

# THE STATE PARTICIPATION IN FOOD DISTRIBUTION TO URBAN AREAS AND ITS LIKELY IMPLICATIONS FOR THE VENEZUELAN AGROFOOD SECTOR.

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## 1. INTRODUCTION

Of all the problems that currently affect the Venezuelan society, few are as relevant as those related with the distribution of food to urban areas. This can be explained by the fact that it is a part of the structure related not only to the agriculture production, the industrial agriculture and the consumption of food; but also with employment, purchasing power of salaries, and in general, with life quality of the vast majority.

During the past years, the structure referred to have suffered important changes in the face of the founding of the firm called *Mercal C.A.* This state owned company created to attend the needs of the less favored sectors of society, since its foundation on April 16, 2003, has shown important dynamism (Ministerio de Alimentación, 2005). Regarding this, it is mentioned that on January 4, 2007 the results of a study were published (related to the impact of the fifteen *social programs* carried out by the Venezuelan government) done by a renowned and prestigious surveyor, concluded that *Mercal* had the most acceptance among *socioeconomic sectors D and E* (highlight is ours), with a 50.8% and 64.4% penetration respectively (UCV, Facultad de Agronomía, 2007).

This important dynamism and level of acceptance, as of January 2007 until February 2008, has shown signs of weakening because it was in no condition to continually attend the growing demand of consumers, who have seen their income grow from among other sources, the different *social programs* enforced by the State, in view of the extraordinary expansion of the oil income, noticeably increasing public spending.

As of the first days of March 2008 the distribution of food seemed to recover in all of the urban distribution structure of food. As for the programs displayed by the State in terms of food, it is not difficult to see the interest there is in solving this situation, since in addition to the operations of *Mercal* are those of *PDVal* (another State owned company financed with the resources of *Petróleos de Venezuela S.A., PDVSA*). Both form what is called by the government the “executing arms of the food policy”. This way *Mercal* distributes food to the less favored sectors with subsidized prices, and *Pdval* distributes basic food to other segments of the Venezuelan society with prices regulated and enforced in the Official Gazette.

The facts mentioned above allow us to present a hypothesis on the purpose the State has in terms of agriculture foods, especially for sectors with less income, which will be achieved easily and probably overflow because of the important availability of financial resources given the current behavior of international oil prices and its perspectives.

Taking into consideration this context and the enforcement of food distribution policies, greatly financed by the State, it does not constitute an unprecedented success in the country if we take into consideration the history that surrounds the functioning and final destiny of the Agriculture Marketing Corporation (*Corpomercadeo*) (1). The purpose of this work is to analyze the current situation and perspectives of the structure of the urban distribution of foods as a consequence of the decision of the State to participate directly in said structure.

In accordance with the methodological process we used, this work has been structure as follows: after this introduction, the first part establishes the historical coordinates within which *Mercal* and *PDVal* appeared; this way, it determines the origins of the object being studied. In the second part, we propose an interpretation of the phenomenon, developing all the aspects that compose this investigation, as are: *conceptualization*,

*verification, and inference.* This way, our intention was to formulate a deductive reasoning with most attention on the *probable implications* of this phenomenon on the structure and functioning of the Venezuelan Agricultural and Food Sector if the conditions that allowed for the founding and further development of said “executing arms of the food policy” consolidate and prevail.

## **2. ORIGINS OF THE STUDY OBJECT**

### *2.1 The structure of urban distribution of food before the founding of Mercal*

The urban distribution structure of foods started to change importantly since the opening of the first facilities of *Makro Comercializadora S.A.* in 1992 in the city of Caracas. This company appeared on 05.18.90 as a result of the association between Empresas Polar with the Dutch company known with the initials *SHV* (Steenklen Handles Verrening). This association became *Makro Automercados Mayoristas S.A.* After this, according to the Constitutive Act located in the Commerce Registry of the Federal District and State of Miranda (UCV, Facultad de Agronomía, 1994), on March 18, 1992, it was decided the company would be named *Makro Comercializadora, S.A.*

The presence of *Makro*, with many of the peculiarities that characterize the so-called “hypermarkets” in Europe, meant a very important transformation in the urban distribution system of food (Morales, 1996). Such a change was specially important because the initial plan barely considered the opening of five facilities in Caracas, Valencia, Maracaibo, and Barquisimeto (Grupo Editorial Producto, 2005:57), and practically overflowed as the number reached no less than 20 facilities located in the most important regions and cities of the country, a significant number to consider these as part of an accelerated process of transformation of the structure of urban distribution of food, particularly in this historical period of time.

