OIL AND LATIN AMERICAN POLITICS

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PETROLEUM AND MEXICO'S FUTURE. Edited by PAMELA S. FALK. (Boulder, Colo.: Westview Press, 1987. Pp. 124. $23.50.)
POLITICS AND PETROLEUM IN ECUADOR. By JOHN D. MARTZ. (New Brunswick, N.J.: Transaction Books, 1987. Pp. 432. $34.95.)
OIL AND THE AMERICAN CENTURY: THE POLITICAL ECONOMY OF U.S. FOREIGN OIL POLICY, 1941–1954. By DAVID S. PAINTER. (Baltimore: Johns Hopkins University Press, 1986. Pp. 302. $35.00.)
THE POLITICAL ECONOMY OF VENEZUELAN OIL. By LAURA RANDALL. (New York: Praeger, 1987. Pp. 246. $42.95.)
LATIN AMERICAN OIL COMPANIES AND THE POLITICS OF ENERGY. Edited by JOHN D. WIRTH. (Lincoln: University of Nebraska Press, 1985. Pp. 282. $27.95.)

To the leaders and citizens of petroleum-endowed Latin American countries, oil is far more than a flammable bituminous liquid trapped in the earth's upper strata. It constitutes and also symbolizes wealth in a region typically perceived as "underdeveloped" and part of the "Third World." Domestically, the presence of black gold has provided an inexpensive energy source that has helped to erect infrastructure, spur electrical output, ensure industrial development, furnish inexpensive gasoline and other combustibles, and promote agriculture. The formation of national oil firms, deemed correctly by John Wirth as "virtually a birthright, and the strategic core of a distinctive model of development" (p. x), has permitted Latin Americans to overcome the dependence on multinational corporations that dominated early, enclave-centered hydrocarbon exploitation. These state companies, which spread technical expertise throughout the economy and created jobs in a capital-intensive sector, have demonstrated the technical competence and entrepreneurial skill of Latin Americans determined to direct their nations' destinies. This commitment contradicted the old stereotype of regional leaders as swag-bellied politicos or corrupt generals whose innovative talents were limited to enlarging their Swiss bank accounts, rigging elections, or fomenting *golpes de estado* against political foes.

In recent years, the possession of oil has profoundly affected the status of Latin American states on the international stage. Juan Pablo Pérez Alfonso, twice Venezuela's energy minister, conceptualized the Organization of Petroleum Exporting Countries (OPEC), which sprang to life in 1960. Ironically, he patterned this thirteen-nation body (which embraces Venezuela and Ecuador as its only Latin American members) on the Texas Railroad Commission. Just as the commission had prorationed oil within Texas to prevent oversupply and plummeting prices, OPEC sought to allocate production and to manipulate charges on a worldwide basis. Following the 1973 Yom Kippur War and the subsequent embargo by Arab OPEC members of oil shipments to the United States and the Netherlands, Washington moved to improve its relations with Mexico, Venezuela, Ecuador, Trinidad, and other petroleum exporters in the Western Hemisphere. After all, secure suppliers nearby were preferable to Middle Eastern producers whose oil was forty-five tanker days away from U.S. gulf ports. Meanwhile, as "petrodollars" began to pile up in the bank vaults of money centers, zealous loan officers from New York, London, and Tokyo—their briefcases bulging with credit applications—descended on Mexico City, Caracas, Quito, and Port of Spain. "Planes couldn't get us there fast enough to lend them money," confided a senior vice president of a New York bank that was especially interested in Mexico.[1] Once the sellers' market for oil shifted in favor of buyers in early 1981, the chief challenge facing bankers lay not in lining up new credits, which they continued to do for months, but in collecting interest—if not principal—on the more than 150 billion dollars loaned to Latin American oil exporters.

The internal and external importance of oil has heightened the interest of politicians, diplomats, bankers, military officers, and members of the business community in petroleum-poor and petroleum-rich nations, with the latter category (led by Mexico and Venezuela) commanding the most attention. Consequently, scholars concerned with politics, economics, political economy, international relations, and geopolitics have found oil to be an intriguing thread in pursuing their own intellectual interests. One fascinating aspect of oil is that it defies academic pigeonholes—a study that begins with, say, a political orientation invariably confronts questions traditionally considered to fall within the domain of a half-dozen other social sciences as well as within disciplines as diverse as geology, engineering, law, and philosophy.

