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Venezuela: The Success Of Dirigism

Record-breaking economic performances have almost come to be expected in Venezuela, where the policy has been the rapid conversion of oil income into capital investment. Since President Carlos Andres Perez took office four years ago, months after OPEC quadrupled the price of oil, capital formation has accounted for a hefty 38 percent of annual gross domestic product. The corresponding average for the preceeding 10 years was 25 percent.

Since 1976, this reinvestment process has been centralized and coordinated under the nation's fifth five-year plan, called the Fifth Plan, drafted by dirigist economists such as Minister of the Presidency Carmelo Lauria and former Planning Minister Gumersindo Rodriguez. As a result, key indicators of the economy are beginning to show geometric growth rates.

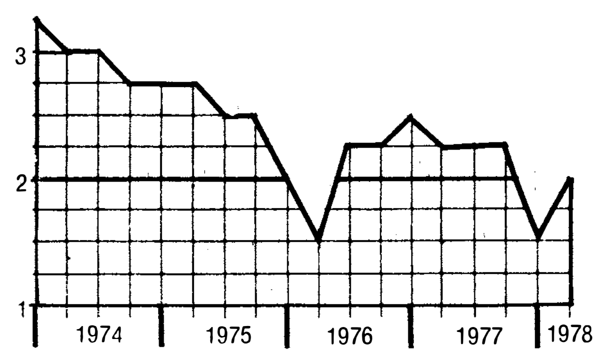
In 1977, another record-breaking year, industrial output climbed by over 15 percent, which translates into a more than threefold expansion of the manufacturing sector within the last ten years. Private sector construction continues to grow at a remarkable pace of 25.3 percent in the private sector. Generation of electricity increased by 10.6 percent.

Agricultural performance was even more spectacular. Following a decline in output as a result of disastrous flooding in 1976, record production was achieved in almost every area. Crop production generally rose by 19 percent, with cereals up by more than 70 percent. Growth spots were sorghum at 326,000 tons, three times last year's crop, and rice at over 500,000 tons, a record, up 87 percent. The corn crop was over 800,000 tons, another record. In sum, agriculture posted an 11 percent growth rate last year, *one of the highest in the world.*

Fifth Plan Program

Performance in the immediate years ahead promises to be even more impressive. Fifth Plan goals, which provide guidelines through 1980 for $52 billion in investments — 53 percent of which will come from the state sector — will multiply steel production ten times by 1985.

Venezuelan Oil Production
(in Millions of Barrels per day)



Source: Ministerio de Energia y Minas

Trujillo Leads Economic Development

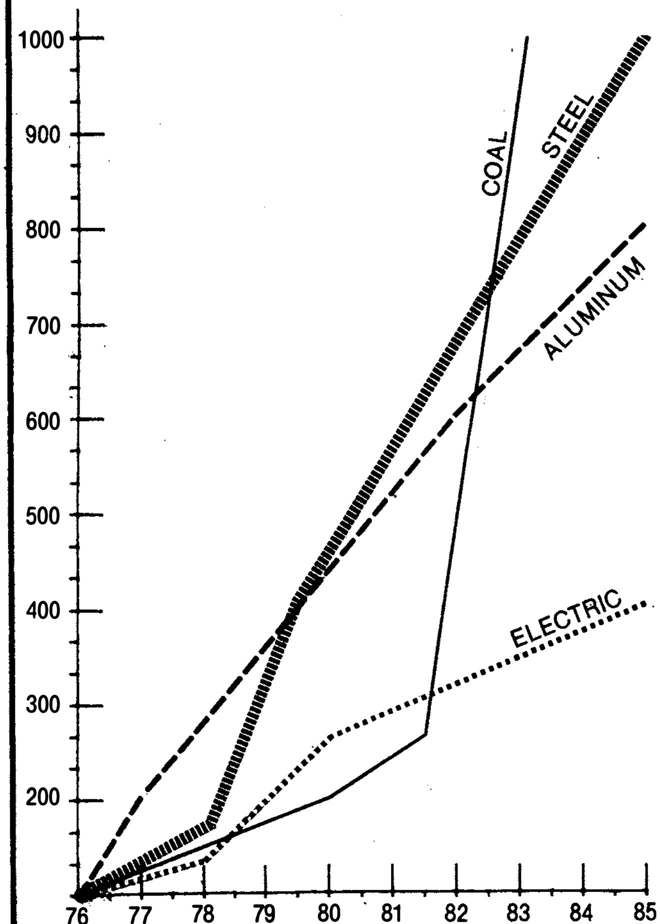
The recent death of one of Venezuela's most brilliant young economists, Manuel Rodriguez Trujillo, is an untimely loss to that nation's industrial development. Rodriguez Trujillo gained prominence during the past year for his economic proposals to the government of President Carlos Andres Perez for cooperation between private businessmen and the burgeoning state sector for a capital-intensive development program for the capital-goods industry. Aside from the obvious benefits to be expected from the exports aspect of an industrial program, he pointed out to a conference of industrialists earlier this year, the crucial consideration is the effect of high-technology development on the population's moral and cognitive development. The "self-esteem" of a worker, he said, is a result of "the machinery and techniques employed in production."

