Chavez and His Oil Strategy

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Venezuela has played a certain historical role in the imperialist international division of labor: as a strategic exporter of oil. And the economic pillar of the modern Venezuelan state system has been the extraction of rents from oil companies, the charge for allowing them to pump oil out of the ground. Over the last half century, oil income has both lubricated a certain kind of growth and development in Venezuela and locked Venezuela into an international oil economy dominated by Western powers.

Oil, with its booms and busts, reshaped the economic geography of the country. Caracas, the capital city of Venezuela, more than doubled in size between 1920 and 1936, and doubled again between 1936 and 1950. Then it tripled between 1950 and 1971. The oil economy gave rise to a new middle class dependent on the state and disbursement of oil revenues, while shantytowns of the rural poor spread through and literally seeped into the muddy slopes of western Caracas. Today, almost 90 percent of Venezuela's population lives in the cities and half of the population of Caracas lives in poverty. One measure of oil's distorting effects on the economic and social structure of Venezuela has been the vast growth of the "informal economy" in the cities: the urban self-employed (like peddlers and street merchants) and workers who perform unregistered or "off-the-books" labor and services.

Oil has produced and perpetuated a developmental trajectory marked by great economic and social gaps: between the productivity of the petroleum sector and the productivity of the non-petroleum sectors; between the development of the rural and urban areas; and between rich and poor, in the cities and in the countryside.

From 1958 to 1998, Venezuela earned some $300 billion in oil revenues. What has this meant for the masses of people in Venezuela, and what kind of development has resulted from subordination to the dynamics of the world imperialist economy and the world oil industry within that?

The production of oil has actually stifled any significant industrial diversification. Much of the new infrastructure built between the 1960s and 1980s is decaying for lack of maintenance. Floods and mudslides, aggravated by uncontrolled urbanization, have washed away towns. Health hazards stalk the shantytowns in which 60 percent of Venezuela's urban population lives. The number of people living in official poverty nearly doubled between 1984 and 1995; and, today, more than half of Venezuela's working population works in the precarious informal economy.

Hugo Chavez has decried the oligarchic oil economy with its corruption, patronage, and extremes of glittering wealth and grinding poverty. He has spoken of the need to revive the peasant economy. But can a different form of oil economy produce a just and viable alternative to the neo-liberal economic model and lead to socialism? And just how different will such an economy be if it requires the massive infusion of foreign investment capital and a gamble in a game of oil markets?

Chavez has pinned the success of his program of social equity and diversification of the economy on oil revenues. His main, economic order of business, as he repeatedly states, is "sowing the petroleum." This is a phrase and program that has been part of Venezuela's populist-nationalist politics and discourse since the mid-1930 : the government is to assert greater control over oil revenues, use oil wealth to promote development, and allow more people to share in the oil bounty. Chavez is counting on high and rising oil prices to undergird vast increases in government spending, a growing state presence in the economy, and subsidized prices for certain domestic products (mainly gasoline but also imported consumer goods, including food). In 2004, $1.7 billion of the state oil company's $15 billion budget was allocated to fund social programs; soon thereafter it went to $4 billion a year.

Chavez, after having restructured the management of the state oil company, is moving along three tracks to maximize oil revenues to make good on his program. He is seeking to expand oil production. He is seeking to increase state ownership and the government's share of earnings, royalties, and taxes deriving from foreign-based activity in the hydro-carbon sector (oil, natural gas, and coal). And he is seeking out new markets for oil, both to absorb expanded output and as a cushion against possible US pressure and retaliation. These are not simply technical tools of economic management; they are bound up with a capitalist logic, and are fraught with the contradictions of dependent, imperialist-led development.

On the first track, the strategic 25-year Plan Siembra Petrolera (Oil Sowing Plan), in its first phase for 2005-2012, calls for an increase in production from current levels (2006 estimates range from 2.8 million-3.3 million barrels a day) to 5.8 million barrels of oil per day in 2012. In the natural gas industry, similar large-scale development is also planned.

The Venezuelan state oil company Petroleos de Venezuela (PDVSA) estimated in 2006 that this phase of the expansion plan requires some $75 billion to finance new investment. Where is this money coming from? Most will come from the state oil company. Some 25 to 30 percent is expected from external, private sources: borrowings from banks, offset by anticipated oil earnings, and investments by the foreign oil companies operating in Venezuela.

Chavez is counting on increased output from the so-called Orinoco Petroleum Belt, a region in the center of the country that has been the site of major investments by the state oil company and foreign operators, like Exxon-Mobil, ConocoPhillips, and France's Total SA. Since the 1990s these transnationals have invested more than $17 billion, which may have grown in value to $30 billion. The extraction and processing of this extra-heavy crude oil requires expensive investment in heavy machinery, treatment, and storage complexes. Partial processing of this oil on the spot, to make it liquid enough to flow in pipes, produces enormous amounts of waste material.

