

## ECONOMIC SURVEY

# The theory behind Venezuela's

## Part 2 of an exclusive interview with Dr. Gumersindo Rodriguez

*When newly elected Venezuelan President Luis Herrera Campins delivered his inaugural address on March 12, he announced his intention of halting Venezuela's ambitious drive toward full industrialization. "Mine," he said, "will be a government of sobriety, austerity and work." His*

### EXCLUSIVE INTERVIEW

*plan is to "reduce the balance of payments deficit, renegotiate the public debt, and instill discipline in public spending."*

*Does this mean the end of former President Carlos Andres Perez's development strategy?*

*Not without a fight. Not only does the Herrera Administration have to stop the ideas of the Perez government, as exemplified by the Fifth Plan of the Nation, but they will have to stop its realization — a functional industrialization process which has already spun off an 11 percent industrial growth rate, a doubling of aluminum production in the last two years, the generation of a million new jobs since 1974, and agricultural growth rates of 5 percent per annum over the last five years.*

*In short, Venezuela's Fifth Plan, the guiding policy of the Perez Administration, is no longer just a project or an intention, it is a reality today. And it is rapidly becoming the model for the Third World generally.*

*That's how our Latin American desk chief Dennis Small summed up his recent trip to Venezuela. For the Herrera government to stop the Fifth Plan, a very serious showdown will be necessary — one which Herrera and his international sponsors are already planning. An evening of conversation with Dr. Gumersindo Rodriguez, author of the Fifth Plan while Minister of Planning under Perez, served to fully confirm this perception.*

*Last week, Executive Intelligence Review presented Mr. Small's report on Perez's legacy in Venezuela and Part 1 of his exclusive interview with Dr. Gumersindo Rodriguez. The author of the Fifth Plan talked frankly*

*about the current dollar crisis, how oil can be used to bring highly capital-intensive production to Venezuela — and the Third World — and the benefits to be accrued by the advanced sector in such technology transfer deals, the future necessity of nuclear as the energy to fuel industrialization, the question of debt and credit, and the European Monetary System as an alternative financing source to the World Bank and the International Monetary Fund. Dr. Gumersindo Rodriguez then turned to the Fifth Plan and its enormous success. We pick up the thread of his conversation with Mr. Small as he concludes his description of the plan in terms of its basic objectives and the means by which these objectives are to be achieved.*

### Development or dark ages

The ECLA [Economic Commission for Latin America — ed.] model was saying that the capacity for import substitution of final products had been exhausted as the motor of growth. We showed that by expanding the internal market through domestic production of inputs using highly capital-intensive technologies, we generated an additional internal demand which permitted us to also increase the market demand for these durable goods. Thus, although import substitution of final products was reaching its limits, that was not the case for import substitution for the intermediate goods and the capital with which those final products are produced.

We said, we're going to produce basic goods, intermediate goods, and capital goods in Venezuela. We created a great demand which kept increasing the demand for durable goods. Now, however, the inputs are made here. This means that you keep increasing the demand for durable goods by producing the basic inputs in Venezuela. You have a continuous demand, an ever-increasing demand for these same goods, which creates employment, improves family income, etc.

What happens? In this process of increasing production of these goods, of their internal processing, you have demand for additional infrastructure. For example, to use the stoves, refrigerators, televisions, you have