Later, *CATIVEN*, a consortium integrated by the French *CASINO* group (with 50% of stock ownership), *ÉXITO-CADENALCO* from Colombia (with 28% of the package) and the *Polar* group of Venezuela (with 22%), assumed total control of the *Supermaxy's* operation. In its first stage, in 1995, the consortium, only with the presence of Makro, acquired the *CADA* supermarkets and *Maxy's* stores, and this way, it started an aggressive modernization program of these establishments that started to be called *CADA 2000*.

A rough quantification of this process can be verified in Table 1

**TABLE 1. QUANTITATIVE TRANSFORMATION AND PERCENTAGE VAIATION OBSERVED IN THE URBAN DISTRIBUTION SYSTEM OF FOOD IN THE 1990-2002 PERIOD**

DISTRIBUTORS	YEARS			Variation %
	1990	1995	2002	2002/1990
Small Groceries	55.966	37.941	38.927	-30,0
Independent Supermarkets	1.362	1.441	1.025	-25,0
Supermarket chains	234	265	200	-14,5
Hypermarkets		12	25	+108,0

SOURCE: Prepared personally on the basis of the information provided by the company Datos (UCV, Facultad de Agronomía, 2003)

This table shows the significant growth of the so-called “hypermarkets”. It also allows you to understand some of the consequences, as are:

a. The increase of unemployment indexes (Central Bank of Venezuela, several years). In this sense it is mentioned that the continuous decrease of small groceries and independent supermarkets shown in Table 1 has been translated in a progressive loss of workplaces.

b. The significant reduction of total costs that have probably occurred (among other factors, to the modern management of the circulation fluxes and logistic operations), not necessarily translated into an *effective and significant difference in the prices in favor of consumers*, at least, in the case of some industrially processed foods, which constitute an important part of the daily diet. (UCV, Facultad de Agronomía, several years; Morales, 1996).

c. As the “*Great Distribution*” (G.D.) consolidated, the importance some companies were traditionally showing that forms the Venezuelan agrofood industry started to weaken. In the face of this reality, they would have no other choice than to have their strategies *become compatible* to those of the G.D., and they would probably need to submit themselves to different technical and organizational requirements put forth by the G.D. (Morales, 1996).

d. As for the consequences on the hypermarket distributors, especially those that were responsible for providing for “fresh” produce (roots and tubercles, vegetables, fruits, etc.), it is mentioned that their admission as providers required them to have previously negotiated and subscribed with these companies an agreement in which they are required to comply with certain requirements related with the products being purchased, such as quality, regularity of distribution, *prices*, and the acceptance of their payments being differed, as well as other conditions, at the risk of losing their condition of “suppliers” if said conditions are not met. (Morales, 1996).

e. The situation of suppliers of industrially processed products, with the exception of course, of companies related to Polar (natural suppliers of Makro and Éxito), should not be different from suppliers of “fresh” products. In the specific case of Makro, because of the nature of its operations, they would be able to postpone their payments for a period of 90 days, and this would logically provoke a chain of postponements that would mean for

such companies the need not only to cover their financial needs, but also those of the mentioned companies (Morales, 1996).

f. As this development process of the G.D. appeared and the power of the mentioned companies increased, not only most of the retailers were being slowly substituted, but the group of economic agents that participated within the agrofood sector would start to bear with the consequences of the process. Under these conditions, it was not difficult to foresee that the concentration would continue its rapid course, and it would consequently result complicated to work under the “laws of the market”.

