# CHAPTER V

# THE PUBLIC SECTOR

## BOLIVIAN PUBLIC EXPENDITURE SINCE 1952*

Students of revolution may suppose that one of the first steps which a revolutionary government might take would involve a dramatic shift in the pattern of public expenditures. In two of the three Latin American major social and economic revolutions in this century, however, such was not the case. Mexico failed to achieve a significant shift in state budgetary policy until the 1930s (more than twenty years after the revolution of 1910).[1] In the late 1960s the pattern of Bolivian central government finances remained as it had been prior to the 1952 revolution. In the Cuban case (the third instance), the authoritative time-series data since 1959 remain unavailable and uninvestigated.[2]

In an interesting contrast to both the Mexican and Cuban experiences, the revolution in Bolivian public expenditure policy antedated by six years the seizure of power by the *Movimiento Nacionalista Revolucionario* (MNR) in 1952. Actually, the MNR altered the pattern of outlay in 1945 while participating in the government of Gualberto Villarroel. Though Villarroel fell from power in 1946, reactionary governments accepted the policy in expenditure established by the MNR. Thus, the MNR inherited its old policy when it came into full power after the revolution. Ironically, when the MNR was deposed in 1964, its policy of outlay again remained unaffected.

This twenty-five year continuous policy was made possible, to a large extent, by a lack of information available to policy makers. Because of their confusion as to the nature of budgetary categories (including especially the assignment of an important share of funds to a general category of "state obligations" without differentiation to function) and because expenditure accounts have remained unpublished, Bolivia's leaders have had remarkably little meaningful data with which to understand the thrust of state policy.[3] Also, since expansion of the role of the public sector (through the growth of decentralized activity and the influx of U.S. aid) has added to the pressures for developing new plans, few bureaucrats have had time to investigate past expenditures and suggest conceptual categories for comprehending the trajectory of the political economy in national development. The following brief examination of Bolivian central government and public sector policy in relation to U.S. aid will shed some light on this matter.

The silent revolution in budgetary policy was implemented in 1945 by the leader of the MNR, Víctor Paz Estenssoro, who served as finance minister for President Gualberto Villarroel. Responding to pressures of social disruption and economic inflation growing out of Bolivia's defeat in the Chaco War, Paz effectively fixed the pattern of central government expenditures, which had tended to be of a social nature during the late 1930s under President Germán Busch but had shifted to increased economic outlay under President Peñaranda in the early 1940s. Table 1 reveals that Paz rejected the Peñaranda approach and, like the Busch government, continued to cut back the traditional state expenditures for administrative functions (including support for the legislature, judiciary, police, military, and day-to-day administration of affairs) in order to emphasize the more social outlay (education, labor, public health, and, after 1952, housing, social security, and peasant affairs). Thus, the central government outlay for economic activity involving public works and agricultural development was deemphasized, and other economic outlay (including current and capital outlay as with administrative and social expenditure above) has remained inadequate for running the governmental agencies in charge of agrarian reform, colonization, communications, and mining and petroleum.[4]

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*Reprinted, by permission, from James M. Malloy and Richard S. Thorn (eds.), *Beyond the Revolution: Bolivia Since 1952* (Pittsburgh: University of Pittsburgh Press, 1971), pp. 217–231.

[1] For Mexico's case, see James W. Wilkie, *The Mexican Revolution: Federal Expenditure and Social Change Since 1910*, 2d. ed. (Berkeley, Calif., 1970), pt. 1.

[2] According to the tentative data on Cuban projected outlay, however, between 1957–1958 and 1962 the social and administrative activities of the state were diverted into economic development in quite dramatic terms: see Dudley Seers, ed., *Cuba: The Economic and Social Revolution* (Chapel Hill. N.C., 1964), p. 41. Cf. also United Nations, Economic Commission for Latin America. "The Cuban Economy in the Period 1959–1963." *Economic Survey of Latin America* (1963), p. 288.

Costa Rica might well be added to the list of Latin American Countries which have undergone true revolutions in the twentieth century; however, since my investigations of the Costa Rican case are still in progress, I omit discussion here.

[3] For data on Bolivia's central government expenditure, which are reorganized by function for historical consistency, see James W. Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952: Finanical Background and Context of Political Decisions* (Los Angeles, Calif., 1969). Discussion here is limited to the policy of expenditure rather than taxation.

