THE SIGNIFICANCE OF MERCANTILISM IN THE PROCESS OF THE ECONOMIC EVOLUTION OF VENEZUELA

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THE SIGNIFICANCE OF MERCEANTILISM IN THE PROCESS
OF THE ECONOMIC EVOLUTION OF VENEZUELA

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PART ONE

BACKGROUND

Economic doctrine is everywhere the expression of the conditions of the time in which it emerges, and Europe from the end of the fifteenth century onwards was a very different place from the Europe of the twelfth and thirteenth centuries.

Alexander Gray
CHAPTER I

GENERAL INTRODUCTION

The purpose of this thesis is to evaluate the economic thought involved in the process of the economic evolution of Venezuela. When the continent of America was discovered, Europe had emerged from feudalism and was living in the mercantilist stage. The ideas and policies of mercantilism determined the character of the Spanish conquest of America and prevailed during colonial times.

Mercantilism has two meanings. The first meaning signifies bullionism, a favorable balance of trade, and exploitation of colonial countries by imperialist nations. The other meaning represents an orientation and philosophy for emerging nations, and for underdeveloped countries. The second meaning of mercantilism is exemplified par excellence in the works of James Steuart of Coltness. The Spanish mercantilism was an example of the first meaning. That is, it was characterized by bullionism, government intervention, and exploitation of colonies.

1 In this paper the word "America" is used to mean the continent and the words "United States" to refer to the nation.
The war for independence brought about the formation of an economic unit, the nation-state, Venezuela, which was in part the product of the mercantilist ideas. As a republic, Venezuela lived the first hundred years with the same economic base as that of the colony, that is, by agricultural activities. In 1920 a new economy emerged, the petroleum industry, which was, and still is, the principal economic activity.

During the colonial period and during the republic, the government played an important role in the economy, that is, the framework of the economy was the market, but it was controlled by government action.

Stewart's thought represented a defined orientation for emerging nations. However, he lived during the last part of the era of mercantilism, and this accounted for the fact that he was ignored or neglected both in Spain when she was a powerful imperialistic nation, and in Venezuela when that country became independent.

The role of the government is important in directing the development of emerging nations; it is more significant when the action of the government is oriented by a philosophy of planning for development. In this context the philosophy of Stewart is relevant.

This thesis will be developed in this order: the situation of Europe when America was discovered, some comments on the two types of mercantilism, including Stewart's; then the principal aspects of the economic evolution of Venezuela and conclusions which stem from these observations.
CHAPTER II

EUROPE AT THE MOMENT OF THE
DISCOVERY OF AMERICA

At the end of the fifteenth century Europe was living in the final stage of feudalism, and was prepared for a great transformation in cultural, economic and political aspects. Thus the discovery of America was not a casual accident, but rather an event that had to occur at that time.

Several factors contributed to this economic, political and technological change which made possible the expansion of the Mediterranean Sea and the discovery of other lands.1 First, navigation had progressed notably due to the invention of the astrolabe, as well as to the construction of larger ships equipped with sails to navigate against winds and with stronger keels for better stability. Second, the improvement of Gutenberg printing, and the simultaneous intensification of the paper industry made the diffusion of technological progress possible. This situation allowed more people to participate in cultural and economic progress.2 In other

1 Cf. Shepperd Bancroft Clough and Charles Woolsey Cole, Economic History of Europe (Boston, 1941). From 1486 until 1622 there were fourteen important discoveries of new "worlds," p. 109.

2 A. Arellano-Moreno, Orígenes de la Economía Venezolana (Caracas, 1960), pp. 21-22.
words, culture progressed from a parochial framework to a universal one. Third, there was a general conviction of the terrestrial sphericity, thanks to contact with Arabs who, in turn, had inherited the Greek-Roman concept. Fourth, the spirit of mercantilism and the eagerness for profit created an anxiety for new businesses and a desire for more gold. "Old school of mercantilist thought, bullionism, emphasized that the nation's wealth was to be measured by the amount of bullion it possessed." During this period of mercantilism the growth of the money economy was significant. It facilitated the expansion of trade. Finally, the European nations were in the process of becoming unified nations. This is also associated with mercantilist thought. In a broad sense, mercantilism was a system of protection and policy of the "economic unit" which was related to political unity. Had the medieval pattern prevailed, it would have been very difficult, if not impossible, to explode the Mediterranean framework of commerce and trade, which made it possible to conquer the Atlantic.

3 Ibid., p. 20.

4 See Chapter III of this study.


7 Ibid., pp. 335-337. The next chapter will contain comments on mercantilism.
When America was discovered, the European nations were in various stages of political unification and economic power. Henri Pirenne asserted that, "France was ruined by the Hundred Years' War, and it was not until Louis XI came to the throne [1461-1483] that measures were taken to bring about its economical revival."* The political anarchy which reigned in Germany prevented it, in the absence of central government, from imitating its western neighbors.9 "Italy, torn between princes and republics all struggling for supremacy, continued to fall into independent economic areas . . . the supremacy of Italy in banking and luxury was still so marked that it was successfully maintained over the rest of Europe, in spite of its political disunion, until the discovery of new routes to the Indies turned the main current of navigation and commerce from the Mediterranean to the Atlantic."10 England was "the country which enjoyed a more powerful and united government than any other;"11 however, as a consequence of the Hundred Years' War, it was still weak. "In Flanders the small towns appealed to the Count against the tyranny of the great cities."12 Finally, Spain and Portugal had developed by that time into a new form of political life, the nation-state, aided by a strong

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9Ibid., p. 219.
10Ibid.
11Ibid., p. 217.
12Ibid., p. 215.
national sentiment as well as by the resentful struggle between the bourgeoisie on one side and clergy and nobility on the other. This fact placed them in a relatively advantageous position concerning the discovery. Was Spain the most advanced European country to undertake this task? Perhaps not, but at that moment its strong political unit was decisive. The rest of Europe, as has been pointed out, was convulsive, weak, divided. The consequence of the discovery of the American continent was of great significance for Europe, as well as for the new stage of economic life: mercantilism. This was the stage of "expansion of Europe," which brought about the expansion of capitalism. As a matter of fact, the expansion of Europe started earlier:

13 Rellano-Moreno, op. cit., p. 26. The author later mentions other meaningful facts. "The principal preoccupation of the Catholic Kings was to re-establish peace and to consolidate the royal authority by means of several resolutions with which they obtained political power over cities, nobility and clergy; military predominance by means of Holy Brotherhood and military orders, and the racial and religious unity with the expulsion of Jews and the persecution of pagans." The expulsion of Jews, who were very active in commerce, was one of the principal causes of Spanish backwardness. This fact and the choice of Madrid as capital of Spain were disastrous to the future of that country. Cf. Federico Carlos Sainz de Robles, Por qué Madrid es capital de España? (Madrid, 1960).


15 Clough and Cole, op. cit., p. 103. "The expansion of Europe which began in the fifteenth century was a two-way process. On the one hand Europe exported to the other continents populations, ideas, language, institutions, and a way of doing things; on the other, it imported from the overseas areas goods and ideas which profoundly modified its own civilization."
The crusades may be considered as an earlier expansion movement which began at the end of the eleventh century and lasted long enough to be linked with the Portuguese and Spanish explorations. Though superficially religious in nature, the crusades had economic bases and results. They opened up trade with the Levant. They brought Europeans into contact with new peoples, new luxuries, new ways of life; but they focused attention on the Mediterranean world, known since antiquity.15

This earlier expansion, therefore, strengthened the center of the Mediterranean Sea, while later, the expansion of Europe toward the American hemisphere brought about a shift of the economic center from the Mediterranean to the Atlantic. "The major factor in the decline of the Mediterranean area was the shift in commerce occasioned by the discoveries [America]."17 As a consequence of the shift of the economic center to the Atlantic, all the Mediterranean ports, such as Venice and Genoa, declined.16 The new stronger states: Spain, Portugal, France, England, and later Holland, all had good harbors on the Atlantic coast.19 The types of commerce changed when the expansion of trade occurred. A wide variety of goods was exchanged in Europe: spices from the East, bullion from the West, porcelain from China and cocoa from America.20

The financial effects of expansion should be mentioned. From 1300 to 1450 the production of gold and silver was

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15 Ibid., p. 103. Italics are mine.
16 Ibid., p. 126.
17 Ibid., p. 119.
18 Ibid., p. 119.
19 Ibid., p. 126.
20 Ibid., p. 121.
declining in Europe as the old mines were worked out. Besides, more gold was going to the Orient in order to pay for the spices and luxury goods obtained from there. Thus the supply of gold from America helped that situation; however, it later brought about an increase of prices. The first place in which the inflation occurred was Spain. In general terms, the price of goods went up faster than the wages.

During this period many people were familiar with the problem of inflation but very few understood the causes of the problem. Thus, in France, M. Malestroit, in his book *Paredoxes About Money* (1566), tried to explain the situation, stating that costs of goods did not vary in relation to gold but in relation to coins. In other words, it was a problem of coignage (the amount of gold in coins). Jean Bodin

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22 *Ibid.*, pp. 128-129. In order to illustrate the increase in Spain, France and England the following are some figures which appeared in the above-mentioned pages:

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<td>1593-1602</td>
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<td>1643-1652</td>
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(1520-1596) replied to Malestroit in his book, *Reply to the Paradoxes of M. Malestroit* (1568). Bodin demonstrated the cause of this inflation as the exaggerated supply of gold from America. He established the basis for what is called today the quantity theory of money.\(^{24}\) As a consequence of expansion, the political, cultural, and social framework changed substantially. The shift of economic activities toward the Atlantic brought about *pari passu*, a shift in political strength. Those nations with Atlantic harbors, such as France, Spain, England, and Holland, became more powerful. There was more interaction in political thought. Thus, European people met people from other nations and this enriched the sources of speculation about political systems.\(^{25}\)

Communication and interaction among intellectual writers were more frequent.\(^{26}\)

\(^{24}\)Jean Bodin, "La Réponse de J. B. aux paradoxes de Malestroit touchant l'encherissement de toutes choses & le moyel d'y remédier," *Early Economic Thought: Selections from Economic Literature Prior to Adam Smith*, edited by Arthur E. Bloomer (Cambridge, 1948), p. 127. "I find that the high prices we see today are due to some four or five causes. The principal & almost the only one (which no one has referred to until now) is the abundance of gold & silver . . . The second reason . . . in part from monopolies. The third is scarcity, caused partly by export & partly by waste. The fourth is the pleasure of Kings & great lords, who raised the prices of things they like. The fifth has to do with the price of money, debased from its former standard." (Emphasis is added here.)

\(^{25}\)Clough and Cole, *op. cit.*, pp. 133-134.

\(^{26}\)Ibid. At that time Thomas More (1478-1535) sketched a new social life in his book *Utopia*. Francis Bacon (1561-1626) used the same approach in his *New Atlantis*. Thomas Hobbes (1588-1679) framed a new theory of government affirming that they must be able to prevent a relapse into savagery, p. 134.
The field of knowledge was profoundly changed; the framework of knowledge was more universal, and methodology of investigation became more objective. Religion (Catholic) as a state power, started its decline to the place of any other institution after the great Reformation which influenced the formation of modern capitalism. Furthermore, "the rapid development of capitalism was so intimately connected with overseas expansion that it is difficult to consider the results of the one apart from those of the other."  


26 Clough and Cole, op. cit., p. 139.
CHAPTER III

SOME COMMENTS ON MERCANTILISM

As was pointed out in the preceding chapter, Europe in 1500 emerged from feudalism into a new political framework based on the emerging nation-states. This process of political integration was guided by the economic doctrines called mercantilism. This economic thought and economic policy prevailed in Europe from the sixteenth to the eighteenth centuries. It has been said that it was not a defined body of doctrines and never dominated completely even during its moment of maximum influence; however, *it never disappeared.*

Alexander Gray wrote:

It has become an accepted phrase to speak of "mercantilism doctrine" and "mercantilism theory," yet mercantilism is a deceitful word, if it is interpreted as implying that at any time there was a group of writers who consciously advanced a body of mercantilist thought to which any canon of orthodoxy could be applied. A mere indication of the spatial and temporal frontiers of Mercantilism is a sufficient warning against the old vulgar error implicit in the view (which perhaps still survives) that Mercantilism was the current orthodoxy before it was attacked by the Physiocrats, and that both schools were succeeded by Adam Smith. . . .

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Mercantilism was never more than a means. The true end was political in its character—the creation of a strong state; Mercantilism was the sum total of the means on the economic side to the attainment of this end.3

According to Gray, the kernel of mercantilism was the development of the state, that is, the instrument of direction to achieve the political unit. Therefore, to maintain the state it was necessary to secure revenues. "The possibility of securing a revenue by taxation was itself, however, one of the indirect consequences of the geographical discoveries, and in particular of the discovery of America."4

On the other hand, to increase taxation it would be necessary to increase national income by the total of economic resources. "Wealth, as a source of a nation's power, above all visualized as money—that form of wealth which endures, which is adaptable to all ends, which can be made to fetch, to carry at command—had thus come into respect."5 Later on,

3Ibid., p. 69.

4Ibid., p. 70. Gray continued his reasoning: "That first commended the New World to the European was its promised store of precious metals. The influx of silver rapidly revolutionized the trade, commerce and the finance of Europe. The consequence of the new discoveries of silver on the European price-level is one of the most familiar exemplifications of that doleful platitude, the quantity theory of money." Cf. Bodin, op. cit., pp. 123-141. Bodin was one of the first mercantilists who made a sophisticated approach to the problem of inflation at that time. According to him, the causes were: too much export, monopoly, scarcity of goods, willingness of princes administering prices, and wasting of things which ought to be economized.

5Ibid., p. 71.
he adds that the fundamental aim for the mercantilist was "the strength of his country. This was the end to which all means were subservient. Moreover, in considering the prosperity and strength of his country, the true mercantilist had always at the back of his mind a comparative standard."6

Therefore, because wealth is meaningful for economic development, and a generally accepted form of wealth is bullion, to possess gold is significant. But it is significant in a relative sense, not strictly according to the distorted view of Adam Smith on Mercantilism. He made the mercantilists a classical example of clotted economic nonsense, and he is responsible for the view so long prevalent that they confused money and wealth. Here Adam Smith was less than just.7

Gray explained

Assuming that bullion is in some sense wealth per excellence, how is a country to get it? If it has mines, or can acquire plantations with mines, well and good. Its task, then, is merely to prevent the silver and the gold from flowing, if need be by "sanguinary" laws, to use Adam Smith's phrase. But if a country has no mines, the desired silver and gold can only be obtained as the result of trade, and the whole trade of the country must accordingly be so ordered and conducted that as a result of its operations gold may come into the country. . . . In order that the supply of bullion in the country may increase, it is therefore necessary that there be a "favourable balance of trade" represented by an excess of exports over imports, leading in this consequence to a balance of payment being due to the country. . . . It was thus a primary principle of the typical mercantilist to maximize exports while minimizing imports.8

6Ibid., p. 74. 7Ibid., p. 75. 8Ibid., pp. 75-76.
Alexander Gray concluded that "mercantilism was a policy of ubiquitous and perpetual government activity."\(^9\)

Mercantilist thought has a variety of manifestations according to the circumstances of every country. But it may be said that there is a common denominator which unifies all of this thought into a real body of doctrine, namely, the necessity of a potent tool of planning and control—state to carry out the development of the country, that is, the increase of national income and wealth. To illustrate the strong nationalism manifested by a mercantilist writer, the following quotation is given from Montchrétien:

Premièrement je represent a vos Majestez que toute la quinquillerie, à la fabrique de laquelle sont occupuez, tant dedans que dehors le royaume, non de villes seules, mais de province entières, se peut faire abandonné et a prix tres raisonnable dans le pays de vos Seigneuries, que d'y en admettre et recevoir d'estrapere c'est eter la vie à plusieurs milliers de vos subjets dont cette industrie est l'héritage et ce travail le fonds e leur revenu; c'est diminuer d'autant votre propre richesse, laquelle se fait et s'augmente de celle de vos peuples.\(^10\)

Karl Polanyi, another writer on this doctrine, affirmed that the mercantilism system was a response to many challenges. "Politically, the centralized state called forth by the Commercial Revolution which had shifted the Mediterranean to the Atlantic framework and "compelled the backward peoples

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9 Ibid., p. 77.

of larger Agrarian countries to organize for commerce and trade." From the economic standpoint, "the instrument of unification was capital, i.e., private resources available in form of money hoards and thus peculiarly suitable for the development of commerce." The national market integrated the local and foreign market. "The 'freeing' of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulations; markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority."

The opinions of other writers on mercantilism will now be reviewed. Adam Smith termed mercantilism "the commercial and mercantile system." His attack was based on two important points: the view of money and the commercial policy defined as a system of protection. The real gist of mercantilism, according to Smith, is cast in the following statement: "Wealth consists in money, or in gold or silver." This oversimplification which leads to the mercantilist insistence on excess of exports over imports was explained as the inability to distinguish between money and wealth.

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12 Quoted in Heckscher, op. cit., pp. 333-339.
13 Ibid., p. 337.
later mercantilist view considered the balance of trade a desirable end.\textsuperscript{14} On the other hand,

... it is especially noticeable that mercantilism statesmen and writers believed in what was called "freedom of trade," or "free trade," the utterances of Colbert to that effect are innumerable and in most cases quite seriously meant. ... What they meant was that interference should aim at changing causes and not effects, that it was useless to punish unavoidable results without removing their causes. As a paradoxical but very typical mercantilist, Bernard Mandeville wrote in 1714: "Private vices, by the dextrous management of a skilful politician may be turned into public benefits." ... [Heckscher concluded] Generally, it may be said that mercantilism is of greater interest for what it attempted than for what it achieved.\textsuperscript{15}

Thomas Mun points out important aspects in "the exportation of our Moneys in Trade of Merchandize" which "is a means to increase our Treasure." He explained:

... if we have such a quantity of wares as doth fully provide us of all things needful from beyond the seas; why should we then doubt that our monies [sic] sent out in trade, must not necessarily come back again in treasure; together with the great gains which it may procure in such manner as is before set down? And on the other side those nations which sent out their monies do it because they have but few wares of their own, how come they then have so much Treasure as we ever see in those places which suffer it freely to be exported at all times and by whomsoever? I answer, Even by trading with their Moneys; for by what other means can they get it, having no Mines of Gold and Silver? ... For if we only behold the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather account him a mad man than a husbandman; but when we consider his labours, in the

\textsuperscript{14} \textit{Ibid.}, p. 336.

\textsuperscript{15} \textit{Ibid.}, p. 339.
harvest which is the end of his endeavours, we find the worth and plentiful encrease of his actions.16

William D. Gramp, in a very interesting and provocative article,17 emphasized the goal of full employment of the factors of production as one of the most important aims of the mercantilist doctrine. The concept of trade for the mercantilist includes all economic activity. A brisk trade involves methods of assuming the maximum amount of productive efforts which is what full employment provides.16

The objective was not accumulation of bullion, but a set of concepts including: a favorable balance of trade, the advancement of private interest, the subordination of the working class, low interest rates, and the elevation of trade at the expense of other industries. Furthermore, Gramp states that a few of the mercantilists may have

16 Thomas Mun, "England's Treasure by Foreign Trade," *Early Economic Thought: Selections from Economic Literature prior to Adam Smith*, edited by Arthur Eli Monroe (Cambridge, 1951), p. 184. Note also that Heckscher comments on this matter: Mercantilists went much further, however, turning against "a dead stock called plenty," not only for the moment but for the long run period. They came to look upon a plentiful supply of commodities within a country with a great disfavor as medieval statesmen had regarded a depletion of commodities. The great object became to decharger le royaume de ses marchandises, stimulating exports and hampering imports by every conceivable means. Heckscher, *op. cit.*, p. 337.


confused money with wealth, and thus made bullionism a goal. However, full employment of the factors of production constitutes the marrow of the mercantilist doctrine.  

In order to achieve full employment the mercantilists proposed a variety of measures. Most of the measures have often been called wonderful examples of what an economy should not undertake. However, they become sensible if related to the objective of policy. The measures can be grouped into those which affected (1) the total spending of the economy, (2) prices, wages and the distribution of income, (3) interest rates, and (4) the supply of labor. The measures in the first three groups were meant to increase employment mainly by increasing the demand for labor while those in the fourth group were meant to increase the labor supply.

The total spending of the economy.—Most of the mercantilists thought the economy would flourish if all its sectors (Government was included by Petty) increased their spendings. However, mercantilists emphasized the spending on exports as a main support of employment.

Wages and prices.—Wages and prices were related to employment in four ways, according to mercantilist thought. First, wages determined export prices and the amount of exports, and therefore determined both spending and employment. Second, the relationship between money wages and prices—real wages, determined income distribution which in turn influenced the volume of spending and employment. Third, selling prices determined the volume of spending and

19 Ibid., p. 67.  
20 Ibid.  
21 Ibid.
employment. Finally, real wages determined the amount of labor supplied.\textsuperscript{22}

The rate of interest.—Several mercantilist writers, including Maseelden, Malyness, Temple, Borbon, Child and Law, advocated a low rate of interest which would make it possible to increase the inventories of merchants, and consequently would lower the price of exports, and that both these effects would in turn cause an increment in employment.\textsuperscript{23}

Increase of labor supplied.—This final group of measures consisted of "means of increasing the quantity of labor supplied, . . ., of increasing the labor supply, and of increasing the productivity of labor."\textsuperscript{24} The fact must be emphasized that mercantilists looked at employment from both sides of the market—supply and demand—and this signifies that their policy "sought to increase the quantity of resources and was not a make-shift for creating jobs."\textsuperscript{25}

The assumption underlying mercantilist labor policy is that "self-interest governs individual conduct, an assumption fully entertained today as it was two and three hundred years ago."\textsuperscript{26} Furthermore,

\ldots the mercantilist labor policy consisted of measures to increase the population; to increase the size of the labor force within a given population.

\textsuperscript{22}\textit{Ibid.}, p. 68.
\textsuperscript{23}\textit{Ibid.}, pp. 71-72.
\textsuperscript{24}\textit{Ibid.}, p. 74.
\textsuperscript{25}\textit{Ibid.}.
\textsuperscript{26}\textit{Ibid.}. 
in number of workers and in the amount of work supplied by each laborer; and to increase the productivity of the labor force. In order to increase the population some writers proposed that subsidies be given to large families; and occasionally they attached the ingenious scheme of financing the subsidies by a tax on bachelors—which makes one wonder what would have happened had the subsidies been successful. Other methods were to encourage the immigration of skilled workers and tradesmen which, it was believed, would be easier if there were greater religious tolerance.27

The increase of the labor force constituted an important challenge to be met by mercantilist thinkers. A possible way to achieve it was to bring children into employment.26 Thus, in bringing more people to the labor force it would decrease the number of persons employed in the army and navy and in this way "direct men into gainful employment... to rehabilitate the poor and indigent whom circumstance or choice has deprived of the will to work.29

Mercantilists considered that there were three sources of motivation which gave men the impulse to work (in the sense of economic activity): first, the stimulus of physical environment; second, the sense of human emulation, or the desire to challenge and emulate their betters, a force is created in part by the social framework; third, the anxiety for pecuniary rewards, that is, profit motivation.30

Finally, Gustav Schmoller, in his work Das Wirtschaftssystem in seiner Historischen Bedeutung (1864), regarded

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27Ibid., pp. 74-75. 26Ibid., p. 75.
29Ibid. 30Ibid., p. 76.
mercantilism as essentially a "policy of economic unity," "to a large extent independent of particular economic tenets."\(^{31}\) An opposite view was expressed by William Cunningham in *The Growth of English Industry and Commerce* (1882). He considered mercantilism as "the expression of a striving after economic power for political purposes, manifesting itself particularly in England."\(^{32}\) The discrepancy between these views was fundamentally due to "a confusion between the ends and the means of economic policy; each of them pointed to something of fundamental importance in the development of economic activities and ideas in the period between the Middle Ages and the Industrial Revolution."\(^{33}\)

Several opinions on mercantilism, as well as its important aspects, have been considered. Before arriving at concluding comments on this school of thought, a contrast of its view on government and market with that of the later classical economists will be given. The difference consists of two kinds: first, a difference in means, the classical economists proposed a completely free market and mercantilists proposed controlled markets. Second, a difference in ends, the classical economists emphasized efficiency in the use of particular resources, and mercantilists stressed the full

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\(^{31}\)Quoted in Heckscher, *op. cit.*, p. 333.

\(^{32}\)Ibid., pp. 333-334.