As in so many other areas of social inquiry, country-specific case studies have dominated the recent literature on the role of oil in Latin American countries. Although sometimes lacking either working hypotheses or rigorously formulated categories that would facilitate comparative analyses and theory building, these works often advance significantly general knowledge of the role played by petroleum in a given nation. Laura Randall's *The Political Economy of Venezuelan Oil* is an exceptionally illuminating treatment of its subject. Her book merits the standing and recognition accorded those by Edwin Lieuwen, Rómulo Betancourt, Franklin Tugwell, and Stephen Rabe.[2]

Randall seeks to show how a small nation has taken advantage of its petroleum patrimony to transform itself from a producer of raw materials into a highly developed country boasting self-sufficiency in a wide array of manufactures and services. She traces the evolution of Venezuela's oil sector from domination by foreign firms attracted by dictator Juan Vicente Gómez in the 1920s to mounting state control of the transnationals led by Standard Oil's Creole Corporation, then to the 1976 nationalization of the foreign companies and the post-nationalization era in which Petróleos de Venezuela, S.A. (PDVSA) functions as a holding company for four competing state entities. Political expediency and macroeconomic policy sabotaged the goal of using oil earnings to diversify an economy that depends on oil for 50 percent of government income and 85 percent of its foreign exchange. Notwithstanding politicians' cant about guaranteeing PDVSA's economic vitality, they syphoned funds from the state firm to meet short-term needs for social demands and balance of payments. PDVSA's technocratic, elitist image as "latter-day Jesuits" also contributed to the company's vulnerability. Moreover, an overvalued *bolívar*, buoyed by oil earnings, militated against the industrial diversification to which every Venezuelan politician has paid lip service. Randall's conclusion with respect to nationalization reflects mounting scholarly enthusiasm for market mechanisms rather than statist solutions in the petroleum sector. Because PDVSA's need to concentrate on international factors in a glutted market clashed with politicians' fixation on domestic problems, "a better political solution would have involved an opening [of investment opportunities] to the Venezuelan private sector, accompanied by greater freedom for private domestic and foreign investment, and a role of government that supported rather than handicapped economic growth" (p. 228).

Pamela Falk's *Petroleum and Mexico's Future* is as unsatisfying as Randall's book is rewarding. In all fairness, the editor confronted the herculean challenge of integrating disparate papers delivered at a conference into a coherent volume. Given the potential difficulties—participants' failure to adhere to a symposium's theme, delays in revision, uneven writing styles, and publication delays that make the final product out of date—conference papers might be disseminated best as "proceedings" that require only a sturdy and colorful binding by Kinko's. In this instance, Westview's lack of discrimination has resulted in the papers being typeset and bound in a hard cover encased in a praise-laden dust jacket.

With several exceptions, the chapters in *Petroleum and Mexico's*

Future represent a dated hodgepodge of material on subjects alien or tangential to the book's title. The most provocative chapter is provided by former State Department official Edward Morse. He urges Mexico to abandon its "follow-the-leader" approach to OPEC and emulate the United Kingdom and Norway by gradually boosting production. Such a "Mexico-first" demarche, designed to maximize earnings, would depend on badly needed capital investments in new exploration and production activities. The success of this tact would also hinge on a willingness to break ranks with other exporters, a move in which Mexico has demonstrated no interest. Alan Stoga's essay, "Mexico: Is There Life after Debt?," stands out as the most rigorous contribution to the volume. Although little concerned with energy, Stoga compellingly argues that in seeking to change dramatically the orientation of Mexico's hugely statist economy, "fiscal policy remains far too lax, shifting too much of the adjustment burden to the monetary and exchange rate side and forcing the private sector once again to bear a disproportionate share of the costs of stabilization" (p. 12). In addition, Stoga bemoans the absence of a bilateral political framework in which trade, debt, growth, migration, investment, drugs, and other issues could be "addressed as part of an integrated whole" (p. 25). This proposal ignores the conspicuous progress accomplished in U.S.–Mexican energy relations, thanks to discreet, low-key discussions conducted regularly by middle-level bureaucrats through the Bilateral Energy Consultation Group. This body concentrates on energy to the exclusion of narcotics, debt, immigration, and other inflammatory issues that can complicate negotiations on any given package of items.[3]