[4] Rationale, full definitions, and complete yearly data for subcategories of administrative, social, and economic expenditure groupings are given in Wilkie, *The Bolivian Revolution*, pp. 14 ff., and appendices G and M. The reader should note that the question of honesty in the expenditure of funds is irrelevant to this analysis which involves allocations of funds for policy purposes. Examination of funds in terms of policy is very different from analyzing efficiency in outlay (see "The Wastage Overhead Factor in Government Finance," in Wilkie, appendix O).

TABLE 1

Average Actual Central Government Expenditure, 1937-1966

| Year | [a]Presidential Term | Years | Totals = 100.0 Per Cent Economic | Social | Administrative |
|---|---|---|---|---|---|
| 1937-39 | [b]Busch | 3 | 12.6 | 16.3 | 71.1 |
| 1940-43 | Peñaranda | 4 | 20.8 | 19.7 | 59.5 |
| 1944-46 | [c]Villarroel | 3 | 17.5 | 24.8 | 57.7 |
| 1947-48 | Hertzog | 2 | 10.5 | 28.7 | 60.8 |
| 1949-51 | Urriolagoitia | 3 | 8.7 | 29.2 | 62.1 |
| 1952-55 | Paz | 4 | 12.1 | 33.0 | 54.9 |
| 1956 | Paz and Siles | 1 | 12.5 | 50.8 | 36.7 |
| 1957-59 | Siles | 3 | 20.0 | 30.3 | 49.7 |
| 1960 | Siles and Paz | 1 | 15.7 | 37.2 | 47.1 |
| 1961-64 | Paz | 4 | 14.7 | 34.5 | 50.8 |
| 1965-66 | [d]Post-MNR | 2 | 11.8 | 37.4 | 50.8 |

[a]Although several presidents may have served in these terms only the most influential in regard to budgetary policy are listed.
[b]In 1939, President Carlos Quintanilla adopted Busch's policy of social expenditure.
[c]Villarroel fell from power July 21, 1946, but his budgetary policy prevailed under his immediate successors.
[d]René Barrientos Ortuño and Alfredo Ovando Candia.

Source: James W. Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952: Financial Background and Context of Political Decisions* (Los Angeles, Calif., 1969), table 6.

The MNR's policy following the victory in 1952 became even more dependent upon sacrificing economic expenditure in favor of social outlay when it became apparent to Paz Estenssoro that great amounts of funds would be necessary to incorporate the peasant into the political life of the country (as well as into the national economic life) in order to create a rural counterbalance to the growing power of the tin miners. Thus, political realities dictated a continuation of MNR budgetary policy even though the new government had committed itself to economic development.

Bolivia's post-1952 policy was revolutionary for the public sector in that the nationalization of the tin mines was expected to supply profits for national development funds. Such profits previously had been spent abroad. Unfortunately, however, Bolivia seized mines which were becoming less and less productive under conditions of declining ore content and lack of investment by owners fearful of expropriation. High cost operations of the nationalized mines contributed to the financial losses of the Bolivian Mining Corporation (COMIBOL), given in table 2, until 1966 when COMIBOL finally showed a profit. COMIBOL's success in 1966 resulted in a fifty million peso profit which dwindled to about five million pesos in 1967 and 1968, and none of these amounts left much for national development. Taking into account COMIBOL's production costs (see table 5 below), the consolidated account of the public sector income, and expenditures for the years when data are available, we have a strong indication of the nature of COMIBOL's heavy losses during the 1950s.

COMIBOL might have shown a profit earlier if the government's currency exchange regulations had not, in effect, taxed tin mining production. As Harold Osborne has noted:

> By establishing a state monopoly in the export of mineral ores the government also ensured control over . . . the foreign exchange earned by all mining exports . . . A vicious circle was created when by the continued use of differential rates of exchange for imports the mineral exports were made to subsidize agricultural and other imports and the mining industry itself was kept short of the foreign-exchange capital necessary to maintain its own efficiency. In consequence the cost of tin production has

