Economics and politics of the Bolivian model 2006-2014: preliminary assessment

Economía y política del modelo boliviano 2006–2014: evaluación preliminar

Economia e política Bolívia 2006-2014 modelo: avaliação preliminar

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Research article

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Abstract

Bolivia suffered a profound political and socioeconomic change within the period 2006–2014; shifting from a liberal development model to a mixed economy, where the state has complete control of economic resources and the main industry revenues. The surplus generated by commodities contributed to the income distribution policy and was also used to fight against poverty through better education and health systems. The macroeconomic model was successful: the Bolivian economy grew at an average rate of 4.6% yearly during the period 2006–2014 and registered a fiscal surplus, a positive trade balance and an increase in the volume of international reserves. At present, the country has macroeconomic stability and low inflation.

Keywords: economic model, economic growth, government, natural resources, economic policy, macroeconomics, poverty, inflation.

JEL: D72, F43, N4, L72, E6**,** I3, P24

Resumen

Bolivia sufrió un profundo cambio socioeconómico y político en el periodo 2006-2014, pasó de un modelo de crecimiento liberal a uno de economía mixta, donde el Gobierno juega un papel muy relevante en la economía. El Estado tiene un control completo de los recursos económicos y principales ingresos de la industria. El excedente generado por los

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commodities contribuyó a la política de distribución de ingreso y además fue utilizado para la lucha contra la pobreza a través de una mejor educación y salud. El modelo macroeconómico fue exitoso: la economía boliviana creció a una tasa promedio de 4.6 % anual durante el periodo 2006–2014 y registró un superávit fiscal, un balance comercial positivo y un aumento en el volumen de reservas internacionales. Además, el país goza de estabilidad macroeconómica y baja inflación.

Palabras clave: modelo económico, crecimiento económico, Gobierno, recursos naturales, política económica, macroeconomía, pobreza, inflación.

Resumo

Bolívia sofreu uma mudança socio-económica e política profunda no período de 2006-2014, passou por um modelo de crescimento liberal para um de economia mista onde o governo desempenha um papel importante na economia. O Estado tem o controle completo sobre os recursos econômicos e maior receita da indústria. O superávit gerado por mercadorias contribuiu para a política de distribuição de renda e também foi usado para a redução da pobreza através da melhoria da educação e saúde. O modelo macroeconômico foi bem-sucedida: a economia boliviana cresceu a uma taxa média anual de 4,6% durante o período de 2006 a 2014 e registou um excedente fiscal, uma balança comercial positiva e um aumento no volume de reservas internacionais. O país goza de estabilidade macroeconómica e de baixa inflação.

Palavras Chaves: Modelo económico, Crescimento económico, Governo, Recursos naturais, Politica económica, Macroeconomia, Pobreza, Inflação.

INTRODUCTION

Latin America has suffered great economic, social, and political changes during the last three decades; transformations that led to new paradigms and political and ideological views, in particular in the nations of South America, such as Venezuela, Ecuador, and Bolivia, and in some way in Argentina, to name a few. In some of the nations previously mentioned, there were important advancements in favor of the less favored social groups; in others, there was a step back regarding political, economic, and social change, thus affecting democracy.

It is evident that in the countries mentioned and in general in Latin America there are still inequities in the economic, social, and political fields, some inherited and others as a consequence of the models imposed in each one of the nations or the insufficiency of the economic structure to favor a technical change and the transformation of the industrial sector. For this and with the aim of solving the vast problems, the new governments in power, prior to political contest, proposed and applied diverse schemes of economic, political, and social change, with the objective of redeeming the less favored groups of society. The new schemes of political and economic praxis proposed, included "Socialism in the 21st century" in Venezuela to models of liberal democracy and economic statism, in accordance with social democratic principles and Keynesian variants.

Bolivia is one of the countries with a new economic development approach. The Andean nation, like its neighbors, still suffers from massive inequities as regards poverty and unfair income distribution, economic backlog with reduced industrialization. These are some of the reasons why the current president, Evo Morales, put into practice the new model of economic and inclusive social development where the popular masses, in part, are the protagonists of the "new society."

The new Bolivian economic and social model (2014) has been successful and it is translated into great and acknowledged achievements as regards economic growth and sociopolitical change. Economic growth has been above 5% annually on average during the last eight years. The new capital stock is tangible, represented in a new economic and communication infrastructure. In the social field the advancement in education and health is clear, as well as the reduction of poverty and the empowerment of the less favored social groups. At the same time, the orthodox and prudent macroeconomic management allowed for the government to reduce the external debt, increase international reserves and national savings, prior to the adjustment of fiscal accounts.

Precisely, the objectives of the present analysis seek to explain or respond to the following questions: how did political stability contribute to the economic and social development in Bolivia? What is the ideological-political concept of the model and what is the role of the state in the economy? What was the role of the economic and social policy in the success of the model? Was all the above translated into an improvement in citizen welfare and particularly in that of the less favored social groups?

It is convenient to highlight that there are not many studies regarding Bolivia and even less empirical works that go over the interrelation of the different variables of the system as a whole. The reason: the Andean country does not have (first class) statistical information, given the characteristics of a nation with capitalist overtones and feudal production methods.

The development of this work is guided by the following premise: *the economic growth and the success of the Bolivian model rest upon the political stability achieved, the high prices of the export raw materials and their control by the state; in addition to the efficiency of the economic and social policy that boosts the internal demand.* The method of analysis is descriptive; the sources of information are of a primary nature, such as interviews and speeches; situation reports and statistics of the *Banco Central de Bolivia* and the Ministry of Economy and Planning; books and specialized journals on the situation of Bolivia.

The contribution of this work resides in combining the economic and political analysis in order to understand the situation of Bolivia as a whole. The topic is developed as follows: in the first part, the economic and political background is analyzed; then, the economic structure of the country and the model proposed are approached; in the third section, the economic and social policy is reviewed so as to, finally, retrieve the results.

BACKGROUND

Economic background

The Bolivian economy of the 70s, like in recent years, had great prosperity thanks to the good prices of raw materials of export: oil, tin, coca, nickel, natural gas, and similar products. However, and for reasons related to the international panorama, same as now, the prices of the commodities plummeted, which brought about a decrease in the collections of fees and taxes by the state. The government expenses and the public debt continued to grow, which drove the country to a huge budgetary deficit and made international creditors uneasy, who then reduced the loans as a result of the uncertainty that the country would enter into default and could not fulfill its international financial commitments. The high budgetary deficit also increased the lagging between tax causation and collection, according to the so-called Tanzi–Olivera effect.

On the other hand, the drop in the state revenues fostered large and permanent issuance of money by the *Banco Central de Bolivia* and, as a consequence of that, an inflationary spiral was unleashed, which reached levels of even 25,000% when it turned into hyper-inflation (Fisher & Dornbusch, 2004) and the budgetary deficit reached levels of 31.6 % (Blanchard, 2006).

