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The Constraints on Associative Development in a Privileged Developing Country: The Case of Venezuela

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VENEZUELA IS A developing country with many characteristics which, according to mainstream economists, should be conducive to economic development.¹ Newly industrializing

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1. Economic development will be defined to be sustained economic growth which benefits even the lowest-income groups in society.

countries like Brazil, Mexico, Taiwan, and South Korea face strong external constraints to their development, whether in the form of high-energy import bills or in barriers to trade erected by the industrialized countries. For Venezuela, on the other hand, the post-1973 energy terms of trade have reduced international constraints on economic development and have made a sizable pool of capital available for investment. Moreover, Venezuela has substantial deposits of iron and aluminum ores as well as untapped sources of coal and hydroelectric power. It has a growing core of skilled personnel in both the private sector and in the state bureaucracies. It has an excellent credit rating on international financial markets and an ample supply of foreign exchange. Venezuela also has many of the political characteristics deemed necessary, by a variety of scholars, for economic development: an electoral form of government,² a strong state,³ a mixture of developmentalist and distributionist economic philosophies,⁴ a commitment to reducing dependence on foreign countries and corporations,⁵ and a set of governmental programs designed to assure all members of society at least a minimum standard of living.⁶

And yet Venezuela still faces very important obstacles to development. Poverty, inadequate housing, and malnu-

2. Seymour Martin Lipset, *Political Man* (Garden City, N.Y.: Anchor Books, 1963), ch. 2. Lipset is usually interpreted as arguing that economic development begets democratic government, but his studies also have been used to make the argument that democracy is a prerequisite for development.

3. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, Belknap Press, 1962).

4. Albert O. Hirschman, "The Turn to Authoritarianism in Latin America and the Search for its Economic Determinants," Princeton University, Institute for Advanced Studies, May 1977. Manuscript.

5. Carlos Diaz Alejandro, "Delinking North and South: Unshackled or Unhinged?," in Albert Fishlow et al., *Rich and Poor Nations in the World Economy* (New York: McGraw Hill, 1978).

6. For an example of a "developmentalist" analysis of the Venezuelan economy, see Pedro-Pablo Kuczynski, "The Economic Development of Venezuela: A Summary View as of 1975-1976," in Robert D. Bond, ed., *Contemporary Venezuela and Its Role in International Affairs* (New York: New York University Press, 1977).

trition are still the lot of many Venezuelans despite the influx of petrodollars. The degree of dualism in the Venezuelan economy is high. Agriculture remains a weak spot in the Venezuelan economy, which directly constrains growth through the resulting need to import larger and larger quantities of food products. There is an alarming level of corruption which drains away resources into unproductive activities. Finally, Venezuela remains highly dependent on petroleum revenues, and therefore, on the international economy, to fuel its economic development.

Why, despite the many favorable conditions that Venezuela enjoys, has it not made greater strides to deepen industrialization and to better the standard of living for the majority of its people? The reason, I suggest, are the rigidities in economic and social structure which are the consequence of Venezuela's history of "associated, dependent development."⁷ This form of development comprises more than a set of external linkages between the developing country and the international economy. The case of Venezuela shows that even where these linkages are altered to the benefit of the developing country, and the constraints

7. This term is taken from the work of Fernando Henrique Cardoso, especially "Associated Dependent Development: Theoretical and Practical Implications," in Alfred Stepan, ed., *Authoritarian Brazil*. Associated dependent development can take place in the larger South American countries, according to Cardoso, because of the growth of state entrepreneurship and the slow increase in the power of popular sectors, especially the urban proletariat, in the face of industrialization. New social groups emerge that create the possibility of nationalist coalitions, which can counter the influence of foreign or international interests in a dependent economy. Such nationalist coalitions are weak or nonexistent in enclave economies because of the absence of a national entrepreneurial elite. In *Dependency and Development in Latin America*, Cardoso and Enzo Faletto argue that Venezuela has some characteristics of an enclave economy, but with some potential for industrialization because of the investment of foreign capital outside of the petroleum sector. See pp. 89-91 of *Dependencia y Desarrollo en America Latina* (Mexico: Siglo XXI, 1972). Below, I will argue that the increased role of the state in the Venezuelan economy, following the nationalization of both the petroleum and iron and steel industries, makes it much more credible to assert that Venezuela has a nationally oriented entrepreneurial elite, an elite which is inextricably tied to state policies.

they impose are attenuated, domestic social and institutional structures that were initially shaped by the external linkages can remain in place and continue to affect the character of economic policy and limit the possibility of fundamental change.

In the case of South Korea, as discussed in this volume by Stephan Haggard and Chung-in Moon, substantial domestic change triggered by the restructuring of social groups and institutions after World War II preceded the adoption of an outward-oriented strategy based on exporting manufactured goods with a high labor component. The external constraints to Korean development were attenuated slightly, thanks to the timing of this strategy, by the importance of South Korea in the security calculations of the United States. The relative success of this exporting strategy continued as long as Korea did not attempt to diversify its industrial production in the direction of heavier capital goods and basic industries such as steel and petrochemicals. When the Korean government did make a move to deepen its industrial base, it was confronted with a new set of external and domestic constraints which created an economic and political crisis from which that country has not yet recovered.

The key differences between the Korean and Venezuelan cases, therefore, are that (1) Korea chose an export-led rather than a secondary phase of import-substituting industrialization, and (2) the choice of this new strategy was clearly the result of major changes in domestic social and institutional structures, changes which did not occur during this same period in Venezuela. Venezuela never had the option of adopting an export-led growth strategy because of the relatively high wages paid to workers there, itself a consequence of the export of petroleum. And Korea, like most of the other newly industrializing countries, never had the option of financing its growth on the basis of the export of a raw material with a highly favorable international price.

The key similarities in the two cases center around the common desire to diversify the domestic economy so as to

reduce external constraints to development. In both cases, a point is reached where the initial phase of industrialization ends and an attempt is made to create a base for a "deepening" of the industrial economy; that is, an effort is made to create a capacity for producing the basic inputs for industry—iron and steel, capital goods, and heavy industrial infrastructure. In both countries, it is the state which takes the lead in this effort, and in both countries, a major adjustment in social arrangements is necessary to pursue a deepening strategy. It is not clear yet whether either will be successful.

It may be helpful also to contrast the Venezuelan case with that of three other petroleum-exporting countries: Algeria, Iran, and Saudi Arabia. All of these countries benefited from the rapid increase in oil prices in the mid- and late 1970s. Of the four, Algeria and Venezuela have been the most ambitious in attempting to create a diversified industrial economy out of their petroleum revenues. Iran spent a large proportion of its revenues on military equipment and nuclear power plants with little left over for a major push toward a diversified industrial base. Saudi Arabia has also spent sizable sums on military equipment, and because of a very large surplus of revenues over current expenditures and an initially very-limited industrial base, has tended to use its revenues for economic investments in infrastructure—the purchase of turnkey plants for such products as petrochemicals and cement—while placing the remainder of its funds in various overseas investments.

Thus, the oil-exporting country most like Venezuela in attempting to use the temporary advantage of high oil prices to industrialize is Algeria. The Algerian strategy suffers from internal contradictions, as Hveem shows in his paper later in this volume. Moreover, Algeria's petroleum reserves were already declining rapidly in 1974–75. Total revenues, therefore, could not expand as rapidly as had been projected in 1973. After 1975, Algeria was stuck with the problem of readjusting its very ambitious plans to the realities

of declining revenues. While Venezuela also had to face such a readjustment in 1977–78, it had enjoyed a longer period of high revenues and, in general, its government had chosen more realistic targets and projects than had the Algerian government.

Venezuela is, therefore, a prime choice for studying the effects of a sudden and persisting attenuation of external constraints on economic development in a dependent country. It is an important case because some theories of dependency suggest that attenuation of these constraints is the key to development, while others place a stronger emphasis on the necessity for changes in domestic coalitions and strategies.⁸ Mainstream economic approaches are concerned with external constraints primarily as they affect economic options through balance-of-payments deficits, shortages of foreign currency, exchange rates, and the like. Mainstream economists do not assert that a reduction in external constraints without correct domestic policies will necessarily result in improved economic performance. Nevertheless, they are likely to be puzzled by a country which, in the face of "sensible" policies and reduced external constraints, fails to grow and develop faster. Venezuela thus provides evidence for the failure of both some varieties of dependency theory and some mainstream economic approaches adequately to consider the effects of domestic social systems.

My discussion is organized as follows. I first show that despite the existence of a number of problems and cyclical

8. The work of Fernando Cardoso, as discussed in the previous note, leaves room for a variety of domestic political and social factors in explaining patterns of development in dependent Latin American countries. The work of Andre Gunder Frank, e.g., *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1969), puts a heavier emphasis on the nature of international linkages as the main factor inhibiting economic development in the Third World. Both authors accept the historical observation that development was accelerated during the world wars because of attenuation of linkages with the world economy, but Cardoso seems inclined to pay more attention to the nature of domestic social coalitions and the effect of these coalitions on policy choices in explaining economic outcomes.

downturns, in relative terms, the macroeconomic performance of Venezuela appears vigorous—external constraints have been attenuated and the state has become a more significant actor in the economy. I then go on to examine the performance of the Venezuelan economy from the point of view of the living standards of the majority of people. Here it is seen that, even with increased state intervention, the record remains modest. Third, I will explain this discrepancy in terms of the domestic social and institutional legacy of dependent development, which continues to shape the fundamental character of socio-economic policy in Venezuela today. Finally, I conclude with some general observations about the relevance of this case for the issues raised in this volume.