TABLE 2

**Consolidated Public Sector Finances, 1963-1967**

**[a](In Millions of Pesos or Billions of Bolivianos)**

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| Income | | | | | |
| Central government | 428.2 | 511.4 | 613.1 | 723.6 | 747.3 |
| COMIBOL | 548.4 | 814.8 | 983.6 | 944.8 | 920.0 |
| Bolivian Oil Company | 225.6 | 237.6 | 265.8 | 287.6 | 295.0 |
| National railways | 85.2 | 86.4 | 98.4 | 105.9 | 118.0 |
| [b]Other | 422.4 | 481.2 | 435.7 | 507.7 | 520.0 |
| Total | 1 709.8 | 2 131.4 | 2 396.6 | 2 569.6 | 2 600.3 |
| Expenditures | | | | | |
| Central government | 504.8 | 574.9 | 763.9 | 901.2 | 883.0 |
| COMIBOL | 780.0 | 915.6 | 991.2 | 895.1 | 915.0 |
| Bolivian Oil Company | 283.2 | 225.1 | 259.2 | 273.9 | 290.0 |
| National railways | 114.0 | 123.4 | 131.1 | 263.8 | 140.0 |
| [b]Other | 662.4 | 732.1 | 571.1 | 646.8 | 580.0 |
| Total | 2 344.4 | 2 571.1 | 2 716.5 | 2 980.8 | 2 808.0 |
| [c]Total deficit | | | | | |
| Central government | −76.6 | −63.5 | −150.8 | −177.6 | −135.7 |
| COMIBOL | −231.6 | −100.8 | −7.6 | 49.7 | 5.0 |
| Bolivian Oil Company | −57.6 | 12.5 | 6.6 | 13.7 | 5.0 |
| National railways | −28.8 | −37.0 | −32.7 | −157.9 | −22.0 |
| [b]Other | −240.0 | −250.9 | −135.4 | −139.1 | −60.0 |
| Total | −634.6 | −439.7 | −319.9 | −411.2 | −207.7 |

[a]Bolivianos were converted to pesos in 1963 at a ratio of 1,000:1. These data include current and capital funds.

[b]This includes, for example, Bolivian Development Corporation, Lloyd Aéreo Boliviano, National Social Security Institute, universities, and departmental and municipal governments.

[c]Except in the six cases listed without minus signs.

Source: AID/Bolivia, *Economic and Program Statistics,* 9 (1968), p. 31.

been consistently above its selling price in the world markets.[5]

Because the decentralized sector failed to provide funds for national development after 1952, the Bolivian central government had to subsidize many public sector activities from its pool of tax revenues, as well as rely upon the foreign financing of public sector deficits. This subsidy placed great strain on the government, for the pool of income from taxes over which it has discretionary spending authority generally has been received from import-export levies while income from foreign loans generally has been consigned to autonomous agencies for nondiscretionary uses. Thus, the central government attempted to direct unprofitable national development with limited control

[5]Harold Osborne, *Bolivia, a Land Divided,* 3rd ed. (London, 1964), p. 151. For a discussion of the decapitalization of the mines, see Professor Thorn's chapter in [James M. Malloy and Richard S. Thorn (eds.) *Beyond the Revolution: Bolivia Since 1952* (Pittsburgh: University of Pittsburgh Press, 1971), 157–216].

over funds that it could allocate and reallocate at will. This problem was complicated even more, until recent years, by the Bolivian Congress's use of minutely earmarked taxes to further limit executive power. Fortunately, however, there are now plans to phase out these earmarked taxes which have tended to dissipate income into many small projects without giving any one program adequate funding.

Such restrictions on the Bolivian central government's ability to influence expenditure meant that, although formerly the government directly granted funds to such an autonomous agency as the Bolivian Development Corporation (as during the years 1942 to 1944 and 1954 to 1959), the central government decreased its subsidies as foreign funding took over during the 1960s. In this manner Bolivian tax revenues have increasingly been delimited to cover noneconomic aspects of development. As we saw in table 1, the central government's budgetary policy was to direct its discretionary expenditure into the state's social functions while maintaining the basic administrative structure of national life. Theoretically, the central government should develop planning, but since it has no budget power over its autonomous agencies and no access to the many pools of funds with which the decentralized agencies conducted their operations, the central government has had limited control over Bolivia's national destiny.

