

ECONOMICS OF ECONOMIC PLANNING: THE EXPERIENCE OF VENEZUELA

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Introduction

Venezuela is an underdeveloped country; this we are assured of by scores of development economists. But it is also the richest country with "an average income higher than almost anywhere else in the world outside the industrial countries."¹ This seeming contradiction is the combined result of political, social, and economic factors. This point requires further elucidation.

In Venezuela, as in any other country, political factors have influenced significantly the social and economic development of the country. The violent changes as a result of the power struggle among the various "strong-man leaders" who have ruled the country during most of its independent life have been followed by long periods of dictatorship by the winners. These *caudillos* expressed no desire to transform the country's traditional social, political, and economic institutions; instead, they themselves became a part of the existing ones. In recent years, however, this trend towards the preservation of old institutions has tended to be reversed. Today Venezuela is ruled by a duly elected representative government that is striving for a modification of the traditional socio-economic structure.

While on the one hand the old political and social institutions in Venezuela persisted until recently, the economic profile of the country underwent violent transformation during the last four decades due to the extraordinary expansion of petroleum production. The result of that change has notably been the juxtaposition of "Two Venezuelas," representing two entirely different social and economic levels. Significantly, this dichotomy in the economy and social structure still exists in its stark form. And one of the means through which the country seeks to improve this dichotomical situation is by embracing the technique of planned economic development.

The purpose of this paper is to: (1) describe the background to economic

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¹ "Economic Developments in Venezuela in the 1950's," *Economic Bulletin for Latin America*, Vol. V, No. 1, March, 1960, p. 21.

planning in Venezuela; (2) outline the planning machinery and the functions of the planning office; (3) delineate the planning technique; (4) survey the First Plan projections in order to appraise the Plan achievements in terms of the planned development strategies; and (5) point out some basic shortcomings of planning in Venezuela.

I. Some General Thoughts on Planning

There are today a large number of underdeveloped countries which believe that planned economic development is the only way to overcome their backwardness, and that a successful plan of economic development implies the deliberate creation of a set of favourable factors which would act as the driving force of the development of the national economy. This belief is based upon the rejection of the liberal classical doctrine which claims that the free market forces automatically lead to the optimum rate of growth in the national income. In addition, the proponents of economic planning claim that, through economic planning, certain social objectives consistent with the economic objectives can also be achieved which the market mechanism can never realize as a matter of course.

An economic plan transforms what Rosenstein-Rodan calls "value judgments incorporated in a social welfare function" into a co-ordinated and internally coherent programme. Such a programme explicitly states the objectives as well as the means for accomplishing these objectives. A plan can be classified in various ways, such as, in terms of time (long-term, medium-term, or short-term), geographical coverage (global, sectoral, or regional), or limited objectives¹ (full employment, balance of payments equilibrium, etc.). These brief general observations will provide the broad framework for the ensuing discussion of economic planning in Venezuela.

II. Background to Economic Planning in Venezuela

Economic planning in Venezuela is of comparatively recent origin. Traditionally, it is private enterprise which has harnessed the resources of Venezuela. At one extreme, this has taken the form of a subsistence agriculture which in 1963² employed 886,000 persons (35.3 per cent of total employment) and its contribution to the Gross Territorial Product (GTP)³ at 1957 prices⁴ was only Bs. 2,084 million (7.0 per cent of GTP). At the other extreme is the petroleum and mining sector which in 1963 employed 42,000 persons (1.7 per cent of total employment). And yet, it contributed to GTP

¹ Sometimes these partial objectives, such as objectives for stability vs. objectives for growth, are in conflict with each other. In such circumstances a decision as to the preference of one over the other has to be made.

² Figures for 1963 have been obtained from the *Memoria*, 1963, of the Central Bank of Venezuela.

³ In Venezuela, GTP is equivalent to Gross National Product (GNP) plus repatriated factor income abroad.

⁴ Unless otherwise specified, all figures are expressed in 1957 prices in this paper.

with Bs. 9,179 million (30.8 per cent of GTP). During the same year, this sector's exports accounted for 97.0 per cent of the total goods exported, and the net foreign exchange receipts coming from it represented 84.1 per cent of the country's foreign exchange receipts from exports.