Taking into consideration the facts mentioned above, we conclude this point sustaining that the historical conditions that made it possible to conceptualize and explain the structure and functioning of the Venezuelan Agrofood Sector (VAS) up to the founding of the GD in the country, was significantly modified. Hence, the concepts and proposals current until the presence of the GD could not remain unchanged. Therefore we consider an important change has occurred in the *structure* because the *core* (*Núcleo* in Spanish) that defines it and allows for the reproduction of most of the *agro industry complexes* (*Complejos Agroindustriales* in Spanish) that operate in the country, started to show significant changes. What in most of the *Sectorial Complexes* (*Complejos Sectoriales* in Spanish; commonly know as “agro industry complexes”) founded in the country had been designed around the *agrofood industry* and decisions were made that guaranteed and ensured the reproduction of said *complexes*, which slowly started to loose this capability. This capability started to surround the *Great Distribution* which started to show its hegemony and reveal its capacity to establish hierarchies, organize and direct the dynamics of the “*agrofood system*”. In these conditions, the details of how this *core* works would have significant consequences in the evolution of all the *stages* (*Etapas* in Spanish) that form the “*agro industry complexes*” that operate in Venezuela, being that

there are good reasons to consider that the decisions will irradiate from this new *core* that will guarantee and ensure the reproduction of the economical and social bases of these complexes. This ability the *Great Distribution* has to ensure the reproduction of these complexes derives from its economic, technological independence, as well as its sufficiency to hold a relative conditioning over the rest of the *production stages* that form the mentioned *agro industry complexes*.

Such were in synthesis, the characteristics and interpretation of the events that preceded the apparition of *Mercal C.A.* as has been presented and reiterated, this company emerged in a context of an accelerated growth of the so-called *Great Distribution*.

Later, as has also been mentioned, PDVal comes into the scene and is characterized by a serious supply problem. Both events will be presented in the next point.

## *2.2 The sociopolitical context in which Mercal and PDVal emerge.*

In December 1998, Hugo Chávez Frías was elected by a vast majority as President of the Republic. Upon assuming power, he summoned a Constitutional Assembly to *re-found* the republic. This assembly produced a project for Constitution in three months, which was ratified in a popular election on December 15, 1999 with 70% of votes in favor. From the moment the referendum to approve the new constitution was summoned, the main business organization, *Fedecámaras*, decided to recommend a negative vote, as they considered that the constitutional text would have fatal consequences for the country.

¿In what does this new constitution differ from the revoked Constitution of 1961? Taking into consideration that there are many different aspects, for the purposes of this article, we will highlight the socioeconomic aspects. On the one hand, these are clearly outlined in the Constitution of 1999, in contrast to the 1961 Constitution (which lacked a general title for this subject) (Rondón de Sanó, quoted by Viciano, R., 2004:59). On the other hand, the economic model contemplated in the 1999 Constitution counts with some supports

considered basic for the type of society and State that was envisioned. Among those supports the following are highlighted: the principle of *food safety* for the people (highlighted because it represents a major element within the context from which *Mercal* appeared), the promotion of *rural development* and the struggle against large estates (*Latifundios* in Spanish).

After the new Constitution is enforced, a governability crisis emerges that derived primarily from the approval and application of 49 law decrees with which the government pretended to advance with what was called the “revolutionary process”. The general strike of December 10, 2001, that marked the beginning of the political crisis, became a general movement against this group of law decrees.

Some time after overcoming the rupture of the constitutional thread that occurred on April 11, 2002, an “economic strike” occurred, in which many companies decided to stop their production. But this was not all, a few days after this event, the employees of the country’s main oil company, *Petróleos de Venezuela (PDVSA)*, decided to go on strike as well. The analysis of these events would require a space we don’t have; instead, we point out that once these events were overcome, the current government applied the following measures, among other: a) exchange and price control; b) the decision to participate in the direct importation of goods; c) increase of minimum wages; d) the enforcement of the value added and bank debit tax, as well as taxes to business assets; a group of measures that favored what the government called the “Endogenous Development Plan” to guide its economic policy. According to the most important representatives of the government, it would mean a vision of “inward development” that would prioritize domestic production, supported by the exchange and price controls as instruments for industrial incentives. Thus, it would try to strengthen the participation of the State in the economy group and



particularly, in the *processes of production, transformation, distribution, and consumption of agriculture food goods*.