# development plan

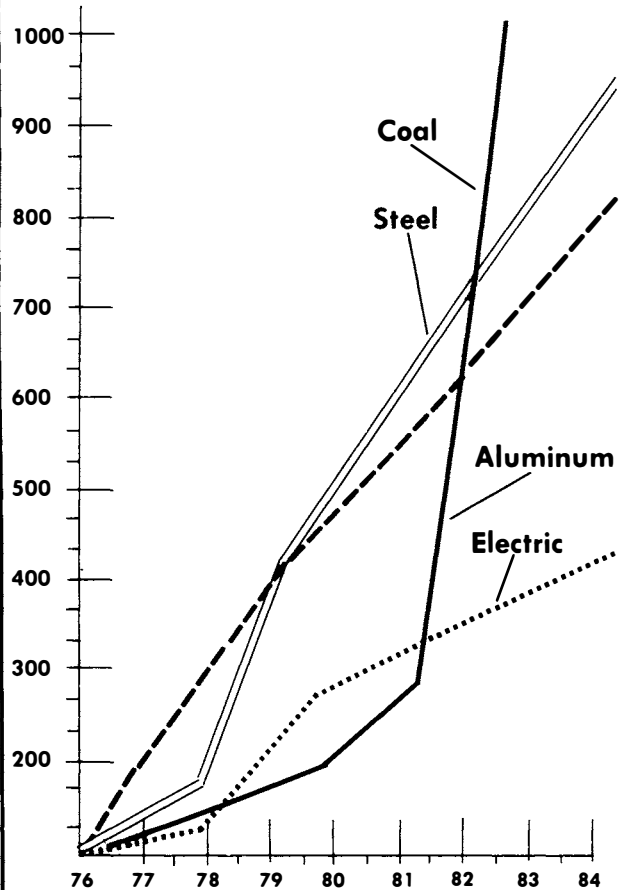
to generate electrical energy. You have to have an electrification plan consistent with the expansion of the demand of these consumer goods, consistent with the expansion of the industries which make them and their components. You're going to have durable objects of aluminum; but aluminum production needs high doses of electricity. Thus, this plan not only calls for the production of steel and aluminum, but also makes the generation of electricity necessary.

How are you going to generate electricity without using petroleum, except by constructing capital goods for hydroelectric and coal-fired generation? But once you carry out this process, since the natural resources are in different regions, you have to link the factory, the centers of production, the centers of consumption, and the centers of production of basic inputs. You thus have to improve the transport grid so that you shift from road to rail transport. Highway transport used to be acceptable for us because there wasn't heavy material to carry. Now, for example, you have to bring steel from Guayana [the eastern region of Venezuela, not the republic of Guyana — ed.] to the center of the republic. Thus, a rail system linking the centers of heavy industry to the centers where these inputs are processed is fully justified.

But as you create great industrial centers, you naturally run up against a very serious problem, which is the concentration of population around the industrial centers. Your rate of urbanization increases. People leave their farms, their homes in the interior of the country, in the rural areas, and need new housing near the industrial centers. So you have to plan basic housing development associated with the industrialization process. For this you have to speed up production of steel beams and rods needed for housing construction, and then rev up cement production in the country. Then you have to plan the production of basic inputs for housing.

But, seeing that in the first stage you don't have sufficient cement capacity, for example, and you have to import capital goods, you create port congestion which can't be solved just through logistical planning. You've

## Venezuela's Fifth Plan Production Targets 1976=100



Source: Various published plans by government agencies

Although nominally a five-year program, the Fifth Plan "locks" Venezuela into a commitment to certain heavy industry projects extending into the 1980s and 1990s, as Dr. Rodriguez explains.

got to build ports, port infrastructure, to be able to bring in these goods, and later, when imports have returned to normal levels, for the exports of the future.

The National Plan, thus conceived, is nothing more than a basic plan of structural investments, of investments in sectors for structural transformations of the economy, which the nation cannot avoid, because we have the following options: We could hold back the consumption levels of the population, stagnate, go back 20 years, and suppress necessity. That is, reach a kind of economic dark ages. We could do that perfectly well. But in a democratic society, the population will not accept it.

Dr. Perez Alfonzo maintains that we should not make large basic investments because they are a risk for the country. He underestimates our capacity of learning to manage these basic complexes. Very well then, if we don't make these basic investments and we accept the

standard of consumption of consumer durables which is satisfactory to the country, we would have to export more oil, until the oil runs out on us. And, in reality, when it runs out on us, we won't have anything else to export and the complete collapse of the country would ensue. Therefore, there is a contradiction in the conservationist thesis of Perez Alfonzo. He accepts the current standard of consumption. He knows he is not able to change it. He was one of those who introduced that standard of consumption, since he was one of the leaders of Venezuelan industrialization.

