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El Gran Viraje Hacia Afuera (The Great Outward Turn): Nascent Neo-Structuralism in Venezuela ; Balancing State and Market

Tracy L. Beverly
University of Nebraska at Omaha

EL GRAN VIRAJE HACIA AFUERA

[THE GREAT OUTWARD TURN]

NASCENT NEO-STRUCTURALISM IN VENEZUELA:

BALANCING STATE AND MARKET

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Committee

Name	Department
Jourdes Gouveia	Sociology
Michael L. Tate	History

Mark O. Rousseau
Chair

12 September 1997
Date

ABSTRACT

This thesis uses Venezuela as a case study to test the potential viability of the neo-structural perspective of economic development. The theoretical perspectives of structuralism, neo-liberalism and neo-structuralism are discussed and critiqued in their ability to provide for economic development. Analysis is made of the change of the Venezuelan model of development from an inward-oriented to an outward-oriented model. Venezuelan development is traced from the adoption to the eventual demise of the inward-oriented model. The evolution toward outward-orientation is discussed within the context of the global, regional and national forces that contributed to the demise of the inward-oriented model and debt crisis.

The implementation of the neo-liberal/IMF adjustment model in February of 1989 is outlined and consideration is given to the early results of the adjustment program. As a result of domestic resistance to neo-liberal principles and the state's continued intervention and identification of structural goals, the emerging Venezuelan model is identified as neo-structural. The Venezuelan model is a synthesis of neo-liberal methods and structural perspectives. It is outward-oriented and its policies are based on the traditional IMF model, yet it identifies structuralist goals for its development program.

The viability of the Venezuelan neo-structural model is evaluated in terms of its ability to fulfill its defined goals of: 1) sustained economic growth; 2) growth with equity; and 3) national self-

determination. Conclusions drawn from the Venezuelan case study indicate that the viability of the neo-structural model depends on finding the optimal balance of the state and market. The outlook for Venezuelan development under the neo-structural model is pessimistic, suggesting that neo-liberal market forces dominate the state's ability to intervene to achieve structuralist goals.

Conclusions, drawn from the Venezuelan case study, are discussed in light of their indications of the ability of a developing nation, through a neo-structural model, to set its own economic, social, and national priorities. General conclusions indicate that the global market increasingly dominates the developing nation-state's ability to achieve nationally defined goals.

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CONTENTS

PART III. ANALYSIS

LIST OF ABBREVIATIONS

AD	*Acción Democrática* [Democratic Action Party]
BCV	*Banco Central de Venezuela* [Central Bank of Venezuela]
CEPAL	*Comisión Económica para América Latina* [see ECLAC]
COPEI	*Comité de Organización Política Electoral Independiente* [Social Christian Party]
CORDIPLAN	*Oficina Central de Coordinación y Planificación* [Presidential Office for Coordination and Planning]
CTV	*Confederación de Trabajadores de Venezuela* [Confederation of Venezuelan Workers]
ECLAC	Economic Commission for Latin America and the Carribbean (same as CEPAL)
EIU	Economist Intelligence Unit
FEDECAMARAS	*Federación de Cámaras de Comercio e Industria* [Federation of Chambers of Commerce]
FIV	*Fondo de Inversiones Venezolanas* [Venezuelan Investment Fund]
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ILDIS	*Instituto Latinoamericano de Investigaciones Sociales* [Latin American Institute of Social Research]
IMF	International Monetary Fund
IVIC	*Instituto Venezolano de Investigaciones Cientificas* [Venezuelan Institute of Scientific Research]
LAER	Latin American Economic Report
LAPR	Latin American Political Report
LAWR	Latin American Weekly Report
LDC	Less Developed Countries

MAC *Ministerio de Agricultura y Cria* [Ministry of Agriculture and Livestock]

OCEI *Oficina Central de Estadistica e Informática* [Central Office of Statistics and Information]

OPEC Organization of Petroleum Exporting Countries

PDVSA *Petróleos de Venezuela, S.A.* [Venezuelan Petroleum Company]

SELA *Sistema Económico Latinoamericano* [Latin American Economic System]

WB World Bank

A Jonathan,

Compartir un día,

un camino,

una vida,

Hace la amistad firme y duradera

INTRODUCTION

The study of political economy deals with the relationship between the state and market in a national and international context. Throughout economic history, national economies have been largely characterized as market or state-led. Since World War II, the developing nations of Latin America have traditionally sought economic development behind a state-led model. In the last decade, many of these countries have experienced a shift to outward-oriented, market economies as a result of pressure from international lending agencies and the world economic climate. An emerging synthesis model argues for a shift toward an outward-oriented economy while maintaining a strong state to ensure equitable growth and preserve national control over its economic resources.

Venezuela provides an appropriate and timely case study for the discussion of a developing nation's ability to balance the state and market in the context of a global economy. In 1989, the Venezuelan administration, led by President Carlos Andrés Pérez, made a major change in direction in the nation's economic policy. Previously the economy had been directed toward the state-led development of domestic industrialization and the stimulation of the domestic market. The change in direction, known as *El Gran Viraje* [the Great Turn], replaced this protected, introverted economy with a free market economy focused toward international trade.

Venezuela is a medium-sized Latin American country with a population of just under twenty million (Republic of Venezuela 1991; Ugalde 1990), slightly greater than the population of Mexico City or New York State (World Almanac 1991). Demographically, Venezuela is young, with nearly forty percent of its population under the age of fifteen; largely urban (83%); and ninety percent literate (BID 1988; Republic of Venezuela 1990). Geographically, Venezuela is located on the northern coast of South America and is bordered by Colombia on the west, Brazil on the south, and Guyana on the east. Caracas is its capital and largest city, and is the center of commerce, government and communications.

The Venezuelan economy is dominated by petroleum, its primary export. Venezuela was a founding member of OPEC and continues to hold an important role in the cartel.

The political system has been democratically elected since the 1958 overthrow of a dictatorship. Its executive branch is led by a president elected for a five year term, who is then not allowed to hold a second term until ten years after the end of the first. The current president, Carlos Andrés Pérez, is in his second term, having also served as president from 1974 to 1978. The legislative branch is made up of a Senate and a Chamber of Deputies. The Congress is dominated by two major political parties, *Acción Democrática* [Democratic Action Party] which is President Pérez's party, and COPEI, the *Comité de Organización Política Electoral Independient* [Social Christian Party].

Venezuela's shift to an outward-oriented model follows that of the majority of its Latin American neighbors, enabling Venezuelans to learn from and better understand the difficulties and complexities of an outward-orientation. This experience, combined with the contemporaneous nature of the change, makes Venezuela an appropriate case study for an examination of nature of the synthesis model and an analysis of its viability.

CHAPTER 1

OVERVIEW OF THE RESEARCH QUESTION

This study considers economic development in the global economy, placing particular emphasis on the simultaneously contradictory and complementary roles of the market and the state. Research seeks to determine a developing nation's potential to choose its own path of economic development in a global context of increasing economic homogeneity. National economic self-determination, a nation's ability to choose its economic priorities and the means to achieving them, is threatened by ideological, economic, and political pressure toward a free market economy and participation in international trade. Is it possible for a developing nation to resist global forces, maintaining national self-determination, and yet achieve sustained economic growth? Under what conditions and in what balance can the economic benefits of a market-based economy be combined with the self determination and social compensation of state intervention? The current Venezuelan attempt at market-based economic growth "with a human face" is important to this discussion. Its evolving social-market economy under which a strong state attempts to regulate and redistribute benefits of a market economy is treated as a case study.

CONTEMPORARY CONTEXT OF ECONOMIC DEVELOPMENT

Two conflicting trends are acting on the world situation: the market-driven force of economic globalization and the state-driven force of nationalism (Gilpin 1987). One moves toward mutual, although unequal, interdependence and seeks to eliminate barriers, while the other seeks to protect and compartmentalize the world into controllable sovereign areas (Heilbroner 1985, as discussed in Gilpin 1987).

Aided by the development of advanced transportation and communication networks, the world is increasingly becoming a global economic unit. The elimination of international capital restrictions[1] is facilitating global mergers, international collaborative agreements, and huge transnational companies (Morss 1991; Tussie 1987). Increasingly complex corporate structures make the "national identity" of corporations difficult to determine. Frequently corporate ownership, administration, and labor are located in two or more different countries, internationally separating various functions such as design, production, marketing and consumption (Morss 1991; Reich 1990).

In such an economy, the nation-state is increasingly seen as an obstacle to progress (Streeten 1991), and economic power is replacing military power as the dominant force (Prestowitz, Tonelson & Jerome 1991). New international actors, such as transnational corporations and international organizations, are emerging to compete with the nation-state as the dominant institution[2] (Morss 1991). National

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[1]It is important to note that while international capital restrictions are being lowered, restrictions on the international movement of labor are not. For example, the U.S.-Canada-Mexico free trade agreement does not extend to citizen mobility.

[2]Morss (1991) identifies three emerging world actors: transnational corporations; international organizations, such as the International Monetary Fund, the World Bank and the United Nations; and special interest groups such as global environmental groups and Amnesty International.

borders are decreasing in significance as technology permits communication and financial transactions to be carried out with little regulation (Morss 1991).

At the same time, however, issues of territoriality and national sovereignty continue to be significant. The nation-state maintains an important role in protecting its industries, borders, and citizens, both in developing and developed nations. Contemporary evidence of the persistent importance of national self-interest in the global economy abounds. The Persian Gulf War, the near break-down of trade talks during the Uruguay Round of the GATT [3] (Economist 1990a, 1990b, 1990c, Prestowitz et al. 1991; Samuels 1990; Streeten 1991), the formation of competing regional market blocs (Prestowitz et al. 1991, Streeten 1991), and growing U.S. trade protection (Aho & Stokes 1991; Samuels 1990) all indicate that national self-interest has not been subjugated to the global economy.

The state and the market have theoretically been defined as largely contradictory forces, representing two polar positions between which a historical pendulum swings. The contradictions between the state and market have created a cycle of "ideological currents" of the "best" type of economy. Ideology favors first the benefits of an unhindered market and expounds the failures of state intervention, and

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[3]GATT, or the General Agreement on Tariffs and Trade, is an international organization based on Geneva, Switzerland. GATT works to liberalize world commerce based on neo-liberal principles of potential benefit to all from world trade (Lieberman 1988; Prestowitz, Tonelson & Jerome 1991; Tussie 1987, 1988). The Uruguay Round, focussed toward the elimination of trade barriers in agriculture, has been largely unsuccessful (Wolf 1990). Criticism of the GATT has grown and the organization has been pronounced "dead" by a leading U.S. economist (Economist 1990b, 1990c; Prestowitz et al. 1991; Wolf 1990).

then decries the failures of an unrestricted market and renews the belief in state intervention as a regulator and distributor (Ibarra 1991). Throughout economic history it has been periodically discovered and subsequently forgotten that over the long-term, an unregulated market produces unsustainable social disparities and monopolistic enterprises that eventually cancel the virtues of the market. State intervention over the long-term, on the other hand, tends to lead to inefficiency and low productivity as public agencies innovate slowly, invest excessively, generate fewer goods of lower quality and fix prices with little relationship to production cost (Ibarra 1991; Wolf 1988).

The contradictions between the market and the state are illustrated in the competition between three sets of ideological values that posit the "desirable" result of economic activity: 1) equality versus efficiency; 2) public right versus private right; and 3) economic justice versus economic liberty (Ibarra 1991). Equality, public right and economic justice are intimately associated with state intervention in an economy, while efficiency, private right and economic liberty are a result of the supreme value of a market economy.

Recent history, however, has evidenced an "accommodation of power" between the market and the state, suggesting that perhaps over the long-term, the two forces together might indeed be compatible, balancing each other to reduce the negative effects of both (Ibarra 1991). While no economy has ever been purely free market or completely state regulated, there have been various explicit attempts at a mixed economy, with varying levels of success. A changing global climate, however, means that there are both new possibilities and new challenges for the success of a market-and-state economy.

With the breakdown of the Bretton Woods international financial system in the 1970's [4], the unchallenged global leadership of the U.S. was weakened and the world entered into a post-hegemonic period, resulting in a degree of confusion the world order had not experienced since the years between the world wars (Streeten 1991). Although its present leadership may not admit it, the United States is declining as a world power, leaving the world system in a leadership vacuum not yet filled by the likely candidates for global leadership (Japan, or a consortium of world powers, including the U.S., Japan and the European Community) (Streeten 1991).

The changing world climate provides both new challenges and new opportunities to developing nations. The decline of traditional economic and political arrangements is stimulating a reordering of the world economy, in which smaller, developing nations may have the potential to achieve a new insertion into the world division of labor (Sunkel & Zuleta 1990). As summarized by one author:

> The lack of world leadership by a single power presents us for the first time in history with the opportunity to create a world order based not on dominance and dependence, but on equality, pluralism and cooperation (Streeten 1991).

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[4]The Bretton Woods International Financial system was a result of a meeting of 44 nations in Bretton Woods, New Hampshire in 1944. The purpose of the organization was to "minimize the relevance of national borders in international exchange." The Bretton Woods system was an attempt to replace the gold standard with a new international financial system to insure stable exchange rates. Bretton Woods collapsed in August 1971 when the U.S. suspended the convertibility of the dollar into gold, followed by the immediate floating of all major currencies (Lieberman 1988).

TWENTIETH CENTURY LATIN AMERICAN DEVELOPMENT

Recent Latin American experience illustrates varying levels of cooperation and competition between the state and market as the region sought economic development. Within the context of recent Latin American development, three models of development can be identified.

Prior to the 1930's, an outward-oriented, free international trade model dominated, under which Latin American countries supplied primary export products to the world market. Traditional exports included minerals such as copper and petroleum, and agricultural products such as coffee and cacao. The exports were usually generated from large-scale, export-oriented production centers such as foreign-controlled mines, plantations or ranches. Development could be characterized as "enclave" in which the benefits of the exports did not reach the rest of society.

After World War II, as a reaction to the collapse of the international economy in 1929 and 1930, Latin American nations implemented an inward-oriented development model, generally known as "import substitution industrialization" (ISI). The model emphasized domestic development behind the protection of a powerful state. Throughout Latin American an inward-oriented industrialization process was begun which emphasized developing the capacity to domestically produce goods for consumption in the internal market. The state took on new responsibilities such as the allocation of investment funds, regulation of exchange relations, and import/export regulation to protect nascent industry from international competition.

Inward-oriented industrialization allowed developing nations to reduce their dependency on imported foreign goods, but increased their dependence on the imported foreign capital and technology needed for the development of industry, infrastructure and agro-industry facilities. This import dependency, combined with the effects of recession in the developed nations in the 1980's constituted the major force behind the Latin American "debt crisis".

This debt crisis provided international funding agencies and the governments of developed nations with the leverage to "encourage" the re-opening of protected economies under a neo-liberal model throughout the 1980's (Ibarra 1990; Williamson 1990). While accepting the re-institution of market principles, however, some Latin American nations evidenced a continued commitment to the role of the state in the economy as a means to learn from past experience and avoid enclave development. This search for "optimal intervention" based on accommodation between forces of a national state and global market is illustrated by the case of Venezuela in the 1990's. The principles of the economic theories of structuralism and neo-liberalism are being synthesized into a state-and-market model which is emerging in Latin America as "neo-structuralism".

Venezuela followed the general twentieth century patterns of development of the rest of Latin America, although with important differences. With the discovery of large petroleum reserves in the 1920's, Venezuela ceased being an exporter of primary agricultural products and became one of the world's largest suppliers of petroleum. Venezuela adopted the ISI model more than a decade after most of the region. Income from petroleum supported the purchase of manufactured imports, reducing the need to produce domestic substitutes. A trade treaty with the U.S. limited Venezuela's ability to impose tariff restrictions and regulate the flow of imports, further delaying industrialization within Venezuela.

Once the concentrated attempt to spur national industrialization was begun in the 1950's, petroleum income proved to be vital. Venezuela's particular version of the inward-oriented/import substitution growth model, known as *sembrar el petroleo* [sow the oil wealth] into the economy, was based on using oil income to develop modern industry and a productive agricultural sector, while contributing toward an equitable income distribution and a social "welfare state".

By the early 1970's Venezuela had nearly completed substitution of consumer goods. Like its neighbors, however, in the ensuing drive to develop heavier industry, Venezuela became dependent on imported technology and machinery and thus accumulated foreign debt and a balance of payment deficit. Complicated in the 1980's by a recession in the developed countries, which produced lower income from petroleum exports, as well as suddenly higher interest rates on the foreign loans, Venezuela found itself in a situation of financial disequilibrium. Buoyed by substantial international reserves, Venezuela successfully renegotiated its debt in 1986 without succumbing to IMF conditionality, while at the same time recognizing the need to implement changes.

Beginning in 1978-79, ISI began to be abandoned in favor of an outward-oriented, market-based economy. Cemented in 1983 and 1989 with devaluations and major macroeconomic restructuring, Venezuela changed its plan of development and sought to develop behind an outward-oriented model with strong state intervention. In the years since the change of model, debate continues as to the viability of the market-and-state model and Venezuela's potential future development.

THE RESEARCH PROBLEM

This research considers the neo-structural market-and-state development model emerging in Venezuela and seeks to determine its future viability. Is it possible for a "middle-income" developing nation [5] with considerable resources to formulate a development strategy to protect its national interests when internal policies and the most important economic sector are subject to international influences?

Analysis of this question, based on the Venezuelan case study, depends on a clear understanding of Venezuela's historical development as well as the forces that influenced the recent change of model. First of all, the thesis asks, "what were the political and economic conditions leading to the abandonment of the inward-oriented model and the adoption of an outward-oriented model?"

The thesis argues that the Venezuelan economy under the import substitution model did not achieve its goals of sustained economic growth, sectoral balance and protection of national self-determination. The effects of persistent structural problems, together with the negative impact of world economic events, resulted in economic

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[5]As Venezuela is characterized by World Bank and IMF designations (World Bank 1989; IMF 1990).

disequilibrium and crisis. (Alvarez 1989; BCV 1990; Hausmann 1990; Márquez 1983; Martz & Myers 1986).

Venezuela's outward-orientation evolved in an international context of an increasingly global economy, a regional context in which nearly every country in Latin America had already "opened up" [6], an economic situation in which negotiations with the IMF could no longer be avoided, and a domestic context of increased competition and disharmony.

Secondly the discussion considers the shape that the outward-oriented model in Venezuela has taken. How has outward-orientation been adapted for Venezuela? Will the emerging model be able to attain its promised results? Analysis suggests that while the newly inaugurated administration of Carlos Andrés Pérez implemented an IMF adjustment model based on neo-liberal principles, the consolidation and maintenance of the strong role of the state and preservation of structuralist principles and goals suggests resistance to neo-liberal principles and the adoption of a neo-structural model. Venezuela's neo-structural model has three objectives: 1) sustained economic growth; 2) growth with equity and 3) protection of national self-determination. Theoretical conclusions suggest that while the strength of the neo-structural perspective is its recognition of a synthesis between neo-liberalism and structuralism, specific guidance for balancing the state and market is lacking. Macro-economic evaluations

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[6]For an overview of policy reform in the 1980's in ten Latin American and Caribbean countries see Williamson (1990). For specific examples refer to Kamm (1991a) for a discussion of Brazil and (1991b) Argentina; to Bulmer-Thomas (1988) regarding Costa Rica; and Rivera (1990) for Chile.

suggest that while Venezuela's attempt at a mixed economy is theoretically designed to protect its domestic economy, the market-oriented reforms actually make Venezuela more susceptible to the forces of economic globalization, and have in fact increased Venezuela's vulnerability to external forces.

Conclusions, as supported by the Venezuelan case study, argue that the synthesis of neo-liberal methods with structural goals does not provide a viable development path as global market forces dominate the developing nation-state and make the attainment of structural goals unlikely.

METHODOLOGY

This project is a descriptive case study of Venezuelan economic growth under two development models. The primary objective is exploratory in nature by attempting to identify the various domestic and international forces that contributed to Venezuela's historical development, evolution of the new model, and the potential viability of that model.

My interest in Latin America and in the field of development, in conjunction with a fortuitous opportunity to study in Venezuela, provided the original focus for the project. I identified the primary issues and questions regarding the current economic situation through informal conversations and interviews with Venezuelans, and content analysis of newspapers and weekly magazines. The conclusions are based on an inductive analysis of data, as well as the secondary-source analysis of Venezuelan and foreign observers and economists.

Data collection and observation were carried out during four months of research in Venezuela in the spring of 1991. Institutional sponsorship in Venezuela was provided by the Venezuelan Institute of Scientific Research (IVIC), under the guidance of Sociologist Luis Llambí, who largely guided the formulation of the theoretical questions.

The choice of method as inductive analysis of archival information was based on the desire to make the most of the opportunity to do research in Venezuela, while compensating for the weaknesses of a first-time foreign investigator. Intermediate Spanish-speaking ability precluded highly structured interviews of government officials, or participant observation of a more micro subject, but was sufficient for library and government office communication and informal conversations.

Data was collected from a variety of government agencies, private research institutes and private economic firms. Government sources include: CORDIPLAN (the national planning agency); the Venezuelan National Library; the Central Bank of Venezuela, especially the departments of National Accounts, Publications, and the economic library; the Central Office of Statistics and Information, the Central University of Venezuela, the Ministry of Agriculture and the library of the Institute for Scientific Research. Private research institutes included the Latin American Institute for Social Investigation (ILDIS) and the Latin American Economic System (SELA). Monthly or quarterly reports published by private economic firms were collected from Maxim Ross and Associates, *MetroEconomía* and *VenEconomía*.

Data sources include: the weekly, monthly and yearly economic data from the Central Bank; official government publications by

CORDIPLAN and the Republic of Venezuela; annual publications of the World Bank and the IMF; and articles from the daily newspapers especially the Spanish-language papers, *El Nacional*, *El Universal*, *Economía Hoy*, and the English-language Daily Journal.

Secondary Venezuelan analysis includes the reports published by the private economist firms, the journal of the Central Bank, the critical analysis of the monthly magazine *SIC*, selected articles from economic magazines such as *Numero*, and various other articles and books. Secondary sources published outside of Venezuela include Economist Intelligence Unit, Latin American Weekly Report, Latin American Economic Report, and various other relevant journal articles and books. The data is both quantitative and qualitative in nature.

Seven interviews were conducted. Two interviewees are economists from the Central Bank (who wished their names and exact departments to be kept confidential); an economist from a private consulting firm; a PDVSA economist in charge of industrial transition and petroleum-related export promotion; a corporate planner in CORIMON, one of Venezuela's largest private sector firms; a consultant in the financing department of the Ministry of Agriculture, and a CORDIPLAN analyst and part-time professor of political economy at the Central University. The interviews were based on opportunity and formal introductions, and were in no way an attempt at representativeness. In fact, all but one could be classified as members of the group of young "technocrats" who are assisting in the implementation of the adjustment program. All were professional observers of the economy, however, and conversant with both the negative and positive aspects of the new model.

ORGANIZATION OF THE THESIS

It has been the goal of Chapter One to provide an overview of the research focus and process. The discussion of the contemporary context of development and twentieth century Latin American development supply a contextual and historical backdrop for consideration of the Venezuelan case.

Necessary understanding of the relevant theoretical perspectives on Latin American economic development is provided in Chapter Two. The neo-liberal and structural perspectives are defined and compared. This is followed by a discussion of the weaknesses of the two perspectives and the resulting synthesis into neo-structuralism.

Chapter Three outlines the inward-oriented model as it was implemented in Venezuela and focuses on the major role played by the Venezuelan state, the dominance of petroleum in the economy, and the persistent influence of international actors, particularly the United States, in Venezuela's economic history. The chapter asks "why did Venezuela abandon the inward-oriented model," and argues that import substitution did not achieve its goals of sectoral balance, full industrial development and national self-determination. The effects of remaining structural problems, together with the effects of vulnerability to the world economy, resulted in economic disequilibrium and crisis that forced a change in economic development model.

The emergence of the outward-oriented model is the focus of Chapter Four, which outlines the major policy changes and shifts in the role of the market and the role of the state in the Venezuelan economy. The chapter suggests that Venezuelan decision-makers adopted the only real choice presented, that of an outward-oriented model. An increasingly global economy, a regional trend toward open economies and a domestic crisis in which negotiations with the IMF could not longer be avoided; mandating lowered protectionism and increased participation in international trade. The chapter then analyzes the changes in the Venezuelan economy since 1989; considering the short-term results of the adjustment, as well as the long-term trends as they appeared in mid-1991. The Venezuelan model is analyzed theoretically and compared with the neo-liberal and neo-structural models, considering the complementary and contradictory nature of the market and state. The chapter concludes that while the Venezuelan model evolved into an outward-orientation as a result of its global, regional and domestic context, the government implemented a neo-liberal/IMF model. Domestic opposition and the maintenance of the strong role of the state suggest the preservation of structural principles and the adoption of a neo-structural model.

Chapter Five analyzes the future viability of the Venezuelan state-and-market model in the global economy. The neo-structural model as it is emerging in Venezuela sets forth three goals: 1) sustained economic growth; 2) growth with equity; and 3) national self-determination. Analysis concludes that Venezuela's ability to maintain sustained economic growth is still dependent on petroleum and therefore its growth potential remains tied to the world petroleum market. Venezuela's ability to work toward a better distribution of wealth, to generate full employment and to eliminate extreme poverty is unlikely as the necessary state expenditure is limited by debt servicing obligations, an unstable world petroleum market, and IMF and World Bank hostility to public sector spending. Two important issues with a major impact on Venezuela's ability to maintain national self-determination remain undecided: 1) whether Venezuela will allow foreign participation in its petroleum sector; and 2) whether Venezuela will remain as a member of OPEC. Venezuela's ability to set its own course depends on the state's maintenance of control in the petroleum sector. If Venezuela revises its constitution to allow for foreign participation in the petroleum sector, and if Venezuela withdraws from OPEC, PDVSA, the state oil company, will progressively lose its identity as a provider for all of Venezuela and become a transnational corporation for profit.

The Conclusions of the thesis consider the usefulness of the neo-structural model as a guide to economic development and the viability of a state-and-market model in general will be discussed based on the conclusions suggested by the Venezuelan case.

CHAPTER 2

THEORIES OF ECONOMIC DEVELOPMENT

Throughout history, various theories of economic development have been proposed. In twentieth century Latin American experience, two theories have dominated. Neo-liberalism, which argues for development based on international trade and a global free market, and structuralism, which emphasizes domestic development protected from external forces by a powerful state. In the late 1980's, neo-structuralism, a synthesis of the two perspectives, is emerging.

NEO-LIBERALISM AND STRUCTURALISM COMPARED

The value of the free market was originally postulated by classical economist Adam Smith and David Ricardo around the time of the industrial revolution (Gonzalez 1989; Ibarra 1990; Williamson 1990). Since both believed that the state was the instrument of the ruling class, they argued for reducing state intervention so as to free the "invisible hand" of the market and thereby transfer major economic decisions from the ruling class to other individuals (Wilfred 1988). Smith and Ricardo concluded that the appropriate functions of the state in a market economy were to provide for national defense and protection of individual liberties, to provide an atmosphere where individuals could freely participate in a free and competitive market by insuring social and political stability, and to support the market through the provision and maintenance of infrastructure (Gonzalez 1989; Sunkel & Zuleta 1990; Wilfred 1988).

Classical liberalism fell into disuse as a result of the Great

Depression and was replaced by Keynesian ideas postulating the need for the state to aid the market. The Keynesian model was based on state intervention in the economy through government expenditure to stimulate consumption (Gonzalez 1989; Wilfred 1988).

The "stagflation", concurrent stagnation and inflation, that was frequently attributed to Keynesian economics was said to be caused by the inefficiency of the public sector (Ibarra 1990; Wilfred 1988). As a result, in the 1970's, the economic trend turned toward the ideas of Milton Friedman and the Chicago School, known as "neo-liberalism" (Gonzalez 1989; Kay 1989; Sebastián 1990). While sharing the classic liberal theory of the importance of the market and the "classic" role of the state in a free market economy, the neo-liberals did not interpret the state as an instrument of the ruling class, but rather as a force working for the collective interest by providing goods and services that the private sector could not (Wilfred 1988). The goal of the state, therefore, is to achieve optimal levels of taxation and expenditure to support the collective good, but not to interfere with the market (Wilfred 1988). Hostility toward public sector participation and deficit finance attributed to Keynesian expenditure made the reduction of the role of the state a primary target of neo-liberalism (Williamson 1990).

For both classical and neo-liberal economists, the market is the supreme coordinator of economic activity (Ibarra 1990; Wolf 1988). Uninhibited action by the private sector is identified as the best means of generating maximum efficiency and growth within an economy (Gonzalez 1989; Sunkel & Zuleta 1990; Wilfred 1988). Based on the rational decision-making of individuals, the price mechanism serves to balance supply and demand (Gonzalez 1989). Besides being rational, however, individuals are also self-interested, and will attempt to control or influence other's choices. For this reason, an uninhibited "invisible hand" will prevent manipulation and protect society (Wilfred 1988).

