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Venezuela's Oil Mythologies Have Hindered Its Development

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INTRODUCTION

The question of why Venezuela, after more than 90 years of oil exploration and countless flirtations with modernity, is still far from real and sustainable economic and social development is very difficult to answer—perhaps as difficult and elusive as the creation of a viable development strategy itself.

One could speculate, and indeed many have, about the economic, political, and even climatic causes of this curious phenomenon in Venezuela; without a doubt some sort of coherent explanation could be structured, but so far none have gained widespread acceptance. As author Henry L. Mencken once said, “For every complex problem there is a simple, clear, and wrong solution.”

Furthermore, in exploring this question, one is liable to encounter half-truths, ill-intentioned chroniclers, and stubborn defenders of well-established dogmas. In many of the explanations experts and pundits have put forward, the perverse effects of oil rent are the most often identified culprits behind Venezuela's stagnant development. However, even though it is an attractive argument, it is at best an oversimplification, as this paper seeks to demonstrate.

What I surmise in this brief is that cultural myths (which will be described later)—and by extension, the suppositions they inspire—have played a major role in shaping Venezuela's relationship with and management of oil resources throughout much of the last 100 years.

The myths exist in an environment where conversations about the oil industry—which, paradoxically, are uncommon in spite of the fact that Venezuela has revolved around it for nearly a century—are usually framed in a combination of two or more of the following ideas:

- Oil destroyed the agricultural economy. (Alberto R. Adriani¹)
- We must “sow” oil revenues to ensure future wealth. (Arturo Uslar Pietri²)
- We must save oil for future generations. (Celestino Armas³)
- Oil is the devil's excrement. (Pérez Alfonzo⁴)
- We must break away from OPEC. (Sosa Pietri⁵)
- PDVSA's⁶ autonomous dealings are hidden in a metaphorical black box.⁷
- It is preferable for PDVSA to invest oil rents than for politicians to waste it. (PDVSA and others).
- Now, oil is truly ours. (Rómulo Betancourt, Pérez Rodríguez, Chávez Frías, and others.⁸)

It would be easy to disregard these statements, either because they do not conform to one's personal vision, or because they are superficial claims or simply mistaken. However, the fact that these themes or versions of them have been repeated throughout Venezuela's history should make us reconsider. We could even venture that they are the ready arguments that swaths of Venezuela's society have subconsciously accepted as valid explanations for



The idea that Venezuela's oil bounty is magical has been reinforced by “miracles” throughout history in which fortuitous, external events triggered a demand for oil, rescuing the national economy from the abyss.

their notorious dissatisfaction with the management of the country's bountiful oil wealth. Playwright Ibsen Martínez pointed out in an interview following the opening of his play "Los petroleros suicidas" ("The suicidal oilmen") that "There is a collective schizophrenia ... and yes, we know we are an oil country, but we cannot understand why on Earth we are not rich."⁹

Oil is no doubt Venezuela's primary industry—but it has not seemed to capture the dedication or prolonged interest of the country's writers. As historian Manuel Caballero once wrote, "Oil is a minotaur without Homer." However, one only has to consider Venezuela's gallery of oil-related events to understand that, whether we like it or not, oil has shaped the country's contemporary history.

Oil transformed Venezuela's landscape, notably in rural areas devastated by poverty and desperation at the beginning of the 20th century. Oil represented a dream of progress, as described by author Miguel Otero Silva in his novel *Casas Muertas* (1955):

*"They came from the most diverse regions, from the Andean villages, from the haciendas of Carabobo and Aragua, from the suburbs of Caracas, from the fishing villages of the coast ... They all went in search of the oil that had appeared in the East, strong and black blood that flowed from the savannahs, far beyond those villages in rubble that they now crossed, from that skinny cattle, from those miserable crops. The oil was shrillness of machines, canned food, money, liquor, something completely different. Some were moved by hope, others by greed, the majority by necessity."*¹⁰

This dream is still pursued, though many find it to be an unattainable chimera.

THE OIL MYTHS

Although hydrocarbons appear very early in Venezuelan history—according to the oil historian Aníbal Martínez, the first oil officially exported from Venezuela was a barrel shipped to Spain in 1539 to treat King Charles I's gout—it was not until the

blowout of the Barrosos 2 well on December 14, 1922, on the coast of Lake Maracaibo in western Venezuela, that the country began to feel the transformative effects of oil exploitation. This event was not only the milestone that marked the beginning of the country's oil era; it also created, in my view, some of the archetypes and myths that remain to this day.