What we are saying is that once we accept the consequences of that modern standard of consumption, if we don't make basic investments, then the conservationist thesis of Perez Alfonzo in oil matters must be completely discarded, and we are forced to exhaust all of the oil to pay for the basic inputs we'd have to import for 10 or 15 years.

### **The Fifth Plan is irreversible**

The government-elect [of Luis Herrera Campins, inaugurated March 12 — ed.] can do anything it wants with the National Plan. They can deprive it of its name, so that it isn't called the Fifth National Plan, or even the National Plan. They can even try to cut it down; but they can't cut it down because fortunately we financed that plan in advance. We contracted foreign financial arrangements for every one of the projects. Why did we finance the plan in advance? Because we wanted to make downpayments in advance and fix the prices for the machinery and equipment that we will acquire. The corresponding contracts are already signed, the investments are well underway, and they don't depend on whether Venezuela does or doesn't export oil.

Now we're going to pay the international financiers in devalued dollars — the bulk of the loans were made in dollars — to purchase equipment in Germany, Japan, etc. Basically, we have moved from the United States to Europe in terms of where we acquire our equipment. Now, we will pay with devalued dollars, while oil has been upvalued. It's exactly as if we had bought future oil at spot prices, and are now selling it to pay those who lent us the money to buy it in the first place. That was exactly the operation we pulled off.

I remember an article from the extremely conservative magazine, *International Currency Review*. I cited that article in one of my congressional speeches at the end of 1977. It said that we had done the worst possible thing, which was to save our oil (through which we were contributing to the OPEC program of reducing or stabilizing oil production), putting ourselves in debt, and paying the United States with revalued oil in devalued dollars. They actually said this in a year-end edition; I think it was the October or November issue of *International Currency Review*.

What I'm saying is that even though the government-elect would like to make cutbacks [in the Fifth Plan — ed.] they would have to renegotiate the contracts and pay the financiers more than would be saved by the cutbacks. They can't do it. It's irreversible from the financial standpoint. We did it this way knowing full well that Venezuelan democracy would have these ups and downs which we wouldn't be able to control. This is reality. We can't control what's to come, but at least we can control the decisions made during our Administration.

If they try to redefine the production schedules for the inputs for these basic industries or the investment programs for these basic industries, the following would happen. Since they can't change the standard of consumption, because democratic society won't permit it — unless, of course, they want to establish a dictatorship to apply extreme controls over consumption — the standard of consumption will continue as is. The deficits in the balance of payments due to imports of these inputs will appear again — deficits for electrification, for transportation — and sooner or later the Fifth National Plan would be reestablished. It's *irreversible*, because it is based on a very realistic idea.

### **Educational leadership**

Of course, our National Plan does have certain consequences. It creates disequilibrium in the rest of the economy, in the rest of society, which is the logistical challenge we have to take on.

I called on Dr. Furtado, a leftist Brazilian economist and a very intelligent man, for his opinions on our development planning. I met with this most extraordinary economist and he told me: "Your planning is excellent. Through this planning you will be able to enjoy the luxury of resolving, in a short time, what other countries could not do in decades. Your problems will be essentially logistical."

We're dealing with these logistical problems. Venezuela is a country that has learned by doing. We were told: Don't go ahead with the National Plan, there aren't enough human resources. We answered: Human resources are formed in the process of development. I prefer the inefficiency of steel plants due to a lack of human resources, and I prefer to see them losing money for a few years and functioning as industrial universities for our heavy industry. Because if I see them as universities, they are a lot cheaper than constructing new universities for training students in industrial techniques. And if we don't give them [the students] industrial assistance for their employment, there will be a brain drain, they'll go to the United States, which is what's happening in Colombia.

Colombia has been training a part of its youth for development programs, but because they haven't had

any audacious development programs, these guys leave for the United States. So what it has really become is a manufacture center of human capital goods for free export to the United States.

Our problem is the exact opposite because we are a center of importation of human capital from other countries which have well-established human capital factories.