In summary, we can say that Mercal shows up in a political scenario characterized by great uncertainty, a scenario in which the guarantee of “food safety” for the people with lower income (according to government representatives) was practically a need that could no longer be postponed due to the elevated unemployment rates and a worrying decrease of the purchase capacity of salaries (Central Bank of Venezuela, several years), factors that made the food and nutritional situation of less favored sectors of the Venezuelan society even more difficult (CAN, 2002 and Fossi, 2003; quoted by Landaeta, 2005: 274, 275).

The important dynamics and level of acceptance mentioned in the introduction of this article, from January 2007 to February 2008, has shown signs of weakening because it was in no condition to attend the growing demands of consumers, who saw their income grow from, among other sources, the different *social programs* enforced by the State, which, in view of the significant expansion of its oil income, increased public spending. In reference to this, it is mentioned that despite that in 2007 the food demand had increased in 30% over 2006; the market did not register a similar offer that was able to satisfy said increase. Therefore, along with the food shortage observed both in *Mercal* as well as in supermarkets and hypermarkets, the prices of food has increased significantly. From the first days in March 2008 a recovery of the food supplies started to show in all the urban distribution structure of food. As for the programs displayed by the State in terms of food, (as has been described in part of this article) a manifested interest in solving this situation can be seen because the operations developed by *Mercal* have been summed up to those of *PDVal*.

In order to solve the mentioned situation, the State has undertaken the following specific actions: a) the relaunch of the Food Mission by creating Communal Markets managed by members of the communities that are benefited from the so-called “Food Mission”, b) the restriction of exportation to bordering countries, c) the enforcement of measures to avoid the so-called “extraction smuggling”, d) the significant increase of imports, and e) the enforcement of the mechanism called “payment at sight” for an important number of agriculture food products, a mechanism that allows for US currency to be anticipated in order to attend the international markets with “money in hand” and acquire the product(s) needed to solve the supply problems.

From the group of actions previously mentioned, it is convenient to highlight those related to *importations* which undoubtedly consume more and more US currency coming from the sale of oil. In this respect, it is said that the Commission for the Administration of Currency (CADIVI) has authorized during the first months of 2008 more than 704 million US dollars (UCV, Facultad de Agronomía, 2008) to import food. This amount represents approximately one fourth of all the currency approved by this government entity between January 1, and March 5, 2008. Besides, we need to mention the fact regarding the subscription of agreements on food and energy between Venezuela and the Republic of Argentina, among which we should highlight the agreement between the Venezuelan Producer and Distributer of Food (*PDVal*) and the company Coto-Cicsa for the supply of food to Venezuela.

Under these circumstances, it is not difficult to see that the purpose of the State in terms of agriculture food, especially those addressed to lower income sectors, will be easily achieved and will probably exceed because of the availability of financial resources (required to subsidize the sale of agriculture food goods) due to the current behavior of international oil prices and its perspective.

### 3. PROPOSALS FOR THE INTERPRETATION OF THE PHENOMENON

#### 3.1. *Theoretical – conceptual aspects*

In the first place, the aspects to be considered are related to the concepts of “*Sectorial Complex*” and “*Sectorial Complex Core*”, as well as those related to the “bi-univocal” correspondence between the *transformation* and *property* process structures, which have been analyzed and discussed in an article previous to this one (Morales, 2000).

The other theoretical aspect to be considered is the one related to the *institutions*. It is mentioned that the so-called New Institutional Economy (NIE) or “institutionalism” has derived from a series of “macroeconomic theories” that question the basis over which the neoclassic paradigm rests. These “theories” are inscribed within what is generally known with the name of “*New Institutional Economy*”. One of the authors that most emphasizes the privileges of the State institutional and organizational structure as a major factor for growth and efficiency of the economies and societies is Douglas North (1984, 1989, 1993).