There is a sharp contradiction. On the one hand, the state must extract financial resources from the oil industry to underwrite its development and social spending plans (and, increasingly, to meet rising popular expectations and shore up the political base of the Chavez regime). On the other hand, the state must invest to maintain the competitiveness of the oil industry as a capitalist enterprise in the international capitalist market.

Again, there is great tension here. In the last two years, social programs have absorbed a larger share of the state oil company's budget than has spending on maintenance and new oil capacity. This social spending by the government puts strains on needed investments in the oil sector. To say investments are "needed" is not to make some pure technical statement; rather, investments are "needed" from the standpoint of an oil-exporting economy and the dictates of the world market—improving efficiency and compensating for possible price declines with expanded output. Because Venezuela's wells are so old, output declines 23 percent a year—and so it is necessary to drill new wells just to maintain capacity. There is a pull exerted by competition on the world market, intensified by low levels of investment in Venezuela's oil sector relative to other oil-producing countries, to upgrade and expand the industry, and maintain profitability.

If foreign investment comes forth to finance a major share of Plan Siembra, this investment carries with it real control and puts real leverage in the hands of those foreign investors. This is important to bear in mind. Venezuela is not unusual in having formal sovereignty over its oil. Some three-quarters of the world's oil and gas reserves and half of global output are controlled by national state oil companies like Saudi Aramco, Kuwait Petroleum, and the Algerian state company. But the national-state oil companies rely on international finance, work through international trade and marketing channels, and collaborate with the large, Western-based transnational oil companies, like Exxon-Mobil. These transnational corporations and their service company networks have strong competitive advantage: in scale, reach, and core managerial and technological competences, financial capabilities, support by the Western governments, and the ability to pull up stakes in a country like Venezuela.

In April 2006, Chavez announced his intention to increase PDVSA's share in major projects to 60 percent from 40 percent. The Chavez government is creating new forms of joint ventures (what are now called "mixed companies") with Shell, Chevron, British Petroleum, and others. Oil resources and oil profits are jointly owned in the form of single new enterprises—only now, the Venezuelan government obtains a higher proportion of profits than it had previously, while the foreign oil companies, with heavy investments, benefit from current high oil prices and prospect of profitable new oil fields. At the same time, the government has negotiated with the 22 foreign companies operating in Venezuela to agree to a new tax law that is being enforced retroactively.

On May 1, 2007, Chavez made good on his ultimatum to the foreign companies that they accept a larger share of ownership by the Venezuelan government or cease operations. Chavez may be a tough negotiator (and did succeed in getting a larger slice of rising oil revenues from companies who want to stay put in order to recoup the value of their investments and make huge profits). At the same time, to keep these projects alive, to go forward with expansion plans, Chavez must reach some kind of understanding with foreign capital, as these firms are providing essential finance and technology. So the threat of takeover was sweetened with a commitment to compensate the firms.

The third track of the oil program is to restructure Venezuela's external trade relations away from dependence on the US as a market and source of investment capital and technical expertise. Venezuela accounts for some 12 percent of the US's daily oil imports, and plays a certain strategic role in the US ability to project power in the world. But the other side of the equation is more telling, illustrating an aspect of Venezuela's structural dependency: that 12 percent share of US oil imports accounted for by Venezuela represents 60 percent of Venezuela's total production!

In seeking to diversify markets, Chavez has opened negotiations with China and has plans to sell Venezuelan oil to China, the world's second-largest energy consumer, and to India as well. But there are high costs of servicing these markets. Venezuela does not have a Pacific port, and large tankers cannot make it through the Panama Canal. So Venezuela would need to construct pipeline through Colombia in order to ship the oil.

But shipment to Asia is costly, owing to the long distances involved. Further, China does not have adequate capacity to refine Venezuela's sulfur-rich crude. China is investing substantial sums to increase that capacity, but China is also exploring for oil and gas closer to its shores in the South China Sea and angling as well for deals in the Caspian Sea region.

The US connection is a difficult knot for Chavez to cut, especially if oil is to be the centerpiece of development. There is the close proximity of the US market and low transportation costs. There are the refineries in the US adapted to processing Venezuela's oil. And the US continues to be Venezuela's most important trading partner (US Venezuela trade actually rose 36 percent in 2006). These are among the pressures operating on Chavez to maintains table economic relations with the US even if the US has other plans.

Part of Chavez's strategy for diversification involves inviting foreign companies from outside the traditional circle of the big Western oil majors to invest in Venezuela's petroleum industry and to participate in his plan for a continental gas pipeline project stretching from Venezuela down to Argentina. These form part of Chavez's efforts to create more multilateral investment and trade links. Chavez is courting companies from India, China, Russia, and elsewhere. Chavez hails investment plans in Latin America as anti-US regional integration.

