External Sources of Funds for the Economic Development of Venezuela

S. S. Shinde
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EXTERNAL SOURCES OF FUNDS FOR THE ECONOMIC DEVELOPMENT OF VENEZUELA

by

S. S. Shinde

A thesis submitted in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE in

Economics

UTAH STATE UNIVERSITY
Logan, Utah

1965
The writer of this thesis is a student who was born and reared in India. He came to the United States for university training. The enormous difference between the economic conditions in India and the United States made tremendous impact upon the writer's thinking which resulted in generating interest in forces and factors which promote the economic development.

Observing that Venezuela had made very substantial progress in its economy, he felt that a study of capital inflow into Venezuela may offer some clues which could be used to stimulate the economic development in India. The writer never has been to Venezuela, he is not at all familiar with Spanish language, and has labored under some rather severe handicaps and limitations; however, the writer feels that the study has been greatly worthwhile for his personal development, even though it may have some limitations with respect to the nature of capital commitments in Venezuela.

One serious problem encountered was in obtaining current information. Since the writer cannot read Spanish all statistical information had to be obtained from translated reports, government documents and similar sources. There appears to be a considerable time lag in translating the Spanish into English. There was no practical way to overcome this difficulty.

The writer expresses his gratitude for the invaluable guidance that was offered to him by Dr. V. L. Israelsen, Professor of Economics. Sincere thanks are extended to Professor L. J. Arrington, Professor Austin Haws, and
G. A. Meyer for their valuable suggestions and encouragement.

Finally, many thanks to Mrs. Charell Harris who has patiently typed the thesis.

S. S. Shinde
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CHAPTER I

INTRODUCTION

Economic development of a country is generally regarded as an urgent need. It is necessary to improve the standard of living, promote mass education, and improve the general health of the people. The economic development of a country is important not only for the welfare of the people, but it may also promote the establishment of a democratic form of government which many regard as a highly desirable goal.

The vital factors that are involved in the process of economic development are land, human resources, technology, and capital. These basic factors must be effectively organized and utilized if growth is to occur. In an underdeveloped country, the lack of capital is likely to constitute a severe obstacle on the way to economic progress. A country may finance its capital development either from internally-generated capital or from foreign capital. Internally-generated capital may be impossible because of the low level of income which may render saving impossible; in any event the ability to save would be at the minimum.

The purpose of this thesis is to examine certain aspects of the Venezuelan economy briefly and to study the inflow of external capital into Venezuela following World War II.
The sources of external capital studied in this thesis are of two kinds:

1. Foreign public agency capital
2. Foreign private capital

The first may be conveniently classified as direct governmental grants or assistance, and assistance provided by international lending agencies. There is a vital distinction in these sources. Grants need not be repaid, though certain conditions may be imposed before the grants are made. Some forms of assistance may be outright grants with few, if any, strings attached. Loans are interest-bearing and normally must be repaid.

Any reference to events which transpired prior to World War II are purely of historical orientation. Also, in general, the writer has excluded from the study short term funds (commercial loans granted for less than five years) and the very recent activities and financing of the Alliance for Progress.

It would seem desirable to define an underdeveloped country and examine the criteria by which an area is classified as an underdeveloped country. But the primary objective of this study will be to examine and, as far as possible, explain the role that foreign capital investment has played in the economic development of Venezuela in the postwar years.

**Definition of an Underdeveloped Country**

What is an underdeveloped country? A good definition of an underdeveloped country has been skillfully given by the General Manager of the
United Nations special fund for economic development:

Everyone knows an underdeveloped country when he sees one. It is a country characterized by poverty, with beggars in cities and villagers eking out a bare subsistence in the rural areas. It is a country lacking in factories of its own, usually with inadequate supplies of power and light. It usually has insufficient roads and railroads, insufficient government services, poor communications. It has few hospitals, and few institutions of higher learning. Most of its people cannot read or write. In spite of the generally prevailing poverty of the people, it may have isolated islands of wealth, with a few persons living in luxury. Its banking system is poor; small loans have to be obtained through money lenders who are often little better than extortionists. Another striking characteristic of an underdeveloped country is that its exports to other countries usually consist almost entirely of raw materials, ores or fruits or some staple product with possible admixture of luxury handicrafts. Often the extraction and cultivation of those raw materials exports is in the hands of foreign companies.¹

This definition is only a broad basic description of an underdeveloped country. However, all the underdeveloped countries do not fall into one category. Each country is different from any other with respect to its problems and in the manner in which it attempts to solve these problems.

Categories of Underdeveloped Countries

At least four categories of underdevelopment can be distinguished:²

1. Countries with low per capita incomes, but with unutilized known


resources. These countries are currently making progress both in agriculture and industry to increase their per capita incomes. The following countries are in this category: Argentina, Brazil, Ceylon, Columbia, Mexico, Peru, the Philippines, Turkey, Italy, and Venezuela.

2. Countries whose per capita incomes are low, yet whose incomes are rising. These countries do not have abundant resources relative to the size of their populations. This category includes: Burma, China, Thailand, and perhaps Pakistan.

3. Countries which are poor, with stagnant economies, even though they are rich in resources. Indonesia is a good example of this category.

4. Countries which are very poor in per capita income, stagnant, and also poor in resources. Examples of this category are Libya, Jordan, and Yemen.

These classifications represent fundamental differences in basic economic situations, and point up differences in the nature of the policies that may be required to attack or solve underlying problems. However, in recognizing these differences, all of the underlying problems are those of capital, population, resources, and technological capability. Changes in any of these interact upon the others. None can be skilled in isolation but the primary concern here, as noted earlier, is the role of capital in the development of an underdeveloped area.

The concept of economic development is relative in time and space. The major objective of growth is the explanation of all productive resources by a country in order to increase per capita output and real income. Definition of development given in a recent United National publication, emphasizes that
development concerns not only man's material needs, but also the improvement of the social conditions of his life. Economic growth, therefore, consists of an increase in per capita incomes, and reflects the degree of industrialization, infant mortality rates, and the proportion of children attending school.¹

Capital occupies a central position in economic development. It is essential not only to the process of development but also as a strategic factor for growth. The process of capital formation is interacting and cumulative. It increases income, which in turn increases capital formation.² The creation of real capital—roads and railroads, factories, farm houses, towns and cities—is the very core of development. The rate at which development proceeds depends upon how rapidly stock of real capital of a country can be increased. This, in turn, depends upon the current income and how much of it is utilized to create real capital.

In most underdeveloped countries, a large part of the population lives at the level of bare subsistence. Therefore, there is practically no saving which can create new real capital. In some cases the small saving that may be achieved is dissipated in non-productive ways. Thus the shortage of domestic capital often is a major obstacle to satisfactory economic growth.


In this case access to foreign capital is of considerable importance in starting self-generating development. ¹

THE ROLE OF FOREIGN CAPITAL

The inflow of foreign capital is likely to serve the predominant purpose of developing primary production and to develop facilities that are necessary for the growth of export and manufacturing industries. Before export industries have developed, the foreign currency required for the purchase of foreign capital such as equipment is likely to be in short supply. However, such currency normally becomes available when exports have increased. ²

Private foreign investment is important because it comes into the country on a commercial basis. Such investment funds are not likely to be misused because these funds are managed by personnel with experience in the investing firm. Such investments differ from inter-governmental grants and loans, or loans or grants made by international agencies, which are often determined by political consideration. ³

The importance of foreign capital has been shown clearly in the case of Venezuela, a country which has relied heavily on foreign capital for its economic


³ Ibid., p. 143.
development:

Venezuela’s economic growth has coincided with huge increase in foreign investment. Direct investment of United States capital alone in Venezuela—representing perhaps two-thirds of foreign direct investment in the country—rose from $232.5 million in 1929 to $993 million at the end of 1950 and as of that date constituted the second largest United States direct investment in any foreign country. The country’s rich petroleum reserves have provided the basis for the capital entry of an amount estimated as high as $2 billion of foreign capital. Petroleum development and the estimated $157 million of other foreign investment could not have taken place without Venezuelan Government cooperation and approval and the maintenance of conditions generally favorable to the conduct of business by foreign enterprises.

The Venezuelan Government recognizes the role that new private foreign capital can play diversifying the economy, now largely dependent upon petroleum, by continuing a minimum of purely legal barriers to the establishment of foreign enterprise. At present, petroleum provides directly or indirectly, two-thirds of Government’s revenues, and crude petroleum and refined products account for 97 percent of Venezuela’s exports.¹

Review of Literature

Since World War II many organizations have helped underdeveloped countries to achieve stabilization and development. The United Nations, United States Government, and other organizations have published a vast quantity of literature on underdeveloped countries. A number of these studies and reports are listed in the bibliography.

Besides these publication, many authors have worked for (or been associated with) one or more of these organizations. Prominent authors on

the subject of underdeveloped countries are cited in the bibliography. Salient points developed by some of them follow.

Professor Benjamin Higgins, in his book Economic Development, emphasized capital accumulation and capital outputs ratios, technological dualism, enterpreneurial motivation, and the backwash effect of international trade. He also indicated that there were two important ways to accelerate growth: (1) to increase the per capita level of investment, and (2) to induce the incremental capital-output ratio. He is of the opinion that only rapid change in a mechanized agriculture, with enough industrialization to absorb the population displaced from the rural sector, will assure a take-off into steady growth.

Characteristics of underdeveloped countries and how each of them differs from another with respect to their problems and development are given by Stephen Enke, Professor of Economics at Duke University, in his Economics for Development. The author discusses the importance of the international movement of capital, and the relative differences of the kind of capital which flows into an underdeveloped country and its usefulness in the development of the country. His conclusion is that the emphasis on foreign assistance can be extremely dangerous. Underdeveloped countries lack the capacity to absorb large increments of capital. What they need are technical assistance and guaranteed markets abroad.

Bauer and Yamey, who produced a work entitled The Economics of Underdeveloped Countries, begin by examining the conceptual and practical difficulties of measuring national income, capital, and labor force. Then the authors describe the role of government in development.
John Dyer, Associate Professor of Marketing and Foreign trade at the University of Miami, in his recent United States-Latin American Trade and Financial Relations, discusses the capital flow from the United States and other international agencies into Latin America, and its necessity and usefulness in developing the natural resources to improve the economy of the underdeveloped countries in Latin America.

