence spreading across the different branches of power.

In countries with democratic regimes, the process is gradual and slow, and it can even take many years. It begins within the executive branch at the third level: in municipalities, where either council members are bought off or like-minded individuals are elected to increase influence. Then it escalates to controlling mayoralties and, in some cases, governorships. At this point,

13 Marc Fortuño, "La economía sumergida y su papel en el mundo", *World Economic Forum*, December 1, 2019, <https://es.weforum.org/stories/2019/12/la-economia-sumergida-y-su-papel-en-el-mundo/>

they control significant territorial areas, establishing routes and drug labs that are, in most cases, protected by the State's security forces. Next comes the second phase: penetrating the legislative and judicial branches, to enact favorable laws, obtaining rulings that absolve them of crimes, or securing amnesties, always accompanied by large doses of corruption and violence. Cartels compete over who can gain the most political control, and the State sides with the cartel that helps it assert greater political and social dominance over the population. In the worst –and most common– scenario today, the cartel with the most support is the one with the highest number of members embedded in institutions, granting these cartels an unprecedented level of power.

There is a third source of growth for these cartels: when members of state institutions themselves found a cartel from within the organization, leading to the normalization of criminality inside the very bodies that should serve as examples for the citizenry. These drug cartels –operating under a veneer of legality and legitimacy– use the institutions to facilitate the acquisition of illicit profits, thereby normalizing their wealth and gaining even greater economic and political power.

Given the circumstances of the institutions and their top-down organizational structure, the elites corrupt all their members from the top down, creating institutional corruption that is not new to Latin American systems, but which –for the first time– does not originate from outside, but from within the institution itself. The political, economic, and business elites are the first to become corrupted, spreading the disease into every corner of society. As a result, anthropological damage gradually deepens, and a person's value is no longer determined by their belief system or moral values, but by the weight of their economic or social position.

This is how drug trafficking and its corrupt networks have achieved what Rubén Blades described in the late 1970s in his song *Plástico* —a portrayal of our societies as hollowed out, filled only with false social status, money, and performative appearances, where injustice no longer matters: “*mientras la política no afecte mi bolsillo, no me debería importar*”, (“as long as politics doesn't affect my wallet, I shouldn't care”). At the same time, the very institutions tasked with confronting and combating the narco are nothing more than the mask worn by these new cartels.

The era of the great drug cartels —like Medellín, Cali, Norte del Valle, or Sinaloa— is long gone. While some old-school cartels still exist, much like those portrayed in television series, the reality is that criminal structures have evolved. Today, they prefer to maintain a much lower profile, one that goes completely unnoticed within the very institutions of the State —particularly those tied to public order and territorial defense. These institutions are first corrupted, then become active participants in the distribution of drugs and weapons, where the legitimacy conferred by the State allows them to exert absolute control over large spaces of territory, transportation routes such as highways, airstrips, ports, and even penitentiary centers. The countries where these phenomena have taken the strongest hold are Ecuador,¹⁴ México,¹⁵ Venezuela and

14 “4 gráficos que muestran la extensión y el impacto de las principales bandas criminales en Ecuador”, BBC News Mundo, January 16, 2024, <https://www.bbc.com/mundo/articles/cw0llyjqllro>

15 “Homicidios asociados al narco han aumentado 300%, según el Índice de Paz México”, Infobae, June 1, 2023, <https://www.infobae.com/mexico/2023/06/01/homicidios-asociados-al-narco-han-aumentado-300-segun-el-indice-de-paz-mexico/>

Colombia,¹⁶ while in countries like Argentina¹⁷ and Chile the trend has begun to emerge to a lesser extent.

Given the elements outlined above, drug trafficking can be defined as an octopus whose tentacles reach into every sector of society, especially the political and economic spheres —with the co-optation of the elites as a fundamental factor in the systematic destruction of society and all existing order. A nation with strong institutions and an active, conscious citizenry is less likely to be bought by the narco's tentacles, offering greater resistance because its policies are more effective in combating corruption, violence, and drug trafficking.

It is no secret that the republican history of Latin America has been marked by great political instability, trapped in a limbo between military-style autocracies and fragile democracies, plagued by high levels of corruption and elites disconnected from the population.

In that context, the military forces were a fundamental factor in legitimizing governments through armed force, or overthrowing them. The military were not institutional figures, but rather active political actors with significant influence who, for ideological reasons, removed and installed rulers, becoming

16 Valentina Parada Lugo, "Colombia bate su récord de cultivos de coca por tercer año consecutivo, con 253.000 hectáreas en 2023", *El País*, October 18, 2024, <https://elpais.com/america-colombia/2024-10-18/colombia-bate-su-record-de-cultivos-de-coca-por-tercer-ano-consecutivo-con-25300-hectareas-en-2023.html>

17 "Cómo la violencia convirtió a Rosario en «una anomalía narco» en Argentina y la polémica que causa la propuesta de enviar al ejército que analiza Milei", *BBC News Mundo*, March 14, 2022, <https://www.bbc.com/mundo/articles/cy6zd2gv734o>

the most blatant enemies of the democratic system. Examples of this include the dictatorships¹⁸ of Videla in Argentina, Stroessner in Paraguay, Pinochet in Chile, and Somoza in Nicaragua, among the most notorious –along with Uruguay, Brazil, Bolivia, Ecuador, Colombia, and Venezuela, countries that also experienced military dictatorships.¹⁹

The method of operation was similar across all countries, with minor variations, but through a coup d'état the military seized power, subjugating all political dissent through state terrorism and imposing a dictatorial regime devoid of any freedoms, marked by grave human rights violations. All of this was done under the pretext of restoring internal order, allowing them to remain in power for extended periods.

These were undoubtedly the main enemies of Latin American democracies. Over time, everything changed, and authoritarianism began to feed on other means to attain power: no longer are coups d'état or military uprisings the mechanisms used to overthrow the democratic system. Today, populism and corruption serve as tools to dismantle institutions, and through the gutter's crack of immorality, drug trafficking has crept in –not only as a mechanism to seize power but also to remain in it, with the backing of far-left governments belonging to the São Paulo Forum or the Puebla Group, which view drug trafficking as an ideological tool for the destruction of their greatest enemy, the

18 "Dictaduras en América Latina", La Vanguardia, June 4, 2021, <https://www.lavanguardia.com/vida/junior-report/20200304/473796480155/dictaduras-america-latina.html>

19 Álvaro Merino, "Las dictaduras en América Latina desde 1945", *El Orden Mundial*, November 17, 2019, <https://elordenmundial.com/mapas-y-graficos/dictaduras-en-america-latina/>

United States, and for securing definitive power in their respective countries.

What began as a modest pact to finance and facilitate operations in the territories has evolved into an inseparable union, where the distinction between drug traffickers and State representatives has all but disappeared. The countries have, in effect, become a kind of abstract cartel in which criminality and institutions seem blend together.

This undoubtedly gives us a shift in perspective regarding the fight against drug trafficking and democracy. For many years, it was believed that it was easier to eliminate drug trafficking through authoritarian regimes —with no respect for human rights, no solid rule of law, security forces operating without oversight, and lacking any training in due process.

For many security experts, it was easier to succeed under authoritarian regimes than in democracies, but the reality is that authoritarianism —due to the lack of any checks and balances among institutions— generates more corruption than democracy itself. There is no such thing as what Giovanni Sartori would define as “Demo-Control,” which is nothing other than institutions limiting the “Demo-Power”²⁰ of other institutions. Everything becomes shady regarding the audits that state organizations should undergo, and gradually their members enjoy total impunity, which facilitates that, in order to maintain power, anything goes and drug trafficking money becomes highly attractive.

