

Why Oil Rich Countries Are Poor

TinkerShaw asked;

Denny,

I'm also interested in why Venezuela's economy is so oil dependent. I know they are one of the largest oil producers in the world, but hasn't this wealth been reinvested into other areas? What is keeping Venezuela from unleashing its own entrepreneurial renaissance and weaning itself from dependence on oil?

Tinker

P.S. Yes, I do think the cure for poverty is more capitalism, not more government aid, particularly where the government has access to all the wealth from oil.

Show me one wealthy oil country.

An abundance of mineral resources is not the equivalent of wealth. Pre Colombian America had vast stores of gold and silver but you could not call the inhabitants wealthy if you consider their standard of living. Much of this gold and silver found its way to Europe via Spain. Did Spain become rich by importing all the fine metal? No, inflation is what happened because there was not a concomitant supply of goods to offset the supply of fine metal. The inflation was then exported from Spain to the rest of Europe because all of Europe did not produce enough goods and services to sop up the inflow of precious metals.

Production of goods and services does not just happen, you needs knowledge to turn raw materials into products and to turn work into services. Take a perfectly good refinery from the US and transport it to some desert country and put it back together. You no longer have a refinery, all you have is a scrap heap because the knowledge of how to operate the refinery is lacking. Venezuela today is a case in point. 36,000 PDVSA workers walked out of their jobs. The government has been replacing them with scabs but the oil is not flowing. The scabs don't have the required knowledge.

The Venezuelan oil industry has been doing rather well despite being a

nationalized industry. Venezuela has known how to work its way down stream. We don't just pump crude. We have the largest refinery in the world. We have a fleet of tankers. We own [Citgo](#), one of the largest outlets of fuel in the USA. In other words, Venezuela, through PDVSA, is a major integrated oil company, the fifth largest exporter in the world.

The question is then, as you properly ask, what happened to all the money that PDVSA has generated? The problem is that it never trickled down to the people. The schools were not built, the teachers were not trained, a work ethic was not instilled. What was implemented was a populist economy designed to buy votes.

Our population is divided into a very small upper class of very rich people, a small middle class of merchants and professionals and a very large lower class.

Venezuela's original upper class were the descendants of the Conquistadors, the Creoles (the Spanish born in America). For those of you who read Spanish I highly recommend [Los Amos del Valle](#), The Owners of the Valley, by Francisco Herrera Luque a wonderfully witty novel about the twenty families who owned the Caracas Valley from conquest to the first cries for independence from Spain. Even though the mantle of the upper class moved to a different group of people over time, the structure itself remained. By 1970 the upper class was made up of 12 or more industrial and banking groups composed partly of relative newcomers from places such as the USA (Boulton-Bottome), the Canary Islands (Mendoza), Germany (Blohm and Vollmer), Czechoslovakia (Neuman) and others. You can find a very good description of these industrial groups in [La Oligarquia del Dinero](#), The Moneyed Oligarchy, by Domingo Alberto Rangel. Rangel is a communist writer who did some excellent research for this book. Too bad that at the end he arrives at the wrong conclusions.

Our middle class is, numerically, quite small and not interested in politics. Politics is something dirty that you leave to politicians. This is how we lost our country to Chavez.

The lower classes live in relative poverty but the essentials are covered in great part by government subsidies and the climate is benign so there is little hardship.

To understand our situation it is important to know that not only oil but all mineral resources in Venezuela belong to the state, not to the land owner. A land owner

may own the surface only, not the mineral wealth beneath his lands. According to our constitution the citizens own the mineral wealth but that is fiction. The truth is that the current government gets to exploit this wealth and is free to do with the proceeds as they wish. We have had many a politician who has recommended "Planting Oil." This policy consists of investing the proceeds of the oil into other industries and infrastructure. This has been a partial success in that we have fairly decent roads and airports. We have a wonderful metro (subway) in Caracas. Hydroelectric dams such as Guri. And we have such basic industries as steel and aluminum. Unfortunately, most of this is also in government hands.

What is the outcome of this strange cocktail? The government is our largest business, our largest employer and our largest financial power. Our "Moneyed Oligarchy," although very rich by any standard, is no match for the government and in any case, they seem more interested in fortune than in political power. The middle class, for all practical intents and purposes, is of no significance. Our political parties allow the rich to buy favors and they, in turn, buy the votes of the lower classes with subsidies and social programs. In my opinion, wealth is created by an active middle class in a climate of democracy and capitalism where risk is well rewarded. In Venezuela those who have a lot of drive manage quite well and that can be seen by how the upper classes have evolved from Conquistador to landed gentry to merchant and industrialist. But the economic climate is not one that encourages the lower classes to move up to middle class status. There is too much government control, too much government interference with every aspect of life.

One book that I would highly recommend that explains it very well is [The Mystery of Capital](#), *Why Capitalism Triumphs in the West and Fails Everywhere Else* by Hernando de Soto.

Venezuela might be at a political watershed. When we elected Chavez four years ago we already knew that our democratic system was bankrupt and that it needed change. Unfortunately for us, we picked the wrong agent of change who instead of leading the country towards more democratic and capitalistic ways is heading us directly to a Castro-communist style dictatorship. But Venezuelans don't want communism or dictatorship and we have rebelled against Chavez. The really significant part of the rebellion is the work stoppage by the workers and management of PDVSA. All of a sudden there is a civil disobedience opposed to the

government something that had not happened since the late 1930s after General Juan Vicente Gomez died.

In the battle of words between Chavez and PDVSA, Chavez is accusing PDVSA management of wanting to privatize the oil company for personal profit. PDVSA replies that, on the contrary, they want to keep PDVSA nationalized but that they want form associations with foreign capital to exploit certain phases of the oil industry as a way to bring in foreign investment capital. Seldom or never before have the words privatize and oil been used together. Chile is an interesting precedent in that after the communist Salvador Allende was killed Augusto Piochet brought in the Chicago Boys to revamp the economy. I don't have all the details but one fundamental change was the privatization of their Social Security funds. The funds released from government control were used to finance a newly flourishing stock market and Chile became the economic miracle of Latin America. I'm not saying it will happen but I do believe it could happen. There is a slight possibility that Venezuela will abandon its socialistic, populist dogmas and adopt a more capitalistic mien. At the beginning of the 1990s we did privatize the telephone company and allowed competition between several private carriers. The improvement in service has been phenomenal and this cannot be lost on our leaders. The change for the better in Chile cannot be lost on our leaders. Our own utter failure to eliminate poverty cannot be lost on our leaders. I wonder if after we get rid of Chavez we will have leaders with the guts and the vision to lead us towards capitalism.

Let us hope so. It is time for an oil rich country to prove that all its citizens can be well off.

Denny Schlesinger
Caracas - Venezuela
denny@softwaretimes.com