'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

*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 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.

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, 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.

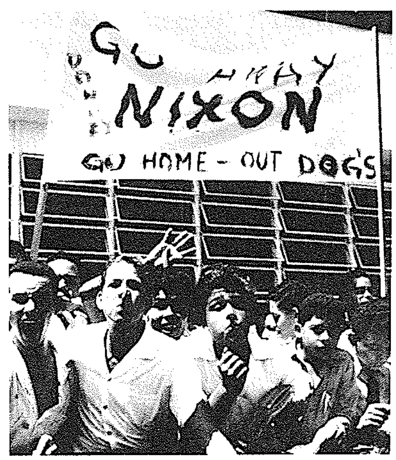
Eisenhower lost his friend in January 1958, when a revolt against Pérez led to the restoration of constitutional democracy. Washington's longtime support of Pérez and Eisenhower's 1958 decision (during a recession at home) to curb U.S. imports of Venezuelan oil did not please the new government. When 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 Petroleum 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 "antidemocratic." 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."

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."

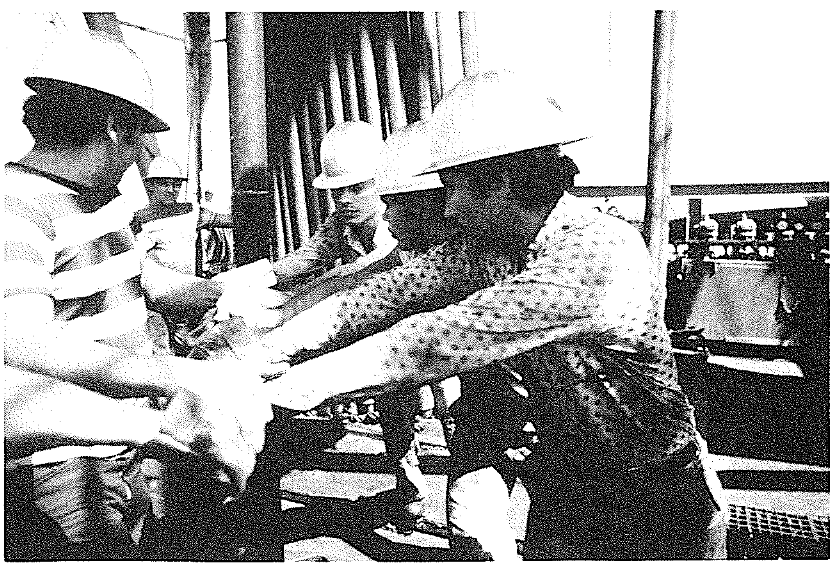
The 14 foreign subsidiaries were consolidated into four companies, each modeled on one of the four largest oil firms in Venezuela. The industry's 23,100 employees—90 percent of whom were Venezuelans at the time of nationalization—and the procedures under which they worked did not change. To ensure PDVSA's 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 Anzóategui, employees live in the San Tomaé oil camp—a holdover 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 Campíns, 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.

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 windfall 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 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 Olavarría, 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?