\(^{33}\)Ibid., p. 334.
employment of the factors of production. In brief, the classical economists advocated a complete market economy, and mercantilists stood for a planned and controlled economy, but both doctrines were framed within the concept of "private enterprise." 34

Furthermore, both doctrines stated that self-interest was the force to motivate economic behavior, but mercantilists, especially Steuart, believed that individual self-interest did not always coincide with the public welfare, and as a result government regulation was needed to protect public welfare. 35

In conclusion, mercantilism was the body of economic thought and economic policies which had the main purpose of planning and developing nations which emerged from the invertebrated situation of feudalism into a stage of political and economic units, namely, modern nations. Mercantilism accepted "private enterprise" in a framework of a controlled market.

Today's nations, which are in the process of development, have something in common with those emerging nations of the sixteenth century. Today, as in the past, such nations cannot rely on a completely free market to solve the problems of allocation of resources. In both circumstances, the

34 Gramp, op. cit., pp. 84-85.
35 Newman, Gayer and Spencer, op. cit., p. 49.
emerging nations need a strong and adequate government to regulate the market, to solve problems of public interest, to plan their economies in order to achieve full employment of economic resources, and to allocate properly the factors of production to achieve economic development and public welfare. 36

"The most mature English mercantilist writing is exemplified in the works of Sir James Stewart." 37 Therefore, the study of his work will be meaningful in the understanding of the problem of the sixteenth-century emerging nations, as well as that of the present ones.

36 By proper allocation of factors of production is meant that allocation that will lead to maximum public welfare.

37 Newman, Geyer and Spencer, op. cit., p. 49.
In order to communicate an adequate idea of what I understand by political economy, I have explained the term by pointing out the object of the art, which is to provide food and employment to everyone of the society.

James Steuart
CHAPTER IV

BACKGROUND OF STEUART'S WORK

Introduction

As has been stated, mercantilism emerged shortly after the end of the medieval period when bourgeois men and kings unified their efforts against feudal lords to centralize the political power in order to create a political and economic unit called the nation-state. This was the common denominator of different mercantilist thinkers during two and a half centuries (1500-1750), but there was a variety of policies and strategic disagreements.

The extreme mercantilists attempted to increase national power by encouraging a favorable balance of trade with every nation with which the nation traded. Manufacturing activities for export were regarded with preference over those for the domestic market. Others considered precious metals as the real measure of the national wealth, that is, bullionism. For that purpose they recommended restrictions on the export of bullion because they mistakenly identified money—gold—with wealth.

Steuart's philosophy represented the intellectual attempt to unify all of these policies on political economy in order
to achieve the political and economic development of emerging nations through economic planning. In this attempt government plays an important role; the market is regulated by government action in order to achieve full employment of economic resources, and in this way, to obtain the economic development of the nation.

In brief, Steuart’s thought represented a philosophy and a guidance of the emerging nations in order to obtain their development, their political and economic unity. Since that was the case, one must broaden the scope of the present inquiry to include Steuart’s thought, for the purpose of the present study is to arrive at conclusions regarding the role of mercantilism in the Venezuelan economic evolution.

The essence of Steuart’s message seems to suggest a substantial reliance upon adequate government planning and action to achieve national economic development—rather than a benign dependence on the “natural forces of the market.”

Sir James Steuart of Coltness was born in Edinburgh, Scotland, on October 21, 1712. He studied law at the University of Edinburgh. Later, he resided in Tübingen, Germany, a small town with a university which provided him the proper atmosphere and intellectual company which helped him in his work. There he wrote his famous book, *An Inquiry Into the Principles of Political Economy*, published in London by A. Miller and T. Cadell in 1767, who published nine years later
the Wealth of Nations by Adam Smith. Steuart also wrote other important books and reports. Principles of Money Applied to the Present State of the Coin of Sensel was published in 1772. After 1775 he wrote eight more works concerning politics, prices, regulations and finance. In 1780 he died in Edinburgh while preparing his last work, Dissertation on the French Financial System.1

Why His Philosophy Was Not Accepted

His book, An Inquiry Into the Principles of Political Economy, attracted the attention of the British intellectual groups of the day. They recognized the "originality" and "penetrating genius" of Steuart, as well as the "novelty" of the subject.2

But a different kind of thought prevailed at that time in England. This thought hindered attention being paid to Steuart's philosophy of planning and even more its being accepted. Thus, The Critical Review, an important organ of public opinion of that time, stated:

We can have no idea of any statesman interfering in the commercial concerns of a free country. . . . Nothing ought to be more uncontrolled or can be more permanent, than the principles of commerce; and nothing ought to be so independent of a statesman, because they are self-evident; they can spring from mutual necessities, they can never be mistaken.3

1Suman Ranjan Sen, The Economics of Sir James Steuart (Cambridge, 1957), pp. 6-17. All this Part on Steuart's thought has been heavily influenced by Sen's work, which constituted a guidance for the direct research on Steuart's works.

2Ibid., p. 13.

That was a statement on the validity of the "natural forces" of the market, the condemnation of planning. The marriage between businessmen and the state was deemed no longer necessary. On the other hand, the expanding economy of Great Britain, due to both internal peace and fortunate East India trade, contributed to the rejection of Steuart's philosophy and to the welcoming of the laissez-faire doctrine advocated at the same time by Adam Smith.  

Sen pointed out that "one hundred years earlier Steuart's work might have been acclaimed by the generation that had produced Hobbes... Steuart was clearly out of tune with his contemporaries, especially in his own country." In addition to this, "Adam Smith was teaching in Glasgow long before Steuart's return from exile, and his advocacy of laissez-faire had already gained considerable popularity amongst the elite of Scotland." On the other hand, Steuart was associated early with "the Jacobite cause which did not commend him to the progressive elements of his time." Furthermore, his writings are difficult to read, a fact which added a hindrance to the understanding of his message.

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6Ibid., p. 15.  
7Ibid.
Stuart's Philosophy

Stuart's philosophical thought was based on the planning and control of the market within the framework of a free society. "Accordingly we shall find in this inquiry some reasoning built on the principles of arbitrary power; others of those national liberties; others, again, on those of democracy." He believed firmly in the republican form of government, because from "experience, we shall find, that trade and industry have been found mostly to flourish under the republican form."  

His philosophy was cast and framed in his outstanding work, *An Inquiry Into the Principles of Political Economy*. For Stuart political economy was both an art and a science. When he treated it as economic policy, then he defined it as an art. When he structured its fundamental principles, then he called it a science. Stuart wrote:

> In order to communicate an adequate idea of what I understand by political economy, I have explained the term by pointing out the object of the art: which is to provide food, and employment to every-one of the society.

That is to say, political economy is concerned primarily with people. In this context, full employment and a proper

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11Ibid., p. 15.
distribution of national income are indispensable. For that purpose Steuart, in the first book, examines "the principles which influence their [people's] multiplication, the method of providing for their subsistence, the origin of their labor, the effect of their liberty and slavery, the distribution of them into classes. . . ."\(^\text{12}\)

The scope of "political economy" embraces the economic and political framework of a national planning, according to Steuart's view. First, he said, "political economy" is a complex framework of art and science because it is an economic policy and because it also has principles. Second, the essence of "political economy" is the provision of food and employment for every member of society. The emphasis on full employment enhances the importance of Steuart's approach within today's economic goals of Keynesian economists and others who consider full employment a meaningful objective. Third, his "political economy" is comprehensive, and constitutes a unified body of concepts which are meaningful for the society as a whole, not only for individuals.\(^\text{13}\)

Knowledge of the relationship between government and "political economy" is very important to an understanding of Steuart's scheme. Government is an important instrument in "political economy," he believed; government is "the power

\(^{12}\text{Ibid.}\)

\(^{13}\text{Ibid., Preface, p. viii.}\)
to command," and "political economy" is "the talent to execute." Government must guide economic activities "by engaging every one of the society to contribute to the service of the others." 14

The operation of control and planning, Steuart wrote, is performed by the government, and "who fits at the head of this operation, is called the statesman," who must "be constantly awake, attentive to his employment, able and uncorrupted. ... impartially just ... for every class of inhabitants, and disregardful of the interest of individuals, when that regard is inconsistent with the general welfare." 15

The Role of the State

As a conclusion to the above comments, one may deduce that the role of the State is relevant to achieve the welfare of the society. "Steuart does not believe in the beneficence either of natural equilibrium or of an ultimate synthesis but is conscious that the natural forces have a great potency for good as well as for evil." Therefore, he seeks "to control them so as to obtain the best possible results within the context of the existing social order." 16

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14 Ibid., p. 149.
15 Ibid.
CHAPTER V

POPULATION, AGRICULTURE, AND PHYSICAL PLANNING

Population and Agriculture

For Steuart, "population and agriculture are the foundations of the whole." He divided the problem of population into three parts: (1) size; (2) occupation; and (3) regional distribution. In the last part he anticipated the study of physical planning—regional planning—which later would be developed by Johann Heinrich Von Thunen, Alfred Weber, and August Loesch, as economists, and Patrick Geddes and Lewis Mumford, as regional planners.

(1) With respect to the factors that determine the size of the population he arrived at the conclusion that food supply is very important.

Food supply is partly determined by nature, the conditions of the soil, and partly by human efforts. Technology

1Steuart, Political Economy, I, 156.

2Sen, op. cit., p. 32.

end organization increase productivity. However, Steuart foresaw a limit. In the first place the supply of land is restricted. Second, even considering augmentation in technology and labor, there is a physical limit in the production. In this reasoning, Sen observed, "Steuart evidently has the phenomenon of diminishing return in mind."

Thus, Steuart concluded his reasoning on that matter:

We may conclude that the numbers of mankind must depend upon the quantity of food produced; and that the food produced by the earth for their nourishment . . . will be in the compound proportion of the fertility of the climate, and the industry of the inhabitants.

(2) Concerning the distribution of population by occupation, Steuart added the following comments which are the continuation of the preceding paragraph:

From this last proposition it appears plain that there can be no general rule for determining what is necessary for agriculture, not even in the same country. [A variety of circumstances determine employment and population:] The fertility of the soil when cultivated; the ease of cultivating it; the quantity of good spontaneous fruits; the plenty of fish in the rivers and seas; the abundance of wild birds and beasts, have in all ages and ever must influence greatly the nourishment, and consequently, regulate the multiplication of men, and determine his employment.

Steuart continued his inquiry on population and agriculture; he observed a close relationship between them:

See, op. cit., pp. 33, 34.
5 Ibid., p. 33. 6 Steuart, Political Economy, I, 156.
7 Ibid., p. 24.
Population and agriculture have a close connection with one another, that I find even the abuses to which they are severally liable, perfectly similar. I have observed how naturally it must happen, that when too many of a society propagate, a part must starve; when too many cultivate, a part must starve also. Here is the reason:

The more of a people cultivate the country, the smaller of it must fall to every man's share; and when these portions are reduced so low as to produce no more than what is necessary to feed the laborers, the agriculture is flocked to the utmost. 8

Stuart divided agriculture into two sections: the one useful, the other abusive. At that moment he introduced the important concept of surplus and trade in opposite sense to subsistence. Trade is a method of producing subsistence for the workers and surplus to be provided for the "free hands" of the state. The method of subsistence does not imply "alienation" (or exchange). 9

Slavery "in former times had the same effect in peopling the world that trade and industry have now. Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants." 10 Consequently labor played an important role in the evolution of the economy in early times. In the second case, a society does not need compulsion any longer, it will be necessary to produce surplus for luxuries, as well as to establish the division of the society in two groups: the farmers devoted to cultivation, and the "free hands" who

8Ibid., p. 156.
9Ibid., pp. 156-157.
10Ibid., p. 40.
purchase the agricultural surplus produced by the farmers, with their personal service.  

The production of surplus brings about more population. The production of surplus brings about more population.  

People are required to produce surplus for two main reasons: first, because they are compelled to do so, as in the case of slavery; and second, because they have some inducement. In both cases population will increase. 

What are the alternatives to slavery? The first alternative is the method of multiplying human needs. The second, is to encourage "luxury" and to intensify trade.  

Steuart explained the incentives to work. In early times the wants of human beings were few, and "a simplicity of manners established, to have encouraged industry, excepting in agriculture which in all ages has been the foundation of population, would have been an inconsistency." Therefore, concludes Steuart, "to make mankind labour beyond their wants, to make one part of a state work to maintain the other gratuitously, could only be brought about by slavery, and slavery was then as necessary toward multiplication, as it would now be destructive of it." The reason is clear, 

\[11\] Ibid., p. 46.  

\[12\] Ibid., p. 114.  

\[13\] Sen, op. cit., pp. 34-36. Sen had the same reasoning. Steuart defines luxury: "the consumption of superfluous or the supplying of wants not essentially necessary to life." Steuart, Political Economy, I, 152. See also pp. 37-38 of this thesis. 

\[14\] Steuart, Political Economy, I, 36.
continues Steuart, if people were not forced to work, then labor for subsistence only would exist.

It is obvious that the more luxuries that are produced and consumed, the greater the stimulus to produce a surplus of agricultural goods by the farmers. Thus multiplication is "the efficient cause of agriculture." On the other hand, "trade, industry and manufacture only tend to multiply the number of men, by encouraging agriculture." 15

Thus the division of labor is started when society is divided into two dependent groups having reciprocal needs and interests. So, Steuart affirmed:

Reciprocal wants excite to labour; consequently those whose labour is not directed toward the cultivation of the soil, must live upon the surplus produced by those who do. This divides society into two classes. The one I call farmers, the other free hands.

As creating these reciprocal wants was what set the society to work, and distributed them naturally into two classes we have mentioned; so the augmentation of wants will require an augmentation of free hands, and their demand for food will increase agriculture. 16

Steuart explained the development of the economy that had as a point of departure the formation of luxury and surplus of agriculture, and the consequent division of labor into two groups, farmers and free hands, and finally, the need for money to facilitate exchange:

15 Ibid., p. 39.

16 Ibid., p. 151.
I define luxury to mean no more than the consumption of superfluity, or the supplying of wants not essentially necessary to life; and, I say, that a taste for superfluity will introduce the use of money, which I represent as the general object of want, that is of desire, among mankind; and I show how an eagerness to acquire it becomes an universal passion, a means of increasing industry among the free hands; consequently, of augmenting their numbers; consequently, of promoting agriculture for their subsistence.17

The new situation needed the presence of money to facilitate exchange because barter was not sufficient.16 In another part, Steuart explained more accurately this new situation.

Then once this imaginary wealth, money, becomes well introduced into a country, luxury will very naturally follow; and when money becomes the object of our wants, mankind becomes industrious in turning their labour towards every object which may engage the rich to part with it; and thus the inhabitants of any country may increase in numbers, until the ground refuses further nourishment.19

Physical Planning

Steuart was one of the pioneers in physical planning.

He provided basic reasoning for industrial localization. The

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17Ibid., p. 152.

16Sen, op. cit., p. 36. Sen observed that "money not only facilitates the process of exchange (or 'alienation') but also becomes very soon a vital element when for all practical purposes it comes to be the principal channel of expression in the market of the 'effectual demand' for food as well as luxuries, for the labour of the 'farmers' as well as of the 'free hands' ."

19Steuart, Political Economy, I, 33.
introduction of luxury and money in the economy produced a differentiation in occupational activity between farmers and "free hands," as has already been pointed out.

Farmers are located on and rooted to the land they cultivate because of the nature of their activity--agriculture. However, the "free hands" have more freedom in the choice of their residence. Most of them live close to the geographical market where they sell their personal services and their products. In this respect Steuart established the fundamental points of a theory of localization. The following quotation gave an aspect of that subject.

In countries where labour is required for feeding a society, the smaller the proportion of labourers, the greater will be that of the free hands...all of the surplus is consumed by the people not employed in agriculture; consequently, by those who are not bound to reside upon the spot which feeds them, and which may be the habitation best adapted for the exercise of that industry which is most proper to produce an equivalent to the farmers for their superfluities.

From this it is plain that the residence of the farmers only is essentially attached to the place of cultivation. Hence, farms in some provinces, villages in others.

I now proceed to the other class of inhabitants; the free hands who live upon the surplus of the farmers.

These I must subdivide into two conditions. The first, to whom this surplus directly belongs, or who, with a revenue of money already acquired, can purchase it. The second, those who purchase it with their daily labour of personal service.

Those of the first condition may live where they please; those of the second must live where they can. The residence of the consumer, in many cases,

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20Ibid., p. 46.
determines that of the suppliers . . . . These I take to be the principles which influence the swelling of the bulk of capitals [great cities], and smaller cities.

When the residence of the consumer does not determine that of him who supplies it, other considerations are allowed to operate. They are:

I. Relative to the place and situation of the establishment, which gives a preference to the sides of rivers . . . when machines wrought by water are necessary . . . to the place which produces the substance of the manufacture [raw materials]; as in mines. . . .

II. Relative to the convenience of transportation, as upon navigable rivers, or by great roads.

III. Relative to the cheapness of living, consequently not [frequently] in great cities, except for their own consumption.

Process of Urbanization

The process of urbanization started with this initial division of labor between "free hands" and "farmers" which brought about the production of more surplus production. In its turn money was more necessary as a medium of exchange. Thus, as money becomes more plentiful, every agricultural surplus can be converted into money.22

But Stewart goes beyond that framework. The proper and fruitful employment of all members of the labor force

21 Ibid., pp. 46-49. See also Sen, op. cit., p. 37. Sen observed that "The introduction of luxury and money leads not only to an occupational differentiation between farmers and 'free hands' but also to a spatial separation. Farmers are necessarily confined to the land they cultivate, but the 'free hands' have greater residential freedom; yet while those who have been able to acquire some money may live wherever they choose, the majority of 'free hands' have to live where they can sell their personal services or their products."

22 Stewart, Political Economy, I, 75.
constitutes an important task to be achieved. "I think it is absurd to wish for new inhabitants, without first knowing how to employ the old... I shall then begin by supposing that inhabitants require rather to be well employed than increased in numbers."²³

As a consequence of this reasoning, according to Steuart, the increase in population is closely related to the increase of the annual agricultural surplus.²⁴ Agriculture should be conceived as an activity producing enough surplus for trade and not as a means of subsisting, accomplishing in such a way "a source of food for the industrial classes and a good market for their products."²⁵

From the concept of reciprocal wants and mutual interdependence of the two groups: farmers and "free hands," Steuart develops the idea of the optimum number of people: the "number of husbandmen, therefore, is the best, which can provide food for all the state; and that number of inhabitants is best which is compatible with the full employment of every one of them."²⁶

²³Ibid., p. 60. Sen, op. cit., p. 36. "Stewart reserves the term 'multiplication' for that increase in the population which is reciprocally serviceable to the community. All other increase is more 'procreation.'" It is not always thought a natural process but, more often than not, by a conscious control and guidance that 'procreation' can be converted into 'multiplication.'

²⁴Stewart, Political Economy, I, 63.

²⁵Sen, op. cit., p. 36.

²⁶Stewart, Political Economy, I, 69.
Concluding Comments

Steuart suggested that "it is not, however, necessary that every country should produce all the agricultural surplus it needs . . . the important thing is that equivalents should be available for inducing either the home farmer or the foreign farmer to produce more surplus." Steuart recommended that agriculture must be more efficient in order to produce a larger surplus of goods; on the other hand, if manufacturing becomes more efficient, then there will be a larger supply of equivalents. Thus, Steuart strongly advocated the introduction of machinery in manufacturing.27

Sen affirmed that "Steuart's population policy is more positive than that of Malthus," because Steuart . . . believes in this optimum [size of population] and holds it is not only a "physical impossibility" but also a "moral impossibility" of increase in numbers which may stand in its way . . . He [Steuart] is anxious to prevent not only over but also under-population; but even his "moral impossibility" as the cause of under-population is due, so he holds, to a restriction of subsistence, not to a deliberate choice between "a baby and a baby car" or to any biological factor.28

Thus, Steuart developed a complete framework of physical (location) and economic planning: division of labor, localization of economic activities, optimum concept of population, full and proper employment of the labor force and his theory of luxury, which is essentially an attempt to emphasize the

28 Ibid., p. 39.
29 Ibid., p. 44.
role of consumption and employment, that, as Sen indicated, most of his contemporaries ignored. To Steuart money was not a mere "veil"; in his system of reciprocal wants the role of money was regarded as important as other equivalents.

Steuart was a broadminded economist who considered economic forces as responsible for the development of the different stages of society; in a nutshell, his work was an attempt at an economic interpretation of history, unusual at that time. Sen summarized Steuart's analysis as follows:

Pressure of population leads to agriculture, the need for agricultural surplus brings about slavery, the multiplication of wants introduces luxury and that in turn exchange economy, the influx of precious metal from America accentuates the spatial separation of farmers and "free hands" and helps the growth of cities.

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30 Ibid., p. 46.
31 Ibid., pp. 43, 46.
32 Ibid., p. 49.
33 Ibid.
CHAPTER VI

BASIC ECONOMIC CONCEPTS

Before discussing the instruments of planning and control, brief comments will be reviewed on some basic concepts in economics which are inter-related in a body of concepts which represent, if they are used by the statesman, important tools for development.

Value

Value will be commented on first. Steuart distinguished between "prime cost," which is the cost of production, and "selling price." "The first depends upon the time employed, the expense of the workmen and the value of materials. The second is the sum of these, added to the profit upon alienation. . . . [the cost] is invariable after the first determination, but the second is constantly increasing, either from delay in selling off, or by multiplicity of alienations."

The principles which determine the value are four, according to Steuart:

1. The abundance of the things to be valued.
2. The demand which mankind makes for them.

The competition between the demanders; and
the extent of the faculties of the demanders. The function therefore of money is to publish
and make known the value of things, as it is
regulated by the combination of all these
circumstances.2

In essence, the above thought implies the following points: First, there are two elements in a commodity sold, labor and raw materials. The proportion of those elements originated in a country implies different results. Second, when there is a surplus of labor exported the country gains; this is the case of developed countries. In such a situation a deficiency of raw materials—which may be imported—and a surplus of labor exported may be assumed. This involves a complete employment of factors of production, mainly labor. Third, when raw materials are exported—because there is a surplus of raw materials and consequently unemployment of labor—the nation loses; therefore, labor has to be imported, which constitutes, in its turn, a gain for the country that imports labor.

This observation should be viewed in connection with Gomp's assertion on the principle aim of mercantilism: the full employment of the factors of production, mainly labor. The objective is not the accumulation of bullion but full employment of labor. And, finally, trade, according to that doctrine, includes all economic activities. Therefore a

2Ibid., p. 527.
brisk trade involves the maximum amount of productive exports which is what full employment provides.

Exportation of work signifies in essence the export of consumable presentations, with the consequence that the balance of wealth will turn in favor of the exporting nation, namely, it will have a "favorable balance of trade." 3

It seems that the fluctuation of the balance of wealth favors industrious and frugal countries—and individuals as well—and consequently it is against the excessive and idle consumer countries and individuals. Steuart explained that consumption is the heart of the problem, "... it is not by the importation of foreign commodities, and the exportation of gold and silver, that a nation becomes poor; it is by consuming these commodities when imported." 4 In another passage he explained that,

... a balance may be extremely favorable without augmenting the mass of the precious metals; to wit, by providing subsistence for an additional number of inhabitants; by increasing the quantity of shipping, which is an article of wealth; by constituting all other nations debtors to it; by the importation of many durable commodities, which may be considered also as articles of wealth. 5

Foreign trade implies mutual dependence among nations; this dependence may be of the kinds, according to Steuart,

3 Sen, op. cit., p. 59.

4 Steuart, Political Economy, p. 416.

5 Ibid., pp. 425-426.
"necessary" and "contingent." Therefore, under the assumption that an action wants to be "powerful by trade" it must proceed to eliminate "contingent" dependence and restrain "necessary" to a minimum expression. 6

**Balance of Wealth and Trade**

Thus, Steuart’s theory of price is both a demand and supply theory and a cost of production theory giving emphasis to "work" (or labor).

In relation to his theory of balance and wealth, he stated:

> As frugality and industry are in our days capable of amassing the greatest fortunes in solid property, so is dissipation, by the means of symbolical money, as certain as expedient for the annihilation of them. For this I conclude that dissipation implies frugality, and frugality dissipation. In every country of great circulation, they balance and destroy one another; and since there is no such thing as equality of fortune to be preserved without prescribing alienation, that is circulation, the next best expedient for making people equal, I think, is to enrich them by turns. 7

From this principle of balance of wealth, he developed his theory of balance of trade, whose scope goes beyond a nation.

In all trades two things are to be considered in the commodity sold. The first is the matter; the second is the labour employed to render this matter useful. The matter exported from a country is what the country loses; the price of the labour exported, is what it gains.