The recurrent inflation brought about periodic devaluations of the Bolivian currency and both increased the country's poverty, internally and internationally. The permanent devaluations raise the price of the importation of capital assets and the necessary raw materials to supply national industry, aspects which affected employment and internal competitiveness.

The great budgetary deficit that took place between 1981 and 1986 (Table 1) gave way to substantial monetary issuances which, as it was said, became rampant and ended up in hyperinflation with serious effects on the economy and the welfare of the population.

Table 1. Budgetary deficit with respect to GDP

	1981	1982	1983	1984	1985	1986
Revenue	9.4	4.6	2.6	2.6	1.3	10.3
Expenditure	15.1	26.9	20.1	33.2	6.1	-7.7
Budgetary deficit	-5.7	-22.3	-17.5	-31.6	-4.8	-2.6

Source: Sachs (1986).

The theory and the empirical evidence highlight the enormous economic and social costs of inflation. In the economic aspect, inflation generates uncertainty because it affects the price system, reduces investment, increases unemployment, and slows down economic activity. Unemployment and the high prices of goods and services cause social discontent and political instability. Bolivia was not alien to this phenomenon; on the contrary, poverty and the increase in social marginality created a breeding ground for the rising of new ideological positions.

The combination of budgetary deficit, GDP decrease and hyper-inflation motivated the macroeconomic destabilization and it imposed the pressing need for "shock therapy" in 1985. In the shock therapy devaluation measures, fiscal reform, and rises in the prices of goods and services offered by the public sector were imposed; in addition to restrictive monetary policies. In the fiscal field, taxes increased and public expenditure was reduced. A privatization plan of state assets was also carried out, in accordance with the "recipes" of the IMF and the World Bank. The results were translated into the stabilization of the exchange rate and the reduction of inflation from 50% to 10% in 1989.

However, the adjustment programs meant serious sacrifices for the population, which led to great social turmoil. The old rivalries of the economic and political elite gave way to new conflicts that caused such chaos that, between 1979 and 1985, Bolivia had 12 presidents and the first civil president in a period of 18 years.

POLITICS

As a product of the popular dissatisfaction that took place in the 80s, in the mid-80s Evo Morales and the Socialist Movement, (MAS, by its acronym in Spanish), appeared on the scene. This movement had an ideology and principles from diverse sources that include indigenous, Bolivarian, and national ideas. Afterwards it adopted elements of the socialist ideology. MAS led the social protests of the marginalized groups in Bolivia, which included the group of the coca-growers; afterwards, it moved forward and committed to fight for the vindication of the indigenous people with anti-bourgeoisie views. It also sought and achieved the objective of filling the party gap through the contribution to the erosion in the principles of liberal democracy.

Its initial purpose also included the mediation between the social collective and the power established through a clientist relationship of singular efficiency, given that at present it is confused with the economic body in power.

After 1999, MAS adopted premises from *Socialism of the 21st century,* a concept that was first put forward by Steffan (n.d), in the mentioned year. According to Steffanoni (2006), Evo Morales' leadership is mediated through a number of corporations and different social movements to which he is accountable; in accordance with a Bolivian version called "ruling while obeying."

In a different context and in the 1990s, Bolivia led the second generation of reforms of the Washington Consensus in Latin America, with political measures, such as decentralization and popular participation; land policy and social security, still taking into consideration the educational reform. The above gave way to a greater citizen consciousness and political participation of social groups, aspects that made his influence easier in the political power, the economy, and community rights, which was a strike to partisanship and "contractual democracy," (Aparicio, 2007). From the above, the interest of MAS in promoting social and political reforms can be inferred, in order to achieve the equality of the farmers and indigenous people through developmental programs, but with social justice. However, and as it will we seen later on, although the speech of MAS goes against the political elite and traditional economy, in practice, it defends what the group calls "Andean capitalism," with a motto: market economy, development , and protectionism. In Ways' (2014) words, MAS general ideological principles are the result of the fusion or mix of Bolivarianism, Peronist populism, Castro socialism, and Stalin's cult, and in practice, the economic policy has its grounds in the social-democratic and Keynesian principles: strong intervention of the state and controlled capitalism.

In sum, the economic practice of the model is a rightist one, although the political discourse is a leftist one, and intends to portray the following principles, shown in Table 2.

Table 2. Economic and ideological principles of the model

NATIONALISM: natural resources managed by Bolivia
INDUSTRIALIZATION: endogenous development
FIGHT AGAINST CORRUPTION: promotion and defense of political ethics and morality.
EQUITY: socioeconomic equity for the majority of people
INTEGRATION: seeking integration so as to foster the economic growth of Bolivia
SOCIAL HARMONY: fraternity, solidarity, freedom

Source: Ministry of Economy and Public Finances. The new economic, social, communitary and productive model. Year 1, no. 1, La Paz.

It is important to mention that, while Venezuela is sinking with the *Socialism of the 21st century*, as a result of a policy that is opposed to market economies, the same does not happen in Ecuador and Bolivia. The Andean countries have experienced remarkable economic growth and social development in the last decade. The overall reason being: in Venezuela the ideological discourse of socialism of the 21st century took precedence over the economy. In Ecuador and Bolivia the economy was more relevant than the ideology. The result: Venezuela fostered antagonism and political polarity with terrible results in the society. Bolivia facilitated social cohesion and avoided confrontation, with which it gave way to political stability, a factor that paved the way for the success of the economic policy.

ECONOMIC STRUCTURE AND FUNDAMENTS OF THE BOLIVIAN MODEL

Economic structure

Bolivia is a land-locked country, with no exit to the Atlantic or the Pacific, a situation that limits foreign trade and jeopardizes its potential for economic growth. The country has borders with very prosperous economies in South America, such as those of Brazil and Argentina.

The Andean nation is characterized by being the poorest economy in Latin America and the Caribbean, after Haiti. The economic development of the country is quite precarious and the productive activity resides in agricultural exploitation of low productivity, according to ancestral patterns, with the exception of some soy and sugar cane crops. On the other hand, the extractive activity is very important and generates revenue; it is represented by gas and mining. The industrial sector produces goods of relatively low aggregate value and, for this reason, it can be affirmed that, as a whole, the Bolivian economic structure is fragile, poorly diversified, and with heterogeneous productivity. The following table shows the situation as a whole.

