James Traub: Obama Gets Personal About Foreign Policy **Mark Oppenheimer:** An Atheist's Strange Turn

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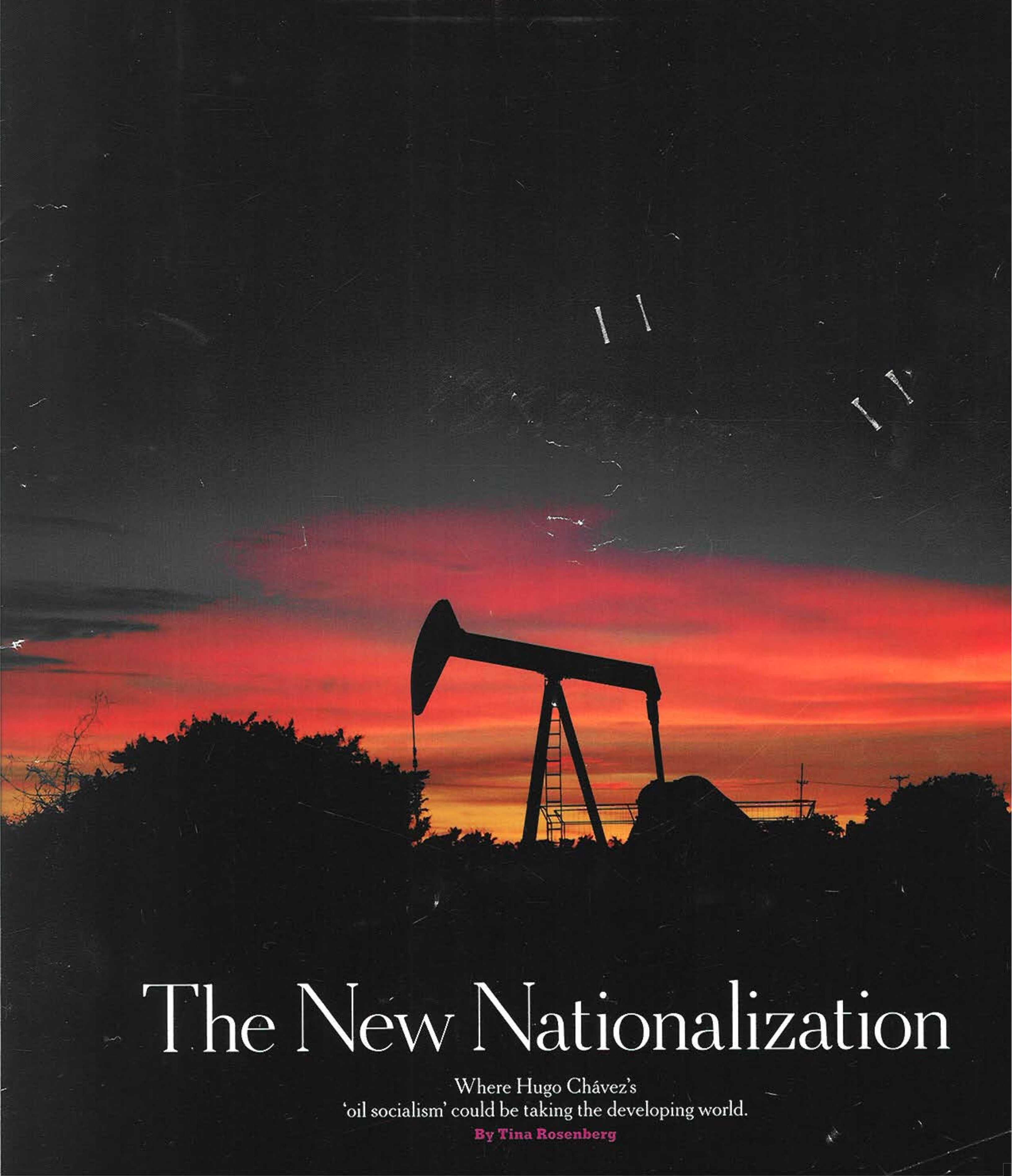

The New Nationalization

Where Hugo Chávez's
'oil socialism' could be taking the developing world.

By Tina Rosenberg

Can Hugo Chávez's 'oil socialism' show resource-rich countries the way to stability and prosperity? Or is it just the old oil curse in a new guise?

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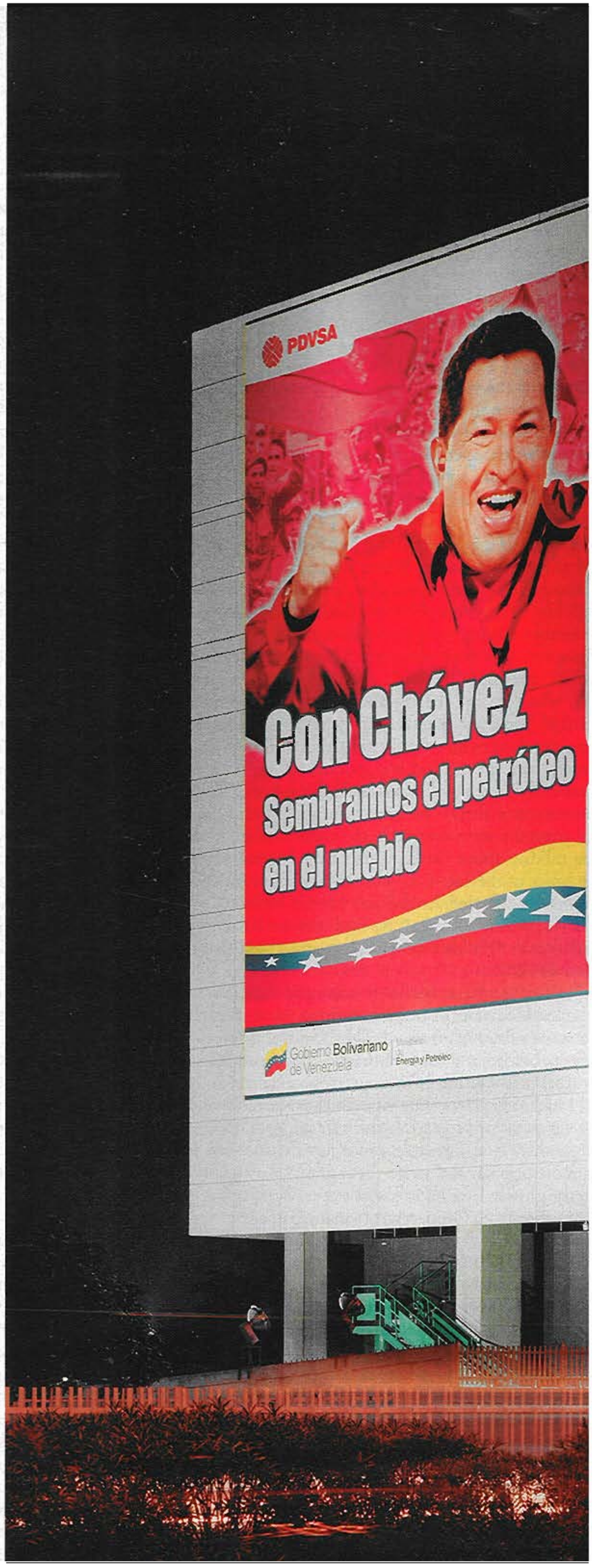

PHOTOGRAPHS BY AMBROISE TÉZENAS

The Chavista slogan "Fatherland, Socialism or Death!" on the Maracaibo offices of Venezuela's state oil company.