In between these two extremes, there are a large number of businesses the majority of which are owned and operated by the private sector. This sector, representing industry, construction, and services, employed in 1963 the remaining 63.0 per cent of the total employed population and generated 62.2 per cent of GTP, with their productivity measured at Bs. 11,710 per active person, that is, slightly lower than the national average of Bs. 11,870. The real per capita income of the nation¹ in 1963 averaged Bs. 3,540 which, as observed before, was the highest among the underdeveloped nations.²

While the economic picture of the 1950's and the early 1960's appeared to be satisfactory on the surface, in some respects this picture was illusory. The major turbulent factor which was hidden under the calm surface was the lop-sided development of the economy.³ Besides, the rapid increase in the gross product during the period 1950 to 1957 was a result of a combination of very fortunate circumstances which could not last for ever.⁴ With the turn of the year 1958 some of the factors contributing to the rapid increase in gross product of the country began to disappear. As a result, the rate of increase in GTP, which averaged 10.6 per cent and 11.6 per cent during 1956 and 1957 respectively, was reduced to a nominal 1.3 per cent in 1958. Furthermore, during 1958 there were enormous capital flights from Venezuela, which continued through the following year.

While the heydays of the past were shortened as the decade of the 1950's approached the end, raising doubts about the wisdom of leaving the problem of economic development of the country at the mercy of self-regulating market forces, a change in the political status of Venezuela became the largest single contributory factor in firmly committing the country to eco-

¹ This figure corresponds to the 1963 GTP of Bs. 29,765 million and an average population of 8.4 million.

² It may be mentioned here that the relative production structure of petroleum, agriculture, and the rest of the economy did not change significantly between 1950 and 1963.

³ The lop-sided development was the result of four major deficiencies. The economy was still largely dependent upon petroleum with all the problems that are usually associated with an export-oriented economy. The coastal cities had grown overcrowded while land suitable for farming remained unexploited. As a natural consequence of this trend in urbanization, slums had become rampant in the cities. And finally, the economy had continued to be highly sensitive to international developments and fluctuations because of petroleum. For details, see "Economic Developments in Venezuela in the 1950's," *op. cit.*, pp. 22-23.

⁴ The "Suez Crisis" had boosted the petroleum exports. Investment opportunities for private entrepreneurs were plentiful. The Government's public works programme had substantially raised the level of employment and had contributed to the acceleration of economic activity. These and other related factors had created an atmosphere conducive to rapid increase in gross product in Venezuela.

nomic planning.

In 1958, with the downfall of the Perez Jimenez regime and the coming of the Democratic Action (AD) Party to power, a decade of uninterrupted dictatorship came to an end. The AD Party not only recognized the urgent responsibility of the public sector to correct the "lop-sided development" which was permitted to characterize the economy in the past, but also generally affirmed its faith in economic planning to accomplish that objective. The Party stated:

... as a multi-class organization, the Party's militant membership is united in the common task of... creating our own economy; ... of stimulating the immense productive capacities of the nation; ... of improving the levels of living of the majority of the people; of speeding the development of industry and of agriculture¹

With the full support of the AD Party the Government announced the creation of the *Central Office of Coordination and Planning* (CORDIPLAN). With the establishment of CORDIPLAN in 1958, the era of economic planning was firmly established in Venezuela.²

III. Planning Machinery in Venezuela

By a decree of the Government of Venezuela, CORDIPLAN was established in 1958. The setting up of CORDIPLAN was the first and the most important step taken in the direction of economic planning and it continues to be the core of the planning machinery in Venezuela. The organic structure of CORDIPLAN may be briefly delineated.

At the apex is the Chief of CORDIPLAN, who is assisted by a Director General and a Deputy Director General.³ These two Directors have the responsibility of co-ordinating the activities of the planning office with other public agencies. There are eight major Departments, such as the Department of General Planning, the Department of Short Term Planning and Control, the Department of Statistical Methods, and so on. The Heads of the Departments assume the responsibility of maintaining a close working relationship with the Central Government Ministries and Autonomous Institutes. Besides these Departments, there are three major sections, namely, Technical Assistance and Scholarship Coordination, Secretariat of the Coordination Committee, and the Section of Community Development, which form an integral part of the planning office.