The central government could afford to concentrate its expenditures on social matters because U.S. assistance, beginning in 1954, was postulated on a program of economic aid. The United States supplied aid at low cost to its taxpayers by shipping to Bolivia surplus agricultural commodities purchased from U.S. farmers. Not only did such aid help to tide Bolivia over a food shortage in the cities following the rural upheaval in land ownership, but local currency, generated by the sale of those commodities, provided funds which could be programmed for economic development.

The extent of U.S. assistance is presented in functional terms in table 3 in order to compare the thrust of expenditure with central government policy. United States policy is characterized for two periods, 1952 –1961 and 1962 –1966. The first period, theoretically, was one of economic assistance ending in 1961 when the Alliance for Progress began to emphasize social assistance. In the latter period, also, sale of surplus agricultural commodities continued to be the major source of assistance.

It is apparent from a glance at table 3 that more than half of the actual expenditure by the U.S. Agency for International Development (AID [or USAID] and its predecessor agencies) as well as by the Peace Corps, Export-Import Bank, and military assistance programs during the first period was noneconomic in nature. Because local currency projects and direct budgetary support of the central government covered deficits as well as positive contributions to economic development, the government in La Paz was free to spend its funds for continued social outlay.[6] Neither the Bolivians nor their U.S. advisers were fully aware, however, that a negative effect of manipulatable expenditure was to reinforce the Bolivian central government's frozen pattern of outlay.

To the credit of a 1963 U.S. mission to Bolivia, led by Anthony M. Solomon, officials recognized the noneconomic aspects of the AID expenditure, and from that date AID began to channel local currency from direct budgetary support of the central government into specific projects in order to stimulate economic development.[7] Nevertheless, AID's shift in policy was offset by the Peace Corps and military assistance programs, and there has been little change in the overall trend of U.S. assistance. Between 1962 and 1966 almost half of the total aid remained noneconomic in nature, even though the percentage of U.S. assistance for budgetary support declined from about 31 to about 18 percent.

As AID shifts its funding into more economically oriented projects, the central government faces a serious problem since it must increase its revenues to maintain the same amount of social services which have come to be expected by the Bolivian people during the last twenty-five years. The problem would not be serious if AID were not attempting to reduce funding because of the U.S. balance of payments crisis and the financial drain of the Vietnam conflict. As we have seen in table 1, if post-MNR governments continue to channel the expenditures of the central government into social outlay and are not fully aware that funds from the pool of tax revenues (over which the central government has discretionary authority) must be reoriented to cover U.S. economic withdrawal, then the autonomous sector will gain in importance.

Given the economic growth of Bolivia during the 1960s . . ., one might be tempted to conclude that the increasing success of the Bolivian national revolution does not necessitate any change in policy. Such a conclusion, however, would ignore the fact that the series of conditions which existed in the past may no longer exist as AID withdraws economic support. Although Bolivia's successful development under three different masters (the central government, the

[6]Table 3 excludes losses and unexpended local currency; see Wilkie, *The Bolivian Revolution*, pp. 9 ff.

[7]Anthony M. Solomon, Frank W. Krause, and Norman S. Fielike, "Informe acerca de las finanzas del sector público de Bolivia," unpub. manuscript, 1963.

TABLE 3

**Functional Analysis of AID, Peace Corps, Export-Import Bank, and Military Assistance Programs, 1952-1966**

| [†]Expenditure and Agency | 1952-1961 Millions of Dollars | 1952-1961 Per Cent | 1962-1966 Millions of Dollars | 1962-1966 Per Cent |
|---|---|---|---|---|
| Economic (AID except Export-Import Bank. See n. "a") | | | | |
| Food and agriculture | 9.4 | | 4.2 | |
| Transportation and power | 4.2 | | [a]9.4 | |
| Mining, oil, and industry | 1.5 | | 4.0 | |
| Public works | [b]– | | 3.0 | |
| Development loans | 2.6 | | 28.8 | |
| [c]Local currency projects | [d]34.8 | | [e]34.8 | |
| Subtotal | 52.5 | 46.9 | 84.2 | 50.5 |
| Social (AID except Peace Corps) | | | | |
| Health and sanitation | 3.1 | | .7 | |
| Education | 3.6 | | 1.7 | |
| Labor affairs | .2 | | .9 | |
| Community development | .3 | | 1.8 | |
| [f]Agricultural commodities (relief) | 6.6 | | 3.4 | |
| [c]Local currency projects | 4.0 | | 6.0 | |
| Peace Corps | [b]– | | 8.9 | |
| Subtotal | 17.8 | 15.9 | 23.4 | 14.1 |
| Budgetary support subtotal | 34.9 | 31.2 | 29.8 | 17.9 |
| Administrative (AID except military) | | | | |
| Public administration and safety | 1.9 | | 3.4 | |
| Planning | [b]– | | 1.9 | |
| Other | 2.0 | | 5.1 | |
| [c]Local currency projects | 2.1 | | 6.7 | |
| Military assistance | .8 | | 12.1 | |
| Subtotal | 6.8 | 6.0 | 29.2 | 17.5 |
| [g]Total | 112.0 | 100.0 | 166.6 | 100.0 |

