The Chávez Government's Petroleum Policies and Economic Development in Venezuela*

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Ⅰ. Introduction: Is the Chávez government's state-led model an alternative to development?

President Hugo Chávez ordered the navy to seize seaports in states with major petroleum-exporting installations March 2009 (Romero 2009a; 2009b). In April, the Chávez government announced the nationalization of an Irish-owned eucalyptus-tree plantation and a rice plant controlled by Cargill, the American agricultural giant. On May 8, the government publicized its intention to seize the assets of 60 local and foreign oil-services companies, including at least 13 oil rigs, some 39 terminals, around 300 boats and other installations (Economic Intelligence Unit 2009b). By the law, the government will pay book value for the assets and can hand over bonds in lieu of cash for compensation. On July 31, the government informed that it would buy the country's third-biggest bank, Banco de Venezuela, owned by Spain's Grupo Santander (*Economist* 2008). This year the Chávez government accelerates its drive to increase its control over Venezuela's oil and other industries, following the nationalization of foreign oil companies in 2007.

Meanwhile, some gloomy results of public enterprises' performance and controlled economy are also reported. For example, late November, Venirauto, a public automobile joint venture between Venezuela and Iran, locked out indefinitely because of a failure of negotiating a collective contract between workers and employer (*Economist* 2009). When it opened with a prospect for being a Volkswagen three years ago, President Chávez predicted it would turn the country into a car exporter and free Venezuelans from the yoke of capitalism. Venirauto's workers complained of poor safety conditions and low wages of around US$ 25 a day. The employer refused to recognize trade unions and ignored the labor ministry's order to reinstate sacked union activists. The plant has a production capacity of 25,000 vehicles a year, but is struggling (even by official admission) to produce 10,000.

Amid conflicting reports on the nationalization, the Chávez government is likely to continue its control over the economy rather than go the other way. Is the Chávez's way really an effective strategy for the Venezuelan economic development and its neighbors? Does the Chávez's experiment radically depart from the previous developmental strategies? If it does, can it be an alternative to other economies similar to Venezuela, such as primary-commodity-dominating neighbors? This paper tries to answer these questions.

The viability of the Chávez's model seems to be still important question, in spite of a decade long discussion of market-oriented economies in Latin America. One reason is that the Chávez's approach has prolonged for more than a decade and a number of other Latin American countries have already subscribed to it. When President Chávez criticized globalization and liberalization during his presidential campaign and after in office in 1999, his comments were considered for the consolidation of political power rather than a serious challenge to market-oriented economic policies. At best, analysts assume that the Chávez's experiment was a temporary prescription for the disordered Venezuelan economy. The neoliberal strategies of Washington Consensus were actually proposed as the alternative to state-led strategies by the Latin American political economists. However a decade has passed after Chávez initiated and intensified his model. President Chávez introduced "21st socialism", or "Bolivarian alternative" actively for the Venezuelan economic and social development. He insisted that this alternative would depart radically from the previously experimented developmental strategies, especially capitalist ones. Even former Honduras President Manuel Zelaya, who had been known as a liberal businessman, struck an improbable alliance with Chávez.

Another reason for reviewing the Chávez's economic polices is that few studies examined why the Chávez government intensified a state-led model, while various researches looked for how it governed differently from other elected governments. And some argue for the

Chávez's way, others consider it as a temporary happening by an illusionist on a basis of ideological stand. This paper tries to look at an empirical aspect.

To figure out the viability of the Chávez's model, this paper examines the trajectory of oil policies in Venezuela since the first commercialization of petroleum production in 1918. Petroleum has been the major industry in Venezuela since the late 1930. For example, oil exports jumped from 31% in 1924 to 91% in 1934 and occupied more than 90% most years during the following decades. Oil product has amounted to around a quarter of GDP since 1945. Petroleum taxes have accounted for around 50% of the government revenue for the last half a century. Therefore, petroleum policies could represent the Venezuela's overall economic development strategies. Moreover, President Chávez remarked frequently that his policies rooted on a critical view of the Venezuelan history. For example, he denounced his predecessors' economic polices, especially in the 1990s and sought an ideal model from an independence hero, General Simón Bolívar.

I argue that the Chávez's experiment is a copy of a failed state-led development model in the past, especially before the 1990s' reform to a market-oriented economy. The Chávez's model seems to intend much more direct intervention in the economy than the first Carlos Andrés Pérez government's statism in that the former channeled government revenue directly to the popular sector instead of distributing through businesses and social organs and empowered the executive with broader directing power. So the Chávez's model can hardly be radical compared to the previous developmental strategies in Venezuela after the late 1930s. While Chávez denounces unfair political influence of private and foreign businesses on the Venezuelan economy as barrier to its development, the former tries to do similar things against the latter. While Chávez characterized his economic policies as "21st socialism", they seemed to resemble the previous state-led development model. His supporters praised that the Chávez government could stop imperialist penetration into the Venezuelan economy, but it is doubtful for Venezuela to promote a stable economic development with less foreign investment.

There is a tendency that commodity-dominated economies increase the state control on the economy. Government-controlled economies, especially on prices and exchange, could hardly lead to diversification of national industries in Latin America. The Venezuelan experience of oil policies suggests that basic market principles of prices and currency be respected for a stable economic growth, although the state holds the ownership of some strategic industries. Coincidentally, most of those governments supporting the Chávez's "21st century socialism" have monolithic commodity-dependent economies. Ecuador, like Venezuela, depends on petroleum. Bolivia depends on natural gas. Rafael Correa and Evo Morales all intensified their control of commodity production under the state and kept away from private capital.

Ⅱ. Petroleum policies from 1918 to 2009

Since the first commercial drilling of petroleum took place in Venezuela in 1918, its governments have institutionalized petroleum industry gradually or sometimes rapidly. Within two decades from the inception, the petroleum production surged as a single most important industry in Venezuela and since then it has maintained its supreme status. Internationally, Venezuela has been one of the world's major producers of crude oil and related products. The country was a founding member of OPEC and the largest producer of oil in Latin America. Now, it possesses the seventh-largest oil reserves in the world, behind a handful of Middle Eastern countries and Canada.