Table 3. General data on Bolivia

<table>
<tr><td colspan="2">Gross Domestic Product: 69.9 trillion (2014), dollars, 2014
Per capita product: 2694.25 USD $ (2013)
Population: 10,000,637
Poverty rate: 25.4 %
Human development rate: 0.675</td></tr>
<tr><th>GDP composition by origin %</th><th>GDP composition %</th></tr>
<tr><td>Agriculture 13.0
Industry 38.9
Services 48.0</td><td>Household consumption 58.8
Government 13.9
Investment in fixed capital 20.3
Inventories 0.7
Exports and imports 46.0</td></tr>
<tr><th colspan="2">Main products</th></tr>
<tr><td colspan="2">Agriculture: soy, quinoa, brazil nuts, sugar cane, maize, potato, coca.
Mining: hydrocarbons, gas, other minerals.
Industry: food, beverages, tobacco and handicrafts.</td></tr>
</table>

Source: CIA factbook (n.d.).

The economic model

The economy of a country is a set of interrelations between sectors and variables that make it a complex machine. Its functioning and the transformations that have to be made in it can be described and outlined through the economic models. With the models, it is easy to show the way in which physical, financial, and human resources are acquired and organized, so as to obtain certain results in the short, medium, and long term. Economic models are, in this way, simplifications of reality (Taylor & Weerapana, 2011), and are put into practice by those who manage the economic policy in accordance with some political and ideological principles, in which the dilemma lies: more state and less market; more market and less state; or more market and better state.

The Bolivian economic model has been recognized and praised by several institutions that include the World Bank (WB), the Inter-American Development Bank (IADB), and the International Monetary Fund (IMF), thanks to its results in the economic and social fields.

One of the keys to the good performance and success of the model called the New Economic, Social Communitarian, and Productive Model is, without doubt, that of the current Minister of *Hacienda* Alberto Arce Acosta, the main ideologist, manager, and protagonist of the economic policy in Bolivia.

The Bolivian model seeks diverse purposes and, according to its conception and its authors, its main objectives are the following:

- To overcome the neoliberal economy and improve equality in the population, as there is no certainty of the prevalence of the capitalist model in time.
- To set the basis for the transition towards a new method of socialist production.
- To put greater emphasis on the role of the state as the protagonist of the main economic activity, without leaving the market and the private initiative behind.
- To redistribute national wealth, giving priority to public expenditure directed to the less favored social groups in the society.
- To support the economy in the development of two pillars: the domestic and external markets.
- To improve productivity and economic growth.
- To take advantage of the exportation resources for the primary accumulation of national savings and to channel then to the productive sector.

As it can be observed, the model is placed within a Keynesian orthodoxy where the main variables are domestic consumption, the role of the private sector in investment, in fostering economic activity, and the state through fiscal policy represented in public expenditure. What is peculiar about the model is the greater weight of the governmental sector and its political strength to manage natural resources in favor of different social groups of the country. From the political point of view, a central role of the state is vital so as to foster social vindication within a scheme with features of social-democracy and grounds on the postulates of Giddens (1999) and Santos (1999), although in a more profound way than the Colombian case and close to the economic practice of Ecuador (Arévalo, 2014).

In order to stimulate internal demand, cheap and easy credit was crucial, which allowed for a boost in consumption and private investment, in consonance with the policies of the *Banco Central de Bolivia* (2010).

The following objectives can be attained if certain strategies are put into practice; in the Bolivian case, they are summarized as follows:

- To nationalize strategic natural and mineral resources, such as gas and hydrocarbons, for later exportation.
- To foster strong public expenditure in the provision of economic and social infrastructure, with multiplying effects on employment.
- To improve taxation and fiscal collection, and to put in force an efficient social policy through better redistribution of the surplus resources within a model of state capitalism.

- To stimulate internal demand with fiscal resources of great impact on the consumption of goods and services so as to boost economic growth.
- To foster the exportation of basic products with the aim of complementing the situation of aggregate demand in the external sector.

It is important to note that part of the policies and the strategies mentioned have important advocates, such as Robinson, Kaldor and Thirwall, among others, and they are relevant instruments for moderating economic cycles and fostering relative and permanent macroeconomic stability, which, together with political stability, paves the way to accomplish inclusive growth.

In summary, the new model identifies two pillars: a strategic sector that generates surplus and one that generates revenue and employment by the state.

There are four strategic sectors that generate surplus: hydrocarbons, electricity, and environmental and mineral resources.

The sectors that lead employment are industry, housing, agriculture, and tourism.

The state is the redistributing agent of surplus through the diverse social programs to fight against poverty. It is sought that Bolivia does not depend on the exportation of commodities; actually, what it wants to foster is an industrialized country with a diversified productive matrix where the state promotes a plural economy.

ECONOMIC POLICY OF THE BOLIVIAN MODEL

Monetary and exchange policy, and inflation

Monetary and fiscal policies are two important tools of the economic policies of the countries with market economies. With them, it is sought to promote economic growth, employment, and socioeconomic welfare in the short and medium term (Mankiw, 2003; Fernández & Parejo, 1995; Cuadrado & Mancha, 1995).

Price control and reduced inflation are two vital aspects of macroeconomic stabilization and growth. A low inflation rate encourages public and private investment, for there is a tight relationship between the inflation rate and the nominal interest rate. According to Fisher (1930), both stimulate employment and national product. On the other hand, reduced inflation generates expectation and attracts foreign investment, an additional element that improves the economic activity and the efficiency in the use of productive resources.

In the social aspect, low inflation preserves purchasing power and favors the “layers” of the population who are more vulnerable, which preserve their consumption and with it stimulate the aggregate demand; the unfair redistribution of the wealth of creditors to debtors is also avoided and, therefore, more trust in the stabilization of the economy is generated.

In Bolivia the *New Economic Policy* was fostered, the main objective of which was to achieve the economy's stabilization as a requisite for growth and social justice. With the plan, the exchange rate was unified and the coordination of the fiscal and monetary policies was also possible. As regards inflation, there was a reduction of prices from 335.75 % in the period 1982-1988 to 28.7 % in the period 1986–2000. Afterwards, inflation was reduced to 2.6% between 2001 and 2004, the period prior to Evo Morales' coming into office (IFS, 2007). Low inflation and control over it set the bases to stimulate later economic growth and thus, to have an influence on the political sphere, reducing social tensions and vindicating the less favored groups of the society.

The *Banco Central de Bolivia BCB* (2011) imposed its objectives for control of the inflation and preservation of the currency's purchasing power, with the aim of contributing to sustained growth and improving the welfare of the Bolivian people. For this matter and with the issuance of the *Political Constitution of the Plurinational State of Bolivia* in 2008, the BCB set its final goals: attaining high growth rates with controlled inflation. However, in the period 2006–2014 inflation escalated to an average of 5.65 %, as can be deduced from the data shown in Figure 1. As it can be observed, moderate inflation contributed to maintaining macroeconomic stability and growth throughout the analyzed period.