[a]Includes a $4.6 million loan from Export-Import Bank for highway construction.
[b]Not applicable
[c]Public Law 480, title I.
[d]Includes $17.4 million for road construction, Public Law 480, title II.
[e]Includes Public Law 480, titles II and IV.
[f]Public Law 480, title III.
[g]Amounts are for obligations (approximately equal to disbursements), except for local currency programs, Export-Import Bank loan, and military assistance, which are for disbursements. Data include at least $3.1 million for technical aid, 1942-1951.

[†]Note: Table excludes Social Progress Trust Fund (administered by Inter-American Development Bank); cf. table 3 in Wilkie, *The Bolivian Revolution,* for figures limited to AID programs.

Source: James W. Wilkie, *The Bolivian Revolution and U.S. Aid Since 1952: Financial Background and Context of Political Decisions,* table 3 and appendix A; U.S. Operations Mission to Bolivia, *Point Four in Bolivia* (La Paz, 1960), p. 94; and Export-Import Bank, *Report* (June 30, 1963), p. 102.

decentralized public sector, and AID) might suggest that centrally directed state planning has not been necessary, we cannot say that the same argument will always hold true. Perhaps all that can really be suggested is that the future development of Bolivia will depend more than ever before on an awareness of the extent and the nature of public expenditures.

As AID withdraws its support, the country will become increasingly more dependent upon foreign loans to stimulate new development; hence it is instructive to examine in table 4 Bolivia's post-1952 external debt. This outstanding debt, as of December 31, 1966, not only reveals the extent to which international funds have been available since 1952 to help finance deficits but shows both the source and recipient of the funding.[8] The total of AID funding was 37 percent of all loans, a share included in the functional analysis of U.S. assistance given in table 3. Deducting AID and Export-Import Bank loans, the total outstanding debt for the period 1952 to 1966 was about $82 million, all but about 6 percent of which probably went for economic functions. This latter small amount was provided by the U.S. Social Progress Trust Fund of the Alliance for Progress and administered by the Inter-American Development Bank. The Bolivian Development Corporation received about 44 percent of the Social Progress Trust Fund for colonization (an economic function).[9] It is interesting to note that total Social Progress Trust Fund loans came only to about 6 percent of all foreign loans during the period between 1952 and 1966. This explains why many feel that the fund has failed either to develop or to fulfill its social goals in Bolivia. As a matter of fact, the Social Progress Trust Fund made no new loans to Bolivia during the years 1966 to 1968, and it would appear that, as far as Bolivia is concerned, the fund is no longer active except in an advisory capacity.[10]

The Inter-American Development Bank's regular operations have continued to support Bolivian development, and since 1964 the International Development Association has been active in stimulating power projects and livestock development. The Inter-American Development Bank shared with the Federal Republic of Germany and the U.S. government between 1961 and 1965 in the operation of Plan Triangular to rehabilitate Bolivia's tin mines. (Under this plan Argentina also supplied funds.) The only other large funding which Bolivia obtained between 1952 and 1966 was supplier's credits for goods purchased immediately following the revolution and during the inflation.[11]

As the United States switched from direct grants to loans to Bolivia beginning in the 1960s,[12] Bolivia's outstanding external debt began to increase. If we take the external pre-1952 debt (which was not repudiated) into account with the post-1952 amount (table 4), we find that the total external debt of Bolivia reached about $290 million in 1966. This amount was only slightly more than the $279 million in U.S. assistance shown in table 3. Perhaps this explains why President Barrientos announced in 1966 that the public debt could not be permitted to go much higher and why the Bolivian government (at least through the 1960s) attempted to allocate relatively large amounts to keep this total down.[13]

Reliance on foreign loans, in contrast to reliance on U.S. grants, means that Bolivia faces a new kind of dependence upon foreign decisions. Loans are approved only for specific purposes and tailored to the specifications and restrictions of foreign agencies. Since lending patterns often change according to the current vogue and international thinking about development, it is possible that this funding will delimit Bolivian policy more than U.S. assistance did as it was handled before 1961.