Although there are three levels (central, state, and municipal) of govern-

¹ Manuel Vicente Magallanes, *Partidos Políticos Venezolanos*, Caracas, Tip. Vargas, 1960, p. 12.

² Actually, as early as in 1945 economic planning was started in Venezuela. That pioneering attempt was frustrated, however, due to several factors, chief among them being the coming of the dictator Perez Jimenez to power.

³ See Chart in the Appendix.

ment in Venezuela, the planning decision-making is highly centralized in the hands of the Central Government. State and municipal governments have little power in the formulation of plans. The only exception to this general set-up occurs during the Annual Conference of the Governors of the States which is organized every year at the Central Planning Office to discuss and plan the formulation of the fiscal budget.¹ At this Conference the State Government officials can make, at least in theory, their suggestions which receive the attention of the planning officials.

Capping the planning machinery, in a sense, is the Economic Cabinet. It is composed of the Chief of CORDIPLAN, the Minister of Finance, the Minister of Mines and Hydrocarbons, the Minister of Development, and the Minister of Agriculture. Thus, the Chief of CORDIPLAN has a minister's rank; he attends the meetings of the Council of Ministers where he commands an important voice. However, the Chief of CORDIPLAN does not possess voting powers in the Council.

Legally, CORDIPLAN is only an advisory body without a constitutional status. As a result, a plan formulated by CORDIPLAN is never formally presented to the Congress for approval. However, since the planning office comes directly under the Presidency of the Republic, each year in his annual message to the Congress the President outlines the economic plan. The most important rule in this connection is that once presented, an economic plan needs the approval of the Cabinet before it can be implemented.

IV. Functions of CORDIPLAN

The fundamental responsibility for the preparation of national plans rests upon CORDIPLAN. In addition, CORDIPLAN has to create a national pyramid of planning cells for a proper co-ordination of the various sectional planning agencies. More specifically, the basic responsibilities of CORDIPLAN are to perform the functions outlined below.²

1. Carry out studies on the nation's social and economic situation, its projections and alternative prospects as well as keep up-to-date a general plan for the social and economic development of the country.
2. Maintain the planning integration by co-ordinating all works prepared by the respective ministries and agencies in the private sector.
3. Consolidate annually investment and service budgets submitted by the respective ministries and prepare, in accordance with the suggestions of the Minister of Finance and as a part of a permanent budget programme for five years, the Annual Budget Programme which is annexed to the General Budget of Revenues and Expenditures.
4. Submit annually, after due examination of all projects presented by

¹ It should be mentioned that in reality the national plan is an elaboration of the fiscal budget, since the executional and functional aspects of the plan are limited to the major government agencies.

² For details see "Reply to the Questionnaire from the United Nations Special Fund (SF/310/VEN 11)," August 28, 1964, pp. 14-17 (unpublished).

various government agencies, and on the basis of the studies prepared by the Office, an order of priorities for fiscal expenditure to be considered by the National Executive and to be included in the Annual Budget Programme.

5. Submit annually to the National Congress through the Minister of Finance an evaluation of the accomplishments of the Plans being carried out and their consistency with the approved general objectives as well as with the Project of General Budget of Revenues and Expenditures.

6. Propose general guidelines for physical and spatial planning on a national scale, and co-ordinate according to these lines regional and urban planning made through the respective subordinate planning agencies.

7. Maintain a permanent system of information on programmes for the benefit of both the public and private sectors.

8. Supervise and maintain the application of uniform planning techniques in public administration, prepare periodical scientific meetings on planning, and advise on the initiation of surveys concerning economic and social developments.

9. Advise on amendments to the fiscal or other laws which may affect the National Treasury or the economic development of the country.

To conclude, CORDIPLAN has various functions and responsibilities, which include the preparation of national plans, advising the President on various fiscal matters, and certain supervisory activities relating to economic planning.

V. Planning Technique in Venezuela

Generally, the technique of planning should co-ordinate the national objectives with the means of achieving them. In Venezuela, no clear statement has so far been made either by CORDIPLAN or by any other agency in regard to the planning technique used to formulate national plans. Consequently, on the basis of meagre information that is available and also on the basis of discussions with various persons engaged in planning activities, the author has developed the following framework of planning technique in Venezuela.

