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## COMMENTARY AND DEBATE

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### COMMENT ON FEDECAMARAS AND POLICY-MAKING IN VENEZUELA

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René Salgado's essay on FEDECAMARAS and economic policy-making in Venezuela struck two related, but distinct, chords in my professional life. First, his subject—the role of FEDECAMARAS in influencing national economic policy—was the topic of my doctoral dissertation, which focused on the period from 1945 to 1973 in examining the organization's history, structure, tactics, and influence. Second, the case study he examines—the effort of FEDECAMARAS to gain preferential exchange-rate treatment for private-sector debt—fell within my responsibilities as head of country risk management for Latin America at the First National Bank of Chicago from 1982 to 1985.

Mr. Salgado's thesis is that FEDECAMARAS is a far less powerful actor in determining national economic policies than has been commonly assumed by analysts of Venezuela. This conclusion is supported by a detailed discussion of the policy-making process surrounding the government's decision to grant preferential treatment for repaying capital on private-sector debt. Professor Salgado argues that this aspect was an area of redistributive policy and that although FEDECAMARAS was successful in its lobbying efforts, this outcome was more the result of pressures from the international banking community than of pressures

exerted by the private sector's peak association. Mr. Salgado then hypothesizes that the newly revealed weaknesses of FEDECAMARAS stem from the vastly expanded role of the state in the economy, the monopoly of political power by the AD and COPEI parties, the prohibition on presidential reelection, and fragmentation and diversity within the private sector.

On the face of it, there is little to challenge in Mr. Salgado's research findings. His conclusions that FEDECAMARAS now has marginal influence on economic policy-making and that it did not play a major role in the decision on handling private-sector debt are unexceptionable. His article is deeply flawed, however, by exaggerated claims regarding the actual influence of FEDECAMARAS, by the case study he selected, and by his description of the policy-making environment.

No student of contemporary Venezuela would argue that the FEDECAMARAS has been a major actor in determining national economic policy for at least a decade. Beginning in 1973 (the end date for my study), Venezuela began to be rapidly transformed economically by the huge inflow of petrodollars generated by OPEC price increases. The fourfold increase in petroleum prices in 1973–74, combined with the decision of the Carlos Andrés Pérez government to launch the nation on a new model of industrialized growth led by state enterprises, resulted in a dramatic shift in the relative powers and capacities of the private and public sectors. Almost overnight, the Venezuelan private sector—including FEDECAMARAS—went from being a major actor in initiating, sustaining, and vetoing economic policies to a supplicant seeking privileges from an all-powerful state. Further, a new group of entrepreneurs emerged who were more interested in making a quick dollar (not a *bolívar*) by working with and through the state enterprises than in defending free enterprise, efficiency, and market-oriented economic policies.

By the late 1970s, FEDECAMARAS had become a shell of its former self, unable to achieve private-sector consensus, lobby the government effectively, or withstand the encroachment of the state. If anything, the situation worsened under President Luis Herrera Campins (1979–1983), who campaigned on a promise to “fix” things but only made them economically worse. He presided over five years of economic stagnation, substantial drops in private productive investment, and massive amounts of capital flight. Thus by the time of the 1983–84 policy decision on how to treat private-sector debt to foreign creditors, FEDECAMARAS was demoralized, unrepresentative of the private sector, lacking in resources vis-à-vis the state, and incapable of mounting the kind of lobbying campaign that had been its hallmark fifteen years earlier.

Mr. Salgado's choice of private-sector debt repayment as the case

study to measure FEDECAMARAS influence on economic policy-making is particularly unfortunate. In effect, he selected a policy dispute in which FEDECAMARAS was largely successful in attaining its objectives and then argues that this success was more the result of external pressures (that is, of the international banking community) than of FEDECAMARAS efforts. I would not only agree with this assessment but go one step further. By the time Venezuela fell into the debt trap, the precedent had already been established in Latin American debt negotiations that private-sector debt obligations would be assumed by the state or granted preferential exchange-rate treatment or both. Without this treatment, government-commercial bank negotiations would have floundered (especially because the Venezuelan government refused to negotiate with and through the International Monetary Fund), and the economy would have gone into a tailspin. Thus the case is an especially poor one for assessing the role of FEDECAMARAS because it lay largely outside the province of both the government and the private sector. Indeed, an alternative hypothesis might be that FEDECAMARAS leaders deliberately selected this issue for a high-profile lobbying effort, knowing that the chances for success were high and that it represented an issue around which private-sector consensus could form, thus breathing new life into a moribund organization.

Finally, I am troubled by Mr. Salgado's description of the policy-making environment, most particularly by the notion that the government is engaged in "redistributive" issues. I would argue the contrary, that Venezuelan economic policy-making over the last twenty years—and especially since 1973—has been characterized by conflict avoidance rather than by redistribution. Franklin Tugwell and Gene Bigler have captured the essence of the policy-making process: ". . . what has emerged is a polity heavily oriented toward managing largesse, a system in which control of the government is all-important, and in which conflict is 'managed' simply by distributing more benefits. A cardinal rule of Venezuelan politics is to avoid politically costly, visible redistributions. Except in elections, there are few overt losers in the political game played in Venezuela."<sup>1</sup> In the case of the private sector, this approach means that powerful economic groups are allocated a share of the economic pie (for example, through protectionist tariffs, government contracts, and subsidies) in exchange for loyalty to existing political institutions.

Currently, Venezuela is experiencing its most serious economic and political crisis since the return to democratic rule twenty-eight years ago. Due to the drop in oil prices from the 1985 average of twenty-seven dollars per barrel to an estimated fifteen dollars in 1986, government revenues will decline by almost half. This trend probably means that the costless and invisible distribution system is nearing its

end, with important implications for the functioning of political institutions, including pressure groups like FEDECAMARAS. As Venezuela enters a new zero-sum political era, in which the economic gains of one group must come at the expense of another, conflict will increase markedly and redistributive issues will come to the fore. Consequently, FEDECAMARAS will be even harder pressed to exercise effective influence over the policy-making process when pitted against organized labor. The absence of a direct business linkage to either of the two major political parties (AD and COPEI), combined with the historic distrust of entrepreneurs by the political class, will almost invariably lead to both heightened conflict in the economic policy arena and the diminution of the power of FEDECAMARAS.

NOTE

1. Franklin Tugwell and Gene Bigler, "The Politics and Economics of Venezuelan Oil," mimeo, World Resources Institute, Washington, D.C., 1985.