20 “Transparencia y regimen democratico”, Cap. II, <https://archivos.juridicas.unam.mx/www/bjv/libros/5/2418/5.pdf>

The operational model of the cartels is transplanted into institutions, where a hierarchy prevails, loyalty outweighs merit, and anyone who opposes becomes an enemy, thus representing a risk to the system and must therefore be eliminated. These practices, within a democracy, are met with widespread rejection because there are mechanisms to counteract such corruption, and society unites in total repudiation of these phenomena. However, in authoritarianism, there are no voices raised against the system; the few that do rise are silenced, and the public sphere disappears because fear controls all layers of society —especially the poorest—where police abuse is constant, and dignity and conscience are punished by criminal gangs that exploit the absence of progress and development generated by the political system itself. Thus, they propagate the idea that the only way to advance is through corruption and criminality in their various forms.

In conclusion, it is essential that everyone engaged in the practice of politics assumes the commitment to recognize narcotrafficking as a real adversary, one that is dismantling democracy and establishing itself as a new way of doing politics. Where —through money and connections— seats in legislatures, party positions, and influencers are bought to launder their image. Where the goal is not merely to gain power to strengthen their businesses, but to dismantle the democratic system to consolidate the political model of 21st-century socialism: sheer authoritarianism. Where, under an ideological pretext, they seek to eliminate democracy across the continent, consolidating a single thought without dissent, full of superficial societies devoid of belonging, stripped of values or morality.

The best remedy for this phenomenon is none other than freedom. There can be no progress or development in Latin

America without freedom and democracy. There is no other model capable of defeating narcotrafficking than a strong society, with well-established and educated political parties that understand accepting narcotrafficking is nothing more than voluntarily ingesting poison for their own self-destruction. A model in which business elites comprehend that laundering narco money is the fertile ground for the demise of financial freedoms and the rise of common crimes such as extortion, kidnapping, and contract killing. Also, a citizenry that is educated and determined to reject corruption at every level, from the highest spheres to the lowest, where bribery is socially condemned, and the State is compelled to act decisively against corruption through its officials.

The recipe against narcotrafficking is nothing other than the democratic values we already know and are familiar with: freedom, transparency, honesty, business ethics, institutional strength, and respect for the rule of law. Something we often take for granted, freedom of expression, is fundamental in this fight, as it constitutes one of the pillars to overcome the authoritarianism driven by narcotrafficking: courageous journalists, training institutes, media outlets, non-governmental organizations dedicated to promoting state transparency and respect for the rule of law, as well as organizations committed to combating the normalization of violence and restoring the social fabric, especially in territories affected by the violence generated by narcotrafficking.

It is an irrevocable duty to provide human rights training to public security officials, as these organizations cannot exploit the war on drugs to further widen the gaps in a social fabric already deeply harmed by violence.

Freedom is the greatest value inherent to democracy. It is the primary means to defend our societies from the authoritarianism driven by narcotrafficking. No longer are the enemies of democracy military forces striking at midnight with decrees broadcast over old radio stations. Today's enemies are drug traffickers disguised as politicians, businessmen, outsiders, or criminals reintegrated into society through the laundering of their crimes with money. Their work is slow but relentless. They are silent, cautious, and above all, authoritarian. For them, democracy is the enemy, and they will not rest until they defeat it.

The question we must ask ourselves is: how far are we willing to tolerate this new enemy?

Humanitarian Aid in Venezuela: From Welfare to Capacity Building

Samuel Díaz

*This article was written before July 28,
but for security reasons, its publication
was delayed by more than 300 days.

Humanitarian aid in Venezuela is far from over; in fact, it is projected to remain necessary for at least the next five years, and is contingent on potential shifts in the country's political and economic model. The country faces severe challenges stemming from a multifaceted crisis spanning political, economic, and social dimensions. Worsened by corruption and mismanagement, the situation has led to profound inequality, widespread poverty, and a lack of access to basic services, affecting the lives of millions of Venezuelans. This article examines these challenges and proposes comprehensive approaches to shift from short-term aid to long-term capacity building, aiming to deliver sustainable solutions for the affected communities.

When you start working with vulnerable communities and humanitarian projects, the first thing they tell you is: "Don't get attached; learn to leave your emotions at the door." But how does one simply detach and shelve their humanity? How can you avoid being moved when you see the babies you support in nutrition

programs growing up, or the relieved faces of their mothers? How can you not smile, witnessing progress in patients involved in health or water projects? How can you not feel joy when children in schools get to be children again?

However, just as there is light, there is also darkness, because that is the duality of the humanitarian world. How can you not feel outraged when regime officials threaten you or take credit for a project that is not theirs? How can you not be frightened when you are stopped at a checkpoint carrying humanitarian supplies and be filled with terror as they attempt to extort you? How can you not cry when one of the beneficiaries you worked with dies, or you find out overnight that they are no longer in the country, have decided to migrate, or have become involved in illicit activities? How can you not feel overwhelmed when you see childhood vanish from the eyes of the children?

This is the duality we experience today in Venezuela and what I have witnessed over the past seven years. Working in these contexts exposes you to a constant emotional rollercoaster. The joys and achievements are immensely rewarding, but the sadness and injustices can be devastating.

I have always believed that when someone emigrates, they become an ambassador for their country, even if it is not a responsibility they choose. I know many who left fleeing, traumatized by the situation, with open wounds, and who just wanted to disappear. But I, as a student at Oxford University, could not afford to miss the opportunity to raise awareness and speak out about what was happening in Venezuela.

I had been working for years in politics and the humanitarian sector, but I always struggled with the fundamental question: What exactly is happening in Venezuela? That was the very same question I was asked no fewer than 50 times during the first week of my postgraduate studies.

In those moments, your brain starts working at full speed. How do you piece together the puzzle? Where do I begin? With Chávez's rise to power in '98? But Chávez was a consequence, not a cause. Do I go further back? Do I talk about the 1999 Constituent Assembly, the Arias Cárdenas vs. Chávez election, April 11, Carmona Estanga, Chávez's return, the oil strike, the 2006 presidential race between Maduro and Rosales, the shutdown of RCTV, the constitutional reform and the student movement, Capriles vs. Chávez, the death of the "comandante supremo," Capriles vs. Maduro, the 2014 protests, the 2015 National Assembly elections, the Supreme Court boycott in 2016 and 2017, the student protests in 2017, the bleak political outlook of 2018 with a contested presidential election and the blackout, the protests, the 2019 interim government?

How do you sum up, in that moment, 21 years of history to explain the complex humanitarian emergency? More than once I've been told: "Ah, I thought it was because of the sanctions," or "Damn... I didn't know that was happening in Venezuela."

In a world simultaneously affected by crises and humanitarian emergencies triggered by major conflicts —such as the war in Ukraine, the Israeli-Palestinian conflict, the war in Syria, and the Taliban offensive in Afghanistan— which can be summed up in a single sentence, Venezuela's situation continues to worsen. The convergence of these global crises makes it increasingly difficult

to carry out projects to address the humanitarian emergency unfolding in Venezuela.

Media attention and the focus of humanitarian organizations are spread across multiple fronts, which significantly reduces the level of targeted support for Venezuela. This reality calls for greater creativity and perseverance in seeking viable solutions to meet the critical needs of the Venezuelan population.

This is the first challenge in explaining the complex humanitarian emergency in Venezuela —an emergency officially recognized for seven years now, and one that will not change without the political will to overhaul the existing model. Each year, more aid is needed, yet fewer funds are available. This problem can be broken down into three main aspects: resource mobilization, program closures, and program focus.

When it comes to resource mobilization, attracting sufficient funding to meet growing needs is becoming increasingly difficult. Additionally, when international organizations decide to abruptly shut down projects in Venezuela —regardless of their good intentions— they often end up generating greater dependency. Prolonged projects, without a systemic change in Venezuela, result in fragmented solutions. The negative impact of their departure is often worse than when they first arrived, as they fail to build the capacities communities need to address their own needs. Moreover, many people are left unemployed, losing their competitive incomes overnight.

The focus of the programs also plays a crucial role. Many times, programs are not designed to strengthen local capacities but instead concentrate on immediate assistance, which perpetuates

dependency rather than promoting self-sufficiency. Therefore, to effectively address the humanitarian emergency in Venezuela, it is essential not only to increase resource mobilization but also to design programs that prioritize building community capacities and ensure an orderly and sustainable transition when project closures are necessary.