Another edited collection is John Wirth's *Latin American Oil Companies and the Politics of Energy*. In addition to Jonathan Brown's superb treatment of Jersey Standard's activities in Latin America between 1911 and 1930, this book contains sturdy chapters on Argentina's Yacimientos Petrolíferos Fiscales, or YPF (Carl Solberg), Brazil's Petrobrás (Wirth), Mexico's Petróleos Mexicanos, or Pemex (Esperanza Durán), and Venezuela's PDVSA (Edwin Lieuwen). Carefully researched, copiously documented, and deftly written, these chapters accomplish their purpose of describing the conditions that gave rise to state petroleum firms in two exporting and two importing states. Professor Wirth promises a "conceptual and problem-oriented" approach (rather than a narrative) in grappling with the "historicity" of the founding of state companies (p. xi). Such assurances notwithstanding, he fails to provide a theoretical context in his extremely interesting and wide-ranging introduction. The absence of such a framework limits the comparative value of the essays and leads to the conclusion, perhaps accurate, that different circumstances in these four countries sparked the creation of four extremely diverse entities. In his introduction, Wirth reminds readers of a

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fact often ignored or neglected by observers of the regional energy scene who apparently believe that Latin America's petroleum concerns began with OPEC, the 1973–74 Arab embargo, the mid-1980s collapse of oil prices, or some other recent event. Specifically, he emphasizes the legitimacy of state corporations based on the sovereign's right—according to the Hispanic tradition—to regulate, control, and own the economic wealth of the realm. Buttressing this concept of a tutelary and nurturing state is a corpus of contemporary laws and decrees that enhance the nation's legal and moral authority to intervene in economic affairs. "Latin America," he reminds us, "inherited but little of the bourgeois revolution that swept northern Europe, especially England. No clear distinction was made between the political and the economic spheres of society" (p. xvii). Needless to say, imperatives to meet proximate social and political needs of the state have converted such enterprises as Pemex (to a greater extent) and Petrobrás (to a lesser degree) into patronage operations renowned for cheap fuels, featherbedding, lucrative contracts, and sinecures.

Ironically, the theoretical section of *Latin American Oil Companies* is found in the last chapter by Alfred Saulniers, which provides a "public policy perspective." Although loosely related at best to the previous material on individual state companies, Saulniers's essay trenchantly points out the limitations of explaining the formation and evolution of public enterprises through either the well-defined, sequential stages crafted by George Philip or the "taxonomic" approach that classifies government goals at the time of the company's creation into discrete public-policy categories based on political, ideological, or economic motivations. Invariably, excessive breadth and a lack of predictability mar theories based on historical stages. Meanwhile, taxonomies, whether simple or compound, suffer from insufficient rigor or inconsistent application or both. For instance, scholars often single out nationalism as the impetus for creating state firms, as does Philip in stressing political pressure from the urban middle class (including the military), combined with the perceived economic weakness of the oil companies themselves. But as Saulniers observes, "nationalism [is] often obscured by and entwined with a series of other motives, including price controls, previous experience with multinationals, the nature of the country's military formation, and reaction to manifold domestic pressures" (p. 233).

Because of the similarity of subject matter, Wirth's volume invites comparison with Philip's *Oil and Politics in Latin America: Nationalist Movements and State Companies*, which appeared in 1982 and thus lies beyond the scope of a review essay devoted to recent publications.[4] Nonetheless, Philip's book eclipses Wirth's in scope, organization, readability, and size. Philip traversed the same terrain and more—with the coherence that a single-author study enjoys in contrast with a conference-inspired edited work.