THE VENEZUELAN ECONOMY: 1958 TO THE PRESENT IN TERMS OF MACROECONOMIC INDICATORS

The Venezuelan economy experienced high rates of growth in gross domestic product (GDP) and in GDP per capita during this period. The average annual rate of growth of GDP in constant prices was 5.4 percent from 1958 to 1979 (see table 4.1). Per capita GDP increased from \$817 in 1958 to \$3616 in 1979 at an average annual growth rate of 5.5 percent. Growth was not always steady. There were recessions of various intensities during four periods: 1959–61, 1965–67, 1970–72, and 1979–80. The most rapid rises in per capital GDP occurred between 1973 and 1974 and between 1978 and 1979, the years of the increases in petroleum prices.

Until 1973 Venezuela had not experienced major problems with inflation. Consumer prices actually declined during the recession of 1959–61. From 1973 to 1980, consumer prices increased at an annual average rate of 11.1

TABLE 4.1: Growth in GDP, Real GDP, and GDP Per Capita, 1958 to 1979

Year	GDP in Current Prices (\$ million)	GDP in Constant Prices of 1975 (\$ million)	Growth in Real GDP (%)	GDP Per Capita (\$)
1958	5716	11537		817
1959	5944	12465	8.0	821
1960	5947	12963	4.0	794
1961	6279	13600	4.9	811
1962	6867	14842	9.1	858
1963	7486	15877	7.0	919
1964	8288	17407	9.6	984
1965	8821	18460	6.1	1013
1966	9191	18919	2.5	1020
1967	9681	19642	3.8	1040
1968	10460	20602	4.9	1087
1969	10940	21521	4.5	1100
1970	12091	23051	7.1	1177
1971	13256	23819	3.3	1249
1972	14721	24542	3.0	1346
1973	17698	26181	6.7	1569
1974	29707	27712	5.8	2554
1975	29151	29151	5.2	2431
1976	30947	31312	7.4	2503
1977	35766	33441	6.8	2626
1978	39758	35046	4.8	3030
1979	48888	34696	1.0	3616

SOURCES: International Monetary Fund, *International Financial Statistics*, Annual Supplement (May 1978), pp. 406-07; *International Financial Statistics*, Yearbook (1981), pp. 250-51; Banco Central de Venezuela, *Informe Economico* (1980 and previous years).

Note: All GDP figures are expressed in dollars at the current exchange rate of 4.3 bolivars to the dollars. GDP per capita is calculated by dividing GDP in current dollars by annual population estimates.

percent. This new inflationary trend was discouraging to many Venezuelans because it signaled an inability of domestic production to keep up with the increase in aggregate demand. Nevertheless, production did increase rapidly in a variety of sectors, as will be shown in the next section.

Changes in the rate of unemployment mirrored changes in aggregate growth rates. Unemployment declined from a

period high of 14.7 percent at the end of the 1959-61 recession to a period low of 4.3 percent in 1978. The rate of unemployment after 1973 remained lower than the average rate during the 1958-72 period, even during the 1979-80 downturn in the economy.

The Main Sectors of the Economy

The petroleum sector has dominated Venezuela's economy since the 1930s. There were signs after 1973, however, that the economy was becoming more diversified and that the manufacturing sector was increasingly taking over the role of petroleum as the generator of overall growth. The continued dominance of the petroleum sector could best be seen in the very close relationship between changes in the value of petroleum exports (which accounted for a nearly constant 90 percent of total export revenues during this period) and changes in real GDP.⁹ The production of crude petroleum and natural gas accounted for 28 percent of GDP in 1958; it was still over 16 percent in 1977. The average rate of growth of the petroleum sector was only .03 percent from 1958 to 1977 (see table 4.2). The sector experienced an overall negative rate of growth between 1973 and 1977 despite the oil price increases. The reason for this was the drastic decline in the production of crude oil which occurred in the 1970s. Production reached a peak of 3.7 million barrels per day in 1970, dropping to 2.1 million barrels per day by 1980.

Manufacturing production grew at an average annual rate of 7 percent between 1958 and 1980. Between 1973 and 1976, annual growth rates were 10 percent or more. The manufacturing sector accounted for around 13 percent

9. I performed a simple regression analysis using the following equation: $DELGDP = a DELPEX + b + u$.

DELGDP is the change in gross domestic production; DELPEX is the change in the value of petroleum exports; a and b are constants; and u is the error term.

The least-square estimate of this equation explains 93 percent of the variance in DELGDP. For every increase of one bolivar in petroleum revenues, GDP increased by 1.74 bolivars. I used first differences in order to compensate for serial correlation. The Durbin-Watson statistic for the estimated equation was 1.35.

TABLE 4.2: Real Growth Rates by Sector, 1958-59 to 1979-80, in Percentages

Period	Petro.	Agr.	Mining	Mfg.	Util.	Cnstrct.	Transpl.	Retail/Wholesale	Other
1958-59	6.6	4.2	10.8	15.0	19.6	5.5	8.8	5.3	8.6
1959-60	2.4	21.0	10.2	-2.1	10.4	-3.5	-7.2	-0.7	8.1
1960-61	2.3	0.6	-22.7	6.0	13.7	-10.7	-1.5	-4.1	11.0
1961-62	9.6	5.2	-7.0	9.0	18.7	-3.5	0.0	6.3	19.9
1962-63	1.5	5.6	-15.3	7.2	17.8	-5.6	4.9	6.5	14.5
1963-64	4.8	8.0	38.3	17.3	12.4	11.6	13.0	14.3	14.1
1964-65	2.1	6.2	9.0	3.7	11.3	3.3	7.3	26.4	9.5
1965-66	-3.1	4.2	0.5	1.0	9.5	6.7	3.1	4.4	5.7
1966-67	5.1	5.5	-3.7	5.4	10.6	8.9	4.9	3.7	4.2
1967-68	2.0	5.0	-10.9	5.7	16.4	21.3	6.6	7.4	2.7
1968-69	-0.6	9.9	24.0	4.1	10.2	-3.2	0.4	2.5	4.2
1969-70	9.0	2.1	44.3	10.0	13.5	-1.6	16.8	7.2	6.8
1970-71	-1.6	5.0	-11.2	6.4	10.5	16.0	5.6	4.8	7.8
1971-72	-7.9	-3.3	-5.6	8.3	7.6	26.8	10.8	0.4	6.3
1972-73	6.5	5.3	29.3	5.8	10.9	12.6	3.3	5.2	6.6
1973-74	-12.0	6.1	15.0	10.2	12.8	-1.5	10.2	10.4	10.4
1974-75	-22.3	8.1	-4.1	11.3	17.1	18.0	10.1	12.8	8.0
1975-76	-1.7	-3.6	-17.4	11.9	6.2	20.7	9.7	7.2	9.3
1976-77	-2.7	7.8	-9.5	4.3	7.2	24.4	12.3	4.3	6.8
1977-78	-3.2	6.3	1.6	4.9	5.0	11.0	7.3	0.2	2.9
1978-79	10.6	3.7	7.9	5.1	12.2	-9.7	-4.4	-5.3	-0.3
1979-80	-7.8	2.9	1.6	3.8	3.8	-15.3	-0.5	-15.5	2.2
Average									
1958-80	-0.02	5.3	3.9	7.0	10.7	5.5	5.5	4.7	7.7
Standard Deviation	7.7	4.8	17.8	4.4	5.3	12.0	6.0	8.0	4.6
% of GDP in 1980	16.5	8.7	0.4	16.5	1.7	8.3	14.6	11.8	38.0

SOURCES: Banco Central de Venezuela, *La Economía Venezolana en los Últimos Treinta Años*; Banco Central de Venezuela, *Informe Económico*, 1980 and previous years.

of GDP from 1958 to 1973. Despite relatively rapid growth in the manufacturing sector from 1958 to 1980, it still accounted for only 16.5 percent of GDP in 1980. Between 15 and 20 percent of the employed labor force had jobs in the sector, as compared to the approximately 1 percent in the petroleum sector.¹⁰ While the petroleum sector was almost

10. Oficina Central de Estadística e Informática, *Encuesta de Hogares por Muestreo* (Caracas: First Semester of 1977), pp. 40-45.

completely state-owned and managed after 1975,¹¹ albeit through the nationalized subsidiaries of multinational oil firms, the manufacturing sector had a mixture of firms ranging from completely state-run to wholly private concerns. Foreign investors dominated some branches of manufacturing, but most were predominantly national. Since the manufacturing sector was seen as the main hope for the Venezuelan economy in the petroleum-scarce future, the state promoted both private and public investments in manufacturing, especially after 1973, and sometimes at the expense of other sectors, including agriculture.¹²

Agriculture in Venezuela grew at the respectable rate of 5.3 percent per annum from 1958 to 1980. But Venezuelan agricultural production was subject to wide fluctuations; torrential rains resulted in massive crop failures in 1975-76, for example. The agricultural sector employed 18 percent of the employed working force in 1977¹³ and accounted for between 6 and 7 percent of GDP. Rural population declined rapidly and steadily. In 1950, 46 percent of the population lived in rural areas; by 1976, only 17.4 percent lived in rural areas.¹⁴ There was a tendency for the size of landholdings to increase. In 1961, 49 percent of all farms had an area of less than five hectares; in 1971, only 37.8 percent had less than five hectares.¹⁵ The productivity of agriculture in terms of per capita output increased substantially, yet agricultural productivity was lower in strictly monetary terms than any other sector of the economy.¹⁶

Venezuelan agriculture was oriented primarily toward the domestic market. Bananas, beans, corn, rice, yucca,

11. Franklin Tugwell, "Venezuela's Oil Nationalization: The Politics of Alternation," in Bond, ed., *Contemporary Venezuela*.

12. Instituto Nacional de Nutrición, *Consideraciones Sobre la Situación Nutricional Venezuela* (Caracas: February 1978), pp. 15-19.

13. *Ibid.*, p. 1.

