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V E N E Z U E L A

ALLIANCE FOR PROGRESS

PROBLEMS AND PROSPECTS FOR SOCIAL AND ECONOMIC DEVELOPMENT IN VENEZUELA

A Report Prepared by a Consultant Team to Venezuela
INTERNATIONAL COOPERATION ADMINISTRATION
September 1961

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Problems and Prospects
For Social and Economic Development
In Venezuela

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October 15, 1961

The Honorable
Fowler Hamilton, Administrator
Agency for International Development
Washington 25, D. C.

Dear Mr. Hamilton:

It is with pleasure that I transmit the attached report on Venezuela, prepared by the following team of consultants:

Raymond Penr, Professor of Agricultural Economics, University
of Wisconsin;
Daniel O'Leary, President, State Teachers College, Lowell,
Massachusetts;
Donald Allan, Program Officer, ICA;
Maurice Levy Hawes, Vice President, International Economic
Consultants, Inc., Washington, D. C. and Chief
of the Team.

To date, the United States has had no aid program for Venezuela (barring a small technical assistance project), so we have had to start, so to speak, from scratch. This proved both an advantage and a disadvantage for the team. We had no preconceived notions to contend with, but we also had no guidance from an established aid mission to fall back upon.

We had, it is true, one important advantage which will hardly be available to other program development teams: a thorough and relatively up-to-date analysis of the Venezuelan economy. I refer to the study conducted some twelve months earlier by a survey team of the International Bank for Reconstruction and Development (IBRD). Even here we faced a dilemma.

The general background information we needed for our study had already been compiled and prepared by the IBRD team. Our problem was whether to attempt to paraphrase those sections of the IBRD report containing the necessary historical-economic background material for our report, to collect our own background material (obviously an unnecessary duplication of effort) or to assume that those who would ready our report would be familiar with the earlier IBRD study.

We chose the latter course so as to be free, in the limited time available, to concentrate our efforts more exclusively on an analysis of current problems and issues as they seemed to affect Venezuela's potential

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and prospects for economic and social development. Our report, therefore, contains only the minimum background material necessary to provide a setting for our analysis and conclusions.

While our report gained much, we hope, from earlier studies (such as those of the IBRD team), we leaned heavily on information, interpretation and opinions developed during extensive discussions with members of the Venezuelan Government, members of the Venezuelan and foreign business and financial communities, workers, farmers and representatives of the U. S. Government in Venezuela.

We completed extensive field trips. Severally or together, we visited the following states: Bolivar, Monegras, Sucre, Miranda, Guarico, Carabobo, Portuguesa, Zulia, Lara, Apure, Yaracuy and, of course, the Federal Territory in which lies Caracas. I believe we missed only three states and the territory of Amazonas. We saw the impressive iron and steel plant (Siderurgica Nacional) on the Orinoco River near Puerto Ordaz; the hydroelectric plant on the Caroni River; primary and secondary schools and universities in a number of communities; industrial plants; processing plants; and rural areas; slums and slum projects; a number of community development projects; and a number of land reform settlements (assentamientos).

Our conclusions and recommendations are included in the enclosed report, the substance of which was discussed with the Ambassador, with members of his staff and with the small USOM staff in Caracas. Those recommendations have, I believe, their general approbation.

May I express, finally, on behalf of all the members of the team both our appreciation for having had the opportunity to participate in one of the first operative stages of the program of "Alianza para Progreso", as well as our sincere hope that our efforts will make a useful contribution toward advancing the objectives of the "Alianza".

Sincerely yours,

Maurice Levy Hawes, Chief
Team of Consultants

Enclosure:
Report entitled "Venezuela"

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FOREWORD

The Program Development Team for Venezuela left Washington on July 16, 1961. The enclosed report which was, therefore, prepared in about 45 days, cannot pretend to present an exhaustive analysis of Venezuela's social and economic structure or of its development needs.

Nor can our report be regarded, by and large, as containing a series of fully worked out and final recommendations for an aid program. There is room for considerable adjustment and review in the light of better information which we hope can be developed in time by the U. S. Mission. Rather, this report should be viewed as containing a series of guidelines for the development of a definite program.

We think, though, we have at least succeeded in uncovering and pinpointing the priority areas in Venezuela's development needs. If the aid program of the U. S. Government and the resources of other international or national agencies can be concentrated in these priority areas, they can make a maximum contribution to Venezuela's social and economic development.

We also believe that if our recommendations regarding administrative measures and regarding the pattern of the U. S. Aid Mission are generally followed, U. S. aid can be effectively used and effectively provided.

As the aid program for Venezuela develops and a staff is organized, there will, no doubt, be a temptation to branch out, to expand the scope of operations, to dissipate our effort in response to the requests of individual ministries for aid on pet projects when they experience a budget squeeze. This natural temptation should be resisted.

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Venezuela's is basically a strong economy whose strengths have been misused. We must avoid misusing ours in pursuit of minor aid objectives. We should endeavor to help redirect Venezuela's energies as rapidly as possible into channels which will permit a rapid and balanced development of her human and physical resources, independent of outside aid. And we must beware of building our aid program into an institutional crutch on which Venezuela will come to depend.

A comment is in order regarding some of the statistical and quantitative analyses contained in this report. We had, necessarily, to accept at face value much of the information supplied to us and needed for our purposes without going behind it to see whether it corresponded to the realities. We have since come to learn that some of this basic quantitative data is faulty. We are, therefore, inclined to approach quantitative analysis (including our own) of the social and economic situation in Venezuela with considerable skepticism. Population figures, the volume of unemployment, and levels of production in specific industries are not much better than estimates with varying degrees of error. The distinction between rural and urban population is badly blurred. Yet, these data were the only ones we had to work with. For this reason we trust that those who examine this report will look upon most of the quantitative analyses with the same reservations with which we ourselves approach them.

This introduction would be incomplete if I did not acknowledge the friendly cooperation we received from nearly all the Venezuelan officials with whom we had business. But, above all, I wish - on behalf of all the team members - to express our genuine appreciation and gratitude for the



very real assistance and encouragement we received from the Ambassador, and from members of the Embassy and USOM staffs in the preparation of this report.

Maurice Levy Hawes

THE U. S. AID PROGRAM - THE OVER-ALL PICTURE

Venezuela can use two categories of aid from the United States - technical assistance and financial assistance. Both types of aid appear to be marginal, even though for 1962 U. S. financial assistance may assume a critical importance. The critical year 1962 apart, Venezuela's development program can probably proceed more smoothly and at a slightly higher rate with U. S. assistance than without such aid. In a political sense - as a means of providing a sense of solidarity between the two nations - U. S. aid should probably be accorded high priority even if the amount of such aid remains modest. Furthermore, the provision of financial aid and technical assistance will probably keep the door open for providing what could be very useful policy guidance in achieving U. S.-Venezuelan objectives.

Perhaps the most important and useful assistance which the U. S. can provide to Venezuela is general guidance at a high level (again, we except financial aid for 1962).

A friendly and objective appraisal of some of their programs is needed and, apparently, now and then a friendly prod to get them off dead center where a difficult choice between alternatives presents itself. If we do no more than sell them on the notion of adopting some procedure which will make it possible for the government to really move ahead on the important programs, even if others must lag - and to plan at the local level, we will have done an immeasurable service. (See the proposed assignment of program priorities and appointment of expeditors in Section III - 5 below.)

II

TECHNICAL ASSISTANCE

All members of the team are in agreement that the size of the U. S. Aid Mission in Venezuela should be small.

The "Servicio" system should not be used.

As indicated above, probably the best assistance which we can provide is high level guidance. This suggests that, for the time being at least, the aid mission should be carefully limited in size. A "quality" mission should be the goal; division chiefs and technicians should either speak Spanish or receive intensive training before starting work. Preference should be for the use of short-term consultants in providing technical assistance, except where the program clearly dictates the need for longer term appointments.

There is also the risk that the entire program could get off to a wrong start if there were an attempt to create a large mission, bringing with it an invasion of U. S. technicians. There are already some 40-50 U. N. technicians contracted for by the Venezuelan Government to provide assistance and guidance. In addition, there is an unknown number of "foreign" technical experts recruited outside U. N. channels who have been contracted for directly by the Venezuelan Government.

Most of these men are very able, as are most of the government personnel in the upper two or three echelons. By now solutions to most of the technical problems are known. The government has, in fact, accumulated a countless number of plans, programs and studies providing the technical solution to various administrative and program problems.

What they do appear to lack is an ability to take decisions. They also

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lack a sufficiency of trained personnel in certain areas. With regard to the latter, the need is primarily for technical training to expand the number of technicians and/or teachers. Like all generalizations, this one is subject to exception in a number of special cases.

It has been alleged that the U. N. technicians have not been properly used; that they cannot reach the official or minister in charge to obtain decisions; that the U. N. Resident Staff Director has not been backing them up. If true, the answer is probably not to solve the problem with more technical experts but to help make better use of those already there. To bring into the country overlapping experts risks creating serious frictions and worse frustrations. Cooperation between the USOM (AID) and U.N. staffs and technicians should be encouraged. The United States should make every effort to develop techniques whereby both U. S. and U. N. technicians can be most effective, and to encourage the government to make better use of foreign specialists. A genuine effort should be made to avoid bringing in overlapping personnel. This injunction is more easily made than followed. But a sincere effort in this direction will pay dividends.

TECHNICAL ASSISTANCE RECOMMENDATIONS

A number of technical assistance projects are proposed in this and annexed reports. They include:

- a) A number of projects in Education (see section on Education);
- b) A technical assistance program in Public Administration;
- c) A number of technical assistance projects in Agriculture (see section on Agriculture).

IV

- d) A technical assistance project in support of productivity, training and small business development is under study by the USOM staff upon recommendation of the Program Development Team.

DEVELOPMENT AND PROJECT ASSISTANCE

The financial aid requirements of Venezuela fall logically into two categories:

- a) General Development assistance
 - b) Special Project assistance.
1. General Development Assistance

There is an estimated deficit of some Bs^(x) 1.25-1.35 billion in the budgetary resources available for the Government's development program for 1962. This could be met by a devaluation across the board involving the adoption of a unitary rate of exchange which would yield the Government some Bs 500 million in added revenues. Secondly, it would be possible for the Government to raise an additional Bs 250-300 million through additional taxes. Even if the Government decides to take both these steps in time to be effective in 1962, there will still be a gap of some Bs 500-600 million (about \$115-\$135 million). Either new external financing (loan assistance) beyond loans already in sight and under negotiation will be required or the Government's investment budget will have to be cut back.^{1/}

The latter step would mean a serious setback for the development

(x) Bolivares, the primary currency unit of Venezuela.

^{1/} New taxation in 1962 in an amount sufficient to cover the entire projected deficit seems out of the question. Even a raise in taxes to cover part of it in 1962 will be difficult at this late date.

program. Gross investment has fallen for two years in succession. GNP has hardly increased. A forward surge is obviously needed. In addition, a serious cutback in the Government's proposed 1962 expenditures would make it impossible for the Government to cope with the serious and growing unemployment problem. Politically, this would be intolerable. Both the resumption of an accelerated rate of capital formation (especially in housing) and the reduction of unemployment appear to be essential to the maintenance of economic and political stability. With only $2\frac{1}{2}$ years to run and a negative record to date so far as concerns the general level of activity, the Government must now make up for lost time. U. S. assistance, if needed, should be forthcoming. The objectives should be to support the present Government as representative of a democratic regime, during a trying period in which failure might mean the disappearance of constitutional democracy.

For the years following 1962 it does not appear as though the Government would have any serious budgetary problems. It is likely that by 1963 taxes will have been raised and almost certain that a unitary rate of exchange will have been adopted at somewhere between Bs 4.00 and Bs 4.50 to US \$1.00, which will yield further revenues. (See discussion of the exchange problem in III below.) The additional resources so released, plus the availability of long-term loans to finance some of the major development projects, e.g., (Guri Dam, Maracaibo Bridge, Steel Plant expansion) should probably see the Government through 1963 without the need for additional external resources.

VI

No balance of payments problems are foreseen, assuming that external capital resources which have been virtually committed to Venezuela are available in 1962 and 1963.

We recommend the earmarking of approximately \$125 million for a loan to the Government in 1962 in support of the Government's development program. This will meet a large part of the needs required to maintain an adequate pace of development. Agreement on the part of Venezuela to devalue across the board will be necessary if its development program is not to be seriously cut back.

Furthermore, as a condition for the development loan, we might obtain a commitment from the Venezuelan Government to propose a moderate tax increase this Fall to be effective in 1962 and a larger increase for 1963. This would tend to insure that the Government's resources would more nearly match its needs in 1963.

If \$125 million in aid is provided, it could be in the form of a direct budgetary loan to the Treasury (for development purposes), or assigned to specific development projects. These should, of course, be projects within the Government's present expenditure plans, or we would be financing extra expenditures. We would favor assigning development assistance to the following project areas: the equivalent of \$25 million to the Corporacion de Fomento for loans to industry; \$25 million to the Banco Obrero to cover some of the Government's planned expenditures for housing; \$25 million to finance 1962 costs of the Guri Project; and \$25 million to the Banco Agricola y Pecuario to finance operations related to the Agrarian Reform Program. One half of

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the \$50 million recommended for housing below can probably be viewed as a contribution toward the general development resources gap - since some lower priority items can probably be deleted from the 1962 program to make way for an accelerated housing program.

2. Project Assistance

We also recommend loan assistance for certain projects now outside the Government's program. In essence, these are projects to which, for one reason or another, the Government appears to have accorded a lower priority than appears warranted. They are discussed in greater detail in Section IV - "Priority Areas." These are:

- a) Housing - we recommend the allocation of approximately \$50 million for expenditure on low-cost housing in 1962 and 1963. This would permit the annual construction of as many as 75,000 urban and rural houses above current Government plans.
- b) Satellite City Program - we recommend the allocation of about \$3-5 million as a loan to help finance a complete pilot project as an initial phase of the long-talked-of Satellite City Program.
- c) Resource Survey - we recommend the allocation of about \$2-3 million as a loan to help finance an aerial photogrammetric and magnetic survey of the resources of the southeastern areas.
- d) Agricultural Credit - we recommend the allocation of about \$2-3 million, as a grant if necessary, to help initiate and finance an agricultural credit pilot project, as recommended in the Agricultural Report.

VIII

Total project recommendations: \$57-61 million.^{1/}

A high priority should be given to (a) and (d) above.

The amounts proposed for each of these projects are preliminary and tentative. A thorough analysis of each project will be required before a final estimate of costs can be developed, and before firm conclusions can be drawn regarding the obligations the Venezuelan Government should be asked to assume in respect of each project.

^{1/} Of the \$57-61 million proposed here for project assistance, \$25 million out of the \$50 million recommended for housing could probably qualify as "development assistance" (see paragraph at top of page 7). Thus, the total amount of recommended assistance (excluding technical aid) would in fact come to \$132-136 million.

I. VENEZUELA'S BASIC PROBLEMS

Venezuela, like most of Latin America, has witnessed a marked population increase (about 3.5% per annum) in the last decade. This is one of the highest growth rates in the world. It lies at the root of Venezuela's problem: how to expand the economy sufficiently to keep pace with the population growth and raise standards of living to tolerable levels for the lowest income groups.

While the gross domestic product has just about doubled during the last decade, not all sectors of the economy shared in this growth in an equal degree. Petroleum production doubled, manufacturing trebled, but agriculture's contribution to the gross domestic product went up only 50% and much of this increase benefited but a small percentage of the rural population.

It is in this sector (agriculture), with apparently limited opportunities for expanding output by opening up new agricultural lands, that population growth has exceeded the absorptive capacity of the local economy.^(x) The problems of a growing rural population were, of course, multiplied by the fact that the bulk of the fertile areas were in large estates. The expanding rural population found its growing numbers restricted to a relatively small portion of the cultivable areas of the nation. Many were reduced to, or maintained in a condition of subsistence farming. Deforestation and poor farming techniques, which led to soil erosion and loss of soil fertility, meant in fact that arable lands available to the majority tended to shrink rather

(x) While the over-all population density of Venezuela is low - still over 70% of the people live in a little less than 30% of the territory. Much of the large expanse of the country's land is apparently not particularly fit for agriculture - although, clearly, some additional lands can be opened up. However, the investment costs may be large.

than to expand.

The attraction of better living conditions in the major urban areas, added to the lack of opportunities to gain an adequate living from the land, gave rise to a migration to the cities and to a transfer of part of the rural "population problem" to the cities.

Slum areas - with their "ranchitos" and large numbers of unemployed - became the heritage of the cities - in particular of Caracas. Illiteracy and lack of technical training made it almost impossible for the migrant to obtain any of the skilled and semi-skilled jobs which were available. The paradox of the importation of large numbers of European workers while thousands of Venezuelans remained unemployed was one result.(x)

The prosperous oil industry, which was booming throughout most of the last two decades, is a very low employer of manpower, so that the direct employment effect of its expanding and prosperous operations was extremely limited.

At the same time, the huge resources which the oil industry brought to the country - largely in the form of taxes and royalties paid to the Government - were for the most part squandered (from the point of view of the social needs of the nation) on low priority and highly extravagant public works projects. The social needs of the nation and in particular of the rural areas (schools, education, health programs, sanitary facilities, housing, water supply) were, until recently, very much neglected. The past two decades were lost opportunities, and it will be hard to make up for the lost time.

(x) Net immigration from abroad of about 35,000 a year characterized the decade of the 1950's until 1958 when it was curtailed by Government action.

The new Government, upon taking office in 1959, accepted the challenge represented by this unhealthy situation and embarked on a broad social and development program to develop the nation's human and physical resources. A major impetus undoubtedly has come from the realization that the political stability of the nation can be maintained and strengthened (or seriously threatened) by the degree of success (or failure) in raising the people's living standards, and in making some progress toward meeting their aspirations for a better life generally. The tightrope the Government must walk in order not to overly antagonize and frighten the conservatives and yet not fail to meet the expectations of the people is an operation fraught with difficulties. The organizational and administrative burden is heavy.

Unfortunately, matters were made worse shortly after the Government assumed office, when business activity declined and went into a fairly serious recession. Some signs of recovery are in sight.

II. VENEZUELA'S DEVELOPMENT PROGRAM

1. THE CORDIPLAN AND THE PROGRAM OF AGRARIAN REFORM

The Government's social and economic development program is based on its program of agrarian reform and on a four-year economic plan known as the "CORDIPLAN".^{1/}

The CORDIPLAN plan calls for industrialization at a rate purportedly sufficiently rapid to absorb new additions to the work force and to raise the

^{1/} Name derived from the planning office designated officially as "Oficina Central de Coordinación y Planificación. The plan is a four-year moving plan - a new revised fourth year target is to be set each year.

income and standards of living of the lowest income groups. A major objective is the development of new industries which will reduce dependence on petroleum over the years. The plan provides for the basic infrastructure needed to support the industrialization effort -- power-resources, communications, transport.

It also sets targets in the field of social development - e.g., schools, sanitary facilities and housing needed to meet the nation's more critical needs.

The plan, as originally prepared, called for an average annual increase of about 5-6% in Gross Domestic Product over the four-year period (1960-1964). This would presumably permit an average increase in per capita income of about 3.5-4% over the first four-year period.

The program of agrarian reform which is established by separate legislation is an attempt to solve a part of the agrarian problem through redistribution of agricultural lands and by the provision of financial and technical assistance to the small farmer.

The program of agrarian reform is contained within the "CORDIFLAN". It might be more correct to say that the formulation of the "CORDEPLAN" recognizes and takes into account the objectives of the program of agrarian reform.

An evaluation and analysis of the program of agrarian reform will be found in the agriculture section of this report. The balance of the discussion here will therefore be limited to the other elements of the Government's development program.

2. ASSESSING THE PROGRAM

In theory, since the country's development has been underway in accordance

with the "CORDIPLAN", something could be learned by examining the results to date. Unfortunately, not much significance can be attached to such shortfalls or successes as may have occurred.

Indeed, any attempt to make a detailed comparison of program and performance would be wasted effort. This for a number of reasons:

1. The 4-year program, adopted formally in April 1960, was not completed until June 1960, and its goals could hardly, therefore, have been thoroughly incorporated in the plans and budgets of the Government ministries for the fiscal year ending July 1, 1961. (The Government is changing its fiscal year to correspond to the calendar year beginning January 1, 1962.)
2. The plan was rather hastily drafted (we understand in about 4-5 months), so that except in its larger parameters it was more of a paper program than a thoroughly worked out plan. Technical, administrative and resource limitations did not receive careful enough attention to warrant attaching significance to time-phased targets.
3. Finally, a thorough revision of the plan is underway, with respect, in particular, to the industrialization program (areas within the manufacturing area which are to be pushed) - and with respect to the need for focusing more specifically on the short-range but critical problem of unemployment.

For the above reasons, too, it has seemed unprofitable to attempt too close analysis of the program. Besides, time and staff limitations have

precluded a very detailed study.

Instead, we have concentrated our attention on a few key areas (sectors) which early in our assessment appeared to be crucial to the success of the country's social and economic development effort.

This includes an identification of problem areas in policy and organization.

There is one general observation, however, which may be made in connection with the program's balance. Government planners appear to have given too little weight to the need for progress towards achieving some of the more important social development objectives at a pace rapid enough that the results can be generally recognized and felt. Quite apart from attempting to meet some of the basic human requirements promptly as a desirable end in itself - there is the consideration that success in such an endeavor can be expected to have a generally stabilizing political effect. The major case in point is the housing program, together with the various related social services and supplies (roads, water supply, sewerage, electricity) that go with a large housing program. This is the one significant sector (significant also in the sense that large sums are involved) where very large deficiencies exist, only a small percentage of which would be eliminated under the Government's program in the first 4 or 5 years.

This is discussed in detail in the section on "Housing".

We have also been unable in the time allotted to explore the non-priority sectors in order to discover whether any, upon analysis, would turn out to contain "fat". We make therefore no suggestions - except here and there in

passing - as to what projects might be trimmed in order to release resources for higher priority areas. Insofar as we can judge from our general survey, we would be prepared to accept most of the recommendations made in this respect by the World Bank's Survey Team.^(x) In particular, we think savings can probably be made in connection with a number of apparently uneconomic or very low priority irrigation, railroad construction and dock-building projects.

This report accordingly addresses itself to:

- a) Uncovering what appear to be the priority areas within the program, which should be focal points for the provision of foreign aid;
- b) Certain problem areas in the development program or with respect to Government policies as they affect the program;
- c) Administrative and organizational bottlenecks;
- d) An estimate of external resources that may be needed to complete financing of the country's development program over the next few years;
- e) General recommendations for an aid program.

PRIORITY AREAS:

The critical and priority areas within the program appear to be:

- 1) Investment in (industrialization in) the private sector.
- 2) Resources Analysis or Survey - with respect particularly to minerals.
- 3) Housing - rural and urban - including the provision of minimum public services.

 (x) The Economic Development of Venezuela - IBRD Report, 1961, published by the Johns Hopkins Press.

- 4) Education - especially vocational training which is intimately related to (1) above. It is discussed separately in the Education Report.
- 5) Rural Development and Agrarian Reform (discussed separately in the Agriculture Report).
- 6) The Satellite City Program.
- 7) The reduction of unemployment and promotion of business recovery.

The above are listed not in the order of priority - which would be exceedingly difficult, if not impossible to determine. They appear, all seven, to be important and key elements in meeting the country's social and economic needs. However, because of their greater immediate impact, the elimination of unemployment, and the provision of housing (including under this heading slum clearance or the restoration of slum areas) probably should be rated as having the highest priority in the short run. The reduction of unemployment is, of course, not properly a development objective within the program. The rate of reduction in unemployment will depend primarily on the speed with which the economy recovers, and expansion proceeds. Nevertheless, given the delicate political balance in which the country now finds itself, it seems necessary to assign to this objective a major policy priority at this time.

III. PROBLEM AREAS

1. THE BUSINESS RECESSION AND GOVERNMENTAL POLICIES

The business recession which began in late 1959 shows few signs of early disappearance. The construction industry is particularly hard hit,

but manufacturing production generally, and commerce in particular, have also felt the pinch of a decline in sales.^{1/}

The depressed industries are concentrated in the Caracas and Maracay - Valencia areas, and it is here that unemployment associated with the recession constitutes a serious human and political problem.

Current unemployment is estimated at some 300,000 (about 11.5-12% of the labor force). With annual additions to the labor force at some 75-80,000 a year (some put it at 90-100,000), the unemployment problem, unless promptly and energetically tackled, will become a most serious threat to political stability.

The construction industry (including construction materials) registered a 20,000 drop in employment from 1959 to 1960 - this is equivalent to an 11% decline. The manufacturing industries as a whole showed a 2% gain in employment. But this over-all result disguises some heavy declines in individual industries, and an actual decline of 3.8% in the contribution of the manufacturing industries to GDP in 1960 compared with 1959. The best measure, perhaps, of the current problem is the fact that GDP in 1960 rose only by about 1.4% instead of an expected increase of 5.8%, and an average annual rate of increase of some 8-9% between 1950 and 1959. Over the nine years, 1950-59 the non-agricultural sector had absorbed 50,000 new workers a year.^{2/} Less than 24,000 were absorbed in 1960.

^{1/} It is difficult to document the statement that conditions are still bad. Relevant statistical information lags by about 5-6 months, and no satisfactory economic indicators exist, although "Cordiplan" is trying to develop an adequate set. The current picture is largely a matter of impressions. Available relevant data is shown in the table on the following page.

^{2/} From 895,000 employed in 1950 to 1,340,000 in 1959. During the last few years this rate of absorption was, of course, below the rate of additions to the labor force.

TABLE I (a)

Selected Data on Current Business Activity (as current as available)

Index of Manufactured Products
(1953=100)

Production (excluding Petroleum Refining)

First 3 months 1961 203.14

First 3 months 1960 209.50

Production for the first 3 months of 1961 was above the last 3 months of 1960, but this rise reflected a seasonal pattern.