PDVSA
¡PATRIA, SOCIALISMO O MUERTE!
Chávez
Venezuela

I.

Who holds the world's oil? You might assume it's in the hands of big private oil companies like ExxonMobil. But in fact, 77 percent of the world's oil reserves are held by national oil companies with no private equity, and there are 13 state-owned oil companies with more reserves than ExxonMobil, the largest multinational oil company. The popular perception in the United States is that if leaders of oil countries nationalize their oil, they are bucking a global trend toward privatization. In reality, *nationalized* oil is the trend. And the percentage of oil controlled by state-owned companies is likely to continue rising, mainly because of the demographics of oil. Deposits are being exhausted in wealthy countries — the ones that exploited their oil first and generally have the most private oil — and are being found largely in developing countries, where oil tends to belong to the state.

Nationalization is also a political trend in some regions, mainly Latin America, where the populist presidents of Bolivia and Ecuador have made it part of their discourse. They are led, of course, by Hugo Chávez of Venezuela. He has made private producers accept state control of their operations. When they wouldn't, as in the case of ExxonMobil and ConocoPhillips, he simply nationalized their holdings. Chávez has also asserted his control over Venezuela's state oil company, which before him operated very much like a private, profit-driven enterprise.

Chávez is a prophet in search of disciples. He seeks to present Venezuela as a more moral world power, uniting Latin America and poor countries everywhere in a socialist alliance. He has invented a new kind of socialism, which he calls Bolivarian socialism, named for the independence hero Simón Bolívar: a little Marx, a little Jesus, a little anti-imperialism and a lot of the whim of Hugo Chávez, dedicated to the "comprehensive, humanist, endogenous and socialist development of the nation." His is a gospel greased by oil, which is financing his transformation of Venezuela. Chávez is a genius of a politician: charming, folksy, flirtatious. I first met him in New York in 1999, the year he became president. I sat next to him at an interview, very pregnant. He embraced me — "But you should come have the baby in Venezuela!" he enthused.

The appeal of his message transcends the charisma of the messenger. To other countries — especially the oil and gas nations in Latin America that watch Chávez with particular interest — the appeal is simple to understand. Oil- and gas-dependent countries are historically ill governed. Today their people are in rebellion against globalization, which promised much but has brought them little. They have been told their countries are rich, but they see they are poor. So someone must be stealing the profits.

Most often, nationalization is a reaction to the idea that the thief is a foreign company. For populist leftists, *El Petroleo es Nuestro!* — the oil is ours — is an alluring slogan. Now as the record high price of oil has made exploitation worthwhile even in places that are remote or geologically complicated (Chad comes to mind), more underdeveloped countries have to choose what to do with their oil. Those that have long held oil must decide how to spend the incomprehensible amounts of money oil is now bringing them.

Historically, almost every country dependent on the export of oil has answered this question in the same way: badly. It may seem paradoxical, but finding a hole in the ground that spouts money can be one of the worst things to happen to a nation. With one or two exceptions, oil-dependent countries are poorer, more conflict-ridden and despotic. OPEC's own studies show the perils of relying on oil. Between 1965 and 1998, the economies of OPEC members contracted by 1.3 percent a year. Oil-dependent nations do especially badly by their poor: infant survival, nutrition, life expectancy, literacy, schooling — all are worse in oil-producing countries. The history of oil-dependent countries has produced what Terry Lynn Karl, a Stanford University professor, calls the paradox of plenty.

Oil not only creates very few jobs, it also destroys jobs in other sectors. By pushing up a country's exchange rate, the export of oil distorts the economy. "Oil rents drive out any other productive activity," Karl says. "Why would you bother to produce your own food if you could buy it? Why would you bother to develop any kind of export industry if oil makes your money worth more and that hurts all your other exports?" The most successful societies develop a middle class through manufacturing; oil makes this extremely difficult.

Oil concentrates a country's wealth in the state, creating a culture where money is made by soliciting politicians and bureaucrats rather than by making things and selling them. Oil states also ask their citizens for little in taxes, and where citizens pay little in taxes, they demand little in accountability. Those in power distribute oil money to stay in power. Thus oil states tend to be highly corrupt.

II. Venezuela is a typical victim of the oil curse. It has become a rich country of poor people. Teodoro Petkoff has seen Venezuela through booms and busts. Once a daring leftist guerrilla who in 2006 was briefly a candidate against Chávez, he publishes a newspaper, Tal Cual, that criticizes both Chávez and the opposition. "The state is booty," Petkoff said when I met him in his small office in Caracas. "The state is hypertrophic here, a monster complex on top of society, heavy and corrupt. It has been the great contractor, the great buyer, the great provider, the great receiver. To win government is to get access to a source of personal enrichment. Money has to pass through the state. Oil has weakened our collective morality. It obliges you to be corrupt. You can't do business if you are not corrupt. We are waiting for the easy deal, big winnings."

Chávez has promised to break this curse, to finally use Venezuela's oil to benefit its people. Oil is everything in Venezuela; it pays for at least half the government's expenditures and 90 percent of its foreign exchange, according Orlando Ochoa, a prominent economist. Now "zero misery" is one of the government's slogans, and the vehicle to get there is oil. Chávez's oil company, Petróleos de Venezuela S.A., or Pdvsa (pronounced peh-deh-VEH-sah — S.A. stands for "*sociedad anónima*," or incorporated), is proudly inefficient, proudly political. Chávez has called his revolution "oil socialism."

"We are doing what the old regimes didn't do," Bernardo Álvarez, Venezuela's ambassador to Washington and a former vice minister of hydrocarbons in the Ministry of Energy, said to me. "We are putting oil into a sustained process of development. Our first priority is a fight against poverty and exclusion."