According to neo-liberal economists, the market tends toward equilibrium and stability over the long-term, by constantly moving toward greater efficiency, and therefore becoming increasingly globalized. The optimal national economy, therefore, is outward-oriented, participating in the international division of labor through development of that economy's comparative advantage [1] and its insertion into international trade (Kay 1989; Wolf 1988).

With the adoption of the outward-oriented model, neo-liberals anticipate that each less developed country will find its own "niche" in the world economy, produce what that nation is most suited for, i.e. comparative advantage, and thereby contribute to the maximization of the world economy. They argue that comparative advantage offers the LDC's the chance to diversify trade, gain foreign exchange, and reduce internal prices by buying goods at a world market rate. A competitive market encourages technical adaptation, and will lead to the most efficient use of resources.

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[1]Miller (1988) defines comparative advantage as "an advantage arising out of relative efficiency, which follows from scarcity of resources." The neo-liberal conception of comparative advantage assumes the existence of perfect markets in which a nation's comparative advantage arises primarily from "natural endowments" (Gilpin 1987).

The nature of the world economy, from the neo-liberal perspective, is beneficial to less developed countries in that they have the ability to benefit from the experience and technology of the developed nations. A world economy of free international trade, specialization and international division of labor favors development within the LDC's, allowing them to maximize return from scarce resources through the exploitation of the economy's comparative advantage. International trade is a source of peace, providing common interest among diverse areas of the world, and is based on free exchange among equal partners to the mutual benefit of all participants (Kay 1989).

Neo-liberal theorists define the world system as two loosely joined sectors--traditional and modern--suggesting that development is simply a matter of transformation from traditional to modern. The forces to facilitate development are constantly in process within the world economy and are identified as the creation of new markets and supply sources to expand participation in the world economy, the monetarization of economic life, and the development of new products and techniques.

Inequality exists between nations, as it does between people, because of differing attitudes and motivations. Some value hard work, sacrifice and savings more than others, and naturally, they will be more successful (Wilfred 1988). Underdevelopment is a condition characterized by subsistence agriculture, lack of technical education, low levels of personal savings, weak financial systems, inefficient government policies and parasitic government bureaucracy.

Underdevelopment therefore, is due to problems within the less developed nations themselves, caused by inadequate integration into the world economy and irrational state policy (Gilpin 1987).

The structuralist theory of economic growth was articulated as a response to neo-liberalism and is so called because of the assertion that development is hindered not by inefficiency, but by structural problems or "bottlenecks" that handicap the market-oriented system. Structuralists give greater weight to the political and social origins of economic events than neo-liberals, arguing that the specific historical context affects development potential and paths (Kay 1989; Wachter 1976).

Although structuralist ideas are not limited to Latin America, the articulation of the ideas and the import-substitution model that emerged following the Second World War was articulated by Latin American social scientists representing the *Comisión Económica para América Latina* (*CEPAL*)[2] (Kay 1989). Developed by Latin Americans to explain the problems of Latin American development, the ideas were not a formal theory but a pragmatic approach to the specific needs of the region (Kay 1989; Lander 1990; Sunkel & Zuleta 1990).

Structuralist theory was originally developed in response to the economic crisis experienced throughout the world following the First World War and in the Keynesian ideological climate favoring greater state intervention in the economy (Ibarra 1990; Williamson 1990).

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[2]*CEPAL* (or in English, the Economic Commission for Latin America and the Caribbean, (ECLAC)) is an agency of the United Nations located in Santiago, Chile (Kay 1989). The ideas designated here as "structuralist" are also known as the *CEPAL* theory of development or the *CEPAL* school of thought.

Largely dependent on primary exports, Latin American countries suffered severe economic disequilibrium as a result of the lack of export earnings and the inability to import manufactured goods traditionally purchased from the larger developed nations (Baer 1972; Kay 1989; López 1990).

Recognizing the need to reduce vulnerability to external shocks, the development emphasis became inward-directed, emphasizing domestic industrialization as the best means to stimulate overall development, assure economic self-sufficiency and political autonomy, and as the basis of military power (Baer 1972; Gilpin 1987; Kay 1989).

The structuralist perspective was based on the assumption that participation in international trade and in the world economy was not equally advantageous to all players. On the contrary, proponents argued that the world economy was composed of two units: the core, or those nations most developed and therefore most powerful; and the periphery, the underdeveloped and powerless. The world capitalist economy is biased in favor of the core, and market interaction between the two sectors increases the inequality between nations rather than lessening it, as the core dominates and benefits from relations with the periphery, at the expense of the periphery. Periphery nations remain underdeveloped because of unequal relations with core nations (Dietz & Street 1987; Gilpin 1987).

Development of the inward-oriented growth model was based on this underlying assumption that developing countries were extremely vulnerable to their world context. Recognizing the need to reduce this vulnerability to external forces in order to sustain growth, the emphasis turned from the free market, outward-oriented growth model of the pre-war years, to a protective, inward-oriented growth model.

Two forces are identified as the mechanisms of the differential relations between the core and the periphery: technological progress and deteriorating terms of trade. According to structural theorists, it is the nature of technical progress that creates the cycle of exploitation of the periphery by the core. In the core, new technical developments are spontaneously generated from within, and are diffused throughout the society, raising worker productivity and thereby increasing wages. In the periphery, on the other hand, technology is nearly always introduced from the outside, and is generally restricted to those sectors producing raw materials. This increases production in the primary sector, leading to unbalanced development in the economy as a whole. Accompanied by a shortage of capital due to low savings and elite consumption patterns that imitate the advanced countries, this results in technology which replaces workers rather than absorbing them. National unemployment rises, creating a decline in real wages. This results in cheaper commodity prices for the goods purchased by the core countries, completing the cycle, and returning the benefit back to the core (Dietz & Street 1987; Gilpin 1987).

The process of advantage generated for the core by technological progress illustrates the second mechanism of advantage for the core, that of the declining terms of trade. Developed concurrently but independently by two theorists of the United Nations, Raúl Prebisch in Chile and Hans Singer in the United States, the Prebisch-Singer thesis postulates a trend of steadily declining terms of trade for the periphery. The thesis argues that those nations specializing in production of raw material and other primary products, which includes the majority of developing nations, will face a deteriorating position, based on differential demand between the price for primary products and for manufactured goods. Income grows faster in the core countries, and based on Friedreich Engels' law, they argued that as income rises, less of the income is spent on food (Dietz & Street 1987; Kay 1989; Gilpin 1987). This results in a greater demand for manufactured goods in relation to primary products, forcing the primary exporting countries to continually export more to maintain growth. This process is compounded by the development of new technology which produces food substitutes or products requiring less raw material inputs (Kay 1989).

Attempts at development are also hindered by internal structural problems that are of historical origin and are indigenous to underdeveloped nations. These problems are identified as: 1) the continued pattern of external insertion into a world economy that contributes to impoverishment of underdeveloped nations; 2) the predominance of a disarticulated pattern of production[3] that is based on concentrated technology incapable of absorbing labor; and 3) the persistence of a structure of income distribution that is concentrated and exclusive and that illustrates the incapacity of the market system to reduce poverty (Lander 1990; Sunkel & Zuleta 1990). These internal structural problems, that were created or continue to be exacerbated by

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[3]According to deJanvry (1981), two types of disarticulation exist in periphery nations: 1) <u>sectoral disarticulation</u> in which linkages do not exist between productive sectors; and 2) <u>social disarticulation</u> in which linkages do not exist between the return to capital and the return to labor.

unequal external relations, prevent development and keep periphery nations in a self-perpetuating state of underdevelopment (Dietz & Street 1987; Gilpin 1987). From the structuralist perspective, the poor are poor because they are poor. To a neo-liberal, on the other hand, the poor are poor because they are inefficient (Gilpin 1987).

Obviously, such different foundational ideologies result in drastically different models of development. Structuralism proposes an inward-oriented model with a strong state to stabilize and protect the domestic economy, while neo-liberalism calls for an outward-oriented model based on the "invisible hand" of the market and unregulated by the state.

The development model set forth by the neo-liberal perspective is a passive one, allowing the forces of the market to work. The market strategy depends on an outward-oriented economic policy based on international trade through the exploitation of comparative advantage and supported by a competitive exchange rate and low tariff protection. Economic growth is supported by internal savings and effective investment (Sunkel & Zuleta 1990; Williamson 1990). The role of the state is to maintain social control and infrastructure and to facilitate the operations of the market, to encourage "discipline" in spending, and to actively promote development of the nation's comparative advantage and its promotion on the world market (Williamson 1990).

In contrast, based on the core/periphery thesis, and the theory of declining terms of trade, structuralists proposed a state-led model to diminish the influence of the core and stimulate the periphery to development. The structuralist growth model, better known as Import Substitution Industrialization (ISI), was implemented throughout Latin America during the post-war period. The goal of ISI was to develop domestic industry to produce manufactured goods which could be substituted for imports. The model proposed rapid industrialization with the state protecting infant industry from external competition and stimulating consumption of the domestically manufactured goods.

Under the inward-oriented model of growth, the state played a strong role in the planning, financing and control of industry, as well as acting as direct producer. Often characterized by a high level of nationalized or state-owned industry, the state served as primary investor in the development of new industry potential, as well as builder of infrastructure. Protection from competition was provided by control of import licensing, ration of foreign exchange, and manipulation of macro-economic policies such as currency exchange policy, interest rates, and import/export tariffs. Development and maintenance of the increasingly urban labor force necessary for an industrialized state was provided through wage control and government regulation of cheap food policies.

The model was defined by two primary characteristics, introversion and sectoral balance. Introverted, meaning the strategy was internally focused, stimulating domestic production for an internal market that would grow by increasing consumption capacity of the whole population. Both supply and demand were internally based with the state stimulating production and consumption (Ibarra 1990; Kay 1989). Secondly, the ISI economic growth strategy sought to be sectorally balanced, emphasizing and developing the interdependence between industry and agriculture (Hein 1980; Llambí 1982).

While industrialization was to be the focus, the import substitution model advocated the importance of even development of the agricultural sector as well (Márquez 1983). A strong agriculture was needed to provide

> 1)foreign exchange from exports for the purchase of capital goods abroad; 2) capital for urban and industrial expansion; 3) cheap food for an expanding urban work force; 4) a pool of cheap labor for newly created industries; 5) raw materials for manufacture; and 6) a market for domestic manufactures (Grindle 1986:48).

The state, therefore, should also assume a strong role in agricultural modernization through investment, provision of infrastructure, and support through fertilizer and credit subsidies (Grindle 1986).

The definition of what constitutes "success" of the proposed model of development, as well as the allowable costs, are important to the understanding of the two theories and the development of the neo-structural synthesis.

Neo-liberals define growth as linear, gradual, and continuous. The task at hand, therefore, is the immediate integration of the less developed nations into the open world economy, providing for the continued maximization of the market and therefore increased wealth for all of the world's peoples. The specific goal is self-sustaining growth that will guarantee productive employment, reestablish external market confidence and favor private initiative (Sunkel & Zuleta 1990). Progress is evidenced in the increase in wealth per capita, mutual gain surpassing relative gain in importance.

In the short-term, not everyone will benefit, because not all participants have equal skills and motivation, but in the long-term all will benefit in absolute terms. For an economy that has had extensive state intervention, there will be some costs of adjustment to a market model. This will be evidenced in short-term adjustment during which the restructuring of national economies will be painful for those who have enjoyed the protection of a nationalistic state. Unemployment, the depression of salaries to stimulate profit, and a drop in economic activity are necessary to set the economy back on the market track, according to this theory (Gonzalez 1989; Sunkel & Zuleta 1990; Wilfred 1988). This readjustment pain is allowable, as is the loss of nationalistic self-determination, considering the benefits of integration into the world economy.

In contrast to the neo-liberal definition of growth as slow and steady, from the structuralist perspective, growth is uneven, unfair and unpredictable. The relative gain of the individual nation therefore is more important than the long-term mutual gain of the world economy as a whole. The goals of structuralist development theory are the attainment of sustained economic growth, growth with equity, and national self-determination.

To reach these goals, certain costs are inevitable. Moderate levels of inflation can be tolerated while the national economy works to remove some of the "bottlenecks" that are hindering development (Kay 1989; Sunkel & Zuleta 1990). A certain degree of temporary foreign dependence may be necessary as the nation imports the capital necessary to stimulate its own industrial development, and benefits from the technology and skill that accompanies foreign investment.

Due to the unequal nature of the world economy, structuralists argue that individual nations are limited in their development potential. Therefore, a certain degree of national autonomy must be counterbalanced by cooperation with other LDC's through economic regionalism, commodity cartels such as OPEC, or united actions of the whole third world, such as the call for a New International Economic Order.

ANALYSIS OF NEO-LIBERALISM AND STRUCTURALISM

The primary criticisms aimed at the neo-liberal theoretical perspective are essentially the same as the weaknesses identified in a market economy. Over the long-term, the market produces unsustainable social differentiation, has a tendency toward concentration and monopoly, and does not provide the promised environment of perfect and fair competition (Ibarra 1991; Wolf 1988).

The neo-liberal model was constructed to explain the growth of industrialized nations (Sundrum 1990). The model ignores the social and societal context in which individual action takes place, reproduces the social relations embodied in them, and fails to acknowledge the failings of the market, instead focusing on the public sector as the source of all disequilibrium (Wilfred 1988; Sunkel & Zuleta 1990).

Critics of the outward-oriented model argue that comparative advantage is not static, but can be inhibited by problems of supply and demand. Supply problems, such as inadequate infrastructure, lack of market knowledge, and prohibitive packing and quality control requirements can hinder the development of non-traditional exports.

Restrictions of world markets limit demand and a developing nation's export capability. The growing protectionism of the developed nations, increasing competition for market access among "newly opened" developing nations, the susceptibility of demand to recession or stagnation in developed countries, and the possibility of global over-production, all put the less developed nations in a continued position of world vulnerability, calling into question the trust placed in unhindered market forces.

In response to neo-liberal praise of the success of the Asian newly-industrialized countries (NIC's), structuralists point out that the Asian success depended on a particular international context, ideologically as well as politically. Unlike most Latin American countries, the Asian governments did not face significant opposition from labor organizations. Export promotion efforts benefitted from an advantageous geographical location with access to resources and markets, profited from the active intervention of governments, and flourished in permissive world trade conditions.

Opponents to the neo-liberal perspective argue that the Latin American potential to exploit its comparative advantage is limited in that many of the smaller Latin American countries still lack machine-building capabilities. They would still have to import technology, and be forced to compete in a new world context in which potential competitors (such as the Asian NIC's) have had time to improve production and marketing skills and develop an appropriately skilled labor force. Foreign investment would still be required and would perpetuate the loss of national management control, creating a loss of initiative by national business (Sunkel & Zuleta 1990).

In contrast, neo-liberal criticism of structuralism focuses on the model's trust of and reliance on the state, arguing that too little attention is paid to monetary and fiscal matters. Structuralists unrealistically implement long-term solutions while ignoring short-term adjustment. Furthermore, structuralism is not theoretically well-developed and provides no formal model which economists can test against the neo-liberal model (Wachter 1976; Kay 1989). While the perspective successfully responds to the weaknesses of neo-liberalism it does not provide answers (Kay 1989).

Theorists of both camps agree on the immediate causes of the economic crisis in Latin America in the early 1980's. An international recession, including a drop in the prices of exports, accompanied by a rise in real interest rates and the debt-servicing obligations of the debtor nations, combined to create financial disequilibrium (Sunkel & Zuleta 1990). Most theorists also agree that the inward-oriented model as it had been implemented in Latin America was failing to create sustained growth. The two perspectives differ, however, in the identification of the underlying reasons for the exhaustion of the import substitution model, and therefore, in their explanation of the evolution toward outward-orientation.

Neo-liberals argue that while the immediate causes of the crisis might have been external, they only served to highlight the underlying causes of underdevelopment in Latin America. They point out that other developing nations that were as seriously affected by the international recession managed to recover (the Asian NIC's), and that Latin America has in fact exhibited a long-term decline (Sunkel & Zuleta 1990; Williamson 1990).

This decline can be attributed to the choice of wrong development policies, especially protectionist measures, allowance of overvalued exchange rates, the lack of incentive for savings, and the excessive role of the state (Sunkel & Zuleta 1990). Neo-liberals argue that abandonment of the inward-oriented model was inevitable because the very nature of the model is contradictory and the costs outweighed the benefits. The need to import raw materials, industrial inputs and machinery to develop national industry aggravates the country's economic situation rather than alleviating it by inherently leading to chronic balance of payment problems. Further, the national industry is inefficient because its development in a competition-free environment lead to inefficient production, wasteful expenditures, poor product quality, and poor management (Ibarra 1990).

Structuralists stand by the validity and viability of the inward-oriented model, but argue that weaknesses in its method and context of implementation contributed to its exhaustion. Structuralist proponents argue that there are several phases of the development of industrialization and that Latin American industrialization was not able to complete all the phases due to a restrictive international context, as well as factors of historical dependency (Kay 1989). The context of the model's implementation such as limitations of nation size, international price shocks, domestic and foreign political intervention, differential access to resources, and the availability and terms of foreign investment limited the success of the model.

Problems were created by the policy measures that accompanied the model's implementation. Structuralists argue that industrial activity had been exclusively directed toward domestic markets rather than first toward substitution of imports and then towards export markets. The technology that was adopted was too capital-intensive for the labor-rich nations of Latin America, and industry did not absorb sufficient labor to stimulate growth. Due to this lack of industrial employment, as well as the inherent limitations of a country's size, the internal market was limited by the consumer's ability to buy goods. This should have been compensated for by regional integration, modernization of the rural economy, and a greater emphasis on industrial exports. Finally, proponents of the model argue that the protection needed by nascent industries had been exaggerated in its implementation, preventing even local competition, which resulted in an inefficient monopolistic or oligopolistic industrial structure. Lack of capital-building ability aggravated the economy's external vulnerability, and increased foreign control, while industrialization was being delayed by lack of government action on structural reforms such as land reform.

Defenders of the ISI model would add that attempts were made to adjust the model to account for the real-life problems that had developed, but that the world context inhibited change. By the end of the 1960's the need for change was apparent, and suggestions for programs of gradual adjustment had been proposed. But the "easy money" of the early 1970's disguised the need for change. The abundance of external financing available at negative real interest rates discouraged structural adjustment that could have corrected the underlying problems. Instead, the unchanged model, in conjunction with the borrowed money, created a situation in the 1980's where "unmanageable external debt, critical levels of internal debt, sudden financial disequilibrium, runaway inflation and a drop in the rate of investment" made the need for change drastic and immediate (Sunkel & Zuleta 1990:49).

NEO-STRUCTURALISM: SYNTHESIS OF NEO-LIBERALISM AND STRUCTURALISM

The priority for Latin America and the Caribbean in the 1990's, as outlined by CEPAL, is "productive transformation with equity" (Lander 1990). The goals of neo-structuralists are essentially three: 1) achieve sustained economic growth by achieving a more fair and efficient insertion into the world economy and reducing structural heterogeneity by working toward sectoral balance; 2) work toward a better distribution of income and wealth, increase productive employment, and alleviate extreme poverty; and 3) achieve greater national autonomy by generating technical change from within the countries of Latin America and stopping the negative transfer of resources to developed nations (Lander 1990; López 1990; Sunkel & Zuleta 1990).

Neo-structuralists preserve the basic assumptions about the nature of the world economy and the importance of sectoral balance of the original structuralists, but seek to achieve and go beyond the original challenge of industrialization toward sectoral balance and the development of comparative advantage (Sunkel & Zuleta 1990). Under neo-structuralism there is no longer an explicit commitment to domestic industrialization, and it is no longer imperative that every economy have its own industrial structure (Ibarra 1990).

Neo-structuralists believe that the pure neo-liberal model provides powerful rationale for the maintenance of the existing international division of labor, which favors the primary exporting sector and foreign capital (Kay 1989). The state under the neo-structural model, therefore, maintains a strong role, supporting production, managing foreign trade, stimulating indigenous technological development, and serving as distributor of resources (LAWR 19/3/85; López 1990; Sunkel & Zuleta 1990)[4]. State policy should compensate for market disadvantages, support the development of comparative advantage, find markets for exports, and replace tariffs with export promotion measures (Sunkel & Zuleta 1990).

Neo-structuralists set forth a development strategy that includes reaching the goals of structuralism with the methods of a market economy. Whereas neo-liberalism focused on the market and structuralism the state, neo-structuralism plans for development in a mixed economy, behind a market-and-state model. Structuralists emphasized the inward-oriented stimulation of demand in the internal economy, neo-liberals the outward-oriented development of supply for the external market, while neo-structuralists plan for achieving a dynamic force of supply for both internal and external markets and maintain the internal demand-creating emphasis on employment creation and social programs (Sunkel & Zuleta 1990).

Sometimes called "neo-liberalism well-understood", or "neo-

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[4]All dates given conform to the international form of day/month/year.

liberalism with a human face" (Olivo 1991), neo-structuralism clearly attempts to combine the efficiency of a market economy with the social goals of structuralism and to find complementary roles of the market and state that will provide for optimal intervention.

Neo-structuralism is criticized by some for its lack of "ideologization", its use of technocratic language, and its break from the traditionally critical CEPAL position (Lander 1990). The plan shows excess confidence in the "goodness" of the state, trusting it to act in the nation's best interest rather than its own (Sunkel & Zuleta 1990). The proposition also seeks to make long-term changes without explaining how to deal with short-term problems or how to affect structural change (Sunkel & Zuleta 1990).

The strength of the plan is its recognition of a synthesis, of a future path of development involving both the market and the state. Perhaps equality is best achieved through efficiency, and perhaps the attempt at a synthesis of state and market will be successful. The problem is that the plan gives no suggestions for where the middle path should lie, closer to state intervention or closer to market freedom. Optimal intervention is to be an experimental process.

The neo-structural proposal also attempts to deal with the "reordering of the world economy" and the possibilities and limitations that will be present for Latin American nations. The changing world economy, the uncertainty created by the events in Eastern Europe and the Soviet Union, the Gulf War, and the formation of regional economic blocs could have both positive and negative consequences (Sunkel & Zuleta 1990).

Neo-structuralism is not the only conception of a market-and-state development model. The economic development of Japan, Taiwan, Singapore and Korea, and certain facets of U.S. economic practice have followed a path of varied amounts of state intervention in a market economy. Neo-structuralism, while not suggesting the exact method of attainment, puts forth clear goals of development for Latin American countries in a world context. The emerging Venezuelan development model clearly could be classified as neo-structural, and provides the opportunity to evaluate the potential viability of a state-and-market model in an increasingly global context.

CHAPTER 3

THE DEMISE OF THE INWARD-ORIENTED GROWTH MODEL

While achieving a certain degree of import substitution and the development of considerable manufacturing capacity by the end of the 1960's (Morales 1983), the Venezuelan economy under the inward-oriented model failed to achieve its goals of sectoral balance, greater national self-determination, and greater equity among its citizens. Despite strong state intervention, the economy remained dominated by petroleum and vulnerable to international market forces, while the internal market was limited by a regressive distribution of income and failure to create sufficient new employment. By the early 1980's, the effects of persistent structural problems, in conjunction with the negative impact of world economic events, resulted in economic disequilibrium, financial crisis, and the abandonment of the inward-oriented model.

ADOPTION OF IMPORT SUBSTITUTION INDUSTRIALIZATION IN VENEZUELA

Venezuela had three primary objectives for industrialization under the inward-oriented model: 1) reduce petroleum dependence by using oil revenue to develop the other sectors within the economy; 2) increase national self-determination and reduce vulnerability to external forces; and 3) stimulate the domestic market and contribute to equity through job creation and a more fair distribution of wealth.

In Venezuela, potential attainment of economic development was intimately associated with the resources generated by petroleum. At the same time, Venezuelans were also very aware of the economy's dependence on petroleum and the need to diversify the economy. A primary goal of ISI in Venezuela therefore was the use of petroleum to generate a sectorally balanced economy.

Petroleum in the Venezuelan economy illustrates the challenge and necessity of sectoral balance. Petroleum was first produced in Venezuela in 1914 (Hein 1980) and quickly replaced coffee and cacao as Venezuela's primary export (Llambí 1982; Martz 1980). In 1920, petroleum accounted for only two percent of total Venezuelan exports, but by 1930 it dominated the economy by comprising over eighty percent of total exports (Maza Zavala 1985). It emerged henceforth as the single most determinate factor in Venezuelan economic development (Hein 1980). Petroleum is not only Venezuela's most important export, traditionally comprising 90-95% of total exports (IMF 1988), it is also the single largest contributor to government revenue, usually accounting for at least two-thirds of total state income (Hein 1980; Martz 1986; Myers & Martz 1986; Republic of Venezuela 1990).

Petroleum provided important support for the initial industrialization process. The oil economy had created an internal market. Besides the wages and salaries paid to those in the petroleum industry, oil revenue supported growing infrastructural expenditures and an increasingly large public sector bureaucracy (Llambí 1982; Pérez Sáinz & Zarembka 1979; Sonntag & de la Cruz 1985). The petroleum industry contributed to the creation of a supply of labor necessary for industrialization by encouraging changes in the population distribution. Venezuela was changed from a primarily rural population with a slow rate of growth to an urban nation with a rapidly growing population (Llambí 1982; Sonntag & de la Cruz 1985). Finally, petroleum supported industrialization with a more than adequate supply of fuel resources (Sonntag & de la Cruz 1985).

The abundance of petroleum wealth in Venezuela made possible strong state investment in economic growth. The Venezuelan program of import substitution, *sembrar el petroleo*, or "sow the petroleum" was a strategy to use petroleum income to stimulate the development of the internal economic structure (Hein 1980; Martz & Myers 1986).

An important factor in Venezuela's interpretation of *CEPAL*'s import substitution ideology was the fear of drastic sectoral imbalances that would inhibit sustained economic growth. Later named *"enfermedad holandés,"* or the "Dutch Disease", the syndrome derived its name from the declining commodity production by the manufacturing sector in the Netherlands after the 1960's discovery of natural gas in the North Sea[1] (Kamas 1986; Scherr 1989, 1991).

Focusing primarily on oil exporting economies, the Dutch Disease model seeks to explain the dangers of a primary export boom. Generally considered to be "lucky", the increase in income and improvement in the balance of payments following an export boom can create negative effects within the economy. Sectoral imbalance, caused by a large inflow of foreign currency into the boom sector, can negatively effect agricultural or non-boom industrial sectors, thus contributing to the displacement of traditional sectors (Scherr 1991). As explained by one author:

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[1]It is important to note that the Dutch Disease is by definition the results of a "boom" in the primary sector, and does not attempt to explain the long-term effects of a dominant sector. Both are important phenomenon in Venezuelan economic history, but the ideas are not synonymous.

> The booming sector draws foreign exchange into the economy raising domestic demand and creating inflationary pressures on domestic prices...relative prices of products in different sectors are distorted by changes in the real effective exchange rate of the currency...the overvalued nominal exchange rate...will make prices for imported commodities appear even cheaper, and export prices higher for foreign consumers, further constraining domestic production of tradeable commodities (Scherr 1989:544).

In other words, the "unproductive profit" of petroleum rent translates into an elevated amount of imports and overvaluation of the currency. The extra income is directed toward the development of non-transferable (and therefore non-exportable) goods such as utilities and social services, at the cost of stagnation of the productive sectors (Hein 1980; Karl 1986; López 1989; Scherr 1991).

Venezuela, aware of the dangers of sectoral imbalance as early as the 1940's [2], sought to combat the dominance of petroleum through state management of petroleum income. The state served as distributor between sectors, using petroleum revenue to invest in manufacturing and agriculture, as well as to distribute to consumers through job creation and social programs.

The second goal of Venezuela's ISI program was to reduce international influence in its domestic economy, thereby increasing its national self-determination. This meant not only the development of agriculture and domestic industry to reduce the dominance of petroleum as primary export, but also reducing its dependence on imports through the import substitution of manufactured goods (Baer 1972).

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[2]It was to avoid sectoral imbalance that Venezuela chose in 1940 to implement an exchange rate system with differential rates for the petroleum sector and the rest of the economy. With small revisions, the system remained in effect until 1976 (Márquez 1983).

The process of import substitution in Venezuela was inhibited from the beginning, however, by the direct influence of the United States through the Treaty of Commercial Reciprocity. Signed with the U.S. in 1939, the Treaty of Commercial Reciprocity imposed tariff limits on nearly 200 products, mostly consumer goods. The treaty, a result of a U.S. "trade offensive" in response to growing protectionism around the world, prevented Venezuela from implementing direct protectionist measures under its policy of import substitution (Márquez 1983).

