

New prescription for an old medicine

GUSTAVO LUNA¹



Despite data that questions the theory of economic growth as the vital element for the reduction of poverty, the Bolivian Strategy for the Reduction of Poverty (EBRP) supports neoliberal dogma and aims "... to reduce poverty through economic growth, which may generate conditions that allow human development with an emphasis on the neediest sector of the population..."²

In early 2001, the government headed by Hugo Banzer Suárez created the Bolivian Strategy for the Reduction of Poverty (EBRP). This strategy follows the master guidelines set by the International Monetary Fund (IMF) and the World Bank as part of their structural adjustment programs. Bolivia thus benefits from their external debt relief program, obtaining resources that allows the government to focus its social policies on reducing structural poverty in the country.

Civil society organisations do not share this optimism regarding poverty reduction. Certain factors conspire against the "good intentions" of this strategy as expressed by the government and the international organisations that sponsor it. A major problem is that social policy is subordinate to economic policy that seeks economic growth above all. Economic policy is not preoccupied with attacking the disparities of income between the rich and the poor.

Some background on EBRP

The creation of EBRP was a condition of the multilateral financial organisations for the approval of the enhanced debt relief program for heavily indebted poor countries (HIPC II), which will become effective in Bolivia at the start of the second semester of 2001.³ Bolivia was chosen to participate in HIPC II in February 2000.

HIPC II is part of a new framework of policies determined by the World Bank and IMF in September 1999 that included establishment of the "Poverty Reduction and Growth Facilities" (PRGF). A condition of the PRGF and HIPC II is continuation of the structural adjustment policies and mandatory use of resources that would otherwise be destined to debt relief for poverty reduction through the design and execution of a strategy with citizens' participation.

Approval of resources for external debt relief required that a citizen's survey be carried out to help create a poverty reduction strategy.⁴ This survey, which the government named "National Dialogue 2000," took place from June to August 2000. Citizens participated in the surveys through regional (municipal and departmental) roundtables and sectoral workshops. The latter discussed developmental and political agendas. The only real agreement in the process was on the so-called social agenda, which was organised to gather citizen's

demands at municipal and departmental levels. These demands were later considered in the creation of the poverty reduction strategy.⁵

In September 2000, the emergence of a tremendous peasant movement revealed the limited perspective of the "National Dialogue 2000". In fact, this mobilisation revealed the need for a more legitimate representation of social organisations and a wider focus on the demands to be considered in the poverty reduction strategy.

The main reason for the contrast between the government-run dialogue and the conflicts emerging from society could be summarised as follows: the problem of poverty must not be treated from the restrictive and subsidiary vision of social policy alone; such treatment must consider political and economic measures in which equity is the real—and not merely formal—principle underlying action.

Adjustment with fragile growth and inequity⁶

The stabilisation and structural adjustment policies applied in Bolivia since 1985 were conceived to control the hyperinflation of the early 1980s. With this objective, an economic program including fiscal and monetary reforms and liberalisation of most markets was put into effect. In the 1990s, the second generation of adjustment was conceived for the purpose of sparking economic growth. This second-generation adjustment involved the application of institutional reforms such as the privatisation of public firms, administrative decentralisation and educational reform.

Nevertheless, after 15 years of adjustment policies, the basic problem continues to be the lack of sustainable economic growth. Such growth would generate national savings at levels sufficient to guarantee macroeconomic stability and investment and respond positively to the employment and income requirements of the population.

1 Coordinator of the Social Watch Project of CEDLA.

2 Bolivian Government. *Bolivian Strategy of Poverty Reduction*. February 2001, p 31.

3 The multilateral cooperation organisms agreed that Bolivia shall benefit from a US Aid package of USD 1,300 million in current net value of the external public debt (some USD 4,300 million) to be used gradually over the next 15 years.

4 In the design of the PRGF proposed by the IMF, every country shall create a poverty reduction strategy. The World Bank calls these PRSP (Poverty Reduction Strategies Papers).

5 Citizen representation in the municipal roundtables was weak. The procedure established the participation of the local mayor, the vice president of the municipal council, the president of the "Watch Committee" (CV), and a woman from the civil society elected by the CV. This means that half of the municipal delegates were, in reality, representatives of a very questionable political system, since the political parties hold a monopoly on citizen's representation at all governmental levels. It is questionable whether the CV represents the citizenry, considering the reports of political corruption among CV members, especially in larger urban municipalities. Cf. Pablo Rossel. "¿Diálogo sobre pobreza o pobreza de un diálogo?" (Dialogue about poverty or the poverty of a dialogue?). *Documentos de Coyuntura N° 1*. October 2000. Cedla-Social Watch Project. La Paz.

6 Analysis extracted from Alvaro Aguirre y Juan Luis Espada. "Problemas de la Estrategia de Reducción de la Pobreza" (Problems of the Poverty Reduction Strategy). *Documentos de Coyuntura N° 3*. February 2001. Cedla-Social Watch Project. La Paz, Bolivia.