14. *Ibid.*

15. Julio Paez Celis, "Aspectos Democráticos del Marginalismo en Venezuela," *Estadística Venezolana* (January 1978), no. 11, p. 54.

16. This statement is based on the author's calculations of output per capita in different sectors of the economy.

fruit, cotton, and sesame accounted for over 80 percent of the area of land under cultivation. Coffee was the main agricultural export crop, but only 15 percent of the area under cultivation was devoted to coffee in 1976.¹⁷ A great increase in the domestic demand for food was one of the results of the increases in purchasing power made possible by the increases in petroleum revenues in 1973–74. This combined with crop failures in 1975 produced a rapid rise in imports of agricultural products from 211 million dollars in 1973 to 560 million in 1976.¹⁸ Agricultural imports included raw materials for agricultural production, such as fertilizers and cattle feed, as well as unprocessed food products. The imports of processed food rose as high as 814 million dollars in 1976, or around 9 percent of total export revenues.¹⁹ In general, the agricultural sector did not develop as rapidly or as smoothly as the Venezuelan government desired.

To summarize, agriculture was one of the least dynamic sectors of the Venezuelan economy; manufacturing, along with utilities and services, was the most dynamic. Venezuela was being transformed gradually into an industrialized country, but there were some aspects of petroleum-based industrialization which were not present in other industrializing countries: 1) the economy was still dominated by petroleum (although to a lesser degree than before); 2) the proportion of the GDP and of the work force in the tertiary sectors was larger than normal in the early stages of industrialization; and 3) agriculture was unable to expand production rapidly enough to meet the increased food demand which resulted from the increases in petroleum revenues after 1973.

17. Banco Central de Venezuela, *Informe Económico 1976* (Caracas: 1976), p. A154.

18. Federación Venezolana de Cámaras y Asociaciones de Comercio y Producción (FEDECAMARAS), *XXXIII Asamblea Naul, Informe Final* (Caracas: 1977), p. 442.

19. *Latin America Special Report, Venezuela* (London: Latin American Newsletters, January 1978), p. 10.

External Constraints: Trade and the Balance of Payments

The main question raised by any account of the external sector of the Venezuelan economy is whether this sector imposed a constraint on development. The external sector had been a major constraining factor in the past. When Venezuela was still a coffee-exporting country, its growth was highly constrained by the growth of demand for that product. Indeed, much of the legacy of poverty in Venezuela stems from its earlier status as an agricultural exporter. Even during the period after the restoration of electoral government in 1958, when Venezuela was the largest exporter of crude petroleum in the world, the diversion of exploration and production by the multinational oil companies away from Venezuela and toward the Middle East created difficulties for the pursuit of even a relatively limited import substitution policy.

The value of Venezuelan exports took a large jump in 1973 and 1974 after a long period of stagnation, due to the increase in petroleum prices. Export receipts dropped again in 1975 when world demand for petroleum declined and the need to conserve Venezuela's limited reserves imposed a cutback in production. Despite its temporary nature, the surge in export revenues produced by the 1973 price increases was sufficient to produce a seven-billion-dollar trade surplus in 1974. By 1977 the trade surplus had been whittled away by rising imports to less than 1.5 billion dollars. There was a trade deficit in 1978. The price increases of 1978–79 restored the surplus once again. The speed with which a massive surplus was turned into a deficit was disconcerting to many Venezuelans. Nevertheless, by 1976 Venezuela had accumulated over nine billion dollars in international reserves, which made it feasible to begin to borrow money at favorable rates on international financial markets. External debt, helped along considerably by massive government spending prior to the election campaign of 1978, increased rapidly from 1975 on.

Exports were dominated, of course, by petroleum. The second largest source of export revenues was iron ore, followed by coffee and aluminum. The United States was Venezuela's largest export market. There was a rapid increase in nontraditional exports, but Venezuela was by no means an "export platform." The wages of Venezuelan workers, while low in terms of developed-country standards, were high relative to countries which chose to export goods produced with labor-intensive technologies. Venezuela expected eventually to become an exporter of high-grade metal products (even such sophisticated products as six-cylinder automobile engines), but that remained a distant prospect.²⁰

Imports of raw materials, food, consumer durables, capital goods, and machinery accounted for most of Venezuela's imports. While food imports increased rapidly after 1973, raw material and machinery imports increased even faster. The attempt to build up basic industries and heavier manufacturing industries resulted in unprecedented levels of imports of capital goods which would diminish in the next few years.

The main constraint imposed by the external sector on Venezuelan development between 1958 and the present was the need to gear programs to the projected level of petroleum-export revenues. Venezuela did not face the usual problems of trade and balance-of-payments deficits and high ratios of debt-servicing to exports. Its constraints were more relative than absolute: that is, some years were better than others but none were disastrous.

The external sector may become a greater constraint in the future, however, if Venezuelan petroleum revenues begin to diminish at a faster rate than projected, because there are relatively few export products which can replace petroleum as major sources of income. Aluminum and steel

20. Fernando Coronil and Julie Skurski, "Reproducing Dependency: Auto Industry Policy and Petrodollar Circulation in Venezuela," *International Organization* (Winter 1982), 36:61-94.

products from Venezuela will have to compete on the world market with the products of highly industrialized countries as well as those of the low-wage industrializing countries. Perhaps Venezuela will have an edge because of the relatively lower cost of its raw materials and its proximity to major markets. If not, Venezuela will surely confront a balance-of-payments constraint on its future industrial development. Such external constraints could lead some future Venezuelan government to alter the current policy of keeping Venezuela relatively open to the international economy while industrializing.

The Dominant Role of the State in the Economy

The strength of the Venezuelan state was enhanced considerably by the oil-price increase of 1973. The jump in revenues made it possible for the government to carry out internationally accepted nationalizations of the iron ore industry in 1974 and the petroleum industry in 1975. The state accounted for 40.7 percent of the GDP in 1977.²¹ The largest state firms were in petroleum (Petroven), iron ore (Ferrominera), steel (SIDOR), and the public utilities (Edelca and Cadafe). The Corporacion Venezolana de Guayana (CVG) had extensive powers over a variety of projects in the Guayana region, including joint ventures in bauxite mining and aluminum (Venalum and Alcasa), as well as the existing plants for steel production and hydroelectric power. By the end of the 1970s, there were over 300 firms or agencies in various sectors of the economy which were partially or wholly controlled by the state.²²

The size of public investments could be gauged from

21. Banco Central de Venezuela, *Informe Economico 1977* (Caracas: 1977), p. 241.

22. Charles Taylor and Michael Hudson, *World Handbook of Political and Social Indicators*, 2d ed. (New Haven: Yale University Press, 1972), p. 11. The Venezuelan newsweekly *Resumen* (August 9, 1977), contains an incomplete list of enterprises over which the state has at least partial control. This list comes from a study done by the planning ministry in conjunction with a United Nations team.

TABLE 4.3: Estimated Investments in Major Projects, 1976–1980

Title	Nature of Project	Investments (\$ billion)
SIDOR Plan IV	steel in Guayana	3.53
Venalum	aluminum	.60
Interalumina	aluminum	.56
IV Petroquímica	petrochemicals	.70
Zulia coal	coal mining	.07
Zulia steel	steel in Zulia	.51
Edeka	hydroelectric	1.91
Cadafé	utilities	2.21
Ferrovialario	railroads	2.33
Caracas metro	rapid transit	.51
	communications	2.40
	infrastructure	5.72
	others	3.21
Total		24.26

SOURCE: *V Plan de la Nación*, published in *Gaceta Oficial* (March 11, 1976), no. 1860. Recent studies suggest that the estimates are too low, especially for petrochemicals, Zulia steel, and the Caracas metro.

the estimates of the Fifth Plan of the Nation of the total projected outlays for various projects over the 1976–80 period (see table 4.3). While the plan projected a total outlay of around 24 billion dollars over a five-year period, more recent estimates put the figure at about 37 billion, assuming that all the projects would be carried out. The statistics on government expenditures showed that the percentage of government expenditures allocated to capital investments increased from 31 percent in 1973 to 56 percent in 1974. While the percentage of government expenditures allocated to capital investment declined to 35 percent again in 1977, it must be remembered that this was 35 percent of a much higher absolute expenditure.

The percentage of national income going for remuneration of capital (as opposed to labor) increased from 55 percent in 1973 to 64 percent in 1974. Most of the increase was the result of higher levels of state investment. In 1975, the level of gross fixed-capital formation was 46 percent

higher than in the previous year, the largest increase in fixed capital during the entire period. The ratio of fixed capital to GDP was 31 percent in 1976, comparable to the level of fixed investment in Japan in 1965.²³

The strategy behind state investments was clearly to limit state control to "basic" industries, such as petroleum, petrochemicals, iron and steel, and aluminum, and to industrial infrastructure, particularly electrical-power production. While some of these industries were supposed to produce goods for direct consumption or export, most were to provide inputs to domestic private enterprises. The metal-producing industries were particularly important in this regard. Steel was to be used in further exploitation of Venezuela's petroleum reserves, as well as in construction, automobiles, and railroads. Aluminum was to be used primarily in automobile production, especially in the production of lighter engines for fuel-efficient cars. The petrochemical industry had been remarkable for its inefficiency prior to 1973, and no major change occurred during the period studied here. Nevertheless, the goal for the state-controlled petrochemical industry, like that for steel and aluminum, was to provide inputs to domestic private industries at a cost which would make those industries internationally competitive.²⁴

It is too early to evaluate the success of this strategy of state investments. The worldwide steel and aluminum industries are both suffering from overcapacity in the global recession which followed the 1979 oil price increases. New steel and aluminum capacity came on line only in the early 1980s. The true test of the success of the strategy will come when domestic and international demand for these metals and their by-products picks up again. Some cautious observations about the Venezuelan strategy can be made, however.