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If the value of the matter imported be greater than the value of what is exported, the country gains. If a greater value of labour be imported than exported, the country loses. Why? [Stewart's reason is very clear on the basis of principle of balance.] Because, in the first case, strangers must have paid in matter the surplus of labour exported; and in the second case, because the country must have paid to strangers in matter, the surplus of labour imported. [The conclusion is evident.]

It is therefore a general maxim, to discourage the importation of work [labour], and encourage the exportation of it. 6

Money

Stewart's analysis of money was very significant in the understanding of the economy of exchange. Money was like blood in the organism of the economy, and not because money and coin are synonymous according to the old mercantilist idea, and even less, because the value of the metals gives value to the money. He started his analysis of money when he tried to explain that one consequence of a fruitful soil which is possessed by "free people" dedicated to agriculture and inclined to industry, would be unfailingly the production of a superfluous quantity of food. As a result, inhabitants would multiply.

From this operation produced by industry, we find the people distributed into classes. The first is that of the farmers who produce the subsistence, . . . the other I shall call "free hands"; because their occupation being to procure themselves subsistence out of the superfluity of the farmers,

6 Ibid., p. 536.
and by a labour adapted to the wants of the society, may vary according to these wants, and these again according to the spirit of the times.\(^9\)

At that moment Stewart made an interesting assumption:

"If in the country we are treating of, both money and the luxuries are supposed unknown, then the superfluity of the farmers will be in the proportion to the number whose labour will be found sufficient to provide for all the other necessities of the inhabitants."\(^{10}\) Then, when consumption and produce were balanced, population would increase no more, "unless wants be multiplied."\(^{11}\)

Stewart continued his reasoning, relating these two important concepts, money and luxury:

If the country we were treating ... be supposed of a considerable extent and fruitfulness, and if the inhabitants have a turn for industry; in short time, luxury and the use of money (or of something participating of the money) will be introduced.

By luxury, I understand the consumption of any thing produced by the labour or ingenuity of man, which flatters our senses or taste of living, and which is neither necessary for our being well fed, well clothed, well defended against the injuries of the weather, nor for securing us against everything which can hurt us. [Here Stewart makes a footnote saying that his concept of luxury has only political sense.]

By money, I understand any commodity, which purely in itself is of no material use to man for the purposes above-mentioned, but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for anything alienable [exchangeable].\(^{12}\)

\(^9\)Ibid., p. 31. \(^{10}\)Ibid. \(^{11}\)Ibid. \(^{12}\)Ibid., pp. 31-32.
It will be meaningful to mention some comments of Sen on this aspect. According to Sen, Stewart "does not believe that variations in the quantity of money have any direct effect on the general level of prices except through particular prices." Later on, he indicated two important points: first, "the money of a country . . . bears no determinate proportion to circulation; it is the money circulating, multiplied by the number of transitions from hand to hand." Stewart affirmed:

The circulation of every country . . . must ever be in proportion to the industry of the inhabitants, producing the commodity which comes to market: whatever part of these commodities is consumed by the very people who produce them, enters not into circulation, nor does anywise effect prices.

The second point concerned paper money, which means credit for Stewart and not irredeemable fiat money. Stewart was consequently not concerned with inflation, principally galloping inflation; however, he considered depreciation of the currency as a serious problem. Furthermore, his real preoccupation was with deflation resulting from a shortage of coins.

Stewart was a strong advocate of paper money for two reasons: first, according to him, money was an invariable

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13 Sen, op. cit., p. 80.
14 Stewart, op. cit., VI, ii, 531.
15 Ibid., p. 61.
16 Sen, op. cit., p. 81.
measure of value, therefore it could not be stressed otherwise; second, he could find no rational relationship between the amount of gold and silver available and the quantity of money in circulation. But this paper money he conceived was neither flat money entirely, nor fully-backed gold or silver certificates; it is more like the modern convertible bank note. His main idea was that banks should issue notes backed with land securities and they should be convertible into bullion on demand. The kernel of his idea on banking was that the basis of the convertible paper money was credit.\textsuperscript{17}

Credit is the reasonable expectation entertained by him who fulfills his side of any contract, that the other contracting party will reciprocally make good his engagements...  
Credit, therefore, is no more than a well established confidence between men.\textsuperscript{18}

Therefore there is this sequence of concepts: the basis of paper money is credit, and that of the credit is confidence:

Confidence, then, is the soul and essence of credit, and in every modification of it, we shall constantly find it built on that basis; but this confidence must have for its object a willingness and a capacity in the debtor to fulfill his obligations.\textsuperscript{19}

Thus we have brought credit to the object under which we are to consider it, viz. the obligation to

\textsuperscript{17}\textit{Ibid.}, p. 64.

\textsuperscript{18}Steuart, \textit{Political economy}, II, 105.

\textsuperscript{19}\textit{Ibid.}, p. 108.
pay money, either for value received, or for some consideration relative to the parties, which may be just ground of a contract.
Credit and debts are therefore inseparable.

Steuart related a framework of concepts: credit, confidence and his theory of interest as important tools to carry them on. "The lending of money without interest was very common before the introduction of trade and industry. Money then was considered ... incapable of producing fruit." The excessive quantity in circulation was "locked up in treasure."

"Things are now changed: no money is ever locked up; and the regular payment of interest for it when borrowed, is essential to the obtaining of credit as the confidence of being repaid the capital." Thus, interest has "now become so absolutely essential to credit that it may be considered as the principal requisite and the basis on which the whole fabric stands." For this reason the rate of interest depended on the supply and demand for it, according to Steuart.

The borrowers desire to fix as low as they can; the lenders seek, from a like principle of self-interest, to carry the rate of interest as high as they can. From this combination of interests a double competition arises ... If more is demanded

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20 Ibid., p. 109.  
21 Ibid.  
22 Ibid.  
23 Ibid.  
24 Ibid., p. 112.
to be borrowed, than there is found to be lent, the competition will take place among the borrowers. 25

The same reasoning was applied in the opposite case. He considered the price of commodities extremely fluctuating, while the price of money was more stable. "Commodity of the same kind differs in goodness; money is all, or ought to be all, of the same value." 26

Stewart distinguished two kinds of borrowers, those who borrow to profit by the loan, i.e., to do business, and those who borrow to dissipate. "The first class can offer an interest which exceeds the proportion of their gains; the second, finding nothing but want of credit to limit their expense, become a prey of usurers." 27 This distinction is relevant in the context that "the profits in trade would strike an average among industrious classes; and that average would fall and rise in proportion to the flourishing or decay of commerce." 28 This distinction is also relevant in terms of the nature of the expenditure. Thus, if the class that borrows to dissipate be "found to preponderate, as to require more money to borrow than all that is to be lent, the consequence will be to prevent the borrowing of merchants; to raise interest so high as to extinguish trade; and to destroy industry." 29 In conclusion, there are cases in which

25Ibid., p. 115.  
26Ibid.  
27Ibid., p. 117.  
28Ibid.  
29Ibid., p. 118.
interest must be regulated, for "low interest is the soul of trade." 30

Thus the statesman should control the supply of money—
for instance, discouraging money for dissipation and encour-
aging supply of money or credit for home consumption of the
lower classes. The purpose of the action of the statesman
will be the reduction of the rate of interest in order to
courage investment. 31

If money consisted only in precious metals "the possessors
of these metals would in a manner be masters to establish
what rate of interest they thought best for their use." 32
On the other hand, if money can be made of paper "to the
value of the solid property of the nation . . . the use of
metals comes to be . . . a standard." 33 Then the statesman
will have the power of increasing or diminishing the money
supply which in turn will influence the rate of interest. 34

Steuart defined two types of banks: banks of circu-
lation with the purpose of circulating notes, and banks of
deposits to transfer credits written in their books.

All banks are founded on credit, and according
to the nature of their institution, I may divide the

30 Ibid., p. 129. 31 Ibid., p. 130.
32 Ibid.
33 Ibid., pp. 130, 149. "Solid property" is synonymous
with personal estates which contain real values.
34 Ibid., pp. 130-131. Because "the interest falls in
proportion to the redundancy of money to be lent," p. 131.
credit they are built on into three kinds: private, mercantile and public. Private credit is when the ground of confidence is real property pledged for the security of the loan. Mercantile credit everyone understands. It is when the ground of confidence is a fund secured by the public faith, in favour of the creditors, for the interest and capital due, which last however is never exigible from the state. Private credit is the most solid of the three; mercantile credit is the most precarious; and public credit depends entirely upon the maxims of every government with regard to public faith.  

Finally, Sen made an interesting comparison with Keynes in relation to monetary policy. This illustrates the profound insight of Steuart's thought.

In his emphasis that foreign trade and foreign exchange are of far less importance than the internal economy of the country, Steuart reminds us of Keynes' *Tract on Monetary Reform*. And then he goes further and suggests that money is a very potent tool for moulding the economic system and for bolstering up trade, industry, and employment, his general bias, as distinct of course from technical content, is surely not fundamentally different from that of the other work by the author of the *Tract* cited above.  

**Public Borrowing and Taxation**

Public borrowing, public expenditure, and taxation play an important role in economic development.  

Steuart emphasized that whatever money the state gets either by borrowing or by taxation is spent and thus expands the circulation in
the nation, increases the level of employment and transfers wealth from one set of persons to another. 36

Public Borrowing. Concerning public borrowing, Steuart wrote that "the interest of a private debtor is simple and un compounded; that of the state is so complex that the debts they owe, when due to citizens, are on the whole, rather advantageous than burdensome; they produce a new branch or circulation among individuals, but take nothing from general patrimony." 39 Public credit is "a powerful tool to supplement private credit for it makes the economy more liquid and providing funds for trade and industry." 40

Steuart considered that money-men, or business men, were usually more industrious and thrifty when compared with landlords, or landed men. 41 Furthermore, the growth of credit per se was "a method of melting down, as it were, the very causes of inequality, and/or rendering fortunes equal." 42

The state was an intermediary in the matter of public credit. The money borrowed from private citizens was spent among the people who paid taxes as members of society. 43

36 Ibid., p. 106.
39 Steuart, Political Economy, II, 625.
40 Con, op. cit., p. 105.
42 Steuart, Political Economy, I, 367.
43 Ibid., p. 511.
Steuart made the distinction between borrowing in the country and abroad. He rejected the second alternative, that is, external debt, because the balance of wealth would turn "against the state in favor of foreign nations." Concerning internal debts, he thought that their accumulation cannot lead to the bankruptcy of the nation because it "implies contradiction." From a practical point of view, there is a limit to public borrowing. Thus, "debts may be increased to the full proportion of all that can be raised for the payment of the interest." Steuart recognized that the state might be faced with bankruptcy in case its tax revenues did not cover the interest charges.

**Taxation.**—Steuart defined a tax as "a certain contribution of fruits, services, or money, imposed upon the individuals or a state, by the act of content of the legislature, in order to defray the expenses of the government." On the other hand, taxes imply a concept of public expenditure. For, "taxes . . . may be considered as a saving out of every private fortune, in order to procure a public fund to be expended for the public benefit." Therefore,

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44 Ibid., II, 453.  
46 Sen, op. cit., p. 110.  
47 Steuart, Political Economy, II, 453.  
48 Ibid., p. 464.  
49 Ibid., p. 524.
Raising money by taxes must always be burdensome, less or more, to those who pay it; and the advantages resulting from taxes can only proceed from the right application of the money when raised. . . . [Steuart continued] If the money raised be more beneficially employed by the state than it would have been by those who contributed, then I say the public has gained, in consequence of the burden laid upon the individuals: consequently, the statesman had done his duty, both in imposing the taxes, and in rightly expending them.50

These concepts involve the kernel of Steuart's idea on taxes, namely, the complete cycle of collecting taxes and spending them, as well as the management of the debt, signifies the promotion of employment and industry. In the same manner the effect of this action on the matter of the domestic wealth is important.51 The reason is that "whoever pays a tax appears to pay for a personal service," namely, "he receives no corporeal equivalent which can be alienated by him for the same value; and he, who is employed by the state, and is paid with the produce of taxes, acquires a balance in his favour against those who pay them." Immediately after that, Steuart indicated the case in which revenues from taxes go abroad for foreign services, then "there can be no alteration upon the balance at home, as has been paid; neither is there any when it remains at home; the people and the creditors are as rich as before."52

50Ibid., p. 525.

51Sen, op. cit., p. 114.

52Steuart, Political economy, II, 377.
concluded by saying, "let this suffice at present, as to the
effects of debts and taxes upon the balance of national
wealth." Thus all this framework of taxes and expendi-
tures constitutes a powerful tool to guide economic activ-
ities into a balanced situation of welfare and wealth.
Therefore, it should be the object of very careful operation
on the part of the statesman.

The principal "use of taxes," according to Steuart, was
to distribute income toward an equalitarian situation in
income "by drawing from the rich, a fund sufficient to employ
both the deserving and the poor in the service of the state."
and to "correct the bad consequences of domestic luxury as
to foreign trade by providing a fund for the payment of
bounties upon exportation."

Besides a proper system of
taxation, it would be necessary, according to Steuart, to
devise a complete program of alternative possibilities of
public expenditure.

Steuart boiled down to three points his conclusions on
taxation. These refer to the use of taxes as a tool for

53 Ibid., 1, 372.
54 Ibid., pp. 514-515.
55 Cf. Justin B. Kaplan, editor, The Pocket Aristotle,
translated under the editorship of M. J. Ross (New York,
1956), p. 204. Aristotle was the first philosopher who wrote
of the exploration of different courses of action to foresee
the best solution. He said: "They [the statesmen] assume
the end and consider how and by what means they consider it
is most easily and best produced, if achieved."
correcting defects and abuses in income distribution and expenditures, as well as an instrument to improve economic activities, i.e., to increase "the production of subsistence and manufactures," and finally forcing everybody to contribute to the welfare of society in relation to his wealth and income.56

According to Steuart, taxes induce people to work harder and their effect on the nation is rather positive for they make it wealthier instead of poorer. Taxes encourage industries, but when the burden is too heavy in proportion to income taxes may discourage consumption, thus affecting in turn production.57

An important point stated by Steuart is the balance mechanism exerted by taxes and public expenditures. "Every application of public money implied a want in the state; and every want supplied implies an encouragement given to the industry."58 This balance mechanism to be achieved must imply two conditions: first, enough money in circulation out of which taxes can be paid; second, the judgment to pay taxes. The first point brings about the necessity of having an elastic currency system for which paper money is required. As a corollary to that reasoning, the development of paper

56Steuart, Political Economy, II, 554.
57Ibid., op. cit., p. 116.
58Steuart, Political Economy, II, 557.
money goes pari passu with the organization of a proper and sound tax system. 59

Steuart classified all taxes in three categories: proportional, cumulative and personal. The first one "is
paid by the buyer who intends to consume, at the time of consumption, while the balance of wealth is turning against him and is consolidated with the price of commodity." 60 The second kind of taxes is the cumulative which "is the accumula-
tion of that return which every individual who enjoys any superfluity owes daily to the state for the advantage he receives by living in the society." 61 Finally, the third one consists of tax on personal services. 62

These fundamental principles should be observed with respect to taxes. "They ought to impair the fruits and not the fund; the expenses of the persons taxed, not the savings; the services, not the persons of those who render them." 63 For that purpose he defined "the taxable fund"—in modern terminology, the taxable capacity—as the net produce of the earth and work, namely, the surplus of the income of society, over what Steuert called "physical necessary." 64

But today is named shifting the incidence, Steuert called "drawing back." According to him, proportional taxes

59 See, op. cit., p. 117.
60 Steuert, Political Economy, II, 465.
61 Ibid., p. 500. 62 Ibid., pp. 466, 637.
63 Ibid., p. 466. 64 Ibid., pp. 466, 407.
are always shifted by the laboring consumer and lead to the increase of prices. Taxes are shifted from the laborer to other people. The laborer cannot accumulate profits and is called by Steuart a "physical necesserian." However, to the extent that he earns no profit and buys taxable goods which in fact are not "physical necessaries" for his income group, he cannot "draw the tax back." With regard to proportional taxes, Steuart contended: "All the amount of proportional taxes is refunded to the industrious consumer, so far as they are raised on articles necessary for his subsistence; and when he is either idle or consumes a superfluity, he is classed along with the idle and rich." Steuart stated, with respect to cumulative taxes, that "the nature of all these taxes is to affect the possessions, income and profits of every individual, without putting it in their power to draw them back in any way whatever; consequently, such taxes tend very little towards enhancing the price of commodities." On the other hand, "the tax upon land affects only the proprietor's share of the produce of his land: were he to attempt to raise the price of grain in proportion to the tax he pays, his farmer—who pays no land-tax for his portion—would undersell him in the market."

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65 Ibid., p. 491.  
66 Ibid., p. 493.  
67 Ibid., p. 510.  
68 Ibid., p. 496.  
69 Ibid., p. 552.
A tax on money, in accord with his opinion, seems to be impractical. Finally, he did not recommend a tax on profits due to the fact that "... although they appear to be income, I rather consider them a stock, which ought not to be taxed." It seemed that Steuart was seeking, in that view on profit, a spur to investment.

Steuart was an advocate of progressive taxation. He stated that "according to equity and justice all impositions howsoever ought to fall equally and proportionally on everyone, according to his superfluity." He called "superfluity" the amount of consumption beyond "the necessary."

Concerning economic development and taxes, he contended that for early stages of economic growth and likewise for primitive economy, that is, barter economy, heavy taxation may have detrimental effects. Contrariwise, the imposition of heavy taxation—but according to a wise plan—may result beneficially for the economy as a whole. The reason for this is based on their tendency to support each other in both the volume of taxation and the volume of circulation. Finally, it must be mentioned that Steuart was opposed to drastic change in taxation.

A sudden abolition of taxes would be advantageous to nobody but to creditors upon mortgage and to the

70 Ibid., p. 541.  
71 Ibid., pp. 319, 520.  
72 Ibid., p. 493. Commented also by Sen, op. cit., p. 126.  
73 Sen, op. cit., pp. 120, 460.
idle; not to landlords because their income would diminish more than in the proportion of the present land tax, at least their improvement would be interrupted and their rents ill paid; not to the manufacturing class because at present they pay no taxes, but in proportion to their idleness. . . . The reason is plain: the money paid for taxes circulates because it is demanded. Were taxes suppressed, people having less occasion for money than formerly, would circulate less in proportion.74

In conclusion, public borrowing, taxation, and public expenditure constituted an organized body of concepts and policies in Steuart's philosophy. These concepts were interrelated in a dynamic instrument for economic growth. This viewpoint was in marked contrast with the conventional view of mercantilism at that time.

In addition to a theory of taxation, Steuart's main contribution in that respect was the integral conception of taxes and expenditures as a powerful instrument of social policy. Sen comments as follows:

Steuart's real contribution was not in developing a theory of taxation primarily as a source of public revenue but in conceiving it (together with public expenditure) as a potent tool of social policy. The main significance of public finance lay in his view in the use that would be made of it in furthering certain social policies and is best understood in that context.75

74Steuart, Political Economy, II, p. 461.

75Sen, op. cit., p. 129.
CHAPTER VII

INSTRUMENT OF PLANNING AND CONTROL

Introduction

Steuart considered the military communism of ancient Sparta a political and economic model which solved problems of distribution of income and unemployment.¹ Power and security were the characteristics of the Spartan economy based on compulsion. However, he rejected such a system to be applied in his time for two main reasons: first, slavery was considered by him as in opposition to the present human conception of freedom; second, because its organization and its nature involved stagnation, that is, absence of progress.

On the other hand, he believed that the exchange economy needed control and guidance; it could not work alone. He believed in a free society which was "a general, tacit contract from which reciprocal and proportional services result universally among those who complete it."²

He related freedom and control in this way: "by peoples being free, in understanding no more than their being governed by general laws . . . not depending upon the ambulatory

¹Steuart, Political Economy, I, 250-258.
²Ibid., p. 33. See also Steu, op. cit., p. 133.
will of any man or any set of men, and established so as not to be changed, but in ... [a] uniform way ... 

He explained it further: "people who depend upon nothing but their own industry for their subsistence, ought to be under no further subordination than what is necessary for their protection." This protection should be for every individual in an equal manner. Thus "no person, no class should be under a greater subordination than another."

The Instruments of Regulation and Control

Steuart thought to regulate the economy with a set of tools. These tools may be grouped under four heads: sumptuary legislation, money, taxation, and public expenditure.

Steuart believed in human freedom; however, he did not trust in the "natural forces," which could not lead to welfare and prosperity when they acted alone. That was the case in the use of credit—for business or for dissipation, and in the type of expenditure—for consumption, or for luxury, as discussed in the preceding chapter.

Concerning money, Steuart agreed that "in the hands of a good statesman [it] is an irresistible engine for correcting

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3Ibid., p. 237.  
5Ibid.  
6This section is guided by Sen's research. See Sen, op. cit., pp. 148-152.
every abuse." Therefore, money for him was an important tool for economic planning. In the first place, he thought that money was "the universal measure of what is called value and an adequate equivalent for anything alienable." Furthermore, this concept of money had a dynamic framework, circulation was the foundation of an exchange economy, and any defect in monetary policy would obstruct the whole economic system. For instance, a shortage in the quantity of money would tend to depress the economy; namely, it would hinder the full employment of the factors of production. Money, banking, and credit constituted for Steuart a structural and important body of the economy.

On the other hand, Steuart thought that money was something else than a medium of exchange, that is, a store of value, and also money capital. He commented that the "low interest is the soul of trade;" moreover, he thought that

7 Steuart, Political economy, I, 32.
8 Ibid.

9 Ibid., II, 444. The whole policy is divided by Steuart into three parts: "1st, The melting down of property, and keeping circulation full at all times. This is the business of the bank. 2nd, The providing of coin is the business of the mint. 3rd, The granting of bills on foreign parts, for value in the national currency, is the business of the state." Ibid., pp. 611-612.

10 Steuart affirmed: "Money is the instrument of all alienation; and when this instrument is taken away, alienation must cease . . ." Ibid., p. 607.

11 Ibid., II, 129.
the quantity of money in circulation would affect the volume of trade.

In the third place, taxation, which was related to the theory of circulation, constituted an important tool. Thus, by the use of taxes, the statesmen would "produce the effect he thinks fit." The proper use of taxes constituted an instrument of control of export, import, consumption, and production, and in this way achieved the desired effect.

By the imposition of taxes, and the right employment of the amount of them, a statesman has in his power to retard or to promote the consumption of any branch of the industry. When foreign trade begins to bear a small proportion to domestic consumption, he may profit from luxury, and draw a part of the wealth of the luxurious into the public treasury, by gently augmenting the imposition upon it.

Furthermore, in the state of autarchy, taxation was even more meaningful. The effect of foreign trade on the circulation of money no longer existed, and there might have been danger of stagnation, unless the effect of taxation and public expenditures took place by a process of pumping money in and out of the economy.

The fourth method to control the economy was public works. In his book, Considerations of the Interest of the Country of Lanark in Scotland, Steuart advocated a program

12 Ibid., I, 365.  
13 Ibid.  
14 Ibid., p. 392.  
of public works to create the so-called (today) infrastructure of the economy. He indicated the construction of roads and canals to facilitate transportation, abolition of internal tolls to facilitate the interchange of products among different regions, as well as the establishment of organized markets. With the same purpose, namely, to facilitate commerce and interchange of goods, he advocated the idea of establishing a uniform national—and furthermore international—system of measures.\(^6\)

S. N. Sen summarized a group of measures proposed by Steuart in the same matter, i.e., to control the economy by...

... undertaking public works, expanding the number of soldiers and other state employees, assisting emigration to colonies in times of distress, furnishing the embassies abroad with local manufactures so as to popularize these in foreign countries; setting the fashion in the court in such a way as to guide popular taste into desirable channels, etc. He would even make use of chartered companies to foster trade and industry provided these are controlled by the state so as to safeguard the public interest.\(^7\)

In this context Sen observed that Steuart recognized two important limitations:

First, natural forces should never be ignored, and the spirit of the people concerned should always be given very carefully consideration. Second, "all sudden revolutions are to be avoided." Even the best measures may produce very undesirable results if introduced suddenly.\(^8\)


\(^7\)Sen, op. cit., p. 151.

\(^8\)Ibid.
Finally, Sen pointed out, Steuart "makes 'general welfare' the target of all economic policy and insists that all particular interests must give way before the general interest of the nation."\(^{19}\) In Steuart's words: "When the well being of a nation comes in competition with a temporary inconvenience to some of the inhabitants, the general good must be preferred to particular considerations."\(^{20}\)

\(^{19}\) Ibid., pp. 151-152.

