

# The devolution of Venezuela

*Fred Marlowe outlines how the Herrera government's free-enterprise policies have undercut the economy.*

Venezuela, an oil-rich country which two years ago was in the process of becoming a modern industrial nation, is now suffering the effects of a conscious policy of economic contraction, following a drastic change in leadership and policy.

In March 1979, the new administration of Luis Herrera Campins replaced the nationalist, progrowth administration of Carlos Andrés Pérez. Herrera brought in official policies of fiscal austerity and free trade; the long-term Sixth Plan adopted by Herrera was designed in Israel by adherents of Friedman's economics.

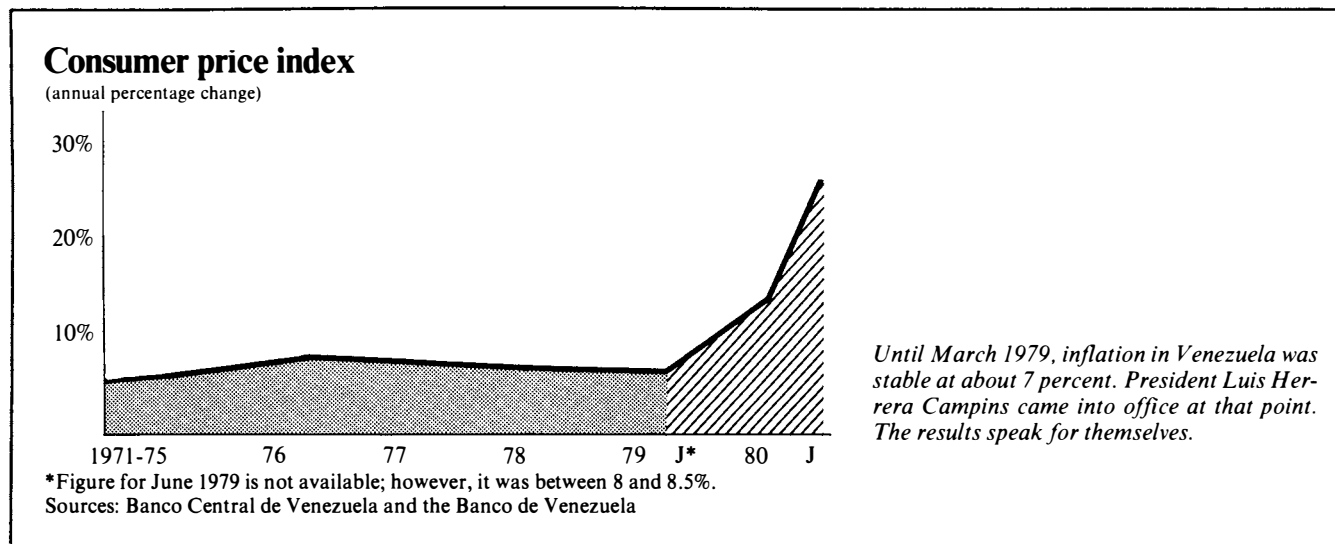
The stated immediate aim of the plan is to administer "shock therapy" to the Venezuelan economy in order to halt the "excessive" growth of the Pérez period. The government has also implemented short-term austerity policies which have succeeded in bringing the growth of Venezuela's GNP down from over 7 percent in 1977 to 0.7 percent in 1979, and slashing living standards.

The Herrera administration's Sixth Plan is a five-year program that re-orientes policy from the emphasis on capital-intensive development of the Pérez administration into "social priorities": education, housing, public services, and income redistribution. President Herrera is officially committed to only five of the major industrial

projects Pérez started: the Caracas metro, the Guri hydroelectric plant, the INOS water supply projects, the Corpozulia iron and coal project, and a housing program designed to build 600,000 new units in five years.