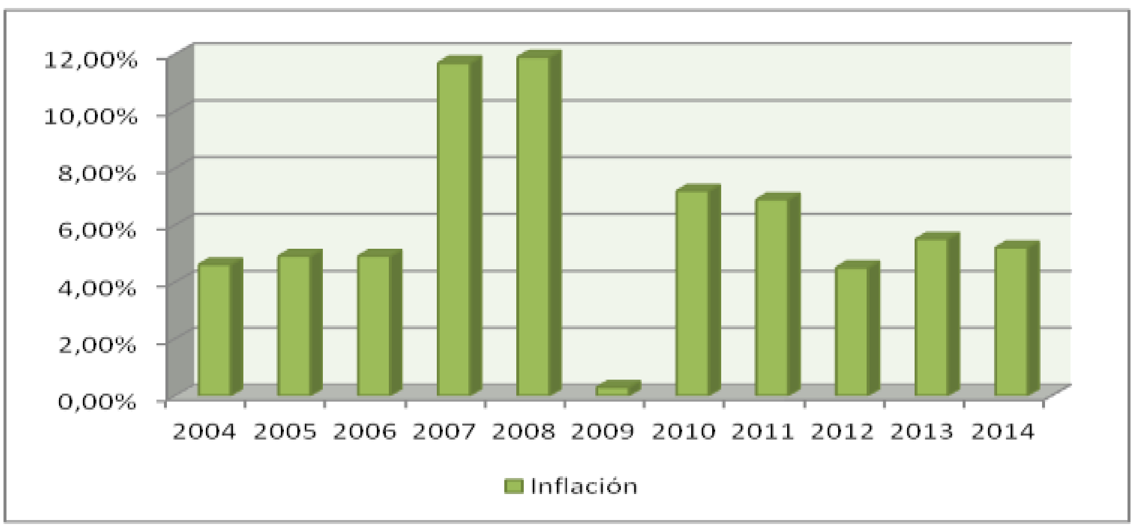

Figure 1. Inflation in Bolivia 2004–2014
Source: National Institute of Statistics (n.d.)

With Law 1670, the BCB assumed the commitment of fostering the economic and social development of the country. Apart from monetary management, the BCB was now also in charge of the exchange policy, which was a restrictive one during the period of analysis, so as to stimulate the control of inflation, but with a bias towards improving national competitiveness. The exchange policy is a *crawling peg* regime which helped to anchor and keep control of inflation.

According to the BCB (2009), the objective of the exchange policy is to procure low inflation, achieve financial stability, and reduce external shocks.

The exchange policy of Bolivia has been prudent, an aspect that contributed to its growth and macroeconomic stability, and avoided the volatility of the exchange rate. It also brought about an increase in the volume of reserves, from 12.1% up to 48.4% in relation to the GDP in the period 2006-2014 (Johnston & Lefebvre, 2014). The causes of the increase in the reserves are directly related to the increase in the exportation of raw materials to developing countries, such as India and China, and a prudent saving policy.

International reserves also act as a buffer to external shocks and avoid balance of payments crises, and thus stable growth is fostered.

A partial conclusion can be drawn that Bolivia’s growth throughout the 2008-2014 period, particularly in the years 2013-2014, was sustained by an increase in internal demand, thanks to the liquidity of an expansive and countercyclical monetary policy of the BCB, which reduced the interest rate and stimulated public and private investment. A proper exchange policy contributed to that, which made exports competitive in external markets.

Fiscal policy

In the years prior to Evo Morales’ government, Bolivia presented recurrent fiscal deficits, given that governmental expenditure was higher than the revenue of the country. After 2006, the accounts turned positive and, although expenditure had a growing tendency, revenue did not surpass it, allowing for the nation to increase its saving stock necessary for economic stabilization and growth; with this, external financing and capital disaccumulation were avoided.

An important aspect of the fiscal policy was the fact that, apart from public expenditure, it contributed to dynamizing economic activity, boosting wealth creation, employment, and the welfare of the citizens, essential aspects for the political stability of the Andean country.

The managers of the economic policy stimulated productive public expenditure and obtained fiscal surpluses of a certain importance, with which great tensions in the public debt programs were avoided. The economic theory and practice confirm (Fisher & Dornbusch, 1998) that the increase in the debt in relation to GDP deteriorates social expenditure, impoverishes, and is the cause of serious social crises which affect the economic and political stability of the country.

Fiscal surpluses were obtained as a result of a prudent saving policy and the nationalization of primary resources, and they were a factor that helped economic and social growth in Bolivia. Figure 2 shows the fiscal surplus figures for the period 2000-2012.

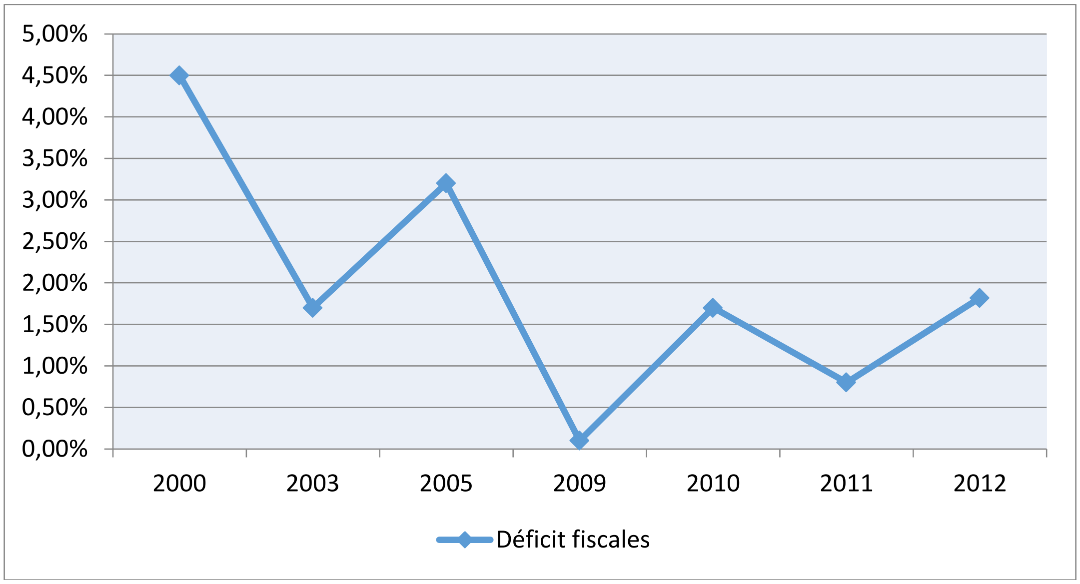

Figure 2. Fiscal surplus in Bolivia 2000–2012.
Source: Plurinational state of Bolivia (2012).

In mid-2004, Bolivia held a referendum to nationalize the revenue from the hydrocarbon sector. From that moment, the state started to have a determining role as a promoter of social and economic change. In May 2006, Evo Morales renationalized the gas and hydrocarbon sectors, and with that, he increased the volume of state resources, facilitated stabilization, and the management of economic policy, which led to growth with stability in the Bolivian economy.