Kindleberger, Professor of Economics at the Massachusetts Institute of Technology, in his Economic Development attempts to indicate the present understanding of the economic growth of underdeveloped countries. He also examines the theories which emphasize how these factors can be substituted one for another. He stresses the importance of social and political development along with economic growth.

Professor W. W. Rostow, in The Stages of Economic Growth, distinguishes five historical stages of economic growth: (1) the traditional society, (2) recondition for take-off, (3) the take-off, (4) the drive to maturity, and (5) the period of high mass consumption. The take-off is the period during which a series of events combines to ensure that per capita income will rise in the future. According to his theory the requirements for take-off are social overhead capital and surge of technological development in industry and agriculture.

Perhaps the most important work about foreign capital in Latin America has been done by the United Nations Department of Economic and Social Affairs. This United Nations study, Foreign Capital in Latin America,
was published in 1955. It contains a broad survey of the development of foreign investment in Latin America and national policies affecting such investment. The second part of this study contains a chapter on each of the twenty countries in Latin America. Each chapter is devoted to a study of the country's historical development, debt situation, foreign investments and summarizes the laws and major governmental policies affecting private foreign investment at the time the study was made.

1 Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.
CHAPTER II

A BRIEF INTRODUCTION TO VENEZUELA

In this chapter the writer will attempt a brief account of Venezuela: the discovery of the country, its early history, its people, the government, and a thumb nail sketch of education and resources. Brief and sketchy as it is, this information may help the reader to understand better the material presented later in the thesis.

Historical Background

Venezuela was discovered by Columbus on his third voyage in 1498. The first European settlement in Venezuela was established in 1532. The region now known as the Maracaibo lowlands, at the foot of Paraguana Peninsula of Venezuela, was inhabited next in 1529. However, the foundations of the nation were laid during the sixteenth century by Spanish colonizers who transplanted the institutions and culture of Spain in Venezuela.¹ In 1810 Venezuela revolted against Spain under the leadership of Simon Bolivar. Until 1830, when Venezuela adopted its own constitution, it was a part of the greater Colombia Federation.

Venezuela's independent existence during the 19th and 20th centuries has been characterized by frequent periods of political instability, dictatorship, and revolutionary turbulence. Nevertheless, Venezuela enjoyed a brief period of democracy for the first time between 1941 and 1948. However, the popularly elected government of President Gallegas was overthrown in 1948. A military Junta ruled until late 1952, when Marcos Perez Jimenez was designated Provisional President by the Armed Forces.

In 1958 the Armed Forces deposed Marcos Perez Jimenez, established a Provisional Government under a military Junta, and conducted free national, state, and municipal elections in a peaceful atmosphere. The elections were accomplished peacefully with Romulo Betancourt winning a near majority of votes to become the President. The new government was inaugurated for a five year term, on February 13, 1959. After the successful completion of Betancourt's five year term, Dr. Row Leon, the candidate for Democratic action party was elected in 1963.

The Country and its People

Geographically, Venezuela is bounded on the north by the Caribbean Sea and the Atlantic Ocean, on the west side it is bounded by Colombia, on the south by Brazil, and on the east by British Guiana. With a coastline of

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1 Ibid.

1,750 miles, and an area of 352,150 square miles, the area of Venezuela is larger than the State of Texas by one-third. It has four main geographic regions: The Andean Highland, extending in an arc from the Columbian border in the Southwest across the Northern coast, and terminating in the Paria Peninsula; the Maracaibo Basin (a V-shaped lowland surrounded, except at its northern outlet by two spurs of the Andes) the Llanos (a low, gently sloping plain that extends from the Andes on the west and north to the Orinoco River), and the sparsely inhabited Guiana highlands, lying south and east of the Orinoco River. These areas are shown on the accompanying map.

With an estimated 8,000,000 people in March 1963, Venezuela is one of the sparsely populated countries of the world—about 17 persons per square mile. The average rate of growth of population has increased by 4 percent a year since 1950, and at the same time the death rate has been reduced by almost one-half in the last 15 years. The population growth is not evenly distributed. The population in the urban area is increasing more rapidly than the population of the country as a whole. The increase has taken place mainly in Caracas and the surrounding area, and also in the areas where the oil industry is a major source of employment. Forty percent of the people

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2The Economic Development of Venezuela, The United States has 48 per square mile; Latin America, 25. p. 6.
live in the rural areas and 60 percent in the cities. Two percent of the people are aborigines, mostly in the Orinoco-Amazon forests of the extreme south and in the extreme west along the towering slopes of the Columbian-Venezuelan Andes, not far from the Maracaibo settlement. ¹

In terms of national origins, Venezuela has a mixed population. There are immigrants from many nations, although the European element is predominant. This admixture of population consists mainly of Indian-White, Indian-Negro, and White Negro. These groups constitute 65 percent of the total population. The remainder is as follows: European countries, 20 percent; Negroes, 8 percent; and Indian 7 percent. In its efforts and desire to develop industry and agriculture, Venezuela continues to encourage immigration, particularly from western Europe. ²

The overwhelming majority of the people are of the Roman Catholic faith. By legal sanction, on July 28, 1824, the Roman Catholic Church became the State Church. The church in the ordinary course of events cooperates with the Armed Forces. However, the relations are undergoing a gradual change, as the church policy calls for closer association with labor circles. Although the great bulk of the population is Roman Catholic, Jewish, Moslem, and various Protestant congregations are present.

¹ Ibid.
² Ibid.
Education

During the colonial period education was in the hands of the church and was restricted to a very limited section of the population. However, in 1856 education was removed from the jurisdiction of the Roman Catholic Church and in 1870 a decree made education free.\(^1\) Today schools of Venezuela are classified as federal, state, municipal, or private, according to whether they are founded and supported by the federal government, states, municipalities, private individuals, or institutions. Education in the government schools from primary grades to and including the universities is free.

The Ministry of Education is in charge of all official primary and secondary schools, and a number of special institutions. In 1963 the school enrollment in Venezuela was as follows:\(^2\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary Schools</td>
<td>1,346,751</td>
</tr>
<tr>
<td>Secondary Schools</td>
<td>137,823</td>
</tr>
<tr>
<td>Teacher Training Schools</td>
<td>29,018</td>
</tr>
<tr>
<td>Trade Schools</td>
<td>59,831</td>
</tr>
<tr>
<td>Universities</td>
<td>26,829</td>
</tr>
</tbody>
</table>

The largest of all the institutions of higher education is the Central University of Caracas with an enrollment of 16,098 in 1960.\(^3\)

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Organization of the Government

Venezuela is comprised of 20 states, a federal district, some federal territories, and several federal dependencies which include 72 island possessions in the Caribbean Sea. The national government is composed of separate executive, legislative, and judicial branches. The President, the members of the Senate and the Chamber of Deputies are elected by direct vote for a term of five years. The Justices of the Federal Court, and the Court of Cassation, are elected by the two houses of the Congress. The State Governors are appointed by the President. Each state has a legislative assembly, whose members are elected by popular vote. Municipal councils are elected for each district of the states, for Federal District, and for Federal territories. The President and the ministers of his Cabinet comprise the Council of Ministers. ¹

The legislative power is exercised by the Congress, which consists of a Senate of 51 members, and a Chamber of Deputies of 133 members. Their power and duties correspond to those of legislatures in other democratic countries. These relate to passage of laws, consideration of foreign treaties, authorization for use of Armed Forces abroad, and granting amnesties. The executive power is exercised by the President. The powers which the President may legally exercise are extensive, and overshadow those of the Congress and the Judiciary. He has the power to appoint and remove the cabinet members

¹Ibid., p. 9.
and the state governors; to suspend constitutional guarantees in times of public emergency, subject to Congressional review; to veto legislative bills in their entirety or in part; and to coordinate state and national budgets.  

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**Resources**

Venezuela is rich in natural resources. Most of the resources are not yet fully exploited. Only 3 percent of the total land area is at present under cultivation, another 3 percent being pasture land, and about 17 percent being unimproved pasture land. The coastal mountains and the Maracaibo Basin are the only regions which are engaged in any significant volume of agricultural production. The Llanos, south and east of the mountains, are used for open range production cattle. The area south of the Orinoco River remains unexplored and unsettled. 2 Table 1 shows the total land area and its distribution according to use.

The greatest mineral wealth of Venezuela is contained in its oil and iron ore reserves. Venezuela’s steady progress is generated by the exploitation of the Maracaibo oil fields, which is treated in Chapter IV. The second most important mineral is iron ore, with the first important discovery made by the Bethlehem Steel Corporation at El Pas in 1941, and in 1947 United States Steel Corporation located the fabulous iron ore deposits in Cerro

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1 _Ibid._, pp. 248-261.

2 _Ibid._, p. 139.
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<th>Land use according to 1950 census</th>
<th>Land use according to 1956 census</th>
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<tr>
<td><strong>Area in hectares</strong> (2,471 acres)</td>
<td><strong>Area in hectares</strong> (acres)</td>
</tr>
<tr>
<td>Total land area</td>
<td>91,205,000</td>
</tr>
<tr>
<td>Under census</td>
<td>22,125,140</td>
</tr>
<tr>
<td>In permanent use:</td>
<td></td>
</tr>
<tr>
<td>perennial crops</td>
<td>1,302,116</td>
</tr>
<tr>
<td>annual crops</td>
<td>592,919f</td>
</tr>
<tr>
<td>Recent shifting cultivation</td>
<td>1,334,334</td>
</tr>
<tr>
<td>Artificial pastures</td>
<td>1,639,424</td>
</tr>
<tr>
<td>Natural pastures</td>
<td>11,861,538</td>
</tr>
<tr>
<td>Exploited forests</td>
<td>771,153</td>
</tr>
<tr>
<td>Non-exploited forests</td>
<td>3,663,828</td>
</tr>
<tr>
<td>Deforested</td>
<td>239,584</td>
</tr>
<tr>
<td>Net in use for agriculture</td>
<td>1,314,663</td>
</tr>
</tbody>
</table>

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bEncuesta Agropecuario National, 1956
cRepresents land recorded as in actual or potential use.
dDefined as harvested, without any indication about type of use, but possibly counting double-cropped area twice.
eCaco, coffee, bananas, and plantation
f1 and including cocoas and fruit trees, 647,000 hectares and annual crops 657,000.
gIrrigated 237,000 hectares, of which 28,600 hectares in forms under 10 hectares.
hNumber of years for 1950 unknown, for 1956 for four preceding years.

