

*"Andean Family," by Venezuela's painter Héctor Poleo, born in 1918. Tough, hard-working, laconic, the Andino is a product of his bleak mountain habitat, which figures prominently in Venezuelan history, first as the road to the mythical kingdom of Eldorado, later as the country's chief coffee-growing region and home to Venezuela's caudillos (strong men).*

# Venezuela

Venezuela stands out among its Latin American neighbors. On a continent beset by dictatorships and periodic coups, Venezuela boasts more than a quarter century of democratic government. The country is rich in petroleum, as its neighbors are not. For more than three decades, Venezuela's leaders have sought to "sow the oil," plowing petroleum revenues back into schools, hospitals, and factories. The harvest has been mixed. Unhappily, many development projects have become little more than monuments to inefficiency and corruption. The oil bonanza of the 1970s, triggered by the worldwide OPEC price increases of 1973, did not foster the work ethic. But the recent "softening" of oil prices and the decline of global demand for oil have ended what President Jaime Lusinchi called a decade of "soft living and easy money." Our contributors survey a people in transition, as dependent as ever on its mineral wealth but aware, at last, that there are some things that oil money cannot buy.

## WHERE DEMOCRACY LIVES

*by Robert D. Bond*

South America, it would seem, does not provide a natural habitat for democracy. Few countries on that continent can boast an unbroken succession of popularly elected leaders that dates back more than a decade. In 1979, Ecuador returned to democracy after nine years of military rule. Peruvians freely chose their president in 1980, following almost 12 years of military rule. Argentinians went to the polls in 1983 for the first time in eight years. Uruguay has scheduled a return to presidential elections for this year, Brazil for next. Given the long chronicle of coups and countercoups, citizens in none of these countries, rich or poor, can be certain that their elected governments will survive. And in Paraguay and Chile, where dictatorships of varying

harshness have reigned since 1954 and 1973, respectively, the immediate prospects for democracy are not bright.

But Venezuela is different. Since 1958, Venezuelans have demonstrated their commitment to democracy by holding honest elections every five years. Over 90 percent of all eligible voters regularly participate—compared with 53.9 percent in the 1980 U.S. presidential election—in a contest that can last almost 16 months. The candidates of the two major parties (Democratic Action, or AD, and Committee of Independent Electoral Organizations, or COPEI) and of the score of minor ones spare no effort or expense to win the Presidency and gain control of the 230-member Congress. Indeed, on a per capita basis, Venezuelan election campaigns—which cost an estimated \$200 million in 1983—are perhaps the most expensive in the world. All in all, as political scientist John Martz notes, Venezuela demonstrates a “public vigor and political vibrancy unparalleled in Latin America.”

### Mixing Coffee and Milk

Political freedom is only one of Venezuela's assets. The country's 352,142 square miles encompass enough good soil and rich mineral resources to sustain a per capita income of \$4,170 in 1982. (That was the highest per capita income in South America and roughly equivalent to that of Greece.) The snowcapped Venezuelan Andes—dominated by the 16,423-foot summit of Pico Bolívar—run through the northwestern corner of the country, dividing the vast, cattle-grazing eastern plains, or llanos, from the oil-producing region around Lake Maracaibo.

In the southeast, the llanos give way to the Guiana Highlands, a plateau of dense rain forest and rivers that inspired Sir Arthur Conan Doyle's *The Lost World* (1912). Venezuela is also endowed with ample deposits of iron ore and bauxite. Venezuela's steel and aluminum plants at Ciudad Guayana run on electricity generated by the Guri Dam; when completed, this power plant near the confluence of the Caroni and Orinoco rivers will supply almost all of Venezuela's electricity.

In demographic terms, the country is young, rapidly expanding, and increasingly urban. More than 65 percent of all

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Venezuela, which sits atop the map of South America like an inverted triangle, is roughly equivalent in area to Texas and Oklahoma combined.

Venezuelans are under 35 years of age. The population has tripled since 1950. And whereas 50 years ago some 70 percent of all Venezuelans lived in rural areas, fewer than 20 percent remain outside the cities today.

Besides being young and mobile, Venezuela's population is something of a "melting pot." Seventy percent of all *Venezolanos* are mestizos (of mixed European and Indian blood); 17 percent are "pure" European; seven percent, black; one percent, Indian. Describing this amalgam of white, Indian, and black, former President Rómulo Betancourt once remarked, "We are all café au lait—some more café, some more au lait." Thanks to postwar immigration from Portugal, Italy, and other European nations, "un-Spanish" names such as Boulton, Vollmer, Neumann, Phelps, Pietri, and Petkoff are prominent in Venezuelan politics and business.

North America, too, has left its mark. Baseball, not soccer, is the national sport. Emigré stars such as Dave Concepción, César Tovar, and Luis Aparicio—recently inducted into the U.S. Baseball Hall of Fame—are regarded as national heroes. On their way to or from a baseball game, Venezuelans drive their

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Fords and Chevrolets (assembled in Venezuela) to a Burger King for a *hamburguesa* and a Coke. Former President Rafael Caldera, referring to the U.S. influence upon his country, once remarked, "Our radio stations transmit your music and your outlook on life. Our television is full of an imagery that reflects your mode of thinking." Even homes in Venezuela's barrios, or slums, have radios and TVs.

### A Blank Page

Venezuela's high standard of living, nurtured by its ample resources, has helped democracy to survive and prosper. So has the country's diverse, dynamic population, blessed with a zeal for upward mobility and a lack of racial prejudice. But Venezuelan democracy is a product of far more than an abundance of riches and a variety of races. Neighboring Brazil, after all, shares these same characteristics. It is a unique combination of historical, economic, and political forces that has spared Venezuela the class hatred and political repression that afflict its Latin American neighbors.

Modern Venezuela shares the unhappy colonial past of most Latin American nations. In 1498, on his third Atlantic crossing, Christopher Columbus discovered mainland Venezuela and claimed the land for Spain. The young colony languished, exporting coffee, cacao, sugar, and indigo at a time when the Spanish Crown wanted only gold. Indolent royal administrators presided over a stagnant, class-ridden society made up of white, wealthy *criollos* (Creoles), Spanish-born *peninsulares*, *pardos* (mulattos), African slaves, and Indians. After the expulsion of Spanish forces in 1821 by Venezuelan Simón Bolívar, Venezuela became part of the Gran Colombia federation (with Colombia and Ecuador).<sup>\*</sup> It withdrew to form an independent nation in 1829.

But independence did not bring good times. Instead, factional struggles plunged Venezuela into civil strife, causing Bolívar to declare, near the end of his life, that "those who have

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<sup>\*</sup>Simón Bolívar, the Liberator of South America, was born of well-to-do parents in Caracas on July 24, 1783. At the age of 16, he went to Europe, where the works of the French philosophers Montesquieu and Rousseau inspired him to fight for his country's freedom from Spanish domination. One year after Bolívar's return to Venezuela in 1807, Napoleon's invasion of Spain touched off the struggle for South American independence. At first, the Spanish had the upper hand, defeating a Venezuelan army led by Bolívar at Puerto Cabello in 1812. Bolívar fled to neighboring Colombia. There he assembled an army that first ousted the Spanish from Colombia (1819) and then, two years later, from Venezuela. Victories in Ecuador (1822), Peru (1824), and Bolivia (1825) followed. But Bolívar's hopes for a pan-American union were destroyed by a series of territorial wars among the newly independent nations. Disillusioned, he died on December 17, 1830.

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served the cause of the revolution have plowed the sea." The Venezuelans endured an 80-year period of recurrent violence, political disintegration, and dictatorship. One caudillo, or strong man, after another seized power, only to be overthrown in turn by a greedy successor.

The political turmoil that prevailed from 1830 to 1908 had profound consequences. Never able to get established were the self-perpetuating, land-owning "elites" that emerged in other Latin American countries. Today, few influential Venezuelan families can trace their origins to the nation's colonial past. Indeed, in some ways Venezuelans seem to regard their country's 19th-century history (after the decades surrounding independence) as a blank page. As the essayist Arturo Uslar Pietri observed, "We have reduced our history to 15 years [1810–25] when in reality our past is at least four and a half centuries old."

### **The Generation of '28**

By the early 1900s, Venezuela had become a nation without an effective national government. Not until the dictatorship of General Juan Vicente Gómez (1908–35) was Venezuela ruled by a centralized authority. But stability under Gómez came at great cost. The Tyrant of the Andes well deserved his reputation. Infatuated with Germany's Kaiser Wilhelm II, he curled his moustache and fancied Prussian-style spiked helmets. For 27 years, he also systematically imprisoned, exiled, tortured, or murdered political opponents.

So harsh was Gómez's rule that even his old comrades conceded that he had gone too far. The governments of generals López Contreras (1936–41) and Medina Angarita (1941–45) allowed political parties to organize and permitted the formation of labor organizations such as the National Petroleum Workers' Union, still in existence today.

