3 Sectoral Accumulation Balances in the Bolivian Economy

3.1 Introduction

The discussion in chapter 2 demonstrated that Bolivia faced strong external shocks over the last two and a half decades. Large fluctuation in the quantities of foreign capital inflows to the country has affected its overall macroeconomic performance. During the 1970s, the large supply of financial resources available in international financial markets allowed the Bolivian government to acquire large amounts of foreign debt. During that period growth and investment rose rapidly. During the 1980s, when the debt crises developed, Bolivia transferred a large quantity of resources abroad through debt service payments. During that period, growth plummeted and inflation increased to world record levels. After 1985, when the stabilization programme was introduced, positive capital inflows restarted again, stability was attained and positive growth rates were recovered. During this process, Bolivia also faced extremely sharp changes in its terms of trade. During the 1970s and first half of the 1980s there was a positive trend in prices for most of the country’s export products. However, from 1985 onwards prices of minerals and gas deteriorated sharply. The country literally had to develop its export base from scratch. The results, of course, were a complete restructuring of the economy’s productive base, large changes in the employment structure, and, therefore, significant shifts in income distribution among sectors.

The ways in which the different socioeconomic sectors (households, private companies, the government, public enterprises and the fi-
nancial sector) responded to the external shocks followed different patterns. The direction of adjustment for each of these sectors has been determined by their particular institutional settings, namely the structure of the markets they operate in, broad and specific objectives that guide their economic actions, access to credit or other sources to finance investment, and so on.

This chapter discusses the individual adjustment patterns followed by different groups in response to external shocks and policy over the last two and a half decades. Six socioeconomic groups are identified: government, state enterprises, companies and three household categories (upper-urban, lower-urban and rural). Every economic agent’s accumulation balance adjusted to shocks following its own specific rules through which ex-post equilibrium was achieved.

This chapter also argues that these adjustment mechanisms have not been stable, but have tended to change over time in response to external as well as internal shocks and policy interventions. The aim of this chapter is to discuss, in depth, which of these mechanisms were paramount in bringing adjustment to each of the Bolivian agents’ accumulation balances over the last two and a half decades. The stylized facts to be found throughout this discussion will eventually help us to develop behavioural models for each of the economic agents. Econometric tests will be carried out in order to verify that the data available support the accumulation balance models developed throughout the chapter.

Section 3.2 discusses, at a general level, adjustments for the public and private sectors. This section tries to highlight that public and private sector adjustments were closely related during the 1970s; in fact, the large public external debt accumulated during that decade had, as a counterpart, an almost equivalent accumulation of private external assets. The relation between private and public sector adjustments during the 1980s adopted a different pattern, as public sector access to external funds was reduced and the private sector began to receive large surpluses from the coca trade. This section also discusses how public and private sector interactions have developed after the 1985 stabilization and the subsequent structural adjustment programmes were put into practice. The changes that the structural reforms implemented since 1993 are expected to have on private-public interactions are also pointed out in this section.