Bolivar. The total iron ore reserves of Venezuela are estimated at roughly two billion tons, having an average iron content of 65 percent. ¹

There are, of course, other minerals, but their exact value has not been proven.

CHAPTER III

A SURVEY OF THE VENEZUELAN ECONOMY

Economic Growth after World War II

Dynamic economic growth has been in evidence in Venezuela since World War II. A high rate of growth in the Gross National Product has been accompanied by a substantial rise in per capita income. Per capita GNP calculated at the free rate of exchange and purchasing power parity has been equivalent to $580 in the early 1960's. During the 1950's the volume of production increased by an average rate of 8.3 percent a year. ¹

Agricultural sector. In the agricultural sector, the available data indicates that there has been significant rate of growth. The value of agricultural produce has increased by about 5 1/2 percent a year during the period between 1950 and 1960. The principal products are coffee and cacaos, sugar cane, rice, corn, tobacco, cotton and sisal. In addition, there is a fairly large output of meat and dairy products. ²

Although agriculture development has been perceptibly accelerated since 1958, Venezuela is still far from being self-sufficient in food. In 1962, roughly 20 percent by value of all imports consisted of food products.

² Ibid., p. 143.
Significant attempts for improvements have been made by the Venezuelan government on all phases of the agrarian problem. In 1960 the Agrarian Reform law, providing for the distribution of land to small scale subsistence farmers and for a long range of technical and economic aid, was enacted.

**Manufacturing sector.** In the manufacturing sector the growth took place at the rate of 11 percent a year. From 1950 to 1960 output of manufactured goods increased from $354 million, at 1957 market prices.¹ In 1948 over one-half of all manufacturing output originated in food, beverages, and textile industries. However, in 1959 only about one-third of the output was provided by these three industries. During this period the growth took place in petroleum refining, manufacturing of metals, plywood, paints, rubber products, chemicals, and construction material. Consumer goods output decreased from 17 percent of the total in 1948 to 59 percent in 1959. This indicates that Venezuela's industrial enterprise has emerged from the initial stages of industrial development.²

**Mining.** The mining sector of Venezuela's economy has grown rapidly since 1951, largely as a result of significant strides in the development of iron ore mining with the inflow of private U. S. capital. In 1960 approximately 1.3 percent of all mineral production was made by the iron

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¹ The monetary figures can be given either in bolivars or dollars, however, for convenience the writer has presented these figures in dollars. The official rate which is used from now onwards is U.S. $1 = 3.33 bolivars.

² The Economic Development of Venezuela, p. 194.
ore sector. The total employment in mining industry increased from 5,000 in 1951 to 12,000 in 1960.¹

The production of iron ore in 1952 was 2 million metric tons and in 1962 it was 13 million metric tons. However, there seems to be a very slow rate of growth in respect of other minerals.

**Electric power.** From 1950 to 1961, generation of electrical energy increased by a cumulative annual average of 18 percent. According to the estimates of the Chamber of Electrical Industry, installed electrical capacity in 1961 was 1.31 million kilowatts. The total capacity in 1961 was nearly 3.5 billion kilowatt hours, an increase of 16 percent over that of the preceding year. This increase in capacity took place both in private companies and government owned facilities. In 1948 the government owned 20 percent of the total capacity of electricity generating plants; this increased to 37 percent of the total in 1959.²

Hydroelectric power is generated only in eight states and the Federal district. Thermal plants of various capacities exist throughout the country. The data of percentage of the energy produced by water, oil, and coal is not available.


Transportation. Since World War II Venezuela has invested considerable amounts of money in developing a modern highway system. In 1962, the Venezuelan highway system totaled 17,184 miles, of which 5,490 miles were paved, 6,374 miles were gravel, and 5,319 miles graded dirt.

Highway transportation has become one of the principal modes of transport in Venezuela. It accounts for a major portion of freight and passenger movement. The existing highway system connects most of the principal cities. The highway density is in the north central area connecting important centers such as Caracas, Maracay, and Valencia.¹

Railroads are less important in Venezuela than are other modes of transport. Total length of lines amount to only 428 miles of various gauge roads. Railroads are owned by the government except for a distance of 126 miles belonging to U. S. iron ore companies in eastern Venezuela.²

Domestic airline passenger service in Venezuela is supplied by two Venezuelan companies. One is completely controlled by the government, Venezuelans have a majority interest in the other, while Pan American World Airways has a minority interest.

The Volume and Composition of Investment

Investment may be classified as government, foreign private, and

¹Ibid., pp. 11-12.
²Ibid.
Table 2. Gross domestic product in Venezuela by major sectors (in million dollars at 1957 market prices)
1950-1960

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Agricultural sector</th>
<th>Industrial sector</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Mining (Oil included)</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
<td>-------</td>
<td>----------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>1950</td>
<td>3822.1</td>
<td>304.6</td>
<td>1798.0</td>
<td>1183.4</td>
</tr>
<tr>
<td>1951</td>
<td>4267.9</td>
<td>347.3</td>
<td>2053.6</td>
<td>1385.4</td>
</tr>
<tr>
<td>1952</td>
<td>4578.9</td>
<td>372.0</td>
<td>2248.9</td>
<td>1454.4</td>
</tr>
<tr>
<td>1953</td>
<td>4861.9</td>
<td>384.4</td>
<td>2309.5</td>
<td>1435.8</td>
</tr>
<tr>
<td>1954</td>
<td>5330.1</td>
<td>385.7</td>
<td>2560.7</td>
<td>1564.1</td>
</tr>
<tr>
<td>1955</td>
<td>5803.2</td>
<td>406.1</td>
<td>2860.1</td>
<td>1801.2</td>
</tr>
<tr>
<td>1956</td>
<td>6416.3</td>
<td>434.1</td>
<td>3260.1</td>
<td>2065.9</td>
</tr>
<tr>
<td>1957</td>
<td>7161.4</td>
<td>452.7</td>
<td>3634.5</td>
<td>2359.0</td>
</tr>
<tr>
<td>1958</td>
<td>7256.5</td>
<td>473.4</td>
<td>3591.0</td>
<td>2238.0</td>
</tr>
<tr>
<td>1959</td>
<td>7827.2</td>
<td>493.2</td>
<td>3914.0</td>
<td>2396.2</td>
</tr>
<tr>
<td>1960</td>
<td>7937.7</td>
<td>542.5</td>
<td>3896.1</td>
<td>2482.1</td>
</tr>
</tbody>
</table>

domestic private. When this is done it will be observed that the Venezuelan government has been the principal investor in fixed assets, accounting for more than 40 percent of the total in the postwar era. Exclusive of the fields of mining and petroleum, the government investment is about 60 percent.¹

Government has been investing at the rate of 10 to 12 percent of GNP, thus making it possible for the government to provide large sums for transportation. Also, since 1954 there has been substantial outlays for industry, mostly in steel and the petro-chemical industries. Irrigation and urban development have absorbed large sums.²

In the private sector, the most important investments have been made by the foreign-owned mining and oil industries. Private foreign capital has also been playing an important role in the construction industry, accounting for half of private total investment. In manufacturing industry and commerce about 15 to 20 percent of the total capital has been supplied from abroad.³

As at present, domestic private investment is very low. The Venezuelan entrepreneurs have, however, been responsible for large outlays of capital in agriculture, manufacturing industry, and the generation of electricity. Nevertheless, as much as two-thirds of the domestically generated private Venezuelan

¹ The Economic Development of Venezuela, pp. 84-86.
² Ibid., pp. 84-85.
³ Ibid.
capital investment has been in commerce, housing, and services.

The Balance of Payments

During the period of development in the oil industry in the 1940's, Venezuela was able to achieve substantial amounts of surplus in its balance of payments. Venezuela's exports, which include petroleum, iron ore, coffee, carcas, cast iron, increased from $691 million in 1947 to $2.6 billion in 1957. In the same period imports were increased from $541 million to $1.74 billion. This resulted in a net gain of $860 million.

The surplus on merchandise transactions was more than offset, however, by heavy payments for invisible items, such as services and interest on investment, which totalled $1.44 billion in 1957. These payments turned the trade surplus of $811 million into deficit on current account of $691 million in 1957.

In the early postwar years Venezuela achieved economic growth with stable prices and a liberal trade and payment system. Until 1958 the real national income increased by 8 percent per annum. Then the growth rate declined abruptly to 3 percent per annum, because of a sharp reduction in oil output.

Surpluses in the balance of payments on the merchandise account which had ranged from $90 million in 1953 to $1.11 billion in 1957, had, generally, more than offset the deficits on the current account. Surpluses in 1956 and 1957 were

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exceptionally large. The sale of oil concessions were the main factors attracting the new capital.

During the period from 1947 to 1957 Venezuela's official gold reserve and foreign exchange increased from $216 million to $1,446 million. This increase was realized mainly because of the surplus on capital account. During this period, Venezuela was able to accumulate more foreign exchange than any other country in Latin America.

However, in 1958, the characteristic of Venezuela's balance of payment situation changed. During the three years, 1958, 1959, and 1960 there was a net outflow of capital which amounted to $900 million.

In 1958 and 1959, despite the change in the direction of the flow of capital, there was no change in the Venezuelan balance of payments in current account; it continued to show a large deficit. Under the combined effect of the deficit on capital and current accounts there was a shift from the surplus of $425 million in 1957 to deficit of $392 million in 1958, and $341 million in 1959. Some details on this development are provided in Table 3.