There have been controversies in how the Venezuelan petroleum policies have evolved since 1918. For example some analysts focused on the departure from dependence on foreign capital, while others emphasized profit sharing schemes, the degree of privatization and globalization, or the usage of fiscal revenue from petroleum industry (Tugwell 1974; Baloyra 1974; Bye 1979; Parker 2005; Mommer 1994; Naím 2001). This paper tries to distinguish the Venezuelan petroleum policies from an overall point of major issues: (1) Which of national or foreign company, private or public enterprise, can participate in petroleum production, especially in the primary production activities (or "upstream" processes) of exploration, exploitation, extraction, and transportation to ports; (2) How to control the general activities of the oil companies, such as volumes and prices of oil products, investment policy, exploration, etc.; (3) How much the government extract profits from petroleum producers, such as royalties, income taxes and others; and (4) How petroleum levies are used, such as investment to oil industry, other industries or social welfare programs and so on. Based on these four points, seven stages are classified as (1) challenging the domination of foreign private companies until 1942, (2) maintaining the balanced sharing of oil profits from 1943 to 1958, (3) nurturing a national oil company from 1959 to 1975, (4) state-initiating industrialization with the national petroleum company, Petróleos de Venezuela, S. A. (PDVSA), from 1976 to 1982, (5) increasing the management autonomy of PDVSA from 1983 to 1988, (6) opening to private and foreign companies from 1989 to 1998, and (7) renationalizing the petroleum industries since 1999 to present.

Ⅱ.1. Challenge against the domination of foreign oil companies from 1918 to 1942

Some private Venezuelan and foreign companies had made attempts to explore petroleum before 1918 but failed to commercialize petroleum (Betancourt 1978, 16-18). From the late 1870 up to the early 1920s, Venezuela, like many neighbors, maintained a free economy based on private capital. For example, the Mining Law of 1905 established that concession holders will be considered as Venezuelan and subject to the jurisdiction of the Courts of the Republic regardless of their nationality (Mommer 1994, 27, recited).

What can it be done when a country has a potentially tremendous and profitable natural resource but little technology and capital to produce and commercialize it within its boundary? The only alternative may be to invite foreign company for the job. And then, when foreign companies run a lucrative business and monopolize profits, it may be natural for national leaders to extract rents from the companies as much as possible, nationalize them, or control their operation. President Juan Vicente Gómez (1908-1935) granted concessions to foreign oil companies, Royal Dutch Shell and Standard Oil, in 1918. The concession was granted with terms of almost perpetuity, monopoly of oil production, and free imports of related goods and services, and low royalties. The terms of concessions were generous in the then international standards. Former Venezuelan President Rómulo Betancourt (1978, 17-18) denounced that Gómez "hawked the country's wares to the foreign companies which exploited us", However, the privilege of the foreign oil companies did not go long without challenge. After the prospect of oil bonanza was dangled, the Venezuelan government started to increase its share and influence.

Minister of Development in the Gómez government, Gumersindo Torres, revised the Mining Law in 1918 and limited a maximum duration of 30 years for concessions. The law also regulated that any concession should be returned to the government if it was not exploited in the first three years. The law provided that half of each oil production field should be reserved for the future national resource. Actually, the concession of Caribbean Petroleum Company was annulled. The Ministry installed a national oil company, Compañía Venezolana de Petróleo (CVP).

In the 1920s, after Torres resigned from the ministry, the terms of concessions got loosened a little and became more beneficial to foreign oil companies. In 1922, the Organic Hydrocarbons Law, drafted by managers and lawyers of the Standard Oil, was enacted. This law enumerated basic principles of oil industry. The law publically recognized tax-paying by concessionaires and rent-seeking activities by the state. While the level of royalties was comparable to other countries at that time, the 1922 law was denounced for loosening concession terms to foreign companies and allowing foreign oil companies to import goods free of duty. In the 1922 law and revised 1925, and 1928 laws, according to Miller (1940, 205), the concession holders of oil fields should pay an exploitation tax of 1/10 of a bolívar per hectare for three year exploitation period (One bolívar was equivalent to US$ 33.17 cents then). Concession period could be extended yearly with additional payment of 1/20 bolívar per hectare. During the concession period of 40 years, annual surface tax would be 2 to 5 bolívars per hectare. Royalties to the state varied from 7 1/2 to 10% of the commercial value of shipment in the Venezuelan ports and a minimum royalty should be 1 1/2 to 2 bolivars per metric tone. To a few concession holders, 2 1/2% was applied.

In 1929, the country became the world's largest oil producer, with 10% of total world production. From the start, Venezuela's oil sector was completely monopolized by the major oil corporations. In 1929, Standard Oil of California (SOCAL) and Gulf together stood for 54.8% of the production, and Shell for the remaining 45%. In 1932, Standard Oil of New Jersey (ESSO, later EXXON) took over SOCAL's interests; ever since then, these three companies have been the dominating ones in the Venezuela oil business (Bye 1979).

In the 1930s, the Venezuelan government reached the conclusion that the combination of natural resources with foreign capital and technology was sound economic policy that would promise the greatest return to the country with a minimum risk (Miller 1940, 205). Under the 1935 and 1936 Organic Hydrocarbons Laws, the government could raise royalties and taxes for new concessions. The exploitation taxes increased to as high as 30 bolívars per hectare. Annual surface taxes ranged from 2 to 8 bolívars per hectare. Royalties varied from 12 1/2 to 15% of the value of the crude oil in the port shipment. The minimum royalty was 2 bolívars per cubic meter. The 1936 law provided that the separately granted concessions under the 1922 law should be supervised closely by the state and foreign oil companies could get tax rebate only for their imports of goods locally unavailable.

In the 1938 law, the initial exploitation tax on new concession should not be less than 15 bolívars per hectare. For surface tax, 4 bolívars would be levied per annum per hectare during the first 3 years, 5 bolívars during the following 27 years, and 8 bolívars during the 10 subsequent years until the expiration of the concession. Royalties would not exceed 15% of the mercantile value of the mineral at the ports of shipment. Minimum royalty is 2 bolívars per metric ton (Miller 1940, 204-210). Concessions were not granted to the existing companies any more. However, President José Eleazar López Contreras (1935-1941) protected oil companies by strictly controlling labor activism of the petroleum workers. In response, the oil companies spent considerable sums of money and efforts for social services.

In the 1930s, the higher rates of petroleum royalties and taxes expanded the fiscal capacity of the government in carrying out its social and economic development and raised concerns about how to pursue. Recognizing that petroleum was much more profitable than other primary resources but exhaustive, intellectual leaders felt a strong affinity for the development of substituting industries with petroleum revenue. In 1936, the phrase, "sow the oil", or "sembrar el petróleo" (Úslar Pietri 1936, 1), represented the desire to develop a productive and renewable economy that could grow and advance the country. For that, the maximum transient mining income should be invested for national agriculture and industries. Another leading government project was education since the late 1930s. Modern public high schools were constructed throughout the republic. While the import substitution industrialization (ISI), which advocated an active role by the state in industrial production, fashioned after the World War II, Venezuela had experimented this strategy much earlier in economy as well as social sectors.