The stories and legends that have been woven around the Barrosos 2 well and its impact on Venezuela at the beginning of the 20th century serve to identify three of the archetypes that characterize Venezuela's oil mythology:

1. The miraculous fact
2. The wealthy enclave
3. The black box

The Miraculous Fact

The Barrosos 2 well, located on the outskirts of Cabimas, flowed out of control for more than 10 days, reportedly spilling more than 1 million barrels of oil. According to legend, neighbors afraid of the deafening noise of the blowout—and of the unstoppable rain of oil that gushed from the bowels of the Earth—prayed to the local saint, San Benito, to intercede, and they sang his virtues when nature finally surrendered.

Today's engineers, rational and prosaic, would argue that the well caved in and stopped flowing. Although this is undoubtedly the best explanation, the true heirs of the neighbors of Cabimas have chosen to relate to the oil drama as a miracle.

This magical outlook, perhaps inherited from Venezuela's agricultural tradition and a deep-rooted belief in the supernatural, has been reinforced by other "miracles" throughout the country's history. From time to time, in an extraordinary coincidence with some internal crisis in the country, a fortuitous external event has triggered a demand for oil or a price change, rescuing the national economy from the abyss it faced: the Second World War, the Yom Kippur War, the fall of the Shah of Iran, the Gulf War, the emergence of the Chinese economy, and other events took Venezuela from miracle to miracle.

The Wealthy Enclave

In his novel *Mene*, author Ramón Díaz Sánchez documents for history the animosity that oil promoted between the foreigners living in gated, private communities and the Venezuelans who lived beyond the wall:

*Houses of resplendent wood, on pilasters with insulating roofs. Gardens planted with a strong air of foreignness. A whole new and exclusive town, isolated from the surrounding world with a large iron gate ... White predominates there, a net white, aggressive like that of modern hospitals and hairdressing salons. The comfort of those chalets suggests a certain idea of a Carthusian monastery, with everything necessary to not lack anything.*¹¹

It is not mere coincidence that this novel was published in 1936, during the year of the first oil strike—the so-called “cold water” strike¹²—which was symptomatic of the tension created between the isolated “musiques”¹³ from the oil companies and the Venezuelan blue-collar workers. It is interesting to point out that Venezuela’s trade unions have roots in this strike.

Some 80 years after *Mene* was written, the enclave still survives, physically and mentally, in the relatively affluent oil camps surrounded by the “real Venezuela,” as well as in the manner in which they are viewed in the corridors of political power.

The Black Box

Along with the enclave came the myth of the “dishonest secret,” which after the nationalization of the country’s oil industry became known as “the black box.”

Imagine for a moment the Venezuelans living in the first third of the 20th century, opposed to the tyranny of the de facto ruler of the country, General Juan Vicente Gomez. They observed foreign oil workers speaking an unknown language, armed with strange machines, opening holes in the earth, extracting a black viscous liquid, and transporting it beyond the seas.

Meanwhile, the political masters, behind the backs of the governed and shrouded

in the legitimacy of the State, reaped the benefits of the mining bonanza that the foreigners produced and the locals little enjoyed. Is it any wonder, then, that many Venezuelans imagined oil as dark and corrupt, an enigma hidden in a black box?

After the nationalization act in 1975, Venezuela’s oil industry was subjected to state scrutiny as never before. However, the myth of the black box survived, because that is what good legends are: lasting and indestructible.

Nothing can erase the positive and negative effects of oil in the abandoned, rural areas of Venezuela in the early 20th century. “Oil underpinned the tyranny [of Gen. Gómez’s regime], but it also created the conditions for its dissolution,”¹⁴ observed sociologist Emilio Pacheco. What is difficult to understand, and should make one pause, is that 100 years after the first commercial discovery in the Lake Maracaibo basin, Venezuelans’ perception of oil—and hence, of oil policy—tend to still revolve around beliefs that originated in a reality and a society that no longer exist but that endure in their worldview: the idea that Venezuela’s oil wealth is miraculous; the tension between oil companies and the rest of Venezuela; and the perception of a dark and secretive oil industry.