Beneficial to Venezuela because of the preferential treatment of its petroleum exports, the terms of the treaty were not truly "reciprocal". The treaty consisted of two lists, U.S. exports to Venezuela and Venezuelan exports to the U.S. A quantitative limit was fixed on each item listed, giving preference to treaty participants over other nations, by designation of "most favored nation". The unequal nature of the treaty can be seen in the number of products protected. Venezuela's list of exports to the U.S. contained 17 products, while the U.S. export list included 178 products (Márquez 1983; Pérez Sáinz & Zarembka 1979).

The treaty was revised somewhat in 1952 when Venezuela became angry at U.S. attempts to restrict the import of Venezuelan petroleum (Sonntag & de la Cruz 1985). The new terms allowed for the limited implementation of protectionist policies which served to support a "precarious" substitution of consumer goods, but continued to favor intermediate industrialization by facilitating the import of tools and machinery (Pérez Sáinz & Zarembka 1979; Sonntag & de la Cruz 1985).

The treaty remained in effect until June 30, 1972, when Venezuela annulled it (BCV 1988; Pérez Sáinz & Zarembka 1979).

Although Venezuela was unable to close its borders to imports from the U.S., support for domestically manufactured goods depended on consumer demand in the domestic market. Stimulation of the internal market was the third goal of the ISI program. Both supply and demand were to be internally based (Ibarra 1990; Kay 1989), to integrate all Venezuelans into the economy as consumers and productive workers. The hope was that the redistribution of petroleum revenue would allow Venezuela to avoid the inherent zero-sum problems of the distribution of income and wealth and provide benefits for all Venezuelans (Karl 1986).

As President Rómulo Betancourt wrote in 1961:

> We must dispel the happy theory that the oil derricks are producing an inexhaustible quantity of dollars and bolivars. The truth is that we are spending the proceeds of unrenewable, perishable wealth, and that we must spend it well, taking advantage of the extraordinary current situation of Venezuela to establish solid and durable bases for the Venezuelan nation (in Martz 1986:246).

This involved state expenditure through social programs to provide income, and social services and to support development projects that would stimulate employment. It was a state priority to use petroleum revenue to extend education, health services, clean water and electricity to the majority of its citizens (BCV 1988; Márquez 1983).

In addition to its influence on the development goals identified under the inward-oriented perspective, petroleum also affected the timing and process of industrialization (Pérez Sáinz & Zarembka 1979). Revenue generated by petroleum served to delay the need for indigenous industrialization in Venezuela until the end of World War II, almost two decades behind its Latin American neighbors. This was largely due to the fact that the income from oil revenues provided for continuous expansion of import capacity (Karl 1986).

Although records show isolated industrial activity dating back to the 1850's, [3] "significant" industrialization began in the 1950's as a result of an oil boom which "literally forced the country into industrialization". Between 1950 and 1957, Venezuela accumulated large amounts of foreign exchange, more than doubled petroleum exports, tripled treasury reserves, and enjoyed manufacturing sector growth of 313% (Karl 1986).

The basic strategy of import substitution identified three areas of concentration: 1) development of modern infrastructure; 2) establishment of heavy industry to process Venezuelan natural resources, and 3) the substitution of manufactured and agricultural imports by locally-produced products (Hein 1980).

The actual process of industrialization in Venezuela can be divided into two stages, the initial stage between 1950-1957 and the second stage, from 1958-1973. While the traditional first stage in import substitution throughout Latin America involved the substitution of consumer goods, the process in Venezuela was characterized by a shift toward the development of intermediate goods (Pérez Sáinz & Zarembka 1979).

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[3] In 1858 the first mechanized loom was in use in Venezuela, and by the early 1900's industry included textile mills, a brewery and factories producing cigarettes, nails, matches, glass and paper (Sonntag and de la Cruz 1985).

The goal of substituting locally-made consumer goods for imported goods was undermined by the continued ability to import. Imports remained subsidized and supported by petroleum income, and the Commercial Reciprocity Treaty made it impossible to stop the flow of imports into the country. As a result, only a few sections of industry completed substitution during the first stage, and Venezuela remained one of the least industrialized nations in Latin America (Salazar-Carrillo 1986).

The beginning of the second stage in 1958, marked by the end of the Pérez Jiménez dictatorship and the implementation of a democratic government, was evidenced by new state commitment to deepening the industrialization process. The implementation of protective measures differed again, however, from other Latin American nations due to the influence of the Commercial Treaty with the U.S. (Pérez Sáinz & Zarembka 1979). A tariff structure was established but did not provide the main instrument of protection. Instead, state intervention in the industrialization process was implemented in the form of licensing quotas and duty exemptions. The increased state protective role during the second stage encouraged the previously skipped substitution of consumer goods, but continued to be focussed toward intermediate goods. By the end of the 1960's, half of all imports consisted of intermediate goods such as machinery and tools, while food and other consumer imports were progressively displaced by raw material imports[4] (Pérez

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[4]It is important to note that restrictions were never imposed on the import of raw materials or capital goods due to high import capacity supported by petroleum exports (Pérez Sáinz & Zarembka 1979).

Sáinz & Zarembka 1979).

By the end of the 1960's, Venezuela had achieved some success in its attempt to develop under the inward-oriented model (Hirschman 1968). Throughout the 1960s and 1970s imports were lower due to the success of domestic substitution (BCV 1988). By 1970, import substitution was basically completed in "food processing, tobacco, textiles, pharmaceutical, tires, glass and cement". (*Banco Central de Venezuela*, 1969, 1970, as cited in Pérez Sáinz & Zarembka 1979:11-12).

DOMINANCE OF THE STATE IN THE INWARD-ORIENTED MODEL

The state was the predominate actor in the inward-oriented development model. This was evidenced in centralized state planning, as well as participation by the state in stimulating supply and demand within the domestic economy, through the transmission of petroleum revenue to the rest of the economy (Alvarez 1988; BCV 1988).

Beginning officially in 1958, the Venezuelan state promoted development by acting as primary strategist and planner of state priorities (Pérez Sáinz & Zarembka 1979). Centralized state planning was seen as the best way to achieve coordination of the development effort and to eliminate the wastes of a free market system, thus providing for the optimization of development resources (Cáceres & Marval 1983; Levy 1968). Based on CEPAL identification of the disadvantages of peripheral economies and international terms of trade, centralized planning was chosen as a means to overcome structural barriers, counter external influences, and produce the internal development that the market mechanism had so far failed to generate (Cáceres & Marval 1983; Levy 1968).

In 1958, Venezuela created the Central Office of Coordination and Planning, or CORDIPLAN (*Oficina Central de Coordinacion y Planificación*) (CORDIPLAN 1984). CORDIPLAN was responsible, in coordination with the administration, for the development and articulation of a clear direction for the future (Oberto 1971). This plan was based on formalized studies of the national economy and evaluation of the strengths and weaknesses of the previous plan (CORDIPLAN 1984; Levy 1968; Viana 1980).

The most essential concern of CORDIPLAN was with the allocation of public resources. Day-to-day activity was largely occupied with the evaluation and approval of budget proposals from various government entities and the formation of annual budgets for Congressional approval (Levy 1968). A special focus of CORDIPLAN was the oversight of sectoral allocation and investment decisions (Cáceres & Marval 1983; Levy 1968; Viana 1980).

Besides planning, the Venezuelan state also participated in stimulating both supply and demand. On the supply side, the Venezuelan government played an active role in production within all sectors but most importantly, in the production of petroleum.

After the discovery of petroleum reserves in Venezuela, concessions were granted to foreign oil prospectors to develop and market the reserves (Hughes 1984). The government taxed various aspects of the petroleum industry as a source of revenue, with the minimum lien frequently above sixty percent (Márquez 1983).

Even though the international companies had rights to the production of oil, the Venezuelan constitution preserved all subsoil rights for the state, meaning the right to extract petroleum, minerals, and everything under the soil remained the permanent property of the nation. Based on this constitutional right, Venezuela nationalized the steel companies in 1975 and the oil companies in 1976 (Hein 1980; Martz 1980; Petras & Morley 1978), giving the state greater control over production of the two most important Venezuelan exports (Pérez Sáinz & Zarembka 1979).

Responsibility for management of the petroleum industry was given to a newly established state enterprise, *Petroleos de Venezuela S.A.*, or PDVSA. PDVSA serves as a national holding company, owns the shares of all the operating companies, and has responsibility for the planning and supervision of all Venezuelan oil activity (Martz 1986; Republic of Venezuela 1990).

In addition to its direct responsibility for the petroleum industry, the state has also taken an active role as producer in non-petroleum sectors. Beginning in the 1960's, the Venezuelan state began to participate directly in the production of petrochemicals and basic metals, industries requiring large initial capital investment and offering unprofitable returns in the initial stages. State-owned industry extended from steel mills and aluminum plants to petro-chemical refineries producing fertilizers, explosives, sodium-chloride and liquid gas. Eventually, state production extended to also include cement, paper and pulp (Pérez Sáinz & Zarembka 1979), and various service entities such as hotels, the phone company, water and electric utility companies, financial institutions and social service enterprises such as hospitals and housing agencies (BCV 1988).

By 1979, the state accounted for 41% of the country's total gross domestic product (GDP), compared to 14% in 1970 (Morales 1983), while six of the ten largest enterprises operating within Venezuela were state-owned (Morales 1983; Petras & Morley 1983). By 1985, besides the 22 ministries of central government administration, the public sector included 68 "autonomous institutes", 174 state enterprises and 36 mixed companies, including the Caracas metro, arms and salt industries, television and radio stations and the Caracas race track (LAWR 26/4/85).

In addition to its role of direct producer, the Venezuelan state also served as an important promoter of industrialization through its role as allocator of resources between the petroleum sector and the rest of the economy. The active participation of the state as investor began in the 1940's, when the state provided financing for industries producing consumer goods such as soap, textiles, shoes and alcoholic beverages, and intermediate goods such as cement (Pérez Sáinz & Zarembka 1979).

In 1946, the Venezuelan Development Corporation (Corporacion Venezolana de Fomento (CVF)) was founded, soon becoming the state entity most responsible for the financing of industrialization (Sonntag & de la Cruz 1985). At the same time, various regional development corporations such as the Corporation Venezolana de Guyana were established to channel state funds towards the exploitation of the resources of the nation's regions (Martz & Myers 1986).

State support for private industrialization was also provided through the creation of regional development banks such as the Banco de

Fomento Regional in Coro, created in 1950. Other regional banks were created in the Andes region in 1951, in Guyana in 1955, and in Zulia in 1956 (Sonntag & de la Cruz 1985).

The enormous growth of petroleum income in the 1970's produced unprecedented levels of income for the Venezuelan state and served to deepen the process of import substitution through increased investment into basic and intermediate industry. At its peak in 1977 and 1978, government investment levels reached 40% of GDP (IMF 1990).

The oil boom of 1973-74 also stimulated the creation of an institution with few precedents in the rest of the world, the Venezuelan Investment Fund (FIV, or *Fondo de Inversiones Venezolanas*). The FIV was established as a result of the enormous amounts of foreign exchange flowing into Venezuela. The initial purpose of the FIV was to protect the economy from the inflationary pressure of exorbitant amounts of available money by holding that money in overseas accounts. The FIV served to freeze part of additional oil revenues, to accumulate foreign reserves, and to act as a development bank (LAER 2/4/76; Martz & Myers 1986). During the Fund's first three years, it received twenty-three billion dollars, which represented nearly twenty percent of total government revenues for that time period (Petras & Morley 1983).

The resources of the FIV were to be used for two purposes, to create conditions supporting the purchase of Venezuelan exports by lending money to international institutions such as World Bank, IMF, and the Andean Development Corporation, and to support the state's development projects within Venezuela (Márquez 1983; Pérez Sáinz &

Zarembka 1979).

The state also worked to promote the development of the agricultural sector. Before Venezuela became a petroleum-led economy in the 1930's it was an agricultural export economy, based on coffee and cacao (Levine 1978; Viernes 1990a). With the collapse of demand for these exports during the depression, Venezuelan agriculture lost its leading role in the economy. The percentage of total GDP contributed by agriculture dropped from one-third in the 1920's to less than one-tenth by 1950 (Karl 1986; Martz 1980). The emergence of the petroleum industry contributed to the demise of agriculture by creating an over-valued bolivar which reduced the international competitiveness of coffee and other traditional exports, and by stimulating a major movement of the population from rural to urban areas (Karl 1986; Levine 1978).

Agriculture traditionally has been characterized by extreme land concentration, with the state as one of the large landholders (Herman 1986). This concentration resulted in inefficient use of the land and hindered development by constraining the growth of the internal market (Herman 1986).

Following the introduction of democratic government in 1958, sustained attempts were made to further agricultural development (Martz 1980). In 1960 the state passed an Agrarian Reform Law aimed at "putting the land into the hands of those who worked it" (Herman 1986). The objective of the reform emphasized improving the social well-being of the rural population, promoting social justice and opportunity in rural areas, stimulating productivity to meet domestic demand and generating employment (Herman 1986; Martz 1980).

Throughout the 1960's agricultural policy remained focused toward social goals. In the early 1970s, however, the focus became the development of agriculture as a means of economic growth (Herman 1986; Martz 1980; Petras & Morley 1978). Successive administrations invested substantial amounts of petro-dollars in agriculture and created various state enterprises to support, regulate and promote growth (Herman 1986; Martz 1980; Roberts, Gorriz and Bolling 1990).

Besides its role as investor in agriculture and industry, the role in economic development played by the Venezuelan state also included the creation of demand for the domestically-produced goods. One method of assuring strong local demand was by protecting local industry and agriculture from competition.

This protection was provided through trade policy restricting foreign imports. In Venezuela, a tariff structure was established, but due to the Commercial Treaty with the U.S., the tariffs had limited ability to restrict imports. Instead, quantitative quotas limited imports and protected a portion of the local market for domestically produced goods.

Licensing, another method of protection, required applicants to prove 1) potential absorbability in the internal market, 2) use of domestic inputs, and 3) impact on employment, prices and amount of value added. By 1962, 269 commodities were affected by licensing, while by the end of 1969 the total number rose to 599. (Pérez Sáinz & Zarembka 1979).

In addition to the use of tariffs and licensing quotas to regulate trade, the state also served to protect the development of local industry by regulating foreign capital. By the end of the 1960s it was evident that the use of licensing and duty exemptions to protect nascent industry from the competition of foreign goods was not serving to protect local industry from foreign capital. Increasing nationalistic feeling caused government to begin to regulate foreign participation. The milk industry was one of the first industries to be affected by the force of "*venezolanizacion*". Direct action of the state resulted in the foreign ownership of the Nestle-Borden corporation to be reduced to 40% (Pérez Sáinz & Zarembka 1979).

Venezuelan entry into the Andean Pact in 1973 further strengthened the nationalization of industry, especially through the 24th article, which laid out clear guidelines for the registration of foreign capital, and limited the repatriation of capital and profits. To enforce compliance with Article 24, Venezuela created the *Superintendencia de Inversiones Extranjeras (SIEX)* for the purpose of classifying firms as national, foreign or mixed, regulating foreign investment, controlling technology and patents, and controlling internal and external loans (Pérez Sáinz & Zarembka 1979). In 1976, commitment to the process of *venezolanización* was made clear when the government decreed that major foreign manufacturers would eventually be required to sell 80% of their stock to Venezuelans. The forced nationalization of these firms was never completed since the administration changed the requirements at various times and eventually the process became bureaucratically stalled (Martz & Myers 1986).

State protection of the agricultural sector was extensive. While considerable amounts of state investment were spent to develop agricultural infrastructure, the majority was spent on production subsidies (Maxim Ross 1990). Interest rates for agriculture were subsidized, providing long-term loans at very low interest rates (Delgado 1991; Roberts et al. 1990; Viernes 1990d). With the exception of the early years of the Luis Herrera Campîns' administration (1979-1983), the government regulated agricultural prices by guaranteeing a return to growers and subsidizing the products in order to guarantee cheap food for urban consumers (Delgado 1991; Herman 1986; Martz 1980).

In addition, imported agricultural inputs were subsidized by the over-valued bolivar and price-support programs [5] (Carlos Gonzalez 1990). Domestic production was protected by high import tariffs (Herman 1986; Martz 1980), and domestic consumption was guaranteed through mandatory purchases by large agro-industrialist before import licenses would be granted (Delgado 1991; Carlos Gonzalez 1990; Roberts et al. 1990).

The final important role of the state was to create demand in the internal market through its role as provider and distributor of wealth. The state was not only "all-powerful and authoritative, but also generous, to improve the welfare of all its members" (BCV 1988).

This role was reflected in a social redistribution policy supported partly through state expenditure on public works and the creation of a state bureaucracy. This was focused especially in education, public health facilities, housing programs, and the

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[5]Fertilizers, for example, were produced in Venezuela exclusively by one state enterprise which sold to farmers at reduced prices (Carlos Gonzalez 1990).

construction of water and sewage systems (Hein 1980; Pérez Sáinz & Zarembka 1979).

Petroleum provided sufficient funds for the state to stimulate growth through investment, while at the same time supporting the middle and working classes (Myers & Martz 1986).

> Each government granted extensive subsidies, contracts, and infrastructure to entrepreneurs while charging the lowest taxes on the continent and allowing some of the highest profits. At the same time...governments could afford to support...price controls, huge food subsidies, and an agrarian reform. (Karl 1986:215).

Finally, the state also served as a protector of wages by guaranteeing the rights of unions to collective bargaining and benefits (Ibarra 1990; Llambí 1982).

EXHAUSTION OF THE INWARD-ORIENTED MODEL

Although some early success of the inward-oriented model was evident throughout the sixties and seventies (Hirschman 1968), by the end of the 1970's and early 1980's, there was increasing agreement that the *sembrar el petroleo* model had not eliminated the primary structural problems of the economy. In spite of extensive state intervention and considerable petroleum revenue, it was clear that the economy under the inward-oriented model had succeeded in none of its three primary goals: 1) creating a sectorally-balanced economy; 2) stimulating sufficient internal market demand to generate a more equitable social situation; nor in 3) decreasing vulnerability to external forces (Alvarez 1988; BCV 1988; Márquez 1983; Morales 1983).

Persistent structural problems, exacerbated by conjuncture shocks resulted in the exhaustion of the inward-oriented model. One of the primary structural limitations remaining, in spite of considerable effort, was the persistence of sectoral imbalance.

Venezuela had been characterized by external vulnerability almost since the discovery of petroleum in the 1920's (Alvarez 1988). Even though consensus had existed among Venezuelan leaders for four decades to exploit petroleum in order to develop the other sectors of the economy, Venezuela's dependence on petroleum remained high (Martz 1986).

Since 1930, when petroleum replaced coffee and cacao as the primary export, petroleum has never accounted for less than 90% of total exports (IMF 1990; Maza Zavala 1985). This dependence continued through the 1970's and early 1980's, with petroleum accounting for an average 94% of total exports (IMF 1988, calculations by author), and two-thirds of government revenue (Alvarez 1988; Morales 1983). In 1983-84, oil accounted for 96% of foreign exchange income, and Venezuela depended on petroleum to make payments on its foreign debt (LAWR 1/6/84).

Investment in manufacturing and other non-petroleum industries under the inward-oriented model was substantial, yet by the 1980's the non-petroleum sector had not developed sufficiently to lessen the importance of petroleum to the economy (Morales 1983).

In the fourth national plan (1970-74), it was decided that the public sector would develop export potential, while the private sector focused on import substitution (Morales 1983). Strong state intervention in the development of industry was concentrated in basic industries, resulting in substantial production capacity and expanded exports in steel and aluminum (Morales 1983), but not the diversification of exports. The export of manufactured goods increased steadily through the 1970's but from a very low beginning level, and by 1980 still represented only 3.8% of total exports (Morales 1983).

The development of industry in Venezuela was hindered by its concentration in the hands of the public sector (whose management was inefficient and ineffective (BCV 1988), and whose investment was concentrated in a few select industries). A limited domestic market, and the fixed exchange rate which limited international competitiveness (Morales 1983) also served to retard industrial growth. As a result of price controls, private sector investment in Venezuela was largely focused toward the service sector (BCV 1988; Morales 1983).

When the first oil boom hit Venezuela in 1973 and 1974, manufacturing infrastructure and industrial potential existed but were undermined by a "gold-rush" demand (Rangel 1983). The petro-boom created a demand greater than supply capacity, resulting in an import boom which "drowned domestic production" (BCV 1988; Morales 1983; Salazar-Carrillo 1986). Venezuela's manufacturing capability, which had grown steadily from the 1930's through the early 1970's, was weakened by imports that were financed by the oil booms (Salazar-Carrillo 1986).

Despite major efforts by the Venezuelan state to stimulate and protect agriculture, the sector proved to be "one of the most notable disappointments" of the *sembrar el petróleo* plan (Roberts et al. 1990).

Growth in the sector was limited by some inherent climatic limitations. A substantial portion of the Venezuela territory is mountainous and difficult to cultivate. The highest percentage of crops are grown in the Llanos region which makes up one-third of the total land area and is subject to recurring floods and droughts. The uncertainty of climatic factors, and the time lag between investment and return (planting and harvesting) makes the supply of agricultural products inflexible and private sector investment unlikely (Delgado 1991; Herman 1986; Martz 1980; Maxim Ross 1990).

Structural factors also served to limit the growth of the agricultural sector. The Agrarian Reform was moderately successful, but overall the results were not what had been hoped (Martz 1980; Viernes 1990b). The program had generated substantial redistribution, albeit less than proposed; had increased funding specifically destined for agriculture, and supported an expansion of government services (Martz 1980). However, by 1970 it was clear that the class differentiation in the countryside had worsened rather than improved (Martz 1980). Problems in land tenure remained, including land misuse, and problems with title grants (LAWR 22/3/85). By 1985, it was estimated that of the 40 million hectares of arable land, less than two percent was under cultivation (Herman 1986; LAWR 5/7/85). Although producers had permanent use privileges, ninety percent of the land still legally belonged to the government, leaving producers with no collateral for loans (Delgado 1991; Herman 1986). The seasonal nature of agricultural production created periodic shortages of labor, frequently filled by illegal Colombian immigrants (LAER 7/5/76).

The "paternalism" of the state also contributed to the problems of agriculture as the proliferation of state agencies created a confusing, disorganized network of agencies with overlapping responsibility (Herman 1986; LAER 7/5/76; LAWR 5/7/85; Martz 1980). Price regulations limited profitability and thereby discouraged production and investment (LAER 3/6/77; LAWR 5/7/85; Martz 1980; Maxim Ross 1990). Likewise, inefficiency and corruption in government agencies, particularly the agricultural credit agencies, resulted in ineffective use of state investment, and the channeling of loans to large farmers who could afford to bribe officials (LAER 7/5/76, 3/6/77; Herman 1986; Martz 1980).

Several forces competed for priority in agricultural policy and resulted in inconsistent and contradictory policy (Martz 1980; Viernes 1990a). The conflict between social and economic objectives was evidenced in priorities varying between small-scale peasant development and large-scale technocratic support for agro-industry and commercial farming. Ranchers competed with farmers for available credit (Petras & Morley 1978), and price controls providing cheap food for urban workers conflicted with private sector forces seeking to free prices to increase profitability (Herman 1986; Martz 1980; Roberts et al. 1990).

The result of these factors was an agricultural sector contributing less to the nation's GDP than any nation in Latin America (Martz 1980). Venezuela experienced stagnation of national food production and growing import dependence. In 1971, food made up 46% of total imports, rising to 71% in 1979 (Martz 1980) before dropping in 1982 to 65% and 50% in 1985 (Herman 1986).

The problems of agriculture were illustrated by the food crisis in early 1977, precipitated by the halting of all Colombian exports. Both countries were suffering from shortage caused by prolonged drought after widespread flooding. In Venezuela the shortage led to an emergency decree allowing duty-free import of staple foods for three months (LAER 13/5/77).

The inability to diversify the economy and provide other sources of national income left Venezuela highly vulnerable to an unstable world economic context and volatile oil markets (Alvarez 1988).

In addition to persistent petroleum dependency, Venezuela continued in its vulnerability to external forces through its dependency on the U.S. for trade and technology. Hughes (1984) defines trade dependency as the condition when a nation depends heavily upon one other nation for most of its trade. Simply put, Venezuela is trade-dependent upon the United States.[6] Since 1946, the U.S. has received over 30% of all Venezuelan exports, replacing the Dutch Antilles as Venezuela's major trade partner in 1960. During the 1960's the U.S. received for over 40% of all Venezuelan exports. Although that percentage dropped to around 33% during the oil-boom years of the 1970's, the U.S. remained the major trading partner, with the nearest competition accounting for only 10% of Venezuelan exports (Maza Zavala 1985).

Venezuelan dependence on the U.S. as a source of imports is even more marked. Since 1913 the U.S. has supplied the vast majority of Venezuelan imports. Reaching a peak of 70% of all imports in 1946, the U.S. percentage dropped through the 1960's and 1970's to around 40%.

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[6]As Maza Zavala (1985) argues, this trade-dependence is a natural result of two factors: Venezuela is one of the world's leading producers of petroleum, and the United States is the world's single largest consumer of petroleum.

The nearest single nation competitor is Germany which provides less than 10% (Maza Zavala 1985). During the import substitution period, this trade dependence, evidenced by the terms of the Commercial Treaty, limited Venezuela's ability to regulate imports and thereby protect developing national industry.

The continued vulnerability created by trade dependence is illustrated by the threat presented to the Venezuelan economy by a bill proposed in the U.S. Congress in 1986 which sought to tax petroleum imports. At that time, the U.S. accounted for 46% of Venezuelan exports. Had the bill passed, [7] with OPEC-bound Venezuela unable to raise prices to make up the loss, the import tax would have cut sharply into the national economy (LAWR 14/3/86).

Venezuelan development also continued to be hindered by persistent technological dependence, a side effect of the import substitution model that Venezuela shares with many of its Latin American neighbors (BCV 1988). Besides the enormous aggregate cost, the need to import technology to support industrialization frequently required foreign borrowing. Much of the imported technology was inappropriate for Venezuela's needs, involving the "transplant of technology rather than the transference (Márquez 1983:32; Morales 1983).

Besides being capital-intensive and therefore having limited ability to absorb labor, the knowledge of maintenance and use of the machinery frequently remained with foreign technicians (Márquez 1983;

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[7]Venezuela set up a powerful Washington lobby group to work to prevent the bill's passage (LAWR 14/3/86).

Pérez Sáinz & Zarembka 1979). Consequently, Venezuelan industrialization was hindered by limitations of its labor force. Venezuela lacked skilled workers and technicians, as well as managerial capability (LAER 14/5/76; Llambí 1982; Márquez 1983; Morales 1983).

Through *sembrar el petroleo*, Venezuela sought to reduce its vulnerability to the world economy by developing its own national industry. Instead, development of its industry, dependent on expensive foreign technology and foreign knowledge, only contributed to the overall problems of vulnerability.

Venezuelan development was also hindered by persistent limitations of its internal market. Although by the 1970's it could be said that all Venezuelans had benefitted to some degree by the oil wealth (Martz 1980) through subsidized food and gasoline and government regulation, the internal market was proving inadequate to stimulate sufficient demand for manufactured goods. This was due to two primary factors--a worsening in the distribution of income, and the inherent structural limitation of Venezuela's size.

Venezuela previously had a low average income, but petroleum contributed to making it a nation with a highly unequal distribution of wealth (Llambí 1982; Sonntag & de la Cruz 1985). Due to the inappropriate nature of the imported technology, job creation had not kept up with population growth or the trend toward urbanization (Baer 1972). Although by 1981 Venezuela had reached one of the highest per capita incomes in the region, the income remained unevenly distributed (Hirschman 1968). In 1980, it was estimated that 40% of the population lived at or below the subsistence level (Morales 1983). While some

Venezuelans benefitted from the petroleum booms and evidenced "consumption habits which were distant from reality" (Alvarez 1988), these benefits clearly did not extend to the entire population, thereby limiting the growth of the internal market.

Secondly, Venezuela was affected by one of the limitations of the structuralist model that was identified in hindsight--that of its size. Venezuela is a medium sized country in a Latin American context, larger than the Caribbean and Central American nations, but smaller than the giants of Brazil and Mexico. A nation's size affects potential development through the size of the internal market. Nations such as Mexico and Brazil were relatively successful in their import substitution programs, completing the various phases and emerging with heavy industry and capital-building capability. The smaller countries grouped together to form regional markets such as the Central American Common Market. Venezuela, and its similar sized neighbors of Chile and Colombia were not as successful in import substitution, a result theorists now attribute partially to its size (Williamson 1990).

As has been shown, while the *sembrar el petroleo* strategy in Venezuela was supported by abundant petroleum income and strong state intervention, due to various structural limitations, the model failed to provide for sectorally balanced growth, development of the internal market, and reduced vulnerability to the world economy. The eventual demise of the inward-oriented economic growth model was sealed by the conjuncture of negative global and domestic economic factors that acted upon the Venezuelan economy in the 1970's and early 1980's.