To that end, Pdvsa is investing the company's profits in helping dropouts finish high school and not just in drilling wells. "Perhaps it was better run before Chávez," says Roger Tissot, a Latin America analyst based in British Columbia who works for PFC Energy. "But it wasn't efficient in meeting the needs of the shareholders — the people of Venezuela. Today perhaps it is less efficient but better at meeting social goals."

Whether this is the right decision turns on whether this policy is

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Tina Rosenberg is a contributing writer for the magazine.

sustainable. In the 1990s, Venezuela's state oil company was a sleek machine, an excellent exploiter of oil, well fed on its own profits. It floated above society, unmoored from the problems of the average citizen. Today, oil money feeds and educates poor neighborhoods. The purpose of the national oil company is not to produce more oil, but to produce Bolivarian socialism. These are two very different ways to handle a nation's oil resource. Can either model show poor countries how to convert natural resources into sustained wealth? Few questions in economic policy are more important today.

III. Many nationalized oil companies are poorly managed — on average, national companies are 65 percent as efficient as private ones, according to one study. Still, it is possible to have a stellar national oil company, efficient in the classic sense, one that can compete favorably with any Western major. Saudi Aramco and Petrobras, in Brazil, are two examples. But perhaps the best-run national oil company that ever existed was in Venezuela. It was Pdvsa.

"On Dec. 31, 1975, I went to sleep as an Exxon employee, and I woke up on Jan. 1, 1976, as an employee of Pdvsa," Antonio Szabo told me. Szabo now runs a software company in Houston, but until 1983, he was a high-level executive at Pdvsa. "I went to the same office, same everything. It was a brilliantly executed nationalization process. What became different the next morning? Except for the destination of the revenues, nothing. Literally nothing. That was the whole point — to continue to produce money for the country without disruption."

President Carlos Andrés Pérez nationalized Venezuela's oil because in the early 1970s there was an oil boom, with a barrel reaching $12 in 1974 (about $50 in today's dollars), having quadrupled from the $3 a barrel fetched in 1973. Venezuelans demanded that the profits stay at home. The expropriation of Exxon, Shell and Gulf was negotiated and seamless, the lack of acrimony stemming from the fact that the foreign companies' concessions had been designed from the start to be temporary, and were to expire in 1983. "I believe that everybody realized Pdvsa was the goose that laid the golden egg," Szabo says. "To keep it healthy you must leave it alone. Every president believed this was sound policy — until Chávez."

Paradoxically, nationalization brought the government less money and less control. When Venezuela's oil was still in private hands, the government collected 80 cents of every dollar of oil exported. With nationalization the figure dropped, and by the early 1990s, the government was collecting roughly half that amount. This low return to the country's coffers was partly a result of that age-old conflict between short- and long-term reward. Because wells run dry and machinery ages, oil companies everywhere must invest lots of money just to keep production steady, and to grow, they need even more. Without new investment, Pdvsa would lose 25 percent of its oil production every year. Its officials were convinced that Venezuela benefited more if Pdvsa's profits went to producing more oil, not more government. "Social revenue has always overshadowed investing in the industry," said Ramón Espinasa, who was chief economist of Pdvsa from 1992 to 1999. "But I think the priority has to be to maintain oil. If you have one dollar left, it should be invested in keeping capacity. Otherwise next time around you will not have a single dollar to distribute."

Espinasa, now 55, lives in Washington and works as an energy consultant to the Inter-American Development Bank. As chief economist for Pdvsa, he was a persuasive voice for the strategy of "oil first." During the early '90s, the company had an extraordinary need for investment. The bulk of Venezuela's oil lies under a 4,500-square-mile savanna called the Orinoco Belt. The reserves are enormous, but 20 years ago it was not clear that they would be commercially viable. The oil was heavy and extra-heavy crude, thick as Play-Doh. It required expensive technology and expertise to extract, and even then only a small percentage of the oil could be recovered. This crude also needed a special refining process and would most likely sell at a discount.

'We are doing what the old regimes didn't do,' Bernardo Álvarez, Venezuela's ambassador to Washington, says. 'We are putting oil into a sustained process of development. Our first priority is a fight against poverty and exclusion.'

To ensure there would be a market for Orinoco crude, in 1982 Pdvsa began to buy refineries overseas able to process it. Among its purchases was Citgo, the American refining and distribution network. By the end of the 1990s, Pdvsa was among the top three oil refiners in the U.S. "With heavy oil, if you don't own a refinery, your production does not have a home," Szabo says. "If you own a refinery, you have market share." And Pdvsa in the 1990s was focused on maximizing its market share in the United States.

Pdvsa executives also decided they didn't want to take on the debt and risk of developing the Orinoco, so in 1989 they began to open it to private participation. Pdvsa lowered the normal royalty rate of 16 percent to a mere 1 percent to attract investment to this capital-intensive project. The royalty was meant to jump to 16 percent once the private company had recouped a certain percentage of its investment.

In hindsight, these were brilliant business decisions. Pdvsa's refineries overseas are making record profits, and the United States is the company's biggest customer. But back then, the gathering of adequate revenue for the Venezuelan state did not figure highly among the company's priorities. The Orinoco contract, for example, was so generous that in 2004, with oil at $46 a barrel, the private oil companies were still paying royalties of 1 percent. (That year Chávez raised royalties to 16 percent by decree.)

In fact, some of Pdvsa's shrewd business decisions seem to have been made with an eye to shielding its gains from the government. Pdvsa bought its first shares in an overseas oil refinery after the government seized its multibillion-dollar investment fund to help solve a financial crisis. Economists on the left who are critical of the old Pdvsa argue that the foreign holdings allowed the company to play with costs and profits. It could sell oil to its refineries at less than market price — thus incurring lower taxes.

Pdvsa attracted the cream of Venezuela's professional class. Espinasa, who was educated at Cambridge, had an office full of young (and very well paid) Ivy League- and Oxbridge-educated Venezuelans. Pdvsa's resources and talent outshone that of the Energy Ministry, which was supposed to be overseeing it. "In the 1990s most oil policy and macroeconomic policy for Venezuela was done inside Pdvsa," one Venezuelan economist told me. "When the I.M.F. came to Venezuela, the meetings were done in the office of Espinasa. The figures they used came from Pdvsa and the Central Bank rather than the Finance Ministry."

Ambassador Álvarez was one of those trying to keep control over Pdvsa, first as head of the energy and mines committee in Congress, and later as vice minister of energy for hydrocarbons. "At the ministry," Álvarez says, "we had gone from 200 engineers to 25. Pdvsa was the only one that had cars, people. One energy minister used to call it 'the Empire.' "

Pdvsa won virtually every argument. But many people, not just Chavistas, would argue that Venezuela lost. By 1998, real wages in Venezuela were less than 40 percent what they had been in 1980. A third of the country was living in extreme poverty — up from 11 percent in 1984. "It was normal for people working for Pdvsa to be very proud — it was recognized as one of the best oil companies," says Tissot, the oil analyst. "In contrast, the politicians were making a mess managing the rest of the country. Pdvsa was working, but Venezuela was not working."