A considerable amount of works have been published on the NIE. Without wanting to judge the proposals in this abundant bibliography, we opt for highlighting the main aspects, that to our judgment, are the keystone of the Neoinstitutionalist Theory, these are: *limited rationality* (Simon, 1984; Aguiar, 1996), *opportunistic behavior* (Aguiar, 1996), *asymmetric information, risk, property rights, transaction costs* (Coase, 1937; Williamson, 1975 y 1985), as well as organizational and institutional Solutions different to those of the market.

Regarding the *institutions* (North, 1994), it is mentioned that they are a set of rules and restrictions that have a decisive influence in the interchange, election, and behavior of the economic agents, the economic organization, the costs of transactions, and the economic

performance. Without these, the interchange would be a costly process, dominated by social conflicts and distribution struggles that could arise from differences of economic interests. Within the same order of ideas, it adds that if no institutions existed, the egoism and maximizing conduct of economic agents would inevitably make specialization, cooperation, and the establishment of an economic coordination impossible. To summarize, without the presence of the above, it would be impossible to attenuate the opportunistic behavior of individuals and make specialization feasible, because it would be impossible to organize the interchange in such a way to harmonize the potentially conflicting interests between the parts.

On the other hand, it points out that the *organizations* (North, 1993) constitute a group of individuals searching for similar objectives and deliberate purposes. These groups simultaneously form agents of institutional change, and therefore it is important to establish the relationship that forms between the institutions and the organizations, whether these are formal or informal.

To end this part dedicated to the revision of aspects that have been considered the keystone of the Neoinstitutionalist Theory, we deem convenient to briefly refer to the so-called *institutional change*, conceived as the rupture of the balance in power and the factor that would provoke a transformation process in the structure of society and the behavior of its members, who will finally induce the change of attitude, values, norms, and conventions.

The historical conditions and the theoretical aspects examined up to this part of the article, allow us to make the following proposal, among other: In the case that the conditions that allowed for the founding and further development of *Mercal* and *PDVal* were to consolidate and prevail, these state owned companies would favor or be able to *share* with the GD the ability to determine hierarchies and progressively direct the dynamics of all the agricultural food sector of the country. In other words, participate and become an

important part of the *Core* from which decisions would irradiate to guarantee and ensure the reproduction of the economic and social bases of the different *complexes* that form the so-called “*Venezuelan agro food system*”.

### 3.2 *Verification of the proposals.*

In second place, it corresponds to the *verification* process, through which the validity or not of the proposals that were drawn are determined. This verification is sustained (besides from the quantitative information provided by official entities, which were mentioned in the previous point) by the uncontroversial facts expressed by academics, businessmen linked to the agro food industry and company executives, which were mentioned by Morales (2007).

As of the following paragraph, some of those facts will be referred to as well as those that have been occurring during the first months of 2008, which have been widely distributed through different communications media and are part of the documentary support of the Project called *Venezuelan Agro Food System* executed by the Agro Food Research Unit of the UCV. (UCV, Facultad de Agronomía, 2004, 2005, 2006, 2007, 2008). Said facts are the following:

- a. Assertions by a IESA academic who has been researching the Mercal phenomenon. She recognized that “The largest companies of the country are elaborating products for Mercal and some offer them with private *brands* (our highlight) that are only sold in those establishments”, after which this researcher confirmed: “I believe it is only a matter of time before we see in all these establishments known brands, because Mercal is an *opportunity* (our highlight) for large companies of consumer goods, that *will sell at the price the government offers them* (our highlight)”.
- b. The declarations of the President of *Conindustria*, who recognized that Mercal sells “low cost products to 40% of consumers”. With the purpose of complementing the

previously noted declarations, on our behalf we present Table 2 with the average prices of the agriculture food goods sold by supermarket chains and *Mercal* during October 2004. According to the source from which this statistical information proceeds, the basket that comes from supermarkets reaches the sum of Bs. 15,877 and that of *Mercal* Bs. 12,680, difference that represents a 20% variation. Also, the referred source indicates that the categories with greatest price difference are the following: pasta (spaghettis), cooking oil, and powdered milk, and the exchange rate fixed for that period was Bs. 1,920 per US dollar.