The government's aversion to modern technologies and capital-intensive production is evidenced in a speech Treasury Minister Luis Ugeto delivered at the annual joint assembly of the International Monetary Fund on Oct. 1: "Petroleum creates a bias towards the intensive use of capital, by making highly technical capital-intensive processes cheap, which is at odds with the level of efficiency of the rest of our productive process and which makes full employment a more difficult goal to be attained. . . . The manual labor cost structure, heavily influenced by a high wage level in the oil sector, which is capital-intensive, radiates to the other industries of the modern sector, through highly organized labor unions. In this way they are incapable of absorbing available employment, in quantity or in quality, thus creating a marginal population which is incapable of being absorbed, unless properly trained, and leaving the public sector the task of employing them beyond its real administrative necessity. . . ."

Besides fiscal austerity, the new government has



begun to deregulate both the private and state sectors of the economy. A major portion of the state sector is being sold to private-sector interests.

In the past few months, the government has liberalized the nation's strict pricing structure. The result for many basic necessities has been a surge in speculation, which has sent prices zooming and produced widespread shortages of foodstuffs, even with a bumper crop this year. Food prices have leapt by 40 percent in the past month, despite the elimination of many import barriers and restrictions. This situation is expected to grow worse next year as the basic infrastructure in the countryside is collapsed by a freeze on government loans to farmers and agricultural projects.

As part of the deregulation of the state sector, the three largest banks in Venezuela, all owned by the government, will be sold to private investors. The government is also in the process of planning the sale of state-owned companies, such as sugar refineries and cement factories.

Labor is included in the plans to deregulate the economy. As a first test case, Carlos Villaroel, president of the National Institute of Ports (INP) and a close Herrera ally, has put forward a plan to deregulate the

port sector, and then sell it to the private sector. The plan calls for increasing the revenues of the INP by, in Villaroel's words, "the implementation of strict austerity policies to reduce costs of operation to reasonable levels . . . [and the] liquidation, at the point of the switch [from the state sector to the private sector] of the totality of the workforce. . . . Then there will be an immediate hiring of a workforce which will be only 60 percent of the original one. This will facilitate a rigorous preselection process. It is essential that the current employer relationship be replaced, so as to interrupt the existing labor relationship, and then create a new one."

The Herrera labor policy goes beyond simple union-busting and the firing of tens of thousands of workers. It also calls for the abrogation of collective contracts in general and the creation of "cooperatives" in their stead. Under these cooperatives, a pool of workers will be available who will be hired as jobs come up.

The case of the country's single tractor factory, Fenatraco, is illustrative. As part of Pérez's ambitious industrialization program, several key industries such as truck, tractor, and machine tool production had been encouraged. On Oct. 3, 1980, after the intervention of Herrera's development minister, Manuel Quijada, the

## Carlos Andrés Pérez makes a comeback

During the last month, a political battle has emerged in Venezuela as former President Carlos Andrés Pérez has staged a remarkable political comeback. This is evidenced by two developments: first, a series of national strikes sponsored by the CTV labor confederation has badly shaken the government of Luis Herrera Campins; second, Pérez's faction within the opposition Acción Democrática party won control of the post of secretary-general in recent primary elections.

The comeback has surprised and panicked the Herrera government as well as the ruling party, Copei. Only three months ago, Pérez was on the verge of being prosecuted by the government on several corruption charges. This Watergate, which was accompanied by a purge attempt against Pérez's supporters, was eventually thrown out of court thanks to some fancy parliamentary footwork by Pérez's congressional allies.

The underlying reason for this political shift is the state of the Venezuelan economy.

Pérez has been quick to make political capital out

of the difference between his progrowth policies and Herrera's recessionary approach. The former president publicly organized against Herrera's austerity in meetings and "walking tours" across the country, which in some cases have drawn upwards of 60,000 supporters. His attacks are typified by a speech he gave in the rural town of Acarigua, after a march with 12,000 supporters:

"During my five years of government we provided abundant credits to the rice producers, to the corn producers, sorghum producers, to the cattlemen, and left the region of Portuguesa in prosperity and abundance in various areas of national production. Today the last of the good harvests is coming in, and it is the result of the infrastructure that *my* government left. However from next year on, we shall see with pain that the *decapitation* of the fields of Portuguesa, and all Venezuela, has started. Harvests will start to diminish."

