

The politics of oil in venezuela essay sample



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Introduction

Oil politics has influenced Venezuelan society so much that, it becomes difficult to get a clear understanding of the contemporary Venezuelan politics or its society without referring to the history of the country's oil industry. The oil industry has influenced such aspects of Venezuelan society as formation of social classes; alliances between various social classes; the development of petroleum workers movement; and international relations with the USA. For the period stretching from the 20th century to the 21st century, oil has remained an integral part of Venezuelan state building and was highly linked to the growth of nationalism in this nation (Ellner & Salas 35-37).

The politics of oil and effects on Venezuelan society

Venezuela is the fifth largest exporter of crude oil in the world and also has the largest conventional and non-conventional oil reserves in the world. This Latin American nation generates oil revenue to the tune of billions of dollars but her economic benefits out of oil production have been accrued to narrow elite of state managers, wealthy capitalists, and middle-class professionals. The bulk of the Venezuelan population has on the other had been left economically as well as politically marginalized. Venezuela's oil history dates as far back as the pre-Colombian times when oil seeping to the surface was use by the indigenous people for traditional medicinal purposes and other forms of practical use. The first oil well was however not drilled until 1912 and shortly thereafter, oil producing companies such as Royal Dutch Shell and Rockffeller's Standard Oil became the major oil producers in Venezuela. By 1929, Venezuelan oil exports ranked first in the world while the nation

came second to USA in world oil production (Chakravarthy & Zhao; Zarembka 10-13; Wilpert).

The most immediate effect of increased oil production in Venezuela was a sudden and serious decline in agricultural production that adversely affected the economy and Venezuela's industrialization process fell behind to the level of other Latin American countries. This economic disease has been referred to as 'Dutch Disease' which comes about when income generated from one economic sector overrides other sectors, resulting in distorted growth of non-tradable goods and services which cannot be obtained through imports at the expense of the production of imported tradable goods. Venezuela's agricultural production declined so much that the national GDP which had a third of its contributions from agriculture in the 1920s, went down to one tenth by the middle of the century. Between 1990 to 1999, industrial production also dropped from 50% of Venezuela's GDP to 24%, a decline that was a bit lower than that of other Latin American nations. Dutch disease also led to massive migration from the rural areas to the cities in search of better livelihood and this combined with increased population growth led to an explosion of poverty levels. Venezuela's economy also experienced constant currency devaluations and subsequent inflation (Zarembka 5-6, 14-15; Wilpert).

In 1943, a vast reform had been carried out on the Venezuelan oil policy in what is referred to as the Hydrocarbons Act. Through this reform, the state's income became even more tightly tied to oil extraction through taxation of oil revenues and the income derived from mining. Foreign companies were prohibited from making profits that were greater than the money they paid

to the government. As oil income increased, state dependence on oil as a source of income increased concurrently, replacing dependence on income taxes. But by the 1950s, over-supply of oil hit the world oil industry to a very large scale due to increased oil production by the Middle East countries and the US imposition of oil quotas. This led to very low prices for oil and as a result, the Venezuelan government prodded other oil exporting countries to come together into the Organization of Petroleum Exporting Countries (OPEC). Venezuela also went ahead and formed the Venezuelan Oil Corporation (VOC) which later became the basis upon which the country's oil industry would be nationalized Falola & Genova 64-65; Wilpert).

Venezuelan government revenues shot up in 1973 after the Middle East Oil embargo and as a result of the boom, President Carlos Andres Perez promised massive development for the country by investing the income derived from oil into poverty eradication through increased incomes and control of commodity prices. He also promised to diversify the economy through import substitution. In 1976, Venezuela's oil industry became fully nationalized and an organization known as Petroleos de Venezuela (PDVSA) was created. But even though the oil boom appeared to have tremendous blessings to the Venezuelan nation, some negative consequences were also realized namely increased indebtedness and chronic inflation.

These problems got worse in the 1980s when OPEC members broke off their production quotas and by 1998, oil prices had gone back to the historical lows experienced way back in the 1950s. This decline affected the economy of Venezuela especially the per capita income. Decline in oil prices was also accelerated by expansive oil production by non-OPEC nations such as Mexico

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and Russia. But when in December 1998 President Hugo Chavez took power, he had one major project in mind; to reorganize OPEC members so that previously ignored quotas would be put back in place. Chavez's efforts bore some fruit when after visiting OPEC leaders and non-OPEC countries, oil prices once again rose to \$ 27 per barrel since 1985. But these reforms put Chavez into conflict with PDVSA management which had focused on expansive oil production irrespective of the OPEC quotas

(Falola & Genova 64, 78; Wilpert)

Increased oil revenues also affected government fiscal policies by creating an illusion that the Venezuelan nation would be able to industrialize by re-investing the oil income. Instead, the oil boom led to increased government spending, even surpassing the newfound oil revenues. It was difficult to reduce this spending when oil prices went down leading the government deeper into debts. Oil revenues, per capita income and the entire Venezuelan economy therefore declined alongside the decline in oil prices. Decline in oil revenues led to the government's gutting down of social programs and several subsidies during the majority population well below the poverty line. Most people had to earn their livelihood as domestic workers, street traders, lay laborers, and often times as petty criminals. This has especially affected the indigenous those of Mestizo or African descent while those of European descent form much of the middle class and the economic and political elites. Currently, the waves of social and political struggles that characterize current Venezuelan society can be traced back to the 1980s and 1990s global oil prices' decline that reduced the state's

revenue and subsequently its capacity to carry out economic redistribution and buy social space (Zarembka 5-6; Wilpert).

Culturally, Venezuela's reliance on the oil industry has created a widespread mentality among the general population that anyone can advance economically as long as they have access to the oil wealth. As a result, majority of the Venezuelan's abandoned entrepreneurial activity and many of them were subsequently encouraged to seek state alliance by sourcing for government contracts or employment from the state. The Venezuelan State's monopoly on the oil wealth has also created an illusion that it has the ability to achieve anything with little or no cost trickling down to the population. Politically, the oil industry has pushed Venezuela into the type of democracy where powerful opposing interest groups have devised a way of sharing the nation's oil revenue. This has been done through the formation of a pact referred to as ' Punto Fijo' through which all major political parties were guaranteed an access to state power in direct proportion to voting results. Through this sharing, major parties like Copei and Accion Democratica were guaranteed government ministries, contracts, and jobs. But decline in oil prices disabled Punto Fijo and by 1998 when Chavez came to power, it had completely lost its strength (Wilpert; Zarembka 5-6).

Conclusion

The Venezuelan oil industry has been both advantageous and disadvantageous to the society. Despite frequent bouts of economic and political instability, Venezuela still remains one of the largest producers of oil in the world. Oil income has helped to resolve many social and economic

problems and the government has also been able to invest in public works and create new industries. Wealth derived from oil has however exacerbated political and social tensions with frequent allegations that the Venezuelan government under Chavez mismanages oil funds (Falola & Genova 235).

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