- c. The numbers provided by the Venezuelan Chamber of Food Industry (CAVIDEA), by which *Mercal* sells 30% of the tons of food the association produces in the country.
- d. The remarks from the Director of one of the most important survey firms (Datanálisis) who confirmed that “*Mercal* is practically the most *successful* Government missions (our highlight) and immediately revealed that “65% of those consulted in the country approve of this mission”, and reiterated, “That one Government mission touches almost half of its population is an unprecedented success”.
- e. The information provided by this State owned company, which were widely spread by major communication media in regard to the number of beneficiaries that ascend to 10,402,500 in 2004, and the information related to said figure will rise to 15 million people by the end of 2005. Said affirmations can be corroborated with the numbers in Table 3, in which the rise in selling points required to attend to the mentioned beneficiaries can be seen. You can also observe that this increase obeys to a substantial growth in the so-called “*Mercalitos*”.
- f. The press release from Petróleos de Venezuela S.A. in which it manifests that the producer and distributor of food (PDVal) had inaugurated new points of sale. This

press release shows that PDVal will continue widening and consolidating its distributed net during the months following February 2008.

- g. The nationalization of a great cold chain would cover up to 70% of the capacity installed in Venezuela for all frigorific, facilities, and cold transportation.
- h. The purchase of a dairy product company that counts with an installed processing capacity close to 30% of the milk production, added to the Parmalat plant in Machiques (which was purchased in 2007) with which it is possible to process 800,000 liters of milk per day.
- i. The declarations of the Minister of Communal Economy, who manifested that “during 2008 we hope to add eight (8) plants of corn flour and some twelve (12) milk processing plants.”
- j. The press declarations on behalf of the vice-president of operations of Pdval who said: “We are dedicating to certain basic items to defeat the shortage because we share the *objective of building a network that covers all the country.*” (UCV, Facultad de Agronomía, 2008; highlight is ours).
- k. The announcement of the National Tributary Superintendent related to the process of the *legal revision* of the warehouses located in the main ports of the country with the purpose of promoting the correct use of the franchises (Conseciones in Spanish). At the same time, he also declared: “The SENIAT actively collaborates with institutions such as CASA, PDVAL, and any other importer of perishable or essential foods so that these loads are in the internal market expeditely (UCV, Facultad de Agronomía, 2008; our highlight).

**TABLE 2. PRICES VALID IN MERCAL AND SUPERMARKET CHAINS  
(AVERAGE PRICE PER CATEGORY) AND PERCENTUAL VARIATIONS  
OBSERVED DURING OCTOBER 2004.**

Products	Prices in Mercal	Prices in Supermarket Chains	Percentual variation
Rice	990	1,268	22
Pasta (spaghetti)	1,100	1,578	30
Sugar	740	1,047	30
Cooking Oil	2,240	2,731	18
Sardines	420	495	15
Powdered milk	4,700	5,846	20
Corn flour	890	1,005	12
Tuna	850	1,022	17
Coffee	750	885	15

Source: Our own elaboration on the basis of information provided by the company DATOS i.r., “Trade Realities”, March 2005 (UCV, Facultad de Agronomía, 2005).

In February 2006, in the 14,778 facilities founded by this state owned company, 5,530 metric tons were sold daily to more that 13,8 million beneficiaries and to that same date there were 499 suppliers incorporated into the supply chain for *Mercal*.

These and other events make us formulate a preliminary thesis in the following terms: the substantiveness of *Mercal* produced a major reconfiguration in the structure of the urban distribution of food that was happening in the country until this State owned company was founded.