The technique of planning in Venezuela, as in any other country in the process of formulating an economic plan, has to be developed within the institutional set-up of the country. As mentioned before, Venezuela has a "mixed economy." While there are important sectors of the economy where the public sector is important, there are large areas where the private sector plays a vital role. In this context of a mixed economy and political democracy, the process of planning has necessarily to be a "backward and forward process"—an exercise in successive approximation as well as successive co-ordination. There are four distinct phases of this process:

1. Medium-term planning;
2. Four-year planning;
3. Operational (two-year) planning; and
4. Annual planning.

In the case of Venezuela, planning is of the medium-term and of the aggregative type. In the light of the basic economic, social, and political philosophies of the nation, CORDIPLAN determines certain medium-term (say, ten-year) goals after a careful study of the various technical possibilities, the needs of the economy and alternative patterns of development. Within the framework of this medium-term plan, the four-year targets are set consistent with the medium plan. In addition to these, an operational plan is formulated every two years which reviews the accomplishments and failures during the first half of the current four-year plan. On the basis of these reviews the current four-year plan is revised and extended by two more years, thereby giving way to a new four-year plan. Thus, the First Four-Year Plan of Venezuela, covering the period 1960-1964, was launched in 1960. During 1962 an operational plan was developed which reviewed the achievements during the first two years of the First Plan and also formed the basis for an extension of that Plan. The new Plan, called the Second Four-Year Plan of Venezuela, covers the period 1963-1966. The annual plan is the most detailed of all plans. It gives a detailed programme of work and budget for the next year in the light of the targets and financial provisions of the four-year plan.

As might be expected, the development of the actual means of implementation of planning in Venezuela is intimately related to the objectives of planning. The major objectives, as given in the prefaces to the two Four-Year Plans so far developed,¹ are to:

1. achieve full employment in the shortest possible time;
2. diversify the economy with a prospective decline in the importance of petroleum;
3. maximize real income through the improvement in the productive capacity and economic efficiency;
4. redistribute income with the objective of accelerating the rate of increment in the per capita real income; and
5. strive for a more balanced regional growth.

Given these basic objectives, the order in which these aims are sought to be programmed has taken the following course. Since the achievement of full employment and the diversification of the economy are among the foremost national objectives, the first step is to project the rate of growth in the population and active labour force (employment plus unemployment). This provides the basis for estimating the desired increase in employment while at the same time diversifying the economy as well. Next, with the help of some preliminary exercises the highest and the lowest marginal labour-

¹ There is no consensus as to the order of priorities in which these objectives are sought to be achieved. Some Venezuelan economists maintain that the growth and diversification of the economy are more important than achieving full employment, while there are others who insist that only the reverse is true. Without getting involved in the argument, it is assumed that the planners seek to achieve full employment consistent with the diversification of the economy.

output ratios are estimated. Then a maximum and a minimum rate of growth in GTP is projected.

Having arrived at the desired rate of increment in GTP, the next logical step is to examine the investment requirements. An assumed annual increase in GTP requires a certain rate of gross real investment, so that the increase in GTP can be sustained. The historical capital-output (average) ratio serves as the basis for estimating the investment requirements of the plan. Along with the level of investment the structure of investment by each sector is also determined.

The next operation is to estimate the sources of financing of the desired investment. Using the historical average savings-income ratio, the planning office estimates the rate of flow of internal savings. Subtracting the rate of internal savings from the total desired rate of savings the relative rates of extraordinary internal savings and external savings are calculated.

A stage is then reached when the supply of, and the demand for, the projected national output can be equated. The necessary adjustments are made on the basis that the projected supply which equals GTP plus imports of goods and services should be equal to the anticipated demand consisting of domestic demands for investment and consumption as well as the foreign demand (exports).