In 1960 when Venezuelan foreign reserves were depleted to $558 million from a peak $145 billion in 1957, the current account showed a surplus of $328 million. While merchandise exports remained in 1960 the same as in 1959 (Table 3), imports declined from $1.5 billion in 1959 to $1.15 billion in 1960. This represents a reduction by 23 percent. The accompanying decline in merchandise imports contributed to a favorable current account. Government restrictions affected the level of imports.
Table 3. The balance of payment of Venezuela (dollars million), 1953–1960

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise exports (FOB)</td>
<td>1414.1</td>
<td>1560.7</td>
<td>1776.0</td>
<td>2073.6</td>
<td>2558.9</td>
<td>2352.6</td>
<td>2239.0</td>
<td>2236.9</td>
</tr>
<tr>
<td>Merchandise imports (FOB)</td>
<td>-842.9</td>
<td>-943.2</td>
<td>-994.6</td>
<td>-1151.0</td>
<td>-1749.5</td>
<td>-1518.3</td>
<td>-1526.4</td>
<td>-1154.7</td>
</tr>
<tr>
<td>Trade balance</td>
<td>571.2</td>
<td>620.1</td>
<td>781.4</td>
<td>922.5</td>
<td>809.3</td>
<td>834.2</td>
<td>712.6</td>
<td>1082.3</td>
</tr>
<tr>
<td>Transportation and insurance</td>
<td>-92.5</td>
<td>-111.4</td>
<td>-117.7</td>
<td>-132.1</td>
<td>-207.2</td>
<td>-172.4</td>
<td>-164.4</td>
<td>-149.4</td>
</tr>
<tr>
<td>Other services (net)</td>
<td>-78.7</td>
<td>-92.2</td>
<td>-129.1</td>
<td>-191.0</td>
<td>-273.6</td>
<td>-250.8</td>
<td>-182.6</td>
<td>-133.3</td>
</tr>
<tr>
<td>Investment income (net)</td>
<td>416.8</td>
<td>-460.4</td>
<td>-549.5</td>
<td>-717.1</td>
<td>-947.1</td>
<td>-556.8</td>
<td>480.8</td>
<td>-441.7</td>
</tr>
<tr>
<td>Remittance</td>
<td>-20.7</td>
<td>-21.9</td>
<td>-22.8</td>
<td>-65.8</td>
<td>-29.1</td>
<td>-31.8</td>
<td>-30.9</td>
<td>-30.0</td>
</tr>
<tr>
<td>Service balance</td>
<td>-608.7</td>
<td>-685.9</td>
<td>-819.5</td>
<td>-1106.0</td>
<td>-1457.1</td>
<td>1011.7</td>
<td>-858.9</td>
<td>-754.7</td>
</tr>
<tr>
<td>Current account</td>
<td>-37.5</td>
<td>-68.5</td>
<td>-38.1</td>
<td>183.5</td>
<td>183.5</td>
<td>-647.7</td>
<td>-177.5</td>
<td>-327.6</td>
</tr>
<tr>
<td>Short term capital</td>
<td>-27.6</td>
<td>21.6</td>
<td>35.4</td>
<td>35.4</td>
<td>-7.5</td>
<td>-55.9</td>
<td>17.9</td>
<td>-27.0</td>
</tr>
<tr>
<td>Medium term capital</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Long term capital</td>
<td>169.7</td>
<td>45.6</td>
<td>15.9</td>
<td>504.8</td>
<td>946.2</td>
<td>84.4</td>
<td>-27.3</td>
<td>-194.0</td>
</tr>
<tr>
<td>Amortization</td>
<td>-3.3</td>
<td>-7.5</td>
<td>-3.3</td>
<td>-3.0</td>
<td>-3.9</td>
<td>-3</td>
<td>-6</td>
<td>-6</td>
</tr>
<tr>
<td>Unrecorded capital movements</td>
<td>-49.8</td>
<td>6.0</td>
<td>37.8</td>
<td>20.7</td>
<td>170.9</td>
<td>-212.6</td>
<td>-65.2</td>
<td>200.0</td>
</tr>
<tr>
<td>Capital balance</td>
<td>-79.0</td>
<td>65.8</td>
<td>85.9</td>
<td>542.0</td>
<td>1105.7</td>
<td>-184.1</td>
<td>-195.2</td>
<td>-514.1</td>
</tr>
<tr>
<td>Surplus or deficit</td>
<td>41.4</td>
<td>-2.7</td>
<td>50.8</td>
<td>400.0</td>
<td>458.0</td>
<td>-361.6</td>
<td>-341.4</td>
<td>-186.5</td>
</tr>
</tbody>
</table>

The loss of gold and foreign exchange reserve in 1958-1960 was not produced by excessive imports but by capital outflow. This capital outflow took place because of exaggerated fears that the government might take over the control of the economy. And also, liquidity of the private sector was maintained at an abnormally high level from 1957 to 1959.

For the first time since 1957, the 1962 balance of payments showed a surplus of about $5 million compared with a deficit of $27 million in 1961. Among the reasons which contributed to a favorable balance of payment in 1962 were the increased earnings from exports as petroleum production rose. Also foreign exchange reform of April 1962 increased the cost of imports and thus reduced imports. ¹

**Government Finance**

Precise national governmental budgeting cannot be done in Venezuela because the revenues are highly dependent upon the volume and price of petroleum exports. In practice, a preliminary budget is prepared with expenditure assigned to the various ministries on the basis of minimum revenue expectation. During the fiscal year, to the extent that revenues exceed the minimum expectations, additional appropriations are made to the various ministries.

Until 1957, the national governmental budget was generally a balanced one as a result of the rapid rise in tax receipts and the sale of oil concessions in 1956 and 1957. However, in 1958 and 1959 a high level of government expenditures produced deficits and depleted the cash balance.  

During 1959 and 1960 all the money derived from these concessions was expended and also the substantial treasury reserves were so near exhaustion by the beginning of 1960 that the government had to borrow $200 million from New York banks and $100 million from the International Monetary Fund to meet current expenses.

During the fiscal year 1960 the income tax yielded two-fifths of the government revenue. The fiscal domain (concessions and royalty taxes) item which produced a third of the total revenue was mainly from the taxes paid by the petroleum companies. Approximately 90 percent of the "fiscal domain" income was accounted for by the oil royalties. About 20 percent of all indirect taxes were accounted for by the customs receipts accruing from imports and exports of the petroleum industry.

About 70 percent of the government income, in the fiscal year 1959-1960 was accounted for by the taxes on the petroleum industry. The remainder came from customs receipts, income taxes from larger Venezuelan business, and the iron industry.

The state and local governments have only limited tax revenues. They receive a major portion of their budgets from the Federal government. Their

1 Ibid., p. 476.
expenditures depend largely on what they receive from the national government.

The Revenue Structure

More than 80 percent of Venezuela's revenue is derived from the taxation on income, oil royalties (known as the production tax), import duties, and consular fees. In the year 1963 Venezuela's tax revenue of approximately $1,800 million was derived from the following sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct taxes</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>35</td>
</tr>
<tr>
<td>Inheritance tax</td>
<td></td>
</tr>
<tr>
<td>Indirect taxes</td>
<td></td>
</tr>
<tr>
<td>Custom duties</td>
<td>14.2</td>
</tr>
<tr>
<td>Taxes on production and consumption</td>
<td></td>
</tr>
<tr>
<td>Stamp tax</td>
<td></td>
</tr>
<tr>
<td>Territorial revenues</td>
<td>27.1</td>
</tr>
<tr>
<td>Petroleum taxes</td>
<td></td>
</tr>
<tr>
<td>Mining taxes</td>
<td></td>
</tr>
<tr>
<td>Public lands</td>
<td></td>
</tr>
<tr>
<td>Commercial revenues</td>
<td>18.3</td>
</tr>
<tr>
<td>Profit from exchange operations</td>
<td></td>
</tr>
<tr>
<td>Industrial taxes on sale of salt</td>
<td>0.1</td>
</tr>
<tr>
<td>Services (fees and tolls)</td>
<td>2.5</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>0.9</td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>1.9</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>Salt of short term treasury notes</td>
<td></td>
</tr>
<tr>
<td>Salt of government assets</td>
<td></td>
</tr>
</tbody>
</table>

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The power to tax personal and corporate incomes is reserved to the national government. Responsibility for collection and enforcement are assigned by law to the income tax administration of the Ministry of Finance.

The income tax law is similar to that of the United States, but rates are much lower and provisions for dependent allowances and deductions are more liberal. It consists of a basic of schedular tax of flat rates which vary according to the nature of the income, a complementary progressive surtax which is imposed in addition to the flat basic tax on nearly all types of income, and an additional tax to which only the petroleum and mining companies are subject. The income tax applies only to the income actually earned in Venezuela or derived from business transactions performed within the country.

The basic or schedular income tax is classified into nine rate groups. These groups range from 3 percent to a maximum of 6 percent. The tax applies equally to individuals and corporations. In computing the schedular tax no deductions are allowed, but certain exemptions are applicable. For instance, a person whose salary is less than $285 per month pays no tax; farm income under $15,000 per annum is eligible for the total exemption on the first $9,100.¹

Non-resident aliens pay a flat rate of 10 or 15 percent, depending on the source of income, and are not subject to surtax.

The surtax is levied on both the personal and the corporate income above $3,724. A variety of exemptions for dependents and deductions for charitable contributions and medical bills are applicable in its computation. The

¹U. S. Army, Area Handbook for Venezuela, p. 484.
surtax rates are higher for corporate incomes than for personal income. The rates range from 2 percent on the first $2,400 of taxable income to 45 percent on $8.4 million and over. As an incentive the surtax regulations permit reductions in levies for companies investing in new equipment.¹

The additional tax is called a 50-50 tax which is levied on net profit from oil and mining operations only. The purpose of this tax is to ensure that Venezuela shares at least 50 percent of the net profit.

Other than the tax on income, the foreign investors will be concerned with the following types of taxes in Venezuela:²

Custom duties. To encourage the new industries in Venezuela, custom duties on products competitive with those manufactured in the country have been increased. At the same time local manufacturers are, in many cases, granted duty exoneration with respect to raw materials imported by them. Recently the government has prohibited the import of competing foreign products in some cases and in others it has required prior import licenses which have been granted on a quota basis.

Business licenses and real estate taxes. Most municipalities in Venezuela impose a license tax on the businesses operating within their jurisdiction. The tax does not exceed 0.5 percent of the gross receipts of the business. Estate taxes are levied on rental value of the property.

¹Ibid.

Inheritance tax. Upon the death of a non-resident alien, Venezuela imposes an inheritance tax. Shares in Venezuelan companies that are owned by non-resident aliens are deemed to be situated in Venezuela for tax purposes. Perhaps to conceal the identity some companies issued shares simply to the "bearer." In order to prevent tax evasion corporations issuing bearer shares are now required to pay a tax of 30 percent of the capital represented by such shares prior to their issue.