I asked Espinasa to respond to the charge that his Pdvsa didn't do much for the average Venezuelan.

"It shouldn't have," he replied. "It was an oil company."

IV. Ten years later, Pdvsa is no longer an oil company, at least by Espinasa's standards. It now exists to finance Chávez's transformation of Venezuela. The integration is illustrated by the fact that Rafael Ramírez, the minister of energy and petroleum, is also president of Pdvsa. "The Pdvsa that neglected the people and indifferently watched the misery and poverty in the communities surrounding the company premises is over," Ramírez has said. "Now the oil industry takes concrete actions to deepen the revolutionary distributions of the revenues among the people." If the Pdvsa of the 1990s thought it was Exxon, today's Pdvsa amounts to the president's $35 billion petty-cash drawer.

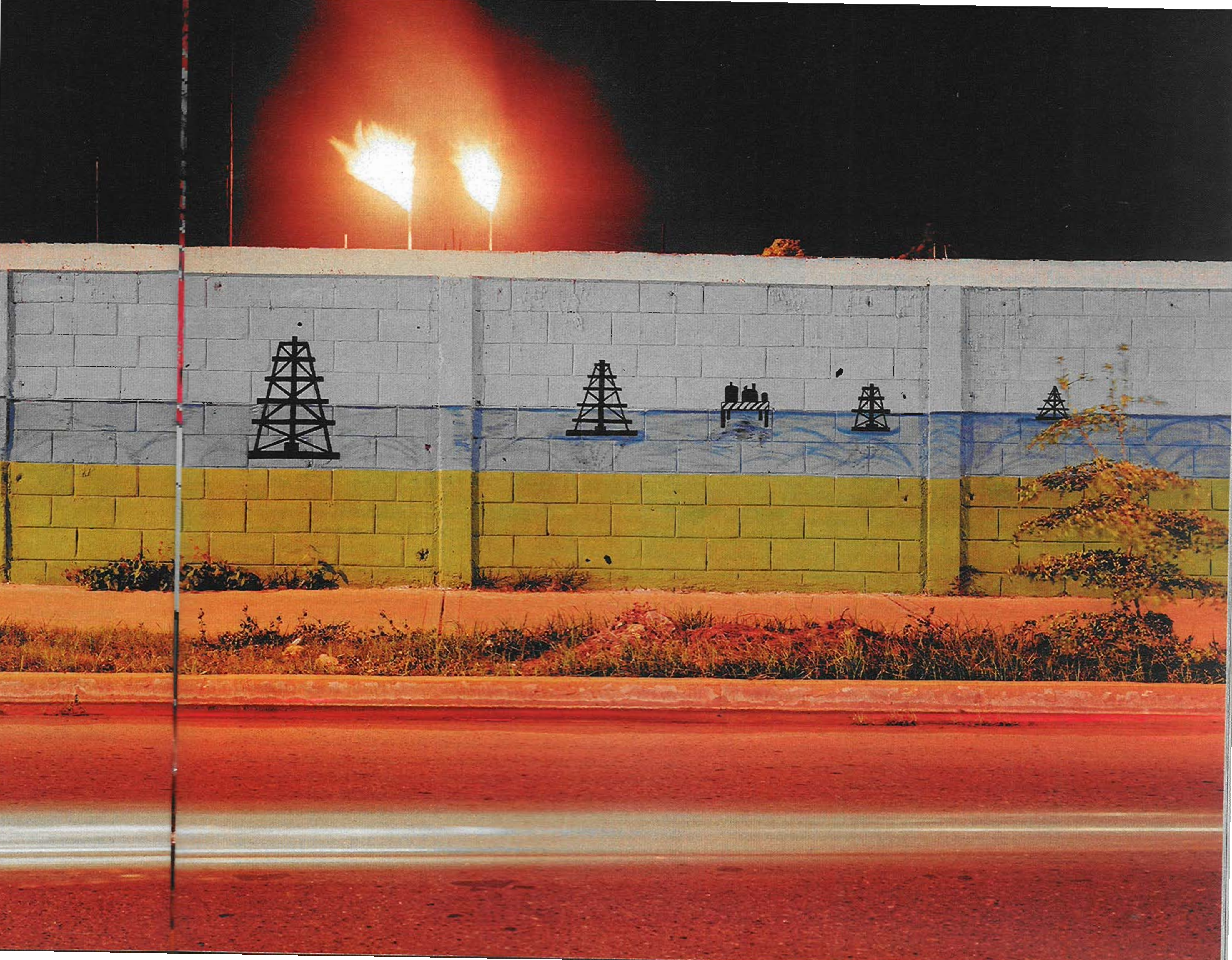
Chávez travels a lot. Foreign presidents who receive him may enjoy receiving his customary gift — a replica of the sword of Bolívar. But they probably appreciate even more the oil that sometimes comes with it. Chávez provides discounted or free oil to Central American and Caribbean countries, sending nearly 100,000 barrels a day to Cuba in exchange for doctors and Cuban expertise on state security. He has given millions in non-oil aid to various Latin American countries, much of it in the form of energy projects. Citgo says it gave $80 million in heating oil to poor residents of the South Bronx last winter.

Pdvsa is also subsidizing Venezuela's domestic oil consumption. Cheap oil for Venezuelans is nothing new; when President Pérez tried to raise gasoline prices in 1989, the riots nearly toppled him. The Venezuelans feel it is their oil; why should they have to pay for it? But the subsidies are much deeper and the quantities greater today. A gallon of gasoline costs 6.3 cents at the pump at the unofficial exchange rate. And Venezuela is now gorging on gas. Venezuela will add 450,000 new cars this year — about four times the number of four years ago. Six Hummer dealerships are set to open early next year.

Oil is now used to create electricity. Some of Venezuela's electric plants used to burn natural gas, but gas production has dropped, creating shortages that oil is filling. Domestic consumption of oil has reached at least 650,000 barrels a day, according to Venezuelan economists. Venezuela is importing oil products and may soon have to import gasoline. There is also the problem of contraband: subsidized gasoline smuggled out

A mural near Lake Maracaibo depicting a more productive Venezuela, with plenty of working drill rigs. In the background, natural-gas flares.

 PHOTOGRAPH BY AMBROISE TEZENAS FOR THE NEW YORK TIMES



and sold at world-market prices in Colombia and the Caribbean. Between its domestic consumption and its use of oil to make friends overseas, Venezuela gives away or subsidizes a third of its production. Most of the rest is sold in the United States.