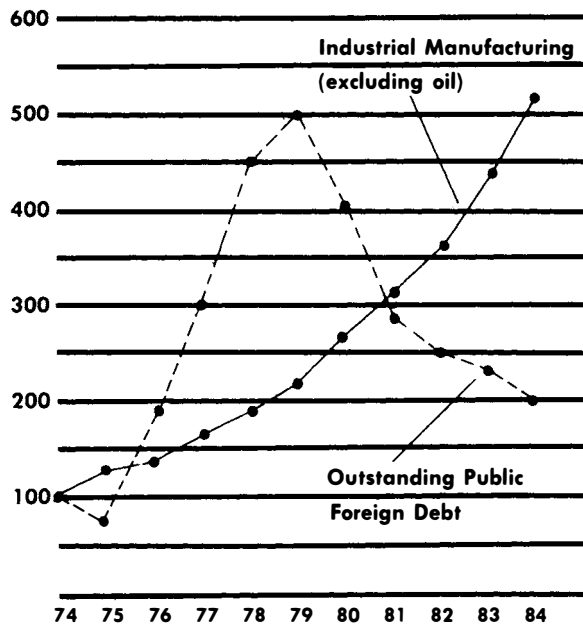
At the head of Cordiplan [National Planning Agency], I established the Ayacucho scholarship program for technical training. As soon as we started planning we established the Ayacucho program. We have sent thousands of students out of the country. In these other countries, capital investments were made in their universities, in infrastructure, in language schools, teachers colleges, etc. It has been demonstrated that students are more efficient in foreign countries than in their own Venezuelan universities and this is natural. It's proven that the immigrants, because of the challenge of the country where they go, take much more responsibility than they would in Venezuela for the security of our newly created wealth.

Venezuelan universities are extremely inefficient. Out of 100 people who enter the university, 20 or 30 graduate. On the other hand, of those we send to foreign universities through the Ayacucho program, 90 out of 100 graduate. So this has been a way of transferring capital into our country. Rather than spending more in capital investments in our own universities for it to be misspent due to the nature of our development, we've taken advantage of the entire human capital productive structure, the manufacture of human capital — which is what foreign scientific and academic centers are — to incorporate this new manpower coming back to our country into our new industrial process.

We had two objectives in Cordiplan which I designed into this program. You can't transform a society technologically without supplying the human input. But that isn't the fundamental problem. The primary problem is that once you have technologically transformed a society, it requires a new kind of leadership. One of the serious problems for a country like ours — and this will be the challenge of the future — is that there must be political planning, a much more complex human planning, once the National Plan has produced its results.

What happens is that you create a highly complex technological structure, and the country's political leadership, the leadership that is being generated, doesn't provide adequate levels of technical direction to manage this complex economy which is highly concentrated in the hands of the State. We have a democratic process and — due to social mobility and the basically democratic nature of our parties and the power blocs in Venezuela — people come to power from the lowest layers of the population. But they lack the development

### How the Fifth Plan pays for itself



The cost of financing Venezuela's development program has caused a temporary trade and payments deficit. But as the above chart shows, the funneling of Venezuela's debt into heavy industry will shortly enable the economy to recover the plan's financing costs. The Sidor program in the Guayana region alone will save almost \$5 billion in steel imports during the 1981-85 period.

necessary to govern. Thus, power in the hands of the people becomes a fiction. So sooner or later they become dependent on organized business, either national or the private multinationals, who have educated people with other concepts of how to run society, and you've failed to create a group of technicians, a class of technicians to run the state.

What have we done with the Ayacucho program? The process of student selection is based on three factors.

First consideration: The students must come from the poorest layers of the population; and of the poor, they should be those with the highest intellectual capabilities. How do you determine who are the poorest? Where did they go to school. You look at San Ignacio School in Caracas, which is generally where the upper middle class and the rich go, and you can assume those students are not poor. You can't ask people if they're poor or not, because they are going to tell you that they are, because they want the scholarship. You select the poor school, the rural school, the urban school in the poorest neighborhoods.

Secondly, the student must have been very good in the discipline that he's going to study. Throughout primary and secondary school he must have done well in subjects related to his discipline. If he's going to study engineering, he must have done well in physics, chemistry, and math.