In conducting research for *Politics and Petroleum in Ecuador*, John Martz used Ecuador's oil sector as a laboratory in which to dissect policymaking. In particular, he meticulously examined the relationship between various types of political regimes and the nature of the policies that they produced. He sought to minimize extraneous factors affecting the linkage between regime types and policy-making models by concentrating on a booming and crucial sector in a small Third World country during a fairly brief period that witnessed both military rule (1972–1979) and constitutional rule (1980–1984). His attention to possible differences between military and constitutional governments is enormously interesting because of the recivilianization that has swept Latin America in recent years. In preparing the kind of exhaustive study that has made Martz a preeminent Latin Americanist, he recognized the importance of a research strategy that zeroes in on policy outputs defined in "quantitative terms that can be categorized in a manner allowing systematic comparative analysis."[5]

Yet once the theoretical smoke cleared, Martz discovered only minor and predictable differences between pluralist governments and those controlled by the armed forces. Unsurprisingly, the former were less congenial to civil liberties and the latter more attuned to democratic practices. But what about larger questions of energy policy? Both officers and civilians confronted the tension between, on the one hand, stressing national sovereignty (via state control exercised in varying degrees by the Corporación Estatal Petrolera Ecuatoriana, or CEPE, created in 1972) and, on the other, maximizing the economic advantages of their national patrimony. In view of this challenge, would not authoritarian leaders devise more innovative policies than civilians? After all, generals and admirals are less fettered by the constraints of liberal pluralism. Might not the uniformed politicians display greater nationalism regarding energy than their civilian counterparts who, beholden to interest groups and the electorate, often practice traditional, incremental policymaking? In examining these and other questions, Martz discovered that an amazing degree of continuity characterized the twelve-year period. Put briefly, the nature of the regime proved not to be a major determinant of petroleum policymaking in Ecuador.

Martz proposes various means to fine-tune future analyses of regime types and policies. For instance, researchers might fashion subordinate categories that would recognize differences within forms of government: the military authoritarianism of 1972–1979 might be subdivided into the Rodríguez Lara and Consejo Supremo phases, as could the Jaime Roldós and Osvaldo Hurtado segments of the democratic period. Another refinement could entail piercing the veil of regime types to identify chambers of industry and other elite movers and shakers whose actions favor continuity and limit disruptions in oil policy, irrespective of the composition of the government. Such leads may inspire a master's thesis or two. Nevertheless, as Martz recognizes, the world petroleum market largely determined Ecuador's policy, not the question of whether generals, admirals, or pluralists ruled the roost in Quito. As he concludes, "Whatever the regime in command, it will be constantly subject to international storms and tempests over which the nation has limited control" (p. 395). Yet to suggest that a small nation, prone to cheating on its OPEC-assigned quotas, that furnishes but one-half of 1 percent of the world's daily oil production has even "limited control" over international conditions hugely exaggerates the case. Upon reflection, it may be that a large country like Brazil, which boasts a highly sophisticated and institutionalized public administration, would provide a far better laboratory than Ecuador for examining linkages between regime type and policy. At the very least, a country with a robust domestic market and less dependence on exports would seem to make a better candidate for scrutiny.

While expressing only admiration for Professor Martz's scholarship, this reviewer respectfully requests that his publisher, Transaction Books, flog its copy editor at dawn for allowing bureaucratese ("point in time"), clichés ("Ecuador can never return to prepetroleum days"), and numerous typographical errors to afflict a volume that as a result will appeal only to committed specialists.

David Painter's *Oil and the American Century*, the work of a diplomatic historian at the U.S. Department of State, holds few surprises for energy aficionados. Indeed, it appears to be a U.S.–focused and carefully documented extension of the *Seven Sisters*, journalist Anthony Sampson's breezy, popular treatment of the oil leviathans (1975).[6] Although Painter fails to develop the term *corporatism*, he focuses on this concept, which political scientists apply to certain authoritarian regimes but he defines as "the cooperative use of public and private power in pluralist, democratic societies" (p. 2). The 1928 "As-Is" or Archnacarry Agreement enabled several international majors (now known as Exxon, British Petroleum, and Shell) to maintain prices and market shares. Surging production in Saudi Arabia and the rise of new producers undermined this arrangement and drove Washington to seek a new strategy for managing world oil production, one that shifted attention from Latin America to the Middle East. The solution came in a public-private symbiosis that dominated the period between 1941 and 1954 and benefited the U.S. government and the oil giants. Under this kind of "corporatism," Washington relied for market control on the private initiatives of American oil companies, which in turn enjoyed muscular diplomatic support for ventures deemed congruent with U.S. national interests.