Since 1970, the world international economic climate has been volatile and uncertain. The industrial countries have experienced two recessions, both deeper than any period since the Great Depression, including unsteady international exchange rates, destabilizing inflation, record interest rates (Dornbusch & Helmers 1988), and falling commodity prices (Cypher 1989; Ibarra 1990; Williamson 1990). These variables created an environment of instability, leading to "shocks" that strongly affected vulnerable developing economies (Dornbusch and Helmers 1988). Venezuelan economic development has been drastically affected by the world economic climate. Three international factors in particular contributed to the exhaustion of the inward-oriented model: the instability of the world oil market; Venezuela's external debt; and changes in international interest rates.

As the world's ninth largest petroleum producer and fourth largest petroleum exporting country, Venezuela's economic health is unduly tied to the petroleum market (Republic of Venezuela 1990). World oil prices are directly affected by world economic events, such as recession in the industrialized countries, by global political events such as war in the Middle East, and by environmental and climatic events such as mild winters in the northern hemisphere and new petroleum discoveries. Since its discovery, Venezuelan petroleum has alternated between "boom" and "bust" syndromes in spite of direct attempts to control world petroleum prices through OPEC membership.

During the oil boom of the 1950's, Venezuela accumulated more foreign exchange than any nation in the world except West Germany, while Treasury reserves tripled and oil exports increased 2.5 times

(Karl 1986). During the decade of the 1960's, the Middle Eastern countries emerged as world petroleum producers as well as attractive investment prospects for oil transnational (Pérez Sáinz & Zarembka 1979). Facing increased competition, Venezuela took the lead in the founding of OPEC (Organization of Petroleum Exporting Countries) [8] (Republic of Venezuela 1990; Martz 1986). The Venezuelan purpose in seeking official cooperation with other Third World oil-producers was to increase the power of the oil-producing countries over that of the transnational petroleum companies (Hein 1980).

The decade of the 1970's recorded major changes in the world petroleum market, foremost of which was the drastic rise in global prices. The price of oil on the international market jumped from US$3.00 per barrel in 1973 to US$29.00 in 1980. The impact of the price increases was made more severe in that increases were concentrated in the two "boom" periods of 1973-74 and 1979-80 (Twomey 1988).

The 1973-74 boom, a trebling of prices in one year, was a consequence of the Arab-Israeli War of 1973, the resulting Arab oil boycott (Hein 1980), and of OPEC market manipulations (BCV 1988; Salgado 1987). In 1973, OPEC member countries acted together to raise oil prices by adopting a plan known as "the challenge of sudden wealth"[9] (Márquez 1983:13) in which prices were raised collectively in

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[8]Juan Pablo Perez Alfonzo, President Betancourt's oil minister, served as the "principal architect" in the development of the cartel (Martz 1986:246), founded in 1960 (Republic of Venezuela 1990).

[9]In response to the 1973 OPEC price hikes the rich consumer nations bonded together and created the International Energy Association, a consumers cartel which continues to oppose and challenge

order to increase petroleum revenue and thereby stimulate the internal development of their respective nations (Márquez 1983). By early 1978 the market had weakened as a result of a world oil surplus due to a mild winter in the US, increased US access to petroleum from Alaska and the North Sea (LAER 27/1/78), and a conscious conservation policy in the industrialized nations (Hein 1980).

The second "boom" for the oil-producing nations was a surge in oil income in 1979 stimulated by the Iranian Revolution (LAER 14/9/79; Rangel 1983). The boom was followed by another world oil glut in late 1979 and early 1980 (LAWR 22/8/80). By mid-1981, the health of the oil industry was weakened by a crisis of OPEC unity, as well as by the impact of another mild winter in the industrialized countries (Martz 1986). Venezuela was forced to cut its prices by more than six dollars per barrel, and to lower production by 10% in conjunction with other OPEC members. At a time when Venezuelan oil accounted for 95% of total exports and 72% of government income market, these changes represented an estimated loss of government income of roughly 10-20 billion bolívars (LAWR 24/7/81). The market recovered again in early 1984 as the Iran-Iraq war stimulated a temporary increase in prices, but this was followed by a progressive decline throughout the 1980's (Twomey 1988).

During the last quarter of 1985, world oil output stood at about 1.1 million barrels per day above demand, an especially negative situation because the surplus occurred in the middle of winter in the northern countries, and before OPEC producers increased their

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OPEC (Green 1979).

production by about 400,000 barrels per day (LAWR 17/1/86). Thus by 1986 the wholesale export price for crude petroleum had leveled out at less than half its 1985 level (IMF 1990, 1991). The export price of crude dropped from an average of $26.89 per barrel in 1985 to $12.82 per barrel in 1986, which meant that PDVSA contributed $5.7 billion less in foreign exchange to the central bank in 1986 than 1985, and that the government received 35% less petroleum revenue than had been budgeted (Republic of Venezuela 1990). In 1988 the petroleum market dropped further, with the average export price dropping from $16.32 per barrel in 1987, to $13.51 per barrel in 1988 (Republic of Venezuela 1990).

The financial problems created by a roller coaster petroleum market were worsened in the 1980's by the impact of Venezuela's external debt. The Venezuelan government is frequently criticized for its borrowing policy and its contraction of a large public sector debt at the same time that Venezuela was profiting from the oil booms (International Currency Review 1983; LAWR 17/10/80; Rangel 1983; Salazar-Carrillo 1986).

Persons who defend the original contraction of Venezuela's foreign debt for development projects (LAER 19/8/77, 16/12/77) divide the borrowing into two major periods. The first period, from 1974-78, was characterized by public sector debt that allegedly was covered by sufficient savings domestically, so that the debt incurred was not destabilizing (Alvarez 1988; Rodríguez 1985). The second period, from 1979 forward, was undertaken to finance the capital flight of the private sector and those taking advantage of the overvalued bolivar

(Alvarez 1988; Rodríguez 1985).

Borrowing had been encouraged by a world climate of negative or very low international interest rates (Cypher 1989; Twomey 1988) more favorable than rates available from Venezuelan banks (LAER 7/1/77), and by Venezuela's excellent world credit rating (Alvarez 1988; LAER 7/1/77; McCoy 1986).

Regardless of the placement of blame, debt service on the contracted loans had risen to 17% of the entire government budget by 1978 (LAER 19/8/77). With the change of administration in 1979, the total debt stood somewhere between 19.2 and 26 billion dollars (LAER 5/10/79).

In late 1980, Venezuela began to have problems servicing its foreign debt. The majority of the foreign debt was short-term, poorly structured and not well accounted for (International Currency Review 1983; Rangel 1983). Annual debt servicing obligations (amortization of principal and interest payments) had risen to nearly 15% of total exports, compared to less than 5% in 1976, and foreign bankers began to express concern about Venezuela's ability to make payments (LAWR 14/11/80).

At the beginning of 1983, the terms of maturity of Venezuelan public sector external debt were such that over 50% of the total outstanding debt of $29.2 billion was due by December 31, 1983 (International Currency Review 1983; Republic of Venezuela 1990). At the same time, the economy had been weakened by relatively low petroleum prices and a large public sector deficit, resulting in a substantial decrease in international reserves and capital flight

(Republic of Venezuela 1990). The result was the Venezuelan "debt crisis" (BCV 1988), less than six months after Mexico had developed the same syndrome.

The problems of the direct public sector debt were compounded by the unauthorized borrowing of state enterprises (Alvarez 1988; International Currency Review 1983; McCoy 1986; Morales 1983; Rangel 1983). In order to bypass government limits on medium and long-term loans, state companies took out billions of dollars worth of short-term loans for projects that could not produce returns for several years (LAWR 29/10/82). The result was a failure to meet scheduled debt repayments by some of these state companies, which eventually affected the creditability of all Venezuelan borrowers, including the government [10] which had a consistent record of payment (LAWR 29/10/82, Republic of Venezuela 1990).

By February of 1983, concentrated efforts were underway to refinance the public debt, and thereby obtain new terms for all of its short-term foreign debt (LAWR 11/2/83). Venezuela declared a

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[10]One example of the extent of the indirect public sector debt is a loan guaranteed by Corporación Venezolana de Fomento (CVF). Early in January 1983, Nordic Asia Bank, an international bank based in Hong Kong, filed suit against the CVF because of failure to meet repayment obligations. Within the week, seven other banks also brought suit against the CVF. At the same time, it became known that several other government agencies such as Sidor and Centro Simón Bolívar had been late with payments or ignored communications from their creditors (LAWR 21/1/83). While the Venezuelan government was not legally responsible for these indirect loans, in practice the government acted as guarantor of last resort (Alvarez 1988; International Currency Review 1983). These loans generated a lower credit rating for all of Venezuela, resulted in new loans contracted on less favorable terms. Eventually, the Republic of Venezuela assumed the obligations of nearly 40 state companies (Alvarez 1988).

moratorium on its debt payments (LAWR 1/7/83) while restructuring was underway. Discussions began in March of 1983, and were concluded in February of 1986[11] (Republic of Venezuela 1990). The agreement reduced the debt service burden over a five year period based on a new payment schedule, lower interest rates and the cancellation of commissions and fees (LAWR 8/6/84).

Throughout the negotiation period tensions increased between the commercial banks and Latin American debtors because of growing animosity against the debt burden. The debtor countries began to associate their repayment problems with destructive macro-economic policies within the industrialized nations, particularly interest rate hikes in the U.S. Debtor nations began to discuss collective bargaining, including setting their own repayment level as an annual percentage of export earnings (Ewell 1986; LAWR 18/5/84).

Venezuela's rescheduling position during the period was bolstered by fears in Washington of a debtor's cartel, and the desire to "reward" nations willing to negotiate directly with the banks (Ewell 1986; LAWR 8/6/84). In Venezuela, domestic pressure was increasing against the rescheduling terms. Led by Fedecámaras and CTV (Venezuela's largest labor union), calls were made to tie debt payments to export earnings, a condition explicitly rejected by creditors (LAWR 23/8/85, 2/5/86).

As part of the negotiations, Venezuela had obtained the inclusion of a "contingency clause" which allowed for future renegotiation of

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[11]Although an agreement covering public sector debt was reached in September of 1984, the signing and implementation of the agreement was postponed until February 1986 due to the difficulties of reaching agreement on conditions covering private debt (LAWR 24/1/86).

debt terms in the event of a economic "catastrophe" such as an oil price drop (LAWR 25/10/85; Republic of Venezuela 1990). Two months after signing the agreement, President Jaime Lusinchi invoked the "contingency clause" to demand new repayment terms in light of a soft world oil market (LAWR 2/5/86, 2/10/86). The action was initially resisted by commercial banks which eventually agreed to defer payment of principal but rejected the Venezuelan attempt to link payments to oil income (LAWR 29/1/87; Republic of Venezuela 1990).

Disagreement continued through 1988. Bankers refused to make new loans until Venezuela implemented an adjustment program (LAWR 1/9/88). As Venezuela experienced reduced petroleum revenues, critical levels of foreign reserves and an expected balance of payments deficit, the Finance Minister warned that unless new loans were granted, Venezuela would look for an alternative "in wiping out the foreign debt" (LAWR 4/8/88).

The last attempt at forming a debtor's cartel [12] to strengthen the debtor nation's position failed in early 1989, and, in February, Venezuela submitted its first letter of intent to the IMF, which opened the door for new loans and negotiations with commercials banks. Venezuela's debt increased its vulnerability to moods and changes in the international financial community, reduced its resistance to outside political and economic influence, weakened the buoyancy of the

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[12]After his election, President Carlos Andrēs Pērez had planned to make his inauguration ceremonies a "debt-event", attempting to bring together debtor countries (the Group of 8, the association of the region's largest debtor nations) to make a united stand against creditors. The attempt failed when leaders from Mexico and Argentina failed to attend (LAWR 19/1/89).

economy in light of petroleum fluctuations, encumbered important foreign currency, and transferred vital capital abroad.

Once loans had been contracted, Venezuela's susceptibility to the fluctuations of the international petroleum market was increased by greater vulnerability to the fluctuations in global economic variables, particularly interest rates in the developed countries.

On October 6, 1979, U.S. Federal Reserve Board Chairman Paul Volcker announced changes in U.S. monetary policy designed to moderate domestic inflation. The measures included a record raise in interest rates to 12% and changes in monetary policy to restrict aggregate money supply (LAER 19/10/79). The policy changes caused the immediate appreciation of the U.S. dollar against other currencies, as well as corresponding increases in U.S. private bank's prime lending rate and in the Euro-currency lending rate (LAER 19/10/79). Results for Latin America included an immediate jump in debt servicing costs, as most debt was held in dollars. For Venezuela the estimated immediate increase in loan service was more than $200 million (LAER 19/10/79).

After the sudden rise in 1979, interest rates continued to increase, so that loans contracted when real interest rates (interest rates adjusted for inflation) were very low were suddenly much more costly. Short-term interest rates such as Libor (Euro-currency rates) jumped from 8.8% in 1978 to 16.9% in 1981 (Twomey 1988), eventually rising to a peak of over 20% (Williamson 1990). Estimates of the change in "real" interest rates suggest a jump from one to five percent in 1978, to eleven to fifteen percent in 1982 (Cypher 1989; Twomey 1988).

The longer term effects of the increased interest rates included a tighter money supply. U.S. bankers exercised increased caution in making loans, facilitating the implementation of stricter criteria, and causing a contraction in the total money available internationally for loans (LAER 19/10/79) as the "flood of loanable funds of the late 1970's suddenly turned into a drought during the early 1980's" (Twomey 1988:7).

There was a shift in lending patterns as international bankers evidenced preference to loan to industrialized nations rather than developing countries. The United States combined its tight monetary policy with an expansionary fiscal policy, financed from abroad with loans of nearly $60 billion, competing directly with Latin American and other Third World countries for international financing (Twomey 1988). These factors contributed to an "absolute collapse" in new private bank lending to the Third World as a whole (Cypher 1989:53). Any money available to Latin American borrowers was accompanied by higher interest rates and shorter repayment periods for their new loans (LAWR 17/10/80).

International financial agencies emerged as new sources of loans for developing nations, therefore creating a change in primary lending agencies to the Third World. Between 1975 and 1981 over 75% of external financing provided to developing nations was from private transnational banks, while by 1986, 96% of new debt came from official sources such as the IMF, World Bank and the Inter-American Development Bank (Cypher 1989). With the growing dominance of the international financial agencies as the primary sources of new loans, necessary to timulate economic growth and support debt repayment, came increasing intervention by these agencies in opening up the domestic economies of debtor nations.

In addition to the powerful international forces affecting the Venezuelan economy, several national factors were also acting upon the situation, particularly the exhaustion of Venezuela's international reserves and fiscal disequilibrium.

With small variations, Venezuela's international reserves[13] had grown steadily throughout the 1960's, from $208 million in 1960 to $637 million in 1970. In 1970, the reserves nearly doubled to the $1 billion mark where they remained until 1974. With the 1973-74 oil boom, the reserves jumped in one year from the 1973 level of $1.9 billion to an average level of 6.0 billion. Reserves reached their highest level in history in 1975, but then progressively declined (IMF 1990). Two primary forces created this drain of reserves: balance of payments deficits and capital flight.

Capital flight became a serious problem in the late 1970's and early 1980's. Encouraged by a weakened petroleum market, government measures to combat inflation (Myers & Martz 1986), uncompetitive domestic interest rates, and the ability to profit from the overvalued bolivar (Alvarez 1988; Rangel 1983) Venezuelan private capital was sent abroad in search of a higher return.

Beginning as a serious problem in 1977, several record "rushes" of capital flight occurred during August and September of 1977, (LAER

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[13]International reserves are defined as total reserves minus gold, based on IMF procedures and statistics (IMF 1990).

16/12/77), June to September in 1981, (Petras & Morley 1983) and in February of 1982 (LAWR 5/3/82). Estimates of losses reached 100 million dollars daily (Petras & Morley 1983).

Various attempts were made to stem the outward flow of capital, beginning with the restructuring of interest rate controls, including the end of a 40 year regime of fixed interest rates controlled by the Venezuelan Central Bank (Alvarez 1988; LAWR 4/9/81).

In response to these losses, the government moved to increase the international reserves in 1982 by placing under Central Bank control 4.51 billion bolívars of PDVSA reserves[14] (LAWR 1/10/82; Martz 1980). At the same time, action was taken to revalue Venezuelan gold reserves in an attempt to improve Venezuela's financial image abroad during debt restructuring (LAWR 1/10/82, 15/10/82). By mid-September of 1982, foreign reserves stood at just over $5 billion. The gold revaluation raised this level to $8 billion and the takeover of PDVSA reserves increased it further to $15 billion (LAWR 1/10/82).

In February 1983, international reserves again dropped drastically (LAWR 25/2/83). The government responded by suspending all foreign exchange operations for over a week (International Currency Review 1983; LAWR 25/2/83; Márquez 1983; Rangel 1983), after twenty years of free exchange convertibility (Alvarez 1988). The decisions made during the suspensions of exchange resulted in the adoption of a three tier exchange system which included a floating exchange rate

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[14]Beginning with the nationalization of the petroleum industry in 1976, PDVSA had been given 10 percent of the net value of petroleum exports to provide for self-financing. By the close of 1981, the fund had grown to over nine billion dollars (Martz 1986).

(International Currency Review 1983; Márquez 1983).

In 1985, while a report in *El Nacional* estimated that Venezuelans held over thirty billion dollars in deposits abroad (September 11, 1985 as cited in Ewell 1986), a profitable oil market allowed growth of international reserves, rising to an all time average high for the year of 10.3 billion dollars (IMF 1990) By early April of 1986, when the price of oil sold for half what it had in January, reserves had dropped by $600 million since the beginning of the year (LAWR 2/5/86). After the peak in 1985, the continual decline of oil prices was mirrored by the steadily decline international reserves. In 1986, the average level for the year had dropped from the 1985 of $10.3 billion to $6.4 billion, followed by an average 1987 level of $5.9 billion, and in 1988 the reserves reached the lowest level since 1973, standing at an average annual level of $3.1 billion (IMF 1990). The low point occurred in August of 1988 when operational international reserves stood at $2.5 billion, scarcely above the $2 billion "critical level" (LAWR 4/8/88).

Compounding the problem of the exhaustion of international reserves, three other factors served to create fiscal disequilibrium in Venezuela: current account deficits, rising inflation, and the public sector deficit.

Having enjoyed trade surpluses for 50 years, Venezuela began experiencing current account deficits[15] in the late 1960's, when

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[15]Three similar terms are used to designate the basic idea of the difference between exports and imports. "Trade balance" is the most simple measure, reflecting the difference of merchandise imports subtracted from merchandise exports (IMF 1990). "Current account" or "balance of payments" (interchangeable) is a more comprehensive

steadily growing imports began to outdistance relatively constant levels of petroleum exports. After small deficits in 1968-1972, Venezuela recovered a positive current account balance with the extraordinary increased in petroleum prices in 1973 (IMF 1990). After the boom years, however, Venezuela faced recurrent balance of payments deficits based on booming imports and stagnating exports (Petras & Morley 1983).

The positive balance regained in 1973 lasted only four years before quadrupled amounts of imports negated the benefits of the increased petroleum income (IMF 1990). The structure of imports changed from the trends of the fifties and sixties, with the increased import of consumer goods and capital goods (such as large capital equipment for development projects (LAER 16/12/77), while decreasing intermediate imports, (Llambí 1982). During 1974-78, the ratio of imports to GDP rose from 17% to 37%, while the ratio of exports to GDP dropped from 44.7% to 25.6% (Petras & Morley 1983). A growing percentage of imports was made up of foodstuffs. Stagnating agricultural production was creating a situation of imported food dependency. In 1971, Venezuela imported 46% of its basic foodstuffs, but by 1978 the percentage had grown to nearly 70%, including 70% of *caraota negra*, Venezuela's staple black bean (Martz 1980).

Inflation also became a problem in the early 1970's. From 1960 until 1973, the average annual rate of inflation in Venezuela was 1.2%, at or below international levels (Rangel 1983). The flood of income

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measure, consisting of total national receipts minus total national payments (Dornbusch & Helmers 1988), and will therefore be used as the basis of analysis in this thesis.

generated by the petro-boom resulted in record amounts of money circulating in an economy with few goods to buy, except imports. The result was inflation (Rangel 1983). A moderate annual level of 8.2% was maintained from 1974 through 1978, but was followed in 1979 by 12.4%, 21.5% in 1980, and 16.2% in 1981 (IMF 1990). A slight moderation was experienced between 1983 and 1986 with an annual average rate of around 10%.

The problem of inflation then became more severe following the devaluation of the bolivar in December 1986, which changed the exchange rate for imports from Bs. 7.50 to 14.50 (LAWR 5/2/87). This precipitated three years of unprecedented high rates of inflation, reaching 28.1% in 1987, 29.5% in 1988, and 84.5% in 1989 (IMF 1990).

Finally, the economic outlook of Venezuela included frequent fiscal deficits. Between 1973 and 1986, there was a public sector deficit during seven of the fourteen years (IMF 1990). The excess state expenditure also seems to be linked to the overwhelming influence of the petroleum booms. Before 1974, according to the Central Bank, public sector expenditure was related to economic growth. There was a direct relationship between the annual amount of state expenditure and the level of gross domestic product growth for that year (BCV 1988). After 1975, however, that relationship disappeared (BCV 1988). A three year trend of fiscal deficit began in 1976, followed by small budget surpluses in 1979 and 1980 (due to a second oil boom), but deficits reappeared in 1981, 1982 and 1983 and then again in 1986 (IMF 1990).

While consecutive deficits in the balance of payments operated to reduce Venezuela's international reserves and thereby its financial independence, the combined pressures of inflation and public sector deficits weakened the domestic economy and made capital flight a profitable course of action. The result was fiscal disequilibrium and an economic crisis for the nation as a whole.

CONCLUSION

The fact that the inward-oriented model had failed to achieve its goals was not disputed. Venezuela's non-petroleum sectors had not developed sufficiently to lessen petroleum dependence, and by the end of the 1980's they had actually stagnated. Domestic demand was hungry for imported goods, and while unionized labor and the middle classes had prospered, efforts to increase employment and reduce poverty had not succeeded. The public sector bureaucracy was excessive and wasteful and state intervention had extended too far. The result was an economy still dependent on petroleum and vulnerable to external forces. The inward-oriented model had failed to meet its goals.

A neo-liberal analysis of the Venezuelan situation might be entitled "I told you so." Wrong policies, based on an uncompetitive, protected economy and demand stimulation by the state resulted in crisis. Venezuelans had no one to blame but themselves, for the problems of Venezuelan development were completely internal. Excessive protection had resulted in a pampered agricultural sector that could not provide enough food for its own population, as well as an overprotected, inefficient, and uncompetitive manufacturing sector. Excessive state intervention had resulted in an overgrown, inefficient, corrupt, mismanaged state, and an over-consuming, unrealistic population used to the populist distributions from petroleum rent.

A proponent of structuralism could argue, on the other hand, that the inward-oriented model in Venezuela was a textbook example of structural bottlenecks. Development in Venezuela was proceeding through the late sixties. In spite of international interference in the form of the Commercial Reciprocal Treaty, industry and agriculture were growing steadily, and domestic manufacturing was progressively substituting for imports. Under state regulation, the internal market was developing.

The demise of the inward-oriented model, therefore, is directly related to the impact of the petro-boom on structural bottlenecks that still remained in the Venezuelan economy. The four-fold price increase during 1973 and 1974 created a situation in which a population of twelve million annually took in around ten billion dollars (Abente 1990). While the state tried to allocate the resources toward development and protect the economy, structural obstacles kept the bonanza from effective use, contributing instead to the proliferation of decentralized state agencies, waste, and use of petro-dollars to build consensus among competing privileged groups.

If Venezuelan agriculture and manufacturing were indeed pampered, it was the result of huge amounts of petro-dollars backed up behind bottlenecks such as slowly progressing agrarian reform. If industry was unproductive, it was a result of the inherent limitation on the internal market created by Venezuela's national size. If Venezuelan consumers were unrealistic and import-hungry, it was a result of unprecedented amounts of money in the economy. The petro-boom undermined employment creation by supporting the import of unsuitable technology and machinery. If the Venezuelan state apparatus was inefficient, it was due to a lack of still-developing human resources and professional managers (Rangel 1983).

Although Venezuela supported the OPEC price manipulations, it did not seek the petro-boom. The "challenge of sudden wealth" policy was the result of frustration with the relative positions of core and periphery nations. It was the natural attempt by a peripheral nation to benefit in relation to the rich nations. The response of the world market was unpredictable and an example of market failures. Venezuela's position as a peripheral nation made it vulnerable to external market forces--as much to a petro-boom as to a drastic price drop. The petro-boom, generated by the outside world, undermined slow structural reform and the consensus for national development.

While the neo-liberal and structuralist perspective differ on the underlying causes of what went wrong with the inward-oriented model, it is important to understanding the emergence of a neo-structural development plan to recognize that they do not dispute the manifestations of these causes in the form of unproductive, overprotected industry and agriculture, the existence of a consumptive rather than productive population and the problems of an over-grown, wasteful public sector bureaucracy.

The import substitution model in Venezuela was supported by revenue from petroleum and extensive state intervention. Due to various national and international factors it never achieved its goals of sectoral balance, a fully developed internal market or reduced vulnerability to world economic forces. Conjunctural forces of the world economy, combined with internal structural limitations, led to the eventual demise of the model and a change to an outward orientation. By the end of the 1980's, Venezuela experienced the coming together of many different factors to precipitate the end of an era (Alvarez 1988; BCV 1988; Martz & Myers 1986).

CHAPTER 4

THE EMERGENCE OF THE VENEZUELAN OUTWARD-ORIENTED MODEL

In 1989, after over thirty years of an explicitly inward-oriented development model, the Venezuelan government implemented an outward-oriented model based on traditional IMF adjustment policies. The new model was based on competitive, free-market principles, focused toward trade on the international market. Outward-orientation had developed as a result of an increasingly global economy, in which growing pressure was exerted on protected economies to open their borders and participate in international trade. The growing dominance of the International Monetary Fund and World Bank, in conjunction with Latin American debt, resulted in direct pressure on Venezuela to open its economy to a greater extent. A national climate of increased competition between previously harmonious groups weakened Venezuela's resistance to this external pressure and made "opening up" a necessity.

Although an outward-oriented economy had essentially been decided for Venezuela, the newly inaugurated administration of President Carlos Andrés Pérez, in connection with the international financial organizations, implemented large-scale, "big bang", neo-liberal changes in Venezuelan economic policy (Hausmann 1990).

After the initial period of adjustment, however, domestic resistance to neo-liberal policies and the continued intervention of the Venezuelan state indicates the emergence of a uniquely Venezuelan development model. The model is based on a synthesis of the theories of neo-liberalism and structuralism. The new Venezuelan plan uses the outward-oriented IMF model while preserving structural perspectives and goals.

EVOLUTION TOWARD AN OUTWARD ORIENTATION

Three trends contributed toward the evolution of outward-orientation in Venezuela: 1) the growing dominance of the IMF and World Bank; 2) the progressive opening of other regional economies; and 3) increased disharmony and competition among groups acting in the Venezuelan economy.

The international climate during the progressive exhaustion of the import substitution model in Venezuela was characterized by the growing dominance of the International Monetary Fund and the World Bank in the financial affairs of the world's developing nations. The result for developing nations was persistent pressure to participate in international trade under a prescribed and homogenous model for national economies (Canak 1989).

The importance of the international financial agencies for developing nations is not easily overestimated. In additional to acting as a direct lending institution, the IMF also serves to validate a country's credit rating for commercial banks interested in lending directly to the debtor nation. This "seal of good housekeeping" on a country's economic policies can be crucial in initial obtention of loans, as well as in restructuring terms of a loan (Mittelman & Will 1987).

The IMF and the World Bank, both products of the 1944 Bretton Woods International Monetary Conference, are multilateral lending agencies that make loans with "conditionality" (Mittelman & Will 1987;

Streeten 1988).[1] The original purpose of the IMF was to promote international monetary stability by making funds available to member nations on a temporary basis to correct short-term imbalances (Sidell 1988).[2] Establishment of the Fund was based on the basic neo-liberal philosophy that stable economic development and equitable income distribution would only improve in a climate of economic liberalism and with limited intervention by the state (Márquez 1983). Conditionality, or the acceptance of Fund economic policies as a condition for financial assistance, was implicitly introduced to lending policies in the early 1950's as a result of pressure by the United States, the largest creditor country at that time (Buira 1983; Guerra 1989; Sidell 1988).

The IMF traditionally advocated economic stabilization policies, especially short-term corrections of balance of payments disequilibrium (Streeten 1988). Fund conditionality called for short-term, rapid adjustments of money supply, restricted government spending, deregulation of prices and subsidies, the elimination of tariffs, and exchange rate devaluation (Sidell 1988). Conditionality requirements hardened throughout the 1970's, and by the 1980's, the demands made were more extensive than at any time in Fund history (Buira 1983).