Third, he has to be from the interior of the country, because there is a correlation between the interior and low income levels. Therefore, almost 80 percent of the Ayacucho program students are from the lower classes of the population.

What is sought with this? The creation of a highly qualified popular leadership to manage the most complex realities created by the process of industrializing the country. That is, the planning of human resources of the Ayacucho program satisfies not only technical considerations, in terms of fulfilling the human resource needs to feed the most complex industrial processes, but it is also, to a certain extent, a political planning for the future which will place the leadership of the complex technical processes of Venezuelan state leadership of the public and private economy, in the hands of a popular-based leadership, trained in the best centers of this country and abroad. We are creating an elite with popular origins for the most complex technological processes.

## Why industrialization?

*Q: On this question of manpower training, the Fifth National Plan model of "industry that industrializes," or investment in the intensive use of capital goods, is commonly criticized in the following two ways. On the one hand, it is said that Third World countries can't and should not concentrate on industry, because one must begin with agriculture first. Secondly, it is said that the intensive use of capital goods doesn't solve the basic problem of the Third World, which is unemployment. Therefore, labor-intensive projects are required. Generally, these two criticisms converge on a development theory which is labor-intensive agriculture and agricultural production for export, the proceeds of which, go to pay the debt. How would you respond to these two criticisms?*

**A:** I've thought a lot about this problem. I would accept discussing these things for densely populated countries such as India, China, or Pakistan. I would accept such a discussion, but that's not to say that I would agree that the thesis is correct; only that I would accept to discuss it.

In a country with the great natural resources of Venezuela ... the Venezuelan population, to a certain extent, is suboptimal relative to the available productive potential.

For example, the question of birth control. It sometimes seems to me that you need selective demographic policies. In groups and regions where the population can grow — because there are resources to sustain such growth, or where families can grow under

the best biological and intellectual conditions — there is no problem with a demographic policy of expansion, for those social classes and in these regions. Now, in marginal sectors, in areas where there's no ability to sustain it, I believe population growth is highly risky. Therefore, you can have a globally growing or relatively stabilized population, without disturbing the growth in supply of the necessary human resources. I would say that in the middle class, four, five or six children are possible, because they have the wherewithal to feed them; in the wealthier areas where that is possible, there wouldn't be any problem. But, in the first stages, there should be a lot of control over demographic growth in the poorest sectors, *while* they are being lifted from marginality and incorporated into wealthier layers where the population can grow.

I refer to this because of the problem of manpower. The employment problem and the agriculture problem is the following. In the first place, it is true that it is not possible to employ the population in the industrial sector if you don't have the agricultural base to feed them or if you don't have available exports to exchange for agricultural products to feed the population that works in the industrial sector. Therefore, we need agriculture. But because agricultural transformation is not a short-term proposition, since it is a question of investment in infrastructure and in human resources, you can't expect immediate results. That is they are deferred to a certain extent. You have to import agricultural products to make up for the deficit resulting from the increased demand and, in that way, feed the populations that work in the industrial sector.

I think it is really excessively simplistic to propose that emphasis should be placed on agriculture and not on basic industries. It is impossible to transform the agriculture of a country without electrification, which is a basic industry; without improving transport systems, which is a basic infrastructural element; without improving water systems, which is a basic infrastructural element; without improving steel production, which is basic for making tractors; without investing in the petrochemical industry, which is basic for fertilizer production.

It is preferable to temporarily feed the population with imported agricultural products, available today at rather favorable prices on the world market, in order to push basic infrastructure forward.

If I had the choice between only agriculture or only basic industry, everything for agriculture or everything for basic industry, I would say: Well, people can eat imports while they get on with building the basic infrastructure. Once I've got the electricity which enables me to mechanize agriculture, once I've invested in ammonia, urea, and fertilizer plants to be able to fertilize agriculture, once I've got the transport grid in place to ship the products, once I've got steel production for the tractor plants, well, I think then that my decision to

transform agriculture will be much easier. What would be more difficult is if I were to put all the resources into agriculture. How would I do it? I'd have to import tractors, I wouldn't have electricity and wouldn't have fertilizer, or would have to import it. And there I'd have one hell of a problem.