A RICH COUNTRY

Venezuela’s remarkable economic growth during a large part of the 20th century, especially after the Second World War, and its transformation from a rural country to one with all the external signs of development, have led most of its citizens to think, not without reason, that their destiny was to be rich because the country has oil and other resources in abundance.¹⁵

A review of the income generated by oil over the last few decades reveals some of the facts that gave Venezuelans grounds to think that they were rich—and some of the events that resulted from this belief. For example, a major event that seemed to point to a long future of oil riches unfolded in the 1970s, when geopolitical turmoil in the Middle East brought an oil bonanza

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to Venezuela—with oil revenues of more than \$3,000 per capita. This happenstance advanced (among other measures) oil reversion legislation, and accelerated (amid nationalistic euphoria) Venezuela's decision to nationalize its oil industry, a move that had been in the minds of politicians since the 1940s.

Although such decisions can be second-guessed today, it must not be forgotten that the consensus of experts at the time was that the country would profit from an unstoppable rise in the price of oil and an unlimited windfall. But the illusion was short-lived and, as history shows, Venezuela and its OPEC partners, in a failed attempt to keep prices artificially high, mismanaged their production levels and lost significant market share.

Venezuela reduced its export capacity by almost 2 million barrels per day in the span of a decade—a sacrifice that did not, however, stop the irremediable fall in oil prices. When the strategy was finally reconsidered, it took Venezuela more than two decades to substantially recover its production and export capacity.

In the first 15 years of the 21st century, a similar situation has developed: a temporary oil bonanza has been followed by the systematic manipulation of production levels and the loss of market share, this time due to the politicization of the state-owned company and a lack of technical wherewithal to successfully capitalize on the country's oil. In 2003, the administration of President Hugo Chavez fired more than 20,000 employees from PDVSA in response to a strike by workers and managers against the president's policies. The dream again turned into a nightmare.

Today, Venezuela's energy industry has been sacrificed on the altar of an ideology that calls for state ownership of all oil production and the use of revenues to buy political favors. Although such a strategy has not achieved progress, it is impermeable to reason. At the same time, the populace—still blinded by the false hope of easy riches provided by higher oil prices—is looking for someone to blame now that the oil wealth, and their dreams, have again faded away. This, in essence, repeats the mistakes of the 1970s, and is

a hard lesson that Venezuelans would do well to learn.

The Consequences of the Enclave

If Venezuela's national oil industry, in particular the PDVSA pre-Chávez, failed at anything, it was its inability to understand that its entrepreneurial, technical, and human resource development—the product of its corporate DNA and its vision to become a major player in competitive global energy market—were at odds with the vision that the rest of the country, in particular the political class, maintained and still maintains on the subject of oil: that is, that oil is primarily a source of rent to be used for something else, such as social programs for the country's poor or safer streets.

The management of the nationalized oil industry, absorbed in what were its undeniable business achievements, did not detect in time the widening gap between the visions of various stakeholders in the energy sector. What in the past was tension, often destructive, between PDVSA and international oil companies or foreign governments (as well as Venezuelan communities) was replaced by tensions between PDVSA and actors inside the country: industrialists, local governments, and the state bureaucracy at large, which felt rightly or wrongly that PDVSA only acted in its own interest, without much thought to the rest of the country.

In addition, as the State assumed the role of investor/owner in the oil industry, conditions were created for competition between the energy industry and other state sectors that required government funds: infrastructure, hospitals, defense, debt service, etc. In this competition, which was difficult to balance, fundamental conflicts arose, reinforcing the notion of an oil sector disconnected from the needs of the rest of the country.

The False Start

In the early 1990s, Venezuela half-heartedly shifted its oil strategy from one that maintained a state monopoly with restricted growth to one that expanded production capacity based on the

country's comparative advantages, such as the size of its reserves as well as its market opportunities and fiscal needs. Not surprisingly, heated arguments arose between those who endorsed the state's monopolistic control of oil and the oil quotas, and those who saw in expansion an opportunity to use the oil industry as an economic engine, with the eventual participation of the private sector.

This Manichaeian, or black-and-white, discussion was ultimately moot. Closing the oil industry to private investment was not only unfeasible—as it would destroy much of the sector and its growth potential—but it also ignored the significant investment the country needed to promote its broader economic growth.