Fiscal revenue from hydrocarbons increased from 9.8% in 2005 to a peak of 35.6% in 2013, as shown in the following figure:

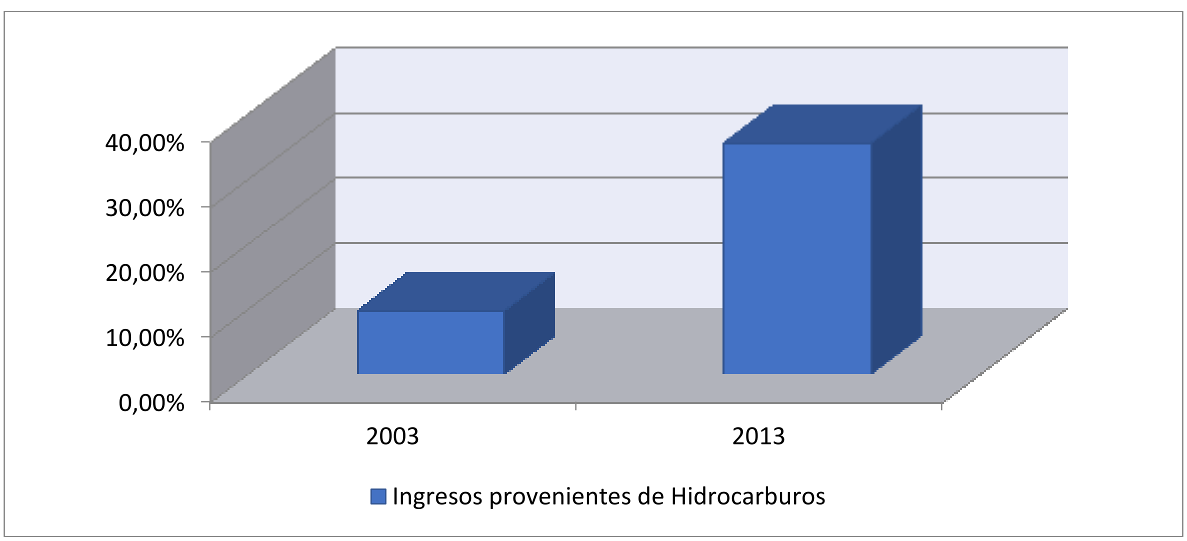

Figure 3. Revenues from hydrocarbons as GDP percentage
Source: Johnston, J. & Lefebvre, S. (2014)

State revenue also comes from direct and indirect taxes. According to the New Model of Plural Economy (2011) and the Ministry for Economics and Finance (2011), the total revenue improved in the period 2006-2014 as a result of strong control and exploitation of strategic natural resources: hydrocarbons, mining, electricity, and telecommunications. For that reason, public expenditure was one of the most important pillars of fiscal policy in Bolivia. From 2006, public investment became a priority of the government and, for this reason its amount doubled between 2006 and 2014: it went from 6.7% to 13.4% in relation to the GDP, as shown in the following figure.

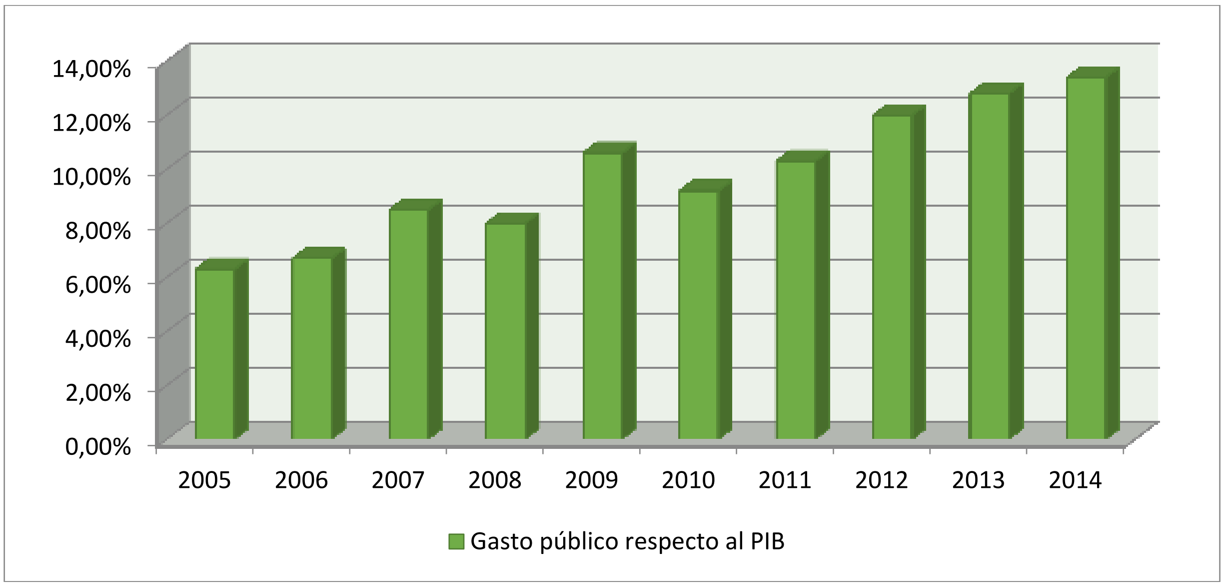

Figure 4. Public expenditure in Bolivia: 2006–2014.
Source: Johnston, J. & Lefebvre, S. (2014)

Public expenditure has four main components: infrastructure, productive and social investment, and multi-sectorial expenditure. The expenditure in infrastructure was crucial in order to pave the way for the modernization of the economy and is an important component of domestic aggregate demand of great multiplying effect on income (Keynes, 1971). Expenditure in infrastructure was also a part of the driving force which dynamized the economy and improved productivity, apart from contributing to changing the productive matrix.

Bolivia's fiscal policy also included subsidies to the less favored sectors of society. Its objective was to improve domestic consumption and, with it, investment in the industrial sector. It is important to highlight that subsidies acted as automatic stabilizers of an anti-cyclical nature and, for that same reason, they were a tool that buffered the impact of external crises, such as that of 2008. The efficient focus and selectivity of Bolivia's public expenditure acted in favor of the most vulnerable social groups.

There is direct causality between public expenditure and economic growth, according to Cotarelli and Jaramillo (2002), although it is rather complex given the diversity of channels and the feedback levels. It is worth supposing, then, that the quality of the expenditure and not its quantity is the variable that acts as the economic and social growth engine. This could be confirmed through an econometric study carried out by Baldacci, Clemens, and Gupta (2003). The study showed that the quality and composition of the expenditure in projects with multiplying effects is higher than the expenditure to raise the wages and salaries of the bureaucracy.

