B O L I V I A

REPORT

THE QUICKSAND OF THE ECONOMIC MODEL

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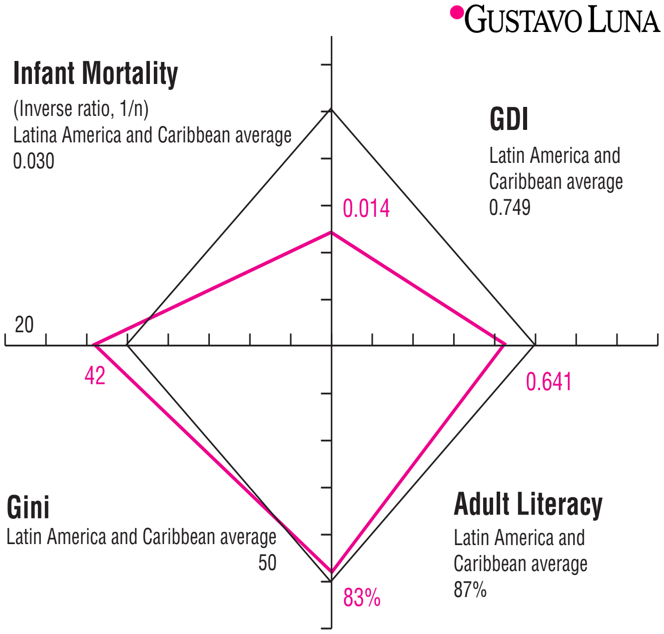

The Equity Diamond: National values in terracotta compared to regional ones in blue.
Source: ***Infant mortality:*** UNICEF, *The State of the World's Children, 1998*; ***Adult literacy:*** UNICEF, *The State of the World's Children, 1998*; ***GDI*** (Gender Development index): UNDP, *Human Development Report 1998*; ***GINI***: World Bank, *World Development indicators 1998*. (The regional average for this indicator was calculated by *Social Watch*).

It is difficult to assess fulfilment of commitments assumed by the Bolivian government at the World Summit for Social Development. This is in part because the Copenhagen commitments contain objectives that are at once integral and contradictory. They include social advances that must be promoted despite structural adjustment policies that seek stability and economic growth for the country.

THE ECONOMIC CONTEXT AND STRUCTURAL ADJUSTMENT

In the last five years, Bolivia followed a conservative economic policy. This is reflected in the limited growth of its economy. In this period the country achieved an average annual growth rate of 3.8%.[1]

In 1985, the government of Víctor Paz Estenssoro passed Supreme Decree No. 21060, which halted hyper–inflation resulting from a general collapse of the Bolivian economy. This measure paved the way for the liberalisation of markets and macroeconomic stability through the implementation of monetary, fiscal, exchange rate and wage policies. Despite these achievements, the Bolivian economy could not overcome its main problems: a lack of dynamism, a precarious fiscal situation and an insufficiently dynamic export sector (Grebe 1999).

In view of this situation, a second series of structural economic reforms were put in place (1995–1997). These basically consisted in the privatisation of most public enterprises and the capitalisation of major state enterprises linked to transport, hydrocarbons, energy and telecommunications. The capitalisation of these enterprises was accompanied by an investment commitment in these sectors of more than USD1,600 million until the year 2001.[2]

Although capitalisation brought with it important investment commitments, it neither generated nor improved quality employment, nor did it promote economic activity. A preliminary

1 Bolivia felt the effects of the international financial crisis of 1997: the country's economic growth rate fell from 4.75% in 1998 to 0.85% in 1999.
2 Grebe 1999. These investment commitments are what caused the economy to expand between 1996 and 1998. In that period, almost 82% of the total of these resources was invested.

assessment shows that this measure did not have a significant impact in terms of generating direct or indirect employment, since the majority of capitalised enterprises invested in capital goods without favouring the generation of direct employment. Also, there is not a strong articulation of production between the different branches and sectors of the economy. A stronger articulation would have favoured indirect employment (Villegas 1999).

Capitalisation did not kick–start the apparatus of production either. Studies show that demand for primary products, intermediate and capital goods continue to be met by foreign suppliers (Villegas 1999).

Direct foreign investment, the product of privatisation and capitalisation, has not brought with it an improvement in the country's economic situation. It has brought greater benefits to investors because the investment incentive was linked to natural resources—mainly hydrocarbons and mining—and services, without providing greater opportunities for generation of value–added economic activities.

In addition, through liberalisation of the economy, structural adjustment reforms ended state intervention in productive activities. Under this approach, private investment should be the engine for growth and the main source of job creation. The private sector acted too conservatively, however, and focused on a limited number of sectors. It has not achieved the diversification of production that was expected.

According to retrospective analyses, the structural adjustment programmes have not managed to overcome the three principal problems facing the country: the fiscal problem, with highly restrictive spending policies in view of the scant and as yet scarcely sustainable tax revenue; the problems linked to foreign trade, which still shows a considerable balance of trade and current account deficit; and the savings–investment gap, the result of foreign debt service payments and the drop in the exchange rate (Villegas 1999). These are the problems that are preventing the Bolivian economy from expanding and from moving toward levels of integrated development that would favour social development.