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[1]Even though both the IMF and the World Bank are international organizations, strong influence by the United States is evidenced in the placement of the both offices in Washington D.C., near the U.S. Department of the Treasury, and in the constitutional stipulation that allows an American veto on policy issues (Mittelman & Will 1987).

[2]Although acting as a direct lending agency, the IMF does not have huge resources of its own, but serves as coordinator of the resources of industrialized countries and as intermediary between developed and underdeveloped nations (Mittelman & Will 1987).

The World Bank, on the other hand, has traditionally been geared towards long-term structural adjustment, supporting policies geared toward maintaining steady economic growth (Cypher 1989). Until 1980, the World Bank focussed its lending toward specific projects and, while an open proponent of free market forces, for the most part accepted the institutions in place within the debtors countries. Beginning with the implementation of Structural Adjustment Loans in 1980, however, the Bank began to apply conditionality measures to recipients of its loans (Cypher 1989).

The World Bank is the largest lender of money in the world. By 1984, 54 countries around the world had accepted or were negotiating World Bank conditionality loans, many of the same countries that were already under the conditionality of the IMF (Cypher 1989). The differences between the IMF and the World Bank became less distinct in the 1970's when the IMF increased its support for structural adjustment programs over longer time periods. As the two grew in dominance and more similar in purpose, the conditionality measures have essentially merged into a single model.

Under this adjustment model, short-term economic adjustment measures included the following: 1) control of money supply through credit restrictions, especially to government and public sector businesses; 2) the reduction of government deficit through various means such as raising taxes, raising prices on revenue-creating products, or cutting expenditure on military, public consumption or public sector investment; 3) exchange rate devaluation or depreciation of currency, either gradually through a series of small devaluations or by means of a "maxidevaluation"; 4) liberalization of trade through deregulation of prices, reduction of consumer subsidies and elimination of tariff and non-tariff barriers (Burkett 1990; Márquez 1983; Mittelman & Will 1987; Petras & Brill 1986; Sidell 1988; Streeten 1988).

Over the longer term, structural adjustment was geared toward reducing the size of the public sector, transferring resources and emphasis for production from the public to the private sector, and promoting savings and investment by increasing real interest rates (Sidell 1988). Development strategies were to be oriented toward the external market through the exploitation of the nation's comparative advantage, while wages, social programs and attention to the internal market were to be abandoned to market forces (Cypher 1989). The economic development triggered by the implementation of the two-step model of adjustment and reform would free the forces of the market, providing for social development which, through the "trickle down" effects of growth, will increase per capita income and thereby alleviate poverty (Burkett 1990).

The expectation was that for the previously inward-oriented economies of Latin America, the initial adjustment would be difficult and would require major sacrifices by all sectors of the economy. But, proponents argued, the flexibility created for market forces would provide for the creation of a strong productive foundation and generate long-term changes worth the "growing pains" (Streeten 1988).

Throughout the 1980's the role of the IMF and the World Bank expanded. The growth of these institutions was been both a cause and a result of the Latin American debt crisis. Latin America during the 1980's was characterized by the progressive opening of the region's economies as the IMF and World Bank used the debt burden to force reform. Called a "lost decade" for Latin America (Pérez 1990), during the 1980's the entire region suffered its worst economic depression since the Great Depression of the 1930's (ECLAC 1985; LAWR 2/10/86). The nations became progressively poorer, were unable to earn or borrow the capital they needed for economic recovery, fell deeper into debt, and carried an increasingly heavy debt burden (LAWR 2/10/86; Latin American Bureau 1988).

In 1974, the region as a whole had contracted less than 100 billion dollars of debt, while by 1985 that amount had quadrupled to nearly 400 billion dollars (Latin American Bureau 1988). In 1985, ten of the world's top fifteen debtors were Latin American countries, with Brazil, Mexico, Argentina and Venezuela holding the top four positions (Latin American Bureau 1988; LAWR 29/6/84). With the sharp rise in international interest rates in the 1980's, the burden of this debt grew overnight, thus precipitating the onslaught of the Latin American debt crisis when Mexico declared it could not service its debt in August of 1982 (Canak 1989; Latin American Bureau 1988). Latin American interests payments alone represented nearly five percent of the regional gross product and 30% of foreign exchange earnings, (compared to two percent and eight percent respectively for non-western hemisphere developing countries (Fishlow 1986). Sharply reduced new lending as a result of the debt crisis meant that debt costs were unmatched by new capital inflow which resulted in net transfers of resources out of the continent (Fishlow 1986).

While a large part of the debt had been contracted with commercial banks, the need to adhere to IMF recommendations as a condition for new money or for eligibility to reschedule a nation's debt with its commercial bankers meant obtaining the IMF seal of approval. By 1982, nearly all of the countries in Latin America, except Venezuela and Colombia, had implemented outward-oriented reform and adjustment as part of an IMF stabilization program (Canak 1989; Fishlow 1986; Ground 1986; Williamson 1990). Only Nicaragua and Cuba had managed to reschedule their foreign debts without the IMF (LAWR 6/7/84). Hopes of concerted Latin American resistance to international interference in their domestic economies faded by the end of the 1980's as numerous attempts to create a debtor's cartel failed [3] (LAWR 18/5/84, 8/6/84, 6/7/84, 7/3/86, 4/8/88, 19/1/89, 16/2/89; Latin American Bureau 1988).

As more and more of its neighbors opened their economies and implemented IMF reforms, direct IMF pressure on Venezuela increased. Venezuela has had a long relationship with the IMF, and a long history of resisting IMF pressure on its domestic economic policy.

In 1945 Venezuela joined the International Monetary Fund as a creditor member, a position it maintained until 1989. From the time of its entrance as a member, Venezuela had been in conflict with IMF statues. Since 1940 Venezuela had a system of differential exchange

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[3]The idea of a debtor's cartel was to bargain collectively with creditors, potentially allowing the debtor nations to determine for themselves what percentage of their export earnings they would devote to debt servicing (LAWR 18/5/84).

rates to compensate for the sectoral imbalance between petroleum and the rest of the economy (Márquez 1983). IMF statues prohibited its members from maintaining differential exchange rate regimes, although Article 14 allowed for the maintenance of exchange systems already in place when the member joined. Based on this, Venezuela maintained its differential exchange policy until 1976 when it unified the exchange rate--as much in response to domestic pressure to take the best advantage of the newly nationalized petroleum industry as to accede to IMF policy (Márquez 1983).

In 1983 Venezuela once again implemented a differentiated exchange system, a multi-tiered system with two preferential rates and a floating rate. At almost the same time, as a result of a deficit of balance of payments, capital flight, low international reserves, and a poorly structured external debt, Venezuela sought negotiations with its commercial bankers to restructure the terms of its debt (Márquez 1983). The foreign commercial bankers began to pressure Venezuela to sign an economic adjustment agreement with the IMF for a "certificate of good conduct" (LAWR 31/3/83). An IMF commission visited Caracas, and advised banks not to continue lending to Venezuela until the multi-tiered exchange rate policy was changed and public spending cut (LAWR 31/3/83).

Later IMF missions made more specific and extensive recommendations (LAWR 1/7/83, 5/8/83, 28/10/83). Anticipating Venezuelan acquiescence, the IMF went so far to propose an official calendar of negotiations.

The decision by the administration, supported by the private sector and labor, was to avoid agreement with the IMF and attempt to force the private banks to reschedule the debt on an individual basis (LAWR 26/8/83, 9/9/83, 2/12/83, 9/12/83). President Lusinchi implemented an austerity program of his own designed to pacify the commercial banks and eliminate the need to negotiate with the IMF, by implementing some of the IMF stipulations (LAWR 2/3/84, 29/6/84).

Strengthened by a renewed domestic accord and by a regional climate threatening a debtor's cartel, Venezuela managed to obtain the rescheduling of the foreign debt without accepting an IMF adjustment program (Myers & Martz 1986) although the IMF maintained a high profile in Venezuela. The IMF was represented at the formal debt negotiation talks, and eventually gave approval to Venezuela's adjustment plan, partially to present Venezuela as a "model child" and demonstrate the benefits of direct bilateral dealings to other Latin American debtors (LAWR 6/7/84).

Even after the restructuring was completed, the IMF continued to send missions to Caracas to review economic performance. IMF recommendations continued to criticize government spending (LAWR 22/2/85) and urge the application of a comprehensive adjustment policy (LAWR 27/11/86). Through 1988, Venezuela continued to resist IMF intervention. During the time of increased IMF pressure, however, Venezuela's ability to resist this intervention was weakened by the dissolution of domestic solidarity.

From the restoration of democracy in 1958, domestic policy in

Venezuela was characterized by a spirit of cooperation.[4] Supported through the 1970's by sufficient petroleum income to distribute benefits to all sectors of the domestic economy (LAPR 14/5/76), the social pact began to come apart with the economic crises of the 1980's (Bond 1987; Kelly de Escobar 1987; Ewell 1986; Karl 1986). With the decline of petroleum revenue, relations between the state, the private sector, [5] and labor [6] worsened considerably as the economic health of the country deteriorated (Becker 1990; Ignacio Arrieta 1989; McCoy 1986).

An attempt at renewing the Social Pact was made by the Lusinchi administration under the threat of the forced agreement with the IMF (LAWR 19/7/85; Martz & Myers 1986). The renewed Social Pact managed to put off an agreement with the IMF and reschedule directly with the commercial banks in 1986. By the mid 1980's, however, the new accord was essentially abandoned (Becker 1990, Ellner 1989; LAWR 19/7/85; McCoy 1986), thereby eroding Venezuela's tradition of economic and

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[4]Under the terms of the Social Pact of Punto Fijo, the private sector, labor unions, the military, church leadership, and the major political parties had agreed to preserve the electoral process and share power under a "prolonged political truce" (Karl 1986).

[5]The primary representative of the private sector in Venezuela is Fedecámaras (Federation of Chambers of Commerce and Production), founded in 1944 as a confederation of local chambers of commerce (Becker 1990; Hughes 1984; Ignacio Arrieta 1989; Sálgado 1987).

[6]Unionized labor in Venezuela is primarily represented by the *Confederación de Trabajadores de Venezuela (CTV)*, [Venezuelan Worker's Union] (Ellner 1989; McCoy 1986) which represents between 90 and 95% of the unionized work force (LAER 21/9/79). Since its creation, CTV has been closely aligned with *Acción Democrática,* one of the two major political parties, and traditionally has worked through government channels to achieve its goals (Abente 1990; Ellner 1989; LAER 10/8/79, 21/9/79; McCoy 1986).

political consensus and weakening its opposition to IMF/WB enforced outward-orientation.

THE OUTWARD-ORIENTED MODEL IN VENEZUELA

In February 1989, Venezuela signed its first Letter of Intent with the IMF, agreeing to implement a short-term adjustment program and long-term structural reform under the auspices of the IMF and the World Bank. The initial implementation of the program was characterized by "shock" measures, defined by the Pérez administration in conjunction with the IMF, and greeted in Venezuela by several days of rioting. While various neo-liberal policies had been implemented previously, the sudden adoption of IMF adjustment policies generated an angry domestic response.

The evolution toward neo-liberal policies in Venezuela had begun in the late 1970's and continued through the 1980's in the form of various experiments with isolated neo-liberal policies. The inauguration of President Luis Herrera Campíns in 1979 and the implementation of the Sixth National Plan marked the first steps toward a neo-liberal model (Llambí 1982; Sonntag & de la Cruz 1985). President Herrera appointed several neo-liberal economic advisors, the "Venezuelan Chicago Boys"[7], and announced the need for economic austerity and discipline in state spending (Martz & Myers 1986). The goal was to reduce state spending, stimulate domestic production, and increase efficiency in domestic manufacturing through increased competition. The plan included a reduction in public sector

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[7]So named for their advocacy of the conservative Chicago School of Economics.

investment, a restrictive monetary policy to control inflation, and a reduction in government expenditure (Llambí 1982). Steps were also taken to reduce state regulation through price controls and tariffs. For the first time since 1974 there was a change in the consumer prices controlled by the government. Herrera freed prices from nearly 200 consumer products (leaving nearly 60 basic products still regulated), lowered import tariffs on some household goods by fifty percent, and lifted bans and licensing restrictions on others (LAWR 27/3/81; Martz & Myers 1986).

After two years of experimenting with the neo-liberal policies, President Herrera announced that the "Chicago school" theories had been discarded due to their limited success in stimulating the private sector to replace public sector economic activity (Republic of Venezuela 1984). President Herrera, commenting on the neo-liberal policies, reinforced the traditional importance of the Venezuela state in the economy:

> Our decision to free prices has been a healthy and patriotic economic objective, but it cannot simply be left to the market to impose efficiency. The state will continue to stimulate competition, but it can never renounce its regulatory function (Herrera, as quoted in LAWR 27/3/81:5).

Import protection on more than 400 items was increased (Martz & Myers 1986), and a new program of state investment was put into place to return the emphasis to state intervention as the major stimulus to the economy (LAWR 27/3/81; Republic of Venezuela 1984).

In 1983, under pressure from the IMF and its commercial creditors, Venezuela implemented changes in economic policy sufficient to temporarily pacify its creditors. The changes, while not exactly matching those recommended by the IMF adjustment model, were neo-liberal in nature. The major macroeconomic policy adjustment was the floating of the bolivar against the dollar, implementation of exchange controls, (Martz & Myers 1986; Republic of Venezuela 1984) and a multi-tiered exchange system that was unique to Venezuela (Márquez 1983). The currency was allowed to float to restore parity between the dollar and the bolivar, thus creating a devaluation of 30% (Hausmann 1990). The devaluation was accompanied by an adjustment in the controlled prices for the domestic consumption of gasoline and petroleum products (LAWR 2/3/84; Republic of Venezuela 1984). The partial devaluation and correction of domestic price levels was accompanied, however, by continued expansionary policy, in an attempt to promote economic growth and import substitution to reduce petroleum dependency (Republic of Venezuela 1990).

After nearly ten years of partial neo-liberal experiments, a full-scale, or as Hausmann (1990) characterizes it, a "big-bang" change to an outward-orientation was implemented in Venezuelan economic policy in 1989. Immediately following the inauguration of President Carlos Andrés Pérez, the new administration implemented a major structural adjustment program known throughout Venezuela simply as *"El Paquete"* [the package]. The IMF adjustment program, neo-liberal in nature, is geared toward opening the long-closed Venezuelan domestic economy to market forces and competition. The new program, articulated in the Eighth National Plan, entitled *"El Gran Viraje"*, [the Great Turn], is depicted as a 180 degree turn from the inward-oriented economic model of the previous decades to a new outward-oriented program (CORDIPLAN

1990).

The adjustment program included agreement to nearly all of the stipulations contained in an IMF adjustment model. This included immediate action to: 1) float the exchange rate; 2) free interest rates, and 3) remove protectionist barriers to trade (CORDIPLAN 1990; Hausmann 1990; Republic of Venezuela 1990).

Since the major industrialized nations introduced the floating exchange rate regime in 1973, developing countries have had to adjust to "a monetary system neither of their own choosing nor of their own design" (Siegman 1981). Developing nations argued against the change to the floating system, pointing out that the system was inappropriate to the characteristics of developing economies, and was biased in favor of the industrialized nations, who had the ability to influence the floating regime through financial manipulation (Siegman 1981).

The system was implemented, however, leaving developing nations with three primary options within the exchange regime: 1) pegging the national currency to a single major currency (such as the dollar or pound) 2) pegging the national currency to a "basket" of industrialized currencies, or 3) floating independently. Most developing countries, (including Venezuela until 1989), chose the first option of pegging their currency against the dollar, pound or French franc. Pegging allowed the currency to be controlled, with the government making periodic devaluations or revaluations in small steps or in major adjustments (Siegman 1981). Exchange rate adjustments were used as policy measures to equilibrialize balance of payments or to encourage the development of some sectors over others (Ibarra 1990). While the

Articles of Agreement of the IMF state that each country is free to chose the exchange rate system best suited to its own needs (Siegman 1981), the elimination of controlled exchange systems is one of the primary focuses of contemporary IMF policy. The neo-liberal model, as articulated by the IMF, advocates a free-floating exchange system as the best regime (Márquez 1983).

In 1989 the exchange rate regime was unified and allowed to float against the dollar, stabilizing in 1990 around 45 to 50 bolivars per dollar (Republic of Venezuela 1990).[8] Devaluation of the bolivar removed the anti-export bias that exists with an overvalued currency. Over-valuation focuses the economy toward the internal market, so that only left-overs are available for export, frequently in small amounts and characterized by erratic supply (CORDIPLAN 1990). The elimination of the multi-tiered exchanged regime also abolished the subsidy for certain importers, thereby restoring market-based prices for imports (Republic of Venezuela 1990) and removing the possibility of speculative profit from the system through over-invoicing of imports at the preferential rate (Hausmann 1990).

Venezuela is the only developing country to maintain a free floating exchange system (BCV Economist 2, 1991). Allowing the exchange rate to float implies a renunciation by the administration of the use of the exchange rate as a policy instrument (Siegman 1981) and

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[8]Prior to the implementation of the multiple exchange regime of 1983, Venezuela had enjoyed a period of nearly 50 years of relative stability of the bolivar. After 1933, the value of the bolivar had fluctuated minimally, being periodically revalued between 3 to 4.5 bolivars per dollar. From 1973 until February 1983, the bolivar was valued at 4.3 per dollar (Republic of Venezuela 1990).

represents the clearest move to market-orientation.

While one of the goals of floating the exchange was to promote non-petroleum exports, previously controlled interest rates were freed to encourage private sector participation in the economy, domestic and foreign investment in Venezuela and the repatriation of flight capital (ILDIS 1989). Previously set by the Central Bank, the rates were allowed to fluctuate to reflect market changes, although minimum and maximum levels remain controlled (Hausmann 1990; Republic of Venezuela 1990).

The major outward-oriented change in the role of the state has been its withdrawal as protector of the economy. This was accomplished through a progressive reduction of tariff protection and the elimination of quantitative restrictions (BCV 1990; Republic of Venezuela 1990), leaving Venezuelan industry and agriculture on its own to compete in the global market economy.

Commitment to an open economy was sealed with Venezuelan membership in the GATT [9] in 1990. Although Argentina had been a member since 1967, Brazil and Cuba since 1948, and Colombia and Mexico joined in 1981 and 1986, respectively, membership in the GATT had never been

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[9]The General Agreement of Tariffs and Trade or GATT is an international organization indirectly spawned from the Bretton Woods conference that created the International Monetary Fund and the World Bank. GATT works to liberalize world commerce based on neo-liberal principles of potential benefit to all from world trade (Tussie 1987, 1988). Membership in GATT involves agreement to an international contract stipulating that each signatory commits itself to treat all other signatories to the most favored nation (MFN) standard (Tussie 1987). GATT also provides a forum where countries negotiate the norms of trade and settle disputes and accusations of unfair trade practices (*Grupo Consolidado* 1990b; Prestowitz, Tonelson & Jerome 1991; Tussie 1987).

important to Venezuela. As a mono-exporter of petroleum with "natural markets" nearby, and as a member of OPEC, most of whom are not members of GATT, membership signified interference with non-commensurate benefits (*Grupo Consolidado* 1990b).

Willingness to join GATT was one of the stipulations of Venezuela's original Letter of Intent to the IMF (*Grupo Consolidado* 1990b; CORDIPLAN 1990). Venezuela presented its application in September of 1989. The application was rejected and returned to Venezuela in March of 1990 due to "insufficient concessions offered by Venezuela" (*Grupo Consolidado* 1990b, translation by author). The application was then approved in June of 1990 (*Grupo Consolidado* 1990b). Venezuela officially became a member of the GATT in September 1990 (Republic of Venezuela 1990).

The Venezuelan state also withdrew from its role of protecting Venezuelan consumers through the elimination of most price controls and freeing prices to market levels. As part of the adjustment program, the government freed all previously controlled prices except a dozen basic food items and medicines, which would be regulated under a new process by which the prices were reviewed and adjusted for inflation levels (Hausmann 1990; Republic of Venezuela 1990). This policy is expected to be updated again in a second stage adjustment which includes replacing the indirect subsidies of a generalized system of price controls with a direct subsidy to the purchase of the products in the basic consumption basket (Republic of Venezuela 1990). Prices on public sector goods and services (electricity, telephone, aluminum, iron) were also raised, and a similar price system implemented to more closely adjust prices to actual costs (Republic of Venezuela 1990).

After thirty years of a protected, introverted economy, Venezuela introduced important reforms, opening its economy to market forces. The elimination of protective tariffs and relinquishing control of the exchange regime and interest rates clearly served to open up the Venezuelan economy, one of the primary objectives of the IMF/World Bank adjustment model.

The short-term results of the outward-oriented change in the Venezuelan economy reflect elements of both the neo-liberal and structural perspectives. Some of the benefits of the change in model are those promised by neo-liberal theory, while many of the costs are also clearly predicted by structuralists.

The adoption of the outward-oriented model was a clear success in improving macroeconomic performance. External equilibrium was restored when the 1988 current account deficit of 7.5% of the GDP was replaced by a surplus of 4.6% of the GDP in 1989 (Latin American Times 1990). The 1989 surplus of 2.5 billion dollars exceeded the target levels set by the IMF (Purroy 1990a), and the 1990 surplus of 7.4 billion dollars represented one of the largest nominal surplus in Venezuelan history (EIU 1991a).

This balance of payments surplus had a positive effect on the level of international reserves which began to increase following a drop to their lowest level since pre-boom 1973 levels (EIU 1990; IMF 1990, 1991; *MetroEconómicaa* 1991; Purroy 1991). The public sector deficit, identified by neo-liberals as the primary cause of inflation, declined from 9% of GDP in 1988, to less than 2% in 1989 (LAER 31/5/90;

Latin American Times 1990; Purroy 1991). This fulfilled another IMF stipulation contained in the original Letter of Intent that required a fiscal deficit of less than 4% of GDP (Purroy 1989b). Finally, implementation of the adjustment package opened the door for Venezuela to restructure its foreign debt. Implementing the adjustment program and signing the Letter of Intent with the IMF put Venezuela on the list of "good countries" that were eligible for the Brady-style debt renegotiation and reduction (Alvarez 1991). [10]

Venezuela was also eligible for new loans. The IMF agreed to provide 5.1 billion dollars over a three year period, as well as 700 million dollars to support debt reduction. The World Bank supplied 400 million dollars for the liberalization of imports and industrial reconversion, and 750 million to be used over five years for sectoral reform such as for the agricultural and financial sectors. The total World Bank financial commitment between 1990-93 amounted to nearly 4 billion dollars in loans (LAWR 11/10/90). BID (Banco Inter-Americano de Desarrollo) made available 4 billion for infrastructure and development projects (Purroy 1989c) and an additional 800 million dollars in 1990 to support the reactivation of the nation's productive apparatus (*El Nacional* 30/11/90).

From the neo-liberal perspective, application of competitive market forces to petroleum-dependent Venezuela was a desperately needed

[10]The Brady Plan, proposed by U.S. Treasury Secretary Nicholas Brady in 1989, is a plan of partial debt forgiveness (Economist 1990d). The program was made available to a small group of "reformed debtors" who were successfully carrying-out market-oriented reforms that met with IMF approval (Buiter, Kletzer & Srinivasan 1989; Economist 1991a; LAER 30/6/90; LAWR 20/4/89, Sachs 1989).

adjustment to reality--a "blow to the rentistic system" (Purroy 1990a) in which petroleum provided easy money for all Venezuelans. Whereas life before the change was fiction, life after the adjustment was real. The "birth pains" of the adjustment were a "sacrificial stage", temporary and necessary, but only made worse by the privilege Venezuelans had enjoyed under the inward-oriented regime. From the neo-liberal perspective, the current standard of living corresponds exactly with the level of real productivity of the petroleum-dependent economy (Purroy 1990a). From the structural perspective, however, the immediate costs of the adjustment were the direct result of the imperfections of the neo-liberal model, and were in fact predictable and consistent with the experience of other countries' adjustment experience (LAWR 5/8/83).

The immediate impact of the adjustment in Venezuela was depressive and "anti-social" (Purroy 1990a; Ugalde 1990), creating a slowdown in economic activity and significant social consequences. The cornerstone of the adjustment package was the devaluation and floating of the bolivar, and this devaluation of 150% had significant consequences throughout the economy (LAWR 19/5/89, Purroy 1990a). One of the primary impacts was on the level of inflation. Traditionally Venezuela had enjoyed a relatively low rate of inflation. Throughout the boom years of the 1970's and the neo-liberal experiments of the 1980's, inflation was generally around 10%, with a jump to nearly 30% in 1987 and 1988 (IMF 1990, 1991). In 1989, however, Venezuela experienced an inflation rate of 84.5%, followed by nearly 40% in 1990 (EIU 1991a, 1991b; IMF 1990, 1991; Purroy 1991), and projections of continued high rates through 1995 (*MetroEconómica* 1991a).

Devaluation also resulted in an immediate drop in consumer demand. In the first half of 1989, industry and commerce reported a 45% drop in sales, with the auto industry alone experiencing a 70% loss (LAWR 8/6/89). Overall private demand dropped from a growth rate of 8.7% in 1988 to show negative growth of 7.5% in 1989, while public demand declined from its 1988 level of 6.8% to -1.4% (Purroy 1990a).

The combination of the impact of devaluation, inflation and lack of demand resulted in an "unprecedented" recession. Real GDP dropped from its 1988 growth level of 5.8% to a negative 1989 real growth rate of -8.3% (EIU 1991a; *MetroEconómica* 1991a; Purroy 1990a; Ugalde 1990). This level of negative growth was accompanied by a trend of disinvestment as firms liquidated, choosing not to invest to take advantage of very high interest rates, or finding themselves unable to obtain money to support investment (Latin American Times 1990; *MetroEconómica* 1991a). While, in 1988, public investment had grown by 5.3% and private by 6.4%, in 1989, the public sector experienced negative growth of 33.9% and the private of 24.6% (Purroy 1990a).

The depressive nature of the adjustment package contributed to its anti-social effects, resulting in a deterioration of real income, a regressive effect on the distribution of income, and an increase in unemployment (España & Gonzalez 1990; *Fundación Cavendes* 1991; International Law Practice 1991; Ugalde 1990).

The greatest impact of adjustment, therefore, fell on the lower and middle classes. These groups are the most affected by the negative impact of inflation (*MetroEconómica* 1991a). Within the overall 1989 inflationary rate of nearly 85%, the largest increases were in food, beverages and tobacco, which jumped 125.8% (*Fundación Cavendes* 1991; *MetroEconómica* 1991a; Purroy 1990a). For the most vulnerable groups, the combination of devaluation and the removal of price subsidies had the potential to raise to 70% the amount of income spent on food (*Fundación Cavendes* 1991).

An inflation rate of over 80%, when combined with salary raises of only 40%, creates a deterioration of real income. The per capita income of the nation as a whole dropped to levels of the late 1950's and early 1960's (Purroy 1990a, 1991; Ugalde 1990).

Employment was another casualty of the new program. The government was forced to lift a firing freeze and there was an immediate contraction in some sectors as 65,000 industrial jobs or 12.5% of that sector's work force were lost (Latin American Times 1990). Official unemployment in 1989 reached 9.6% and then rose to 10.9% in 1990 (EIU 1990; International Law Practice 1991; *MetroEconómica* 1991a; OCEI 1990). Unofficial estimates, however, argue that the actual rate of unemployment is between 15-20%, while subemployment, including all members of the working population earning salaries under the minimum wage level, both in the formal and the informal sector, is estimated at an additional 30% (Purroy 1989c, 1991).

There is evidence of the impoverishment and disappearance of the middle classes (International Law Practice 1991; *El Nacional* 8/8/90). In September, 1990, it was estimated that 85% of the population could be identified as being in the lower or lower middle class, compared to

8% in the upper middle and 3% in the upper class (International Law Practice 1991).

Announcement of the adjustment package was greeted in Venezuela with four days of rioting and looting (LAWR 16/3/89). On February 27, 1989, riots broke out in Caracas and spread across the country, sparked by the attempt to raise gas prices to market levels, and they left an official toll of 250-350 dead[1] and nearly 2000 injured (EIU 1990; Latin American Times 1990; LAWR 16/3/89, 19/5/89).

The adjustment package implemented in Venezuela was a "shock" program, representing sudden immersion in a competitive market economy, closely following the traditional neo-liberal/IMF model. Since that time, however, domestic resistance and the continued economic intervention of the state have contributed toward a modification of the traditional neo-liberal model.

VENEZUELA'S NEO-STRUCTURAL ADAPTATION OF THE OUTWARD-ORIENTED MODEL

The international, regional, and domestic climate in which Venezuela found itself in the late 1980's, as well as the direct and persistent pressure of the IMF, made adoption of an outward-oriented model, based on neo-liberal principals, the only short-term alternative for the Venezuelan economy. Over the longer-term, however, while still outward-oriented, the model emerging in Venezuela is not purely neo-liberal. The methods remain neo-liberal while the goals and assumptions about the world economy are preserved from structuralism. Maintenance of a powerful state to regulate a market-based economy

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[1]Unofficial estimates of the casualties of the riots claim more than 1,000 people died (Latin American Times 1990; LAWR 16/3/89).

indicates the emergence of a neo-structural, market-and-state model.

