



After Riding Commodities Boom, Bolivia Faces Stress of Falling Prices

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Bolivian President Evo Morales has overseen remarkable economic growth since he took office in 2006, and last year the economy grew by 5.4 percent (<http://www.wsj.com/articles/bolivia-panel-clears-bill-to-change-constitution-1443036552>), thanks in large part

to exports of gas and other natural resources. In an email interview, Jean-Paul Faguet (<http://www.lse.ac.uk/researchAndExpertise/Experts/profile.aspx?KeyValue=j.p.faguet@lse.ac.uk>), professor of the political economy of development at the London School of Economics, discussed Bolivia's economy and its dependence on commodities.

WPR: How effectively has the Bolivian government used the past decade's commodity boom to promote development and reduce poverty?

Jean-Paul Faguet: This is tricky to answer. A new study by the Fundacion ARU, an independent think tank in La Paz, shows that poverty and inequality plunged between 1999 and 2011. Average real income rose 45 percent across the country, and 182 percent among the poorer, more deprived rural population. The population in extreme poverty fell from 46 percent to 19 percent, while the middle class rose from 17 percent to 32 percent of the population. Both poverty and inequality have fallen dramatically.

But ARU's analysis also shows that this is mostly due to changes in the labor market, and not the government's anti-poverty policy. There has been significant income compression during this period, as unskilled workers' wages have risen much faster than skilled workers' wages or professional salaries. This is undoubtedly connected to the commodity boom, but the precise relationship is not yet clear. It does not, however, seem that government policy can claim direct credit, beyond the more general achievements of maintaining macroeconomic stability.

The government has used much of its commodities windfall to fund significant investments in education



Guarani Indian men hold a meeting on opening up nature reserves to gas exploration, Iviyeca, Bolivia, June 26, 2015 (AP photo by Juan Karita).

and health, with a focus on poorer rural populations. There have also been many infrastructure projects throughout the country, which have contributed to improving human capital indicators, falling transport costs and increased domestic commerce.

WPR: How susceptible is Bolivia's economy to declining natural gas and commodity prices, and what policies have been pursued to diversify the economy and protect it from the commodities cycle?

Faguet: Bolivia is highly susceptible to falling raw materials prices, and the effects are already being felt in public budgets. The government announced, for example, that regional revenues from the key hydrocarbons tax will fall 40 percent this year, putting huge stress on regional budgets.

Despite much talk of economic diversification, little has been achieved. The economy is still dependent on hydrocarbon and mineral extraction. While there is a highly productive agricultural sector concentrated in eastern Bolivia, the manufacturing sector is small, and little is exported.

The government's principal response to falling commodity prices seems to be to look for more areas for oil and gas exploration, including opening up protected areas like national parks.

WPR: What impact have falling commodities prices had on domestic politics to date, and what are their likely effects in the future?

Faguet: Remarkably, the effects to date are minimal. The government's previous inability to spend its investments budgets has left it with enough money in the bank to fund looming deficits for several years before cutbacks really start to hurt.

Morales continues to dominate the national stage with no rival in sight. But a recent set of referenda on regional autonomy, which the government lost, are the first signs that his electoral dominance may be slipping, and that the popular mood may be turning sour.

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