CHAPTER VIII

CONCLUSIONS ON STEUART'S THOUGHT

Sir James Steuart of Coltness was not a mercantilist in a "conventional sense." He rejected dictatorship and slavery, like ancient Sparta, as being irrelevant in modern times. But he did not trust a completely free market to allocate resources.

1 Sen, op. cit., p. 182.

2 Ibid.
He advocated a planned economy within a framework of free enterprise. Therefore, he thought the market must be regulated by a planning body, and the only entity in the society that could perform this function was the government.

How was one to reconcile security, full employment, public welfare, with liberty and peace? First, he defined a free and perfect society as "a general, tacit contract, from which reciprocal and proportional services result universally among all those who compose it." Freedom was supported by organization and reciprocity. Freedom should not permit a group, in the name of the society, to take over resources and use them as if in a framework of "free market," organize resources for their own welfare at the expense of the public welfare. Second, to plan and to regulate the market was far from depriving people of freedom. Steuart had no prejudice for political ideas. He was very objective; for in his mind there was no fallacy of "black or white." Thus he considered a solution located in a spectrum whose extremes were the completely free market and the completely planned economy. His reasoning was both objective and pragmatic; he thus considered that compulsion brought about prosperity in antiquity, but that now its application was outmoded and inconvenient.

3Ibid.
5Stuart, Political Economy, I, 33.
He recognized the need for control of these forces acting in the market, framing in such a way a structure of governmental planning and free society.6

Stewart was a pioneer in physical planning. The location of economic activities was relevant to the achievement of a national and regional planning. His studies on population and agriculture are significant today for the economic development of emerging nations. Population is determined by the proportion of food produced, and this is dependent on soil fertility, climate, and the "industry of the inhabitants." His concepts were organized in a perfect chain of relationships: pressure of population led to agriculture, the need for agricultural surplus caused slavery; in that situation, the multiplication of needs and wants introduced the concept of luxury, which brought about the stages of the exchange economy. Furthermore, according to Stewart, the increase of the supply of gold from the American continent strengthened the division of the two branches of the society: farmers and "free hands." This encouraged the development of urban populations and consequently—since the viewpoint of space economics—the growth of urban centers.

For Stewart, money was not a "veil" nor was it real wealth; it was a potent tool for framing the economic system and for supporting trade, industry, and employment. This

boars as interesting resemblance to Keynes' ideas in his 
*Tract on Monetary Reform.*

Finally, Sen compared the different approaches to the 
economic problem of three outstanding writers of economic 
thought: Smith, Marx, and Steuart:

Adam Smith believed that the existing social order 
was a deplorable aberration from the natural order 
of equilibrium which could be obtained if natural 
forces were left entirely unfettered, and he waged 
a crusade in favor of laissez-faire. [Now, then, 
the other extreme.] Karl Marx did not believe 
that under the existing institutional order either 
laissez-faire or state control could ever lead to 
any stable or desirable situation. But he was fully 
conscious of the extreme potencies of natural forces 
and was convinced that in the long run these would 
destroy the existing order and through a series of 
theses and antithesis would lead to a synthesis such 
as he really desired and was anxious to further.

[Finally] Steuart does not believe in the 
benignicence either of natural equilibrium or of an 
ultimate synthesis but is conscious that the natural 
forces have a great potency for good as well as for 
evil. He wants to control them so as to obtain the 
best possible results within the context of the 
existing social order [namely, "free society" as he 
declared it]. And because the state is the only 
authority capable of controlling these powerful 
natural forces [will it be possible to imagine "some-
thing" without authority in order to control and 
plan?], he entrusts it with the task and endows it 
with unfettered authority—unfettered even by ethical 
considerations, if necessary, because where the stake 
is so great—namely, order or chaos—expedience is 
the only really relevant consideration.

In brief, what is expressed in the above paragraph was 
the kernel of Steuart's work.


PART THREE

COMMENTS ON ECONOMIC EVOLUTION OF VENEZUELA

Una grey y un pastor solo en suelo
un monarca, un imperio, y una espada

[flock and a shepherd alone on the soil
a king, an empire, and a sword]

Hernando de Sosa
CHAPTER IX

INTRODUCTION

In Part II of this study some aspects of the economic evolution in Venezuela will be considered. This entire process may be divided into four stages characterized by important economic and social facts.

The first stage was the pre-hispanic (−1500). The primitive inhabitants of Venezuela—called Indians—lived in a primitive economy. This stage ended at the moment of the discovery of America.

The second stage was the hispanic or colonial stage (1500–1810). Spaniards first arrived in Venezuela in 1500 and formed a new economy based on mercantilist ideas. During this stage a new nation was forged, with contributions from three cultures: Indian, Spanish and African, with a predominance of Indian-Spanish mixture—in both blood and culture. The economic base of the colony was agriculture.

The third stage was the republic, the coffee era (1810–1920). In this era the state emerged, that is, it became politically independent. The economic base was agriculture, that is, coffee. The mercantilist framework persisted and was manifested in government regulation and intervention.
The fourth stage was the republic, the petroleum era (1920-1956). The emergence of petroleum activities changed the economic structure of the nation which was no longer agricultural. The mercantilist ideas played an important role in the economy. This is seen in regulation and government planning.
CHAPTER X

THE FIRST STAGE: PRE-HISPANIC

(—1500)

The first Venezuelan inhabitants were called Indians; under this general denomination several cultural groups were included. In America, the principal Indian cultures were Inca, Aztec, Maya and Chibcha. (See Map 1, p. 65.) They reached a relatively high level of civilization when Spaniards came to the American continent.1

The different Indian groups lived in Venezuela and were comparatively lower in culture than the rest of the Spanish Americans. Among them the Timoto-Cuicas, who were closely related to the Chibchas (Colombia), had the highest culture. They were located in the Cordillera de los Andes.2

Miguel Acosta-Saignes classified the primitive inhabitants of pre-hispanic Venezuela in several cultural areas.3 (See Map 2, p. 66.)


2Carlos Siso, La Formación del Pueblo Venezolano (Madrid, 1953), I, 19-36.

There were two types of economic organizations among Venezuelan Indians in the stage of the pre-hispanic period: collector and sedentary. The collector group was nomadic and only knew hunting and easy fishing. They constructed very rudimentary shelters or none at all.4

The historian Fray Pedro Simon (a Spanish priest) was responsible for the first investigations of Indian culture. He wrote the following on nomadic Indians (1626):

People naked, including sexual organs—men and women, bandits, vagabonds—and without known settlement... they spent four days under a tree and two days under the shadow of another one—in this way they spend their life, idle, without farming... they only eat fruits collected from trees, which are many, ... venison which is abundant, as well as fish and certain seeds like mustard picked from a type of weed which grows wild, and is used to prepare mucamorras [a kind of thick soup] for their sustenance.5

In that primitive society the economic framework was very simple. First, the primordial concepts will be discussed. What is the essence of economic problems? An answer is given by Professor Heilbroner: "... the economic

4Morón, op. cit., pp. 27-32.

5Pedro Simon, Part I, Notice 3, Chapter V, quoted in Ibid., pp. 28-29.
problem itself, that is, the need to struggle for existence, derives ultimately from the scarcity of nature. If there were no scarcity, goods would be as free as air and economics, at least in the sense of the word, would cease to exist as a social preoccupation. In this case there were no economic goods created, which employed factors of production such as labor, capital goods, and know-how. These goods were resources—natural resources—which were taken and used without a sense of replacement or production on the part of human beings.

Among the Caribbeans the base was the interchange of goods and slaves. Salt was valued highly by all the sedentary Indians; in fact, it was used as the common denominator of transaction, which is one of the characteristics of money. Shells and pieces of gold were used for money among the Achaguas, Salivas, Betoyes and Caribbeans. One must remember that the Venezuelan Indians had no animals to use for transportation. As a matter of fact, the Incas domesticated the llamas and were the only American

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7Cf. Leland J. Pritchard, Money and Banking (Cambridge, 1958). "The earliest rudimentary beginning of money was in the form of a barter unit of value. The commodity which served in this capacity performed the function of a standard of value but did not perform the functions of medium of exchange or store of value," p. 59.

8Morón, op. cit., pp. 31, 32.
Indians who did. Venezuelan Indians (sedentaries) domesticated fowls (ducks and turkeys) and small mammals.9

The agricultural pre-hispanic areas in Venezuela were: Andes, with a well-developed agriculture; Costa (Atlantic coast), Indian with a middle level of agriculture; and Orinoco, an itinerary agriculture.10

The economic framework of the sedentary Indians was more complex because they had a sense of economic goods, produced with land and labor, and consequently they were faced with the problem of scarcity of economic goods on the one hand and multiple wants on the other. Therefore, they had to solve two problems: production and distribution.11

Putting men to work is only the first step in the solution of the production problem. Men must not only be put to work, they must be put to work in the right places. They must produce the goods and services that society needs. In addition to assuring a large enough quantity of social effort, the economic institutions of society must also assure the proper allocation of that social effort.12

9Ibid., p. 30.
10Ibid.

11Meilbroner, op. cit., pp. 4-6. The problem of scarcity involves the solution of two related and yet separate fundamental tasks: 1. A society must organize a system for producing the goods and services it needs for its own perpetuation. 2. It must arrange a distribution of the fruits of its own production among its members so that more production can take place, p. 6.

12Ibid., p. 7.
The Timoto-Cuicas had rudimentary notions of division and organization of labor in order to undertake more effectively the task of production. The distribution problem was set in a pattern of tradition which oriented also the organization of production.

Among some Caribbean Indians: Chiajas, Cumaná and Chiribichi, the division of labor prevailed. Thus while men went to fish, to hunt, or to make war, women farmed the land; and among Palequés, as among other Caribbeans, according to Castellanos, an escort of eunuchs was charged to guard the women of the caciques (the chiefs of the tribes). . .

Concerning the regime of work among the Aruacos, Rodrigo Navarrete in 1560 informed the Spanish Crown that "These Indians do not tolerate idle people. They either make them work or within three days expel them from their lands." This is equivalent to a compulsory political system.

From this reasoning it can be deduced that in a certain way there was no sense of scarcity. Goods were given by nature and when they became exhausted the people moved to

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13 Ibid., pp. 7-17. There are three solutions for the allocation problem: 1) tradition "the oldest and until a few years ago, by far the most prevalent way of solving the economic challenge . . . Thus hereditary chain assures that skill will be passed along," p. 10; 2) command, which constitutes "the method of imposed authority, of economic command," p. 12; 3) the market organization of society, p. 14.


15 Arellano-Moreno, op. cit., p. 165.

16 Rodrigo de Navarrete, Relación sobre los Aruacos (1560-70), quoted in Arellano-Moreno, op. cit., p. 165.
another place where nature would provide more goods. Accordingly, the essence of being nomadic was the lack of a sense of production of economic goods. Their economic framework was simple and it reduced the sense of struggle for their existence, thus wasting or using resources in a nomadic way.

The other type of people, the sedentary, was placed and rooted to the area where they lived and practiced agriculture. The highest group of this type was the Timotocuicas who were located in Los Andes. Their agricultural methods were relatively advanced when compared to the other people at that time. They used devices to prevent soil erosion and utilized rudimentary irrigation. They constructed storage facilities to hold food which they would eventually need in the future.\(^1\)

Maize (corn) was the basic food and was cultivated extensively. They also raised some tubers (like yuca), cotton with which they wove chinchorros (hamacas), but they had no clothing, as did the more advanced Chibchas. They also grew cocoa and tobacco.\(^2\)

Trade was carried on among different sedentary groups. The Caribbeans were good, daring navigators, as well as

\(^{17}\)Moreno, *op. cit.*, pp. 29-30.

\(^{18}\)Ibid., p. 30.
excellent warriors. They carried on an intensive trade with other Indian groups.

Sisco, op. cit., I, 72-76. Caribbeans were good warriors whose war cry was Ana Carina Rote (only Caribbeans are men) and Amazon paperoro itote (All the rest are their slaves), expresses their dominant character and their extraordinary pride. Two Indian "nations" (in the sense of a large political and cultural area with the same language) shared the hegemony of tropical America: Caribbeans and Quichuas. This last "nation" integrated with the Aymeras, Chibchas and Caras, and had a warrior spirit although they were more like colonizers.

Cf. J. C. Terreiro-Monagas, Ana Carina Rote (An essay on military practices of the Caribbeans) (Caracas, 1933). This author translates the cry: Ana Carina Rote as We Only Are, which in essence has the same meaning.
IBERO AMERICA: LOCATION OF MAIN INDIAN CULTURES
PRE-HISPANIC STAGE

CULTURAL AREAS OF VENEZUELA: PRE-HISPANIC STAGE

LEGEND

Caribbean and Ciparacotos
Western Arawacos
Jirajara-Ayaman
Western Caribbeans
Western collectors and fishers
Otomacos
Venezuela Guiana
Collectors, fishers, and hunters
Timotoco-Cuica

Source: Guillermo Moron, op. cit., facing p. 33
CHAPTER XI

THE SECOND STAGE: HISPANIC (1500-1810)

Introduction

The Hispanic stage was very significant in the formation of the Venezuelan people in both social and economic aspects. During that period the following facts took place: the meeting in one place of three different cultural and ethnic groups: native Indians, white Europeans, and African Negroes, which resulted in their cultural and physical integration; the economic structure of the Indians was transformed by the Spaniards who, after conquering the native people, sought gold (El Mito del Dorado), and later (during colonization) developed a more advanced agricultural exploitation than that of the Indians. The economy of the colony was oriented toward the "metropolis," namely,

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1 The integration of these groups produced three blood groups: Mestizos (Spaniards and Indians), Mulatos (Spaniards and Negroes), and Zambos (Indians and Negroes). See Marou, op. cit., pp. 145-154.

2 Siso, op. cit., I, 117. After the discovery, Spaniards were motivated by the search for gold. This news spread in Spain motivated Spaniards to come to Venezuela in search of gold. El Mito del Dorado means The Golden Myth. See Washington Irving, Colon El Descubridor (Caracas, n.d.), quoted in Siso, op. cit., p. 117.
Spain, in accordance with mercantilist thought.  

This Hispanic stage ended in 1810 when the Republic began. This period can be divided into two parts: conquest and colonization. The conquest of the Indian territory occurred during the sixteenth and seventeenth centuries. The conquest was the subjugation of the Indian people by the Spaniards, who took possession of the land for the Spanish Crown. During the conquest period military encampments were established. These encampments might be called the first foundation stone for the future urban settlements which were developed during the process of colonization.

As previously stated in this paper, the principal motivation for conquest was the search for gold. During this search part of the Indian population was killed. These were the negative aspects of the conquest. On the other hand, "it is necessary to understand that the process known as [conquest] during the sixteenth century was precisely the way in which they built the foundation of a people and even a nation."  

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3 Newman, Gay and Spencer, op. cit., p. 23. "This was an age of colonization (the age of mercantilism), and colonies were regarded as existing for the benefit of the mother country." Italics mine.

4 Cf. José Gil-Fortoul, Historia Constitucional de Venezuela (Caracas, 1930), I, 9-36.

5 Morán, op. cit., p. 57. Cf. Laureano Valledilla-Lenz, Desregulación y Integración (Caracas, 1930), p. 129. In spite of the destructive process of the conquest, when many Indians were killed, their number was larger than Europeans and African Negros; therefore, their contribution was the most important in the formation of the Venezuelan people.
One chapter of the Spanish conquest in Venezuela had a peculiar characteristic, namely, the administration of the Venezuelan territory by Welser, a firm of German bankers. They maintained commercial relations with Spain and Genoa long before Charles V was crowned. He was indebted to the Welser firm for several loans, and on the other hand the king wanted economic aid to proceed with the conquest of America. The Spanish Crown and the Welser firm agreed on three important pacts. The first was to bring skilled labor from Germany to work in Santo Domingo. The second pact concerned the importation of unskilled labor, Negroes from Africa. The third pact pointed to the temporal cession by Charles V of the province of Venezuela to the Welser firm, in order to conquer and settle Venezuela. This pact was signed on March 27, 1528, and ceased in 1556 in accordance with the terms of the pact. The Welser administration of Venezuela was a failure because gold was scarce and gold was all the administration was interested in.

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6 Arellano-Moreno, op. cit., p. 90.

7 Morón, op. cit., pp. 70-71. See also Arellano-Moreno, op. cit., pp. 95-97.

8 Arellano-Moreno, op. cit., p. 107. See also José Oviedo y Baños, Historia de la Conquista y Población de la Provincia de Venezuela (New York, 1940), quoted in Arellano-Moreno, op. cit., p. 107. Oviedo y Baños believed that if Venezuela had not been under German administration, she would have been the most opulent land of America.
New Economic Structure

When the Spanish people conquered, explored, and consequently, settled the Venezuelan territory, their first task was to establish a new economic structure adequate to the new situation, that is, the creation of wealth to maintain a greater population with a more advanced culture. Thus, the first vital problem was the production of food to feed the settled population, both Spanish and Indian. 9

The creation of wealth signified the development of the factors of production. 10 Land was available in large quantity, 11 but it was necessary to prepare the soil in order to make it productive in agriculture. For that purpose skilled labor was needed, but at that time it was not available in the required amount.

9 Siso, op. cit., I, 406. "The vital problem of the Colony from the economic standpoint consisted in production of goods to feed the settled population."

10 Adam Smith said that "the real wealth [is] the annual produce of the land and labour of the society." Smith, op. cit., p. ix. Morgan says that the source of wealth (static concept) is the flow of income (dynamic concept) originated by the factor costs: labor, land, capital, and entrepreneurship. Theodore Morgan, Income and Employment (New York, 1952), p. 4 ff.

11 Venezuela may be divided in two main types of land: first, the coastal range with small fertile valleys, which in colonial times had plenty of forests; second, the largest part, plains like Texas, but crossed by large rivers which flow during rainy seasons. Cf. Pablo Feresa, Geografía Económica de Venezuela Visio a las Regiones Equinocciales del Nuevo Continente (Caracas, 1941), III, 167-316.
The Spanish realms lacked . . . sufficient population to send the required amount to the American continent, and those who were available could not come together because there were neither means to transport them at once nor ways to feed them . . . They had to come individually or in small groups, in accord with the transportation means and resources available to settle them.12

Thus Spanish labor was skilled but scarce. And both the Indian and Negro populations were unskilled and therefore required training.13

Concerning capital, the Spanish state was not in a situation to contribute to it.14

Capital was necessary to equip expeditions as well as to build cities and to provide seed for the settlers' plantations; but its purchasing power was not sufficient to carry out the huge work required . . . labor was necessary, but it was impossible to bring it in.15

The accumulation of wealth was not possible in the first part of the colonization.16 However, it was possible later,

12Ibid., op. cit., I, 159.
13Ibid., pp. 407-406.
14Ibid., pp. 153-159.
15Ibid., p. 159.
16Cf. Ibid., p. 406. "The most it was possible to produce [at the first stage of colonization] was goods to satisfy the elemental needs of the population. But it was impossible to think of an accumulation of wealth which permitted production of a surplus to maintain non-productive classes who might devote themselves to intellectual [and tertiary] activities." In this context compare James Steuart's concept of the division of labor, in which he divides the society in two groups: farmers and "free hands"—see this paper, Chapter V. Smith also divided labor force in two groups: productive and non-productive labor. Cf. Smith, op. cit., p. 314.
when production of agricultural surplus permitted the feeding of other groups of population, and in this way allowed other groups to devote themselves to other activities, such as industry and services. 17

Instruments of Colonization: Encomiendas and Misiones

The institution of the encomienda was essentially an instrument which aided the formation of agricultural wealth in order to feed the colonial population. 16 The formation of an agricultural wealth involved a double task, the subjugation of the Indian population and training it in new skills and in the learning of a new language and religion. In this process of education the Misiones played an important role. 19

Thus, the establishment of the encomienda was imperative in creating an economic structure in the Spanish-American territories. The search for gold and silver mining was the point of departure of the conquest and exploration

17"The greatest improvement in the productive power of labour, and the greater power part of skill, dexterity and judgment with which it is anywhere directed, or applied seem to have been the effects of the division of labour." Smith, op. cit., p. 3. Cf. Steuart, Political Economy, p. 151.


19See Las Misiones, p. 92 of this paper.
activities. However, in order to carry out that purpose it was necessary to settle part of the Spanish population and to enslave and settle the native Indians. As a result of this it was necessary to create an agricultural wealth in order to feed the settled population.

The purpose of the encomienda was to distribute land among the conquistadores in the name of the Spanish Crown. The encomienda was "a civil institution in which a tacit contract was established and formulated between the king and the colonizers, through which these became masters of the country with the obligation of submitting to vassalage of feudal character [to the king]."

In the title issued by the Spanish authorities several points were stipulated: the worth—price—of the encomienda, which should not be more than five thousand pesos per year to the Encomendero and a thousand to the King; the number of Indians in the encomienda or repartition—this was labor free of payment, that is, they were enslaved by the

20 It was a mercantilistic imperative. See Clough and Cole, op. cit., p. 103 ff. See also the chapter on Mercantilism in this paper, Chapter II.


22 Ibid., p. 160.

23 Ibid., p. 167.
The encomienda was also a religious instrument to spread Catholic faith. The Ordenanzas de Burgos (Royal dispositions) utilized the encomienda as a means to teach the Catholic religion to Indians. On the other hand, the encomienda constituted a measure of public order; at an early time during the colonization, groups of Spanish thieves—mainly soldiers—plundered small Indian villages to steal food and supplies. Therefore, Spanish authorities tried to group scattered Indian tribes under the organization of encomienda.

The enterprise of colonization was supported partly by the Spanish Crown and partly by private individuals. For both the state and individuals, the principal end was the search for gold. In the case of private individuals, a contract between them and the state was required, and was

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24Ibid. The obligations of Encomendero were: a) to protect Indians against injustice because of their ignorance, b) to settle Indians in an agricultural town, c) to give Catholic instructions to Indians and to build a chapel of stone, d) to organize the domestic government, according to the Spanish social laws, emphasizing paternal authority, e) to make them obey social rules, f) to destroy their wild customs and inclinations of their preceding life. In addition, the Ordenanzas de Burgos dictated (Law I) to the encomenderos that every Indian family should have a small piece of land to cultivate products for their own subsistence.

25Ibid., p. 162.

26Ibid., p. 163.

27Ibid., pp. 162-163.
called capitulación. 28 This contract stipulated that the conquistadores would receive "certain honors and benefits in the new lands." 29

The misiones was another institution which aided the formation of Venezuelan agriculture. However, the main purpose of the misiones was to popularize the Catholic faith among Indians. In other words, it was a process of transculturation, namely, the substitution of a type of religious value—Indian polytheist religions—for the monotheist type: the Catholic religion. The Catholic dogma 30 is based on the teaching of an anthropomorphic power which rewards or condemns human beings according to their behavior, namely, according to pre-established patterns of behavior. Thus, Catholic dogma is theocratic and the only representatives of such a power are the Pope in Rome and priests. Priests taught Indians obedience to a hierarchy of powers: God, the Pope and priests, the Spanish King with divine power, and his representatives—the Spanish authority. The priests emphasized the patriarchal structure, the authority of the father.

28 Ibid., p. 160.
29 Ibid.
30 Tawney, op. cit., pp. 1-53. See also, Janet, Histoire de Science Politique dans ses rapports avec la morale. He says that the sovereign authority belongs to God, who dictates laws and commands kings and dictators. Quoted in Siso, op. cit., I, 205.
From the economic standpoint, the institution of missions developed a communal sense of property. Conucos de comunidad 31 constituted an interesting trial of cooperative work. 32

The economic regime of missions in agriculture consisted of a mixed system of absolute community and free labor, individuals of both sexes that formed the "Pueblos de Indios," were obliged to work in the "Conuco de Comunidad," which belonged to the people of the town, several hours daily and the rest of the time to cultivate their own conuco. 33

On the small conuco the inhabitants grew black beans (caraotas), yuca (a type of tuber similar to potatoes), large bananas (pietanos), bananas, cotton for their own needs, and also raised horses, swine and chickens. 34

Similar products were cultivated on both the large and community conuco. The crops were stored in convenient depots, called barbasco by the Indians. Those stored products were used in times of drought. The priests taught new methods of cultivation and brought seed from

31 Siso, op. cit., I, 219. Conuco is a portion of land cultivated by a family for its own self-subsistence. The conuco de comunidad is larger, is cultivated and owned by a community for its subsistence; however, in case of surplus, it may be bartered for surplus of other communities.

32 One must remember that the Christian doctrine is not based on egotism, but rather on the concept of justice—prices and wages—as well as cooperative work and communal ownership—similar to a monastical economy.