Analysis of the long-term trends indicates that the reform is indeed continuing toward outward orientation, in spite of political opposition within Venezuela. However, the emerging model of reform differs from the pure IMF model in that its outward-orientation remains strongly directed by the state. The state has acted to improve market functioning by removing protection that exposes previously-protected sectors to competition and market forces. Three recent issues have been identified as "test cases" of continued commitment to the neo-liberal/IMF model: 1) management of the private sector debt; 2) the privatization of state enterprises; and 3) emerging agricultural policy.

The issue of Venezuela's private sector debt dates back to 1983 when the bolivar was devalued and the government established a multi-tiered exchanged system. After protest from the private sector, allowance was made to permit access to the preferential rate for debt payments (EIU 1991a; LAWR 15/11/90). In 1987 a new repayment agreement was reached, in which eligible debtors signed contracts with the Central Bank guaranteeing a repayment exchange rate of 12-14 bolivars per dollar (EIU 1991a). With the implementation of the adjustment program, President Carlos Andrés Pérez unified the exchange system at a single floating rate, by which the government was exposed to huge losses if it honored the previous agreement. Since honoring the agreement would have "derailed" the economic adjustment program, President Pérez suspended the pre-adjustment agreement and removed all special treatment for the private sector until negotiations could determine how the losses could be split between the government, private sector and foreign creditors (EIU 1991a; LAWR 15/11/90).

Agreement was reached in November of 1990 with a compromise that reduced government losses considerably. Had the original terms been respected, the central government would have faced losses of around 7% of GDP. Under the new terms, losses were cut to around 1% of GDP in 1991, transferring the burden to the private sector (EIU 1991a; LAWR 6/12/90). The solution to the private sector debt stand-off illustrates the state's resolve to remove its protection for business and open the economy to competition, while reducing public sector spending.

Further evidence of increasing market orientation with state direction is provided by the plans for privatization. The Venezuelan privatization program was officially announced in early 1990 as part of the Eighth National Plan (CORDIPLAN 1990). Initial plans were made to privatize over 50 of its 200 state companies within two years. Since the announcement, the program has been criticized for too much discussion and planning and few actual sales (Latin American Times 1990; LAWR 20/9/90, 22/11/90; Freije 1991). Admitting in June of 1990 that the program was behind schedule (LAER 30/6/90), the government argued that Venezuela has been laying the essential groundwork for the adjustment package (such as stabilizing the floating exchange rate, and achieving equilibrium to its balance of payment account), and creating a favorable environment for foreign investors to participate (Daily Journal 8/5/91; *El Nacional* 30/11/90).

The privatization program began with the sale of a state-owned bank, the *Banco Occidental de Descuento*, which was sold in December of 1990. Purchase was made by a consortium of bank workers, customers and private Venezuelan investors (EIU 1990; Economist 1991b; *El Nacional* 5/12/90). A second bank, *Banco Italo Venezolano*, was sold in early 1991, also purchased by a group of private Venezuelan investors considered to be relatively small players in the financial sector (LAWR 25/4/91; *El Universal* 27/3/91).

Initial action has been taken toward the privatization of the national telephone company (CANTV), with the acceptance of qualified bids from 12 foreign companies in June of 1991 (Daily Journal 18/3/91; EIU 1990, 1991b; LAWR 9/5/91). Stipulations of the sale include the reservation of 10% of the stock for workers (*El Universal* 3/2/91) and the continuation of state influence through the retention of preferred shares (Daily Journal 19/3/91; EIU 1991a).

Negotiations for the sale of the state-owned airline, VIASA, initially scheduled for sale in late 1990, were getting underway in June and July of 1991 (Daily Journal 19/3/91, 14/5/91; *El Nacional* 1/3/91; LAWR 25/4/91). Bids were to be accepted under an agreement in which 49% of the stock will be sold to foreign interests, 20% retained by the state, 20% sold to company employees, and 11% retained for private Venezuelan investors (Daily Journal 6/5/91; EIU 1991b; LAWR 22/11/90). Another state-owned airline, Aeropostal, is scheduled to be sold after completion of the VIASA deal (Daily Journal 20/3/91), and plans are to privatize state-owned sugar mills (Daily Journal 14/5/91) hotels (Daily Journal 8/5/91) national ports (Daily Journal 19/3/91), water companies and other state-owned enterprises[2] such as the Caracas race track (Daily Journal 25/3/91; Economist 1991b).

In spite of opposition, the privatization program has progressed. (Daily Journal 19/3/91; *Economía Hoy* 27/2/91; EIU 1991b; LAWR 22/11/90). Negotiation between the government and worker representatives has resulted in employee participation in the sales, as well as reservation of company shares for employees, as was the case with CANTV and VIASA (Daily Journal 19/3/91; *Economía Hoy* 27/2/91; LAWR 9/5/91; *El Nacional* 1/3/91; *El Universal* 3/2/91). Opposition from the major political parties (*El Nacional* 4/2/91; EIU 1991b; LAWR 20/9/91; *El Nacional* 3/3/91; *El Universal* 5/3/91) has resulted in the development of guidelines for the privatization process, as well as continued oversight after the entities have been sold (*El Nacional* 21/2/91, 3/3/91). The government minister in charge of the privatization program has stated that while privatization is something most Venezuelan's do not desire, it is something they see as a necessity, to improve efficiency and finance the public deficit (Daily Journal 25/3/91; *El Universal* 7/2/91).

As the public sector enterprises have been exposed to competition and privatization to increase quality and efficiency, agricultural policy under the new model also illustrates the market-orientation of the Venezuelan economy. Previously a highly protected sector, agriculture was one of the sectors mostly affected by the adjustment

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[2]All together, "three banks, six cement works, two food processing businesses, a new sugar factory, five dairies, four metal-bashers, one shipbuilder, one plastics factory, two steel works, three textile factories and 34 tourist complexes are ready for privatization" (LAER 30/6/90).

package (Purroy 1990a). Former President Rafael Caldera charges that Venezuela has "turned its back on the agriculture industry" (Daily Journal, 8/5/91), while economist Purroy (1990a) described the sector as "abandoned to its own luck". Agriculture has indeed lost many of its special privileges. Tariffs protecting domestic production were gradually reduced. All quantitative restrictions were eliminated and the interest rate subsidy on agricultural loans was set first at 85% of market rate and then completely eliminated (Delgado 1991; EIU 1990).

Government commitment to an agricultural sector based on market forces was tested in early 1991. Within a period of a few weeks, meat prices had risen 30% and consumers threatened a beef boycott. The administration reacted angrily, charging that the industry was taking advantage of its recently deregulated state (Daily Journal 13/5/91). The Minister of Agriculture, Jonathan Coles[3], threatened to drop all remaining tariff protection for beef and immediately fly in foreign beef to increase competition. The situation ended with the meat industry agreeing to stabilize prices, (*Economía Hoy* 13/5/91; Daily Journal 13/5/91, 14/5/91) and with a market-oriented reminder to consumers that "the community has the last word on controlling prices" (Daily Journal 14/5/91).

In addition to the commitment to expose the Venezuelan economy to market forces and competition, the Venezuelan government's resolve to maintain an outward-oriented economy is illustrated by its

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[3]Minister of Agriculture Jonathan Coles is an agro-industrialist and Yale University graduate who in late 1990 replaced Eugenio de Armas when the former Agricultural Minister did not support the administration's policy of opening the agricultural sector up to external competition (EIU 1990).

participation in the formation of regional market blocs. As a response to the rapid trend toward regional trade blocs evidenced in the European Economic Community, and the U.S., Canada and Mexico free trade agreement (Prestowitz et al. 1991, Streeten 1991), Latin American countries have rapidly created smaller regional trade blocs.[4] While Brazil, Argentina, Paraguay and Uruguay formed *Mercosur*, the Southern Cone Common Market (Daily Journal 25/3/91; Scott 1991; *El Universal* 27/3/91), and the Central American Nations agreed to a region-wide free trade zone by 1992 (LAWR 16/8/90) with the inclusion of Mexico by 1996 (Scott 1991), Venezuela made free-trade agreements with the Group of Three (Venezuela, Mexico, Colombia) (EIU 1990; Scott 1991; *El Universal* 7/2/91) and the Andean Pact (Venezuela, Bolivia, Colombia, Ecuador, Peru) (Daily Journal 19/3/91; Scott 1991; *El Universal* 5/3/91). Venezuelan President Pérez has also proposed an agreement between the Group of Three and the Central American Common Market (Emling 1991).

Regional integration has required the reduction or elimination of protective tariffs that under import substitution were as restrictive to neighboring Latin American nations as to the rest of the world. The speed and extent of the regional integration indicates the ubiquity of outward-orientation in a previously "closed" region. While Venezuela's participation indicates its commitment to outward-orientation and a market-based global economy, the nature of its participation also illustrates the maintenance of the role of the state as the state acts

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[4]Although traditionally rejected by neo-liberal economists as an impediment to the formation of a truly global economy (Economist 1991c), proponents argue that a world of blocs might be the forerunner to global integration (Dornbusch 1991).

toward free markets regionally in order to strengthen Venezuelan self-determination in light of the developed nations.[5]

As the Venezuelan government continues to implement free market policies, it has also maintained its own role in the economy, in opposition to neo-liberal principles. There is a clear trend of continued state intervention both to improve market functioning and to compensate for the problems of a market economy.

While a stated part of the Adjustment Program was "reducing the role of the state in the economy" (Republic of Venezuela 1990), after two years, the net effect has been a consolidation of the state's position, although there has been a change in focus of the intervention toward an outward-orientation. The only role that the state has given up completely is that of protector. The state remains involved in centralized planning, in direct production, and in the stimulation of demand.

Besides the Letter of Intent to the IMF, the most comprehensive outline of the new development model is in the Eighth National Plan, published by the state planning agency. The state continues to plan for development, but based on the development of non-traditional

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[5]U.S. President Bush applauds the formation of Latin American regional blocs, interpreting the action as the first step toward his goal of a hemispheric free trade zone (Daily Journal 25/3/91; LAWR 20/9/90). The Ibero-American summit held in July 1991, however suggests that the Latin American nations are looking for alternative arrangements. Twenty-one Latin American leaders, including Fidel Castro, met with leaders from Spain and Portugal to discuss Ibero-American integration. The leaders are seeking to define for themselves how they will participate in the "new world order" and are hoping Spain will provide a bridge between Latin America and the European Economic Community (Emling 1991; Scott 1991).

exports from the petroleum, agricultural and industrial sectors rather than for import substitution or production for domestic demand. To date, the petroleum and most important mineral industries in Venezuela remain as state enterprises. Investment and planning for these sectors, however, reflect a new interest in production for external markets (CORDIPLAN 1990). State enterprises were to undergo restructuring, however, to impose market discipline and increase efficiency.[6] Other, non-strategic state enterprises are to be privatized, thereby contributing to the development of private initiative and private sector investment in Venezuela (Banco Central de Venezuela 1990; Republic of Venezuela 1990).

Under the inward-oriented model the state promoted industry and agriculture through investment and structural reform for the creation of goods for the domestic market. Under outward-orientation, the role of the state is to stimulate the supply of goods oriented toward external markets through export promotion and the attraction of foreign investment. A major goal of the adjustment program is to increase non-traditional exports. In addition to trade reform and the elimination of the controlled exchange rate's anti-export bias, (CORDIPLAN 1990; Republic of Venezuela 1990), the strategy to increase Venezuelan competitiveness internationally included a program of incentives and subsidies provided by the state to stimulate the production of these exports. The program of incentives includes export subsidies and tax credits (CORDIPLAN 1990; Republic of Venezuela 1990) the establishment

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[6]The restructuring process is supported by policy loans from the World Bank and the Inter-American Development Bank (Republic of Venezuela 1990).

of various support agencies to give financial and technical assistance to producers, to facilitate international market access of Venezuelan products (ILDIS 1989), and finance export creation (CORDIPLAN, 1990).

Upon introduction of the adjustment program, the government agreed to a program of public sector reform (EIU 1991a; *El Nacional* 5/12/90) As officially explained in the Eighth National Plan (CORDIPLAN 1990), the new role of the Venezuelan state under the emerging Venezuelan model was to be different, but in no way weakened in relation to its previous role. The state no longer served as protector of the domestic economy and reduced its activity as producer and promoter of non-strategic economic activities, thus transferring certain political functions to state and local governments. The public sector bureaucracy was to be rationalized, modernized and professionalized (*El Nacional* 4/2/91), to increase administrative capacity and reduce the arbitrary decision-making ability of government officials (CORDIPLAN 1990).

Partially as a result of considerable domestic opposition to neo-liberal policies, and in spite of IMF pressure to reduce public expenditure and deregulate the economy, the Venezuelan state continues to stimulate demand and promote participation in the domestic economy. State action to compensate for the redistributive failings of a market economy is evidenced in three contemporary issues: 1) the preservation of regulated domestic gas prices; 2) Congressional approval and implementation of a new labor law; and 3) maintenance of public sector investment.

Raising fuel prices in Venezuela is a volatile issue, as demonstrated by the February 1989 riots that were sparked in part by announced increases in fuel prices (EIU 1990; Latin American Times 1990; LAWR 9/3/89, 19/5/89). An issue with symbolic as well as economic importance, petroleum-product prices in Venezuela are the lowest in the world (LAER 30/6/90) and represent a prime target of IMF "recommendations". According to neo-liberal observers of the economy, cheap gasoline in Venezuela represents

> one of the vestiges of a system in which Venezuela's oil revenues were used to finance wasteful consumption, patronage and subsidies to inefficient industries" (Latin American Times 1990).

Venezuela had agreed in its original Letter of Intent with the IMF to raise domestic gas prices from their 1989 level of around 30 cents per gallon (LAER 31/5/90). After the February riots, increases in gasoline prices were postponed until June of 1989, when it was announced that prices would be raised by 9 cents per gallon, over a six month period (Latin American Times 1990). Crowds again took to the streets and the increase was postponed indefinitely (Latin American Times 1990; LAER 31/7/90).

In March of 1990, the government again announced price increases, but again postponed hikes in gas and diesel while raising "industrial fuels" such as kerosene and natural gas (LAER 30/6/90). In July, the IMF mission visiting Caracas made an increase in fuel prices a condition of disbursement of a 700 million dollar loan (LAWR 26/7/90).

In response, the government planned staggered rises in gas prices of 30% over six months, a measure which began to be implemented in August (EIU 1990; LAER 31/7/90), counter-weighted by increases in the transportation subsidy and gradual taxi and bus fair increases (EIU

1990). After the forced increase in 1990, there has been no further state action to bring gas prices to their market value. Even with the 1990 price increases, gas prices in Venezuela remain the lowest in the world, and the government has announced no increases in domestic gas prices for 1991 (EIU 1991c).

While the current administration claims it is "forced" to retain the subsidy on domestic gas prices by the threat of renewed social protest, it also "failed" to block the implementation of a progressive labor law. An issue of debate since 1985, a new labor law increasing worker benefits and protection was passed by Congress in late 1990 and implemented on May 1, 1991. The law, which increased benefits for child-bearing women, raised mandatory overtime pay, shortened the work week, and increased protection against firing, had faced considerable opposition. Supported by the majority of Congressional Representatives and the major labor unions, the law was seen as one method of reducing the negative impact of neo-liberal adjustment on workers. The law was opposed by the administration (EIU 1991a; *El Nacional* 20/2/91), by international investors (*El Nacional* 30/11/90) and by the domestic private sector (EIU 1991a, 1991c). They argued that the new law would reduce labor market flexibility, increase production costs, require considerable public funds (*El Nacional* 20/2/91a, 20/2/91b) and increase the power of the unions, all detrimental to the objectives of the adjustment program (EIU 1991a; *El Nacional* 30/11/90). Despite the objections, the law was passed, increasing employment security, one of the objectives of the structuralist perspective.

Despite public statements to the contrary, (Latin American Times

1990), the Venezuelan state also continues its traditional role as the "chief engine" of economic growth (*MetroEconómica* 1991a; Purroy 1991), using public sector investment to stimulate economic growth, as well as the growth and recovery of demand (EIU 1991a; Maxim Ross 1991b; *MetroEconómica* 1991a).

After negative economic growth in 1989 of -8.3%, the Venezuelan economy recovered in 1990 with 4.4% growth (EIU 1991a, *MetroEconomica* 1991a). The state, however, was the major cause of economic growth in 1990, with an increase in real state investment of 16 to 22% (EIU 1991a; *MetroEconómica* 1991a; Purroy 1991). The expanded investment was covered by a petroleum windfall generated by the Gulf crisis, and therefore did not affect the elimination of the fiscal deficit (EIU 1991a; Purroy 1991). The plan for strong public investment continues through 1993 and includes public spending in social programs, infrastructural development, and support to increase the participation of the private sector in the economy (CORDIPLAN 1991; Maxim Ross 1991b; *VenEconomía* 1991a).

CONCLUSION

The short-term adjustment program implemented in 1989 was neo-liberal in nature, closely resembling the IMF/World Bank adjustment model. The implementation of a floating exchange regime, market-determined interest rates, and the elimination of protectionist barriers set the economy on a long-term outward-orientation; future growth is targeted toward international trade, the development of non-traditional exports and the expansion of the private sector.

While the initial outward-oriented adjustment closely resembled the neo-liberal model by opening the Venezuelan economy up to global market forces and competition, over the long-term the model emerging in Venezuela more closely resembles that proposed by the neo-structural perspective. The neo-structural model proposes an outward-oriented development strategy regulated by a powerful state to fulfill structuralist goals. The goals of Venezuelan development under an outward-oriented economy remain the same as under the inward-orientation of the structuralist's import substitution model. Three objectives remain primary: 1) achievement of sustained economic growth; 2) better distribution of income within the economy; and 3) greater national autonomy (CORDIPLAN 1990, 1991). The specific discussion of Venezuelan goals contained in the Eighth National Plan closely parallels the major points of the CEPAL plan for Productive Transformation with Equity (CORDIPLAN 1990; Lander 1990).

Venezuelan development in the 1990's continues to rely on state intervention. The crucial role of the Venezuelan state as active participant in the economy is clear. While the state has relinquished its role as protector of the domestic economy, it retains its role in production, planning, and distributor of petroleum rent. [7]

In direct opposition to neo-liberal principles and in clear support of the goals of the original structuralists, the state continues to act not only to maximize the operation of the market, but to compensate for market failures (i.e. distribution). The resistance

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[7]State intervention in the economy does not automatically prevent the identification of a model as neo-liberal. While the neo-liberal perspective is essentially opposed to state intervention, a certain amount of state intervention is permissible when the state is acting to maximize the operation of the market (Low 1991; Sundrum 1990).

to pressure to raise domestic gas prices, as well as the active participation of the state in the allocation of resources evidenced in the public investment plan, indicate the state's interest in stimulating domestic demand and balanced sectoral growth.

For those measuring the role of the state against a traditional neo-liberal model, the continuing dominance of the state threatens the potential success of the adjustment program (Freije 1991; Purroy 1990b). The Venezuelan state retains its dominant position in the economy--in contradiction to neo-liberal philosophy (Purroy 1991; Wilfred 1988), against the direction of the IMF and World Bank, and to the dismay of many Venezuelans. Critics frequently express the feeling that consumers, workers and producers have all sacrificed for the success of the adjustment program while the state has not (Freije 1991; López 1991; Purroy 1990b).

From a neo-structural point of view, however, continued intervention by the state provides a means to regulate a market economy and use it to reach structuralist goals. The potential exists for a neo-structural model to overcome the criticisms of both a traditional structural model as well as a neo-liberal model. Structuralism was frequently criticized for paying too little attention to monetary and fiscal factors, and for overlooking short-term problems and offering no short-term solutions (Kay 1989). Implementation of the neo-liberal adjustment model addresses short-term problems and provides short-term solutions. In Venezuela, the adjustment model succeeded in restoring economic equilibrium.

The neo-liberal model, on the other hand, is criticized for providing only short-term solutions, failing to address structural problems, and contributing to unbalanced sectoral development and social problems, including a regressive distribution of income and wealth.

The Venezuelan state is clearly maintaining a strong role in the direction of Venezuela's development, acting toward the achievement of the primary neo-structural goals. Neo-liberalism asks whether the state should participate in the economy. The real question, according to the neo-structuralist perspective, is whether in a global economy the state can intervene to compensate for market failures.

CHAPTER 5

VIABILITY OF THE VENEZUELAN MODEL

The development strategy emerging in Venezuela is built upon a synthesis of neo-liberal, market-based methods, regulated by an outward-oriented state for the purpose of achieving structural goals. Is such a model potentially viable? Is it possible for Venezuela as a nation to set its own course of development and choose its methods of attainment in a context of a global economy? Can the global market and the Venezuelan state work compatibly toward the attainment of social and national goals?

Three goals for economic development have been set forth in the context of the new Venezuelan model: 1) sustained economic growth, 2) growth with equity and 3) national self-determination (CORDIPLAN 1990, 1991; Gonzalez 1989). Analysis of the viability of the new model suggests that although the outward-oriented model has produced short-term improvements, the Venezuelan economy is likely to remain highly vulnerable to international forces, unable to eliminate structural problems and generate sustained growth and equity.

SUSTAINED ECONOMIC GROWTH

The short-term results of the Venezuela adjustment program shows clear improvements in economic equilibrium. Two areas particularly evidenced success: the attainment of balance of payments equilibrium; and the elimination of the public sector deficit. These early macro-economic successes need to be examined more closely. Under careful analysis, the neo-liberal "successes" of the adjustment program are seen to be little more than temporary improvements in the context of a favorable world economic situation. Over the long-term, unchanged structural factors maintain Venezuela's vulnerability to disequilibrium and deficit.

Immediately after the new model was implemented in 1989, Venezuela achieved external equilibrium, and generated successive current account surpluses. As long as Venezuela's economy remains dependent on petroleum, however, its susceptibility to balance of payments deficits will remain. The health of Venezuela's current account depends on the price of petroleum, its export capacity and its production capacity. As a founding member of OPEC, Venezuela has worked to influence prices on the world petroleum market for many years. The volatility of that market was highlighted again in the roller coaster of prices during the Gulf War [1] and the potential for a more stable petroleum market in the future seems unlikely. As analysts seek to explain the impact of the Gulf War, the geo-political rearrangements in Eastern Europe and the Soviet Union, and an increasingly global economy, projections vary from future shortage (Daily Journal 7/5/91); to world-wide glut (Energy Economics Research

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[1]The price of oil had begun to climb in response to pre-war rumors during July of 1990, and when Iraq invaded Kuwait on August 2, there was a sudden price hike. Higher prices, aided by a UN embargo on all oil exports from Iraq and Kuwait, were followed by sharp fluctuations (EIU 1990). Venezuelan hopes of another oil bonanza disappeared when prices dropped due to the effects of speculation, the over-supply caused by increased production of OPEC and the IEA, and expectations for a quick solution to the conflict (EIU 1991a, 1991b; Energy Economics Research 1991; International Energy Journal 1991; *El Nacional* 1/3/91; Sweensy 1991a).

1991; *VenEconomía* 1991c) a stable world situation[2] (*El Nacional* 14/2/91) to a highly unstable situation (Gelb 1991).

Venezuela's export capacity is limited by the OPEC quota system [3] and its production capacity. Of its proven reserves, two-thirds are heavy or extra-heavy crude, which require special refinery capability and long-term supply contracts (Daily Journal 16/5/91; LAWR 28/3/91; Sweensy 1991a; *VenEconomía* 1991c). Venezuela also has a number of inactive fields that require advanced technology (EIU 1991b; LAWR 28/3/91). When OPEC quotas were suspended, Venezuela increased its daily production by 500,000 barrels. The increased level was reached over a period of six months, more slowly than had been hoped (EIU 1991a; LAWR 6/9/90).

The potential to lessen the importance of the petroleum on the balance of payments equilibrium depends on export diversification and import management. It is generally accepted in Venezuela that while efforts are made to diversify exports, the economy will remain petroleum-led for several more years (LAWR 6/6/91; Sánchez & Páez 1989). Early results from the impact of the devaluation and lowering of tariffs indicate that after an initial spurt of growth (Republic of

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[2]*El Universal* (27/3/91) reported that there is a proposal on the table of the IMF that would allow the organization to establish limits on fluctuations of the price of crude in international markets.

[3]Before the Gulf War, Venezuela's OPEC quota was set at 1.945 million barrels per day (Daily Journal 13/3/91; LAWR 6/9/90). After the beginning of the war, quotas were suspended and Venezuela increased its production by 500,000 barrels per day (LAWR 6/9/90). OPEC reinstatement of quotas generated considerable debate in Venezuela (EIU 1990), as interest in withdrawing from OPEC grows, but Venezuela complied, lowering production to its post-war quota of 2.235 million bpd (Daily Journal 13/3/91; EIU 1991b; Sweensy 1991a).

Venezuela 1990), the long-term development of non-traditional exports will be a slow process (Daily Journal 17/2/91; Gil 1990; *El Universal* 14/2/91, 22/3/91). The potential for lowering import levels also seems to be a long-term goal. Although import demand dropped immediately as a result of the February 1989 devaluation (Republic of Venezuela 1990), a large proportion of Venezuelan imports are raw materials (40%) and machinery and equipment (28%) (Republic of Venezuela 1990). Reducing industrial inputs such as these would have a negative effect on industrial output. [4] With continued dependence on petroleum as primary export and little potential to reduce current import demand, the balance of payments equilibrium achieved by the IMF adjustment model is clearly an isolated result. Future potential for consistent balance of payment deficits is unaffected.

The second major short-term success of the neo-liberal adjustment model was the elimination of the public sector deficit. Since 1976, Venezuela has had a central government deficit in nine out of thirteen years (IMF 1990). Following the adjustment program implemented in 1989, however, the deficit showed considerable reduction in a short period of time (from 9% of GDP in 1988 to 2% in 1989), exceeding by a considerable margin IMF expectations (Purroy 1990a).

In Venezuela, "there is nothing easier than eliminating the fiscal deficit" (Purroy 1990a). With the state as the principal

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[4]Food products and other consumer goods generally make up around 13% of all imports (Republic of Venezuela 1990). In an attempt to reduce consumer imports, the government has identified its goal of changing the imported pattern of consumption to one more in line with the agricultural strengths of Venezuela, potentially contributing to a long-term reduction of imports (CORDIPLAN 1990).

exporter and determiner of prices on exports, modifying the exchange rate produces greater state revenue. Quite simply, devaluation permits an increase in public income, allowing the deficit to be eliminated. The Venezuelan government recognizes this effect of manipulating the exchange rate, and it chose to retain that privilege against IMF recommendation when it mandated that PDVSA currency be sold directly to the Central Bank, therefore rejecting the IMF stipulation that PDVSA currency be sold on the open market (BCV Economist 2, 1991). In fact, current Planning Minister Miguel Rodríguez has identified the ability to use currency exchange as a policy, one of the primary "structural advantages of Venezuela" (Purroy 1990a).

The risk of using devaluation to eliminate the fiscal deficit is inflation. The neo-liberal perspective argues that the elimination of the public sector deficit will bring about the end of high rates of inflation. Structuralists, on the other hand, argue that inflation is caused by structural imbalance, such as that seen in Venezuela in the sectoral imbalance between the petroleum and non-petroleum sectors, and will not disappear with the public sector deficit. The perseverance of high rates of inflation through 1990 and into 1991 (BCV 1991; LAER 31/8/90; EIU 1991b; Purroy 1991; *VenEconomía* 1991c), even when the public sector deficit has been well within acceptable IMF levels provides evidence for the structural critique of the neo-liberal panacea.

Curbing inflation was identified as the government's top priority during 1991 (Daily Journal 6/5/91), and Central Bank officials predicted that the inflation rate would be under 20%. By March, estimates had to be revised to 25%, with the government publicly claiming that inflation was under control (El Nacional 21/2/91, 19/3/91). By mid-May, however, Central Bank figures indicated that the 1991 inflation rate was keeping pace almost exactly with the 40% rate of 1990 (BCV 1991).

One of the primary methods of controlling inflation is through monetary control by the Central Bank. The Bank exerts indirect control over interest rates through monetary policy to avoid the inflationary pressure of excess demand (*MetroEconómica* 1991b; El Universal 24/2/91). The problem with this form of inflationary control is that if the bank maintains high interest rates to stabilize the exchange rate and prices, economic activity is inhibited by the unavailability of investment credit. If the bank chooses to stimulate the economy through low interest rates, a trade off is made with inflation (*MetroEconómico* 1991). Therefore, despite early success, evidence suggests that the achievements made following the implementation of the outward-oriented model were short-term at best and do not guarantee long-term stability of the public sector account.