Although many critics claim that the MNR sold out to the United States or that the United States "bought" the Bolivian national revolution, an analysis of tables 1 and 3 leads us to conclude otherwise. Actually, during the 1950s the result of U.S. policy was effectively to support the MNR's social revolution.

[8]Since year-to-year summaries for public debt operations are not available for the early years of the revolutionary era, data are presented in a lump sum total for 1966 (fourteen years after the MNR victory and two years after its fall from power) in order to give perspective on both pre- and post-1964 developments. For problems in reconstructing the debt during the 1950s, see George Jackson Eder, *Inflation and Development in Latin America: A Case History of Inflation and Stabilization in Bolivia* (Ann Arbor, Mich., 1968), pp. 143 ff., 408 ff. Cf. also the Alliance for Progress, Inter-American Committee on the Alliance for Progress, *Domestic Efforts and the Needs for External Financing for the Development of Bolivia,* mimeographed (Washington, D.C., 1968), p. 74, which estimates the external debt for 1952 to 1966 at about $100 million.

[9]Sources for functional analysis include: Inter-American Development Bank, Social Progress Trust Fund, *Seventh Annual Report*(1967), pp. 424–25; International Development Association, "Financial Statement," June 30, 1968; Inter-American Development Bank, *Ninth Annual Report* (1968), pp. 91–92; Banco Central, *Memoria* (1966), p. 64; AID/Bolivia, *Economic and Program Statistics,* 9, (1968), p. 30; and International Monetary Fund. "Background Material for 1967 Article VIII Consultation," pt. II, appendix, p. 66. The Bolivian ministry of finance presented the data in table 4 to this IMF source.

[10]Inter-American Development Bank, *Ninth Annual Report.*

[11]For a discussion of supplier's credits see Eder, *Inflation and Development,* pp. 41, 43, 123 ff.

[12]See Wilkie, *The Bolivian Revolution,* p. 48.

[13]*El Diario,* September 16, 1966: Alliance for Progress, *Domestic Efforts and the Needs for External Financing,* p. 74.

TABLE 4

[†]Bolivia's Post-1952 External Debt as of December 31, 1966
(In Thousands of Dollars)

| Source of Loan | Amount | Per Cent |
|---|---|---|
| Inter-American Development Bank | 25 486 | 18.6 |
| International Development Association | 10 827 | 7.9 |
| AID | 50 871 | 37.0 |
| United Kingdom | 591 | .4 |
| Federal Republic of Germany | 5 390 | 3.9 |
| Argentina | 12 658 | 9.2 |
| Brazil | 26 | [a]— |
| Venezuela | 2 000 | 1.5 |
| Suppliers' credits | 21 592 | 15.7 |
| [b]Export-Import Bank | 4 562 | 3.3 |
| Other | 3 363 | 2.5 |
| Total | 137 366 | 100.0 |
| **Recipient of Loan** | **Amount** | **Per Cent** |
| Central government | 52 477 | 38.2 |
| Local government | 190 | .1 |
| COMIBOL | 31 147 | 22.7 |
| Bolivian Oil Company | 11 443 | 8.3 |
| Bolivian Development Corporation | 14 826 | 10.8 |
| Lloyd Aéreo Boliviano | 277 | .2 |
| National railways | 346 | .3 |
| Other public sector | 3 072 | 2.2 |
| Banks | 16 562 | 12.1 |
| Private sector with government guarantee | 7 026 | 5.1 |
| Total | 137 366 | 100.0 |

[†]Note: The external debt is the amount outstanding after drawings, amortization, capitalization, and payment of interest. It excludes four major central government loans contracted prior to 1952: U.S. bond holders, $61 906 000; outstanding Export-Import Bank loans, $29 357 000: Argentine railway debt, $49 785 000; and Brazilian railway debt, $11 803 000.