The complex humanitarian emergency in Venezuela has many dimensions, and in this piece, I will attempt to shed light on both the external and internal challenges, as well as what we can do to stop fostering dependency and start building capacities.

Currently, scarcity —such as that seen in 2019— is no longer what defines this complex humanitarian emergency; rather, it is now inequality, precariousness, and poverty. Since 2019, with the arrival of humanitarian aid, conditions have continued to worsen, although without such aid, we would be in a far worse situation. Venezuela is facing one of the most devastating humanitarian emergencies in the world, the result of a complex mix of political, economic, and social factors. Unlike many humanitarian crises triggered by natural disasters or armed conflicts, the crisis in Venezuela is largely man-made, the outcome of years of economic mismanagement, political turmoil, and systemic corruption.

But what does the complex humanitarian emergency look like in July 2024 in terms of numbers? The best overview is provided by the following article, “Hunger, healthcare, and schools: Reasons to leave Venezuela (along with a Maduro poll win),” published in *The New Humanitarian* in June 2024:

“The 28.8 million people who remain in Venezuela are faced with soaring prices due to inflation rates that were

until recently among the highest in the world, and a monthly minimum wage frozen at less than \$4. A de facto dollarisation has failed to boost the economy, and the lack of basic services –once limited to the regions and rural areas– is now affecting the capital, Caracas, as well. Since 2015, GDP has fallen by 80% and the minimum wage by 95%. Susana Raffalli, a nutritionist who specialises in food security management, humanitarian emergencies, and disaster risk, said 60-80% of people in poor areas have resorted to negative coping strategies, such as selling belongings to buy food.

The collapse of the healthcare system has been one of the most obvious and drastic aspects of Venezuela's humanitarian crisis. According to the NGO Convite, medicine shortages in general reached 28.4%. In its latest survey, Médicos por la Salud, a network of doctors who monitor and document the health crisis, found that four in ten operating rooms nationwide no longer function. Shortages of surgical supplies were at 74%, and of emergency supplies at 37%. Nearly 20 million people now face severe water restrictions, and 86% of the population is exposed to water deemed unsuitable for human consumption, putting them at risk of diarrhoea and other diseases. In 2023, blackouts affected nearly 62% of the population, compared to 25.9% in 2022, bringing activities to a standstill and sometimes putting lives at risk in hospitals.

Education has taken a big hit too. Reports show that dilapidated infrastructure, the lack of teachers and of public transportation –combined with the shortcomings

of the school meals programme— are driving many students away. The impoverishment of families due to high inflation is also forcing children to drop out of school to work. In 2023, 40% of students between the ages of three and 17 attended school irregularly.

In its 2023 yearly report, HumVenezuela reported that 20.1 million people required humanitarian assistance and protection —400,000 more than in 2022. During the first half of last year, only 14% of the UN's Humanitarian Response Plan (HRP) was funded, making it the second most underfunded globally. The level of response improved during the second half, allowing 52.9% of the HRP to be funded. International aid groups, such as the Pan American Health Organization, USAID, the World Food Programme, and a number of other UN agencies, among others, operate in Venezuela. But they face constant interference and harassment from the government. The assistance provided isn't nearly enough to meet the needs.

Last October, UN Secretary-General António Guterres gave the green light for the UN to start administering a trust fund worth an estimated \$3 billion to address emergency needs in Venezuela. The funding would come from Venezuela's frozen assets abroad. The trust fund, however, was tied to political negotiations between Maduro's government and the opposition. On 17 October, the same day the authorisation to create the trust fund was made public, Maduro and the opposition signed an agreement in Barbados, paving the way for free elections to take place this year and prompting the US to ease Venezuela's oil sanctions. But as the opposition gained

strength, Maduro started disregarding the Barbados accord, the US reinstated the sanctions, and the trust fund has been left in limbo. At the time of publication, only 9.5% of Venezuela's HRP for 2024 had been funded.”¹

More than seven million Venezuelans have fled the country, creating a significant refugee crisis in neighboring nations, especially Colombia, Peru, and Brazil. These people have left behind their homes, families, and lives in search of safety and a better quality of life. The ongoing power struggle between Nicolás Maduro's government and opposition forces has led to international sanctions and worsened the economic situation. Political uncertainty leaves citizens in a despairing limbo. Reports of extrajudicial executions, arbitrary detentions, and widespread repression of dissent have been documented by international human rights organizations. Oppression and fear are a daily reality for many Venezuelans.

The 2024 Regional Refugee and Migrant Response Plan provides a critical overview of the situation of Venezuelan migrants and refugees in need, as well as the state of funding allocated to assist them. More than 8.89 million Venezuelans require urgent humanitarian assistance, and a goal has been established to assist 2.93 million people. As of April 30, 2024, 326,800 people had been reached —representing only 11.1% of the target population to be assisted outside Venezuela.

1 Gabriela Mesones Rojo, Iván Reyes, *Hunger, healthcare, and schools: Reasons to leave Venezuela as Maduro looks to poll win*, The New Humanitarian, June 25, 2024, <https://www.thenewhumanitarian.org/analysis/2024/06/25/hunger-healthcare-schools-reasons-leave-venezuela-maduro-poll-win>

International funding and assistance have been crucial, although per capita donations and total funds received since 2014 have been insufficient to cover the basic needs of Venezuelan migrants and refugees. Compared to other humanitarian crises, there is a significant disparity in resource allocation. In a 2021 presentation by David Smolansky, the following figures were highlighted: Syrian refugees have received an average of \$5,000 per capita, South Sudanese refugees around \$3,000 per capita, while Venezuelan refugees significantly less, averaging under \$150 per capita. These figures underscore the urgency and necessity of increasing international efforts to provide adequate support to the displaced Venezuelan population.

To put everything in perspective, according to the Financial Tracking Service of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), it was estimated that \$32.92 billion was raised globally for humanitarian aid in 2024. Of that amount, only \$192.8 million was allocated to Venezuela, representing just 1.71% of the total, an insufficient percentage given the most severe humanitarian crisis in the region.² Additionally, the same UN financial tracking service reported that for 2024, Venezuela required \$617 million in funds for humanitarian assistance. However, only \$193 million was raised, which is just 27.4% of what was needed.³ In practical terms, this means that

2 “Crisis and Emergency Response”, United Nations, <https://fts.unocha.org/home/2024/countries>

3 “Snapshot of Total Humanitarian Funding,” Financial Tracking Service, OCHA, <https://app.powerbi.com/view?r=eyJrljoiNGE3NGU5OWItNWlWYy00NGJILW15ZTU0NGJhYzBiYWVhNjlmliwidCI6IjBmOWUzNWRiLTU0NGYtNGY2MC1iZGNjLTViYTQxNmU2ZGM3MCIsImMiOjh9&pageName=ReportSection41093ce46c53210880ac>

nly about 3 out of every 10 people who needed humanitarian aid actually received support.

The differences in total donations for humanitarian crises since 2014 are notable. Syria has received billions of dollars in international assistance, South Sudan has also received a considerable amount of donations, while Venezuela has received much less in comparison, highlighting a disparity in the international response.

Increasing cooperation with international organizations such as the UN, WHO, and regional institutions can improve the effectiveness of aid delivery. The Venezuelan diaspora, which remains deeply connected to the country, can play a vital role by providing remittances, advocacy, and technical expertise. Investments in agriculture can help reduce dependence on imports and improve food security. International partnerships can help rebuild Venezuela's healthcare infrastructure, supply essential medicines, and train healthcare workers.

To effectively address the crisis, it is crucial that capacity building be accompanied by a significant increase in funding. Only then will it be possible to meet the basic needs of the population and make progress toward recovery. The ongoing power struggle and lack of political consensus hinder the implementation and sustainability of humanitarian aid programs. Widespread corruption within the government and public institutions obstructs the efficient use of aid resources. High levels of crime and violence, including risks to humanitarian workers, further complicate the delivery of assistance. Economic sanctions limit the country's ability to import essential goods and finance humanitarian efforts. Years of neglect have led to the deterioration

of critical infrastructure, including roads, utilities, and public services, making the logistics of aid delivery more challenging.