Ⅱ.2. Balancing the share of petroleum income from 1943 to 1958

The 1943 Organic Hydrocarbons law, revised under President Isaías Medina Angarita (1941-1945), provided the foundation of petroleum nationalism: (1) Oil profit could be split evenly between the state and foreign oil companies by "fifty/fifty" rule. The government not only raised royalty and surface taxes but also created 21 1/2% levy on net company income; (2) Concessions, previous and future, would be shortened to 40 years; and (3) Foreign oil companies should expand local refining factories. Actually the Medina law set no limits on the state's share of oil profit and asserted full government authority to tax profits on the subsoil exploitation. Moreover, foreign oil companies came to accept the Medina's petroleum policies. The companies also agreed the price levels of the Texan crude oil (higher price) in determining the commercial value of the Venezuelan one. The foreign companies, in return for acceptance, were rewarded with the government's dropping all pending tax and malfunction litigations against them and granting new concessions (Betancourt 1978, 160-173).

The 1945 Organic Hydrocarbons Law reinstated most of the 1943 law: (1) Tax would increase compatibly with a capitalist framework and a market economy; (2) No more concessions would be granted; and (3) The state could sell royalties directly on the open market. Differently from the 1943 law, the 1945 law provided that the government could create a state oil enterprise, which eliminated the monopolistic privilege of foreign oil companies in oil production. Along with petroleum production, the state also could construct a national refinery. Moreover, the 1945 law explicitly defined the reinvestment of a portion of corporate profits on agricultural projects and actualized the spirit of "sowing the oil". The Acción Democrática (AD) government of the trienio (1945-1948), unlike the previous regimes, recognized the labor union in the foreign oil companies.

Under the military rule from late 1948 to 1958, initiated by Marcos Pérez Jiménez, oil nationalism got loosened a little mainly because of rising cheap Middle East oil production. Tax was lowered and new concession was granted. During the Pérez Jiménez government (1952-1958), the volume of oil production doubled, and no new restrictions were made on foreign investments in any sector. Labor activities were again restricted in the companies. As a result, state income was also doubled in parallel (Bye 1979, 59).

Ⅱ.3. Nurturing a national oil company from 1959 to 1975

After the fall of the Pérez Jiménez government in January 1958, a drive to national domination of the petroleum industry reignited. Late 1958, petroleum income tax was raised from 25% to 45% of net earnings. Including other taxes and royalties, the government came to take out around 67% of the oil company's gross earnings. In the 1967 Organic Hydrocarbons Law, the exploitation tax (royalty) was imposed to 16 2/3% of the extracted crude oil at the oil filed, instead of its commercial value at the shipment. The government share of oil income grew to 87% in 1973 from 52% in 1957.

The 1958 law prohibited new concessions to any foreign and domestic company and the 1961 law assured no new concessions unless the National Congress authorized. Instead, the government introduced a system of service contracts.

The AD government of 1959 pursued an active role in economic development by establishing a state petroleum enterprise. Following a "gentlemen's agreement" in the First Arab Petroleum Congress in Cairo in 1959 (Acosta Hermoso 1969, 18), the AD government founded a public company, Corporación Venezolana del Petróleo (CVP) and participated in OPEC in 1960. While IBRD recommended that oil companies be competitive, their tax rates decrease, and a national oil company not be created, the AD government pursued the other way.

By the early 1960s, the possible nationalization of the oil industry became the focus of debate among labor, businesses, professionals, government, and the public at large. Aware of the conflicts and subsequent difficulties of Mexico's sudden, dramatic nationalization of the entire oil industry in the 1930s, the AD government decided not to acquire the petroleum sector.

February 1961, the Income Tax Law was amended once more, placing the oil industry on a "pay as you go" schedule. On March, the Betancourt regime introduced exchange controls maintaining the oil dollar rate. An economic emergency legislation on June empowered the government to mobilize all possible policy and procedural instruments regarding the oil issues and the fiscal adjustments (Baloyra 1974).

In 1971, the Hydrocarbons Reversion Law forced that all concessions, exploited or unexploited land and properties, would revert to state. The law also made it clear that all concessions and properties belonging to the companies would revert to the state with the expiration of concession agreements in 1983 and all changes in the companies' operational activities needed prior authorization by the government. The oil law meant a de facto nationalization.

In the mid-1960s, the Venezuelan government established a right of direct intervention in oil pricing through Coordination Commission for the Conservation and Commerce of Hydrocarbons (Tugwell 1974). The 1966 Income Tax Law classified the taxpayers in three groups: natural persons, non-hydrocarbon enterprises, and hydrocarbon enterprises. The last ones were subject to the highest tax rate, 67.7%. A retroactive taxation was imposed in 1964 and 1965. From October 1966, service contracts became limited to oil extraction sector by mixed company, and all services would be under supervision of CVP.

In sum, the Venezuelan government finally obtained supremacy on running oil business after around forty years of a tug-of-war over taxation and regulation, although it quitted the nationalization of foreign oil companies. Up to 1935, the companies got 92% of the incomes produced in the industry, and the state only 8%. Two years prior to the 1976 nationalization, the relation reversed: 94% went to the state and 6% to the companies. This is a development the giant oil companies gradually have had to accept, though not without resistance.

Ⅱ.4. State-initiating industrialization with PDVSA from 1976 to 1982

According to the proposal by a national commission and subsequently enacted law, President Pérez nationalized petroleum industry beginning January 1, 1976. With the windfall of oil income resulting from the 1973 oil shock, the Venezuelan government could nationalize the petroleum industry, paying a reasonable price to the companies involved. The government created a holding company, PDVSA, to serve as an umbrella organization for four competing and largely autonomous subsidiaries: Lagoven, Maraven, Meneven, and Corpoven. These subsidiaries were the reorganization of 14 expropriated foreign oil companies

Although foreign oil companies sold their stocks to PDVSA, they could participate in oil production by service contracts, such as for various technical services and marketing. Technical expertise could be provided for smooth transition to state control.

With ever incoming oil dollars after 1974, the problem for the country was how to spend this gigantic fortune. One solution was a state-initiated industrialization and welfare programs. The Pérez government decided to participate in every other sectors of the economy, from iron and aluminum to hotels and tourism (Briceño-León 2005). The government dreamed to achieve an industrialized country in the shortest period. The Fifth National Plan for the period 1976-1980, "La Gran Venezuela", reflected this illusion (República de Venezuela 1976). The embarkment on massive public works turned the government into a giant conglomerate, or "state capitalism". While the Venezuela state had already played an important role in the domestic economy from the very start of the oil activity, the Pérez government expanded its role extraordinarily in the overall productive activities, especially heavy industries. For example, the Pérez government spent around one and a half times more of government revenue during its office from 1974 to 1978 than the sum of all the previous governments from 1917 to 1973 (Karl 1997, 116-137). Under the Pérez government, total public investments planned for the period amounted to US$ 28 billion, of which 57% would go to oil, mining, iron, steel and aluminium plus electricity (República de Venezuela 1976). The export of metal industry products (aluminum and steel) would make up 29% of the total value of industry export in 1980, up from 1.3% in 1975. Also the export of food and means of transportation, especially private cars, would rise drastically. On the other hand, oil –and carbon- based products would fall in relative share of industrial export from 80% to 40%.