In addition to maintaining economic equilibrium, a greater task toward the development of a stable economy is long-term economic growth[5]. After the negative growth rate of 8.4% in 1989, and a 4% recovery during 1990, President Pérez predicted that 1991 would be the first year of reactivation of the economy (El Nacional 3/3/91). He projected a growth rate of 8%, which would represent the highest growth

[5]Economic growth is defined as the increase in an economy's real per capita level of output over time and is measured by the rate of change (Miller 1988).

rate in Venezuela during the last 15 years (Daily Journal 18/3/91; *El Universal* 27/3/91).

The petroleum sector continues to be the primary source of economic growth, and under the outward-oriented plan is expanding and developing new possibilities for exports. As the center of the Venezuelan economy since its discovery, the state petroleum company (PDVSA) is a highly efficient, professional enterprise. Shortly after the implementation of the outward-oriented model, PDVSA developed an investment plan for 1991-95 that has the potential to make PDVSA one of the world's largest transnational oil companies. The emphasis has switched from the conception of petroleum as supporter of import substitution to the use of petroleum to drive export development (Hernández 1991).

The purpose of the plan is to maintain secure markets and increase Venezuela's strategic position within OPEC, as well as increasing production potential (Maxim Ross 1991b). The primary goal is to increase production to 3.25 million barrels per day by 1993 and then to 3.5 million bpd by 1995 (*El Diario* 2/3/91; Maxim Ross 1991b). The plan includes an increase in the output of basic crude, natural gas, increasing refining capacity of domestic and Venezuelan owned refineries abroad, and increasing petrochemical production (LAWR 6/6/91).

In addition to significant investment, PDVSA is looking toward greater "internationalization" by developing its capacities both "upstream" and "downstream." Venezuela is already the largest owner of overseas refining of all the OPEC nations (EIU 1991b), with full ownership of three major refineries in the U.S. (Citgo, Champlin and Seaview). PDVSA is currently exploring joint ventures with the France, Spain, Germany, Czechoslovakia and Amoco in the U.S. (Daily Journal 12/4/91, 8/5/91; *El Diario* 23/3/91; *VenEconomía* 1991a). These "downstream" activities allow Venezuela greater access to markets and provide the refineries with a steady, predictable supply. At the same time, Venezuela is developing its "upstream" capability through agreements with Guatemala and Peru for exploration and development of their petroleum potential. Exploration has already begun in Aruba and discussions are being conducted with Trinidad, Grenada, Netherlands Antilles and Honduras (LAWR 7/2/91).

Venezuela's outlook for long-term production of petroleum is optimistic. A significant increase in proven reserves was made in 1985 and 1986 as a result of exploration and development programs especially in the Orinoco River belt. Venezuela is now estimated to control six percent of the world's proven petroleum reserves, with a theoretical reserve life of over 80 years (Republic of Venezuela 1990).

Venezuela's ability to depend on a petroleum-led economy is secure, although at the cost of external vulnerability that is partly a result of weak non-petroleum and agricultural sectors. Venezuela's manufacturing capability had grown steadily from the 1930's through the early 1970's. The petroleum booms undermined this manufacturing capability by drowning domestic production in a flood of imports and reduced demand for domestic goods (BCV 1988; Morales 1983; Salazar-Carrillo 1986).

Venezuela possesses sufficient national resources such as petroleum, coal, iron ore and bauxite to support the development of manufacturing (Morales 1983), and its proximity to the U.S. suggests potential markets to allow Venezuela to compete (Morales 1983). Venezuela's ability to reduce its dependence on petroleum must come from other sectors in the economy (Márquez 1983). After four years of solid growth at an average 4.6% annually, (Hausmann 1990) the non-petroleum sector experienced a sharp contraction in 1989 of -9.4% as a result of the devaluation, and then showed signs of recovery with a 3.8% growth level in 1990 (EIU 1991a; International Law Practice 1991; Purroy 1991). Government projections for 1991 expect 6% growth in the non-petroleum sector, based on large industrial projects to be initiated during the year (Daily Journal 18/3/91) and early recovery in capacity utilization and manufacturing output (Daily Journal 20/3/91; EIU 1990, 1991b; *El Nacional* 1/3/91; Purroy 1990b, 1991).

Besides their importance to the domestic economy of providing employment and GDP, the non-petroleum sectors are of special interest as the sources of non-traditional exports[6], the neo-liberal solution to dependence on petroleum as the main source of foreign exchange (EIU 1991c; Republic of Venezuela 1990).

An evolving system of incentives for non-traditional exports has been in place since 1970, including tax advantages and attempts to increase potential markets through membership in the Andean Common Market and other means (Morales 1983). Approximately 55% of Venezuela's non-traditional exports are produced by state-owned

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[6]Non-traditional exports in Venezuela include all exports except petroleum, iron ore, coffee and cacao (Republic of Venezuela 1990).

enterprises and include aluminum, steel products, and chemical products (Republic of Venezuela 1990). Following implementation of the adjustment program, non-traditional exports grew vigorously due to the removal of the anti-export bias inherent in the overvalued bolivar, as well as to an incentive program designed to stimulate new exports (Purroy 1991; Republic of Venezuela 1990). In 1990, the expansion of new exports slowed with the removal of the export subsidy,[7] and failed to reach projected levels (EIU 1990; LAWR 13/9/90; Purroy 1991). Non-traditional exports continued to decline in early 1991 as rising domestic demand and real appreciation of the exchange rate discouraged exportation (EIU 1991b).

The focus of Venezuela's plan to increase non-traditional exports is through the expansion of manufacturing exports, with emphasis on expansion of the private sector (CORDIPLAN 1990). One way of achieving this goal that proved to be "successful" in the newly industrialized nations of Asia and Mexico is through the development of manufactured exports based on a "cheap supply of labor", such as the Mexico-style *maquiladoras*. This approach has been suggested in Venezuela as a way to attract foreign investment and increase non-traditional exports. The Venezuelan Foreign Trade Institute has identified prospective sites for maquiladoras, which are "well-suited" for areas with high unemployment and poverty, basic infrastructure and access to ports

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[7]Further analysis suggested that the 1989 figures had been inflated by over-invoicing and fraud to benefit from the incentive program (EIU 1991a).

(Daily Journal 18/3/91).[8]

For the short-term, however, the actual development of new exports is centered around intensification of the use of Venezuela's petroleum. The greatest strides toward export promotion have been taken in the petroleum-related sector of petrochemicals. The development of the petrochemicals industry makes up 21% of the entire PDVSA investment plan, surpassed only by production and refining (EIU 1991a; Hernández 1991; Maxim Ross 1991b). As a sub-sector of petroleum, the petrochemical industry is not subject to the same restrictions of foreign participation (Hernández 1991). Nine new petrochemical projects have been approved by PDVSA, in partnership with both foreign interests and the domestic private sector (Daily Journal 2/5/91, 6/5/91, 7/5/91, 13/5/91; EIU 1991a).

The agricultural sector, like the manufacturing sector, was strongly affected by the 1989 adjustment program. Unlike the manufacturing sector, however, agriculture is not recovering and shows little evidence of increased growth or productivity in the short or medium-term future (Carlos Gonzalez 1990; EIU 1991c).

With the implementation of the adjustment program, Venezuelan agriculture was exposed to foreign competition, the removal of

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[8]The desirability of *maquiladoras* is controversial (*Grupo Consolidado* 1990a; Munárriz 1989). In Venezuela at least, the long-term viability of this approach may be inherently limited. As Cartaya and Márquez (1990) argue, Venezuela is not, nor does it wish to be, a supplier of cheap labor. The extent of urbanization, the broad base of basic education and the tradition of democratic participation all mitigate against a permanent reduction in real wages. The goal of the export promotion program should be to move away from exploitation of Venezuela's natural resource base toward the development of "human capital intensive goods exports" (Cartaya & Márquez 1990:10).

government subsidies for loans, and higher prices for fertilizer and other inputs (Carlos Gonzalez 1990; EIU 1991c; Maxim Ross 1990; Morales Espinoza 1990; Roberts et al. 1990; MAC 1990). The result was a drop in production and an increase in consumer prices (Morales Espinoza 1990). During 1988, the sector as a whole had shown a level of growth of 4.6%, while 1989 ended with a -5.1% growth level (International Law Practice 1991).

Attempts at structural reform in the agricultural sector are being made. A loan from the World Bank is supporting a program of "title search" to give producers legal title to their land (Delgado 1990; MAC 1990). Efforts to identify and support the production of non-traditional agricultural exports exist,[9] although early results are not encouraging (Carlos Gonzalez 1990; Maxim Ross 1990).

Recovery and growth of the agricultural sector will by nature take longer. To the dismay of even strong supporters of the market reforms, Venezuelan agriculture was largely abandoned by the state (Delgado 1991, Freije 1991). Private sector participation in the sector is not likely to fill the gap as agricultural returns are long-term and risky (Delgado 1991). Early evidence for 1990 shows that agriculture is not recovering and it shows a second year of negative growth at -1.3% (International Law Practice 1991; Purroy 1991).

Despite the initial growth and recovery of the non-petroleum sectors, the extreme differential between them and the petroleum sector makes their emergence as a major source of growth a long-term goal.

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[9]Possibilities for non-traditional agricultural exports to be developed in Venezuela include pears, apples, plums, peaches, potatoes and garlic (Carlos Gonzalez 1990; Maxim Ross 1990).

The Venezuelan economy will remain petroleum-led and therefore vulnerable to external markets and forces for several more years (LAWR 6/6/91; Morales 1983; Sánchez & Páez 1989).

Venezuela's potential for long-term economic growth is limited by two factors: its ability to attract foreign investment and its persistent sectoral imbalance.

Foreign investment is an important pillar in Venezuela's move toward outward-oriented growth. Investment is needed to provide access to technology and expertise, as well as market access for Venezuelan exports. The global climate, however, has created a "global credit crunch" as developing countries in Latin America must compete with each other, with Eastern Europe, the newly industrializing countries of Asia, as well as the developed countries of Europe and the United States. The competition for foreign investment was highlighted in a recent speech by President George Bush regarding his "Initiative for the Americas".

> The competition for capital today is fierce, and the key, the key to increased investment, is to be competitive, to turn around the conditions that have discouraged both foreign and domestic investment, reduce the regulatory burden, clear away the thicket of bureaucratic barriers that choke off Latin America's aspiring new entrepreneurs...Investment reform is essential to make it easier to start new business ventures and make it possible for international investors to participate and profit in Latin American markets (Bush 1990).

The Venezuelan government is actively promoting investment in Venezuela through consultation with international business interests (Daily Journal 11/2/91; *El Nacional* 11/3/91, 21/3/91; *El Universal* 9/3/91).

Considerable interest has been expressed in investment in Venezuela, particularly since the Gulf War. Most interest is in the area of petroleum and petroleum-related industries (Daily Journal 25/3/91a, 25/3/91b; *El Nacional* 19/12/90, *El Universal* 9/3/91; 21/3/91; 22/3/91). Foreign investment in Venezuela has grown, showing an increase in 1990 of $355-$500 million dollars over 1989 (Daily Journal 25/3/91, *El Universal* 5/3/91).[10]

In addition to the limitations placed on potential growth by the need for foreign investment, Venezuela's growth potential is also limited by the sectoral imbalance between petroleum and non-petroleum sectors. Attempts to generate development in the non-petroleum sectors by using the abundant resources provided by the petroleum sector creates an "exchange contradiction" (Gomez & Ross 1986). This exchange contradiction is related to, but distinct from the idea of the Dutch Disease discussed in chapter three.

According to the postulates of the Dutch Disease, and supported by the Venezuelan experience, the "unproductive profit" of the petroleum rent translates into an elevated amount of imports and overvaluation of the currency and is directed toward the development of non-transferable (and therefore non-exportable) goods--at the cost of stagnation of the productive sectors (Hein 1980; Karl 1986; López 1989; Scherr 1991). In Venezuela, petroleum income supported the consumption of imports and investment in communal services including transportation

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[10]Recent investments have been made in hotels (Daily Journal 2/5/91), the newspaper industry (Daily Journal 20/3/90), communications (Daily Journal 13/5/91), petrochemicals (Daily Journal 18/3/91), and aluminum (*El Nacional* 30/11/90). Preliminary joint venture agreements in petroleum have been made with Texaco and a German company (Daily Journal 16/5/91; *El Nacional* 14/2/91).

and communications (López 1989). The Dutch Disease, therefore highlights the dangers of a petroleum boom to the growth of the non-petroleum sectors. It was on this basis that the Venezuelan state justified its strong intervention in the economy as a distributor and regulator of the petroleum revenue to the rest of the economy.

The idea of an inherent exchange contradiction, however, goes beyond the Dutch Disease by considering the impact on an unregulated exchange rate of a dominant sector. If allowed to float according to market forces, petroleum revenue, which is produced at a very low cost in relation to the cost of manufacturing goods, will press the exchange rate toward overvaluation. The forces of the market, therefore, tend to establish a rate of exchange that is overvalued, while stimulation of the non-petroleum economy depends on devaluating the bolivar to stimulate exports. [11]

Considered to be one of the three or four most important decisions to be made in Venezuela, state control of the exchange regime permitted two basic choices: 1) to allow the bolivar to be overvalued, permitting the best use of petroleum income; or 2) to maintain a sub-

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[11]Venezuela has been aware of this contradiction almost since petroleum became an important part of the economy, and has attempted to compensate by state control of the exchange rate regime. At the advice of German economist Herman Max, Venezuela had put in place in 1940 a system of differential exchange rates, in an attempt to deal with the problems inherent between the two diverse sectors of the economy (Márquez 1983). From 1940 until 1976, Venezuela maintained an exchange policy which was a system of differential exchange rates *(Sistema de Cambios Diferenciales (SCD)*. Despite pressure from the IMF and critics within Venezuela, the system remained in place until 1976 when Venezuela unified the SCD into a single rate (Márquez 1983). The multi-tier exchange rate implemented in 1983 restored a differentiated system until February of 1989 when the bolivar was allowed to float freely against the dollar.

valued rate that stimulated the development of non-petroleum sectors and exports and contributed more completely to development. An overvalued bolivar allowed for the nation's short and medium-term enjoyment of petroleum revenue, at the cost of development in the rest of the economy, while the sub-valued bolivar "condemned" Venezuelans to buy expensively what could be obtained cheaply, but would produce long-term results and reduce vulnerability to international forces and the exhaustion of petroleum resources (Gomez & Ross 1986).

The impact on Venezuela of implementing a free floating exchange rate, and thereby renouncing state control of the exchange regime, could be a negation of the intent to stimulate non-petroleum exports. In the absence of state control, petroleum market forces could cause the appreciation of the bolivar. Initially stabilized against the "normal" levels of petroleum income, an increase in the value or volume of petroleum exports could negate the effects of the 1989 devaluation for stimulating non-traditional exports (Gomez and Ross 1986).

The phenomenon of exchange contradiction suggests that the massive expansion of PDVSA is not compatible with the maintenance of a floating exchange rate--implemented to favor the competitiveness of non-petroleum exports (*El Nacional* 2/3/91; *El Universal* 7/2/91; Vivancos 1991). Considering the exchange contradiction, Venezuela's potential to develop non-petroleum sectors and non-traditional exports could be limited by the exchange impact of a new "boom" or "mini-boom" in the petroleum sector. Early evidence of the existence of this possible phenomenon is provided by the decline in non-traditional exports in early 1991 as a result of the real appreciation of the exchange rate which discouraged exportation (EIU 1991b; *El Universal* 7/2/91).

In conclusion, Venezuela's potential for maintaining economic equilibrium and achieving long-term stable growth remains inhibited by the dominance of petroleum, in spite of the promises of the neo-liberal model. The implementation of market devices such as a free floating exchange rate and the inflow of foreign investment will limit the growth of the economy to the sector of petroleum, deepening Venezuela's dependence on the ebb and flow of the world petroleum market. Gains made since the switch to market principles are short-term only and the potential for achieving non-petroleum sectoral growth is limited by the growing dominance of petroleum.

GROWTH WITH EQUITY

The second major goal of the Venezuelan neo-structural model is growth with equity. Preserved as an important goal of the import substitution model, growth with equity implies using market mechanisms to generate growth, which the state will then redistribute as a stimulus to fuller participation in the internal market.

The definition of equity in the emerging strategy is an important indicator of the nature of Venezuelan neo-structuralism. The neo-liberal and structural perspectives define equity and the importance of equity differently. Once again, the Venezuelan model retains the structural definition and goals of equality but is implementing neo-liberal methods of redistribution.

From the neo-liberal perspective, inequality is both necessary and just. In order to stimulate economic growth, wealth must be concentrated in order to provide for investment and the development of industry. Progress toward economic development is defined as an increase in per capita income, not in real individual income (Sunkel & Zuleta 1990). Redistributive programs are evaluated in terms of their impact on economic efficiency rather than their impact on poverty (Wolf 1988). Inequality is just because it is a result of differing levels of individual talent and motivations. The poor are poor because they are inefficient and choose not to work harder (Gilpin 1987; Wilfred 1988).

Structuralism, on the other hand, identifies a concentrated structure of income distribution as one of the three primary bottlenecks hindering Latin American development (Lander 1990; Sunkel & Zuleta 1990). An unregulated economy over the long-term generates its own demise through unsustainable social differentiation in which wealth becomes too concentrated and markets are exhausted (Ibarra 1991; Wolf 1988). Economic development, they would argue, depends on increasing participation in the domestic economy, putting money in the hands of consumers to generate demand and stimulate industrial and agricultural growth.

The goal of redistribution within the new Venezuelan development model is to improve equity of opportunity, and while avoiding mention of equity of outcome, seeks to improve the distribution of income and wealth for all Venezuelans, and provide for the satisfaction of basic needs (CORDIPLAN 1990, 1991).

Primary responsibility for achieving these objectives remains with the state. According to the administration, Economic reform must be linked with broad social programs to cushion the impact of adjustment, combat critical poverty and develop human resources (Pérez 1990; *El Universal* 22/3/91). In the Eighth National Plan, a commitment to the social welfare of Venezuela is discussed as a "fundamental priority" and involves dealing with poverty, improving employment, income and social security, and improving social services (CORDIPLAN 1990).

To soften the impact of the adjustment program the government announced new social programs (Republic of Venezuela 1990). The "Plan to Confront Poverty" (*Plan de Enfrentamiento de la Pobreza*) was aimed at the needs of the most vulnerable groups (*Fundación Cavendes* 1991, Marino Gonzalez 1990). Benefits for the working poor included across-the-board wage increases, an increase in the minimum wage and unemployment insurance, while the most vulnerable groups were supported by targeted subsidies[12] and an employment program (Cartaya & Márquez 1990; Republic of Venezuela 1990). The social programs were supported by a promise of two billion U.S. dollars (LAWR 2/3/89). While delayed by several months in their implementation (Purroy 1989c), they were "impressive" in relation to past efforts and to the organizational capability of the state (Cartaya & Márquez 1990). Although softening the impact of the adjustment program, the measures where short-term and insignificant in relation to the problem of poverty in general (Cartaya & Márquez 1990).

In addition to the short-term measures to stabilize the social

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[12]Indirect subsides were maintained for fertilizers, student transportation fares and a basic basket of food including milk (Cartaya & Márquez 1990).

situation during the initial adjustment to the outward-oriented model, the Eighth National Plan set forth the long-term priority of working toward equity and satisfaction of basic needs (Marino Gonzalez 1990). The goal of growth with equity would be reached through the integration of all Venezuelans as participants in the economy as producers and consumers (Cartaya & Márquez 1990; Ugalde 1990). The strategy set forth included the constant increase in employment opportunities, the protection of fair levels of wage remuneration, and the reorientation of state spending from its productive activities to the more efficient development of human capital (CORDIPLAN 1990, 1991; Marino Gonzalez 1990). Through the structural transformation of the state, maximizing the capacity of the public sector through privatization and the reduction of state bureaucracy, the state would move from the distribution of rentistic income to concentrate on creating the educated, healthy work force capable of satisfying their basic needs (España & Gonzalez 1990; Marino Gonzalez 1990; Ugalde 1990).

While the goals of the growth with equity program reflect structuralist principles, the emerging method of redistribution resembles that found in neo-liberal, market economies. The nature of subsidies is being changed. Government policy is moving away from indirect subsidies of general prices controls in favor of direct subsidies. Described by neo-liberals are a more efficient use of "welfare" resources, indirect subsidies are targeted to the poorest groups. In Venezuela, resources are being channeled through existing institutions such as the schools (Cartaya & Márquez 1990, Marino Gonzalez 1990), and are taking the form of food stamps, a milk bonus for school children and allowances for school supplies for poor families (Daily Journal 17/2/91; EIU 1991a, 1991b; *El Nacional* 18/5/91).

While the effects of the 1989 adjustment created a considerable worsening of conditions for the lower and middle classes in 1989, the social situation in Venezuela had been worsening for nearly a decade.

The cost of living had risen sharply, with a greater percentage of income going toward the purchase of food (*El Nacional* 8/5/91), from 28.4% in 1981 to 48.1% in 1989 (*Fundacíon Cavendes* 1991). There was a progressive and sharp descent in real salaries until, in 1989, they equaled the levels of 1964 (*Fundación Cavendes* 1991; España & Gonzalez 1990; Ugalde 1990).

A growing percentage of the population was identified as impoverished, with a reported 57.3% increase during the 1980's (LAWR 9/8/90). Official statistics estimated the number of Venezuelans in the state of poverty at 51.5% (Ugalde 1990), while unofficial estimates ranged to 60-69%, with 30-43% in an extreme state of poverty (Daily Journal 20/4/91; *Economía Hoy* 23/5/91; *Fundación Cavendes* 1991; Ugalde 1990; *El Universal* 11/3/91).

Planning Minister Miguel Rodríguez recognized that by the beginning of 1991, over three million people were living in sub-standard *barrios* [squatter settlements] in Caracas alone (*El Mundo* 7/5/91). Nutritional levels deteriorated throughout the 1980's as the drop in imports resulted in a decline in the availability of some basic foods and a subsequent drop in the consumption of eggs and meat (-45%), milk and dairy products (-68%), vegetables (-50%), and an increase in cereal consumption of 11% (*Fundación Cavendes* 1991). The overall level of caloric consumption decreased 18% between 1988 and 1989 alone (*Economía Hoy* 23/5/91), while the National Nutrition Institute reported that one in every five Venezuelans suffered from chronic malnutrition (Daily Journal 20/4/91).

In spite of its steady income from petroleum, the social situation in Venezuela is not markedly different from that of other Latin American nations. A recent United Nations study found that nearly 50% of all Latin Americans live in poverty (LAER 31/7/90, LAWR 9/8/90), while official Venezuelan statistics set the level within Venezuela at 51.5% (Ugalde 1990).

Three factors will affect the potential of the Venezuelan model to reach its goal of growth with equity: 1) achievement of economic growth; 2) actual redistribution by the state; and 3) tolerance of the poor for inequality.

Achievement of the goals depends first of all on the economy's ability to achieve stable, sustained growth. Critics suggest that the program, as outlined in the Eighth National Plan, sounds as though it had been written during another part of Venezuelan history when there were sufficient resources for everybody (Ugalde 1990). The potential for the state to invest in human development and social services, as it has planned, will continue to be limited by the conditionality imposed by the IMF, the World Bank and other international financial agencies. These institutions, who continue to make loans to support the economy and lessen the impact of the adjustment (Daily Journal 3/13/91) also seek to further neo-liberal principles in Venezuela and limit public sector expenditure. In the short and medium-term, the potential funds for public sector investment will continue to be limited by fluctuating petroleum revenue, and by the percentage of state income that must go for payment of the international debt [13] (Ugalde 1990; Valecillos 1989). Over the long-term, the ability to integrate all Venezuelans into the economy as producers and consumers will depend on the development of the non-petroleum sectors, and the ability to generate some measure of sectoral balance within the economy.

More importantly, the actual achievement of equity in the Venezuelan society will depend on the state's true commitment, and to a lesser degree its ability, to redistribute petroleum income.
Whether the Pérez administration has preserved structuralist principles and the role of the state for its own benefit, for legitimacy purposes as it aids in accumulation "up and out", on the basis of a legitimate concern for the welfare of Venezuelans, or as a result of domestic pressure, is difficult to determine.

Rhetorical evidence for governmental commitment to social redistribution is plentiful. In a recent speech before a conference of the Economic Commission for Latin America and the Caribbean (CEPAL), President Pérez identified the redefinition of the role of the state as one of the fundamental issues facing Latin America (Pérez 1990).

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[13]Through its debt rescheduling under the Brady Plan, Venezuela spread its debt payments over a longer period of time and lowered interest rates (LAWR 10/1/91; Ruitort 1990). The amount of principal owed was reduced by 20% and annual debt service by 50%, lowering the annual service payments from nearly three billion dollars per year to 1.3 billion (LAWR 6/9/90; *El Nacional* 5/12/90, 19/12/90; Republic of Venezuela 1990; Ruitort 1990; *El Universal* 6/12/90).

> We need a State which, if it intervenes in the economy, does so through market-compatible mechanisms. We cannot accept the concept of the State as the negation of the market. It is the State's responsibility to guarantee that the market does not indulge in monopolistic or oligopolistic practices which end up by distorting it. We must get away from the false dichotomy between the State and the market...the State in our countries must gradually give up any involvement in the direct production of those goods and services which, by their nature, can be supplied by the private sector. This will give us a strong and more flexible State apparatus, concentrated on those activities which it cannot delegate (Pérez 1990:14).

Although the emerging model is never specifically identified as "neo-structural" by the central government, rhetorical rejection of the market failures of neo-liberalism are frequent. President Pérez has declared that "I am completely against neo-liberalism" (Gonzalez 1989).

> We can't separate, as does neo-liberalism, social action and economic action--we can't think of the production of wealth without asking for what purpose and for whom (*El Universal* 27/11/88, as cited in Gonzalez 1989).

In a speech before the United Nations, Diego Arria, Venezuela's United Nations representative argued that Latin American countries have to consider more than just economic factors in seeking to overcome the region's problems. Because "the free market alone cannot guarantee a reasonable standard of living for Latin Americans" governments must also intervene to satisfy the needs for social justice and equality, "collective needs that cannot be met by market mechanisms" (Daily Journal 13/5/91).

The extent of poverty even after petro booms and generations of rhetorical commitment to equality brings into question the redistributive intention of the state (Ugalde 1990). Sonntag & de la Cruz (1985) charge that the developmental goals of CEPAL in Venezuela were in fact a commitment to international "modernization" rather than social development of the domestic economy. Petras & Morley (1983) argue that there has consistently been a "divergence between the governments' 'populist' goals and their public practices".

Rather than working toward redistribution, growth with equity goals are to provide legitimacy among the populace while the state works to aid "capital accumulation and social reproduction" (Sonntag & de la Cruz 1985). The relationship between the state and the bourgeoisie in the periphery countries is the inverse of that in the core countries in which the state aids accumulation for the private sector. In the periphery, and particularly in Venezuela, the bourgeoisie needs the resources of the producer-state to aid its accumulation of capital (Petras & Morley 1983; Sonntag & de la Cruz 1985). In Venezuela, "the state acted just like a private capitalist...with a logic of capital" (Petras & Morley 1983).

A study of the impact of first oil booms on income distribution in Venezuela supports this view. As a result of the boom, the concentration of income increased with incomes rising faster at the higher levels of distribution, with the largest increases for the very rich, thus the gap between the poor and the non-poor increased. An analysis of price changes indicates that prices rose faster for the poor while the mean real income of those in poverty was left unchanged or declined (Musgrove 1981). In spite of significant government investment in regional development, large regional income inequality persisted (Jones 1982).

The new development model, therefore, is a continuation of the old. The IMF, neo-liberal model was implemented in coordination with international capital and the Venezuelan bourgeoisie and will continue to benefit these groups, at the cost of social redistribution (Petras & Morley 1983). In the past, the principal beneficiaries of the state's role in the economy have been foreign investors, large manufacturers, large commercial farmers and the financial sector (Petras & Morley 1983). The same groups stand to benefit under the outward-oriented economy and were the primary supporters of the implementation of the IMF adjustment model.[14]

A final factor that will affect the viability of the neo-structural model of development is the tolerance for inequality among the Venezuelan poor. Economist Jacob Viner has written that a

> decisive test of the acceptability of a market economy depends on the extent to which markets can co-exist with a level of 'distributive justice' with which the electorate is 'tolerably content' (as cited in Wolf 1988:29).

Analysis of the Latin American situation frequently concerns itself with the type of regime that can sustain the "discipline" and "sacrifice" necessary for the success of the IMF adjustment measures. Analysts suggest that the inability to meet the "dual challenge" of sustaining viable democratic institutions and concurrently implementing painful economic reform could lead to a form of authoritarian democracy

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[14]Allied with the administration in the implementation of the IMF model were the IMF, commercial foreign creditors, and domestic and international business interests. The program was opposed by both the President's own party (AD) and the opposition (COPEI, MAS, etc.) and other domestic interests such as public sector bureaucrats and union leaders (Daily Journal 7/5/91; EIU 1991b; Economist 1990d; Purroy 1990c). Within his own administration, Pérez rearranged his cabinet, removing AD party leaders opposed to reform and replacing them with businessmen and "technocrats" with little party affiliation, reinforcing the administration's commitment to reform (EIU 1990, 1991b; LAWR 9/8/90; *VenEconomía* 1991a).