Trujillo's conception of industrialization has played a leading role in guiding Venezuela's development strategy. The major economic development last year was the consolidation of an alliance between private sector leaders and government planners behind the Perez administration's industrial program. This cooperation has reached unprecedented proportions, as shown by the successful campaign launched by the president of the Council of Industry, Roberto Salas Capriles, in lobbying for capital production. This same perspective was endorsed by Vogeler Rincones, chairman of Fedecamaras, Venezuela's largest business organization, in his speech before the Council of Industry's annual convention last week.

On the administration's side, it has been Carmelo Lauria, the Minister of the Presidency, who has skillfully managed the investment and planning policies that have won the private sector's backing.

The forging of a consensus favoring capital-intensive development, led by figures such as Lauria and Rodriguez Trujillo, has laid the foundation for institutionalizing the policies of the Perez administration long after Perez's departure from office one year from now.

Venezuela's Fifth Plan Production Targets
1976=100



Source: Various published plans by government agencies

Who's Missing Out On Venezuelan Development?

Origins of Venezuelan Imports First Semester 1977
(millions of $)

Origin	mid-1977	mid-1976	% increase
Japan	414	208	98.0
EEC	1040	637	63.3
Canada	157	96	62.8
Spain	107	67	60.2
USA	1440	1232	16.9

Source: Venezuelan Foreign Trade Institute

Trade Balances with Venezuela First Semester 1977
(in millions of $)

EEC	+764
Japan	+392
Spain	+ 63
Canada	—521
USA	—840

Source: Venezuelan Foreign Trade Institute

Longer-range plans predict a 15-fold jump in 15 years. The Fifth Plan component of this program will cost $3.57 billion.

In aluminum, Fifth Plan investments have already doubled production to 120,000 tons per year, with the expansion of the Alcasa smelter (half owned by Reynolds, half by the Venezuelan government) and the opening of the new Venalum plant. When completed, the Venalum facility, 80 percent the property of the state's Guayana Corporation (CVG) with the remainder owned by a Japanese consortium, will be the world's largest aluminum reduction plant. Meanwhile, the Swiss firm Alusuisse is building a $560 million, one-million-ton capacity alumina plant, to be completed by May 1979.

By 1985, the entire industry will be producing 400,000 tons of aluminum annually, using mostly domestic bauxite. Findings released earlier this year conservatively peg reserves in the Bolivar area at 500 million tons.

The $4.1 billion electric power program will expand present capacity by two-and-a-half times, to 13,600 megawatts by 1980. The Guri hydroelectric project, which will generate 9,000 MWe by 1988, will be one of the largest dams in the world. Other priorities include coal mining, with capacity skyrocketing when exploitation begins in 1982 of the 10-billion ton Zulia deposits. In petroleum refining, exploration, and petrochemicals, investment doubled in 1977 and will double again this year.