Social expenditures also increased drastically. From 1974 to 1982, private spending expanded rapidly. For example, household final consumption expenditure increased 4.5 times from 1973 to 1981, compared to 1.7 times from 1966 to 1973 in terms of current US dollar. Venezuelan imports increased more than 5 times and 2.1 times during the given periods respectively. Moreover, the national currency was over-valued, so that for middle-class Venezuelans, it became cheaper to take a vacation in Miami than in their own country. Venezuelans were major consumers in Miami.

In the midst of this financial bonanza and at the height of its wealth, the country also developed a substantial external debt. Total foreign debt surged US$ 10.7 billion in 1977 and US$ 32.1 billion in 1981 from merely US$ 2.8 billion at current price in 1973. This was also during the period of greatest foreign indebtedness in Latin America.

Ⅱ.5. Increasing the management autonomy of PDVSA from 1983 to 1988

A slump in world oil prices beginning in 1981 rolled back the substantial revenues acquired during the 1970s. When the Central Bank of Venezuela seized US$ 6 billion of the oil company's earnings to help offset the country's growing external debt problems in 1982, PDVSA's prosperity also looked to end. However, this action provided an opportunity for PDVSA to expand its activities, grow to a globally competitive oil giant, and eventually to intensify its management autonomy.

After the 1982 deprivation by the Central Bank, PDVSA's directors contrived to limit government interference and build a globally competitive company with earnings. The directors initiated to transform the company into an international conglomerate and pursued the strategy without any major public debate (Parker 2005, 39-50). Venezuelan political organizations, including those that had raised the urgent need for PDVSA's reforms earlier, largely ignored the oil industry, perhaps because of technical ignorance.

PDVSA's accomplishments included the exploration of new oil reserves in the 1980s. At the time of nationalization in 1976, exploration efforts had come to a near standstill. Little exploratory activity took place during the 1960s and 1970s because the Venezuelan government did not grant any new oil concessions after 1958 and most foreign oil companies were reluctant to explore oil with the anticipation of eventual nationalization. Although financial constraints slowed the pace of PDVSA's exploratory drilling in the 1980s, proven reserves of light, medium, and heavy crude nearly doubled by 1986. In addition to its land-based drilling, PDVSA established an increasing number of offshore rigs. The company also explored off the coast of Aruba and tapped on the prospects of exploratory drilling with the governments of Guyana, Trinidad and Tobago, and Guatemala. Special efforts were given to develop extra heavy oil in Orinoco Bitumen Belt, petroleum products that fell outside OPEC quotas.

PDVSA not only extracted crude oil, but also refined and distributed a wide variety of petroleum products. In 1988 PDVSA ran six active refineries and became an international leader in petroleum refineries producing a full range of oil products. That year the country exported more refined petroleum than crude oil for the first time.

From 1983 to 1989, PDVSA acquired overseas refining capacity from at least five multinational oil conglomerates, either through production contracts or outright purchases. For example, in 1986, PDVSA entered the United States oil market by purchasing United States oil firms, refineries, and retail outlets previously held by Citgo, Champlin, and Unocal. By 1990, therefore, PDVSA had the capability to refine nearly all of its crude oil production, either at home or at Venezuelan-owned facilities overseas. Moreover, with PDVSA's purchase of Citgo in 1989, Venezuela became the first OPEC member to wholly own a major United States oil refinery.

PDVSA expanded its export markets outside the United States during the 1980s. It increased its exports to Central America and the Caribbean. In 1980 Venezuela and Mexico embarked on a joint program called the San José Accord, under which the two oil producers exported oil to many countries of the Caribbean Basin to a 20 percent discount on the world market price.

Unlike a solid growth of PDVSA, the Luis Herrera Campins government (1979-1983) and the following Jaime Lusinchi government (1984-1989) failed to stabilize the economy and to separate the up-and-down of oil price. February 28, 1983, the Herrera government announced that it was initiating exchange rate controls and currency devaluation as well as some price liberalization. For the past twenty years, the Venezuelan bolívar had been pegged at B4.29 per US$ 1. The bolívar experienced several devaluations from 1983 to 1988, when monetary authorities implemented a complicated four-tier exchange-rate system that provided special subsidized rates for certain priority activities. The multiple exchange-rate system, however, proved to be only a stopgap measure, eventually giving way to 150% devaluation at the market rate in 1989. The 1989 devaluation unified all rates from the official B14=US$ 1 rate to the new B36=US$ 1 rate, which was a floating rate subject to the supply and demand of the market.

Actually ill symptoms of the Gran Venezuela plan appeared as early as 1976, such as explosive foreign debt. However, countermeasures were ignored and the Venezuelan economy as well as the whole society gradually sank into crisis. In the early period at office, the Herrera government diagnosed the crisis as results of excessive government intervention and prescribed the policy of liberalization of prices. However, he repeated "stop-and-go" between price liberalization and regulation as the oil prices went up and down and eventually worsened the economic illness. At the end of his mandate, President Herrera introduced multitier exchange rates, which resulted in tremendous political corruption.

After oil prices dropped nearly 50 percent in 1986, the Lusinchi government accelerated industrial diversification programs in petroleum refining, natural gas, petrochemicals, and mining, and also stepped up oil exploration efforts. However, the government barely pursued continuous and coherent reform policies. For example, the government maintained the multitier exchange rates and drained foreign exchange and left its related political corruption spread. President Lusinchi also zigzagged from heterodox to orthodox fiscal policies as the oil price seesawed in spite of increasing inflation. In 1986, however, the drop in oil prices triggered a fiscal deficit of 4 percent; the deficit exceeded 6 percent in 1988. The government's fiscal accounts generally showed surpluses until the mid-1980s because of the immense oil income.

Although the Pérez government pursued industrial diversification in the later part of 1970s, the government revenue in the 1980s still remained excessively dependent on oil income. In 1988 petroleum revenues, both income tax and royalties, provided 55 percent of total revenue. Although oil's contribution to total revenue had declined in the 1980s, most economists felt that it had not declined sufficiently.

Venezuela traditionally enjoyed general price stability; annual inflation rate averaged a mere 3% from 1930 to 1970. By the 1980s, however, financial deterioration, weakening BCV authority, numerous devaluations, and fiscal deficits had combined to push consumer prices and inflation up dramatically in the late 1980s.