The planning office also determines how much of the final demand should be for consumption goods and what portion should satisfy investment demand. This requires an estimation of individual demand by the public sector and the private sector separately. A decision is also reached as to what portion of the final goods should be imported; this decision rests upon the domestic production capacity as well as upon the import substitution policy of the government. In regard to the import policy, it is assumed that an essential concomitant of planning policy should be to reduce the country's dependence on foreign goods. In planning, therefore, an effort is made to give priority to the development of those industries which can produce the goods currently being imported. The policy of granting subsidies, greater encouragement to the industries using larger portion of domestic resources, etc., is also outlined.

Finally, the planning office estimates, on the basis of some preliminary input-output statistics, the desired rate of flow of intermediate products and services into each industry, so that the whole machinery can run smoothly to achieve the production target of each industry.

After the completion of each of the steps described above, the planning office begins a process of overall balancing. This involves a simultaneous balancing of supply of various goods and services against demand, of imports against exports, of intermediate goods against final goods, of public sector against private sector, of production against consumption, of investment against savings, financial resources against physical resources, and so on. A preliminary version of the plan is thus completed.

The planning office recognizes that, while planning must be done in real

terms, monetary, fiscal and direct control aspects of the problem do enter in, since they form a system of tools which can be shaped and reshaped to make the real planning effective. The planning office broadly outlines the policy of using borrowing (both internal and external), supplementing deficient private efforts through easier credit, preferential treatment through the sale of foreign exchange at lower prices, and the use of monetary policy and direct controls to accomplish the planning objectives.

There are other aspects which form an integral part of the technique of planning in Venezuela. Among them a mention may be made of the policy of redistribution of income in order to make available to everybody the gains of development.¹ The planning office recognizes that this is a multi-dimensional problem and therefore seeks to approach the problem through regional planning, a more progressive broad-based tax structure and the enlargement of various public services. In developing these aspects the planners keep in view the changes that will be brought about with a gradual decline in the importance of the petroleum industry relative to other sectors of the economy.

VI. Survey of Plan Projections

1. The First Four-Year Plan

The First Four-Year Plan of Venezuela (hereafter called the First Plan), launched in 1960, covered a four-year period ending in 1964.² According to the First Plan, during the base year 1960, the population of Venezuela was 6.9 million,³ and was increasing at an annual rate of 2.9 per cent.⁴ Officially the total employment level was 2.1 million, which implied that a large number of people were involuntarily unemployed.

At the end of 1960, the value of GTP at 1957 prices was Bs. 26,683 million, while the real gross national income (GNP) was Bs. 19,760 million.⁵ The per capita real national income was Bs. 2,864, based upon a population figure of 6.9 million.⁶ Government expenditure was Bs. 5,475 million, or 20.2 per cent of GTP at *current* prices; of this, development expenditure was Bs.

¹ It is recognized that a redistribution of income may adversely affect the principle of maximization of growth. However, since both are essential aspects of planning, achieving one objective at the expense of the other will not fulfil the aims of planning.

² Statistics relating to the First Plan, which are published by CORDIPLAN in 1958 prices, have been recalculated in 1957 prices. Likewise, statistics relating to the Second Plan, published by CORDIPLAN in 1960 prices, have also been recalculated in 1957 prices. See Table 1 in the Appendix for details.

³ The actual figure was 7.5 million in February, 1961, as subsequently revealed by the 1961 census.

⁴ The rate of increase was 4.0 per cent, compounded, according to the 1961 census.

⁵ These figures were subsequently revised by the Central Bank of Venezuela in the light of more reliable information. Nevertheless, these were the best estimates of domestic and national products available to CORDIPLAN at that time and were therefore used to develop the First Plan.

⁶ If the population figure is taken as 7.5 million, per capita income would work out to Bs. 2,635.

3,443 million. Gross fixed investment was Bs. 4,622 million, or 17.3 per cent of GTP. The country (excluding foreign-owned petroleum companies) had an unfavourable balance of trade in 1960 of \$ 1,802.8 million; roughly the foreign trade amounted to 25 per cent of GTP.

As expected, a breakdown of GTP by industrial origin revealed the importance of petroleum and mining; this group contributed over a quarter (26.8 per cent) of GTP. Industries (manufacturing, construction, and electricity) accounted for 18.6 per cent of GTP, while the share of agriculture was only 6.4 per cent.