Capital Formation

The 30 percent leap in imports during 1977 — almost two-thirds of which were industrial raw materials, machinery, and transportation equipment — exemplifies the scope of these objectives. Port capacity, which was expanded by one-third under a crash program last year, continues to be taxed to the limit, and further expansion is underway. Volume handled reached 8.8 million tons, compared to 1.4 million tons moved in 1973.

A major problem continues to be maintaining a high capital-goods profile in overall imports. During the first half of 1977, available capital throughout the economy tended to find its way into lucrative speculative ventures, especially high-rent real estate in Caracas, where the rate of return was as much as four points higher than the interest on government paper. Meanwhile, imports of non-essential consumer goods climbed rapidly.

In July, the government finally took vigorous measures to curb speculation and reorient the nation's credit toward real production. Total liquidity declined in real terms through September, as the local real estate financiers mounted vitriolic attacks against the administration, particularly Ministry of the Presidency head Lauria.

The positive results were twofold. First, inflation was reduced from 9.0 percent in 1976 to 8.5 percent last year, while the real economy expanded. Second, and most important, the July measures inaugurated a new dirigist attitude in the administration that favored the emergence of a state-private sector alliance in favor of capital-intensive development.

By the end of the year it became evident that production-oriented layers had gained prominence among the nation's business community. The Council of Industry began working sessions with government economists on an expected state-directed two-tier credit policy that will tilt the credit of the entire private and public banking system toward real capital formation.

Even the business organization Fedecamaras has toned down its traditional diatribes against the growing state sector. This is not surprising, since, as Development Minister Azpurua Marturet noted recently, private sector investment in the Fifth Plan is 70 percent higher than the government had expected at this point.

Missing: Nuclear Energy

The striking feature of the Plan's success thus far is that it has been achieved despite a steady decline in oil production since 1974 — the foreign exchange earner that allows Venezuela to import its huge requirements of capital goods. The current output of 1.8 million barrels per day is below the 2.2 million target set by the Fifth Plan and may be less than half of short-term capacity.

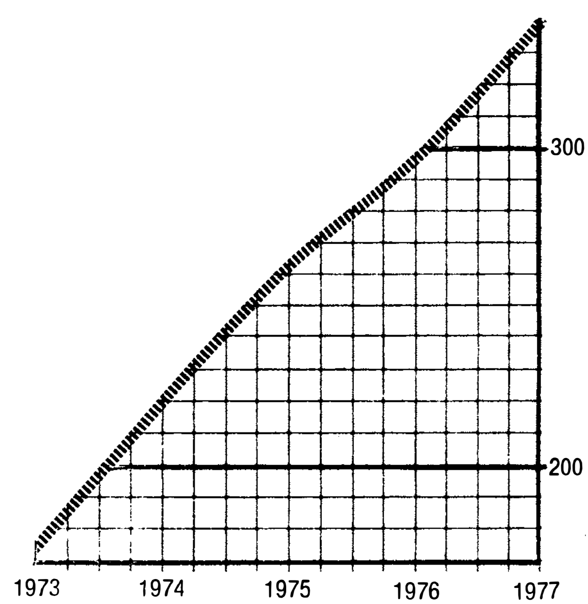
It is here that the Perez government has committed its major error. Through its concession to zero growth advocates such as former oil minister Juan Pablo Perez Alfonso, who claims Venezuela must "save" its oil, Caracas has failed to make a bold commitment to the necessary development of nuclear energy — the one resource that can, as Perez wants, deliver Venezuela from dependence on petroleum.

The objective to replace oil income with exports of industrial goods resulting from Fifth Plan capital investment will be impossible to maintain without nuclear energy sources to replace dwindling oil reserves.

— *Chris Allen*

Venezuela's Industrial Production Index

(Excluding Oil Refining)
1968=100



Source: Banco Central de Venezuela and Ministerio de Hacienda