But whether in Venezuela or elsewhere in Latin America, the essence of these projects is: investment by capitalist firms...according to capitalist methods of exploitation...to be measured by capitalist criteria of profitability. These projects have enormous social consequences for local populations, including dislocation of indigenous peoples. And they have enormous environmental consequences.

One critical-minded supporter of Chavez has observed, "the joint ventures provide a reality check to those used to only a diet of Chavez speeches...[B]ut in the current circumstances, paradoxically, a Faustian pact with foreign capital may be necessary to keep the forces of imperialism [U.S. pressure and intervention] off Venezuela's back."

This captures much of the "best-case" thinking about Chavez's oil-based strategy of development. But this "best-case" thinking rests on a misunderstanding of imperialism. As desirous of genuine social change as many Chavez supporters are, that cold-water splash of "reality check" is worth pursuing further.

Imperialism manifests itself not simply through economic bullying or military threat and intervention—and US military action against Venezuela is by no means "off the table." It is also expressed through the structure and functioning of the world economy and the existing economic and social structure of Venezuela, which reflects and reinforces dependency on oil and subordination to the world market.

Chavez is perpetuating a form of export-led growth centered on the oil industry. The irrationality of an economy so geared to oil is expressed in the fact that only 20 percent of Venezuela's total oil production enters into the domestic economy. "lt is expressed in the fact that while Venezuela's state oil company (PDVSA) is the country's single largest employer, with about 45,000 on its payroll, employment in the oil sector accounts for less than 1 percent of Venezuela's total work force. It is expressed in the fact that, despite high oil prices and earnings, official unemployment in Venezuela has ranged from 8 to 15 percent in the Chavez years, with the poverty rate at 30 percent at the start of 2007.

This is a profoundly distorted economy: today, the oil sector accounts, and this has been a longstanding pattern, for about one-third of Venezuela's Gross Domestic Product (GDP), 50 percent of the government's revenue, and 80 percent of Venezuela's export earnings. As one of the world's top oil producers, Venezuela is a top emitter of CO_2 emissions in Latin America and has the region's highest per capita rate of carbon emissions.

The oil-export economy induces a form of "enclave" development. Such development responds to external sources of economic dynamism: the world oil market, conditions of demand in the major imperialist and regional economies, the rhythm and direction of world capital flows, etc. And such capital-intensive mono-export development is a barrier to integrated, all-around agricultural and industrial development in the exporting country.

Here it is necessary to elaborate on two related aspects of dependent development: lopsidedness and heightened exposure and vulnerability to the world market.

In the oppressed nations, the oil sector requires massive investment in advanced equipment and technology. These technology demands are met disproortionately from outside the economy—much of the advanced technology required by the oil sector is either imported, requiring that foreign exchange be generated to pay for imported capital goods, or obtained through the joint ventures (the foreign oil and oil-service companies involved, like Halliburton, provide the technology in-house or purchase it on the world market).

Moreover, much of this technology cannot be widely diffused and adopted throughout the economy to revolutionize social production. This is so for two reasons. First, much of the specialized oil-drilling and oil-engineering technology is not appropriate to overall conditions of social-economic development. Second, even where some of this technology could have useful direct and indirect spin-off applications, there does not exist a broad-based industrial structure to which the benefits could accrue—exactly because the oil focus has constrained broader development.

The oil sector is not significantly stimulating new demand for locally produced industrial products, nor is it resulting in a rising socially useful skills level of the overall work force. One can not have a process of agricultural and industrial development unfolding that strengthens local capacity to innovate and adapt technology. These are consequences of enclave-like, oil-based development.

Under Chavez, PDVSA, the Venezuelan state oil company, has been seeking agreements with foreign oil companies requiring as a condition of entry that they source (obtain) more oil-service supplies locally. But as oil resources are depleted, and as the extraction and processing of Venezuela's heavy crude and sulfur-rich oil grows more challenging, new technology requirements appear. And as these requirements are met with even more specialized and sophisticated technology, the technology gaps between the oil sector and the rest of the economy are reproduced on a new level.

Meanwhile, the huge port, pipeline facilities, and other infrastructure investments to facilitate the exploration, extraction, and shipment of oil and coal are often out of scale to the needs of the overall economy—again, since they serve these more self-contained, outward-oriented investment projects, like the Orinoco Petroleum Belt plans.

As mentioned earlier, the oil sector overall accounts for a very small fraction of total employment. Chevron's huge $3.8 billion investment in the Orinoco Petroleum Belt initially will have created 6,000 jobs—upon completion, the project will only need 700 permanent employees. These are phenomena of the enclave-like character of oil-based development. But here is the rub: the overall agro-industrial structure is profoundly influenced and skewed by the oil sector. There is heightened unevenness as between the productivity and wage levels and technological dynamism of a modern oil sector and other segments of the economy; and, the oil industry has negative feedback effects on domestic agriculture and food production. At the same time, the build-up of the state-capitalist oil sector strengthens class interests and class forces that have a strong stake in maintaining the dominant macro-economic structure.