The four-year targets set by the First Plan were as follows. In terms of 1957 prices, GTP was expected to increase to Bs. 35,210 million in 1964—a rise of 32.0 per cent in four years, or a compounded annual average of 7.2 per cent. Population was assumed to increase by a compounded annual rate of 2.9 per cent, so that the per capita national income would increase by only 17.4 per cent over the same period,¹ or a compounded annual average of 4.0 per cent.

The First Plan gave special priorities to such labour-intensive sectors as housing, construction, and transport and communication in order to fight the urgent unemployment problem. Furthermore, the Plan aimed at accelerating the development of the industrial (other than petroleum and mining) sector and putting less emphasis on the development of petroleum and mining. Thus, the relative targets were so fixed that the compounded annual increase in the three sectors of the industrial component mentioned above would be 8.0 per cent, 6.0 per cent, and 7.0 per cent, respectively, as opposed to an expected compounded annual increase in the output of the petroleum sector by 4.0 per cent. The agricultural sector, too, was expected to increase its contribution to GTP by 7.5 per cent, compounded annually over the period 1960-1964.

The anticipated changes in the government sector were even more spectacular. The First Plan aimed at increasing the government expenditure over the four-year period by 9.2 per cent. This increase was to be wholly absorbed in development expenditure which would go up by 17.2 per cent, administrative expenditures actually recording a decline. The balance of trade was expected to be favourable during the same period; both imports and exports were to rise in this period. The rate of net capital formation, however, was calculated to remain constant.

As mentioned before, CORDIPLAN developed an operational plan based upon the experience gained during the first two years (1961 and 1962) of the First Plan. This so-called mid-term Appraisal formed the basis for the development of the Second Four Year-Plan. The salient features of this Plan are given below (see Table 1).

¹ If the census population figures are projected for the year 1964, the expected increase in per capita national income would undoubtedly be less than the projected Plan figure.

Table 1. FIRST AND SECOND PLANS OF VENEZUELAN RATES OF GROWTH IN MAJOR COMPONENTS OF GROSS TERRITORIAL PRODUCT, 1960-1964 AND 1963-1966

Sectors/Major Components of GTP	First Plan of Venezuela, 1960-1964			Second Plan of Venezuela, 1963-1966			Historical Compounded Annual Rate of Growth, 1950-1959 % (8)
	1960 ^b	1964 ^b	Compounded Annual Pro- jected Rate of Growth, 1960-1964 % (3)	1963 ^c	1966 ^c	Compound Annual Projected Rate of Growth, 1963-1966 % (7)	
	Mil. Bs. (1)	Mil. Bs. (2)	% (4)	Mil. Bs. (5)	Mil. Bs. (6)	% (7)	
Agriculture	1,700	2,270	7.5	1,932	2,581	7.5	5.5
Petroleum	6,542	7,653	4.0	6,010	7,031	4.0	7.5
Mining	614	899	10.0	324	474	10.0	180.0
Manufacturing	3,164	4,978	12.0	4,427	7,040	12.3	11.2
Construction	1,460	1,843	6.0	1,381	1,879	8.0	8.4
Electricity, Gas & Water	361	700	18.0	419	786	17.0	17.1
Transport & Communication	896	1,174	7.0	1,076	1,410	7.0	5.5
Commerce	4,520	5,495	5.0	4,126	5,015	5.0	9.6
Housing	2,808	3,820	8.0	3,099	3,650	4.2	9.6
Private Services	2,419	2,996	5.5	1,921	2,425	6.0	} 6.0
Public Services	2,201	2,939	7.5	2,380	2,907	5.1	
GROSS TERRITORIAL PRODUCT	26,683	35,210	7.2	27,095	35,179	6.7	8.2
GTP, per capita			4.0	3,328	3,835	3.6	

Source: *Plan de la Nación, 1960-1964*, Tomo I, Caracas, Oficina Central de Coordinación y Planificación, June, 1960; *Plan de la Nación, 1963-1966*, Caracas, Oficina Central de Coordinación y Planificación, May, 1963; *Memoria*, Caracas, Banco Central de Venezuela, 1960 through 1963.

