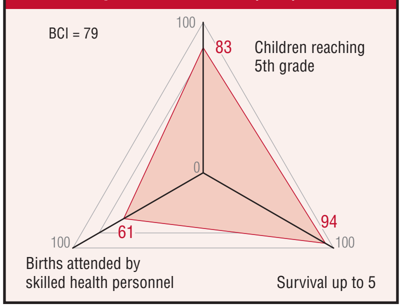
■ BOLIVIA

The moment of truth

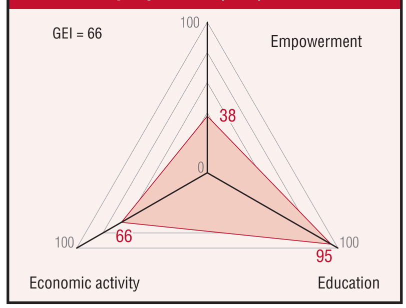
As a cycle of world growth roared past, Bolivia stood by and watched, unable to take advantage of the opportunity to establish its own rhythm of development. Its economy was just beginning to pick up speed, when the global boom began to stall and then go into reverse. In recent years, distributive tendencies in the world economy have been weak. Bolivian entrepreneurs are part of this trend, responding to the severe global downturn through unequal negotiations that shift the burden of the crisis onto the shoulders of their workers through layoffs and reductions in benefits and wages.

CEDLA
Javier Gómez and Gustavo Luna[1]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The first result of the world economic crisis was to shatter the myth that the capitalist system could bring about a sustained improvement in the living conditions of workers and their families. This basic failure, which is most evident in the wealthiest countries on the planet (the epicenter of the latest financial earthquake) has long been glaring in the less developed countries in the world periphery.

Bolivia's economy has been a testimony to the inability of capitalism, by its very nature and structure, to meet the needs of the majority. It initially became integrated into the world market as a colonial supplier of raw materials; despite nearly 200 years of independence, it has not been able to break that mold and overcome its structural vulnerability. This severely limits Bolivia's ability to take full advantage of cycles of economic expansion, and makes it extremely vulnerable to external shocks whenever the global cycle turns down.

The crisis

The current world economic crisis is not just one more "serious episode" caused by a lack of regulation in financial markets; it is a crisis throughout the global capitalist system, sending tremors through all spheres of production (energy, food, ecology, social and cultural). This earthquake has revealed the internal contradictions of over-production, the structural tendency for profit rates to fall and a general depression in consumption – all consequences of the pursuit of ever-greater profits through constantly increasing exploitation of the workforce. From this perspective, it is easier to understand the "irrationality" of financial speculation in monopolistic capitalism; the drive to scour liberalized financial markets throughout the world in search of extraordinary profits derived from the circulation of capital.

This is a serious crisis, and one that will be with us for a long time. Already, it has again exposed the extreme fragility of less developed economies. This fragility reflects the nature of capitalist development, which is based on realizing profits and in the process of doing that generates massive inequalities among and within countries.

This profile is only too evident in Bolivia. Over the last seven years large infusions of transnational capital have expanded primary materials exports, mostly of natural gas and minerals. At the same time, the industrial base remains weak and wealth remains concentrated in the hands of a few, while the vast majority of households are permanently consigned to a precarious existence.

Behind the mirage

As the global economy recovered from the Asian crisis of 1999, trade expanded rapidly and demand for raw materials soared. Bolivia's annual growth has averaged about 5% over the last four years (2005-2008), spurred by export revenues reaped from high global prices for the country's raw materials. The administration of President Evo Morales has taken credit for this expansion, claiming that it proves the Government's post-neoliberal economic policy has been a success. However, Peru and other countries that remained faithful to neoliberalism achieved even greater increases in production and exports. In fact, the cyclical boom concealed severe structural defects in the Bolivian economy.

Despite the country's macroeconomic success, some social indicators failed to improve. Poverty reduction quickly stalled as soaring food prices squeezed poor households, which spend a large proportion of their income on their diet.

The economy enjoyed another artificial boost from money sent home by workers who had emigrated. In 2007 and 2008 these remittances poured more than USD 1 billion into the country, more than 6% of GDP.[2] This cash contributed to increase household consumption and accelerated growth in sectors like construction and services.[3] However, remittances are extremely volatile, which soon became only too clear. The countries of the European Union began implementing repatriation policies at the beginning of 2008, when the crisis was barely looming. It greatly intensified these policies in September as the crisis battered construction, manufacturing and personal services – sectors where most of these workers were employed. No longer needed, many immigrants were summarily expelled.

The return of workers who had emigrated has intensified pressures in the Bolivian labour market. Underemployment was already prevalent. The influx of repatriated workers has pushed wages down to even lower levels than before, increased the official unemployment rate and led to worsening working conditions.