In this particular speech, Pérez went on to describe how the Herrera government had dried up credits and stopped infrastructural projects. He ended ironically: "President Herrera Campins loves the poor so much that every day he is creating more poor people, in order to have more poor people to love."

On Oct. 26, Pérez's political faction within Acción

tractor factory was shut down. Although the plant had already sold 1,600 units, and was in the process of setting up an efficient maintenance network, not available for foreign-built tractors, the operation was deemed unnecessary. The reasons cited for closing the factory were that it could only be maintained by continuing Pérez's protectionist tariff policies, which of course are opposite to the "free trade" policies of Herrera.

The formula underlying the shutdown was made explicit in an official communiqué that stated: "No enterprise whose products will mean a rise in the costs of production for the farmer can be kept operating. Because of this, it is not advisable to maintain the tractor company."

The shutdown has caused an uproar among Venezuelan industrialists, but the installation remains closed.

### Energy policy

The mentality of the Herrera government is typified in its handling of the oil industry. Although Venezuela is one of the world's largest oil producers, Herrera has instituted a policy of energy austerity designed to "conserve" oil. As part of this policy, a law was passed prohibiting the manufacture of eight-cylinder cars in

Democrática swept the primary elections. Jaime Lu-sinchi, a close political ally, was elected secretary-general of the party, and it is expected that Pérez's followers will take the majority of the seats in the National Executive Committee during the AD's upcoming national convention.

One prominent Venezuelan banker interviewed by *EIR* stated: "There has been a radical change in Venezuelan politics . . . this was proven by the massive support for Pérez, his policies and his people, by the constituencies. I don't even think that Pérez thought he had as much support as what surfaced. . . . This gives Pérez tremendous muscle."

Pérez started to flex this muscle on Oct. 23, when the CTV labor confederation ordered 15,000 postal workers and 20,000 dock workers to go on strike. Ostensibly the strike was a response to massive layoffs of postal workers, and to a 40 percent rise in food prices over the last few months. But the political underpinnings of the strike were evidenced by CTV president José Vargas's attacks on Herrera: "The government has to change its current economic policy, return to price regulation for basic commodities, and rehire the workers fired from the postal services." It is well known that Vargas and others of the CTV leadership are with the Pérez machine.

## Growth of Venezuela's GNP

(annual percentage)

	1968-73	1973-77	1978	1979*
Total GNP . . . . .	5.1	6.8	3.2	0.7
Non-Petroleum Sector	6.9	9.5	3.7	0.2
Manufacturing . . . .	6.7	9.3	4.9	3.8
Agriculture . . . . .	3.6	4.2	6.3	3.7
Construction . . . . .	11.6	15.0	11.0	-9.8
Commerce . . . . .	4.4	9.9	0.2	-6.6
Services . . . . .	7.1	8.7	2.9	4.1

\*1979 is the first year of the Herrera administration.

Source: Banco Central de Venezuela

Venezuela starting in 1981. In addition, every car has to be kept off the roads at least one day during the week. Fines are levied on those who disobey.

The most destructive single element of the Herrera energy policy is probably the development of the Orinoco "heavy oil" belt in eastern Venezuela. This project has become top priority for the antidevelopment forces in Venezuela. The reason is that the oil in the Orinoco belt is virtual tar, with high sulfur content, which makes it difficult and costly to extract and refine. The Orinoco belt is thought to be unprofitable at world oil prices under \$60-\$70 per barrel; its promoters prefer to channel resources there, betting on a new energy crunch, rather than into the industrial economy.

Another disputed element of Herrera's \$8 billion Orinoco oil strategy is his invitation to foreign companies—possibly Bechtel or Exxon—to develop the belt. Pérez nationalized Venezuela's oil industry in 1974, and foreign participation in extraction is technically outlawed. Pérez's followers believe that Herrera is moving toward reversing that policy.