Production (including Petroleum Refineries)

First 3 months 1961 207.42

First 3 months 1960 208.85

General Production Index Excluding Petroleum Refining

<u>Month</u>	<u>1960</u>	<u>1961</u>
January	183.65	195.98
February	215.79	194.50
March	229.28	218.98

Iron Ore Production (metric tone)

<u>Month</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>
January	1.592.480		
February	1.560.136		
March	1.436.120		
April	1.103.067		
May	1.185.113	1.765.806	1.506.650

Price Indexes

	<u>May 1960</u>	<u>April 1961</u>
General wholesale price index Bs	105.34	104.55
Wholesale Price index of domestic products	105.71	104.33
Wholesale price index of Imports	104.77	104.96

(the above declines occurred despite partial devaluation of the Bolivar effective November 1960)

Value of Transactions on Stocks Exchange

May 1961 - Bs 5.00 millions
May 1960 - Bs 6.35 millions

Decline May 1960 to May 1961 = -25.9%
Decline average January - May 1960 to January -
May 1961 = - 21.26%.

Effective Money in Circulation (in public hands)

December 1960	Bs 3.599 millions
January 1961	3.432 "
February 1961	3.585 "
March 1961	3.554 "
April 1961	3.497 "
May 1961	3.423 "
June 1961	3.400 " (Preliminary)

(December 1960 - May 1961 = decline Bs 157.07 millions)

This decline reflects a budget surplus and restrictive credit policies.

Commercial Bank Loans and Investments (in Bs millions)

	<u>1960</u>	<u>1961</u>
January	5.023	4.523
February	4.992	4.496
March	4.885	4.450
April	4.781	4.497
May	4.680	4.495

TABLE I (b)

Employment by Sectors*

Years	Agriculture & Cattle	Mining	Petroleum	Manufacturing Industries	Construction	Electricity	Commerce	Trans.& Communic.	Services	Total occupation
1950	704.7	5.7	42.7	206.9	91.1	5.0	149.7	52.3	341.8	1.599.9
1951	721.8	4.1	44.5	207.6	93.8	5.5	157.2	57.2	354.3	1.646.0
1952	739.4	6.6	45.7	222.7	112.6	6.0	165.2	59.0	368.9	1.726.1
1953	757.4	6.0	44.7	224.7	117.1	6.6	174.0	66.1	387.1	1.783.7
1954	775.8	9.2	43.2	236.0	127.6	7.2	183.4	72.7	402.1	1.857.2
1955	794.7	9.6	42.8	243.7	116.2	7.9	193.0	75.2	420.7	1.903.
1956	814.1	10.1	43.8	244.7	158.0	8.7	202.4	75.2	435.5	1.992.
1957	827.7	11.2	45.5	253.0	183.3	9.5	212.3	78.1	452.5	2.073.
1958	824.4	11.4	44.3	255.1	179.6	10.5	224.2	82.5	472.0	2.104.
1959	833.3	11.7	43.0	270.2	189.7	11.9	235.4	85.6	493.1	2.173.
1960	856.6	12.0	40.5	276.5	170.4	13.4	247.3	88.8	515.1	2.220.6

* Source: CORDIPLAN

Under the circumstances, all efforts should be made to raise activity in the construction industry (a high employer of labor) and to stimulate the rate of private investment generally. Unless the rate of absorption is raised, the accumulating pressures will burst the dam of political restraint. This consideration is another reason for emphasizing the housing program, which in its own right merits the assignment of a high priority.

(a) FINANCING RECOVERY

The Government has been singularly ineffective in its efforts to increase economic activity. This is due in part to the cumbersome administrative machinery used to carry out recovery measures. Of 500 million Bs. authorized by the legislature in February 1961 for the Emergency Recovery Program, less than 1% is reported to have been expended by mid-August. But, more particularly, it reflects a rigid approach to the question of how to finance emergency expenditures. At the cabinet level, few appear prepared, at least until recently, to admit that under recession conditions some reflationary financing may be in order.

Thus, in June 1961 the Government presented to the National Legislature a balanced or nearly balanced budget for the six-month period, July 1, 1961-December 31, 1961. The balance was to be achieved, in part by raising taxes on corporate income, and in part by lowering the salaries of government personnel. Such proposals, while they showed courage, were clearly not best calculated to improve economic activity, especially since they were put forward in connection with a proposed over-all reduction in the level of expenditures. They were not accepted in full by the legislature. But insofar as they were accepted and are being put into effect, they will probably serve,

in the months to come (referring here especially to the cut in salaries) to further lower the level of effective demand in a depressed situation.

In part, of course, the Government's hands have been tied by rather restrictive legislative provisions affecting the ability of the Central Bank to finance the Government's medium and long term credit needs. The Central Bank may not hold in its portfolio government paper in value higher than 10% of the average ordinary receipts of the Government for the past five years. In practice, it is limited to acquiring short-term Government notes which must be paid off within the next fiscal year.^(x) The Central Bank has already acquired over 400 million Bs. in short-term Government paper, leaving a margin of about 160-200 million Bs. still available. The Government cannot safely tap this remaining balance of borrowing ability, since it must keep something in reserve for unforeseen contingencies.

The commercial banks may buy Government bonds, but the low rate of return on Government bonds has apparently made them relatively unenthusiastic outlets for Government securities, despite an improvement in their liquidity.^(xx)

Insurance companies may not buy Government bonds, although legislation is apparently being drafted to enable them to do so.

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(x) The Central Bank may purchase long term Government paper only in the open market. It may not purchase it directly from the Government. Direct transactions between the Bank and Government must be for short-term notes.

(xx) In the 12 months ended June 1961 the liquidity of the commercial banks has improved. Their reserves have risen by about Bs 340 million and by about Bs 390 million if the involuntary purchase of Bs 50 million of Government notes early this year is included. During this period their current deposits rose by only Bs 212 million while savings deposits actually fell by Bs 204 million. (Source: Monthly Bulletin, Banco Central, June 1961.)

The Government's policy of a rather conservative nature, allied to restrictive legislation governing the credit policies of lending institutions, has resulted in inadequate flexibility for the Government. It has solved its immediate problem by negotiating a Bs 175 million loan from the oil companies to finance an emergency construction program. This, however, is not a satisfactory answer and is essentially a one-shot affair.

We recommend that U. S. officials use their influence to encourage and support those members of the Venezuelan Government who are aware of the dangers of pursuing an essentially deflationary policy at a time when "reflation" of the economy is needed. Caution will be required not to overshoot the mark. But the priority need now is for adequate financial flexibility and the Government should be encouraged to seek it. This may mean, in part, legislative changes. If so, the sooner the effort gets under way, the sooner the Government will obtain the necessary flexibility.

(b) LACK OF BUSINESS CONFIDENCE - A FURTHER STUMBLING BLOCK

Lack of business confidence in the Government's intentions and policies towards private enterprise constitutes another serious obstacle to business investment and places in jeopardy the Government's expectations for a high level of private investment within its four-year program. (See "Industrial Development", Part IV below.)

The Government has unfortunately failed to get across to the business community the idea that it is not planning to "invade" additional segments of the "private" sector by the creation of new Government enterprises.

Given the serious doubts apparent in the business community regarding the Government's policies, capability and life-expectancy, the added uncertainty

they feel about possible new Government encroachments is hardly calculated to encourage much new investment or to induce the energetic actions and decisions needed to bring about recovery. The wait-and-see attitude seems more true of the Venezuelan business community than of the foreign business community, judging by limited contacts with members of both groups. Rightly or wrongly, this assessment colors their willingness to invest.

c) A GOVERNMENT WHITE PAPER

One way to clear the air would be for the Government of Venezuela to issue some sort of a clarifying statement, indicating that it has no intention of setting up new Government enterprises in competition with private business; that one of the obvious cornerstones of its development program is reliance on private investment and on a high level of private investment.

The recent Presidential announcement of an increase of 20% in rents, and of certain tax concessions for new private residential construction, has done something to remove the suspicion that the Government is basically inimical to private business. Nevertheless, something more in the way of a general clarification of the Government's policy towards business appears needed. When such a clarification is made, the occasion could be taken to review for the general public edification the various measures taken and offered by the Government in support of private enterprise. (See "Industrial Development" - Section IV below.)

This possibility has been discussed with a number of people in and out of the Government. The general reaction seems to be that such a clarifying statement would very much help clear the air. A high ranking official saw,

however, some problems.

He thought that the Government needed a free hand to create new enterprises whenever private business did not choose to go into a priority area. He had in mind, particularly, the need to create some fabricating outlets for the new Government steel plant scheduled to expand its output early next year.(x)

This is a legitimate concern, but it could probably be met and at the same time allay the doubts of the business community by the Government's undertaking that whenever it determines that a new line of production should be set up in the national interest, a reasonable period would be provided during which private enterprises would be able and would be helped to set up a plant for said item. The Government would set up a plant of its own, only if private initiative did not respond. The Government might also undertake to sell or lease such a plant later, if private business showed interest in taking over.

In any case, there are a number of formulae that could be worked out. The principal objective of any statement such as here proposed would be to stake out clearly where the Government will not go and to provide assurance that in those areas private enterprise can make investments with confidence that a Government plant will not one day arise to provide severe competition.

The point was also made that it would be useful to hold open the possibility of creating a Government enterprise to bring down prices of certain products produced by private enterprise whenever these get out of line. A

(x) At present it is only turning out seamless steel pipe.

Government plant, it was said, would also be useful in providing a yardstick for judging the efficiency of operations. The last point seems to be straining things a bit. The first objective can be much more easily met by reducing tariffs which are in nearly all cases highly protective.

2. EXCHANGE CONTROLS AND CAPITAL FLIGHT

The Venezuelan economy since 1957 has suffered a loss of an unrecorded number of billions of bolivares in the form of "flight" capital. No exchange controls existed or were put into effect to stem this flow until November 1960. But the outflow appears to have been slowed down, not so much because of any action on the part of the Government, but because it ran out of steam. The liquid cash resources of the country (by mid 1960) were no longer sufficient to finance the purchase of any large volume of foreign exchange. Anyone desiring to convert his less liquid assets into cash found no ready market. This is not quite so true today, as the monetary situation has become less tight than it was a year or 18 months ago.

But even today, Venezuela is losing valuable foreign exchange and capital which if kept at home, could presumably be put to good investment use. There is at present a free market for capital transfers at about Bs 4.58 to \$1.00 and for any other type of transfer not authorized at the "controlled" rate of Bs 3.35 to the \$1.00. There is also a black market where transactions are reported to take place at about Bs 4.65 to \$1.00. If capital exports were prohibited (except for specified and approved purposes which could be limited) - the foreign exchange corresponding to the incoming capital from abroad would

(x) This can be done in Venezuela by Government decree.

flow into the Central Bank. At the same time, the Venezuelan bolivares, which under present regulations would merely be swapped for the incoming dollars, would remain here (even if in reluctant Venezuelan hands) where sooner or later they would be available for investment if properly lured and coaxed.

Available information suggests that capital exports are going out at the rate of about \$150 million per annum. Sales of foreign exchange on the two Stock Exchanges authorized to handle foreign exchange have amounted to about \$75 million in the first six months of 1961. It is estimated that some \$50-75 millions, at least, go through the black market. The amount could be higher. In addition, the over-valuation of imports represents an additional means of exporting capital.(x)

The Central Bank has lately not found it necessary to feed dollars into the free market to stem a fall in the value of the bolivar. Incoming capital at the Bs 4.55 - Bs 4.59 to \$1.00 rate apparently matches (for the present) the outflowing capital; but this may be only temporary. There is the danger that as business picks up and the economy's liquidity is restored, a step-up in this outflow will occur unless prohibited. It may be argued that, as business picks up, confidence will be restored and the tendency for capital to flee will be correspondingly reduced. This may be what will occur. But

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(x) The above statements cannot be statistically verified. But discussions with members of the banking community, stock-exchanges, commercial people and officers of the Exchange Control Office and the Central Bank, leave little doubt that the amounts going out through the back door are very considerable. The present rate of capital flight is, of course, considerably less than the exodus of capital that occurred in recent years.

there is no assurance that it will. There are probably quite a few who failed to get their assets out because they could not liquidate them, and who will jump at the opportunity of doing so if the return of prosperity allows them to dispose of their assets at not too heavy a loss.

In any case it would appear that if the U. S. is to finance a part of the country's development program, it should press for the establishment of controls on capital exports in order: a) to be reasonably certain that it is not indirectly financing such exports; b) to help retain investible assets in Venezuela; c) to help build up the country's foreign exchange reserves.

3. A UNIFORM RATE OF EXCHANGE

Related to the question of exchange controls is the question of exchange rate and the structure of the rate system. The present multi-rate system includes: A petroleum rate of Bs 3.09 to the \$1.00; a "controlled" import rate of Bs 3.35 to \$1.00 (the Bs 3.35 rate is the official rate and the buying and selling rate for "controlled" imports and for "approved" transactions of a financial nature); an official free market rate of about Bs 4.52 to \$1.00 for uncontrolled imports, travel, etc.; a true free market rate (now about Bs 4.55 to \$1.00) for the sale of the proceeds of certain export commodities (coffee and cacao) and for certain financial transactions (which includes most capital exports) not eligible for the "official" free market rate; a black market rate.

This multi-rate system is unsatisfactory for the following reasons:

(a) If continued (it went into effect in November 1960), it risks

introducing serious distortions in the price structure of the economy and in the pattern and structure of its development. Capital goods imports, most raw materials and important food products come in at the preferred rate of Bs 3.35. This puts a premium on capital intensive investments in a country which, given the present and prospective "excess" labor situation, should be encouraging the development of labor-intensive industries.

- (b) The Government is foregoing a badly needed increase in current revenues by maintaining a high rate for the bolivar with respect to petroleum transactions in particular.
- (c) The present exchange rate structure is so clearly temporary and provisional in nature that it adds to the general atmosphere of uncertainty and acts as an effective deterrent to whatever capital repatriation might occur if this element of uncertainty were removed.
- (d) Failure to devalue the bolivar to a realistic rate may act as a brake on the development of new export outlets. With Venezuelan costs admittedly high (at a Bs 3.35 rate) compared with those of other countries, an adequate devaluation with respect to all export operations appears desirable. If a uniform rate is decided on, it will be important to resist suggestions for a compromise rate anywhere under Bs 4.00 to \$1.00. Some may argue that it is premature to expect Venezuela to develop exports other than in petroleum, iron ore, coffee or cacao. The immediate additional

volume of exports that can be stimulated by maintaining a realistic valuation of the bolivar may not be large - but it is important to maintain a profitable ambient for developing exports in which the business community will be conditioned to thinking in terms of export possibilities, which have hitherto been virtually precluded in the manufacturing industries because of high costs. A correct adjustment of the rate and the rate structure will be important in connection with Venezuela's probable entry into the Latin American Free Trade area.

Points (b) and (c) are the most immediately important policy considerations. But the other two points have long-run implications that should by no means be ignored.

The net gains in current revenue to the Government from a uniform devaluation at, say, Bs 4.25 - 4.50 to \$1.00 would be in the order of magnitude of Bs 500 million or more annually.(x) This might be reduced gradually as the costs of Government operations and investments are pushed up by rising prices (in bolivares) of imported commodities following devaluation. But for the next few years, we can expect that a devaluation and a unitary rate of exchange would provide a net increase in resources available to the Government.

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(x) The receipt in bolivares of the Government in the form of income tax and royalty payments (calculated in the first instance in dollars) by the petroleum companies and income tax payments by the iron ore companies would rise by the difference between a mix of the Bs 3.09 and 3.35 rates at which such payments are now credited to the Government's account and a new uniform rate of Bs 4.25-4.50. This addition to income must then be offset by the loss to the Government of the profit made by the Central Bank on difference between buying and selling rates which profit now goes to the Government.

There is evidence that a move to a unified rate of exchange at a level within the rate of Bs 4.25 - 4.50 is not outside the realm of possibility, and that serious consideration will be given to any recommendation along these lines.

Perhaps the major consideration which militates against immediate action is the fear of an ensuing rise in the cost of living. This concern could probably be met by providing for a gradual devaluation (in say four 6-months stages) for a few key import commodities.

We would recommend such a course of action and the imposition of effective restrictions on capital exports. This should result in a considerable net increase in foreign exchange assets in excess of the increase in imports which must be expected to accompany business recovery.

One further point should be made. Loans to the Venezuelan Government are taken in and credited at the Bs 3.35 to \$1.00 rate. For purposes of a balance of payment loan, this is probably unimportant, for the Government makes a profit on the sales of these dollars at a different rate. The profits go to Treasury's general receipts. But where the United States makes a loan for a specific project, the funds should certainly be credited at the Bs 4.55 rate, in order to provide the "supported" project with the full amount of U. S. aid assigned to it. This matter will have to be cleared up with the Venezuelan Government in the event a uniform rate is not adopted, and there are indications it will be a "sticky" issue.

4. MOBILIZATION OF DOMESTIC RESOURCES

The Government is not doing all that can reasonably be expected to effectively mobilize available domestic resources in support of the development program.

It has open to it the proposal made in the previous section of moving to a uniform rate of exchange at something close to the present free market rate, which could increase its budgetary resources by some B 500 million (see previous section).

Secondly, personal income taxes could be raised. Present tax rates on personal income are extremely low, and underdeclaration is, according to many observers, common. The latter cannot be easily documented, but it is admitted to be a problem by Treasury officials.

The accompanying table shows the effective income tax rate on salaries and wages as of July 1, 1961, after taking into account the increase in the schedular tax rate from 1% to 3%.(x)

(x) The schedular tax on business profits and rental income rose from $2\frac{1}{2}\%$ to 5%; on interest and royalties, from 3% to 6%, and from 2% to 4% on agricultural profits and on non-commercial professions.

Taxes on farm income are slightly lower.

VENEZUELAN INCOME TAXES

SALARY AND WAGES

(Estimated Rates Effective July 1, 1961)

<u>Net Income</u> <u>Before Exemptions</u> <u>Single Person</u> Bs	<u>Schedular</u> <u>Tax</u> Bs	<u>Complementary</u> <u>Tax</u> Bs	<u>Total Tax</u> Bs	<u>% of Tax</u> <u>to Net</u> <u>Income</u> Bs
12,000	0	0	0	0
15,000	90	60	150	1.00
19,200	216	144	360	1.87
19,201	576.03	144.02	720.05	3.75
25,000	750	300	1,050	4.20
30,000	900	470	1,370	4.57
50,000	1,500	1,310	2,810	5.60
75,000	2,250	2,625	4,875	6.50
100,000	3,000	4,320	7,320	7.32
200,000	6,000	13,180	19,180	9.55
500,000	15,000	47,720	62,720	12.54
1,000,000	30,000	125,580	155,580	15.56
<u>Married Person</u>				
<u>Two Children</u>				
12,000	0	0	0	0
15,000	90	0	90	.60
19,200	216	0	216	1.12
19,201	576.03	0	576.03	3.00
25,000	750	60	610	3.24
30,000	900	160	1,060	3.53
50,000	1,500	860	2,360	4.72
75,000	2,250	2,075	4,325	5.77
100,000	3,000	3,590	6,590	6.59
200,000	6,000	12,230	18,230	9.11
500,000	15,000	46,470	61,470	12.29
1,000,000	30,000	123,880	153,880	15.38.

For purposes of comparison we show below selected items of the Venezuelan income tax schedule (for salaries and wages) alongside the Puerto Rican income tax schedule:

INCOME TAX

(Schedular and Complementary)

<u>Net Income Before Taxes</u> (Bs)	<u>Venezuela</u> (Bs)	<u>Puerto Rico</u> (Bs)
12,000	0	1,066
19,200	360	1,988
25,000	1,050	2,916
50,000	2,810	9,453
100,000	7,320	29,098
200,000	19,180	88,339
500,000	62,720	288,704

Taxes on business incomes are slightly higher than on personal income, but the same lack of progressiveness on the tax schedule exists.

Total corporate and personal income tax receipts from the domestic sector in 1960 totalled about Bs 500 million. Income taxes received from the oil companies and the iron ore companies amounted to Bs 1,300 million in the same year. With iron ore and petroleum contributing only some 20% of the gross national product, yet as much as 70% of the Government's income tax receipts, it seems evident that there is a lot of untapped tax potential represented by domestic personal and domestic corporate incomes.

The past session of Congress enacted legislation imposing a 5% tax on corporate dividends. The administration had requested this tax, but had intended it to apply only to domestic corporations. The Congress extended the application to the oil companies as well. The administration to date has refrained from putting the law into effect, since it accepts the position that

further increases in the tax rate on the oil companies at this time would be unreasonable.

The adoption of a uniform rate of Bs4.25-4.50 might provide a solution.

Application of the Bs4.25-4.50 exchange rate to oil company transactions would raise the oil companies' net profits by some \$100 million p.a.(x) This windfall rise in earnings would probably make it possible for the Government to put the dividend tax authorized by the Legislature into effect, without imposing an unreasonable burden on the oil companies.

Application of the legislation could be expected to increase Government revenues by about Bs85-100 million annually. This is a modest increase. A number of other proposals have been made by the Shoup group(xx) for raising Government revenues by tax increases, including increases in income tax rates beyond present levels. It is now up to the Government to make a decision.

The United States can help by urging the imposition of something more than a token income tax on the middle and upper income groups. For 1962 an increase in tax revenues through a raise in income tax rates, or through a raise in property taxes, should increase revenues by a total of some Bs250-300 million. These are self-help measures, well within the politically tolerable.

Finally, there is the question of mobilizing the nation's savings, so

(x) In 1959 the oil company profits after taxes were about \$440 million. Wages were about Bs1 billion, or \$330 million at the Bs3.09 rate. A change in the rate to Bs4.50 per \$1.00 would bring the wage bill down to about \$222 million. The same would be true of the oil companies' purchases of local supplies and services. Thus their profits would rise by over \$100 million, or by some 20-25%.

(xx) Carl S. Shoup and others, "Fiscal System of Venezuela", Johns Hopkins Press, 1959.

that they can be tapped to contribute more effectively to the country's development needs. We have discussed previously the need for making bank and insurance company assets available for purchases of Government's securities (see Section 1 above). This need exists no less for purposes of financing long-term development requirements than it does for financing the medium-term budgetary needs of the Government.

Commercial banks may not invest in mortgages with a maturity in excess of 36 months. Secondly, by law, commercial banks are permitted to pay no more than 3% per year on savings accounts, even though maximum loan charging rates, excluding commissions and other charges, are 12%. (Dividends paid on the capital stock of banks are quite high.) One result of this situation is that some U. S. savings and loan institutions which pay 5-6% interest have permanent offices in Venezuela to tap Venezuelan savings. There are only two mortgage banks and only one of these has sizable assets. Both have operated entirely on their own subscribed capital, and have made no attempt to attract savings deposits. Clearly, the banking laws should be changed to permit higher interest rates to be paid to savers, and legislation prohibiting mortgage loans by commercial banks should be substantially modified, at least to the extent of, or in relation to their savings deposits.

The need for more effectively mobilizing the nation's savings is being partly met by developing a savings and loan association program in connection with the Banco Obrero - DLF project.

The development of a secondary mortgage market and a mortgage insurance program would also be a step in the right direction.

What is required here, in effect, is the establishment of an institutional

framework that has never existed in Venezuela. The Government is interested in this possibility. The Central Bank has made a thorough study of the requirements for such a program in Venezuela. No decision, however, has been taken to move ahead. The United States should be prepared to provide technical assistance in developing a program in this area when the Government feels ready to move ahead.

5. PROGRAM BOTTLENECKS

a) ADMINISTRATIVE AND ORGANIZATIONAL DEFICIENCIES

A number of administrative and organizational deficiencies threaten to become bottlenecks, or worse, in carrying out the Government's development program. Such deficiencies may delay the initiation and execution of programs.

- (A) In particular there is an over-centralization of decision-making in the capital in the execution of national programs, and an inadequate delegation of decision-making responsibility to subordinate officers within ministries, agencies and autonomous institutions.
- (B) There is a lack of coordination in the field between interested agencies, both in developing and in executing programs.
- (C) There is a failure adequately to consult the local organizations and staffs in drawing up programs. Thus, while over-all programs may generally correspond to national priorities, they will not necessarily reflect local priorities. The need for developing programs at the local level, or at least at the level of the Municipio, is especially great in connection with the complicated task of developing new communities or settlements under the agrarian reform program. The failure to do so

risks making many programs in this area useless, and may involve the diversion of scarce resources to low-priority projects. Centralized programming in Caracas results in the assignment of relatively huge resources to projects, such as irrigation works and docks, whose economic benefits are long delayed and of relatively low impact on the average man. A slowdown in these programs would permit the transfer of budget resources to support expanded programs of Community Development, supervised credit, self-help housing, water supply, etc., planned at the local level.^{1/}

There is also an apparent partial paralysis of the ability to convert plans into action. Planning for satellite cities, for instance, has been underway for two years or more. Plans for four such cities are talked of frequently, articles about them appear in the Press, but nothing gets underway. Various plans to cure the traffic congestion of Caracas are under study. In the meantime, nothing gets done. Examples could be endlessly multiplied. A point always is reached where the decision to take one course - even if it were not the best one - would be better than inaction. Of course, in the face of a difficult problem, requiring the coordination or cooperation of a number of governmental agencies, such delays are not surprising. But they should not be allowed to continue where priority programs are concerned.

^{1/} An important element of Cordiplan's proposed new municipal planning office will be the community development section. Small community organizations and self-help projects are underway. These include self-help housing, water supply, paving and community center construction, as well as village and barrio construction. Rather than having a separate community development field organization which might engender jealousies among ministries, Cordiplan's policy is to train each agency's field workers in community development techniques. The Program Development Team supports this approach to community organization and self help.

The fact that they are allowed to persist suggests that there is no adequate procedure within the Government to assign priorities to programs and to insure that designated priority programs receive and continue to receive priority attention.