The money that Pdvsa does get from selling at market prices goes to finance Chávez's revolution at home. Last year, Pdvsa's payments to the state totaled more than $35 billion, counting taxes, royalties and direct support for social programs. This is 35 percent of the company's gross earnings.

Almost $14 billion is spent at the sole discretion of Chávez. It is called social-development money, although it appears that there is little "social" in some of its spending. Much of the money goes to the Fund for National Development, or Fonden, an off-budget fund controlled by Chávez, which also takes foreign reserves from the Central Bank. Fonden's Web site in July listed 130 projects — infrastructure, foreign aid, some social projects like health clinics — as well as the purchase of helicopters, submarine technology, assault rifles and plants to build other munitions. The list was taken off the Web site shortly after it drew notice in the press and was replaced by a list containing no arms purchases. What Fonden actually buys, for how much, from whom and through what process is a mystery.

The more celebrated of Pdvsa's projects is a network of social programs, called *misiones*. These missions bring health clinics and classrooms directly into poor neighborhoods. They are financed and in some cases run directly by Pdvsa. "If Pérez wanted money from his oil boom, he had to wait for Pdvsa to pay taxes, and he had to go to Congress and approve extraordinary spending," one Venezuelan economist told me. "Today, the president gets on the phone with Ramírez and in an hour can get $200 million."

To finance all these ambitious projects, Pdvsa must produce oil. Theoretically this should not be a problem. When Chávez was elected, Venezuelan crude went for about $9 a barrel (about $11 today). At press time it was about $78. (Venezuela crude trades at slightly under the average OPEC crude price.) Chávez is the beneficiary of the greatest oil windfall the world has seen, one based in part on political upheaval in Iran, Iraq and Nigeria but also on a surge in demand from China and India that is unlikely to end soon. So, for the foreseeable future, there should be money for everything.

Yet Pdvsa is in trouble.

V. One good way to see Pdvsa's many challenges up close is to look at the mystery of the missing drilling rigs. A rig has two jobs: to drill down in auspicious spots to look for oil, and to clear out working wells when they clog, like a giant Roto-Rooter. Because oil is so profitable and people are drilling madly, there is a global shortage of rigs, and the price of renting them has gone up. But Venezuela's shortage is worse than elsewhere. In testimony before the National Assembly in July, Luis Vierma, Pdvsa's vice president for production, called the rig shortage "a significant operational emergency." The country needs 191 this year to meet its production goals, Vierma said. But according to Baker Hughes, the Houston firm that provides the world's standard count of rigs, there are only 73 active rigs in Venezuela.

Rig procurement is going badly. Vierma testified that Pdvsa recently invited 63 companies to bid to supply rigs, but only 22 bid. Twelve received contracts, to supply 27 rigs, but only five companies actually took rigs to Venezuela. Vierma called this "a silent sabotage by multinational companies."

Others might call it the market at work. Rigs are in high demand; rigs cost at least $15 million, and an offshore rig can cost more than $95 million. Why go to Venezuela? "The big contractors want to take their rigs somewhere with less risk and threat of confiscation," one executive of a big drilling contractor in Venezuela told me. "The way this government talks, it sends investors running."

> While other oil producers, like Russia and Nigeria, are piling up surpluses, Venezuela is spending everything it gets. Venezuela once had a $6 billion oil fund to be saved for lean years; Chávez has spent all but $700 million of it.

I went to Lake Maracaibo to see the problem for myself. Maracaibo is South America's largest lake, a huge basin of duckweed and sewage, where significant oil drilling first began in the 1920s. I expected to see very few rigs. But what I found was more complicated.

Driving down the lake's eastern shore one hot, rainy morning, I passed Pdvsa's Maracaibo complex. Huge oil storage tanks stood near the road. The entrance to the complex was marked by a sign with one of the revolution's slogans: "Fatherland, Socialism or Death!" The lake was strung with electrical lines and dotted in checkerboard fashion with wells, electrical towers and the graceful, 170-foot-high towers of drill rigs. In 1997, there were 57 rigs working on the lake. On the day I visited, there were 29. I saw more rigs, including seven in Pdvsa's yards, along the lake shore, docked along the bank. I asked one drilling contractor what they were doing there. "Why aren't they out on the lake working if there's such a shortage?"

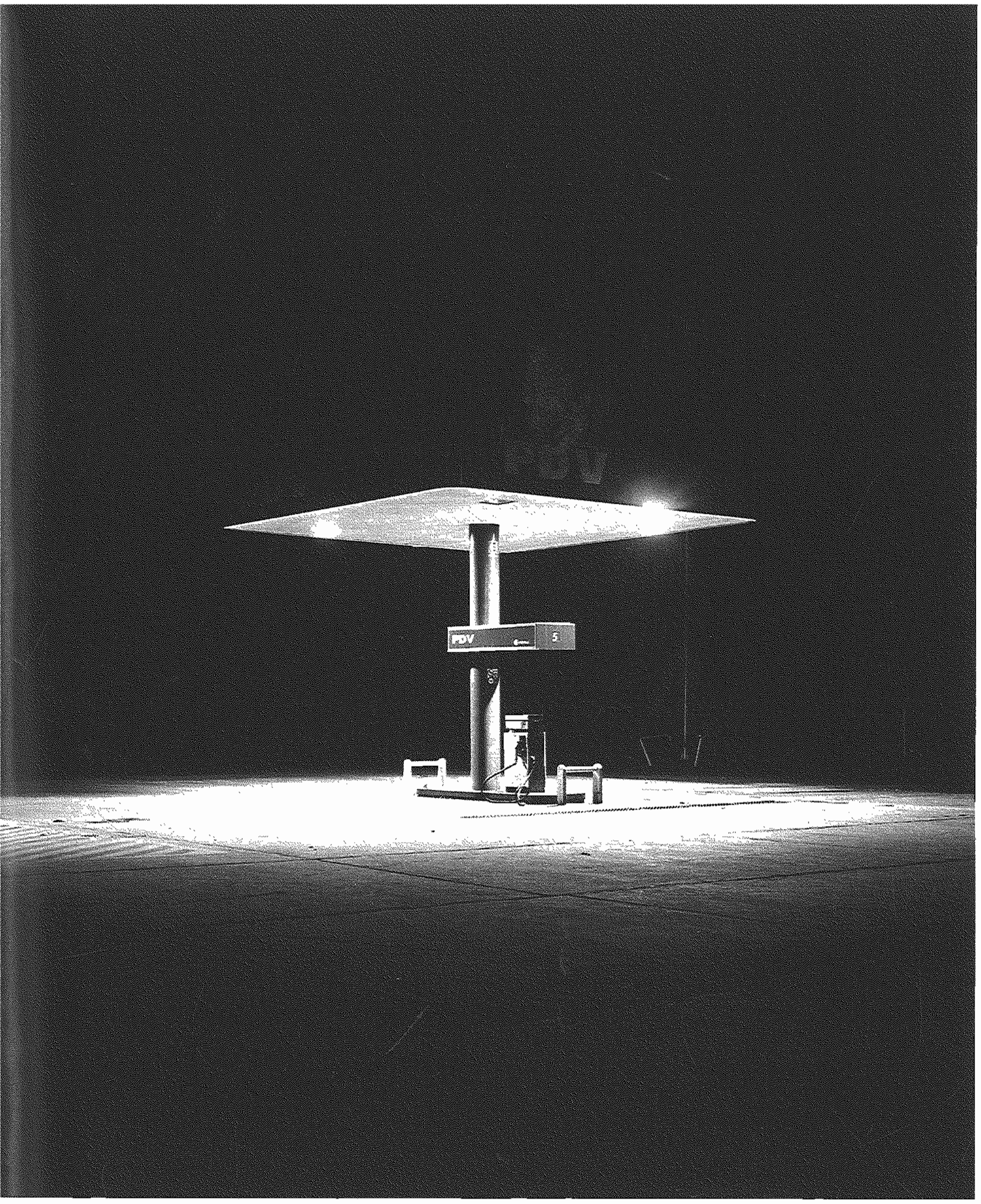
"Ahh," he said, and smiled. Like others I spoke with, he didn't want to be identified. "I estimate that there are about 22 rigs sitting idle around the lake, but not all of them are operable, due to lack of maintenance, or because they require additional equipment," he told me. He said there were more idle rigs in Pdvsa docks across the lake.