33 Siso, op. cit., I, 219.

34 Ibid., p. 220.
Europe. "This progress transformed the economic structure of the country." 35

Production

It has been pointed out that the aboriginal inhabitants of Venezuela were of two types: collectors and sedentaries. The second group had a higher stage in the cultural process and had developed—as discussed above—a rudimentary economic structure.

In the new phase of economic development in the Venezuelan territory, namely, the colonial stage, the Spaniards had to create a new economic framework on the consideration that the primitive Indian economy aided them very little in such a task. "His first intention was probably the creation of an economy of consumption on the basis of the seeds and animals imported from Spain and by means of the utilization of Indian labor that gave little yield in the beginning." 36 However,

35Ibid., pp. 220-221. Cf. Alex Reingrod, "Administered Communities: Some Characteristics of New Immigrant Villages in Israel," Economic Development and Cultural Change, XI, Number 1 (October, 1962), pp. 69-84. It is interesting to notice that these communities in the modern Israel, called moshav, have a similar organization to that of the Pueblos Indios in Spanish America more than four centuries ago. ", . . the moshav is a farming community whose organizational principles combine the family-based production and consumption with community-wide financial and agro-technical cooperation. . . each family lives on its own land . . . [but] the land belongs to a national authority and cannot be sold or subdivided . . . the hiring of labor is prohibited," pp. 70-71.

36 Rellano-Boreno, cit., p. 165.
In spite of the rudimentary economy of the Indians, it aided the conquistadores, who used their canoes to move from one place to another, and consumed part of the products cultivated by the Indians, as well as what they obtained in fishing and hunting. Large quantities of pearls and gold, which were part of Indian property, passed into the hands of the conquistadores. With this they obtained ships, weapons, horses, and food in the markets of Santo Domingo and Spain.37

The first thing that moved the conquistadores in America was the search for precious metals and pearls,36 and as a result of this the territory was explored, routes of traffic were opened, and finally, agricultural wealth was created.39

These gold mines and pearl-breeding places contributed to the settlement of permanent urban centers of Castilians in Venezuelan lands; these urban nuclei permitted in their turn the diversification of Venezuelan economy. Close to these mines and pearl-breeding places, many towns originated, many of them had an ephemeral life . . .

But, in general terms, when the mining economy had vanished, the agricultural economy, which was already developed, allowed the continuation of urban settlement.40

The Spanish Crown received a duty called the quintó, the fifth, from all the gold exploited. The gold production of Venezuelan foundries from 1529-1610 is shown in Table I.

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37 Ibid., p. 166.
38 Ibid., p. 167.
39 Ibid.
40 Ibid. In 1530 the pearl export was estimated as 2,000,000 duros (approximately three million dollars).
**TABLE I**

**THE GOLD PRODUCTION IN VENEZUELA FROM 1529 TO 1610**

<table>
<thead>
<tr>
<th>Year</th>
<th>Monetary Units**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1529</td>
<td>1,116 pesos, 2 tomines</td>
</tr>
<tr>
<td>1530</td>
<td>1,366 pesos, 6 tomines</td>
</tr>
<tr>
<td>1531</td>
<td>4,025 pesos, 6 tomines</td>
</tr>
<tr>
<td>1532</td>
<td></td>
</tr>
<tr>
<td>1533</td>
<td>39,225 pesos, 6 tomines, 3 grams</td>
</tr>
<tr>
<td>1534</td>
<td>2,363 pesos</td>
</tr>
<tr>
<td>1535</td>
<td>2,263 pesos, 4 tomines</td>
</tr>
<tr>
<td>1536</td>
<td>13,659 pesos, 9 tomines</td>
</tr>
<tr>
<td>1537</td>
<td>9,730 pesos, 4 tomines, 9 grams</td>
</tr>
<tr>
<td>1538</td>
<td>6,158 pesos, 4 tomines</td>
</tr>
<tr>
<td>1539</td>
<td></td>
</tr>
<tr>
<td>1540</td>
<td>3,914 pesos</td>
</tr>
<tr>
<td>1541</td>
<td>6,267 pesos</td>
</tr>
<tr>
<td>1542</td>
<td>6,186 pesos</td>
</tr>
<tr>
<td>1543</td>
<td>7,219 pesos</td>
</tr>
<tr>
<td>1544</td>
<td>4,102 pesos</td>
</tr>
<tr>
<td>1545</td>
<td>1,541 pesos</td>
</tr>
<tr>
<td>1546</td>
<td>2,076 pesos</td>
</tr>
<tr>
<td>1547</td>
<td>1,619 pesos</td>
</tr>
<tr>
<td>1548</td>
<td>4,458 pesos, 6 reales</td>
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<tr>
<td>1549</td>
<td>50 pesos</td>
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<td>1550</td>
<td>1,744 pesos</td>
</tr>
<tr>
<td>1551</td>
<td>2,497 pesos</td>
</tr>
<tr>
<td>1552</td>
<td>414 pesos</td>
</tr>
<tr>
<td>1553</td>
<td>1,313 pesos</td>
</tr>
<tr>
<td>1554</td>
<td>514 pesos</td>
</tr>
<tr>
<td>1555</td>
<td>120 pesos, 9 reals of fine gold</td>
</tr>
<tr>
<td>1556</td>
<td>50 pesos</td>
</tr>
<tr>
<td>1557</td>
<td>219 pesos, 22 tomines, 6 grams</td>
</tr>
<tr>
<td>1558</td>
<td>164 pesos</td>
</tr>
</tbody>
</table>

**Source:** Arellano-Moreno, *op. cit.*, p. 169.

**The "peso de minas"—gold coin of 22 carats—11 parts of gold and one of copper. Its weight was 4,018 grams of gold. The peso de minas was the unit of exchange from the conquest to the third decade of the sixteenth century. See Roberto Wall, *Lecaciones de Economía Venezolana* (Caracas, 1956), p. 95.**

**For unknown reasons there are no data during the gap of 20 years (1539-1569). Arellano-Moreno, *op. cit.*, p. 169.
Venezuela was relatively poor in gold in comparison to Peru and Mexico. Thus, the decline in gold production began about 1600, as revealed in the above table. Despite redundancy and repetition, it must be stated again that the principal motive of the Spaniards for exploring America was the lure of precious metals. Other economic activities were the consequence of that motive.

Fortunately, when [Venezuelan] mines did not correspond to the eagerness of the Spaniards, the colonizer's work had begun to stabilize and a diversified economy opened up new prospects to our territory...

At the expense of the birth and flourishing development of agriculture and cattle, a social caste arose which, supported by the first land apportionment [encomiendas], played an important role in colonial life.31

Agriculture and cattle raising developed from the very moment of the establishment of the urban settlements. To illustrate the process of colonization in figures, an example is given by Daniel Sandoza in the colonization of the Llanos—plains. In 1530 Cristobal Rodriguez took eighteen pregnant cows, ten mares, and two horses, and as a result,

... twenty-five or thirty years later, that is, in the last third of the sixteenth century, there were in Guerico and [pure] states of Venezuelan plains. See map 4, p. 166], an average of twelve to fourteen thousand head of livestock, half of this number [7,000] were horses and donkeys.42

41Ibid., pp. 171-172.

42Ibid., p. 174.
In the middle of the seventeenth century there were 137,600 head of cattle on the Venezuelan plains. 43

Cattle activities in Guyana, the southeastern part of Venezuela, were also very important. Miguel Marmion estimated that there were in that region 220,000 head of cattle, of which 160,000 belonged to the Capuchin monks and the rest to private individuals. 44

Agricultural production varied but one product predominated in successive periods, first tobacco, later cacao, and so on. As a matter of fact

... the Venezuelan economy, since the beginning of our history until the present time may be divided into large periods characterized by the preponderance of one type of production, which may define Venezuela, for those who like generalizations, as a monoproducer country. 45

Gold and silver were the principal aims of the conquistadores. However, cattle activities were important all the time during the colonial period, along with other farm production. Perhaps one of the reasons for monoproduction is found in the dictates of the American 46 and international

43Relación de las ganaderías en las Indias para Su Majestad. (Archivo Real de Arichuna.) (This report surveys fourteen hatos.) Hato is a word that is equivalent to ranch. A rancho in Venezuela means "shack." Quoted from Rellano-Moreno, op. cit., p. 175.

44Rellano-Moreno, op. cit., p. 179. Marmion's report (June, 1766) is rather descriptive.


46Throughout this paper "American" is used in the real sense of the word, and not the misnomer concerning one country.
markets. One agricultural product was more developed than others in order to take advantage of the export. 47

Wheat was exported from 1579 until 1701. Since 1619 the cultivation of wheat had been disappearing for two main reasons: first, the intensified cultivation of tobacco; second, the erosion of the Andes mountains where wheat was grown. 48 Consequently, it became necessary to import wheat and the price of bread rose. 49

Sugar was an export item during colonial times; in 1717, 114,126 kilograms were exported. From 1719 to 1736 exports oscillated between 4,000 and 2,000 kilograms, with a tendency to diminish. 50

Tobacco.—This product marked an important stage in the process of development of the colony. Arellano-Moreno indicated the following factors that influenced the cultivation of tobacco: first, its fast yield; second, higher prices and multiple markets; third, the fact that it was cultivated by Indians before Spaniards came to America. 51

47 During the coffee or cocoa period, respectively, one of these products was significant in the international trade.

48 Arellano-Moreno, op. cit., p. 161. Arellano-Moreno mentions the second cause in a general way. He does not mention the action of erosion as a cause of the poverty of the Andes lands. Cultivation on the slopes of the hills led to rapid erosion when no protection was built. Cf. Jorge Ali Casanova, La Planificación del Medio Rural (Caracas, 1956), pp. 7-9.

49 The price of bread in 1619 was three kilograms for one real (57 reales equal a marco of silver). Arellano-Moreno, op. cit., p. 161.

50 Ibid., p. 162.

51 Ibid., pp. 162, 163.
As has been said, labor was a problem both in quantitative and qualitative aspects. However, in the case of tobacco, labor was already organized for the Indians cultivated it and used it to smoke and for medicine. In the beginning, the use of tobacco was censured by both the priests and the aristocracy as something from the devil.52 Perhaps, because of the censure, its use spread universally; it intensified smuggling by both the Dutch and the English in Spanish America.53

The most important facts in relation to its production were:

1. The Real Cédula (Royal Law) of August 26, 1606, which prohibited the cultivation of tobacco in those areas accessible to contraband.

2. The effort made by the Spanish governors in Flanders to monopolize the Venezuelan trade.

3. In July, 1621, the Spanish Crown tried to monopolize it but this intent failed.

4. The estanco or monopoly established in 1779 for fiscal purposes was finished in 1832. For that reason the Spanish treasury received 700,000 pesos fuertes per year (1,000,000 dollars).54

52 Picón-Salas and others, op. cit., p. 347.
53 Rellano-Moreno, op. cit., p. 168.
54 Ibid.
The export trade in tobacco dated from the last years of the sixteenth century. From several original sources, Arellano-Moreno found the following amounts corresponding to the export of tobacco.

**TABLE II**

**AMOUNTS OF EXPORT OF TOBACCO CORRESPONDING TO SEVERAL YEARS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount per year in Kgs.</th>
<th>Price per arroba in reales**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1605</td>
<td>5,291</td>
<td>1.3</td>
</tr>
<tr>
<td>1606</td>
<td>421</td>
<td>n.s.</td>
</tr>
<tr>
<td>1607</td>
<td>17,900</td>
<td>2</td>
</tr>
<tr>
<td>1615</td>
<td>42,155</td>
<td>n.s.</td>
</tr>
<tr>
<td>1620-1654</td>
<td>156,000</td>
<td>n.s.</td>
</tr>
<tr>
<td>(34 yrs.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**A arroba is equivalent to 11.5 kgs., and a real was 34 maravedies, a maravedi had 0.0094 grams of gold. In present currency there is approximately half a bolivar or 17 cents of a dollar.

In 1731, 4,652 arrobes (55,796 kgs.) were exported at 40 reales (20 bolivers or 6.6 dollars) for each arroba.

From 1701 to 1731 the export of tobacco was as follows:
## TABLE III  
AMOUNTS OF EXPORT OF TOBACCO CORRESPONDING TO SEVERAL YEARS*

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount per year in Kgs.</th>
<th>Price per arroba in reales**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1701</td>
<td>49,105</td>
<td>32</td>
</tr>
<tr>
<td>1708</td>
<td>401</td>
<td>32</td>
</tr>
<tr>
<td>1711</td>
<td>299</td>
<td>40</td>
</tr>
<tr>
<td>1714</td>
<td>4,600</td>
<td>24</td>
</tr>
<tr>
<td>1717</td>
<td>23,701</td>
<td>40</td>
</tr>
<tr>
<td>1724</td>
<td>5,359</td>
<td>16 and 32</td>
</tr>
<tr>
<td>1726</td>
<td>13,096</td>
<td>40</td>
</tr>
<tr>
<td>1731</td>
<td>56,796</td>
<td>40</td>
</tr>
</tbody>
</table>

*Source: Frellano-Moreno, op. cit., p. 184.

**The same as in Table II.

From these data on the cultivation of tobacco two important things can be noted: first, the irregularity of production; for example, in 1701, almost 49,105 kgs. of tobacco were exported and in 1708 and 1711 401 and 299 kgs. (there are no sources for the intermediate years). The same is true for other years, as no statement on this matter has been found by any author. This seems to be an outstanding characteristic, probably for these causes: clandestine production and export, inaccurate statistics, and lack of organization in cultivation.

The second characteristic to be noted consists in the rise in price. An arroba of tobacco for export in 1605 had a price of a real and a half; by the middle of the next
In the 18th century it had oscillated between 40 and 50 reales. This rise was due largely to the inflow of gold from American colonies.55

**Cacao.**—Later on, the leading product was cacao. However, the production of tobacco did not disappear completely; the substitution was gradual, but it was no longer an export product to support the Venezuelan economy.

This fruit, cacao, was the most solid foundation of the Venezuelan wealth during the colonial period and still in our day has an important place in the volume of export (more accurately, in the volume of agriculture export, which when compared to the oil export is very little). Cacao, together with corn and potatoes, constituted one of the contributions of the New World to the Old one.... This product was spread through Spain and Europe very fast until it was an item of first need for consumption. Thanks to the production of cacao, the destiny of Venezuela changed from relative poorness, in relation to other colonies at that time, to a prosperous agricultural colony.56

More precisely, in economic terms, the cultivation of cacao gave employment to thousands of settlers, prestige to agriculture, regularity to trade [irregularity of trade was the characteristic before, as has been mentioned previously],

55See Clough and Cole, *op. cit.*, pp. 126-129. See also p. 10 of this paper.


Today the situation is different. Between 1952 and 1959 the percentage of oil export in relation to the total export oscillated between 90 and 95 per cent. And the share corresponding to agriculture, for the same period, was between 3.4 and 1.4 per cent. *Memoria* (Caracas, 1959), p. 203.
and [social] power to a class which monopolized it by and large.\textsuperscript{57}

There were several factors which contributed to the arrival of the economy of cacao, that is, the economy based mainly upon the production of cacao.\textsuperscript{58}

First was the active international trade in cacao. In 1631-1632, 2,000 fanegas (a fanega has 2,220 square inches) were shipped to Spain and Mexico. The largest export during the seventeenth century corresponded to the year 1663, that is, 23,470 fanegas; the best price during the same century was 320 reales per fanega in 1660. It must be pointed out that sixty years before, the price was 96 reales per fanega. This increase was not steady but was interrupted by cyclical fluctuations.\textsuperscript{59}

Second, the excellent quality of Venezuelan cacao, which was superior to others in Spanish America, like that of Peru and Colombia, contributed to the stimulation of the Venezuelan production.\textsuperscript{60}

Third, that fact led authorities to protect Venezuelan cacao, prohibiting the shipping of Peruvian cacao to Nueva España (Mexico), thus reserving that area to Venezuelan cacao. In that way trade was monopolized.\textsuperscript{61}

\textsuperscript{57}rellano-moreno, \textit{op. cit.}, p. 165.
\textsuperscript{58}Ibid., pp. 165-167.  \textsuperscript{59}Ibid., p. 165.
\textsuperscript{60}Ibid.  \textsuperscript{61}Ibid., pp. 165-166.
Fourth, in addition to this protectionist policy discussed on the preceding page, there was an extension of the duties called almazarifazgo, that is, duties on import and export of Venezuelan tobacco sent to Nueva España and Spain. 62

In summary, thanks to the interventionist policy of the Spanish government and the endowment of nature, Venezuela became an important center of cacao production in Spanish America until the end of the eighteenth century.

In order to illustrate the significance of the production of cacao one must consider its total volume of export in eighty years during the seventeenth century, that is, between 1620 and 1700. During that period 63 357,766 fanegas were shipped to Mexico, 71,595 to Spain and 5,991 to other places. In other words, a total exportation of 435,352 fanegas, without taking into consideration the clandestine traffic, was carried on. Cleveriaga estimated that in 1720 the annual production of cacao was 76,123 fanegas, from which 63,433 were exported and 3,690 were consumed in Venezuela. 64

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62 Ibid., p. 187.

63 Ibid.

64 Pedro José de Cleveriaga, Instrucciones generales y particulares del estado presente de la provincia de Venezuela en los años de 1720 y 1721. Quoted in ibid., p. 187.
In 1749 the production of cacao was estimated between 120,000 and 150,000 fanegas. No central information was available on cacao production, only sporadic data. On the other hand, there was also no record of clandestine export. However, by compiling several sources, it can be said that during the middle of the eighteenth century there was an average of 10,000 fanegas exported annually. This amount yielded one million pesos (four million bolivars or more than one million dollars in today's currency). That amount entered Venezuela in money and goods, which meant a real earning for both producers and traders.66 As stated before, labor was not free; workers remained in a state of slavery and were paid mostly in goods. The employment of labor increased and by 1720 it was estimated that 70,000 Negros were working on the cacao farms.66

The production of cacao put life into the economy, and it was the main cause behind the following facts:67 intensification of trade and development of a Venezuelan commercial navy; formation and strengthening of a class of landlords of cacao farms (hacendados de cacao)—they were called the encomenderos;68 advent of the money economy which in turn

66 Zeller-Verano, op. cit., p. 182.
67 Ibid.
68 These are mentioned without comment in ibid., p. 139.
69 One must remember that, in general, the class of landlords stems from the first Spanish settlers who received much land and slaves on behalf of the Crown, namely, the encomenderos who received the encomienda. See p. 94 above.
facilitated more production and trade; and finally, the establishment of the Compañía Guipuzcoana or the complete monopoly of Venezuelan trade.

**Indigo.**—In the eighteenth century two products were integrated in the Venezuelan agriculture: indigo and coffee. The first one was known since the discovery and exploitation for commercial purposes in 1770. Indigo was used as coloring. That brought about the cultivation of linen and hemp in order to complement the textile industry. In 1766, their production of indigo amounted to 308,380 pesos per year (one peso is equivalent to one dollar today). The production declined to 103,000 pesos in 1790. This value rose to 674,822 pesos in 1793.

Indigo was important because diversification in agriculture was desirable in order to obtain economic stability. However, such diversification was not achieved because Spanish mercantilism disregarded the proper planning of the economy of the colonies. The main interest of the Crown was the search for gold and the increase of revenues by taxation in order to maintain its bureaucracy and its defense position in Europe.

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69 Money economy will be discussed later in this paper.

70 This matter will be commented on below, p. 120.

71 Arellano-Moreno, op. cit., pp. 189, 190.

Manufacture.—Spain was not interested in developing manufacturing activities in its colonies. Mining production—especially of gold, silver and copper—was the first preoccupation of Spain in America. Later, for reasons already noted, came agriculture. Because of the lack of skilled labor and the absence of equipment on the one hand, and on the other hand, the lack of a sufficient consumer market in the colony, the development of the industrial textiles was difficult.

However, the abundance of raw materials, especially cotton cultivated by the Indians, and the need for cloth that Spanish people experimented with, made a little textile production possible.

From 1599 to 1607 the following amounts of ordinary linen cloth were produced.

TABLE IV

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Varns (1 Vara = 3 Feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1599</td>
<td>56</td>
</tr>
<tr>
<td>1600</td>
<td>1,125</td>
</tr>
<tr>
<td>1605</td>
<td>25</td>
</tr>
<tr>
<td>1607</td>
<td>500</td>
</tr>
</tbody>
</table>

*Source: Velasco-Moreno, op. cit., p. 192.

73 See this paper, pp. 39 ff.

74 Velasco-Moreno, op. cit., p. 192.
From 1599 through the first years of the seventeenth century, linen was used as money for private transactions and for the relations with the Spanish Treasury.\textsuperscript{76} No accurate data are available on the textile production of the rest of the seventeenth century. Concerning the last years of the eighteenth century, Tulio Sepúlveda Cordero commented as follows:

The governor, Joaquín Primo de Rivera, initiated and encouraged in Maracaibo the cultivation of cotton, with such success that in 1790, 200 spinning wheels were used and manufacturing buildings were constructed in which poor girls and decrepit old people worked. As a memorial of that period, that governor was called the Father of the Republic.\textsuperscript{77}

Ship industries were located in three important ports: La Guaira, Puerto Cabello and Maracaibo. Several foundries were established to cast cannons and bells for churches.\textsuperscript{76}

The advent of the money economy—\textsuperscript{78} as previously discussed, the primitive economy of the Indian people was primarily a self-sufficient economy. There was manifestation of a market economy, based primarily on barter, in the sedentary Indian groups. As a secondary help in trade, some commodities, "money," as well as gold were used. During the Spanish period, the market economy was one in which barter was very important. Gold coins were used in transactions although their number was not sufficient to satisfy the needs

\textsuperscript{76} Ibid.
\textsuperscript{77} Ibid.
\textsuperscript{78} Ibid., p. 192.
of the market. The shift to an entire money economy from a barter economy was a slow process. Furthermore, during the first period of the republic barter was still used in some regions of Venezuela (Llanos).\textsuperscript{79}

The reasons behind this slow process of changing to a money economy were:

\textit{... the mercantilist policy, jealousy of the exodus of money from Spain to its colonies, and the tardy organization of the Venezuelan production. Neither was a mint established among us, except a coin to mark gold ingots, and other dice to issue copper coins and other crude metals. Logically, all the amounts of gold and silver found in the territory were sent to Europe where they were regarded as the essence of wealth.}\textsuperscript{60}

The use of marked pieces of gold in commercial transactions represented a step forward from barter, but this occurred during the eighteenth century when money economy was more developed. The expansion of production brought about increase in specialization, which resulted in increased trade and increased use of money.

A variety of gold and silver coins were used.\textsuperscript{61} The maravedi became the monetary unit. The purchasing power of that monetary unit devaluated with time, due to a process of

\textsuperscript{79}\textit{Ibid.}, p. 231.

\textsuperscript{60}\textit{Ibid.}, pp. 232-233.

\textsuperscript{61}Roberto Roll, \textit{Lecciones de Economía de Venezuela} (Caracas, 1944), pp. 94-101. The \textit{merca de la Colonie} had 230,0675 grams of gold; the \textit{maravedi} had .0094 grams of gold, the Castellano was worth 480 to 490 maravedis; \textit{peso de minas} corresponded to 480-490 maravedis.
Inflation, and not to a change in the value of gold. In other words, during colonial times a person with a kilogram of gold bought more things than a republican (a citizen during the Republic of Venezuela, say in 1840) could buy with the same amount of the precious metal.

The amount of money in circulation during the colony was scarce in relation to the needs of the market, due to reasons already discussed above. Consequently, the Spanish Government in Venezuela took several measures to impede the exodus of money.

Spanish Mercantilism

Spanish mercantilist tendencies were manifested in Spain from the thirteenth century on. These actions were

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63. Ibid., paraphrasing an example cited by rollano-Moreno.
64. Ibid., p. 245. The measures were: 1) To permit the export of goods only under conditions of being paid with money and not with merchandise; 2) To free of export duties money from abroad. 3) Export money only under license (pure mercantilist measure). 4) In 1804 the already generalized use of bills of exchange was encouraged, and others of less importance. When Venezuela rose to political independent life, the money situation was aggravated with issues of flat money by the government. See, Feliciano Rosales, Evolución Dinámica y Venezuela (Caracas, 1962). That author says that the first bank decree was made in 1829, but it failed due to the scarce circulation of money and the poor situation of the economy. After many banks were created, both private and national, they failed because of political instability. After 1920 the economic situation was better for banks. In 1940 the Banco Central, a government institution similar to the Federal Reserve Bank System in the United States, but with more power, was founded, pp. 18ff.
mainly bullionist. "In 1260, for instance, Alfonso prohibited the export of gold and silver." At the request of the Cortes, Ferdinand I attempted in 1515 to stop the illegal export of money, and Charles V renewed and extended the old laws in 1520, 1524, and 1534. Down into the eighteenth century, Spain continued her efforts to check or prevent the export of precious metals by direct legislation, but all efforts were unavailing since the needs of trade and even of royal finance led continually to a drain of money from the country.