23. Taylor and Hudson, *World Handbook*, p. 341.

24. Michael Rediske, "State Policy and Industrial Development in Venezuela since 1974," discussion paper, University of Konstanz, F.R. Germany, Department of Political Science, 1978.

One important fault in the approach may be its reliance on the private entrepreneurs in Venezuela to capitalize on the lower input costs to produce internationally competitive goods. The structure of domestic private enterprise in Venezuela is strongly oligopolistic, with a small number of industrial groups dominating production in most products.²⁵ In a few industries, such as automobiles, markets are dominated by foreign multinationals which may or may not decide to increase production in Venezuela. In any case, the strategy depends on the ability of state-controlled basic industries to deliver industrial inputs at low cost, which in turn depends on the ability of the state to assure competent management and to limit wage increases in those industries. The pressure on state enterprises to increase profits may mitigate against delivering low-cost inputs to downstream private entrepreneurs.²⁶

The state gambled on the future of aluminum and steel, and related industries, in its largest investments after 1973. The size of this gamble was such that if future leaders of the country wished to reorient radically the direction of state investments, they would have to face the writing off of very large sunken costs. They would also risk alienating the private interests which grew up around the new manufacturing industries. In this sense, the pattern of large-scale capital investments of the years after 1973 placed important constraints on the actions of future governments. Nevertheless, the state had become a central actor in the Venezuelan economy and was likely to remain so for a long time to come.

25. Meir Merhav, "El Informe Merhav (The Merhav Report)," *Resumen* (in several parts beginning on September 21, 1980). The report was done originally for the government but was not made public until published in *Resumen* because of its highly critical tone. The part which deals with the oligopolistic and concentrated nature of industrial structure begins on p. 22 of the October 5, 1980, issue.

26. Cf. Rediske, "State Policy and Industrial Development."

Summary

Despite the numerous problems mentioned above, the Venezuelan economy is in a vigorous phase of expansion. Industrialization is advancing, although perhaps not as rapidly as hoped, on a sound base of higher levels of capital investment and relatively inexpensive local inputs. There are potential problems in the tendency toward stagnating exports and higher imports, a weak agricultural sector, inflation, and increasing levels of external debt. Unless there are major external shocks, however, these problems are likely to remain potential rather than actual for the next ten years or so. It is impossible to determine from the macroeconomic data alone, however, whether the dynamic growth of the past twenty years translated into better or worse conditions for the majority of the population of Venezuela. In the next section the available information on that question will be examined.

BASIC HUMAN NEEDS

One would expect with the strides made in the macroeconomic performance of the Venezuelan economy that there would be a marked improvement in the living conditions of the majority of Venezuelans. Unfortunately, this does not appear to be the case. While in most respects the majority of Venezuelans are at least as well off as they were prior to 1973, the improvements in the condition of the least well-off have been very modest. In a few key areas, conditions have actually deteriorated. This has occurred despite increased state involvement in the delivery of services to low-income groups.

The historical legacy of poverty in Venezuela is a deep one. Malnutrition, illiteracy, poor housing and healthcare, and an extremely skewed income distribution have their

origins in the plantation economy of the colonial era. The shift to petroleum as the major export good in the 1920s and 1930s has created a larger middle-income group and reduced the size of the marginalized sector. There is still a long way to go, however, before Venezuela comes to resemble the richer industrialized countries in the living conditions available to the poorest inhabitants.

What is the evidence concerning improvement in the standard of living for Venezuelans since 1958, especially those with the lowest income levels? The discussion will be organized in the following order: 1) food and nutrition, 2) health, 3) housing, 4) education, and 5) employment. The first three subjects may be considered to refer to "core" basic needs, needs which if not fulfilled can kill or physically harm the person. The next two subjects are also basic needs, in the sense that individuals living in industrializing capitalist economies cannot assure for themselves the fulfillment of core needs on a sustainable basis without them. Changes in the distribution of income and wealth will be discussed, and a review of government policies designed to deal with problems in basic needs provision will be given.²⁷

Food and Nutrition

Malnutrition in Venezuela is a major problem primarily for small children and infants of low-income families. The main nutritional problem is an insufficient daily intake of calories

27. Throughout this section, I will be referring frequently to a book published by Michel Chossudovsky entitled *La Miseria en Venezuela* (Valencia, Venezuela: Vadell Hermanos, 1977). Chossudovsky is a Chilean sociologist who was commissioned by the planning ministry, CORDIPLAN, to conduct a study of socio-economic conditions among poor people. There he wrote a report which was too controversial for publication as a CORDIPLAN document, so it was published independently as a book. Needless to say, Chossudovsky was very critical of the policies of the Venezuelan government. Although some of his statistics are now out of date, his information, from a wide variety of sources, is more extensive than any previous author on this subject has assembled. "The Merhav Report" updated some of Chossudovsky's statistics and will also be cited frequently below.

(protein intake is less of a problem). The primary determinant of malnutrition seems to be family income. As income decreases, the gap between actual consumption and minimum requirements increases. Nevertheless, there is some evidence that educational programs can have a positive effective on nutrition among low-income groups.

Various studies suggest that about half the children less than five years old suffer from some form of malnutrition; about 1 percent have severe forms and 10–15 percent moderate forms of malnutrition.²⁸ The frequency of malnutrition stays about the same for elementary school children, but begins to decrease as children reach adolescence. The mortality rate for children less than five years old where death is attributed to malnutrition remained approximately constant from 1946 to 1976.²⁹ Malnutrition is a major cause of high death rates among small children, suggesting that prenatal nutritional programs are needed to attack this problem. Such a program was initiated in the late 1970s by the Perez government. Severe malnutrition results in mental retardation, affects the physical size of children, and reduces the ability of the individual to be physically active. Some employers complain that a large proportion of their workers suffer from malnutrition.³⁰

Thus, it can be concluded that while Venezuelans are probably better off on the whole in the 1970s than they were in previous decades, the needs of the society have changed in such a way as to focus more attention on the problem of malnutrition. In order to pursue the goal of industrial deepening, it will be necessary to make greater progress in eliminating malnutrition, if only to assure the productivity of the labor force.

28. Merhav, "Merhav Report," *Resumen*, September 21, 1980, p. 18, gives higher estimates of the incidence of malnutrition among small children based on physiological data.

29. FEDECAMARAS, *XXXIII Asamblea*, table 13.

30. Merhav, "Merhav Report," *Resumen*, September 21, 1980, p. 19.

Health

Health problems are highly related to nutrition in Venezuela because of the connection between infant mortality and malnutrition. In terms of adult health problems, Venezuela resembles developed countries more than other developing countries in the relative frequency of traffic accidents, heart attacks, and so on in the list of primary causes of death. Nevertheless, there are severe inequities in the delivery of health-care services to the Venezuelan population. Predictably, the lowest-income groups receive the least care; quantity and quality improves as one goes up the income ladder.

Private care is beyond the means of the majority of the population. Working-class families and middle-class families can subscribe to the Venezuelan Institute for Social Security (IVSS). The number of subscribers has increased rapidly since 1968, and especially since 1973.³¹ Those who are not covered by this system depend on the services of the Ministry of Health and Social Aid. Only between 5 and 8 percent of the population can afford private medical care, and only about 25 percent are covered by the IVSS.³² This leaves around two-thirds of the population dependent on the Ministry of Health. The facilities of the Ministry of Health are notoriously deficient in terms of number of medical personnel, hospital beds, medicines, and equipment. Despite the rapid rate of population growth in Venezuela, the number of public hospital beds has remained almost constant since 1958. When new hospitals are constructed, rooms are too expensive for middle- or lower-income groups. A large number of small private clinics, with adequate staff and facilities, have been built in recent years. Doctors usually shirk their practices in public hospitals in favor of highly remunerative private practices.³³

In rural areas and in urban settlements, health care is very inadequate. Here the main problem is one of getting

31. Ministerio del Trabajo, *Memoria y Cuenta 1977*, ch. 5, p. 8.

32. *Ibid.*

33. See Chossudovsky, *La Miseria*, ch. 4.

health facilities located near the areas of greatest need. There also seems to be a tendency toward overspecialization. In 1970, for example, of the 2920 doctors employed in IVSS, only 776 were general practitioners while 2144 were specialists.³⁴ Despite these very difficult problems of health-care delivery, indicators of infant mortality and life expectancy showed modest gains during the years since 1958. Thus, while health care has improved for most Venezuelans over the past few decades, there is considerable room for improvement in health care for the impoverished.

Housing

One-third of the population of Venezuela lives in urban settlements called *barríos marginales* (marginal districts). The modal form of housing in these districts is the *ranchito*, the Venezuelan word for a very simple dwelling, originally made of cardboard, corrugated iron, wood, or whatever, but now increasingly made of bricks or cinder blocks with metal instead of straw roofs. According to the official statistics, the percentage of dwellings which are classified as *ranchitos* declined from 60.9 percent in 1941 to 22.1 percent in 1976. The number of units with straw roofs, earth floors, and no electricity, running water, or toilet has decreased markedly over the same period.³⁵ Nevertheless, there still remains a core of very poor urban settlements in every metropolitan area.

There are two polar types of urban settlements: those with improved *ranchitos* located on stable soils and those with recently and poorly constructed *ranchitos* placed precariously on unstable soils in the most unfavorable locations. About a quarter of the dwellings in poorest urban settlements in Venezuela fall in the latter category. There are fewer of them in provincial cities than in Caracas.³⁶

34. *Ibid.*, p. 114.

35. See Paez Celis, in Bond, ed., *Contemporary Venezuela*, p. 70.

36. Fundación para el Desarrollo de la Comunidad y Fomento Municipal (FUNDACOMUN), *La Vivienda en las Áreas Marginales Urbanas* (Caracas: June 1978), p. 11.