In June, Pdvsa took back operating and maintenance contracts for its working rigs from the contractors who held them. Ramírez, the oil minister, said that contractors were "cannibals" who were robbing the country, and that Pdvsa could do the work for a third of the price. But it's not clear that Pdvsa can do the work at all.

I counted at least 10 rigs belonging to Pdvsa that were not even being worked on — the company's management is so poor, contractors said, that it cannot coordinate getting rigs repaired. Pdvsa is responsible for servicing all rigs working on the lake. "You need a boat to come out to give you water, diesel, empty the cuttings, take away waste," one contractor said. "But I've waited a week for them just to take trash off the rigs." There may be other reasons there are few working rigs. Vierma himself was briefly being investigated by the National Assembly — notable, given that it contains no opposition members — for overseeing the purchase of rigs from companies that supposedly had no rigs, no experience and little capital.

VI. Pdvsa's administrative troubles can be traced back to one of the biggest threats to Chávez's presidency. In December 2002, Pdvsa's managers, fed up with Chávez's attempts to control them, locked out the workers and shut down Venezuela's oil production for two months. The goal was either to take back control of Pdvsa or to topple Chávez. The economy collapsed, but ultimately Chávez triumphed over the "oil sabotage," as his government called it, cementing his hold on power.

In the aftermath of the strike, Chávez fired 18,000 of Pdvsa's 46,000 workers — the vast majority of them were managers and professionals, many of whom have since gone to work in Calgary, Houston or Riyadh. Pdvsa has since replaced the strikers, though the new hires are largely inexperienced. In fact, Pdvsa now employs 75,000 workers, many more than in the past, and Chávez says he wants to increase the number to 102,000 next year. Part of Chávez's new "oil socialism" is to make Pdvsa more self-sufficient, reducing dependence on outside service companies. So Pdvsa is creating new subsidiaries. One is a new oil-services unit — "our own Hal-



A filling station in Venezuela, where gas costs about 6 cents a gallon.

liburton, ours, the 'Bolivarian' one," Ramírez, the energy minister, told state TV. Pdvsa has also announced plans to build oil ships and drill rigs. In June, Pdvsa approved the creation of seven new subsidiaries, including ones to grow soybeans for ethanol, to build food-processing plants and even to make shoes. Pdvsa is running a parallel state.

The company's workers must all have at least one qualification: they must be Chavistas. Ramírez told oil workers, in a speech that was taped clandestinely and passed to a TV station, that they should back the president or give their jobs to a Bolivarian. The company is "red, red from top to bottom," he said. Pdvsa also wrote a letter to its contractors, warning them not to hire any of the 18,000 fired workers.

As Pdvsa has been molded to Chávez's will, it has also become less and less transparent in its dealings. The company used to publish a standard annual report, but after 2004 it stopped filing its annual reports to the U.S. Securities and Exchange Commission. In recent years it has released only a page or two of basic figures, with no breakdowns or auditors' notes. When Pdvsa does release information, some of it is of questionable credibility. Even the most fundamental operational fact — how much oil Venezuela produces — is subject to debate. In 1997, Venezuela produced 3.3 million barrels per day of crude oil. Today, Pdvsa claims the country produces the same amount, but independent sources, including OPEC, say that figure is too high; OPEC puts Venezuela's production at 2.4 million barrels a day last year.

What is clear is that much of the oil revenue is going to social spending. Last year, Pdvsa says it spent nearly $14 billion on social programs. That includes the missions and Fonden, but does not include taxes and royalties of $21 billion paid to the government. Pdvsa says it put $5.8 billion back into the company last year. While this is a $2 billion hike from 2005, it most likely includes items that no one would call investment in oil; a secret addendum to the 2007 budget described "investment" as including money for national infrastructure and social projects. Pdvsa's own business plan calls for rapid growth in production, but oil analysts say the company is clearly not investing enough. According to Pavel Molchanov, who studies oil in Houston at Raymond James, a financial services company, Pdvsa has had two years of production decline and is likely to have at least two more. "This is against a background of global oil production increasing 1 to 2 percent a year," he says. "If they were spending enough would their production be down? I don't think so." (I would have liked to have asked Ramírez about this and many other matters. His office promised me an interview with him, but it never materialized, and Pdvsa officials said no one else could even give me background information unless Ramírez authorized it personally.)

Pdvsa is also taking on debt. The company had very little debt until 2006, but this year it has borrowed $12.5 billion. While raising cash through debt offerings can be fiscally sound, and many companies do so, critics contend that Pdvsa is issuing bonds for the wrong reasons. "Their debts are low, but they didn't have any before," says José Guerra, formerly chief of the research department of the Central Bank, who left in disagreement about Chávez's economic policies. "Other oil countries are getting rid of debt. And what is the debt going for? Their spending on exploration is almost nothing. They are taking on debt to have a party."