How the state owned companies studied in this article gained an important share of the market (maybe due to the subsidies assigned with the huge financial resources available, at the price level they operate, the so-called “unfair competition”, tax exonerations, support from *CADIVI*, the structure that supports them, and probably the low operating costs of the sales points) allows us to corroborate the proposal presented in point 3.1, regarding the *possibility to share* with the GD, the ability to establish a hierarchy and progressively direct the dynamics of all the agro food sector of the country; in other words, participate and be an important part of the *Core* from which decisions irradiate that will guarantee and ensure the reproduction of the economic and social bases of the different *complexes* that form the so-called “*Venezuelan agro food system*”.

**TABLE 3. TYPE AND NUMBER OF ESTABLISHMENTS INSTALLED BY MERCAL UP TO FEBRUARY 2006.**

TYPE OF ESTABLISHMENT	NUMBER OF ESTABLISHMENTS
Mobile Mercalitos	273
Mercal Type I	210
Mercal Type II	867
Mercalitos	13,285
Supermercado	32
Storage/Supply centers	110
<b>Total</b>	<b>14,778</b>

Source: Our own elaboration on the basis of information provided by Mercal, C.A. (UCV, Facultad de Agronomía, 2006).

### 3.3. *Inference*

Taking into account the considerations presented up to this point, during the third stage we propose to formulate a deductive reasoning that will allow us to foresee the repercussions that may derive from this phenomenon. Two scenarios are established therefore: The first, that because of its nature would not require further comments nor a study as we propose, is related to the fact that it is impossible for the State to continue supporting this initiative (for fiscal and other reasons as those related to its efficiency); especially if during the period of its operations this company does not organize an adequate *logistic* management and consolidates a financial situation that will allow for its sustainability. This scenario would be similar to the one that provoked the *Corpomercadeo* crisis, and some other aspects would be added regarding the possible events of corruption, probable loss of financial resources, the confrontation with companies that have traditionally been in charge of the manufacturing, and distribution of foods, as well as the presumable increase in bureaucracy, among other things. *Mercal* and *PDVal* could have the same future, and to accept this supposition without further considerations would inhibit any reflection regarding the nature and reach of this phenomenon that has widely transcended society due to its magnitude and the publicity it has been receiving.

The second scenario includes the probable repercussions that may derive from the studied phenomenon in the case that the conditions that allowed for the founding and further development of these companies prevail; this scenario will be treated (obviously at a high level of abstraction) as follows:

If our aspiration is to make a reasonable evaluation of the implications of the phenomenon being analyzed, we should start by admitting that since the approval and application of the new *Constitution*, it is possible to perceive the transformation in the

economy, that shows relevant mutations in the exchange and conduct of the economic agents on a daily basis, as well as the performance of the markets, to quote just some of them.

Now that this premise has been described, we stress that the creation and functioning of *Mercal* is supported in articles 226 and 305 of the *Constitution* of the Republic, in accordance with articles 101 of the Organic Law of Public Administration, 155 of the Law of Lands and agriculture Development, and 1, 11 and 14 of the Law of Agriculture Marketing. Therefore, as long as the international reserves are high, the exchange control is in force, there is no possible perspective of a drastic devaluation, the exchange rate is convenient for the purposes of the Government, and there is also high liquidity and interest rates are lower than inflation, the lifespan of this company will be guaranteed. Under these conditions, *Mercal and PDVal could* become an important part (together with those companies that form the “Great Distribution”) of the *Core* from which decisions *irradiate* that *guarantee and ensure* the reproduction of the economic and social bases of the different *agro industry complexes* that form the Venezuelan Agro Food Sector. This way we would also witness a change in the *power* relationships that were being established as a consequence of the formation of the G.D. up to before the founding of *Mercal*. For this reason, the economic importance and power of the different socioeconomic agents that operate within the Agro Food Sector *would tend* to change and we would *witness* a reordering of the social relations and the corresponding *power structures*.

For reasons of space we are not able to present further considerations regarding the possibilities to establish a hierarchy, organize and direct the stages that form those major agriculture industry complexes (agriculture production, foreign commerce, domestic commerce, agriculture food industry and consumption). Instead, we will

dedicate the last paragraphs to those aspects regarding the costs of transactions for the beneficiary agents of this social program.