The people who live in the poorest urban settlements are people who migrated from the rural interior of the country in the hope of finding better economic opportunities. There has been a "push" factor in the declining returns to farming of certain export crops like beef and coffee. Population pressures in rural areas also make urban migration more attractive. In general, Venezuelan agriculture has become more capital-intensive and landholdings have increased in average size. Whether this is the cause or the result of massive urban migration is not clear, but the result is that the percentage of population living in towns of 1000 or more increased from 39 percent in 1941 to 76 percent in 1971.³⁷

In recent years, illegal immigrants from neighboring countries like Colombia and Trinidad have come to occupy some of the newer and less-desirable settlements. There already is a "ghetto-like" flavor to some of these settlements. Their inhabitants suffer from high rates of unemployment, illiteracy, crime, mortality, illegitimacy, malnutrition, and all the other ills of urban poverty. High rates of inflation in housing prices after 1973, especially in urban centers, have been particularly costly to the poorest. It is not unknown for the most primitive *ranchos* to be sold for thousands of dollars.

Even though housing conditions appear to have improved somewhat for the poorest people in Venezuela, relatively permanent pockets of urban poverty are developing in all of Venezuela's major cities. The inhabitants of these districts are "marginal" in both the economic and the political sense. Urban marginalization in Venezuela is more a consequence of the inability of the existing economic system more rapidly to reverse the legacy of extreme poverty inherited from the prepetroleum past, than of a progressive deterioration in preexisting conditions. A more important

37. Oficina Central de Estadística e Informática, *Encuesta*, p. 40-45.

form of marginalization is taking place in the educational system.

Education

The most severe problems for Venezuela in the area of basic needs exist in the area of education. While the rate of illiteracy decreased markedly from 49 percent in 1950 to under 20 percent in 1977,³⁸ the Venezuelan population remained largely undereducated, given its requirements for skilled or semi-skilled workers. Of the literate population in 1975, more than half had attended only primary school.³⁹ Many became literate only after they left school. There was a serious shortage of teachers at all levels. Vocational and technical schools were understaffed and used outdated curricula. Colleges and universities tended to underproduce in the managerial, technical, and scientific fields (with the possible exception of petroleum engineering).

In 1975, 56.1 percent of the population were under twenty years of age. The medium age was seventeen. The age structure of Venezuela was highly skewed toward youth. Recent baby booms exacerbated this situation, creating heavy demands for expansion of primary and secondary schools. Despite increased demand, the percentage of school-age children who entered preschools or primary schools increased from 62.3 percent in 1973 to 70.5 percent in 1976.⁴⁰ The figures were slightly higher for urban areas and much lower for rural areas. Only half of the students who entered primary school were promoted to the sixth grade in the normal period of time. Dropout rates were highest in the primary schools and decreased as students progressed to secondary and university levels. As in other countries, the structure of school attendance was linked with

38. Paez Celis, p. 32.

39. *Ibid.*, p. 33.

40. Banco Central de Venezuela, *Informe Económico 1976*, p. A217.

the distribution of income and wealth. The level of education of individuals in Venezuela not only affected wages and income levels, but also the likelihood of employment.

In sum, the poorest Venezuelans are only marginally better off than they have been in previous decades. They face an educational system which, for the most part, has no room for them. The rigidity of the educational structure is likely to be a major impediment to the industrial-deepening strategy, as it guarantees a shortage of skilled workers. By limiting social mobility, it also serves to protect the less-than-perfectly competitive nature of private enterprise in Venezuela.

Employment

The statistics on employment and unemployment, unreliable as they may be for certain periods, indicate that Venezuela suffered very high levels of unemployment during the recessions of the 1960s but was able to reduce the level of unemployment rapidly after 1973. The rate of unemployment was around 5 percent in 1977,⁴¹ giving rise to the claim on the part of the incumbent party that the government had attained "full employment." There was still a high level of "underemployment" in the Venezuelan economy, however, at least in the sense that a large proportion of the working force (around 20 percent) earned less than the legally mandated minimum wage.

Rural employment decreased steadily over this period. Employment in petroleum, mining, and utilities also decreased, but at a slower rate than in agriculture. The major

41. Statistics on employment and unemployment can be found in the following sources: Banco Central de Venezuela, *La Economía Venezolana en los Últimos Treinta Años*; Oficina Central de Estadística e Informática, *Encuesta de Hogares por Muestreo*; International Labour Organization, *Yearbook of Labour Statistics*; and Banco Central de Venezuela, *Informe Económico*. Recent estimates of unemployment depend on calculations by the author of unemployment based on estimates of the size of the labor force (x), the number of people employed (y), and the formula for the unemployment rate: $100(1 - y/x)$.

sources of dynamism in employment were the manufacturing, construction, and transportation sectors. After 1973 there was a rapid increase in employment in the iron and steel industry. The service sectors expanded more rapidly than all the others, however, which raised questions about the sustainability of low unemployment rates in the face of declining oil revenues. A number of the industries which accounted for the rapid rise in employment in recent years (e.g., textiles, shoes, metalworking, and printing) experienced high rates of turnover in their labor forces.

There is no question that most Venezuelans are better off now than they were in previous decades in terms of opportunities for employment. However, problems in nutrition and education mean that the jobs available to Venezuelans are not as well paying as they might have been had there been a better fed and educated labor force.

The Distribution of Income

Although there are several competent studies of income distribution in Venezuela, most do not address the question of whether the post-1973 petrodollar bonanza and/or government policies have reduced income inequalities. They do indicate, however, that the distribution of income in Venezuela is very unequal. The World Bank reported that the wealthiest 10 percent of the households in Venezuela earned 41.2 percent of the total income in 1962, while the wealthiest 10 percent of the economically active population earned 51.2 percent of total income in 1971. On the basis of this, and three other surveys, the World Bank concluded that inequality increased between 1962 and 1971.⁴² Eva Josko de Gueron, in a study of regional inequality found no change or a decrease in inequality in the distribution of income

42. Shail Jain, *Size Distribution of Income* (Washington, D.C.: World Bank, 1975), p. 118; Lourdes Urdaneta, *Distribución del Ingreso: Análisis del Caso Venezolano* (Caracas: Banco Central, 1977), p. 337. Urdaneta found some evidence for a decline in inequality.

across regions; but within regions, rural/urban inequality increased markedly.⁴³ After 1974 the degree of sectorial inequality decreased as other economic sectors caught up with petroleum.⁴⁴

Recent statistics on the monthly income levels of non-agricultural workers, collected in a semi-annual survey, showed that increases in the real incomes of the poorest employed people had increased since 1974.⁴⁵ Nevertheless, despite these increases, it has been estimated that as many as two thirds of the labor force do not earn enough to pay for a diet which would meet minimal nutritional standards.⁴⁶ Thus, Venezuelans are probably not much better off in terms of income distribution than they were before the oil price increases.

The State and Basic Needs

Between 1958 and 1978, but especially after 1973, the Venezuelan government adopted a number of measures which were designed to supplement large-scale, capital-intensive industrialization in meeting the basic needs of the population: 1) an ambitious land-reform program, 2) subsidies for consumers and price guarantees for producers of basic food items, 3) special subsidized-low-interest loans for small and medium-size industries, 4) New methods for delivering governmental services to poor people in "marginal districts," and 5) a scholarship program to increase the supply of skilled personnel through attendance of foreign universities.

Soon after the elections in 1958, a land-reform program was adopted. The land reform of the Betancourt administration was partly a way of paying back the peasants who had supported the AD party in the 1958 elections. But it was

43. Personal communication.

44. Calculations based on Central Bank statistics.

45. Oficina Central de Estadística e Informática, *Encuesta de Hogares por Muestreo*, various volumes (1975 through 1977).

46. Merhav, "Merhav Report," *Resumen*, September 21, 1980, p. 21.

also a response to the urgent need to deal with rural-urban migration and rapidly rising imports of food. Prior to 1958 the ownership of land was highly concentrated in large landholdings. Nearly 80 percent of the land was accounted for by approximately 5,000 large landholdings.

Agrarian reform, it was hoped, would keep more *campesinos* (peasants) back on the farm where they could at least be producing food for themselves rather than merely consuming . . . a basic principle of the reform was that productive agricultural units would generally not be affected.⁴⁷

In order to accomplish these aims, the government distributed public lands and lands which were owned privately but had not been under cultivation. Even though about 140,000 families eventually received small plots of land, another 300,000 families or more might have benefited from land ownership. Title to the land distributed was withheld in many cases, leaving the new owners in a precarious legal position. Given the quality of land distributed, the size of the holdings, the absence of technical aid or adequate finances, it could be argued that the land reform increased the duality of the agricultural sector. Still, at great expense to the public treasury, a large number of *campesinos* were better off than they had been before 1958.