The return of a group of political exiles, the so-called Generation of '28, spurred political change. Named for an abortive 1928 student revolt against the Gómez regime, the Generation of '28 included future Venezuelan leaders such as Raúl Leoni and Rómulo Betancourt. Betancourt in particular, a tough, gifted politician, kept up a steady barrage of demands for "a radical reform of the electoral system." His Democratic Action Party (AD, legally established in 1941) rested on a strong alliance of workers, peasants, intellectuals, and members of the urban lower class—everyone, that is, except wealthy landowners, big-city merchants, and the Catholic Church.

Another powerful social and political agent was petroleum.

Dominated by foreign companies such as Royal Dutch Shell and Standard Oil, Venezuela's oil industry had an impact on all levels of society. Peasants abandoned their farms for jobs on the oil derricks. In the oil fields, large landowners sold their acreage to the oil companies and joined the members of a growing middle class—merchants, lawyers, accountants, traders—in Caracas, Maracaibo, and other cities. The net effect was a further dilution of the traditional, class-bound rural hierarchy that still defined political life in Brazil, Colombia, and Peru.

As time went on, the combination of increased freedom and heightened prosperity created popular expectations of "more" that the Medina government could not satisfy. In 1944, a restless group of junior officers—headed by Major Marcos Pérez Jiménez—formed the Patriotic Military Front, dedicated to the overthrow of Medina. Initially reluctant to participate in a coup, Betancourt and AD went along when it became clear that a popular rising was imminent. In October 1945, Medina was ousted from the Presidency.

Betancourt, backed by AD, promised "to put a program of national salvation into effect." His government passed legislation authorizing land redistribution, educational reform, and the construction of hospitals, schools, power plants, and sewers. Labor unions prospered under AD's leadership, their numbers rising from 252 in 1945 to 1,014 in 1948.

Not all Venezuelans agreed with Betancourt's definition of "national salvation." A major breach opened between the church hierarchy (90 percent of all Venezuelans are nominally



*Three famous Venezuelans: Simón Bolívar (left), 19th-century Liberator of South America; Juan Vicente Gómez (center), Tyrant of the Andes, who ruled from 1908 to 1935; and Rómulo Betancourt (right), President of Venezuela (1959–1963).*



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Roman Catholic) and the national government over educational reforms. The AD leadership proposed to restrict the use of foreign-born teachers (often priests who staffed parochial schools) and to impose national examinations on all students. The bishops feared an erosion of their role in education, traditionally a stronghold of the church.

Opposition to the reform decree was led by students in Catholic high schools and universities. Chief among these activists was Rafael Caldera, a 30-year-old university professor who formed COPEI (which later adopted the label of Social Christian) in 1946 to oppose AD at the polls. In contrast to the broad-based AD, COPEI's strength initially lay in the traditionally Catholic rural areas, especially the Andes Mountains. A lack of organization, however, put COPEI at a serious disadvantage. Not surprisingly, in 1947 voters chose the AD candidate, novelist Rómulo Gallegos, as Venezuela's first popularly elected president.

#### **A Suitcase on the Runway**

Faced with five more years of AD's ambitious plans for land reform and the redistribution of income, the military intervened. A junta led by Major Carlos Delgado Chalbaud and including Pérez Jiménez overthrew the Gallegos government in November 1948. (Gallegos and Betancourt escaped to Mexico and the United States, respectively.) Thus ended the three-year period of democracy now known as the *trienio*.

After the assassination of Delgado Chalbaud by a retired army general in 1950, Pérez Jiménez assumed command. During a decade of political repression, he banned AD-sponsored labor unions and used the *Seguridad Nacional* (National Police) to quash any dissent. Pérez Jiménez justified his dictatorship by saying, "My people are not ready for democracy."

By 1958, however, the corruption, brutality, and inefficiency of the dictator's regime had prepared them. A general strike, organized by students and workers with the help of political exiles, was supported by the church, the business community, and elements of the military. Pérez Jiménez fled Caracas by plane to the Dominican Republic on January 23, 1958, leaving behind a suitcase full of cash and incriminating documents on the runway of La Carlota Airport.

Honest elections (the first since 1947) were held in 1958. Capitalizing on its strength in the labor unions, AD carried Rómulo Betancourt back to the Presidency. The 1961 Constitution gave the new President sweeping powers over the military, the monetary system, and all taxes and tariffs. As a check on ex-



### THE PLAINSMAN

*Like the cowboys in America, the llaneros—or plainsmen—of Venezuela loom large in national folklore. Author (and future president) Rómulo Gallegos once sketched the mestizo cattlemen who inhabit the grasslands that stretch from the Andes Mountains to the Orinoco River in Doña Bárbara (1929), his novel of life in Venezuela's "Wild West."*

There [were] . . . the light-hearted, swaggering herdsmen in the midst of the wide prairie, sharing the morsel of meat and bit of yucca their frugality demanded, treating themselves only with a cup of coffee and a quid of tobacco, resigned to the hammock and poncho as long as their horses were fine and their harness handsome, plucking the banjo, strumming the guitar, singing at the top of their lungs at night when the rude toil of starting and pursuing the herd was over, and dancing the joropo wildly until dawn. . . .

The Plainsman was indomitable and yet worsted in the contest with life, lazy yet indefatigable; impulsive yet calculating in strife, undisciplined yet loyally obedient to his superiors. With his friends he was suspicious and self-denying, with women, voluptuous and harsh, with himself, both sensual and sober; and in his conversations, both malicious and ingenuous, incredulous and superstitious—in every case merry, yet melancholy, a realist and yet imaginative; humble afoot, proud on horseback—all these at once, without any clash, like the virtues and faults in a newborn soul.

Something of this shines through the ballads in which the singer of the Plain combines the boastful jollity of the Andalusian, the smiling fatalism of the negro, the stubborn melancholy of the Indian—all the peculiar features of the souls that have gone to make his.

ecutive power, however, no former chief executive could run for president until two five-year presidential terms had elapsed since his last day in office.

Democracy got off to a shaky start during its first years. Betancourt, hailed by U.S. President John F. Kennedy as "one of the great democratic statesmen of the Western Hemisphere," had to surmount an economic crisis, several abortive military coups, and at least two attempted assassinations. From afar, Rafael Trujillo, the dictator of the Dominican Republic, regarded Betancourt—who had frequently called for Trujillo's ouster—as his Number One enemy. Trujillo personally authorized a June 1960 bombing attack on Betancourt's car that left the Venezuelan leader badly burned.

Betancourt had enemies on the Left as well. Disappointed by their leader's moderate policies of reform, the younger, leftist members of AD split off in 1960 to form the Movement of the

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Revolutionary Left (MIR). With moral and logistical support from Fidel Castro, MIR activists and members of the small Communist Party of Venezuela (PCV) began, in 1962, an armed insurgency in both the cities and the countryside.

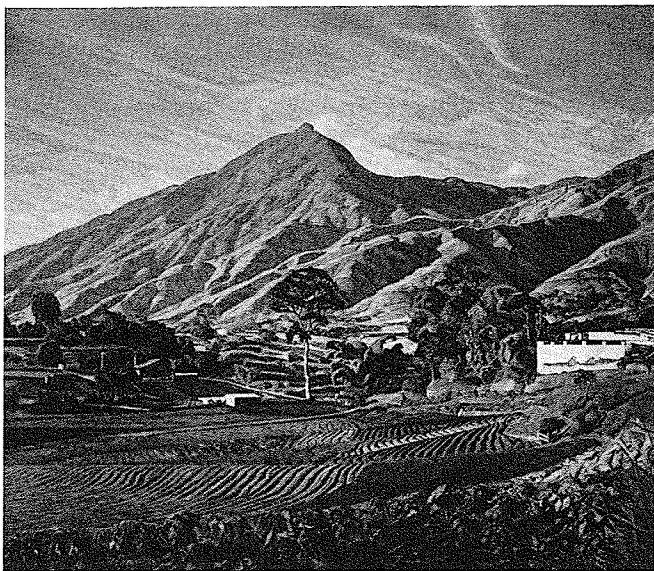
As historian John Lombardi notes, "While the guerrillas . . . spoke to peasants about world revolution and the need for radical social change, the government . . . spoke about housing, land reform, education, electricity, highways, and health care. . . ." Undermined by Betancourt's commitment to welfare democracy, the insurgents eventually succumbed to Venezuela's armed forces. After a 1964 election, Raúl Leoni, an AD stalwart, succeeded Betancourt as president, marking Venezuela's first transfer of power from one democratic administration to another.