In sum, the dream of unlimited economic prosperity had come to an end by the mid-1980s. The "RECADI" scandals in the late 1980s conspicuously illustrated the government's incompetent management of the expanded economy after the 1973 oil shock. The Differential Exchange System Office (Régimen de Cambio de Dinero, or RECADI) was the organization that oversaw the various exchange rates. Between 1983 and 1988, businessmen bribed RECADI officials in return for access to half priced US dollars to funnel an alleged US$ 8 billion overseas. When the scandal broke in 1989, law enforcement agents investigated as many as 2,800 businesses, and more than 100 executives from leading multinational enterprises fled the country in fear of prosecution (Little and Herrera 1996).

Ⅱ.6. Opening to private and foreign companies from 1989 to 1998

The second Pérez administration (1989-1993) opted to open the economy and PDVSA began to push the internationalization policy with greater audacity. The government's proposal to open the industry to foreign investments raised controversy, since it clashed with the 1975 law governing nationalization and the nationalist principles. The opening of PDVSA was partly because of pressure from IMF. In the negotiation of public deficit reduction with the Venezuelan government in 1993, IMF considered PDVSA's foreign debt should be a part of the public sector deficit to be reduced.

The actual petroleum opening (Apertura Petrolera) was done during the second Rafael Caldera administration (1994-1999), which was forced to launch another overall liberalization and structural adjustment of the Venezuelan economy with "Agenda Venezuela". Under new executive, Luis Giusti, PDVSA pursued an ambitious plan to increase productive capacity, against OPEC's policy of limiting production to maintain price levels (Parker 2005, 42).

Overall, 32 "operating agreements", 8 "exploration at risk and profit-sharing agreements", 4 "strategic associations" and one "association agreement for production of Orimulsion" were contracted between PDVSA affiliates and private investors in the 1990s. In essence, operating agreements were service contracts, to which the private oil company operated an oil project for the benefit of PDVSA. Exploration at risk and profit-sharing agreements were mainly for new oil exploration as partner to Corporación Venezolana del Petróleo (CVP), a PDVSA subsidiary. Strategic associations and association agreements covered production, extraction, gathering, transport, storage, upgrading and commercialization of hydrocarbons in the Orinoco Belt (Eljuri and Tejera Pérez 2008, 478).

Private capital, foreign or domestic, could participate in the Venezuelan oil companies as partners of joint venture with various stake options. The Caldera government opened regular petroleum as well as natural gas, extra-heavy crude oil, and natural bitumen to private capital. It could participate as partners to joint venture under regulations of association agreements. The association would last for 30 years from the date of the first commercial shipment, or for 35 years from the date of the definitive decision to execute the project, whichever would come first.

To attract private capital, incentives on royalty, tax, ownership, and other activities regulation were provided. The royalty rate, 16 1/2%, was principally applied to the four association agreements, as in the 1943 Organic Hydrocarbons Law. However, the statute allowed the National Executive to temporarily reduce royalty rates for active projects according to its judgment and increase to the original rate. The National Executive had established royalty payments applicable to the four association agreements at the minimum level of 1%.

The 1993 Income Tax Law imposed a 50% income tax rate on companies performing hydrocarbon exploitation and related activities. This rate was applied only to domestic non-petroleum companies. The usual income tax for hydrocarbon enterprises was 67.7%. That is, earnings derived from the production of hydrocarbons and their by-products, as well as from connected activities, such as refining, transportation, exportation, are subject to the rate of 67.7%. Through the strategic association agreements, however, companies which participated in the production of extra heavy oil in Orinoco Belt could have more favorable tax rate, up to a maximum applicable tax rate of 34%. The favorable rate would only apply to associations with private capital. In other words, the same project will have to pay an income tax of 67.7% if carried out by PDVSA alone (Parker 2005, 42). However, Venezuela, as the resource owner, maintained a right to extract all excess profits that might accrue in its exploitation.

Raising income tax but lowering royalty resulted in decline in the government share of oil income. Between 1976 and 1992, 66 cents of every dollar produced by the oil industry went to the Treasury, while between 1993 and 2001, this average decreased to 45 cents (and this percentage also included dividend payments). The petroleum opening policy seemed to match with a global trend of market economy and globalization, but its repercussions were enormous. Public resentment against economic dependence on foreign capital might not be underestimated. The most serious rage was that many Venezuelans, especially alienated groups, felt it unfair for the public to take the burden of incompetent and corrupted political elites' squandering the national wealth.

Ⅱ.7. Renationalizing the petroleum industries from 1999 to Present

During the presidential campaign in 1998, Chávez criticized the opening of petroleum to private capital during the second Pérez and Caldera administrations. In office, Chávez began to persuade OPEC to raise crude oil in early 2000. A new Organic Hydrocarbons law issued November 2001, which raised royalty up to 30% and lowered income tax to 16%. Through a series of renationalization laws of foreign oil companies from 2006 to 2009, all the foreign companies could participate in primary petroleum production activities only as minor partner to PDVSA or its affiliates. In its recent drive to increase its control over the oil and gas industry, the Chávez government has announced its intention to seize the assets of a total of 74 privately-owned companies working in the oil services industry. Thirty-five of these takeovers were announced on May, 2009. The move came in response to threats by some contractors that they would suspend production until outstanding payments from PDVSA were made. The property seized includes at least 13 oil rigs, 39 terminals, around 300 boats and other installations. The seizure of the contractors' assets is likely to inflict more damage to the troubled state oil company and the economy (Economist Intelligence Unit 2009c, 11).

The Chávez government's petroleum policies pursued five major goals (Manzano and Monaldi 2008). First, they tried to renationalize petroleum industry as such prior to the opening in the 1990s. February 2007, the government regulated to convert operating service agreements into joint-venture, in which private capital could take only as minor partner (a maximum stake of 49%). In cases of the conversion of the Orinoco Belt Association agreements and oil risk/profit sharing agreements, foreign companies had to be converted into entities in which the CVP or other PDVSA affiliates hold an equity participation of at least 60% (Economist Intelligence Unit 2009d). In any case, private and foreign companies could participate in primary petroleum production activities only as minor partner to PDVSA and its subsidiaries. The "downstream" activities, industries that apply the already produced crude oil, remained open to private capital as before.

Second, the Chávez government gained the leading role of the executive in the design and implementation of public policies regarding to the oil industry as well as the operation of oil companies. Since the nationalization of foreign oil companies in 1976, especially after the mid-1980s, PDVSA had maintained a considerable autonomy of its management on investment and production policies. Now, President and Ministry of Energy regained political leadership in managing PDVSA and oil industry. PDVSA's resistance to the administration culminated in the strike by oil workers in December 2002-January 2003, which virtually shut down production and resulted in the dismissal of 18,000 employees out of a workforce of 40,000.