The average GDP growth rate from 1990 to 1998—before manifestation of the international crisis—was 3.9%. This growth was based, above all, on sectors of economic activity associated with transnational capital, and also with production of goods and services such as petroleum and natural gas, mining, transportation and communications, electricity, gas and water, industrial agriculture and financial services. Unlike these dynamic economic sectors, sectors that lacked modern production systems and developed markets were less competitive and experienced unfavourable development.

This type of economic growth—centered around capital-intensive sectors with greater access to resources and markets—is a basic factor contributing to the trend toward the concentration of wealth. In 1989, the richest 20% of the employed population earned 52.6% of the total income created through urban economic activity. In 1997, this share had grown to 58.0%. On the other extreme, the poorest 50% of the employed population received only 19.3% of the total urban income in 1989 and by 1997 this figure had shrunk to 16.9%.⁷

Growth without equity

EBRP's claim that it will reduce poverty through economic growth will be difficult to accomplish. "EBRP supposes an average growth of 5.5% for the first six years of implementation. This goal, required for an annual poverty reduction of 1.45%, will be difficult to achieve given the crisis of the Bolivian economy and orientation of the political economy...".⁸ According to EBRP, 63% of the population had an income or expenditure under the poverty line in 1999; in rural areas, over 80% of the population lived in conditions of poverty.

According to EBRP, its responsibility⁹ lies in generating economic growth highly capable of absorbing the labour force. National and foreign private sectors—national and transnational big business—are not expected to generate quality employment. Rather, this sector will continue its function of contributing to economic growth, and leave small and medium-sized businesses and small farmers the task of worrying about job production.¹⁰

The problem with this position is that small and medium-sized businesses and small agricultural producers—that could potentially contribute to sustained economic growth by increasing their productivity—are being undermined, basically by a structural weakness in the national productive apparatus.¹¹

The argument for economic growth at any cost as a necessary condition for the reduction of poverty is fallacious. It does not help that the most dynamic sectors of the economy contribute to the macroeconomic indicators of the economic model, when redistributive potential through job creation is almost nonexistent. Besides this limitation of employment generation, there is also the accumulation of wealth in these sectors. Inequity indicators in Bolivia reveal a rise in inequity of income distribution beginning in the 1990s, precisely at the time when the country began its policy of privatisation. In 1976, the Gini index was 0.49; in 1990 it grew to 0.517 and reached a high point of 0.562 in 1997—two years after the privatisation of national public enterprises.¹² Furthermore, it is useless to place the responsibility for job creation on sectors that, because of their precarious condition, generate low quality employment with low wages and no social protection.

The problems of EBRP can be summarised as follows:

- growth is in economic activity related to transnational capital and international trade in essential production goods and, therefore, scarcely articulated in the internal market;
- segments of society that lack modern productive systems and developed markets are being systematically marginalised;
- the constant deterioration of exchange terms, and the resulting transfer of resources through foreign exchange, creates an external dependency on foreign loans and donations to keep the economy and social policies functioning;
- there was disagreement among the civil society regarding incorporation by the designers of the EBRP of citizen demands stated in the "National Dialogue 2000" and other important citizen consultation forums (such as the Jubilee Forum 2000). ■

Centro de Estudios para el Desarrollo Laboral y Agrario, CEDLA-Proyecto Control Ciudadano
(Centre for Labour and Agricultural Development Studies, CEDLA-Social Watch Project)
<cedla@caoba.entelnet.bo>

7 Cf. Hernando Larrazabal *et al.* *Ajuste Estructural y Desarrollo Productivo en Bolivia*. (Structural Adjustment and Productive Development in Bolivia). La Paz: CEDLA, 2000.

8 Bolivian Government, *op.cit.* footnote 2.

9 *Ibid.* The priorities for EBRP center around job and income generation and the promotion of human capacities; the way they intend to increase income and generate jobs is through providing "...incentives to production, especially for small agricultural producers, supporting small and middle business and promoting rural development."

10 This fact is even more critical when the EBRP states the need to extend structural reforms to the labour market with the goal of making it more flexible and allowing "dismissal and hiring, to accommodate the use and remuneration of the work force to production needs in a rapid, variable manner". Cf. Silvia Escóbar. "La EBRP: una lectura desde el ámbito del empleo, los ingresos y la equidad" (EBRP: a reading from the viewpoint of labor, income and inequity). Mimeo. Cedla. La Paz. March 2001.

11 *Ibid.* This author states that it is "difficult to imagine the levels of investment necessary to elevate productivity of small and medium-sized business by at least one per cent; but it is even more difficult to imagine the level of investment required to support a certain sustainability of growth of small and medium-sized businesses, when in reality it has been shown that the loss of productivity per employed person in the economy has been strongly influenced by the fall of this indicator, precisely in small and medium-sized businesses, in the last ten years."

12 Cf. Rolando Morales. *Política económica, geografía y pobreza* (Economic policy, geography and poverty). La Paz: UASB, 2000.