### **Where Did the Money Go?**

Democracy survived in Venezuela during the early 1960s in part because the country's leaders made its survival their highest priority. Together with Caldera and the other parties' leaders (excluding the Communists), Betancourt agreed before the 1958 elections to share positions in the new cabinet, regardless of the electoral outcome. A decision-making process evolved that featured compromise, bargaining, and extensive consultation among leaders in business, labor, the church, and the political parties.

Nor was the military ignored. Heeding Bolívar's dictum that "the military spirit is incompatible with civilian government," Betancourt took great pains to soothe the generals who since 1945 had periodically hindered his cause. He asserted that "the armed forces are indispensable to the Republic" and backed up his encomia with pay increases and funds for modernization (in 1980, continuing this policy, Venezuela spent roughly \$42 per capita in tax dollars on the military, versus \$14 in Brazil and \$10 in Mexico). In return for his generosity, Betancourt asked that the armed forces remain "an apolitical institution, obedient and not deliberative." Political statements by military commanders were frowned upon, and Betancourt was quick to cashier or transfer any officer suspected of plotting against the government.

The moderate, compromising stance adopted by Venezuelan politicians during the early days of democracy concentrated power in the hands of COPEI and AD. With its ties to businessmen and the church, COPEI favored free enterprise over government intervention and lacked AD's union support. As AD came closer to the center of the political spectrum, its more radical members split off to form their own parties. One such fragmen-



*Agriculture was once Venezuela's economy. In 1982, it contributed six percent to Venezuela's gross domestic product—the lowest percentage in South America.*

tation, the 1967 formation of the People's Electoral Movement (MEP), cost AD the 1968 election, won by Caldera of COPEI. Still, these smaller factions, whether of the Right or the Left, failed to attract much lasting support.

By 1973, when Carlos Andrés Pérez of AD was elected president, COPEI and AD together polled 85 percent of the vote. So similar had their positions become that José Vicente Rangel, a disgruntled leftist candidate, snapped that "choosing between [AD and COPEI] is like choosing between Pepsi-Cola and Coca-Cola." In the 1978 elections, the two parties garnered 90 percent of the total vote, this time with Luis Herrera Campíns of COPEI narrowly winning the Presidency. Herrera's victory was viewed as a referendum on the incumbent AD government, which he accused of squandering the nation's oil revenues through corruption and bureaucratic inefficiency. The COPEI campaign slogans for 1978 were "Where did the money go?" and "Luis Herrera will fix this."

Unfortunately, Herrera fixed very little. In fact, many Venezuelans would argue that he did more harm than good. Despite a \$5.5 billion jump in government oil revenues between 1979 and 1981 (thanks to higher world prices caused by the start of

the Iran-Iraq war in 1980) and substantial foreign borrowing, Venezuela's economy had stagnated. Herrera's failure to carry out sensible economic reforms had saddled his country with a \$34 billion foreign debt. The bolivar—stable against the dollar for 20 years—had to be devalued in February 1983, ending the days of extravagant shopping trips to Miami and other U.S. cities (where Venezuelans spent an estimated \$1 billion in 1980).

Ten years of exuberant government spending had left Venezuelans facing the same problems, often in worse condition. Government outlays of more than \$4.5 billion on public housing since 1971 had failed to eradicate the slums that girdled Venezuela's cities. In Caracas, swamped by a tide of urban migration that began during the 1940s, the congestion became so bad that Planning Minister Ricardo Martínez declared in 1980 that "it is almost impossible to improve the efficiency of public services." Dr. Jose Felix Gamboa Gómez, a spokesman for the Venezuelan Medical Federation, described the nation's free health-care program as being in "a state of chaos."

#### Politics As Spectator Sport

Not surprisingly, the public mood on the eve of the 1983 elections was one of deep pessimism. Herrera, the man who had promised reform, had not delivered. For the most part, Venezuelans looked to one of the two major candidates, Jaime Lusinchi of AD and Rafael Caldera of COPEI, to pull their country out of what had become known widely as *La Crisis*.

Lusinchi, 59, a pediatrician by training, had been a member of Venezuela's House of Deputies for 25 years and was AD's secretary general. His campaign slogan—"Jaime es como tú" (Jaime is like you)—depicted him as a man of the people. Once, when asked about the hearing aid he wore, Lusinchi bristled, "I wear this so I can hear [the] people, unlike others who have good hearing but don't listen."

His rival, Caldera, was the 67-year-old founder of COPEI and the first ex-president of Venezuela to run for re-election. Caldera had attended Saint Ignatius College in Caracas, where he was strongly influenced by anti-Marxist Jesuit priests. Many Venezuelans, while impressed with his intellectual talent and leadership ability, considered him excessively aloof. But Caldera's experience as president allowed him to portray himself as the only political figure with the wisdom and moral authority necessary to "save" Venezuela. Advertisements touted him as "Caldera, the Complete Man."

Competition between the two candidates was fierce. COPEI

spokesmen harped on Lusinchi's relative lack of experience. AD propagandists cast aspersions on Caldera's commitment to democracy by pointing out that he had failed to flee Venezuela during the Pérez Jiménez dictatorship.

To a Venezuelan, such personal attacks on politicians are common. Politics is surpassed only by baseball as a national sport in Venezuela, and it arouses a high degree of partisan fanaticism. Observing the residents of Venezuela's barrios, sociologist Talton Ray noted, "Close acquaintanceships . . . are as likely to be based on common party affiliations as they are on the fact that [two friends] live on the same street or hail from the same region." Many Venezuelans are careful when they buy their cars or paint their houses: The "wrong" color might identify them erroneously as a member of AD (white), COPEI (green), or one of the smaller parties. During the early 1960s, when Fidel Castro was an idol of the Left, anyone wearing a beard in the slum areas was naturally assumed to be a *fidelista*.

Old-fashioned "personal" politics prevail. In January 1983, as a prelude to the many mass rallies that would follow, COPEI and AD, one after the other, packed the 20,000-seat Poliedro Stadium in Caracas to announce the nominations of their respec-



*Wearing an ordinary white guayabera, Acción Democrática's candidate Jaime Lusinchi woos rural voters during his successful 1983 campaign for the Presidency.*

tive candidates. Sound trucks blaring political jingles cruised the streets, singing the praises of Lusinchi or Caldera. Campaign stickers—AD's read *Si!*, playing on Lusinchi—plastered billboards, trees, sidewalks, the doors of automobiles, and the exterior walls of churches and private homes. Only the statues of Simón Bolívar, which stand in the central square of almost every Venezuelan town, were left untouched.

### Great Expectations

Few U.S. politicians would feel out of place in a Venezuelan election. Since 1968, American "media consultants" have run the campaigns of COPEI and AD. All told, Venezuela has more than two dozen political consulting firms, including a local branch office of the Gallup Poll. Joseph Napolitan of Boston, who aided Hubert Humphrey in 1968, supervised Lusinchi's campaign. He counseled Lusinchi to shed his jovial manner and adopt a more "presidential" image, complete with dark suits and conservative ties. David Garth, responsible for John Anderson's 1980 U.S. presidential bid, ran the rival campaign of Caldera.

The Americans presided over advertising efforts that saturated Venezuela's 40 daily newspapers, 150 radio stations, and four television networks (including two government-owned stations). Sandwiched between broadcasts of *Charlie's Angels*, *I Love Lucy*, and *Kojak*, television spots featuring Caldera and Lusinchi reached the more than half of all Venezuelan households that own television sets.

With the spread of television, the traditional regional and social differences between AD and COPEI have broken down. Neither of the two parties can assume that a particular social group or region is an automatic source of votes. At the same time, however, the increasing sophistication of Venezuelan campaigns has reinforced the dominance enjoyed by AD and COPEI. Only they have the organizational strength and financial support to use modern campaign techniques effectively. Such third-party candidates as Teodoro Petkoff of the Movement toward Socialism (MAS) have difficulty attracting contributions from Big Business. And without heavy funding, it is almost impossible to do well in Venezuela's expensive elections.

But as the 1983 campaign showed, expense does not necessarily bring enlightenment. Kim Fuad, the former editor of the Caracas *Daily Journal*, complained that "this has been the most insubstantial presidential campaign I've ever seen. Neither party has discussed the real issues." An acrimonious May 10 television debate between Lusinchi and Caldera illustrated the

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point. Lusinchi blamed outgoing President Herrera's COPEI administration, and by extension Caldera, for the country's poor economic performance over the past five years. In his closing statement, Caldera chose to accuse Lusinchi of lying about his age and to ridicule his baldness. Neither candidate seized the occasion to spell out specific proposals to cure the nation's ills.

Ultimately, Caldera could not escape the taint of Herrera's presidency. On Sunday, December 4, Venezuelans obeyed the mandatory voting law that, among other things, also closes down all bars and liquor stores on election day. The result: Lusinchi bested Caldera by 56.8 percent to 34.6 percent. Once again, AD and COPEI dominated the electoral arena, together drawing 91 percent of the votes cast. Petkoff of MAS came in third with four percent. Ironically, after a year of multimillion-dollar campaigning, Lusinchi's margin of victory was essentially what the opinion polls had predicted as the campaign began.