[a]Negligible.

[b]Amount outstanding for Export-Import Bank remained the same ($33.9 million) between 1949 and 1966 despite new drawings and repayments.

Sources: Ministry of Finance; Export-Import Bank, *Reports* (June 30, 1963 – June 30, 1966).

Although U.S. advisers attempted to influence Bolivian policy and, obviously, had some success, until 1963 U.S. officials did not seriously question U.S. budgetary support of central government policy.

In terms of Bolivian independence, the central government's control over policy suffered a serious setback when the United States began to deemphasize direct grants to cover public sector deficits and AID attempted to tighten control over expenditures. Though one may argue that this cutback was desirable for U.S. interests or a necessary concomitant for economic growth, we should note that such control did not help Bolivia gain the needed experience to run its own affairs or to learn from trial and error. Clearly, the merits of these approaches cannot be settled here, but identification of the issues may help to understand the complexities of development.

There are several ironies in the analysis of U.S. assistance and foreign loans. First, Republican leaders in the United States such as President Dwight D. Eisenhower and Secretary of State John Foster Dulles, were apparently more permissive in regard to Bolivian development than was the Democratic president John F. Kennedy, who took a personal interest in Bolivian development. This difference in policy was related directly to a lack of U.S. understanding of the effect that U.S. aid had on Bolivia; it also demonstrates the unreliability of stereotypes.

Bolivia's desire to keep its debt down and promptly meet its obligations represented an awarenss of its dependency on foreign loans. Between 1952 and 1966, however, central government expenditures on amortization and interest for the public debt never exceeded 5 percent of its total outlays, and such percentages came only after the stabilization program was initiated. Although developed countries may well exclude amortization of the debt from budgetary analysis, it is necessary to include it as an administrative expenditure in the accounts of developing countries. They must balance need-to-pay obligations in order to obtain new loans against need-to-expand social and economic shares in total outlay. Apparently Mexico has resolved this dilemma, as noted elsewhere, by devoting a high share of its outlay to repayment of its debt in order to obtain loans with which to inject massive doses of capital into national development.[14]

In regard to the effect of public expenditure upon Bolivian development since 1952, we must finally face the question of whether the Bolivian economy was helped or hindered by official programs. George Jackson Eder has taken the view that Bolivia has been

> corrupted and pauperized by fourteen years of U.S. aid which, far from promoting Bolivia's economic development and social progress, served only to maintain in power a government that proved unworthy either of American or Bolivian support and which, without American aid, would admittedly have fallen almost at the inception of the Revolution . . . .
>
> Subtract U.S. aid and Bolivia is less prosperous today than it was before the Revolution—further from the "take-off point" to economic progress, both by reason of the depletion of wasted resources and because of the degradation that has come from idleness and dependency.[15]

In Eder's view the monetary stabilization program which he instituted in 1956–1957 was responsible for somewhat repairing the damage done to development by the MNR's suppression of a free-market economy. Thus, to Eder, Bolivia's problems began with government

> attempts to relieve poverty by ever mounting expenditures for welfare and economic development, financed by the exhaustion of the nation's gold and foreign exchange reserves, by U.S. aid, and by borrowing from the Central Bank. The bank met the government demand for credit by constantly increased issues of unbacked paper currency, which in turn were followed by a drop in the foreign exchange value of the boliviano and higher and higher prices at home. Higher prices brought demands for increased wages and higher social security benefits, which were wiped out by the inflationary tide. At the same time, they raised the cost of government, increasing the deficits and making necessary still further borrowing from the Central Bank. Price controls were instituted, but these resulted only in shortages of goods, black-marketing, still higher prices, and a flight of capital, each consequence accentuating its antecedent cause in a vicious spiral that seemingly had no end . . . .
>
> In desperation, the government called upon the United States for aid, which came in cash and commodities. But the cash was swallowed up in the deficits of the government and of a score of government enterprises, while the commodities largely found their way into the black market or were smuggled out of the country. The counterpart funds generated by U.S. aid became a major source of further inflation, while the distribution of cash and commodities aggravated Bolivia's chronic ills.[16]

Given the revolutionary situation in which the MNR took power, however, and given the party's need to demonstrate to the masses as well as its supporting groups that it could act to make the state responsible for national development, an "untrammeled" free-market model of development was almost automatically ruled out from the start. It is by no means

[14] Wilkie, *The Mexican Revolution,* pt. 1.