To develop an agricultural base that could meet the food needs of society, provide rural employment, and develop through mutually reinforcing links with an integrated and balanced industrial structure would require a) a very different allocation and prioritization of resources serving the needs of the now exploited and oppressed, and b) a break with the economic logic, structure of options, and pressures of the local and world capitalist market system (what Marxists call the law of value).

Oil is not a "treasure" to grab hold of. Oil-rich countries, from Venezuela to Iran to Algeria to Indonesia, have seen export booms produce inequality and social misery. Government budgets bulging with petrodollars have come crashing down (as Venezuela's did in the late 1980s and early 1990s). In Nigeria, there is the "techno logical achievement" of foreign capital building an infrastructure that can extract oil from a waterlogged equatorial forest—while adjoining villages are without power or clean water. When more nationalist regimes have replaced old elites that functioned as local client-watchdogs for imperialism, as happened in Iran in the 1950s, the U.S. has not hesitated to move against them. The flow of "black gold" must not be disrupted for long.

The extraction of oil and more oil, based on exploitation of labor power and the realization of value through the international circuits of capital, historically enmeshed and continues to enmesh the population of Venezuela in a global network of commodity relations in which social and human development hangs in the balance of an unequal structure of world production and trade...and the movement of price on the world market.

A genuine socialist revolution is not about striving for a more equitable distribution of oil revenues, or trying to strengthen regional trade and oil blocs that only further exploitation of people and despoliation of nature, or demanding that the major oil companies "recognize their ethical and social responsibilities" (yes, one can go to Chevron Texaco's website and learn about the educational and health programs they are setting up in Venezuela).

The point is this: the modern oil economy is not a neutral set of production and technical coefficients. Export-oriented oil production is a relation to the world imperialist economy, a rope of control and dependence, a rope tightly constricting the creative capacities of the masses of people. And that rope must be cut through by a revolution that overthrows the old order and state power.

When the proletariat and the masses of people seize power in the oppressed societies, the goal cannot be to take over and reprogram a lopsided oil-based economy that warps development and that subjects society and economy to the destructive imperatives of the world system. Rather, a revolution must do away with the very foundations of such an economy in order to break the grip of imperialist control and to overcome the distortions of imperialist-led development.

In place of the old economy, a liberating new one must be built: an economy whose foundation must be agriculture, an economy with a diversified and decentralized industry serving agriculture and broad developmental needs. Only by constructing this kind of economy can basic social needs be met and relative self-sufficiency achieved in a world dominated by imperialism.

What would be the role of oil in a country like Venezuela, with extensive petroleum reserves, if a genuine socialist revolution took place? There would need to be a radical reorientation away from oil's historically dominant position in the structure and functioning of the economy. This calls for a decisive break with export-oriented, oil-based development. Oil would still play some role in the economy, but this would be quantitatively and qualitatively different. Concerted and coordinated society-wide efforts would be made to greatly reduce dependency on oil as an energy source. Society would move towards more ecologically sound alternatives, especially as oil is currently extracted, refined, transported, etc., but fundamentally in developing a renewable energy foundation of growth. The social-economic calculus would no longer be one of maximizing production or maximizing returns but rather developing a just, rational, and ecologically sustainable economy based on the conscious activism of the masses and serving the liberation of society and humanity as a whole.

Socialist economic development must serve the goal of overcoming the great differences between town and country, between agriculture and industry, and between mental and manual labor. Socialist economic development must enable a revolutionary society to stand up to imperialism and aid the advance of revolution elsewhere in the world. None of this is possible without a new revolutionary state power that can lead this process forward and mobilize the masses to remake all of society.

Developing this kind of economy is a complicated task, and the elimination of huge inflows of petroleum income, along with the economic, political, and military pressures of imperialism, will further complicate this task. But the elimination of petro-dependency and the petro-state, and the adoption of other revolutionary economic and social measures, will open whole new possibilities for creating a truly liberating economy.

Under Hugo Chavez, Venezuela remains locked tightly into the global economy, and Chavez's program turns on the market value of the oil resource. Even if this program provides some short-term improvement in the conditions of the masses, it cannot be sustained and cannot lead to a world beyond imperialism. And rather than represent the proletariat, Hugo Chavez personifies a section of the Venezuelan capitalist class and radicalized petty-bourgeoisie that bridles at the inequities caused by foreign domination but that cannot conceive of rupturing out of the imperialist-conditioned dominance of oil in the motion and development of the Venezuelan economy. □□□ *[Source : REVOLUTION, Chicago]*