Last year, after the euphoria of victory wore off, Lusinchi warned that "for a long time, Venezuelans have lived in the shelter of an easily acquired wealth, creating an illusion that the state could solve all national problems." With an ailing world oil market, the government in Caracas no longer enjoys the luxury of tapping ever-growing petroleum revenues to subsidize everything from agriculture and education to the government-owned steel and aluminum industries. Unemployment, as officially measured, stood at 10 percent in 1983, and government planners are predicting little if any growth in Venezuela's gross national product, which declined in 1983.

Despite great faith in their democracy, the patience of Venezuelan voters is not inexhaustible. How long will they be content to switch periodically from COPEI to AD, each time only to find themselves with more promises and fewer results? Clearly, Jaime Lusinchi has a strong electoral mandate to press for sensible economic reforms. His success in doing so will determine whether or not Venezuela remains in the forefront of South American democracy.





## 'SOWING THE OIL'

by David E. Blank

To a Venezuelan, being a *Caraqueño*—a resident of Caracas—has until recently meant having the best and most that money can buy. Blessed with a cool, temperate climate, the City of Eternal Spring is nestled in a 3,000-foot-high mountain valley, 11 miles long and three miles wide. It is as modern as any North American metropolis. Gleaming white office buildings and apartment blocks crowd the slopes of the valley. The twin glass towers of the Simón Bolívar Center, housing government offices, and the three 56-storied structures of the Parque Central business and residential complex pierce the skyline. Freeways snake through the city, meeting in elaborate interchanges popularly known as *la Araña* (the spider), *el Ciempiés* (the centipede), and *el Pulpo* (the octopus).

Its citizens' passion for the good life (and, until recently, their ability to afford it) has stocked store shelves in Caracas with goods from almost everywhere but Venezuela. A stroll down the Sabana Grande, Caracas's main boulevard, takes the visitor past sidewalk cafés and store windows displaying merchandise by Gucci, Pierre Cardin, and Yves Saint Laurent. The supermarkets boast, among other items, Kraft *mayonesa*, Cheez Whip *pimentón*, and Colgate *dental crema*. Affluent Venezuelans have also taken a liking to imported Scotch. In 1980, they purchased 1.8 million cases of the whiskey, making them the world's Number One per capita consumers. At Christmas, fir trees are flown in from Canada. Mercedes Benz sedans are a familiar sight on downtown streets.

Not surprisingly, the cost of living in Caracas has been high. Indeed, until the devaluation of the bolivar in February of 1983, Caracas was one of the most expensive cities in North or South America. Yet many of the 3.5 million *Caraqueños* have been able to afford it. In 1983, white- and blue-collar workers in Caracas earned an average of \$13,500 and \$7,000, respectively.

The source of Venezuela's relative affluence has been, of course, oil. Since the 1973 quadrupling of oil prices by the Organization of Petroleum Exporting Countries (OPEC), oil revenues, which totaled \$14.1 billion in 1983, have allowed many Venezuelans to enjoy a level of material well-being that would otherwise have been out of reach.

But if Caracas makes visible Venezuela's oil wealth, it also

reflects Venezuela's failure to use that wealth either effectively or equitably. The city's faltering infrastructure—"brownouts" of electric power and water shortages are common—has been strained by the doubling of the population since 1971. More than 600,000 motor vehicles now crowd the avenues and highways, churning out carbon monoxide, nitrogen, and sulfur, and turning a cross-town journey which used to take minutes into an odyssey of an hour or more.

At least half of Caracas's inhabitants live in tin and tarpaper ranchos on the high hills that ring the city. Lured from the countryside during the boom years, these slum-dwellers are either unemployed or toil at menial jobs. To them, the wealth enjoyed by their neighbors on the lower slopes has remained a dream.

Politicians worry, moreover, that oil can no longer help to solve Caracas's—and Venezuela's—problems. Venezuela's earnings from petroleum, though considerable, were nevertheless \$5 billion less in 1983 than in 1981. With oil revenues accounting for more than 70 percent of government tax revenues and 95 percent of Venezuela's export earnings, the drop has had serious consequences.

In 1983, Venezuela's gross national product (GNP) declined by 2.4 percent. Inflation hovered at seven percent in 1983, unemployment at eight percent. Foreign debt now stands at \$34 billion—owed to more than 450 foreign banks—with some \$22 billion of that debt falling due in 1984.\* As they try to adjust to their new economic circumstances, Venezuelans are slowly realizing that *la fiesta ha terminado*—the party is over.

It was a party almost a century in the making. Before the discovery of oil in the area surrounding Lake Maracaibo at the turn of the century, most Venezuelans had lived off the land as slash-and-burn farmers or itinerant cowboys. Only a few growers in the northwestern Andes Mountains and the coastal valleys had developed a stable and prosperous agriculture based on coffee and cocoa, then Venezuela's main exports. Manufacturing was confined to handicrafts. Some concessions for the extraction of asphalt—used for road building and waterproofing—were

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\*Despite its \$34-billion debt in 1984, Venezuela is better off than other Latin American borrowers. Brazil owes \$93 billion; Mexico, \$89 billion; and Argentina, \$44 billion. Venezuela also has, at 6.4 percent, the lowest rate of inflation, compared with 400 percent in Argentina, 210 percent in Brazil, and 90 percent in Mexico.

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*Set on the foothills of Avila Mountain, Caracas's office towers and high-rise apartments dominate the capital. On the outskirts are the ranchos (slums).*

granted during the 1870s to foreign firms, but few Venezuelans had the capital or the inclination to exploit what the country's first Spanish settlers had called "the devil's excrement." With a foreign debt equivalent in 1902 to 10 years of its national income, Venezuela seemed destined to remain yet another destitute, caste-ridden, underdeveloped Latin American nation.

A growing foreign interest in the oil that the asphalt portended promised a change in Venezuela's prospects. In 1909, the dictatorship of General Juan Vicente Gómez sold one of the first foreign petroleum concessions to an Englishman, John Allen Tregelles, who represented the British-owned Venezuelan Development Company. By 1914, the Anglo-Dutch firm of Royal Dutch Shell had drilled the first successful commercial well; total oil production stood at 121,000 barrels in 1917. Thirteen years later, Royal Dutch Shell, Gulf, and Standard Oil were pumping Venezuelan oil at an annual rate of almost 135 million barrels.

Gómez, whose 27-year tenure lasted until his death in 1935, was not a demanding host from the perspective of the oil companies. He preferred to let Venezuela remain a backward agricultural nation, one that was easy to control, and sought to minimize the effect of oil revenues on Venezuela's economy. From 1919 to 1936, the Venezuelan government gleaned only

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seven percent of all oil-company profits. Gómez used much of the revenue to maintain his loyal, German-trained army, build schools and roads in his native region of Táchira, and support his flock of more than 80 acknowledged offspring.

Even so, Gómez proved powerless to arrest the impact of the oil business. Agriculture, once the dominant force in Venezuela's economy, was gradually pushed aside. In 1920, coffee and cocoa made up 92 percent of Venezuela's exports; oil, a mere two percent. Ten years later, oil accounted for 83 percent of all exports, coffee and cocoa, 15 percent—a decline aggravated by a drop in the two commodities' total volume and value.

### P. J.'s Rise and Fall

The death of Gómez marked the beginning of modern Venezuela. Instead of using oil revenues solely for personal enrichment, the Venezuelan leadership under generals Eleazar López Contreras (1936–41) and Isaias Medina Angarita (1941–45) gradually instituted the policy of *sembrar el petróleo*—sowing the oil—and put oil funds back into government investment schemes designed to diversify the economy. At the same time, it also began pressing the foreign oil companies for a greater share of their profits.

Nevertheless, the emerging political opposition, led by Rómulo Betancourt and his allies, remained dissatisfied with the pace of social and economic progress. Restless junior officers in the military joined them in a coup that replaced Medina's government on October 18, 1945, with a junta headed by Betancourt.

Betancourt and his Democratic Action Party saw oil revenues as the country's only means to modernization. Juan Pablo Pérez Alfonzo, a former lawyer and a member of the Venezuelan Congress, was appointed Minister of Energy. Pérez Alfonzo was fond of telling parables. One of his best known concerns the creation of Venezuela, "the perfect country that has everything that human beings desire," given by God to the Venezuelans, the "most imperfect people in the world." He was also an ardent nationalist, convinced that, left to themselves, foreign oil companies would maximize their own profits, not aid in the development of a backward nation such as Venezuela. Under his stewardship, Venezuela's share of foreign oil profits increased to 50 percent. In addition, Pérez Alfonzo declared that Venezuela would sell no more drilling concessions to foreigners.

