This chapter focuses on the vulnerability of Bolivia’s long-term economic development. I define economic vulnerability as the high likelihood of long interruptions in a country’s development, causing severe distress to its population. Although drawing attention to vulnerability, the chapter also seeks to underscore at the same time some of the ways in which the Bolivian economy reveals considerable resilience. Like other developing countries, Bolivia has shown itself to be exposed to shocks in its terms of trade with the outside world and susceptible also to supply-side shocks (especially in agriculture), to commotion in its domestic financial markets and, of course, to political instability. Our intention here is to take a long view, although we will give more space and attention to developments since Bolivia initiated its return to democratic government in 1982.

Since the early 1950s, Bolivia has adopted some courageous reforms to extricate itself from poverty, to integrate its rural and mostly Indian population into the economy and society, and to reduce its vulnerability to fluctuations in the world economy. The reforms taken in the 1950s, following the 1952 Bolivian National Revolution, were far-reaching. Similarly, those taken since 1985, have had very significant effects; the process of economic liberalization initiated in that year has been among the most ambitious of its kind undertaken anywhere in Latin America. In 1985 itself, the markets for goods and factors were almost entirely freed from state intervention; subsequently in 1993 Bolivia underwent a ‘second wave’ of reforms, under which – amongst other things – most state enterprises were ‘capitalized’ or else privatized in the conventional way.

In a few years, Bolivia has passed from being one of Latin America’s most interventionist republics to being one which is virtually a private
economy. However, the results do not seem commensurate with the effort involved. In some respects, the changes have been notably successful; for instance the stabilization of domestic prices since 1985. But in other spheres, the outcome has been disappointing: economic growth has not been very dynamic, whilst the indices of poverty, unemployment and exclusion remain almost as high as ever.

The chapter is divided into five parts. The first examines the achievements and difficulties experienced in the attempt to diversify the economy out of a mono-export model, one dependent on tin. How vulnerable was Bolivia of the 1990s to fluctuations in the prices of a handful of key commodities? How much more broadly based was the economy than 30 years before? We then move on to the problems of financing development and how these have changed in the period under review. How weak are the sources of finance? We then look at the roles played by the public and private sectors during the period of state capitalism and afterwards. Does the new balance achieved between the state and the private sectors provide a more solid basis on which to build economic development? In the last two sections, we focus successively on the problems of administrative competence and enduring social exclusion. Is the new administrative framework too technocratic and impervious to political pressure? How far have the reforms gone in reducing poverty or suggesting ways in which it might be reduced? The chapter will undoubtedly raise more questions than it can answer, but these are the themes which will flow through the discussion in the chapters that follow. A breakdown of key indicators for 1986–99 is presented in Table 3.1 below.

1. The traditional export economy and its sequels

As other countries of Latin America this century, Bolivia has had to confront the difficulties associated with its historical legacy as a producer of minerals, mainly tin. For the first half of the twentieth century, the country’s balance of payments and any fiscal leeway were critically dependent on variations in the world price of tin, whilst policy-making was effectively in the hands of three mining families (the Patiños, the Hochschilds and Aramayos), the so-called ‘tin barons’. Bolivia's insertion into the world economy was almost entirely through tin exports and these were its main source of foreign exchange. However, a decline in the originally very high metallic content of Bolivian tin forced producers to invest in new technologies for the recovery of tin. The nature of such technologies led to a high concentration in both production and ownership.