Notes: a) According to the Ministry of Mines and Hydrocarbons, the compounded annual rate of growth during 1960-1963 was about 3.5 per cent.

b) These figures have been converted from 1958 to 1957 prices.

c) These figures have been converted from 1960 to 1957 prices.

2. The Second Four-Year Plan

The Second Four-Year Plan (hereafter called the Second Plan), covering the four years ending in 1966, was launched in 1963. Over the Plan period, GTP (at 1957 prices) was expected to increase at the rate of 6.7 per cent, compounded annually. The population would increase by 3.2 per cent annually over the same period, so that per capita GTP would increase annually by only 3.6 per cent. Somewhat significantly, petroleum, which is the life-blood of the nation, was projected to increase annually by only 4.0 per cent, whereas the increase in mining was expected to be as high as 10 per cent. In view of the growing pressure of unemployment, it was decided to assign special priorities to such labour intensive sectors as construction and manufacturing;¹ the projected annual increases were 8.0 per cent and 12.3 per cent, respectively. Other projected annual increases were: agriculture by 7.5 per cent; electricity, gas and water by 17.0 per cent; housing by 4.2 per cent, and government services by 5.1 per cent.

Turning to financial aspects (see Table 2), it is observed that at 1957 prices, over the Second Plan period, gross fixed investment was expected to take place at an average annual rate of Bs. 6,230 million; this would imply an increase in gross investment of 34.8 per cent over the 1960 level. The greatest stress was laid on industry and power in which the investment would increase by 78.8 per cent during the Plan period over the 1960 level. The investment in petroleum and mining was projected to record an increase of 47.0 per cent, whereas the corresponding figure for the rest of the economy was to be 21.3 per cent.

The sources of finance are also indicated in the Second Plan. Over four-fifths (86.7 per cent) of the total sources would consist of domestic savings; of this, about two-fifths (42.2 per cent) was to come from public savings. The extent of external borrowing envisaged in the Second Plan (1.3 per cent) was negligible. Of course, a large percentage of the private savings was expected to be in the nature of ploughing back of profits by foreign companies.

VII. Achievements of the First Plan

The First Plan, which was launched in 1960, has now been completed. However, it will be some time before reliable statistics for the whole Plan period (1960-1964) become available. As the best alternative, therefore, the performance of the economy during the first three years of the Plan (1960-1963) is appraised (see Table 1).

A comparison of Columns (3) and (4) of Table 1 reveals that only the petroleum sector and the sector relating to private services exceeded their respective Plan targets pertaining to their contribution to GTP. However, a more reliable source relating to petroleum reveals that the compounded annual rate of growth of petroleum during the three-year period ending in

¹ Actually, it is the craft industries which are labour-intensive in Venezuela. These industries form an important part of the manufacturing sector.

1963 did not exceed 3.5 per cent.¹ It is therefore more appropriate to state that all the sectors of the economy (except private services) recorded shortfalls over the period under review; also, in some cases the shortfalls were drastic. The GTP increased at a compounded annual rate of 4.0 per cent as against the planned rate of almost twice that rate (7.2 per cent). Mining and construction actually recorded declines of 12.4 per cent and 3.7 per cent, respectively, as against the respective planned increases of 10.0 per cent and 6.0 per cent. Transport and Communications, and Housing achieved roughly 50 per cent of their planned growth rates, while Commerce did a little better.

The Plan performed extremely poorly on the employment front as well. Unemployment as a percentage of the labour force, which stood at 11.0 per cent in 1960, increased by 30 per cent to 14.2 per cent at the end of 1962.²