The revenues created by Pérez Alfonzo's fifty-fifty split of oil profits allowed the Democratic Action government to expand the meaning of "sowing the oil." Public expenditure in 1946 was

### VENEZUELA AND WORLD OIL

Venezuela, as Senator Edward M. Kennedy (D.-Mass.) noted in 1980, has been "a reliable source of petroleum through two world wars and numerous world crises." Today, it is OPEC's third largest producer (behind Saudi Arabia and Iran) and the Western Hemisphere's greatest exporter. The changing nature of the world oil market promises only to enhance Venezuela's importance.

Turmoil in the Middle East—highlighted by the three-year-old Iran-Iraq war—has led both the Western Europeans and the United States to cut back on their Persian Gulf imports. The United States now counts on the Middle East for three percent of its oil, versus six percent in 1973. France, which in 1973 bought 96 percent of its oil from OPEC's Arab members, today takes only 36 percent. The amount of West Germany's oil that comes from the Persian Gulf has fallen from 49 percent a decade ago to 13 percent. Japan, however, has remained an unhappy hostage: 56 percent of its oil still comes from the Mideast.

Reduced U.S. reliance on Middle East petroleum has not ended America's days of dependency. As domestic supplies dwindle, the United States—which ranks eighth in reserves, but second in production (behind the USSR)—will have to find more and more of its oil abroad. In 1983, U.S. oil imports, mostly from Mexico, totaled 31.9 percent of domestic consumption. (Venezuela supplied three percent of U.S. domestic consumption.) So far, a global recession has reduced overall demand, now at a 10-year low. But according to the *Oil and Gas Journal*, the nation's need for energy will increase significantly as the U.S. economy expands.

If and when that happens, it may turn out that the oil glut of 1982–84 has done more harm than good. Most Americans seem to have forgotten the 1973–74 predawn gas lines, "odd-even" rationing, and chill winter evenings. Last year, William A. Niskanen, a member of President Reagan's Council of Economic Advisers, dismissed U.S. dependence on oil imports as "not a front-burner kind of issue." Once again, energy policy is off the political menu [see "Energy: 1945–1980," *WQ*, Spring 1981]. Declining prices and new environmental constraints have discouraged the costly search for new domestic supplies, notably those found offshore. Development of nuclear power, solar energy, synthetic fuel, and tar sands has stagnated. Even the U.S. Strategic Petroleum Reserve, planned in 1974 as a 750-million barrel nest egg, is now being filled at a slower rate than that mandated by Congress.

Venezuela's rich Orinoco Heavy Oil Belt could help to ease the pain. The Belt is not scheduled for full-scale development until the 1990s, but talks between U.S. engineering firms such as Bechtel and Venezuela's state oil company, PDVSA, have been under way for the last four years.

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triple its 1945 level; in 1947, it was four times that of 1945.

The 1948 ouster of Democratic Action by the disenchanted military temporarily sidetracked Venezuela's increasingly aggressive petroleum policy. The military junta headed by Major Marcos Pérez Jiménez ("P. J.") abandoned Pérez Alfonzo's plans for a gradual takeover of the oil industry. New concessions were sold to the foreign oil companies, often to fill P. J.'s own coffers. (His personal fortune grew to an estimated \$13.5 million.) Venezuela's share of the industry's profits gradually declined.

Sowing the oil continued, this time in a different direction. The dictator chose to concentrate on "conquest of the physical environment," building irrigation canals, highways, dams, power plants, steel mills, apartment complexes, luxury hotels—and officers' clubs. One such establishment, the Military Circle Club in Caracas, cost more than \$15 million in 1953—6.5 times more than government expenditures on social security that year and twice what P. J. spent on irrigation. Despite P. J.'s corruption and fiscal ineptitude, many of Caracas's urban underclass today look back with pride on the mammoth job-creating construction projects of P. J.'s day and remember his rule fondly.

The downfall of P. J. in a 1958 popular revolt brought the return of Betancourt, elected President that same year. Pérez Alfonzo again became Minister of Energy; and, in 1960, he took two far-reaching steps. The first was the creation of the Venezuelan Petroleum Corporation (CVP), a state-owned firm set up to teach Venezuelans how to run an oil company. The second was the founding of OPEC in partnership with Kuwait, Saudi Arabia, Iraq, and Iran. Twenty years later, OPEC would have 13 members.

### Seismic Changes

Thanks to a world oil glut during the 1960s, the efforts of Pérez Alfonzo had little immediate economic impact. A steady decline in the price of oil (from \$2.65 a barrel in 1957 to \$1.85 a barrel in 1970) at first curbed the growth of government income. But legislation passed during the presidency of Rafael Caldera (1969–73) tightened the screws further on the foreign oil companies—Venezuela's profit share rose to more than 70 percent. Furthermore, the 1971 Hydrocarbons Reversion Law stipulated that all of the oil companies' Venezuelan assets would revert to the state when their concessions expired.

Venezuela's increased "take" of oil company profits boosted government revenues by 15 percent between 1970 and 1971. Life for Juan Bimba (Venezuela's John Doe) was looking up. His 1972



*First tapped in 1914, the oil fields of Lake Maracaibo today produce some 1.3 million barrels of oil a day, 75 percent of Venezuela's total production.*

per capita income of over \$1,000 was the highest in Latin America. Some 93 percent of his 10 million countrymen were employed, many of them (22 percent) in agriculture or (16.2 percent) in manufacturing. Inflation stood at three percent. And Caldera, who had announced plans for a subway system in Caracas, expansion of the state steel industry, a new international airport, and scores of hotels, highways, schools, apartment houses, and hospitals, promised the public that things would steadily get better.

But no Venezuelan could have foreseen the bonanza that was to come. On October 6, 1973, in a surprise attack some 6,500 miles east of Caracas, Egyptian tanks and assault troops crossed the Suez Canal, seeking to oust the Israelis from the Sinai Desert. The October War had begun. Two weeks later, the Arab members of OPEC led a drive to raise the price of "marker" crude oil from \$3.01 to \$5.12 a barrel. Enraged by an emergency U.S. airlift of war materiel to Israel, they also began an oil embargo of the United States. Venezuela did not participate in the embargo, but it did go along when, on Christmas Eve 1973, OPEC again raised the price of "marker" crude, this time to \$11.65. In the space of two months, the world price of oil had almost quadrupled.

As Henry Kissinger later noted, "All the countries involved,



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even the producers themselves, faced seismic changes in their domestic structures."

In Venezuela, government revenues were 256 percent higher in 1974 than in 1973. Sternly promising to "manage abundance with the mentality of scarcity," President Carlos Andrés Pérez (elected in 1973) set up the Venezuelan Investment Fund as a "reservoir" for 35 percent of the unexpected oil revenues.

But Pérez, a consummate politician who loved grand gestures, soon forgot the mentality of scarcity. Instead, he asserted that the oil windfall was "the last chance for Venezuelan democracy."

### **The Pains of Indigestion**

His government embarked on a spending spree. And Pérez launched a series of ambitious programs designed to redistribute wealth and power to the have-nots of Venezuelan society. He enacted the 1974 Law of Unjustified Dismissals, which made it difficult to fire workers and provided ample severance pay. Price controls were introduced to keep food prices down, and the government subsidized the importation of rice, wheat, and other commodities. To spur employment, Pérez issued decrees that called for "padding" the work force: Additional personnel, for example, were assigned to all public rest rooms and public elevators. To help farmers, in 1974 Pérez canceled \$350 million worth of agricultural debts owed to various state agencies.

The Pérez years also saw an attempt to "buy" Venezuela a modern, diversified industrial base. The government-owned steel and aluminum industries were beefed up with an investment of almost \$1 billion in 1975. Ciudad Guayana, a planned "model" city erected in the grasslands near the confluence of the Caroni and Orinoco rivers, became in 1977 the site of a \$4 billion construction project designed to quintuple the Orinoco Steel Company's (SIDOR) output from one million to five million tons a year. In addition, the government took over or formed textile and lumber companies, hydroelectric consortia, shipbuilding firms, and, among other transportation ventures, a steamship company and a national airline. American, German, and Japanese technicians were brought in as hired supervisors; not enough local cadres had been trained to run the new enterprises.

Primed by government authorization of a wage increase and a temporary price freeze, the public went on a buying binge. Japanese stereos and televisions, German cars and cameras, American clothing and foodstuffs all helped to increase Venezuela's imports by an estimated 235 percent between 1973 and 1978. The shops in Caracas catered to the newly rich by offering

Limoges china, Bohemian crystal, and Italian marble statuary.

When they could not find what they wanted at home, Venezuelans were quick to go abroad. Air France inaugurated Concorde flights from Caracas to Paris in 1976. Florida, however, was more accessible. Venezuelan tourists became known among merchants in Miami as *los dámedos*—the “give-me-two” people. Venezuelans liked it so much in Miami that more than 16,000 of them bought apartments there. Former President Betancourt lamented in 1977 that “the nation’s scale of values has suffered a shameful distortion.” His old colleague Pérez Alfonzo warned that Venezuela “could die of overeating as certainly as from hunger.”