Third, the Chávez government aimed to raise the state rents from oil industry as much as possible. Royalties on sales and taxes on profits were raised. Royalty rate jumped to 30% in 2000 and 33% in 2007 from 1 to 16 2/3% in the 1990s. Exceptionally, royalty rates could be reduced to 20% for Orinoco Oil Belt. Major reasons for raising royalty rates were partly because they were simple and easy to be collected and partly because that the government share of petroleum profits declined considerably during emphasis on oil income tax rather than royalties in the 1990s.

Fourth, the Chávez government tries to internationalize petroleum production not by market but by political arrangements with other foreign governments or petroleum companies than the traditional oil majors. Early in office, Chávez made efforts to strengthen OPEC by complying with its agreements, such as production quota of oil. September 2008, Venezuela and Argentina executed a Memorandum of Understanding for the Acquisition and/or Construction of Hydrocarbons and Derived Products Refining, Storage and Logistics Assets. As part of the Venezuelan President's visit to South Africa, Russia and China several energy related agreements were executed: (1) Petro SA (South Africa's State-owned oil and gas company) would be able to operate offshore natural gas exploration fields and extra heavy crude blocks and PDVSA was asked to participate in a crude oil refinery at COEGA; (2) Russia and Venezuela executed a Memorandum of Understanding for purposes of undertaking a special intergovernmental agreement to govern the relations between the two countries with respect to energy matters. It is expected that a joint company will be set up with the participation of TNK and Lukoil and PDVSA; and (3) PDVSA will sell 500,000 bpd of crude to China as from 2009.

Finally, the Chávez government financed his extensive social welfare programs (so-called Bolivarian Missions) with oil profit. In 2005 the government required PDVSA to spend roughly US$ 4.4 billion of its US$ 19.5 billion budget on social programs. In 2006, the amount PDVSA set aside for social expenses rose to above US$ 6 billion. Additionally, PDVSA revenues were siphoned off to fund the Fondo Nacional del Desarollo (FONDEN), the government's national development fund. Excessive oil income beyond certain price level also would convert to the fund.

Ⅲ. Petroleum policies and economic development

What implications can we find from the experience of Venezuelan petroleum policies? First, the nationalization of subsoil resources is a general, inevitable propensity in the resource-dependent economy. The Venezuelan experience shows an increasing temptation to the oil nationalization and its actualization since the initial commercial drilling. Second, the diversification of industry has little affinity with a rapid state-led strategy and with price controlling. The first Pérez government intervened in every sectors of industry but they turned into unsustainable entities without government subsidies. However, a gradual pursuit to industrial diversification with mild price control could expand globally competitive industries and contribute to a stable economy. Venezuela shows that its economy could grow relatively stably in the 1960s and early 1970s when the governments adopted a gradual reform policy. Third, public enterprises can grow as a global company when it maintains management autonomy from the government. Coincidently, the opening of public company brought about reducing the weight of petroleum in the economy in the 1990s. Fourth, the distribution of petroleum revenue accompanies with clientelist and corporatist activities and subsequently a severe political corruption. As the RECADI scandal shows, the government control of foreign exchange resulted in unprecedented political corruption, eventually the collapse of political credibility. As the government seeks a maximum rent from foreign oil companies, interest groups also tend to maximize rents from the government.

How can we characterize the Chávez government's petroleum policies and their broader implications on the Venezuelan economic development in the historical perspective? First, the Chávez government's petroleum policies are directed to more political control than market on the economy. The government makes every effort to control the crude oil production and price domestically and internationally. To stabilize crude oil prices, the government cooperates with OPEC rather than adapting to world oil demand and supply. President and the national executive also come to hold a firm grip on the operation management of the PDVSA and its subsidiaries. The government reverses the market-oriented reform of the oil industry in the 1990s.

Second, the Chávez's petroleum policies are directed to the reduction of foreign influence, especially American, in petroleum production, which is comparable to those prior to the 1976 nationalization. The Chávez government not only limits foreign oil companies as minor partner to national companies but also puts under close control national oil companies, PDVSA and its subsidiaries, which grew into a global giant oil company. However, the Chávez government expands international political cooperation with Iran, Russia, China, and South Africa. The government tries to form an alliance for countering the industrialized bloc.

Third, the Chávez government extracts its share of petroleum profits as much as possible and use s them for social welfare programs. The government shares of oil profits increased up to around 70% just before 1976 nationalization, decreased to 45% during most of 1990s and then rose to a maximum (See Table 1). Again, the Chávez government's tax policies on oil profits are similar to those before the 1976 nationalization in that the government tries to maximize its rents on oil profits.

〈Table 1〉 Government Shares of Petroleum Income in Venezuela, 1947 to 2008

Year	1948	1958	1968	1973	1976-1992	1993-2001	2002-Present
Share (%)	52	65	68	87	66	45	maximum

Source: Enrique A. Baloyra(1974), "Oil Policies and Budgets in Venezuela, 1938-1968," *Latin American Research Review*, Vol. 9, No. 2, Summer, 53; Business Monitor International(2009), *Venezuela Oil & Gas Report*, Q4.

Fourth, in the use of oil income, the government channels directly to social works rather than through domestic businesses and social organs. The petroleum income had been used mainly for the business development of other industries until the Black Friday of January 1983.

The Pérez government from 1974 to 1978 invested especially to chemical and heavy industries as well as social works with windfalls of oil dollars. In the 1990s, the Venezuelan government focused on the expansion of PDVSA itself. However, the Chávez government tried to benefit the "popular" sector directly through social works, Bolivarian Missions.

Overall, the Chávez government's oil policies can be characterized as statism in that the government solves petroleum-related problems by political control and state monopoly. Up to now, the Chávez government's economic policies have been dubbed as, "21st socialism", "petro-socialism", "resource populism", "anti-liberalism and anti-globalism", or "nationalism" (Tsafos 2007; Bye 1979; Hidalgo 2009; Parker 2005; Deering 2007; Economist Intelligence Unit 2009a). These characterizations reflect some traits of the government's oil policies. However, the most important feature of the petroleum policies is that President Chávez and his executive try to control every aspect of the oil industry directly. The Chávez government's petroleum policies are similar to those until the late 1980s in that the government expanded its role in every aspect of the economy from milk prices to wages, and to exchange rates.