It is convenient to point out that the increasingly central role of the state, its control over strategic resources, and growing public expenditure turned it into a producing, promoting, and distributing entity of the economic and social surplus and, for that reason, it is possible to affirm that this new model is Keynesian and social-democratic in the political aspect, which was confirmed in the words of its promoters: "the new model does not intend to change the capitalist method of production, but to set the bases of transition towards a new model of socialist production." In other words, state capitalism as a strong proponent of domestic demand and GDP.

External sector

Bolivia, like other Latin American countries, took advantage of the bonanza of the high prices for the exports of raw materials, such as hydrocarbons, gas, minerals, and agricultural products in developing countries like China, India, and some neighbors. In the goods mentioned, the country has clear comparative advantages. Exports allowed for the nation to achieve important volumes of currency and increase international reserves in order to palliate the debt and face external shocks that could generate internal macroeconomic instability and disrupt the model.

As was mentioned previously, Bolivia maintains a crawling peg exchange rate which allows it to keep the exchange rate permanently tight, as well as the competitiveness of the exports in the international markets. The permanent intervention of the *Banco Central de Bolivia* allowed the maintenance of a competitive exchange rate. In addition, the characteristics of the crawling peg regime helped to keep the balance of payments tight and, in particular, the current and capital accounts (Froyen, 1995).

A prudent exchange policy and the favorable situation of the high prices of exports meant that Bolivia went from a $1.714 billion dollar reserve in 2005 to more than $14 billion dollars in 2013. The reserves are a nation's savings and have different purposes: to contribute in the stabilization of a countries economy; in the political and social fields it is to buffer for potential tensions that could occur with the success of the general economic model.

On the other hand, the country's exports, which in the period 1985–2005 reached an average of $1.138 billion dollars, rose to an average of $7.021 billion dollars in the period 2006-2012 due to the increase in the volume and prices of raw materials in the emerging markets of China and India. An important aspect to highlight and contrary to what the theory of international trade (Cue, 2010) affirms, is that the exchange terms (exports/imports) always go against the nations that export raw materials, the evidence of the last few years for Bolivia and other nations showed positive exchange terms, due to the good prices of the exports in relation to the imports.

In a similar way, on the external front, and despite the fact that some sectors of the economy were nationalized, this was not an obstacle for the entry of new foreign direct investment (FDI). Thus, according to ECLAC's data (2013), Bolivia reached the highest FDI as a percentage of GDP in the whole of South America, 5% in comparison to 5% and 4.9% for nations like Paraguay and Peru, respectively.

Economic growth

Boliva, characterized as a country with very high levels of poverty, does not have many technological resources or efficient production models that maximize productivity. It is neither a source of innovation nor of efficient institutions that generate an adequate climate for the investments of large sums of money given how narrow its domestic market is. In contrast, within its territory, pre-capitalist methods of production in agriculture and industry still remain, a great part of which generates a market for informal labor. Artisanal industry is intensive in labor and, for that matter, its productivity is reduced; the great industry is found in: hydrocarbons, food and beverages, petrochemicals, and others. These have a low multiplying effect when it comes to employment.

The economic growth of a country is seen through its capacity to generate national wealth, which is measured by the gross domestic product (GDP), that is to say, the amount of goods and services produced in one year and also through the per capita GDP, a measurement that is slightly more objective than the global GDP.

Long term economic growth is based on real variables (Jones, 1988; Maddison, 1992), among which there are, the capital stock a country has (K), the number of resources (NR), job availability (L) and technical change (T). This last one is a variable of an endogenous nature.

The orthodox theory of growth (Solow, 1998; Lucas, 1988) claims that that the rise in the volume of the factors also increases long term growth, so the productivity in capitalist economies of a relatively advanced stage increases. Bolivia acknowledges itself as "state capitalism"; however, its characteristics are not similar to those of a developed country, for it is difficult, in some way, to measure its growth based on conventional theories, and inappropriate to do so in such a short period as from 2006-2014.

The short and medium term growth of Bolivia in the period studied is the product of the interaction of multiple factors, such as the use of the bonanza of raw materials' exportation and its adequate use; the nationalization of resources and the channeling of public and social expenditure, and the putting into action of an economic model that privileges macroeconomic stabilization as the fundament of the social and political pact to promote a suitable environment that benefits equitable production and the distribution of national wealth. From this point of view, fiscal policy was one of the most important factors in promoting public expenditure, generating employment and increasing the gross formation of capital expressed in infrastructure for growth. The monetary policy kept a healthy currency and created a proper context for private investment, while exchange policy maintained the competitiveness in the external sector.

With the above and given the significant surplus volume created in the last decade, Bolivia financed large works on the infrastructure of roads, communication, and transport, and also improved human capital with investment in health and education, with the great surplus accumulated in the period analyzed.

The growth of Bolivia is based on a broad variety of factors of an economic, social, political and institutional nature, and on its profound interrelation within an economic scheme in transition towards an intermediate stage of capitalism. The Andean country shows one of the highest levels of economic and developmental growth represented by a 30 billion dollar GDP and a reduction of extreme poverty that went from 38% before Evo Morales to 20% in 2014.

In terms of global growth, Bolivia reduced its growth rate from 4.1% in the period 1991-1995 to 3.1% in the period 2001-2005. Only from the year 2006, there is a sustained boost of the GDP, and a maximum value of 6.8% in 2013, as indicated in Figure 5, which is the result of the economic model imposed and macroeconomic stabilization.

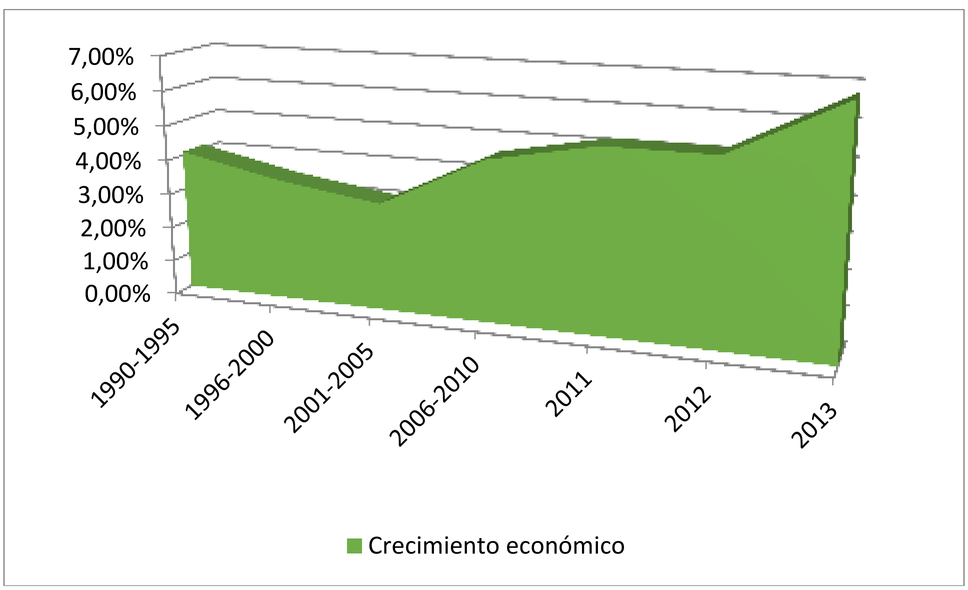

Figure 5. Bolivia: Economic growth 1990-2013.
Source: National Institute of Statistics (n.d.).