Some of the private companies that the old Pdvsa had brought in are still working in Venezuela, but they are now only minority partners and are paying higher taxes and royalties. On May 1, foreign companies working in the Orinoco were told to cede majority control of their projects to Pdvsa. Two companies, ExxonMobil and ConocoPhillips, left and are now negotiating with Venezuela about compensation. Other companies, seemingly chosen for their geopolitical value, have come into the Orinoco to take their place and develop virgin areas: national oil companies from big producers like Russia, China, Brazil and Iran, but also Cuba, Chile, Uruguay, Argentina and Belarus, which presumably can bring little expertise to the business of heavy oil.

VII. Pdvsa is now dedicated to creating a new oil product: it is turning petroleum directly into math problems. I watched this alchemy one night in the living room of Félix Caraballo. Caraballo, who is 32, lives in the El Encanto section of La Vega, a slum on the side of one of the steep mountains around Caracas. Caraballo has been working in La Vega on community projects since he was 14, when police officers killed a friend of his during the 1989 protests over the government's attempt to reduce gasoline subsidies. He is a committed Chavista and a committed socialist. "Money should serve people and not the other way around," he told me.

The night I visited, the couches in his living room were pushed to one side to make a classroom. Yulimar Medina, a 25-year-old college student, stood at a whiteboard with a marker and walked the *Continued on Page 78*

PHOTOGRAPH BY AMBROISE TÉZENAS FOR THE NEW YORK TIMES

A filling station in Venezuela, where gas costs about 6 cents a gallon.

OIL

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students through an equation. There were 11 adults, some with young children, in the room, studying the addition and multiplication of fractions. The students — known in the program as *vencedores*, or triumphers — all had workbooks, and they had already watched a 45-minute video of a math lesson.

This was an eighth-grade class of Misión Ribas, a program that brings grades 6 through 12 to barrios around the country. This class meets from 6 p.m. to 9 p.m. every weeknight in Caraballo's house. The videos come from Cuba, and facilitators like Medina lead the class in discussion and exercises afterward. The *vencedores* study math, Spanish, history, geography, science and English, and must work together to do a community project, like building a staircase or planting a vegetable garden — that's the part Caraballo guides. Not only is school free but most of the students also receive stipends of $85 a month to attend. The students themselves choose who gets the stipends, based on need and dedication.

Ribas is one of an ever-growing list of Chávez's missions. One teaches people to read. Another has imported thousands of Cuban doctors and dispatched them to poor neighborhoods around the country. Another set up stores in barrios that carry basic foodstuffs and medicines at highly subsidized prices. Another provides identity cards to undocumented citizens. While I was in Venezuela in September, Chávez announced another mission, to expand universities. The vast majority of the financing comes straight from Pdvsa.

The missions are popular and have benefited more than half of Venezuela's poorest sector. Venezuela's millions of poor take them as a sign of Chávez's commitment to them and to the government's slogan of "zero misery." When I visited another Ribas class in an even more remote corner of La Vega, I asked the students what they valued most about the mission. "It comes to our barrio," one student said. "It doesn't exclude anyone," another said.

Spending oil money on schooling and doctors for the poor seems, intuitively, like the right thing to do. "This is an investment in human capital," argues Mark Weisbrot, co-director of the Center for Economic and Policy Research, a left-leaning Washington policy group. "You've had a focus on food and health care and education. It doesn't cost that much, and it's reaching a lot of people."

The Venezuelan who finishes high school with Misión Ribas may not have the same education she would get in a formal school. But without Ribas, she would have no high-school education at all. Chávez cares about reaching zero misery, something that can be said of few governments with oil. But no one really knows if the missions are actually moving Venezuela toward zero misery; the programs have no visible internal evaluation. Increasingly, the missions are replacing their formal counterparts. It is wonderful for poor neighborhoods to have health clinics staffed with Cuban doctors — wonderful, unless you happen to need the services of one of Venezuela's hospitals, which are falling apart.

Political and ideological training, Ribas officials told me, is the top qualification for a facilitator. I attended a session for new Ribas students in Las Torres, a La Vega barrio near the top of the mountain. After Ribas officials told students how to register for classes and what would be expected of them, María Teresa Curvelo, the district coordinator, began a 90-minute talk about a referendum of great importance to the government. The referendum, to be held on Dec. 2, proposes changing the constitution to remove Chávez's term limits and increase his power among other things. She urged students to attend marches and street demonstrations supporting Chávez. "Chávez is someone who comes along every 100 years," she told them. Afterward we rode down the mountain in a truck. When she got out, I thanked her. "Fatherland, Socialism or Death!" she replied.

VIII. Venezuela's poor have become much less so under Chávez. The population living in extreme poverty, measured by cash income, dropped from 20.3 percent in the last half of 1998 to 11.1 percent in the last half of 2006, according to official statistics. But an oil boom might be expected to alleviate poverty. The real question is whether the gains will be sustainable. Weisbrot says he thinks they will. He points to the missions and figures there are gains in health and education that cash income doesn't measure. But so far there is no sign of them: the percentage of those living without running water and living in inadequate housing, as well as the number of young children not attending school, has scarcely budged in the last 10 years. The percentage of babies born with low birth weights actually rose from 1999 to 2006. And this is according to government statistics. It is early, but these numbers may mean that the missions are mainly helping through the stipends.

Whatever success the missions have at helping the poor may be dwarfed by the grotesque distortions in the economy as a whole. Inflation is officially at 16 percent but is most likely higher, according to Orlando Ochoa, the economist, who is usually critical of Chávez. He says that in the basket of goods and services used to measure inflation, just under half the items are sold at government-controlled prices. Many goods simply can't be bought at those prices, and consumers must pay double the price in a street market. Or the goods can't be found at all, their producers forced out of business by price controls. Beans and sugar were hard to find cheaply when I visited Caracas in September; fresh milk and eggs hard to find at all. Recently, people had to line up for five hours to get a liter of milk. One proposal in Chávez's constitutional referendum could increase inflation much further by abolishing the autonomy of the Central Bank and giving the president power over Venezuela's international reserves. The proposal would also essentially allow Chávez to print money.

The major threat to the economy comes from the exchange rate. Oil caused the bolívar to be overvalued. Farms and factories are in trouble. They can't export and must compete at home with products imported at the official exchange rate, which is now about a third of the market rate. And so the country is awash in artificially cheap imported products, from basic foodstuffs, like Brazilian cooking oil, to fancy cars. "Our productive capacity is too weak to create jobs," Petkoff says. "But we consume like a rich country."

The disparity between the official exchange rate (2,150 bolívars to the dollar) and the black-market rate (6,200 bolívars at press time) has created a new class known as the Boliburgesía. Bankers, traders, anyone who works in finance or commerce, can get very rich manipulating the exchange rates. Buy all the imported whiskey and Hummers you want, is the message. Live a life of wild excess. Just don't try to produce anything.

