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Venezuela: Oil revenues' inflationary pressure

Intereconomics

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COMMENTS

Venezuela

Oil Revenues' Inflationary Pressure

Following the elections in December Venezuela will in March have a new government under President Pérez. It will have to cope straightaway with a grave problem — the repercussions of the raised mineral oil prices. The upward trend of prices had in 1973 already caused the originally estimated state revenues — 14 bn bolivar — to be surpassed by 2 bn. After the recent price rise the extra revenue in 1974 will, to go by cautious estimates, be over three times the 1973 figure.

Pérez has in a number of speeches already forecast various disbursements. Although it does not yet seem possible to discern a coherent concept, agriculture, oceanic research, merchant shipping, fishing and the armed forces in particular are to benefit from increased expenditure. The planned outlays together however will absorb only a relatively small part of the additional revenue. The important question remains what economic use is to be made of the rest of the extra revenue.

The expected increase in money availability confronts the new government with a difficult situation, which will have to be tackled if the value of money which has with a great effort been maintained relatively stable is not to be jeopardized by an excessive inflation of the money circulation. In 1973 the cost of living index showed the increase in Venezuela to have been distinctly lower than in many western industrialised nations (although some qualifications must certainly be made about the comparability of the various indices). Should it perhaps be suggested to the Venezuelan government that excess monies should for a limited or unlimited period be placed at the disposal of some of the developing countries for which the changes in the mineral oil market have been less beneficial? iwe.

Energy Policy

The Washington Conference

The energy conference in Washington ended with a kind of a compromise. The majority of the conferees agreed with the American recommendations for a broad cooperation in the energy sector. But notwithstanding the efforts of the EC-members to overcome the French opposition they did not succeed in finding a common position regarding the decisive energy problems and the resulting economic and monetary consequences.

According to the conference communiqué all countries are worried about the serious effects of the oil crisis for the developing countries and consent to promote multilateral and bilateral development aid vigorously. Furthermore they acknowledge the importance of environment protection and intend to investigate in detail the role of the multinational oil companies, to accelerate their energy production and research and welcome the initiatives of the UN concerning the mineral oil and other raw material problems on a worldwide basis. Finally all 13 governments identify themselves with the proposal to create co-operative, multinational relations with the oil producing countries in the long-term interest of the international community.

So far so good. However, with all operative points of the cooperation programme proposed by the USA, France as the only conferee does not agree. It rejects the comprehensive action programme, which would be based on OECD studies and into which other countries could also be incorporated. This programme includes saving measures, the allocation of oil in times of crises, an accelerated development of additional energy sources and speeded-up research on an international basis.

The French seem to ignore the fact that the oil crisis strengthened the USA and weakened Europe, that the keen competition of the Europeans for oil drives prices up and creates balance-of-payments burdens unmanageable for individual countries and that without America neither the welfare nor the security of Europe can be guaranteed. Since all the other countries are united, the aloofness of France will not necessarily disturb the international energy concert too much. But what it implies for the further progress of the EC is difficult to foresee and is a problem that Brussels simply must solve if the European Community is to be maintained. hg.

OECD

Problems for the Balance of Payments

For the first time since the outbreak of the oil crisis the OECD Committee which has to handle balance of payments problems met in mid-February in Paris. The head of this group, Otmar Emminger — Vice-President of the Deutsche Bundesbank — stated that the rise in oil prices would burden the German balance of current transactions in 1974 with DM 15 to 17 bn. As a result, the recent large surplus in current transactions will at least disappear, if not give way to a modest deficit. This development should bring no prob-