In the end, a pro-investment strategy, or the so-called “apertura petrolera” (oil opening), was implemented in 1995, attracting not only large amounts of private capital to the prolific Venezuelan oil basin but also the return of foreign oil companies. The strategy resulted in new production from traditional areas as well as the development of a new frontier: the Orinoco Belt. However, the oil opening left unresolved the economic tensions between much of the nation and the oil industry; they would resurface sooner than expected.

The fall of oil prices in the late 1990s provided a perfect excuse for an incoming nationalistic administration to review the strategy and try to roll back the “apertura.” This was not without fallout, but the subsequent rebound of oil prices gave credence to the revisionist strategy of cutting back production and compensated for the resulting collapse of production capacity and its negative effects on the economy. Lamentably—and importantly—checks and balances within the government (an indispensable requirement for establishing a transparent and level playing field) notably waned in this period.

In spite of the apparent change in direction of the Venezuelan government and the expropriation of certain assets, due to the government's pragmatism 50 percent of Venezuela's oil production in 2017 was carried out by companies through private participation—which is somewhat of a

paradox when considering the nationalistic and jingoistic discourse of the current administration.

The Way Forward

Looking ahead, there is no doubt that the oil and gas industry still represents Venezuela's greatest opportunity and lever for development. However, in order to realize this potential, a great national consensus is necessary, one that recognizes the obvious but neglected fact that economic growth is the only way to reduce poverty. History has shown that ideology can move hearts, but it does not fill stomachs or provide shelter from the elements, at least not in a sustainable way.

The Venezuelan society that has been built around the oil “mine”—oil booms and busts, ghost towns, enclaves of rich foreigners—has cultural values that must be questioned if the country is to improve its poor economic performance and thereby achieve the necessary growth to lift itself out of poverty. However, the mining archetypes described here, and the beliefs that surround it, continue to shape present-day society's expectation of entitlements. And Venezuelan leaders continue to invest time and effort in identifying new and fairer ways to distribute wealth through entitlements that, as a general rule, citizens have not worked to obtain.

Converting natural resources into wealth requires financial, technological, and organizational effort. There should be no doubt, then, that the necessary economic development is only possible if all economic actors are involved: public and private, national and foreign. Moreover, the necessary levels of growth cannot be achieved only through oil, much less by the State's monopolistic control of it. This has been an objective reality for more than two decades, but governments and society at large have chosen to ignore it. One could argue that Venezuela's current political and economic crisis is the direct result of its inability to develop the wealth generation mechanisms necessary to maintain a harmonious society.

Unfortunately, there is not a single new narrative that can replace the existing

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beliefs of the many stakeholders in this dialogue—the political sector, academia, communities, the military, industrialists, oil companies, etc. All have different interests and beliefs, and it is essential to identify them, create the necessary dialogues and, in time, reach agreements on the way forward. If this is not done, Venezuela is bound to repeat the unmanageable positions of the past.

FUTURE PERSPECTIVES

Hydrocarbons, in particular oil, were the engine of the world economy in the 20th century, as well as the fuel for much of Venezuela's development. These resources will undoubtedly continue to be a comparative and competitive advantage that should not be undervalued, and which should be promoted as an important productive activity and indispensable factor in the recovery and growth of the nation's economy.

This advantage, however, will only take Venezuela forward part of the way. Signs point toward the decline of the fossil fuel era. Venezuela must identify the next economic and technological revolution and act on it; only then can the country rise to the levels of development required to reduce poverty. Oil and gas are but the asphalt on the road to that inevitable future.

Meanwhile, we would sin by neglect if we do not focus on developing the advantages that the hydrocarbons industry offers. For this, Venezuela must transform the structure of the sector, and define the roles and responsibilities of the state as well as those of other national and foreign economic actors. The country's leaders must safeguard the collective rights of the nation but, at the same time, the country must encourage all actors, in the broadest way possible, to participate before oil becomes a geological curiosity.

Today, Venezuela's oil sector is full of untapped opportunities due to insufficient financial or technological resources and legal limitations. A properly structured hydrocarbons industry can establish a solid base for growth. This requires the expansion

of the financial and human capital base, which will encourage private participation.

Not only is it necessary to modify the governance of the sector as well as the legislation that regulates it, we must also understand that only through the implementation of the correct incentives and clear and fair rules will it be possible to promote the creation of a true Venezuelan hydrocarbons industry—one that is more efficient and effective than the current version that brought the country to its present state of disrepair.