Under the Agricultural Debt Relief Law of 1974, farmers were exonerated of all debts owed to government agencies. Private debts were consolidated through state loans at 3 percent interest with up to 30 years to pay. A tax reform decree issued in 1974 exempted farmers and food processors from all income taxes. Banks were freed from paying taxes on profits from low-interest loans to the agricultural inputs, and placed price controls on raw materials needed for farming. The Agriculture-Livestock Credit Institute (ICAP) and the Agricultural Development Bank (BANDAGRO) ad-

47. Howard Handelman, *Scarcity Amidst Plenty: Food Problems in Oil-Rich Venezuela*, Report No. 42 (Hanover, N.H.: American University Field Staff, 1978), p. 3.

ministered a special fund created by the president in June 1974. ICAP made loans to small and medium-sized farmers, BANDAGRO to large landowners. Both offered loans at substantially lower rates than commercial banks, but ICAP rates were lower than BANDAGRO's.⁴⁸

In 1973 the government established an agricultural marketing corporation (called CORPOMERCADEO) in order to set minimum prices for agricultural producers while at the same time selling food products at fixed prices on the retail market. Thus, CORPOMERCADEO was designed to guarantee a high level of return to farmers at the same time as it subsidized the food consumption of poorer urban dwellers. When domestic producers could not produce enough to meet demand, CORPOMERCADEO was authorized to purchase the necessary items abroad. A major portion of CORPOMERCADEO's budget for food subsidies in 1979 (71 percent of 181 million dollars) went for the purchase of milk products on international markets used in a special program to reduce malnutrition in newborns and young children. The total budget of CORPOMERCADEO was over \$1200 million in 1978, having approximately doubled every year since 1974.⁴⁹

The Corporation for the Development of Small and Medium-Sized Industry (CORPOINDUSTRIA) loaned funds at low interest rates to a variety of smaller businesses. In 1977 CORPOINDUSTRIA made over two thousand loans to small businessmen, mostly artisans, totaling only 6.3 million dollars. Loans to small manufacturing concerns totaled 125 million dollars.⁵⁰ These loans, although quite small compared to those made by giant public financial organizations like the Central Bank, the Venezuelan Industrial Bank, and the Venezuelan Investment Fund, had a direct effect on the quality of life of some low-income Venezuelans. One exam-

48. *Ibid.*, pp. 7-8.

49. *Ibid.*, p. 9.

50. Banco Central de Venezuela, *Informe Economico 1977* (Caracas: 1977), p. 201.

ple is the rapid increase in the number of owner-operated minibuses (called *por puestos*) which carry around approximately fifteen people on assigned routes for a fixed price of one bolivar (22 cents) per person. CORPOINDUSTRIA also helped to finance a number of new firms in the machining and metalworking industries.

One of the ironies of the attempt to subsidize food consumption was that poor people often had to ride a bus for many miles to reach one of the markets set up by CORPOMERCADEO. As a consequence, some of the poorest people in Venezuela had to rely on corner grocery stores to supply them with food at higher prices than those paid by the wealthy in their fancy supermarkets. The Perez administration established the Foundation for the Development of the Community and for Municipal Promotion (FUNDACOMUN) in 1974 to improve the delivery of essential services to the urban settlements.⁵¹ The main channel for this was the *modulo de servicio* (service module). Around 1800 service modules were to be placed in urban districts of approximately 40,000 inhabitants. Each module was to provide the following services: 1) health and social assistance; 2) markets for basic food items; 3) police protection; 4) day-care centers; 5) preschools; 6) libraries; 7) cultural and recreational activities; and 8) technical assistance for those wishing to establish small businesses. The government placed a high priority on the program, as indicated in budgeting and staffing. In the first year of its operation, FUNDACOMUN spent around 90 million dollars on the *modulos*. The director of FUNDACOMUN until 1978 was Sonia Perez Rodriguez, daughter of the President.⁵²

51. The legal basis for FUNDACOMUN was established by a presidential decree (No. 332) issued on August 13, 1974. The text of the decree can be found in the *Gaceta Oficial*, no. 30, p. 471. An instructive, number 29 of February 10, 1977, names FUNDACOMUN as the agency responsible for carrying out the tasks outlined in Decree No. 332 (see *Gaceta Oficial*, no. 31, p. 172). President Perez was widely criticized for the excessive use of presidential decrees.

52. FUNDACOMUN, *Los Modulos de Servicios: Un programa para los Asentamientos Marginales Urbanos* (Caracas: October 1977); interview materials.

To some extent, FUNDACOMUN was a bureaucrat's nightmare. Existing state agencies were supposed to provide services at the modules: e.g., the Ministry of Health was to provide health care, CORPOMERCADEO merchandise for the food stores, etc. It was not clear how FUNDACOMUN was going to handle the tricky jurisdictional problems raised by this arrangement or to coordinate the activities of all those disparate agencies. As of 1978, however, most of the modules only supplied police protection and day-care facilities. The best equipped modules tended predictably to be in districts where the governing party had the strongest support.

Besides the inevitable jurisdictional disputes and clientelism, FUNDACOMUN suffered from a more fundamental problem: the tendency of the Venezuelan government to adopt paternalistic patterns of interaction with poor people. Relatively little effort had been made to coordinate FUNDACOMUN programs with the local leadership and the citizens of the barrios. The prevailing image was one of extending the beneficent arm of the presidency (and the presidential party) into the barrios without undue interference from local leaders.⁵³

While the policies discussed above were clearly aimed at meeting the basic needs of Venezuelans, especially the marginalized population, some basic needs were being sadly neglected. After 1975, for example, the rate of construction of public housing units dropped considerably, despite an urgent need for more housing. The National Institute of Housing (INAVI) tended to build units for middle-class occupants rather than for lower-income families. In comparison with the housing program of a poorer country like Colombia, Venezuelan public housing policy was sorely lacking in a basic needs orientation.⁵⁴

After 1973 the Venezuelan government attempted to

53. Interview materials.

54. Howard Handelman, *High Rises and Shantytowns: Housing the Poor in Bogota and Caracas*, Report No. 9 (Hanover, N.H.: American Universities Field Staff, 1979).

deal with the problem of restricted access to higher education through the building of new colleges and universities within Venezuela and through a scholarship program for attendance at foreign universities (the Gran Mariscal de Ayacucho Program). The Gran Mariscal de Ayacucho Program had two main goals: (1) to increase the supply of skilled personnel, and (2) to reverse the pattern of privileged access to higher education.⁵⁵ In pursuing the second aim, the program was instructed to choose a certain proportion of students from lower- and middle-income groups, leading some Venezuelans to criticize it for not choosing the "best" students. It was not clear how the program would avoid the usual problems of brain drain, maldistribution of occupational training, and posteducational placement that plagued other developing countries' foreign scholarship programs. It was an indication, however, of rigidities in the Venezuelan educational system and social structure that the government was forced to resort to such a program to attack the problem of privileged access.

While overall there was an acceptance of the basic human-needs philosophy within important parts of the Venezuelan state, it tended to be a paternalistic version of that philosophy. The Venezuelan government gave a higher priority to large-scale, capital-intensive industrialization than to basic needs. The basic-needs programs it did support were grossly inadequate in two areas crucial to the continued industrialization of the country, housing and education. To explain why this was so the relations between the Venezuelan state and other major social actors need to be examined more closely.

Summary

The initial stages of industrialization in Venezuela produced hardships for the poorest people, as evidenced by the rapid

55. *La Fundación "Gran Mariscal de Ayacucho"* (Caracas: Ministerio de Educación, 1977), p. 241.

rate of migration to the cities and increases in unemployment during periods of industrial growth. The legacy of the past, in terms of high rates of illiteracy and income inequality, poor schools and unequal delivery of social services, created tremendous potential obstacles to the sustained economic development of the country. With the great influx of petroleum revenues after 1973, however, modest improvements in nutrition, health care, housing, employment opportunities, and incomes occurred. Educational opportunities remained severely restricted, however, and the sustainability of other social gains was still in question despite a major increase in government activities to provide basic needs. The question this raises, given the attenuation of external constraints on Venezuelan development, is: What were the domestic social and economic constraints which prevented the post-1973 petroleum gains from being translated more rapidly into improved welfare for the poorest Venezuelans?

VENEZUELA'S POLICY NETWORK

Since 1958, the Venezuelan political system has been predicated on the existence of a "policy network" in which the state and the private business sector dominate all other social groups. Because the party in power controls the state, the two parties which have been in power, Accion Democratica (AD) and the Christian Democratic party (COPEI), must also be included in a description of Venezuela's policy network. While peasants figured early in the rise of AD to electoral power, as did workers in the petroleum industry, the rest of the labor force plays only a minor role in party politics, and is therefore excluded from the dominant coalition. Further industrialization of the country will call this arrangement into question.

The Power of the State

It has already been demonstrated that the government and the semi-autonomous state enterprises account for a very large percentage of national production and investment. Since 1973 the state has become involved much more extensively in the provision of basic necessities as well. The main pillar of state power, beginning with the initial concessions of the 1920s and lasting at least until the enactment of a progressive income tax in the late 1970s, was its ability to control a portion of the revenues from petroleum exploitation. The state's power increased between the 1920s and 1973 because it was able to extract a larger share of those revenues, mainly through increased taxes. The activism of the Venezuelan state in helping to found and strengthen the Organization of Petroleum Exporting Countries (beginning in the early 1960s) paid off in 1973 when OPEC agreed to quadruple the price of petroleum on world markets. The nationalization of the petroleum industry in 1975 was a turning point. After that point, further increments in state power would have to come largely from measures taken outside the sphere of petroleum politics.

After 1973 the state pushed for a diversification of the economy and for a broadening of its own tax base through the passage of a progressive income tax for individuals and businesses. The urgency of this diversification was increased by the widespread perception of the beginning of the end of cheap extraction of petroleum from existing reserves. But it would have occurred anyway, given the elite consensus on the need to replace the petroleum economy with a more diversified industrial economy, or, as the slogan went, to "sow the petroleum."

The international political strategy that went along with this domestic program was one of strong advocacy of reforms in the international economic order. Venezuela, in the person of Manuel Perez Guerrero, was one of the most important leaders of the group of moderate countries in the

Group of 77 which were pushing for agreements on specific proposals: an integrated program for commodities; a common fund to finance commodity agreements; improved access to the markets of developed countries for the exports of developing countries; renegotiation and rescheduling of debt payments; less-expensive methods for transferring technology; and increased power of LDC-dominated institutions within the UN system (just to name the more important proposals).⁵⁶ Venezuela also pushed for changes in the regional and subregional trade regimes which would allow it to have access to larger markets in promoting its industrial exports.⁵⁷

Venezuela's position on these questions was conditioned by its desire to defend the favorable terms of trade in petroleum while making it possible to export nontraditional exports in the future. Since Venezuela is not a low-wage country, relative to the rest of the developing world, it had to base its strategy on the feasibility of converting low resource-costs into comparative advantages through heavy state investments in basic industries and utilities. That these investments were highly capital intensive and involved long payback times was inconvenient politically because it militated against rapid improvements in the living conditions of the poorest people. Nevertheless, given Venezuela's wage structure—another legacy of the petroleum era—its resource base, and its integration into the world economy, there were few alternatives to such a strategy.