EMPLOYMENT AND INCOME

An analysis of the last few years shows changes in the structure of employment resulting from the application of adjustment policies. These changes are evident in both urban and rural employment.

In urban employment, the following changes have taken place: reduced state participation in the labour market; a persistent lack of dynamism on the part of the business sector with respect to job creation; sustained increase in employment in informal sectors of the economy; consolidation of the «tertiarization» of employment; increasingly precarious working conditions in several sectors (Arze 1999).

Official figures show that most employment is being generated in the informal sector, which is comprised of family businesses and domestic work. Participation in the informal sector of the economy rose from 60% to 68% in 1995.[3]

Likewise, during the years of structural adjustment, a structural tendency was observed in the Bolivian economy: it is the tertiary sectors—primarily commerce and services—that concentrate the greatest number of jobs (60% of all employed). This situation reflects the inability of structural adjustment policies to transform productive activity in the country.

Another characteristic of urban employment in the country is the deterioration of working conditions. This can be seen in the sustained increase in temporary contracts (lack of job security) and in an average increase of three hours in the workday. Similarly, the meagre increase in incomes has benefited management, employers, professionals and office workers more than blue collar workers. ***Furthermore, there is a proposal to reform existing labour legislation in the context of the financing agreements signed with international cooperation organisations. This reform is designed to make the labour market more flexible. It would violate workers' basic rights in order to allow—inevitably—greater dynamism for private investment (Arze 1999)***.[4]

In short, the country makes a poor showing in terms of the goals relating to full employment. Not only is it far from achieving an increase in employment, but the nature of existing jobs is increasingly precarious.

THE HIPC INITIATIVE AND SOCIAL POLICY DIRECTIONS

Since September 1998, Bolivia forms part of the Heavily Indebted Poor Countries (HIPC) Debt Initiative. The sum written

3 Arze (1999) suggests that informal employment masks the real rate of unemployment, which in Bolivia appears to be very low according to official figures. The author has proposed a methodology to calculate open unemployment, which involves redistributing the total income of the under–employed among a number of jobs that would provide sufficient income to cover the cost of a basic food basket sufficient for the reproduction of the labour force. Thus, the real level of unemployment or of global under–utilisation of the economy is 29.05% of the economically active population, outstripping by far the official rate of unemployment—which stands at 1.74% (INE, 1996).

4 The aim of making labour relations more flexible is to gradually reduce labour costs (by evading the benefits and rights won by workers), on the assumption that this will bring greater competitiveness and a sustained increase in productivity. The latter assumption has no basis in reality, since it has been demonstrated that labour costs in Bolivia are the lowest in the region. Similarly, businesses in the different sectors have not prioritised technological modernisation of their production structures but have merely concentrated on adapting new organisational work forms to traditional and obsolete technical conditions. This means that an increase in productivity will not be generated by a reduction in labour costs, but rather by a proper orientation of investment designed to modernise the process of production in national business.

off under the HIPC initiative—some USD 760 million—is to be used on social development (health, education and basic sanitation) and rural development programmes and projects.

Likewise, the country benefited from the «enhanced HIPC» and the «Growth and Reduction of Poverty Service» programmes, which offer deeper, more rapid and wide–ranging debt relief for the poorest countries that show a commitment to reform and reduction of poverty. According to information made public by the Bolivian government, the agreed reduction in multilateral debt amounts to USD 300 million, which is in addition to the previously mentioned reduction under the first HIPC agreement of September 1998.[5]

The main objective the HIPC programme is to achieve debt servicing payments that do not exceed the country's ability to repay. The international crisis demonstrated how vulnerable this goal is if the prevailing context is unfavourable. This experience shows that in order to encourage successful economic policies —including policies relating to foreign debt reduction— in countries that are technologically backward and have fragile economic systems, the country's productive capacity must be strengthened to overcome structural obstacles.

The approach and direction of social policy promoted by multilateral cooperation agencies must be analysed. This analysis must assess the compatibility between the objectives and economic strategies promoted by structural adjustment programmes and those of social policy. Equity is not integrated organically into the aims of stability and economic growth. In Bolivia, social policy actions occur in the context of human capital development, although with a very limited scope. Despite progress made, resources assigned to social spending are still insufficient to tackle the poverty–related problems that exist in the country.

If efforts are not made to strengthen the production apparatus to achieve greater growth and improved mechanisms for redistribution of income and economic surplus, complementary social policies will continue to be palliative and welfarist in nature.

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5 According to the latest agreement signed with the International Monetary Fund and the World Bank, Bolivia received a total net amount of USD1,300 million for multilateral foreign debt relief within the framework of the HIPC I and the reinforced HIPC II. The Bolivian government made this information public in February 2000.