In the relief effort following the 2004 Indian Ocean tsunami, the international response was swift, with coordinated efforts among numerous NGOs and significant financial contributions. In the eradication of smallpox, the WHO led a global vaccination campaign that successfully eliminated the disease in 1980. These examples demonstrate that coordination and collaboration between international organizations, governments, and NGOs are crucial to the success of humanitarian operations.

The 2010 Haiti earthquake demonstrated how poor coordination and inadequate infrastructure resulted in the inefficient use of resources. The 2011 famine in Somalia highlighted the importance of early warning systems and timely response. Both examples underscore the need for effective coordination, accountability, and the building of local capacity to ensure that aid reaches those who need it.

The situation in Venezuela is a tragedy that demands urgent attention and a multifaceted approach. To address the crisis and move toward recovery, it is essential to consider several key aspects that, taken together, can help alleviate the humanitarian emergency and lay the groundwork for a more stable and prosperous future. While it is clear that a change in the governing model would facilitate this transition, humanitarian aid will remain crucial. With a more capable and committed government, the implementation of humanitarian assistance would be easier, more effective, and broader in scope, shifting from immediate relief projects to those focused on capacity-building.

Needed Comprehensive Approach

Addressing the humanitarian crisis in Venezuela requires a combination of political resolution, economic stabilization, and social support. Political resolution is essential to restore governance and trust in institutions. This entails facilitating an inclusive dialogue among all stakeholders, fostering an environment where human rights are respected and democratic norms are reinstated. Economic stabilization involves implementing policies to halt hyperinflation, encourage foreign investment, and restructure the national debt. Social support should focus on improving Venezuelans' quality of life by ensuring access to food, medicine, and education.

Strengthening Local Capacity

Empowering local NGOs and civil society organizations can enhance the effectiveness and sustainability of aid efforts. These entities, being more connected to local communities, have a better understanding of specific needs and can provide more suitable and timely solutions. Strengthening their capacity involves providing training, financial resources, and logistical support. In addition, fostering collaboration between local and international NGOs is crucial to ensure a coordinated and efficient response. Building networks and strategic alliances can maximize the impact of interventions and ensure that aid reaches those who need it most.

Although NGOs and international organizations play a crucial role in providing assistance, their essential task is to equip communities with the capabilities needed so that, once projects end, they can remain sustainable and self-sufficient. Communities need to develop the tools and skills that allow them to rely on themselves. This not only ensures the long-term continuity of

projects but also promotes local development and resilience in the face of future challenges.

Providing targeted training in key areas such as project management, financial administration, and agricultural or commercial techniques is essential. Likewise, supplying financial resources, such as microcredits or seed funds, enables communities to initiate and sustain economically viable activities. Logistical support, including access to technology and basic infrastructure, also plays a decisive role in the success of these efforts.

Promoting collaboration between local and international NGOs is crucial to ensure a coordinated and efficient response. The creation of networks and strategic alliances allows for the sharing of knowledge, resources, and experiences, maximizing the impact of interventions. Working together not only enhances operational efficiency but also strengthens the social and economic fabric of communities, ensuring that aid reaches those who need it most and that implemented solutions are lasting and adapted to local realities.

Including Psychological Support for Humanitarian Workers

Working on the ground with vulnerable communities inevitably creates deep emotional bonds. Humanitarian workers often face traumatic and heartbreaking situations that can affect their emotional and mental well-being. It is essential to establish humanitarian protocols that include psychological support for all field staff. This support can encompass regular therapy sessions, support groups, and training in coping skills. Providing these resources is crucial for humanitarian workers to manage difficult

situations and maintain their mental health, which in turn enables them to continue their work effectively and sustainably.

Psychological support not only helps workers stay healthy and effective in their roles but also ensures they can continue providing high-quality assistance to the communities they serve. It is crucial to recognize that the mental health of humanitarian workers is fundamental to the success of any humanitarian intervention. Humanitarian protocols must include mental health and well-being components for all personnel, guaranteeing they have the necessary resources to cope with the difficult situations they face and a safe space to vent and support each other when needed. Workers who are emotionally healthy perform their duties more effectively, improving the quality of aid delivered. Moreover, a work environment that promotes mental well-being can reduce staff turnover, ensuring that communities receive assistance from experienced and committed professionals.

Leveraging Technology

Utilizing technology for efficient aid distribution, monitoring, and communication can significantly enhance the transparency and reach of humanitarian programs. Digital platforms facilitate resource management, tracking of community needs, and impact evaluations of interventions. Mobile applications and real-time data systems facilitate rapid identification of the most affected areas, improving coordination in delivering assistance. Furthermore, technology strengthens communication among the diverse stakeholders involved in humanitarian response, ensuring critical information is shared promptly and effectively.

Promoting Dialogue

Encouraging dialogue among the government, opposition, and the international community is crucial to creating a conducive environment for recovery and growth. This dialogue must be inclusive and grounded in mutual respect, aiming for consensual solutions that benefit all Venezuelans. International mediation can play a key role in facilitating these conversations and ensuring they remain constructive. Fostering open dialogue helps de-escalate tensions, build trust, and pave the way for implementing necessary reforms. Moreover, effective dialogue can attract the support and collaboration of the international community, which is essential for the country's economic and social recovery.

Working in the humanitarian field in Venezuela is an emotional roller coaster. Seeing a child smile again, a baby grow healthy, or a patient improve fills us with hope and reminds us why we are here. But we also face fear, sadness, and injustice, which wear us down and break our hearts.

Venezuela is a country of contrasts, where good and bad walk hand in hand. We become ambassadors of our land, carrying its history and pain to every corner of the world. With our experiences, we try to build bridges of understanding and solidarity, dreaming of the day when questions about our country are no longer filled with confusion, but with admiration for our resilience and the change we have built.

The crisis in Venezuela is complex and multifaceted, but with a comprehensive approach that combines political resolution, economic stabilization, and social support, it is possible to alleviate the suffering of the Venezuelan people. Strengthening

local capacity, providing psychological support to humanitarian workers, leveraging technology, and fostering dialogue are crucial steps toward advancing a more stable and prosperous future. The international community must redouble its efforts, demonstrating solidarity and humanity, to help Venezuela overcome this crisis and rebuild a country where its citizens can live with dignity and hope.

The history of Venezuela is complicated, and each of us carries a part of that story. By sharing our experiences, we help the world understand the magnitude of our struggle and the strength of our hope. Because despite everything, we continue to believe in a better future. We still have a long way to go, many obstacles to overcome, and many hearts to heal. But every step we take, every small victory, brings us a little closer to that dream of seeing Venezuela reborn. And although it can sometimes be exhausting and overwhelming, as long as we have strength, we will keep moving forward, convinced that together we can build a tomorrow full of light and hope for everyone.

The Importance of Institutionalality in Economic Development

Asdrúbal Oliveros, Jesus Palácios Chacín

The 2024 Nobel Prize in Economics was awarded to Daron Acemoglu, James A. Robinson, and Simon Johnson for their contributions to understanding how economic and political institutions influence economic development and societal well-being. Their multidisciplinary research on institutional issues has extended and strengthened the legacy of another Nobel laureate, Douglas North, who first highlighted the importance of democratic institutions for economic progress. However, the current laureates have taken a further step by demonstrating that inclusive institutions are fundamental for sustainable economic growth, while extractive institutions perpetuate poverty and inequality.

Now, what do inclusive and extractive institutions mean? In their work *Why Nations Fail* (2012),¹ Acemoglu and Robinson define them as follows: inclusive institutions are those that promote broad participation in the economy, protect property rights, foster innovation, and ensure equal opportunities. These institutions generate sustainable economic growth.

1 Daron Acemoglu, James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business, Nueva York, 2012.

For their part, extractive institutions are designed to benefit an elite, limit economic and political participation, and concentrate power and wealth. These institutions lead to economic stagnation and perpetuate poverty. In this work, their quantitative research compares the economic development of countries with inclusive institutions against those with extractive institutions.