[15] Eder, *Inflation and Development,* pp. 609–10. Cf. Laurence Whitehead, *The United States and Bolivia; A Case of Neo-Colonialism* (London, 1969).

[16] Ibid., pp. viii–ix.

clear, as Eder apparently assumes, that Bolivia's erratic development, which only gained strength in the mid-1960s, could have progressed without a thoroughgoing revolution which attempted not only to incorporate the mass of Bolivians into the market economy in the first place but to make important financial activity responsive to national needs. In short, Bolivia needed national integration as a concomitant of social and economic development.

The first order of business for the MNR revolutionists was to remain in power and to protect themselves by any means possible. In Bolivia's case, this did not mean sending dissenters to the firing squad; rather, in one of the least bloody, major revolutions the world has yet known, Paz either exiled or sent to camps of detention those who threatened the new government. One regrets and cannot deny, of course, that political prisoners have died before, during, and since the MNR period from 1952 to 1964; nor can one deny widespread government corruption under the MNR. It is only realistic, however, to expect some administrators' illegal use of power and fraud in administering great amounts of money in a chaotic situation, especially following a violent seizure of power and the institution of widespread change.

Since Paz's policy of social expenditure had been implanted six years prior to the revolution, obviously Paz did not feel that the pattern of public expenditure needed to be altered. Thus, during his first term he simply expanded an established program by printing more and more paper money. A great deal of money was needed to begin the operations which would win mass support for the new government already threatened with internal division over the nature of development.

The problem which has faced the central government, especially since the United States began to phase out budgetary support, is how to rechannel funds frozen in a pattern of social expenditure. If the thrust of discretionary expenditure is limited to social development, then economic development will lie in the decentralized and autonomous sector beyond the government's direct control. If the central government can now expand the pool of funds over which it has discretion, perhaps it can successfully face this problem. Since the government will need to continue the well-established tradition of social expenditure, it also faces the need of expanding its income so that it may directly increase its economic functions in relative terms without disrupting social outlay in absolute terms. Although tax reform was not compatible with attracting private foreign capital to Bolivia in the years immediately after the nationalization of the tin mines or during the period of the great land reform under Paz Estenssoro between 1960 and 1964,[17] perhaps it now appears to be Bolivia's best hope of giving the central government real (rather than theoretical) control over the country's discretionary funds without upsetting the national economy.[18]

In a sense the nonrevolutionary policy which the MNR followed after 1952 may have been an important factor in the MNR's ability to stay in power, because it offered a stable system amid events which caused great instability. The MNR might not have been able to hold its power if it had wanted also to change the pattern of expenditure. Nevertheless, as the MNR's term in office wore on, ability to stimulate directly economic development became the key issue. As Eder has noted, social expenditure without an economic base cannot produce sound results for long. Not only was the Paz group seeking to gain control over the instruments of political power . . . but it needed also to gain control over public expenditure.

As we have seen, successor governments to the MNR did not change the central government's policy in terms of outlay, and, thus, they have faced the same issue that the MNR faced in reorienting expenditure: successful planning depends upon a clear understanding of the role of state policy in regard to the political economy of national development. In rational state planning designed to carry out the promises of the revolution, the central government cannot expect to leave the major share of economic development to autonomous agencies which supposedly are more efficient than the regular bureaucracy. In sum, not only should social development be managed with the same efficiency developed by some decentralized agencies, but the central government should extend its control over the entire public sector.

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[17] James W. Wilkie, *Measuring Land Reform*, Volume 5 (1974) in this *Supplement Series*.

[18] By 1960 the actual expenditure of the central government finally had caught up with inflation and population and in 1966 appeared to be at about thirty-four to forty standard bolivianos per person compared to twenty-three to twenty-six in 1952. Unfortunately, however, estimates of the per capita gross domestic product appear to be only about even with or below the 1952 figures: see Wilkie, *The Bolivian Revolution*, p. 29. For a further discussion of these matters, see Professor Thorn's chapter [cited in note 5 above].