This is another way of saying that everyone is trying to do everything at once and cannot find the time to stick to any one problem long enough to solve it whenever it raises very sticky issues.

b) ADMINISTRATIVE REFORMS UNDERWAY

Many of the above-mentioned organizational or administrative deficiencies are well appreciated and corrections are underway. The reorganization of Ministries which is being carried out gradually by the Comisión de Administración Pública (Commission for Public Administration) should do much to reduce the load at the top and should lead to some delegation of authority down the line.

But such changes take time and one cannot realistically expect appreciable results for a couple of years, particularly since administrative personnel must be trained in addition to effecting the desired organizational changes.

PROGRAM PRIORITIES AND TROUBLE SHOOTERS

Until these reforms take effect and relieve the top echelon sufficiently to permit them, as a matter of course, to devote their attention to priority matters, it appears essential that some system of program priority be developed. Three or four programs should be given top priority to get them underway, if they are stuck, or to get them running smoothly if they are in trouble.

These priorities should be assigned at the cabinet level, and should be binding on all Ministries. A high ranking expediter or trouble-shooter

(working out of the President's office) should be assigned to follow up all priority programs. The Director of the Office of Coordination and Planning is currently supposed to act as trouble shooter for the President. But his hands are, in practice, too full with planning and coordination questions for him to find the time to do any effective trouble-shooting. Unless the coordinator can shed some of his responsibilities, and so free himself to actually do some trouble-shooting, it would seem desirable for the President to appoint another person to act as full-time trouble-shooter. He should be given adequate rank and full Presidential support.

This is not an ideal solution, but it appears practical and one that can be put into effect immediately.

6. BALANCE OF PAYMENTS AND THE RESOURCES GAPa) Balance of Payments

The following table indicates the current balance of payments position of Venezuela.

TABLE II

	<u>Balance of Payments*</u> (Bs Millions)		
	<u>1958</u>	<u>1959</u>	<u>1960</u>
Exports (FOB)	+ 7,834.1	+ 7,455.9	+ 7,448.8
Imports (FOB)	- 5,055.9	- 5,083.3	- 3,844.7
Services (net)	<u>- 3,368.9</u>	<u>- 2,860.5</u>	<u>- 2,513.3</u>
Net Current Acct. bal:	- 590.7	- 487.9	+ 1,090.8
Net Capital inflow (+) or outflow (-)	<u>+ 94.4</u>	<u>- 432.8</u>	<u>- 1,046.0</u>
Net errors and omissions	<u>(- 708.0)</u>	<u>(- 216.8)</u>	<u>(- 666.4)</u>
Reduction in reserves	1.204.3	1.137.5	621.6

The above data indicates a generally satisfactory balance of payments position at present provided, of course, the recent trend towards heavy capital outflows can be stemmed. We have recommended elsewhere the imposition of effective exchange controls on capital exports. If this recommendation is accepted then the Government should encounter no serious balance of payments difficulties.

However, the net favorable balance on current account shown for 1960 (and, probably, for 1961 when the results are in) can be expected to turn once more into a negative balance as merchandise imports rise together with the resumption of a higher level of business activity. Imports have shown

*Source: Memoria 1960 - Banco Central de Venezuela. Figures are rounded.

a marked contraction since 1957:

<u>Imports (Bs in Millions) FOB</u>	
1957	5.826
1958	5.055
1959	5.083
1960	3.844
1961	3.500 (est.)

The rise in imports can be expected to be substantial during the next few years. They should increase to a level between Bs 5.5 and 6.0 billion as the economy is reflatd and gross investment picks up.

The net unfavorable balance on services account should also increase slightly. Exports, dominated by exports of petroleum, will increase but probably at a rate of no more than $3\frac{1}{2}\%$ to 4% a year. We anticipate therefore net current account deficits in the years 1962-64. Present investment plans for 1962 suggest a current account deficit of perhaps Bs 500 - 600 million in that year and a gradual decline thereafter. However these deficits ought to be more than offset by net foreign investments into Venezuela provided capital exports can be effectively controlled. Furthermore, if necessary, imports of so-called luxury goods can be held back.

A balance of payments projection is shown in TABLE III overleaf.

For 1962, and 1963 current account deficits in the order of magnitude of Bs 500 million appear to be just about offset by Governmental capital imports (external loans already negotiated or in sight). Such external loan commitments amount to approximately Bs 750 million for 1962 and Bs 400 million for 1963. If one adds probable annual net private foreign investments

TABLE III*

Projected Balance of Payments 1960 - 64
(in millions of Bolivares at 1960 prices)

	<u>1960</u> (actual)	<u>1961</u> (partially estimated)	<u>1962</u>	<u>1963</u>	<u>1964</u>
Exports (FOB)	+ 7,449	+ 7,700 <u>1/</u>	8,000 <u>1/</u>	8,300 <u>1/</u>	8,600 <u>1/</u>
Imports (FOB)	- 3,8447	- 3,500	- 5,600 <u>3/</u>	-5,700	- 5,800
Services (net)	- 2,5133	- 2,500 <u>2/</u>	- 2,950	-3,100	- 3,200
Net Current Account	+1,098.8	+1,700	- 550	- 500	- 400

(+ = surplus;
- = deficit)

1/ Exports are estimated to grow at the rate of $3\frac{1}{2}\%$ p. a. on the average.

2/ Net Services: assumes transportation and insurance at 13% of imports; net investment income at Bs 1.5 billion in 1961, rising to Bs 1.9 billion in 1964. Remittances assumed at Bs 100 million a year. Other services (net) are assumed to rise in proportion to volume of trade.

3/ Imports in 1962 are a function of proposed investment program (global) and GDP targets for that year. In subsequent years they are assumed to rise at a rate equal to about one-half of the planned annual rate of increase of about 5 - 6% in GDP for 1963 and 4.

*Source:

For 1960: Memoria, Banco Central de Venezuela.

For 1961 and later: Cordiplan estimates adjusted by Program Development Team.

in the amount of perhaps Bs 300 million, Venezuela should actually be able to accumulate reserves over the next few years, assuming again, that capital exports are held within bounds.*

b) Venezuela's Ability to Repay

In view of the above analysis we recommend that as a general principle, such project and budgetary assistance as may be provided to Venezuela be in the form of long term loans. It is suggested that such loans provide for a moratorium with respect to amortizations until 1968. The schedule of repayments (amortization and interest) on the outstanding external public debt (\$321 million as of June 30, 1961) is as follows:

1961	83.291	1966	12.508
1962	109.066	1967	11.871
1963	94.001	1968	1.076
1964	49.475	1969	1.031
1965	13.145	1970	986

* This assumption of amount foreign investment of at least Bs 300 million seems reasonably well supported by the following figures showing annual volume of gross foreign direct and portfolio investments (in million of Bs):

	<u>Direct</u>	<u>Portfolio</u>	<u>Total</u>
1954	1.205	2	1.207
1955	787	103	890
1956	2.317	107	2.424
1957	2.883	285	3.168
1958	1.505	- 180	1.324
1959	350	23	374

Source: Memoria 1960 - BCV

** Source: IBRD Statistics Division from July report.

The above schedule does not include external loans authorized or about to be authorized, and which are now under negotiation - they amount to about Bs 120 million (about \$35 million). Terms cannot be accurately forecast, but we can reasonably assume they need not add more than about \$4-5 million per annum on a descending scale (starting in 1964 or 1965) to the present repayment schedule. The Government intends to renegotiate the heavy payments due in 1962 and 1963 with a view to strengthening them out over a longer period. It is confident of being able to do so.

It seems clear from the above that Venezuela can service additional loans (if repayments are not too heavily concentrated in the next 5-6 years) without serious strain. The strain, if any, will be of a budgetary nature rather than on balance of payments account. But here too, if heavy repayments are not scheduled in the early years, there should be no serious problem.

Exception for Technical Assistance

The above recommendation for loans does not apply to most of the technical assistance proposals submitted herewith or to the proposal for initiating a program for a new and broader type of agricultural credit by making a modest grant, if that is deemed necessary, to get it underway, on the basis recommended in the section on agriculture.

(c) The Resources Gap

As indicated earlier, the government appears convinced that a major effort to revive the economy and to raise the rate of growth to substantial levels will be necessary in 1962.

The latest estimates place the rate of unemployment at 10.5% of the active (employable) population in 1960 and at about 11.5 - 12% currently.

"Cordiplanners" have estimated that in 1960-62, national production would have had to average a compound rate of increase of 7% p.a. in order to prevent any rise in the rate of unemployment. Actually, GDP rose in 1960 by only 1.4% and will probably rise in 1961 by no more than 3.5 - 4%. This shortfall is a measure of the requirements for 1962.

"Cordiplanners" have formulated two "objectives" or "targets", ("A" and "B") for investment and production levels in 1962, which are calculated to maintain unemployment at tolerable levels. Objective "A" assumes that a given increase in demand (consumption and investment) on the part of the public sector will induce an increase in private consumption and investment which will restore the rate of unemployment to just below 1960 levels (as per cent of labor supply).

Objective "B" assumes a higher level of production - a level required to maximize employment opportunities and a volume of investment needed to permit the attainment of that rate of output. Objective "B" assumes a more enthusiastic reaction on the part of the private sector to the government's proposed efforts.

The level of production by sector relative to 1960 is shown in the following Table IV for Objectives "A" and "B".

TABLE IVINDICES OF GROSS DOMESTIC PRODUCTION BY SECTOR
(1960 - 100)

<u>Sectors</u>	<u>1961</u>	<u>1962</u>	
		<u>Objective "A"</u>	<u>Objective "B"</u>
Agriculture and Cattle	105	114	121
Petroleum	103	107	108
Mining	90	103	117
Manufacturing	107	124	134
Electricity	114	129	129
Construction	106	122	128
Services (incl. transport and communication)	104	111	113
<u>Total Production</u>	103.9	112.2	115.4
<u>Population</u>	103.3	106.8	106.8
<u>Production Per Capita</u>	100.5	105.0	108.0

A program developed on the basis shown in Table IV would lead to rates of domestic production 12% and 15% above 1960 for Objective "A" and "B" respectively. Per capita production (which fell in 1960 for the first time in a decade and which hardly moved in 1961) would rise 5% and 8% (for "A" and "B" respectively) above 1960 levels.

Table V below shows a projection of the over-all relationships (production - investment - consumption and the net foreign balance) for the two objectives:

TABLE V
GROSS DOMESTIC PRODUCTION AND NET FOREIGN BALANCE
(in millions of Bs)

<u>YEAR</u>	<u>OVER-ALL SUPPLY</u>		<u>TOTAL SUPPLY = DEMAND</u>	<u>OVER-ALL DEMAND</u>		
	<u>GDP</u>	<u>Imports of goods and services (net) 1/</u>		<u>Domestic Investment</u>	<u>Consumption</u>	<u>Export of Goods</u>
1960	26,433	5,453	31,886	5,856	18,581	7,449
1961	27,480	4,670	32,150	4,834	19,646	7,670
1962 Obj. "A"	29,670	6,830	36,500	7,200	21,320	7,980
Obj. "B"	30,510	7,260	37,770	7,600	22,190	7,980

1/ Figures for net imports of goods and services do not correspond with those shown in Table III. In Table III net investment income is included. It is omitted in this and following tables.

For objective "A", gross investment would rise some 50% above anticipated 1961 levels and about 25% above 1960 levels. Total consumption would rise some 9% above 1961 which is equivalent to a rise of just under 6% in per capita consumption.

With Objective "B" investment would rise nearly 60% above 1961 and about 30% above 1960.

In both cases the rate of unemployment would be cut back. Table VI shows a number of interesting relationships in this connection.

TABLE VI

PROPOSED LEVELS OF GDP AND EMPLOYMENT

<u>YEAR</u>	GDP Per Capita (in Bs)	<u>EMPLOYMENT</u>		RATE OF UNEMPLOYMENT in %
		<u>Level</u> (in 1,000 persons)	<u>Annual Increment</u>	
1960	3,504	2,221	-	10.6%
1961	3,524	2,273	52	11.7%
1962 Objective "A"	3,681	2,388	115	10.2%
Objective "B"	3,785	2,437	164	8.4%

It appears that with objective "A", 115,000 more persons, and under Objective "B" 164,000 more persons, would find employment in 1962 than in 1960. The rate of unemployment would be restored with Objective "A" to about the 1960 level, but with Objective "B" it would be cut back some 20% below the 1960 rate.

Furthermore, it is emphasized by the planners that although it will take some time before the proposed high level of investment in the agricultural sector is reflected in rising production and incomes, this level of investment will, nevertheless, have the effect of retaining larger numbers of workers on the land at a time when reviving employment opportunities in industry might otherwise induce a rise in the rate of movement from rural to urban and suburban areas.

IMPLICATIONS FOR GOVERNMENT EXPENDITURES

If the two Objectives "A" and "B" are accepted as targets for 1962, the implications for the government are clear. In general terms, it means that government investment in 1962 will have to rise substantially relative to 1960 and 1961 levels. Targets "A" and "B" assume an increase in total investment of some Bs 2.4 and Bs 2.8 billion, respectively, compared with 1961. (see Table V) This is an increase of some 50 - 60%. Private investment cannot be expected to generate of itself a new momentum (given present depressed conditions) to the point where the total investment rate would rise next year by the projected 50-60% gain. Failure of the government to step vigorously into the breach would mean, therefore, accepting a further rise in the level of unemployment in 1962. This seems out of the question.

The problem, of course, is what is involved by way of additional government expenditures in an effort to reach the "A" and "B" targets.

One can assume some compression of current government expenditures compared with 1961, but this is necessarily limited and under any reasonable assumption such economies would be more than offset by increases on capital account needed to finance projected government investments.

Table VII shows the respective division between the public and private sectors of consumption and investment assumed necessary to achieve "A" and "B" targets for GDP and for over-all investment.

TABLE VII

Projection of Gross National Product
(in millions of Bolivares)

ITEM	1960	1961	1962	
			TARGET "A"	TARGET "B"
I. SUPPLY	<u>31,886</u>	<u>32,150</u>	<u>36,500</u>	<u>37,770</u>
From Domestic Products	26,433	27,480	29,670	30,510
Imports of Goods & Services (net)	5,453	4,670	6,830	7,260
II. DEMAND	<u>31,886</u>	<u>32,150</u>	<u>36,500</u>	<u>37,770</u>
1. Domestic	24,437	24,480	28,520	29,790
<u>Gov't. Sector</u>				
(Consumption)	7,303	6,587	7,520	7,520
(Direct Investment) <u>1/</u>	(4,813)	(4,592)	(4,558)	(4,558)
(Direct Investment) <u>1/</u>	(2,490)	(1,995)	(2,962)	(2,962)
<u>Private Sector</u>				
(Consumption)	17,134	17,893	21,000	22,270
(Investment) <u>1/</u>	(13,768)	(15,054)	(16,762)	(17,632)
(Investment) <u>1/</u>	(3,366)	(2,839)	(4,238)	(4,638)
2. <u>Export of Goods</u>	<u>7,449</u>	<u>7,670</u>	<u>7,980</u>	<u>7,980</u>
Total Investment <u>1/</u>	5,856	4,834	7,200	7,600
Total Consumption	18,581	19,646	21,320	22,190

1/ Includes variations in inventory.

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It will be noted that, under both "A" and "B" targets, public direct investment and consumption remain the same. The difference between "A" and "B" lies in a larger volume of private investment for target "B". But this in turn, it is assumed, will require a slightly higher level of public loans to industry, resulting in a correspondingly higher expenditure. This is the only difference between targets "A" and "B" so far as concerns government expenditures.

The percentage of direct government investment to total investment in 1962 would actually decline compared with 1960 and 1961. It amounted to 41.8% and 41.5% of total investment for 1960 and 1961 respectively and would slip to 41.2% and 39.0% in 1962 for targets "A" and "B" respectively. ^{1/}

Public loans to private industry would amount to Bs 671 million and Bs 745 million for targets "A" and "B", respectively in 1962. This represents an increase of about Bs 410 and Bs 490 million, respectively, over the level of public loans to industry in 1961.

Tables VIII, XIX, and X show the relative importance of direct public and private investments by sectors, the distribution of proposed public investment by sectors and agency, and proposed public loans to the private sector in 1962.

^{1/} These percentages are based on gross investment and include variations in inventories. A comparison of public and private investment as shown in Table VII would yield slightly different percentages.

TABLE VIII

Value of Public and Private Gross Investment in Fixed Capital by Sectors
(in millions of Bolivares)

	1960			1961			1962			Total Target "A"	Public Value %	Private	Total Target "B"	Public Value %	Private	
	Total Value	Public %	Private	Total Value	Public %	Private	Total Value	Public %	Private							
Agriculture	580	175	30.2	405	580	173	29.8	407	1,010	410	40.6	600	1,110	410	36.9	700
Petroleum	1,170	-	-	1,170	880	10	1.1	870	920	25	2.7	895	920	25	2.7	895
Mining	290	11	3.8	279	60	13	21.7	47	30	10	33.3	20	30	10	33.3	20
Manufacturing	960	483	50.3	477	730	285	39.0	445	1,000	350	35.0	650	1,100	350	31.5	750
Electricity	80	80	100.0	-	130	105	80.8	25	200	185	92.5	15	200	185	92.5	15
Transportation Communication	705	603	85.5	102	670	570	85.1	100	960	863	89.9	97	960	863	89.9	97
Construction	20	14	70.0	6	20	10	50.0	10	110	10	9.1	100	110	10	9.1	100
Commerce	210	-	-	210	180	-	-	180	330	-	-	330	380	-	-	380
Services	290	14	4.8	276	250	2	0.8	248	430	-	-	430	480	-	-	480
Government	677	677	100.0	-	554	554	100.0	-	550	550	100.0	-	550	550	100.0	-
Housing	800	359	44.9	441	800	293	36.6	507	1,660	560	33.7	1,100	1,760	560	31.8	1,200
Total:	5,782	2,416	41.8	3,366	4,854	2,015	41.5	2,839	7,200	2,963	41.2	4,237	7,600	2,963	39.0	4,637

Includes water supply, sewage and development.

TABLE IX

Direct Public Investment by Sectors and by Agencies
(in millions of Bolivares)

	1960				1961				1962 (TARGET "A" = TARGET "B")			
	Central Gov't.	Autonomous Institutes	States and Municip.	TOTAL	Cent. Govt.	Auton. Inst.	States and Municip.	TOTAL	Cent. Govt.	Auton. Inst.	States and Municipalities	TOTAL
Agriculture	67	108	-	175	92	81	-	173	190	220	-	410
Petroleum	-	-	-	-	-	10	-	10	-	25	-	25
Mining	11	-	-	11	13	-	-	13	10	-	-	10
Manufacturing	-	483	-	483	-	285	-	285	-	350	-	350
Electricity	-	70	10	80	-	95	10	105	-	180	5	185
Transportation & Communication	491	102	10	603	486	74	10	570	700	145	18	863
Construction	14	-	-	14	10	-	-	10	10	-	-	10
Commerce	-	-	-	-	-	-	-	-	-	-	-	-
Services	-	14	-	14	-	2	-	2	-	-	-	-
Government	509	21	147	677	394	28	132	554	324	40	185	549
Housing	6	298	55	359	78	165	50	293	132	371	57	560
TOTAL	<u>1,093</u>	<u>1,096</u>	<u>222</u>	<u>2,416</u>	<u>1,073</u>	<u>740</u>	<u>202</u>	<u>2,015</u>	<u>1,366</u>	<u>1,331</u>	<u>265</u>	<u>2,962</u>
Changes in Inventory				+74				-20				
				<u>2,490</u>				<u>1,995</u>				<u>17</u>

TABLE X

Public Loans to Private Sectors
(in millions of Bolivares)

	1960			1961			1962					
	Pvt. Invest- ment	Public Loans to Private Sectors	% of Private Invest- ment	Pvt. Invest- ment	Public Loans to Private Sectors	% of Private Invest- ment	TARGET "A"			TARGET "B"="A" + Bs 74 mi		
							Pvt. Invest- ment	Public Loans to Private Sectors	% of Private Invest- ment	Pvt. Invest- ment	Public Loans to Private Sectors	% of Private Invest- ment
Agriculture	405	161	39.7%	407	121	29.7%	600	240	40%	700	280	40%
Manufacturing	477	83	17.4%	445	95	21.3%	650	201	30.9%	750	225	30%
Housing	441	84	4.4%	507	42	8.2%	1,100	230	20.9%	1,200	240	20%
TOTAL OF above 3 Sectors	1,323	328	24.8%	1,359	258	19.0%	2,350	671	28.6%	2,650	745	28.1%

The budgetary implications of the proposed 1962 program are shown in tables XI, XII and XIII for the public sector as a whole and for the central government. Tables XI and XII (consolidated Public Sector) include, in addition to the accounts of the central government, the expenditures and receipts of autonomous public institutes and of the states and municipalities.

There will be a net residual deficit on account of the operations of the public sector of Bs 1,257 million (or Bs 1,331 million) if target "A" (or "B") is to be met. The deficits are after allowing for the use of existing external loans (and those currently under negotiation) in the amount of Bs 760 million in 1962. See Table XIV.

Current government expenditures are to be slightly reduced. Bs 1,054 million will be needed to amortize the public debt. This is some Bs 710 million higher than in 1960 but only Bs 77 million higher than in 1961. The major other change on the expenditure side compared with 1960 (for the central government) is an increase of Bs 1,000 million for investment (loans). Gross fixed investment, however, (of Table IX) by the public sector will be only some Bs 470 million higher than in 1960 although nearly Bs 1,000 million higher than in 1961.

Assessment

The overall objectives of the government program appear reasonable and relatively modest given the problems the country faces: A high rate of unemployment, a low level of economic activity, and a low rate of private investment.

Is the program attainable, assuming it can be financed? It probably is if the private sector will react favorably to government efforts. So far as the public investment program is concerned it does not set impossibly high targets, at least, in over-all terms.

TABLE XI

Budgetary Resources and Expenditures of the Public Sector
(in millions of Bolivares)

	1960	1961	1962 TARGET "A"	TARGET "B"
<u>Total Expenditures</u>	<u>8,572</u>	<u>8,470</u>	<u>9,959</u>	<u>10,033</u>
a) Current Expenditures	(5,099)	(4,922)	(4,851)	(4,851)
b) Capital Expenditures	(3,473)	(3,548)	(5,108)	(5,182)
Current Receipts	<u>6,467</u>	<u>7,109</u>	<u>7,092</u>	<u>7,092</u>
Budgetary Deficit	<u>2,105</u>	<u>1,361</u>	<u>2,867</u>	<u>2,941</u>
<u>Special Resources:</u>				
Domestic Credits ^{1/}	1,120 ^{1/}	790 ^{1/}	825	825
Foreign Credits	667	531	785 ^{2/}	785 ^{2/}
Reduction of Bank Balances	318	40	-	-
TOTAL Expenditures	<u>2,105</u>	<u>1,361</u>	<u>1,610</u>	<u>1,610</u>
Residual Deficit to be Financed	-	-	<u>1,257</u>	<u>1,331</u>

^{1/} Includes other resources (See Table XII).

^{2/} Available or under negotiation as of September 1, 1961.

TABLE XII

Resources and Expenditures on Capital Account
(Consolidated Public Sector)
(in millions of bolivares)

Year	Expenditures					Resources				
	Direct Investments	Net Loans	Amortization 1/ of Debt	Other	Total	Excess of Current Receipts Over Current Expenditures	Domestic	Foreign	Other 2/ Resources	Total
1960	2,490	705	344	- 384 3/	3,155	1,368	1,062	667	58	3,155
1961	1,995	388	977	148 3/	3,508	2,187	739	531	51	3,508
1962										
Target "A"	2,962	801	1,054	291	<u>5,108</u>	2,241	825 4/	785	-	3,851
Target "B"	2,962	875	1,054	291	<u>5,182</u>	2,241	825 4/	785	-	3,851

1/ Includes accounts receivable of government agencies and enterprises.

2/ Includes depreciation.

3/ Less cash on hand and in banks - in amount of Bs 318 million in 1960 and Bs 40 million in 1961 (Table XI)

4/ Includes other capital resources.

Target "A" (available resources: 3,851
(balance to be financed: 1,257)

Total 5,108
Target "B" (available resources: 3,851
(balance to be financed: 1,331)

Total 5,182

We have previously noted that gross public investment in 1962 would be only about Bs 470 million higher than in 1960. Therefore, while one may have reservations as to whether private investment will respond as favorably as hoped for to the government's program, one cannot question seriously the feasibility of the proposed targets for public investment. An increase of about 25% in public investment compared with 1960 should be feasible. Especially so, since we understand that concrete plans and projects are already available and that a higher level of public investment in 1961 was not achieved only because of budgetary considerations. This assessment should be tempered, however, by recalling that the Emergency Recovery Program for which Bs 500 million were appropriated in February 1961 had not yet got underway by mid-August. It is possible, therefore, to suspect (by analogy at any rate) that slippage may occur in activating an enlarged public investment program in 1962. To the extent such slippage occurs, it may well argue for a larger program rather than a smaller one in order to achieve a given level of employment.

The government has so far given no hint as to how the program is to be financed. In the first place the program is still tentative. It has not yet been approved by the cabinet and will probably not obtain approval until there is a clearer picture as to financing possibilities.

We recommend three measures which would provide the necessary finances:

1. A devaluation of the Bolivar to a rate of Bs 4.25 to Bs 4.50 to the \$1.

This would yield some Bs 500 in net additional revenues.

2. (a) Application of the presently authorized 5% dividend tax and;
(b) an increase in property and personal income taxes. These two

measures together should yield some Bs 250-300 million in added revenues

3. External loan assistance equivalent to about Bs 550 million (\$125 million).

This would amount to a net increase in revenue of Bs 1300-1350 million.