So, it is preferable to start with basic industrialization and then move toward agriculture, while using the international market to supply any deficits during the first stage. If I had to choose, I would more easily transform agriculture starting with industrialization, since it is more difficult under current conditions to industrialize starting with agriculture.

The United States industrialized beginning with agriculture. Or rather, it transformed its industrialization beginning with agriculture, since it had an export agriculture of cotton and other things which then had an extremely broad market. It was a much slower process. But today's conditions are different. The agriculture we need today has to be a highly mechanized, fertilizer-based agriculture. This requires a domestic capital goods industry.

In Venezuela, since we have the good fortune of being blessed with enough resources for everything, we can simultaneously pursue the basic industrialization process — which we are doing — and the process of building an agricultural infrastructure. Fortunately, the yields in the short term have been very good. But, to the degree that national industry supports agriculture, we will have in 15 to 20 years an agriculture supplied by the capital goods of basic industry.

Even more, if we had emphasized agriculture, rather than providing employment for the population in the urban centers through basic industrialization, we would not have created the income needed for the consumption of the agricultural product. Thus, we could have become just what the Russians were in the 19th century, with the industrialization process, especially that of Count Witte. That was an agriculture to export wheat, although the Russians were dying of hunger; and obtaining through wheat exports all the rolling stock for the Transiberian and Transcaucasian railroads. What happened in the end was that the peasants were so exploited that when Russia came to industrialize under the Communist regime, it was faced with a rural population bestialized by hunger and ignorance. To this day, Soviet agriculture has not really been able to recuperate from that human burden.

I think that the question here is an *industry that industrializes*. Because the real problem is the industrialization of agriculture. You could never think of making agriculture into the motor of industry. On the other hand, you *can* make industry the motor of agriculture.

Historically, agriculture was the source of capital accumulation through the exploitation of the agricultural sector, charging the terms of trade against it, selling in-

dustrial products high and buying agricultural products cheap. This brought about a kind of surplus fund, a social fund or a financing fund, in which industry grew at the expense of agriculture. In these societies, you could dominate the peasants and could expropriate them and do all sorts of things to them. But the problem is that today the peasant has been integrated, he participates in elections and democratic processes. The peasants today are a force and you can't impose on them the same terms of trade as in a backward society. So, you have to get them producing at high levels of productivity, since it is the only conceivable way. You have to change them based on industrialization.

## State dirigism

*Q: A question about the role of the state. The classical theses of the Manchester liberal school since Adam Smith claim that you have to leave everything to "the invisible hand," and that the private enterprise model of free exchange, free enterprise, is the solution to the economy. You are known as someone who believes precisely the opposite, that the role of the state is extremely important in the development process of Third World countries. Could you elaborate on the role of the state?*

*A: I think that the role of the state depends on the way, from the standpoint of economic development, you choose to administer the economic surplus, that is, the savings fund of a society. Its fundamental process is of accumulation in the strategic sectors. If you leave the accumulation process in the hands of the private sector, of the various operators in the market, these are operators with contradictory viewpoints. They look out for themselves. Rarely does this coincide with what is good for society as a whole. There is no doubt of this. These decisions of savings and investment, in the hands of the various operators, would not permit the concentration of resources in the strategic areas.*

Look at the difference between the Colombian and Venezuelan economies. In a talk I gave to the military officers of the central garrisons of Venezuela, I defined the problem. They were very worried about the Colombia-Venezuela border conflict, a potential conflict which exercises a strong underground influence on Venezuelan politics which is not often brought out into the open. I told them the following: The difference between Venezuela and Colombia is that in Colombia, development is not controlled by the state to the same degree it is in Venezuela. The reason is that the majority of the Colombian income from economic surplus — and especially the surplus in the form of foreign exchange — is administered by private operators. The private operator decides where these resources go, and the state can only offer inducements through indirect mechanisms.