Oil production taxes. A monthly production tax of 16 1/2 percent is assessed on the oil produced and natural gas sold and used as a fuel. In addition, a small production and surface tax is levied on an oil concession.

Some Growth and Population Problems

Venezuela's economy depends primarily on oil. Oil is so important that it contributes 90 percent of foreign exchange, 60 percent of government exchange and 28 percent of GNP. However, in recent years world oil supplies have increased greatly in relation to the demand, with most of this increase coming from the low cost production areas. Compared to middle east production, the cost of production in Venezuela is much higher, thus reducing both profit and the quantity of oil produced.

In recent years the movement of population from country to city, caused largely by the prospect for jobs in industry, has caused a rise in slums and unemployment. Several million Venezuelans live in shacks. A 1961 government study estimated that 75 percent of the urban families were inadequately housed.
In the 1950's the urban population grew from 48.9 to 61.7 percent. Urban unemployment increased with the growth of slums. Caracas alone estimated the number of its unemployed at 108,000 out of a population of 786,000; and the total figure for the country is 280,000 or 13 percent of the labor force.

In spite of high rate of population growth, the total population of Venezuela is still only about 8 million. Only one-third of the Venezuelan population is economically active, and of the group, a rather small percentage controls the majority of consumption power. Venezuela's high national income is unevenly distributed, and possibly 40 percent of the people live in sub-standard conditions. The top 5 percent of income earners receive 30.5 percent of the personal income, while the lower 50 percent receive only 11 percent. Such a marked difference between the wealth and living condition of the few and the deep poverty of the majority of the population seems to reinforce the Marxian hypothesis of class struggle.¹

CHAPTER IV

LOANS AND GRANTS TO VENEZUELA THROUGH INTERNATIONAL AGENCIES

Concept of Assistance to the Underdeveloped Countries

Normally a major aim of foreign economic policy of the advanced countries is to accelerate economic growth in underdeveloped countries. An important reason behind this is that poverty-stricken nations are a threat to the security, peace, and freedom of their people. Another reason is to demonstrate to the world that economic growth can be achieved within the countries having a non-communist economic framework and a democratic political system.

In underdeveloped countries per capita income is so low that saving is completely inadequate to meet capital requirement from internal sources. To overcome this problem underdeveloped countries must look to external sources for investment capital. In this sphere, two sources are available: one is to obtain private foreign investment and the second is to seek foreign assistance through public instrumentalities. The foreign private investment is important. However, it may be restricted because of policies of the concerned governments and also because of internal political uncertainties.

With the most liberal policies toward the foreign investors and investment in both lending and borrowing countries, the flow of private capital from advanced to underdeveloped countries is not likely, by itself, to fill the legitimate
capital requirements of such countries. Thus foreign assistance plays a substantial role in the economic development of the underdeveloped nations.

**Definition and Purpose**

The term foreign assistance covers a variety of economic, military, technical, and humanitarian activities. It is justified at different times, by different groups, and on different grounds. However, it includes three major undertakings:

1) Rehabilitation and reconstruction of the economics of war-devasted nations;

2) Strengthening and subsidizing the military defense of friendly nations;

3) Promoting economic growth and political stability in underdeveloped countries.

In addition, a program of assistance may be undertaken primarily to help provide famine and disaster relief, to help eradicate malaria and other widely prevalent diseases, to provide budget and balance of payments assistance, and many other services deemed to be in the interest of a country's foreign policy.

International economic assistance is measured by the flow of grants and long-term loans between the countries involved. This flow may include grants, loans in cash and in kind, including within the latter category the

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provision of services as well as commodities. Therefore, the contributions in the form of technical assistance and administrative services provided by the advanced countries to the underdeveloped countries are included.

United States Assistance to Venezuela

United States assistance to the underdeveloped countries is almost as old as the republic itself. In 1912, the United States provided commodity aid to Venezuela to assist in overthrowing its Spanish rulers.

Between July 1, 1945 and June 30, 1962, U. S. Government expenditure on foreign assistance totaled $91,536 million. After World War II the U. S. Assistance program concentrated mainly on rebuilding Western Europe. The European Recovery Program ended in 1952 and was superseded by the Mutual Security Program, under which most of the U. S. assistance to the underdeveloped countries is being rendered at present.

The newest form of government aid is the $500 million a year program for social and land reform in Latin America. However, the main weight of the present U. S. programs for economic aid continues to rest on expenditures for military assistance and defense support.

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4 Ibid.
Most of the U. S. public foreign investment is administered bilaterally. That is, the United States agencies give the help directly to the recipient country rather than through international agencies. The large bulk of investment in Latin American countries has been made by the Export-Import Bank. The economics of these lending agencies and their role in financing Venezuela's economy may be described as follows:

**Export-Import Bank.** The Export-Import Bank at Washington, popularly known as the Eximbank, is the oldest of the U. S. Agencies providing capital assistance to underdeveloped countries. Eximbank was established in 1934. Its principal fields of operation are:

1. Financing exports of productive capital goods and services of United States origin.
2. Short-term credit guarantees.
3. Medium-term credit guarantees.
4. Foreign currency loans from Cooley Amendment Funds through sale of United States surplus agricultural commodities authorized by Public Law 480.

Since its beginning in 1934, Eximbank has been operating to promote international trade which would improve and strengthen the United States market abroad. The bank finances the exports of the United States capital equipment and services to promote the economic development of the importing countries.

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Table 4 presents a summary of the bank's activities in Venezuela from its inception in February 1934 to June 30, 1964. Venezuela received $137.8 million from the Eximbank, of which 43.8 million was repaid during this period.

**International Cooperation Administration (ICA).** The International Cooperation Administration is the United States agency which administers the mutual security program. It is a semi-autonomous body or institution engaged in all mutual security operations. Within the mutual security program, ICA is responsible for the following activities. 1

1) Defense support
2) Technical cooperation
3) Special assistance
4) Contingency fund
5) Promoting private enterprise

Through this agency Venezuela received $1.3 million in the period 1952 through 1961 (Table 5).

On November 4, 1961, the Agency for International Development was created as a successor to ICA. AID was made responsible for foreign economic assistance and for coordinating military assistance. It also was made responsible for the economic aspects of the Food for Peace program, and for administering for American businesses the local currencies generated by agricultural sales under the Cooley Loan Program.

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1Ibid.
Table 5. ICA: Net obligations and expenditures in Venezuela 1952-1961
(Thousands of dollars)

<table>
<thead>
<tr>
<th></th>
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<tr>
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<td>137</td>
<td>133</td>
<td>142</td>
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</table>


During 1961 the AID earmarked $55 million in the form of capital assistance to Venezuela. Most of the loans were for the construction of medium and low cost housing, and municipal improvements. One of the major loans would provide $30 million for slum clearance. Terms of the loan required that United States goods and services must be purchased. Interest on the loan is 3/4 percent per year, and is to be paid within 25 years including a 10 years grace period.¹

During 1962 the AID had a total of 15 projects which included a $10 million development loan for a program of credit for supervised agriculture. An additional $10 million will be subscribed by Venezuela.²

In addition, the AID has been providing grants to Venezuela to provide technical assistance. The grants have not been large; however, there has been a gradual increase from $200,000 in 1961 to $3.1 million in 1963. These funds

²Ibid.
are generally used by the AID on carefully selected technical assistance projects which serve either as pioneers in the field or aim at the expansion of existing programs.  

**Assistance to Venezuela Through International Agencies**

**International Bank for Reconstruction and Development.** The International Bank for Reconstruction and Development was established on December 27, 1945. The main objective is to provide and facilitate international investment in projects to increase production, raise living standards, and help bring about a better balance in world trade.  

The bank serves as a channel through which capital, both public and private, flows from the richer nations to the underdeveloped countries. There are 90 governments which are its share holders. The bank's capital is subscribed by these member nations according to the economic strength of the respective nation. Therefore, most of the capital originates in the industrialized nations. Also, the bank derives funds from the sales of its own bonds and noted to other investors.

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1. Ibid.
In 1959, at the request of the Venezuelan government IBRD sent a 12-man mission to make a general survey of the country's economy. The main objective of this mission was to assist in the formation of a program for public investment, which would sustain the rate of growth, broaden the economic base of the country, and contribute to a wider distribution of the benefits of progress.

The mission report was published in May 1961 by the Johns Hopkins Press as *The Economic Development of Venezuela*. It analyzed the strength and weakness of the economy, assessed prospective financial resources and needs, and made a recommendation for a four-year investment program and financing plan. ¹

The bank made its first loan to Venezuela in December 1961. The loan was equivalent to $45 million to provide foreign exchange for imported equipment, material, and engineering services needed to solve the problem of congestion of transportation in the country's most rapidly developing industrial regions. ²

The concentration of population and economic activity in the mountainous north made rail transportation in Venezuela uneconomic. Railroad traffic has been declining in recent years and highways provide the most important means of transportation carrying 95 percent of the freight and 90 percent of the passenger

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¹Ibid.

traffic. The existing roads are carrying traffic far above their capacity, and also the road traffic is slow, dangerous, and expensive.¹

This project includes two separate sections of controlled access toll roads, which will link several areas of high industrial potential. One road will run 37 miles south from Tejerias to Coche, a suburb of Caracas. It connects a completed expressway between Tejerias and the rapidly developing country of Valencia. The other, 22 miles long, connects Valencia with an existing coastal road to Puerto Cabello, Venezuela's second largest port. The expressway will reduce the expenses and improve the speed of moving goods between Puerto Cabello and Caracas and also assist in decentralization of industry from the capital.²

The loan for this project covers a period of 20 years. The interest on this loan is 5 3/4 percent which includes 1 percent commission for the bank's special reserve. The amortization will begin on January 1, 1966.

On September 20, 1963, IBRD made another loan equivalent to $85 million for electric power development in Venezuela. The loan will help to finance the construction of the Guri hydro-electric power. This project will help to realize the economic potential of the Guayana region of western Venezuela, where a large part of Venezuela's mineral wealth is found existing. This loan is guaranteed by the Republic of Venezuela and it is for a period of 20 years and bears interest at 5 1/2 percent per year, including 1 percent

¹Ibid.

commission to the IBRD’s special reserve.