The pains of indigestion were not long in coming. In 1976, the profligate policies of the Venezuelan government resulted in a sizable budget deficit. To cover the shortfall, Venezuela began borrowing abroad with the promise of future oil earnings as collateral. The industrial diversification projects—especially in steel and petrochemicals—designed to wean Venezuela from dependency on oil turned into financial disasters. From 1974 to 1977, industrial productivity actually *declined* by five percent. Agricultural output, projected by government planners to grow by nine percent, slackened by 1.8 percent instead. But government bureaucracy did prosper, doubling in size (from 350,000 in 1973 to 750,000 in 1978) and, between 1973 and 1976, tripling in cost.

### Nationalizing Oil

While the rest of the Venezuelan economy floundered in waste, corruption, and inefficiency, the petroleum sector steadily soldiered on. Even as the government expanded its control of the foreign-owned oil industry, it carefully avoided taking any steps that would reduce the petroleum revenues upon which the country relied.

By the mid-1970s, however, both Venezuela’s leaders and the executives of the multinational oil companies realized that they had come to an impasse. Since 1960, Caracas had granted no new concessions. A steady increase in taxes had reduced the oil companies’ share of profits to 30 percent. Not surprisingly, Shell, Exxon (formerly Standard Oil), Gulf, and the other oil giants began pulling back. As exploration declined, the size of proven reserves shrank. Nationalization seemed to be the most reasonable alternative for all concerned.

After two years of intense debate and arduous negotiations with 14 foreign companies, on August 29, 1975, Venezuela nationalized the petroleum industry in what President Pérez

### DEALING WITH THE 'YANQUIS'

Unlike the citizens of some other Latin American nations, Venezuelans do not harbor a historical grudge against the *Yanquis*. They do not echo the Mexican lament that their country is "so far from God, so close to the United States." Nevertheless, relations between the two nations have had their ups and downs.

The United States extended formal diplomatic recognition to Venezuela in 1836. No close ties existed until the 20th century when the discovery of oil in Venezuela, along with the opening of the Panama Canal in 1914, heightened the country's strategic significance from Washington's point of view. To show support for General Juan Vicente Gómez's regime (1908-35), U.S. warships began calling frequently at Venezuelan ports. During the Second World War, Venezuela, though officially neutral, supplied the Allies with oil.

Venezuela became a democracy in 1945, after a violent coup that unseated General Isaias Medina Angarita. But the United States came to conclude that ensuring a stable oil supply was more important than trying to implant democracy abroad. Disturbed by the new government's plan to boost Venezuela's "take" of the profits of foreign oil companies from roughly 30 percent to 50 percent, and worried about a "Red menace" in Latin America, Washington uttered no protests when Rómulo Gallegos, the nation's first popularly elected president, was removed from office by the military in 1948. Six years later, Venezuelan dictator Marcos Pérez Jiménez pleased Washington by hosting the Organization of American States meeting that endorsed the 1954 CIA-sponsored overthrow of Guatemala's leftist government. President Dwight D. Eisenhower rewarded Pérez with the Legion of Merit.

Eisenhower lost his friend in January 1958, when a revolt against Pérez led to the restoration of constitutional democracy. Washington's longtime support of Pérez and Eisenhower's 1958 decision (during a recession at home) to curb U.S. imports of Venezuelan oil did not please the new government. When Vice President Richard Nixon visited Caracas in May 1958, angry mobs stoned his limousine.

John F. Kennedy's three years in office (1961-63) brought a gradual improvement in relations. President Rómulo Betancourt impressed Kennedy with his strong anti-Castro stance and his commitment to agrarian reform. For a time, Venezuela became a showcase for Kennedy's Alliance for Progress, obtaining \$100 million in U.S. economic aid in 1961 alone. But Lyndon Johnson, Kennedy's successor, sent in U.S. troops to restore order (and democracy) in the Dominican Republic in 1965. Venezuelan President Raúl Leoni denounced Johnson's action for its "inexplicable disregard of the principles of the Inter-American system."

Coolness persisted into the Nixon-Ford years. Among the reasons: U.S. covert intervention in Chile, Venezuela's aggressive Third World stance, and the 1973 decision by the Organization of Petro-

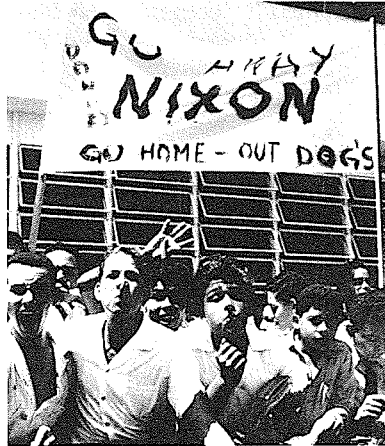
leum Exporting Countries (OPEC), of which Venezuela was a founding member, to quadruple the price of oil from \$3 to \$12 per barrel. In 1974, President Carlos Andrés Pérez criticized the reluctance of the Nixon and Ford administrations to turn the Panama Canal over to Panama. Congress also angered Caracas by excluding Venezuela from the 1974 Trade Act, which lowered U.S. tariffs on designated imports from developing nations.

Jimmy Carter's election to the Presidency in 1976 ushered in a period of warmer ties. The new President's emphasis on human rights found favor with Pérez, who shared Carter's distaste for Anastasio Somoza's regime in Nicaragua, among others. Carter pushed the Panama Canal treaties, popular in Latin America, through the Senate in 1978 and signed in 1980 a bill rescinding Venezuela's exclusion from the 1974 Trade Act.

Washington and Caracas initially saw eye to eye on how to contain the spreading civil war in El Salvador. President Luis Herrera Campíns's conservative government (1979-83) helped to train Salvadoran troops. A grateful Reagan administration agreed in 1981 to sell Venezuela 24 advanced F-16 fighter-bombers (for \$615 million).

But the widening of the conflict in Central America has eroded Venezuelan confidence in a military solution. Least popular have been the efforts of U.S.-backed "contras" to destabilize Nicaragua's Sandinista government, a regime that Caracas initially supported. More recently, Venezuela's current President, Jaime Lusinchi, denounced Nicaragua's leaders as "anti-democratic." Lusinchi has emphasized negotiations sponsored by the so-called Contadora group (comprising Venezuela, Mexico, Colombia, and Panama) as "an honorable way out for all sides in Central America."

In 1984, a handful of other issues beclouds U.S.-Venezuelan relations. Caracas would like to see increased American aid for economic development throughout Latin America. Above all, Venezuelan leaders would like their country to be treated by Washington as something more than a "client state," to be stroked when necessary and ignored when not. As President Herrera stated during his 1982 visit to Washington, "The United States must not forget that [Venezuela is] where it can best project its understanding, its cooperation, and its friendship. But we are friends who need to be cultivated with kindness and perseverance."



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called the "moment of national frankness." Foreign assets reverted to a holding company, *Petróleos de Venezuela* (PDVSA), which acquired 5.68 million acres of land, roughly 12,500 wells, 12 oil refineries, and an aggregate capacity to produce 1.5 million barrels a day. In return, the oil companies received \$1 billion, or one-seventh of the estimated replacement cost of the assets, and less than Venezuela earned every month in 1983.

### Joining the Country Club

The transfer was effected with intelligence and patience. The Pérez administration realized that Venezuela would still be forced to rely on the foreign oil companies for marketing and technology. Venezuela was also determined not to let PDVSA go the way of *Petróleos Mexicanos* (PEMEX), Mexico's government-owned, corruption-plagued company, which had taken 21 years to show a profit and 36 years to export a drop of oil. "What is essential," emphasized Pérez, "is to grant PDVSA the power to manage the industry without guild, political, or bureaucratic intervention, no matter how well-intentioned these interventions may be."

The 14 foreign subsidiaries were consolidated into four companies, each modeled on one of the four largest oil firms in Venezuela. The industry's 23,100 employees—90 percent of whom were Venezuelans at the time of nationalization—and the procedures under which they worked did not change. To ensure PDVSA's financial self-sufficiency, Pérez permitted the new conglomerate to retain 10 percent of its net income from oil exports.