TABLE XIV

External Loans Currently Available For Use In 1962 And 1963
(in millions of Bolivares)

<u>Lending Entity</u>	<u>Amount</u>		<u>Borrowing Unit</u>	
	<u>Total</u>	<u>To be used in 1962</u>	<u>Central Gov't</u>	<u>Autonomous Institutes</u>
World Bank	150	48	48	
World Bank	94	47		47 (CADAPE)
Export-Import Bank	333	167	167 (of which 149 to be transferred to A. I.)	
German Bank	80	80	80	
Bank of Paris and Pays Bas	66	66		66 (C.V.F.)
Inter-American Dev. Bank	40	20		20 (Banco Obrero)
Inter-American Dev. Bank	54	27		27 (Banco Obrero)
Dev. Loan Fund	33	33		33 (Banco Obrero)
Inter-American Dev. Bank	19	19		19 (I.N.O.S.)
Inter-American Dev. Bank	66	22		22 (I.A.N.)
Inter-American Dev. Bank	33	33		33 (C.V.F.)
Italian Banks	168	168		168 (Corp. de la Guayana for refinancing)
Other	60	30		30 (State R.R.Inst.)
Total	1,196	760	295	465

436 = Balance available for use in 1963.

1,196 For use in 1963

THE PROBLEM OF INADEQUATE FUNDS

There is always the possibility that for one reason or another the domestic funds proposed above for financing the apparent deficit will not be forthcoming. The Venezuelan Congress may balk at the prospect of new taxes or the government may feel that the proposals for devaluation are for the present unacceptable. Under the circumstances what should be the U. S. position?

We recommend that we adhere to the general principle that any assistance we provide should be matched, although not necessarily equally matched, by additional Venezuelan resources. This should allow sufficient negotiating flexibility to work out a reasonably satisfactory program for bridging the resources gap. It seems difficult to believe that the government, by a combination of measures (including perhaps additional local credits), could not in 1962 obtain from domestic resources additional revenues in the amount of at least Bs 500 million beyond those presently in sight.

This would leave a residual deficit of Bs 750-800 million (i.e. \$165-\$180 million at Bs 4.5 to \$1).

Some slight reduction in planned capital expenditures in the amount of perhaps Bs 100 million might also be possible. For instance, programmed irrigation projects in the amount of Bs 150 could probably be cut back by Bs 75 million in the coming year without serious effects although we have too little information regarding the exact allocation of the Bs 150 million irrigation program to individual projects to make a definite recommendation on this score. If Bs 100 could be so saved the residual deficit would then fall to Bs 650 - 700 million (i. e. 145 - \$155 million) which presumably would have to be financed from external credits. For we do not believe that we can reasonably look to economies in general as a solution of the problem. We

TABLE XIII

Central Government Accounts
(in millions of Bolivares)

<u>Expenditures</u>					<u>Receipts</u>			
<u>Items</u>	<u>1960</u>	<u>1961</u>	1962		<u>Items</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
			<u>Target "A"</u>	<u>Target "B"</u>				
<u>Current Exp.</u>	<u>3625</u>	<u>3445</u>	<u>3430</u>	<u>3430</u>	<u>Current Receipts</u>	<u>4961</u>	<u>5603</u>	<u>5500</u> 1/
Wages & Salaries (1845)	(1712)	(1712)	-	(1594)	Royalties & Petr. tax	1632	1547	1606
Other goods & services (660)	(600)	(600)	-	(700)	Income tax on Petr. Cos.	1260	1483	1255
Current transfers to other organ. (1120)	(1133)	(1133)	-	(1136)	Other income tax	558	780	750
<u>Capital Expend.</u>	<u>2722</u>	<u>3706</u>	<u>4527</u>	<u>4601</u>	Indirect tax	381	441	500
Govt. Real Invest. (1098)	1073	1073	-	1366	Customs Excise taxes	514	416	520
Transfers to other Agencies 1157	1527	1527	(1831)	1905	Exchange profits	356	652	640
Fin. Investment 14	36	36	-	91	Other Taxes	11	10	11
Amortization of Domestic Debt 323	857	857	-	652	Other receipts	101	143	60
Amortization of External Debt 18	120	120	-	402	Income on operations	148	131	158
Govt. Credit and other capital expenditures 112	93	93	-	185	<u>Capital Receipts</u>	<u>1390</u>	<u>1548</u>	<u>1200</u> 2/
Total Expenditure 6347	7151	7151	7957	8031	Internal Credit	523	1142	680
Net change in cash + 4	6351	-	-	-	Credit from Suppliers	200	- 125	200
					Foreign Credits	667	531	320
					Total	6351	7151	6700
					<u>Total Expenditures</u>	<u>6351</u>	<u>7151</u>	Target "A" 7957 Target "B" 8031
					Deficit	-	-	Bs 1257 Bs 1331

1/Of total estimated current receipts Bs 5,500 million, Bs 150 million have not been allocated in the tentative government proposals. They have been allocated by us as follows: Bs 150 million to customs, Bs 27 million to direct taxes, Bs 20 million to indirect taxes.

believe it would be a serious mistake to follow a policy that might seriously jeopardize achieving, in their general orders of magnitude, the objectives of the "Cordi" program for 1962 currently under consideration. These objectives include cutting back the rate of unemployment, raising investment levels substantially and achieving an increase in national production (GDP) of some 12% in 1962. We, therefore, recommend resisting the tempting course of pruning back the program rather than facing the always difficult problem of uncovering additional sources of funds. If the U. S. is directly or indirectly to supply a substantial portion of the funds needed to bridge the Venezuelan resource gap in 1962 it should insist that the program it is thereby supporting be generally adequate to cover the needs. This, in fact, means that the U. S. should insist on a sizeable financial contribution by Venezuelan to the 1962 development program and not settle for any sizeable program cut.

Post - 1962

Budgetary problems, if any, in 1963 and 1964 should be very manageable. We can reasonably assume that the level of public investment (and public loans) can be allowed to fall by some Bs 500 million as the economy recovers and private investment takes over a larger portion of the investment responsibility. Amortization of the public debt is expected to fall by Bs 500 million and revenues should increase in 1963 by some Bs 250 - 300 million reflecting the higher level of earnings which we hope will be achieved in 1962. ^{1/} Some Bs 200 million in additional revenues could also be earned by new legislation raising taxes (Property taxes) in 1963. Offsetting these savings in part will be the fact

^{1/} Assuming government incomes (other than from the petroleum sector) raise some 10% in 1963 (and increase of about Bs 175 million) and that receipts from the external sector rise by some 3% or by about Bs 80-90 million). Customs receipts should also rise. These are net increases over and above any increases in tax revenues that may obtain in 1962 as a result of tax measures we have proposed for 1961/2.

that available external loans will be about Bs 325 million less than in 1962 (see table XIV) and Emergency Recovery Program funds will be Bs 100 million less. The situation can be summarized as follows:

<u>Unfinanced deficit in 1962</u>	<u>Bs 1260 million</u>
Increase tax income in 1963	- 300
Increase in income from new taxes in 1963	- 200
Decrease in amortization payments in 1963	- 500
Decrease in investment	- 500
Decrease in available external credits	+ 325
Decrease in ERP funds	+ 100

Unfinanced deficit in 1963 185 million

A deficit in this magnitude (about \$40 million) will, no doubt, be handled easily by domestic bank credits and/or additional external credits. In 1964 there may again be a slight deficit depending on the level at which it is felt public investment should be held. But it ought not to exceed Bs 200 - 250 million and should, therefore, be financed without difficulty. Since, however, 1964 will be an election year we do not wish to be held accountable for the accuracy of this particular forecast.

IV. PRIORITY AREAS1. INDUSTRIAL DEVELOPMENTa) The Government's Program

The Government's development program assumes - indeed it requires - a high level of private investment. Most officials appear to appreciate the fact that failure to induce a steady and high rate of private investment will make it difficult for the nation to achieve its overall development goals.

The relative importance accorded to the private sector of industry in the government's plans is suggested by a comparison of "planned" investments in the private sector (manufactures) with investments in the public industrial sector:

Net Investments, 1960 - 64 (x)
(in 1959 prices)

Private Sector (Manufacturing)	-	Bs 2,395 million
Public Sector (Manufacturing)	-	Bs 656 million

(x) Original CORDIPLAN

By 1964 it is estimated that the manufacturing industry (private sector) will employ 361,000 persons (compared with 273,000 in 1960) and that the public sector will employ 12,000 (compared with 2,000 in 1960).

These figures in themselves are probably subject to a considerable margin of error. The important point is that they reveal the preponderant position reserved for private industry in the manufacturing sector.

The need for emphasizing support of an accelerated rate of investment in the private sector is brought out by an analysis of the decline in investment in 1960 compared with earlier years.

Gross Fixed Capital Investment in the manufacturing sector in 1960 amounted to Bs. 591.3 million compared with Bs. 852.5 million in 1959 - a decline of 31%; this during a part of the first year of the development program which is intended to boost gross national product in large part through an increase of investment in productive enterprise.

Gross investment in "construction and improvements" by manufacturing production (excluding refined petroleum products) fell from Bs. 223 in 1959 to 214 in 1960 (1953 = 100) (x).

Complete data are not available for 1961 but what we do have suggests that 1961 will not wipe out the ground and the time lost in 1960. At best if the second half of 1961 shows marked improvement, 1961 should show a slight gain in investment in the Manufacturing sector compared with 1960. "Cordi planners" anticipate no improvement for 1961.

It is easy, in one sense, to exaggerate the importance of the decline in the prosperity of the manufacturing industries. The very real slump in the construction industry tends to color everything.

In another sense, however, it cannot be overstressed. For to achieve the country's vitally important development goals it will not be enough for the manufacturing industry to mark time or even to expand at a slow rate, let alone slow down. It must move ahead rapidly. Last year (1960) was a complete loss in that respect.

The Gross Domestic Product of Venezuela in 1960 advanced only 1.4% above 1959 and the contribution of the manufacturing sector actually showed a 3.8% decline. The following table shows the percentage changes in the rates of increase of the various sectors' shares in the gross

(x) The figures in these paragraphs are all from the "Memoria" 1960, Banco Central de Venezuela.

domestic product.

Changes in Gross Domestic Product

	Average Annual Rate of Change (%) <u>1950 - 1959</u>	Percent Change <u>1959 - 1960</u>
Agriculture	5.5%	10.0%
Mining	39.9%	11.9%
Petroleum	7.5%	3.1%
Manufacturing	11.3%	- 3.8%
Construction	8.4%	-15.4%
Electric Power	19.4%	9.2%
Commerce	9.9%	- 4.1%
Transport. & Communications	5.1%	- 4.5%
Rents & Interest	9.6%	7.9%
Services	<u>14.5%</u>	<u>7.3%</u>
TOTAL:	8.4%	,1.4%

This decline in the rate of increase in GDP is what must be reversed. A heavy rate of investment must be encouraged in the private manufacturing sector.

It had been the Government's intention to supply some Bs 500 million in the form of loans to private industry over the 4-year period 1960-64. This amount must now be stepped up in view of the current slow down in the country's rate of growth. Tentative plans call for loans of Bs 200-225 million to private firms of the manufacturing sector in 1962. (see Table X, above).

b) General Goals of the Program

The major criteria or objectives observed in selecting industries for

government assistance within the program for development of the private industrial sector are:

- 1) To channel investments in so far as possible (and to give preference) to labor-intensive industries;
- 2) To maximize import substitution by emphasizing the domestic production of previously imported end-products.
- 3) To decentralize industry where possible so as to obtain a number of production centers away from Caracas.
- 4) To strengthen small business and crafts in the smaller towns of the interior through technical assistance and improvement loans. The possibility for expansion of these small industries is considered to be fairly limited.

The Government's program places emphasis on the expansion of growth industries and the promotion of new industries which meet one or more of the above criteria. Among the latter (the new industries) are steel fabrication, processing of non-metallic minerals, refractories, glass, etc., which, due to the abundance of local raw material supplies and/or to an abundant supply of power required for processing operations, hold hope of developing into export industries.

Other new industries which the Government hopes to see take root include a wide variety of electrical equipment and supplies, water pumps, radio equipment, paper products, light machinery, etc.

The ability to realize these goals will obviously depend in very large part on the ability to develop a skilled labor force since many of the proposed industries demand skilled and even highly skilled labor.

c) The Free Trade Area - Ignored

No serious attention has yet been given in the Government's projections and plans to the implications of Venezuela's possible entry into the Latin American Free Trade Area. Present plans while probably not intended to be so are essentially autarchic in nature. Inadequate emphasis seems to have been placed on turning up export possibilities.

If Venezuela enters the Free Trade Area much more attention will have to be given to the promotion of export industries and less to import-substitution.

d) Promoting Private Investment

In order to achieve the targets set for the private manufacturing sector, the Government has developed and is expanding a program to encourage a high rate of private investment and to coax it into desired fields.

The Ministry of Fomento (Ministry of Development) and a number of its dependent agencies are charged with carrying out this program.

The program includes:

- a) Long-term credits to industry provided by the Corporacion Venezolana de Fomento (CVF). These are available at 6% for from 5 to 12 years.
- b) Short term loans to industry (provided by the Banco Industrial)
- c) Technical assistance through the Productivity Institute (Instituto de Productividad) currently being organized.
- d) Technical assistance by CVF to new firms financed under the Government program.

In addition new industries can be granted tariff protection if needed. Recently in order to make the Government's program more effective a

number of new elements have been added:

A department of promotion within CVF has been set-up to promote actively investment in desired fields. A full time promoter has been retained. Some 27 projects for new firms have been prepared to-date and others are under way.

An ambitious new approach to accelerating investment in desired areas is being worked out. CVF proposes to finance the construction and equipping of factories which would then be leased to private industry with an option to buy at the end of a 5 year period. Six projects have been started under this program.

New legislation is being drafted to require business firms to register all plans for expansion and new investment. Failure to do so would mean forfeiture of eligibility to receive Government assistance whether in the form of loans, technical aid, tariff protection or tax concessions. Firms are currently required to register investment plans with the Ministry but failure to do so carries no penalty.

If the proposed legislation is effective, it will provide the Government with information on all expansion and new investment projects. This will be important for determining the size of the Government's investment program in each year. It will also give the Government an opportunity to look over individual projects and to suggest, perhaps, a change in location or even a change in the projects themselves in order to make them conform more nearly to the objectives of the Government's overall program.

A real effort is also being made to cut red-tape and to put the Government loan operations on an efficient basis. A simplified application form has been developed as an initial screening device. A screening committee

must act on the initial application within a week. If it is accepted as eligible for consideration more complete information is then sought from the applicant.

CVF LOAN PERFORMANCE

CVF has through July 1, 1961 made loans or guarantees in the amount of Bs 529 million to industry. Some are short term loans as indicated in the following table. But short term loans are to be administered henceforth by the Banco Industrial (also a government agency) while CVF will concentrate on long term loans.

	<u>1957</u>		<u>CVF Loans</u> (Bs) <u>1958</u>		<u>1959</u>		<u>1960</u>	
	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>
Long term	6	1,695,000	72	51,621,497	115	19,272,063	126	116,317,526
Short term		-	7	12,600,020	13	3,407,269	573	72,686,632
Guarantees	1	100,000	2	60,300,000	2	40,666,000	2	22,509,662
	<u>1961 (6 months)</u>				<u>Total (1957-1961)</u>			
	<u>No.</u>	<u>Value</u>			<u>No.</u>	<u>Value</u>		
Long term	39	28,561,374			358	277,467,461		
Short term	3	1,100,000			596	89,793,922		
Guarantees	14	38,373,586			32	161,949,249		
					<hr/>			
						BS 529,210,632		

CVF's CONFLICT OF INTEREST.

CVF as presently organized has a number of functions besides making loans to industry and promoting industrial development of the private sector. It controls and administers a number of government enterprises such as: CADAPE (Government Electric Power Supply) and the Azucarerias (Government sugar plants).

These functions should be spun off. Conflicts of interest can too easily arise in this type of organizational relation. Since the Government attaches, properly, great importance to the private sector, the agency charged with its promotion and assistance should not be saddled with other conflicting responsibilities. This point which was discussed with a few officials aroused no serious objections - but the problems of bringing about a reorganization along the lines here proposed appear numerous. Nevertheless, we should bring the matter up for consideration if, as here proposed, assistance is provided to CVF.

e) Industrialization at any cost?

There are indications that Venezuela is pushing its Industrialization into areas that represent a waste: or, at best, a less than efficient use of its resources.

For instance, there are at present at least 3 automobile assembly plants operating in Venezuela - Ford, Chrysler and G. M. Two more - Fiat and Roote's are scheduled to go into operation shortly. It seems very doubtful that such assembly operations can be economically justified. It is clear that the Venezuelan market for many years will hardly justify a number of automobile production lines. These assembly plants, therefore, cannot be viewed as initial steps in that direction but as abortive industrialization measures which seem likely only to raise costs of transportation in an economy that depends heavily on automobile and truck transport. Such assembly lines appear to be very dependent on heavy duty rates and on quantitative restrictions for their existence.

In a discussion with Government Officials I received the impression that

this problem was under study and that they were aware of the need for a careful assessment of investment projects of this nature. Despite this impression announcements were made in the past few weeks confirming the above mentioned FIAT and Roote projects.

CORDIPLAN and the CVF have developed fairly exhaustive analytical tools to determine whether project proposals are economic and sound in the national interest. It is far from clear, though, that these are being regularly applied to concrete proposals or that when the chips are down political considerations do not outweigh the results of the analysis - not in the sense of tipping the scales in doubtful cases but in the sense of overturning the clearly negative conclusions indicated by the analysis.

Political feelings run so high, of course, that it is difficult for the outsider inquiring into matters of this sort to determine which of his many eager informants is more nearly objective and accurate.

The problem we are discussing here seems to point up the danger of too lavish and generous a use of public funds and protection to support industrialization. If the entrepreneur risks little of his own cash in a venture he is more likely to take a flier, especially if he has assurances of protection against competition.

What additionally makes the auto assembly proposals most dubious is the fact that they are apparently being financed by Venezuelan and not by outside capital. The misdirection of Venezuela's own resources are therefore involved, if misdirection there is. (o)

(o) Ford apparently has financed the operations by a loan from Venezuelan banks using a U. S. bank guarantee to secure the loan. Fiat is not itself proposing to set up an assembly line here. It is the local Fiat agency that has proposed the project and will finance the purchase of jigs and tools in Italy.

One is tempted to conclude that the danger today is not so much that the Government is unwilling to provide encouragement to private investment in Industry but that it is prepared to provide too much indiscriminate encouragement.

I do not feel we have obtained enough information on this point to be categorical. But the government's policies in this area have so direct a bearing on the success of the development efforts and on the efficiency of the use of such U. S. funds as may be provided, that it is strongly recommended that the USOM undertake a thorough analysis of this issue.

f) Small Business Loans and Promotion

The Government has also set-up a Commission for loans to small industry and craftsmen. Loan limits are Bs 25,000 per borrower. Loans are for 5 to 8 years and are repayable after a 12 to 18 month period of grace in equal installments. These loans are available for working capital, equipment and for plant repairs or remodeling and carry a 6% rate of interest.

Of the Bs 17 millions received by the Commission since its establishment at the end of 1959, about Bs 14 million had been committed for loans and about Bs 10 million actually paid out as of the end of July 1961. It is clear that if this pace continues the funds allotted to the Commission will set a limit to its operations.

The Commission is presently grossly understaffed. One executive secretary in Caracas handles all the work - he has a staff of 3 secretaries and one office clerk. There is a field office in each state staffed by an executive secretary.

State Loan Commissions (members serve on a voluntary basis) have been set up in each state to screen loan applications. If applications are acceptable to the State Commission they are referred to Caracas for approval or rejection.

Apart from the delays involved in referring all applications to Caracas and despite the obvious understaffing, the Commission seems to have done a remarkable job of placing as many loans as it has. An interesting fact is that in most areas the loans have enabled the borrower to add to his work force anywhere from 1 to 5 new workers. (at least a 50% average increase per loan).

The Commission is supposed to provide technical assistance to borrowers but, to date, lack of a budget and personnel for this purpose have made it impossible for it to undertake this function.

The Commission, if properly organized to promote the establishment of new and the modernization of existing small business operations in rural towns, could serve a very useful even though limited role in providing jobs in these areas. The provision of effective productivity assistance would also help raise the meager earnings of the small one-man or two-man craft shop.

RECOMMENDED U. S. POSITION

CVF plays a key role in stimulating and encouraging private investment. The success it achieves towards this end will determine in large part whether the Government's development goals can be met.

LOANS TO CVF

a) The U. S. should be prepared to provide loans to the Corporacion

Venezolana de Fomento in 1962 to increase the latter's lending power. This would be assistance within the Government's proposed development budget for 1962. We suggest an amount in the order of magnitude of \$20 - \$25 million (dollars). This would supplement the present EXPORT-IMPORT BANK loan to CVF.

Separation of CVF loan and promotion functions from its role as owner and manager of Government enterprises should be explored.

b) Financial assistance should be given to back participation by CVF in a program for the development of "satellite cities." The supply of government-built and equipped plants for lease to private business appears to be a very important element in getting the "satellite city program" off the ground floor. A special fund to finance a pilot operation in this field should be worked out with CVF. The fund might be set at \$3-5 million initially. CVF would finance costs of the industrial development element of the project. (See discussion of the satellite City Project in the following section - it is mentioned here because CVF would presumably be the principal financing agency and one of the organizing agencies.)

TRAINING AND TECHNICAL ASSISTANCE TO INDUSTRY

Related to the industrialization program are:

a) Technical assistance projects in support of vocational teacher-training programs as recommended in the report on education; and

b) A possible technical assistance program in support of the training and productivity programs of I.N.C.E., CVF, the Productivity Center and the Small Business Loans Commission.

Perhaps the most critical bottleneck to achieving the industrialization objectives of the Venezuelan Government lies in the shortage of skilled and

semi-skilled personnel at nearly all levels. The elimination of this bottleneck is therefore a priority area in terms of the industrialization program.

A number of governmental agencies - in addition to the Ministry of Education - are involved in the urgent effort to develop a skilled labor force. In-plant-training has been assigned to the recently established National Cooperative Education Institute (I.N.C.E.). It is still developing its programs which include broader anti-illiteracy training programs as well as apprenticeship training programs for young workers. The Institute is currently carrying out a survey to determine the types of skills required actually and prospectively. Its plans are still vague - but its shortage of teacher personnel unquestionable.

The still more recently established Productivity Institute is charged with providing productivity assistance to industry and training management (down to the foreman level). There is some overlap and lack of clear division of responsibility between the technical staffs of CVF, the Productivity Institute, and I. N. C. E. These are being worked out and presumably clarified.

Finally, the role of the Small Business Loans Commission needs clarification with respect to training and technical assistance functions.

The team recognizes the importance and urgency of improving productivity and of developing industrial skills and of up-grading the skills of existing personnel in industry. We believe that we should seek to provide assistance in this area, if possible. But it is not clear how best this can be done given the present rather confused and confusing relationships of a number

of responsible agencies in this field. As these relationships are currently being clarified, the development of an aid program should become possible and we recommend that the USOM staff in Caracas give this matter its careful and continuing consideration with a view to developing, as soon as possible, a justified program of assistance in this area. A tentative technical assistance project in support of the Productivity Institute has already been developed by the USOM Industry Officer. It has been generally welcomed by the Director of the Productivity Institute. But the team recommends that a more general assessment of the productivity and training programs be undertaken in order to place the USOM mission in a position to evaluate the priorities of a number of possible aid projects in this area.

In particular we recommend that careful consideration be given to assistance in developing a program for the promotion of small (down to artisan level) business in rural areas - related possibly to rural community development projects under the program of agrarian reform. This would involve more than providing productivity and technical assistance to small business. It would involve primarily and especially the promotion of new small enterprises. It would involve analyzing local needs, local resources and the possibilities of their exploitation.

2. MINERAL AND FOREST RESOURCES SURVEY

There is no more than scattered and spotty information regarding the mineral resources of Venezuela. A wealth of such resources is suspected and even assumed. Verification of this assumption, identification and evaluation of these resources would seem to be a major condition for sound, long-range planning.

The Ministry of Mines and Hydrocarbons has a team of geologists (headed up by a small technical group from Yugoslavia) which is surveying some of the iron ore deposits in the State of Bolivar. They are currently only trying to assess the iron ore reserves. Much more is necessary.

The President of the Corporacion de la Guayana, (in charge of developing the iron-steel-Caroni-hydroelectric-power complex on a regional basis) is interested in receiving assistance in undertaking an extensive minerals survey. It is estimated that as a preliminary step, an aerial photogrametric and magnetic survey of the southern minerals area would cost about Bs 10 million. Various proposals are under consideration but lack of funds has so far precluded any definite action.

A limited survey (in area) of the forest resources of the area is nearing completion. But much more needs to be done also in this field. Geographically, the area covered by this survey covers less than 5% of the southern area.

Full knowledge of the mineral, water, soil and forest resources of Venezuela's largely unexplored Southeast appears important enough for the country's long range plans in the field of industrial development that it is recommended the U. S. Mission explore in detail the need for technical or financial assistance in this connection. The possibilities of a combined survey and training group to carry out a minerals and resources survey project should be investigated, including in particular the aerial survey proposed by the Corporacion de la Guayana.

Under an international agreement the IAGS is topographically mapping Venezuela down to 6 degrees north latitude. We also understand that the U. S. Army plans to send a team to undertake a two year comprehensive resource survey (excluding minerals) in cooperation with the Venezuelan Army. It is important

that these activities be fully coordinated with other Venezuelan and U. S. efforts. The USOM should review planned resources investigation programs and Venezuelan technical resources to determine whether adequate coverage is planned and whether ICA assistance is desirable.

3 . SATELLITE CITIES

Solving the Caracas rancho and unemployment problem is not possible unless a definite brake is placed on immigration from the country and more attractive opportunities are created elsewhere for agrarian and industrial employment. One of the programs implemented in part by the Government, has been to attempt to colonize irrigation and resettlement projects remote from Caracas with Caracas rancho dwellers. Few of the people wish to leave the Caracas area with its relatively interesting environment. The high cost and shortage of land makes further industrial expansion in Caracas extremely expensive. To solve the problem the Government proposes to establish satellite cities nearby, where industries selling to the Caracas market may locate. A sporadic and small program is underway in the Guarenos valley, east of the Capital. However, planning for this and the Santa Teresa area, somewhat further away, are well along as part of a proposed nation-wide program prepared by the Urbanization Bureau of the Ministry of Public Works. The Institute of Agrarian Reform is developing plans for purchasing haciendas, colonization and resettlement on these and public lands in the same areas.