The policies put into practice and in accordance with the model of economic management of the period 2006-2014 were translated into the highest percentile figures of growth in the recent economic history of Bolivia and can be, if the national commitment continues, the base for sustained growth into the near future.

It is important to note that a great part of the country's growth took place due to the increasing domestic demand where internal consumption is the main variable and represents almost 70% of the aggregate demand or internal absorption. The increase in consumption was possible because of the highest real salaries of the last period, which increased income and purchasing capacity, also because of the export bonanza, where all the social groups, some more than others, benefitted from it. For the same reason, it is clear that without the raise in global income and per inhabitant and its efficient distribution through public policies, Bolivia would not have been able to reduce poverty nor improve the quality of life of the population. A more objective indicator of economic growth of a nation is the per capita income. According to IMF data, the per capita income in Bolivia was negative, -16% in the period 1988-1993; it turned positive between 1994 and 2005, with 0.9%. Only after 2006 and up to 2014, did it grow continuously to a 3.0% average in the period mentioned. The results of the last period allowed that the country was one of the few in achieving a reduction of inequality and the gap between the rich and poor, given that the income of the poor increased more rapidly than in that of the rich, according to the following figure, which shows the data in deciles.

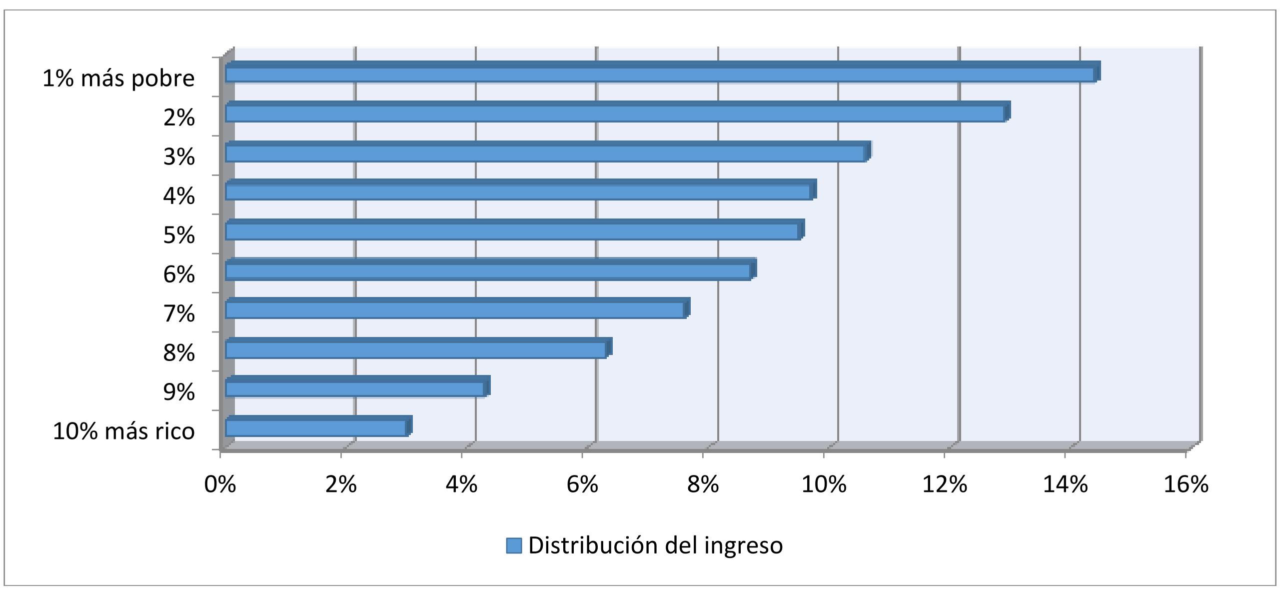

Figure 6. Income inequality in Bolivia.
Source: Socioeconomic data base for Latin America and the Caribbean, ECLAC

SOCIAL POLICY

Social policy and growth

Public expenditure channeled to the solution of social problems is a very useful instrument to attenuate poverty, reduce inequality, and improve welfare. The social objectives achieved through a policy of public expenditure also boost economic growth.

Social policy is the means used by different democratic governments to intervene, influence, and complement market institutions in relation to aspects such as education, health, social security, and justice. They are also suitable instruments which political classes use to obtain the support of the population and improve social cohesion (Ortiz, 2007), as shown in the case of Bolivia in respect to its current president, Evo Morales.

Among the theoretical currents, one of them, called *trickledown* economics (Aldelman and Robinson, 1989) consider that the first thing a country should achieve is economic growth and development, and that social policies are not a priority, given that economic growth is the pre-requisite without which there can be no redistribution nor reduction of poverty. Once growth is attained, its benefits "drop" or filter to all the social groups. In the same way, the new approaches to growth accept the simultaneous determination between growth and distribution (García & Turnovsky, 2004 & 2005; Galor & Tsidon, 1996).

An alternative consists of improving, at the same time, growth with the instruments of social policy. Growth favors sustained social expenditure (Sachs, 2006) and social development increases the capacity of citizens to foster growth. This is the route that was taken by the government and the Bolivian model.

Bolivia has been growing for a decade, which goes hand in hand with the reduction of extreme poverty from 38% to a current 20%, according to official data. Bolivia's social policy is programmatic and is also oriented towards income redistribution. In the Keynesian interpretation, social policy is directed to subsidize consumption in order to stimulate the effective demand of the less favored groups of society (social-democracy) or of politically selected groups (Faleiros, quoted by Cortés, 1980).

In 2012, and within the framework of the policy of the redistribution of economic surplus, 3.6 million people in Bolivia obtained direct benefits through the payment of the Juana Azurduy Pinto bonus and *Renta Dignidad* (Dignity Rent). With this, it was possible to reduce inequality in the period 2006-2012, measured with the Gini coefficient, as shown in the following figure.