And they highlight this with an example: by 1950, South Korea and North Korea had similar levels of GDP per capita, while by 2010, South Korea's GDP per capita was 10 times higher, explained by its open market economic model and a framework of inclusive institutions. To support this case, they use data on land distribution, income, and wealth to show how extractive institutions perpetuate inequality and limit economic growth.

In another study by the authors, *Institutions as a Fundamental Cause of Long-Run Growth* (2005),² published as part of the *Handbook of Economic Growth*, they use indicators such as the property rights protection index and the democracy index in more than 80 countries to measure the quality of institutions across nations. These findings allow them to estimate a strong correlation between institutional quality and economic growth: an increase of one standard deviation in institutional quality is associated with a 2% to 3% increase in annual economic growth.

In this work, they also analyze the impact of institutions on economic growth compared to other factors such as geography and culture. Based on historical data from more than 80 countries, they find that institutions explain over 60% of the variation in long-

2 Daron Acemoglu, Simon Johnson, James Robinson, "Institutions as a Fundamental Cause of Long-Run Growth", en *Handbook of Economic Growth*, editado por Philippe Aghion y Steven Durlauf, Elsevier, Amsterdam, 2005, 385-472.

term economic growth. Meanwhile, in *Economic Backwardness in Political Perspective*,³ they examine how political elites can block economic development in order to maintain power.

In general terms, the authors make use of mathematical models and employ instrumental variables, such as settler mortality rates and pre-colonial population density, to isolate the impact of institutions on development and verify their influence. Among the quantitative elements used are settler mortality rates as an instrumental variable to measure institutional quality; econometric regressions showing the relationship between institutions and GDP per capita; institutional quality indices, such as protection of property rights and democracy; historical comparisons of GDP per capita between countries with inclusive and extractive institutions; and mathematical models to explain the political and economic decisions of elites.

The historical approach: colonization shaped future generations

Adding a historical-geographic perspective to the background that leads us to the current Latin American and Venezuelan context, the study *The Colonial Origins of Comparative Development*⁴ by Acemoglu, Robinson, and Johnson argues that the colonial institutions established by European powers had a lasting impact on the economic development of countries.

3 Daron Acemoglu, James Robinson. "Economic Backwardness in Political Perspective", *American Political Science Review* 100 (1), 2006, 115-131.

4 Daron Acemoglu, Simon Johnson, James Robinson. "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review* 91 (5), 2001, 1369-1401.

According to the authors, in regions where colonizers face high mortality rates (measured per 1,000 soldiers or missionaries), such as much of Latin America, extractive institutions were established, designed to exploit resources and labor rather than promote property rights and broad economic participation. To demonstrate this, they linked settler mortality rates and their correlation with current GDP per capita, and in turn, the quality of institutions (measured by indices such as protection of property rights) with current GDP per capita. They found that institutions account for between 50% and 75% of the variation in economic development among countries. These institutions persisted after independence, creating economic and political structures that perpetuate inequality and limit inclusive growth.

In the current context of Latin America, this theory remains relevant for understanding the region's structural challenges, such as economic inequality, institutional weakness, and the concentration of political and economic power. Many Latin American countries still struggle to build inclusive institutions that promote sustainable development and reduce social gaps. Furthermore, phenomena such as corruption, political instability, and dependence on extractive economies reflect the historical roots highlighted by Acemoglu and his colleagues, underscoring the need for deep reforms to overcome these colonial legacies.

The works of Acemoglu and North provide a compelling explanation that extractive institutions are a core element of the Venezuelan crisis and offer a framework for understanding how it might be overcome. However, the institutional change needed to transform Venezuela's economy faces enormous challenges, including resistance from political elites, political polarization, and dependence on oil. Nevertheless, their theories also show that change is possible if consensus and social mobilization can

be built around the need for inclusive institutions that promote economic development and the well-being of all citizens.

Institutions and the Venezuelan Context:

The connection between the works of Daron Acemoglu and Douglass North, both Nobel Prize winners in Economics (Acemoglu in 2024 and North in 1993), and the current situation in Venezuela is profound, as their theories on the role of institutions in economic development help explain the causes of the Venezuelan crisis and offer a framework for understanding how it might be overcome.

Theoretically described earlier, extractive institutions sound like the very reflection of what we have witnessed in Venezuela for decades: political and economic power has been concentrated in the hands of an elite (first economic and later political), which has led to the exploitation of the country's resources (primarily oil) without generating sustainable development.

In this regard, the Venezuelan government has weakened inclusive institutions by centralizing political power, eroding property rights (mass expropriations, state control of key sectors, punitive use of the tax authority, and discretionary use of the justice system), curtailing political participation through repression and the absence of free elections, and maintaining an oil-dependent economic system that benefits a political and military elite while excluding the majority of the population.

The known result has been an economic collapse, with hyperinflation, extreme poverty, and a humanitarian crisis, confirming Acemoglu and Robinson's thesis on how extractive

institutions, combined with various other issues, lead to economic failure.

Along the same lines, Douglass North, in his work *Institutions, Institutional Change and Economic Performance*,⁵ emphasized that institutions (the formal and informal rules governing human interaction) are fundamental to economic development. According to North:

- Institutions determine the economic and political incentives in a society.
- Sustainable economic change requires institutional change —that is, the transformation of the rules governing the economy and politics.
- Informal institutions (such as cultural and social norms) also play a key role in development.

In Venezuela, formal institutions (such as the judicial system, parliament, and regulatory agencies) have been weakened by political power, even in the years prior to the arrival of Chavismo. This has destroyed incentives for investment, innovation, and economic growth.

Informal institutions, such as the culture of dependence on the state (inherited from the oil rentier model), have also contributed to economic stagnation. For decades, the state has been seen as the main provider of jobs and welfare, which has limited the development of a dynamic private sector.

5 Douglass North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, 1990.

According to North, economic change in Venezuela would require a deep institutional transformation, including the reconstruction of formal institutions that guarantee the rule of law, property rights, and economic competition, as well as a cultural shift that fosters private initiative, innovation, and economic diversification.

This process will likely not be free of setbacks; North warned that institutional change is a slow process and that reversals are common. Even if Venezuela achieves political change, economic transformation will take time and sustained commitment to building inclusive institutions.

Growth or Economic Development: What Do Countries Aspire To?

Robert Solow defined economic growth as the sustained increase in the production of goods and services in an economy –driven by the productive factors of capital and labor– primarily measured through GDP. This concept focuses on quantitative aspects, such as the size of the economy, without guaranteeing improvements in quality of life.

On the other hand, economic development is defined by Amartya Sen and Joseph Stiglitz as a broader concept that involves improvements in the well-being of the population, including aspects such as education, health, social equity, and access to basic services. It is measured with indicators like the Human Development Index (HDI) or income distribution. The main difference lies in that economic growth can occur without structural changes or social benefits, whereas economic development seeks sustainable and equitable progress that positively impacts the quality of life of the entire population. In other words, economic growth is neither a

necessary nor sufficient condition to guarantee development, but for development to occur, economic growth must exist.

Aligned with this debate, a phrase I often use to conclude one of my first classes in the second-semester economics program is this one by Robert F. Kennedy where he said:

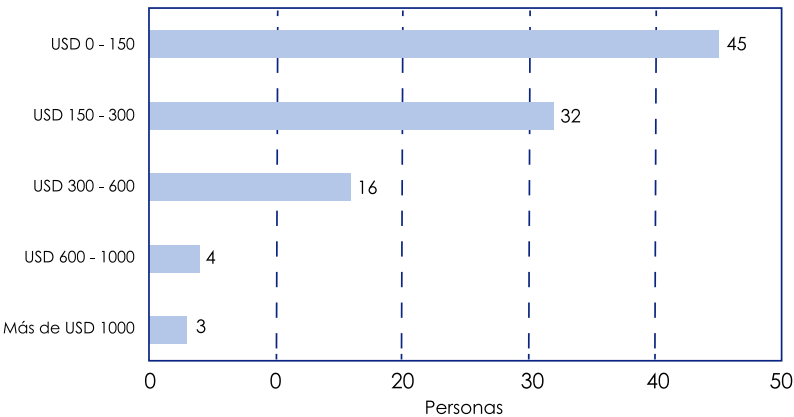
“Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things. Our Gross National Product, now, is over \$800 billion dollars a year, but that Gross National Product —if we judge the United States of America by that— that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities. It counts Whitman’s rifle and Speck’s knife, and the television programs which glorify violence in order to sell toys to our children.

Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile. And it can tell

us everything about America except why we are proud that we are Americans.”⁶

The "extractive institutions trap"

Both Acemoglu and North agree that countries with extractive institutions face a difficult "trap" to overcome, since the elites benefiting from these institutions have little incentive to change them. In Venezuela’s case, the governments of recent decades and their allies have built an extractive system that allows them to maintain political and economic power, even at the expense of the majority’s welfare. This is reflected in the fact that by July 2024, 7% of the population earned monthly incomes below USD 300, contrasted with only 3.0% earning more than USD 1,000.



Source: Ecoanalítica

In that sense, the absence of an inclusive institutional framework hinders the transformation the country needs to significantly improve its prospects.

6 Robert F. Kennedy, Speech at the University of Kansas, March 18, 1968.

The relationship between political and economic institutions

According to Acemoglu and Robinson in *Why Nations Fail*, political and economic institutions are deeply interconnected and determine the success or failure of nations.

Inclusive political institutions, which promote broad participation and guarantee political rights, tend to generate inclusive economic institutions that foster innovation, investment, and economic growth by protecting property rights and offering equal opportunities. Conversely, extractive political institutions, which concentrate power in the hands of an elite, often give rise to extractive economic institutions designed to benefit a few at the expense of the majority, limiting sustainable economic development. Essentially, political institutions shape economic ones, and the latter reinforce the former, creating either a virtuous or vicious cycle depending on their nature.

In this regard, the authors emphasize that inclusive political institutions are a necessary prerequisite for the development of inclusive economic institutions. Inclusive political institutions distribute power more equitably, limit the abuse of power, and enable the creation of economic policies that benefit the majority.

Conversely, extractive political institutions concentrate power in the hands of an elite, which perpetuates extractive economic institutions.

Perspectives for 2025: Tied to the Institutional Bottleneck.

Bringing the discussion to the current moment in Venezuela, the economic outlook for 2025 is marked by the significant political

and institutional deterioration following the contested presidential elections of July 2024, as well as the consequences this may have on the sanctions policy of the Trump administration in the U.S. This clearly illustrates the impact of the institutional framework on the country's growth, and our scenarios are essentially framed within this context.

In the event that licenses granted to companies such as Chevron and Reliance –together representing more than 30% of oil exports– are revoked, the outlook for 2025 will deteriorate significantly. These licenses have been key to maintaining a certain level of stability in oil production and national revenues, so their removal would have a profound impact on the Venezuelan economy.

Chevron's license, which participates in production through four joint ventures, and Reliance, which handles the marketing of Venezuelan crude in Southeast Asia –accounting for nearly 50% of Venezuelan crude demand– have allowed Venezuela to maintain limited but stable oil production. They have improved conditions of critical infrastructure in extraction, financing, and access to international markets. Without them, Venezuela would face greater difficulties placing its oil in the international market due to sanctions.

Without these licenses, production could gradually decline by 20 to 30%, leaving the average production level in 2025 at around 700,000 barrels, given that PDVSA currently lacks the technical and financial resources to sustain current extraction and refining levels.

Furthermore, this could lead to an increase in clandestine exports –using old tactics such as turning off vessel GPS,

transferring cargo at sea, or flying flags other than Venezuela's— or to an increase of discounts on crude prices, reducing revenue per barrel. Likewise, the lack of foreign investment and maintenance in oil infrastructure would worsen, accelerating the sector's collapse. This would have long-term effects, even if sanctions are eased in the medium term.

The elimination of these licenses would significantly reduce the government's dollar revenues, further limiting its capacity to import essential goods, fund social programs —thereby increasing inequality— and stabilize the exchange rate. The worsening economic and social crisis could trigger a new wave of migration, as studies by Delphos indicate that 20% of the current population wishes to leave the country if no political change occurs in the short term.

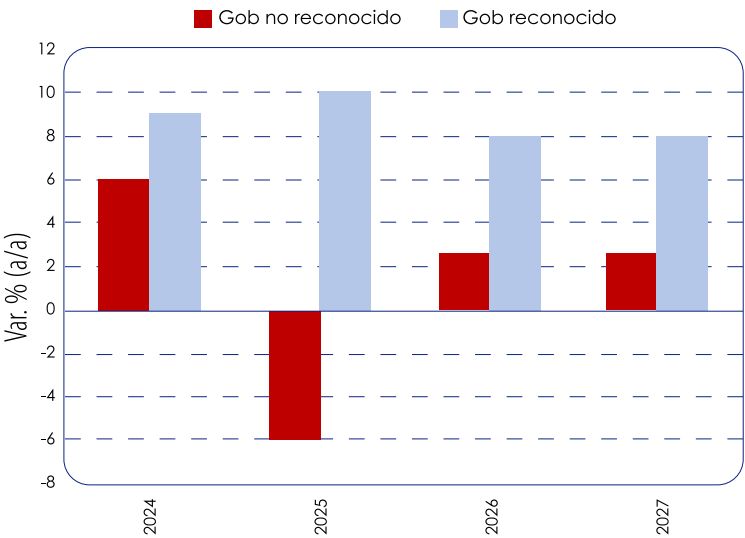
This would result in greater dependence on informal labor and remittances. With diminished oil revenues, remittances and the informal economy would become the primary sources of foreign currency access for the country and essential support for families.

Along these lines, the government would face difficulties maintaining exchange rate stability, which allows us to anticipate in our baseline scenario a greater devaluation of the bolívar —its smallest devaluation in a decade was in 2024, at 44%— and an increase in inflation compared to the end of 2024, which stood at 48% year-on-year. Informal dollarization —which the government is likely to facilitate again by removing or reducing the Tax on Large Foreign Currency Transactions, authorizing dollar transfers, and lowering cash withdrawal costs in banks— would continue benefiting a minority with access to foreign currency, while the

majority of the population, dependent on the bolívar, would face greater difficulties.

The Venezuelan economy, which has shown signs of stabilization in some sectors thanks to dollarization and partial opening, could contract again after accumulating 19% growth in the period 2021-2024. This recovery is weak in terms of conditions and small mathematically: it barely offsets the 77% decline the economy suffered between 2014 and 2020. These years of low growth still imply that the economy is 72.6% smaller than it was in 2013.

That said, without an agreement that advances the country’s reinstitutionalization, we foresee at least a 5% GDP contraction in 2025, especially if the oil sector –which remains the main engine of the economy– is severely affected.



Source: Ecoanalítica

In the coming years, if the low recognition of the government persists, the economy would continue in that cycle of “stability in the pit,” as has been mentioned before —referring to the economy’s failure to resolve its institutional problems and structural flaws, such as poor functioning of basic services, international sanctions, lack of internal and external financing, low consumer purchasing power, among others. As a result, the best outcome would be stabilization or maintaining low growth levels, given the limitations to advance on a path of broad-based, sustained growth close to double digits —as would be expected for an economy that contracted to a quarter of its size in the past decade.

Venezuela’s economic situation in 2025 clearly reflects how institutional deterioration can constrain a nation’s progress. Inclusive and functional institutions are the cornerstone of any sustainable recovery, and without them, the country faces a cycle of low growth, where gains are fragile and setbacks are severe.

However, even in this bleak scenario, there is a powerful lesson: structural change and reinstitutionalization are not only necessary but also possible. Global economic history shows that nations that manage to rebuild their institutions, foster trust, and open themselves to the world can reverse decades of crisis. Venezuela has the potential to emerge from this institutional bottleneck, but it requires bold decisions, political agreements, and a genuine commitment to the well-being of its people.

