

4. The Economy

The oil sector has dominated the Venezuelan economy since the 1920s. It currently provides 80 percent of export earnings and 70 percent of government revenues, although less than one percent of the country's employment. To a large extent oil wealth has promoted a measure of prosperity based on "a free ride" and this has affected basic attitudes of the society.

This dependency on oil has been a determinant factor in the evolution of the economy. In the seventies the oil price increases produced a sudden boom of private consumption and government investment, including efforts to develop the non-oil sectors such as hydroelectric power, steel and aluminium. The sky seemed to be the limit. In the eighties, lower oil prices, inadequate macroeconomic policies, irresponsible government administration, and the generalized Latin American debt crisis led to massive capital flight, large budget deficits, and a decline in the economy. The bubble had burst. The necessary rude awakening and the bringing in of a difficult program of economic reform in 1989 fell to the newly elected president, Carlos Andres Perez.

The reform program, which was backed by the IMF and the World Bank, included:

- the drastic cutting of the pervasive system of subsidies and price controls
- the introduction of a single, free-floating exchange rate for the national currency, the Bolivar
- a liberal, outward-looking trade policy (to replace a closed, import-substitution development model) with tariff rates reduced dramatically and most non-tariff barriers
- liberalization of the banking system
- the privatization of many state enterprises. (eg in 1991 the major national airline, Viasa, and the phone company, CANTV, were privatized.)
- tax reform (including introduction of a VAT)

Much of this reform package has been put into place, but with respect to the last three mentioned items, there are significant remaining elements yet to be accomplished. Liberalization of the banking system should finally pass Congress early in 1993. The privatization program slowed down in 1992, after successful sale