Appendix: Economic history of Bolivia before 1960
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Bolivia became an independent republic in 1825 and was one of the last countries in Latin America to achieve its independence from Spain. As a Spanish colony, Bolivia—in particular, its city of Potosi—was economically important. In 1650, Potosi had 160,000 inhabitants and was larger than Paris or New York. Its main economic activity was mining, particularly silver extraction (Bakewell 1985; Menegus Bornemann 1999).

Despite the economic importance of Potosi and the surrounding region (Assadourian 1982), Bolivia emerged as a country with many difficulties and a lack of integration, with the majority of its population being indigenous and poor (Klein 2011a; Pentland 1975). During the following decades, the country was characterized by political instability (Barragán 2002). Although this instability was tamed by the end of the nineteenth century, the country lost significant pieces of its original territory up until the early 1930s through wars with its neighbors (Fifer 1972). Furthermore, despite having vast natural resources, particularly minerals, Bolivia did not manage to consolidate a national market until 1952, when the National Revolution took place (Peres-Cajias 2017; Rodríguez Ostria 1994; Sandoval et al. 2003). The most important economic features of the National Revolution were the nationalization of mineral extraction and the distribution of agricultural lands to peasants.

The process of market integration in both geographic and social terms was accompanied by other radical economic transformations that, in turn, were related to sweeping political changes (Zondag 1966). These transformations had long-lasting, persistent effects (Grindle and Domingo 2003). Economic historians traditionally date Bolivia’s modern economic history as starting with the economic transformation that followed the 1952 National Revolution. For the sake of consistency with the other chapters in this volume, however, we start our history in 1960.

Bolivia is a clear example of a “reversal of fortune” (Acemoglu, Johnson, and Robinson 2002): it was among the most important economic territories during colonial times and today is among the poorest countries in the region. For example, the Bolivian GDP per capita as a share of US GDP per capita has declined from 20 percent in 1950 to 12 percent currently; likewise, it has declined from 51 percent of the Chilean GDP per capita to 24 percent during the same time span. The rate of decline, however, has not been constant throughout time (Herranz-Loncán and Peres-
Indeed, the economic gap between Bolivia and the most dynamic economies in the Americas increased during the nineteenth century and during two specific periods in the twentieth century: the 1950s and the 1980s.

**Figure 1. Bolivian GDP per capita, 2011 international USD**

This concentration of the Bolivian divergence in certain periods can clearly be seen in the distinct periods of Bolivian economic history, as shown in figure 1. In the nineteenth century, the existence of a constant low economic dynamism stands out. For instance, the available evidence on Bolivian GDP per capita shows an annual average growth rate around 0.7 percent from 1846 to 1900. Alternative indicators, such as population growth and levels of urbanization, also point to a (absolute and relative) low economic dynamism. Up to the 1870s, this process seems to be explained by the difficulties in overcoming the economic and political instability brought about by the direct and indirect costs of independence (Langer 2009; Mitre 1981; Prado 1995; Prados de la Escosura 2009). From the 1870s onward, backwardness is related to the relatively small size of the mining export sector, the most dynamic sector of the economy.

Economic growth accelerated during the first third of the twentieth century, thanks to the constant expansion of tin exports. The consolidation of tin as the main export product was in turn
related to infrastructure expansion and state support for export activities (Contreras 2003; Mitre 1993; Peres-Cajías 2017). This period also featured major political changes, such as the centralization and expansion of education spending and the progressive centralization of money issuance (Peres-Cajías 2014). In spite of this progress, economic imbalances were noticeable: export concentration in a single product and few producers increased the negative effects of commodities volatility and the dependence on very specific economic agents (Peres-Cajías and Carreras-Marín 2017); the economic dynamism in the western part of the country sharply contrasted with the stagnation in the east (Rodríguez Ostria 1994); the modernization of the export sector was contemporaneous to a backward agrarian sector dominated by few landowners and dispersed indigenous communities (Larsson 1988); and political voice as well as economic rights were unfairly distributed (Klein 2011b). After the economic crisis generated by the Great Depression and the Chaco War of 1932–1935, economic dynamism resumed, thanks again to tin exports and industrial production, which for the first time in Bolivian history became relevant. The war and postwar political instability, however, increased the political pressure toward state involvement in the economy. Because of this and the inability to increase revenues in the short term, macroeconomic instability increased in the late 1930s and early 1940s. Moreover, in spite of the resumption of positive economic growth, economic imbalances persisted.

The National Revolution of 1952 sought to overcome these imbalances through radical reforms: it nationalized the three biggest mining companies and created a new state-owned mining company (COMIBOL); it pursued an agrarian reform that radically changed land ownership in the western part of the country by distributing land to farmers and releasing farmers from debts to landowners; it redistributed state resources to the eastern part of the country, in the form of infrastructure investment (mainly roads), state-owned-companies, and soft loans; and it promoted industrial production through the redistribution of cheap foreign exchange (Sandoval et al. 2003; Zondag 1966). Initially, however, these structural reforms generated an economic downturn. On the one hand, economic agents had to adjust to the new economic structure. For instance, small farmers did not have the same skills as landowners regarding agricultural production (Dirección Nacional de Informaciones 1962). On the other hand, the heterodox financing state expansion had negative consequences: the Bolivian government applied an overvalued exchange rate on COMIBOL revenues that were redistributed to other economic agents through an undervalued exchange rate. This measure, as well as the determination to increase the wages of miners (key
political allies) and to contract those miners who lost their jobs in the previous years, widened the company deficits. Thereafter, these deficits were financed through direct loans from the Banco Central de Bolivia, which were backed by inorganic emission, that is, by printing domestic currency not backed by accumulating foreign reserves. This, in turn, increased inflation to rates that were higher than 100 percent in 1953 and 1956, higher than 50 percent in 1954 and 1955, and close to hyperinflation rates in some months during these years (Peres-Cajías 2014).

The initial macroeconomic shake-up of the 1952 revolution was tamed by an orthodox stabilization plan pursued with the close cooperation of the US government and the International Monetary Fund at the end of 1956. The stabilization plan comprised the elimination of price controls, the unification of the exchange rate, a tax reform, and a plan of wage setting in public companies. Thanks to these changes, the structural reforms of the revolution were not reversed, and state intervention continued but with stable macroeconomic backing.

References


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