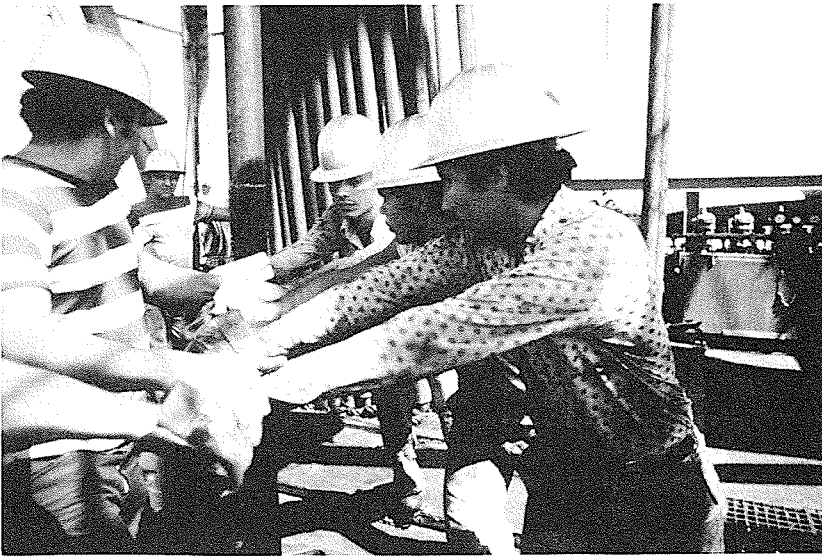
The autonomy granted to PDVSA by the new government was a tacit acknowledgment of Venezuela's dependence on the petroleum industry and its homegrown executives. Politicians knew that the Venezuelan economy would founder without the steady flow of oil. Radical promises of economic reform had always been tempered by that reality. Every elected government had been forced in some way or another to negotiate with PDVSA's "technological elite"—often members of the upper middle class recruited by the foreign oil companies and educated in America.

The existence of this elite, however, and the dependency that Venezuela has upon it, have generated no small amount of jealousy, distrust, and resentment. Many Venezuelans suspect that PDVSA managers, because of their long affiliation with the foreign oil companies, are insufficiently nationalistic. The lavish, cosmopolitan way of life enjoyed by many of the senior executives has reinforced that impression. Most Venezuelans cannot

afford to belong to the elite Caracas or Lagunita country clubs (where a "membership share" can cost \$100,000 and \$60,000, respectively). Nor can they afford to buy the mansions in the Caracas neighborhoods of Prados del Este or Cerro Verde. For PDVSA's upper echelon, such things are possible.

The rank and file in the oil companies also tap into the good life. Outside the town of El Tigre, in the oil-producing state of Anzategui, employees live in the San Tomae oil camp—a hold-over from the days when foreign engineers ran the derricks. There, behind tall fences, they have their own schools, their own hospital, and their own nine-hole golf course.

Still, even the pampered petroleum industry could not save Venezuela from the consequences of its rapid expansion during the oil boom. When the value of Venezuela's oil exports dropped in 1978, Venezuela faced a growing budget deficit and sizable due bills for expensive, uncompleted factories and construction projects. Public debt stood at \$11.7 billion, as opposed to \$2.4 billion four years earlier. In March 1979, the newly elected Christian Democrat President, Luis Herrera Campns, announced that Venezuela could not continue as a "nation that [only] consumes rivers of whiskey and oil." Herrera cut public spending, reduced government price controls, and increased interest rates. His actions set off howls of protest and, ultimately,



*Venezuela's state oil company employs less than one percent of the work force. Yet, in 1982 it accounted for 23 percent of Venezuela's gross national product.*

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labor unrest, as the price of basic foodstuffs like rice, sugar, and milk, freed from controls, soared.

Unfortunately, Herrera, like his predecessors, lacked persistence. When the Iran-Iraq war raised the price of oil from \$16.77 a barrel in 1979 to \$27.60 a barrel in 1980, the days of belt-tightening ended before they could even begin. Venezuela's oil income jumped from \$13.5 billion to \$18 billion. Responding to political pressure, especially from Venezuela's powerful labor unions, Herrera's administration agreed to a bill in January of 1980 that doubled the minimum wage (to \$12.20 a day). The legislature also approved additional outlays that added up to a sudden 35 percent increase in the government budget.

The weakening of the oil market in late 1981 finally burst the bubble. The economic contradictions obscured by the wind-fall years of 1979-80 reappeared in an aggravated form. Inflation soon stood at 20 percent, unemployment at 6.2 percent. A foreign worker registration drive began in an attempt to reduce the number of "guestworkers"; an estimated 500,000 to one million had arrived from Colombia during the boom years, virtually taking over farm labor and filling low-wage jobs everywhere. Agriculture stagnated, with Venezuela importing more than half its food—including black beans, the national staple. Despite a \$200-million subsidy, SIDOR racked up a \$232-million deficit in 1980. One-third of the aluminum industry's capacity was knocked out in 1981 when one plant's electricity was accidentally shut off, "freezing" the molten metal in its "pots."

All told, the 200-odd government-owned industrial firms (responsible in 1982 for over half of Venezuela's gross domestic product) lost \$8 billion between 1979 and 1982. In a 1983 *Miami Herald* op-ed piece, Carlos Rangel, a former Venezuelan diplomat, remarked, "There must be examples of worse fiscal mismanagement than that of Venezuela in the last eight or nine years, but I am not aware of them."

### Creating Trouble

Against this dismal economic backdrop, Herrera's administration demanded that the oil industry be brought to heel. In the words of Alberto Quiros, the head of one of PDVSA's subsidiaries, "the honeymoon was over." Humberto Calderon Berti, Herrera's Minister of Energy, vowed to "deepen the meaning of nationalization." Calderon bound the company closer to the state by ruling that its budget had to be approved by his ministry, by reducing the terms of the company's board of directors from four years to two, and by appointing board members for



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partisan political reasons rather than for technical proficiency. PDVSA also lost much of its financial self-sufficiency in September 1982, when the government unceremoniously appropriated its \$8-billion cash reserve.

Herrera added insult to injury by appointing Calderon as PDVSA's new president. Five months later, the incoming administration of current President Jaime Lusinchi (elected in 1983) ousted Calderon and installed Brígido Natera, the president of one of PDVSA's four operating subsidiaries. Lusinchi also pledged to "guarantee the self-sufficiency of the oil industry."

Still the damage has been done. The political turmoil that engulfed the oil company has left its managers demoralized. They now fear that a precedent for government intervention has been established and that PDVSA's capital investment funds will be squandered by the government elsewhere whenever things look bad in the general economy.

But making PDVSA subservient to the state will not ease Venezuela's predicament. The stagnation of the oil market since 1982 has already cut into revenues. By arrangement with OPEC, Venezuela's production has been limited to 1.75 million barrels a day (down from a peak of 3.7 million barrels in 1970). And it is estimated that Venezuela's reserves of more marketable "light" oil will run out in another 25 to 35 years.

### **No More Roller Coasters?**

Venezuela does possess ample amounts of "heavy" oil, and this reserve, noted Finance Minister Luis Ugeto, means that Venezuela "no longer runs the risk of running out of oil." The 15,000-square-mile Orinoco Heavy Oil Belt, a tract of swamps and jungle along the Orinoco River in northeastern Venezuela, contains anywhere from 700 billion to three trillion barrels of heavy oil—five to 15 times Saudi Arabia's oil reserves. In 1981, PDVSA began an \$8-billion "megaproject" to exploit the region's riches. Plans called for a separate power plant, refineries to upgrade the oil, a 187-mile pipeline, and housing for close to 30,000 workers and their families. Because the oil is thick and impure, extraction and refining will be expensive. In the current depressed market, and in Venezuela's present financial situation, the estimated \$14-per-barrel production cost is too high. Pending better days, the heavy-oil project has been scaled back.

Many Venezuelans are relieved that the Orinoco will not be forced to surrender its oil quickly. Some feel that the last thing their society needs is another roller coaster ride that begins with rising expectations and ends with a bad headache. Jorge Olavar-

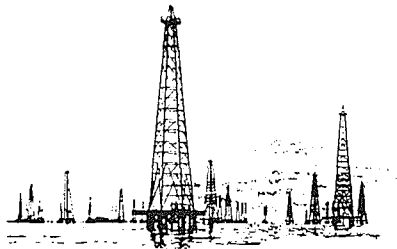
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ría, the former editor of the Venezuelan magazine *Resumen*, observed that "oil has virtually eliminated our capacity to work productively, because we have an artificial economy." Businessmen and politicians are increasingly aware that Venezuelans must be broken of their habit of waiting for the next bonanza to bail them out.

Today, no sudden Klondike appears forthcoming. Indeed, exactly the reverse seems possible. Venezuela's dependence on the petroleum industry has never been more glaringly apparent. Every \$1-per-barrel reduction in world prices costs Venezuela almost half a *billion* dollars; every drop of 100,000 barrels in production, a full billion.

Given such circumstances, it was hardly surprising that President Lusinchi conceded in his inaugural address that "Venezuela is passing through one of its most difficult moments." Whether Lusinchi will be able to spark a revival in Venezuela's government-owned economic enterprises outside the oil industry is open to question. Some hope exists. The steel and aluminum industries, after years of handouts, are slowly inching into the black. And despite its massive foreign debt, Venezuela, by virtue of its oil revenues, is still regarded by international bankers as the Latin country most likely to pay its debts.