CONCLUSION

The challenge of preserving Venezuela calls for the eradication of the old beliefs that have kept the country anchored in the past. We need to move away from an adversarial discussion about oil and establish a new approach that is more attuned to current times, understanding that there are no easy solutions.

Whatever its form, the new design must be sustainable in order to be effective. Creating a new narrative for the oil industry does not mean recycling the remains of the old; the country must seek to innovate. The need for a cultural change should not be underestimated, and although social engineering is always a pedantic exercise and without a doubt dangerous, Venezuela must begin to cast aside its outdated mining mentality.

Oil does not have to be managed by the government. Oil is not magical or miraculous, and a black box should not represent the industry's alleged secrets. The real miracle lies in the productive force of society and in the inviolable right of each citizen to have a voice in the direction his or her country takes.

ENDNOTES

1. Alberto Romulo Adriani Mazzei (1898–1936) was minister of agriculture and finance in 1936. He is credited with coining the phrase “Sembrar el Petroleo” (sowing the oil). In his writings, he first identified what we now call “Dutch disease”—the

influx of foreign currency that is purported to make the rest of economy uncompetitive as the overvaluation of the national currency incentivizes an import economy.

2. Arturo Uslar Pietri (1906–2001) was a writer, politician, and TV personality. In 1936, he wrote an op-ed titled “Sembrar el Petróleo” –sowing the oil. The phrase had been used earlier by Adriani, but later became best associated with Uslar’s view that oil revenues should be used to create alternative sources of wealth for a time when the oil runs out.

3. Celestino Armas (1935–2011) was an engineer and politician who served as minister of energy and mines from 1989 to 1992. He was an early advocate of the so-called opening of the oil industry to foreign and private investors.

4. Juan Pablo Perez Alfonzo (1903–1979) was a lawyer and politician who is credited as a founding father of the Organization of Petroleum Exporting Countries (OPEC). In his later years, he became convinced that great quantities of oil had troublesome effects, and identified the symptoms of what is now known as the “resource curse”—the paradox that countries with abundant natural resources tend to have less economic growth and development than countries with fewer natural resources.

5. Andrés Sosa Pietri (1943–present) is a lawyer and industrialist who was president of PDVSA, Venezuela’s state-owned oil and natural gas company, from 1990 to 1992. During his tenure at PDVSA, he advocated for an expansionist strategy and questioned the OPEC quota system. Sosa brought to the PDVSA’s management team the idea that the stop-and-go behavior of production quotas unduly harmed Venezuela’s economy, in spite of temporary gains in oil price. In addition, it was argued that quotas hindered Venezuela’s efforts to expand its market share to a level commensurate with its abundant reserves.

6. PDVSA is Petroleos de Venezuela S.A., the state-owned company created in 1976 after the nationalization of the oil industry.

7. “La Caja Negra” or “the black box” is a phrase Venezuelan politicians have used since the 1990s to describe what they regard as

the unconstrained independence, and seemingly hidden dealings, of the PDVSA.

8. Every administration in contemporary history has claimed for itself the merit of achieving oil sovereignty.

9. “Petroleros Suicidas lleva a las tablas la vida íntima petrolera de Venezuela,” *El Universal*, August 13, 2011.

10. Miguel Otero Silva, *Casas Muertas* (Los Libros de El Nacional, 2nd edition, 2010). Text translated to English by the author with the help of Google Translate.

11. Ramon Diaz Sanchez, *Mene* (Círculo de Lectores: Barcelona, 1969). Text translated to English by the author with the help of Google Translate.

12. Oil workers went on strike asking for, among other things, the right to have cold water at work sites on Maracaibo Lake. The area has a notoriously hot and humid climate.

13. *Misiues* is Venezuelan slang for “foreigners”—a distortion of the French *monsieur*.

14. Emilio Pacheco, *De Castro a López Contreras: proceso social de la Venezuela contemporánea: contribución a su estudio en los años 1900–1941* (Caracas: Editorial Domingo Fuentes, 1984).

15. Venezuelans are familiar with the story of a conversation between Saint Peter and God at the moment of creation. When San Pedro complains that Venezuela had been given too many resources and too much wealth, God answers that there is no need to worry because, to balance it out, he would create this or that other political party.

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