The loan was made to C. V. G. Electrificaci6n del Caroni C. A. (FDELCA), a wholly owned subsidiary of the Corporaci6n Venezolana de Guayana, established in August 1963 to construct the project and to own and operate the Guri plant and the 365,000 Kilowatt plant already completed at Macagua. 1

International Finance Corporation. The International Finance Corporation came into existence as the subsidiary of the IBRD on July 20, 1956 with a capital of $100 million, subscribed almost entirely in dollars by the United States. The purpose of IFC is to promote the growth of productive private enterprise, particularly in underdeveloped countries. IFC is essentially an investing rather than a lending institution, and it judges projects on the basis of their merits. It supplements, not competes with, private capital. 2

In 1959, IFC announced to invest up to $1,250,000 in Refractarios General-Vicora de Venezuela, C. A., a new Venezuelan Corporation set up to manufacture refractory bricks. Grekora is owned by the Coroa family and their associates in Venezuela who have been operating a plant manufacturing refractory material in Caracas since 1932, and the General Refractories Company of the United States. 3


The investments of IFC in Venezuela are given in Table 6. The total cash outlay in Venezuela since the establishment of IFC is $6 million. Most of its assistance has been in the form of loans and equity. The interest rate on the loans range from 8 to 10 percent. Loans which are made at a rate below 8 percent generally carry some kind of profit-sharing clause with them.

United Nations Special Fund. The United Nations Special Fund came into existence on January 1, 1959. The objective of the Special Fund is to increase production and capacity for productivity. This cannot be achieved without adequate investment. Adequate and profitable investment can be assured only if the necessary preparatory work has been carried out. The Special Fund grants money to assist in the performance of such essential "pre-investment work."¹

The Special Fund itself does not engage in the field of operation. It subcontracts the execution of approved projects to the United Nations and certain of its specialized agencies. It is also empowered to contract for the services of her agencies, private firms or individual experts. The fund assists projects in three special fields:²

1) Surveys and feasibility studies
2) Applied research
3) Manpower training and technical education.

The Governing Council of the United Nations Special Fund announced in 1962 two grants to Venezuela: One of $1,254,700 to establish a National Polytechnic Institute in Caracas, which eventually will have branches all over the country; and the other, equivalent to $1,038,300, to assist expanding the Schools of Industrial Engineering of Central University in Caracas devoted to the training of engineers.

The Inter-American Development Bank. The Inter-American Development Bank, with Felipe Herrera of Chile as a director, came into existence on January 1, 1960 with a capital of $850 million. Although it is established as an autonomous Inter-American Organization, the IDB is essentially a creation of the Organization of the American States.¹

The Bank has a total authorized capital resource of $1 billion. Out of this $850 million represents the authorized capital stock and $150 million represents a fund for special operations. The authorized stock is divided into 85,000 shares with par value of $10,000 each. The United States has provided 40 percent of the total capital and also has contributed $100 million of the $150 million in the Fund for Special Operations. The balance is contributed by the 19 American Republics.²

Every member country has 135 votes plus 1 vote for each share of the capital stock of the bank held by each country. The United States, even

²Ibid.
though providing 40 percent of the capital, has only one-third of the total vote.¹

The Bank guarantees loans to any agency of the member country, or a political subdivision, or a private enterprise operating in the member country. These loans are made through the ordinary capital resources and are to be paid in the currency borrowed. The Fund for Special Operations gives or grants loans to private enterprises on terms and conditions appropriate to specific projects. In addition the Bank makes loans for technical assistance at the request of any member or private firm that is qualified to obtain loans from the bank.²

The Bank has granted loans of $28.7 million to Venezuela during the period between 1961 and 1963. These loans are to be used for the housing, development of water supply, and small industries. Out of $28.7 million $10 million were received by Banco Agricola y Pecuario de Venezuela, a government banking organization which has wide powers in the field of reforms in agriculture development, credits, and imports.³

Conclusion

Foreign assistance is undoubtedly one of the most significant economic relationships that exist between so called developed countries on the one hand

¹Ibid.
²Ibid.
and undeveloped countries on the other hand. The United States' direct economic assistance began before World War II for two primary purposes. First, to promote credits, and second for technical aid in response to requests from Latin America. Aid under this early program was very limited in terms of amount invested.

After the success of the Marshall Plan the United States' assistance took two principal directions, one was towards military aid and other towards technical assistance. During the fifties the flow of assistance was prompted by economic and political motives.

Economic growth appears to be related to the increase of the number of people who believe that economic and social advancement can be achieved through individual efforts. The success of a country's economic development depends on the availability of resources which can be mobilized and the efficiency with which these resources are utilized. Individual determination may either supply such factors or they may improve the effectiveness of their use. In short, international assistance by itself cannot develop a country but such assistance must be accompanied by the aspirations and sacrifices on the part of the people of the country involved.

Foreign assistance performs two junctions in a country's economy. It adds to the total resources available for development and provides additional finance for import. These contributions from outside sources have been important in reducing the bottleneck.

Economic assistance has been used in Venezuela to develop rural and urban housing in an effort to reduce the slums. Assistance has been channeled
into the improvement of education, sanitation, transportation, and other facilities to develop the overhead or social capital. Foreign aid also has played an important role in encouraging private enterprise and the investment of private internal funds.

Supplementing the United States Government Program of Assistance to Venezuela, there are a number of private foundations and voluntary agencies, such as the Ford Foundation, Rockefeller Foundation, Shell Foundation, Creole Foundation, Institute of Free Labor Movement, an organization associated with AFL-CIO. These agencies are working independently on wide variety of assistance programs. In 1962, Venezuela received $1.2 million in food, clothing, medicine, and cash remittances from voluntary relief agencies in the United States.¹

The constructive impact of economic assistance for the development of Venezuela is difficult to assess. However, in a recent analysis of economic development in Venezuela, AID concluded that economic development of the country in the postwar period has been satisfactory. AID has been evolving definite plans to terminate the assistance to Venezuela in the next 2 to 5 years, provided the country continues its economic progress and there are no political upheavals.²

²Ibid., p. 468.
CHAPTER V

THE FLOW OF FOREIGN PRIVATE CAPITAL INTO VENEZUELA FOLLOWING WORLD WAR II

Foreign private capital has played a significant part in modernization and recent industrial development in Venezuela. However, before examining the role of foreign private capital in that country, the writer wishes to review some of the motives that govern investments abroad, and the effects of foreign investments on the host country as well as on the capital-exporting country. The discussion is strictly empirical and general in nature and scope.

Motives to Invest Abroad

The owners of private capital make their choice of foreign investment on the basis of profit. Although profit is the most important single motive, there are several other factors which may induce capital to flow to foreign countries. Some motives of an investor other than increasing profit, are:¹

1) Expanded foreign demand or market
2) To obtain raw materials
3) Low cost factors abroad

4) diversification

5) Shortage of dollars for imports in the host country

6) To develop private enterprise abroad.

Expanded foreign demand or market. One of the means by which the profits are increased is to increase the demand and enlarge the market. For many companies additional gross receipts from foreign operations constitute the difference between good and poor saving of the companies' profits. Sometimes it helps to get behind the tariff wall. In Latin America tariff barriers are always a factor. Once foreign companies are established in a host country they fight hard to get tariffs raised against their competitors.

To obtain raw material. Obtaining raw material is a major factor without which there is no profit at home or abroad. Sometimes lack of raw materials in the country motivates the businessman to invest in a foreign country where raw materials are available.

Lower cost factors abroad. Sometimes costs are lower in some countries, especially labor costs. Therefore, some companies invest abroad to protect their market at home thus making it possible to produce in the cheapest place and to import.

Diversification. Geographically diversification overcomes the poor performance of local distributors abroad. Investing in a selling organization improves the sales abroad rather than just export and depend on the local distributors.

Shortage of dollars for imports in the host country. Quite often underdeveloped countries cannot import due to the shortage of exchange. This barrier
restricts the business abroad. However, once a company is established in a foreign country there is no problem of exchange and this eventually expands the market.

To develop the private enterprises abroad. There is an increasing recognition of the role private business can play in developing the country. There are examples of missionary activities among business groups, such as "Private Enterprises, Inc." of Kansas, which provides capital on joint-venture basis to small enterprises all over the world. The international Basic Economic Corporation, founded by Rockefeller brothers, was established for the same kind of activities; however, its sphere of activities is limited to Latin America.

Economic Effects of Private Direct Investment

Effects on the host country. The effects of direct foreign investment on the host country are as follows: 1

1) Addition to the real resources of the economy
2) Impact on output, market structure and prices
3) The shift in resource use and factor awards
4) Rise in GNP and real income
5) Change in international trade and payments.

The additions to real resources are in the form of personnel, techniques and capital. Underdeveloped countries lack adequately trained management

and technical personnel. Direct private foreign investment helps to meet these needs either through bringing in the required skill or training local personnel, or more likely a combination of these two.

When a firm transfers personnel or capital to a foreign country techniques of various sorts are also made available for increasing productivity in the host country. Research is the key factor in developing both the new product and new techniques. Thus, foreign firms bring these new techniques which eventually are acquired by the host country with very little, if any, money cost.

The second effect is the availability of a product or the alteration of types of products. This changes the structure of the market and normally reduces the price of product due to an increase in volume of output.

When capital moves into a given industry in a host country there is an additional demand for labor, material, and land, as well as for domestic capital funds. New capital creates a flow of unemployed or perhaps under-employed resources into the enterprise. Also there is likely to be a gradual increase in payments to all domestic factors.

The increase in production, or expansion of an industry, or capital outlay in a new enterprise are all reflected in larger gross national product in the host country. The increase in payments will cause an increase in consumer demand extend the market and provide support for further expansion. Lastly, the rise in GNP which in turn should serve to produce shifts in resource use and factor payments. These in turn affect the long-run composition and
direction of international trade and balance of payments.

Effects on the capital exporting country. Impacts on the capital exporting country can be analysed through an examination of the following:¹

1) The direct costs of sending personnel and capital abroad
2) Effects on factor payments in the exporting nation
3) Change in the volume of international trade
4) Effects on the balance of payments

The costs of personnel sent abroad are frequently taken care of by the recipient country.