Table 2. GROSS INVESTMENT AND ITS FINANCING, 1963-1966

	1960 ^{a)}	Annual Average Rate, 1963-66 ^{a)}	Percentage Increase of Col. (2) over Col. (1)
	Mil. Bs. (1)	Mil. Bs. (2)	Percent (3)
I. Gross Fixed Investment :			
Petroleum and Mining	485	713	47.0
Agriculture	400	638	59.5
Industry and Power	867	1,550	78.8
Construction and Public Housing	892	1,383	55.0
Government	688	573	-16.7
Other	1,290	1,372	6.4
TOTAL OF I	4,622	6,230	34.8
II. Gross Fixed Investment:			
Direct Public Investment	2,079	2,236	7.6
Public Sector Credits	345	442	28.1
Self-financed Private Sector	2,198	3,551	61.6
TOTAL OF II	4,622	6,230	34.8
III. Financing Investment :			
Public Savings	1,360	2,445	79.8
Private Savings	2,416	3,342	38.3
External Borrowing	846	890	5.2
TOTAL OF III	4,622	6,676 ^{b)}	44.4
IV. Percentage Distribution of GNP :		Percentage	
Gross Private Investment	10	13	30.0
Gross Public Investment	8	7	-12.5
Gross Investment	18	20	11.1
Total Consumption	78	76	-2.6

Source: *Plan de la Nacion, 1963-1966, op. cit.*

Notes: a) These amounts have been converted from 1960 to 1957 prices.

b) The difference between gross investment and savings is due to estimated inventory accumulation.

¹ This information is unofficially obtained from the Ministry of Mines and Hydrocarbons.

² The figure for unemployment for 1963 is not available.

On the basis of these statistics, therefore, it would be appropriate to conclude that the First Plan will have fallen far short of its original targets when data for 1964 become available. This raises the vital question of whether the planners were much too ambitious in setting their final targets. If that is the case, then the Second Plan also appears to suffer from a similar deficiency as can be easily observed by comparing Column (7) with Column (4) in Table 1.

VIII. Some Fundamental Criticisms

In this concluding section, an attempt will be made to point out some of the shortcomings and deficiencies of planning in Venezuela. It will not be possible to go into the details or suggest means for improvement. There will be other rooms for complaints, too. But there is just so much that can be done in one paper.

It has been mentioned earlier that one of the main planning objectives is to reduce the dependence of the country on petroleum. This sector's participation in GTP has been estimated at a compounded annual average rate of 4 per cent, with a more dynamic growth rate for the non-petroleum sector, in which manufacturing industries, agriculture, and electricity and gas occupy a preferred position and are projected to grow at relatively high rates. The achievements during the three years—1960 through 1963—have clearly demonstrated that in a petroleum-oriented economy like that of Venezuela, it is quite difficult to change the sectoral structure of the economy. If, therefore, the aim of ever-decreasing dependence on the petroleum sector is to be attained, internal efforts must be concentrated and monetary, fiscal, and administrative policies must be directed towards the reaching of the sectoral growth goals.

Reduction of unemployment is another urgent problem of planning in Venezuela. Here, too, the actual achievements have fallen far short of the desired targets. It appears that the Plan targets for employment cannot be successfully met unless the investments in labour-intensive sectors, specially agricultural, housing, and general construction sectors, are substantially increased.

One of the most critical problems of Venezuela lies in the sharp inequality in the levels of personal income and consumption among the various sectors of society. Recent studies have shown that this disparity between the incomes of the rich and the poor is on the increase. While one of the primary planning objectives is to reduce this inequality, it is contended that this objective will not be achieved unless the full forces of fiscal and tax policies, monetary policy, and other forms of direct controls are effectively utilized.

Finally, a mention of certain deficiencies of a technical nature might be in order. The planning office uses the *historical average* of capital-output and savings-income ratios rather than the *marginal* ratios for its projections, when only the latter should be used. Also, reliable input-output matrices are not

available either for the whole country or for individual sectors. Data on income elasticity, marginal propensity to save and to consume, unemployment and underemployment, and so on are either lacking or are largely unreliable. In many ways, therefore, the Venezuelan planning lacks precision and sophistication. This does not imply, however, that planning serves no useful purpose and therefore should be discarded. As a matter of fact, only the opposite is true.

In the final analysis, it can be said that every development plan is affected, in its purposes and in its means, to certain institutional as well as operational limitations. It is the aim of every planning machinery to overcome these limitations in order to achieve the over-all objectives of the nation. In Venezuela, a very good beginning has been made. A great deal has been accomplished within a short period of time. And it can be hoped that, in time, planning in Venezuela will become an indispensable tool in the armoury of the nation builder.

APPENDIX

ORGANIZATION CHART OF THE CENTRAL OFFICE OF COORDINATION AND PLANNING (CORDIPLAN)

