

The recent history of the bolivian economy research paper sample

[Sociology](#), [Poverty](#)



While Latin and South America do not have a reputation for being a hotbed of economic prosperity, the fortunes of Bolivia over the past two decades have been particularly spotty. Currently, Bolivia stands near the bottom of most rankings of wealth and development in the region, dating back to a severe crisis that took place early in the 1980's. The government responded to this crisis with reforms that initiated private investment and led to positive growth, which brought poverty down in the 1990's. However, the years 2003 through 2005 exhibited considerable instability in government, as well as rioting that showed the country's racial tensions. Furthermore, when the populace found out that the government was planning to take much of the new natural gas reserves that had been discovered, the widespread protests led to the cancellation of that decision (Bolivia Economy Profile 2012). In 2010, though, Bolivia had its largest trade surplus ever (figure 1), in large part because of the spike in commodity prices around the world, because the government had finally gained the right to export some of the natural gas.

Figure 1 – Bolivia's Wealth and Development Levels

Because Bolivia has nationalized all production, though, in exchange for a token service fee to the companies doing the work, there is minimal foreign investment in exploration or mining, and food prices that have jumped in the past year have made the economy quite a puzzle once again. The story of the Bolivian economy is one of a country held hostage by the whims of the commodities market – and by political conditions at home.

The 1970's featured government by an aging military group that had achieved its power through a series of coups, ranging from soldiers ruling for

the people, or for corporations, to the Garcia Meza regime, which made no secret of its desire to profit from the cocaine trade. While the revolution's structures remained in place from the 1952 putsch, the idea behind the revolution had long added, and instead, several economic principles came into play.

The first of these principles was that if you wanted to prosper in Bolivia, you had to earn the state's favor. The government was in charge of allocating all land rights, as well as all rights for exploring for gas, oil or minerals. As one might expect, just like barnacles fastening themselves to a benevolent host, groups of influential people gathered around the military leaders, all friends and toadies who would benefit from the allocation of contracts. One of these groups was the commercial farmers in the Oriente, or the lowlands in the east (Wiggins, Schejtman and Cray, p. 3). Because the government was putting in a network of roads running through those lowlands, they were spiking in value. These lands were not especially useful for agriculture (except for cotton), but because of the wealth that lay beneath them, their owners became prosperous. Luckily, the price of cotton also spiked in the late 1970's, but then they receded. Because the Bolivian government had borrowed so heavily on the basis of their economy's strength at the time, when prices fell again, the government was left with a debt of over \$27 billion, and the cost of servicing the debt alone was draining over 30 percent of the income from exports (figure 2). The only prosperous crop growing in Bolivia by 1980 was the coca plant, and growers became increasingly influential as the country entered the decade. The drug kingpins became

more and more closely connected to the country's leadership; however, when the price of tin collapsed in 1981, the military had had enough. Old and tired, and worn out by the stress of dealing with drug traffickers, they retired and called for elections (Wiggins, Schejtman and Cray, p. 4).

Figure 2 – Bolivia's debt in 1970

The liberal government that came into power after the 1982 elections ran into trouble quickly. The prices of cotton and tin were still extremely low, and the government's attempts to right the economic ship led to runaway inflation; the worthlessness of the currency led to the fall of the government only three years later, in 1985. After the next round of elections, though, the next government was able to figure out that liberalizing trade with other countries and loosening regulations on financial markets would spur growth, and positive results happened within a year (Wiggins, Schejtman and Cray, p. 5). Because the initial reforms worked so well, the Bolivian government followed with even more reforms in the early 1990's. These changes included:

Strengthening the public education system, so that Bolivia's students would enter the economy ready to be productive adults, instead of draining social resources

Converting a pay-as-you-go contribution system for pensions into capital funds; this would ultimately become the Bonosl, which gave pensions to all Bolivians who were older than 65.

Adding a value added tax (VAT) and an income tax throughout Bolivia.

Privatizing businesses that had formerly served as state enterprises. This took the form of a 50/50 split between private investors and public ownership of such entities as transportation, water, electricity, hydrocarbons, and the telecom system.

Decentralizing many of the formerly national government functions to the municipal level.

Streamlining many of the government's social programs to make the investment of government funds more efficient and more effective. (Wiggins, Schejtman and Cray, p. 6)

During the 1990's, the Bolivian economy expanded at a typical rate of 4 to 5 percent (figure 3), and the government was able to fund the designed improvements in health care, as well as the education system.