The cost of capital transferred may be determined by comparing returns expected from abroad with returns from the use of similar amounts of the domestic market. Capital is exported frequently because the marginal efficiency of the capital is greater abroad.

The transfer of personnel and capital have a significant impact on factor payments. It reduces the supply of experienced managerial and skilled personnel in the capital exporting country. It may increase the wage rates at home.

The volume of foreign trade of the capital exporting country is directly or indirectly increased by capital expenditures of the exporting country's enterprises operating abroad. However, in the long-run this increase in export may offset the increase in the production abroad and eventually it is likely to reduce

¹Mikesell, pp. 156-158.
relative the importance of exports of the capital exporting country.

In addition, the pattern of trade is likely to change. For example, U. S. trade with other countries will be dominated more and more by new products and by high technology items. Exports of consumer goods will decrease relative to the capital goods. As production is diversified in the host country, it may produce a wide range of substitutes for what were formerly imported goods. If this occurs the nature of import demand will likely change. It could result in an increased demand for industrial specialities while export of standardized commodities will tend to fall.

In the long-run the direct foreign investment appears to have a favorable effect on balance of payments. As mentioned earlier, the direct foreign investment tends to increase the market for certain exports, tends to improve terms of trade thereby improving trade balance.

**Investment Climate in Venezuela**

Venezuela has attracted widespread attention as a favorable country for investment. The fundamental reasons that Venezuela is regarded as a sound investment field are:

1) Practical equality of rights both for Venezuelans and foreigners

2) Government non-interference in private business

3) No control of exchange

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4) No restriction on withdrawal of profits, dividends and investment capital

5) Low taxation

6) High returns from capital investments

7) Free enterprise guaranteed by the constitution

8) A growing economy

9) Rapid increase in population

10) Availability of or abundance of natural resources

**Government regulations.** The constitution of Venezuela guarantees full freedom of business or industrial operations, whether they are conducted by nationals of the country or by foreigners. Foreigners may conduct business in Venezuela under the commercial designations determined by law, or through business organizations established in their own country.¹

The Venezuelan Government welcomes foreign capital investment in the established operation and development of industries, agriculture and mining. However, it is not interested in portfolio investments. Venezuelan legislation differentiates between national and foreign companies, but only as to form and place: A company formed in another country, under the laws of that country is considered as foreign in Venezuela; on the other hand, a company formed in Venezuela under the laws of the country is considered Venezuelan.²

¹Ibid.

²Ibid.
Venezuelan law vests in the government the ownership of the subsoil wealth regardless of who owns the surface. Thus concessions are granted to develop the mineral deposits of terms clearly stated by law. The law applies uniformly to domestic and foreign corporations. Government control of business is at a minimum and includes: supervision of banking, stock exchange operations, insurance, civil aviation, shipping and rail transportation, public utilities, and mining. Monopoly and business speculation is forbidden by law.

Lastly, the most important development is that Venezuela and United States concluded in late 1962 the Investment Guarantee Agreement which insured U. S. investments in Venezuela against expropriation, inconvertibility, and war risk.

Labor laws. The labor laws now in effect were promulgated in 1947, to regulate the rights and obligations of employers, workers and employees in connection with their work. All enterprises, operations, and establishments of any kind, foreign private, domestic private or public, in existence or to be established in the territory of the Republic are subject to the provisions of the labor laws. 1

The law has established minimum standards for working conditions which include limitation of working hours, two weeks holiday with pay, and payment of wages during the Sundays and public holidays, profit sharing, and intensive protection against all forms of unjustified dismissal.

Also labor law requires that 75 percent of the employees of a business enterprise in Venezuela be Venezuelan nationals. At the same time the law empowers the government to alter the percentage in case of shortage of Venezuelan skilled labor in order to allow time for training the necessary local personnel.

**Areas and Sources of Foreign Private Investment in Venezuela**

Venezuela is fortunate in that it has been able to attract the participation of foreign investors in its industrial development. In the latter part of the nineteenth century the liberal economic policies of Guzmán Blanco administration attracted foreign capital in enterprises such as gold and copper mining, railroads, highways and ports, and public utilities. During the 1920's the foreign capital came into Venezuela to develop the oil resources. Following World War II there has been substantial investment in petroleum industry.

At the end of 1959, accumulated foreign investment amounted to over $6 billion of which 83 percent was in the petroleum industry, about 7 percent was in mining, and 10 percent was distributed in the different sectors of the economy. Foreign investment originates almost exclusively (98.5 percent) from three countries: The United States, which accounts for 67.3 percent of the total, Netherlands 22 percent and Great Britain 9.2 percent. ¹

The most important role foreign capital has played has been in the development and diversification of manufacturing industries excluding the extractive industries. Most of the enterprises were established after World War II by internationally known companies mostly from the United States. ¹

The United States private capital in Venezuela. The United States firms are represented in a variety of ownership arrangements in Venezuela. There are direct branches established by General Electric and the First National City Bank; wholly owned manufacturing subsidiaries such as Goodyear and General Motors. However, these are diminishing in number in favor of joint United States-Venezuelan capital ventures such as those being participated in by General Tires and American Can Company. (No information is available regarding percentage contribution in capital investment.)

In 1950 the total U. S. investment in Venezuela was $993 million. Of this $857 million was in the Petroleum industry, the balance was divided among manufacturing, trade, transportation, and very little investment was in mining and agriculture. To better understand United States' investment in Venezuela the subject is treated by sectors.

The book value of United States private investment abroad during the period of 1946-1959 rose approximately by 14.6 percent per year. The rapid growth in the petroleum industry was due to the heavily war-damaged petroleum industry all over the world. The pressing demand for fuels created a great expansion in the 1950's. Especially, the search for new sources of supply of

¹Ibid.
petroleum resulted in the large petroleum investment by private U. S. corporations, mainly in Venezuela, Canada, and the Middle East. U. S. Investment in Latin America during the period of 1950-1957 amounted to $1.7 billion. Of this outlay 40 percent was in Venezuela. This investment in Venezuela reached peak flow in 1957 as a result of the Suez tie up. It declined to a lower, though still substantial, amount in 1959.  

The petroleum industry in Venezuela is controlled by some fifty companies of which nineteen operate producing concessions. The remaining companies have either non-producing concessions or may be joint owners.

The three largest petroleum companies, The Creole Petroleum Corporation, a subsidiary of Standard Oil of New Jersey, Royal Dutch Shell (Great Britian and Netherlands), and Gulf Oil Company account for 80 percent of domestic production and 74 percent of export sales. Creole, the largest United States Corporation, alone accounts for 38 percent of the total production and contributes 43 percent of the revenues from oil.  

Iron ore. In terms of production, 90 percent of the mining activities in Venezuela are devoted to exploit the large reserves of high grade iron ore.

The Iron ore industry in Venezuela is concentrated in two areas south of Orinoco River. 1) The deposits around El Pao are being developed by Bethlehem Steel Corporation, 2) those at Cerro Bolivar are being developed by United States Steel Corporation. The industry grew very rapidly. The production of iron ore

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1 Dyer, op. cit., p. 96.

rose from 2 million tons in 1951 to 19 million tons in 1960. Iron ore accounts for 5 percent of the total export earnings. ¹

**Manufacturing.** Manufacturing activities in Venezuela have expanded since early 1940's. Following the war as foreign competition became more acute, a number of local manufacturers received increased protection in the form of higher import duties and quantitative restrictions.

After the World War II, United States investment by U. S. corporations in manufacturing increased very rapidly. In 1943 the investment in the manufacturing sector was only $1.3 million. By the end of 1950 it had increased to $24 million, and at the end of 1962 it reached $191 million. ²

**Public utilities.** Investment in public utilities abroad originated largely in the late 1920's. Until 1950 there was very little change in the overall commitment in this industry, although a few important enterprises in Venezuela were sold to the local government. The low rate of investment in utilities, $10 million in 1950 and $35 million in 1962, appears to have been due to low profit margins.

**Trade.** Direct investment in enterprises engaged primarily in various forms of trade and distribution in Venezuela have expanded significantly since World War II. Most of the expansion has been in wholesale trade. These

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consist mainly of enterprises distributing goods imported from the United States or produced by affiliated companies abroad.

In 1957 and 1962 the rate of expansion in wholesale and retail trade remained high. Detailed information on these enterprises appears in Table 7.

Other industries. Under this heading fall diverse operations such as hotels, advertising, motion picture companies, and construction. However, most of this area of investment in Venezuela is in construction contracts. This has shown a steady growth since World War II. In 1943, the total investment in this field was $7 million and rose to $79 million in 1950, and by the end of 1962 it had reached $219 million. This represents a 30 percent increase.

Investment in the finance category, including banks, insurance companies and holding companies increased rapidly between 1943 and 1957 from $16 million to 94 million, respectively.

Other types of participation have been contracts involving the contribution of management enterprise and the licensing of patents and trade marks, sometimes in exchange for an option to acquire equity in the local firm. There has also been instances of direct entrance into local business through the purchase or under writing of stock issues as has been done by the Cealan Corporation.

United Kingdom and other investments in Venezuela. Following World War II, the United Kingdom has made only modest contribution to capital outlays in Venezuela. The Commonwealth provided a powerful attraction for British trade and investment, especially because of complete freedom of capital movement, the United Kingdom enjoyed in Commonwealth countries.
<table>
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<th>Petroleum</th>
<th>Manufacturing</th>
<th>Public utilities</th>
<th>Trades</th>
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a Combined in other industries
b Based on 1950 investment census, carried forward to 1957
c Data established by investment census for 1957, giving effect to various adjustments in valuation, foreign currency values, and country allocation, the census valuation is carried forward to 1960.

In 1940, private investment funds of Netherlands in Venezuela were estimated at $40 million. These have increased several times since then. The Royal Dutch Shell group, which represents both British and Netherlands capital, is the second largest producer of petroleum (Table 8).

During post World War II era, West Germany made Latin America the principal destination of its capital export to developing countries. The total private direct capital commitments by West Germany in Latin America at the end of 1962 were $339.25 million; Venezuela has shared $7 million from this amount.¹

An increasing European competition is in evidence in Venezuela. Several European countries are establishing plants to manufacture or assemble such items as the Fiat and the Volkswagen cars, Bochi (Italian) canned meats, and Bols (Dutch) and Brizard (French) liqueurs. However, the data of exact amount of investment is not available.