"Under Ferdinand and Isabella and Charles V, repeated attempts were made to encourage Spanish industry by legislation. Export of raw materials was prohibited." The heart of Spanish mercantilist policies "is to be found not in internal but rather in colonial policies. Spain's great problem was how to control its suddenly gained colonial empire, and particularly the empire's treasure of silver, so as to benefit the homeland and increase its wealth. The basic principle of the Spanish administration was the absolute power of the king. "The colonies depended directly on him and were ruled by him much as if they were separate countries of which he was the monarch."

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36 Ibid., p. 207.
37 Ibid., p. 206.
36 Ibid.
The Basic Legal Structure of the Spanish
Mercantilism and Its Instruments

The recompilation of the Leyes de Indias constituted
the base of principles which oriented the legal organization
of the Spanish power in America. Its content is merca-
tilist in the sense of intervention and control, and with
some medieval philosophy of "justice." The legislative
principle applied in these laws was the following: "every
situation was solved through royal dispositions (cédulas
reales), which were enacted by the King, and later they
acquired the character of common law."

José María Gómez, a Venezuelan historian
specialist in the Leyes de Indias, wrote that they were a
"vast legislative document, comparable to the greatest and
the most notable of the Universal Right." These laws
oriented the economic, political, and social activities of
Spain in America. The principal instruments of this
mercantilist legislation were the Consejo de Indias, the
Casa de Contratación de Sevilla, and the Consulado. The
head of all of these legal organizations was the King.

59 Thomas Aquinas, "Summa Theologica," in Early
Economic Thought: Selections From Economic Literature Prior
to Adam Smith, edited by Arthur Eli Monroe (Cambridge, 1951),
pp. 53-77. Monroe commented that Aquinas "never discussed
economic subjects abstractly, but always in connection with
larger problems of ethics or politics," p. 52.

90 Horón, op. cit., p. 193.

91 Joaquín Cabadón Méndez, Fuero Indígena, 1, 7,
quoted in ibid., p. 194.
El Consejo de Indias—This depended directly upon the
Crown, its competence concerning the Indies was universal.
It was the highest tribunal for the Spanish American issues.
This Consejo was the direct instrument of the Crown for
financial and administrative problems. Thus the Casa de
Contratación was the great recipient of all remittances from
America, and the Consejo de Indias a direct instrument of
the Spanish Crown, which had the financial direction of all
revenues. It had to approve all taxation and expenditure.92

A comment must be made on an important procedure: the
asiento, which was a contract of an administrative kind by
which an individual was obliged by the State to accomplish a
determined task, whether he performed a public service or
private enterprise.93 In such a contract the State was
represented by the Consejo.

La Casa de Contratación de Sevilla.—With the purpose
of regulating all details related with the trade between
Spain and Spanish America, an organization, the Casa de
Contratación, was created in 1503. It was located in
Seville first, then later in Cádiz (1717). In 1790 it was
abolished.94 The law of contratación says:

To establish in Sevilla a store house in which all
merchandise and necessaries can be stored for all

93Ibid., p. 53.
94IBID., op. cit., p. 175.
time needed, in order to provide all the necessary things for trade with the Indies [America] and the other islands. 95

Professor Morley defined the Casa de Contratación in this way:

Since that moment [1511] the Casa de Contratación was definitely not a firm open to the private benefit of the Crown, but a department of the Government, a school of navigation, and a custom house to the colonial trade. 96

This organization had the function of treasury for the government, for it received all taxes levied on merchandise, settled all conflicts related to commerce, and administered inheritances from Spaniards who died in the Indies. It was also an advisory body for the Crown on legislation related to the colonies. 97 It was called "Real Audiencia" and also "Casa de Contratación."

The Casa de Contratación was a court of justice of high grade in two fields—crime and commercial conflicts. The Casa de Contratación was an organization of creditors initially, and later became a complex organization for administration, advice and judgment. But the final authority remained in the Consejo de Indias. 98

95Moll, op. cit., p. 47. This author quoted from Las ordenanzas de la Casa de Contratación, Seville, January 20, 1503. (Translated into English from early Spanish.)

96Quoted in Ibid., p. 50.

97Ibid., p. 51.

981st Consulado acted from 1504 but was legally established in 1524. See Ibid., p. 52.
El Consulado was another administrative organization. Its purpose was to restrain personal initiative in order to benefit the community, and to protect the interests of all merchants over those of a single one. The Consulado sought a "just distribution of profits" among all merchants. In the second place the Consulado acted as tribunal of commerce and shipwrecks. Besides, the Consulado as an administrative organization took care of insurance, shipping, etc. It appealed, as did the Casa de Contratación, to the Consejo de Indias, and received some duties in order to afford its expenditures. All of these organizations—La Casa de Contratación, El Consejo de Indias, and El Consulado—were instruments of intervention and control of the government in economic activities. One must keep in mind that Spain, as other European countries, was in the mercantilist stage. This doctrine sought strong state power in order to unify the nation. Furthermore,

... the essential principle of the Spanish administration was that the colonies should not ask anything of the metropolis, but on the contrary, they should enrich it, for it was decided not to spend anything on its colonies because their resources were devoted to the needs of public powers and to pay the administrative salaries.

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100 *Ibid., p. 63.*

101 See Chapter III in the present paper.

102 *Roll, op. cit., p. 52.*
Trade Intervention.—From 1503 to 1790 the Casa de Contratación, located in Sevilla, Spain, ruled the trade between the Indias and Spain. Monopoly was the base of trade both during the Felser period and afterwards. The main purpose of the Crown, as was brought out earlier, was to exploit the colonies completely.

The Venezuelan colonial trade had three important markets: internal trade between provinces in Venezuela; the trade between Venezuela and the West Indies; and finally, direct trade with Spain. In fourth trade should be mentioned, the clandestine trade between the colonies and England, Holland and other European countries. The clandestine trade benefited the colonies and injured the Spanish interests.

La Compañía Guipuzcoana

The establishment of this Compañía in 1728 represented a point of departure of another stage in the history of trade between Spain and Venezuela—the Capitancy of Venezuela.

Before the Compañía Guipuzcoana, the main commercial products were gold, pearls, slaves, cotton, clothing, leather, cattle, tobacco, and cacao. During the first years of the eighteenth century the production and trade of Spanish America was weak as a consequence of the Succession War.

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103 Morón, op. cit., p. 179.

104 The Capitancy of Venezuela was integrated by several provinces.

105 Idem., p. 179.
Thus, Venezuela at that time suffered a decline of agricultural production, and she was a victim of piracy. The Spanish Crown considered the necessity of improving that situation and thus on September 26, 1726, the Real Compañía Guipuzcoana was established by Royal Decree with the purpose of monopolizing all the trade of Venezuela.\textsuperscript{106}

The Compañía's obligations were, first, to exterminate smuggling; second, to furnish Venezuela with goods from Spain, and to take the Venezuelan products to Spain.\textsuperscript{107} To end smuggling the Compañía had to patrol the Venezuelan coasts and to persecute pirates.

The Guipuzcoana contributed to the improvement of the economy,\textsuperscript{108} but its exaggerated monopoly made it richer and created reactions against it, and consequently against Spain, on the part of the Venezuelan landowners and Negro slaves.

\textsuperscript{106}Ibid., pp. 162-163. Cf. Trelano-Moreno, \textit{op. cit.}, pp. 251-267. The Compañía Guipuzcoana was organized with shares owned by business men in Spain and Venezuela as well as by the Spanish Crown. See Morén, \textit{op. cit.}, p. 162.

\textsuperscript{107}Morén, \textit{op. cit.}, p. 163.

\textsuperscript{108}Between 1741 and 1749 the Compañía exported 171,202 canoes of cacao, and the creole business men 256,024. This demonstrated the fact that the Compañía, despite its powerful control, did not produce improvement in trade as some writers have affirmed. The traffic with Vera Cruz, Mexico, was not monopolized by the Compañía, and it was very important. Prices declined and this hurt Venezuelan landowners and small farmers. They balanced their loss by trading with Vera Cruz.
and mestizos. The landowners were the first ones to revolt against Spanish authority, as a result of this monopoly.\textsuperscript{109}

\begin{center}
\textbf{The Control of Spanish Government in the Venezuelan Economy during Colonial Times}
\end{center}

This control was manifested in seven fields:

1. Bureaucratic administration
2. Price regulation
3. Regulation in the distribution of utilities
4. Export control
5. Regulation in the distribution of food
6. Control in industrial activities
7. Delimitation of cultivation areas.\textsuperscript{110}

The municipal government (Cabildo or Ayuntamiento) appointed an officer called the \textit{Fiel Ejecutor}, who was in charge of enforcing the law. Among his functions were: to check the quality of merchandise in stores, to check scales according to the ordinances of weights and measures, to impose fines on offenders of the law, to imprison offenders—in case of absence of police or guard at the given moment of the offense, and to take care of the supply of foods—to be sure they were in good condition and fairly priced.\textsuperscript{111}

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\textsuperscript{109} Rollano-Morono, \textit{op. cit.}, pp. 167ff, discussed on several pages the controversial views of several authors about whether those revolts produced against the monopoly of the company were the cradle of the independence which occurred in the second decade of the next century. He arrived at the conclusion that in fact they were the cause of the general political discontent at the beginning of the nineteenth century.

\textsuperscript{110} Ibid., p. 315.

\textsuperscript{111} Ibid., p. 319. Other cases in regulation: April 14, 1590, the prices of wine were subject to regulation. Thus, when its price was excessive—according to the judgment of authorities—its sale was forbidden (\textit{Ibid.}, p. 319); shoe
The Cabildo through the Fiel Ejecutor, regulated prices. They had to be "moderate," that is, they had to be just. For instance, in April, 1590, the price of meat was fixed, an arroba (25 pounds or 11,502 kilograms) at fifteen grains (a grain is equal to .049923 grams) of fine gold. Price regulation performed by municipalities favored the consumers. But that performed by the monopoly of the Compañía Guipuzcoana, which consisted in maintaining high prices in spite of the increase in production, was for the purpose of benefitting the Company.

The maximum of profit that businessmen could obtain from re-selling was regulated by the ordinances promulgated in 1589. The ordinances permitted a profit of twenty-five per cent on those goods transported from the port of La Guaira to Caracas, except for wine, vinegar, oil or olives which had a higher margin of profit--33 per cent--due to the risk involved in transportation.112

There were occasions in which the Cabildo monopolized the distribution of goods for the benefit of consumers. "In 1733, the Municipality of Caracas was granted the exclusive distribution of firewood, for the pulperos [retailers] of the city wanted excessive profits."113 Consumers reacted

112 Ibid., p. 322.
113 Reales Cédulas, San Ildefonso, August 20, 1733. quoted from ibid., p. 324.
against those regulations whose purpose was excessive profits for private monopolies, but not against those regulations that favored them.

Control of export had two important purposes. First, "to impede the arrival of some resources in the hands of smugglers, such as mules which multiplied all over the province, and which were used for land transportation of smuggling,"114 second, to avoid "scarcity of good supply."115

In addition to price regulation there was control in the distribution of goods directly to the consumers in order to avoid their storage by merchants for speculative purposes. Rationing of food was a policy carried out not only during the fifteenth and sixteenth centuries, when rudimentary organization of the economy prevailed, but also during the seventeenth century, when the economy was more developed.116

The objective of government control in private industry was the protection of consumers' rights. For instance, the Municipality of Caracas—in its session of February 9, 1594—ruled that cotton cloth produced in Venezuela, had to be of a "reasonable width."117

The principal purpose in limiting cultivated areas was to avoid smuggling. That was the case when the cultivation of tobacco near sea coasts was prohibited. The purpose was

114Ibid., p. 322.  
115Ibid., p. 324.  
116Ibid.  
117Ibid., p. 329.
to facilitate government control of clandestine activities. The secondary purpose for this was to control agricultural production.

From the above comments about Spanish control of Venezuela, the following conclusions can be drawn. First, the principal characteristic of the Spanish administration in America was the presence of a central and powerful authority exerting complete control on economic and political activities and carrying out a policy with a strong flavor of mercantilism.

Second, the mercantilist philosophy was manifested in the following points: control of the administrative bureaucracy; regulation of prices; regulation in the distribution of utilities; export control; regulation in the distribution of food; control in industrial activities; and delimitation of cultivation areas.

Third, the market was a mere tool which needed government control in order to achieve desired results in the economy, namely, convenient distribution of goods among people.

Conclusion

The Spanish stage involved the social and cultural formation of Venezuelan people and the establishment of agricultural wealth. During this stage mercantilist ideas

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110 Ibid.
prevailed, manifested by central power and government control and protection for the benefit of the Spanish Crown.

At the end of this stage, in 1799, the population of Venezuela was 600,000, which was distributed as follows: 119

<table>
<thead>
<tr>
<th>Type of Population</th>
<th>Amount of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>White people born in Europe</td>
<td>12,000</td>
</tr>
<tr>
<td>Spanish-American or Creole</td>
<td>200,000</td>
</tr>
<tr>
<td>All mixed groups</td>
<td>400,000</td>
</tr>
<tr>
<td>Negro slaves</td>
<td>62,000</td>
</tr>
<tr>
<td>Pure Indians</td>
<td>120,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>600,000</strong></td>
</tr>
</tbody>
</table>


The above table shows the small proportion of Spaniards in relation to the Creole population. Most of the highest administrative positions were held by the Spaniards, while most of the Creoles were landowners who were disturbed by the heavy burden of Spanish taxes. This situation explains the discontent among the Creoles, who, being a great proportion of the population, conducted the nation into the Revolutionary wars (1810–1820). 120

119 There are no reliable data before 1799.

CHAPTER XII

THE THIRD STAGE: REPUBLIC, COFFEE ERA

Introduction

The stage, between 1610 and 1920, was significant because Venezuela was politically independent from Spain. During this period the Venezuelan economy was agricultural; coffee was the principal product.

From 1610, when Venezuela declared her independence, until 1619 was a period of wars between Venezuela and Spain. In 1619 Simón Bolívar integrated the viceroy of Nueva Granada, the Capitancy of Quito, and the Capitancy of Venezuela into one nation-state called the Republic of Gran Colombia. In 1821 the independence of Gran Colombia was accomplished and in 1830 Bolívar consolidated the independence of Peru and Bolivia. In 1830 Bolívar died, ostracized from Venezuela, and the Gran Colombia disintegrated into three republics, Colombia, Ecuador, and Venezuela.1

Between 1810 and 1830 the agricultural resources were practically destroyed as a result of the Revolutionary Wars. The process of recuperation was hindered by civil wars, or more accurately, by a period of restless caudillismo. In

1See ibid., pp. 231-233.
this period government was imposed by *coup d'état*, and by
electionary process.  

From 1830 to 1839, General José Antonio Páez and the
two brothers Montes were the principal *caldillos* who ruled
Venezuela. The Federal Revolution (1839-1863) was in
essence a social revolution; namely, its purpose was to
obtain equal rights for all citizens, and to achieve agrarian
reforms. In large part, this revolution was frustrated, but
it achieved a social sense of equalitarian society.

Guzmán-Blanco ruled the nation from 1870 to 1899. He
represented a good example of mercantilist policies; there
were political, economic and social achievements. After
Guzmán-Blanco came Joaquín Crespo who was overthrown by his
minister of war, Juan Vicente Gómez. Gómez ruled the
country for twenty-seven years. In 1920 petroleum activ-
ities began, and this brought a substantial change in
Venezuela's economic-social structure.

1810-1857

Early in 1797 Manuel Gual and José María Espada organized
the most important revolt against Spain before 1810. The
revolt was smushed by the Spanish authorities. However, this
revolt had the significance of presenting a governmental
program which was considered later, in 1810. The program, in

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2See *ibid.*, pp. 437-440.  
4*ibid.*  
a broad sense, contained the following points: (1) Spanish ships admitted under control and inspection; (2) abolition of slavery; (3) suppression of some taxes; (4) freedom to cultivate and to sell tobacco; (5) opening of Venezuelan ports to all markets of the world; (6) encouragement of agriculture, industry and trade; (7) prohibition of taking away gold and silver, except to pay for war goods—this measure showed a frank bullionist orientation; (8) social equality among classes and diffusion of man's rights which was influenced by the French Revolution.6

The Junta Suprema, which was the first organization of Creole government created when independence was declared in 1810, set up the Sociedad de Agricultura y Economía, and dictated measures similar to the program of Gual and Espasa, namely, freedom of trade with friendly nations, suppression of some taxes, and freedom for vagrant and villainous people who were in jail in order to let them work in agriculture.7 This last measure had a strong mercantilist flavor.

During the wars for independence there was inflation due to insufficient production and the issue of fiat money. "Within five months after Congress was installed, it enacted the Bill of August 27, 1811, according to General Miranda's suggestions. That Law authorized the issue of one million

6 Arellano-Moreno, op. cit., p. 419.
7 Ibid., p. 420.
pesos fuertes [Bs. 5,000,000 or Bs. 1,500,000 approximately] in bills or cédulas of 2, 4, 6 or 16 pesos."

In 1812 the effects of two years of war were: (1) stagnation of sea trade and international traffic; (2) emigration of money (gold) to Curacao—Dutch island close to Venezuela and other places; (3) decline of production; (4) excess issue of fiat money by the revolutionary government and rise in prices; (5) scarce and expensive labor because most of the men were enrolled in the Venezuelan and Spanish armies. As a consequence of these facts, financial bankruptcy came.

As previously stated, in 1799 the population of Venezuela was estimated at 800,000. In 1823 the population decreased to 100,000, that is, the population was 701,636. This loss resulted from the wars for independence. Fourteen years later the total population reached 944,932, which was distributed as shown in Table VII.

This distribution had political and social significance. According to the Constitution of Venezuela of 1830, Venezuelans were those "free men born in the territory of Venezuela." In other words, slavery continued, the

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8Ibid., p. 424. 9Ibid., p. 421.


11Augustín Codazzi, Obras Escogidas (Caracas, 1960), I, 256.

12Ibis Pico-Mivas, Legis Constitucional de Venezuela (Caracas, 1944), p. 298.
colonial nobility disappeared, but the "caste" of landowners replaced it.

TABLE VI

DISTRIBUTION OF THE POPULATION OF VENEZUELA
IN 1839 INTO ETHNIC GROUPS*

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Number of Inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whites (Creoles and foreigners)</td>
<td>260,000</td>
</tr>
<tr>
<td>Mestizos (different mixtures)</td>
<td>414,000</td>
</tr>
<tr>
<td>Negroes</td>
<td>49,000</td>
</tr>
<tr>
<td>Indians</td>
<td>221,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>944,502</strong></td>
</tr>
</tbody>
</table>

*Source: Morón, *op. cit.*., p. 357.

The economic resources of the nation were depleted as a result of the wars for independence. Therefore, the Congress of 1830 approved (September 23) the contract of an internal loan of 200,000 pesos. Between 1830 and 1846 there was a tendency to economic recuperation due to right measures of the government, like the internal loan—and not external—contracted by the government; the formation of the Sociedad Amigos del País (1830), which oriented the public opinion of the country toward a controlled-market economy.

In 1830 the public revenues produced 1,666,170 pesos. In 1831 there were 1,551,060 pesos, which represented a

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decrease of 115,170 pesos. There was a deficit both years. In 1832 the public revenues were as shown in the Table below.

TABLE VII

PUBLIC REVENUES OF VENEZUELA ON JUNE 30, 1832 (in pesos)*

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount in Pesos**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs</td>
<td>1,176,997.71</td>
</tr>
<tr>
<td>Internal Revenues</td>
<td>246,928.36</td>
</tr>
<tr>
<td>Tobacco</td>
<td>116,645.69</td>
</tr>
<tr>
<td>Rail</td>
<td>9,179.36</td>
</tr>
<tr>
<td>Total</td>
<td>1,531,750.01</td>
</tr>
<tr>
<td>Residue of preceding year</td>
<td>92,715.01</td>
</tr>
<tr>
<td>Total</td>
<td>1,625,462.62</td>
</tr>
<tr>
<td>Public expenditures</td>
<td>1,423,773.46</td>
</tr>
<tr>
<td>Residue</td>
<td>201,609.30</td>
</tr>
</tbody>
</table>

*Source: Morón, op. cit., p. 359.

**1 peso is equal to four bolivars. 1 dollar equals 3.33 bolivars.

Administration of the Monagas.—From 1847 to 1857 the two brothers Monagas governed the country in a dictatorial way. During their administration the abolition of slavery was decreed; the autonomy of the municipal power was created, and capital punishment for political reasons was abolished.16

Temes Bolasco-Martínez synthesized the administration of the Monagas as a period of stagnation from the economic standpoint, a period of administrative disorder, and a period

15Ibid.

16Ibid., pp. 371-372.
of "personalism" from the political point of view. As a result of the stagnation and the confused administration, the public treasury had a deficit of over 4,200,000 pesos and the public debt reached 25 million pesos.

The Federal Revolution and Guzmán-Blanco

The idea of federal organization stemmed from 1611 when the first Venezuelan state was created. The economic problems that the nation had faced until 1859 caused public discontent. Thus, some people thought that federal organization could solve the political and economic problems. In other words, "political personalism" and "extreme centralism" in the government were the causes of the Federal Revolution (1859-1863). However, other writers contend that the real cause of the Federal Revolution was a social one. The Venezuelan people were frustrated because political independence did not mean "social freedom," and "égalité social" for them. Besides, there were few rich and many poor people, or, putting it in modern economic terms, there was great disparity in the distribution of national income. This was the opinion held by Laureano Vallemilla-Leon, a sociologist.

\[\text{17 Tomás Polanco-Martínez, } \text{Sabato Sobre la Historia Económica Venezolana} \text{ (Madrid, 1960), II, 220.}\]
\[\text{18 Ibid., p. 214.}\]
\[\text{19 Morón, op. cit., pp. 390-391.}\]
Lisandro Alvarado, a historian; and Rómulo Gallegos, a writer.\(^{20}\)

Ezequiel Zamora was the leader of the peasants, the "motor" of the Revolution, and Juan C. Falcón was the intellectual leader who governed the nation until 1866. Unfortunately, the "social revolution" was betrayed in "palace negotiations." Once more the Venezuelan people were frustrated. However, a legal "facade" of social equality paved the way for future social achievements.\(^{21}\) As a consequence of the revolution, the economy of the nation was weakened. Therefore, Falcón contracted a loan in London of four and a half million pesos—of which the nation received only 1.5 million.\(^{22}\)

Falcón was overthrown by Guzmán-Blanco in a military coup. Guzmán-Blanco governed the nation directly as a President and indirectly through puppet Presidents from 1870 to 1888. During his term in office the following points were accomplished: enactment of the law of public and compulsory education for all citizens; establishment of civil marriage—before that time a religious ceremony was the only requirement; enactment of the law of freedom of religion; reduction of the power of the Catholic Church—which


\(^{21}\)See below Guzmán-Blanco.

\(^{22}\)Moreira, op. cit., pp. 403-404.
constituted "a state within a state"—Guzmán-Blanco was obliged to expel Jesuits from Venezuela.23

The administration of Guzmán-Blanco was effective. "The coffee production increased, and its price was good." Many public works were undertaken, and the public administration was organized according to "modern patterns." The Universidad Central was organized; new faculties and laboratories were added. In 1872 a census of the population was taken and it reached 1,795,194 inhabitants. A credit institution was organized in order to raise money to pay the debt.24

In brief, the Guzmán-Blanco administration was a serious attempt to organize and plan the national economy within the framework of a ruled market. In other words, Guzmán-Blanco's administration was a good example of enlightened mercantilism.25

Castro and Gómez

From 1898 to 1935 two dictators governed the country. They represented an unfortunate journey into the history of Venezuela. Cipriano Castro came to the presidency by a military coup and governed the nation between 1898 and 1908. The economic situation in Venezuela was difficult because...

23Ibid., p. 412.  
24Ibid.  
25Guzmán-Blanco governed the nation indirectly through other Presidents from 1870-1888. In this period of indirect influence by Guzmán-Blanco, the efficiency of the administration decreased, and as a result, the economy of the nation was weakened. See ibid., pp. 423-424.
of a fall in the price of coffee in the international market.