With some coordination it would be relatively easy to develop an integrated agricultural and industrial program focused first on Guarenas and later on Santa Teresa. A basic concept is that agricultural production (e.g., vegetables) should be developed and expanded in nearby areas to meet the requirements of the Caracas market and to supply the needs of the growing satellite cities.

It is proposed that the U. S. encourage, if necessary, through providing technical assistance loan and/or grant funds, the development of a pilot satellite city project. An essential element of this project would be the selection of unemployed Caraqueños living in ranchos, for movement to the satellite city area. Those who are campesinos would be provided land. Industrial labor would be assigned to plants being erected in the satellite city. Self-help would be a fundamental principle of the project. Both groups would build their own houses and donate labor for building schools, health and community centers. Industrial (and if desirable agricultural) workers would work part time for wages in installing electrical, water and sewerage lines or in factory construction. Part-time training would be provided by I.N.C.E. (National Cooperative Education Institute) to prepare industrial workers for their future jobs. Factories would be constructed privately, with loans of the Development Corporation (CVF), or by the Development Corporation itself. In the latter case the Corporation would maximise private participation and sell new plants to private interests as quickly as they became operational.

While the satellite city program has hardly gotten off the ground, strong interest has been expressed by President Betancourt, Dr. Perez Guerrero (Head of CORDIPLAN), Dr. Yaver (Head of the Urbanization Bureau) and others. Full Government support can be expected for a pilot project.

A key recommendation of the Urbanization Bureau is to establish corporate organizations to develop satellite cities. Studies by this bureau demonstrate that the costs of city development can be fully recovered by selling city services to industry, commerce and families. Careful consideration should be given to this proposal, particularly if it can be used as a means to develop

effective local government primarily supported by local taxes and assessments for government services, rather than primarily by federal subsidies.

Every effort should be made to develop this project as a demonstration in coordinated planning and implementation by all agencies concerned. In addition to those already mentioned, the Ministries of Agriculture, Health, Education, Development, the Banco Obrero, the Commission for Loans to Small Industries and the Productivity Institute would be included.

Ideally, this project should be closely coordinated with the proposed pilot project to reconstruct one of the rancho areas in Caracas; the unemployed rancho dwellers should be given priority for settlement in the satellite city area.

While, pending more detailed discussions, it is too early to come to any conclusions concerning the total cost of a pilot project and the possible U.S. component, the magnitude of U.S. assistance for the project might be initially estimated at \$3-5 million.

4. HOUSING

A. Summary

While almost B600 million in public funds will be applied to housing programs in 1962 only a small proportion is directed towards construction of low-cost housing. To eliminate the shortage of lower cost units within 10 years, a program of about B750 million per year is required. Political and social pressures justify a much greater effort than presently planned. The AID or IDB should loan about \$50 million to cover the budgetary shortfall in the first 18 months of an enlarged low-cost housing program; and the Government should cover subsequent requirements by mobilizing domestic savings, and budget a subsidy to cover the difference between interest received from home purchasers and interest paid to purchasers of Government housing bonds. The United States also should support a housing research project and a pilot self-help project in Caracas, directed at reconstructing a barrio and erecting multi-family dwellings. The latter should be coordinated with a satellite city pilot project designed to transfer unemployed Caracas rancho dwellers to nearby areas where jobs and housing can be developed.

An intensive study should be made to define the rural and urban housing problem, define program objectives and develop low-cost housing programs which relate to existing and anticipated needs as the development program unfolds.

B. Problem

It is estimated that at the beginning of 1961, there was a backlog of approximately 800,000 housing units badly needing replacement. An additional 38,000 units are necessary each year to meet needs stemming from population

growth and family formation. Approximately 110,000 units should be constructed each year to cover both requirements within ten years. A recent census revealed that in Caracas alone, 49,500 families (280,000 people) are living in "ranchos" constructed of adobe, clay and wood, or odds and ends of wood, cardboard and metal. Only 14% of these houses had water. Only 6% had water closets, and only 41% trench latrines; 53% had no toilet facilities whatsoever. Of the estimated 280 to 300 thousand workers now unemployed, approximately 100,000 are in Caracas. To date, no housing program has been developed at low enough unit cost to be a practicable solution to the problem of the continued flow of the unemployed rural people into congested urban and suburban areas. As a rough estimate, approximately 250,000 housing units need to be constructed in the 11 cities other than Caracas which have more than 50,000 people. A recent survey of Barquisimeto (1961 population, 196,000) shows that half of the city area is covered by "ranchos". The major needs are said to be in Valencia, Barquisimeto and Maracaibo. Lower land costs and the availability of municipal land which may be granted for housing projects makes housing construction easier and cheaper in urban areas outside Caracas.

The backlog in rural housing (primarily in localities of less than 2,500 people) was estimated by Vivienda Rural (Ministry of Health) at about 430,000 units in 1961. Depending on the assumption concerning migration to urban areas (primarily, it is said, to cities with more than 50,000 people), the number of additional rural units required per year for the next 10 years could vary from about 11,000 to a negative figure. A study by the Ministry of Health projects a decline of the rural population (defined as localities of 2,500 or under) from

about 2.2 million in 1961 (about 30% of total population compared to 50% in 1950) to about 2.0 million in 1969. The assumption in that study of a decline through 1969 followed by stabilization of the rural population in absolute terms, indicates a continuous annual migration of 3% of the rural population after 1969, compared with 4% per year from 1950 to 1961. However, according to the 1959 memoria of the Banco Central, the rural work force increased 18% from 1950 to 1959, which indicates an absolute increase rather than a decline in the rural population and a lower rate of rural to urban migration than the 4% rate assumed in the "Vivienda Rural" study. Assuming that 30% of the 1961 population is, in fact, rural (localities of less than 2,500 people) there would then be only 390,000 family units in rural areas, and the rural housing backlog could therefore be no greater than this figure. Taking a middle position between the "Vivienda Rural" estimate of 430,000 units and this 390,000 figure, we can assume a 1961 rural housing backlog of about 400,000 units. The projection of rural housing needs is further complicated, of course, by the fact that the provision of improved rural housing, combined with some increases in cash income from farming and substantial improvements in subsistence levels (family production for family consumption) could reduce or halt rural-to-urban migration.

Since this is one objective of the Government's policy, we can assume that the present 70:30 distribution between the urban and rural populations will not change, and that both groups will therefore increase at a rate of about 3% per year. On this assumption, the existing backlog of 800,000 for the lowest cost housing units may be distributed as follows:

Large Urban Areas	300,000 units
Other Urban Areas	100,000 units
Rural Areas	400,000 units
	<hr/>
TOTAL	800,000 units.

Table XVII below, which is based on the Shoup report, distributes, by income groups, annual housing increments needed and indicates the maximum permissible total cost of house and land (or apartment units) for each income group. Assumptions are that 1960 net National Income is Bs 20 billion, that housing loans would be available to 4% or 7% interest, that families can apply 20% of their annual income for housing, that amortization would be over 20 years, and that little or no down payments should be required for the low income groups.

TABLE XVII

Income Groups and Housing Needs

Population Income Groups	% of NNI (+ or - .001)	Groups Income (Mill.Bs)	No. of Families (Thousands)	Annual Housing Increment	Annual Family Income (Bs rounded)	<u>Maximum Unit Cost^{1/}</u>	
						7% Interest	4% Interest
Lowest 10%	.3	60	129.8	3.900	460	800	1.000
2nd 10%	1.5	300	129.8	3.900	2.300	3.800	5.000
3rd 10%	2.2	440	129.8	3.900	3.400	5.700	7.600
4th 10%	3.3	660	129.8	3.900	5.100	8.500	11.300
5th 10%	5.1	1.102	129.8	3.900	8.500	14.200	18.900
6th 10%	6.2	1.240	129.8	3.900	9.500	15.800	21.100
7th 10%	8.8	1.760	129.8	3.900	13.500	22.500	30.000
8th 10%	10.1	2.020	129.8	3.900	15.500	25.800	39.400
9th 10%	17.1	3.420	129.8	3.900	26.300	43.800	58.500
Next 5%	10.9	2.180	64.9	1.900	33.500	55.700	74.400
" 3%	9.6	1.920	39.0	1.200	49.200	82.000	109.000
" 1%	9.0	1.800	13.0	400	138.500	-	-
Last 1%	16.0	3.200	13.0	400	246.200	-	-

^{1/} Ability of family to pay with no down payment at 4% or 7% interest, with amortization in 20 years and applying 20% of annual family income to housing.

Using the above table as a rough guide, we derive the following groupings for the annual housing increments needed:

	11,700 units costing less than Bs5,700 (at 7% interest) or Bs 7,600 (at 4% interest)
	3,900 units costing about Bs8,500 (at 7% interest) or Bs11,300 (at 4% interest)
i.e. A	
Total of	<u>15,600</u> very low cost units
Plus	7,800 units costing about Bs15,000 (20,000)
"	<u>7,800</u> units costing about Bs24,000 (34,000)
i.e. A	
Total of	<u>15,600</u> medium cost units
Plus	7,000 units costing between Bs44,000 to 82,000 (58 - 109,000)
"	800 units in the luxury class.

The last two categories can clearly be covered by private housing activities. Accordingly, the annual housing increments to be covered by direct Government programs can be set at about 31,200 units. It also appears reasonable to apply the entire backlog requirements to the lowest 80% of all income groups and to assume that unit costs for housing allocated to the various income groups should be tailored to the ability to pay of each group. On the basis of 4% and 7% interest rates on loans and assuming an income distribution as shown in Table 1, then the annual cost of reducing the backlog in housing by 80,000 units per year and of covering annual new (incremental) housing requirements can be calculated as follows:

TABLE XVIII

Housing Requirements

Family Income Bs	Possible Unit Cost Bs		Percentage of Backlog	Backlog (Total No. of Units)	Annual Construction to			Annual Cost in	
	7% -Int.- 4%	4%			Eliminate Backlog	Defic. in 10 yrs. Increment	Total	Million Bs	7% - Int.- 4%
To 3,400 ^{1/}	,700	7,600	38%	304,000	30,400	11,700	42,100	239	320
5,100	8,500	11,300	12%	96,000	9,600	3,900	13,500	115	153
8,500 to 9,500	15,000	20,000	25%	200,000	20,000	7,800	27,800	417	556
13,500 to 15,500	23,000	35,000	25%	200,000	20,000	7,800	27,800	639	973
	Total		100%	800,000	80,000	31,200	111,200	1,410	2,002

3,400 and below.

C. PROPOSED 1962 GOVERNMENT PROGRAMS

The following table summarizes the Government's housing program for 1962:

TABLE XIXGovernment Housing Program (1962)

Program	Source of Funds	Amount (Million Bs)	Number of Units	Av. Unit Cost Bs
Presidential Decree (Assist. Const. Ind.)	Oil Comp. & IBRD	200.0	5,700	35,000
Savings and Loan	DLF, Govt.	66.0 <u>a/</u>	760 <u>b/</u>	41,000
Banco Obrero	Regular Budget and IDB	181.1	11,000	16,500
	Recovery Plan Budget	<u>90.9 c/</u>	<u>2,640</u>	<u>34,430</u>
		272.0	13,640	19,940
Vivienda Rural	IDB + Budget	<u>56.3 d/</u>	<u>11,500 e/</u>	<u>4,900</u>
TOTAL		594.3	42,600	

a/ Multi-year capitalization

b/ First year only

c/ Includes 53.2 million for 640 units at Bs 80.300 each

d/ Annual average of a 3-year program, including 11 million in administrative costs per year.

e/ Estimated.

A review of the above program proposals for 1962 shows that the only programs which attempt to meet the housing needs of low income families (60% of the people with annual income up to about Bs9,500) are those of the Vivienda Rural and Banco Obrero. The program of the latter includes only 800 units at the lowest unit cost (Bs8,500) for urban areas. The Banco Obrero Program (excluding administrative, urbanization and other services) compares as follows with estimated needs:

NEEDS VS. PROGRAM (BANCO OBRERO)

Income Group Bs	% of Population	Capacity to pay at 4% Interest	Approximate No. of Units per year to solve problem in 10 years	Unit Cost Bs	No. of Units Programmed
Up to 5,100	40	Up to 11,300	42,100	8,500	800
8,500	10	14,200-18,900	13,500	12-13,000	2,700
9,500	10	15,800-21,100	13,900	14-15,000	4,500
13,500-33,500	35	22,500-77,400	33,600	19-25,000	5,000
49,200	3	To 109,000	1,200	80,300	640.

Even if we add the "Vivienda Rural" Program (11,500 units) to the 800 low-cost Banco Obrero units, only 12,300 units in 1962, out of a total Government program of 42,000, are to be constructed to meet the needs of the lower income groups who represent about 40% of the population and whose needs include about 50% of the housing backlog.

While available statistics leave something to be desired, and therefore make an assessment of the Government's program a somewhat delicate task, we nevertheless believe that the above analysis of the relation between needs and proposed performance under Government programs is substantially accurate. It agrees with

personal observations of urban and rural areas in six states. In brief, not enough is being done in the field of housing to reach the bulk of the people with programs directly affecting their welfare.

Even though we lack a reliable guide as to the relative future rates of urban and rural growth, it seems clear that a greater effort must be made to improve living conditions in both areas. Migration to urban areas must be curtailed until the industrial economy can provide more jobs, and improved housing conditions in the rural areas will be one means to this end.

D. FINANCING VENEZUELA'S HOUSING NEEDS

Data supplied in the "Memoria-1960" of the Central Bank indicates that private savings (excluding depreciation reserves of the foreign sector) amounted to Bs 3,541 million and Bs 4,106 million in 1959 and 1960 respectively. Of this total, private savings accounted for Bs 1,604 million and Bs 2,212 million in 1959 and 1960.

There has been a marked growth rate ^{in savings} /during the past ten years, reflecting in part, of course, a general rise in prices. Nevertheless, these savings to date have been inadequately mobilized to finance housing.

The new savings and loan program just getting under way should be able to tap this resource at a rapidly growing rate. But it is unlikely, given the prevailing high rates of interest and high profit expectations in Venezuela, that private resources can be mobilized adequately to finance low-cost housing where by definition interest rates must be limited. Government intervention will be needed in one way or another. One way for the Government to tap the private savings in order to supplement its regular revenues and such external

loans as it may obtain for the housing program, would be to subsidize the borrowing operations of government housing agencies, such as the Banco Obrero. The latter could sell bonds at 8% to the public and banks - possibly in the form of special savings certificates - but lend funds or assign funds to low cost housing projects at a rate to yield only 4%. The Government would subsidize the annual difference between interest receipts and interest obligations of the Banco Obrero from appropriations to its regular budget. If, for instance, Bs 300 million could be raised by Banco Obrero at 8-9%, the cost to the Government of subsidizing such an operation (reloans) would be Bs12-15 million per annum. If guaranteed by the Government, such securities might be marketable abroad at a rate of interest even less than 8-9%.

Referring to Table XVIII, it would seem that the housing needs of families falling in the Bs 13,500 to Bs 15,500 income groups could be financed in large part by private savings, via the savings and loan system as it expands, and without Government subsidy. Direct government housing programs, therefore, can be directed to meeting the needs of income groups having an annual income up to about Bs 9,500. Given these assumptions, the housing deficiency of the lower income groups so defined could be met by a program similar to the one set out in Table XX below. About 90% of the construction for the lowest income groups has been allocated to rural areas because of the very sizable housing needs related to the program of agrarian reform. Although 70% of the population is generally assumed to be in the cities of 2,500 and over, with the balance in small cities and in the countryside, it is also claimed that cities with a population between 2,500 and 50,00 persons have become stabilized. This would

indicate that the bulk of the new urban housing needs is in large cities. We have, therefore, allocated to urban areas about 75% of the construction proposed for the next-to-the-highest income groups (included in the program) and 100% of the construction proposed for the highest income groups. This is proposed because of the likelihood that most the families in these income groups live in cities. The Bs 8,500 to Bs 9,500 income groups have been consolidated into one because it appears probable that a unit costing Bs 14,000 would meet the requirements of both groups. The unit cost figures shown in the following table have been adjusted from figures in previous tables to agree with actual costs of present programs or pilot units.

TABLE XX

Proposed Low Cost Program

Income Groups Bs	Average Unit Cost - Bs. 4% Interest		<u>Annual No. of Units</u>			Annual Cost (Million Bs.)		
	Urban	Rural	Urban	Rural	Total	Urban	Rural	Total
Up to 3,400	8,500	5,000	5,000	37,100	42,100	42.5	185.5	228.0
5,100	10,000		10,000	3,500	13,500	100.0	35.0	135.0
8,500-9,500	14,000		27,000	--	27,800	389.2	-	389.2
TOTAL			42,800	40,600	83,400	531.7	220.5	752.2

While the above program proposal is necessarily tentative, it has the virtue of indicating the apparent magnitude of the effort needed to solve the housing shortage over the next ten years. The cost (some Bs 752 million per year) is not the total cost. In both rural and urban areas additional investment will be required to install water sewerage and other services. The Ministry of Health

has recently received a \$16.0 million loan from IDB for city water supply systems. A request for additional funds to finance the installation of water systems in small towns and villages is under consideration by the bank. We recommend support for this request by U.S. agencies. The Ministry of Health is considered the best organized and administered agency in Venezuela, and has the capacity to rapidly expand its coordinated efforts in housing, water supply, sewerage and sanitation.

Analysis of the proposed 1962 Government program (Table XIX) shows an excessive concentration on higher-cost units. The program of the Banco Obrero for 1962 and subsequent years should be greatly expanded and adjusted to reflect a higher priority for lower-cost units. Funds available to the Ministry of Health for housing should be increased to a multiple of those presently available. Administrative funds should also be increased.

Quite apart from any general development loans which may be extended to Venezuela, as elsewhere recommended, enlargement of the housing program will require additional external assistance, presumably from the United States either directly or through IDB's social development fund. At first glance, it would seem that most of the financial requirements of our housing recommendations could be covered by a readjustment of the Bs 200.0 million program initiated by a recent Presidential decree. This is not possible, since the purpose of this decree was to revive the construction industry by increasing the volume of mortgage funds available to private industry. Private investment will be required, in association with these special credit facilities, and it is likely that only higher cost units will be profitable enough to attract such investment.

E. U.S. PROJECT ASSISTANCE

It is therefore recommended that the U.S. (or IDB) loan up to \$50 million (about Bs 225 million) to cover a substantial part of the additional financing required for the first 18 months of a low-cost housing program. The agreement on this program should include provisions under which the Venezuelan Government undertakes to implement a program of the approximate magnitude proposed and to cover future financial needs through mobilizing domestic savings. While the Ministry of Health is willing and able to expand the rural low-cost housing program, there is some resistance to expansion of the lowest cost urban housing program. There is serious concern by many officials with the possibility that the lowest cost units may not be of sufficient quality, that early deterioration of such units may multiply future costs. Furthermore, in an effort to cut costs of community services (water, sewerage, etc.) many officials prefer to concentrate on the construction of large apartment buildings in lieu of single family houses. But apartment construction is running into serious difficulties because of the resistance of urban rancho dwellers to apartment living (only 25% of a sample rancho group in Barquisimeto, for instance, wanted to live in apartments; the rest preferred single family dwellings). This resistance stems from the fact that many urban rancho dwellers are rural people still clinging to rural habits even though living in urban surroundings. Many keep pigs, chickens, etc., to provide subsistence. It would make more sense to return some of the under- or unemployed groups to rural pursuits near the cities, rather than try to force them into apartments. One cannot expect to change overnight the preference (or needs) of these people for houses, gardens and animals. It would seem

advisable, therefore, to study the possibility of developing high density individual-dwelling projects, arranged so as to provide an adjacent area for gardens and animals. As family incomes rose, the common area could be converted to apartments or additional individual family units.

Lack of reliable data makes the above analysis useful only for purposes of analyzing general trends and reaching general conclusions. The complexity of planning to meet present and future housing needs and the lack of certain basic data requires intensive study of the entire problem in order to arrive at more definite conclusions concerning rural and urban needs, family structure, etc. Present housing programs have been developed without any precise definition of the problems involved because of the limited information available.

F. SPECIAL STUDIES and RESEARCH

The size of the housing program in terms of the number of units to be built will necessarily depend on how far available funds can be stretched - i.e., on how much costs can be reduced. The Government has supported some very interesting studies at the Central University (Cendes) looking to the development of new materials and building techniques to provide housing of adequate quality at the lowest cost. The United States should support this effort, both because it may provide a solution to the housing problem in Venezuela, and because of the general applicability of any new approaches to solving housing problems in tropical countries generally. Basic research is under way on a three-dimensional, multi-purpose structural unit, on a unitized kitchen and bath for mass production, on interlocking blocks and on low cost single and multi-family dwellings for erection almost entirely with unskilled labor.

A low-cost multi-family unit has been designed by the University Research Group for erection on a self-help basis. A pilot project is proposed for Caracas involving the reconstruction of part of a rancho area by erection of these experimental apartments in connection with a program of community organization and development. The United States should support this project, possibly on a grant basis. Insofar as possible, this particular pilot project should be coordinated with a satellite city pilot project designed in part to relocate and provide jobs for the unemployed in Caracas (see previous section).

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AGRICULTURE REPORT

Submitted by

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AGRICULTURE REPORT

The agricultural portion of this report is presented in three sections. The first two - some observations (1) on the general agricultural situation and (2) on the reforma agraria - furnish some of the guidelines and criteria for programming U.S. aid. The third section contains more specific areas where the U.S. might be of assistance to agricultural development in Venezuela.

No attempt was made to make a detailed statistical analysis of all of agriculture and of the agrarian reform program. Numerous reports are available and were used. Although in some areas additional basic analysis is needed, it can only be gotten by a more thorough investigation over a longer period of time than was available on this mission.

Instead, this report is an attempt to get a broad perspective of the agricultural situation by asking a number of people questions about the nature of the agricultural problems and their hopes for the future. Fortunately, it was possible to talk with many people, including government officials, research workers, teachers, owners of large haciendas, campesinos, officials of campesino federations and syndicates. An attempt was also made to try and get behind and test the sometimes pat statements of problems which sometimes are published in official documents without adequate test. Additional information should certainly be expected to modify the position taken in this report.

Agriculture

1. The policy that greatly increased numbers of people can be productively employed in agriculture should be reconsidered. Agricultural production has been a small part of the total production of Venezuela in the past. Several factors have combined to give the impression that there is an unlimited market for agricultural products and that any number of people can be accommodated on the land. Venezuela has imported a large amount of its food products in the past. With the pressure on foreign exchange, it appears to be wise policy to encourage domestic production. However, even if nearly all domestic needs were to be produced in Venezuela, the number of people productively employed in agriculture would not be materially increased nor would it be large compared to non-farm employment. Look, for instance, at the way poultry and egg production have expanded in 2 or 3 years to where domestic production can supply the domestic market. A few over 100 small farmers in one project supply 7/8ths per cent of the rice produced in Venezuela.

And so, although domestic demand may be substantially increased as more of the population comes into the market economy, this demand can be met with no more people on the land than are there now. In fact, it is the usual history of countries as they develop that fewer people will be needed on the land. The attempt to hold the population increase on the land may well develop a long-range poverty problem in agricultural areas, and the costs might be greater than developing non-agricultural employment.

2. The soils and agricultural resources of Venezuela do not compare with the pampas of the Argentine, the Nile Delta, or the corn belt of the U.S., and Venezuela should probably not expect to be a major exporter of agriculture products. It is of course possible that new knowledge (research) of tropical agriculture may change this situation.

There are, however, several areas where agricultural development possibilities should be considered.

(a) It would be wise to explore possibilities of increasing the livestock industry in the llanos. Basic research knowledge is needed on pastures, pasture management, increasing the calf crop, breeding, ranch management, processing and marketing. Substantial investments will be needed in livestock and production facilities, as well as in processing and marketing.

The livestock enterprise in the llanos is extensive and its exploitation should probably be by ranchers with large operating units. Small units should probably not be encouraged in the llanos, except along the main highway and on the best soils of the upper llanos where irrigation and drainage is available.

(b) The lowlands in Zulia State appear capable of further development. The climate is hot and humid. The soils are said to be good. Drainage is a major problem in the use of this area. Information on water management is needed so adequate surface drainage and dikes can be installed. The cost will probably be higher per unit of land reclaimed.

Another problem of the area, at least when the land is used for crops or livestock pasture, is that the jungle growth will invade the land in one or two years unless there is constant care (disinvestment takes place rapidly). Reclaiming from the jungle growth was estimated to be as much as \$100 per acre.

This was an area with much spontaneous settlement and perhaps more could be encouraged. There was almost continuous settlement for several hundred kilometers along the Pan American highway, even though the road was not opened until 1956 and malaria was not brought under control until about 1943. Bananas and plantains appeared to be a major crop for the small settlers. Possibilities of expanding these and other tropical crops should be investigated, as should the marketing system. A good marketing cooperative might have some real values.

(c) The area around Maracay and Valencia could probably expand in fruit and vegetable production. This is an area of major population pressure, of rapid industrial development and reasonably good soils. Fruit and vegetable production can be on small units. Here the subdivision of large haciendas could result in increased production. Better technical information will need to be available. Information will be needed on varieties, standardization of product, soils, insecticides, as well as marketing.

The campesinos' market of Maracay is a start in marketing the campesinos' fruit and vegetable crop, but additional markets will be

needed, not only in the Maracay and Valencia area, but also in other parts of the country.

(d) Rather substantial investments have been made in the past in irrigation projects. There is probably a place for some additional irrigation development, but more attention needs to be given to the quality of the soils and to the adequacy of the drainage.

3. A void in local organization and government is created when you move away from the large hacienda type of organization. The large land owner provided stability, order and what community services were available. Without him some other local organization must be developed. Community development programs, integration of government programs at the local level, and in some cases cooperatives are urged to give form and force to local organization. It is hoped that the local organization will exercise local control and in addition be the device to harness the power of group desire for economic development.