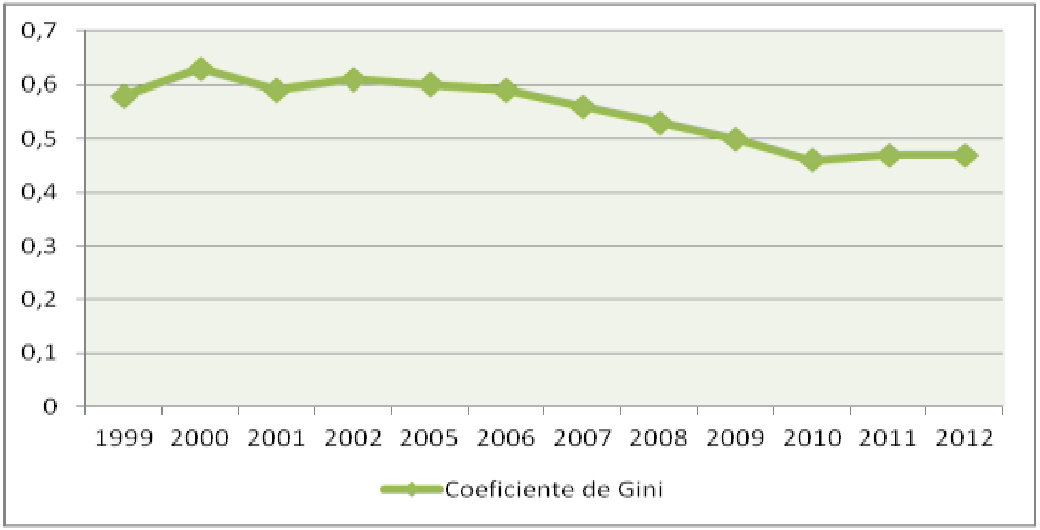

Figure 7. Gini coefficient: Bolivia 2006–2012
Source: National Institute of Statistics (INE)

The subsidy policy was complemented with a high expenditure in social and economic infrastructure in favor of the poor. Its objective is to build road networks to expand the market and integrate the population in a more efficient way and, thus, increase internal demand. The economic infrastructure favored the modernization of communications and the coverage of basic services of water supply and sewage.

Public expenditure in education and health improved its coverage. At present, a larger number of citizens have free access to sanitary, health, and education services, particularly the less favored segment of the Bolivian society. The above also contributed to reducing moderate poverty and it went from 60.2% in 2005 to 45.5 in 2011, according to the figures of the National Institute of Statistics (INE, by its acronym in Spanish).

According to Zamora (2014), the growth of Bolivia and its social development have at their center a strong state that exerts control over natural resources and their exploitation, which allows for the generation of large financial surpluses that facilitate the central role of the state in the national economy and expand political adhesions to the government of Evo Morales.

The minister of Economy and Finance was interviewed by several television channels and written media and he pointed out that without the nationalization of natural resources, it would not have been possible to improve the distribution of income or reduce poverty, nor improve social inclusion.

Social inclusion

According to Francisco Panizza, researcher of the London School of Economics, Evo Morales deepened democracy in Bolivia, given that he integrated and gave more political and social participation to the indigenous sectors excluded by the society[1]. Before 2006, indigenous groups were excluded from the economic, social, and political process. At present, a large number of the indigenous population is empowered and has a better social dynamic; it even fostered a change in of the traditional elite in power. The economic bonanza and its filter or "trickledown" to an important part of the society who was forgotten for a long time, improved social mobility and, for that reason, at present, humble surnames are heard of in all levels of institutional power: ministries, embassies, and the justice sector; finance, economy, and trade; and with that, Evo Morales fulfilled his promise of taking the *ponchos* to power.

Within the economic, commercial, and financial activity the "new Aymará bourgeoisie," is now spoke about, alluding one of the indigenous groups of Bolivia.

In sum, the social policy made possible a greater social inclusion, better mobility and the scaling of the less privileged by their income, education, poverty reduction, citizen participation, personal empowerment, access to employment, housing, health, and better socioeconomic infrastructure, aspects which fostered more democracy in the country.

The index of social inclusion in Bolivia improved and it is in an intermediate point within the context of Latin American countries, as shown in Table 5.

Table 5. Score - social inclusion in Latin America, index 2014

COUNTRIES	INDEX
Uruguay	79.79
Chile	74.96
Peru	58.20
Brazil	57.61
Bolivia	56.61
Ecuador	55.56
Mexico	47.09
Nicaragua	39.68
Paraguay	37.57

The index was elaborated based on 21 economic, social, and political variables, such as GDP, poverty rate, civil rights, social investment, housing, education, employment, and public policies.
Source: Quarterly, A. (2014).

CONCLUSIONS

The success of the Bolivian economic model has been recognized and praised by different multilateral credit entities, such as the World Bank (WB), the International Monetary Fund (IMF), and the Inter-American Development Bank (IADB), among others. The achievements of the model were based on a prudent and efficient macroeconomic policy that contributed to political stability and, they both, contributed to economic growth with

[1] See: BBC World. Constanza Chamy. Which countries in Latin America are the most and least democratic? www.bbc.mundo.com

social inclusion. The model promoted and took advantage of the dynamic of the internal market; domestic supply was important for public expenditure in economic and social infrastructure; and it also channeled efficiently the surplus produced by the export of raw materials.

Boosting the internal demand was a key factor for the growth of the Bolivian economy; its increase was the result of the growing consumption of the population, especially those of lower income, due to the state subsidies received and the rise in the salary above inflation. An important part of the increase in private consumption took place due to the reduction of formal unemployment, although informal unemployment represents 50% of the labor market.

The domestic demand also grew due to the construction of economic infrastructure by the state and it raised the rates of formal employment and consumption among a great part of the less qualified population. It also had multiplying effects on the economy in general. As a result, public investment, a crucial component of aggregate demand, went from 6.7 % in 2006 to 13.4 % of the GDP in 2014. This increase was possible due to the growing saving and internal fiscal collection, also by the reduction of the external debt.

Internal and external private investment, although reduced in volume, was very important in relation to the GDP; foreign investment reached 5.9% in relation to the GDP of 2013, according to data of ECLAC.

The external sector presented commercial surpluses as from 2006 given a greater increase of exports in relation to imports. In 2013 and 2014 the commercial surplus was 7.22 % and 5.5 % of the GDP, respectively. The above made it possible to increase international reserves, taking advantage of the terms of exchange in favor of Bolivia.

It is a capitalist model with the involvement of the state and, for this reason, it promotes and distributes the economic surplus; apart from favoring social needs without forgetting the objectives of the market, an aspect that places it within the ideological concept of the third way, or social-democracy. In the same way, public expenditure and its elevated level in relation to the GDP place Bolivia among the Latin American countries with the greatest involvement of the state in the economy.

Bolivia has been one of the countries with a higher growth rate and an efficient redistribution of income with social inclusion. The country also obtained great advances in the fight against poverty and set the basis for future industrialization. However, the nation is not exempt from the problems of the international economy represented in the reduction of the price of raw materials, an aspect that, finally, may overshadow the achievements of the model.

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