"in which leaders will push for economic reforms at the top while relying on the military and security forces to suppress mounting popular protest below" (LAWR 10/1/91).

Two manifestations of social and political protest to the implementation of the IMF model were experienced in Venezuela in 1989. The first was the outbreak of rioting on February 27, 1989. Initially sparked by increases in public transportation, within hours the rioting had spread throughout Caracas and to cities across the country. For twenty-four hours looting continued unimpeded. When the government responded it suspended constitutional rights and sent the army into the streets (and went ahead with the official signing in New York of its Letter of Intent with the IMF). The army is charged with "unnecessary and indiscriminate" repression, the random detention of citizens, and the intentional arrest and harassment of Venezuelans known to be active in collective organizations, particularly in the barrios (Sosa A. 1989; Ugalde 1990). Official estimates set the death toll somewhere between 250 and 350 with nearly 2000 injured (EIU 1990; Latin American Times 1990; LAWR 16/3/89, 19/5/89). Unofficial estimates, however, claim that more than one thousand people died (Latin American Time 1990; LAWR 16/3/89).

Analysis of the environment in which the riots took place identifies four primary factors which contributed to the situation: 1) growing hunger and lack of the "bare necessities of life" on a massive scale; 2) growing systematic repression; 3) evolution of the social services into an agent of social discrimination (with access to education and health services, as well as transportation, water, lights, housing, and security dependent on income); and 4) the growing proletarianization of the middle classes (Trigo 1989).

The second wide-spread protest was in the form of electoral protest in December of 1989. The election was the first in which governors and mayors were directly elected, rather than appointed by the administration. The reform of the election process was supposed to be evidence of the benefits of state decentralization through neo-liberal principles. Voters used the election as a form of protest, abstaining at very high levels compared to traditional voter participation (Ugalde 1990).

While the majority of social protest remained non-violent, [15] with the riots of February 1989, the potential of violent opposition to government policies became a reality. As a "prominent Venezuelan businessman" described to the Latin American Times:

> What we worry about is the social price. You see those people up there [pointing to the steep slopes surrounding the high-rise city centre, which are crowded to the bursting point with tin and cardboard shacks housing the poor]. Well, they were prepared to stay there for as long as there was hope--that one day they would be able to come down here and have their share of all this. It was always a delusion, but we had the wherewithal to keep it alive. This is no longer the case. After last year's riots, many of my friends keep their families permanently in Florida (Latin American Times 1990:10).

The riots of February 1989 remain a topic of discussion among Venezuelans. The feeling is often expressed by some that the riots of 1989 were unplanned and spontaneous. The next time, they say, they

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[15] During the first half of 1990 there were 145 demonstrations reported. Of the 145, 114 were non-violent. One hundred and twenty three were demonstrations against the government, and three were labor demonstrations against private sector enterprises (Ugalde 1990).

will be organized and more effective.[16] Various rumors and discussions of possible a *coup d'etat* appear in the national media periodically (Daily Journal 9/5/91; Rangel 1991a, 1991b), although some analysts consider "improbable" the possibility of further social explosion (Ugalde 1990).

The recent historical distribution of income in Venezuela indicates that the state has not succeeded in its historical goal of stimulating the internal market and contributing toward the equity of Venezuelans. The percentage of Venezuelans in poverty equals that of other Latin American countries. The state has served to aid the accumulation of domestic and international capital rather than the poor it rhetorically targets.

If one could assume the "good intentions" of the Venezuelan state to contribute to redistribution and the maintenance of a democratic regime with a need to maintain legitimacy, Venezuela's potential to generate growth with equity is not optimistic. With thirty-nine percent of Venezuela's population under the age of fifteen (Republic of Venezuela 1990), the lack of sufficient education, nutrition, adequate housing and health services for those in poverty means a "sacrifice of the nation's future" (Latin American Bureau 1988). Without these basic services, the ability for half of the new generation to learn productive work skills is lost. As Ugalde (1990) writes, "a nation with fifty percent of its population in poverty will always be poor."

NATIONAL SELF-DETERMINATION

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[16]Based on personal conversations with Venezuelans during the spring of 1991.

The third goal of the emerging Venezuelan model is the preservation and reclamation of its national self-determination. Specifically, self-determination could be defined as the right and ability to determine economic, social and political priorities; to use its resources appropriately; and to determine the conditions of its relations with other nations, both developed and developing.

The primary source of international influence in Latin America in general and in Venezuela in particular has been the result of the need for foreign capital, to provide for the importation of machinery, technology and management expertise, and access to export markets (Escobar 1988b). Through the 1940's this was in the form of foreign investment in primary products that resulted in the enclave development of that primary sector but did not spread to the rest of the economy. As a response, the ideas of CEPAL promoted import substitution industrialization to stimulate development and protect national autonomy. Capital was needed for industrialization, but structuralist ideas forbade the continuation of foreign investment. The alternative was foreign borrowing (Freije 1991). Foreign debt, however, did not lessen the influence of international forces within the developing economy.

Some of the more obvious and direct foreign influence comes as a result of Venezuela's foreign debt, both as repayment is made on current debts, and as Venezuela continues to seek fresh money.[17] The

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[17]Between 1983 and 1989, Venezuela paid approximately $38 billion in principal and interest on its public and private debt, and reduced its external public debt in net terms by $2.4 billion (Republic of Venezuela 1990). As of June 30, 1990, Venezuela still carried external public debt amounting to $26.4 billion, including a debt service burden

existence of the influence of the IMF and its principles in Venezuelan history is clear. Although Venezuela was one of last Latin American countries to sign a letter of agreement with the IMF, after putting off official submission for nearly a decade, avoidance of the IMF was largely possible by implementing an adjustment program of their own, loosely modeled on the IMF measures.

The influence of the international financial agencies is increasing as the portfolio of loans changes. Since 1989, the majority of Venezuelan debt is with bilateral or multilateral banks such as the IMF and World Bank, instead of private commercial banks[18]. By 1995, an estimated 75% of all foreign loans will be with these international financing agencies (BCV Economist 1, 1991).

One significant result of the growing role of the international financial institutions that has only recently been articulated is the phenomenon of cross-conditionality or interlocking conditionality. As the name suggests, cross-conditionality is the situation a debtor nation finds itself in as the result of relationships with more than one creditor agency (IMF, World Bank, BID [19], commercial banks) in which the borrowing nation must submit itself to the established guidelines of one agency as a prerequisite for the ability to assume

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on total external debt representing approximately 47 percent of export earnings (Republic of Venezuela 1990).

[18]The loans from the IMF/WB have better terms, lower interest rates and lower fees than commercial banks (BCV Economist 1, 1991).

[19]*Banco Interamericano de Desarrollo (BID)* has loaned nearly 40 thousand million dollars to Latin American over a period of 29 years without conditionality. Losses due to the debt crisis, however, stimulated the imposition of IMF-type restrictions in 1989 (Clemente 1989).

new money from other lending agencies (Clemente 1989). In essence, the global capital crisis, the Latin American debt crisis of the 1980's, and the failure of many borrowing nations to service their debt created a recognition between lending agencies that the situation could not be solved individually and required concerted action (*Banco Central de Costa Rica* 1986; Clemente 1989). This has changed the nature of the relationship between debtors and creditors from a bilateral one to a multilateral one in which all players are involved with each situation.

The creditor agencies have agreed to informally act together so that the disbursement of any new loan depends on the approval of all other agencies involved. The IMF has largely taken the role of mediator, even when its own resources are not involved (Clemente 1989).

The problems created for developing countries are numerous. Each international lending agency has its own objectives and time schedules, creating incompatibilities and contradictions with the other agencies that the debtor nation must resolve [20] (*Banco Central de Costa Rica* 1986). The ability to make debt service and principal payments for deadlines at or nearly the same time, requires considerable liquidity. Whereas, previously, new loans from one agency would support the payment of an earlier loan, cross-conditionality ties up revenue. It is necessary to maintain a level of savings for payment of the debt that reduces the funds available for the investment that could stimulate net growth (Escobar Ramos 1991).

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[20]The effects of cross-conditionality on the developing nations are worsened by the disagreements and competition between the IMF and the World Bank (Economist 1989; SELA 1989).

Consequences of foreign debt include not only the loss of political strength in light of direct intervention and measures of conditionality and cross-conditionality, but also a weakening of economic strength through the transfer of net resources from Venezuela (and other developing nations) to the rest of the world, generally through the medium of the international financing agencies (Lago & Perozo 1989; SELA 1989).

In addition to the influence of Venezuela's creditors and the international financial agencies, growth under the new outward-oriented model is dependent on direct foreign investment (Purroy 1990c). Latin American nations, including Venezuela, who rejected foreign investment in the past are seeking it again (Escobar 1988a). This time, however, there is the belief that Venezuela has learned from its experience. As one Venezuelan economist commented, "we are now smarter, we have learned our lesson, and are asking for partnerships, for a share in the capital, not enclave development" (Freije 1991). New agreements with foreign capital are to be in the form of joint ventures, with greater provision for the retention of important management decisions to Venezuelans.

In a global context of active competition for foreign investment, however, Venezuela's ability to set the terms of foreign investment within its borders may be limited. Potential investors openly comment on the reform measures in Venezuela, suggesting that creation of a climate "friendly to investment" depends on speedy privatization (Daily Journal 17/2/19), an independent Central Bank, a good relationship with the IMF and the World Bank (Daily Journal 25/3/91), as well as more government controls removed, and the opening of "important" parts of the economy such as petroleum, petrochemical and banking (Daily Journal 17/2/91; *El Diario* 23/3/91). Venezuela has signed an agreement with OPIC (U.S. Overseas Private Investment Corporation), submitting to specific legal and economic terms to guarantee U.S. investments (EIU 1990). Investors want a revision of the national tax system under which foreign companies currently pay 60-85% of their earnings (Daily Journal 20/3/91; *El Diario* 23/3/91; Sweensy 1991b), insisting the rate be reduced to not more than 35% (Sweensy 1991b).[21]

A new way of attracting foreign investment to developing countries is through Brady-style "swaps" of foreign debt for equity in national companies. As part of the debt restructuring contained under the Brady Plan, Venezuela held three auctions that allowed investors to trade Venezuelan public debt for equity in Venezuelan companies. By March of 1990, nearly 300 million dollars worth of debt was traded for equity in agriculture, steel, cement and the forestry industry (LAWR 31/3/90). During the auction process, however, Venezuela received debt conversion proposals that were too large to be handled by the auction process. A plan was developed for dealing with the "mega-projects", with investments identified in five priority areas: petrochemicals, aluminum, pulp and paper, tourism and infrastructure. The investments represent around six billion dollars of total investment with two

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[21]The agreed tax rate for the Cristóbal Colón project involving Shell, Exxon and Mitsubishi has been set at 30-35%, but depends on Congressional passage of the government's tax reform bill (Daily Journal 20/3/91).

billion in equity swaps (EIU 1990).[22]

Investments made through the debt/equity swap share the same disadvantages as traditional direct foreign investment. Critics describe the debt/equity swap as another means of "allowing U.S. industry to exploit cheap labor and grab markets" (LAER 30/6/90). Others argue that the debt/equity swap implies that the debtor countries are now borrowing directly from investors, thus extending the ability of foreigners to intervene in domestic business and industry indefinitely, whereas eventually the debt would have been paid off (Economist 1991d).

The trend of growing foreign influence in the key sectors of Venezuela's economy is reinforced by the early results of the privatization program. Many of the government enterprises are attractive buys, while many are not (Latin American Times 1990). The companies with the most potential for success are the ones receiving the most interest, such as the national airlines, while others will require considerable restructuring by the state before a private investor would be interested (Latin American Times 1990). Rather than being an opportunity to "rescue the state" so it can fulfill its duties of the care of society and development (Purroy 1990c), the privatization process will benefit investors and leave the state to deal with the unprofitable ones.

Privatization also highlights the impact of the global context on Venezuela's ability to set forth on a path of growth. Critics of the

[22]The plan exceeds the 600 million debt/equity limit set by the IMF, but a request to raise the annual limit to one billion dollars has been submitted (EIU 1990; LAWR 31/3/90).

delays in Venezuela's plans for privatization argue that rapid execution is crucial in its success. With all of Latin America and parts of the rest of the world opening up and turning toward a market-orientation, there is competition for buyers for privatizing companies. As a Venezuelan analyst commented:

> All of Latin America is privatizing. If there are five airlines for sale now, when we are ready to sell ours, will there by any more buyers? (Freije 1991).

The major drawback of direct foreign investment and the debt/equity swap is the loss of profit and control in Venezuela's key sectors (Purroy 1990c). Potential investors "only want the good stuff" and in a competitive climate are at liberty to specify under what conditions they will participate.

Two current issues in Venezuela could have a significant impact on the Venezuelan nation-state's ability to maintain its national self-determination: 1) the potential of allowing foreign participation in the petroleum sector; and 2) the possibility of withdrawing from its membership in OPEC.

Since its discovery, petroleum has provided revenue for Venezuela. Originally developed by transnational petroleum companies, with the nationalization of the petroleum industry in 1976, the nation of Venezuela became the sole owner and main beneficiary of the oil. Under the outward-oriented model, however, the role of petroleum in Venezuela is changing. The state oil company, PDVSA, is defining itself increasingly as a profit-seeking transnational oil company and less as the national source of income, including allowing foreign participation in the formerly restricted sector.

PDVSA plans investment of around 32 billion dollars between 1991 and 1996 (Daily Journal 15/5/91; EIU 1991c), and there is clear recognition of the need for foreign investment to provide funds, access to markets, as well as necessary technology and expertise. The PDVSA investment plan is controversial within Venezuela, interpreted by critics as opening the door to foreign participation and investment in Venezuela's most strategic industry (*Economía Hoy* 10/5/91; LAWR 6/6/91; *El Nacional* 4/2/91a, 4/2/91b, 8/5/91; Sweensy 1991b).

Proponents of the plan argue that Venezuela will have a petroleum-led economy for several years to come, and therefore should seek to maximize its potential (LAWR 6/6/91). In twenty years, analysts predict, the world will have developed alternate sources of energy and will no longer rely on petroleum, therefore Venezuela should take advantage of the situation before it is too late (Freije 1991).

When the petroleum industry was nationalized in Venezuela in 1975, there was considerable controversy over Article 5 of the Law of Nationalization. While the Law of Nationalization reserved for the state the rights to produce and exploit petroleum and coal, Article 5 allowed for the future participation of foreign interests in petroleum under the conditions that the participation be approved by Congress and limited to 15 years.

The test case for allowing foreign participation in an industry that has been closed to foreigners for sixteen years is the Cristóbal Colón project to develop natural gas deposits (Daily Journal 25/3/91; *Economía Hoy* 10/5/91; Maxim Ross 1991a). PDVSA signed a preliminary agreement for thirty years of joint participation with Shell, Exxon and

Mitsubishi (LAWR 9/5/91). The project was expected to require Congressional approval (Daily Journal 11/2/91; EIU 1991b; LAWR 20/9/90; *El Nacional* 4/2/91) since Lagoven of Venezuela, while retaining the presidency and direction of the project, would control only 32% of the shares, compared to 68% foreign interest (Shell 31%, Exxon 29%, Mitsubishi 8%) (EIU 1990). Congressional approval or the amending of Article 5 was averted when the Supreme Court ruled in April 1991 that the project was legal because natural gas was not included within the petroleum rights (Hernandez 1991; LAWR 9/5/91).

While there is an opening for foreign participation in a petroleum-related industry, the battle has not yet been fought to determine what future participation in the direct exploitation and production of petroleum might be. Some members of Congress have proposed a joint venture strategy under which Venezuela would retain important management decisions as well as 51% control in all future joint ventures, a condition critics say foreign investors will not accept, and a responsibility that PDVSA cannot handle (Sweensy 1991b). While some analysts suggest there is a slow development of consensus for foreign involvement (Sweensy 1991b), the issue is an important one in Venezuela because it is closely identified with national sovereignty.

PDVSA, under the market oriented model, is seeking to reduce its financial responsibilities to Venezuela in order to use its profit for expansion and investment (Daily Journal 2/5/91). In a recent speech, Sosi Pietri, President of PDVSA, spoke of "PDVSA's right to expand, grow richer and be competitive so that it can compete alongside of large oil companies such as Shell and Exxon" (Daily Journal 2/5/91). This includes recent pressure exerted by PDVSA on the government to lower the nation's tax rate on the company, (currently about 80%), as well as lower the national export tax (*El Nacional* 6/3/91, 11/3/91, 12/3/91).

The outcome of the debate over foreign participation in the petroleum industry is related to another factor affecting Venezuela's national self-determination: the future relationship between Venezuela and OPEC. Membership in OPEC is an important issue in Venezuela, and debate has become particularly heated since the Gulf War. Venezuela's support of OPEC has long been a source of tension between the seemingly incompatible international policy goals of the desire to defend Third World interests and the need to strengthen ties with Washington (EIU 1990). Implementation of the outward-oriented model based on free market principles and the internationalization of PDVSA provide increasing ideological argument for a Venezuelan desertion, while the Gulf War highlighted the differences between Venezuela and the Middle Eastern Countries.

The War also served to return Venezuela to the role of the "reliable" source of oil, a role it enjoyed in 1973 when Venezuela refused to join the oil embargo imposed by the Arab nations (EIU 1990). President Bush used a pre-war trip to Caracas to "guarantee" Venezuela as a constant supplier of petroleum, and diplomatic moves were made by the European Economic Community to reinforce ties with Venezuela and Venezuelan petroleum (*El Nacional* 8/12/90, *El Universal* 22/4/91). The feeling is expressed that the war turned the international oil rules upside-down, leaving Venezuela with huge potential as the "safe source" of oil for the U.S., and perhaps Japan and the European Community (Sweensy 1991a).

At the same time, it is generally written that OPEC has emerged from the war with limited influence (*MetroEconómica* 1991b; *El Nacional* 3/3/91; Sweensy 1991a; *El Universal* 27/3/91). Sosa Pietri, the director of PDVSA, has argued that OPEC no longer serves Venezuelan interests and should convert itself from an agency seeking to control the market to a source of technical support for oil-producing nations (EIU 1991b; *El Universal* 14/3/91).

President Pérez reaffirmed Venezuela's commitment to OPEC in agreeing to comply with reinstated quotas following the Gulf War (Daily Journal, 13/3/91; Sweensy 1991a). At the same time, however, Pérez used a speech before the United Nations to call for a meeting between petroleum consumers and producers, representing the first of its kind ever between OPEC and the IEA [23] (EIU 1991a, 1991b; Hernández 1991; *El Nacional* 17/3/91; Sweensy 1991a; *El Universal* 27/3/91).

In February of 1991, President Bush announced his plan for U.S. energy independence based on exploration in Alaska and the development of alternate energy sources (*El Nacional* 21/2/91; Sweensy 1991a). Venezuelans who supported the PDVSA expansion reacted positively. Rather than seeing the plan as a threat to future petroleum demand, proponents interpreted the plan a new opportunity for Venezuela to fit into the U.S. energy future (*Economía Hoy* 27/2/91, Hernández 1991;

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[23] The idea received a cool reception in Washington (Daily Journal 6/5/91; *El Universal* 22/3/91, 27/3/91).

MetroEconómica 1991c). Venezuela could, they argued, take advantage of its geographical proximity and become a source of oil as reliable as Alaska--a move which would surely mandate Venezuela's exit from OPEC. PDVSA's investment plan seeks to raise production potential to a level that clearly exceeds the OPEC quota (Sweensy 1991a; *VenEconomía* 1991c).

> It is obvious we are going to have to change our participation. The problems of the Persian Gulf War illustrate this. We are an oil nation and we have to take care of our markets. OPEC nations are very unstable, Venezuela is very different from these nations, we are western (Hernández 1991).

Venezuela's petroleum policy shapes Venezuela. The debate over allowing foreign participation in the petroleum industry and Venezuela's future membership in OPEC are key issues that will affect Venezuela's control of most strategic sector and its future potential for self-determination.

Latin America's need for foreign investment and technology has traditionally been the source of foreign intervention in domestic economies and continues to be. Foreign debt, contracted to support the nationalistic industrial development of the inward-oriented model, has opened a seemingly uncloseable door of direct foreign intervention. Debt "reduction" schemes, such as the Brady Plan, trade short-term debt relief for long-term participation in a nation's production, thereby ensuring access to developing economies after the debt is paid.

Venezuela has used its petroleum-advantage in its dealings with international financial agencies and other external creditors, delaying an IMF adjustment program longer than almost any nation in Latin America. If Venezuela decides to allow, or is forced to allow foreign participation in the petroleum industry and withdraws from OPEC membership, its potential as a nation to resist international intervention will be significantly reduced. Although Venezuela has learned from its past experience and seeks to retain the advantage of participation with foreign investors, a competitive global climate may force Venezuela to relinquish much of this advantage.

CONCLUSION

Analysis of the potential viability of the Venezuelan neo-structural model indicates that the market forces implemented under the IMF model supercede state attempts to manage a market economy to attain the goals of growth with equity and national self-determination. Success of the neo-structural model depends on maintaining an optimal balance between the state and market so that the market is free enough to provide growth while the state is strong enough to control and direct that growth.

As structuralists predicted, market policies have proven ineffective to generate sustained economic growth due to their failure to eliminate the structural bottlenecks that hinder economic development.

The early successes of the IMF adjustment model have proven to be isolated results. Structural problems in the economy, in particular, sectoral imbalance and petroleum dependence, have not been affected. In spite of control of the public sector deficit, inflation, as predicted by neo-liberals, has not disappeared, but continues as free market profit is backed up behind structural bottlenecks.

Free market policies undermine the potential success of state intervention to generate sustained economic growth. The floating exchange rate works directly against the goal of reducing sectoral imbalance and petroleum dependency. Through an "exchange contradiction", the successes of petroleum continue to be to the detriment of agriculture and manufacturing. Foreign investment, either direct or through privatization and debt equity/swap, is primarily interested not in the potential of non-petroleum sectors, but in the immediate profits of petroleum and petrochemicals, leaving the Venezuelan state with the financial responsibility of unproductive, underdeveloped sectors. Future economic growth in Venezuela will continue to be based almost exclusively around petroleum.

The distribution of income already existing in Venezuela suggests that the state has not succeeded in its historical goal of stimulating the internal market and contributing toward the equity of Venezuelans. The social situation after thirty years of inward-oriented state redistribution policies reflects the concentration of wealth of a pure market economy. In spite of more than sufficient petroleum funds, the poverty level in Venezuela equals that of other Latin American countries. The role of the state as redistributor has not been to its rhetorical target of the poor but to aid the accumulation of domestic and international capital, and move petro dollars up and out. The implementation of market policies that have a clear history of aiding this process of concentration of wealth, mandate against an optimistic evaluation of future change in the domestic social situation. As the more efficient, sophisticated, neo-liberal methods of welfare distribution are implemented, social protest becomes less likely as the poor are divided into categories, identified, and thereby made more "accountable" as a means of receiving benefits.

Venezuela's potential to preserve its current level of national self-determination depends largely on the ability of Congress and other domestic forces to maintain control over foreign participation in petroleum. If Article 5 is revoked, foreign participation will mandate Venezuela's withdrawal from OPEC, a redefinition of PDVSA as a transnational company instead of a national source of income, and the decrease of revenue paid to the state. The result will be neo-enclave development of the petroleum resources with little accompanying development of other sectors.

The ability of Venezuela to maintain its control over investment in petroleum and other sectors is unlikely. Having to compete for foreign investment on a global scale will mean relinquishing national sovereignty in economic matters. The continued weight of the debt burden means persistent "management from Washington" of strategic parts of the Venezuelan economy while Venezuelan officials are left to deal with the complexities of cross-conditionality and losses to the economy in the form of net transference of resources.

The emerging Venezuelan neo-structural model seeks state regulation of the benefits of a market system in order to achieve structuralist goals. The global economy, however, supersedes the ability of a nation-state to intervene for non-market goals.

CONCLUSION

In considering the simultaneously contradictory and complementary roles of the state and market in a global economy, this thesis posed several questions regarding a developing nation's ability to shape its economic destiny. Is it possible for a developing nation to resist global forces, maintain national self-determination, and yet achieve sustained economic growth? Under what conditions and in what balance can the economic benefits of a market-led economy be combined with state-led efforts toward self-determination?

In examining the nature of Venezuela's outward-oriented shift, various factors indicate an emerging synthesis of neo-liberal method directed toward structuralist goals, which was identified as a neo-structural model. In the two years since the model was implemented, two trends have developed concurrently. The first provides evidence of a continuing commitment to market forces. This is illustrated in Venezuela by the resolution of the private sector debt, the steady progress of privatization, and the exposure of the agricultural sector to international competition. The second trend illustrates continued state intervention toward structuralist goals as evidenced by the delay in increasing domestic gasoline prices, the implementation of the new labor law, and the significant public investment plan for 1991 and subsequent years.

It is unclear whether the preservation of structural goals is due to a true state commitment to equity, is a response to internal pressure, or a means of providing legitimacy while the state aids in capital accumulation for the elite. Evidence, in addition to plentiful rhetoric, can be found supporting a real state commitment to equity. Venezuela has a tradition of populist/socialist policies which benefitted all Venezuelans. The electoral stipulation preventing consecutive terms for Venezuela's presidents would seem to indicate a limitation on personal benefit for elected leaders.

Other evidence indicates state action on behalf of the elite, such as the progressively regressive distribution of income in light of thirty years of explicit redistributional policy. Regardless of the motives behind the administration's policy choices, however, it is clear that the emerging composite model seeks to balance market forces with social and nationalist goals. The primary question remains of the viability of such a model.

While the early results of the adjustment program were very positive in macroeconomic terms, the policies implemented did not generate long-term solutions for the basic problems of the economy. Venezuela remains vulnerable to the fluctuations of the world market. The petroleum sector continues to dominate the economy, limiting the potential to diversify and develop other sectors. Future development remains dependent on continued loans or direct foreign investment. These factors indicate that the potential for sustained economic growth continues to be dependent on factors outside of Venezuela.

In terms of the social goal of growth with equity, while some steps have been taken to counteract the hardest blows of the adjustment program, most factors indicate that the shift has produced even wider distribution of wealth and greater percentages of the population in poverty. With the increasing marketization of the economy, the state stands to lose more of its ability to regulate the distribution of national wealth. Given the demands of foreign investors and the conditionality of lending agencies, the goal of growth with equity is likely to be reduced to welfare programs targeted to the very poor.

The results of the neo-liberal/IMF policies in Venezuela illustrate once again the failures of a market economy in the form of concentration of wealth and monopoly of capital. Regardless of neo-structuralist attempts to overcome these deficiencies through state intervention, the nature of the global market undermines these intentions.

Structuralists assumptions about the nature of the world economy are confirmed in the case of Venezuela. An unequal insertion into the world economy created bottlenecks that both an inward- and an outward-oriented model have been unable to break. Unequal power relations between the United States as a member of the core, and Venezuela as a peripheral nation resulted in persistent dependence and limited self-determination for Venezuela. The appropriateness of the structuralist emphasis on balanced sectoral development as foundational to economic growth is reinforced through Venezuela's continued struggle with the dominance of petroleum and its dampening effect on the rest of the economy.

Theoretically, neo-structuralism seemed to present a good balance between state-led and market-led development, combining the realistic perspective of structuralism with the pragmatic economic model of neo-liberalism. In reality, however, by opening the economy to market forces, Venezuela appears to be losing its power of self-determination.

This analysis suggests that neo-structuralism in Venezuela is not likely to meet its defined goals. The larger question then becomes whether the Venezuelan case is a good indicator of the viability of neo-structuralism in general. Looking at Venezueula's historical and regional context, certain factors can be identified as significant. The Venezuelan economy is dominated by a strong sector, petroleum, which has definite market value in the world economy. The petroleum-advantage has given Venezuela economic "breathing space" not enjoyed by its regional neighbors. The result has been the opportunity to benefit from the observation of regional economic experiments. The petroleum sector is controlled by a strong state with a history of extensive intervention in the domestic economy. Finally, Venezuela has a strong populist tradition, having been committed to equity and more complete participation within the domestic economy.

These factors suggest that Venezuela enjoys a certain level of privilege in comparison with many other developing nations. This would seem to indicate that if the Venezuelan state is unable to compensate for the negative effects of global market forces it would seem that few less-well-endowed, less experienced, developing nations could succeed. In other words, "If Venezuela can't do it, nobody can."

In the international political and economic context of 1991, developing nations appear to not have the potential to set their economic, social and national priorities, nor to choose their manner of insertion into the world economy.

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