As demonstrated by the Venezuelan case in the 1940s, the U.S. State Department occasionally applied gentle persuasion to convince the major companies that their corporate interests dovetailed with U.S. strategic concerns. In April 1941, the pro–U.S. government of General Isaías Medina Angarita, beset by pressure from both labor and a burgeoning middle class, found itself desperately short of cash. Despite higher than anticipated profits, Standard Oil of New Jersey argued the inviolability of contracts in rebuffing Medina Angarita's plea for more revenues. Persuaded that Venezuela would not follow Mexico's example and expropriate the industry, the Roosevelt administration talked Jersey Standard into paying more taxes to the Caracas regime.

A medley of elements facilitated a corporatist solution in Venezuela. Jersey Standard served as a reluctant but effective instrument of U.S. policy. Eventually, the foreign oil companies realized that they shared Washington's goal of preserving U.S. control of Venezuelan oil. No U.S. government action was required apart from informal mediation and limited diplomatic backing from the State Department, and neither the U.S. Congress nor other executive branch agencies entered the picture.

The absence of these factors militated against the U.S. State Department's effort to reverse the 1938 Mexican nationalization and reopen Mexico to major U.S. oil companies. There was no U.S. firm in Mexico to advance a corporatist policy. Secretary of the Interior Harold Ickes, an inveterate New Dealer who disdained the oil behemoths, championed a competing strategy. He supported efforts by independent oil producers to enter Mexico, with the possibility that the U.S. government might assist Pemex. Ickes's gambit emboldened Mexican nationalists who opposed reprivatizing the petroleum sector. As a result, Petróleos Mexicanos—with all of its warts and blemishes—became a sacred cow that even the most intrepid proponents of free enterprise and foreign investment were reluctant to touch.

The corporatist system—so effective in Venezuela and so ineffective in Mexico—disintegrated in the ten years after 1955 for several reasons: the rise of independent producers, the decline in U.S. reserves amid escalating domestic consumption, the shift of exploration by American firms to the Middle East and other overseas areas, and the resurgence of nationalism in producing nations epitomized by the 1960 formation of OPEC.

The books reviewed lead to the conclusion that oil has represented anything but a panacea and has distorted the economies of every Latin American country boasting sizable reserves. Whether governed by military men or civilians, these nations have undergone "petrolization." This neologism connotes an overheated economy fueled by oil revenues, an overvalued currency, mounting dependence on external credits to import escalating amounts of food, capital, and luxury goods, a stagnant agricultural sector, and above all, outsized budget deficits spawned by prodigious government spending.

Even as petrolization has made Latin American nations more vulnerable to international creditors, the condition of "have-nots" compared with "haves" in individual countries has worsened as a result of policies fashioned during boom years. Political conflict, mounting socioeconomic headaches, ubiquitous corruption, and a penchant for short-term expedients by Latin American leaders have all militated against fashioning prudent oil policies, which benefit from careful resource assessment, long-range planning, technical competence, as well as political stability.

An essay about recent books in a particular field would be incomplete without mentioning trends in the scholarly literature on the subject at hand. Intriguing aspects of the role of oil ensure a growing number of titles, even amid publisher belt-tightening. Unfortunately, the imperative to produce books continues to impel the publication of collected papers, despite their frequent lack of a unifying theme, common methodology, careful editing, or intellectual depth. As evidenced by Randall's *The Political Economy of Venezuelan Oil*, impressive case studies continue to enrich the literature. Such works provide material for exceptional scholars like George Philip, who is willing to synthesize and categorize information about a number of countries in order to identify uniformities that transcend national boundaries. It is to be hoped that Philip, who not only provided excellent sections on "major expropriations" and "state oil companies" but delineated sequential stages in the evolution of Latin American petroleum sectors, might revise his opus in light of the glut that has beset the international oil market since his book appeared.[7]