For a number of historical reasons, in Venezuela, the state is the one which concentrates the surplus. Spanish

colonial legislation made the state the owner of underground wealth and, as the owner of the subsoil, it is the recipient of the major wealth, even when it is extracted by multinational enterprises. Today, the state is owner of that wealth and controls that economic surplus. The economic surplus is highly centralized under state control, as it would be in a socialist or nonsocialist statized economy.

The question is: How is it directed? I believe the state must outline two criteria. First, the sectors which the state considers strategic and which, because of their scale and their concentrated generation of capital accumulation, have to be in the hands of the state so that the state monopolizes the greater part of the surplus accumulation, the social surplus, the social fund for accumulation. The state has a greater capacity for overview than the different private operators individually. Thus, during a long period, the state has to take charge of the basic industries: oil, iron, steel, electricity, etc. Because that is where the greatest investable value-added is going to be created.

The problem then arises: How are you going to use the surplus which you are going to accumulate in the hands of the state? That is where the strategy of the state comes in, in the case of Venezuela. It's not that the state wants to absorb all sectors of the economy, but rather to direct things; the private sector is more efficient in this area, and so on. For example, supplying goods and services to the population, gasoline distribution networks, food in supermarkets, providing educational services, repair shops, small and medium industries, etc. The state can't absorb them for the fundamental reason that it would have to commit to them the best of its human resources which would distract them from their strategic function — to be concentrated in the key strategic sectors of production.

In the case of service industries, due to the multitude of components of the private sector, whatever antisocial tendencies some might have are compensated by the social tendencies of others. There can be a business which profits at the expense of society, but there are other private businesses whose profits don't reflect all the benefits they give society.

I would, therefore, modify the neoclassical scheme. The numerous small businesses, some with private profits which underestimate the social benefit of producing them and others with private profits which overstate their contribution to society, can operate perfectly well under the global macroeconomic direction of the state. The state can provide general norms for the private sector.

What are we doing? What we want is for the private sector — which develops on the basis of the surplus which the state transfers to them in the form of credits, fiscal incentives, exemptions, and other support — to be sufficiently democratic and self-compensating. For ex-

ample, if a strong industrial group forms in light industry and there are tendencies toward concentration of capitalism, we would stimulate consumers to form cooperatives and worker-managed enterprises which would act, in Galbraith's terminology, as "countervailing powers" and bring the big industrial groups under some degree of control. Then we would create yet another option for these same strong industrial groups — now monopolistic or oligopolistic — to compensate a little for this newly established power.

We will thus be creating a more balanced, more democratic, capitalist structure. We also think that the working class, through the investment of its own savings, could participate in stock ownership of their businesses and other such mechanisms, so that all the value-added created in the capitalist sector of the economy is not simply consumed.

What happens? What is our philosophy, as the state, for the capitalist sector of the economy? It is the non-strategic, nonfundamental, sector where economic surpluses are not concentrated. In this case, the state posits the principle that the private sector must internalize as much as it can some social costs of development. For example, the private sector has to finance part of the formation of human resources in the society. The private sector has to absorb part of the cost of feeding the population in cafeterias, in public eating places around their companies.

The private sector can take care of a number of needs. To the degree that the private sector takes care of such social needs — for example, forming its own human resources through joint programs with the government, such as industrial apprenticeships and financing of INCE [National Institute for Educational Cooperation — ed.], running social development programs, contributing improvements to the communities it works in — the less the tax burden on it will have to be. Because if the private sector is really producing for society an equivalent of what the state will provide for it in terms of social services, then there is no reason for the state to collect these taxes to then spend them on providing the service. In Venezuela, the income base of the state, of the state investment funds, is not going to come from the tax system. State funds come primarily from the business profits of the state in the strategic sectors.

If you have a basic business sector which has high profit rates because it is highly capital-intensive, you can be much more certain about the accumulation process. Also, people consider the profits which the state makes as entrepreneur to be legitimate, but they don't view the profits made by the state through the taxation system as socially legitimate. Therefore, we prefer to develop a highly productive state sector, so that we don't have to base ourselves mainly on fiscal expedients.