Actually, however, the campesino federation and the syndicates have taken over the most active role in local organization. In filling this void they have become a very powerful political as well as economic and social force. Political leaders understand their force, but many others do not understand them and fear this new kind of bargaining group. The U.S. needs to actively work with this group. The communists understand this power too and are working hard to make inroads into the campesino federations and syndicates.

4. Venezuela is substantially ahead of most Latin American countries in its research program and in the number of trained personnel available.

There are many qualified and well-trained people. However, some problems were indicated.

(a) The salary scale of research workers at the Experimental Stations which are included in the MAC budget was said to be about one third less than the University teaching counterpart. This difference has in part caused a substantial turnover of personnel and the lack of esprit de corps.

(b) Agrónomos are scarce and have good alternatives. Hence, it is difficult to get them to accept a scholarship for much less than full salary. This limits the staff training program.

(c) The training program should bring the student into closer contact with the rural people and the rural community. Political affiliation should not affect job opportunities. The instructors in Ag Econ (Dina Furiari) and in Research methods (Doctora Giaronimo) at Central University are arranging to take their classes into the rural community for study during vacations. This should be encouraged.

(d) The peritos schools are one of the main sources of extension technicians and should be encouraged. In some cases the staff could be expanded and remain on the campus.

The students who receive the entire 3-year education program free should participate in the works of the school - milk the cows, work with the chickens or hogs, detassel corn, and clean their rooms and help with their meals.

The curriculum should be revised and upgraded to permit some credit if at a later date advanced training is in order. Also some work on community organization and public programs could be included.

(e) Some place must be found for fairly independent inquiry into social and economic policy questions. The Ag Econ Division of MAC is doing a good job, but their policy work might use additional support.

5. Several recent changes have been made in the administration of the public agencies responsible for agricultural programs.

As of July 1, 1961 the Ministry of Agriculture announced a new organization. The Extension Service is set up under a separate director. He will have charge of the 136 Extension agencies and the 5V youth program and also the vocational agricultural schools. This change in organization was designed to increase the effectiveness of the Extension Program.

Being considered but not yet put into effect is a proposal to change the office of Agriculture Reform coordinator which is attached directly to the Minister into the Agricultural Planning Office. This change could help give the agrarian reform program a broader base.

Early in 1961 the top administrative management of IAN and BAP were changed.

As a part of the land reform program, BAP is to make crop loans to campesinos. The previous administration of BAP had loaned about B\$500 million in two years. Evidently the idea of repayment of the loan was not considered.

Even though BAP buys the crop at fixed prices and deducts for the loan, the repayment rate is only 10-15%. The new administration is trying to change this policy and should be encouraged.

The change in IAN administration was also intended to bring about a re-evaluation of the agrarian reform program.

Agrarian Reform

Agrarian reform in Venezuela as in other Latin American countries has become a major goal of social revolution. At the heart of the change is the acquisition of a piece of land by the landless farm laborer - the campesino.

Ownership is critical because in a country that has only partly emerged into the market economy, ownership of land carries with it the ownership of government - the right to tax, the right to enact and enforce police regulations, the right to judge. In addition, decisions on investments of social capital - education, transportation, hospitals, power projects -- appear to be the prerogative of land ownership.

So, to the campesino, ownership of land is both the symbolic and the real source of a new kind of life. It gives him food to stay alive, but it also gives him the right to build his own house in which to raise his family. It gives him, too, the right to tax himself to build a school.

We know that in a market economy just owning land will not necessarily result in increased security and improved living conditions. Taxation, improved markets, credit, and investments in education, health and housing are also necessary.

The Venezuelan agrarian reform law appears to give sufficient authority to permit a many-sided attack on the problem of incorporating a large number of additional people into the market economy. It should be judged not alone by how much land has been given to landless people or how it has affected production, but also on whether it has changed the structure of the economy or has resulted in more investment in the human resource.

1. IAN and BAP are the two public agencies most immediately concerned with administering the agrarian reform program.

IAN buys, develops and subdivides the land. It furnishes the project administration.

BAP furnishes credit to the new settler generally in the form of a crop loan at 150 to 300 B^s per hectare of crop.

2. Until two years ago the land program of the Venezuelan Government was primarily that of developing new land for settlement. El Cenizo, Turin, Guarico, and Yumare are illustrations. The investment in irrigation and facilities was generally large compared to the number of farm opportunities developed. In some cases the soils were not adequately surveyed to determine their capability for irrigation.

One government was usually unwilling to follow the plans and development programs of the previous government. Hence some projects have had several major changes in program. This lack of continuity has resulted in unnecessarily high cost projects. These settlement projects did not have much of an impact on the structure of the rural economy except perhaps for the small increase in the number of middle-class farmers.

3. A large number of large land holdings and haciendas have been subdivided since the new agrarian reform was passed March 5, 1960. It has been said that 38,000 families have been settled on over 1 million hectares of land - nearly all in the last year and a half. It has also been said that there is urgent need to settle 300,000 more families.

It is desirable at this time to evaluate the agrarian reform program, and the government is in the process of making an evaluation. But first, how does the program work?

The key to understanding how it works is an understanding of the Campesino Federation.

(a) The Campesino Federation decides what land it would like to have IAN purchase and subdivide, and then assigns members to "invade" the property.

(b) Once invaded, a judge is called in to determine whether the land meets the criteria of the law (not fully utilized, etc.) so that IAN can buy the land.

(c) If the answer is yes, then a formal request is made by the Campesino Federation to IAN to buy the land: a copy of one of these requests is attached to the original copy. It was given to me at a local campesinos meeting where 200 members were present.

(d) IAN buys the land and often employs an officer of the federation as local IAN administrator. The federation and administrator decide who gets the land and whether to split it into parcels or operate it as one unit.

(e) IAN often makes tractors and other equipment available to get the land ready and to make the first crop. In some cases the credit received by the campesino is paid directly to the machine operator for taking care of the crop. In these cases the campesino does not perform much work on his land.

(f) BAP makes a crop loan to the campesino, usually from B^s 150 - B^s 300 per hectare. It is made generally by quarters for specific crop jobs - planting, cultivating, harvesting, etc. The bank has insufficient funds since the previous administration loaned out much of the capital and since the crop loans are often considered a grant and not repaid. The loans are crop loans and when funds are short, loans are not available for livestock or other items requiring longer repayment periods. In spite of the fact that BAP buys the crop at fixed prices and deducts the loan, only 10-15% of the BAP loans have been repaid.

(g) IAN gives the titles to the land to a junta for 2 years (the junta is probably controlled by the campesinos federation or the syndicate.) Supposedly, after two years and if the campesino works his land well, he will get title to his land. Sufficient time has not passed for many titles to have been granted. In one case, a campesino's land was taken from him.

(h) Some cooperatives have been established. We saw one in sugar cane, a chicken farm and three dairies. The three dairies started with good livestock and good pasture. The herds were being liquidated rapidly

and the pastures were returning to jungle. Two of these dairies were owned by ministers under the former dictator, which may account for some of the desire to liquidate. However, the production cooperative does not appear to be an effective device at this stage of development, particularly since the campesino is so interested in owning his own land.

4. The campesino federation and the syndicates play the major role in the agrarian reform law. As would be expected, the success of the program depends on the responsibility of the federation and how well it represents the interests of the community. A visit to the homes of a number of campesinos and to a local campesino meeting with the President of a State Federation demonstrated that the program will work successfully if the campesino federation does a good job.

However, the power of the campesino federation is large not only in the local operation of the land reform law, but also in national politics. Its power can be abused, and there are indications that the communists are attempting to infiltrate some locals.

The National and State Government should exercise more control over local groups who abuse the power they have in the agrarian reform program.

(a) More definite criteria should be established to guide the decision on which lands should be subdivided.

(b) The government must somehow use its power to withhold funds and its police power to prevent irresponsible invasions; otherwise, no one can be secure in his expectation to use the land, not even

the campesino on five hectares.

(c) IAN should probably not employ as administrators any of the invading group.

(d) An integrated community development program with all agencies cooperating should be a condition of subdivision. Technical assistance, plans for water, schools, etc. should be a part of the asentamiento program.

5. Although it is too soon for many of the land titles or contracts to be given out to individuals, there was some indication that prompt title distribution was not being encouraged. The individual campesino with title to a little piece of land is not receptive to communism. The intent of the agrarian reform law is to give the campesino a piece of land. The U.S. should urge in every way possible the granting of title or contract for titles as soon as possible.

Suggested Areas for U.S.-Venezuelan Cooperation

The following important criteria should guide U.S. participation.

Does the U.S. participation result in greater investment in people - education, health, a higher standard of living.

Does U.S. participation result in a stronger and more responsible local government or community organization which will continue to function in the future.

1. A pilot supervised credit operation

Because of the recent operations of the BAP and the agrarian reform law,

the attitude is quite generally held that credit is a grant. The new administration of the BAP realizes that this attitude should be changed if credit is not to be greatly reduced or dry up entirely. They are trying to change this attitude and the U.S. should help them do it.

It is my feeling that this will be a major change and cause considerable political pressure. About the only way it can be done is to have the support of the local campesino's organization and a strong community program including technical assistance.

The type of credit is now predominantly a loan on the crop. A more flexible authority is needed so that loans can be made for livestock, land improvements, machinery, etc., which require a longer repayment schedule.

The necessary conditions seem to exist around Maracay to establish a pilot project. The President of the Campesino Federation of Aragua State, Sr. Juan Hernandez, understands the problem and is cooperating with the Bank. The local campesinos federation is active, responsible, and wants a different kind of credit. They are working on their parcelas, want and need technical assistance, and have a local market in operation. The local director of the Bank, Sr. Pinto, is interested in the program.

C.B.R. has had some experience in Venezuela with supervised credit. This experience should be used in designing the proposal.

It is recommended that BAP institute a loan program in which the loans will be based upon the needs of the individual campesino and will be made after a production plan has been made out, including plans for repayment of the loan. This means the BAP will have to employ additional technicians who

can help the individual campesino with technical problems of the farm and the home and can help make out the loan plan.

It is further recommended that in the same area there be established a community development committee through which all public agencies integrate their programs (this may already have been done). Such a committee should be encouraged to improve education, housing, health, etc. on a self-help basis.

It is further recommended that since some of the investments in land will not be made until the land title is secure (one campesino visited would not build his house until he had title), titles to the land be cleared up as rapidly as possible, corner posts be set, and the titles or contract for title given to the campesino soon.

This project could be limited at first to several local federation areas around Maracay and it could begin at once. I suggest the U.S. grant funds which will be needed for the beginning pilot project in excess of what the BAP would have put in the area.

2. The U.S. should help strengthen the expanding Extension Service.

This is a long range proposal and involves both training technicians and expanding the employment opportunities for the technician trained:

(a) For a while at least the greater part of extension personnel will be trained in the Vocational agricultural schools.

- These schools could use additional staff housed at the school, equipment, books and visual aids.

- Some connection with research projects might raise the subject

matter content of the program.

- The curriculum should be reconsidered to see that it contains the type of training necessary for work in local rural communities. It should contain some work on marketing, farm management, the use of credit, public programs and community development.

- Since this education is free the students should work on the farm and take care of their living quarters. This is an important part of education. I would urge the Extension Service to continue the boarding school operation but have the staff located at the station.

- Some weight in student selection should be given to whether the student has farm experience, at least enough to offset his disadvantage because of poorer education in the rural areas. Also to the extent it is possible some preference should be given those who are most likely to return to work in the rural community.

(b) Training will be of no value if there are not jobs for the graduates. It is suggested that Extension undertake a program with both the agronomos and the paritos similar to that used by Mr. James Yen. Any graduate could have a job if he would go back to his rural community or to an asentamiento. A six month training program beyond his regular course might be required, particularly so the person could be trained in community development and in being helpful in coordinating public programs. Equipment, visual aids, etc. would be needed to carry out the program.

It is suggested that the U.S. underwrite the training, employment, and equipment costs of this program for two years.

3. Aid Venezuela in developing the major research organization for tropical agriculture.

Research is emphasized rather than teaching and resident University work because it is felt there is a real need to greatly expand the basic research into problems of tropical agriculture. Professional training can best be done in connection with on-going research. Teaching will follow too. But the pressure of teaching should not draw off resources from research. We must remember that Venezuela has a good start on this project. Some of the things that might be considered for U.S. participation:

(a) A staff training program and scholarships. Venezuela has encouraged professional training in other countries, but it has been costly. It was suggested that U.S. might expand its training assistance program. I would suggest that in any scholarship program developed, the rules be flexible so that they could be adapted to Venezuelan conditions and also to the needs of the individual staff member to be trained.

(b) The program of research consultants should be expanded. Research consultants could help plan research projects, and guide the project for a while during which time Venezuelans would be training to take over the research. For some projects a consultant might be needed for only a few months to help start the project. It might be necessary to return for an occasional seminar as the project develops. For other

projects the consultant might have to take an active research role in Venezuela for several years.

(c) Young research technicians, both Venezuelans and those from other countries, should be encouraged to do research on tropical agriculture in the Venezuelan Experimental Station. The U.S. should underwrite the employment of a number of beginning research technicians. This would be an important way to train future research leaders and also it would make possible a continuing effort from any investment in consultants. Young people with their energy and idealism are more often than not working at the frontiers of knowledge.

(d) The administration of the agriculture research program is of course a Venezuelan matter. The present organization with responsibility with the research director of the Ministry of Agriculture need not limit the research development. Branch stations, or at least experimental areas, may be located in several areas of the country.

Close working relationships should be continued with the resident staffs of the Universities. Salary scales and facilities should be comparable. Interchange of research and teaching personnel should be undertaken. Efforts should be made to build up procedures which would help maintain continuity of the research, even though the administration or the government would change.

(e) Research in agricultural economics and sociology is now being done in the Ag Econ division of MAC. Much good work has been done in this division. It has a very active training program and has employed consultants from other countries and has used those available from international agencies.

Research in the economics of resource development, local fiscal policy and taxation, agricultural development and community organization should be substantially supported. Questions of policy and policy decision are most difficult to do research on but U.S. should not only encourage but support any efforts made in this direction by Venezuelans.

(a), (b), (c) and (d) of this section apply as well to this area of research work.

4. The major emphasis in the previous proposals is on strengthening local organization and on community development. There are, however, several other items that might well receive attention in connection with community development.

(a) One of the necessary ingredients of local self-help programs is to have a little bit of money to work with and the authority to collect it. If the only source of funds for schools, housing, etc. is from the Central Government, the community is encouraged to wait until the Central Government acts. Local governments should have the authority to tax and to use some of the money for investment in community projects. This authority to tax and spend funds is a most

important force in community development. Moreover, adequate property taxation is a necessary part of the agrarian reform program. It encourages fuller use of the land resources and it directs investment into community projects.

The initial activity in this area should be a thorough study of local taxation and fiscal policy. There was not time to make such a study as part of this report.

(b) Even though the administrative overhead of both BAP and IAN is large and the organizations are exploring ways of reducing personnel, both organizations should consider employing persons who can give not only technical assistance in agriculture and in home making, but also can help in community development. U.S. could well assist if there are trained personnel available for assignment in a community. For example, a summer program of community and urban planning projects by qualified universities.

(c) The idea has been proposed in IAN that some substantial effort be directed to what has been called spontaneous or voluntary settlement. The idea is to encourage voluntary settlement in areas of good soils, around existing communities, along roads, or in areas where people want to live. Some of the community services may be available such as roads, schools, electricity, etc. Materials and plans and technical advice may be made available for the new settler to build a home or the school, or a water system. Land for a home can be granted the settler in the new community. Some land for agricultural production should be

available too. The land along the Pan American Highway was settled in this way as well as many of the settlements along the main highway east of the mountains. A little investment of this type might help a much larger group of settlers than would be helped by the same investment in a more formal project.

The idea should be explored and encouraged.

Appendix to the Agricultural Report

The following are some of the persons I talked with. The persons developing Agricultural programs may want to visit some of them. No one of them should be held responsible for the ideas in the report, for I am sure none of them would agree to all of it and none of them have seen the manuscript.

I. Some students that have been to the University of Wisconsin, their agency and their special area:

Mauricio Baez	MAC - Agricultural Econ. and Planning Div. Headquarters Div.
George Schuster	MAC - Agricultural Econ. and Planning Div. Current Stics. & Land settlement.
Louis Yepez	MAC - Agricultural Econ. and Planning Div. Policy.
Pola Ortiz	MAC - Agricultural Econ. and Planning Div. Credit.
Greg Beltran	MAC - Agricultural Econ. and Planning Div. Census.
Roberto Velasco	MAC - Agricultural Econ. and Planning Div. Gen. Ag. Econ.
Dina Fariati	IAN and Central University - Ag. Econ. and Cooperatives.
Alejandro Osorio	BAP - Director.
Pompeyo Rios	BAP - Sub Director in Charge of Mktg.
Ricardo Bello	IAN

II. Some agency people:

In MAC

Dr. V. M. Jimenez Landirez	The Minister
Dr. Luis A. Machado	General Director
Dr. Guido Diaz Pena	Sec. Dir.
Dr. Mauricio Baez	Dirig. Planning
Dr. Ron Pedrique	Ag. Econ. Div. former Deputy Director of IAN - 1958.
Dr. H. J. van Honter	Agr. Econ. Div. - Cooperatives
Dra. D. G. Giaronima	Agr. Econ. Div. - Sociologist Corn Dev.

Students of T. Lynn Smith, Florida:

Dr. Leon	Agr. Econ Div. - Mktg.
Dr. Texier	Advisor on Crops from France
Jesus Lopez Luque	Dirg. Ext. - New aggressive and former Agr. Dir. in Zone Acarigua
Humberto Anderson	Club 5 ext. youth

Graduate of Louisiana St.:

Numa Garcia Andrade	Ext. projects
Ramiro Dominguez	Ext. divulgacion
Antonio Martinez	Ext. supervisor
Dr. Antonio J. Villegas	Director of Research

In BAP (Agressive, new since January 1. U.S. should help them)

Dr. Alejandro Osorio	Director
Dr. Pompeyo Rios	Sub Director
Dr. Pinto Cohen	Director of Branch at Maracay
Jose Ricardo Conzalez	Maracay

In IAN

Dr. Sanchez Medina	IAN Bd.
Sr. Lionel Hernandez F.	IAA Delegado Agrario, Estado Aragua. Local Maracay liaison of IAN to the Federation syndicates.

At the Exp. Station in Maracay

Dr. Hernan Oropeza	Director of Research
Dr. Humberto Fontana N.	Sub Director
Dr. Luis Marcano Coella	Director Shell Extension Service, Cagua

III. Some people outside agencies:

Juan Hernandez	Presidente de la Federacion Campesina de Venezuela, Seccional Aragua
Mario Oropeza	Carora rancher
Alejandro Riera	Carora rancher
The man with a laugh	A parcelero at Calaboso
John P. Clarks	Johns Hopkins University 19067 Florida Ave., N.W. Washington, D. C. Studying Land Reform
John D. Powell	

Supplemental Statement on a Pilot Supervised Credit Program in Venezuela.

The Need: Agricultural credit in Venezuela is not considered a tool to facilitate and increase investments in agricultural production. Rather, credit is either not generally used, not available or, as is generally the case with BAP land reform Act loans, the credit is considered a gift. The needs (reduce dependence on straight crop loans) and to establish the idea of repaying loans (only 10-15% of the current loans are being repaid.)

The land reform program in Venezuela is currently under severe trial. Credit is important to the success of the program but of even more importance is a responsible local organization. A void in local organization is created as the land reform program replaces existing large landlords. A country's stability, the operation of its land reform program and in fact the form of government will in a large part be determined by the nature of the local organization that fills the void at the local level.

The Proposal: It is proposed that a credit program be initiated in a pilot area which would be integrated with our effort to establish or strengthen local organization.

The Program: 1. The BAP should modify its loan policy if necessary to permit loans to be made in support of farm plans, - loans for livestock, land improvement and other types of loans that require repayment schedules other than the crop period.

2. The BAP should hire or otherwise make available technical assistance to the campesino to help with the production and operation plans.

Extension personnel might do this but at this level I would prefer to see responsibilities for both credit and technical assistance in the same person.

3. A small local group will be organized to formulate the credit policies and to consider other projects in the area where credit should be used. Initially officials of the local campesino federation and local bank officials should be members of the group. Membership should be extended to include officials of local government, local officials of national programs (IAN, Sanidad, Education, Banco Obrero), etc.

4. Some other activities of the group:

- (a) Evaluate the land reform program.
- (b) Recommend changes in existing asentamientos.
- (c) Make suggestions on extension of the land reform program, - which land should be considered for subdivision, should it be used in small or large units, for crops or livestock, etc.
- (d) Urge the clearing of land titles and the granting of the title to the campesino.
- (e) Consider the marketing of farm products and purchasing supplies. Perhaps initiate plans for cooperatives. Grading, storing and transportation are important, if distant, as well as local markets to be developed.
- (f) Prices and price making becomes critical as the area develops.
- (g) Self-help housing.
- (h) Water supply.

(i) Local taxation and planning for the spending of local revenues.

(j) Plans for developing a formal local government.

5. U. S. AID should grant BAP necessary funds in excess of those that would be normally allocated to the area. It is assumed that more funds would be loaned and that additional technical assistants would be employed.

Selection of the Area: 1. The area should be relatively small.

2. The campesino leader should understand ag credit, - its uses and the need for repayment, and be willing to work with the local officials of BAP.

3. Some land subdivision should have taken place and some more should be in prospect.

4. The campesino leader should recognize the importance of his responsibilities for how the land reform works.

5. The area around Turmero near Maracay appears to have all the above characteristics and I would suggest it be considered as the pilot area.

How to get Started: 1. The USOM Ag Officer ordinarily would be looked to as a catalyst in this program. But anyone else who understands the idea and wants to do something about it could start it. Luis Yopez in the Ministry of Ag could start it.

2. No new supervised credit program should be set up and staffed.

3. The first step is to form the local group and give

it the responsibility of deciding on type of credit and presenting proposal for financing to AID or any other agency.

4. If necessary, assign technical assistance personnel to the local BAP. In other programs the Vocational Agriculture program should be strengthened to get people to assist both with farm plans and with the local advisory group. Local school teachers might be useful. But in general this project does not call for much personnel.

5. Do not publicize the program except by accounting the results.

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EDUCATION REPORT

Submitted by

DR. DANIEL O'LEARY

EDUCATION REPORT

The Venezuelan education system has recently experienced a tremendous quantitative expansion during the first three years of continuous democratic government in its history. Between 1958, the last year of the dictatorship, and 1961, school enrollment in Venezuela increased in the primary grades from 751,561 to 1,223,314; and in the secondary liceos from 55,194 to 105,000; in the Normal Schools from 8,260 to 31,641; and in the vocational schools from 19,357 to 41,419. The number of teachers in service increased from 26,240 to 45,132, and the number of national primary schools doubled from approximately 5,000 to 10,000, with an additional 449 being built by regional governments.

In higher education these three years have seen enrollment increases in the Institutos Pedagogicos from 346 to 2,157, and in the seven universities from 10,270 to 24,309.

At the same time both the total educational budget, as well as the overall percentage of the total budget devoted to education, have been substantially increased from 1958 totals of Bs 178,000,000, which was 6.3% of the national budget, to 1961 totals of Bs 556,000,000, which represents 9.8% of the present budget.

One of the chief reasons for this increase has been population pressures. The total population of Venezuela doubled between 1941 and 1961, from 3,800,000 to 7,300,000 people. Thus 50% of the present population is under

age 16, and the largest number is in the lowest age brackets. These statistics reveal one cause of the tremendous pressures upon educational facilities.

This is a country of extremes, lacking the middle way. "In modia stat virtus." Towering peaks and humid llanos, the shantytown of El Silencio in the backyards of the mansions of Caracas, cosmopolitan intellectuals among a population 50% illiterate, a millionaire as head of the Communist Party, physicians a majority among University Presidents, the richest of oil fields and of iron ore, diamonds and gold, under poor soil barely adequate for subsistence farming or cattle raising, six hundred unemployed engineers recently graduated from universities and a desperate shortage of middle-level technicians only 125 of whom graduated this year out of 2,292 who entered technical secondary schools six years ago, public school education compulsory and free to all, but no rural school buses nor lunches nor free textbooks, which cost 1% of the annual income of the poorer families, unrestricted admission to all educational levels up through the University, but a fantastic drop-out rate averaging 50-65% in all grades under a frustrating and regressive national examination system.

Today in Venezuela it would appear that the only thing in the middle is the government. After 150 years of fulfilling Simon Bolivar's despairing prophecy that his homeland was destined to be an army barracks, the new and first truly democratic administration is walking a tightrope between the threats of a Castro-type Communism and a resurgence of army despotism.

Venezuela today is a volcano lacking only a charismatic Castro-type leader to erupt. Daily small bombs explode in Caracas. Nobody claims to know their origins and the newspapers refrain from publicizing their occurrence. But Caracas hovers on the edge of violence.

There are 300,000 unemployed among an adult population of approximately 3,000,000 (since half the seven million population is under age 16). This unemployment increases by 80,000 each year and there is no steady employment in sight. A population largely illiterate and largely illegitimate, of mixed blood, plagued by unemployment and poverty, deluded by politicians promising everything for nothing, looking for leadership to university youth yearning for a new deal dedicated to national goals of service, sacrifice and social justice, but fearful of a violent tomorrow, are the elements mixed in this seething crater.

A corrective factor toward democratic stability is the influence of organized labor and farmer cooperatives. Historically, the unemployed city proletariat has served as tinder for revolutionary activists while the more conservative farmers and union leaders have checked the flames. Historically, in the past, control of the llaneros, the Andinos and the campesinos has always carried control of Venezuela. The recent shift of population into Caracas has threatened but has not yet upset the historic power balance. In the last election, the Democratic Party lost Caracas but won victory in the rural areas. Subsequent local polls have indicated an increase in strength for the Democratic Party among the labor unions and the farmer cooperatives.