The most curious aspect of the post-1973 strategy is the state's careful avoidance of direct involvement in the development of manufacturing industries that would benefit from the state's development of basic industries and utilities. To understand this choice, it is necessary to have a

56. See Jeffrey Hart, *The New International Economic Order* (New York: St. Martin's Press, 1983), chs. 2 and 4.

57. Robert D. Bond, *Business Associations and Interest Politics in Venezuela: The FEDECAMARAS and the Determination of National Economic Policies* (Ph.D. diss., Vanderbilt University, 1975).

better description of the role of private business in the Venezuelan policy network.

The Power of Business

While the power of the state grew, the power of domestic private business groups also increased. Foreign private firms were responsible for developing and managing the petroleum industry, the most important single industry in the country, from the 1920s until (and some would say after) the nationalization in 1975. The adoption of an import-substitution policy in 1958 led not only to the growth of a more diversified set of domestic businesses, but also to an influx of new foreign capital in manufacturing. Gradually, the balance of power in the business community shifted away from the foreign and traditional domestic firms to the more dynamic and nontraditional domestic manufacturing firms. Coincident with this shift in power within the business community was a greater tendency of the state to co-opt new business groups through the use of contracts and selective reductions of import duties.

The main organizational expression of private business interests in Venezuela is FEDECAMARAS (the Federation of Chambers of Commerce). This organization was founded in 1943, more out of the fear of an expanding state than by a perceived need to confront a growing labor movement.⁵⁸ FEDECAMARAS played a key role in opposing the AD-dominated experiment in democracy between 1945 and 1948, despite efforts to co-opt the business group on a variety of decision-making bodies, because the business community considered the AD party to be too radical and antibusiness. The lesson was learned, and when the military government of Perez Jimenez ended in 1958, the three main parties (AD, COPEI, and URD) agreed not only to govern by coalition, but to align with all domestic groups (including business and the military) whose support was needed to maintain a dem-

58. *Ibid.*, p. 60.

ocratic government and to adopt an import-substitution strategy for industrialization.⁵⁹

The political cost of the alignment with business and the military was the alienation of the left wing of AD and, along with the recession of the early 1960s, the encouragement of radical elements in Venezuela to emulate the Cuban revolution by forming small guerrilla groups. Although the guerrilla struggle persisted late into the 1960s, there was little prospect of a revolutionary takeover. Almost no major group in Venezuelan society (including the peasantry) had a stake in undermining the new regime. They correctly saw the alternative to be a return to military dictatorship.

Within FEDECAMARAS there was increased conflict between commercial and industrial interests over import substitution. The interests of the former dictated opposition to new tariff barriers, while the interests of the latter dictated strong support. The government attempted to increase support for import substitution by participating in the formation of *Asociación Pro-Venezuela*, an organization which included representatives of private business, the military, and the Church. *Pro-Venezuela*, while very influential with respect to government policies during the Betancourt administration, never replaced FEDECAMARAS as the main articulator of business interests. By the time of the election of a COPEI President in 1969, *Pro-Venezuela* was on the decline.⁶⁰

Governmental encouragement of import-substituting industries began to have an effect on industrial structure in the mid- and late 1960s. Industries with 100 or more employees increased from 196 in 1961 to 325 in 1966. Foreign investment accounted for 22 percent of total investment in manufacturing in 1966.⁶¹ Foreign investors tended

59. David Eugene Blank, *Politics in Venezuela* (Boston: Little, Brown, 1973), pp. 26–28; Daniel Levine, *Conflict and Political Change in Venezuela* (Princeton: Princeton University Press, 1973), pp. 43–49.

60. Bond, *Business Associations*, pp. 74 and 84–90.

61. *Ibid.*, p. 90.

to concentrate on dynamic and high-technology industries: petrochemicals, aluminum, automotive equipment, etc. Domestic investors maintained control of traditional industries as well as a growing number of more sophisticated ones, such as agricultural machinery and the metalworking industries. Manufacturing production was concentrated in a relatively small number of large firms: the 325 firms with 100 or more employees in 1966 accounted for 66 percent of production. The number of organizations designed to represent the interests of industrial firms increased sharply, as did the representation of these firms within FEDECAMARAS.

By the end of the 1960s, Venezuela was reaching the end of the easy phase of import-substituting industrialization. There was excess capacity in the consumer goods industries and an erosion of the dynamism of the early 1960s. Major industries tended to have an oligopolistic market structure. Some large private groups owned a very diversified set of concerns, which had two main effects: (1) it reduced the effective size of the Venezuelan entrepreneurial elite; and (2) it created incentives for greater unity across industries and sectors.⁶² With few exceptions, neither the price nor the quality of many Venezuelan products could compete with that of goods produced elsewhere.

Petroleum revenues declined in the mid-1960s because of reduced capital investments and competition from Middle East production. In 1966, the Leoni administration tried to counter the effects of the decline in petroleum revenues by increasing yet again the government's share of the profits from oil exploitation. Its error however was to combine this with an attempt to reform the income tax laws. The result, predictably, was an alliance between the foreign oil companies and FEDECAMARAS. FEDECAMARAS had not been completely independent of the oil firms previously. The oil companies contributed both funds and personnel to the or-

62. James A. Hanson, "Cycles of Economic Growth and Structural Changes Since 1950," in John Martz and David Myers, eds., *Venezuela: The Democratic Experience* (New York: Praeger, 1977), p. 76.

ganization from time to time. In 1966, however, a major campaign to publicize the concerns of business was financed jointly with unprecedentedly large contributions from the oil companies.⁶³

When the Leoni government negotiated a separate compromise agreement with the oil companies with respect to back taxes, the latter abandoned their opposition to the tax reform. Although FEDECAMARAS managed to get most of the concessions they wanted from the government, they naturally felt unhappy about the behavior of the oil companies in this matter. After 1966, FEDECAMARAS became much more the representative of nationalist business concerns and less an agent of foreign business interests.⁶⁴

The events of 1966 also underlined the importance of Venezuelan private business groups of maintaining a unified and confident stance in confrontations with the government. The next major conflict between business and state involved the adherence of Venezuela to the Andean Pact, a subregional integration accord which arose out of dissatisfaction with earlier regional integration schemes like LAFTA (the Latin American Free Trade Association). Because of the vulnerability of Venezuelan industry to increased trade with the relatively lower-wage and more efficient economies of the Andean Group, FEDECAMARAS took a strong position against adherence to the Pact as originally drafted. The Leoni administration, which began the debate in 1968, did not feel

63. Bond, *Business Associations*, pp. 187–89.

64. See Franklin Tugwell, *The Politics of Oil in Venezuela* (Stanford: Stanford University Press, 1975), pp. 86–95. Fred Jongkind has written a series of unpublished papers on the relative strength of foreign and national firms in the Venezuelan economy. See his "Venezuelan Industrial Development: Dependent or Autonomous?" (Amsterdam: Center for Latin American Research and Documentation, October 1978). Jongkind argues that national firms are strong relative to foreign firms in Venezuela, but his survey design does not allow one to gauge the importance or dynamism of national versus foreign firms. Some evidence that foreign firms use more modern management techniques can be found in his "Modern management methods in Venezuelan industry," paper presented to the workshop on Comparative Research on Organizations and Society in Brussels on March 13–15, 1978.

strong enough to push the issue prior to the elections of that year. The Caldera administration delayed action and then more or less adopted the FEDECAMARAS position on renegotiating the accord. The result was that the other Andean Pact countries rejected the Venezuelan application for membership. The Caldera administration was then roundly criticized by the opposition parties, led by AD, for being too closely associated with FEDECAMARAS. Caldera responded by attempting to generate broader political support for membership in the Andean Group. But in the end, when Venezuela finally joined in 1973, most of FEDECAMARAS' goals had been integrated into the government's program.⁶⁵

The victory of FEDECAMARAS in these two disputes was strong evidence of the independence and the strength of the private domestic business sector within the Venezuelan policy network. It was also evidence of the increasing power of manufacturing interests relative to that of commercial and agricultural interests within the business sector. Whereas FEDECAMARAS had initially opposed the entry of Venezuela into the Andean Group altogether, it came later to modify that stance by making entry conditional on protection of certain key industries. The more internationalist perspective of the major manufacturing interests within FEDECAMARAS prevailed over the more nationalistic perspective of commercial and agricultural interests.

After 1973, a number of important changes in the Venezuelan "policy network" followed the rapid rise in petroleum revenues. Although the state now had greater resources than ever before at its disposal, it became even more dependent on the good will of the private business sector than it had been previously. The parties remained dependent on business to provide the massive sums required to pursue a successful electoral campaign. The previous attempts to build up a domestic, and basically nationalistic, entrepreneurial sector had succeeded to such an

65. Bond, *Business Associations*, pp. 232–61.

extent that important economic policies could not be pursued without the approval of that sector. The inability of the government to obtain a relatively moderate income-tax reform without prior business approval, strong and effective business opposition to the price controls used by the government to combat growing inflation rates after 1973, and resistance to implementation of the Auto Policy Law of 1975 were all examples of the growing power of private domestic business.⁶⁶ The state attempted to create new levers of control over private business. The Perez administration used its powers to grant exemptions from import duties to specific firms to reward those entrepreneurs who supported it politically. The owners of firms in the metalworking industry and their bankers were especially favored in this way. The alliance between the state and this particular group of private businessmen was likely, given the latter's dependence on state policies with respect to the publicly owned basic metals industries.