In 1900 the public debt was 189,578,000 bolívares. The fall in the price of coffee brought about a decrease in its production and that in turn caused a substantial decrease in the national income.²⁶

TABLE VIII

NATIONAL INCOME OF VENEZUELA IN SEVERAL FISCAL YEARS*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>National Income (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1896-1897</td>
<td>48,313 bolívares**</td>
</tr>
<tr>
<td>1897-1898</td>
<td>33,429</td>
</tr>
<tr>
<td>1898-1899</td>
<td>40,000</td>
</tr>
<tr>
<td>1899-1900</td>
<td>27,296</td>
</tr>
</tbody>
</table>

*Source: Morón, op. cit., p. 432.

**One bolívar is equal to .33 dollars.

The economic crisis hindered the payment of the external debt of the nation. This produced an international conflict; England and Germany demanded payment of the debt and threatened to take over the nation. Castro had a nationalist spirit and avoided the danger of a foreign imperialist invasion. Finally the situation was settled between Venezuela and the nations making claims; the debt was completely paid by Gómez.²⁷

²⁶Morón, op. cit., p. 432.
²⁷Ibid., pp. 433-436.
Juan Vicente Gómez ruled the nation from 1905 to 1935. He was Castro's minister of war and took power by a coup d'état. Twelve years later, petroleum activities started; this was a fact which changed the economic organization of the nation. Gómez was a cruel dictator, ignorant and cunning. He represented a retarding force in the economic evolution of the country. He died in office (1935); nobody could overthrow him. The writer José Rafael Locaterra said about Gómez in 1936: "There, under the stone of his grave, lie twenty-seven years of the history of Venezuela and one of the most extraordinary lives that has produced, with the most pain, the conceptual disarticulation of an era."29

Coffee

According to Humboldt, the first coffee plantations were cultivated in 1764, with the purpose of stimulating coffee production, the Spanish Crown granted an exemption in export duties on that product. Coffee would replace cacao later on as the leading product. During that period the importance of agricultural production had this range: cacao, indigo, and coffee.30 In 1830 coffee held the first place in both agricultural production and export. In 1890

28Ibid., pp. 437-452.

29José Rafael Locaterra, Obras Selectas (Madrid, Caracas, 1915), quoted in Morán, op. cit., p. 442.

30Relizano-Moreno, op. cit., p. 193.
Venezuela occupied the first place in the production of coffee in the world. 31

Humboldt indicated the amounts of coffee export for several years as shown in Table IX.

**TABLE IX**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in Kilograms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1796</td>
<td>220,000</td>
</tr>
<tr>
<td>1804</td>
<td>460,000</td>
</tr>
<tr>
<td>1810</td>
<td>230,000</td>
</tr>
</tbody>
</table>


There were several factors which contributed to the development of the coffee economy. First, coffee had the advantage over cocoa in resisting better the inclemencies of the weather, for it was convenient to store. This aspect is very important to trade because farmers can wait to sell their product at the most convenient moment. 32

Second, other very valuable land was brought into cultivation, as was the case in Los Andes, the western mountains of Venezuela. On the other hand those lands were "tired" or worn out in the cultivation of cocoa and now the rotation of crops improved the soil. 33
Third, coffee could be cultivated at higher temperatures than could cacao. This fact interested more people in coffee activities and thus encouraged population settlement near coffee plantations.\(^{34}\)

In this way, as a result of the coffee economy, there was a substantial increase in the output of the economy, more export, more exchange, an increase in the population—migration from Spain—and an increase in the process of urbanization as well. In 1800, sixteen years after the first cultivation of coffee, the population of the country was 800,000. Nine years later Venezuela had 945,344 inhabitants, that is an increase of almost 150,000 persons, or an increment of 16 per cent.\(^{35}\)

The cultivation of coffee did not enhance the social caste of landowners as the cultivation of cacao had done—the caste was called gran cacao.\(^ {36}\) During the "cacao economy"—the last part of the Hispanic stage—latifundia, i.e., large farms under the ownership of a family, prevailed; while during the coffee economy people of a variety of social status participated in its cultivation as producers.\(^ {37}\)

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\(^{34}\)Ibid.

\(^{35}\)Córdova, op. cit., I, 243-262.

\(^{36}\)See the preceding chapter of this thesis, p.

\(^{37}\)The reason for this is, according to Arellano-Moreno, that coffee can be cultivated at higher temperatures, and this fact attracted more settlers of different "social status" (Spaniards, Creoles, and some mestizos) to cultivate coffee as producers. See Arellano-Moreno, op. cit., pp. 190-191.
Conclusion

In brief, the stage of the republic, the era of coffee, was characterized by the following facts. First, Venezuela was constituted a nation-state, i.e., independent politically from Spain. Second, Venezuela could not develop a diversified and strong economy; she depended almost exclusively on coffee production; therefore, her economy was completely subject to international fluctuation of one agricultural product, coffee. This situation brought about a tremendous economic crisis. Third, the political organization of the nation was unstable; it was based on caudillo. This political instability was added to the problem of monoculture—almost complete reliance on the cultivation of coffee, and as a natural result, economic crises were more difficult to overcome. Fourth, the Federal Revolution was in essence a social revolution which paved the way for later achievements during Guzmán-Blanco's administration. However, the revolution was in part frustrated and this eventually constituted the seed of social ferment of later political disturbances.\(^{36}\)

\(^{36}\) Cf. Eduardo Sosa-Rodríguez, "Radicacion de la Población Urbana Inestable," Cruz del Sur, May, 1950. This was a paper for the "First Venezuelan Congress of Housing" (1950). The author contends that the base of the housing problem is the Agrarian Reform, namely, the substantive reform of the rural land tenancy in order to increase agricultural production and to settle population in rural areas, thus avoiding migration toward urban centers.
Fifth, the prevailing economic philosophy was mercantilism during this stage. This philosophy was manifested in the fact that the market was viewed as a tool which needed government control in order to perform its function as an instrument of allocation. Sixth, the most significant example of positive mercantilist policies was found in the administration of President Guzmán-Blanco.
CHAPTER XIII

THE FOURTH STAGE: REPUBLIC, PETROLEUM ERA

Introduction

In 1920 petroleum production started in Venezuela. From that moment on agriculture as a principal sector of production and export was replaced by petroleum, which was exploited by foreign companies.¹

The export sector of petroleum was responsible for the large revenue that the Venezuelan government received in the form of taxes and royalties from the oil companies.² However, petroleum was not an important factor in the labor market; a small portion of the total labor force in Venezuela, 2.5 per cent,³ was engaged in petroleum activities.

Because of the larger revenues from oil, the importance of the government sector increased as a significant tool of economic growth. The problem was how to use government

¹The contribution of petroleum to the Gross Domestic Product in 1950 was 30.8 per cent of the total. Banco Central de Venezuela, Memoria (Caracas, 1959), pp. 446-455.


³Memoria, op. cit., p. 29.
outlays; were they to be used in ostentatious public works—monuments, statues, pyramids, etc.—or were they to be used in reproductive activities to promote development?

In 1950 the total revenues received by the government were 7,028,505 bolivars (60 per cent of this amount was received from the petroleum sector), of which 2,692,000 bolivars were invested by the government in different items. During the decade of the 1950's, government investment in capital expenditures represented roughly 50 per cent of the gross total investments of the economy. This showed the importance of the government in the Venezuelan economy.

A comparison is made of government expenditures in capital of two significant years; 1957, during the Pérez-Jiménez dictatorship, and 1959, during the democratic government of Romulo Betancourt.

From the comparison of both years in Table A, page 144, the following points can be drawn: first, the difference between total government capital expenditures and total government revenues is larger in 1959; this is due mainly to the increase in 1959 of the bureaucracy; second, in 1959 there was a substantial curtailment in housing and in other less important public works, as well as an increase in education.

4In 1957 the total government outlay for wages and salaries was 1,369,662 bolivars; in 1959 it was 2,551,741 bolivars. The small difference in total government revenue between both years was due to a decrease in investment in the private sector because of the political transition. ibid., pp. 465, 440-453.
TABLE 4


<table>
<thead>
<tr>
<th>Items</th>
<th>1957</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>246</td>
<td>226</td>
</tr>
<tr>
<td>Mining</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Industry</td>
<td>527</td>
<td>420</td>
</tr>
<tr>
<td>Electricity</td>
<td>77</td>
<td>52</td>
</tr>
<tr>
<td>Transportation and Communication</td>
<td>950</td>
<td>676</td>
</tr>
<tr>
<td>Health</td>
<td>219</td>
<td>306</td>
</tr>
<tr>
<td>Education</td>
<td>59</td>
<td>161</td>
</tr>
<tr>
<td>Services</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>Defense</td>
<td>62</td>
<td>97</td>
</tr>
<tr>
<td>Housing</td>
<td>761</td>
<td>159</td>
</tr>
<tr>
<td>Other edifications</td>
<td>302</td>
<td>159</td>
</tr>
<tr>
<td>other public works</td>
<td>101</td>
<td>231</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>264</td>
<td>164</td>
</tr>
<tr>
<td>Total government capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures (1)</td>
<td>5,692</td>
<td>2,692</td>
</tr>
<tr>
<td>Total government revenues (2)</td>
<td>7,284</td>
<td>7,023</td>
</tr>
<tr>
<td>Difference between (1) and (2)</td>
<td>3,592</td>
<td>4,331</td>
</tr>
</tbody>
</table>


**: bolivar is equal to .28 dollar.

In conclusion, petroleum enhanced the role of the government in economic growth. The Venezuelan government, on the other hand, played an important role as a force in the market price of oil. All of this meant that mercenar-tilist ideas and policies were significant in the petroleum stage. In order to understand why petroleum gave to the Venezuelan government an important role in the national economy as well as power in the petroleum market, it will
be necessary to comment on some legal aspects of the ownership of the Venezuelan subsoil, as well as the process of the organization of petroleum prices.

**Legal Aspects**

**The Ownership of the Oil.**—A meaningful aspect in the petroleum industry in Venezuela, as well as that of the other countries in South America, was that the ownership of all the sub-soil minerals was vested in the nation and its control was effected through the government. This law stemmed from the decree of the Royal Crown of Spain:

> All the mines of silver, gold, lead and any other kind of metal, or of any other thing whatsoever, which may be in our Royal Landas, belong to us (the Royal Crown), wherefore, no one shall dare to work said mines without our special license or order.

**The Laws of the Indies.**—Las Leyes de Indias, promulgated in 1602, authorized the Royal Governors of the Spanish Colonies to apply the mining laws to the Spanish American territories. These laws were ratified in the Constitution of the Gran Colombia; by a decree of the Great Liberator, Simon Bolivar, issued at Quito, Ecuador, on October 24, 1829. The article read as follows:

> Likewise I concede that there may have been discovered, solicited, recorded and denounced in the manner aforesaid, not only the mines of gold and

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6Decree of the Royal Crown, incorporated in Las Leyes de Indias (Madrid, 1905), quoted from ibid., p. 52.
silver, but also mines of precious lodes, copper, lead, tin, silver, antimony, calamine, bismuth, rock salt and any fossil matters, whether they may be perfect minerals, bitumens, or juices of the earth, and proper provision shall be made for the acquisition, enjoyment and development thereof."

Thanks to that Royal Ordinance, part of the Spanish mercantilist tradition, Venezuela is not mortgaged completely to foreign capital today. Thanks to this Royal Ordinance, Venezuela can or could plan and organize its resources to benefit the nation as a whole, and not to benefit the unknown stockholders only.

Legal aspects of exploration and exploitation of oil.—In March, 1916, the first petroleum ordinance of Venezuela was enacted. It provided that the right of exploration and exploitation of minerals and hydrocarbons could be acquired only through special contracts granted by the Federal Executive."

In 1920, an article was added to the law which vested in the landowner the exclusive right to obtain from the Federal Government the right of exploration and exploitation of hydrocarbons from the sub-soil of his property. In this way the right of the landowner was protected to obtain higher royalty from the oil companies for his property, in case he could not exploit it because of lack of capital."

"Ibid., pp. 52-53.

"Ibid., p. 53.

"Ibid., p. 74."
This law which was the object of subsequent modification in 1922, 1925, 1930, 1936, 1942, and 1943, keeping its original sense of giving to the Federal Government the right of concession in accord with the benefit of the nation, namely the government of Venezuela, and not the landowners, was the principal force which bargained, contracted wages, together with unions, and which granted concessions with the supposed benefit of the nation, if Venezuela had an honest and proper government.

Petroleum taxes.—The most important direct taxes levied on oil industries were the following:

1. Exploration tax of two bolivars (.46 of dollar) per hectare per year during three years.

2. Initial exploitation tax—a minimum of eight bolivars (2.64 dollars) per hectare.

3. Surface tax on exploitation concessions, which increases during the 40 years of the life of the concessions.

4. Exploitation tax, Government royalty—fixed at 16 2/3 per cent of the crude oil extracted.

5. Tax on refined products used for consumption within the country, equivalent to 50 per cent of the import duties which they would have produced, if they had been imported.11

10 Ibid.
11 Ibid., pp. 55, 56.
In addition to these taxes, petroleum companies had to pay other burdens and taxes such as import duties, income taxes, consular duties, revenue stamps and others.¹²

Historical Background

Oil was discovered in Venezuela by the Spanish conquistadores who were impressed by asphalt found on the coast of Lake Maracaibo. At that time the use of oil was limited to caulking ships, as fuel for lamps, and Indians used it as external medicine. It was a long process before oil was utilized as a source of energy to move almost all the machinery for transportation and industries.¹³

¹²Ibid., p. 56. "The income tax law was modified more substantially [it refers to a small amendment in 1946] on December 19, 1950, through a decree that drastically increased the complementary tax, levied on net income. The previous law established a sliding scale for complementary tax, from a minimum of 1.5 per cent to a maximum of 26 per cent, the maximum being collected on net income in excess of Bs 28 million. It also provided for a cedular tax, a flat levy of 2.5 per cent on net income. The new law left the cedular tax, setting the minimum of 2 per cent and the maximum of 45 per cent. As under the old law, the new maximum applied to net income in excess of Bs 28 million."

"The income tax change applies to all individuals and business firms, not to the oil industry alone."

¹³It was after the second half of the nineteenth century when the use of oil for lamps was increased. However, petroleum was obtained on the earth's surface; thus there was scarcity and the price of oil went as high as 20 dollars a barrel. In 1859 the first well was drilled to obtain petroleum from the sub-soil at a depth of 65 feet, and its production was 25 barrels per day. This was in Titusville, Pennsylvania, United States. Today, oil is used primarily as a source of energy to move motors, as well as a lubricant, and as a variety of forms, with by-products for a variety of
that stage of development petroleum practically replaced coal.\textsuperscript{14}

In Venezuela the earliest commercial enterprise was launched in 1878; it was a small Venezuelan company in the State of Táchira which drilled a few wells about sixty feet deep, and produced and refined fifteen barrels per day for local consumption, such as illuminating oil.\textsuperscript{15}

More organized attempts were directed to the production of asphalt. Early in the present century several United States and British companies started the exploitation of the large asphalt deposits in both Zulia and Monagas states. So, in 1910, the New York and Berdenuez Company began a large-scale uses. Clarence Fielden Jones and Gordon Berkenwald, Geografía Económica (Mexico, 1956), pp. 457-458.

The petroleum industry in the present time includes the production of crude oil, gas, and a variety of sub-products involving several phases. (1) Extraction of crude oil and gas, (2) transportation of these raw products to refineries through pipelines or in tank trucks; (3) refinery and petrochemical activities producing many products and sub-products of a large variety; (4) finally, the complex distribution to the consumers. Jones and Berkenwald, op. cit., p. 457ff.


\textsuperscript{14} Almost all the machinery of the present civilization—transport and industries—is moved with petroleum. In twenty-five years' time the total effective demand for commercial energy may be from 85 to 167 per cent more than it is today. J. E. Harshbarger, Politics and World Oil Economics (New York, 1962), Chapter 1, "Oil as a General Fuel."

\textsuperscript{15}Zúñiga, op. cit., p. 42.
exploitation of the famous Canaoose asphalt lake situated in eastern Venezuela. Attention must be called to the fact that after World War I the asphalt industry began to "peter out," and later on it was produced as a by-product of oil. 16

Mene Grande, located on the eastern shore of Maracaibo Lake, was the earliest commercial field of importance in Venezuela. It was discovered in 1914, and was put in commercial production in 1917. 17 Three years later one could say that Venezuela entered a new social and economic era.

Organizing Prices and Production

In order to better understand the complex situation involved in establishing production and prices there must be an historical review of the principal events related to Venezuelan oil activities since the termination of World War I. After that, United States companies bolted out in search of more production and consequently of broader markets. 18

Thus, the Standard Oil Company of New Jersey and Socony looked toward the Persian Gulf for concessions; while

16 Ibid., p. 44.

17 Ibid. The first area of oil exploitation in Venezuela was located in the northwestern part of Venezuela (State of Zulia, Maracaibo Lake). Later (from 1938 on) the northeastern part of Venezuela became very important too. See Map 3: Venezuela: Petroleum field area, 1960 (p. 168). See also, for general reference, Map 4, which shows the present political division of Venezuela (p. 169).

Standard of Indiana looked toward Venezuela. This company
found Shell—an English and Dutch Company—already enconced
on the coast of Maracaibo Lake. 19

At that time Venezuela was ruled by Juan Vicente Gómez,
a dictator who held the nation in a feudal regime. The
Gómez attitude was not aggressive, rather suspicious. Dur-
ing his government a great many oil concessions were given
to the companies. 20 The bloody dictator died in 1935. then

The companies needed to confront the new rulers
unitedly. Moreover, the delicate matter of pushing
into the United States as much Venezuela fuel oil
as the domestic producers would tolerate—roughly
a third of the Venezuelan production—required a
united policy by the Big Three [Jersey, Shell, and
Gulf]. 21

In the 1930's the United States "was staggering under
the blows of the depression, and the oil industry in partic-
ular suffered from the problems engendered by the vast new
East Texas field." 22 They succeeded in obtaining a limita-
tion on oil imports to 4.5 per cent of domestic production.
As a consequence of this, the bulk of Venezuelan petroleum
production was directed to European markets. 23

19Ibid., pp. 261-262.
20Ibid., p. 379. In 1911 the oil
companies had 20 millions of $., i.e. 50 per cent of the
area of the nation. They obtained it at lower prices and
had many privileges, such as the abolition of taxes on
imported machines, etc.
21Ibid., p. 263.
22Ibid., p. 262.
23Ibid.
Caribbean Agreement.—The three companies, Jersey, Shell, and Gulf, unified their Maracaibo production under a joint agreement:

New Jersey took charge of the new problem presented by the eastern Venezuela fields. In 1937-1936, it was agreed that Jersey and Shell would take one-half interest in Gulf's assets and production, and their properties were declared "pooled" concessions. Jersey paid $100 million for the half interest in Gulf's Hene Grande Company and then sold Shell a quarter interest for $50 million. This left Hene Grande 50 per cent owned by Gulf and 25 per cent each by Jersey and Shell. Shell, however, was not to be Jersey's equal; disagreements were to be referred to the heads of the companies and if they too disagreed, Jersey's decision was to be final.24

This exemplified the power of international barter to settle agreements, in which Venezuelan government and workers had nothing to do. Power in the market to settle situations and prices, as well as production, gave to the companies unified control over Venezuelan oil production.

Gómez was succeeded, after his death in 1935, by his Minister of Defense, General Eloy Casar López-Contreras. He represented a typical government of transition between such a bloody and ignorant man as Gómez and General Medina, a democrat. During López-Contreras' office, in 1936, the Hydrocarbons Law was enacted, which made the granting of oil concession more difficult. This benefited the nation.

24 United States Senate, Select Committee on Small Business, The International Petroleum Cartel, Staff Report to the Federal Trade Commission (Washington, 1952), pp. 171, 175, 177, 179, 166, 164.
as a whole.²⁵

But in the matter of imposition of tax, the nation gains very little for the law maintains an unfounded deduction of 30 per cent on exploration in areas covered by water or over 200 meters distant from coasts, and the 12.5 per cent for exploitation in such areas; the participation of regalía suffered a slight increase which raised it to 15 per cent. However, this law signified the point of departure of a re-levying movement which would permit the nation to obtain more rational utilization of its petroleum wealth.²⁶

López-Contreras was succeeded by General Isaac Medina Sagarita, who was elected by the Congress by indirect vote, and who was a democratic President. The Petroleum Law of 1943 was the most important event that occurred in mining legislation up to that moment. The law provided for a partial exoneration of the tax on exploration and exploitation in those areas covered by water or situated inland over 200 meters from the coast.²⁷ The oil companies were irritated because that monstrous legislation invaded the shrine of private property and the right of exploiting underdeveloped nations. The consequence of that legislative modification of taxes raised the nation's revenues from oil considerably. In 1942 the revenues from oil were 90 million bolivars (24.2 million dollars); in 1943, 126 million bolivars were collected—due to the fact that it was not

²⁵Notice the mercantilism criterion of wealth and welfare in terms of the nation, not in terms of individuals.


²⁷Ibid.
possible to apply the law completely. However, in 1944, when it was possible to apply the law completely, the revenue reached 242 million bolivars (73.3 million dollars). 26

In 1945 Medina-Injarrito was overthrown by the political party Acción Democrática backed by a group of military men. For two years a Junta Revolucionaria governed the country; in early 1946 direct elections were held and Acción Democrática won by an overwhelming majority. During this period

... the unions flourished and wanted more and more. A progressive labor law was passed which far exceeded in scope the Wagner Act in the United States and buttressed the new unions' efforts. Although Creoles could afford to be generous (stockholders usually got more in dividends than employees in wages) the implications of union strength within the government were as disquieting to the ruling circles in Caracas as in Mexico City. There was plenty of money to meet wage demands, but the power of management is indivisible. In 1948, therefore, the Democratic Action Government was overthrown by an army cabal; the oil Workers' Federation later was outlawed, its leaders imprisoned, and the power of the employees smashed. The labor force of the Creole Company was reduced from 20,500 in 1949 to 14,400 in 1954, although production rose 33 per cent. 29

During 1945 and 1946, under Acción Democrática, several fiscal reforms were achieved, namely, the increase of government participation in the oil earnings, "from 27.4 per cent to 50 per cent, whose immediate effect is a strong increment in oil revenues." 30 The consequence of this

26Ibid., pp. 386-387.
29Ibid., pp. 386-387.
30Ibid., pp. 386-387.
change in the petroleum legislation was discussed by the economist Juan Pablo Pérez-Allende as follows:

The jump to 600 millions [bolivars, each bolivar is equal to 0.33 dollars] paid to the State [Venezuela] in the five years 1943-1948 means an impulse of multiple effects. The fiscal revenues that arrived at Bs. 542 million in 1944, which were Bs. 341 million in 1938, soar to Bs. 1,776 in 1948. The fiscal revenue per person had risen in 1938 to Bs. 97.20 from the effect of oil, almost four times over the Bs. 25 of the fiscal average in 1917-1920. In 1944 the revenues are Bs. 134.5 per person, but they increase four years later to Bs. 370 which represents 273 per cent increase in these four years and 318 per cent over the base year 1936.31

It is evident that the government and unions together constituted a powerful force on taxes and revenues, and as a result, this force exerted action, indirectly, in the determination of production, as well as prices, taking into consideration, of course, other factors that will be commented on later.

In late 1941, Romulo Gallegos--Acción Democrática-- was overthrown by a military coup. The President of the military junta, Velasco Chalbaud, was assassinated and another member of the same junta succeeded him, Comandante Pérez-Jiménez, who governed in a dictatorial way until January, 1950.

Adjustment of prices according to the Caribbean base.-- The adjustment of prices in 1933 must be mentioned. "For the companies, the proof of good production policies lies in price."32 The question was: How to settle price?