It would be logical to conclude that the city elements hoping for a Castro-type uprising are presently outweighed and held in check by rural conservatives and that the political situation, although dangerous is not yet fatal to the continuance of democratic government. But Venezuela is not a logical country.

Possibly the key segment of the political balance is held by University students. In Venezuela students work harder in politics than in classrooms. Historically the Venezuelan University students have ever been in the forefront of the struggle against the dictators. At times they alone have kept alight the torch of liberty. Since the bulk of private industry and investment in Venezuela is foreign owned and foreign operated, the most promising careers open to ambitious and able youths are in government and in politics. Many of the students in the public universities are the sons of the wretched and the poor who are sacrificing to afford an education for the brightest boy.

Their youthful idealism, their proletarian origins, their fiery speeches deeply affect the opinions and the actions of the illiterate masses, even among the rural campesinos. Many rural families lack toilets or running water but most of them have radios and they listen to the speeches of university students demanding social justice and economic equality. This bridge between young intellectuals and the illiterates can shape the future course of Venezuelan history.

There is an old Spanish proverb that reads "He who at twenty is not a revolutionary has no heart. He who at forty is not a conservative has no head". The present Democratic President, Romulo Bettencourt, and the former Minister of Finance, now Ambassador to Washington, Mayobre, are both reported to have been Communist or at least extreme radicals during their student days in the University, although today they are the chief hope of

sanity and democracy in the nation. Communism among students in Latin America is not the same as the Russian Marxian variety but often a confused and vague search for idealistic solutions to existing evils. It is significant that the youngest and newest University students are usually much more radical than the upperclassmen. It would probably shock the American Medical Association to learn that the recent convention of the local Medical Association battled until 4 a. m. before succeeding in electing democratic physicians as delegates to an international conference. A substantial proportion of Venezuelan physicians are Communists.

In recent years Communism made many converts among University and secondary school students in Venezuela. Many were anti-Yankee through an erroneous identification of the Republican party and of the Eisenhower-Dulles policies, with dictatorship in Latin America. Today the student image of the United States is changing here for the better. The Democratic party is traditionally in Latin America the party of the non-Marxian proletariat. The youthful charm of President John F. Kennedy, his Catholicism, and his program of the Alianza para Progreso, have an enormous appeal among Venezuelan students. This appeal is strongest among the COPEI students, the party of the Christian Socialists, which combines dedication to Catholicism with social and economic reform. The COPEI student party has recently emerged as the strongest single party among University students in Venezuela. It recently won electoral victories among the students of the Universities of Carabobo, Zulia and Los Andes although it failed to defeat the Communists and their allies in the most important

University Central. Political activity among the students is polarizing around the two alternate groups of the Communists and the COPEI, with the official Democratic party losing most of its following to the extremists. This loss of student support is an ominous sign for the future continuance in power of the ruling Democratic party, although not necessarily dangerous to American influence if COPEI should emerge the victor.

One difficulty in assessing the future of democracy in Venezuela is the lack of historic traditions of liberty upon which to build firm foundations of political stability, of social equality, of economic justice, of private morality and public honesty.

The race toward anarchy terrifies many. Perhaps this may explain those university professors who hoping to ride the whirlwind, play at fellow comradeship with the Communist activists among their students, following unwittingly the path of the younger Masaryk of Czechoslovakia. Yet much of the Communism here is a nativist Titoism, groping for a leveling equality which at its best will only be close to the level of bare subsistence.

This fear of the immediate future leads many thinking Venezuelans to urgent hopes of speedy U. S. assistance in almost any form that will not compromise their national sovereignty or pride. Psychologically Venezuela is ripe for cooperation with the Alianza para Progreso. The chief fear is that the assistance will be either ineffective, or dilatory or wasted on irrelevant ends. The chief need of Venezuela today is some assurance of peaceful stability to provide the time and the confidence to continue the Augean tasks of reconstruction and of education too long neglected. And

it is here that the United States can most constructively assist in the broad field of education from primary school all the way up through the Universities. Every level in Venezuelan education needs technical and professional assistance.

Among many areas where either technical assistance or grants-in-aid could greatly encourage the pursuit of excellence are the educational libraries in University and teacher preparation institutions; the training of librarians; the preparation and distribution of primary and secondary textbooks; the inauguration of guidance, testing and placement services; the creation of new faculties and curriculum at the Instituto Pedagogico, particularly for technical education for the secondary level; and grants of scholarships to stimulate change in some of the more archaic practices of the system.

Probably the quickest impact for the smallest investment, which would involve both educational and political returns, may be achieved by a 1961-62 ICA grant of approximately \$500,000 to purchase approximately 60,000 library books, graphs, audio-visual materials or other instructional materials, to be distributed among the Universities and the teacher preparation institutions of Venezuela roughly proportionate to their size and needs. If such a grant of library books were to be combined with an agreement by the Venezuelan Government to subsequently continue a program of library accessions, with the approval of the Venezuelan Congress and within funds available for this purpose, and to employ at least two American trained librarians to catalogue and to circulate good literature among Venezuelan students, we could gain great political advantage as well as furnish significant intellectual stimulus to correct existing academic distortions.

The key to Communist influence in Venezuela is the Universities, chiefly University Central of Caracas, which enrolls a majority of 15,000 students out of the total of 24,000 attending all seven Venezuelan universities. Next month University Central will admit 7,132 Freshmen for an anticipated Fall enrollment of 20,000 of whom less than 20% will eventually graduate. Only 1,300 graduated this year from 15,000 enrolled.

University Central is located in the center of Caracas, has a magnificent campus, an influential faculty and student body but a very inadequate library. It enjoys tremendous prestige among the people. In the past its students sparked revolutions and overthrew governments. They are possibly capable of doing so again.

Although a public, government supported University, Central enjoys an autonomy verging at times upon anarchy. Its student body and its faculty is being infiltrated by Communist activists who abuse their privileged University sanctuary to stir up riots hoping to explode a Castro-type revolution among the unemployed proletariat of adjoining slums. Their favorite riot center is Plaza O'Leary in El Silencio. They organized the stoning of Vice President Richard Nixon and the burning of Ambassador Theodore Moscoso's automobile.

The Communist activists enroll approximately 10% of the students and of the faculty but they have gained positions of power through common front alliances with both radical and reactionary student groups. They have party members as elected members of the University Board of Control and as the President of the Student Government. The most articulate student leader, an immigrant professional agitator named Teodoro Petkoff, uses his status

as a student and partial parliamentary immunity to spread Communist dogma and to attack the Government.

A large proportion of the students at University Central come from families of low economic status, and must work part time to complete their educational goals. Customarily the wealthier upper-class Venezuelans send their children to private Catholic universities like Andres Bello, or abroad, principally to the United States. This abandonment of their own public educational institutions to infiltration by an alien philosophy has not helped to raise educational standards here.

It is possibly significant that the students who agitate most violently in the University, and who disrupt classes for long periods of time are often those who are failing academically, either from lack of preparation or lack of application. The true Communist of the classic type is a dedicated and hard working fanatic, not a dilettante. The free tuition, the temporary social status that attendance confers, the lack of any standards of admission or retention so that failing students may indefinitely repeat, has led to the growth of professional student agitators who seldom attend classes but faithfully vote Communist in student elections, and are a thorn in the side of serious minded professors and students.

Much of the Communist appeal is based upon misinformation or lack of information. Students are seldom encouraged to do original research or independent study. Much of the instruction consists of lectures from a Professor's note book which the student copies verbatim and is expected to parrot faithfully in the final examination. Memory is more important than

originality. This method makes indoctrination quite simple.

There are few books readily available to the students for independent reading. The half dozen private bookshops scattered around the campus are Communist managed and are stocked with Russian, Czechoslovakian, or Chinese publications in Spanish sold to the students far below cost.

The Central Library of the University is housed in a spacious and magnificent eight-story building but almost all of its 35,000 catalogued volumes are stored under lock and key on the fourth and fifth floors high above the reading rooms and mostly inaccessible to the average student. The minimum library holdings required for accreditation in a smaller university in the United States is 200,000 volumes, an amount greater than the total library collections of all seven Venezuelan universities and all 28 public teacher preparation institutions combined.

This small collection in the library of University Central has many Communist publications as well as a substantial number of American books. A catalogue listing of the most recent acquisitions of 1700 volumes showed, however, only four Russian publications, one of which was Khrushchev's denunciation of the crimes of Stalin. On the other hand a reliable student reports that the only available publication for student reference on the subject of agrarian reform was one written by a Venezuelan Communist.

The real problem of this library is not so much the collection as its relative inaccessibility, and its control by a librarian who has been described by others as a fellow traveler. Guilt by association is peculiarly prevalent in Venezuela where anyone who differs from the critic may be loosely stigmatized as a Communist.

The librarian, who studied in the United States, and who worked in the Library of Congress, seems more possessive than propagandistic. He proudly boasts that he has lost only twenty-five books over the past five years. A famous Cambridge story tells of a friend who met the Harvard librarian a century ago and, asking him where he was rushing, received the reply, "I have all the books for which I am responsible safe under lock and key except one. Professor Agassiz has that one and I am on my way to retrieve it".

This outmoded philosophy has practically sterilized the library collection from student use. No general collection is available in the University reading room. But the poverty of the students makes them hunger for reading, for instruction, and for good literature. This hunger only the Communists to date have attempted to satisfy.

Here is where we can make a most welcome contribution to intellectual stimulus and to truth, and in so doing gain the gratitude and respect of the uncommitted majority of dedicated students, not only at Central but at every institution of higher education in Venezuela.

The students in the other six Universities have even less library facilities than Central. The second and third largest Universities, Zulia and Los Andes, have library collections approximately 20,000 each, mostly old volumes. University Andres Bello, enrolling 2,000 students, has also 20,000 volumes but only 100 of these are in its most important department of Engineering.

Library holdings are much smaller in the other three Universities, Santa Maria, Carabobo, and Oriente. The University of Oriente, for example, has a total collection of approximately 1,200 books, all of them located on only one of its five campuses

The National Library of Venezuela last year purchased a total of 5,738 books, a substantial increase over the 2,530 books bought in 1959. There are 7,300,000 people in Venezuela.

Among Teacher Preparation institutions, only one of the two Institutos Pedagogicos has a small but well chosen collection of 5,000 volumes. This was built from personal monthly contributions over the years from students and faculty funds. This Instituto Pedagogico has designed an excellent set of 13 colored charts on Venezuelan Botany and Biology which it wishes to distribute to 3,000 rural primary schools most of which lack even student textbooks. However, no funds are available in the budget of the Instituto to reproduce and to distribute these charts to rural schools.

Only one of the 24 National Normal Schools, enrolling a total of 31,641 future teachers, has a library. None have trained librarians.

The Escuela Tecnica Industrial of Caracas, the largest technical secondary school in Venezuela, is located on the border of the campus of University Central. Its students come chiefly from low income groups and from neighboring slum areas. Last winter its Rector was forced to expell 600 of its 1,400 students for Communist strikes and riots. It took two months to repaint the Red slogans from the walls and ceilings. He expects more rioting in October. The school has no library and no librarian. A small number of technical books are in departmental storage.

The Research and Information Center in the Planning Agency of the Venezuelan Ministry of Education has no books and no funds for books. It is stocked with UNESCO pamphlets and a few gifts from the U. S. and French Embassies.

These 35 institutions are the intellectual centers which will produce the future leaders of Venezuela. Through their teachings every child in Venezuela is influenced. Any strengthening of their instruction in the direction of democratic truth is to the advantage of the United States as well as Venezuela. It is therefore strongly recommended as a first priority project under ICA 1961-62 grants-in-aid that a book program of assistance be made to the libraries of all 35 institutions. No funds should be paid directly to any Venezuelan agency. The books should be ordered and paid for by ICA.

To avoid any infringement upon academic freedom or any suspicion of direct propaganda the choice of books should be left to Venezuelan faculties and administrators. We could arrange an unpublicized screening before purchase of books "unavailable" for purchase. At this critical stage in Venezuelan history political or propaganda implications must be avoided. For this reason this project is better adapted to ICA rather than USIS. By donating books for students instead of direct grants of funds we avoid accusations of "purchasing" Venezuelan higher educational support.

Venezuelan educational institutions including the traditionally autonomous universities are interested in cooperating with this type of program.

In unofficial discussions the following educational leaders have favorably reacted toward this possibility if it should be proposed by ICA officials in Washington: Leandro Mora, Minister of Education and his Deputies Monroy and Camacho; the Director of Educational Research,

Fernandez; of the Normal Schools, Mendoza; of the Instituto Pedagogico, Montener; the Dean of University Zulia, Oserio; the Rector of University Oriente, Penalver; of University Andres Bello, Reyna; and of University Central, DiVenanzi.

The favorable reaction of Rector DiVenanzi of University Central is especially encouraging. It takes courage to agree to cooperate with United States assistance on the part of a Rector whose campus is partly controlled by Communists, and where riots and burnings greeted Nixon and Moscoso. The Rector himself is only elected for a three-year term, expiring in 1963, by a majority vote of students and faculty. His Board of Control contains at least one student Communist leader and probably more, as well as extremely radical faculty delegates.

The psychological result of United States academic aid to strengthen educational opportunities for Venezuelan students could influence many uncommitted students. It would possibly tip the balance of power in the universities and through them could decisively influence the future course of Venezuelan democracy.

The following proposal is therefore presented for consideration as first priority to the Washington office of ICA.

"An agreement between the Government of Venezuela and the Government of the United States, as part of the Alianza para Progreso, by which the Government of the United States agrees to contribute a total of approximately 60,000 books, and audio-visual materials, and other teaching materials, to the libraries of the universities of Venezuela and to the libraries of the teacher preparation institutions under the Ministry of Education, the

Institutos Pedagogicos, Escuelas Normales, and Escuela Tecnica-Industrial, beginning during the year 1962.

The books are to be selected by representatives of the Government of Venezuela and to be purchased by representatives of the Government of the United States - unless it is not possible to obtain them - at a total cost of approximately \$500,000.

The Government of the United States furthermore agrees to provide the technical assistance of two trained librarians for a period of two years to assist the universities and teaching institutions of Venezuela under the Ministry of Education to catalog the books and to organize their circulation among the students.

The Venezuelan Government, subject to the approval of the Venezuelan Congress and the availability of funds, agrees after the termination of the contribution of 60,000 books from the Government of the United States, to consider the possibility of adding to the National Budget the sum of Bs 1,000,000 each year for the specific and sole purpose of purchasing additional books, and materials of instruction; audiovisual and other, and to distribute them among the designated institutions, and also to employ competent trained librarians to catalog and to circulate these books among the students of Venezuela.

The books and teaching materials are to be selected by the faculties and Administrators of each University and of each of the teacher preparation institutions under the Ministry of Education, and are to be distributed by

the Venezuelan Government among Venezuelan Universities and institutions in the following proportionate and approximate allotments:

<u>Universities</u>	<u>Books</u>	
Central	10,000	
Los Andes	4,000	
Zulia	4,000	
Oriente	4,000	
Carabobo	4,000	
Andres Bello	2,000	
Santa Maria	<u>2,000</u>	
	30,000	
<u>Ministry of Education</u>	<u>Books</u>	<u>Charts</u>
Normal Schools	23,000	
Institutos Pedagogicos		3,000
Escuela Tecnica-Industrial	2,000	
Center of Documentation and Information	<u>2,000</u>	
	30,000	

It is the hope of the United States Government that these books donated to the students of Venezuela will be displayed on open shelves in the student reading rooms for student use under the control of the librarians.

It is also hoped that the greater part of the books will be in Spanish to facilitate study by the students and that the subject matter be of interest to the students.

It is recommended that the quota assigned to the Institutos Pedagogicos^(x) be used to assist in publishing in Venezuela a series of 13 charts on Venezuelan Botany and Biology and that a set of each of these charts be distributed by the Venezuelan Government to 3,000 rural primary schools.

It will be useful to suggest to the Government of Venezuela that within the Ministry of Education an AD HONOREM commission be established for the purpose of soliciting the economic and cultural collaboration of private institutions in regard to a plan for increasing library growth for education and at the same time supervising the utilization and maintenance of the book collections which have been contributed, by the Government of Venezuela as well as by other Governments and private entities.

It is also suggested to the Government of Venezuela that a study be undertaken within six months to investigate the need for textbooks both on the primary and secondary level. This study should include a social survey on a broad scale of the number of children who will need textbooks, the types of texts, the form of distribution, and system of maintenance of such books so that they may be used over a period of succeeding school years, the national content of the texts, and the possibility of publishing them within the country should be considered."

(x) Teachers College.

As presently constituted, the educational system of Venezuela fails to meet, in many areas, the essential needs of a democratic society. Based originally upon the now outmoded French liceo system, it was designed, under the dictatorship, to educate an elite to rule a semi-literate proletariat. Today it needs reorganization in many areas to educate an entire people for fullest participation in democratic self-government and to advance the social and economic development of the nation. In the pursuit of excellence for the few, it has failed to meet the needs of the many, or to ensure to every child the fullest opportunity to realize his inherent capabilities.

Among the basic objectives of a modern educational system there should be included provisions for every normal child to receive at least a sixth grade education; to remain in school and to progress academically as far as possible, at least during compulsory school ages from 7 to 13; to be guided into a program designed to fit each child's individual needs and potential; to be trained for constructive and skilled employment in a modern industrial society; and to be enabled freely to progress upwards in the educational structure as far as his abilities will permit.

As presently designed, the Venezuelan educational system fails to fully accomplish any of these basic objectives.

Only 3% of the students successfully complete six primary grades. Between 40-65% of all children regularly fail the final examinations at every grade level. There is no national system of vocational guidance, selection, or placement at any grade level.

There is no comprehensive system of technical education adequate to the needs of the Venezuelan economy. The education mortality is excessive between levels, with 1,223,314 in primary enrollments, dropping to 178,060 in secondary enrollments, and to 24,309 in the universities.

The number of illiterates in Venezuela is unknown. The only official estimate of adult illiteracy, made in 1960, was 47.8%. The totals revealed by the last census, completed in March 1961, have not been published. The Government is presently engaged in a massive drive to eliminate adult illiteracy by 1963. But no attention or planning has been devoted to the corollary need to develop simple types of publications for the instruction and the interest of the newly literate. It makes little logic to teach people to read if reading matter is missing thereafter.

The only attempts presently developed to supply this type of low-cost paperbacks in Spanish are being made by the French, the Germans, the Russians, and the Chinese Reds.

Statistics on file in the National Library in Caracas for the year 1958 show a total book circulation in that year of 271,077 among Venezuelan citizens, and of 360,618 among foreigners in Venezuela. This seems an impossible statistic, but the explanation probably lies in widespread illiteracy and poor reading habits. There is need to develop interesting, instructive and low-cost literature of good standing, to publish it in Venezuela, and to distribute it as near cost as possible to Venezuelans of all ages.

In primary education, the Venezuelan authorities are engaged in a

massive program of expansion. This expansion is quantitative. The need is for quality, improvement, upgrading teachers in service and improving classroom performance.

The number of children enrolled in primary schools has doubled in the past three years, from 751,561 to 1,223,314. The number of classrooms has also doubled in the same period from approximately 5,000 to 10,449. The number of teachers in all levels (there is no breakdown here by grades), has jumped from 26,240 in 1958 to 45,132 today. At the official rate of population increase of 3.5% each year, the Venezuelan educational authorities are annually increasing the primary school facilities and faculties three times as rapidly as the population growth. In addition there are presently enrolled in the Normal Schools a total of 31,641 students (as contrasted with 8,260 in 1958), which will shortly result in a probable surplus of primary school teachers.

The chief need in primary education is to increase substantially the number of rural schools offering education above grade three. In many areas there is no opportunity for the child to progress beyond this grade within reasonable commuting distance. There is no national system of free bus transportation for school children nor is there any national program of school lunches. A leading physician reports that many children faint in classrooms from hunger in the later hours of the school day. There is no national system of publishing or distributing primary or secondary school textbooks. The majority of children have no school textbooks and must memorize instructions from the teacher's notes upon the blackboard. What few texts are available are

sold privately to the child by the teacher at an average annual cost of between 40 and 60 Bolivares although the average income of Venezuelan families for all purposes is 600 Bolivares a year. The only organized program to publish textbooks, designed principally for the liceos, is that of the Mendoza Foundation which prints in Argentina a limited number of books of good quality sold at cost to students at 10 Bolivares a copy. The most popular of these publications is the one on the Geography of Venezuela which sells 6000 copies a year among 181,931 secondary school students. There is need to write, to publish and to distribute textbooks to school children at all levels, either without charge or upon a return deposit system.

The primary school teaching force is inadequately educated. There are approximately 12,000 unqualified teachers among more than 30,000 presently employed in primary grades.

The experimental summer program of in-service training for unqualified rural school teachers set up on a regional or nuclear basis at El Macaro should be expanded to other rural areas and incorporated with the program of the Ministry of Education on a continuing basis. Presently it is financed by the Creole Foundation who are planning to withdraw their financial support now that the program has passed the experimental stage and proven its worth.

Qualified rural school teachers are only 10th grade graduates of the Normal Schools which to date have given four years of instruction to matriculants who enter from the 6th grade. There are plans under way to upgrade the Normal School program to five years and to provide for the transfer of students from the liceos as well as those entering from primary preparation.

But an intellectual background of 11 years of education is not adequate for teaching at any grade. Moreover many of the graduates are too young at graduation for effective control or discipline. The Normal Schools should require for admission the completion of the liceo or secondary school program as presently do the Institutos Pedagogicos which prepare the secondary school teachers. They should also offer an undergraduate university program of two to four years for certification. Now that the number of teachers promises a surplus of candidates in the near future, it might be a good time to upgrade Normal School standards and requirements, possibly on a cyclic system of rotation among groups of Normal Schools until they are all elevated over the period of the next decade. Eventually it might be desirable to change their names as well as their programs to Institutos Pedagogicos.

In terms of providing teachers and buildings, although not in terms of adequate retention standards, the Venezuelan education system is meeting its primary school needs at this time. To quote the official Punta del Este report of the Venezuelan Ministry of Education, "Thanks to the priority which the Government of Venezuela has granted to educational needs -- all children of school ages are afforded an opportunity to receive six years of primary education -- in spite of the high birth rate -- the country is fully prepared to meet this expansion with its own funds."

The greatest apparent weakness in this picture is the retention rate. Too many children fail to continue in school throughout the first six years. Out of 100% of children who enter the first grade only 50% continue to grade 2, 30% to grade 3, 20% to grade 4. Only 54,000 students graduate from

grade six out of a total primary grade enrollment of 1,223,314.

The causes of this tremendous drop-out include such reasons as distance from school, inadequate clothing or shoes, illness, parental disinterest, family need. But above all, an archaic and regressive examination system. The national examination system of Venezuela is highly academic and verbalistic. Beginning in grade one, it fails too large a percentage of young children. One objective among others of a primary school testing system should be to retain and promote as many children as possible, rather than the fewest possible, particularly since all children in Venezuela are legally required to attend school from age 7 to 13. Marking and promotion should be local school responsibilities instead of the function of the central administration. But in Venezuela, the Ministry of Education annually spends an estimated 10,000,000 Bolivares to pay teams of three examiners to examine every school child in the nation. The child is given a list of approximately 25 possible questions or topics for study, out of which he will be tested on one topic, in both written and oral recitation. This educational lottery forces many children to absent themselves weeks before the examination, to memorize all possible answers, to worry to the point of physical and nervous prostration and often to become hysterical in the examination room. The examiners are paid an additional fee for every repeater and are permitted to tutor repeaters for a salary. This introduces a profit motive into the grading. Rural school children with poorer level instruction are particularly penalized by the system.

In the secondary schools and the universities the examination system continues to operate to decimate the student body. A system which graduates

only 9000 out of 36,000 students who enter the liceos each year, only 125 out of 2,292 who entered the Technical Schools, and 1,300 seniors from University Central, with a total enrollment of 15,000 students, is obviously too rigorous in its screening, too wasteful of human resources, and too frustrating to the happiness and security of the individual student. This is one possible explanation of the success that Communism enjoys in recruiting activists in the secondary schools. The adolescent who suffers academic failure and rejection, with consequent loss of faith and of hope, may well react by rejecting the system and the society which has rejected him. The present liceo organization fails to provide educational alternatives for the failing student through transfer to other types of educational, vocational or terminal programs. It drops him unprepared upon a society which in turn is unprepared for him.

The point at which national examinations could be logically imposed is at the conclusion of primary education for screening, guiding and placement purposes for the secondary level, and at the conclusion of secondary studies for selective admission to the universities. But Venezuela lacks any guidance programs at any level. This is one area where ICA might consider assistance to the Venezuelan authorities to aid in establishing in the Instituto Pedagogico of a Department of Guidance and Testing to train experienced educators in these techniques.

The existing liceo system of secondary education encourages too large a proportion of Venezuelan youth to enter university preparation programs and discourages too large a proportion of these from completing secondary level

studies. A large majority of primary school students should be able to benefit from a secondary education and should be encouraged to do so. To develop a balanced national economy, the largest percentage of secondary school students should be preparing for technical and vocational middle level employment. Only a minority should be preparing for professional or administrative employment.

In actual practice only 54,000 students finished sixth grade last year - approximately 3% of the primary school population.

Of those students who entered secondary education, 105,000 enrolled in the liceos to take the university preparation program, while 41,419 students enrolled in all other secondary programs, excluding the Normal Schools.

Even this small total is creating an educational crisis in Venezuela. The number of graduates from the 6th grade who entered secondary education increased 90% in recent years, but projections from existing primary expansions point to a doubling of the number over the next three years. The Venezuelan educational system has concentrated so much of its budget and its resources upon meeting the crisis in primary school expansion that it has little to spare at this time for an equal investment in secondary education..

Of greater concern to the Government is the obvious academic preference of secondary school students for university preparation programs. One reason for this choice is the almost total lack of secondary educational programs in technical and industrial education. The disproportion is evident in the following figures of 1961 enrollments:

Primary Schools	1,223,314
Liceos (x)	105,000
Vocational Schools	41,419
Universities	24,309
Technical Schools	9,042.