Figure 3 – Bolivia's economy expansion in 1990

Unfortunately, the recovery was based on a fairly narrow segment of the commodities market, and the commodities that were doing well were not the sort that create many permanent jobs. The Oriente's cotton fields were now planted with soya beans, and this crop, along with oil and gas exploration, were the two drivers of export revenue. Because both of these sectors were focused in the lowlands in the eastern section of the country, the local leaders began to cause political problems by asking for more autonomy from the national government. When Russia and most of Asia hit economic

difficulties later in the 1990's, raising the cost of borrowing on the international market, and when those problems affected the ability of Brazil and Argentina to buy exports from Bolivia, fortunes began to turn. The costs of overhauling the national pension program, when coupled with the effects of El Nino on the soya crops and the effects of the war on drugs on the coca industry, the economic growth that had seemed so promising in the country dwindled to almost nothing (Wiggins, Schejtman and Cray, p. 7). The results have been spikes in poverty and unemployment, as well as two different collapses of the Bolivian government in the 2000's. Quite a few economic researchers have wondered how so few events, taken together, could end what had been such a promising run for the government.

With a closer analysis, it becomes obvious that much of the growth in the Bolivian economy during the boom period of the 1990's covered the reality that, for much of the country, growth never came. Between 1950 and 2006, real incomes actually fell (figure 4); throughout the rest of Latin America, real incomes have doubled, on average.

Figure 4 – Income level

In addition to this poverty, though, the growth had not been evenly distributed. While there was a coterie of the wealthy in Bolivia, the vast majority of people in the country lived at a dismal level of poverty. The International Monetary Fund identified several factors at work: “ the root causes of low trend growth in Bolivia are poor infrastructure, poor institutions and government services, and fear of instability. The main insight of the

more recent studies is that the political and social roots of these problems are deeper than recognized in the previous literature” (Wiggins, Schejtman and Cray, p. 8). The fear of instability came, primarily, from worries about rights to property. In both La Paz and Cochabamba, the government had allowed foreign companies to operate privatized water utilities, but then revoked many of the concessions that went into the original privatization contracts, which made other foreign companies extremely leery of investing in the Bolivian infrastructure. Also, new legislation that gave the government increased oversight over the private concerns that were handling the hydrocarbon operations and that permitted indigenous peoples to deny drilling, or even prospecting, gave foreign companies additional pause. Increased taxation and ownership questions about some of the Oriente farms added to the general anxiety (Wiggins, Schejtman and Cray, p. 9). Clearly, there is a lot of potential in the country that is going undeveloped, because the private investment that could be supporting it is not readily available.

Another cause for concern is the fact that revenues from successful industries are not used to invest in industries that need help with their infrastructure. One example of this is the failure of the government to invest revenues that continue to be robust from oil and gas production to areas higher in need, such as agriculture in parts of the country outside the Oriente. Still another problem is the fact that so few Bolivians hold so much property and so many assets; some redistribution will be necessary to remedy the social issues that have raged for decades.

Finally, the political structure of the country is a cause for significant concern. While the government is still a democracy, at least nominally, the brutal truth is that the regime does not function as a democracy should. It is true that elections are held, and parties come into and go out of power on the basis of those elections, but those parties do not have genuine platforms with solid policy points. Instead, the parties promise the rights of patronage, including access to government jobs and contracts, to supporters, and the party that can promise the most graft and have those promises believed will be the party swept into power. Because there are so many political parties in Bolivia, and because no party has built a majority on its own, except for the December 2005 vote, the parties have to build coalitions with one another, not only diluting the number of promises that have been made to supporters, but also diluting the fervor with which different policy points can be pursued (Wiggins, Schejtman and Cray, p. 10). The managers of the civil services tend to be favorites of leaders instead of administrators sought out for their professional strengths, and the various Cabinet ministers represent a mishmash, taken from the various parties that have joined together to form the latest patchwork coalition governing the country. As a result, government policies have no unifying ideology, governmental departments operate inefficiently and produce mediocre goods and services, at best, and the same political dramas tend to unfold over and over again. All the while, the public continues to lose trust in its government.

Several solutions have been suggested for the Bolivian malaise. One would be for the government to resolve, once and for all, the various property

disputes that were founded in the property reform legislation passed in 1953. The government needs to establish clear title for all of the land, equipment and factories that are currently the subject of argument. Another would be for a rule of law to be established that is seen, throughout the country, as “ impersonal, universal, and perceived to be fair” (Wiggins, Schejtman and Cray, p. 11). Because the sludge of patronage has come to cover just about every institution in the country, this would take significant legislation on the national level. However, without these two reforms as a foundation for others, the Bolivian government will never establish enough trust for the economy to do much more than fill the pockets of the extreme few, leaving the rest to fend for themselves.

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