The real challenge goes far beyond economics. Surveying the Venezuelan landscape—much changed since his early years as Minister of Energy—Pérez Alfonzo observed that "oil has not made us any better Venezuelans." Have Venezuelans learned that throwing money at a problem does not necessarily solve it? Or will they wait for another Mideast war or an act of God to boost the world price of oil and provide another temporary cure for their underlying economic woes?



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## BACKGROUND BOOKS

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### VENEZUELA

Three hundred million years ago, most of present-day Venezuela was a shallow sea off the coast of the Paleozoic continent Gondwanaland. Dead marine vegetation and crustaceans, deposited on the sea floor, began their slow metamorphosis into one of the world's largest pools of oil.

In 1499, the Spanish explorer Alonso de Ojeda sailed into Lake Maracaibo and observed that the Indian natives lined their dugouts with pitch from the lake bottom. The Spaniards followed suit, later bottling and selling the black sludge in Europe as a cure for gout.

Ojeda had not been looking for oil. Like his fellow conquistadors, he was seeking the mythical Eldorado, the City of Gold. But Eldorado proved elusive. As historian John Lombardi notes in *Venezuela* (Oxford, 1982), the Venezuelan wilderness yielded "no mighty Amerindian empires, no storehouses of golden objects, and no fabulous cities." Disappointed gold hunters stayed on to raise cattle, cacao, and later coffee for export.

As late as 1600, most of the Spanish settlers, plagued by disease and harassed by hostile Indians, still congregated in isolated settlements. A lack of centralized authority—Venezuela remained under the jurisdiction of Chile and Colombia until 1777—left towns such as Caracas (founded in 1567) open to raids by Dutch and English pirates and French freebooters, who sacked the town in 1680.

By the mid-18th century, however, Spain had Venezuela under firm control, having established a trading monopoly that excluded any European rivals. The Indians were subju-

gated and worked beside imported African slaves on large coffee plantations. Miscegenation was common, but the melting pot did not erase racial tension or economic rivalry. Factional strife between the wealthy, white *criollos* of the coastal cities and the impoverished, mixed-blood *pardos* of the plains persisted.

During the 13-year struggle for independence (1808–21), the royalists used this animosity to divide the rebels. Historian Edward Lieuwen describes this transformation of a "separatist movement into a social upheaval" in his authoritative history of *Venezuela* (Oxford, 1961). The prospect of an independent Venezuela ruled by the Caracas elite disturbed the plainsmen, who at first enlisted on the side of the throne.

Simón Bolívar eventually united the rebels. The Spanish were defeated in 1821, and Venezuela joined Colombia and Ecuador in the Republic of Gran Colombia. While Bolívar was off liberating the rest of South America, General José Antonio Páez seized power and led Venezuela out of the federation in 1830.

Damaging civil wars followed the end of Páez's rule in 1848. In *Caudillism and Militarism in Venezuela* (Ohio, 1964), a survey of the period from 1840 to 1908, historian R. L. Gilmore cites the 1855 letter of a Venezuelan bishop that described "families reduced to impoverished circumstances . . . the absolute absence of any police regulation . . . every social tie violated."

Order was finally restored in 1908 by General Juan Vicente Gómez. In *Gómez, Tyrant of the Andes* (1941), journalist Daniel Clinton chronicles

Gómez's rise to power and the brutal excesses that kept him there.

Gómez's death in December 1935 ended the despotic days of the caudillos. In **The Venezuelan Armed Forces in Politics, 1935–1959** (Missouri, 1972), Winfield Burggraaf asserts that modern schooling instilled in Venezuela's younger officers "a desire to [undertake] reform—beginning at the top."

Indeed, a rebellion of discontented officers set off the coup of 1945. So began **The Venezuelan Democratic Revolution** (Rutgers, 1964), as chronicled by Robert Alexander. The experiment in civilian rule, however, proved short-lived. Disturbed by what they saw as the excesses of "upstart civilians," the military overthrew President Rómulo Gallegos in 1948.

A popular uprising restored democracy in January 1958. But opposition from the Right dogged the 1959 Betancourt presidency until he persuaded conservatives that a left-wing revolution would overwhelm them both unless they united. Indeed, Cuba's Fidel Castro backed a serious challenge by university-led radicals during the 1960s.

In **Conflict and Political Change in Venezuela** (Princeton, 1973), Daniel Levine examines the leftist threat during the early 1960s. Both the Communist Party of Venezuela (PCV) and the Movement of the Revolutionary Left (MIR) saw Caracas's universities as "a strong point and source of shock troops."

But while the vision of world revolution appealed to urban students, it never gained favor among other Venezuelans. Repeated efforts by armed insurgents to disrupt elections and overthrow the government lasted for almost seven years; the last disheartened guerrillas gave up in 1969, after the government offered them a choice

of amnesty or a plane ticket out of the country. Levine concludes that democracy "emerged strengthened from a lengthy and severe test."

Other detailed surveys of the country's political system include John Martz's **Acción Democrática** (Princeton, 1965) and Donald Herman's **Christian Democracy in Venezuela** (North Carolina, 1980).

Herman points out that COPEI, the Christian Democratic party, derived many of its ideas from papal encyclicals that emphasized the importance of social justice. Venezuela's priests, 80 percent of whom are foreigners and most of whom work in the barrios, have been an important voice for social reform. Still, Herman feels that the influence of the church has been "more indirect than direct." Other factors contributed to COPEI's victory in the 1968 presidential elections.

John Powell asserts that rapid urbanization was responsible. In **The Mobilization of the Venezuelan Peasant** (Harvard, 1971), he argues that the mass migration of farmers from the back country to the city weakened the rural, peasant core of the Democratic Action Party's support.

The stimulus to all this internal migration and development was the foreign-owned oil industry. Edwin Lieuwen observes that there was enough **Petroleum in Venezuela** (Russell & Russell, 1967) to almost quadruple (in real terms) the gross national product from 1935 to 1954.

Franklin Tugwell maintains that Venezuela's leaders struck "a balance between righteousness and flexibility" in their approach to **The Politics of Oil in Venezuela** (Stanford, 1975). While firm in their demands on the foreign oil giants, the Venezuelans strove to avoid "nationalistic posturing."

Buoyed by oil wealth, Venezuela has risen to prominence in OPEC, Latin America, and the Third World. Editor Robert Bond and other contributors survey Venezuela's attempts to promote "continental nationalism, political unity, and economic liberation from the industrialized nations" in **Contemporary Venezuela and Its Role in International Affairs** (N.Y. Univ., 1977, cloth & paper).

Even communist Cuba, once ostracized by President Rómulo Betancourt, now plays a part in Venezuela's vision of pan-American solidarity: Venezuela led the unsuccessful 1974 drive to lift sanctions imposed on Cuba by the Organization of American States (OAS). More conventionally, petrodollars have been used to finance low-interest loans and oil subsidies to Venezuela's neighbors.

Yet Venezuela itself remains, in many ways, a member of the Third World. Guayana and the Amazonas territories in the south are still inhabited by Indians who covet the white man's "machete skin" (metal) for shields and spearheads.

Anthropologist Johannes Wilbert wonders if the cultures of these **Survivors of Eldorado** (Praeger, 1972, cloth & paper) will survive the steady encroachment of civilization. Members of one tribe, the Yanoama, live almost exactly as their Paleo-

Indian ancestors did some 20,000 years ago—except that the nomadic hunters now track deer and boar instead of the Pleistocene mammoth and glyptodon.

Far removed from the jungle habitat of the Yanoama, but almost as untouched by Venezuela's oil wealth, are the slum-dwellers of the urban barrios. They exist in sharp contrast to the high-living 10 percent of the population that owns almost 40 percent of Venezuela's wealth.

Talton Ray focuses on the plight of these aspirants to progress in **The Politics of the Barrios** (Calif., 1969). In a Caracas barrio, the visitor can see, as Ray did, "pigs and dogs running down the street" past dwellings made of "mud, cardboard, flattened tin cans, and cinder blocks." Naked brown children, probably born out of wedlock, as are half of all Venezuelan offspring, stand in the doorways.

In **The View from the Barrio** (Michigan, 1968, cloth; 1970, paper), sociologist Lisa Peattie remarks that Venezuela remains "a curious mixture of extremes: people who believe in witchcraft and [drink] Pepsi Cola; superhighways next to . . . traditional corn-patch agriculture; great national wealth, with a mass of very poor people." Oil money does not change everything.

—Linda S. Robinson

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EDITOR'S NOTE: Linda S. Robinson, a former Wilson Quarterly assistant editor, is a member of the editorial staff at Foreign Affairs.