The fact that the main “selling points” operate with reduced “operating costs”, shows a very high penetration in the most remote places and they have been able to “go up the slum areas” in order to get as close as possible to the consumers (and that there is the possibility to offer credits to have larger spaces in the selling points and acquire refrigerating equipment) means in practical terms a significant decrease in the purchase price as these consumers, will not only find products at more attractive prices, but also that their *transaction costs* will be reduced significantly. Under these circumstances the expansion of *Mercal* will become greater because it will have been able to attract more clients and as a consequence, it will tend to displace its “competitors”, among which are the food processing companies and those that were able to form what we have been calling the *Great Distribution*. These, in order not to lose a greater market segment, would be forced to negotiate with *Mercal*.

If, as it has been announced, the purchasing mechanisms implemented by *Mercal* would adjust to the principles of the economy, transparency, honesty, efficiency, equality, competition, and publicity that should govern all quotation procedures, the economic *risk* and the *uncertainty* and, consequently, the *transaction costs* of the “competitors” and small and medium enterprises that produce food would also decrease. The reduction in the transaction costs would also stimulate investments, savings, jobs, technological innovation, and in general, the organization of complex collective actions. This is because with the purchase by the government (that would require an efficient supervisory system that would knock down any hint of corruption) a new space would open for national production within the new scheme that could imply “the development of inter-industrial relations ruled by a system of solidarity, explained in specific rules,

established in a contract” (Green and Rocha dos Santos, 1992), similar to the one being observed in numerous regions of developed countries. Differently put, it would mean the achievement, on the one hand, of the configuration of a new socio productive scheme that would imply the incorporation of small and medium national food producers as suppliers for *Mercal C.A.* and on the other hand, the development of regional economies with favorable conditions for this growth.

By reducing transaction costs for the consumers, for “competitors” and for the small and medium food companies, the possibility to have access to more favorable prices for consumers would be easy to predict. This success that could be qualified as the configuration of a “virtuous circle”, and would allow low income consumers (who destine a high percentage of their income to purchase food) to destine this “saved” part to satisfying other urgent needs, and consequently stimulate the production of goods and services required to satisfy those basic needs. This “saved” part would be significant if we take into consideration only three aspects: a) The so-called *price prime* of food for the city of Caracas at the time *Mercal* was being created was between twenty and one hundred percent, including products regulated in the basic basket (Melchiorre, quoted by Boza, 2005); a conservative figure registered by Datos in 2004 indicated that class E had increased its purchasing power in more than 50% in nominal terms (Fuenmayor, 2005). b) For low income families (who purchase foods more frequently because of liquidity, transportation and storage capacity) the transportation cost of going to a distant establishment was very high in relation with the amount paid for the basic basket. c) If the distance were not important, it would mean that the consumer would not care for the time of transportation; hence the opportunity cost of time for this agent would equal zero, a fact that does not adjust to reality (Morgentern, quoted by Castillo and Morales, 2004).

Taking into account that there are not invariable facts, much less consummated, we conclude this article pointing out that the phenomenon being analyzed has been treated as a *process* considering it as the highly branched out mediation between present, a past that has not ended, and above all, a *possible future*.

## NOTES

(1) A marketing company of agro food goods created with the financial help of the State on August 21, 1970 and then liquidated after experiencing a severe crisis that reached its Peak between the years 1981. In accordance with its financial statements, it experimented loses for more than half of its managed resources. These losses, according to reports filed in their archives, represent per se, transfers on behalf of the State to the *agriculture industry*. Actually, the direct and indirect subsidies provided by the State and that were probably addressed to benefit the consumers, were not perceived by the latter. The numbers reviewed (Morale, 1992) indicate that it was not the consumers who benefitted from the subsidy policy. This mechanism used by the State, that consisted in selling to the agriculture food industry goods at prices lower than purchasing them in the international market motivated the increase of imported supplies of these goods by the food processing industry, which due to its high concentration index (Morales, 1985), did not allow these subsidies to be captured and transferred to the end products. Quite on the contrary, during the mentioned years, it started an alarming price increase of foods. (Morales, 1992: 287-290).

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