A real energy program based on the development of nuclear energy is not even being considered by the Herrera government. The emphasis has been exclusively on "renewable" resources and "soft" technologies such as solar energy. Venezuela has already contracted the Israeli government to develop an "integrated agricultural program using solar energy as its energy source." With these policies, Herrera expects to make Venezuela into the "model" Third World economy that the Club of Rome has been calling for.

### Financial situation

In order to "get the economy in order, lower inflation, repay the debt, and balance the budget," Herrera has implemented monetary policies designed to "cool off" the economy. The growth of GNP was successfully slowed to 0.7 percent in 1979, as noted above, during the first year of the Herrera administration. The chart

above shows how the growth rate dropped in all sectors except services. Most significant is the decline in the construction industry, traditionally one of the largest employers and value producers in Venezuela.

Foreign debt has almost doubled in the year and a half since Herrera took office. Short-term debt has increased from \$4.5 billion in March 1979 when Herrera was inaugurated to \$8 billion as of June 1980.

The increase in borrowing is not expected to slow, since the government needs to finance a large 1981 budget. In order to underwrite wasteful programs such as the Orinoco heavy oil project, the treasury has planned a 1981 budget of \$22 billion; though roughly double the 1979 budget, this does not include funding for government industrial programs, such as those handled by the Investment Fund (FIV).

In order to disguise the size of the budget, the government resorted to drafting an official budget of \$16.5 billion, consigning the remaining \$5.5 billion to be appropriated through "special laws." This tactic has backfired, however, as the opposition party, Acción Democrática, has publicly attacked the coverup and the underlying policy behind the budget as a whole.

After an examination of the programs and policies implemented in Venezuela since Herrera came in, one conclusion recurs: the only thing anyone in Venezuela has to do with these policies is to implement them. The policies themselves have been designed and elaborated by a nexus of foreign governments and organizations including the Israeli government, the Club of Rome, Milton Friedman's Mont Pelerin Society, and the Rand Corporation.

### Israeli input

*Business Venezuela* magazine reports that the Sixth Plan is based in its entirety on a 1,000-page study titled "A Profile of Industrial Policy, 1980-85," which was researched by former Israeli Planning Minister Meier Merhav and a team of Israeli experts. Another link between Venezuela and Israeli policy-makers is a Venezuelan company called Orinoquía. Two months ago, this company set up an official treaty between Israel and Venezuela, covering such areas of collaboration as agriculture, industry, and education.

The fact of the matter is that the policies of the Herrera administration had been decided on before he was sworn in as president. One month before his inauguration, 100 "illustrious thinkers" traveled to Venezuela to participate in a conference that elaborated the economic policies Herrera later implemented. Reported by the press as major speakers were Aurelio Peccei, president of the Club of Rome; Charles Wolfe, director of the Rand Corporation; and Yehezkel Dror of the Hebrew University of Israel.



## German FDP wants to end 'gigantomania'

by Rainer Apel

West German Foreign Minister Hans-Dietrich Genscher, the chairman of the Free Democratic Party, has pledged to lead his party in the fight against the materialistic "gigantomania" of economic development. Speaking at the national convention of the FDP in Munich Dec. 5-6, Genscher declared that the emptiness of the federal coffers will help to effect "fundamental changes in basic values among the population" in the direction of "warmth and solidarity."

"Simpler and smaller—that means more comprehensible and more humane," Genscher said. "The movement for a natural environment is unstoppable; as most people feel and many know, the destruction of the natural environment is a crime against the future."

Genscher's endorsement of the back-to-nature ideology of the movement which in the United States calls itself the "Aquarian Conspiracy" is a first for the foreign minister. Genscher otherwise puts himself forward as the Bonn government's foremost "Atlanticist," the statesman who knows how to "get tough" with the Russians.

The Munich convention marked the consolidation of the FDP as an "Aquarian" party—a process which has been under way for over a decade. The party voted up a resolution calling for repeal of the federal constitution's strictures against homosexuality and incest, a demand

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Above: Hans-Dietrich Genscher (r) with Chancellor Schmidt.