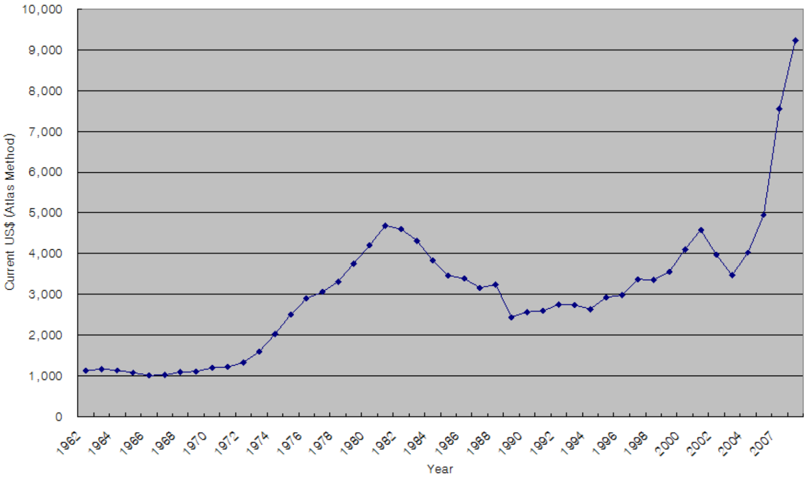
Can the Chávez government's statism be a viable alternative for the Venezuelan economic development and other countries'? Perhaps it can be in that the government has improved the poverty level and per capita income. For example, gross national income (GNI) per capita increased considerably during his presidency (See Table 2 and Graph 1). Viewed from a historical perspective of petroleum policies, statism may not be an optimistic alternative for the future development. Since the commercialization of oil, the Venezuelan government maintained and intensified statism with intermittent experiments of privatization and price liberalization. The result was depressing. As seen in Table 2, Venezuela ranked top per capita income group among major Latin American countries until the early 1980s but declined to the lower group thereafter and regained top late 2000s. This trend means that Venezuela may not succeed much in economic progress with stronger statist policies in spite of more affluent hard currency than other neighbors earn. As seen in Graph 1, during the period from 1962 to 1973 when the state respected basic market principles and intervened in the economy relatively mildly, GNI per capita was stable and growing. After the first Pérez government had intensified statism in the late 1970s, the Venezuelan economy fluctuated. During the 1990s when privatization and price liberalization experimented, GNI per capita was low but directed upward. As seen in Graph 2, total national debt also increased rapidly during the first Pérez government from 1974 to 1979. The Graphs 3 and 4 also shows statist oil policies failed in reducing the Venezuelan economic dependence on oil income. Rather, the oil opening in the 1990s showed a possibility that GDP could grow with lower oil prices.

Another pessimism about statism as a viable alternative is that it can hardly reduce the "Dutch disease" of oil on other economic sectors. As Terry Lynn Karl and others pointed out, the disease was one of the most important elements that blocked further economic diversification and development (Karl 1997; Ross 2001). The Chávez government maintained overvalued bolívar more strictly than the Herrera and Liusinchi government in the 1980s. Another vulnerability of statism is a temptation of heterodox fiscal policy. Venezuela maintained sound fiscal balance until the early 1970s but expanded deficit in the 1980s, especially oil income fell. Fortunately, the Chávez government expanded the government expenditure rapidly but maintained considerably balanced budget with swollen oil revenues.

〈Table 2〉 Gross National Income per capita of Major Latin American Countries, Atlas method (current US$), 1962-2008

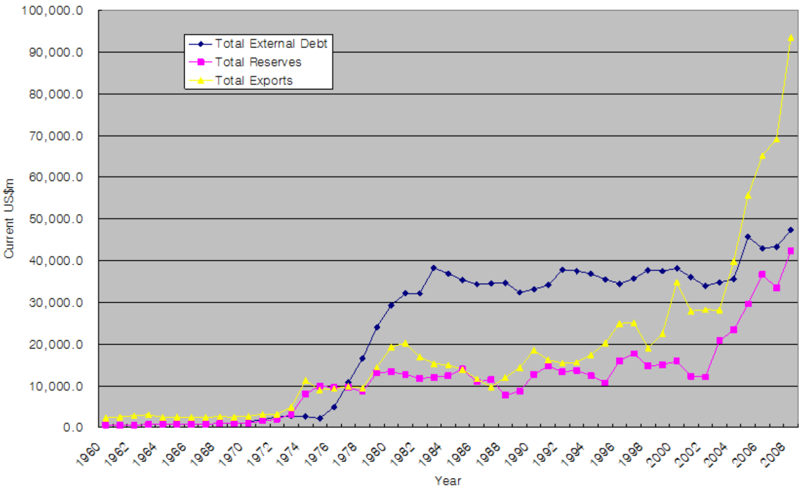
	1962	1965	1970	1975	1980	1985	1990	1995	2000	2005	2007	2008
Argentina		1,230	1,320	2,700	2,940	2,650	3,190	7,360	7,470	4,460	6,040	7,200
Bolivia			300	390	590	430	740	860	1,000	1,260	1,220	1,460
Brazil	230	270	440	1,170	2,190	1,570	2,770	3,650	3,870	3,970	6,060	7,350
Chile	600	650	860	1,120	2,240	1,410	2,250	4,340	4,840	5,930	8,160	9,400
Colombia	270	300	310	560	1,190	1,150	1,190	2,080	2,280	2,880	4,100	4,660
Ecuador	210	230	310	670	1,420	1,180	890	1,590	1,340	2,700	3,150	3,640
Mexico	370	490	700	1,470	2,520	2,180	2,830	3,810	5,110	8,080	9,400	9,980
Paraguay	170	210	260	600	1,470	1,170	1,190	1,790	1,350	1,240	1,710	2,180
Peru	290	390	520	1,090	1,050	950	770	2,030	2,050	2,660	3,340	3,990
Uruguay	580	670	800	1,570	2,860	1,500	2,870	5,230	7,100	4,820	6,620	8,260
Venezuela	1,130	1,080	1,200	2,510	4,200	3,460	2,570	2,930	4,100	4,950	7,550	9,230

Source: World Bank, *World Development Indicators 2007*; Economist Intelligence Unit, *Country Profile: Venezuela*(online).



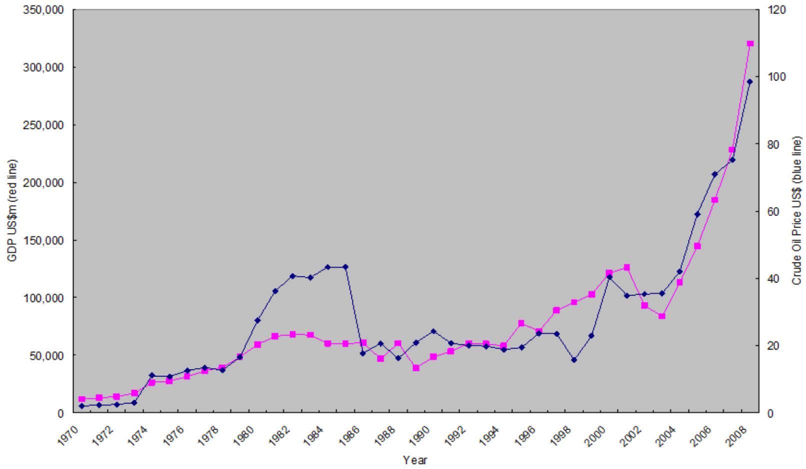
Source: World Bank, *World Development Indicators 2007*; Economist Intelligence Unit, *Country Profile: Venezuela* online.