Although Martz failed to ascertain linkages between regime types and energy policy, he completed an exhaustive study of the oil industry in Ecuador, a country that had previously received short shrift. Still to serve as the subject of a searching study is Ecuador's neighbor, Colombia. The lure of Colombia's energy sector rests in its geographic diversity, technical sophistication, impressive growth, surging exports, mature public-private relations, and remarkably lean and efficient state firm (Empresa Colombiana de Petróleos, or Ecopetrol). Moreover, the regular bombings by the pro-Cuban Ejército de Liberación Nacional (ELN) of the 489-mile pipeline that stretches from the Arauca reservoir to the Pacific port of Coveñas invest drama in the Colombian energy story.

Specialized journals, while relatively inaccessible and expensive, are helping to offset the dearth of monographs and books about specific countries. The London-based *Petroleum Economist*, astutely edited by

Bryan Cooper, provides a monthly trove of material on worldwide energy developments. Most issues, however, contain at best just one meaty article on contemporary developments in Latin America.

Unfortunately, authors writing for specialized or academic publications have largely ignored the trade unions that loom large in the activities of most Latin American oil industries. With the exception of an enthralling study of Mexico's Sindicato Revolucionario de Trabajadores Petroleros de la Revolución Mexicana (the country's most affluent and corrupt labor organization),[8] this subject has been neglected. Still, a combination of factors—the wealth generated by petroleum and its derivatives, the technical vulnerability of this sector, its political salience, and the relatively small number of workers required to operate this capital-intensive industry—enhance the importance of the one or more oil-related unions in most countries. The populist winds now sweeping debt-burdened, austerity-fatigued Latin American nations should only magnify the influence of labor bodies in general and petroleum-focused unions in particular. Let us hope that imaginative researchers concerned about both recivilianization and energy will expand our knowledge of these strategically situated and increasingly militant organizations. Particularly valuable would be a comparative study of such unions in the style of George Philip. A superb starting point for such a volume would be the January 1989 arrest by the Salinas administration of Joaquín Hernández Galicia, the wily and unscrupulous chieftain of Mexico's petroleum workers.

Finally, as Wirth alludes to in his introduction to *Latin American Oil Companies*, Latin American countries—typically following Venezuela's initiative—have explored or embarked on multilateral energy ventures keyed to technical assistance to state firms (ARPEL), policy consultations (OLADE), pooling of managerial, technical, and marketing resources (Petrolatín), and aid to poorer countries of the Caribbean Basin (the 1980 Venezuelan-Mexican San José Accord). These multilateral undertakings, which have endured more failures than successes, would be a useful subject for a book on international organizations and energy relations in the Western Hemisphere.

NOTES

1. Alexander Stuart, "Opportunity Knocking in Troubled Mexico," *Fortune*, 23 July 1982, p. 151.
2. Edwin Lieuwen, *Petroleum in Venezuela: A History* (Berkeley: University of California Press, 1954); Rómulo Betancourt, *Venezuela, política y petróleos* (Caracas: Editorial Senderos, 1969); Franklin Tugwell, *The Politics of Oil in Venezuela* (Stanford: Stanford University Press, 1975); and Stephen G. Rabe, *The Road to OPEC: United States Relations with Venezuela, 1919–1976* (Austin: University of Texas Press, 1982).
3. Henry P. Santiago, "U.S.–Mexican Energy Relations," in *Prospects for Mexico*, edited

by George W. Grayson (Washington, D.C.: Foreign Service Institute of the U.S. Department of State, 1988), 233–38.

4. George Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge: Cambridge University Press, 1982).
5. Karen L. Remmer, "Evaluating the Policy Impact of Military Regimes in Latin America," *LARR* 13, no. 2 (1978):50.
6. Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Made* (New York: Viking Press, 1975).
7. See Philip, *Oil and Politics in Latin America.*
8. Alonso Palacio and Angelina and Carlos Roberto López, *El Sindicato de Trabajadores Petroleros y sus relaciones con Pemex y el estado, 1970–1982,* Cuadernos sobre Prospectiva Energética, no. 54 (Mexico City: Colegio de México, 1984).