The future is not written. While the challenges are immense, so is the capacity of Venezuelans to endure, adapt, and forge a path toward prosperity. The key lies in recognizing that progress will not come from temporary measures, but from a profound,

albeit gradual, change that allows the economy and society to flourish once again.

Economic Crisis and the Collapse of Venezuelan Human Capital

Omar Zambrano

January 2025

Introduction

The notion that the generation and accumulation of human capital is an indispensable process for economic growth is one of the most widely held views in economic literature. It is understood that a country's stock of human capital enables the expansion of the production factor base and boosts productivity, which translates into greater economic growth and wealth. Furthermore, the accumulation of human capital is the engine of innovation, facilitates adaptation to new technologies, reduces inequality, and improves people's living conditions.¹

Between 2013 and the end of 2021, Venezuela experienced one of the worst economic growth collapses recorded in contemporary economic history. During this period, the country lost over

1 Robert J. Barro, "Determinants of Economic Growth: A Cross-Country Empirical Study", Technical Report w5698, *National Bureau of Economic Research*, Cambridge, 1996, https://www.nber.org/system/files/working_papers/w5698/w5698.pdf

75% of its Gross Domestic Product, representing one of the deepest episodes of economic contraction known in peacetime.² The consequences of this episode, in terms of the evolution of traditional human welfare indicators, have been profound and persistent. In fact, the partial recovery in economic activity levels that has occurred from 2021 to the present has been so slight in magnitude, so limited in terms of sectors, so geographically circumscribed, and so economically unequal, that it has proven insufficient to improve the living conditions of large segments of the Venezuelan population, which continues to face extreme precarity in their material living conditions.

This article summarizes the main findings of the research titled “Economic Collapse and the Stock of Human Capital: Impact of Venezuela’s Economic Crisis on the Quantity and Educational Level of the Labor Force,”³ which will soon be published by the Inter-American Development Bank. This work quantifies for the first time the effect that the collapse experienced by the Venezuelan economy had on the country’s human capital accumulation process.

It is known that in recent years, the quantity and availability of human capital in Venezuela have experienced a significant contraction as a consequence of the concurrent effects of two

2 For example, according to the Total Economy Database, during the Great Depression starting in 1929, the U.S. lost approximately 30% of its GDP; likewise, during the post-Soviet transition between 1991 and 1999, Russia lost around 40% of its GDP; and, during the hyperinflation crisis from 2000 to 2008, Zimbabwe experienced an estimated 50% loss of its GDP.

3 Omar Zambrano, Hugo Hernández, Albani Granado, Gabriel Quiroz, y Jean Pierre Oliveros. *Colapso económico y acervo de capital humano: impacto de la crisis económica de Venezuela sobre la cantidad y nivel educativo de la fuerza laboral*. Banco Interamericano de Desarrollo. 2024.

factors: (i) a demographic adjustment resulting from a massive migratory wave, which has led to the departure of nearly one-fifth of the population;⁴ and (ii) the deep decline in the real value of wages, which has reduced incentives to participate in the labor market and to invest in higher education among younger generations, with a disproportionately greater impact on Venezuelan women.⁵ Although theoretically it is understood that both factors must have affected the quantity and availability of human capital in Venezuela, little is known about the quantifiable magnitude and depth of these effects.⁶

4 R4V, Plataforma de Coordinación Interagencial para Refugiados y Migrantes de Venezuela. “Refugiados y migrantes de Venezuela”, 2024, <https://www.r4v.info/es/document/r4v-america-latina-y-el-caribe-refugiados-y-migrantes-venezolanos-en-la-region-noviembre-3>

5 According to the results of the 2023 Time Use Survey, only 41.5% of working-age women participated in the labor market —one of the lowest activity rates in the region, Zarah Dominguez, Albani Granado, Ana Ibarra, Anaís López, Claudia Piras, Omar Zambrano, *Trabajo no remunerado y desigualdades de género en Venezuela*, Banco Interamericano de Desarrollo, 2024, <https://doi.org/10.18235/0013230>

Likewise, it is estimated that one-third (32.9%) of Venezuelan youth between the ages of 15 and 24 —equivalent to 1.8 million individuals— are neither studying nor working. In other words, they are entirely outside any process of human capital accumulation or improvement, ANOVA Policy Research, *Oportunidades perdidas: Tendencias en la movilidad intergeneracional en educación en Venezuela*, 2024, <https://thinkanova.org/2024/12/18/oportunidades-perdidas-tendencias-en-la-movilidad-intergeneracional-en-educacion-en-venezuela/>.

6 Following the findings in Zambrano et al. (2024), *Colapso económico y acervo de capital humano...* this article outlines the assessment of the evolution of Venezuela’s labor supply in recent years, using evidence drawn from the microdata of available household surveys (EHM-INE and ENCOVI), Sartorio (Luca Sartorio, *An Employment Diagnostic Approach to Address Labor Market Stagnation in Argentina*, Harvard University, 2022, <https://www.consortio.edu.pe/umbral/wp-content/uploads/2023/07/An-Employment-Diagnostic-Approach-to-Address->

The Crisis and the Period of Human Capital Collapse in Venezuela (2015–2021)

As mentioned, during the economic crisis from 2013 to 2021, the change in both the quantity and composition of Venezuela's labor supply was determined by the combined effect of two mechanisms: (1) demographic adjustment due to migration; and (2) the sharp decline in real wages and its impact on the labor market. The evidence analyzed in Zambrano⁷ quantifies the impact of both effects on the number of available workers as well as on the composition of the workforce by educational level (completed primary education or less, completed secondary education, and completed higher education).

Below is the sequence of the **eight key impacts** observed in the labor market between 2015 and 2021, the period referred to as the collapse of Venezuelan human capital:

Labor-Market-Stagnation-in-Argentina.pdf) y Patrinos (Harry Patrinos, *Estimating the return to schooling using the Mincer equation*. IZA World of Labor, 2016, <https://wol.iza.org/uploads/articles/278/pdfs/estimating-return-to-schooling-using-mincer-equation.pdf>). It then presents an estimate of the economic growth costs associated with the loss of human capital, following the framework of Barro (*Notes on Growth Accounting*, National Bureau of Economic Research Working, Paper Series N° 6654, Julio 1998, <https://www.nber.org/papers/w6654.pdf>), and finally proposes a counterfactual international comparison framework based on the methodology of Abadie and Gardeazabal: Alberto Abadie, Javier Gardeazabal, "The Economic Costs of Conflict: A Case Study of the Basque Country", *The American Economic Review*, American Economic Association, 2003, 93(1):113–132.

- 7 Omar Zambrano, Hugo Hernández, Albani Granado, Gabriel Quiroz, y Jean Pierre Oliveros, *Colapso económico y acervo de capital humano: impacto de la crisis económica de Venezuela sobre la cantidad y nivel educativo de la fuerza laboral*. Banco Interamericano de Desarrollo, 2024, (to publish).

1. The economic crisis eroded the incentives to participate in the labor market and to invest in education

The collapse in Venezuela's Economically Active Population (EAP),⁸ was driven by the sharp decline in real wages, mainly triggered by the hyperinflationary crisis of 2017, which severely distorted the incentives to engage in formal economic activity. In fact, between 2012 and 2021, total labor income plummeted by an estimated 86.1% in real terms. This collapse also reshaped how people perceived the value of education, affecting individual decisions around human capital training. Between 2010 and 2021, marginal returns to education fell steadily.⁹ In fact, in 2010 an additional year of schooling was associated with a 3.7% increase in real income, by 2021 that figure had dropped to 1.7% —a 54% decline in the return on educational human capital investment.

2. Venezuela lost 4.1 million people of working age

As a result of the sharp deterioration in labor income during the study period, particularly beginning in 2014, millions of Venezuelans crossed the borders in what constitutes one of the

8 The Economically Active Population (EAP) is defined as the group of individuals within a population who are of the minimum legal working age and who, during a specific reference period, are either employed (engaged in paid or productive activities) or unemployed (actively seeking work).