Thus, the simultaneous growth of power of the state and domestic business created a situation of mutual dependence. This mutual dependence explains in part the post-1973 strategy of combining state control over basic industries and utilities with private domestic control over downstream industries. The state, while more powerful than it had ever been before, found itself in the late 1970s to be more dependent on the private business sector than it had been since the 1920s.

Labor: Excluded from the Network

In 1947 the government organized the Worker's Confederation of Venezuela (CTV), which remained the largest and most powerful labor organization in the country, despite its suppression during the 1948–58 dictatorship. It is worth noting that the state and the governing party were the main

66. Coronil and Skurski, "Reproducing Dependency."

forces behind the formation of the CTV. AD had gained strength among labor groups during the military dictatorships prior to 1945, especially in the oil fields of Maracaibo. In a way, the formation of the CTV was a way of giving greater cohesion and formal status to the already existing AD-oriented unions. It was also an attempt on the part of the state and AD to preempt independent labor organizations by continuing the semi-corporatistic modes of interaction with labor which had been adopted previously by the military regimes of Lopez Contreras and Medina Angarita.

A state which promoted a diversified economy in alliance with private business was likely to confront an increasingly strong and militant labor movement. There were several reasons why this should be so. First, and most obvious, a promoter state would be less likely to ally itself with state- or party-organized labor unions against private business in labor disputes, thus losing support for those unions among the rank and file.

Evidence that this had already begun to occur could be found in the speech by President Perez to the annual assembly of FEDECAMARAS in 1977:

Already we have observed how certain extremist radical sectors that do not obey any of the legalized parties are infiltrating themselves into the company unions, taking away the authority and importance of the Confederation of Venezuelan Workers (CTV) and giving it to the unions organized to provoke anarchical situations that create permanent conflict between capital and labor. The government fulfills its responsibilities by confronting this situation; the CTV by combating these anarchoid movements; the national business sector by satisfying the just requirements of the labor sector in Venezuela, in order thus to give strength to the democratic sindical movement.⁶⁷

One response of the government to the challenges of growing labor militancy was to seek new laws guaranteeing the rights of unions to engage in collective bargaining. The

67. FEDECAMARAS, *XXXIII Asamblea Anual*, p. 87.

number of contracts and workers affected by contracts increased dramatically over the 1958–76 period, but many strikes remained classified as illegal work stoppages. Another government policy aimed at fostering peaceful labor relations was the promulgation of new laws for minimum wages and for guaranteed severance pay. These laws were strongly criticized by representatives of the business sector. For example, businessmen claimed that the new law for severance pay encouraged high rates of turnover. Thus, when the government of the ruling party tried to win support from labor by granting new concessions, they risked alienating their allies in the private business sector.

Another response to growing labor power, supported by both business and government, was to attempt to institutionalize a form of tripartite "concertation" in the setting of major economic policies. During the Perez administration (1973–78) a presidential commission was established in which the president, the head of FEDECAMARAS, and the head of CTV could get together every month to discuss economic policy. There were also local and regional concertation arrangements with the same sort of tripartite representation. One important result of concertation during the Perez administration was an agreement to import 20,000 skilled workers from abroad to work in the new industries in the Guayana region. Government and business were worried that labor would oppose this method of dealing with short-term labor shortages, but a package deal was negotiated which was satisfactory to all.

The main problem with concertation was that it did not allow for representation of any unions which were not allied with the two main political parties, AD and COPEI. The CTV was originally organized by AD, but during the presidency of Rafael Caldera (the leader of COPEI) the CTV came to be less dominated by AD party activists.⁶⁸ The reasons for this

68. Cecilia Valente, *The Political, Economic and Labor Climate in Venezuela* (Philadelphia: Wharton School Industrial Research Unit, 1979), p. 188. See also John Martz, "The Growth and Democratization of the Venezuelan Labor Movement," *Inter-American Economic Affairs* (Autumn 1963), 17:3–18.

were straightforward. The CTV needed the support of the state to win major concessions from business, and the state was controlled by COPEI. Thus, party competition in Venezuela helped to foster the growth of bipartisanship in the CTV, but the strength of the state ensured that the CTV would never be fully independent from the two major parties.

The subordination of the CTV to the state and the two parties made it impossible for that organization to adopt a militant posture in certain key industries, thus creating a vacuum which was filled by the unions organized by left-wing parties. An important example of this occurred in the 1977–78 period when leftist parties came to dominate the steelworkers' unions in the Guayana region. SIDOR, the state enterprise for producing steel in Guayana, had been allocated substantial portions of the new state investments designated by the Fifth Plan for the 1976–80 period. Steel and aluminum were to be the basis for a deepening of Venezuelan industrialization; export revenues generated from these two industries were to reduce Venezuela's dependence on the petroleum industry. Yet in the mid- and late 1970s, the wage demands of leftist-oriented unions in the steel industry in Guayana were threatening this vision of the future, at least for steel. The government eventually acceded to the demands of these unions, forcing a reevaluation of the prospects for the growth of exports of steel products and of the availability of domestically produced steel at competitive prices.

The unanticipated result of adopting a policy of state-led industrialization in basic metals, itself partly a consequence of a policy network which incorporated both a strong state and an increasingly powerful private domestic business sector but excluded labor, was to give certain unions an increased bargaining power which could, if the policy network was sufficiently flexible, lead eventually to the incorporation of labor. But the incorporation of labor into the policy network would require a major reorientation in social welfare policies, and in particular a direct attack on prob-

lems of education and housing—problems which have not been dealt with effectively in the past. In addition, it would probably result in a major falling out between the state and private business interests which would prefer to maintain the existing policy network. In the absence of such changes, it would be less likely that the deepening of industrialization could proceed or that a less-paternalistic approach to the provision of basic needs could be adopted by the state.

The pattern of successive incorporation of new social groups into the political system since 1958 provides a generally positive perspective on the outlook for the future.⁶⁹ However, it is one thing to incorporate new, but basically unchallenging, groups like the peasantry into an electoral system, another to assure that urban industrial workers are represented in a policy network that has previously been dominated by the state and private business. That previous domination was mainly the result of the earlier pattern of linkages between Venezuela and the world economy, especially its dependence on petroleum as the major source of export and government revenues.

CONCLUSIONS

This chapter has examined the nature of the domestic political constraints on industrialization and the meeting of basic human needs in a developing country which has been blessed with relatively lower external constraints than most. The Venezuelan case illustrates how even dependent countries with highly dualistic economies can evolve toward industrialization and begin to develop strategies for addressing human needs. But it also illustrates how even the most fortunate developing countries may come to grief over rigidities in their domestic social systems (their "policy net-

69. For an elaboration of this theme, see Daniel Levine, "Venezuelan Politics: Past and Future," in Bond, ed., *Contemporary Venezuela*.

works") while remaining subject to the vicissitudes of the international economy.

The argument pursued above may be summarized in the following manner. The early development of the petroleum industry in Venezuela made it possible for that country to grow on the basis of capturing increasing shares of the income from petroleum exports. This permitted a strong state to emerge, and, thanks to the adoption of an import substitution strategy in the late 1950s (for primarily political reasons), permitted a politically autonomous and diversified private domestic business sector to displace the foreign petroleum and manufacturing interests in their ability to influence state policies. Import substitution was the only available strategy for industrializing in the 1950s, given the high wages of Venezuelan workers relative to those in other developing countries. A policy network in which the state and private domestic business dominated came to exist as a result.

When the benefits of import substitution diminished and the potential for industrial deepening appeared to increase after the oil price increases of 1973, the state took upon itself the task of developing basic metals and other industrial inputs while delegating to private business the development of downstream industries. While nothing definite can be said yet about the feasibility of this approach, it appears to be stumbling over certain difficulties created by earlier social arrangements.

First, the attempt to shift the structure of production away from petroleum and toward industries dependent on basic metals increases the necessity for accepting a greater role for organized labor in policy networks. Second, it requires a greater investment in human capital than was traditional under the old arrangements. In the absence of a stronger role for organized labor in Venezuela's policy network, state policies toward marginalized groups are likely to continue to be paternalistic and only modestly effective in raising living conditions.

No simple answer to the problem of development in capitalist developing countries emerges from this analysis. A "strong state" alone is not the answer, since a strong state actually may inhibit the growth of an autonomous labor movement. A general commitment to redistributive policies on the part of key elites is not sufficient to overcome the specific constraints imposed by the extant social structure, which excludes those who can represent the workers and the poor. And an awareness of the need to reduce dependence does not suffice actually to accomplish that end, especially if industrialization remains heavily dependent on the development of export markets for manufactured goods.

The developed countries can do a great deal to reduce the external constraints on development in the Third World. They cannot, except at the risk of interventionism, alter the sensitive relationships which slowly evolve among major social forces like the state, private business, labor, the political parties, the military, and other groups. There is often a great deal of dynamism in these relationships. Yet some changes are more likely to be difficult than others. The pursuit of industrialization provides its own dynamic, even in dependent capitalist countries, but it will not lead to more than a token effort to meet the basic needs of the marginalized unless governmental commitment is combined with the organized might of the workers and the poor.

5.

The Limits of Export-Led Development: The Ivory Coast's Experience with Manufactures

LYNN KRIEGER MYTELKA

WITH THE GROWTH of Third World manufacturing activity, it became commonplace to argue that the colonial phase of center-periphery relations characterized by the export of raw materials in exchange for imports of manufactures from the industrialized countries had definitively ended. As Helge Hveem puts it, "[t]he belief that center capital would never permit the periphery to industrialize has turned out to be incorrect."¹

Increased export-oriented manufacturing in a number of Asian and Latin American countries, moreover, led some to see in periphery industrialization a dynamic process

1. Helge Hveem, in this volume.