32 Connor, op. cit., p. 263.
For a time, Venezuelan crude oil was sold at Texas Gulf prices, thus assuring fat profits; later, the prices were adjusted to a Caribbean basis quite similar to Texas Gulf. Then the price of crude oil went up 25 cents in the United States in mid-1953; Venezuelan crude oil likewise advanced. This was in harmony with the world cartel's policy, although it could hardly be pleaded that the argument for the U.S. price increase—that of stimulating domestic production so that there would be ample reserves at home in case of war—applied to Venezuela any more than to the Middle East.33

A Net Profit in 1954.—The Creole Company in 1954 obtained a net profit of $400 million dollars, of which $194 million dollars was paid out in dividends. "This roughly matched its payments to the Venezuelan Government under the 50-50 agreement; an equal amount accounted for all its wages and expenses."34 "Assuming that Shell and Gulf together profited to the same extent, as they should under the unified policies presided over by Creole, the total annual profit from Venezuela's crude oil exceeded $400 million."35

The Issue of the Middle East (1954).—Another important fact in the exertion of power in settling prices was the contact made with the Venezuelans and the Middle East governments, namely, Iran, Iraq and Arabia. "The censored press of Caracas permitted guarded hints that Mossadeq had some reasons on his side in battling the British "imperialists," that nationalization had a good bit of merit in it, that Venezuela was being milked, even under the 50-50 deal."36

33Ibid. 34Ibid., p. 264. 35Ibid. 36Ibid., p. 265.
In response to these menace for the future, oil companies in Venezuela shipped to the Dutch islands of Aruba and Curacao 60 per cent of the Venezuelan oil crude. The junta considered this an offense to Venezuela's pride, because the petroleum was Venezuelan; but perhaps more important at the moment was the tremendous loss in revenues, which accrued to the Dutch.37

Of underlying concern to all Venezuela was the country's utter dependence on the oil companies. Three fourths of the country's $700 million annual budget came from oil, yet Venezuela had not the slightest control over the policies of the world cartel which adjusted production quotas to its own needs, not Venezuela's.38

As a result, petroleum, although a Venezuelan resource, is a slave to her own wealth. There is no possibility of control and planning. To illustrate this point,

The world recession of 1946-1949 had cut government revenues from $206 million in 1946 to $147 million a year later; by 1955 so dependent had the junta become on oil revenues and so heavy its commitments that a comparable drop in income could have meant disaster politically as well as economically.39

O'Connor asserted sententiously and accurately on the future Venezuela,

"First of all, there is nothing the Caribbean land [Venezuela] could do about it. The decision of curtailling production would be made, not in the Palace or the Capitol at Caracas, but in Rockefeller Plaza in distant Manhattan. The junta would hear the deadly verdict on the country's basic industry from the same radios that blared the news in the upper class homes of Caracas. If such are the trappings of national sovereignty."40

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37 Ibid., p. 266.  
38 Ibid.  
39 Ibid.  
40 Ibid., p. 265.
The Present Situation.—For a long time the world’s oil market has been influenced by two principal factors: the predominance of the United States as consumer and producer, and the position of the international oil companies as producers and distributors over two thirds of the non-communist world.41

Now then, this situation has been somewhat modified in the last fifteen years. Until World War II, the United States commanded the oil market as producer and distributor. Oil prices were settled on the basis agreement of the Caribbean area.42 However, by 1946-50 the Middle East had experienced its production capacity. This oil was cheaper than Caribbean oil: 40 to 75 United States cents a barrel less than the equivalent United States Gulf prices. Later, quantitative restrictions on United States oil price and a series of f.o.b. prices were made. Furthermore, "the major companies and the government of oil-exporting countries have a vital interest in avoiding competitive price cutting as this would reduce both profits and tax payments."43

In addition to the increased oil in the Middle East, there were two factors in recent years which contributed to the accrual of a supply of oil: the first of these was the

41 International Bank for Reconstruction and Development, p. 126.

42 Same, p. 126.

43 Same, p. 127.
independent producers who increased oil production. The United States Government in response to that curtailed oil imports to the United States. Secondly, several governments promoted oil production in their respective countries—Canada, Argentina, Mexico, Libya.44

The Suez crisis of 1956-1957 aggravated the oil situation. In this period oil prices were increased; for instance, in West Texas prices rose 25 cents per barrel in January, 1957. Venezuelan oil peripressu was the object of price increase, so it rose from 25 to 30 cents.45

In June, 1957, with the reopening of the Suez Canal, oil stock tended to be replenished; consequently the Middle East prices rose 15 cents per barrel. One can appreciate the effects of the forces of supply and demand of oil during the period of crisis; however, one sees the action of the oligopoly in the fact that "these higher posted prices were maintained despite the rapid increase of the United States and Venezuelan production in 1957 and in the Middle East in the latter part of 1957 and during 1958."46

Prospects for the 1960's.—It is evidently a fact that the world demand has been increased and it seems that this trend will continue due to the growing need of oil for transportation, industries and the increased demand for its

44 Ibid.
45 Ibid., pp. 121-123.
46 Ibid., p. 123.
ors products. On the other hand, it has increased the number of oil companies in the sectors of production and distribution, as well as-and this is very important-the fact that there has been an increase in the number of governments promoting, fostering, and also exploiting oil activities themselves. This situation will continue for the emerging underdeveloped countries in Asia, Africa, and in America.

Venezuela faces several difficulties with respect to oil industries. There are differences in cost concerning exploration, production, and freight in the different existing oil areas in the world. For instance, Venezuelan oil has higher costs in exploration and production than that of the Middle East, due to differences in wages and productivity—higher wages in Venezuela.47

It seems that the posted prices in Venezuela are still too high, and it is not only due to higher costs but rather that the settlement of prices based on the cartel-bara agreement favors the interest of those oil companies operating in Venezuela. Furthermore, this is another proof that oil prices have little to do with the supply and demand and more with agreements.

47 Ibib., pp. 127-129.
<table>
<thead>
<tr>
<th>Price</th>
<th>Long Term Charter Rate</th>
<th>Single Voyage Spot Rate (in U.S. cents per barrel)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From Kuwait</td>
<td>From Garden**</td>
</tr>
<tr>
<td>Posted Price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivered</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**Source is a Venezuelan port on the Arabian coast.

**Concluding remarks on production and prices.**—The determination of production and prices of oil in Venezuela, as has been noted in the above historical glance, is a complex matter. It is the result of many forces. One cannot negate the market power exerted by oil companies in the benefit of their own interests, as the main force in the settlement of production and prices. The Venezuelan government and Venezuelan workers (organized in unions) acting together have exerted to some extent power to settle indirectly production and prices by means of taxes, settlement of wages and social benefits. Finally, the presence of
forces of supply and demand of oil at a given period have exerted influence in the determination of prices and production of oil in association with the other forces already mentioned. This was the case during the crisis of the Suez Canal when prices went up due to the diminishing supply of oil. But later, the market power of the oil companies became evident, when the oil price was maintained deliberately high despite the increase of production after the Suez crisis.

The Consequences of Petroleum Activities

The base of the economy of the nation was coffee from 1810 until 1920. As a result of the expansion of oil production coffee started to decline almost abruptly in 1920. In 1915 the export of coffee reached 1,373,000 sacks producing 115 million bolivars ($35 million); in 1924 this amount increased a little, declined later, and in 1926 surpassed by a small amount that of 1915. After that time it declined abruptly forever; thus, it did not represent an important item in Venezuelan export. As has been pointed out, the first place in export was occupied by petroleum, which represented at that time less than one third of the export. This proportion was increasing progressively until roughly 80 per cent was reached in 1960.49

45 Zella-Carías, op. cit., p. 372.

46 Zelaya, op. cit., p. 405 et seq.
Thus Venezuela continued to be a mono-producer country par excellence, and paradoxically, the country was becoming richer! It was becoming more dependent upon petroleum, namely, dependent upon an alien industry with respect to her own wealth.

The emergence of petroleum activities enhanced the importance of the government in the economic growth of the nation by increasing its revenues and its power in the petroleum market. This brought about a clear mercantilist philosophy, namely, the need for proper government as a leading instrument of national planning.

The export of petroleum permitted the increase of other products, as shown in Table XII on the following page. In Table XII the amount of import includes all imports. The table indicates the accelerated process of oil export which may lead to a collapse in the economy in case the oil export should be curtailed due to a variety of reasons such as cheaper production of the Middle East, or depletion of oil resources in Venezuela which may occur in the future.

The tremendous increase of Venezuelan population since 1926 has been related, in large part, to petroleum activities. Oil exploitation attracted people to concentrated areas of petroleum activities, and increased government revenues as well as some public works in cities. Accordingly,

56 See the "Introduction" of this chapter where this point is discussed.
other economic activities—services, trade, etc.—were increased in all urban centers; thus, cities were, in general terms, a magnet of population. Furthermore, preventive medicine was more developed and consequently the annual death rate diminished. In brief, there was an increase in population, an increase in the process of urbanisation with a consequent decrease in rural population, and a change in the geographical distribution of the population.

**Table XII**

RELATIONSHIP BETWEEN IMPORT OF GOODS AND EXPORT OF PETROLEUM FROM 1910 UNTIL 1958*  
(In millions of bolivars)

<table>
<thead>
<tr>
<th>Years</th>
<th>Amount of Import</th>
<th>Index</th>
<th>Amount of Export</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Petroleum</td>
<td>Index</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mount of Import</td>
<td></td>
<td>Mount of Export</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Petroleum</td>
</tr>
<tr>
<td>1910-1920</td>
<td>125</td>
<td>100</td>
<td>...</td>
</tr>
<tr>
<td>1920-1930</td>
<td>290</td>
<td>232</td>
<td>204</td>
</tr>
<tr>
<td>1930-1935</td>
<td>180</td>
<td>144</td>
<td>289</td>
</tr>
<tr>
<td>1935-1940</td>
<td>295</td>
<td>234</td>
<td>399</td>
</tr>
<tr>
<td>1940-1943</td>
<td>415</td>
<td>336</td>
<td>901</td>
</tr>
<tr>
<td>1945-1950</td>
<td>2,013</td>
<td>1,616</td>
<td>3,749</td>
</tr>
<tr>
<td>1950-1954</td>
<td>2,059</td>
<td>2,007</td>
<td>4,720</td>
</tr>
<tr>
<td>1955</td>
<td>2,300</td>
<td>2,636</td>
<td>6,931</td>
</tr>
<tr>
<td>1956</td>
<td>3,426</td>
<td>2,736</td>
<td>6,648</td>
</tr>
<tr>
<td>1957</td>
<td>5,475</td>
<td>4,478</td>
<td>7,206</td>
</tr>
<tr>
<td>1958</td>
<td>6,700</td>
<td>5,626</td>
<td>7,064</td>
</tr>
</tbody>
</table>

*Source: Ferreus, op. cit., p. 441.

51 See Francisco López, "Notas sobre Demografía Venezolana," *Integral*, No. 7 (1954?). In the 1930's a "battle" of sanitation against malaria was begun.
The table below reveals that in the thirty-year period, 1691-1920, the Venezuelan population increased 41,371 inhabitants, that is, it increased at an average of 1,403 inhabitants per year. In 1920 oil exploitation started on a large scale. Six years later (1926), the population reached 2,360,731 inhabitants, which represented an increment of 525,633. In other words, the average per year was 67,665 inhabitants, that is, more than forty times the preceding average.

**TABLE XIII**

POPULATION OF VENEZUELA ACCORDING TO SEVERAL CENSUSES FROM 1891 UNTIL 1960*

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1691</td>
<td>2,323,527</td>
</tr>
<tr>
<td>1920</td>
<td>2,360,731</td>
</tr>
<tr>
<td>1926</td>
<td>2,890,731</td>
</tr>
<tr>
<td>1936</td>
<td>3,364,547</td>
</tr>
<tr>
<td>1941</td>
<td>3,600,771</td>
</tr>
<tr>
<td>1950</td>
<td>5,905,716</td>
</tr>
<tr>
<td>1960</td>
<td>7,000,000**</td>
</tr>
<tr>
<td>1962</td>
<td>7,000,000***</td>
</tr>
</tbody>
</table>

**Estimation, Encyclopaedia Up to Date, v, No. 7 (March-April, 1961), 4 and back cover.
***Estimation, ibid.

The process of urbanization and population growth increased pari-passu. In order to illustrate this point the example of metropolitan Caracas will be mentioned. That city had a population of 140,132 in 1920. This number
corresponded to 5.4 per cent of the total population of that year (2,365,398). In 1936, metropolitan Caracas had 283,416 inhabitants, that is 3.4 per cent of the nation for the same year (8,364,347). In 1960 metropolitan Caracas had 15 per cent of the total population of the nation. Furthermore, almost 40 per cent of the Venezuelan population was located in six metropolitan areas in 1960.

The process of urbanization has been encouraged directly and indirectly by oil activities. Directly, because oil activities attracted labor to areas of exploitation, thus old towns grew and new ones were created. On the other hand, this concentration of labor population attracted additional population engaged in services, trade and the like. As a result of the effects of multiplication and relationships, cities other than oil towns attracted population from rural areas and small towns. These people, socially uprooted, abandoned progressively the latifundia and minifundia which

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52 reina-Farías, op. cit., pp. 373ff.
55 Latifundia, large extension of land under extensive cultivation and owned by an absentee proprietor (in most cases). Minifundia, small portion of land possessed or occupied by a family or a person, and cultivated for self-subsistence. Minifundia stems from pre-hispanic state—conuca—but was possessed by a tribe in a collective sense.
which are still the patterns of land division in rural areas. These people, lured by the prospect of new jobs, migrated to larger towns.52

Accordingly, increase in population was an indirect result of the oil activities which generated better standards of living, improved sanitary conditions, and attracted population from other countries—Colombia, Spain, Italy. This increase in population had a defined urban pattern, since rural population decreased proportionately to the increase in urban population.

Table 1.1

DISTRIBUTION OF THE POPULATION IN RURAL AND URBAN IN 1920, 1936, 1941, 1950*

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25.00 est.</td>
</tr>
<tr>
<td>1920</td>
<td>2,365,696</td>
<td>34.02</td>
</tr>
<tr>
<td>1936</td>
<td>3,264,347</td>
<td>39.25</td>
</tr>
<tr>
<td>1941</td>
<td>3,866,771</td>
<td>52.00</td>
</tr>
<tr>
<td>1950</td>
<td>5,094,630</td>
<td>60.60 est.</td>
</tr>
<tr>
<td>1960</td>
<td>7,000,000 est.</td>
<td>60.00 est.</td>
</tr>
</tbody>
</table>

*Source: Anuarios Estadisticos del Ministerio de la Vivienda (Caracas, n.d.).

52 See Miguel (toro-Silva, La larga Muerte) (Caracas, 1966). An interesting novel in which these migrations are described.
Source: International Bank, op. cit., before "Preface" (folded map, half scale).
A plan económico permitiría coordinar todas las actividades económicas del país, tanto las privadas como las públicas, y darles la dirección que más se acuerde con los intereses permanentes de la Nación.

[An economic plan would permit the coordination of all economic activities of the country, both public and private, and give them a direction more in keeping with the permanent interests of the Nation.]

Alberto Adriani
SUMMARY AND CONCLUSIONS

Summary

At the end of the fifteenth century Europe was ready for a great transformation in social, cultural and economic aspects. The American continent was discovered, which brought about the shift of the center of commerce from the Mediterranean to the Atlantic. Europe changed from the medieval pattern to the nation-state pattern. The political and economic ideas which framed the formation of nation-states was mercantilism. Mercantilism was the attempt to achieve economic and political unity, and to seek power to make the nation strong and prosperous. But mercantilism had two meanings. First, the “current” mercantilism which was bullionist and sought military power and colonial exploitation. This kind of mercantilism was exemplified by Spain. Spain in turn shaped the economy of her colonial countries in Spanish America. The other meaning was the intellectual attempt to develop nation-states in order to obtain economic and political unity. This type of mercantilism was guided by a “philosophy of development”; it was exemplified in Stuwart’s work.
Stewart's thought in brief was the intellectual attempt to achieve political and economic unity of the nation through economic development. According to Stewart, political economy had the object of providing food and employment to every member of the society—in modern terms he advocated a policy of full employment and welfare. He did not rely entirely on the market economy. He argued the market should be implemented by government action to achieve these goals of full employment and welfare. Stewart thought that government should be an important instrument of political economy.

Government is "the power to command," and political economy is "the talent to execute." Stewart thought that the statesman should sit at the head of this operation and that his principal concern should be with the general welfare; therefore, he should be "attentive," "able" and "uncorrupted" in order to accomplish entirely the operation of control and planning. Money, according to Stewart, was neither a "veil"—the view of the classical economists, nor a precious metal per se—the then current mercantilist view. He saw money as "a very potent tool for moulding the economic system, and for bolstering up trade, industry and employment." Stewart considered monetary and fiscal policies and public expenditures as powerful instruments of social policy. The principal use of taxes according to Stewart was to distribute the national income more equitably "by drawing from the rich a fund sufficient to employ both the deserving and the poor in
the service of the state." Taxation should be related, according to Steuart, to a program of alternative possibilities of public expenditures.¹

The evolution of Venezuela may be divided into four stages. The first stage was pre-Hispanic (—1500); this was the primitive society of Indians based mainly on self-consuming activities. The second stage (1500-1810) was determined by the Spanish conquest and colonization. The main purpose of Spain was the search for gold and the control by the Spanish government of the economic activities of the production and distribution of goods. Agriculture was the basic economic activity during the Spanish period. The third stage of Venezuela development (1810-1920) was the republic, the art of coffee.

During this third stage Venezuela became politically independent from Spain and her economy was still based on agriculture. Mercantilist policies were manifested in government control of the market. In this stage, as in the preceding one, the market was a mere tool, controlled by government action. This so-called republic was characterized

¹Steuart's view of taxation contrasted with that of the narrower mercantilist, which regarded taxation only as a source of revenue to maintain the central government. This view prevailed in Venezuela during colonial times, and during the two stages of the Republic. Cf. Carl S. Sheap, The Fiscal System of Venezuela: A Report (Baltimore, 1959), pp. 1-42. This report emphasized that Venezuela in that year still lacked a proper system of taxation to distribute properly the national income and to promote development.
by caudillismo, namely government leadership operated by "military coups" and not by an electionary process. 2

At the end of the nineteenth century, Guzmán-Blanco, President of Venezuela, exemplified a good example of enlightened mercantilism. He improved education, public administration, and the general level of production. He also initiated political reforms to strengthen the role of the state over the Catholic Church.

Finally, the last period, the republic era of oil, started in 1928. The base of the economy shifted from agricultural activities to oil production. Because the dictator Córdova ruled the country from 1907 until his death in 1935, there was a lag in the country's economic development. From 1937 until 1952 the government consisted of short periods of military dictatorships with the exception of one period when Romulo Gallegos was an elected president. However, during the oil stage the government's role in the economy increased because of the increase of revenue from all taxes. This called for proper governmental planning.

In this era of oil the leading figure in economic activity was no longer the landowner; he was replaced by the businessman. This observation should be viewed in connection with Steuart's opinion of businessmen. He regarded them

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as more industrious and thrifty than landowners, and therefore more likely to contribute to a higher rate of economic growth.

Conclusions

From this brief summary of Venezuela's economic history, from its beginning until 1956, several conclusions may be drawn. First, the concept of "free market" did not play any role in the entire process of such evolution. Government intervention and control, unions, and foreign oil enterprises constituted the important forces affecting "the market."

Second, the philosophies and policies of the narrower mercantilist concepts have been present in many ways in the evolution of the nation. Mercantilism during colonial times was in favor of Spain; it disregarded the development of the colony. This mercantilism was authoritarian, and it was bullionist. The main objective of the Spaniards was the search for gold, but they brought their government to the colonies. It was this patriarchal and authoritarian government that the Creole groups—the landlords—reacted against. They wanted more freedom and power for their own interests; this was the main cause of the revolution for independence.

Third, this kind of "Spanish mercantilism" did not exert a positive effect on the economy of either Spain or the colony—Venezuela. This mercantilism sought only the power of the central government, the Crown, and regarded wealth as being only gold. This attitude brought about a benign
negligence of economic resources in both Spain and the colonies. In addition to this, the intolerant religious attitude of the Spanish state contributed to the backwardness of Spain. This intolerance was manifested in two important events; namely the mass expulsion of Jews in 1492, which deprived Spain of an important "human capital" (Jews were very active merchants), and the lack of response in Spain to the Reformation—which has been connected to the phenomenon of the industrial revolution in the late eighteenth century.

Finally, one cannot expect that Spain during the sixteenth century was sufficiently sophisticated to have an enlightened type of mercantilism. However, one might expect that she was sophisticated enough in the eighteenth century to learn toward Steuart's thought. But in this century Spain was decadent, especially between 1766 and 1806, when the king, Charles IV, ruled the nation. He was weak and his minister Godoy was incompetent. In addition Steuart published his Political Economy in 1766, almost at the same time that Adam Smith's ideas were welcomed in England. Spain had forty-two years, between 1766 and 1810, when the independence of Spanish America began, to understand Steuart's message.

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However, Spain ignored Stewart's thought, partly because there was little time to understand the new orientation in economic philosophy and policies, partly because of the incapacity of the Spanish government to understand this new orientation, and partly because of the absence at that time of a Spanish intellectual elite in economics and politics capable of interpreting new thoughts or of creating new orientations.

The purpose of this study is not to recommend a specific type of political and economic system to Venezuela today. Its purpose is to suggest the importance of the role of government in promoting development, given the nature of the present economic and political structure, which is a product of the Venezuelan evolution. That is to say, if Venezuela is going to expand and to grow, she will not find the appropriate policies in a laissez-faire market economy, but in a kind of economic framework in which the market is another tool—not the only tool—which needs to be implemented with government control to direct the economy toward the desired goals.

Economic policies cannot be viewed as a "black or white" approach to solve economic problems. The history of economic thought has been a permanent attempt to solve current economic problems. Economics is a "way of thinking," so it is not
a stereotyped "box of solutions." One lives in a dynamic world which calls for dynamic solutions. Therefore, a realistic approach to Venezuelan economy will be within a political and economic framework based on government planning, and on the significant participation of the government in the economy as a device of control and planning, as a promoter of private enterprise, and as an owner of economic resources and "vital" industries.  

In conclusion, mercantilist philosophy, not a laissez-faire economy, has played an important role in the history of the economic development of Venezuela, and Steuart's philosophy provides interesting points to be considered in the framework of a controlled market. After all, everyone lives in a world of administered prices.

Control does not necessarily mean loss of freedom. The market is a tool which must be implemented, oriented, planned and administered. The market is one of the many instruments or devices to help in the organization of the economy. The price system does not measure social values, for the essence of social value is the continuity of the social process. 

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7 At the present time the Venezuelan government owns Venezuelan sub-soil, sea coasts and river beds, as well as the organization of Corporacion de Guayana, which produces iron, electricity, and other products. This organization is similar to the T.V.A. in the United States. We mean by "vital" industries, those that are vital for the development of the country, and which "should" be, therefore, controlled by the government, especially in the case of underdeveloped countries.

8 Rosser B. Helton, Lectures, North Texas State University, Denton, Texas, Spring, 1964.
Tomorrow one will live in a society of welfare and leisure; one will achieve full employment; this means the full implication of the concept of welfare, namely a way of living for everybody, that concept of a better distribution of output. 9

One must reshape the economic system to consider welfare and full employment as meaningful tasks to be achieved. The concept of freedom must be understood as a workable and dynamic concept in order to avoid social disaster, hunger, and the loss of human dignity. Individual freedom is a valuable concept that all people cherish, but it is important to consider both the value of society as a whole and the evolution of social and economic thoughts.

One must re-structure the system if he is going to achieve abundance; therefore, he must devise tools for that purpose. Social values like thrift, a balanced budget, market, Santa Claus, and many others are objects of permanent change.10 Physicists do not use old books, old-fashioned practices, nor can one use past thoughts to direct his activities. What were solutions for yesterday's problems cannot be solutions for today's problems.11

The system must be reshaped, not in terms of old patterns, not in terms of obsolete values, but in terms of the

9Kendall Pinney Cochran, Lectures, North Texas State University, Fall, 1963.

10Ibid.

11Ibid.
"collective use of social intelligence" in order to obtain abundance and welfare.

That is required today is the collective use of our social intelligence to reap the social rewards which are potentially available. Traditionally we have abhorred governmental or collective action. Laissez-faire and free competition were all that we needed; no decision which would affect the operation of the entire economy was to be made by anybody. But the economy has changed markedly from the time when those ideas were formulated. The problems which society faces today are not those of the eighteenth and nineteenth centuries. Changing and dynamic conditions have posed new problems; and these new problems in the view of institutional economists, require fresh examination and fresh answers. They require in particular the social use of social intelligence.

Thus, this brief summary of the economic evolution of Venezuela indicates the significance of mercantilism in shaping that development. Government has played an important role in framing the economy of Venezuela, and what is more significant is that government action must be planned to achieve abundance and social welfare, namely, "the collective use of our social intelligence" to reap the most cherished social crop, abundance and social welfare.

APPENDIX
Plate 1

Venezuelan Indian Woman
Plate 2

The Spanish Conquistador
Plate 3

Primitive Farming Practices Which Prevailed During the Stages: Hispanic and Republic, The Era of Coffee
Plate 4

Petroleum Towers on the Lake of Maracaibo
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