Government in Business

During the years immediately after World War II the Venezuelan Government was participating directly in industry on a limited scale. However, during recent years, the Venezuelan Government has made large investments in publicly owned industrial enterprises. These include iron and steel, chemical, ship

Table 8. Gross value of foreign investments in Venezuela by country and industry, end of 1956
(millions of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Petroleum</th>
<th>Mining</th>
<th>Manufacturing</th>
<th>Trading</th>
<th>Utilities</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2,399</td>
<td>294</td>
<td>68</td>
<td>80</td>
<td>92</td>
<td>34</td>
<td>2,984</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,068</td>
<td>(a)</td>
<td>(a)</td>
<td>2</td>
<td>(a)</td>
<td>3</td>
<td>1,073</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>435</td>
<td>---</td>
<td>15</td>
<td>0.6006</td>
<td>(a)</td>
<td>5</td>
<td>455</td>
</tr>
<tr>
<td>Canada</td>
<td>11</td>
<td>---</td>
<td>23</td>
<td>(a)</td>
<td>(a)</td>
<td>4</td>
<td>38</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>(a)</td>
<td>10</td>
<td>13</td>
<td>0.9009</td>
<td>21</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>3,926</td>
<td>293</td>
<td>135</td>
<td>96</td>
<td>92</td>
<td>67</td>
<td>4,609</td>
</tr>
</tbody>
</table>

aLess than $150,000 included with others.

Note: The above data are not directly comparable with those published by United States Department of Commerce, as they calculated different basis. The discrepancy is particularly important for the petroleum industry. According to Venezuelan sources, United States investment in the petroleum industry amounted to $2,399 million at the end of 1956—i.e., $2.4 billion at par value of U.S. $1 = Bs. 3.33; the corresponding United States figure is $1.4 billion. The Venezuelan data include accumulated amortization funds.

repairing and maintenance, and sugar refining industries.  

Iron and steel plant. In 1955 the government signed a contract with an Italian firm for the construction of an iron and steel plant near Puerto Ordaz. The exact amount of capital already committed or to be committed in the future is not entirely clear.

The petrochemical project. The petrochemical project consists of several enterprises. They have under the control of the Venezuelan Institute of Petrochemicals, an autonomous government agency.  

The chemical plants, now under construction, are at Moron. They are in the beginning stages and eventually will be fully integrated to manufacture caustic soda, chlorine, fertilizers, explosives, insecticides, and organic chemicals.

The gas pipelines. There are several hundred miles of pipelines for transporting natural gas in Venezuela. Most of these have been constructed by and are owned by the Government. The Government owned gas pipeline system is intended to supply gas for both domestic and industrial purposes. The total investment is estimated at $67.3 million.  

Salt industry. The Government owns a salt refining establishment on the Araya peninsula. Its capacity is about 60,000 tons a year. Plans have

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2 Ibid., p. 226.

3 Ibid., p. 227.
been drawn up to mechanize the industry and increase the capacity to about 120,000 tons a year. The estimated cost of the project is about $9 million.¹

The Venezuelan Development Corporation. This agency was established in 1946. The capital of the corporation was provided from an initial fund of $27 million augmented by annual appropriations, which may not exceed 10 percent of the Federal budget. Resources of the corporation have been devoted to agricultural and livestock production for the domestic market. Also investments have been made to generate electric energy.²

Until 1961 this corporation helped principally firms that had been established until them. However, in 1961 it started a program to promote new industry.³

Venezuelan Petroleum Corporation. This corporation was established in 1960. In the same year the Congress granted the new company the right to exploit some 141,000 hectares (348,000 acres) of land most of which is located around or in Lake Maracaibo.

The field of operation of the corporation was supposed to be limited in the beginning, however, no restrictions were placed on possible expansion. An official describes the Corporation as follows:

¹Ibid., p. 234.


The corporation will be operating on a small scale, and will gradually expand its field of action, until it becomes a firm which engages in all phases of the petroleum business. In the development of these diverse phases it might be convenient to have collaboration of private capital. If the directing council thinks that such is the case, the Corporation may subscribe or acquire shares of the other securities in firms which have the same purposes. For this reason its objectives will include: (a) carrying on all of the operations of an integrated industry: exploration, exploitation, refining, and transport of hydrocarbons, as well as the purchase and transformation of the same; (b) the promotion of the firms with the purpose of developing industrial or commercial petroleum activities, with government able to contribute to the capital of these firms as deemed advantageous, and the subscription or acquisition of shares or other securities in firms which have the same purpose; (c) the carrying out of any other activities which contribute to fulfillment of the purpose of the corporation.1

In the near future it proposes to enter into competition with international oil companies both in domestic and world markets. It appears that the Corporation may eventually take over the bulk of the country's oil industry. However, it is certain that one of the basic functions of the Corporation is to prepare the ground for the government to take over most of the existing concessions when they begin to expire in the early 1980's.2

**Summary and Conclusion**

The annual flow of private foreign capital compared with Venezuela's total capital investment in the postwar period has been more important in qualitative than quantitative terms. In some sectors, such as oil and iron ore,  

1 Ibid., pp. 227-228.  
2 Ibid.
foreign investments has been very important in respect to both the quality and the quantity.

The exact proportion of the total stock represented by foreign capital is not known due to unavailability of factual data. However, reliable data on investment flowing from internal as well as external sources suggest that the annual average of net foreign capital is about 4 percent\(^1\) of the total investment.

Development of natural resources in Venezuela by foreign capital in the postwar period has both positive and negative aspects. On the one hand it has given a new dimension to the Venezuelan economy, in the form of new industries, new markets, new sources of income, and new potential for development. It has provided what may be called a foundation for Venezuela's current prosperity, which is growing, and increased the rate of economic expansion.

On the other hand in Venezuela development of natural resources during this period resulted in what may be an unhealthy dependence on the United States capital. Many of the resource industries as well as many of the secondary manufacturing concerns, including some of the largest enterprising firms, are owned by foreigners. Production mainly for, and strong reliance on, the United States market carries with it vulnerability to the United States trade policy.

Foreign private investment in Venezuela is concentrated in certain metropolitan centers. This situation has created a condition of economic dualism

in which modern economic activities are centered in a few areas and the rest of the country remains stagnant.

Certain facts are beyond dispute. The autonomous investment that supports Venezuela's current economic development is largely concentrated in the exploitation of petroleum and iron ore. Without outside sources of capital it would have been impossible for Venezuelans to have generated such large amounts of money. It would be fair to conclude that the autonomous investment has created certain internal economic advantages such as: trained labor, introduction of new techniques of production, stimulation of local investment, and change in the attitude of Venezuelan nationals toward the material possessions.

The Venezuelan Government recognizes the need for foreign capital and accords the same rights and guarantees apply to the foreigners are given to nationals. In 1962 President Borlancourt made a statement entitled "Fundamental Aspects of Economic Policy," which still appears to be a good definition of the policy of the present government towards foreign investment:

A quick development particularly in the industrial field, requires frequently large investments in such areas as are already technologically advanced, which makes it advisable for foreign capital to participate in the process. In order to encourage foreign investment, the government will assure it the same treatment as is given local capital provided that it contributes to our development without displacing Venezuelan investors. The partnership of foreign capital with Venezuelan capital will continue to be encouraged under conditions offering a greater stimulus to the economic development of the country. The foreign investors will enjoy the freedom of transfer of the
funds that he may require for depreciation, interests and dividends. ¹

Therefore, it appears that foreign capital that introduces new industries or new technological methods into the country is considered most desirable. However, there appears to be little, if any, encouragement for foreign capital in financial institutions such as insurance companies and banks.

EPILOGUE

For over 400 years the people of Venezuela lived by raising cattle, producing subsistence crops, exporting gold, coffee and cocoa. Then with the discovery of oil in 1920's the old pattern changed.

The original impulse that eventually propelled Venezuela out of its colonial investors. Favorable concessions and attitudes towards foreign investment on the part of the government officials and rich resources attracted substantial quantities of foreign funds. The petroleum industry changed Venezuela from one of the poorest Latin American countries to the wealthiest in terms of per capita income and gross national product.

The development of the petroleum industry affected Venezuela in many respects. It has added dynamics to the economy and modified the social structure of Venezuela. It has also widened the existing gap between the poor and the rich. Those who work for petroleum companies enjoy an improved standard of living. However, the constitute only 2 percent of the labor force.¹ Some skilled employees also have satisfactory wages, but many of the unskilled and landless rural workers live in dire poverty.

The Venezuelan Government in 1935 recognized that the nation was poor, and needs a long range program of modernizing and diversifying its

production. One of its basic needs was capital. As capital moved in oil
development the government received substantial amount of revenue from
petroleum. However, these revenues may not always have been used as wisely
as one could desire. Greater expenditures on education may have yielded larger
social dividends.

It is contended by some writers that the Venezuelan society is plagued
by instability arising from the country's rapid political and economic change.
One of these changes appears to be that the rich landlords lost their political
and social leadership to the rich businessman. There is evidence in income
statistics that the middle class has grown since 1930 and particularly since
1945. However, it also appears that the benefits which are derived from the
exploitation of petroleum and other natural resources have not been distributed
in a manner to maximize the welfare of all the people.

In relation to the other Latin American countries Venezuela is a rich
country because of its mineral wealth, large area of fertile land, its hydro-
electrical installations and their potential use of thermal power. Because of
these factors Venezuela has been successful in attracting substantial amounts
of foreign private capital and getting a substantial amount of foreign assistance.
Whether these resources have been put to the best possible use is a matter of
considerable debate. There are, however, evidences of social and political
advancement.

Last but not least, it is asserted that today Venezuela is a special
target of Cuban-Russian subversion in the Americas. All the factors mentioned
above make Venezuela an important country to the Communist block. Cuba's Che Guevara has reportedly said that if Venezuela, with its great wealth in oil could be taken, all Latin American would go up in flames. To prevent this development may require strong, united effort from the Venezuelan people, the government and the Pan American Union to assure a continuation of its free institutions and present form of government.

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