Even if the price of oil stays high, it may not be able to sustain Venezuela if oil production continues to drop, subsidized domestic consumption keeps rising and government spending continues unmeasured and unchecked. While other oil producers, like Russia and Nigeria, are piling up surpluses, Venezuela is spending everything it gets. Venezuela once had a $6 billion oil fund to be saved for lean years; Chávez has spent all but $700 million of it. The vast majority of Chávez's new missions and worker cooperatives are dependent on state handouts — unsustainable when government revenue falls. A devaluation of the currency would wipe out the income gains of the poor.

This is classic oil curse, and Venezuela has seen it before. In 1973, and in 1981, Venezuela spent oil money wildly, without controls. Each time a boom ended, it left Venezuela worse off than before it began — per capita income in 1999 was the same as in 1960. Chávez has quite likely intensified these cycles, and the country is less able to produce anything other than oil.

Venezuela's adventures in oil nationalization have produced two very different models. At a time when oil prices were low and the country in dire need of social spending, the old Pdvsa's focus on reinvesting in oil production was undemocratic and unfair to the Venezuelan people. But the new way has produced something arguably worse — economic failure despite a boom in oil prices, and it is unfair to future generations.

IX. Nationalization is often a response to the failure of privatized oil to respond to the people's needs. Even in the United States, where there is a good chance of getting caught, oil companies have inflated their costs or illegally deducted costs and engaged in other machinations to minimize payouts. For poor countries, the risks of getting a raw deal from private oil companies are much greater. History is littered with contracts that give Big Oil obviously unfair advantages — Shell in Nigeria, Mobil in Kazakhstan and Texaco in Ecuador to name a few. Oil can also be an irresistible seduction to a country's ruling class. Where democratic institutions — or even merely transparent processes — don't exist, the lure to corruption is powerful. Oil in Russia, for example, was sold off not for maximum profit to the country but maximum profit to the officials who oversaw privatization. In Equatorial Guinea, ExxonMobil, Amerada Hess, Marathon and others made payments to President Teodoro Obiang or his family for land, security and other services, according to a Senate investigation of money-laundering involving Riggs Bank, where some of those payments ended up.

Nationalization, however, doesn't cure these ills, and it can deprive a nation of its rightful take of its natural wealth in other ways. One is simply lack of know-how. One reason President Evo Morales of Bolivia pulled back from his threats to radically nationalize the country's gas industry is that Bolivian officials realize they cannot manage the business themselves. Morales has focused on raising royalties on fields with known reserves, fields where companies essentially are guaranteed a return on investment. The royalty had been at 18 percent. Under pressure from popular protests, the previous government raised the rate to 50 percent, and last year Morales raised it to 82 percent in some cases. While foreign investment in Bolivia's natural-gas industry has fallen, every analyst I talked to said it was not because of the royalty hike. Morales's nationalization rhetoric, not royalty rates, made private companies skittish. "There's a big difference for an investor when there's a worry about nationalization," said Amy Myers Jaffe, a fellow at the nonpartisan James A. Baker III Institute for Public Policy, at Rice University in Houston. "There are intangible factors I can't control, and it's creating all this political risk." Roger Tissot of PFC Energy adds: "Companies don't have a problem paying more rent and taxes. They do have a problem giving up control."

So perhaps the best strategy for resource-rich countries is to keep the oil private, watch it carefully and tax the hell out of it. Better yet, raise royalties, which are more straightforward and easier to collect. "If your objective is to maximize rent, then the best way is to have companies compete with one another in open bidding for access," Tissot says. "Angola and Libya have done this very successfully. Libya invited private companies to come back and is squeezing 90 percent of the profits out of them."

As a slogan, "Negotiate a Better Royalty Rate!" doesn't have the ring of "The Oil Is Ours!"; nationalization of natural resources can bolster a country's psyche even if the management of those resources is a failure. The urge to nationalize is, at its core, a political one. Chávez seized Pdvsa not so it would produce more but so he could directly control the money. When governments give into this urge, they tend to be susceptible to the temptations of using oil for short-term gain.

But not always. Nationalized oil production doesn't necessarily lead to political corruption or shortsightedness. If the old Pdvsa were operating in today's booming oil market, there might be plenty of money for investment in oil and social programs. But it would be the government's job to watch the company closely to make sure the state got its fair share — in other words, to ensure oil does what it should do: produce maximum sustainable money for the state. It's also the government's job to use the money wisely. That is a more important and difficult problem than the dilemma of whether to nationalize, and the solution does not depend on whether production is nationalized or privatized. It is not even an oil problem at all.

All oil production ends up at some point in the realm of politics — whose interests will the bounty serve? The only way to mitigate the political influence is transparency for state-owned and private companies alike. "There should be a law that a national oil company has to publish its corporate figures, matching an S.E.C. filing," says Jaffe, the Baker Institute fellow. "We recommend that there be a regulator in Parliament that requires full reporting. And it should be open to the public. It's easy to say and hard to do."

Private companies do release credible annual reports — but many of them never reveal what they pay host governments. Several new nongovernmental campaigns, like Publish What You Pay and the Extractive Industries Transparency Initiative, are trying to shame companies and governments into bringing the books out into the open. So far they have had limited success.

"The problem isn't who owns the resources, it's what you get from the proceeds," says David Mares, a professor of political science at the University of California, San Diego, who studies energy in Latin America. "If you waste it in corruption and unsustainable programs, it's as bad as if you have international corporations dominating, who pay very few taxes."

Nationalization won't keep oil from being stolen. Good oversight, accountability and management of the funds will, no matter who owns the oil. "On Jan. 1, 1976, the day of nationalization, Pérez gave his speech with a banner behind him that read '*El Petróleo Es Nuestro*,'" Antonio Szabo says. "Guess what? It was *nuestro* all along." ■

ANSWERS TO PUZZLES

OF OCTOBER 28, 2007

TALKING HEADS

R	U	M	S	■	P	F	C	■	O	B	A	M	A	■	J	U	I	C	E	S
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P(HYLLIS) MCGINLEY, SAINT-WATCHING — [T]he wonderful thing about saints is that they were human. They lost their tempers, got hungry, scolded God, were egotistical or testy . . . , made mistakes and regretted them. Still they went on doggedly blundering toward heaven.

A. Polymath
B. Maggot
C. Christen
D. "Gaslight"
E. In the gutter
F. Networked
G. "Le Monde"
H. Ethylene
I. Yarmouth
J. Sofa bed
K. Adverse
L. Isothermal
M. Nuggets
N. Third estate
O. Woodshed
P. Attend
Q. Twittery
R. Cresting
S. Hold sway
T. Interlude
U. New Hebrides
V. Gluttony