Income: the Achilles heel

Per capita income in Bolivia jumped 34.3% between 2002 and 2007,[4] prompting international aid agencies to promote the country from low-income to middle-income. However most of the population did not benefit from the country's growth, as pay and employment levels and other indicators clearly show.

Because income is so unequally distributed, about 60% of the population is still below the poverty line. Between 2005 and 2007 the proportion living in extreme

1 Javier Gómez is an economist and executive director of CEDLA. Gustavo Luna is a commentator and general coordinator of CEDLA.

2 Central Bank, Bolivia. In 2008, remittances reached USD 1.097 billion, an increase of 7.5% compared to 2007. This figure was 6,4% of the GNP.

3 According to the National Statistics Institute, in 2007, the incidence of households final consumption expenditure was 2.98% of the GNP, an increase of 3.91% compared to 2008. This was a larger figure than the one reached in the previous decade (1998).

4 Escóbar, Silvia. *Desempleo, condiciones laborales e ingresos*. Mimeo. CEDLA, 2009.

poverty actually increased, from 36.7% to 37.7%. In rural areas, where poverty is pervasive, the Gini Index climbed from an already high 0.62 to reach 0.64.[5]

These trends reveal that recent economic policies and expansion have had a negligible effect on income distribution. Once again, the trickle-down effect has been exposed as a fallacy; economic prosperity for the majority requires effective public policies that generate greater access to productive resources and good jobs while raising wages and other income derived from work.

Although production expanded at a modest rate of 3.1% per year from 2001 to 2004, employment grew at a similar pace, indicating that productivity did not increase at all. This trend was evident in urban as well as rural areas. During the 2004 to 2007 period, production climbed steadily, with an average annual increase of 4.5%. Employment growth also accelerated, to 3.9% per year, but its lower rate of expansion reflects an annual productivity increase of 0.7%. In other words, although the economy generated new employment, most of the gains continued to be concentrated in low-quality jobs. Again, this was true in urban as well as rural areas.

Another mining boom

According to the National Statistics Institute (INE), in 2008 Bolivia's GDP jumped 6.15%, breaking the 1976 record of 6.1%. Most of this expansion was fueled by the explosion in world demand and prices for hydrocarbons and minerals. Bolivia's mining GDP was up 9.98% in 2007 and a spectacular 56.26% in 2008. This far outpaced the rate in other economic activities, which averaged only 4.33% growth. In consequence, mining's incidence rose from 0.41% to 2.41%, and its share in GDP rose from 5.81% to 8.55%.[6]

The boom in mining was not the fruit of a robust sector with several enterprises competing to export more. Quite the contrary, it was generated by a single enterprise, the San Cristóbal Mining Project (PMSC), operating with transnational capital. This company accounted for 40.7% of the total production value of minerals in the country. Without the PMSC, Bolivian GDP growth would have been only 5.13%, well below the level achieved in 1976. Another problem is that only a very small proportion of the wealth generated by the extraction of minerals remains in the country through taxation. In 2008, the aggregate value of mining production was around USD 2 billion; only USD 94.14 million of this (4.64%), flowed into state coffers.[7]

Now that the crisis has hit and world prices for minerals have fallen, the mining operations hardest hit are not giants such as the PMSC, but small-scale cooperatives. These enterprises provide most of the employment, but rely on primitive forms of work organization, perpetuating the vicious circle of low salaries and precarious existence.

Conclusion

The moment of truth has come. While the world enjoyed a cycle of economic expansion, Bolivia let it pass by. Mired in inertia, it failed to develop an internal capacity for growth. But that opportunity was just a chimera. Under the reign of capitalism booms merely reproduce the established order, with its built-in inequalities. And now that the worst global crisis in recent history has struck, the Bolivian economy is just waking up to what it missed out on.

The entrepreneurial class has reacted to the global downturn and the end of its run of extraordinary profits by taking advantage of worker vulnerability to insist on reductions in benefits and wages, as well as layoffs. While they are shifting the weight of the crisis onto workers' shoulders, they are also making sure that fees, bonuses and other subsidies to business owners remain untouched, or are increased.

The seasonal workers and so-called self-employed who make up the overwhelming majority of the labour force can do little except wait for the Government to offer another bond issue that might provide sufficient funds to somehow help them meet their basic needs. ■

5 In 2006 the Gini Index was 0.519 in Argentina, and 0.517 in Chile. Only Brazil, with a level of 0.593, exceeded the figure estimated for Bolivia. Based on per capita income, these are all middle-income countries.

6 Guachalla, Osvaldo. *Bolivia: el Producto Interno Bruto creció en 6,15%*. Mimeo. CEDLA. 2009

7 *Ibid.*