Even more significant is the statistic that although 172 new industries were founded this year, only 125 technicians were graduated from the final year of all the technical secondary schools in the nation, from a total of 2,292 students who started the program six years ago.

There is no teacher preparation program for industrial arts in Venezuela. Most of the present small staff of industrial teachers are foreigners. Although secondary school teachers are chiefly prepared at the Instituto Pedagogico in Caracas, there is no faculty or curriculum available there to educate specialists to teach industrial arts.

The Venezuelan Government in its report to the Punta del Este Conference, identified this education area as the one "of supreme priority." The Ministry of Education reports that the need in this area is not for loans of money or for construction of new buildings. Venezuela has plenty of both. The existing technical school buildings are not fully utilized, and there are many modern buildings which could be rented to house potential student surpluses. Since 95% of the students who begin technical school studies drop out before completion of the program, it is obvious that the instruction offered fails to meet their needs. This assumption is strengthened by the large proportion of those students who engage in strikes and riots and who last year disrupted

.....
(x) Secondary school.

all classes for a period of four months.

What the Ministry of Education requests is an ICA program to provide American professors of technical and industrial arts from our best teacher preparation institutions majoring in this special field. These professors should be carefully selected from among our most competent specialists. This is no place to send second-rate people.

They should be offered minimum annual salaries of approximately \$14,000 plus living allowances and should be requested to accept two-year renewable contracts. The first team may be composed of Department Chairmen who could spend a semester in studying space allocations, ordering shipments of needed supplies, equipment and books, and recruiting additional American specialists to flesh out their departments. It is recommended that the new teacher preparation program in technical and industrial arts be established at the Instituto Pedagógico in Caracas, where space is presently available and where the local administration is cooperative and competent. The new curriculum and faculty properly belong on the Instituto level since the graduates will be expected to teach in the secondary level. Venezuelan students should be carefully selected from the best candidates already matriculated in the Instituto Pedagógico who have already completed the first three years of basic education there. They should complete two years of intensive professional education in the speciality. The best students among the early graduating classes might be returned on the faculty of the Instituto to replace the American specialists while the others could be sent into the secondary field to establish departments there.

It is essential that these secondary departments be established from the beginning not in separate technical schools, but within the existing liceos themselves. Otherwise, the program will not attract sufficient able students to justify the effort. The liceos enjoy tremendous prestige and their diplomas or bachillerato are a primary objective of most students and families. Presently the liceos are single purpose institutions with a single track program. Students not adapted to university preparation studies have no alternative choices. What is greatly needed in Venezuela is the comprehensive multi-purpose type of secondary school so common in the larger United States high schools and so strongly endorsed in the recent Conant Report. This solution will save Venezuela the financial cost of building additional separate schools, the educational cost of reduplicating general education foundations and backgrounds necessary for well-rounded technical competence, and the human cost of wasted liceo career. In the liceos the technical education courses should be offered on the upper levels for students who after completion of basic liceo studies wish to transfer, or may be persuaded to transfer to a program for which they may be better adapted than for university studies. There is already an unemployed surplus of 650 university graduated engineers - but a tremendous shortage of middle-level secondary trained technicians. The Venezuelan Ministry of Education estimates this potential need in terms of 316,000 workers. The neighboring Republic of Colombia has already begun this reform of the liceo system. Beginning this year the liceos of Colombia "will be so reorganized as to meet the needs and requirements of the students and of the national economy" - EL UNIVERSAL,

August 23, 1961.

The Ministry of Education in Venezuela is staffed by competent leaders, many of whom appear to be burdened by the details of too great administrative centralism.

Many surveys have been completed in the past by foreign educational experts, such as George Sanchez for the U.S. Department of Health, Education and Welfare, and Pablo Roca for I.B.R.D. It should be pointed out that the 1958 I.B.R.D. Economic Survey of Venezuela published in 1961 is already outdated in terms of its educational projections for 1961. All of its projections for this year's school enrollments erred heavily on the modest side as may be seen by the following statistics for 1961:

	<u>I.B.R.D. Projections</u>	<u>Venezuelan Reports</u>
Primary Schools	1,105,200	1,223,314
Liceos	89,200	105,000
Normal Schools	20,700	31,641.

The Venezuelan Ministry has so many survey recommendations on file that "they are coming out of our ears." (Eduplan Director, Dr. Camacho). What is needed is not more studies but positive action toward implementation. Foreigners may recommend but only Venezuelans can reform or reshape their own educational system and programs.

One hope of achieving the needed reforms is exposure to, and study of, a single State system of public education roughly comparable in size and complexity to Venezuela, which will serve as a laboratory for observation and deduction by chief policy makers of the Venezuelan school system. Such

a State is California with its rapid population explosion, its Mexican immigrants, its Spanish origins, its semi-tropical climate, its six state Universities, 10 state Colleges of Education, 63 Junior Colleges and its fine system of city and of rural primary and secondary schools. A good center of operations would be the University of California, at the Santa Barbara campus with its specialty in Spanish and Latin American studies.

It is therefore recommended that a Venezuelan survey team of seven Venezuelan educational leaders be chosen by the Ministry of Education, composed of dedicated professional Venezuelan educators of wide experience, high status and authority, preferably in the age bracket between 35 - 45, not necessarily bi-lingual, but with future influence upon policy decisions. The team ideally should comprise seven men, one each from the top echelons of the Ministry of Education, the University faculties, the Instituto Pedagogico, the Escuelas Normales, the Secondary Technical-Industrial School, the Liceos and the rural Primary Schools.

These seven leaders with their families should be invited by the United States Government to spend one school year in residence on the Santa Barbara campus of the University of California, with the United States Government providing all educational costs, plus service of an experienced bi-lingual American educator as liaison and an automobile for their travel. The Venezuelan Government should continue to pay full salaries to the chosen seven and the travel expenses for them and their families to the United States.

It is recommended that the team should spend the first semester of their

visit attending the University School of Education studying English, the History and Philosophy of American Education and educational methods and materials in their relevant specialities.

The second semester should be used for travel, observation and consultation with various education specialists and leaders throughout the State of California to study public education policies and practices at all levels.

At the conclusion of the visit the team should be expected to prepare a report to the governments of both nations of reactions and of recommendations for the future growth of Venezuelan education.

It may well be anticipated if the selection is carefully made from top policy makers that the results on the future course of Venezuelan education might be revolutionary in their impact in terms of decisions and actions taken upon their return.

Venezuela is no country in which to establish a large scale USOM. There is no need for expansion of the educational staff of ICA beyond the services of Dr. Hart, who is already on the job and fully competent to supervise it well. Any professional educator sent down here should be under the administrative direction and control of the Venezuelan Ministry of Education. This is a proud nation, unaccustomed to seek or to accept foreign aid. Their chief need in education today may basically be summed up in the three words: "Books and Teachers." What else is needed here, and there are many other needs, they are able to supply for themselves when and if they become convinced of the feasibility and necessity of doing so. In

summary, these are the areas in which, in my judgment, Venezuelan education needs review:

1. An adequate retention system in primary grades. This involves a reform in testing and guidance, in textbooks and in teachers. The El Macaro program should be expanded by the Ministry and given technical support by ICA on a continuing basis.

2. Complete revision of the national examination system at every level.

3. Multi-purpose comprehensive High Schools instead of single purpose liceos.

4. Programs in technical education at all levels, but particularly in the liceos.

5. Guidance and Testing Services.

6. Upgrading and strengthening Normal Schools.

7. Teacher preparation programs at the Instituto Pedagógico in:

a. Technical and Industrial Arts

b. Guidance (graduate level)

c. Music and Fine Arts.

8. Revision of University concept, its administration, admission and retention policies. Investigation of possibility of creating Junior Universities and upgrading Senior University instruction.

9. Follow-up of program to eliminate illiteracy by publishing sample materials of instruction and enlightenment.

10. Library Aid to strengthen instruction and research in higher education and in teacher preparation.

My priority recommendations are as follows:

1. Universities and Teacher Preparation Institutions - Library Aid Program of 60,000 volumes at \$500,000.
2. Secondary School Technical Education and Guidance Faculties at Instituto Pedagogico.
3. Primary School - Textbook publication project and in-service retraining at rural nucleus similar to El Macaro.
4. Survey team of top Venezuelan educators to California.

UNIVERSIDAD DEL ORIENTE

The present administration in Venezuela has established a new University del Oriente in the Eastern and Southeastern regions of Venezuela. It is chartered upon the concept of a United States land grant university, with a governing Board appointed and controlled by the A. D.^(x) administration. The new President, Luis Manuel Penalver, is a physician of good family and considerable charm, who is closely allied to the A. D. party. He has a large and apparently well-financed administrative staff, but only a small number of students and faculty. Much of the projected university exists chiefly on paper. It owns five parcels of land widely scattered in remote and sparsely settled areas where future population expansion is hopefully anticipated.

The only one of the five campuses with a real classroom building is located at Cumana, the home of President Penalver, an old Spanish settlement on the Gulf of Carioca. Here upon a small knoll rising above a partially drained campus is a single small two-year Junior College of basic studies in general education with an enrollment of approximately 300 students and a small faculty. The building is not adequate for university-level instruction. It lacks functioning laboratories, has a limited library of 1,200 books, and has no dormitories.

The other four campuses lack adequate instructional classrooms. There is an oceanographic institute a few miles outside of Cumana on the Gulf of Carioca, located in a one-story garage type building, containing a small collection of microscopes and charts, where a small staff, principally

(x) Accion Democratica, a leading political party,
headed by President Betancourt.

foreign instructors, carries on research studies in the neighboring Gulf. The Chairman of this institute is rumored to be a Communist. There is also available an old 20-30 foot yacht for coastal studies.

The third campus is located at Jusepin, an abandoned oil camp sold to Oriente by Creole after the wells were closed down. It contains approximately 400-500 empty single family houses, originally built for the company oil workers, a few of which are in excellent condition, but many of which are deteriorating under the encroachments of the jungle and the neighboring campesinos. People are moving out of this area with the end of the oil boom. The land is llanos, grassland, possibly adequate for grazing, but is still mostly unsurveyed with unclear land titles. It is planned to convert an abandoned storage warehouse into classrooms. There are no students or faculty or instructional materials on this campus as yet.

The fourth campus is at Ciudad Bolivar, where the Orinoco Mining Company has sold an abandoned mining camp to the University. There are no students or instructional facilities, but there is a small staff of geologists headed by a Russian Professor from Leningrad.

The fifth campus is also at Ciudad Bolivar, consisting of an old Normal School building presently being renovated, and a new neighboring six story Hospital. The Hospital is well constructed and equipped although poorly maintained. It is planned to open a medical school in the renovated normal school building next month using the clinical facilities of the Hospital.

None of the five campuses are adequate for University instructional purposes. There are future research possibilities in the oceanographic institute, the llanos, and the geological camp, for small teams of U. S. graduate students. The only area where sociological projections forecast possibilities of population growth is the mining field south of the Orinoco from Ciudad Bolivar. At this place there is no bridge over the river and the climate is very oppressive. It has little attraction for students except for its projected medical curriculum. Medicine is the profession of highest desire among Venezuelan students and accommodations in this faculty are over-crowded in other Universities. However, any adequate medical school establishment would require capital outlays of \$20,000,000 plus a staff of competent instructors and physicians, the vast majority of whom live in Caracas, almost a thousand miles away.

The University del Oriente, as presently constituted, would not meet accrediting standards in any area. It is a project whose realization will take a generation of effort and many tens of millions of dollars. Even then it may not be able to compete with the University Central, with its student freedom and autonomy, its beautiful, extensive, and expensive campus in the heart of a gay, exciting capital city, its top-notch faculty and high status.

It must be remembered that tuition is free in Venezuelan universities and that no selective standards of admission or retention have yet been adopted. Students may choose where they will, and most will unquestionably choose University Central. This year University Central is enrolling more

than 7,000 freshmen from a total of 9,000 graduates of all the liceos in Venezuela. There are six other universities.

The Associated Colleges of the midwest (including Lawrence, Ripon, St. Olaf, Grinnell, etc.) studied the possibilities of Oriente last year and made a report written by Blair Stewart preferring to affiliate elsewhere.

If ICA adopts this project, it will have to build it literally from the ground up, with heavy expenditures over many years and with no assurance that students will actually enroll in sufficient number to justify the investment.

What Venezuela presently needs is not greater investment in universities, but rather concentration of educational resources and funds at the secondary level. The Venezuelan Government at Punte del Este identified secondary technical and industrial education as its area of "supreme priority". With this judgment I concur.

APPENDIX

Report of Activities, Caracas, August 2-8, 1961

By Marvin Weissman

Regional Public Administration Advisor

I. RECENT PUBLIC ADMINISTRATION REFORM ACTIVITIES

While costly and largely non-productive studies of Venezuela's governmental machinery were conducted previously, major interest in reform dates from 1958, following the termination of the Perez Jimenez regime. On June 27, 1958, the Larrazabal Junta issued Decree No. 287 creating an eight-member commission "... to study the organization, methods and procedures of our public administration and the situation of the public employee with a view towards proposing a reform of the Country's public administration". The Commission was slow in organizing (the writer, then in Venezuela to direct an administrative study in the Ministry of Health and Social Assistance, gave some help to the Commission's first Executive Director), but at the end of October signed contracts with three U. S. management firms. The consultants, Public Administration Service, J. L. Jacobs and Co., and Griffenhagen and Associates were assigned to the broad areas of organization, personnel, and procedures, respectively, and U. S. experts were charged with the training aspects of the reform program.

The contribution of the three firms and the U. S. team has been largely that of planning and conducting a large number of relatively elaborate general studies of Venezuela's poorly-organized, inefficient, and mostly ineffective governmental structure. This work continues, though total contract firm personnel has been sharply reduced in recent months. PAS' staff is now limited to one permanent and two temporary advisors, surveying two autonomous

institutions; Jacobs, with three permanent and one temporary technicians abroad, is winding up position classification studies, now roughly 90% complete; and Griffenhagen, with five staff members, is engaged largely in accounting work and general administrative reform within the Ministry of Finance. The recently enlarged U. S. staff includes a Chief, Rafael Cordero, ex-Comptroller-General of Puerto Rico; Vieira Da Cuoba (Brazil) and Mario Carcamo (Chile) on training matters; Wise (Dominican Republic) on customs and taxes; and Groot (Holland) on purchasing.

The performance of the Public Administration Commission (it employs some 80 local technicians) and its foreign collaborators has been subjected to considerable criticism from Venezuelans within and outside the government. Many credit the Commission mainly with having made still another contribution to the over-supply of studies and reports that lie unread and unused on shelves and in files throughout Caracas. The scope and general orientation of the Commission's activities - some 26 major studies were launched during its first year of operation - tend to support this criticism; the sheer volume of reports is somewhat staggering. Yet, though impatience with pretty reports is well founded when these are prepared largely for the sake of appearing to be profoundly expert - an occupational disease in the consulting field - the informational content of these studies is a necessary first stage in any organized reform program. The problem here appears to have been not so much the report-writing itself, but the failure to move away from this initial stage fast enough and far enough. In brief, the following shortcomings have been observed:

A. The scope of work was too ambitious and initial efforts poorly coordinated. Despite a total lack of constructive administrative tradition in Venezuela and a striking lack of trained administrative talent to put reforms into effect, the Commission launched broad efforts in practically all directions at the same time. Faulty U. N. advice at this stage and the interested initial involvement of the consulting firms appear to have encouraged the Venezuelans to embark upon a widely-advertised but poorly-conceived plan to solve all administrative problems at once. The eight-member Commission was unwieldy, poorly-directed at the outset, and hampered in its dealings with the three consulting firms by what the present Director characterizes as their interest in making a record for themselves to the exclusion of cooperating in a coordinated effort. In addition, questionable staffing and continued bickering within the U. N. group has limited its contribution.

B. The Commission and its outside consultants, in the first part of the program particularly, did not pay adequate nor opportune attention to the implementation of recommendations. Energy was expended almost totally upon developing ambitious recommendations, ignoring the desirability and practicability of introducing change gradually as the reform program developed. Much existing confidence in meaningful reform among governmental leaders was lost in the process, while the huge Venezuelan bureaucracy (more than 200,000 public employees) remained impervious to change and the public became increasingly resigned to its unhappy fate at the hands of one of Latin America's most notoriously complicated public administrations.

C. Though glaring training deficiencies were obvious and "expert" U. N. help present, insufficient attention was paid to the pressing need for developing, on a "crash basis", a corps of key administrators and necessary management consciousness among top leaders. Compared to most Latin American nations, Venezuela is practically devoid of even the tiniest nucleus of trained administrators - a condition which appears to extend to both the private and public sectors of activity. In spite of this situation, little was done in the first part of the reform program to prepare key public servants to meet their responsibilities, passing up the unique opportunity to train such personnel on-the-job by involving them in the initial studies and preparation of recommendations. With U. N. guidance, some 600 public servants are reported "trained" in programs ranging from hour-long conferences to 100-hour courses, but most U. N. efforts have gone into a report for an ambitious "Superior School of Administration" in Caracas.

In summary, three major needs in conducting successful management improvement appear to have been neglected during much of the reform program - realistic planning and coordination of efforts, timely and practical implementation of change, and preparation of key personnel. While these deficiencies have held back significant reform in Venezuela to date, the picture is not entirely a gloomy one.

In recent months, under López Gallegos, an experienced and trained administrator (and former Director of ESAPAC), the eight-representative Public Administration Commission has been converted to unipersonal direction and the contracting firms cut back. Their remaining personnel, all now

Spanish-speaking by Commission insistence, have been pulled under López Gallegos' immediate control.

López Gallegos' present planning envisions the reform movement as a four-stage process: (1) study of the entire governmental machinery (now largely completed), using outside firms and experts; (2) initial implementation of reforms (the present stage), with outside help supporting local efforts; (3) a completely local, centralized program of management improvement (stage to be entered two to three years hence, with good luck); and, eventually, (4) a decentralized program of continuing administrative reform, largely under individual Ministry and agency control. To facilitate the process, López Gallegos hopes to present to the Cabinet this week a proposal to create four strong staff units in the Presidency; for planning, local Government and community development, public administration and personnel, the latter two units designed to give permanent character to the Commission's present activities.

Some implementation of recommendations, notably in the accounting area, has occurred recently and the Commission is presently more aggressively pursuing these aspects of its responsibilities. Major reform legislation in the personnel, accounting, budgeting and autonomous agency areas (there are some thirty such entities now in existence) is being readied for congressional action.

Finally, plans are being completed to inaugurate a training school in public administration in the near future. A Brazilian expert is now "restudying" the matter (Vieirha Da Cunha, previously assigned to Colombia, see

writer's June report from Bogota). Five young, promising technicians are being sent to U. S. public administration schools in two-year study programs by the Commission, with Venezuelan financing.

It is in this latter area broadly that U. S. help is being sought by the Venezuelan Government and where the most substantial promise exists for contributing to the eventual development of satisfactory governmental administration in Venezuela. The planning and study phases of the reform program have been largely accomplished; the direct implementation phase barely entered to date. The Director of the Commission, however, is confident that his own staff, with diminishing future U. N. and consulting firm, can do the job. The writer is less confident of this conclusion, but in view of the fact that the Commission has not and does not appear likely to ask for direct advisory assistance from the U. S. Government, it is futile to weigh the pros and cons of such assistance. The Venezuelan Government, as represented by López Gallegos, in the presence of the Acting ICA Representative and the leader of the "Program Development Team", made it quite clear that the only help wanted was in training.

II. PROPOSED U. S. PUBLIC ADMINISTRATION ASSISTANCE

A. Ambassador Moscoso has received a request to train twenty Venezuelans in a semester-long study and practice program in Puerto Rico, starting almost immediately. This program is fully recommended if a specially-tailored program in the University can be developed and assurances obtained from Puerto Rican officials that the practice and observation opportunities will substantially exceed the attention normally given ICA participants. Adolfo Fortier, formerly

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Dean of Social Sciences at Rio Piedras and now directing Griffenhagen's work here, is certain that this can be arranged, in fashion similar to the program developed for two groups of Brazilian officials during the 1955-56 academic year. Additional payment to the University of Puerto Rico for special advisors and course work is involved.

It is most doubtful, however, that the program can begin with the September semester as requested; a second semester target date appears to be more realistic. It is recommended that if Fortier returns to Rio Piedras at the end of the year as he plans to do, he be contracted under some arrangement by ICA to oversee this program - or failing that, a technician such as Miguel Angel Velez, presently in Chile, be brought back to Puerto Rico on TDY to shepherd the group through a Government in which he is well acquainted. Fortier also mentions Professor Diaz Morales of the University as a good candidate to coordinate the Puerto Rican program.

This activity could make an important emergency contribution to filling the immediate need for people conversant with good public administration and, if initially successful, should be extended to additional groups in, perhaps, three subsequent semesters. The activity should be given the full financial support required (with the exception of international travel).

B. In addition to this special activity, an extensive participant program should be developed at the earliest possible moment. In the case of academic-type programs, where English facility exists or can be developed in a reasonably short time, U. S. universities should be used, with the number of candidates limited only by Venezuela's capacity to supply suitable students. Where

language may prove a barrier, academic programs in Puerto Rico, Mexico, Brazil and perhaps other parts of the hemisphere could supply some opportunities. An annual total of 12 academic programs, normally one-year in duration, should be provided.

Observation and practice - type programs on the U. S. mainland, in Puerto Rico, and third countries should be developed in the major specialized areas of concern enumerated by López Gallegos: O and M, budget, accounting and personnel. This program could well contemplate as many as twenty-four participants a year in programs averaging four months each, again a total limited only by Venezuela's supply of suitable candidates, able to be spared for the time required to give them quick acquaintance with their fields.

C. As a supplement to these more "normal" participant programs, training of high level or highly-specialized teams is recommended in short, intensive observation programs on the U. S. mainland, in Puerto Rico, and in some cases, third countries. Accompanied by an interpreter - technician, as in the case of the second Chilean tax group now in the U. S., desirable impact on important leaders can be achieved, attitudes influenced, and important support to the full reform process secured by sending six to eight key leaders at a time to visit governmental and academic institutions of interest. Six such groups a year might be contemplated, for approximately six weeks each. Key administrators from specific substantive areas, such as education, housing, etc., could be sent in a single group.

D. The aforementioned training projects are all "export type". The multiplier effect and immediate impact on Venezuela's overgrown bureaucracy can only

be significant if within the country a strong public administration institute, center or school is created to provide primarily that in-service training required to prepare quickly thousands of public employees. The U. N. standard prescription, already offered to cure Venezuela's ills, is to develop an advanced or superior school for administrative studies. While broad academic opportunities are desirable, as well as research facilities, Venezuela appears to be much more in need of an institution oriented towards the kinds of basic skills training the Guatemalan and U. S. Governments have sponsored jointly in recent years, with more than two thousand graduates in everything from office practice to budgetary administration. On this point López Gallegos seems to agree, and he has indicated strong interest in U. S. help to secure a "few professors" for this purpose.

It is proposed that major U. S. help in public administration be extended to the Government of Venezuela in this connection. A university contract arrangement might provide the most feasible manner to furnish guidance and teaching assistance, but contracting of individual professors or trainers should also be considered. A total of four full-time and four professors for three months each should be planned, to teach regular and short-time courses, to direct seminars, and offer special lectures and conferences. The University of Puerto Rico reportedly does not have the resources to provide a contract faculty, but might supply one or two of their professors. Other Spanish-speaking professors may prove hard to locate in the U. S., so third country professors should be considered.

Possible duplication and conflict with the U. N. is foreseeable in this

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matter; nevertheless, the U. N. has seen fit to limit its assistance to report-writing, and little more. The U. S. Government, under the Alliance for Progress program, has a major obligation to Venezuela and other Latin American countries to "educate and train" in this area.

E. López Gallegos has also asked for help in obtaining books and study materials in public administration. Even without any additional U. S. activity - or before it is initiated - assistance in creating a public administration library is most justified. It is recommended that USOM/Venezuela seek the temporary services of Miss Carol Piper, Chief of the Public Administration Technical Resources Branch, to visit Venezuela and plan and initiate this activity. Her visit to Colombia for a similar purpose has been previously recommended by the writer and a combination of these visits at an early date would prove most beneficial.

F. The activities above enumerated fully justify the early assignment to USOM/Venezuela of a full-time Public Administration advisor to keep abreast of needs and developments in the field, and to plan in detail and initiate such activities as may prove desirable and feasible. Without necessarily taking an active role in any direct reform work, such an advisor would provide invaluable services to the Embassy and USOM, not only by directing the training activities recommended, but also by serving as an advisor on the administrative aspects of other projects within the total country program.

III. SUMMARY

It would be sheer folly to anticipate major reform progress in Venezuela's Public Administration in a short time. Given the costly errors already made

and the difficulties inherent in such programs in any country, reform here may develop much too slowly for much too long a time.

In its last annual report, the Public Administration Commission recognizes that there exists in Venezuela "...a vast, administrative organization defective in structure and archaic in procedures...duplication and dispersion of efforts, confusion of responsibility in the upper levels and a slow pace of administrative effort." It admits that there is a "complete lack of adjustment between the various parts of the administrative machinery, correction of which will require enormous efforts and great decisiveness... and the support of public servants at all levels, the public in general, civic groups, government leaders and the politicians."

This unhappy situation can be corrected in part by institutional and procedural reform, a job for which the U. S. Government has not received and is likely to receive no direct, comprehensive invitation. Any major change in the tone of Venezuela's public administration is, however, much more likely to emanate from a change in the capacity and attitudes of public administrators. The best governmental machinery in the world is inoperative unless run by dedicated, trained administrators, supported by trained staff equipped to help those administrators take proper decisions and then carry them out - the process most clearly absent in most public offices in Venezuela today. In this phase of reform, the U. S. Government has been asked for help. An E-1 providing for the implementation of the program as recommended above is attached, with the recommendation that this be initiated at the earliest possible moment. (Mission will review and submit E-1 referred to above at an early date.)