9 Marginal returns to education refer to the additional increase in labor income obtained from investing in one more year of education or a higher educational level. They are calculated using the so-called "Mincer equations," which establish a functional relationship between years of education, work experience, and income, and can be empirically estimated.

largest contemporary migration crises.¹⁰ As a consequence of this massive migratory wave, Venezuela's population dropped abruptly to 28,352,075 people in 2021, a figure even lower than the one officially recorded in the last population and housing census of 2010.¹¹

The drop in Venezuela's population was mirrored by the collapse of the working-age population,¹² the most economically and productively significant demographic group. In fact, between 2017 and 2021, the working-age population contracted by 19.8% —an absolute decline equivalent to 4.1 million working-age individuals. This drop was concentrated in the younger cohort aged 15 to 24 (-19.7%) and the most economically productive group aged 25 to 50 (-10.4%).

3. Venezuela lost a third of its labor force participation

Parallel to the absolute decline in the number of people of working age, the economic collapse of the latter half of the past decade —marked by the closure of thousands of businesses and framed by a hyperinflationary crisis— triggered a simultaneous contraction in labor demand and an abrupt drop in average real wages. This collapse in real wages led, among other effects, to a sharp disincentive for labor market participation. Between 2015

10 The UN Refugee Agency (UNHCR) estimates that over 7.8 million Venezuelans have emigrated over the past decade.

11 The 2010 population figure is based on the estimate provided by the National Institute of Statistics (INE). The subsequent figures correspond to estimates from the United Nations Department of Economic and Social Affairs.

12 The working-age population comprises those between 15 and 64 years of age.

and 2021, the labor force participation rate fell by 11.6 percentage points —equivalent to a drop of 4.4 million people, or one-third of the economically active population (EAP). This contraction disproportionately affected women and workers with greater labor market experience.

4. A significant portion of the most highly skilled workers exited the labor market

The aforementioned drop in real wages and the subsequent decline in the economic returns to education led to a reduction in the availability of highly skilled workers beginning in 2015. It is estimated that between 2015 and 2021, the number of active workers with higher education declined by 27.4%, while the total number of active workers with a completed secondary education fell by 29.0%. In aggregate terms, by 2021, the number of active workers with completed secondary, technical, or university education had declined by 2 million compared to 2015. These shifts in the educational profile of the Venezuelan labor force had a disproportionately greater impact on women.

5. Venezuela lost a significant share of its accumulated educational gains

The estimated loss in the economically active population, combined with the heavy concentration in relatively more skilled and productive segments, amplified the aggregate effects on the country's accumulated educational stock. In fact, when measured using the "educational mass" variable,¹³ it is estimated that the total years of education embodied in the economically

13 It is defined as the aggregate sum of years of education of the entire economically active population. It is obtained by adding the number of

active population declined by 39.8% between 2015 and 2021. This represents a loss or removal of 55.3 million years of education from the productive effort. On average, it is estimated that the number of years of schooling among active Venezuelan workers fell from 11.1 years in 2015 to 9.5 years in 2021 —a decline of 1.1 years in average educational attainment.

6. Venezuela squandered a significant portion of its most experienced workers

Work experience represents a crucial learning environment where most job-specific knowledge and skills are acquired. Using the Mincer (1974) approach —which accounts for an individual's age, years of basic and secondary education, and the age at which they enter the education system—¹⁴ it is estimated that during the collapse period of Venezuela's human capital stock (2015–2021), the total number of potential work experience years accumulated within the economically active population fell by 34%, equivalent to 97.8 million years.

7. Human capital losses contributed to the collapse in economic growth

The substantial erosion in both the availability and the skill level of Venezuela's labor force —through the mechanisms previously described— had a direct impact on the country's

workers incorporated into the EAP by the estimated number of years of education of each worker.

- 14 In the case of Venezuela, the resulting variable is calculated as follows: Age in years –primary education (6 years) –secondary education (5 years) –age at which formal education begins (5 years).

productive capacity. Based on a growth accounting exercise,¹⁵ it is estimated that between 2013 and 2021, but especially from 2015 onward, the country experienced a sharp collapse in both forms of capital: physical and human. Between 2015 and 2021, the decline in human capital alone accounted for 12% of the total GDP contraction during this period –equivalent to a negative annual impact of 2.7 percentage points on economic growth.

8. Human capital losses between 2015 and 2021 are even greater when viewed from an international comparative perspective

A counterfactual estimation framework using the Synthetic Control Method (SCM) proposed by Abadie and Gardeazabal finds that, by 2021, Venezuela's economically active population (EAP) was 6.0 million people smaller than it would have been based on the projected trajectory under a counterfactual scenario. This divergence –indicating that the EAP was 36% smaller than it would have been in a “no human capital collapse” scenario– can be interpreted as an approximation of the cumulative impact that Venezuela's socioeconomic and migratory crisis has had on the country's human capital stock.

15 In Zambrano et al., *Colapso económico y acervo de capital humano...*, the growth accounting exercise is formulated in the Barro (Robert Barro, *Notes on Growth Accounting...*) style, disaggregating the human capital stock by educational level as in Jorgenson y Griliches: Dale Jorgenson, Zvi Griliches, “The Explanation of Productivity Change”, *The Review of Economic Studies*, 1967, Oxford University Press, 34(3):249–283, as well as Dale Jorgenson, Frank Gollop, Barbara Fraumeni, *Productivity and U.S. Economic Growth*, University of Southern Maine, 1987, <https://digitalcommons.usm.maine.edu/facbooks/114/>

Conclusions and Policy Implications

Between 2013 and 2021, Venezuela lost more than 75% of its Gross Domestic Product in one of the deepest and most prolonged economic depressions in modern economic history. Although economic activity began to contract in 2013, it was from 2015 onward that the country experienced the most acute effects of the economic collapse, with concurrent impacts stemming from the destruction of the productive base, the hyperinflation crisis, and the breakdown of basic public and social services.

The collapse in the value of real wages starting in 2015 not only triggered a deep crisis in Venezuelans' living conditions, but also completely distorted the incentives for schooling and labor market participation. Both mechanisms profoundly affected the process of human capital accumulation in Venezuela in recent years, but until now, the magnitude of the specific impacts on the labor market had not been quantified.

The evidence indicates that the 2015–2021 period —referred to here as the collapse of human capital— was marked by a severe contraction in both the quantity and composition of Venezuela's labor force. During this period, Venezuela experienced a one-third decline in its economically active population, equivalent to approximately 4.4 million people. It is estimated that, during the human capital collapse, Venezuela's labor force lost 27.4% of its university-educated professionals, 39.8% of its total accumulated years of schooling, 34.0% of its total accumulated years of work experience, and 1.1 years of average schooling.

The productive and educational decline described in this article has deep and lasting implications for Venezuela's prospects

of economic recovery. Given that the collapse of human capital disproportionately affected specific subgroups —such as women, workers in their prime productive years (ages 25 to 50), and those with higher levels of education and work experience— any diagnosis or policy design aimed at future growth must include targeted measures for these populations. Otherwise, the constraint posed by human capital will remain a binding limitation on any sustained economic growth process.

A reform agenda for sustained and democratic growth must necessarily include the reconstruction of Venezuelans' productive capacities —particularly the rebuilding of the country's stock of human capital. The starting point should be a process of economic stabilization that enables a sustained increase in the real value of wages, as the only viable path to reversing the perverse incentives that currently discourage both labor market participation and the accumulation of formal education. Likewise, any agenda for recovery and sustained growth must incorporate targeted policies to support female labor force participation, including the reconstruction of elements of the social safety net that support caregiving and unpaid domestic work. In addition, specific policies must be designed to create incentives for the return of the Venezuelan diaspora —especially those migrants of prime working age, with greater labor market experience, and higher levels of education. Finally, immigration policies that encourage openness and attract non-national talent should be formulated as an alternative pathway to reconstitute the country's depleted stock of human capital.

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