〈Graph 1〉 GNI per capita of Venezuela, 1962-2008



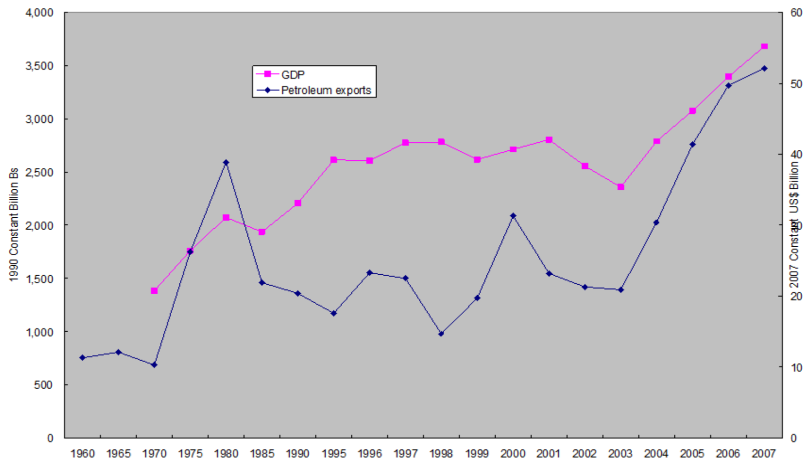
Source: World Bank, *World Development Indicator 2007*; IMF, *International Financial Statistics 2008*.

〈Graph 2〉 Total Exports, External Debt, and Reserves in Venezuela, 1960-2008



Source: OPEC, *Annual Statistical Bulletin* 2003 and 2008.

<Graph 3> GDP at Current US$ and Crude Oil Price per Barrel Adjusted for Exchange Rates, 1970-2008



Sources: United Nations, UN data (online), Databases; OPEC, *Annual Statistical Bulletin* 2008 and 2003.

〈Graph 4〉 GDP at 1990 Constant Bs and Petroleum Exports at 2007 constant US$, 1960-2007

With an increasing state intervention, the Chávez government may not reduce corporatist and clientelist practices in running the national economy, another important element that ruined the economy (Roberts 2003). The government pursues to alienate traditional businesses and labor unions from subsidy recipients and channel directly into the popular sector. Business elites and labor leaders had been the chief beneficiaries of the previous corporatist governments. The Chávez government is widely known to have created its own favored circle of new business and labor elites, "Boliarchy", while old ones are excluded from its clienteles.

Ⅳ. Conclusion

From the history of Venezuelan petroleum policies, it can be said that the national government tends to intervene in the production of valuable natural resources and then in the whole economy. It seems to be inevitable for the state to own natural resources as public goods and distribute their profits to other production sectors. State sponsorship of the economy has been rooted deeply in society as a result of a long tradition of state interventionism. The Venezuelan experience also tells us that the prevalence of the state enterprises and overall government control over prices might block the burgeoning of other industries, and that resource-dominant economy could not easily achieve a considerable degree of industrial diversification. The Venezuelan administrations did try actively to diversify industries, privatize public enterprises, and liberalize prices, but those efforts resulted in short-term happenings. Overall, although the Chávez government advocates that its developmental policies depart from the past ones, its policies are considerably similar to the old statist experiences.

There may be some way to diversify the resource-dependent economy. The opening of petroleum in the 1990s demonstrates that even public enterprise can grow into a globally competitive firm when the government endows management autonomy. While the Chávez government criticizes the petroleum opening severely, historical evidence shows that privatization, price liberalization, and less government intervention can lead to the reduction of resource dependency. To prolong a steady opening and price liberalization, Venezuela may need to build a national consensus on smaller government. As Moisés Naím points out (2001), if the Venezuelan people share some distorted perception abut national economy, such as "rich", "globalized", or "democratic", the government should focus on changes in perception before reform. Or a gradual and partial pursuit may receive less resistance. Various studies show that the administrators can not be almighty enough to manage industries effectively.

To reduce corporatist and paternal distribution is a major problem in the state-led development. Under a condition in which state ownership is unavoidable, to separate government revenue allocation from politics may be necessary especially for industries. Participation of various experts in the planning stage may reduce paternalist temptation.

Finally, the Venezuelan government should lend emphasis to a stable inflow of oil money by petroleum stabilization fund, like Chile's Copper Stabilization Fund, for a steady development. Major global petroleum-consuming countries also should make a great effort to stabilize oil price by developing renewable energy resources and reducing oil consumption. Petroleum and some other natural resources are not private goods anymore but become global public goods.

Abstract

1990년대 베네수엘라는 1980년대 "외채위기"를 극복하기 위해 이 나라 중심산업인 석유산업 뿐만 아니라 국가경제 전반의 민영화 및 시장 자유화를 추진하였었지만, 차베스 정부는 1999년 집권 이후 "21세기 사회주의"를 표방하며 10년 이상 국가경제에 대한 적극적인 정부 간섭을 추진하고 있다. 세계화 시대에는 라틴아메리카에서 국가 자본주의 경제 정책이 비효율적이라는 공감대가 형성되었는데, 왜 차베스 정부는 국가 경제에 대한 정부간섭을 강화하고 있는가? 이 논문은 차베스 정부의 국가 자본주의로의 회귀가 1920년대 이후 정부가 주도적으로 석유중심 경제를 운영하여 온 역사적 전통을 벗어나지 못하는 데 상당히 기인하고 있다고 주장한다. 지금까지 차베스 정부의 국가 자본주의로의 회귀에 대한 설명으로 차베스 대통령의 대중영합주의, 석유중심의 일차적 경제 체제, 1990년대 신자유주의 경제개혁 실패 등 여러 이유가 제시되고 있지만, 60년 이상 추구하였던 석유 국유화 정책의 유산도 보다 근본적 이유의 하나이다. 국유화 과정에서 "석유는 전국민의 재산이다" 그리고 "정부가 석유수입을 공정하게만 배분하면 베네수엘라는 선진국이 될 수 있다"는 믿음이 형성되었으며, 차베스 정부는 이러한 믿음을 거부하지 못하고 국가 주도의 경제발전을 다시 추구하고 있다.

Key Words: Venezuela, Chávez Government, Petroleum Policy, Petroleum Nationalization Policy, 21st Socialism, State Capitalism, Interventive State / 베네수엘라, 차베스 정부, 석유산업, 석유 국유화 정책, 21세기 사회주의, 국가 자본주의, 적극적 경제간섭

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